

to Newcourt Finance, generating aggregate gross proceeds of \$22.9 million. On April 30, 1999, the Company issued an additional 35,000 shares of Series E Preferred Stock for gross proceeds of \$25.9 million. The Series E Preferred Stock has a liquidation preference of \$1,000 per share and an annual dividend equal to 14.5% of the liquidation preference, payable quarterly. On or before January 15, 2004, the Company may pay dividends in cash or in additional fully paid and nonassessable shares of Series E Preferred Stock. After January 15, 2004, dividends must be paid in cash, subject to certain conditions. Unpaid dividends accrue at the dividend rate of the Series E Preferred Stock, compounded quarterly. During 1999, the Company issued 5,004 shares of Series E Preferred Stock to pay the dividends due.

The Series E Preferred Stock must be redeemed on February 1, 2011, subject to the legal availability of funds therefor, at a redemption price, payable in

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cash, equal to the liquidation preference thereof on the redemption date, plus all accumulated and unpaid dividends to the date of redemption. After April 15, 2004, the Series E Preferred Stock may be redeemed, in whole or in part, at the option of the Company, at a redemption price equal to 110% of the liquidation preference of the Series E Preferred Stock plus all accrued and unpaid dividends to the date of redemption. The redemption price declines to an amount equal to 100% of the liquidation preference as of April 15, 2007.

In addition, on or prior to April 15, 2002, the Company may, at its option, redeem up to 35% of the aggregate liquidation preference of Series E Preferred Stock with the proceeds of sales of its capital stock at a redemption price equal to 110% of the liquidation preference on the redemption date plus accrued and unpaid dividends.

The holders of Series E Preferred Stock have voting rights in certain circumstances. Upon the occurrence of a change of control, the Company will be required to make an offer to repurchase the Series E Preferred Stock for cash at a purchase price of 101% of the liquidation preference thereof, together with all accumulated and unpaid dividends to the date of purchase.

The Series E Preferred Stock is not convertible. The Company may, at the sole option of the Board of Directors (out of funds legally available), exchange all, but not less than all, of the Series E Preferred Stock then outstanding, including any shares of Series E Preferred Stock issued as payment for dividends, for a new series of subordinated debentures (the "Exchange Debentures") issued pursuant to an exchange debenture indenture. The holders of Series E Preferred Stock are entitled to receive on the date of any such exchange, Exchange Debentures having an aggregate principal amount equal to (i) the total of the liquidation preference for each share of Series E Preferred Stock exchanged, plus (ii) an amount equal to all accrued but unpaid dividends payable on such share.

Series F Preferred Stock

On February 4, 1999, the Company issued 40,000 shares of Series F Senior Redeemable, Exchangeable, PIK Preferred Stock (the "Series F Preferred Stock") to Lucent and Newcourt Finance, generating aggregate gross proceeds of \$38.9 million. The Series F Preferred Stock has a liquidation preference of \$1,000 per share and an annual dividend equal to 14.5% of the liquidation preference, payable quarterly. The Company may pay dividends in cash or in additional fully paid and nonassessable shares of Series F Preferred Stock. During 1999, the Company issued 4,177 shares of Series F Preferred Stock to pay the dividends due for such period.

The Series F Preferred Stock may be redeemed at any time, in whole or in part, at the option of the Company, at a redemption price equal to 110% of the liquidation preference on the redemption date plus an amount in cash equal to all accrued and unpaid dividends thereon to the redemption date. Upon the occurrence of a change of control, the Company will be required to make an offer to purchase the Series F Preferred Stock for cash at a purchase price of 101% of the liquidation preference thereof, together with all accumulated and unpaid dividends to the date of purchase.

The holders of Series F Preferred Stock have voting rights under certain circumstances.

Upon the earlier of (i) the date that is sixty days after the date on which the Company closes an underwritten primary offering of at least \$200 million of its Common Stock, pursuant to an effective registration statement under the Securities Act or (ii) February 4, 2001, any outstanding Series F Preferred Stock will automatically convert into Series E Preferred Stock, on a one for one basis.

The Company may, at the sole option of the Board of Directors (out of funds legally available), exchange all, but not less than all, of the Series F Preferred Stock then outstanding, including any shares of Series F Preferred Stock issued as payment for dividends, for Exchange Debentures. The holders of Series F Preferred Stock are entitled to receive on the date of any such exchange, Exchange Debentures having an aggregate principal amount equal to (i) the total of the liquidation preference for each share of Series F Preferred Stock exchanged, plus (ii) an amount equal to all accrued but unpaid dividends payable on such share.

Series A Preferred Stock

There are 123,800 shares of Series A Cumulative Convertible Preferred Stock of KMC Holdings ("Series A Preferred Stock") authorized and outstanding. Such stock was issued to two entities, Nassau Capital Partners, L.P. and NAS Partners I L.L.C. ("Nassau Capital" and "Nassau Partners", respectively, collectively

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referred to as "Nassau") in January 1997 upon the conversion of certain notes payable and related accrued interest due to Nassau aggregating \$12,380,000. Series A Preferred Stock has a liquidation preference of \$100 per share and an annual dividend equal to 7.0% of the liquidation preference, payable quarterly, when and if declared by the Board of Directors out of funds legally available therefor. Unpaid dividends accumulate and the unpaid amount increases at the annual rate of 7.0%, compounded quarterly. All accumulated but unpaid dividends will be paid upon the occurrence of a Realization Event (defined as (i) an initial public offering with gross proceeds of at least \$40 million or (ii) sale of substantially all the assets or stock of the Company or the merger or consolidation of the Company into one or more other corporations). As of December 31, 1999, dividends in arrears on the Series A Preferred Stock aggregated \$2,116,000. Notwithstanding the foregoing, pursuant to an agreement among Nassau and the Company, Nassau has agreed to forego the payment of dividends from September 22, 1997 through the date on which Nassau disposes of its interest in the Company; provided that at the time of such disposition, Nassau has received not less than a 10% annual compound rate of return during the period it held the Series A Preferred Stock.

Series A Preferred Stock is convertible into Common Stock at a conversion price equal to \$20.63 per share of Common Stock, subject to adjustment upon the occurrence of certain events. Holders of Series A Preferred Stock may convert all or part of such shares to Common Stock. Upon conversion, subject to the aforementioned agreement to forego the payment of dividends, the holders are entitled to receive a cash payment of the accumulated but unpaid dividends; provided, however, that the Company may substitute common shares having a fair market value equal to the amount of such cash payment if the conversion occurs before a Realization Event. Series A Preferred Stock will automatically convert into Common Stock upon the occurrence of a Qualified Public Offering (defined as the first sale of Common Stock pursuant to a registration statement filed under the Securities Act of 1933 in which the Company receives gross proceeds of at least \$40 million, provided that the per share price at which such shares are sold in such offering is at least four times the conversion price of the Series A Preferred Stock).

The holders of Series A Preferred Stock, except as otherwise provided in the Company's Certificate of Incorporation, are entitled to vote on all matters voted on by holders of Common Stock. Each share of Series A Preferred Stock is entitled to a number of votes equal to the number of shares of Common Stock into

which such share is convertible. Without the prior consent of two-thirds of the shares of Series A Preferred Stock, among other things, the Company may not increase the number of shares of preferred stock (of whatever series) authorized for issuance, or declare or pay any dividends on shares of Common Stock or other junior shares. As discussed under "Redemption Rights" below, the holders of Series A Preferred Stock have certain redemption rights. Accordingly, such stock has been reflected as redeemable equity in the accompanying financial statements.

Series C Preferred Stock

There are 350,000 shares of Series C Cumulative Convertible Preferred Stock of KMC Holdings ("Series C Preferred Stock") authorized, of which 175,000 shares are outstanding at December 31, 1999. 150,000 of such shares were issued in November 1997, generating aggregate gross proceeds of \$15 million and the remaining 25,000 shares were issued in January 1998 upon the conversion of an equal number of shares of Series D Preferred Stock. Series C Preferred Stock has a liquidation preference of \$100 per share and an annual dividend equal to 7.0% of the liquidation preference, payable quarterly, when and if declared by the Board of Directors out of funds legally available therefor. Unpaid dividends accumulate and the unpaid amount increases at the annual rate of 7.0%, compounded quarterly. All accumulated but unpaid dividends will be paid upon the occurrence of a Realization Event. As of December 31, 1999, dividends in arrears on the Series C Preferred Stock aggregated \$2,821,000. Notwithstanding the foregoing, pursuant to the Purchase Agreement among the Company, Nassau, GECC and First Union Corp. ("First Union"), each current holder of Series C Preferred Stock has agreed to forego the payment of dividends that accumulate during the period from issuance through the date on which such holder disposes of its interest in the Company; provided that at the time of such disposition, it has received not less than a 10% annual compound rate of return during such period.

Series C Preferred Stock is convertible into Common Stock at a conversion price equal to (i) from the date of initial issuance to the date which is 30 months after the date of such initial issuance, \$52.50 per share of Common Stock and (ii) from and after the date which is 30 months after the date of initial issuance, \$42.18; provided that both such amounts are subject to adjustment upon the occurrence of certain events. Holders of Series C Preferred Stock may convert all or part of such shares to Common Stock. Upon conversion, subject to the aforementioned agreement to forego the payment of dividends, the holders are entitled to receive a cash payment of the accumulated but unpaid dividends; provided, however, that the Company may substitute common shares having a fair

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market value equal to the amount of such cash payment if the conversion occurs before a Realization Event. Series C Preferred Stock will automatically convert into Common Stock upon the occurrence of a Qualified Public Offering.

The holders of Series C Preferred Stock, except as otherwise provided in the Company's Certificate of Incorporation, are entitled to vote on all matters voted on by holders of Common Stock. Each share of Series C Preferred Stock is entitled to a number of votes equal to the number of shares of Common Stock into which such share is convertible. Without the prior consent of two-thirds of the shares of Series C Preferred Stock, among other things, the Company may not increase the number of shares of preferred stock (of whatever series) authorized for issuance, or declare or pay any dividends on shares of Common Stock or other junior shares. As discussed under "Redemption Rights" below, the holders of Series C Preferred Stock have certain redemption rights. Accordingly, such stock has been reflected as redeemable equity in the accompanying financial statements.

The Series C Preferred Stock is subject to redemption at the option of the Company, in whole but not in part, in connection with an "Acquisition Event." An Acquisition Event is defined to mean any merger or consolidation of the Company with any other company, person or entity, whether or not the Company is the surviving entity, as a result of which the holders of the Company's Common Stock (determined on a fully diluted basis) will hold less than a majority of the outstanding shares of Common Stock or other equity interest of the Company, person or entity resulting from such transaction, or any parent of such entity.

Series D Preferred Stock

There are 25,000 shares of Series D Cumulative Convertible Preferred Stock of KMC Holdings ("Series D Preferred Stock") authorized, none of which are outstanding at December 31, 1999. There were 25,000 of such shares issued to Nassau in November 1997, generating aggregate gross proceeds of \$2.5 million. In January 1998, Nassau exercised its conversion rights and converted all of its shares of Series D Preferred Stock into an equal number of shares of Series C Preferred Stock.

Common Stock

Holders of Common Stock of the Company are entitled to one vote for each share held on all matters submitted to a vote of stockholders, except with respect to the election of Directors. Except as otherwise required by law, actions at the Company's stockholders meetings (held at least annually), require the affirmative vote of a majority of the shares represented at the meeting, a quorum being present. Holders of Common Stock are entitled, subject to the preferences of preferred stock, to receive such dividends, if any, as may be declared by the Board of Directors out of funds legally available therefor. The Senior Discount Note Indenture and the Company's other indebtedness restrict the ability of the Company to pay dividends on its Common Stock. Without the prior consent of two-thirds of the shares of Series A Preferred Stock and two-thirds of the shares of Series C Preferred Stock, the Company may not declare or pay any dividends on its Common Stock. Except as discussed under "Redemption Rights" below, the holders of Common Stock have no preemptive, redemption or conversion rights.

Pursuant to provisions contained in the Company's Certificate of Incorporation and an Amended and Restated Stockholders Agreement dated as of October 31, 1997, among the Company, Kamine, Nassau, Newcourt Communications Finance Corp., GECC, and First Union (the "Stockholders' Agreement"), until Kamine and Nassau cease to own Common Stock or preferred stock convertible into Common Stock representing at least five percent of the outstanding shares of Common Stock, assuming all convertible securities are converted, Kamine and Nassau have special rights entitling each to elect three Directors. A Director elected by Kamine's shares or Nassau's shares may not be removed except with the affirmative vote of a majority of the applicable shares of capital stock. If Kamine or Nassau transfer their shares of capital stock, the number of Directors their shares are entitled to elect decreases. The number of Directors which Kamine is entitled to elect would be reduced to two if the number of shares owned by him were to fall below two-thirds of the number of shares of the Company initially issued to him, and to one if the number of shares owned by him were to fall below one-third of the number of shares initially issued to him. If his ownership were to fall below 5% of the number of shares initially issued to him, Kamine would no longer be entitled to elect any Directors pursuant to such provisions. Comparable reductions would be made to the number of Directors which Nassau is entitled to elect if its ownership were to fall below the specified percentages. Directors other than those elected by vote of Kamine's shares or Nassau's shares are elected by holders of Common Stock and holders of preferred stock that are entitled to vote in the election of Directors. If a default relating to payment occurs under the Senior Secured Credit Facility and

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continues uncured for 90 days, the holders of Series C Preferred Stock (currently Nassau, GECC and First Union) are entitled to elect two additional Directors, who will serve until the default is cured.

Redemption Rights

Pursuant to a stockholders agreement, certain of the Company's stockholders and warrant holders have "put rights" entitling them to have the Company repurchase their preferred and common shares and redeemable common stock warrants for the fair value of such securities if no Liquidity Event (defined as (i) an initial public offering with gross proceeds of at least \$40 million, (ii) the sale of substantially all of the stock or assets of the Company or (iii) the merger or consolidation of the Company with one or more other corporations) has taken

place by the later of (x) October 22, 2003 or (y) 90 days after the final maturity date of the Senior Discount Notes. The restrictive covenants of the Senior Discount Notes limit the Company's ability to repurchase such securities. All of the securities subject to such "put rights" are presented as redeemable equity in the accompanying balance sheets.

The redeemable preferred stock, redeemable common stock and redeemable common stock warrants, which are subject to the stockholders agreement, are being accreted up to their fair market values from their respective issuance dates to their earliest potential redemption date (October 22, 2003). At December 31, 1999, the aggregate redemption value of the redeemable equity was approximately \$320 million, reflecting per share redemption amounts of \$1,212 for the Series A Preferred Stock, \$476 for the Series C Preferred Stock and \$250 for the redeemable common stock and redeemable common stock warrants.

Warrants

In connection with KMC Telecom's 1996 Loan and Security Agreement, warrants representing a 2.5% ownership interest in the fully diluted common voting capital stock of KMC Telecom, including anti-dilution protection, were granted to the lenders. These warrants, at an exercise price of \$.01 per share, were issued on January 21, 1997, concurrent with the initial borrowing under the AT&T Facility, at which date the fair value of such warrants was determined to be \$1.5 million, which was reflected as a charge to deferred financing costs and credited to redeemable equity in January 1997. On September 22, 1997, such warrants were exercised, and an aggregate of 28,000 shares of Class A Common Stock of KMC Telecom were issued to the warrant holders. These shares were subsequently exchanged for an equal number of shares of Common Stock of KMC Holdings.

In connection with the AT&T Facility, warrants to purchase 10,000 shares of Common Stock were issued to GECC in 1997. These warrants, at an exercise price of \$.01 per share, are exercisable from issuance through January 21, 2005. The fair value of such warrants was determined to be \$525,000, which was reflected as a charge to deferred financing costs and credited to redeemable equity. Pursuant to the Stockholders' Agreement, GECC may put the shares of Common Stock issuable upon the exercise of such warrants back to the Company. These warrants have been presented as redeemable common stock warrants in the accompanying balance sheet at December 31, 1999.

In connection with the sale of Senior Discount Notes in January 1998, the Company issued warrants to purchase an aggregate of 100,385 shares of Common Stock at an exercise price of \$.01 per share. The net proceeds of \$10,446,000 represented the fair value of the warrants at the date of issuance. The warrants are exercisable through January 2008.

In connection with the February 4, 1999 issuances of the Series E Preferred Stock and the Series F Preferred Stock, warrants to purchase an aggregate of 24,660 shares of Common Stock were sold to Newcourt Finance and Lucent. The aggregate gross proceeds from the sale of these warrants was approximately \$3.2 million. These warrants, at an exercise price of \$.01 per share, are exercisable from February 4, 2000 through February 1, 2009.

In addition, the Company also delivered to the Warrant Agent certificates representing warrants to purchase an aggregate of an additional 107,228 shares of Common Stock at an exercise price of \$.01 per share (the "Springing Warrants"). The Springing Warrants may become issuable under the circumstances described in the following paragraph.

If the Company fails to redeem all shares of Series F Preferred Stock prior to the date (the "Springing Warrant Date") which is the earlier of (i) the date that is sixty days after the date on which the Company closes an underwritten primary offering of at least \$200 million of its Common Stock pursuant to an

effective registration statement under the Securities Act or (ii) February 4, 2001, the Warrant Agent is authorized to issue the Springing Warrants to the Eligible Holders (as defined in the warrant agreement) of the Series E and

Series F Preferred Stock. In the event the Company has redeemed all outstanding shares of Series F Preferred Stock prior to the Springing Warrant Date, the Springing Warrants will not be issued and the Warrant Agent will return the certificates to the Company. To the extent the Company exercises its option to exchange all of the Series F Preferred Stock for Exchange Debentures prior to the Springing Warrant Date, the Springing Warrants will not become issuable. Therefore, as the future issuance of the Springing Warrants is entirely within the control of the Company and the likelihood of their issuance is deemed to be remote, no value has been ascribed to the Springing Warrants.

In connection with the April 30, 1999 issuance of additional shares of the Series E Preferred Stock, warrants to purchase an aggregate of 60,353 shares of Common Stock were issued to Newcourt Finance and First Union. The aggregate gross proceeds from the sale of these warrants was approximately \$9.1 million. These warrants, at an exercise price of \$.01 per share, are exercisable from February 4, 2000 through February 1, 2009.

Options

Prior to the establishment of the present holding company structure, during 1996 and 1997, KMC Telecom granted options to purchase shares of its common stock, par value \$.01 per share ("KMC Telecom Common Stock"), to employees pursuant to the KMC Telecom Stock Option Plan.

In order to reflect the establishment of the holding company structure, on June 26, 1998, the Board of Directors adopted a new stock option plan, the KMC Holdings Stock Option Plan (the "1998 Plan"), which authorizes the grant of options to purchase Common Stock of the Company. The 1998 Plan was approved by the stockholders, effective July 15, 1998. In September 1998, the Company replaced the options to purchase KMC Telecom Common Stock previously granted under the KMC Telecom Stock Option Plan with options to purchase Common Stock of the Company granted under the 1998 Plan and granted options to additional employees of the Company under the 1998 Plan.

The 1998 Plan, which is administered by the Compensation Committee of the Board of Directors of KMC Holdings, provides for various grants to key employees, directors, affiliated members or other persons having a unique relationship with the Company excluding Kamine and any person employed by Nassau Capital or any Nassau affiliate. Grants may include, without limitation, incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stocks, purchase stocks, performance shares and performance units. The Compensation Committee has the power and authority to designate recipients of the options and to determine the terms, conditions, and limitations of the options.

Under the 1998 Plan, options to purchase 600,000 shares of Common Stock of KMC Holdings are available for grant, all of which were allocated to the Plan as of December 31, 1999. No individual may receive options for more than 75,000 shares. The exercise price of all incentive stock options granted under the 1998 Plan must be at least equal to the fair market value of the shares on the date of grant. The exercise price of all non-qualified stock options granted under the 1998 Plan must be at least 50% of the fair market value of the shares on the date of grant.

Options granted pursuant to the 1998 Plan will have terms not to exceed 10 years and become exercisable over a vesting period as specified in such options. The 1998 Plan will terminate no later than 2008. Options granted under the 1998 Plan are nontransferable, other than by will or by the laws of descent and distribution, and may be exercised during the optionee's lifetime, only by the optionee.

The 1998 Plan provides for an adjustment of the number of shares exercisable in the event of a merger, consolidation, recapitalization, change of control, stock split, stock dividend, combination of shares or other similar changes, exchange or reclassification of the Common Stock at the discretion of the Compensation Committee. Pursuant to the agreements adopted under the 1998 Plan, the greater of 25% of the shares granted or fifty percent of all unvested options granted become fully vested upon a change-in-control of the Company, as defined. Under certain circumstances, such percentages may increase.

The holders of options to acquire shares of Common Stock of KMC Holdings are

required to enter into agreements with KMC Holdings which place certain restrictions upon their ability to sell or otherwise transfer such shares. In the event of termination of employment of the option holder by the Company or

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the affiliates, the Company can repurchase all of the shares or options held by such individuals, generally for an amount equal to the fair value of such shares or the excess of the fair value of such options over their exercise price.

Information on stock options is as follows:

	NUMBER OF SHARES		WEIGHTED AVERAGE EXERCISE
	OUTSTANDING	EXERCISABLE	PRICE OF OPTIONS
Balances, January 1, 1997.....	95,385	-	\$ 65
Granted.....	63,115	-	\$ 65
Became exercisable.....	-	22,000	
Cancelled.....	(17,000)	(3,000)	\$ (65)
Balances, December 31, 1997.....	141,500	19,000	\$ 65
Granted.....	262,500	-	\$ 26
Became exercisable.....	-	117,000	
Cancelled.....	(141,500)	(19,000)	\$ (65)
Balances, December 31, 1998.....	262,500	117,000	\$ 26
Granted.....	82,342	-	\$147
Became exercisable.....	-	51,669	
Exercised.....	(15,600)	(15,600)	\$ 22
Cancelled.....	(27,200)	(2,000)	\$ (26)
Balances, December 31, 1999.....	302,042	151,069	\$ 59

The weighted-average exercise price of options exercisable at December 31, 1997, 1998 and 1999 is \$50, \$22 and \$26, respectively, and the weighted-average fair value of options granted during 1997, 1998 and 1999 were \$49, \$114 and \$134 per share, respectively.

The range of exercise prices, number of shares and the weighted-average remaining contractual life for options outstanding as of December 31, 1999 were as follows:

WEIGHTED- AVERAGE REMAINING CONTRACTUAL LIFE	RANGE OF EXERCISE PRICES	NUMBER OF SHARES	NUMBER OF SHARES EXERCISABLE	WEIGHTED- AVERAGE EXERCISE PRICE
8.66 years	\$20 - \$40	219,700	144,025	\$ 21
9.0 years	\$125	67,509	6,751	125
9.70 years	\$225 - \$250	14,833	293	225
8.79 years	Total \$20 - \$250	302,042	151,069	26

During the year ended December 31, 1999, non-qualified options to purchase an aggregate of 82,342 shares were granted to employees at exercise prices of \$125 (67,509), \$225 (2,933) and \$250 (11,900). All options have 10 year terms and become exercisable over a five year period in equal six month increments.

During the year ended December 31, 1998, non-qualified options to purchase an aggregate of 262,500 shares were granted at exercise prices of \$20 (157,500 options), \$30 (52,500 options) and \$40 (52,500 options). The options granted during 1998 are comprised of 230,500 options granted to employees and 32,000 options granted to individuals employed by certain affiliates of the Company. All such options have 10 year terms. The \$20 options become exercisable over a three year period in six month intervals commencing six months after the grant date in increments of 26,250 options each. The \$30 options become exercisable in two increments of 26,250 options each, forty-two and forty-eight months after the grant date. The \$40 options become exercisable in two increments of 26,250 options each, fifty-four and sixty months after the grant date. For purposes of vesting, options granted in 1998 under the 1998 Plan to replace options granted in 1997 and 1996 under the KMC Telecom Stock Option Plan are deemed to have been granted on the date of grant of the options which they replace.

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As a result of certain anti-dilution provisions governing the conversion of shares of Class C Common Stock into shares of Class A Common Stock, KMC Telecom was required to account for the KMC Telecom Stock Option Plan as a variable stock option plan. Additionally, as a result of restrictions upon the holders of options granted under the 1998 Plan, including their ability to sell or otherwise transfer the related shares, the 1998 Plan is required to be accounted for as a variable stock option plan. Generally accepted accounting principles for variable stock option plans require the recognition of a non-cash compensation charge for these options (amortized over the vesting period of the employee options and recognized in full as of the grant date for the non-employee options). Such charge is determined by the difference between the fair value of the common stock underlying the options and the option price as of the end of each period. Accordingly, compensation expense will be charged or credited periodically through the date of exercise or cancellation of such stock options, based on changes in the value of the Company's stock as well as the vesting schedule of such options. These compensation charges or credits are non-cash in nature, but could have a material effect on the Company's future reported results of operations.

The Company, upon cancellation of the outstanding options under the KMC Telecom Stock Option Plan, reversed all compensation expense previously recorded with respect to such options. Additionally, to the extent the fair value of the Common Stock of the Company exceeded the exercise price of the options granted under the 1998 Plan, the Company recognized compensation expense related to such options over their vesting period.

Based on the estimated fair value of the Common Stock of KMC Telecom at December 31, 1997 and KMC Holdings at December 31, 1998 and December 31, 1999, cumulative deferred compensation obligations of \$15,579,000, \$27,906,000 and \$50,972,000, respectively, have been established. The Company has recognized compensation expense aggregating \$13,870,000, \$7,080,000 and \$29,833,000, for the years ended December 31, 1997, 1998 and 1999, respectively. The 1998 stock option compensation expense of \$7,080,000 reflects charges of \$7,236,000 under the KMC Telecom Stock Option Plan through its termination in September 1998 and charges of \$21,190,000 related to the 1998 Plan, partially offset by a credit as a result of the September 1998 cancellation of the KMC Telecom stock options, reflecting the reversal of \$21,346,000 of cumulative compensation previously recognized for options granted under the KMC Telecom Stock Option Plan.

In accordance with the provisions of Statement 123, the Company applies APB 25 and related interpretations in accounting for its stock option plan. If the Company had elected to recognize compensation expense based on the fair value of the options granted at the grant date as prescribed by Statement 123, net loss and net loss per common share would have been the following:

	1997	DECEMBER 31 1998	1999
	(in thousands, except per share amounts)		
Net loss:			
As reported.....	\$ (32,685)	\$ (76,753)	\$ (225,716)
Pro forma.....	\$ (20,542)	\$ (76,869)	\$ (219,599)
Net loss per common share:			
As reported.....	\$ (64.93)	\$ (114.42)	\$ (360.88)
Pro forma.....	\$ (45.97)	\$ (114.56)	\$ (353.70)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1997	1998	1999
Expected dividend yield.....	0%	0%	0%
Expected stock price volatility.....	50%	50%	70%
Risk-free interest rate.....	6%	6%	
6.5%			
Expected life of options.....	7 years	7 years	7 years

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

9. SERVICE REVENUES

The Company provides on-net switched and dedicated services and resells switched services previously purchased from the incumbent local exchange carrier. On-net services include both services provided through direct connections to our own networks and services provided by means of unbundled network elements leased from the incumbent local exchange carrier.

The Company's service revenues consist of the following:

	1997	YEAR ENDED DECEMBER 31 1998	1999
	(in thousands)		
On-net.....	\$1,093	\$ 8,248	\$44,615
Resale.....	2,324	14,177	19,698
Total.....	\$3,417	\$22,425	\$64,313

10. INCOME TAXES

As of December 31, 1999, the Company and its subsidiaries had consolidated net operating loss carryforwards for United States income tax purposes ("NOLs") of approximately \$215 million which expire through 2013. Under Section 382 of the Internal Revenue Code of 1986, as amended, if the Company undergoes an "ownership change," its ability to use its preownership change NOLs (NOLs accrued through the date of the ownership change) would generally be limited annually to an amount equal to the product of (i) the long-term tax-exempt rate for ownership changes prescribed monthly by the Treasury Department and (ii) the value of the Company's equity immediately before the ownership change, excluding certain capital contributions. Any allowable portion of the preownership change NOLs that is not used in a particular taxable year following the ownership change could be carried forward to subsequent taxable years until the NOLs expire, usually 15 years after they are generated. As a result of the cumulative effect of issuances of preferred and common stock through September 22, 1997, KMC Telecom has undergone an ownership change.

For financial reporting purposes, the Company has an aggregate of approximately \$109 million and \$311 million of loss carryforwards and net temporary differences at December 31, 1998 and 1999, respectively. At existing federal and state tax rates, the future benefit of these items approximates \$42 million at December 31, 1998 and \$121 million at December 31, 1999. Valuation allowances have been established equal to the entire net tax benefit associated with all carryforwards and temporary differences at both December 31, 1998 and 1999 as their realization is uncertain.

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The composition of expected future tax benefits at December 31, 1998 and 1999 is as follows:

	1998	1999
	(in thousands)	
Net operating loss carryforwards.....	\$ 22,914	\$ 83,762
Temporary differences:		
Stock option compensation.....	8,264	19,528
Interest accretion.....	9,797	21,127
Other, net.....	2,513	(3,244)
Total deferred tax assets.....	42,488	121,173
Less valuation allowance.....	(42,488)	(121,173)
Net deferred tax assets.....	\$ -	\$ -

A reconciliation of the expected tax benefit at the statutory federal rate of 35% is as follows:

	1997	1998
1999 *		
Expected tax benefit at statutory rate.....	(35.0)%	(35.0)%
(35.0)%		
State income taxes, net of federal benefit.....	(2.9)	(2.6)
(3.8)		
Non-deductible interest expense.....	-	2.0
1.1		

Other.....	.1	.1
.1		
Change in valuation allowance.....	37.8	35.5
37.6		

-%

11. COMMITMENTS AND CONTINGENCIES

Leases

The Company leases various facilities and equipment under operating leases. Minimum rental commitments are as follows (in thousands):

Year ending December 31:

2000.....	\$ 4,434
2001.....	5,317
2002.....	4,754
2003.....	4,145
2004.....	3,302
Thereafter.....	13,219

	\$35,171
	=====

Rent expense under operating leases was \$478,000, \$1,299,000 and \$3,815,000, for the years ended December 31, 1997, 1998 and 1999, respectively.

Litigation

There are a number of lawsuits and regulatory proceedings related to the Telecommunications Act of 1996, decisions of the Federal Communications Commission related thereto and rules and regulations issued thereunder which may affect the rights, obligations and business of incumbent local exchange carriers, competitive local exchange carriers and other participants in the telecommunications industry in general, including the Company.

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Purchase Commitments

As of December 31, 1999, the Company has outstanding commitments aggregating approximately \$96.5 million related to purchases of telecommunications equipment and fiber optic cable and its obligations under its agreements with certain suppliers and service providers.

Employment Agreements

The Company has entered into employment agreements with certain of its executives. In addition to a base salary, these agreements also provide for certain incentive compensation payments, based upon completion of construction and attainment of specified revenues for additional networks. The Company has also agreed to make similar incentive compensation payments to certain other key employees.

Arbitration Award

During the second quarter of 1999, the Company recorded a \$4.3 million charge to other expense in connection with an unfavorable arbitration award. The net amount due under the terms of the award was paid in full in June 1999.

12. ACQUISITION

On July 11, 1997, KMC Telecom acquired a network in Melbourne, Florida for a purchase price of \$2 million in cash. The acquisition was accounted for under the purchase method and the purchase price approximated the fair value of the fixed assets acquired. Assuming the Melbourne Network had been acquired as of January 1, 1997, the Company's pro forma consolidated revenue and net loss for the year ended December 31, 1997 would have been \$3,655,000 and \$33,212,000, respectively.

13. RELATED PARTY TRANSACTIONS

The Company and certain affiliated companies owned by Kamine share certain administrative services. The entity which bears the cost of the service is reimbursed by the other for the other's proportionate share of such expenses. The Company reimbursed Kamine-affiliated companies for these shared services an aggregate of approximately \$281,000, \$136,000 and \$60,000, of expense for the years ended December 31, 1997, 1998 and 1999, respectively. During 1999, the Company purchased approximately \$180,000 of office furniture and leasehold improvements from an entity controlled by Kamine.

From May 1, 1996 through January 29, 1998, an affiliate of the Company was paid a fee at an annual rate of \$266,000 as reimbursement for the services of Kamine as Chairman of the Board of the Company. The amount of this fee was reduced to \$100,000 per annum as of January 29, 1998 and it was terminated effective December 31, 1998. The fees paid for these services are included in the shared services payment described in the immediately preceding paragraph.

