Arent Fox
ATTORNEYS AT LAW

Douglas G. Bonner

Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Avenue, NW Washington, DC 20036-5339
Phone 202/857-6000 Fax 202/857-6395 www.arentfox.com

Direct (202) 857-6293
bonnerd@arentfox.com

'99 DEC 29 PM 4 01

EXECUTIVE SECRETARY

December 29, 1999

ORIGINAL

99-00993

David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Application of MGC COMMUNICATIONS, INC. for a Certificate of Convenience and Necessity to Provide Facilities-Based and Resold Local Exchange Service, Intrastate Interexchange Service, and Access Service Within Tennessee

Dear Mr. Waddell:

MGC COMMUNICATIONS, INC. ("MGC" or "Applicant") hereby submits the enclosed Application, seeking authority to operate as a reseller and facilities-based provider of switched local exchange service, interexchange service and exchange access service within the State of Tennessee. An original and thirteen (13) copies are provided. Please date-stamp one copy and return it in the postage-paid envelope provided to the undersigned.

Also enclosed is a check in the amount of $25.00 for filing fees. Notice of this filing has been served on interested parties.

Should there be any questions or additional information required, please do not hesitate to contact me at 202/857-6293. Thank you.

Respectfully Submitted,

Douglas G. Bonner

Douglas G. Bonner
Attorney for MGC Communications, Inc.

Enclosures

FILE

BEFORE THE TENNESSEE REGULATORY AUTHORITY

'99 DEC 29 PM 4 01

Application of MGC COMMUNICATIONS, INC.	)	
	)	TRA Docket No. 99-99-00993
For a Certificate of Convenience and Necessity	)	
to Provide Facilities-Based and Resold	)	
Local Exchange Service, Intrastate	)	ORIGINAL
Interexchange Service, and Access Service	)	
Within Tennessee	)	

I. INTRODUCTION

Pursuant to T.C.A. § 65-4-201 *et seq*; the Rules and Regulations of the Tennessee Regulatory Authority and the Federal Telecommunications Act of 1996 ("Act"), MGC COMMUNICATIONS, INC. ("MGC" or "Applicant"), by its undersigned counsel, respectfully requests that the Tennessee Regulatory Authority ("TRA") grant to MGC the authority to provide resold and facilities-based local exchange service, intrastate interexchange service, and access service throughout the State of Tennessee. Granting MGC's application will promote the public interest because MGC will increase competition in the market, and offer technologically advanced services to customers in the state. Therefore, MGC requests that the TRA grant MGC statewide authority to operate as a competing telecommunications service provider. MGC will comply with all applicable rules and regulations in Tennessee pertaining to the provision of these services.

FILE

In support of this Application, MGC provides the following information:

II. DESCRIPTION OF THE APPLICANT

1. Name, Address and Telephone Number of Applicant:

MGC COMMUNICATIONS, INC.
171 Sully's Trail
Suite 202
Pittsford, NY 14534
Tel: (718) 218-6540
Fax: (718) 218-0881

2. Correspondence concerning this Application should be directed to:

Michael B. Bressman, Esq.
Boult Cummings Conners & Berry, PLC
414 Union Street, Suite 1600
P.O. Box 198062
Nashville, TN 37219
Tel: (615) 252-2399
Fax: (615) 252-6399
E-mail: mbressman@bccb.com

With a copy to:

Douglas G. Bonner, Esq.
Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Ave. N.W.
Washington, D.C. 20036
Tel: (202) 857-6293
Fax: (202) 857-6395
E-mail: bonnerd@arentfox.com

3. Questions concerning the ongoing operations and regulatory matters of MGC following certification should be directed to:

Richard E. Heatter, Esq.
Vice President, Legal
171 Sully's Trail
Suite 202
Pittsford, NY 14534
Tel: (718) 218-6540
Fax: (718) 218-0881

4. MGC is a corporation incorporated under the laws of the Nevada. A copy of MGC's Articles of Incorporation is attached hereto at Exhibit 1. In addition, a copy of MGC's Authorization to Transact Business in Tennessee is attached at Exhibit 2.

5. Repair and Maintenance Information. MGC understands the importance of effective customer service for local service consumers. MGC has made arrangements for its customers to call the company at its toll-free customer service number 1-888-777-5802. In addition, customers may contact the company in writing at the headquarters address, as well as via email at www.mgci.com. The toll-free number will be printed on the customer's monthly billing statements.