The Company leases its headquarters office through January 2007 from an entity controlled by Kamine. The lease provides for a base annual rental cost of approximately \$217,000, adjusted periodically for changes in the consumer price index, plus operating expenses. Rent expense recognized under this lease for the years ended December 31, 1997, 1998 and 1999 was \$207,000, \$217,000 and \$217,000, respectively.

Effective January 1, 1999, the Company is entitled to utilize a Citation III business jet, chartered by Bedminster Aviation, LLC, a limited liability company wholly-owned by Kamine, for a fixed price per hour of flight time. During 1999, the Company paid approximately \$210,000 for the use of the Citation III. The Company has agreed to use its best efforts to utilize the Citation III fifty hours per quarter during 2000. The Company is under no obligation to do so and has not guaranteed any financial arrangements with respect to the aircraft or to Bedminster Aviation, LLC.

Pursuant to an agreement among the Company, Kamine and Nassau, for 1997, 1998 and 1999 Nassau received \$100,000, \$100,000 and \$450,000, respectively, as a financial advisory fee and as compensation for the Nassau designees who served on the Board of Directors of the Company. Nassau will be paid \$450,000 as a financial advisory fee for 2000.

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As of December 31, 1998 and 1999, the Company has made loans aggregating \$760,000 and \$575,000, respectively, to certain of its executives. Such loans bear interest at a rate of 6% per annum and are included in other assets.

14. NET LOSS PER COMMON SHARE

The following table sets forth the computation of net loss per common share:

	1997	1998	1999

	(in thousands, except per share amounts)		
Numerator:			
Net loss.....	\$(32,686)	\$(76,753)	\$(225,716)
Dividends and accretion on redeemable preferred stock.....	(8,904)	(18,285)	(81,633)

Numerator for net loss per common share....	\$(41,590)	\$(95,038)	\$(307,349)

Denominator:

Denominator for net loss per common share -
weighted average number of common shares
outstanding.....

	641	831	852
Net loss per common share.....	\$ (64.93)	\$ (114.42)	\$ (360.88)

Options and warrants to purchase an aggregate of 242,768, 372,885 and 496,729 shares of common stock were outstanding as of December 31, 1997, 1998 and 1999, respectively, but a computation of diluted net loss per common share has not been presented, as the effect of such securities would be anti-dilutive.

15. SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Information with respect to noncash investing and financing activities is as follows:

In connection with the Senior Discounts Notes, the Company recognized noncash interest expense of \$29.6 and \$36.4 million in 1998 and 1999, respectively.

During 1999, the Company issued stock dividends to the holders of the Series E Preferred Stock and Series F Preferred Stock of 5,004 shares and 4,177 shares, respectively.

In 1997, certain convertible notes, including accrued interest, aggregating approximately \$12,380,000 were converted into 123,800 shares of Series A Cumulative Convertible Preferred Stock of KMC Telecom.

In 1997, warrants with a fair value of \$1.5 million were granted to Newcourt and warrants with a fair value of \$525,000 were granted to GECC.

In connection with options granted to employees under the KMC Holdings Stock Option Plan in 1998 and 1999, and under the KMC Telecom Stock Option Plan in 1997, cumulative deferred compensation obligations of \$15,579,000, \$27,906,000 and \$50,972,000, have been established in 1997, 1998 and 1999, respectively, with offsetting credits to additional paid-in capital. Noncash compensation expense of \$9,014,000, \$23,758,000 and \$23,947,000 in 1997, 1998 and 1999, respectively, was recognized in connection with such options. In connection with options granted to individuals employed by certain affiliates of the Company in 1997, 1998 and 1999, the Company recognized noncash compensation expense of \$4,856,000, \$4,668,000 and \$5,886,000, respectively. In addition, during 1998 the Company cancelled all of the then outstanding options granted under the KMC Telecom Stock Option Plan, resulting in the reversal of previously recognized compensation expense of \$21.3 million.

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16. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and Cash Equivalents

The carrying amounts approximate fair value because of the short-term maturity of the instruments.

Investments Held for Future Capital Expenditures

The carrying amounts and fair value are reported at amortized cost since these securities are to be held to maturity.

Long-Term Debt

The carrying amount of floating-rate long-term debt approximates its fair value. The fair value of the Company's fixed-rate long-term debt is estimated using discounted cash flows at the Company's incremental borrowing rates.

Redeemable Equity

The fair value of the Company's redeemable equity instruments are estimated to be the amounts at which the holders may require the Company to redeem such securities, adjusted using discounted cash flows.

Interest Rate Swap

At December 31, 1999, the Company had an interest rate swap agreement to reduce the impact on interest expense of fluctuations in interest rates on a portion of its variable rate debt. The effect of this agreement is to limit the Company's interest rate exposure on a notional amount of debt of \$125 million. The fair value was estimated as the amount the Company would receive if the swap agreement was terminated at December 31, 1999.

Estimated Fair Values

The carrying amounts and estimated fair values of the Company's financial instruments are as follows (in millions):

	1998		1999	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents.....	\$ 21.1	\$ 21.1	\$ 86.0	\$ 86.0
Investments held for future capital expenditures.....	27.9	27.9	-	-
Long-term debt:				
Floating rate.....	41.4	41.4	235.0	235.0
Fixed rate - Senior Discount Notes.....	267.8	249.6	301.1	275.7
Fixed rate - Senior Notes.....	-	-	275.0	263.5
Redeemable equity instruments:				
Series E Preferred Stock.....	-	-	50.8	57.7
Series F Preferred Stock.....	-	-	41.4	39.2
Series A Preferred Stock.....	30.4	38.9	71.3	86.5
Series C Preferred Stock.....	21.6	21.6	40.3	48.0
Redeemable common stock.....	22.3	14.5	33.8	34.4
Redeemable common stock warrants.....	.7	.7	12.9	13.7
Interest rate swap (asset).....	-	-	-	3.9

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments with major

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financial institutions. With respect to accounts receivable, the Company performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral. No individual customer accounted for more than 10% of revenue, excluding reciprocal compensation revenue, as described below, for any of the years ended December 31, 1997, 1998 or 1999.

The Company maintains interconnection agreements with the major incumbent local exchange carriers ("ILECs") in each state in which it operates. Among other things, these contracts govern the reciprocal amounts to be billed by competitive carriers for terminating local traffic of Internet service providers ("ISPs") in each state. ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to competitive local exchange carriers should apply to local telephone calls from an ILEC's customers to ISPs served by competitive local exchange carriers. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local intrastate calls. Competitive local exchange carriers have contended that the interconnection agreements provide no exception for local calls to ISPs and reciprocal compensation is therefore applicable. The ILECs have threatened to withhold, and in many cases have withheld, reciprocal

compensation to competitive local exchange carriers for the transport and termination of these calls. During 1998 and 1999, the Company recognized revenue from these ILECs of approximately \$2.9 million and \$9.7 million, or 12.9% and 15.1% of 1998 and 1999 revenue, respectively, for these services. Payments of approximately \$135,000 and \$1.6 million were received from the ILECs during 1998 and 1999, respectively.

The Company determined to recognize this revenue because management concluded, based upon all of the facts and circumstances available to them at the time, including numerous state public service commission and state and federal court decisions upholding competitive local exchange carriers' entitlement to reciprocal compensation for such calls, that realization of those amounts was reasonably assured. On October 13, 1999, however, the Louisiana Public Service Commission ruled that local traffic to Internet service providers in Louisiana is not eligible for reciprocal compensation. As a result of that ruling, management determined that the Company could no longer conclude that realization of amounts attributable to reciprocal compensation for termination of local calls to Internet service providers in Louisiana was reasonably assured. Accordingly, the Company recorded an adjustment to reduce revenue in the quarter ended September 30, 1999, which reversed all reciprocal compensation revenue previously recognized related to Internet service provider traffic in Louisiana for the entire year of 1998 and for the first nine months of 1999. The adjustment amounted to \$4.4 million, of which \$1.1 million relates to the year ended December 31, 1998 and \$3.3 million relates to the nine months ended September 30, 1999.

South Carolina has also ruled that ILECs are not obligated to pay reciprocal compensation for termination of local calls to ISPs. As a result, unless that decision is reversed we will not recognize revenue for such calls in South Carolina.

Currently, over 30 state commissions and several federal and state courts have ruled that reciprocal compensation arrangements do apply to calls to ISPs, while four jurisdictions have ruled to the contrary. A number of these rulings are subject to appeal. Additional disputes over the appropriate treatment of ISP traffic are pending in other states. On February 26, 1999, the Federal Communications Commission issued a declaratory ruling determining that ISP traffic is interstate for jurisdictional purposes, but that its current rules neither require nor prohibit the payment of reciprocal compensation for such calls. In the absence of a federal rule, the Federal Communications Commission determined that state commissions have authority to interpret and enforce the reciprocal compensation provisions of existing interconnection agreements, and to determine the appropriate treatment of ISP traffic in arbitrating new agreements. The Federal Communications Commission also requested comment on alternative federal rules to govern compensation for such calls in the future. In response to the Federal Communications Commission ruling some ILECs have asked state commissions to reopen previous decisions requiring the payment of reciprocal compensation on ISP calls. Some ILECs and some competitive local exchange carriers appealed the Federal Communications Commission's declaratory ruling to the United States Court of Appeals for the District of Columbia Circuit, which issued a decision on March 24, 2000, vacating the declaratory ruling. The court stated that the Federal Communications Commission had not adequately explained its conclusion that calls to ISPs should not be treated as local traffic for reciprocal compensation purposes. Management views this decision as favorable, but the court's direction to the Federal Communications Commission to re-examine the issue will likely result in further delay in the resolution of pending compensation disputes, and there can be no assurance as to the ultimate outcome of these proceedings.

The Company accounts for reciprocal compensation with the ILECs, including the activity associated with the disputed ISP traffic, as local traffic pursuant to the terms of its interconnection agreements in all jurisdictions other than Louisiana and South Carolina. Accordingly, revenue is recognized in the period

that the traffic is terminated. The circumstances surrounding the disputes are considered by management periodically in determining whether reserves against unpaid balances are warranted. As of December 31, 1999, no reserves have been

considered necessary by management.

17. SUPPLEMENTAL GUARANTOR INFORMATION

In May 1999, KMC Holdings sold \$275,000,000 aggregate principal amount of Senior Notes. KMC Telecom Financing Inc. (the "Guarantor"), a wholly-owned subsidiary of the Company, has fully and unconditionally guaranteed the Company's obligations under these notes. Separate financial statements and other disclosures of the Guarantor are not presented because management determined the information is not material to investors. No restrictions exist on the ability of the Guarantor to make distributions to the Company except to the extent provided by law generally (adequate capital to pay dividends under corporate laws) and restrictions contained in the Company's credit facilities. The following condensed consolidating financial information presents the results of operations, financial position and cash flows of KMC Holdings (on a stand alone basis), the guarantor subsidiary (on a stand alone basis), the non-guarantor subsidiaries (on a combined basis) and the eliminations necessary to arrive at the consolidated results for the Company at December 31, 1999 and for the year then ended. The non-guarantor subsidiaries include KMC Telecom, KMC Telecom II, KMC Telecom III, KMC Telecom Virginia, Inc. and KMC Telecom Financial Services LLC (collectively, the "Non-Guarantor Subsidiaries").

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GUARANTOR/NON-GUARANTOR CONSOLIDATING BALANCE SHEET DECEMBER 31, 1999 (IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
ASSETS					
Current assets:					
Cash and cash equivalents (overdraft).....	(833)	\$ --	\$ 86,799	\$ --	\$ 85,966
Restricted investments.....	--	37,125	--	--	37,125
Accounts receivable, net.....	6	--	27,367	--	27,373
Prepaid expenses and other current assets.....	1,249	--	126	--	1,375
Amounts due from subsidiaries.....	72,972	--	(72,972)	--	--
Total current assets	73,394	37,125	41,320	--	151,839
Long-term restricted investments.....	--	51,446	--	--	51,446
Networks and equipment, net.....	58,531	--	580,793	--	639,324
Intangible assets, net.....	1,388	--	2,214	--	3,602
Deferred financing costs, net.....	21,031	--	17,785	--	38,816
Loans receivable from subsidiaries.....	590,103	(85,329)	(504,774)	--	--
Other assets.....	825	--	188	--	1,013
Total assets.....	\$ 745,272	\$ 3,242	\$ 137,526	\$ --	\$ 886,040
LIABILITIES, REDEEMABLE AND NONREDEEMABLE EQUITY (DEFICIENCY)					
Current liabilities:					
Accounts payable.....	\$ 40,984	\$ --	\$ 126,506	\$ --	\$ 167,490
Accrued expenses.....	14,967	--	22,080	--	37,047
Deferred revenue.....	--	--	4,309	--	4,309
Total current liabilities.....	55,951	--	152,895	--	208,846
Notes payable.....	--	--	235,000	--	235,000
Senior notes payable.....	275,000	--	--	--	275,000
Senior discount notes payable.....	301,137	--	--	--	301,137
Losses of subsidiaries in excess of basis.....	247,127	--	--	(247,127)	--
Total liabilities.....	879,215	--	387,895	(247,127)	1,019,983
Redeemable equity:					
Senior redeemable, exchangeable, PIK preferred stock:					
Series E.....	50,770	--	--	--	50,770
Series F.....	41,370	--	--	--	41,370
Redeemable cumulative convertible preferred stock:					
Series A.....	71,349	--	--	--	71,349
Series C.....	40,301	--	--	--	40,301
Redeemable common stock.....	33,755	--	--	--	33,755
Redeemable common stock warrants.....	12,925	--	--	--	12,925
Total redeemable equity.....	250,470	--	--	--	250,470
Nonredeemable equity (deficiency):					
Common stock.....	6	--	--	--	6
Additional paid-in capital.....	--	--	--	--	--
Unearned compensation.....	(9,163)	--	--	--	(9,163)
Accumulated deficit.....	(375,256)	--	(250,369)	247,127	(375,256)

Total nonredeemable equity (deficiency)	(384,413)	3,242	(250,369)	247,127	(384,413)
		3,242			
	\$ 745,272	\$ 3,242	\$ 137,526	\$ --	\$ 886,040

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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
Revenue.....	\$ --	\$ --	\$ 64,352	\$ (39)	\$ 64,313
Operating expenses:					
Network operating costs.....	--	--	110,348	(39)	110,309
Selling, general and administrative.....	40,714	--	15,089	--	55,803
Stock option compensation expense.....	29,833	--	--	--	29,833
Depreciation and amortization.....	3,104	--	25,973	--	29,077
Total operating expenses.....	73,651	--	151,410	(39)	225,022
Loss from operations.....	(73,651)	--	(87,058)	--	(160,709)
Intercompany charges.....	72,972	--	(72,972)	--	--
Other expense.....	(4,297)	--	--	--	(4,297)
Interest income.....	1,872	3,242	3,587	--	8,701
Interest expense.....	(36,729)	--	(32,692)	--	(69,411)
Equity in net loss of subsidiaries.....	(185,883)	--	--	185,883	--
Net income (loss).....	(225,716)	3,242	(189,125)	185,883	(225,716)
Dividends and accretion on redeemable preferred stock.....	(81,633)	--	--	--	(81,633)
Net income (loss) applicable to common shareholders	\$ (307,349)	\$ 3,242	\$ (189,125)	\$ 185,883	\$ (307,349)

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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
OPERATING ACTIVITIES					
Net loss.....	\$ (225,716)	\$ 3,242	\$ (189,125)	\$ 185,883	\$ (225,716)
Adjustments to reconcile net loss to net cash used in operating activities:					
Equity in net loss of subsidiaries.....	185,883	--	--	(185,883)	--
Depreciation and amortization.....	3,104	--	25,973	--	29,077
Non-cash interest expense.....	36,963	--	(5,822)	--	31,141
Non-cash stock option compensation expense.....	29,833	--	--	--	29,833
Changes in assets and liabilities:					
Accounts receivable.....	(6)	--	(19,828)	--	(19,834)
Prepaid expenses and other current assets.....	(917)	--	857	--	(60)
Accounts payable.....	441	--	28,878	--	29,319
Accrued expenses.....	9,075	--	15,152	--	24,227
Amounts due from subsidiaries.....	(52,050)	--	52,050	--	--
Other assets.....	1,128	--	2,592	--	3,720
Net cash provided by (used in) operating activities.....	(12,262)	3,242	(89,273)	--	(98,293)
INVESTING ACTIVITIES					
Loans receivable from subsidiaries.....	(324,390)	85,329	239,061	--	--
Construction of networks and purchases of equipment.....	(18,327)	--	(300,209)	--	(318,536)
Acquisitions of franchises, authorizations and related assets.....	(796)	--	(1,196)	--	(1,992)
Redemption (purchase) of investments.....	--	(88,571)	27,920	104,101	43,450

Net cash used in investing activities.....	(343,513)	(3,242)	(34,424)	104,101	(277,078)
FINANCING ACTIVITIES					
Proceeds from issuance of preferred stock and related warrants, net of issuance costs.....	91,001	--	--	--	91,001
Proceeds from exercise of stock options.....	333	--	--	--	333
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	262,387	--	--	(104,101)	158,286
Proceeds from senior secured credit facility, net of issuance costs.....	--	--	192,836	--	192,836
Issuance costs of Lucent facility.....	--	--	(2,300)	--	(2,300)
Net cash provided by financing activities.....	353,721	--	190,536	(104,101)	440,156
Net increase (decrease) in cash and cash equivalents.....	(2,054)	--	66,839	--	64,785
Cash and cash equivalents, beginning of year.....	1,221	--	19,960	--	21,181
Cash and cash equivalents, end of year.....	\$ (833)	\$ --	\$ 86,799	\$ --	\$ 85,966

18. SUBSEQUENT EVENTS

Amended Senior Secured Credit Facility

During the first quarter of 2000, KMC Telecom, KMC Telecom II, KMC Telecom of Virginia and KMC Telecom III (the "Borrowers"), amended, restated and combined the Senior Secured Credit Facility and the Lucent Facility by entering into a \$700 million Loan and Security Agreement (the "Amended Senior Secured Credit Facility") with a group of lenders led by Newcourt Commercial Finance Corporation, GE Capital, Canadian Imperial Bank of Commerce ("CIBC"), First Union National Bank and Lucent Technologies, Inc. (the "Lenders").

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The Amended Senior Secured Credit Facility includes a \$175 million reducing revolver facility (the "Revolver"), a \$75 million term loan (the "Term Loan") and a \$450 million term loan facility (the "Lucent Term Loan").

The Revolver will mature on April 1, 2007. Proceeds from the Revolver can be used to finance the purchase of certain equipment, transaction costs and, upon attainment of certain financial conditions, for working capital and other general corporate purposes. The aggregate commitment of the Lenders under the Revolver will be reduced on each payment date beginning April 1, 2003. The initial quarterly commitment reduction is 5.0%, reducing to 3.75% on July 1, 2003 and increasing to 6.25% on July 1, 2004, and further increasing to 7.50% on July 1, 2006. Commencing with the fiscal year ending December 31, 2001, the aggregate Revolver commitment will be further reduced by an amount equal to 50% of excess operating cash flows (as defined in the Facility) for the prior fiscal year until the Borrowers achieve certain financial conditions. The Borrowers must pay an annual commitment fee on the unused portion of the Revolver ranging from .75% to 1.25%.

The Term Loan is payable in twenty consecutive quarterly installments of \$188,000 beginning on April 1, 2002 and two final installments of \$35.6 million each on April 1, 2007 and July 1, 2007. Proceeds from the Term Loan can be used to finance the purchase of certain equipment, transaction costs, working capital and other general corporate purposes.

The Lucent Term Loan provides for an aggregate commitment of up to \$450 million. Proceeds from the Lucent Term Loan can be used to purchase Lucent products or to reimburse the Borrowers for Lucent products previously purchased with cash or other sources of liquidity. The Lucent Term Loan will mature on July 1, 2007 and has required quarterly amortization beginning on July 1, 2003 of 5%. The amortization decreases to 3.75% per quarter beginning on October 1, 2003, increases to 6.25% on October 1, 2004 and further increases to 7.50% on October 1, 2006. An annual commitment fee of 1.50% is payable for any unused portion of the Lucent Term Loan.

The Amended Senior Secured Credit Facility will bear interest payable at the Borrowers' option, at (a) the "Applicable Base Rate Margin" (which generally

ranges from 2.00% to 3.25%) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the "Applicable LIBOR Margin" (which generally ranges from 3.00% to 4.25%) plus LIBOR, as defined. "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period or at least every three months. If a payment default were to occur, the interest rate will be increased by four percentage points. If any other event of default shall occur, the interest rate will be increased by two percentage points.

KMC Holdings has unconditionally guaranteed the repayment of the Amended Senior Secured Credit Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. KMC Holdings has pledged the shares of each of the Borrowers to the Lenders to collateralize its obligations under the guaranty. In addition, the Borrowers have each pledged all of their assets to the Lenders.

The Amended Senior Secured Credit Facility contains a number of affirmative and negative covenants, including a covenant requiring the Borrowers to obtain cash capital contributions from KMC Holdings of at least \$185 million prior to April 1, 2001. KMC Holdings has secured a financing commitment from Lucent for \$100 million in PIK Preferred Stock towards this requirement and currently contemplates raising the \$85 million balance through private or public sales of securities in the capital markets. Additional affirmative and negative covenants include, among others, restricting the ability of the Borrowers to consolidate or merge with any person, sell or lease assets not in the ordinary course of business, sell or enter into long term leases of dark fiber, redeem stock, pay dividends or make any other payments (including payments of principal or interest on loans) to KMC Holdings, create subsidiaries, transfer any permits or licenses, or incur additional indebtedness or act as guarantor for the debt of any person, subject to certain conditions.

The Borrowers are required to comply with certain financial tests and maintain certain financial ratios, including, among others, a ratio of total debt to contributed capital, certain minimum revenues, maximum EBITDA losses and minimum EBITDA, maximum capital expenditures and minimum access lines, a maximum total leverage ratio, a minimum debt service coverage ratio, a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio. The covenants become more restrictive upon the earlier of (i) March 31, 2002 and (ii) after the Borrowers achieve positive EBITDA on a combined basis for two consecutive fiscal quarters and a total leverage ratio (as defined) equal to or less than 8 to 1.

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Failure to satisfy any of the financial covenants will constitute an event of default under the Amended Senior Secured Credit Facility permitting the Lenders, after notice, to terminate the commitment and/or accelerate payment of outstanding indebtedness. The Amended Senior Secured Credit Facility also includes other customary events of default, including, without limitation, a cross-default to other material indebtedness, material undischarged judgments, bankruptcy, loss of a material franchise or material license, breach of representations and warranties, a material adverse change, and the occurrence of a change of control.

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Independent Auditors' Report on Schedules

The Board of Directors and Stockholders

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KMC Telecom Holdings, Inc.

We have audited the consolidated balance sheets of KMC Telecom Holdings, Inc. as of December 31, 1998 and 1999 and the related consolidated statements of operations, redeemable and nonredeemable equity and cash flows for the years then ended. Our audit report issued thereon dated January 31, 2000, except for Note 18, as to which the date is March 28, 2000, is included elsewhere in this Form 10-K. Our audit also included the financial statement schedules listed in Item 14(a) of this Form 10-K. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey
January 31, 2000, except for Note 8,
as to which the date is March 28, 2000

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SCHEDULE I - Condensed Financial Information of Registrant

KMC Telecom Holdings, Inc. (Parent Company)

Condensed Balance Sheets (in thousands)

	DECEMBER 31	
	1998	1999
ASSETS		
Current assets:		
Cash and cash equivalents (overdraft).....	\$ 1,221	\$ (833)
Amounts due from subsidiaries.....	20,922	72,972
Prepaid expenses and other current assets.....	332	1,255
Total current assets.....	22,475	73,394
Loans receivable from subsidiaries.....	265,713	590,103
Networks and equipment, net.....	4,775	58,531
Intangible assets, net.....	625	1,388
Deferred financing costs.....	12,055	21,031
Other assets.....	1,952	825
	<u>\$307,595</u>	<u>\$745,272</u>
LIABILITIES, REDEEMABLE AND NONREDEEMABLE EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable.....	\$ 2,043	\$ 40,984
Accrued expenses.....	5,838	14,967
Total current liabilities.....	7,881	55,951
Senior notes payable.....	--	275,000
Senior discount notes payable.....	267,811	301,137
Losses of subsidiaries in excess of basis.....	61,244	247,127
Total liabilities.....	<u>336,936</u>	<u>879,215</u>
Redeemable equity:		
Senior redeemable, exchangeable, PIK preferred stock, par value \$.01 per share; authorized: -0- shares in 1998 and 630 shares in 1999; shares issued and outstanding:		
Series E, -0- in 1998 and 65 shares in 1999 (\$65,004 liquidation preference).....	--	50,770
Series F, -0- in 1998 and 44 shares in 1999 (\$44,177 liquidation preference).....	--	41,370

Redeemable cumulative convertible preferred stock, par value \$.01 per share; 499 shares authorized; shares issued and outstanding:		
Series A, 124 shares in 1998 and 1999 (\$12,380 liquidation preference) ..	30,390	71,349
Series C, 175 shares in 1998 and 1999 (\$17,500 liquidation preference) ..	21,643	40,301
Redeemable common stock, shares issued and outstanding, 224 in 1998 and in 1999	22,305	33,755
Redeemable common stock warrants	674	12,925
Total redeemable equity	75,012	250,470
Nonredeemable equity (deficiency):		
Common stock, par value \$.01 per share, 3,000 shares authorized; shares issued and outstanding: 614 shares in 1998 and 629 shares in 1999	6	6
Additional paid-in capital	13,750	--
Unearned compensation	(5,824)	(9,163)
Accumulated deficit	(112,285)	(375,256)
Total nonredeemable equity (deficiency)	(104,353)	(384,413)
	\$307,595	\$745,272
	=====	=====

See accompanying notes.

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KMC Telecom Holdings, Inc.
(Parent Company)

Condensed Statements of Operations
(in thousands)

	SEPTEMBER 22, 1997 (FORMATION) TO DECEMBER 31, 1997	YEAR ENDED DECEMBER 31	
		1998	1999
Operating expenses:			
Selling, general and administrative	\$ --	\$ 19,624	\$ 40,714
Stock option compensation expense	--	21,190	29,833
Depreciation and amortization	--	1,197	3,104
Total operating expenses	--	42,011	73,651
Loss from operations	--	(42,011)	(73,651)
Other expense	--	--	(4,297)
Intercompany charges	--	20,922	72,972
Interest income	--	8,575	1,872
Interest expense	--	(23,104)	(36,729)
Equity in net loss of subsidiaries	(21,860)	(41,135)	(185,883)
Net loss	(21,860)	(76,753)	(225,716)
Dividends and accretion on redeemable preferred stock ..	(8,904)	(18,285)	(81,633)
Net loss applicable to common shareholders	\$(30,764)	\$(95,038)	\$(307,349)
	=====	=====	=====

See accompanying notes.

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KMC Telecom Holdings, Inc.
(Parent Company)

Condensed Statements of Cash Flows
(in thousands)

	SEPTEMBER 22, 1997 (FORMATION) TO DECEMBER 31, 1997	YEAR ENDED DECEMBER 31	
		1998	1999
OPERATING ACTIVITIES			
Net loss.....	\$ (21,860)	\$ (76,753)	\$ (225,716)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in net loss of subsidiaries.....	21,860	41,135	185,883
Depreciation and amortization.....	--	1,197	3,104
Non-cash interest expense.....	--	23,104	36,963
Non-cash stock option compensation expense.....	--	21,190	29,833
Changes in assets and liabilities:			
Prepaid expenses and other current assets.....	--	(332)	(923)
Accounts payable.....	--	2,043	441
Accrued expenses.....	--	5,838	9,075
Amounts due from subsidiaries.....	--	(20,922)	(52,050)
Other assets.....	--	(1,952)	1,128
Net cash provided by (used in) operating activities.....	--	(5,452)	(12,262)
INVESTING ACTIVITIES			
Loans receivable from subsidiaries.....	(24,623)	(233,685)	(324,390)
Purchases of equipment.....	--	(5,845)	(18,327)
Acquisitions of intangible assets.....	(506)	(166)	(796)
Net cash used in investing activities.....	(25,129)	(239,696)	(343,513)
FINANCING ACTIVITIES			
Proceeds from issuance of preferred stock and related warrants, net of issuance costs.....	16,498	-	91,001
Proceeds from exercise of stock options.....	--	-	333
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	--	-	262,387
Proceeds from issuance of common stock and warrants, net of issuance costs.....	9,363	20,446	-
Proceeds from issuance of senior discount notes, net of issuance costs.....	(732)	225,923	-
Net cash provided by financing activities.....	25,129	246,369	353,721
Net increase (decrease) in cash and cash equivalents.....	--	1,221	(2,054)
Cash and cash equivalents, beginning of year.....	--	-	1,221
Cash and cash equivalents, end of year.....	\$ --	\$ 1,221	\$ (833)

See accompanying notes.

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SCHEDULE I - Condensed Financial Information of Registrant

KMC Telecom Holdings, Inc.
(Parent Company)

Notes to Condensed Financial Statements

December 31, 1999

1. BASIS OF PRESENTATION

In the parent company only financial statements, KMC Telecom Holdings, Inc.'s (the "Company") investment in subsidiaries is stated at cost less equity in losses of subsidiaries since date of formation. These parent company financial statements should be read in conjunction with the Company's consolidated financial statements. The Company's operating subsidiaries are KMC Telecom Inc. ("KMC Telecom"), KMC Telecom II, Inc. ("KMC Telecom II"), KMC Telecom III, Inc. ("KMC Telecom III") and KMC Telecom of Virginia, Inc.

On September 22, 1997, the stockholders of KMC Telecom exchanged all of their KMC Telecom common and preferred stock for equal numbers of shares of common and preferred stock of the Company.

Pursuant to a management agreement among the Company and its subsidiaries, the Company provides management and other services and incurs certain operating expenses on behalf of its subsidiaries. Such costs are allocated to the subsidiaries by the Company and reimbursed on a current basis. At December 31,

1998 and 1999, an aggregate of \$20.9 and \$73.0 million, respectively, was due from the subsidiaries for such costs and is included in the accompanying condensed balance sheet at December 31, 1998 and 1999 as a current receivable. Such reimbursements are permitted under the debt agreements of the Company's subsidiaries.

2. SENIOR SECURED CREDIT FACILITY

On December 22, 1998, KMC Telecom, KMC Telecom II and KMC Telecom of Virginia (the "Subsidiary Borrowers"), refinanced and expanded the Amended and Restated Loan and Security Agreement (the "AT&T Facility") by entering into a Loan and Security Agreement (the "Senior Secured Credit Facility") with AT&T Commercial Finance Corporation ("AT&T Finance"), First Union National Bank, General Electric Capital Corporation ("GECC") and Canadian Imperial Bank of Commerce (the "Creditors").

The Company has unconditionally guaranteed the repayment of the Senior Secured Credit Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. The Company has agreed to pay all amounts outstanding under the Senior Secured Credit Facility, on demand, upon the occurrence and during the continuation of any event of default (as defined therein). The Company has pledged the shares of each of the Subsidiary Borrowers to the Creditors to collateralize its obligations under the guaranty. In addition, the Subsidiary Borrowers have pledged all of their assets to the Creditors. Accordingly, if there were an event of default under the Senior Secured Credit Facility, the lenders thereunder would be entitled to payment in full and could foreclose on the assets of the Subsidiary Borrowers, and the holders of the Senior Discount Notes and Senior Notes would have no right to share in such assets. At December 31, 1999, an aggregate of \$235.0 million was outstanding under this facility.

Additionally, the Senior Secured Credit Facility restricts the ability of the Subsidiary Borrowers to pay dividends to, or to pay principal or interest on loans from, the Company. Such restrictions could adversely affect the Company's liquidity and ability to meet its cash requirements, including its ability to repay the Senior Discount Notes and the Senior Notes.

At December 31, 1999, an aggregate of \$504.8 million has been loaned by the Company to the Subsidiary Borrowers to be used for the construction and expansion of fiber optic telecommunications networks and for working capital and general corporate purposes.

As discussed further in Note 8, the Subsidiary Borrowers amended, restated and combined the Senior Secured Credit Facility and the Lucent Loan and Security Agreement during the first quarter of 2000.

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3. SENIOR DISCOUNT NOTES

On January 29, 1998, the Company sold 460,800 units, each consisting of 12 1/2% senior discount notes with a principal amount at maturity of \$1,000 due 2008 pursuant to the Senior Discount Note Indenture between KMC Holdings and the Chase Manhattan Bank, as trustee (the "Senior Discount Notes") and one warrant to purchase .21785 shares of Common Stock of the Company at an exercise price of \$.01 per share. The gross and net proceeds of the offering were approximately \$250.0 million and \$236.4 million, respectively. A substantial portion of the net proceeds of the offering have been loaned by the Company to its subsidiaries. On August 11, 1998, KMC Holdings consummated an offer to exchange the notes issued on January 29, 1998 for \$460.8 million aggregate principal amount at maturity of notes that had been registered under the Securities Act of 1933 (as used below and elsewhere herein, "Senior Discount Notes" includes the original notes and the exchange notes).

The Senior Discount Notes are unsecured, unsubordinated obligations of the Company and mature on February 15, 2008. The Senior Discount Notes will fully accrete to face value on February 15, 2003. From and after February 15, 2003, the Senior Discount Notes will bear interest, which will be payable in cash, at

the rate of 12.5% per annum on February 15 and August 15 of each year, commencing August 15, 2003. The Company is accreting the initial carrying value of the Senior Discount Notes to their aggregate face value over the term of the debt at its effective interest rate of 13.7%.

The indebtedness evidenced by the Senior Discount Notes ranks *pari passu* in right of payment with all existing and future unsubordinated, unsecured indebtedness of KMC Holdings and senior in right of payment to all existing and future subordinated indebtedness of KMC Holdings. However, KMC Holdings is a holding company and the Senior Discount Notes are, therefore, effectively subordinated to all existing and future liabilities (including trade payables) of its subsidiaries.

The Senior Discount Note Indenture restricts, among other things, the ability of the Company to incur additional indebtedness, create liens, engage in sale-leaseback transactions, pay dividends or make distributions in respect of capital stock, make investments or certain other restricted payments, sell assets of the Company, redeem capital stock, issue or sell stock of restricted subsidiaries, enter into transactions with stockholders or affiliates or effect a consolidation or merger.

4. LUCENT LOAN AND SECURITY AGREEMENT

KMC Telecom III entered into a Loan and Security Agreement (the "Lucent Facility") dated February 4, 1999 with Lucent Technologies Inc. ("Lucent") which provides for borrowings to be used to fund the acquisition of certain telecommunications equipment and related expenses.

The Company has unconditionally guaranteed the repayment of the Lucent Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. The Company has agreed to pay all amounts outstanding under the Lucent Facility, on demand, upon the occurrence and during the continuation of any event of default (as defined therein). The Company has pledged the shares of KMC Telecom III to Lucent to collateralize its obligations under the guaranty. In addition, KMC Telecom III has pledged all of its assets to Lucent. Accordingly, if there were an event of default under the Lucent Facility, Lucent thereunder would be entitled to payment in full and could foreclose on the assets of KMC Telecom III and the holders of the Senior Discount Notes and Senior Notes would have no right to share in such assets. At December 31, 1999, no amounts were outstanding under this facility.

Additionally, the Lucent Facility restricts the ability of KMC Telecom III to pay dividends to, or to pay principal or interest on loans from, the Company. Such restrictions could adversely affect the Company's liquidity and ability to meet its cash requirements, including its ability to repay the Senior Discount Notes and the Senior Notes.

5. SENIOR NOTES

On May 24, 1999, the Company issued \$275.0 million aggregate principal amount of 13 1/2% Senior Notes due 2009. On December 30, 1999, the Company exchanged the

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notes issued on May 24, 1999 for \$275.0 million aggregate principal amount of notes that had been registered under the Securities Act of 1933 (as used below, "Senior Notes" includes the original notes and the exchange notes). Interest on the Senior Notes is payable semi-annually in cash on May 15 and November 15 of each year, beginning November 15, 1999. A portion of the proceeds from the offering of the Senior Notes was used to purchase a portfolio of U.S. government securities that were pledged as security for the first six interest payments on the Senior Notes.

The Senior Notes are guaranteed by KMC Telecom Financing, Inc., a wholly-owned subsidiary. The Senior Notes are senior, unsubordinated unsecured obligations of KMC Holdings and rank *pari passu* in right of payment with all existing and future unsubordinated, unsecured indebtedness of KMC Holdings and senior in right of payment to all of existing and future subordinated indebtedness of KMC Holdings. However, KMC Holdings is a holding company and the Senior Notes are, therefore, effectively subordinated to all existing and future liabilities

(including trade payables) of its subsidiaries.

The Senior Note Indenture contains certain covenants that, among other things, limit the Company's ability to incur additional indebtedness, engage in sale-leaseback transactions, pay dividends or make certain other distributions, sell assets, redeem capital stock, effect a consolidation or merger of KMC Telecom Holdings, Inc. and enter into transactions with stockholders and affiliates and create liens on our assets.

6. REDEEMABLE EQUITY

Series E Preferred Stock

On February 4, 1999, the Company issued 25,000 shares of Series E Senior Redeemable, Exchangeable PIK Preferred Stock (the "Series E Preferred Stock") to Newcourt Commercial Finance Corporation ("Newcourt Finance"), generating aggregate gross proceeds of \$22.9 million. The Series E Preferred Stock has a liquidation preference of \$1,000 per share and an annual dividend equal to 14.5% of the liquidation preference, payable quarterly. On or before January 15, 2004, the Company may pay dividends in cash or in additional fully paid and nonassessable shares of Series E Preferred Stock. After January 15, 2004, dividends must be paid in cash, subject to certain conditions. Unpaid dividends accrue at the dividend rate of the Series E Preferred Stock, compounded quarterly. During 1999, the Company issued 5,004 shares of Series E Preferred Stock to pay the dividends due.

The Series E Preferred Stock must be redeemed on February 1, 2011, subject to the legal availability of funds therefor, at a redemption price, payable in cash, equal to the liquidation preference thereof on the redemption date, plus all accumulated and unpaid dividends to the date of redemption.

The Series E Preferred Stock is not convertible. The Company may, at the sole option of the Board of Directors (out of funds legally available), exchange all, but not less than all, of the Series E Preferred Stock then outstanding, for a new series of subordinated debentures (the "Exchange Debentures") issued pursuant to an exchange debenture indenture.

Series F Preferred Stock

On February 4, 1999, the Company issued 40,000 shares of Series F Senior Redeemable, Exchangeable PIK Preferred Stock (the "Series F Preferred Stock") to Lucent and Newcourt Finance, generating aggregate gross proceeds of \$38.9 million. The Series F Preferred Stock has a liquidation preference of \$1,000 per share and an annual dividend equal to 14.5% of the liquidation preference, payable quarterly. The Company may pay dividends in cash or in additional fully paid and nonassessable shares of Series F Preferred Stock. During 1999, the Company issued 4,177 shares of Series F Preferred Stock to pay the dividends due for such period.

Upon the earlier of (i) the date that is sixty days after the date on which the Company closes an underwritten primary offering of at least \$200 million of its Common Stock, pursuant to an effective registration statement under the Securities Act or (ii) February 4, 2001, any outstanding Series F Preferred Stock will automatically convert into Series E Preferred Stock, on a one for one basis.

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The Company may, at the sole option of the Board of Directors (out of funds legally available), exchange all, but not less than all, of the Series F Preferred Stock then outstanding for Exchange Debentures.

Warrants

In connection with the February 4, 1999 issuances of the Series E Preferred Stock and the Series F Preferred Stock, warrants to purchase an aggregate of 24,660 shares of Common Stock were sold to Newcourt Finance and Lucent. The aggregate gross proceeds from the sale of these warrants was approximately \$3.2 million. These warrants, at an exercise price of \$.01 per share, are exercisable

from February 4, 2000 through February 1, 2009.

In addition, the Company also delivered to the Warrant Agent certificates representing warrants to purchase an aggregate of an additional 107,228 shares of Common Stock at an exercise price of \$.01 per share (the "Springing Warrants"). The Springing Warrants may become issuable under the circumstances described in the following paragraph.

If the Company fails to redeem all shares of Series F Preferred Stock prior to the date (the "Springing Warrant Date") which is the earlier of (i) the date that is sixty days after the date on which the Company closes an underwritten primary offering of at least \$200 million of its Common Stock pursuant to an effective registration statement under the Securities Act or (ii) February 4, 2001, the Warrant Agent is authorized to issue the Springing Warrants to the Eligible Holders (as defined in the warrant agreement) of the Series E and Series F Preferred Stock. In the event the Company has redeemed all outstanding shares of Series F Preferred Stock prior to the Springing Warrant Date, the Springing Warrants will not be issued and the Warrant Agent will return the certificates to the Company. To the extent the Company exercises its option to exchange all of the Series F Preferred Stock for Exchange Debentures prior to the Springing Warrant Date, the Springing Warrants will not become issuable. Therefore, as the future issuance of the Springing Warrant is entirely within the control of the Company and the likelihood of their issuance is deemed to be remote, no value has been ascribed to the Springing Warrants.

Redemption Rights

Pursuant to a stockholders agreement, certain of the Company's stockholders and warrant holders have "put rights" entitling them to have the Company repurchase their preferred and common shares and redeemable common stock warrants for the fair value of such securities if no Liquidity Event (defined as (i) an initial public offering with gross proceeds of at least \$40 million, (ii) the sale of substantially all of the stock or assets of the Company or (iii) the merger or consolidation of the Company with one or more other corporations) has taken place by the later of (x) October 22, 2003 or (y) 90 days after the final maturity date of the Senior Discount Notes. The restrictive covenants of the Senior Discount Notes limit the Company's ability to repurchase such securities. All of the securities subject to such "put rights" are presented as redeemable equity in the accompanying balance sheets.

The redeemable preferred stock, redeemable common stock and redeemable common stock warrants, which are subject to the stockholders agreement, are being accreted up to their fair market values from their respective issuance dates to their earliest potential redemption date (October 22, 2003). At December 31, 1999, the aggregate redemption value of the redeemable equity was approximately \$320 million, reflecting per share redemption amounts of \$1,212 for the Series A Preferred Stock, \$476 for the Series C Preferred Stock and \$250 for the redeemable common stock and redeemable common stock warrants.

7. ARBITRATION AWARD

During the second quarter of 1999, the Company recorded a \$4.3 million charge to other expense in connection with an unfavorable arbitration award. The net amount due under the terms of the award was paid in full in June 1999.

8. SUBSEQUENT EVENTS

On February 15, 2000, KMC Telecom, KMC Telecom II, KMC Telecom of Virginia and KMC Telecom III (the "Borrowers"), amended, restated and combined the Senior Secured Credit Facility and the Lucent Facility by entering into a \$700 million

Loan and Security Agreement (the "Amended Senior Secured Credit Facility") with a group of lenders led by Newcourt Commercial Finance Corporation, GE Capital, Canadian Imperial Bank of Commerce ("CIBC"), First Union National Bank and Lucent Technologies, Inc. (the "Lenders").

The Amended Senior Secured Credit Facility includes a \$175 million reducing

revolver facility (the "Revolver"), a \$75 million term loan (the "Term Loan") and a \$450 million term loan facility (the "Lucent Term Loan").

The Revolver will mature on April 1, 2007. Proceeds from the Revolver can be used to finance the purchase of certain equipment, transaction costs and upon attainment of certain financial condition, for working capital and other general corporate purposes. The aggregate commitment of the Lenders under the Revolver will be reduced on each payment date beginning April 1, 2003. The initial quarterly commitment reduction is 5.0%, reducing to 3.75% on July 1, 2003 and increasing to 6.25% on July 1, 2004, and further increasing to 7.50% on July 1, 2006. Commencing with the fiscal year ending December 31, 2001, the aggregate Revolver commitment will be further reduced by an amount equal to 50% of excess operating cash flows (as defined in the Facility) for the prior fiscal year until the Borrowers achieve certain financial conditions. The Borrowers must pay an annual commitment fee on the unused portion of the Revolver ranging from .75% to 1.25%.

The Term Loan is payable in twenty consecutive quarterly installments of \$188,000 beginning on April 1, 2002 and two final installments of \$35.6 million each on April 1, 2007 and July 1, 2007. Proceeds from the Term Loan can be used to finance the purchase of certain equipment, transaction costs, working capital and other general corporate purposes.

The Lucent Term Loan provides for an aggregate commitment of up to \$450 million. Proceeds from the Lucent Term Loan can be used to purchase Lucent products or to reimburse the Borrowers for Lucent products previously purchased with cash or other sources of liquidity. The Lucent Term Loan will mature on July 1, 2007 and has required quarterly amortization beginning on July 1, 2003 of 5%. The amortization decreases to 3.75% per quarter beginning on October 1, 2003, increases to 6.25% on October 1, 2004 and further increases to 7.50% on October 1, 2006. An annual commitment fee of 1.50% is payable for any unused portion of the Lucent Term Loan.

The Amended Senior Secured Credit Facility will bear interest payable at the Borrowers' option, at (a) the "Applicable Base Rate Margin" (which generally ranges from 2.00% to 3.25%) plus the greater of (i) the administrative agent's prime rate or (ii) the overnight federal funds rate plus .5% or (b) the "Applicable LIBOR Margin" (which generally ranges from 3.00% to 4.25%) plus LIBOR, as defined. "Applicable Base Rate Margin" interest is payable quarterly while "Applicable LIBOR Margin" interest is payable at the end of each applicable interest period or at least every three months. If a payment default were to occur, the interest rate will be increased by four percentage points. If any other event of default shall occur, the interest rate will be increased by two percentage points.

KMC Holdings has unconditionally guaranteed the repayment of the Amended Senior Secured Credit Facility when such repayment is due, whether at maturity, upon acceleration, or otherwise. KMC Holdings has pledged the shares of each of the Borrowers to the Lenders to collateralize its obligations under the guaranty. In addition, the Borrowers have each pledged all of their assets to the Lenders.

The Amended Senior Secured Credit Facility contains a number of affirmative and negative covenants including, a covenant requiring the Borrowers to obtain cash capital contributions from KMC Holdings of at least \$185 million prior to April 1, 2001. KMC Holdings has secured a financing commitment for \$100 million in PIK preferred stock from Lucent towards this requirement and currently contemplates raising the balance of \$85 million through sales of private and public securities in the capital markets. Additional affirmative and negative covenants include, among others, restricting the ability of the Borrowers to consolidate or merge with any person, sell or lease assets not in the ordinary course of business, sell or enter into long term leases of dark fiber, redeem stock, pay dividends or make any other payments (including payments of principal or interest on loans) to KMC Holdings, create subsidiaries, transfer any permits or licenses, or incur additional indebtedness or act as guarantor for the debt of any person, subject to certain conditions.

The Borrowers are required to comply with certain financial tests and maintain certain financial ratios, including, among others, a ratio of total debt to contributed capital, certain minimum revenues, maximum EBITDA losses and minimum

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EBITDA, maximum capital expenditures and minimum access lines, a maximum total leverage ratio, a minimum debt service coverage ratio, a minimum fixed charge coverage ratio and a maximum consolidated leverage ratio. The covenants become more restrictive upon the earlier of (i) March 31, 2002 and (ii) after the Borrowers achieve positive EBITDA on a combined basis for two consecutive fiscal quarters and a total leverage ratio (as defined) equal to or less than 8 to 1.

Failure to satisfy any of the financial covenants will constitute an event of default under the Amended Senior Secured Credit Facility permitting the Lenders, after notice, to terminate the commitment and/or accelerate payment of outstanding indebtedness. The Amended Senior Secured Credit Facility also includes other customary events of default, including, without limitation, a cross-default to other material indebtedness, material undischarged judgments, bankruptcy, loss of a material franchise or material license, breach of representations and warranties, a material adverse change, and the occurrence of a change of control.

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KMC Telecom Holdings, Inc.

SCHEDULE II - Valuation and Qualifying Accounts
(in thousands)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS - DESCRIBE	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS - DESCRIBE		
YEAR ENDED DECEMBER 31, 1997:					
Allowance for doubtful accounts	\$ --	\$ 34	\$ --	\$ --	\$ 34
YEAR ENDED DECEMBER 31, 1998:					
Allowance for doubtful accounts	\$ 34	\$ 370	\$ --	\$ 54(1)	\$350
YEAR ENDED DECEMBER 31, 1999:					
Allowance for doubtful accounts	\$ 350	\$5,263	\$ --	\$ 62(1)	\$5,551

(1) Uncollectible accounts written-off.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth certain information with respect to the persons who are members of the Board of Directors or are executive officers of the Company as of March 29, 2000.

NAME ----	AGE ---	POSITION -----
Harold N. Kamine.....	43	Chairman of the Board of Directors
Gary E. Lasher.....	64	Vice Chairman of the Board of Directors
Roscoe C. Young II.....	49	President, Chief Operating Officer and Director
William H. Stewart.....	33	Executive Vice President, Chief Financial Officer and Director
Tricia Breckenridge.....	53	Executive Vice President - Business Development
James L. Barwick.....	67	Senior Vice President and Chief Technology Officer
John G. Quigley.....	46	Director
Richard H. Patterson.....	41	Director
Randall A. Hack.....	52	Director

The business experience of each of the directors and executive officers of the Company is as follows:

HAROLD N. KAMINE is the Chairman of the Board of the Company and its founder and has been a director of the Company since 1994. He is also chief executive officer and sole owner of Kamine Development Corp. and associated companies in the independent power industry. Mr. Kamine has successfully financed a number of unregulated non-utility power generation projects. Companies owned by Mr. Kamine owned substantial interests in and managed six power generation plants in the Northeastern United States. Mr. Kamine devotes approximately eighty percent of his time to the affairs of the Company.

GARY E. LASHER joined the Company as its Vice Chairman of the Board effective November 1, 1997. He was the founder, Chief Executive Officer and President of Eastern TeleLogic Corporation from 1987 to 1997. Eastern TeleLogic was a leading competitive local exchange carrier operating in greater Philadelphia, Delaware and southern New Jersey before its purchase by TCG (Teleport Communications Group) in October 1996. Prior to Eastern TeleLogic, from 1984-1986, Mr. Lasher was Chief Operating Officer of Private Satellite Network, a company which built and operated video satellite networks for major corporations. Mr. Lasher spent 20 years with Continental Telephone holding various positions including Corporate Vice President, President of the International Engineering and Construction Company, and various senior positions with Continental Telephone's regulated subsidiaries. Mr. Lasher is one of the founding members of the Association for Local Telecommunications Services ("ALTS") and served for three years as Chairman of the Association.

ROSCOE C. YOUNG II has over 20 years experience in the field of telecommunications with both new venture and Fortune 500 companies. He has served as a director of the Company since December 1999. He was elected President and Chief Operating Officer of the Company in March 2000. Previously he had been Executive Vice President and Chief Operating Officer. Prior to joining the Company in November 1996, Mr. Young served as Vice President, Network Component Services for Ameritech Corporation from June 1994 to October 1996. From March 1988 to June 1994, Mr. Young served as Senior Vice President, Network Services for MFS Communications. From October 1977 to March 1988, Mr. Young served in a number of senior operations, sales and marketing, engineering, financial management, and human resource positions for AT&T Corp.

WILLIAM H. STEWART has served as a director of the Company since August 1997. Mr. Stewart joined the Company as Executive Vice President and Chief Financial Officer in March 2000. Mr. Stewart is Managing Director of Nassau Capital L.L.C. and joined that firm in June 1995. From 1989 until joining Nassau, Mr. Stewart was a portfolio manager and equity analyst at the Bank of New York. He is a Chartered Financial Analyst and a member of the New York Society of Security Analysts.

TRICIA BRECKENRIDGE joined the Company in April 1995. From January 1993 to April 1995 she was Vice President and General Manager of FiberNet USA's Huntsville, Alabama operations. Previously she had served as Vice President, External Affairs and later Vice President, Sales and Marketing of Diginet, Inc. She was co-founder of Chicago Fiber Optic Corporation, the predecessor of Metropolitan Fiber Systems. Earlier she was Director of Regulatory Affairs for Telesphere Corporation.

JAMES L. BARWICK has 40 years of experience in the telecommunications industry. Mr. Barwick joined the Company in March 1997. Prior to joining the Company, Mr. Barwick had been self-employed since 1986 as a telecommunications consultant with expertise in equipment application engineering, radio path engineering, analog and digital Mux, switching and transport systems in the long distance carrier and incumbent local exchange carrier areas, technical writing, project management and computer assisted design systems.

JOHN G. QUIGLEY has served as a director of the Company since August 1996. Mr. Quigley is a founding member of Nassau Capital L.L.C., which is the general partner of Nassau Capital Partners. Between 1980 and the formation of Nassau Capital in 1995, Mr. Quigley was an attorney with the law firm of Kirkland & Ellis in Chicago; a partner at Adler & Shaykin; and a partner at Clipper Capital Partners.

RICHARD H. PATTERSON has served as a director of the Company since May 1997. From May 1986 to January 1999, Mr. Patterson served as a Partner of Waller Capital Corporation, a media and communications investment banking firm. Since August 1997, he has served as a Vice President of Waller-Sutton Media LLC and Vice President of Waller-Sutton Management Group, Inc., two entities which manage a media and telecommunications private equity fund. Since January 2000, Mr. Patterson has served as a founding principal of a second media and telecommunications private equity fund managed by Spire Capital Partners LLC and Spire Capital Management, Inc. Mr. Patterson is a member of the Board of Directors of Regent Communications, Inc., which owns and operates radio stations in mid-to-small size markets.

RANDALL A. HACK has served as a director of the Company since August 1996. Since January 1995, Mr. Hack has been a member of Nassau Capital L.L.C., an investment management firm. From 1990 to 1994, he was the President and Chief Executive Officer of Princeton University Investment Company, which manages the endowment for Princeton University. Mr. Hack also serves on the Boards of Directors of Sweetwater, Inc., OmniCell Technologies, Inc., Castle Tower Holding Corp. and Mezzanine Capital Property Investors, Inc.

Pursuant to provisions contained in both the Company's certificate of incorporation and a stockholders agreement, Mr. Kamine and the Nassau entities are currently entitled to elect all of the Directors, three of whom are nominated by Mr. Kamine (one of whom must be the President and Chief Executive Officer), three of whom are nominated by Nassau and two of whom are nominated by agreement of Mr. Kamine, Nassau and either Newcourt Communications Finance Corporation or the holders of a majority of the outstanding shares of the Company's Series C Cumulative Convertible Preferred Stock. The number of Directors which Mr. Kamine is entitled to elect would be reduced to two if the number of shares owned by him were to fall below two-thirds of the number of shares of the Company initially issued to him, and to one if the number of shares owned by him were to fall below one-third of the number of shares initially issued to him. If his ownership were to fall below 5% of the number of shares initially issued to him, Mr. Kamine would no longer be entitled to elect any Directors pursuant to such provisions. Comparable reductions would be made to the number of Directors which Nassau is entitled to elect if its ownership were to fall below the specified fractions. If a default relating to payment occurs under our Amended Senior Secured Credit Facility, and continues uncured for 90 days, the holders of Series C Cumulative Convertible Preferred Stock (currently Nassau, General Electric Capital Corporation and First Union) will be entitled to elect two additional Directors, who will serve until the default is cured.

Kamine/Besicorp Allegany L.P., an independent power company 50% owned by corporations which Mr. Kamine owns, filed a voluntary petition to reorganize its

business under Chapter 11 of the Federal Bankruptcy Code in November 1995. In October 1998, the bankruptcy court confirmed a plan of liquidation for this entity.

Directors hold office until the next Annual Meeting of stockholders or until their successors are duly elected and qualified. Executive officers are elected annually by the Board of Directors and serve at the discretion of the Board of Directors.

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COMMITTEES OF THE BOARD

The Board of Directors of the Company has authorized a Compensation Committee to be composed of three members. The present members of the Compensation Committee are Messrs. Kamine, Quigley and Patterson. The Board of Directors has created an Executive Committee consisting of Mr. Kamine and Mr. Quigley, or, in Mr. Quigley's absence, Mr. Stewart. The Board of Directors has also created an Audit Committee consisting of Messrs. Lasher, Patterson and Quigley.

ITEM 11. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning compensation for services in all capacities awarded to, earned by, or paid to, any person acting as the Company's Chief Executive Officer during 1999, regardless of the amount of compensation paid, and the other four most highly compensated executive officers of the Company whose aggregate cash and cash equivalent compensation exceeded \$100,000 during the fiscal year ended December 31, 1999 (collectively, the "Named Executive Officers"):

NAME AND POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)(1)	SECURITIES UNDERLYING OPTIONS (#)(2)
Harold N. Kamine..... Chairman of the Board	1999	\$450,000	-	-	-
Michael A. Sternberg(3)..... President and Chief Executive Officer	1999	\$496,539	\$272,500	-	-
	1998	\$275,000	\$407,500	-	65,000
	1997	\$240,385	\$187,500	\$45,909	9,228
Roscoe C. Young II..... Executive Vice President and Chief Operating Officer	1999	\$446,539	\$362,500	\$18,750	-
	1998	\$218,270	\$497,500	\$52,189	32,500
	1997	\$180,000	\$182,046	\$198,180	2,309
James D. Grenfell(4)..... Executive Vice President, Chief Financial Officer and Secretary	1999	\$222,692	\$120,000	\$55,403	18,000
Tricia Breckenridge..... Executive Vice President - Business Development	1999	\$193,212	\$86,000	-	1,000
	1998	\$155,577	\$75,000	-	5,000
	1997	\$104,138	\$49,000	-	691

- (1) The amount reported in this column for Mr. Sternberg in 1997 includes relocation related expenses of \$39,662 and personal use of a Company automobile of \$6,247. The amounts reported in this column for Mr. Young include relocation related expenses of \$18,750 in 1999, relocation related expenses of \$47,377 and personal use of a Company automobile of \$4,812 for 1998, and relocation related expenses of \$196,029 and personal use of a Company automobile of \$2,151 for 1997. The amounts reported in this column for Mr. Grenfell include relocation related expenses of \$49,265 and

personal use of a company automobile of \$6,138 for 1999. The aggregate value of the perquisites and other personal benefits, if any, received by Mr. Sternberg in 1999 and 1998 and by each of Mr. Kamine and Ms. Breckenridge in 1999, 1998 and 1997 have not been reflected in this table because the amount was below the Securities and Exchange Commission's threshold for disclosure (i.e., the lesser of \$50,000 or 10% of the total of annual salary and bonus for the executive officer for the year).

- (2) The options granted in 1997 were options to purchase shares of common stock of the Company's principal operating subsidiary KMC Telecom Inc. All of the options shown as granted in 1997 were cancelled during the third quarter of 1998 and replaced by options to purchase Common Stock of the Company. See "Stock Option Grants." All options granted during 1998 are options to purchase shares of Common Stock of the Company.

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- (3) Mr. Sternberg served in the capacities indicated throughout the year ended December 31, 1999.
- (4) Mr. Grenfell joined the Company as Executive Vice President and Chief Financial Officer in March 1999 and the compensation figures for him are for the period from that date to the end of the year. William H. Stewart became Executive Vice President and Chief Financial Officer in March 2000.

STOCK OPTION GRANTS

The following table sets forth information regarding grants of options to purchase shares of Common Stock made by the Company during 1999 to each of the Named Executive Officers.

OPTION GRANTS IN FISCAL YEAR 1999

NAME	INDIVIDUAL GRANTS					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (3)		
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR 1999	EXERCISE OR BASE PRICE (\$/SHARE)	MARKET PRICE OF COMMON STOCK ON DATE OF GRANT (2)	EXPIRATION DATE	(0%)	(5%)	(10%)
Harold N. Kamine.....	-	-	-	-	-	-	-	-
Michael A. Sternberg	-	-	-	-	-	-	-	-
Roscoe C. Young II.....	-	-	-	-	-	-	-	-
James D. Grenfell.....	18,000	21.9%	\$125	\$130	01/01/09	\$90,000	\$1,566,000	\$3,816,000
Tricia Breckenridge.....	1,000	1.2%	\$125	\$130	01/01/09	\$ 5,000	\$ 87,000	\$ 212,000

- (1) 10% of the aggregate amount of each such option vests on each subsequent six-month anniversary of the date of grant.
- (2) There is no active trading market for the Company's Common Stock. The market price shown is based upon management's estimate of the fair value of the Company's Common Stock on the date in January, 1999 when these options were granted.
- (3) Amounts reported in these columns represent amounts that may be realized upon exercise of options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation (0%, 5% and 10%) on Common Stock over the term of the options. These assumptions are based on rules promulgated by the Securities and Exchange Commission and do not reflect the Company's estimate of future stock price appreciation. Actual gains, if any, on the stock option exercises and Common Stock holdings are dependent on the timing of such exercises and the future value of the Common Stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be

received by the option holders.

OPTION EXERCISES AND OPTION YEAR-END VALUE TABLE

No options were exercised during 1999 by any of the Named Executive Officers. The following table sets forth information regarding the number and year-end value of unexercised options to purchase shares of Common Stock held at December 31, 1999 by each of the Named Executive Officers.

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FISCAL 1999 YEAR-END OPTION VALUES

VALUE OF UNEXERCISED		NUMBER OF SECURITIES	
"IN-THE-MONEY"		UNDERLYING UNEXERCISED	
OPTIONS AT	SHARES	VALUE	OPTIONS AT
DECEMBER 31, 1999	ACQUIRED ON	REALIZED	DECEMBER 31, 1999
NAME	EXERCISE (#)	(\$)	EXERCISABLE/UNEXERCISABLE
EXERCISABLE/UNEXERCISABLE (1)			
-----	-----	-----	-----
Harold N. Kamine	-	-	-
\$ - / \$ -			
Michael A. Sternberg	-	-	39,000/26,000
\$8,970,000/\$5,590,000			
Roscoe C. Young II	-	-	19,500/13,000
\$4,485,000/\$2,795,000			
James D. Grenfell	-	-	1,800/16,200
\$225,000/\$2,025,000			
Tricia Breckenridge	-	-	4,600/1,400
\$1,027,500/\$217,500			

(1) Options are "In-the-Money" if the fair market value of the underlying securities exceeds the exercise price of the options. There is no active trading market for the Company's Common Stock. The fair market value of the option grants at December 31, 1999 was determined on the basis of management's estimate of the fair value of the Company's Common Stock on that date.

DIRECTOR COMPENSATION

The Company's Directors do not currently receive any compensation for their services in such capacity, except that Mr. Lasher receives \$25,000 per year in connection with his services as Vice Chairman of the Board and Mr. Patterson receives \$25,000 per year in connection with his services as a Director.

EXECUTIVE EMPLOYMENT CONTRACTS

The Company has an employment contract with Harold N. Kamine, the Chairman of its Board of Directors. The Company's employment agreement with Mr. Kamine provides for a term of four years, effective as of January 1, 1999. Under the agreement, Mr. Kamine's base salary is \$450,000 per annum, and Mr. Kamine is required to devote at least fifty percent of his time and attention to the performance of his duties under the agreement. Mr. Kamine is entitled to receive benefits generally received by senior executives of the Company, including

reimbursement of expenses incurred on behalf of the Company, and participation in group plans. If Mr. Kamine's employment agreement is terminated as a result of Mr. Kamine's death or permanent disability, or upon the Company's breach of the agreement, he, or his estate, is entitled to a severance payment in an amount equal to the lesser of (i) two times his annual base salary and (ii) the aggregate unpaid base salary that would have been paid to him during the remaining balance of the term of the employment contract, subject to a minimum of one-half of his annual base salary.

The Company has an employment contract with Roscoe C. Young, II, President and Chief Operating Officer. The Company's employment agreement with Mr. Young provides for a term of four years, effective as of January 1, 1999. Under the agreement, Mr. Young's base salary is \$450,000 per annum and he is entitled to be considered for an annual bonus in an amount to be determined by the Compensation Committee of the Company's Board of Directors. Mr. Young is entitled to receive benefits generally received by Company officers, including options to purchase Company Stock, reimbursement of expenses incurred on behalf of the Company, and a leased automobile. Upon termination of the agreement, Mr. Young is subject to a confidentiality covenant and a twenty-four month non-competition agreement. If the Company terminates Mr. Young's employment without cause, he is entitled to a severance payment in an amount equal to the lesser of (i) two times his annual base salary and (ii) the aggregate unpaid base salary that would have been paid to him during the remaining balance of the term of the employment contract, subject to a minimum of one-half of his annual base salary.

SEPARATION AGREEMENTS

On March 7, 2000, the Company entered into a separation agreement and release with Michael A. Sternberg, pursuant to which Mr. Sternberg's employment as the Company's President and Chief Executive Officer was terminated, by mutual agreement, effective March 8, 2000. Under the separation agreement, Mr. Sternberg was paid \$500,000 and is entitled to an additional \$500,000 which will be paid in semi-monthly installments between April 1, 2000 and March 31, 2001,

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subject to acceleration in certain circumstances. Mr. Sternberg was also reimbursed for accrued vacation time. Pursuant to the agreement, the Company will pay the costs associated with Mr. Sternberg's current enrollment in the Company's health care plans through December 31, 2001. Mr. Sternberg will also retain 65,000 stock options previously granted to him under the KMC Holdings Stock Option Plan. Mr. Sternberg has agreed to vote any shares of common stock owned by him in accordance with the shares owned by Mr. Kamine and Nassau. Mr. Sternberg has agreed to make himself available to consult with the Company on a non-exclusive basis through December 31, 2001.