6. Operations in Other States. MGC and/or its affiliates are authorized to provide telecommunications services in California, Florida, Georgia, Illinois, and Nevada. MGC has not been denied authority to provide telecommunications service in any jurisdiction, nor has it been subject to any formal complaint proceedings.

III. QUALIFICATIONS

MGC possesses the financial, technical, and managerial ability to provide facilities-based local exchange service, intrastate interexchange service, and access services in the State of Tennessee, as demonstrated below.

1. Applicant's Financial Ability. MGC is financially qualified to provide facilities-based and resold local exchange, exchange access and interexchange services in Tennessee. Attached as Exhibit 3 are the audited financial statements for MGC as of December 31, 1998 and unaudited financial statements for the nine months ending September 30, 1999 filed with the U.S. Securities and Exchange Commission. These demonstrate that MGC possesses the sound financial support necessary to competently and effectively provide the services for which

authority is sought by this Application. None of the amounts on the financial statements contained in Exhibit 3 or in any projected budgets or financial statements are related to reciprocal compensation for terminating ISP traffic.

2. Technical Qualifications. MGC is technically qualified to provide local exchange, exchange access and interexchange services in the State of Tennessee. MGC is already authorized to provide telecommunications services in Illinois, California, Nevada, Georgia and Florida. Additionally, MGC has pending applications for authority in Michigan, Ohio, and Wisconsin. The Company will file and maintain tariffs in the manner prescribed by the TRA and will meet the minimum basic local standards, including quality of service and billing standards required of all LECs regulated by the TRA.

3. Managerial Ability. MGC possesses the managerial qualifications to provide its proposed facilities-based and resold local exchange, exchange, access and interexchange services in Tennessee, and to maintain MGC's facilities over which such services will be deployed. As described in the attached biographical information, MGC's management team has extensive management and business experience in telecommunications. The biographies in Exhibit 4 describe the extensive managerial experience of MGC's key employees, and Exhibit 5 is a list of MGC's Board of Directors and Officers.

IV. PROPOSED SERVICE

1. MGC's Proposed Service Offerings. MGC seeks authority to provide a full array of facilities-based and resold local exchange service, interexchange (intraLATA and interLATA) service, and switched and special access telecommunications services, throughout the State of Tennessee. MGC intends to offer this broad range of telecommunications serve through the use of its own facilities, resold facilities and through a combination of these provisioning methods.

MGC intends to provide access services as well as flat rate local exchange service, EAS service, toll restrictions, custom calling features, caller ID and any other services available on a resale basis from the underlying incumbent LEC or other certified carriers within MGC's service area. MGC anticipates initially offering its services to business customers and then to residential customers, as market conditions and demand warrants. MGC either directly or through arrangements with other carriers or companies will provide those services required by TRA Rule 1220-4-8-.04(3)(b). MGC will not require customers to purchase CPE that cannot be used with the incumbent local exchange carrier's systems.

MGC will, upon certification and before offering service, file its initial tariff with the TRA setting forth the rates, charges and regulations for its services. If MGC offers new services in the future, it will similarly comply with such requirements.

2. Proposed Service Area. MGC proposes to offer its services throughout the State of Tennessee in the service areas of Bell South, Sprint/United, and any other ILEC that does not enjoy a rural exemption under Section 251(f) of the Telecommunications Act of 1996. MGC initially intends to offer services in Memphis and Nashville. MGC anticipates collocating DSLAMs and other related electronics equipment in the central offices of the ILECs.

V. PUBLIC INTEREST CONSIDERATIONS

The Tennessee Legislature, in its declaration of telecommunications services policy, has stated:

> The General Assembly declares that the policy of this state is to foster the development of an efficient, technologically advanced, statewide system of telecommunications services by permitting competition in all telecommunications services markets, and by permitting alternative forms of regulation for telecommunications services and telecommunications services providers. To that end, the regulation of telecommunications services and telecommunications

services providers shall protect the interests of consumers without unreasonable prejudice or disadvantage to any telecommunications services provider[.][1]

Grant of this Application will further the goals of the Tennessee Legislature and further the public interest by expanding the availability of competitive telecommunications services in the State of Tennessee. In addition, intrastate offering of these services is in the public interest because the services will provide Tennessee customers with access to new technologies and service choices and can permit customers to achieve increased efficiencies and cost savings. Authorizing MGC to provide local exchange telecommunications services will enhance materially the telecommunications infrastructure in the State of Tennessee and will facilitate economic development.