On March 7, 2000, the Company entered into a separation agreement and release with James D. Grenfell, pursuant to which Mr. Grenfell's employment as the Company's Executive Vice President, Chief Financial Officer and Secretary was terminated, by mutual agreement, effective March 8, 2000. Under the separation agreement, Mr. Grenfell was paid \$500,000 and is entitled to an additional \$300,000 which will be paid in semi-monthly installments to be paid over a twelve month period in accordance with the Company's payroll practices. Mr. Grenfell is also entitled to a payment of \$200,000 on March 1, 2001. Pursuant to the agreement, the Company will pay the costs associated with Mr. Grenfell's current enrollment in the Company's health care plans through December 31, 2001. Mr. Grenfell will also retain 3,600 stock options previously granted to him under the KMC Holdings Stock Option Plan. Mr. Grenfell has agreed to vote any shares of common stock owned by him in accordance with the shares owned by Mr. Kamine and Nassau. The Company will also pay Mr. Grenfell up to \$40,000 for certain relocation and other services.

EMPLOYEE PLANS

KMC Holdings Stock Option Plan. Employees, directors or other persons having a unique relationship with the Company or any of its affiliates are eligible to participate in the KMC Holdings Stock Option Plan. However, neither Mr. Kamine nor any person employed by Nassau or any affiliate of Nassau is

eligible for grants under the plan. The KMC Holdings Stock Option Plan is administered by the Compensation Committee of the Board of Directors of the Company. The Compensation Committee is authorized to grant (i) options intended to qualify as Incentive Options, (ii) Non-Qualified Options, (iii) stock appreciation rights, (iv) restricted stock, (v) performance units, (vi) performance shares and (vii) certain other types of awards.

The number of shares of Company Common Stock available for grant under the KMC Holdings Stock Option Plan is 600,000. No participant may receive more than 75,000 shares of Company Common Stock under the KMC Holdings Stock Option Plan.

The Compensation Committee has the power and authority to designate recipients of grants under the KMC Holdings Stock Option Plan, to determine the terms, conditions and limitations of grants under the plan and to interpret the provisions of the plan. The exercise price of all Incentive Options granted under the KMC Holdings Stock Option Plan must be at least equal to the Fair Market Value (as defined in the plan) of Company Common Stock on the date the options are granted and the exercise price of all Nonqualified Options granted under the KMC Holdings Stock Option Plan must be at least equal to 50% of the Fair Market Value of Company Common Stock on the date the options are granted. The maximum term of each Option granted under the KMC Holdings Stock Option Plan will be 10 years. Options will become exercisable at such times and in such installments as the Compensation Committee provides in the terms of each individual Option.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Kamine, the Chairman of the Board of the Company, and Messrs. Quigley and Patterson, Director of the Company, served as members of the Compensation Committee of the Board of Directors during 1999. Mr. Quigley is also a member of Nassau Capital Partners L.P. which, through its affiliates, beneficially owns more than five percent (5%) of the Company's voting securities.

The Company and certain affiliated companies owned by Mr. Kamine share certain administrative services. The entity which bears the cost of the service is reimbursed by the other for the other's proportionate share of such expenses. These shared services do not include the rent paid by the Company for its headquarters offices to an affiliate of Mr. Kamine under the lease described in the next succeeding paragraph. The Company reimbursed Kamine-affiliated companies for these shared services an aggregate of approximately \$60,000, for 1999.

Effective June 1, 1996, the Company entered into a lease agreement with Kamine Development Corp. (an entity controlled by Mr. Kamine) pursuant to which the Company leases its headquarters office in Bedminster, New Jersey. The lease

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expires in January 2007. The lease provides for a base annual rental of approximately \$217,000 (adjusted periodically for changes in the consumer price index), plus operating expenses.

Pursuant to an agreement, the Company is entitled to utilize a Citation III business jet chartered by Bedminster Aviation, LLC, a limited liability company wholly owned by Mr. Kamine, for a fixed price of \$2,800 per hour of flight time. The Citation III will enable up to eight employees, guests or representatives of the Company to utilize local airfields and visit multiple cities in which the Company either has an operating system or is building a system, without the necessity of returning to commercial hubs such as Atlanta or St. Louis. The Company has agreed to use its best efforts to utilize the Citation III fifty hours per quarter during 2000. However, the Company is under no obligation to do so and has not guaranteed any financial arrangements with respect to the aircraft or to Bedminster Aviation, LLC. During 1999 the Company paid \$210,000 for the use of the Citation III.

On July 1, 1999, the Company acquired all of the membership interests of KMC Services LLC from Harold N. Kamine, the Chairman of the Board of Directors, for nominal consideration. KMC Services LLC was formed to provide services to the Company and its customers, initially offering a leasing program for

equipment physically installed at the customer's premises. The acquisition was accounted for as a combination of entities under common control, and no changes were made to the historical cost basis of KMC Services LLC's assets. During the second quarter of 1999, the Company had reduced the carrying value of its \$709,000 loan receivable from KMC Services LLC to an amount equal to the value of KMC Services LLC's net assets at the acquisition date. KMC Services LLC has been consolidated with the Company since July 1, 1999.

Pursuant to an Agreement among the Company, Mr. Kamine and Nassau, for 1999 Nassau received \$450,000 as a financial advisory fee and as compensation for the Nassau designees who served on the Board of Directors of the Company. Nassau will be paid \$450,000 as a financial advisory fee for 2000.

In December 1999, the Company purchased \$180,000 of office equipment and leasehold improvements from Kamine Development Corp. (an entity controlled by Mr. Kamine). The Company determined that the purchase of such equipment was upon fair and reasonable terms no less favorable to the Company than could be obtained in a comparable arm's-length transaction with a person that is not an affiliate of the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the beneficial ownership of the Common Stock, as of March 29, 2000, by (i) each person known to the Company to be the beneficial owner of more than 5% of the Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group. All information with respect to beneficial ownership has been furnished to the Company by the respective stockholders of the Company.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES (1)	PERCENTAGE OWNERSHIP (1)
Harold N. Kamine..... c/o Kamine Development Corp. 1545 Route 206 Bedminster, NJ 07921	573,835	67.2%
Nassau Capital Partners L.P..... c/o Nassau Capital L.L.C. 22 Chambers Street Princeton, NJ 08542	661,454 (2)	44.1%
Newcourt Capital, Inc..... 2 Gate Hall Drive Parsipany, NJ 07054	191,033.2 (3)	21.6%
First Union Corp. 301 South College St. Charlotte, NC 28288	146,742.6 (4)	14.8%
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General Electric Capital Corporation..... 120 Long Ridge Road Stamford, CT 06927	200,476 (5)	19.0%
CIBC Inc. 425 Lexington Avenue New York, New York 10017	44,104	5.2%
Michael A. Sternberg c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, New Jersey 07921	65,000 (6)	7.1%
Gary E. Lasher..... c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, New Jersey 07921	10,000 (6)	1.2%

John G. Quigley..... c/o Nassau Capital L.L.C. 22 Chambers Street Princeton, NJ 08542	661,454 (7)	44.1%
Richard H. Patterson..... c/o Waller Capital Corporation 30 Rockefeller Center Suite 4350 New York, NY 10112	3,000 (6)	0.4%
Randall A. Hack..... c/o Nassau Capital L.L.C. 22 Chambers Street Princeton, NJ 08542	661,454 (7)	44.1%
Roscoe C. Young II..... c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, NJ 07921	22,750 (6)	2.6%
James D. Grenfell..... c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, NJ 07921	3,600 (6)	0.4%
William H. Stewart..... c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, NJ 07921	661,454 (8)	44.1%
Tricia Breckenridge..... c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, NJ 07921	5,200 (6)	0.6%
Directors and Officers of the Company as a Group (10 persons)...	1,344,839 (2)	83.5%

- (1) Beneficial ownership is determined in accordance with the rules of the Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares subject to options, warrants and convertible securities held by that person that are

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currently exercisable or exercisable within 60 days of March 29, 2000 are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder's name.

- (2) Includes 600,000 shares of Common Stock which Nassau and NAS Partners I L.L.C., of which Messrs. Quigley and Hack are members, have the right to acquire upon conversion of 122,708 and 1,092 shares of Series A Cumulative Convertible Preferred Stock, respectively, and 47,619 shares of Common Stock which Nassau and NAS Partners I, L.L.C. have the right to acquire upon conversion of 24,778 and 222 shares of Series C Cumulative Convertible Preferred Stock, respectively. These are the same shares listed for Messrs. Quigley and Hack.
- (3) Includes 159,184.5 shares of Common Stock held by Newcourt Communications Finance Corporation, a subsidiary of Newcourt Capital, Inc. and 31,848.7 shares of Common Stock which Newcourt Commercial Finance Corporation, also a subsidiary of Newcourt Capital, Inc., has the right to acquire upon the exercise of warrants.
- (4) Includes 95,238 shares of Common Stock which First Union has the right to acquire upon conversion of 50,000 shares of Series C Cumulative Convertible Preferred Stock of the Company, and 44,587 shares which First Union Corp. has the right to acquire upon the exercise of warrants.

- (5) Includes 190,476 shares of Common Stock which General Electric Capital Corporation has the right to acquire upon conversion of 100,000 shares of Series C Cumulative Convertible Preferred Stock of the Company and 10,000 shares of Common Stock which General Electric Capital Corporation has the right to acquire upon exercise of a warrant.
- (6) Represents shares of Common Stock which the holder has the right to acquire upon the exercise of options that are exercisable within sixty days of March 29, 2000 pursuant to the KMC Holdings Stock Option Plan.
- (7) Messrs. Quigley and Hack, Directors of the Company, are members of Nassau Capital L.L.C., the general partner of Nassau; accordingly Messrs. Quigley and Hack may be deemed to be beneficial owners of such shares and for purposes of this table they are included. Messrs. Quigley and Hack disclaim beneficial ownership of all such shares within the meaning of Rule 13d-3 under the Exchange Act. Messrs. Quigley and Hack are also members of NAS Partners I, L.L.C.; accordingly Messrs. Quigley and Hack may be deemed to be beneficial owners of such shares and for purposes of this table they are included. Messrs. Quigley and Hack disclaim beneficial ownership of all such shares within the meaning of Rule 13d-3 under the Exchange Act.
- (8) All of the shares indicated as owned by Mr. Stewart are owned directly or indirectly by Nassau and are included because of Mr. Stewart's affiliation with Nassau. Mr. Stewart is also a member of NAS Partners I, L.L.C.; accordingly, Mr. Stewart may be deemed to be the beneficial owner of such shares and for purposes of this table they are included. Mr. Stewart disclaims beneficial ownership of all of these shares within the meaning of Rule 13d-3 under the Exchange Act.

Stockholders Agreement. The Amended and Restated Stockholders Agreement, dated as of October 31, 1997, restricts the ability of the parties to that agreement to transfer shares in the Company to persons not affiliated with or related to such parties. Pursuant to such Stockholders Agreement and the Company's certificate of incorporation, Mr. Kamine and Nassau are currently entitled to elect all of the Directors, three of whom are nominated by Mr. Kamine (one of whom must be the President and Chief Executive Officer), three of whom are nominated by Nassau and two of whom are nominated by agreement of Mr. Kamine, Nassau and either Newcourt Communications Finance Corporation or the holders of a majority of the outstanding shares of the Company's Series C Cumulative Convertible Preferred Stock. The number of Directors which Mr. Kamine is entitled to elect would be reduced to two if the number of shares owned by him were to fall below two-thirds of the number of shares of the Company initially issued to him, and to one if the number of shares owned by him were to fall below one-third of the number of shares initially issued to him. If his ownership were to fall below 5% of the number of shares initially issued to him, Mr. Kamine would no longer be entitled to elect any Directors pursuant to such provisions. Comparable reductions would be made to the number of Directors which Nassau is entitled to elect if its ownership were to fall below the specified percentages. If a default relating to payment occurs under the Amended Senior Secured Credit Facility, and continues uncured for 90 days, the holders of Series C Cumulative Convertible Preferred Stock (currently Nassau, NAS Partners I, L.L.C., General Electric Capital Corporation and First Union) will be entitled to elect two additional Directors, who will serve until the default is cured.

Each of Nassau, NAS Partners I, L.L.C., First Union, General Electric Capital Corporation and Newcourt Communications Finance Corporation has a "put right" entitling it to have the Company repurchase its shares for the fair market value of such shares if no Liquidity Event (defined as (i) an initial public offering with gross proceeds of at least \$40.0 million, (ii) the sale of substantially all of the stock or assets of the Company or (iii) the merger or

consolidation of the Company with one or more other corporations) has taken place by the later of (x) October 22, 2003 or (y) 90 days after the final maturity date of the Company's 12 1/2% Senior Discount Notes. First Union, General Electric Capital Corporation and Newcourt Communications Finance Corporation may not exercise such put rights unless Nassau has exercised its put

right. The indenture applicable to the Company's 13 1/2% Senior Notes, 12 1/2% Senior Discount Notes and the Company's other indebtedness will limit the Company's ability to repurchase such shares.

Certain of the current stockholders have demand registration rights with respect to their shares of Common Stock of the Company commencing on the earlier of June 5, 2000 (in the case of Mr. Kamine or Nassau) and the date on which the Company completes an initial public offering of Common Stock (and any related holdback period expires). Each of the holders of registrable securities also has certain piggyback registration rights. The parties to the Stockholders Agreement have agreed not to effect any public sale or distribution of Common Stock of the Company, or securities convertible into such Common Stock, within 180 days of the effective date of any demand or piggyback registration.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In February, 1998, the Company loaned to Roscoe C. Young II, the Company's President, Chief Operating Officer and Director, the principal sum of \$350,000. The loan is evidenced by a promissory note which bears interest at the rate of 6% per annum. Interest and principal are payable at maturity on February 13, 2003. In June 1998, the Company loaned Mr. Young an additional \$110,000. The largest aggregate amount of loans outstanding to Mr. Young at any time during 1999 was \$405,000. The aggregate amount of loans outstanding to Mr. Young at March 29, 2000 was \$350,000. Mr. Young repaid \$55,000 of this loan within thirty (30) days and repaid the \$55,000 balance in December 1999.

Pursuant to agreements entered into in September and October 1997, between the Company and each of the holders of Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock each such holder has agreed to forego the payment of accumulated dividends on its shares of Series A Cumulative Convertible Preferred Stock and Series C Cumulative Convertible Preferred Stock of the Company from the date of such Dividend Agreement through the date on which such holder disposes of its interest in the Company; provided, that, upon such disposition, such holder realizes not less than a ten percent (10%) compound rate of return on its investment for the period from the date of such Dividend Agreement to the date of such disposition.

Mr. Kamine, Nassau, Newcourt Communications Finance Corporation, First Union and General Electric Capital Corporation are parties to the Stockholders Agreement. Pursuant to the Stockholder's Agreement and the Company's certificate of incorporation, Mr. Kamine and Nassau are currently entitled to elect all of the Company's eight Directors, with each entitled to nominate three Directors, and two to be nominated by agreement of Mr. Kamine, Nassau and either Newcourt Communications Finance Corporation or the holders of a majority of the outstanding shares of the Company's Series C Cumulative Convertible Preferred Stock. The number of Directors which Mr. Kamine is entitled to elect would be reduced to two if the number of shares owned by him were to fall below two-thirds of the number of shares of the Company initially issued to him, and to one if the number of shares owned by him were to fall below one-third of the number of shares initially issued to him. If his ownership were to fall below 5% of the number of shares initially issued to him, Mr. Kamine would no longer be entitled to elect any Directors pursuant to such provisions. Comparable reductions would be made to the number of Directors which Nassau is entitled to elect if its ownership were to fall below the specified fractions.

Newcourt Commercial Finance Corporation (an affiliate of Newcourt Capital, Inc.) has provided financing for the Company as one of the lenders under the Amended Senior Secured Credit Facility. Pursuant to the Amended Senior Secured Credit Facility, the lenders have agreed to make available, subject to certain conditions, up to a total of \$700.0 million, for construction and development of the Company's twenty-three existing networks. The Company paid Newcourt Capital and its affiliates an aggregate of \$5,000,000 in fees, discounts and commissions during the year ended December 31, 1999.

PART IV

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

(A) 1. Financial Statements.

The financial statements are included in Part II, Item 8. of this

Report.

2. Financial Statement Schedules and Supplementary Information Required to be Submitted.

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Independent Auditors' Report on Schedules
Schedule I - Condensed Financial Information of Registrant
Schedule II - Valuation and Qualifying Accounts

These schedules are included in Part II, Item 8. of this Report. All other schedules have been omitted because they are inapplicable or the required information is shown in the consolidated financial statements or notes.

(B) Reports on Form 8-K.

None.

(C) Index to Exhibits.

The following is a list of all Exhibits filed as part of this Report:

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
*3.1	Certificate of Incorporation of KMC Telecom Holdings, Inc., as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.2	Certificate of Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.3	Certificate of Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.4	Certificate of Powers, Designations, Preferences and Rights of the Series D Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.5	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.6	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.6 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.7	By-Laws of KMC Telecom Holdings, Inc. (incorporated herein by reference to Exhibit 3.3 to KMC Telecom Holdings, Inc.'s Registration Statement on

Form S-4 (Registration No. 333-50475) filed on April 20, 1998. (hereinafter referred to as the "KMC Holdings' S-4").

- *4.1 Amended and Restated Stockholders Agreement dated as of October 31, 1997 by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.1 to KMC Holdings' S-4).

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- *4.2 Amendment No. 1 dated as of January 7, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.2 to KMC Holdings' S-4).

- *4.3 Amendment No. 2 dated as of January 26, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Holdings' S-4).

- *4.4 Amendment No. 3 dated as of February 25, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.4 to KMC Holdings' S-4).

- *4.5 Amendment No. 4 dated as of February 4, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).

- *4.6 Amendment No. 5 dated as of April 30, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.11 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).

- *4.7 Amendment No. 6 dated as of June 1, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.12 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).

- 4.8 Amendment No. 7 dated as of January 1, 2000 to the Amended and Restated

Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc.

- *4.9 Indenture dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Trustee, including specimen of KMC Telecom Holdings, Inc.'s 12 1/2% Senior Discount Note due 2008. (incorporated herein by reference to Exhibit 4.5 to KMC Holdings' S-4).

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- *4.10 First Supplemental Indenture dated as of May 24, 1999 among KMC Telecom Holdings, Inc., KMC Telecom Financing, Inc. and The Chase Manhattan Bank, as Trustee, to the Indenture dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Trustee. (incorporated herein by reference to Exhibit 4.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.11 Indenture dated as of May 24, 1999 among KMC Telecom Holdings, Inc., KMC Telecom Financing, Inc. and The Chase Manhattan Bank, as Trustee, including specimen of KMC Telecom Holdings, Inc.'s 13 1/2% Senior Notes due 2009. (incorporated herein by reference to Exhibit 4.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.12 Purchase Agreement dated as of May 19, 1999 among KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, First Union Capital Markets Corp., CIBC World Markets Corp., BancBoston Robertson Stephens Inc. and Wasserstein Perella Securities, Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.13 Collateral Pledge and Security Agreement made and entered into as of May 24, 1999 by KMC Telecom Financing, Inc. in favor of The Chase Manhattan Bank as Trustee. (incorporated herein by reference to Exhibit 4.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.14 Registration Rights Agreement dated as of January 26, 1998, between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated. (incorporated herein by reference to Exhibit 4.6 to KMC Holdings' S-4).
- *4.15 Registration Rights Agreement dated as of May 19, 1999 among KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, First Union Capital Markets Corp., CIBC World Markets Corp., BancBoston Robertson Stephens Inc. and Wasserstein Perella Securities, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.16 Warrant Agreement dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Warrant Agent, including a specimen of Warrant Certificate (incorporated herein by reference to Exhibit 4.7 to KMC Holdings' S-4).
- *4.17 Warrant Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 10.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).
- *4.18 Warrant Agreement dated as of April 30, 1999 among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, First Union Investors, Inc., Harold N. Kamine and Nassau Capital Partners L.P. (incorporated

herein by reference to Exhibit 4.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).

- *4.19 Amendment No. 1 dated as of April 30, 1999 to the Warrant Agreement dated as of February 4, 1999, among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation, Lucent Technologies Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.7 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.20 Amendment No. 2 dated as of June 1, 1999 to the Warrant Agreement dated as of February 4, 1999, among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation, Lucent Technologies Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.8 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).

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- *4.21 Securities Purchase Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 10.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).
- *4.22 Securities Purchase Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.23 Amendment No. 1 dated as of June 1, 1999 to Securities Purchase Agreement among KMC Telecom Holdings, Inc., First Union Investors, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.24 Warrant Registration Rights Agreement dated as of January 26, 1998 between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated. (incorporated herein by reference to Exhibit 4.8 to KMC Holdings' S-4).
- *4.25 Warrant Registration Rights Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 10.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).
- *4.26 Warrant Registration Rights Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.27 Amendment No. 1 dated as of April 30, 1999 to Warrant Registration Rights Agreement among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.6 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.28 Preferred Stock Registration Rights Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.9 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.29 Amendment No. 1 dated as of June 1, 1999 to Preferred Stock Registration

Rights Agreement among KMC Telecom Holdings, Inc., First Union Investors, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.10 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).

- *10.1 Purchase Agreement dated January 26, 1998 by and between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated (incorporated herein by reference to Exhibit 10.1 to KMC Holdings' S-4).
- *10.2 Loan and Security Agreement dated as of December 22, 1998 among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the additional subsidiaries from time to time parties thereto, the financial institutions signatory thereto from time to time as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.2 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.3 Amendment No. 1 to Loan and Security Agreement dated as of March 3, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the additional subsidiaries from time to time parties thereto, the financial institutions signatory thereto from time to time as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.3 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.4 Waiver and Amendment No. 3 to Loan and Security Agreement dated as of October 29, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.4 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-4 (Registration No. 333-91237 and 333-91237-01) filed on November 18, 1999 (the "KMC Holdings 1999 S-4").
- 10.5 Amendment No. 4 to Loan and Security Agreement dated as of December 31, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), an affiliate of The CIT Group, Inc., as Collateral Agent for the Lenders.
- 10.6 Amended and Restated Loan and Security Agreement dated as of February 15, 2000 by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC, KMC Telecom.com, Inc., KMC III Services LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders, First Union National Bank, as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), an affiliate of The CIT Group, Inc., as Collateral Agent for the Lenders.
- *10.7 General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc.

and Lucent Technologies Inc. dated September 24, 1997, as amended on October 15, 1997 (incorporated herein by reference to Exhibit 10.7 to KMC Holdings' S-4).

- 10.8 Amendment Number Two to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC and Lucent Technologies Inc. dated as of December 22, 1998.
- 10.9 Amendment Number Three to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC and Lucent Technologies Inc. dated as of November 15, 1999.
- 10.10 Amendment Number Four to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom IV, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC, KMC Telecom Leasing IV LLC, KMC III Services LLC and Lucent Technologies Inc. dated as of February 15, 2000.
- *10.11 Professional Services Agreement between KMC Telecom Inc. and Lucent Technologies, Inc. dated September 4, 1997. (incorporated herein by reference to Exhibit 10.8 to KMC Holdings' S-4).

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- *10.12 Memorandum of Agreement between KMC Telecom Holdings, Inc. and EFTIA OSS Solutions Inc., dated as of October 26, 1998. (incorporated herein by reference to Exhibit 10.6 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.13 Master License Agreement dated December 31, 1998 by and between Billing Concepts Systems, Inc. and KMC Telecom Holdings, Inc. (incorporated herein by reference to Exhibit 10.7 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.14 Lease Agreement dated January 1, 1996 between Cogeneration Services Inc. (now known as Kamine Development Corp.) and KMC Telecom Inc. (incorporated herein by reference to Exhibit 10.8 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.15 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. (incorporated herein by reference to Exhibit 4 to KMC Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1998).+
- *10.16 Specimen of Non-Qualified Stock Option Agreement for options granted under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. (incorporated herein by reference to Exhibit 10.10 to KMC Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1998).+
- *10.17 Amendment No. 1 made as of June 7, 1999 to 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates (incorporated herein by reference to Exhibit 10.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).+
- **21.1 Subsidiaries of KMC Telecom Holdings, Inc.
- **24.1 Powers of Attorney (Appears on signature page).
- **27.1 Financial Data Schedule.

* Incorporated herein by reference.

** Filed herewith.

+ Management contract or compensatory plan or arrangement.

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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, in the Town of Bedminster, State of New Jersey, on the 30th day of March, 2000.

KMC TELECOM HOLDINGS, INC.

By: /s/ ROSCOE C. YOUNG II

Roscoe Young II
President and Chief Operating Officer

KNOW BY ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roscoe C. Young II and William H. Stewart his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or their or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

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 indicated on the 30th day of March, 2000.

SIGNATURE	TITLE(S)
/s/ ROSCOE C. YOUNG II ----- Roscoe C. Young II	President, Chief Operating Officer and Director (Principal Executive Officer)
/s/ WILLIAM H. STEWART ----- William H. Stewart	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
/s/ ROBERT F. HAGAN ----- Robert F. Hagan	Senior Vice President, Finance (Principal Accounting Officer)
/s/ HAROLD N. KAMINE ----- Harold N. Kamine	Chairman of the Board of Directors
/s/ GARY E. LASHER ----- Gary E. Lasher	Vice Chairman of the Board of Directors
/s/ RICHARD H. PATTERSON ----- Richard H. Patterson	Director
/s/ JOHN G. QUIGLEY ----- John G. Quigley	Director

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
*3.1	Certificate of Incorporation of KMC Telecom Holdings, Inc., as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.2	Certificate of Powers, Designations, Preferences and Rights of the Series A Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.3	Certificate of Powers, Designations, Preferences and Rights of the Series C Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.4	Certificate of Powers, Designations, Preferences and Rights of the Series D Cumulative Convertible Preferred Stock, Par Value \$.01 Per Share, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.5	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series E Senior Redeemable, Exchangeable, PIK Preferred Stock, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.6	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights and Qualifications, Limitations and Restrictions Thereof of the Series F Senior Redeemable, Exchangeable, PIK Preferred Stock, as amended, dated as of April 30, 1999. (incorporated herein by reference to Exhibit 3.6 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
*3.7	By-Laws of KMC Telecom Holdings, Inc. (incorporated herein by reference to Exhibit 3.3 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-4 (Registration No. 333-50475) filed on April 20, 1998. (hereinafter referred to as the "KMC Holdings' S-4")).
*4.1	Amended and Restated Stockholders Agreement dated as of October 31, 1997 by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.1 to KMC Holdings' S-4).
*4.2	Amendment No. 1 dated as of January 7, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.2 to KMC Holdings' S-4).
*4.3	Amendment No. 2 dated as of January 26, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC

Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Holdings' S-4).

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- *4.4 Amendment No. 3 dated as of February 25, 1998 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, KMC Telecommunications L.P., Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.4 to KMC Holdings' S-4).
- *4.5 Amendment No. 4 dated as of February 4, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, CoreStates Bank, N.A. and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *4.6 Amendment No. 5 dated as of April 30, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.11 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.7 Amendment No. 6 dated as of June 1, 1999 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc. (incorporated herein by reference to Exhibit 4.12 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- 4.8 Amendment No. 7 dated as of January 1, 2000 to the Amended and Restated Stockholders Agreement dated as of October 31, 1997, by and among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (formerly known as AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc.
- *4.9 Indenture dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Trustee, including specimen of KMC Telecom Holdings, Inc.'s 12 1/2% Senior Discount Note due 2008. (incorporated herein by reference to Exhibit 4.5 to KMC Holdings' S-4).
- *4.10 First Supplemental Indenture dated as of May 24, 1999 among KMC Telecom Holdings, Inc., KMC Telecom Financing, Inc. and The Chase Manhattan Bank, as Trustee, to the Indenture dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Trustee. (incorporated herein by reference to Exhibit 4.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.11 Indenture dated as of May 24, 1999 among KMC Telecom Holdings, Inc., KMC Telecom Financing, Inc. and The Chase Manhattan Bank, as Trustee,

including specimen of KMC Telecom Holdings, Inc.'s 13 1/2% Senior Notes due 2009. (incorporated herein by reference to Exhibit 4.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).

- *4.12 Purchase Agreement dated as of May 19, 1999 among KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, First Union Capital Markets Corp., CIBC World Markets Corp., BancBoston Robertson Stephens Inc. and Wasserstein Perella Securities, Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).

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- *4.13 Collateral Pledge and Security Agreement made and entered into as of May 24, 1999 by KMC Telecom Financing, Inc. in favor of The Chase Manhattan Bank as Trustee. (incorporated herein by reference to Exhibit 4.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.14 Registration Rights Agreement dated as of January 26, 1998, between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated. (incorporated herein by reference to Exhibit 4.6 to KMC Holdings' S-4).
- *4.15 Registration Rights Agreement dated as of May 19, 1999 among KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, First Union Capital Markets Corp., CIBC World Markets Corp., BancBoston Robertson Stephens Inc. and Wasserstein Perella Securities, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1999).
- *4.16 Warrant Agreement dated as of January 29, 1998 between KMC Telecom Holdings, Inc. and The Chase Manhattan Bank, as Warrant Agent, including a specimen of Warrant Certificate (incorporated herein by reference to Exhibit 4.7 to KMC Holdings' S-4).
- *4.17 Warrant Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 10.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).
- *4.18 Warrant Agreement dated as of April 30, 1999 among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, First Union Investors, Inc., Harold N. Kamine and Nassau Capital Partners L.P. (incorporated herein by reference to Exhibit 4.4 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.19 Amendment No. 1 dated as of April 30, 1999 to the Warrant Agreement dated as of February 4, 1999, among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation, Lucent Technologies Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.7 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.20 Amendment No. 2 dated as of June 1, 1999 to the Warrant Agreement dated as of February 4, 1999, among KMC Telecom Holdings, Inc., The Chase Manhattan Bank, as Warrant Agent, Newcourt Commercial Finance Corporation, Lucent Technologies Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.8 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.21 Securities Purchase Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit

10.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).

- *4.22 Securities Purchase Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.2 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.23 Amendment No. 1 dated as of June 1, 1999 to Securities Purchase Agreement among KMC Telecom Holdings, Inc., First Union Investors, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.24 Warrant Registration Rights Agreement dated as of January 26, 1998 between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated. (incorporated herein by reference to Exhibit 4.8 to KMC Holdings' S-4).

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- *4.25 Warrant Registration Rights Agreement dated as of February 4, 1999 among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 10.3 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended March 31, 1999).
- *4.26 Warrant Registration Rights Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.5 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.27 Amendment No. 1 dated as of April 30, 1999 to Warrant Registration Rights Agreement among KMC Telecom Holdings, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.6 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.28 Preferred Stock Registration Rights Agreement dated as of April 30, 1999 between KMC Telecom Holdings, Inc. and First Union Investors, Inc. (incorporated herein by reference to Exhibit 4.9 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *4.29 Amendment No. 1 dated as of June 1, 1999 to Preferred Stock Registration Rights Agreement among KMC Telecom Holdings, Inc., First Union Investors, Inc., Newcourt Commercial Finance Corporation and Lucent Technologies Inc. (incorporated herein by reference to Exhibit 4.10 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- *10.1 Purchase Agreement dated January 26, 1998 by and between KMC Telecom Holdings, Inc. and Morgan Stanley & Co. Incorporated (incorporated herein by reference to Exhibit 10.1 to KMC Holdings' S-4).
- *10.2 Loan and Security Agreement dated as of December 22, 1998 among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the additional subsidiaries from time to time parties thereto, the financial institutions signatory thereto from time to time as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.2 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.3 Amendment No. 1 to Loan and Security Agreement dated as of March 3, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC

Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the additional subsidiaries from time to time parties thereto, the financial institutions signatory thereto from time to time as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.3 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).

- *10.4 Waiver and Amendment No. 3 to Loan and Security Agreement dated as of October 29, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), as Collateral Agent for the Lenders. (incorporated herein by reference to Exhibit 10.4 to KMC Telecom Holdings, Inc.'s Registration Statement on Form S-4 (Registration No. 333-91237 and 333-91237-01) filed on November 18, 1999 (the "KMC Holdings 1999 S-4").

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- 10.5 Amendment No. 4 to Loan and Security Agreement dated as of December 31, 1999 to Loan and Security Agreement dated as of December 22, 1998, among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), an affiliate of The CIT Group, Inc., as Collateral Agent for the Lenders.
- 10.6 Amended and Restated Loan and Security Agreement dated as of February 15, 2000 by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC, KMC Telecom.com, Inc., KMC III Services LLC, the financial institutions from time to time parties thereto as "Lenders", First Union National Bank as Administrative Agent for the Lenders, First Union National Bank, as Administrative Agent for the Lenders and Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), an affiliate of The CIT Group, Inc., as Collateral Agent for the Lenders.
- *10.7 General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc. and Lucent Technologies Inc. dated September 24, 1997, as amended on October 15, 1997 (incorporated herein by reference to Exhibit 10.7 to KMC Holdings' S-4).
- 10.8 Amendment Number Two to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC and Lucent Technologies Inc. dated as of December 22, 1998.
- 10.9 Amendment Number Three to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC and Lucent Technologies Inc. dated as of November 15, 1999.
- 10.10 Amendment Number Four to the General Agreement by and among KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom IV, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom Leasing III LLC, KMC Telecom Leasing IV LLC, KMC III Services LLC and Lucent Technologies Inc. dated as of February 15, 2000.
- *10.11 Professional Services Agreement between KMC Telecom Inc. and Lucent

Technologies, Inc. dated September 4, 1997. (incorporated herein by reference to Exhibit 10.8 to KMC Holdings' S-4).

- *10.12 Memorandum of Agreement between KMC Telecom Holdings, Inc. and EFTIA OSS Solutions Inc., dated as of October 26, 1998. (incorporated herein by reference to Exhibit 10.6 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.13 Master License Agreement dated December 31, 1998 by and between Billing Concepts Systems, Inc. and KMC Telecom Holdings, Inc. (incorporated herein by reference to Exhibit 10.7 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.14 Lease Agreement dated January 1, 1996 between Cogeneration Services Inc. (now known as Kamine Development Corp.) and KMC Telecom Inc. (incorporated herein by reference to Exhibit 10.8 to KMC Telecom Holdings, Inc.'s Form 10-K for the fiscal year ended December 31, 1998).
- *10.15 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. (incorporated herein by reference to Exhibit 4 to KMC Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1998).
- *10.16 Specimen of Non-Qualified Stock Option Agreement for options granted under the 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates. (incorporated herein by reference to Exhibit 10.10 to KMC Holdings, Inc.'s Form 10-Q for the quarterly period ended September 30, 1998).

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- *10.17 Amendment No. 1 made as of June 7, 1999 to 1998 Stock Purchase and Option Plan for Key Employees of KMC Telecom Holdings, Inc. and Affiliates (incorporated herein by reference to Exhibit 10.1 to KMC Telecom Holdings, Inc.'s Form 10-Q for the quarterly period ended June 30, 1999).
- 21.1 Subsidiaries of KMC Telecom Holdings, Inc.
- 24.1 Powers of Attorney (Appears on signature page).
- 27.1 Financial Data Schedule.

* EXHIBITS FILED PREVIOUSLY.

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EX-4.8

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AMENDMENT NO. 7

AMENDMENT NO. 7 TO THE AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

AMENDMENT NO. 7 dated as of January 1, 2000 to the Amended and Restated Stockholders Agreement, dated as of October 31, 1997 (as heretofore amended, the "Stockholders Agreement") among KMC Telecom Holdings, Inc., Nassau Capital Partners L.P., NAS Partners I L.L.C., Harold N. Kamine, Newcourt Commercial Finance Corporation (as successor to AT&T Credit Corporation), General Electric Capital Corporation, First Union National Bank (as successor to CoreStates Bank, N.A.) and CoreStates Holdings, Inc.

W I T N E S S E T H

WHEREAS, the parties hereto desire to make certain amendment to the Stockholders Agreement;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. DEFINED TERMS. Unless otherwise defined herein, all capitalized terms defined in the Stockholders Agreement and used herein are so used as so defined.

2. AMENDMENTS TO SECTION 4.3.1 OF THE STOCKHOLDERS AGREEMENT. Section 4.3 of the Stockholders Agreement is amended to read as follows:

4.3. ELECTION OF DIRECTORS.

4.3.1 NUMBER AND COMPOSITION. Subject to Section 4.3.2, each Stockholder agrees that the number of directors shall be eight (8) and each Stockholder shall vote its or his Shares at any Stockholders Meeting, or act by Written Consent with respect to such Shares, and take all other actions necessary to ensure that the number of directors constituting the entire Board of Directors shall be eight (8), as provided for below. Each Stockholder shall vote its or his Shares at any Stockholders Meeting called for the purpose of filling the positions on the Board of Directors, or in any Written Consent executed for such purpose, and to take all other actions necessary to ensure, including, without limitation, using its or his best efforts to cause the Board of Directors to take such actions to ensure: (i) the election to the Board of Directors of (w) three individuals designated by Nassau to serve initially as Nassau Directors, (x) subject to paragraph (b) of Section 4.4, three individuals (one of whom shall be

the President and chief executive officer of the Company from time to time, elected pursuant to Article IV of the By-Laws) designated by Kamine to serve initially as Kamine Directors, (y) one independent director who shall be mutually acceptable to Nassau, Kamine and either AT&T or the Majority Series C Holders, provided that it is agreed that Gary E. Lasher shall be an independent director beginning November 1, 1997, and (z) one additional director who shall mutually acceptable to Nassau, Kamine and either AT&T or the Majority Series C Holders, provided that it is agreed that Roscoe C. Young II shall be mutually acceptable to each of the foregoing; (ii) the election to each committee of the Board of Directors of an equal number of Nassau Directors and Kamine Directors; and (iii) the election of an independent director to the compensation committee of the Board of Directors.

3. Except as expressly amended hereby, all of the provisions of the Stockholders Agreement are hereby affirmed and shall continue in full force and effect in accordance with their terms.

4. This Amendment shall be governed and construed in accordance with the laws of the state of Delaware applicable to agreements made and to be performed entirely within such state, without regard to the principles of conflicts of laws thereof.

5. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed, or caused to be executed, this Agreement as of the date first above written.

KMC TELECOM HOLDINGS, INC.

By: /s/

Name: Harold N. Kamine
Title: Chairman of the Board

NASSAU CAPITAL PARTNERS L.P.

By: Nassau Capital L.L.C., its General Partner

By: /s/

Name: John G. Quigly
Title: Member

NAS PARTNERS I L.L.C.

By: /s/

Name: John G. Quigley
Title: Member

HAROLD N. KAMINE
in his individual capacity

/s/

Harold N. Kamine

NEWCOURT COMMERCIAL FINANCE
CORPORATION

By: /s/

Name: Charles Brown
Title: Vice President

FIRST UNION NATIONAL BANK

By: /s/

Name: Pearce Landry
Title: Vice President

CORESTATES HOLDINGS, INC.

By: /s/

Name: Tracey M. Chaffin
Title: Vice President

GENERAL ELECTRIC CAPITAL
CORPORATION

By: /s/

Name: Mark F. Mylon
Title: Manager - Operations

EX-10.5

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AMENDMENT NO. 4

AMENDMENT NO. 4

TO

LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 4 TO LOAN AND SECURITY AGREEMENT ("AMENDMENT") dated as of December 31, 1999, is among KMC TELECOM INC., a Delaware corporation ("KMC"), KMC TELECOM II, INC., a Delaware corporation ("KMC II"), KMC TELECOM OF VIRGINIA, INC., a Virginia public service company ("KMC VIRGINIA"), KMC TELECOM LEASING I LLC, a Delaware limited liability company ("LEASING I"), KMC TELECOM LEASING II LLC, a Delaware limited liability company ("LEASING II"; KMC, KMC II, KMC Virginia, Leasing I and Leasing II being hereinafter collectively referred to hereinafter as the "BORROWERS"), the financial institutions from time to time parties thereto (the "LENDERS"), FIRST UNION NATIONAL BANK, as administrative agent for the Lenders (the "AGENT") and NEWCOURT COMMERCIAL FINANCE CORPORATION (f/k/a AT&T COMMERCIAL FINANCE CORPORATION), an affiliate of The CIT Group, Inc., as collateral agent for the Lenders (the "COLLATERAL AGENT"; the Agent together with the Collateral Agent being referred to as the "AGENTS").

WHEREAS, the Borrowers, the Agents and the Lenders are parties to that certain Loan and Security Agreement (the "LOAN AGREEMENT"; undefined capitalized terms used herein shall have the meanings assigned thereto in the Loan Agreement) dated as of December 22, 1998, as amended by Amendment No.1 thereto dated as of March 3, 1999, Amendment No. 2 thereto dated as of August 13, 1999, and Waiver and Amendment No. 3 thereto dated as of October 29, 1999, pursuant to which the Lenders have agreed to make certain "Loans" and other financial accommodations to the Borrowers; and

WHEREAS, the Borrowers have requested that the Agents and the Lenders amend the Loan Agreement in the manner set forth herein, and the Agents and the Lenders have agreed to such request;

NOW, THEREFORE, in consideration of the premises set forth above, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrowers, the Agents and the Lenders agree as follows:

1. AMENDMENT TO THE LOAN AGREEMENT. Effective as of the date first above written and subject to the execution of this Amendment by the parties hereto, the Loan Agreement shall be and hereby is amended as follows:

1.1 SECTION 7.01(b) is hereby amended to add the following proviso thereto: -----

"PROVIDED, HOWEVER, that as of the last day of each fiscal quarter occurring on or after December 31, 1999, the Borrowers shall on a combined basis have revenues at least equal to the amount set forth below for such date:

FISCAL QUARTER ENDING	MINIMUM REVENUES
December 31, 1999	\$18,000,000
March 31, 2000	\$23,821,000
June 30, 2000	\$31,338,000
September 30, 2000	\$37,803,000
December 31, 2000	\$44,482,000

March 31, 2001

\$54,678,000"

1.2 SECTION 7.01(c)(i) is hereby amended to delete the proviso thereto and to substitute the following proviso therefor:

"PROVIDED, HOWEVER, that as of the last day of each fiscal quarter occurring on or after December 31, 1999 through and including December 31, 2000, the Borrowers shall not permit the EBITDA losses for all the Borrowers on a combined basis for the two fiscal quarters then ending to exceed the amount set forth below for such date:

FISCAL QUARTER ENDING	EBITDA LOSSES
December 31, 1999	(\$50,400,000)
March 31, 2000	(\$38,700,000)
June 30, 2000	(\$25,001,000)
September 30, 2000	(\$13,823,000)
December 31, 2000	(\$4,157,000)"

1.3 SECTION 7.01(c)(ii) shall be deleted in its entirety and replaced with the following new SECTION 7.01(c)(ii):

"As of the last day of the fiscal quarter ending March 31, 2001, the Borrowers shall not permit EBITDA for all the Borrowers on a combined basis for the two fiscal quarters then ending to be less than \$1,688,000."

2. CONDITIONS PRECEDENT. This Amendment shall become effective as of the date above written, if, and only if, the Agents have received duly executed originals of this Amendment from the Borrowers, the Requisite Lenders and the Agents on or prior to January __, 2000.

3. REPRESENTATIONS AND WARRANTIES OF THE BORROWERS. The Borrowers hereby represent and warrant as follows:

(a) This Amendment and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of the Borrowers and are enforceable against the Borrowers in accordance with their terms.

(b) Upon the effectiveness of this Amendment, the Borrowers hereby reaffirm all representations and warranties made in the Loan Agreement, and to the extent the same are not amended hereby, agree that all such representations and warranties shall be deemed to have been remade as of the date of delivery of

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this Amendment, unless and to the extent that any such representation and warranty is stated to relate solely to an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date.

(c) As of the date hereof, and after giving effect to this Amendment, each Borrower shall be in compliance with all the terms and provisions set forth in the Loan Agreement, as amended hereby, on its part to be observed or performed, and no Event of Default or Default shall have occurred and be continuing.

4. REFERENCE TO AND EFFECT ON THE LOAN AGREEMENT.

(a) Upon the effectiveness of Section 1 hereof, on and after the date hereof, each reference in the Loan Agreement to "this Loan Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby, and each reference to the Loan Agreement in any other document, instrument or agreement shall mean and be a reference to the Loan Agreement as modified hereby.

(b) The Loan Agreement, as amended hereby, and all other documents, instruments and agreements executed and/or delivered in connection therewith,

shall remain in full force and effect, and are hereby ratified and confirmed.

(c) Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agents or the Lenders, nor constitute a waiver of any provision of the Loan Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

5. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE OTHER REMAINING TERMS OF THE LOAN AGREEMENT AND THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAW PROVISIONS) OF THE STATE OF NEW YORK.

6. PARAGRAPH HEADINGS. The paragraph headings contained in this Amendment are and shall be without substance, meaning or content of any kind whatsoever and are not a part of the agreement among the parties thereto.

7. COUNTERPARTS. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

THE BORROWERS:

KMC TELECOM INC.

KMC TELECOM II, INC.

KMC TELECOM OF VIRGINIA, INC.

In each case:

By: /s/

Name: James D. Grenfell
Title: CFO

KMC TELECOM LEASING I LLC

By: KMC TELECOM INC., as its Sole Member

By: /s/

Name: James D. Grenfell
Title: CFO

KMC TELECOM LEASING I LLC

By: KMC TELECOM II, INC., as its Sole Member

By: /s/

Name: James D. Grenfell
Title: CFO

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FIRST UNION NATIONAL BANK, as the
Agent and as a Lender

By: /s/

Name: Elizabeth Elmore
Title: Senior Vice President

NEWCOURT COMMERCIAL FINANCE CORPORATION
(f/k/a AT&T COMMERCIAL FINANCE
CORPORATION), an affiliate of The CIT
Group, Inc., as the Collateral Agent and
as a Lender

By: /s/

Name: Michael Monahan
Title: Vice President

CANADIAN IMPERIAL BANK OF
COMMERCE, as a Lender

By: /s/

Name: Tefta Chilaga
Title: Executive Director, CIBC World
Markets Corp. As Agent

GENERAL ELECTRIC CAPITAL
CORPORATION, as a Lender

By: /s/

Name: Mark F. Mylon
Title: Manager-Operations

BANKBOSTON, N.A., as a Lender

By: /s/

Name: Michael A. Ashton
Title: Vice President

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CREDIT SUISSE FIRST BOSTON, as a
Lender

By: /s/

Name: Jeffery Ulmer
Title: Vice President

By: /s/

Name: Douglas E. Maher
Title: Vice President

DRESDNER BANK AG NEW YORK AND
GRAND CAYMAN BRANCHES, as a Lender

By: /s/

Name: John P. Fleseler
Title: Senior Vice President

By: /s/

Name: Constance Loosemore
Title: Assistant Vice President

MORGAN STANLEY SENIOR FUNDING,
INC., as a Lender

By: /s/

Name: T. Morgan Edwards II
Title: Vice President

By: -----

Name:
Title:

MORGAN STANLEY DEAN WITTER
PRIME INCOME TRUST, as a Lender

By: /s/

Name: Shelia Finnely
Title: Senior Vice President

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UNION BANK OF CALIFORNIA, N.A., as a
Lender

By: /s/

Name: Keith M. Wilson
Title: Vice President

KEYPORT LIFE INSURANCE COMPANY,
as a Lender

By: /s/

Name: Brian W. Good
Title: Vice President & Portfolio Manager

STEIN ROE FLOATING RATE LIMITED

LIABILITY COMPANY, as a Lender

By: /s/

Name: Brian W. Good
Title: Vice President
Stein Roe & Farnham Incorporated,
Advisor to the Stein Roe Floating Rate
Limited Liability Company

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REAFFIRMATION OF GUARANTY

Reference is hereby made to (i) that certain Guaranty dated as of December 22, 1998 (as amended, restated, supplemented or otherwise modified from time to time, the "GUARANTY") by KMC Telecom Holdings, Inc., a Delaware corporation (the "GUARANTOR"), in favor of Newcourt Commercial Finance Corporation (formerly known as AT&T Commercial Finance Corporation), an affiliate of The CIT Group, Inc., as collateral agent for the ratable benefit of the "Lenders" (defined below) (in such capacity, the "COLLATERAL AGENT"), (ii) that certain Loan and Security Agreement dated as of December 22, 1998 (as amended, restated, supplemented or otherwise modified from time to time, the "LOAN AGREEMENT") among KMC Telecom, Inc., KMC Telecom II, Inc., KMC Telecom of Virginia, Inc., KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC (each of the foregoing being referred to collectively as the "BORROWERS"), the financial institutions from time to time parties thereto (the "Lenders"), First Union National Bank, as administrative agent for the Lenders (the "Agent"), and the Collateral Agent, and (iii) that certain Amendment No. 4 to Loan and Security Agreement dated as of December 31, 1999 (the "AMENDMENT") among the Borrowers, the Lenders, the Agent and the Collateral Agent.

The Guarantor, by its signature below, without in any way establishing a course of dealing, hereby (i) acknowledges and consents to the execution and delivery of the Amendment by the parties thereto, (ii) agrees that the Amendment shall not limit or diminish the obligations of the Guarantor to guarantee all of the "Obligations" of each Borrower under and as defined in the Loan Agreement and such other amounts as are more specifically described in the Guaranty, (iii) reaffirms all of its obligations under the Guaranty, and (iv) agrees that the Guaranty remains in full force and effect and is hereby ratified and confirmed.

IN WITNESS WHEREOF, this instrument has been executed and delivered as of this 31st day of December, 1999.

KMC TELECOM HOLDINGS, INC.

By: /s/

Name: James D. Grenfell
Title: CFO, Executive Vice President and
Secretary

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EX-10.6

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AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

DATED AS OF FEBRUARY 15, 2000

AMONG

KMC TELECOM INC.,
 KMC TELECOM II, INC.,
 KMC TELECOM III, INC.,
 KMC TELECOM OF VIRGINIA, INC.,
 KMC TELECOM LEASING I LLC,
 KMC TELECOM LEASING II LLC,
 KMC TELECOM LEASING III LLC,
 KMC TELECOM.COM, INC.

AND

KMC III SERVICES LLC
 AS BORROWERS,

THE FINANCIAL INSTITUTIONS FROM TIME TO
 TIME PARTIES HERETO,
 AS LENDERS,

AND

FIRST UNION NATIONAL BANK

AS ADMINISTRATIVE AGENT FOR THE LENDERS

AND

NEWCOURT COMMERCIAL FINANCE CORPORATION,
 AN AFFILIATE OF THE CIT GROUP, INC.,
 AS COLLATERAL AGENT FOR THE LENDERS

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AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT ("AGREEMENT") dated as of February 15, 2000 among KMC TELECOM INC., a Delaware corporation ("KMC"), KMC TELECOM II, INC., a Delaware corporation ("KMC II"), KMC TELECOM III, INC., a Delaware corporation ("KMC III"), KMC TELECOM OF VIRGINIA, INC., a Virginia public service company ("KMC VIRGINIA"), KMC TELECOM LEASING I LLC, a Delaware limited liability company ("LEASING I"), KMC TELECOM LEASING II LLC, a Delaware limited liability company ("LEASING II"), KMC TELECOM LEASING III LLC, a Delaware limited liability company ("LEASING III"), KMC TELECOM.COM, INC., a Delaware corporation ("TELECOM.COM"), KMC III Services LLC, a Delaware limited liability company ("SERVICES"), the Additional Borrowers from time to time parties hereto (KMC, KMC II, KMC Virginia, Leasing I, Leasing II, Leasing III, Telecom.com, Services and any Additional Borrowers being collectively referred to hereinafter as the "BORROWERS" and sometimes individually as a "BORROWER"), the financial institutions signatory hereto from time to time, as "Lenders", FIRST UNION NATIONAL BANK, as administrative agent for the Lenders (in such capacity, the "AGENT") and NEWCOURT COMMERCIAL FINANCE CORPORATION, formerly known as AT&T Commercial Finance Corporation and an affiliate of The CIT Group, Inc., as collateral agent for the Lenders (in such capacity, the "COLLATERAL AGENT").

RECITALS

A. The Borrowers (other than KMC III, Leasing III, Telecom.com and Services), the Lenders, the Agent and the Collateral Agent, are parties to a certain Loan and Security Agreement dated as of December 22, 1998, as amended pursuant to that certain Amendment No. 1 thereto dated as of March 3, 1999, that certain Amendment No. 2 thereto dated as of August 13, 1999, that certain Waiver and Amendment No. 3 thereto dated as of October 29, 1999, and that certain Amendment No. 4 thereto dated as of December 31, 1999 (such Loan and Security Agreement, as so amended being hereinafter referred to as the "EXISTING AGREEMENT"), pursuant to which the Lenders have provided loans to the Borrowers other than KMC III, Leasing III, Telecom.com and Services (the "EXISTING LOANS") and issued letters of credit for the account of the Borrowers other than KMC III, Leasing III, Telecom.com and Services and for which the Borrowers other than KMC III, Leasing III, Telecom.com and Services have incurred Letter of Credit Obligations (the "EXISTING LETTER OF CREDIT OBLIGATIONS").

B. The Borrowers, the Lenders, the Agent and the Collateral Agent have agreed to amend the Existing Agreement in certain respects, to, among other things, increase the Commitment Amount to \$700,000,000 and to add KMC III, Leasing III, Telecom.com and Services as Borrowers and to refinance the obligations of KMC III, Leasing III and Services under that certain Amended and Restated Loan and Security Agreement dated as of December 30, 1999 among KMC III, Leasing III, Services, the financial institutions from time to time parties thereto as lenders, Lucent Technologies Inc., as Agent for said lenders and State Street Bank and Trust Company as Collateral Agent for said Lenders (the "Lucent Loan Agreement") and have agreed to execute this Agreement as an amendment and restatement of the Existing Agreement, in order to incorporate such amendments and the Existing Agreement into a single document.

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C. It is the intent of the parties hereto that the execution and delivery of this Agreement not effectuate a refinancing or novation of the Existing Loans and Existing Letter of Credit Obligations, but rather a modification to the terms governing the repayment of the Existing Loans and Existing Letter of Credit Obligations, which Existing Loans and Existing Letter of Credit Obligations remain outstanding as of the date hereof and remain secured by the Collateral.

ARTICLE I
AMENDMENT AND RESTATEMENT; DEFINITIONS

SECTION 1.01. AMENDMENT AND RESTATEMENT. The Borrowers, the Agent, the Collateral Agent and the Lenders hereby agree that, effective upon the execution and delivery of this Agreement by each such party: (a) the terms and provisions of the Existing Agreement shall be and hereby are amended, superseded and restated in their entirety by the terms and provisions of this Agreement, except that any grant of security by any Borrower pursuant to SECTION 8.01 of the Existing Agreement shall remain effective as of the date any such grant first became effective, and (b) the Existing Loans shall constitute the initial outstanding Loans under this Agreement, the Existing Letter of Credit Obligations shall constitute the initial outstanding Letter of Credit Obligations under this Agreement, and the Existing Loans and Existing Letter of Credit Obligations shall be payable solely in accordance with the terms of this Agreement, the Notes and any Loan Documents delivered pursuant hereto or modified in accordance with the General Reaffirmation. No party hereto shall have any obligations under the Existing Agreement, except to the extent that any obligations thereunder may be restated in this Agreement or the other Loan Documents. The Borrowers, the Agent, the Collateral Agent and the Lenders agree that the execution and delivery of this Agreement shall not effectuate a novation or refinancing of the Existing Loans and Existing Letter of Credit Obligations, but rather a substitution of certain of the terms governing the payment and performance of the Existing Loans and Existing Letter of Credit Obligations.

SECTION 1.02. DEFINITIONS. As used in this Agreement, the following words and terms shall have the meanings specified below:

"ACCESS LINES" shall mean the total number of installed business lines that provide service to a business customer of a Borrower including "resale", "on-net" and "unbundled network element"; PROVIDED, that resale shall constitute no more than twenty-five percent (25%) of the total Access Lines.

"ACCOUNTS" shall mean all present and future rights of any Borrower to payment for goods sold or leased or for services rendered which are not evidenced by instruments or chattel paper, and whether or not they have been earned by performance.

"ADDITIONAL BORROWER" shall mean any Subsidiary of KMC Holdings, KMC, KMC II, KMC III, KMC Virginia, Leasing I, Leasing II, Leasing III, Telecom.com or Services that enters into an accession agreement substantially in the form of EXHIBIT P hereto, is acceptable to the Requisite Lenders, and the outstanding Equity Interests of which are pledged to the Agent pursuant to a pledge agreement substantially in the form of EXHIBIT L attached hereto.

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"ADDITIONAL PURCHASE AGREEMENT" shall mean a purchase agreement between any Borrower and an Additional Vendor relating to the purchase of Telecommunications Equipment on terms and conditions reasonably satisfactory to the Agents, if such purchase agreement contemplates Telecommunications Equipment purchases in excess of \$5,000,000 in any one year or \$15,000,000 in the aggregate, otherwise on the terms and conditions reasonably satisfactory to the Collateral Agent.

"ADDITIONAL VENDOR" shall mean a vendor of Telecommunications Equipment other than Lucent, which Additional Vendor shall be reasonably satisfactory to the Agents if the Additional Purchase Agreement the Additional Vendor is a party to contemplates Telecommunications Equipment purchases in excess of \$5,000,000 in any one year or \$15,000,000 in the aggregate, otherwise on the terms and conditions reasonably satisfactory to the Collateral Agent.

"AFFILIATE" shall mean any Person other than any Lender directly or indirectly controlling, controlled by or under common control with any Borrower and any officer or shareholder of such Person or any Borrower, which shareholder beneficially owns at least ten percent (10%) of the Equity Interests of such Person or any Borrower. For the purposes of this definition, "control"

(including, with correlative meanings, the terms "controlling," "controlled by", and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; PROVIDED, HOWEVER, that beneficial ownership of at least 10% of the Equity Interests of a Person shall be deemed to constitute control; and provided, further, that in no event shall any of the Agents or the Lenders be deemed to be an Affiliate of any Borrower or of KMC Holdings.

"AGED EQUIPMENT" shall mean Telecommunications Equipment, which has been in commercial operation for more than twelve months.

"AGENTS" shall mean collectively, the Agent, the Collateral Agent, the Documentation Agent and the Syndication Agent.

"APPLICABLE MARGIN" shall mean with respect to (i) each Loan bearing interest based upon the Base Rate, the margin determined in accordance with the criteria set forth on SCHEDULE 1.01(A) hereto, and (ii) each Loan bearing interest based upon the LIBO Rate, the margin determined in accordance with the criteria set forth on SCHEDULE 1.01(A) hereto, which margins shall be calculated based upon the financial statements provided pursuant to SECTION 5.06, with any readjustments being effective five Business Days following the Agent's receipt thereof; provided, however, that in the event that the Required Contribution is obtained on or prior to August 31, 2000, each such margin shall be reduced effective as of five (5) Business Days after receipt by Borrowers of the Required Contribution by twenty-five (25) basis points.

"ASSIGNMENT AGREEMENT" shall mean an assignment agreement entered into in connection with an assignment pursuant to SECTION 11.08 hereof substantially in the form of EXHIBIT O hereof.

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"BASE LIBO RATE" shall mean, during any Interest Period, the rate of interest per annum (rounded upward to the nearest whole multiple of 1/16 of 1.0%, if such rate is not such a multiple) equal to the rate of interest notified to the Agent by the Reference Bank at which Dollar deposits in the approximate amount of the Loans to be made or continued as, or converted into, LIBOR Loans for such Interest Period and having a maturity comparable to such Interest Period would be offered by the London lending office of the Reference Bank in the London interbank market at approximately 11:00 a.m. (London time) two (2) Business Days prior to the commencement of such Interest Period.

"BASE RATE" shall mean the higher of (i) a rate per annum equal to the corporate base rate, prime rate or base rate of interest, as applicable, announced by the Reference Bank from time to time, changing when and as such rate changes, it being understood that such rate of interest is not necessarily the lowest or best rate charged by the Reference Bank to its customers, and (ii) the sum of the Federal Funds Effective Rate plus one-half percent (0.50%) per annum.

"BASE RATE LOAN" shall mean a Loan, or portion thereof, during any period in which it bears interest at a rate based upon the Base Rate.

"BASE RATE REVOLVING LOAN" shall mean a Revolving Loan during any period for which it is a Base Rate Loan.

"BASE RATE TERM A LOAN" shall mean any portion of the Term A Loans during any period for which such portion is a Base Rate Loan.

"BASE RATE TERM B LOAN" shall mean any portion of the Term B Loans during any period for which such portion is a Base Rate Loan.

"BASE RATE TERM LOAN" shall mean a Base Rate Term A Loan or a Base Rate Term B Loan.

"BENEFIT PLAN" shall mean a defined benefit plan as defined in Section

3(35) of ERISA (other than a Multiemployer Plan) in respect of which any Borrower or any ERISA Affiliate is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

"BORROWER" shall mean any of KMC, KMC II, KMC III, KMC Virginia, Leasing I, Leasing II, Leasing III, Telecom.com, Services and any Additional Borrower.

"BORROWING BASE" shall mean at any time the sum of the following amounts: (i) the aggregate cost of Telecommunications Equipment financed under this Agreement, minus any reserves established by the Collateral Agent with respect to Aged Equipment, (ii) the cash portion of the purchase price of Permitted Acquisitions, plus fees and expenses in connection with the Permitted Acquisitions; provided, however, that such fees and expenses may only be included in the Borrowing Base with respect to any Permitted Acquisition if the appraisal required by clause (8) of SECTION 6.08 with respect to such Permitted Acquisition indicates that the fair market value of the assets being acquired in

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such Permitted Acquisition equals or exceeds the sum of the purchase price for such assets and such fees and expenses, and (iii) transaction costs incurred in connection with the execution, delivery and performance of the Loan Documents.

"BUSINESS" shall mean with respect to (i) each of KMC, KMC II, KMC III and KMC Virginia, the business of constructing, operating and maintaining the Systems owned by them and all operations related thereto or in support thereof, (ii) each of Leasing I, Leasing II and Leasing III the business of owning and leasing Switch Equipment, (iii) Services, the business of owning software, installation and other soft costs related to the Systems and providing services for the Systems, and (iv) Telecom.com, the business of developing and providing intranet services.

"BUSINESS DAY" shall mean (a) any day not a Saturday, Sunday or legal holiday in the State of New York or New Jersey, on which banks are open for business in New York and New Jersey and (b) with respect to all notices, determinations, fundings and payments in connection with the LIBO Rate or LIBOR Loans, any day that is a Business Day pursuant to CLAUSE (A) above and that is also a day on which trading is carried on by and between banks in the London interbank market.

"CAPITALIZATION" shall mean funded equity capitalization of KMC Holdings.

"CAPITALIZED LEASE OBLIGATIONS" shall mean Debt represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such Debt shall be the capitalized amount of such obligations determined in accordance with GAAP.

"CASH ADVANCE" shall mean any Term B Loan which is not a Credit Advance.

"CHANGE OF CONTROL" shall mean (A) Harold N. Kamine ceases to have senior management responsibilities with respect to the Borrowers or KMC Holdings, (B) KMC Holdings no longer beneficially owns, directly or indirectly, all of the outstanding Equity Interests of each Borrower, (C) a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Exchange Act) becomes the ultimate "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of more than 35% of the total voting power of the Voting Stock of KMC Holdings on a fully diluted basis and such ownership represents a greater percentage of the total voting power of the Voting Stock of KMC Holdings, on a fully diluted basis, than is held by the Existing Stockholders on such date, or (D) individuals who on the Closing Date constitute the Board of Directors (together with any new directors whose election by the Board of Directors or whose nomination by the Board of Directors for election by KMC Holdings' stockholders was approved by a vote of at least a majority of the members of the Board of Directors then in office who either were members of the Board of Directors on the Closing Date or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the

members of the Board of Directors then in office.

"CLEC" shall mean a competitive local exchange carrier.

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"CLOSING DATE" shall mean the date on which this Agreement is executed and delivered by the parties hereto.

"COLLATERAL" shall mean, all property and interests in property now owned or hereafter acquired by any Borrower in or upon which a security interest, lien or mortgage is granted to the Collateral Agent by any Borrower, whether under this Agreement or the other Loan Documents.

"COLLATERAL ASSIGNMENT OF LEASES" shall mean the Collateral Assignment of Leases in the form of EXHIBIT B attached hereto, which was executed and delivered pursuant to the Existing Agreement, together with the addenda thereto to be executed and delivered by KMC III, Leasing III, Telecom.com and Services pursuant to SECTION 4.01 hereof.

"COLLATERAL ASSIGNMENT OF LICENSES" shall mean the Collateral Assignment of Licenses in the form of EXHIBIT C attached hereto, which was executed and delivered pursuant to the Existing Agreement, together with the addenda thereto to be executed and delivered by KMC III, Leasing III, Telecom.com and Services pursuant to SECTION 4.01 hereof.