In particular, the public will benefit both directly, through the use of the competitive services to be offered by MGC, and indirectly, because MGC's presence in Tennessee will increase the incentives for other telecommunications providers to operate more efficiently, offer more innovative services, reduce their prices, and improve their quality of service. Grant of this Application will further enhance the service options available to Tennessee citizens for the reasons set forth above.

VI. MISCELLANEOUS

1. Small and Minority-Owned Telecommunications Business Participation Plan (§65-5-212). Applicant has attached its Small and Minority Business Owned Telecommunication Business Participation Plan in compliance with T.C.A. § 65-5-212 as Exhibit 6.

2. Year 2000 Readiness Disclosure. Applicant has attached its Year 2000 Readiness Disclosure as Exhibit 7.

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1 TENN. CODE ANN. § 65-4-123.

3. Toll Dialing Party Plan. Applicant has attached its Tennessee IntraLATA Presubscription Implementation Plan as Exhibit 8.

4. Rural Telephone Companies and Telephone Cooperatives. Unless otherwise permitted by federal or state law, Applicant does not plan to offer local exchange telecommunications services in areas served by any incumbent local exchange telephone company that has a rural exemption under section 251(f) of the Telecom Act of 1996, except for those that have voluntarily entered into an agreement with a competing telecommunications service provider or that have applied to provide telecommunications services in an area outside its service area existing as of June 6, 1995. Applicant also does not plan to provide such services in any area served by a telephone cooperative unless otherwise permitted to applicable federal or state law. Applicant reserves the right to expand its services into these areas should any rulings of the TRA or any court or administrative agency allow the provision of service in such areas.

5. Mergers, Acquisitions, and Corporate Structure. Applicant has not been involved in any pertinent mergers or acquisitions.

6. Customer Deposits and Non-recurring Charges. Applicant does not routinely require customer deposits but may request them in certain circumstances. Applicant will state the terms, conditions, and amounts for such deposits in its tariffs, which it will submit for approval of the TRA. Applicant is not bonded for the amount of the deposits. Applicant may require certain non-recurring charges for initiating service. These charges will also be included in Applicant's tariffs. Because Applicant anticipates that most of its initial customers will be other carriers and sophisticated businesses, the issues sometimes raised by non-recurring charges are less of a concern than they might otherwise be with less sophisticated customers.

7. Pre-filed Testimony. Attached as Exhibit 9 is the pre-filed testimony of Richard E. Heatter.

VII. STATEMENT OF COMPLIANCE

MGC agrees to abide by all applicable statutes and all applicable orders, rules and regulations entered and adopted by the Tennessee Regulatory Authority.

VIII. CONCLUSION

MGC respectfully requests that the TRA enter an order granting it a certificate of convenience and necessity to operate as a competing telecommunications service provider and authority to provide a full range of local exchange, exchange access and interexchange telecommunications services on a facilities-based and resale basis throughout the State of Tennessee in the service areas of Bell South, GTE and Sprint, and any other ILEC that does not enjoy a rural exemption under Section 251(f) of the Telecommunications Act of 1996. For the reasons stated above, MGC's provision of these services would promote the public interest by providing high-quality service at competitive prices and by creating greater economic incentives for the development and improvement for all competing providers.

Respectfully submitted this 29th day of December, 1999.

Douglas G. Bonner

Douglas G. Bonner
Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
Tel.: 202/857-6293

Michael B. Bressman

Michael B. Bressman
Boult Cummings Conners & Berry, PLC
414 Union Street, Suite 1600
P.O. Box 198062
Nashville, TN 37219
Tel.: 615/252-2399
Counsel for MGC Communications, Inc.

EXHIBITS

Exhibit 1	Articles of Incorporation
Exhibit 2	Authorization to Transact Business in Tennessee
Exhibit 3	Financial Statements
Exhibit 4	Management Biographies
Exhibit 5	List of Board of Directors and Officers
Exhibit 6	Small and Minority-Owned Telecommunications Business Participation Plan
Exhibit 7	Year 2000 Readiness Disclosure
Exhibit 8	Tennessee IntraLATA Presubscription Implementation Plan
Exhibit 9	Pre-filed Testimony of Richard E. Heatter

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

OCT 16 1995
17935-95

ARTICLES OF INCORPORATION

OF

NevTEL, INC.

The Undersigned natural person acting as the incorporator of a corporation ("the Corporation") under the porvisions of Chapter 78 of the Nevada Revised Statues, adopts the following Articles of Incorporation.

ARTICLE I

NAME

The name of the corporation is:

NevTEL, INC.