"COLLECTION ACCOUNTS" AND "COLLECTION AGENT" shall have the meanings given to such terms in SECTION 8.04 hereof.

"COMMITMENT" shall mean Lenders' commitment to lend as set forth in SECTION 2.01 hereof.

"COMMITMENT AMOUNT" shall mean (a) as to any Lender, the aggregate of such Lender's Revolving Loan Commitment Amount, Term Loan A Commitment Amount and Term Loan B Commitment Amount as set forth opposite such Lender's name on ANNEX A to this Agreement or in the most recent Assignment Agreement executed by such Lender and (b) as to all Lenders, the aggregate of all Lenders' Revolving Loan Commitment Amounts, Term Loan A Commitment Amounts and Term Loan B Commitment Amounts, which aggregate commitment shall be Seven Hundred Million Dollars (\$700,000,000) on the Closing Date, as such amount may be adjusted from time to time in accordance with this Agreement

"COMMON STOCK" shall mean with respect to any Person, all Equity Interests of such Person that are generally entitled to (i) vote in the election of directors of such Person or (ii) if such Person is not a corporation, vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management and policies of such Person.

"CONSOLIDATED" or "Consolidated" refers, with respect to any Person, to the consolidation of the accounts of such Person and its Subsidiaries, if any, in accordance with GAAP; PROVIDED, that with respect to KMC Holdings, unless otherwise indicated, its Subsidiaries shall not include any Excluded Subsidiaries.

"CONSOLIDATED DEBT" shall mean, with respect to KMC Holdings on a consolidated basis, at any date, the sum of the following determined on a consolidated basis, without duplication, in accordance with GAAP: (a) all liabilities, obligations and indebtedness for borrowed money, including, but not limited to, obligations evidenced by bonds, debentures, notes or other similar

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instruments of any Borrower or KMC Holdings, (b) all obligations to pay the deferred purchase price of property or services of any Borrower or KMC Holdings (exclusive of rent for real property under leases that would not be capitalized in accordance with GAAP), including, but not limited to, all obligations under

noncompetition agreements, except trade payables arising in the ordinary course of business not more than ninety (90) days past due, (c) all obligations of any Borrower or KMC Holdings as lessee under capital leases (exclusive of the interest component thereof), (d) all Debt of any other Person secured by a Lien on any asset of any such Borrower or KMC Holdings, (e) all guaranty obligations of any Borrower or KMC Holdings, (f) all obligations, contingent or otherwise, of any Borrower or KMC Holdings relative to the face amount of letters of credit, whether or not drawn, and banker's acceptances issued for the account of any Borrower or KMC Holdings, (g) all obligations to redeem, repurchase, exchange, defease or otherwise make payments in respect of capital stock or other securities of any Borrower or KMC Holdings at any time prior to the third annual anniversary of the Term Loan Termination Date, and (h) all termination payments which would be due and payable by any Borrower or KMC Holdings pursuant to any hedging agreement. "Consolidated Debt" shall not include any intercompany Debt between the Borrowers or between any Borrower and KMC Holdings.

"CONTAMINANT" shall mean any pollutant, hazardous substance, toxic substance, hazardous waste, special waste, petroleum or petroleum derived substance or waste, or any constituent of any such substance or waste.

"CONTRIBUTED CAPITAL" shall mean, with respect to the Borrowers, at any date of determination, all contributed capital to such Borrowers including all funded equity and all Qualified Intercompany Loans.

"CONTRIBUTION AGREEMENT" shall mean the Contribution Agreement among the Borrowers (other than KMC III, Leasing III, Telecom.com and Services) substantially in the form of EXHIBIT Q, which was executed and delivered in connection with the Existing Agreement, as amended to add KMC III, Leasing III, Telecom.com and Services as parties thereto pursuant to the General Reaffirmation.

"COUNSEL" shall mean Sidley & Austin or such successor counsel selected by the Collateral Agent.

"CREDIT ADVANCE" shall mean a Term B Loan made to refinance a trade payable owing by any of the Borrowers to Lucent under a Lucent Purchase Agreement.

"CREDIT SUPPORT" shall have the meaning given to such term in SECTION 2.10.

"DEBT" shall mean, with respect to any Person, (i) indebtedness for borrowed money, (ii) obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations which have been incurred in connection with the acquisition of property or services (including, without limitation, obligations to pay the deferred purchase price of property or services), excluding trade payables and accrued expenses incurred in the ordinary course of business, (iv) obligations as lessee under leases which shall have been or

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should be, in accordance with GAAP, recorded as capital or operating leases, (v) all Guarantees of such Person, including without limitation, all debt of any other Person secured by a Lien on property of such Person, (vi) all reimbursement obligations, contingent or otherwise, with respect to letters of credit or banker's acceptances issued for the account of any Borrower, and (vii) all indebtedness, obligations or other liabilities in respect of any Interest Rate Agreement, PROVIDED that Debt shall not include any liability for Federal, state, local or other taxes, and PROVIDED, FURTHER, that the amount outstanding at any time of any Debt issued with original issue discount is the principal amount of such Debt less the remaining unamortized portion of the original issue discount of such Debt at such time as determined in conformity with GAAP, and that with respect to any high-yield Debt, the amount thereof shall not include fees incurred in raising such Debt or overfunded amounts set aside solely to pay interest. Notwithstanding any other provision of the foregoing definition, any trade payable arising from the purchase of goods or materials or for services obtained in the ordinary course of business shall not be deemed to be "Debt" of any Borrower for purposes of this definition. Furthermore, guarantees of (or obligations with respect to letters of credit supporting) Debt otherwise

included in the determination of such amount shall not be included.

"DEFAULT" shall mean any event which but for the passage of time or giving of notice would constitute an Event of Default.

"DOCUMENTATION AGENT" shall mean General Electric Capital Corporation.

"DOLLARS" or "\$" shall mean lawful money of the United States of America.

"EASEMENTS" shall have the meaning given to such term in SECTION 3.20 hereof.

"EBITDA" shall mean, with respect to any Person, for any period, an amount equal to (i) Net Income PLUS (ii) the sum of the following, to the extent deducted in determining Net Income: (A) income and franchise taxes, (B) interest expense, (C) amortization, depreciation and other non-cash charges, MINUS (iii) the sum of interest income plus extraordinary gains, as determined in accordance with GAAP as calculated at the end of such period.

"ELIGIBLE FRONTING ASSIGNEE" shall mean (a) Lucent or any Affiliate of Lucent, (b) any commercial bank or financial institution (including any credit corporation) that either (i) has total assets in excess of \$1,000,000,000 and either (x) has a combined capital and surplus and undivided profits in excess of \$250,000,000 or (y) has long-term indebtedness rated "BBB+" or better by Standard & Poor's Ratings Service or "Baa1" or better by Moody's Investors Services, Inc., or (ii) has an Affiliate that satisfies the criteria described in the foregoing clause (i), or (c) any fund that is regularly engaged in the making, purchasing or investing in loans or securities that is controlled by an institution described in clause (b) above, and in each case, Lucent, as assignor, and such Person described in clause (a), (b) or (c) above, as assignee, complies with the provisions of SECTION 11.08(C) below.

"ENVIRONMENTAL LAWS" shall mean all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidance, orders and consent decrees or other binding determination of any Governmental Authority relating to

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protection of the environment, the handling, disposal or Release of Contaminants and occupational safety and health. Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act, 33 U.S.C. ss. 6901 ET SEQ., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss. 9601 ET SEQ., as amended; the Toxic Substances Control Act, 15 U.S.C. ss. 2601 ET SEQ., as amended; the Clean Water Act, 33 U.S.C. ss. 1251 ET SEQ., as amended; the Clean Air Act, 42 U.S.C. ss. 7401 ET SEQ., as amended; state and federal environmental lien and environmental cleanup programs; the Occupational Safety and Health Act, 29 U.S.C. ss. 651 ET SEQ.; and U.S. Department of Transportation regulations related to the transportation of hazardous materials, each as from time to time hereafter in effect.

"EQUITY AFFILIATE" shall mean, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"EQUITY INTEREST" shall mean, with respect to any Person, any and all shares or other equivalents (however designated) of capital stock, membership units, partnership interests or any other participation right or other interest in the nature of an equity interest in such Person or any option, warrant or other security convertible into any of the foregoing.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA AFFILIATE" shall mean (i) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the IRC) as any Borrower, (ii) any partnership or other trade or business (whether or not incorporated) under common control (within the meaning of Section 414(c) of the IRC) with any Borrower and (iii) any member of the same affiliated service group (within the meaning of Section 414(m) of the IRC) as any Borrower, any corporation described in CLAUSE (i) above or any partnership or trade or business described in CLAUSE (ii) above.

"EUROCURRENCY LIABILITIES" shall have the meaning assigned to that term in Regulation D of the Federal Reserve Board, as in effect from time to time.

"EVENT OF DEFAULT" shall have the meaning given to such term in ARTICLE IX hereof.

"EVENT OF LOSS" shall mean, with respect to any item of Collateral, the actual or constructive loss of such item of Collateral or the use thereof, due to theft, destruction, damage beyond repair or damage from any reason whatsoever which is not reimbursable by insurance, to an extent which makes repair uneconomical, or rendition thereof unfit for normal use, or the condemnation, confiscation or seizure of, or requisition of title to or use of,

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such item of Collateral by any Governmental Authority or any other Person, acting under or deemed to be acting under color of any Governmental Authority.

"EXCESS OPERATING CASH FLOW" shall mean for any fiscal quarter, Net Income of the Borrowers plus non-cash interest expense, depreciation and amortization and any other non-cash items of the Borrowers, minus scheduled principal payments of the Borrowers to Lenders, lease payments and capital expenditures of the Borrowers, plus or minus changes in working capital of the Borrowers, as appropriate.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended from time to time.

"EXCLUDED LETTERS OF CREDIT" shall have the meaning ascribed to such term in SECTION 6.13(viii).

"EXCLUDED SUBSIDIARY" shall mean (a) any Subsidiary of KMC Holdings which is neither a Borrower under this Agreement nor a Person which directly or indirectly beneficially owns Equity Interests in any Borrower, PROVIDED that (i) at the time such other Subsidiary was created or acquired, no Default or Event of Default shall have occurred and be continuing before or after giving effect to the creation or acquisition of such Subsidiary, and (ii) no portion of the Required Contributions, the proceeds of KMC's 12 1/2 % Senior Discount Notes due 2008, the proceeds of KMC's 13 1/2 % Senior Notes due 2009, the proceeds of the Equity Interests of KMC Holdings issued on or prior to the Closing Date or the Revolving Loan Commitment Amount shall have been or shall be used to fund the acquisition or operations of such Subsidiary, and KMC Holdings has external sources of funding (other than the Required Contributions and the Revolving Loan Commitment Amount) to finance the acquisition and operations of such Subsidiary, (b) KMC Telecom Financing, Inc., a Delaware corporation, (c) KMC Financial Services LLC, a Delaware limited liability company, or (d) any other Subsidiary of KMC Holdings which KMC Holdings or any Borrower requests the Lenders to designate as such, and which designation is agreed to by the Required Lenders.

"EXISTING STOCKHOLDERS" shall mean Harold N. Kamine, his Equity Affiliates, Nassau Capital Partners L.P., NAS Partners I L.L.C. or their respective successors, and their Equity Affiliates.

"FCC" shall mean the Federal Communications Commission or any successor commission or agency of the United States of America having jurisdiction over any Borrower or any System.

"FEDERAL FUNDS EFFECTIVE RATE" shall mean, for any period, a fluctuating interest rate per annum equal for each day during such period to (a) the weighted average of the rates on overnight federal funds transactions with

members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or if such day is not a Business Day, for the preceding Business Day) by the Federal Reserve Bank of New York in the Composite Closing Quotations for U.S. Government Securities; or (b) if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:30 a.m. (New York time) for such day on such transactions

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received by the Reference Bank from three federal funds brokers of recognized standing selected by it.

"FEDERAL RESERVE BOARD" shall mean the Board of Governors of the Federal Reserve System or any successor thereto.

"FEE LETTERS" shall mean (i) that certain letter agreement dated September 25, 1998 among the Borrowers, KMC Holdings, the Collateral Agent, Capital Syndications Corporation ("CSC"), General Electric Capital Corporation ("GECC"), GECC Capital Market Groups, Inc. ("GECG"), the Agent, First Union Capital Markets, a Division of Wheat First Securities, Inc. ("FUCM") and Canadian Imperial Bank of Commerce ("CIBC"), (ii) that certain letter agreement dated September 25, 1998 among the Borrowers, KMC Holdings, the Collateral Agent, CSC, GECC, GECG, the Agent and FUCM, (iii) that certain letter agreement dated December 22, 1998 among the Borrowers, KMC Holdings, the Collateral Agent, CSC, GECC, GECG, the Agent, FUCM and CIBC, and (iv) that certain letter agreement dated February 14, 2000 between the Borrowers and Lucent.

"FINANCIALS" shall have the meaning given to such term in SECTION 3.03.

"FIXED CHARGES" shall mean with respect to any period for the Borrowers on a combined basis, the sum of the following amounts calculated at the end of such period with respect to such period without duplication and in accordance with GAAP:

(i) the product of two multiplied by scheduled principal and interest payments with respect to Debt for the six month period then ending, (ii) capital expenditures for the four quarter period then ending, (iii) the product of two multiplied by income tax payments for the six month period then ending, and (iv) the product of two multiplied by cash dividend payments for the six month period then ending.

"FIXED CHARGE COVERAGE RATIO" shall have the meaning assigned to such term in SECTION 7.02(c).

"FRONTING COMMITMENT" shall mean a portion of the Term B Loan Commitment Amount that is assigned by Lucent pursuant to an Assignment Agreement designating the assigned portion of the Term B Loan Commitment Amount as a "Fronting Commitment".

"FUNB" shall mean First Union National Bank, a national banking association.

"GENERAL REAFFIRMATION" shall mean the General Reaffirmation and Modification Agreement in the form of EXHIBIT T hereto.

"GOVERNMENTAL APPROVAL" shall mean, with respect to any Borrower, any license, permit, franchise or certificate of public convenience and necessity issued to any Borrower by the FCC, any PUC or any other Governmental Authority in connection with any System.

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"GOVERNMENTAL AUTHORITY" shall mean any federal, state or local governmental authority or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"GUARANTEE" shall mean any obligation, contingent or otherwise, of any Person guaranteeing any indebtedness of any other Person (the "Primary Obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such indebtedness; (ii) to purchase property, securities or services for the purpose of assuring the owner of such indebtedness of the payment of such indebtedness; or (iii) to maintain working capital, equity capital or other financial statement condition of the Primary Obligor so as to enable the Primary Obligor to pay such indebtedness.

"HOLDINGS III" shall mean KMC Telecom III Holdings, Inc., a Delaware corporation.

"INDENTURES" shall mean (i) that certain Indenture dated as of January 29, 1998 between KMC Holdings, as Issuer and The Chase Manhattan Bank, as Trustee, relating to KMC Holdings' 12 1/2 percent Senior Discount Notes due 2008, together with the First Supplemental Indenture relating thereto dated as of May 24, 1999 and (ii) that certain Indenture dated as of May 24, 1999 between KMC Holdings, as Issuer and The Chase Manhattan Bank, as Trustee, relating to KMC Holdings' 13 1/2 percent Senior Notes due 2009.

"INTELLECTUAL PROPERTY DOCUMENTS" shall mean (i) the Trademark Security Agreement, in the form of EXHIBIT S attached hereto, executed by the Borrowers (other than KMC III, Leasing III, Telecom.com and Services) in favor of the Collateral Agent for the benefit of the Agents and the Lenders, as amended, restated or otherwise modified from time to time and (ii) any other trademark, patent or copyright security agreement executed pursuant to SECTION 5.16 by any Borrower.

"INTEREST EXPENSE" shall mean for any period, the total interest expense (including, without limitation, interest expense attributable to capital leases) determined on a combined basis, without duplication, for the Borrowers in accordance with GAAP.

"INTEREST PERIOD" shall mean, with respect to each LIBOR Loan, the interest period applicable to such LIBOR Loan as set forth in the applicable Notice of Borrowing or Notice of Conversion or Continuation.

"INTEREST RATE AGREEMENT" shall mean for any Person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement designed to protect the party indicated therein against fluctuations in interest rates.

"INVESTMENT" shall mean, as applied to any Person, any direct or indirect purchase or other acquisition by that Person of securities, or of a beneficial interest in securities, of any other Person, and any direct or indirect loan, advance (other than deposits with financial institutions

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available for withdrawal on demand, prepaid expenses, advances to employees, officers and directors and similar items, each made or incurred in the ordinary course of business), or capital contribution by that Person to any other Person, including all Debt of such other Person to that Person, but excluding accounts owed by that other Person in the ordinary course of business. Investments shall exclude (i) extensions of trade credit on commercially reasonable terms in accordance with normal trade practices and (ii) the repurchase of securities of any Person by such Person. The amount of any Investment shall be determined in conformity with GAAP.

"IRC" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder, and any successor statutes or rules and regulations.

"IRS" shall mean the Internal Revenue Service or any successor agency.

"KMC HOLDINGS" shall mean KMC Telecom Holdings, Inc., a Delaware corporation.

"KMC HOLDINGS GUARANTY" shall mean that certain unlimited guaranty of KMC Holdings in the form of EXHIBIT G hereto and executed and delivered by KMC Holdings in connection with the Existing Agreement, as amended by the General Reaffirmation.

"KMC TELECOM.COM" shall mean KMC Telecom.com, a Delaware corporation.

"LENDING OFFICE" shall mean, with respect to a Lender or Agent, any office, branch, subsidiary or affiliate of such Lender or the Agent.

"LETTER OF CREDIT" shall mean a letter of credit issued or caused to be issued for the account of a Borrower or with respect to which Credit Support is provided, in any case pursuant to SECTION 2.10.

"LETTER OF CREDIT OBLIGATIONS" shall mean without duplication, the sum of the aggregate maximum undrawn face amount of all outstanding Letters of Credit and unpaid reimbursement obligations with respect to all Letters of Credit.

"LIBO RATE" shall mean, for any Interest Period with respect to LIBOR Loans comprising part of the same borrowing, the rate of interest per annum equal to the per annum rate of interest displayed on the Dow Jones Market Screen Page 3750, as being the one-month, two-month, three-month or six-month, as applicable, reserve adjusted "London Interbank Offered Rate", provided, however, that if such rate is not displayed or published, then the rate of interest per annum (rounded upward to the nearest whole multiple of 1/16 of 1.0%, if such rate is not such a multiple) determined by the Agent as follows:

$$\text{LIBO Rate} = \frac{\text{BASE LIBO RATE}}{1.00 - \text{LIBOR Reserve Percentage}}$$

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"LIBOR INTEREST PAYMENT DATE" shall mean, with respect to a LIBOR Loan, the last day of each Interest Period applicable to such Loan, and, if such Interest Period has a duration of more than three months, on each day which occurs during such Interest Period every three months from the first day of such Interest Period.

"LIBOR INTEREST RATE DETERMINATION DATE" shall mean each date of calculating the LIBO Rate for purposes of determining the interest rate with respect to an Interest Period. The LIBOR Interest Rate Determination Date for any LIBOR Loan shall be the second Business Day prior to the first day of the related Interest Period for such LIBOR Loan.

"LIBOR LOAN" shall mean a Loan, or portion thereof, during any period in which it bears interest at a rate based upon the LIBO Rate.

"LIBOR RESERVE PERCENTAGE" shall mean for any day for any Interest Period the maximum reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1.0%) in effect on such day (whether or not applicable to any Lender) for United States domestic banks under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency Liabilities having a term comparable to such Interest Period.

"LIBOR REVOLVING LOAN" shall mean a Revolving Loan during any period for which it is a LIBOR Loan.

"LIBOR TERM A LOAN" shall mean any portion of the Term A Loans during any period for which such portion is a LIBOR Loan.

"LIBOR TERM B LOAN" shall mean any portion of the Term B Loans during

any period for which such portion is a LIBOR Loan.

"LIBOR TERM LOAN" shall mean a LIBOR Term A Loan or a LIBOR Term B Loan.

"LIEN" shall mean any mortgage, pledge, deed of trust, assignment, lien, charge, encumbrance or security interest of any kind, or the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement, but excluding easements, rights of way or similar encumbrances on real property which are in the ordinary course and which do not materially affect the value, use and insurability of title of such real property.

"LOAN" shall mean a Revolving Loan or a Term Loan.

"LOAN DOCUMENTS" shall mean this Agreement, the Existing Agreement, each "Loan Document" under and as defined in the Existing Agreement, the Collateral Assignment of Leases, the Collateral Assignment of Licenses, the Mortgages, the Notes, the Pledge Agreements, the KMC Holdings Guaranty, the Intellectual Property Documents, the Fee Letters, all other agreements, instruments and documents, including, without limitation, security agreements, loan agreements, notes, guarantees, mortgages, deeds of trust, subordination agreements, pledges, powers of attorney, consents, assignments, contracts, notices, leases, financing statements, Interest Rate Agreements between any

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Borrower and the Agent, the Collateral Agent, or the Lenders and all other written matter whether heretofore, now, or hereafter executed by or on behalf of any Borrower or any other Person in connection with the transactions contemplated hereby and delivered to the Agent, the Collateral Agent or the Lenders, together with all agreements and documents referred to therein or contemplated thereby; PROVIDED, HOWEVER, that the documents executed in connection with the purchase by Newcourt Communications Finance Corporation (formerly known as AT&T Credit Corporation) or any Lender of Equity Interests in KMC or KMC Holdings shall not constitute Loan Documents.

"LUCENT" shall mean Lucent Technologies Inc.

"LUCENT LOAN AGREEMENT" shall have the meaning given to such term in Recital B.

"LUCENT PURCHASE AGREEMENT" shall mean an agreement between any Borrower and Lucent for the purchase of Telecommunications Equipment, on terms and conditions satisfactory to the Agents.

"MANAGEMENT AGREEMENT" shall mean that certain Management Agreement dated as of December 18, 1998 among KMC Holdings, the Borrowers, KMC Telecom Financing, Inc., a Delaware corporation, and KMC Financial Services, LLC, a Delaware limited liability company, as amended by Amendment Nos. 1, 2 and 3 thereto.

"MATERIAL ADVERSE EFFECT" shall mean, with respect to any Person, a material adverse effect upon the condition (financial or otherwise), operations or properties of such Person, or upon the ability of such Person to perform under the Loan Documents.

"MAXIMUM RATE" shall have the meaning given to such term in SECTION 2.13 hereof.

"MILESTONE PLAN" shall mean the 39-city Milestone Plan of the Borrowers attached as EXHIBIT A hereto, as such Milestone Plan may be amended from time to time with the prior written consent of the Requisite Lenders.

"MORTGAGES" shall mean mortgages or deeds of trust in favor of the Collateral Agent, with respect to any Borrower's (i) owned Real Property and (ii) other interests in those items of real property and Easements, as specified by the Collateral Agent, which mortgages and deeds of trust shall be in form and substance satisfactory to the Collateral Agent.

"MULTIEMPLOYER PLAN" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is, or within the immediately preceding six (6) years was, contributed to by any Borrower or an ERISA Affiliate.

"NET INCOME" shall mean, with respect to any Person for any period, the net income (loss) of such Person determined in accordance with GAAP.

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"NOTE" shall mean any Revolving Loan Note, any Term A Loan Note or any Term B Loan Note.

"NOTICE OF BORROWING" shall mean a notice substantially in the form of EXHIBIT H-1 attached hereto.

"NOTICE OF CONVERSION/CONTINUATION" shall have the meaning given to such term in SECTION 2.06(b).

"OBLIGATIONS" shall mean all the obligations of any Borrower now or hereafter existing under this Agreement or any other Loan Document to which any Borrower is a party, whether for principal, interest, fees, expenses, reimbursement, indemnification or otherwise. Obligations shall include, without limitation, all interest, charges, expenses, fees, attorneys' fees and disbursements, and paralegals' fees which accrue after the commencement of any case or proceeding in bankruptcy after the insolvency of, or for the reorganization of any Borrower, whether or not allowed in such proceeding, and Obligations shall not include any reimbursement obligations with respect to Excluded Letters of Credit.

"PAYMENT ACCOUNT" shall mean the Agent's account at First Union National Bank, ABA No. 053000219, Account # 5000000016905, KMC reference: Payment Account.

"PAYMENT DATE" shall mean the first day of January, April, July and October in each calendar year, but if any such date is not a Business Day, the next succeeding Business Day, commencing April 3, 2000.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"PERIODIC REPORTING CERTIFICATE" shall mean a periodic reporting certificate in the form of EXHIBIT F attached hereto.

"PERMITTED ACQUISITION" shall have the meaning set forth in SECTION 6.08 hereof.

"PERMITTED LIENS" shall have the meaning set forth in SECTION 6.01 hereof.

"PERSON" shall mean any natural person, corporation, division of a corporation, business trust, joint venture, association, company, partnership, unincorporated organization or other legal entity, or a government or any agency or political subdivision thereof.

"PLAN" shall mean any employee benefit plan as defined in Section 3(3) of ERISA (other than a Multiemployer Plan) in respect of which any Borrower or any ERISA Affiliate is, or within the immediately preceding six (6) years was, an "employer" as defined in Section 3(5) of ERISA.

"PLEDGE AGREEMENT" shall mean a pledge agreement substantially in the form of the pledge agreements executed and delivered pursuant to the Existing Agreement, copies of which are attached as EXHIBIT L hereto.

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"PREPAYMENT PREMIUM" shall mean (A) for the Revolving Loans, (i) with

respect to the period commencing on the Closing Date and ending on February 1, 2001, one and one-half percent (1.5%) of the amount prepaid, (ii) with respect to the period commencing thereafter and ending on February 1, 2002, one-half percent (0.5%) of the amount prepaid, and (iii) at all times thereafter, zero percent (0%), and (B) for the Term A Loans and the Term B Loans, (i) with respect to the period commencing on the Closing Date and ending on February 1, 2001, two percent (2.0%) of the amount prepaid, (ii) with respect to the period commencing thereafter and ending on February 1, 2002, one percent (1.0%) of the amount prepaid, and (iii) at all times thereafter, zero percent (0%).

"PRINCIPAL PAYMENTS" shall mean, for any period, total required Debt amortization (including, without limitation, the principal payments attributable to capital leases) determined on a combined basis, without duplication, for the Borrowers in accordance with GAAP.

"PRO RATA SHARE" shall mean with respect to all matters relating to any Lender (a) with respect to the Revolving Loans and the Letters of Credit, the percentage obtained by dividing (1) at any time on or prior to the Revolving Credit Commitment Termination Date, the Revolving Loan Commitment Amount of such Lender by the aggregate Revolving Loan Commitment Amount of all Lenders, and (2) at any time after the Revolving Credit Commitment Termination Date, the aggregate outstanding principal balance of the sum of the Revolving Loans held by that Lender plus the Letters of Credit Obligations incurred by such Lender by the sum of the aggregate outstanding principal balance of the Revolving Loans held by all Lenders plus the aggregate Letter of Credit Obligations incurred by all the Lenders, (b) with respect to the Term A Loans, the percentage obtained by dividing the aggregate outstanding principal balance of the Term A Loans held by that Lender, by the aggregate outstanding principal balance of the Term A Loans held by all Lenders, and (c) with respect to the Term B Loans, the percentage obtained by dividing (1) at any time on or prior to the Term B Loan Commitment Termination Date, the Term B Loan Commitment Amount of that Lender by the Term B Loan Commitment Amount of all Lenders, and (2) at any time after the Term B Loan Commitment Termination Date, the aggregate outstanding principal balance of the Term B Loans held by that Lender, by the aggregate outstanding principal balance of the Term B Loans held by all Lenders.

"PUC" shall mean any state Governmental Authority having utility or telecommunications regulatory authority over any Borrower or any System.

"PURCHASE DEBT" shall have the meaning given to such term in SECTION 6.13(iv).

"QUALIFIED INTERCOMPANY LOAN" shall mean a loan to a Borrower from KMC Holdings, which loan is expressly subordinated to the Obligations on terms and conditions satisfactory to the Agents, has a maturity date occurring on or after the third annual anniversary of the Term Loan Termination Date, and requires no cash payment of principal or interest prior to the scheduled maturity date of such loan.

"REAL PROPERTY" shall have the meaning given to such term in SECTION 3.20 hereof.

"REFERENCE BANK" shall mean First Union National Bank.

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"REGISTER" shall have the meaning given to such term in SECTION 11.08(C)(iii).

"RELEASE" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the environment or into or out of any property, including the movement of Contaminants through or in the air, soil, surface water, groundwater or property.

"REMEDIAL ACTION" shall mean actions required to (1) clean up, remove, treat or in any other way address Contaminants in the environment; (2) prevent the Release or threat of Release or prevent or minimize the further Release of Contaminants so they do not migrate or endanger or threaten to endanger public

health or welfare or the environment; or (3) perform preremedial studies and investigations and postremedial monitoring and care.

"REPORTABLE EVENT" shall mean any reportable event as defined in Section 4043 of ERISA unless the reporting requirement with respect to such reportable event has been waived by the PBGC or other appropriate Governmental Authority.

"REQUIRED CONTRIBUTION" shall mean cash capital contributions to the Borrowers from KMC Holdings in such amount as is necessary to fully fund the Milestone Plan, but in any event at least \$185,000,000.

"REQUISITE LENDERS" shall mean (1) as long as one Lender holds thirty-three and one-third percent (33 1/3%) or more of the Term B Loan Commitment Amounts, Lenders who collectively hold at least seventy five percent (75%) of the sum of the following amounts: (i) the Aggregate Revolving Loan Commitment Amounts until such commitments expire or terminate, and thereafter, the aggregate outstanding balance of the Revolving Loans; (ii) the aggregate outstanding balance of the Term A Loans; and (iii) the aggregate Term B Loan Commitment Amounts until such commitments expire, terminate or are fully drawn upon, and thereafter, the aggregate outstanding balance of the Term B Loans; and (2) thereafter, Lenders who hold at least sixty-six and two-thirds percent (66 2/3%) of the sum of the amounts listed above.

"REQUISITE REVOLVING LENDERS" shall mean (a) Lenders having at least sixty-six and two-thirds percent (66 2/3%) of the aggregate Revolving Loan Commitment Amount of all Lenders, or (b) if the Revolving Loan Commitment has been terminated, at least sixty-six and two-thirds percent (66 2/3%) of the aggregate outstanding amount of the sum of all Revolving Loans plus Letter of Credit Obligations incurred by all the Lenders.

"REVOLVING CREDIT COMMITMENT TERMINATION DATE" shall mean April 1, 2007.

"REVOLVING LENDERS" shall mean, as of any date of determination on or prior to the Revolving Credit Commitment Termination Date, Lenders having a Revolving Loan Commitment Amount, and thereafter Lenders having outstanding Revolving Loans or Letter of Credit Obligations.

"REVOLVING LOAN" shall mean any loan made to the Borrower pursuant to the provisions of SECTION 2.01(b) below.

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"REVOLVING LOAN COMMITMENT AMOUNT" shall mean (a) as to any Revolving Lender, the aggregate commitment of such Revolving Lender to make Revolving Loans and/or incur Letter of Credit Obligations as set forth opposite such Revolving Lender's name on ANNEX A to this Agreement or in the most recent Assignment Agreement executed by such Revolving Lender and (b) as to all Revolving Lenders, the aggregate commitment of all Revolving Lenders to make Revolving Loans and/or incur Letter of Credit Obligations, which aggregate commitment shall be One Hundred Seventy-Five Million Dollars (\$175,000,000) on the Closing Date, as such amount may be adjusted from time to time in accordance with this Agreement.

"REVOLVING LOAN NOTE" shall mean a promissory note of the Borrower delivered under the Existing Agreement and substantially in the form of EXHIBIT E-1 attached hereto.

"SOLVENT" shall mean, at any time of determination, with respect to any Person:

(i) the assets of such Person, at a fair valuation, are in excess of the total amount of its debts (including, without limitation, contingent liabilities); and

(ii) the present fair saleable value of its assets is greater than its probable liability on its existing debts as such debts become absolute and

matured; and

(iii) it is then able and expects to be able to pay its debts (including, without limitation, contingent debts and other commitments) as they mature; and

(iv) it has capital sufficient to carry on its business as conducted.

For purposes of determining whether a Person is Solvent, the amount of any contingent liability shall be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or mature liability.

"SUBSIDIARY" shall mean, with respect to any Person, any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organized or acquired, (i) in the case of a corporation, of which more than 50% of the total voting power of the Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of directors, officers or trustees thereof is held by such Person or any of its Subsidiaries; or (ii) in the case of a partnership, joint venture, association or other business entity, with respect to which such Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise or if in accordance with GAAP such entity is consolidated with the such Person for financial statement purposes.

"SUPPORTING LETTER OF CREDIT" shall have the meaning given to such in SECTION 2.10(j).

"SWITCH EQUIPMENT" shall mean any Lucent 5-ESS telecommunications switch or other telecommunications/data switch for the provision of CLEC telephony service, data transport, internet access and other related services.

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"SYNDICATION AGENT" shall mean Canadian Imperial Bank of Commerce.

"SYSTEM" shall mean each telephone, telecommunications or information system (including, without limitation, any voice, video transmission, data or Internet services) and any related, ancillary or complementary services, as described in the Milestone Plan, and all replacements, enhancements or additions thereto.

"TAX SHARING AGREEMENT" shall mean that certain Tax Allocation Agreement dated as of December 18, 1998 among KMC Holdings, the Borrowers, KMC Telecom Financing, Inc., a Delaware corporation, and KMC Financial Services, LLC, a Delaware limited liability company, as amended by Amendment Nos. 1, 2 and 3 thereto.

"TAXES" shall mean any and all license, documentation, recording and registration fees, and all taxes, including, without limitation, income (other than net income taxes, franchise taxes and capital taxes imposed on the Lenders, the Agent or the Collateral Agent other than by withholding), gross receipts, sales, value-added, use, excise, personal property (tangible and intangible), real estate and stamp, documentary, transfer or recording taxes, levies, imposts, deductions, duties, assessments, fees, charges, and withholdings of any nature whatsoever, whether or not presently in existence, together with any penalties, fines, additions to tax, or interest thereon, imposed by any taxing authority or other Governmental Authority.

"TELECOMMUNICATIONS EQUIPMENT" shall mean fiber optic cable, Switch Equipment, transmission equipment and other ancillary hardware necessary for the installation and operation of a switch room or central office and co-location with other telecommunications providers that will enable a Borrower to offer CLEC telephony, data transport, internet access and other related state-of-the-art telecommunications services, as well as all software associated with the network operating center and back office systems (including, without limitation, billing systems, operations systems and support, customer service and data services) and other related software and hardware products integral to

developing and operating viable CLEC telephony, data transport, internet access and related state of the art telecommunications businesses, together with all related support, construction and installation costs associated with an operational system, provided that such costs are capitalized in accordance with GAAP.

"TERM A LENDERS" shall mean those Lenders who have made Term A Loans.

"TERM A LOAN" shall mean any loan made to the Borrowers pursuant to SECTION 2.01(a) of the Existing Agreement and which under the Existing Agreement was characterized as a "Term Loan".

"TERM A LOAN COMMITMENT AMOUNT" shall mean (a) as to any Term A Lender, the commitment of such Term A Lender to make a Term A Loan under the Existing Agreement, which commitment has been fully drawn upon, as set forth opposite such Term A Lender's name on Annex A to this Agreement and (b) as to all Term A Lenders, the aggregate commitment of all Term A Lenders to make Term A Loans under the Existing Agreement, which commitment has been fully drawn upon.

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"TERM A LOAN NOTE" shall mean a promissory note of a Borrower delivered under the Existing Agreement and substantially in the form of EXHIBIT E-2 attached hereto.

"TERM A LOAN TERMINATION DATE" shall mean July 1, 2007.

"TERM B LENDERS" shall mean those Lenders having Term B Loan Commitment Amounts or who have made Term B Loans.

"TERM B LOAN" shall mean any loan made to the Borrowers pursuant to SECTION 2.01(a) below.

"TERM B LOAN COMMITMENT AMOUNT" shall mean (a) as to any Term B Lender, the commitment of such Term B Lender to make Term B Loans as set forth opposite such Term B Lender's name on ANNEX A to this Agreement or in the most recent Assignment Agreement executed by such Term B Lender and (b) as to all Term B Lenders, the aggregate commitment of all Term B Lenders to make Term B Loans, which aggregate commitment shall be Four Hundred Fifty Million Dollars (\$450,000,000) on the Closing Date; PROVIDED, HOWEVER, that until such time as both the Required Contribution has been made and the ratio of Total Debt to Contributed Capital becomes equal to or less than 1.0 to 1.0, the aggregate commitment of all Term B Lenders to make Term B Loans shall not exceed Three Hundred Fifty Million Dollars (\$350,000,000) and the commitment of each Term B Lender shall be proportionately reduced from the amount set forth opposite such Term B Lender's name on ANNEX A to this Agreement or in the most recent Assignment Agreement executed by such Term B Lender.

"TERM B LOAN COMMITMENT TERMINATION DATE" shall mean the second annual anniversary of the Closing Date.

"TERM B LOAN NOTE" shall mean a promissory note of a Borrower substantially in the form of EXHIBIT E-3 attached hereto.

"TERM B LOAN TERMINATION DATE" shall mean July 1, 2007.

"TERM LOAN" shall mean a Term A Loan or a Term B Loan.

"TERMINATION EVENT" shall mean (i) a Reportable Event with respect to a Benefit Plan; (ii) the withdrawal of any Borrower or any ERISA Affiliate from a Benefit Plan during a plan year in which any Borrower or such ERISA Affiliate was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (iii) the imposition of an obligation on any Borrower or any ERISA Affiliate under Section 4041 of ERISA to provide affected parties written notice of intent to terminate a Benefit Plan in a distress termination described in Section 4041(c) of ERISA; (iv) the institution by the PBGC of proceedings to

terminate a Benefit Plan; (v) any event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment

manipulates, sorts, sequences, calculates, compares or outputs calendar-related data accurately; such systems and components shall include, without limitation, mainframe computers, file server/client system, computer workstations, routers, hubs, other network-related hardware, and other computer-related software, firmware or hardware and information processing and delivery systems of any kind and telecommunications systems and other communications processors, security systems, alarms, elevators and HVAC systems.

"YEAR 2000 IMPLEMENTATION TESTING" shall mean, as to each Borrower, (i) the performance of test and validation procedures regarding Year 2000 Corrective Actions on a unit basis and a system wide basis, (ii) the performance of test and validation procedures regarding data exchanges among the Borrowers' Year 2000 Date-Sensitive Systems/Components and data exchanges with Third Party Interactives, and (iii) the design and implementation of additional Corrective Actions, the need for which has been demonstrated by test and validation procedures.

"YEAR 2000 PROBLEMS" shall mean, with respect to each Borrower, limitations on the capacity or readiness of any such Borrower's Year 2000 Date-Sensitive Systems/Components to accurately accept, create, manipulate, sort, sequence, calculate, compare or output calendar date information with respect to calendar year 1999 or any subsequent calendar year beginning on or after January 1, 2000 (including leap year computations), including, without limitation, exchanges of information among Year 2000 Date-Sensitive Systems/Components of the Borrowers and exchanges of information among the Borrowers and Year 2000 Date-Sensitive Systems/Components of Third Party Interactives and functionality of peripheral interfaces, firmware and embedded microchips.

SECTION 1.03. ACCOUNTING TERMS. Except as otherwise herein specifically provided, each accounting term used herein shall have the meaning given to it under generally accepted accounting principles ("GAAP") applied on a consistent basis.

SECTION 1.04. OTHERS DEFINED IN NEW YORK UNIFORM COMMERCIAL CODE. All other terms contained in this Agreement (and which are not otherwise specifically defined herein) shall have the meanings provided by the Uniform Commercial Code of the State of New York (the "CODE") to the extent the same are used or defined therein.

ARTICLE II LOANS AND LETTERS OF CREDIT

SECTION 2.01. AGREEMENT TO LEND. (a) Each Term B Lender severally agrees, on the terms and conditions hereinafter set forth, to make on and after the Closing Date and until but not including the Term B Loan Commitment

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Termination Date, one or more Term B Loans to the Borrowers in an amount not to exceed the Term B Loan Commitment Amount of such Term B Lender.

(b) Each Revolving Lender severally agrees, on the terms and conditions hereinafter set forth, to make on and after the Closing Date and until but not including the Revolving Credit Commitment Termination Date, one or more Revolving Loans to the Borrowers in an amount not to exceed when combined with Revolving Loans that were made under the Existing Agreement and remain outstanding, the Revolving Loan Commitment Amount of such Revolving Lender less such Lender's Pro Rata Share of the Letter of Credit Obligations.

(c) Term A Loans have been made to the Borrowers in the aggregate amount of \$75,000,000 under the Existing Agreement and constitute the "Term Loans" as defined in the Existing Agreement. No additional Term A Loans shall be made to the Borrowers.

(d) At any time that the Total Leverage Ratio is greater than 6:1 as determined by reference to the financial statements delivered pursuant to SECTION 5.06, the maximum amount of Revolving Loans that may be borrowed from all Revolving Lenders shall not exceed the Borrowing Base.

of a trustee to administer, any Benefit Plan; or (vi) the partial or complete withdrawal of any Borrower or any ERISA Affiliate from a Multiemployer Plan.

"THIRD PARTY INTERACTIVES" shall mean all Persons with whom any Borrower exchanges data electronically in the ordinary course of business,

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including without limitation, customers, suppliers, third-party vendors, subcontractors, processors-converters, shippers and warehousemen.

"TOTAL DEBT" shall mean, with respect to the Borrowers, at any date, the sum of the following determined on a combined basis, without duplication: (a) all liabilities, obligations and indebtedness for borrowed money, including, but not limited to, obligations evidenced by bonds, debentures, notes or other similar instruments, (b) all obligations to pay the deferred purchase price of property or services (exclusive of any rent for real property pursuant to a lease that would not be capitalized in accordance with GAAP), including, but not limited to, all obligations under non-competition agreements, except trade payables arising in the ordinary course of business not more than ninety (90) days past due, (c) all obligations as lessee under capital leases (exclusive of the interest component thereof), (d) all Debt of any other Person secured by a Lien on any asset of any Borrower, (e) all guaranty obligations, (f) all obligations, contingent or otherwise, relative to the face amount of letters of credit, whether or not drawn and banker's acceptances issued for the account of any Borrower, (g) all obligations to redeem, repurchase, exchange, defease or otherwise make payments in respect of capital stock or other securities at any time prior to the third annual anniversary of the Term A Loan Termination Date, and (h) all termination payments which would be due and payable by any Borrower thereof pursuant to any Interest Rate Agreement or hedging agreement. "Total Debt" shall not include any intercompany Debt between the Borrowers or between any Borrower and KMC Holdings.

"TOTAL LEVERAGE RATIO" shall mean the ratio of (i) Total Debt as of the last day of the most recently ended fiscal quarter, to (ii) the product of (A) two multiplied by (B) EBITDA of the Borrowers on a combined basis, for the most recently ended two fiscal quarters.

"UNUSED LETTER OF CREDIT SUBFACILITY" shall mean an amount equal to the lesser of (i) \$10,000,000 minus the Letter of Credit Obligations, and (ii) the undrawn portion of the Revolving Loan Commitment Amount of all Lenders.

"VOTING STOCK" shall mean securities of any class or classes of a corporation, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

"YEAR 2000 CORRECTIVE ACTIONS" shall mean, as to each Borrower, all actions necessary to eliminate such Person's Year 2000 Problems, including, without limitation, computer code enhancements and revisions, upgrades and replacements of Year 2000 Date-Sensitive Systems/Components, and coordination of such enhancements, revisions, upgrades and replacements with Third Party Interactives.

"YEAR 2000 CORRECTIVE PLAN" shall mean, with respect to each Borrower, a comprehensive plan to eliminate all of its Year 2000 Problems, including without limitations (i) computer code enhancements or revisions, (ii) upgrades or replacements of Year 2000 Date-Sensitive Systems/Components, (iii) test and validation procedures, (iv) an implementation time line and budget and (v) designation of specific employees who will be responsible for planning, coordinating and implementing each phase or subpart of the Year 2000 Corrective Plan.

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"YEAR 2000 DATE-SENSITIVE SYSTEM/COMPONENT" shall mean, as to any Person, any system software, network software, applications software, database, computer file, embedded microchip, firmware or hardware that accepts, creates,

(d) Term Loans which are repaid or prepaid may not be reborrowed. Revolving Loans which are repaid or prepaid may be reborrowed.

SECTION 2.02. LOANS. (a) The proceeds of the Revolving Loans shall be used by the Borrowers to purchase Telecommunications Equipment, to pay transaction costs incurred in connection with the execution, delivery and performance of the Loan Documents, for financing Permitted Acquisitions and for working capital and other general corporate purposes, all as specified in the Notice of Borrowing and in accordance with the Milestone Plan; provided, however, that at any time that the Total Leverage Ratio is greater than 6:1 as determined by reference to the financial statements delivered pursuant to SECTION 5.06, proceeds of Revolving Loans may be used only to pay transaction costs incurred in connection with the execution and delivery of the Loan Documents, to purchase Telecommunications Equipment, and to finance Permitted Acquisitions. Subject to the provisions of SECTION 2.02(d), the proceeds of the Term B Loans shall be used by the Borrowers to (i) purchase Telecommunications Equipment pursuant to the Lucent Purchase Agreement, (ii) to purchase non-Lucent Telecommunications Equipment (such Term B Loans not to exceed an aggregate amount of \$45,000,000), and (iii) to refinance the obligations of KMC III, Leasing III and Services under the Lucent Loan Agreement. Loans with respect to Telecommunications Equipment purchases may not be made to finance (i) soft costs (including installation, delivery and engineering costs) in excess of fifteen percent (15%) of the invoiced price for the related Switch Equipment or (ii) any support or installation costs associated with an operational system that would not be capitalized in accordance with GAAP.

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(b) Each Base Rate Loan shall be in a minimum principal amount of \$1,000,000 and increments of \$250,000 in excess thereof. Each LIBOR Loan shall be in a minimum principal amount of \$5,000,000 and increments of \$1,000,000 in excess thereof.

(c) In any calendar month not more than six (6) Revolving Loans may be requested, and no more than one Term B Loan may be requested.

(d) The proceeds of any Term B Loan consisting of a Cash Advance shall be used exclusively to finance or reimburse invoices for Telecommunications Equipment purchased from Lucent by KMC, KMC II or KMC III during the period commencing on the date that is twelve months prior to the Closing Date and ending on the Term B Loan Termination Date; provided, that (i) the maximum principal amount of any Term B Loan consisting of a Cash Advance shall not exceed \$100,000,000, (ii) the principal amount of all Term B Loans consisting of Cash Advances to reimburse invoices for Telecommunications Equipment purchased from Lucent during the twelve month period prior to the Closing Date ("Pre-Closing Invoices") shall not exceed \$200,000,000 in the aggregate and (iii) the Borrowers may not use the proceeds of any Term B Loan consisting of a Cash Advance to reimburse Pre-Closing Invoices after the second anniversary of the Closing Date.

SECTION 2.03. PROCEDURE FOR LOAN REQUEST AND BORROWING COMMITMENT.

(a) A Borrower requesting a Loan shall deliver to each of the Agent and the Collateral Agent a Notice of Borrowing substantially in the form of EXHIBIT H-1 attached hereto on or before 11:00 a.m. (New York time) at least five (5) Business Days prior to the date on which such Loan is requested to be made if such Loan is requested to be a LIBOR Loan and at least two (2) Business Days prior to the date on which such Loan is requested to be made if such Loan is requested to be a Base Rate Loan, which notice, once given, shall be irrevocable; provided, however, that (i) only the Collateral Agent shall receive the attachments to the Notice of Borrowing, as outlined below, (ii) if the requested Loan is a Term B Loan consisting of a Cash Advance in excess of \$50,000,000, the Notice of Borrowing shall be delivered as least seven (7) Business Days prior to the date on which such Loan is requested to be made, and (iii) the applicable Borrower(s) shall provide to Lucent simultaneously with the provision of the Notice of Borrowing to the Agent and the Collateral Agent a list of the invoices (including dollar amounts) to be financed or reimbursed with the proceeds of the requested Term B Loan. In the case of a Loan the

proceeds of which will be used to purchase or reimburse any Borrower for Telecommunications Equipment (including any Telecommunications Equipment being purchased or reimbursed under the Lucent Purchase Agreement), the Notice of Borrowing delivered to the Collateral Agent will include a schedule supporting one hundred percent (100%) of Telecommunications Equipment requested to be funded. Such schedule will detail all invoices for equipment, third party labor, permits, other third party costs and all capitalized internal costs of the Borrowers with respect to such Telecommunications Equipment permitted under GAAP. All invoices over \$25,000 will be attached to such schedule delivered to the Collateral Agent who shall review such invoices and verify that, when combined with the above described capitalized internal costs, such invoices will support at least seventy percent (70%) of the total requested funding. In addition, if the Telecommunications Equipment is being purchased or reimbursed under the Lucent Purchase Agreement, a certificate of delivery and acceptance in the form of EXHIBIT R shall be attached to the Notice of Borrowing delivered to the Collateral Agent. In the case of a Loan the proceeds of which will be used

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to pay or reimburse any Borrower for transaction costs, the Notice of Borrowing delivered to the Collateral Agent will include a copy of the invoice from the provider of the service or other appropriate supporting documentation. In the case of a Loan, the proceeds of which will be used for working capital or other general corporate purposes, the Notice of Borrowing delivered to the Collateral Agent will contain a certification that the making of such Loan does not violate any provision of either Indenture or the terms of the preferred Equity Interests of KMC Holdings. The Notice of Borrowing shall, with respect to any Loans requested, specify whether such requested Loans are to be Base Rate Loans or LIBOR Loans, and if such requested Loans are to be LIBOR Loans, the requested Interest Period for such Loans.

(b) The Agent agrees, promptly upon (i) receipt of a Notice of Borrowing and (ii) acknowledgment by the Collateral Agent that the Borrowers have delivered and the Collateral Agent has reviewed to its satisfaction (x) each of the invoices or certificates required to be provided to the Collateral Agent pursuant to SECTION 2.03(A) above and (y) each of the collateral documents, including, without limitation, all third party agreements and the related consents to collateral assignments required pursuant to SECTION 5.08 of the Loan Agreement, as requested by the Collateral Agent, to notify each Revolving or Term B Lender of the date and amount of the Loan proposed thereunder and the amount of such Lender's Pro Rata Share therein. So long as no Event of Default has occurred and is continuing and upon fulfillment of the applicable conditions set forth in ARTICLE IV, each such Lender severally agrees, on or before 12:00 P.M. (New York time) on the date of each proposed Loan, to pay into the Payment Account, an amount equal to such Lender's Pro Rata Share of such Loan in dollars and in same day funds; PROVIDED, that if a Fronting Commitment is assigned by Lucent to an Eligible Fronting Assignee, then, until Notice(s) of Borrowing are provided by the Borrowers to fully draw upon such Fronting Commitment, (i) Lucent shall not be required to make any additional Term B Loans and (ii) the amount of the Term B Loan to be made by the assignee of such Fronting Commitment pursuant to each Notice of Borrowing shall equal the amount of the Term B Loan that would have been made by such assignee pursuant to such Notice of Borrowing without giving effect to such assignment plus either (A) the amount of the Term B Loan that would have been made by Lucent pursuant to such Notice of Borrowing without giving effect to such assignment or, if less, (B) the remaining amount of such Fronting Commitment; PROVIDED FURTHER, however, that with respect to Lucent's Pro Rata Share of any Term B Loan consisting of a Credit Advance, Lucent, in lieu of making a payment into the Payment Account, shall credit the Borrowers on their applicable trade payables to Lucent in an amount equal to such Pro Rata Share. After the Agent's receipt of such Lender's Loan proceeds, the Agent shall make available such proceeds to the Borrower requesting the Loan or the Person entitled to payment thereof at the bank account(s) specified in the Notice of Borrowing on the date specified in such Notice of Borrowing in Dollars in immediately available funds.

(c) Unless the Agent has received written notice from a Lender prior to the date of any proposed Loan that such Lender will not make available to the Agent such Lender's Pro Rata Share of such Loan, the Agent may, but is not obligated to, assume that such Lender has made its Pro Rata Share of such Loan

available to the Agent on the date of such Loan in accordance with PARAGRAPH (b) above, and the Lenders may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If such Pro Rata Share is not,

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in fact, paid to Agent by such Lender when due (other than in the case of Lucent with respect to its Pro Rata Share of a Term B Loan consisting of a Credit Advance), the Agent will be entitled to recover such amount on demand from such Lender or the Borrower which received the proceeds of such Loan without set-off, counterclaim or deduction of any kind, together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent either by such Borrower or such Lender, at, (1) in the case of such Borrower, the interest rate applicable to such Loan, and (2) in the case of such Lender, the Federal Funds Effective Rate. Nothing in this SECTION 2.03(c) or elsewhere in this Agreement or the other Loan Documents shall be deemed to require Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its Commitment hereunder or to prejudice any rights that the Borrower may have against any Lender as a result of any default by such Lender hereunder. Without limiting the foregoing, with respect to any Lender which for any reason fails to make timely payment to the Agent of its Pro Rata Share of any Loan (other than in the case of Lucent with respect to its Pro Rata Share of a Term B Loan consisting of a Credit Advance), the Agent, in addition to other rights and remedies which it may have, shall be entitled to withhold or set off from any payments due to such Lender hereunder, an amount equal to the Pro Rata Share required to have been paid by such Lender plus interest as described above, and to withhold from such Lender any right of consent provided to such Lender by ARTICLE V or VI of this Agreement and to bring an action or suit against such Lender in a court of competent jurisdiction to recover such Pro Rata Share thereof and any related interest thereon. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's applicable Pro Rata Share of such Loan for purposes of this Agreement. If both such Lender and such Borrower shall have repaid the corresponding amount, the Agent shall promptly return to such Borrower its corresponding amount.

(d) The Borrowers commit to the Lenders to request Revolving Loans to be made during calendar year 2001 in an aggregate amount equal to the undrawn portion of the Revolving Loan Commitment Amount.

SECTION 2.04. THE NOTES. Each Borrower has executed and delivered to each Revolving Lender a Revolving Loan Note and to each Term A Lender (characterized as a "Term Lender" under the Existing Agreement) a Term A Loan Note (characterized as a "Term Loan Note" under the Existing Agreement) to evidence the Commitment of that Lender. Each Revolving Loan Note is in the principal amount of the Revolving Loan Commitment Amount of the applicable Lender, dated the "Initial Funding Date" (as defined in the Existing Agreement), shall mature on the Revolving Credit Commitment Termination Date and is substantially in the form of EXHIBIT E-1. Each Term A Loan Note is in the principal amount of the Term A Loan Commitment Amount (characterized as the "Term Loan Commitment Amount" under the Existing Agreement) of the applicable Term A Lender, dated the "Initial Funding Date" (as defined in the Existing Agreement), shall mature on the Term A Loan Termination Date (characterized as the "Term Loan Termination Date" under the Existing Agreement) and is substantially in the form of EXHIBIT E-2. Each Borrower shall execute and deliver to each Term B Lender a Term B Note to evidence the Term B Loan Commitment Amount of that Lender. Each Term B Note shall be in the principal amount of the Term B Loan Commitment Amount, dated the Closing Date, shall mature on the Term B Loan Commitment Termination Date and shall be substantially in the form of EXHIBIT E-3. The Notes payable to a Lender shall represent the

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obligation of such Borrower to pay the amount of each Lender's Revolving Loan Commitment Amount, Term A Loan Commitment Amount or Term B Loan Commitment Amount or, if less, the applicable Lender's Pro Rata Share of the aggregate

unpaid principal amount of all Loans to such Borrower and Letter of Credit Obligations incurred by such Lender together with interest thereon as prescribed in SECTION 2.05. The aggregate principal amount of all the Notes shall not exceed the aggregate Commitments of all the Lenders. The Agent is hereby authorized by such Borrower to record in the Register the date and amount of each Revolving Loan, Term A Loan or Term B Loan made to such Borrower, as applicable, and to record therein the date and amount of each payment on each Loan made to such Borrower, and such recordations shall be conclusive evidence against such Borrower of the amounts owing to the Lenders with respect to the Loans in the absence of manifest error; PROVIDED, HOWEVER, that the failure of the Agent to register any such information on such schedule shall not in any manner affect the obligation of such Borrower to repay the Loans made to such Borrower in accordance with the terms of this Agreement.

SECTION 2.05. INTEREST ON LOANS. (a) GENERAL. Subject to the provisions of SECTIONS 2.05(b), 2.06 and 2.07, each Loan shall bear interest at the rate per annum equal to (i) the Base Rate plus the Applicable Margin, computed on the basis of a 365 or 366 day year, as applicable, and the actual number of days elapsed, or (ii) the LIBO Rate plus the Applicable Margin, computed on the basis of a 360 day year, and the actual number of days elapsed, as selected by the Borrowers in the Notices of Borrowing and the Notices of Continuation/Conversion.

(b) DEFAULT INTEREST. Subject to the third sentence of this Section 2.05(b), if any Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder on its due date and such default shall continue uncured for three days, then the Borrowers shall, on demand, from the Agent, thereafter pay interest on all Loans at a rate that is four percent (4.00%) per annum above the rates of interest otherwise payable on all the Loans from the date such payment is due to the date such payment default is either cured or waived in writing by the Requisite Lenders. Subject to the next sentence, if any other Event of Default shall occur and be continuing and shall be declared by the Agent upon the direction of the Requisite Lenders, then the Borrowers shall, on demand, thereafter pay interest on all the Loans at a rate that is two percent (2.00%) per annum above the rates of interest otherwise payable on the Loans from the date of the occurrence of such Event of Default until the date such Event of Default has been cured or waived in writing by the Requisite Lenders; PROVIDED, that if an Event of Default described in the first sentence of this CLAUSE (b) shall occur at any time that an Event of Default described in this second sentence has occurred and is continuing, then the rate of interest described in the first sentence of this CLAUSE (b) shall apply. In the event that the Borrowers fail to obtain the Required Contribution on or prior to August 31, 2000, then beginning on September 1, 2000 and continuing until such time as the Required Contribution has been obtained, all of the margins set forth on SCHEDULE 1.01(a) shall be automatically increased by 100 basis points, and if any Event of Default occurs while such increased margins are in effect, and the interest rates on the Loans would be subject to increase by four percent (4.00%) per annum or two percent (2.00%) per annum, as described above, then the interest rates on the Loans

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shall instead be increased by three percent (3.00%) per annum rather than four percent (4.00%) per annum or by one percent (1.00%) per annum rather than two percent (2.00%) per annum, as applicable. After the occurrence and during the continuance of any Event of Default, the Borrowers shall be subject to the limitations on borrowings of, conversions into and continuations as LIBOR Loans set forth in SECTION 2.07(g).

SECTION 2.06. CONVERSION OR CONTINUATION. (a) Subject to the provisions of SECTION 2.07, each Borrower shall have the option (i) to convert (A) all or any part of its outstanding Term Loans or (B) all or any part of its outstanding Revolving Loans, in a minimum amount of \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount, from a Term Loan or Revolving Loans that are Base Rate Loans to LIBOR Term Loans or LIBOR Revolving Loans, as the case may be; (ii) to convert (A) all or any part of its outstanding Term Loan or (B) all or any part of its outstanding Revolving Loans from LIBOR Loans to Base Rate Loans on the expiration of the Interest Period applicable thereto;

and (iii) upon the expiration of any Interest Period applicable to its outstanding LIBOR Term Loan or any outstanding LIBOR Revolving Loan, to continue (A) all of such LIBOR Term Loan or (B) all or any portion of such LIBOR Revolving Loan equal to \$5,000,000 and integral multiples of \$1,000,000 in excess of that amount as a LIBOR Term Loan or LIBOR Revolving Loan, as applicable; PROVIDED, HOWEVER, that no outstanding Loans may be converted into, or continued as, LIBOR Loans when any Default or Event of Default has occurred and is continuing. Any conversion or continuation made with respect to less than the entire outstanding balance of a Borrower's Revolving Loans or Term Loans must be applied pro rata to such Borrower's Revolving Loans or Term Loans, as applicable, according to the outstanding principal balance of such Revolving Loans or Term Loans.

(b) Whenever a Borrower elects to convert or continue Loans under this SECTION 2.06, such Borrower shall deliver to the Agent a written notice substantially in the form of that attached hereto as EXHIBIT H-2 (a "NOTICE OF CONVERSION/ CONTINUATION"), signed by an authorized officer of such Borrower (i) no later than 10:00 a.m. (New York time) two (2) Business Days in advance of the requested conversion date, in the case of a conversion into Base Rate Loans, and (ii) no later than 10:00 a.m. (New York time) three (3) Business Days in advance of the requested conversion or continuation date, in the case of a conversion into, or continuation of, LIBOR Loans. The Notice of Conversion/Continuation shall specify (1) the conversion or continuation date (which shall be a Business Day), (2) the amount and type of the Loans to be converted or continued, (3) the nature of the requested conversion or continuation, and (4) in the case of a conversion into, or continuation of, LIBOR Loans, the requested Interest Period. Promptly after receipt of a Notice of Conversion/Continuation pursuant to this SECTION 2.06(b), the Agent shall notify the Revolving Lenders, the Term A Lenders or the Term B Lenders, as applicable, by telecopy, telephone or other similar form of transmission, of the requested conversion or continuation. In the event that a Borrower should fail to provide a Notice of Conversion/Continuation with respect to any LIBOR Loans as provided above, such Loans shall, on the last day of the Interest Period with respect to such Loans, convert to Base Rate Loans.

(c) Any Notice of Conversion/Continuation for conversion to, or continuation of, Loans made pursuant to this SECTION 2.06 shall be irrevocable and the applicable Borrower shall be bound to convert or continue in accordance therewith.

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SECTION 2.07. SPECIAL PROVISIONS GOVERNING LIBOR LOANS. Notwithstanding any other provisions to the contrary contained in this Agreement, the following provisions shall govern with respect to LIBOR Loans as to the matters covered:

(a) AMOUNT OF LIBOR LOANS. Each continuation of or conversion to LIBOR Term Loans, and each election of, continuation of or conversion to LIBOR Revolving Loans, shall be in a minimum amount of \$5,000,000 and in integral multiples of \$1,000,000 in excess of that amount.

(b) DETERMINATION OF INTEREST PERIOD. By giving notice as set forth in SECTION 2.06(b), a Borrower shall have the option, subject to the other provisions of this SECTION 2.07, to specify whether the Interest Period for such LIBOR Loan shall be a one, two, three or six month period. The determination of Interest Periods shall be subject to the following provisions:

(i) In the case of immediately successive Interest Periods, each successive Interest Period shall commence on the day on which the preceding Interest Period expires.

(ii) If any Interest Period would otherwise expire on a day which is not a Business Day, the Interest Period shall be extended to expire on the next succeeding Business Day; PROVIDED, HOWEVER, that if the next succeeding Business Day occurs in the following calendar month, then such Interest Period shall expire on the immediately preceding Business Day.

(iii) A Borrower may not select an Interest Period for any LIBOR Loan, which Interest Period expires later than the maturity date of such Loan.

(iv) A Borrower may not select an Interest Period with respect to any portion of such Borrower's Term Loans which extends beyond an installment payment date for such Term Loans unless, after giving effect to such selection, the portion of such Term Loans not subject to Interest Periods ending after such installment payment date is equal to or greater than the principal due on such installment payment date.

(v) A Borrower may not select an Interest Period with respect to any portion of such Borrower's Revolving Loans which extends beyond any date on which the Revolving Loan Commitment Amounts are scheduled to be reduced unless, after giving effect to such selection, the portion of the Revolving Loans not subject to Interest Periods ending after any such date is equal to or greater than any amount of the Revolving Loans required to be prepaid as a result of any such reduction.

(vi) There shall be no more than eight (8) Interest Periods in effect at any one time with respect to all the Loans and no more than four (4) Interest Periods in effect at any one time with respect to the Term B Loans.

(c) DETERMINATION OF INTEREST RATE. As soon as practicable after 10:00 a.m. (New York time) on the LIBOR Interest Rate Determination Date, the

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Agent shall determine (which determination shall, absent manifest error, be presumptively correct) the interest rate for the LIBOR Loans for which an interest rate is then being determined and shall promptly give notice thereof (in writing or by telephone confirmed in writing) to the applicable Borrower. In the event that on any LIBOR Interest Rate Determination Date the Agent shall have determined (which determination shall, absent manifest error, be presumptively correct and binding upon all parties) that:

(i) adequate and fair means do not exist for ascertaining the applicable interest rates by reference to which the LIBO Rate then being determined is to be fixed; or

(ii) the LIBO Rate plus the Applicable Margin for any Interest Period for such Loans will not adequately reflect the cost to any Lender of making, funding or maintaining its LIBOR Loan for such Interest Period, the Agent shall forthwith so notify the applicable Borrower and the Lender, whereupon:

(A) each LIBOR Loan will automatically, on the last day of the then existing Interest Period therefor, convert into a Base Rate Loan; and

(B) the obligation of the Lenders to make, or to convert Loans into, LIBOR Loans shall be suspended until the Agent shall notify the applicable Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(d) ILLEGALITY. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful, for any Lender to perform its obligations hereunder to make LIBOR Loans or to fund or maintain LIBOR Loans hereunder, (i) the obligation of the Lenders to make, or to convert Loans into or to continue Loans as, LIBOR Loans shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist and (ii) the Borrowers shall on the termination of the Interest Period then applicable thereto, or on such earlier date required by law, prepay in full all LIBOR Loans then outstanding together with accrued interest thereon, or convert all such LIBOR

Loans into Base Rate Loans in accordance with SECTION 2.06.

(e) COMPENSATION. In addition to such amounts as are required to be paid by the Borrowers pursuant to the other Sections of this ARTICLE II, the Borrowers agree to compensate any Lender for all losses, expenses and liabilities, including, without limitation, any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund or maintain such Lender's LIBOR Loans (including the Applicable Margin component thereof) to the Borrowers, which such Lender may sustain (i) if for any reason a funding of any LIBOR Loans does not occur on a date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation, or a successive Interest Period does not commence after notice therefor is given pursuant to SECTION 2.06 as a result of any act or omission of any Borrower, (ii) if any voluntary or mandatory prepayment of any

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LIBOR Loans occurs for any reason on a date which is not the last scheduled day of an Interest Period, (iii) as a consequence of any required conversion of LIBOR Loans to Base Rate Loans as a result of any of the events indicated in SECTION 2.07(d), or (iv) as a consequence of any other failure by a Borrower to repay LIBOR Loans when required by the terms of this Agreement.

(f) BOOKING OF LIBOR LOANS. The Lenders may make, carry or transfer LIBOR Loans at, to, or for the account of, any of their respective branch offices or the office of any of their respective affiliates.

(g) LIBOR LOANS AFTER EVENT OF DEFAULT. Unless the Requisite Lenders shall otherwise agree, after the occurrence of and during the continuance of any Event of Default, the Borrowers may not borrow Revolving Loans or Term B Loans as LIBOR Loans or elect to have any Loans continued as, or converted to, LIBOR Loans after the expiration of any Interest Period then in effect for such Loans.

SECTION 2.08. PAYMENTS. (a) Interest on each LIBOR Loan shall be payable in arrears on each LIBOR Interest Payment Date and, if such LIBOR Loan is paid in full other than on such LIBOR Interest Payment date, on such other date. Interest on each Base Rate Loan will be payable in arrears on each Payment Date and, if such Base Rate Loan is paid in full other than on such Payment Date, on such other date.

(b) Subject to the provisions of SECTIONS 2.09 and 9.02, the outstanding principal balance of the Term A Loans made to the Borrowers shall be payable in twenty-two consecutive quarterly installments beginning on the fourteenth Payment Date (i.e. the Payment Date occurring on April 1, 2002) and continuing on each Payment Date thereafter through and including the Term A Loan Termination Date in the amounts set forth on ANNEX C hereto. Subject to the provisions of SECTIONS 2.09 and 9.02, the outstanding principal balance of the Term B Loans made to the Borrowers shall be payable in seventeen consecutive quarterly installments beginning on the nineteenth Payment Date (i.e. the Payment Date occurring on July 1, 2003) and continuing on each Payment Date thereafter through and including the Term B Loan Termination Date in the amounts set forth on ANNEX C hereto. Subject to the provisions of SECTIONS 2.09 and 9.02, the outstanding principal balance of the Revolving Loans made to the Borrowers shall be payable on the Revolving Credit Commitment Termination Date.

(c) Payments made with respect to the Loans by each Borrower shall be applied by the Agent first to unpaid and accrued fees and interest and then to the outstanding unpaid principal balance of the Loans of such Borrower; provided, however, that upon the occurrence and during the continuance of an Event of Default, all payments and prepayments with respect to the Obligations and all proceeds of Collateral shall be applied in the following order by the Agent; provided, further, that the order of priority set forth in the following clauses may be altered upon direction from the Requisite Lenders to the Agent:

(1) first, to pay Obligations in respect of any expenses then due and payable by the Borrowers to the Agents, the Lenders or any Person which is not a Lender that has issued a Letter of Credit;

(2) second, to pay Obligations in respect of any reimbursement or indemnities then due and payable to the Agents, the Lenders or any Person which is not a Lender that has issued a Letter of Credit (excluding any reimbursement obligations with respect to any Letters of Credit);

(3) third, to pay Obligations in respect of any fees due and owing to the Agent or the Collateral Agent;

(4) fourth, to pay Obligations in respect of the commitment fee and any other fees and commissions then due and owing to the Agents, the Lenders or any Person which is not a Lender that has issued a Letter of Credit;

(5) fifth, to pay Obligations in respect of any accrued and unpaid interest due in respect of Loans and Letter of Credit Obligations;

(6) sixth, to pay termination payments due and payable pursuant to any Interest Rate Agreement or hedging agreement that constitutes a Loan Document;

(7) to the ratable payment or prepayment of principal of any outstanding Loans and reimbursement obligations with respect to Letters of Credit;

(8) to provide required cash collateral, if required pursuant to SECTION 2.10(j); and

(9) to the ratable payment of all other Obligations.

SECTION 2.09. OPTIONAL AND MANDATORY PREPAYMENT OF LOANS; OPTIONAL AND MANDATORY REDUCTION OF REVOLVING LOAN COMMITMENT AMOUNT. (a) Provided that no Event of Default has occurred and is continuing, the Borrowers shall have the right upon the provision of sixty (60) days' prior written notice to the Agent, which notice, once given, shall be irrevocable, on any Payment Date with respect to any Base Rate Term Loans and on the last day of the applicable Interest Period with respect to any LIBOR Term Loans, to prepay the outstanding principal of the Base Rate Term Loans in a minimum principal amount of \$1,000,000 and increments of \$250,000 in excess thereof, or the outstanding principal of the LIBOR Term Loans in a minimum principal amount of \$5,000,000 and increments of \$1,000,000 in excess thereof, together in each case with accrued interest thereon and the aggregate Prepayment Premium applicable thereto. The amount of principal so prepaid shall be applied to the remaining principal payments of the type of Loans prepaid (i.e. Base Rate Term Loans or LIBOR Term Loans) in the inverse order of maturity.

(b) Upon the occurrence of any Event of Loss in excess of \$1,000,000 with respect to any item of Collateral that is not repaired or replaced, or any Events of Loss which, in the aggregate, exceed \$5,000,000 with respect to any item or items of Collateral that are not repaired or replaced (in each case, other than an item of Collateral no longer used or useful in the Business) such that after such repair or replacement it has a value at least equal to its value prior to the occurrence of such Event of Loss, the Borrower which suffered such

Event of Loss shall make a principal prepayment within thirty (30) days of such Event of Loss in an amount equal to the replacement value of the item of Collateral which suffered such Event of Loss, together with accrued interest thereon (but without the Prepayment Premium) with such principal payment to be applied, PRO RATA, to outstanding principal balance of the Revolving Loans and the Term Loans.

(c) In the event that any Borrower finances any Telecommunications Equipment (exclusive of soft costs that exceed fifteen percent (15%) of the invoiced price of the related Telecommunications Equipment) with a financing

source other than a Loan pursuant to this Agreement, then thirty (30) days following such financing the Revolving Loan Commitment Amounts of all the Revolving Lenders shall be reduced by the actual or imputed principal amount of any such financing, and any prepayments of the Revolving Loans required by the provisions of CLAUSE (h) below shall be accompanied by any applicable Prepayment Premium thereon.

(d) The Borrowers shall prepay the Revolving Loans and the Term Loans on a pro rata basis in a principal amount equal to (i) all of the net proceeds of any sales of assets of any Borrower other than sales in the ordinary course of business, which proceeds are not reinvested within 270 days after receipt thereof in replacement assets, plus the applicable Prepayment Premium, and (ii) the proceeds of insurance policies paid to any Borrower and not applied within 270 days after any such payment to replacing, rebuilding or restoring the Collateral which was the subject of insurance loss, without any Prepayment Premium, in each case, within five (5) days after the expiration of the applicable 270 day period.

(e) On the first Payment Date of each year, commencing in 2002, the Revolving Loan Commitment Amounts of all the Lenders shall be reduced by an amount equal to fifty percent (50%) of Excess Operating Cash Flow for the preceding fiscal year until the Borrowers have achieved and maintained for at least two consecutive fiscal quarters, a Total Leverage Ratio of less than 5:1, as determined by reference to the financial statements delivered pursuant to SECTION 5.06.

(f) Provided that no Event of Default has occurred and is continuing, commencing January 1, 2002, the Borrowers shall have the right upon the provision of thirty days' prior written notice to the Agent, which notice, once given, shall be irrevocable, on any Payment Date, to reduce the Revolving Loan Commitment Amount of all the Lenders. Each such reduction shall be in a minimum principal amount of \$1,000,000 and increments of \$250,000 in excess thereof. Any Revolving Loans that must be prepaid in connection with such reduction in the Revolving Loan Commitment Amount pursuant to CLAUSE (h) below, shall be accompanied by any applicable Prepayment Premium thereon.

(g) The Revolving Loan Commitment Amount of all the Lenders shall be reduced on each Payment Date beginning April 1, 2003 as set forth on ANNEX C hereto. In addition, in the event that at any time more than fifteen percent (15.0%) of the average outstanding principal balance of Revolving Loans during the immediately preceding 90-day period is repaid and is not reborrowed within 120 days after such repayment, then on such date, the Revolving Loan Commitment Amount of all the Lenders shall be reduced by an amount equal to such amount that was not reborrowed. Any Revolving Loans that must be prepaid in connection

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with such reduction in the Revolving Loan Commitment Amount pursuant to SECTION 2.09(h) below, shall be accompanied by any applicable Prepayment Premium.

(h) On each date that the Revolving Loan Commitment Amount is reduced, the Borrowers shall prepay first, the Revolving Loans, and second, provide to the Agent cash collateral with respect to the Letter of Credit Obligations in such amounts such that the sum of the outstanding principal balance of the Revolving Loans plus the Letter of Credit Obligations does not exceed the Revolving Loan Commitment Amount of all the Revolving Lenders after giving effect to the reduction thereof effective on such date, together with any applicable Prepayment Premium thereon. Any reduction in the Revolving Loan Commitment Amount of all the Lenders shall be allocated to each Revolving Lender based on its Pro Rata Share. All prepayments of principal shall be applied to the remaining principal payments of the type of Loans prepaid in the inverse order of maturity. The Letter of Credit Obligations shall be reduced on a dollar-for-dollar basis by the cash collateral.

(i) All mandatory prepayments of the Term Loans shall be applied to the remaining principal installments of the Term Loans in the inverse order of maturity.

SECTION 2.10. LETTERS OF CREDIT.

(a) AGREEMENT TO CAUSE ISSUANCE. Subject to the terms and conditions of this Agreement, and in reliance upon the representations and warranties of the Borrowers herein set forth, the Agent agrees to (1) cause Letters of Credit to be issued by Lenders who are willing to do so or (2) provide credit support or enhancement or otherwise confirm payment (any such credit support, enhancement or payment confirmation being referred to as "CREDIT SUPPORT") to banks other than Lenders, which banks are acceptable to the Agent, which issue Letters of Credit for the respective accounts of the Borrowers in accordance with this SECTION 2.10 from time to time during the term of this Agreement.

(b) AMOUNTS; OUTSIDE EXPIRATION DATE. The Agent shall not have any obligation to cause any Letter of Credit to be issued by a Lender or to provide Credit Support for any Letter of Credit at any time if: (1) the maximum undrawn face amount of the Letter of Credit is greater than the Unused Letter of Credit Subfacility; or (2) such Letter of Credit has an expiration date later than thirty (30) days prior to the Revolving Credit Commitment Termination Date, or more than one (1) year from the date of issuance.

(c) OTHER CONDITIONS. In addition to being subject to the satisfaction of the applicable conditions precedent contained in ARTICLE IV, the obligation of the Agent to cause any Letter of Credit to be issued by a Lender or to provide Credit Support for any Letter of Credit is subject to the following conditions precedent having been satisfied in a manner satisfactory to the Agent:

(1) the applicable Borrower shall have delivered to the proposed issuer of such Letter of Credit, at such times and in such manner as such proposed issuer may prescribe, an application in form and substance satisfactory to such proposed issuer for the issuance of the Letter of Credit and such other documents as may be required pursuant to the terms

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thereof, and the form and terms of the proposed Letter of Credit shall be satisfactory to the Agent and such proposed issuer; and

(2) as of the date of issuance, no order of any court, arbitrator or Governmental Authority shall purport by its terms to enjoin or restrain money center banks generally from issuing letters of credit of the type and in the amount of the proposed Letter of Credit, and no law, rule or regulation applicable to money center banks generally and no request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over money center banks generally shall prohibit, or request that the proposed issuer of such Letter of Credit refrain from, the issuance of letters of credit generally or the issuance of such Letters of Credit.

(d) ISSUANCE OF LETTERS OF CREDIT.

(1) REQUEST FOR LETTER OF CREDIT. The applicable Borrower shall give the Agent five (5) Business Days' prior written notice, containing the original signature of an authorized officer of such Borrower, of such Borrower's request for the issuance of a Letter of Credit or the provision of Credit Support for a Letter of Credit. Such notice shall be irrevocable and shall specify the original face amount of the Letter of Credit, the effective date (which date shall be a Business Day) of issuance of such proposed Letter of Credit, whether such Letter of Credit may be drawn in a single or in partial draws, the date on which such proposed Letter of Credit is to expire (which date shall be a Business Day), the purpose for which such Letter of Credit is to be issued, and the beneficiary of such Letter of Credit. The applicable Borrower shall attach to such notice the form of the proposed Letter of Credit.

(2) RESPONSIBILITIES OF THE AGENT; ISSUANCE. The Agent shall determine, as of the Business Day immediately preceding the requested effective date of issuance of the Letter of Credit set forth in the notice from the applicable Borrower pursuant to SECTION 2.10(d)(1), the amount of the applicable Unused Letter of Credit Subfacility. If (A) the undrawn

face amount of the proposed Letter of Credit is not greater than the applicable Unused Letter of Credit Subfacility, and (B) the Agent has received a certificate from such Borrower stating that the applicable conditions set forth in ARTICLE IV have been satisfied, the Agent shall cause such Letter of Credit to be issued on such proposed effective date of issuance.

(3) NOTICE OF ISSUANCE. The Agent shall promptly give each Lender written notice of the issuance of each Letter of Credit.

(4) NO EXTENSIONS OR AMENDMENT. No Letter of Credit shall be extended or amended unless the requirements of this SECTION 2.10(d) are met as though a new Letter of Credit were being requested and issued.

(e) PAYMENTS PURSUANT TO LETTERS OF CREDIT.

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(1) PAYMENT OF LETTER OF CREDIT OBLIGATIONS. The Borrowers agree to reimburse the issuer for any draw under any Letter of Credit, and the Agent, for the account of the Lenders, upon any payment pursuant to any Credit Support, immediately upon demand, and to pay the issuer of the Letter of Credit the amount of all other Obligations and other amounts payable to such issuer under or in connection with any Letter of Credit immediately when due, irrespective of any claim, set-off, defense or other right which a Borrower may have at any time against such issuer or any other Person.

(2) REVOLVING LOANS TO SATISFY REIMBURSEMENT OBLIGATIONS. In the event that the issuer of any Letter of Credit honors a draw under such Letter of Credit, or the Agent shall have made any payment pursuant to any Credit Support, and the Borrowers shall not have repaid such amount to the issuer of such Letter of Credit or the Agent, as applicable, pursuant to SECTION 2.10(e)(1), the Agent shall, upon receiving notice of such failure, notify each Revolving Lender of such failure, and each Revolving Lender shall unconditionally pay to the Agent, for the account of such issuer or the Agent, as applicable, as and when provided hereinbelow, an amount equal to such Revolving Lender's Pro Rata Share of the amount of such payment in Dollars and in same day funds. If the Agent so notifies the Revolving Lenders prior to 12:00 p.m. (New York time) on any Business Day, each Revolving Lender shall make available to the Agent the amount of such payment, as provided in the immediately preceding sentence, on such Business Day. Such amounts paid by the Revolving Lenders to the Agent shall constitute Revolving Loans which shall be deemed to have been requested by the applicable Borrower pursuant to SECTION 2.03.

(f) PARTICIPATIONS.

(1) PURCHASE OF PARTICIPATIONS. Immediately upon issuance of any Letter of Credit in accordance with SECTION 2.10(d), each Revolving Lender shall be deemed to have irrevocably and unconditionally purchased and received without recourse or warranty, an undivided interest and participation in such Letter of Credit (if issued by a Revolving Lender) or the Credit Support provided through the Agent to such issuer in connection with the issuance of such Letter of Credit, as applicable, equal to such Revolving Lender's Pro Rata Share of the face amount of such Letter of Credit or the amount of such Credit Support (including, without limitation, all obligations of the Borrowers with respect thereto, and any security therefor or guaranty pertaining thereto).

(2) SHARING OF REIMBURSEMENT OBLIGATION PAYMENTS. Whenever the Agent receives a payment from a Borrower on account of reimbursement obligations in respect of a Letter of Credit or Credit Support as to which the Agent has previously received for the account of the issuer thereof payment from a Revolving Lender pursuant to this SECTION 2.10(f)(2), the Agent shall promptly pay to such Lender such Revolving Lender's Pro Rata Share of such payment from such Borrower in Dollars. Each such payment shall be made by the Agent on the Business Day on which the Agent receives immediately

available funds paid to such Person pursuant to the immediately preceding sentence, if received prior to 11:00 a.m. (New York time) on such Business Day and otherwise on the next succeeding Business Day.

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(3) DOCUMENTATION. Upon the request of any Revolving Lender, the Agent shall furnish to such Revolving Lender copies of any Letter of Credit, reimbursement agreement executed in connection therewith, application for any Letter of Credit and Credit Support provided through the Agent in connection with the issuance of any Letter of Credit, and such other documentation as may reasonably be requested by such Revolving Lender.

(4) OBLIGATIONS IRREVOCABLE. The obligations of each Revolving Lender to make payments to the Agent with respect to any Letter of Credit or with respect to any Credit Support provided through the Agent with respect to a Letter of Credit, and the obligations of the Borrowers to make payments to the Agent, for the account of the Revolving Lenders, shall be irrevocable, not subject to any qualification or exception whatsoever and shall be made in accordance with the terms and conditions of this Agreement (assuming, in the case of the obligations of the Revolving Lenders to make such payments, that the Agent has provided Credit Support for such Letter of Credit in accordance with the terms of SECTION 2.10(d)), including, without limitation, any of the following circumstances:

(i) any lack of validity or enforceability of this Agreement or any of the other Loan Documents;

(ii) the existence of any claim, set-off, defense or other right which a Borrower may have at any time against a beneficiary named in a Letter of Credit or any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), any Lender, the Agent, the Collateral Agent, the issuer of such Letter of Credit, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transactions between a Borrower or any other Person and the beneficiary named in any Letter of Credit);

(iii) any draft, certificate or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Loan Documents; or

(v) the occurrence of any Default or Event of Default.

(g) RECOVERY OR AVOIDANCE OF PAYMENTS. In the event any payment by or on behalf of a Borrower received by the Agent with respect to a Letter of Credit or Credit Support provided for any Letter of Credit (or any guaranty by a Borrower or reimbursement obligation of a Borrower relating thereto) and distributed by the Agent to the Revolving Lenders on account of their respective participations therein, is thereafter set aside, avoided or recovered from the Agent in connection with any receivership, liquidation or bankruptcy proceeding,

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the Revolving Lenders shall, upon demand by the Agent, pay to the Agent their respective Pro Rata Shares of such amount set aside, avoided or recovered, together with interest at the rate required to be paid by the Agent upon the amount required to be repaid by it.

(h) COMPENSATION FOR LETTERS OF CREDIT.

The Borrowers agree to pay the fees set forth in SECTION 2.11 with respect to any Letters of Credit.

(i) INDEMNIFICATION; EXONERATION.

(1) INDEMNIFICATION. In addition to amounts payable as elsewhere provided in this SECTION 2.10, the Borrowers hereby agree to protect, indemnify, pay and save the Lenders and the Agent harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) which any Lender or the Agent may incur or be subject to as a consequence, direct or indirect, of the issuance of any Letter of Credit or the provision of any Credit Support in connection therewith. The agreements contained in this SECTION 2.10(i)(1) shall survive the payment in full of the Obligations.

(2) ASSUMPTION OF RISK BY THE BORROWERS. As among the Borrowers, the Lenders and the Agent, each Borrower assumes all risks of the acts and omissions of, or misuse of any of the Letters of Credit by, the respective beneficiaries of such Letters of Credit. In furtherance and not in limitation of the foregoing, the Lenders and the Agent shall not be responsible for: (A) the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any Person in connection with the application for and issuance of and presentation of drafts with respect to any of the Letters of Credit, even if it should prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (B) the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason; (C) the failure of the beneficiary of any Letter of Credit to comply duly with conditions required in order to draw upon such Letter of Credit; (D) errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (E) errors in interpretation of technical terms; (F) any loss or delay in the transmission or otherwise of any document required in order make a drawing under any Letter of Credit or of the proceeds thereof; (G) the misapplication by the beneficiary of any Letter of Credit of the proceeds of any drawing under such Letter of Credit; or (H) any consequences arising from causes beyond the control of the Lenders or the Agent, including, without limitation, any act or omission, whether rightful or wrongful, of any present or future de jure or de facto Governmental Authority. None of the foregoing shall affect, impair or prevent the vesting of any rights or powers of the Agent or any Lender under this SECTION 2.10(i).

(3) EXONERATION. In furtherance and extension, and not in limitation, of the specific provisions set forth above, any action taken or omitted by the Agent or any Lender under or in connection with any of

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the Letters of Credit or any related certificates, if taken or omitted in good faith, shall not put the Agent or any Lender under any resulting liability to any Borrower or relieve any Borrower of any of its obligations hereunder to any such Person.

(j) SUPPORTING LETTER OF CREDIT; CASH COLLATERAL. If, notwithstanding the provisions of SECTION 2.10(b), any Letter of Credit is outstanding upon the termination of this Agreement, then upon such termination the Borrowers shall cause the termination of such Letter of Credit. If, at the Agent's election, any such Letter of Credit remains outstanding, then the Borrowers shall deposit with the Agent, for the ratable benefit of the Agent and the Revolving Lenders, with respect to each Letter of Credit then outstanding, as the Agent shall specify, either (A) a standby letter of credit (a "SUPPORTING LETTER OF CREDIT") in form and substance satisfactory to the Required Revolving Lenders, issued by an issuer satisfactory to the Agent in an amount equal to the greatest amount for which such Letter of Credit may be drawn, plus any fees and expenses associated with such Letter of Credit, under which Supporting Letter of Credit the Agent is entitled to draw amounts necessary to reimburse the Agent

and the Revolving Lenders for payments made by the Agent and the Revolving Lenders under such Letter of Credit or under any Credit Support provided through the Agent with respect thereto and any fees and expenses associated with such Letter of Credit, or (B) cash in amounts necessary to reimburse the Agent and the Revolving Lenders for payments made by the Agent or the Revolving Lenders under such Letter of Credit or under any Credit Support provided through the Agent with respect thereto, and any fees and expenses associated with such Letter of Credit. Such Supporting Letter of Credit or deposit of cash shall be held by the Agent, for the ratable benefit of the Agent and the Revolving Lenders, as security for, and to provide for the payment of, the aggregate undrawn face amount of such Letters of Credit remaining outstanding.

SECTION 2.11. FEES. (a) The Borrowers shall pay and the Borrowers shall be jointly and severally liable to the Agent for the account of the Revolving Lenders for payment of a nonutilization fee calculated on a per annum basis and equal to the percentage corresponding to the criteria set forth below of the average drawn portion of the Revolving Loan Commitment Amount for the quarterly period preceding a Payment Date, which fee shall be payable on each Payment Date following such last day of a quarter beginning on the Payment Date following the "Initial Funding Date" (as defined in the Existing Agreement) until and including the Payment Date following the Revolving Credit Commitment Termination Date:

Average Drawn Portion of Revolving Loan Commitment Amount for the Quarterly Period Preceding a Payment Date -----	Percentage -----
Less than or equal to \$58,333,333	1.25%
Greater than \$58,333,333 and less than or equal to \$116,666,666	1.00%
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Greater than \$116,66,666 and less than or equal to \$175,000,000	0.75%

In the event that at any time the Borrowers fail to comply with the requirements of SECTION 2.03(d) for any calendar year, each of the above described nonutilization fees shall be increased by 100 basis points for the entire such calendar year with payment of such increment in the nonutilization fee being due and payable not later than the last Business Day of such calendar year.

(b) The Borrowers shall pay and the Borrowers shall be jointly and severally liable to the Agent for the account of the Term B Lenders for payment of a commitment fee calculated on a per annum basis and equal to one and one-half percent (1.50%) of the average of the unused Term B Loan Commitment Amount for the quarterly period preceding a Payment Date, which fee shall be payable on each Payment Date following such last day of a quarter beginning on the Payment Date following the Closing Date until and including the Payment Date following the Term B Loan Commitment Termination Date.

(c) The Borrowers shall pay the Agent and the Collateral Agent and shall be jointly and severally liable to the Agent and the Collateral Agent, respectively, for payment of an annual administration fee and a collateral monitoring fee at the times and in the amounts set forth in the Fee Letters.

(d) The Borrowers shall on the Closing Date pay the Agent for the ratable benefit of the Revolving Lenders and the Term A Lenders an amendment fee of \$1,250,000 and any fee then due under the fee letter dated as of February 14, 2000 between the Borrowers and Lucent.

(e) The Borrowers shall pay and the Borrowers shall be jointly and

severally liable to the Agent (i) for the account of the Revolving Lenders for payment in arrears on each Payment Date of a fee equal to equal to the product of the Applicable Margin in effect with respect to LIBOR Loans for the preceding calendar quarter on an annualized basis, multiplied by the average Letter of Credit Obligations outstanding during such calendar quarter, and (ii) for the account of any Person which issues any Letter of Credit, for payment in arrears on each Payment Date of a fee equal to (A) the product of one-eighth percent (0.125%) per annum multiplied by the average face amount of Letters of Credit issued by such Person and outstanding during the preceding calendar quarter, and (B) if such Person is not a Lender, any additional fees as may be charged by such Person in connection with the issuance or maintenance of such Letter of Credit.

(f) All fees once paid shall be nonrefundable.

SECTION 2.12. MANNER OF PAYMENT; SPECIAL TAX CONSIDERATIONS. (a) All payments by the Borrowers hereunder and under the Notes shall be made to the Agent by wire transfer or other electronic payment method to the Payment Account or to such bank account as the Agent may designate, for the account of the Lenders in Dollars in immediately available funds by 11:00 a.m., New York time, on the date on which such payment shall be due. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or other fees ratably (other than amounts payable pursuant to SECTION 2.14) to each Lender in accordance with SECTION 10.07 hereof.

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Interest in respect of any Loan hereunder shall accrue from the day such Loan is made up to and including the day prior to the date on which such Loan is paid in full. Payments received after 12:00 p.m. shall not be given credit until the next Business Day, and the Borrowers shall be liable for interest, if any, accruing on such payment until the next Business Day.

(b) (1) Any and all payments by each Borrower hereunder shall be made free and clear of and without deduction for any and all Taxes. If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the other Loan Documents to any Lender or Agent, (A) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 2.12) such Lender or Agent receives an amount equal to the sum it would have received had no such deductions been made, (B) such Borrower shall make such deductions, and (C) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. If a withholding tax of the United States of America or any other Governmental Authority shall be or become applicable (y) after the date of this Agreement, to the payments by any Borrower made to the Lending Office or any other office that a Lender may claim as its Lending Office, or (z) after such Lender's selection and designation of any other Lending Office, to such payments made to such other Lending Office, such Lender shall use reasonable efforts to make, fund and maintain its Loans through another Lending Office of such Lender in another jurisdiction so as to reduce, but not increase, the applicable Borrower's liability hereunder, if the making, funding or maintenance of such Loans through such other Lending Office of such Lender does not, in the judgment of such Lender, otherwise materially adversely affect such Loans, such Lender's obligations under its Commitment or such Lender. Notwithstanding anything to the contrary hereunder, if a Person becomes a Lender under this Agreement pursuant to SECTION 11.08 hereof, the Borrowers shall in no event be required to increase any payment pursuant to paragraph (b) of this SECTION 2.12 by an amount that would exceed the amount of any increase that would be required to be made under paragraph (b) of this SECTION 2.12 to the assigning Lender.

(2) The Borrowers will jointly and severally indemnify each Lender and the Agents and hold them harmless for the full amount of Taxes (including, without limitation, any Taxes imposed by any Governmental Authority on amounts payable under this SECTION 2.12 or any other documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any other Loan Document) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest,

and expenses) arising therefrom or with respect thereto. This indemnification shall be made within thirty (30) days after the date such Lender or the Agent (as the case may be) makes written demand therefor. A certificate as to any additional amount payable to any Lender or the Agent under this SECTION 2.12 submitted to the Borrowers and the Agent (if a Lender is so submitting) by such Lender or the Agent shall show in reasonable detail the amount payable and the calculations used to determine such amount. With respect to such deduction or withholding for or on account of any Taxes and to confirm that all such Taxes have been paid to the appropriate Governmental Authorities, the applicable Borrower shall promptly (and in any event not later than thirty (30) days after

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receipt) furnish to each Lender and the Agent such certificates, receipts and other documents as may be required (in the judgment of such Lender or the Agent) to establish any tax credit to which such Lender or the Agent may be entitled.

(3) Within thirty (30) days after the date of any payment of Taxes on amounts payable hereunder by any Borrower, such Borrower will furnish to the Agent, at its address referred to in SECTION 11.01, the original or a certified copy of a receipt evidencing payment thereof.

(4) Without prejudice to the survival of any other agreement of any Borrower hereunder, the agreements and obligations of such Borrower contained in this SECTION 2.12 shall survive the payment in full of principal and interest hereunder and the termination of this Agreement.

(5) Without limiting the obligations of the Borrowers under this SECTION 2.12, each Lender that is not created or organized under the laws of the United States of America or a political subdivision thereof shall deliver to the Borrowers and the Agent on or before the effective date hereof, or, if later, the date on which such Lender becomes a Lender pursuant to SECTION 11.08 hereof, a true and accurate certificate executed in duplicate by a duly authorized officer of such Lender, in a form satisfactory to the Borrowers and the Agent, to the effect that (A) such Lender is capable under the provisions of an applicable tax treaty concluded by the United States of America (in which case the certificate shall be accompanied by two original, executed copies of Form 1001 of the IRS or any successor form) or under Section 1442 of the IRC (in which case the certificate shall be accompanied by two original, executed copies of Form 4224 of the IRS or any successor form) of receiving payments of interest hereunder exempt from or at a reduced deduction or withholding of United States federal income tax or (B) if such Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the IRC and intends to claim exemption from U.S. federal withholding tax under Section 871(h) or Section 881(c) of the IRC with respect to payments of "portfolio interest", (i) that such Lender is not a "bank" within the meaning of Section 881(c) of the IRC, is not a ten percent (10%) shareholder (within the meaning of Section 871(h)(3)(B) of the IRC) of any Borrower and is not a controlled foreign corporation related to any Borrower (within the meaning of Section 864(d)(4) of the IRC), (ii) that such Lender claims complete exemption from U.S. federal withholding tax on payments of interest by the Borrowers under this Agreement and the other Loan Documents and (iii) that such Lender has received in replacement of any Note held by or assigned to it, a "QFL Note" (as defined below) in accordance with this SECTION 2.12(b). Each such Lender further agrees to deliver to the Borrowers and the Agent from time to time a true and accurate certificate executed in duplicate by a duly authorized officer of such Lender substantially in a form satisfactory to the Borrowers and the Agent, before or promptly upon the occurrence of any event requiring a change in the most recent certificate previously delivered by it to the Borrowers and the Agent pursuant to this SECTION 2.12(b)(5). Further, each Lender which delivers a certificate accompanied by Form 1001 of the IRS (or any successor form or forms required under the IRC or the applicable regulations promulgated thereunder) covenants and agrees to deliver to the Borrowers and the Agent within fifteen (15) days prior to January 1, 1999, and every third anniversary of such date thereafter, on which this Agreement is still in effect, another such certificate and two accurate and complete original signed copies of Form 1001 (or any successor form or forms required under the IRC or the applicable regulations promulgated thereunder), and each Lender that delivers a certificate accompanied by Form 4224 of the IRS (or any successor form or forms