ARTICLE II

PERIOD OF DURATION

The period of duration of the corporation is perpetual.

ARTICLE III

PURPOSE

The purpose for which the corporation is organized is to engage in any lawful activity.

ARTICLE IV

AUTHORIZED SHARES AND ASSESSMENT OF SHARES

Section 4.01. Authorized Shares. The aggregate number of shares the corporation shall have authority to issue is 25,000 shares of capital stock without par value.

Section 4.02. Assessment of Shares. The capitol stock of the corporation, after the amount of the subscription price has been paid, shall not be subject to pay debts of the corporation, and no capitol stock issues as fully paid up shall ever be assessable or assessed.

ARTICLE V

PRINCIPLE OFFICE AND INITIAL RESIDENT AGENT

Section 5.01. Principle office. The address of the principle office of the corporation is 2972 Meade Avenue, Las Vegas, Nevada 89102.

Section 5.02. Initial Resident Agent. The name of the initial resident agent of the corporation, a resident of Nevada, whose business address is at the above address, is Nield J. Montgomery.

ARTICLE VI

DATA RESPECTING DIRECTORS

Section 6.01. Style of Governing Board. The members of the governing board of the corporation shall be styled Directors.

Section 6.02. Initial Board of Directors. The initial Board of Directors shall consist of two (2) members, who need not be residents of the Sate of Nevada or shareholders of the corporation.

Section 6.03. Name and Addresses. The names and post office addresses of the persons who are to serve as directors until their successors shall have been elected and qualified, follow:

Nield J. Montgomery	9975 Parvin Street Las Vegas, Nevada 89123
Linda L. Montgomery	9975 Parvin Street Las Vegas, Nevada 89123

Section 6.04. Increase or Decrease of Directors. The number Directors of the corporation may be increased or decreased from time to time as shall be provided in the Code of By-Laws of the corporation.

ARTICLE VII

INDEMNIFICTION OF DIRECTORS AND OFFICERS

No director or officer shall be liable to the Corporation or its shareholders for damages for breach of fiduciary duty as a director or officer except for acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or the payment of dividends in violation of NRS 78.300. The Corporation shall indemnify any director or officer and for any liability and legal expenses, including attorney fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him arising out of his status or actions as a director or officer if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and had no reasonable cause to believe his conduct was unlawful. The personal liability of all directors and officers of the Corporation to any person or entity shall be eliminated or limited to the maximum extent allowed by Nevada statutes, and such directors and officers and their heirs, executors and administrators shall be indemnified by the Corporation to the maximum extent by Nevada statutes.

ARTICLE VIII

DATA RESPECTING INCORPORATOR

The name and post office address of the incorporator of the corporation is as follows:

Nield J. Montgomery	9975 Parvin Street Las Vegas, Nevada 89123

EXECUTED this 16 th day of October, 1995

Nield J. Montgomery

NIELD J. MONTGOMERY

STATE OF NEVADA)
) ss.
COUNTY OF CLARK)

I, the undersigned, a Notary Public dully commissioned to take acknowledgments and administer oaths in the State of Nevada, do hereby certify that on this day, personally appeared before me, Nield J. Montgomery, who, being by me first duly sworn, declared that he is the incorporator referred to in Article VIII of the Articles of Incorporation, and that he signed these Articles of Incorporation and that statements contained therein are true.

WITNESS my hand and seal this 16th day of October, 1995.

Catherine J. Flannery

NOTARY PUBLIC

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

NOV 26 1996

No. ________

Dean Heller

DEAN HELLER, SECRETARY OF STATE

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION

(After Issuance of Stock)

NevTEL, Inc.
Name of Corporation

We the undersigned Nield J. Montgomery and Linda L. Montgomery
Secretary or Assistant Secretary

of NevTEL, Inc. do hereby certify:
Name of Corporation

That the Board of Directors of said corporation at a meeting duly convened, held on the 18th day of November, 19 96, adopted a resolution to amend the original articles as follows:

1. Article I is hereby amended to read as follows:

ARTICLE I

The name of the corporation is:

MGC Communications, Inc.

2. Section 4.01 is hereby amended to read as follows:

Section 4.01. Authorized Shares. The total number of shares which the Corporation is authorized to issue is twenty-five million (25,000,000) common shares; all of such shares having a par value of one tenth of one cent ($.001) per share.

The number of shares of the corporation outstanding and entitled to vote on an amendment to the Articles of Incorporation is ______________; that the said change(s) and amendment have been consented to and approved by a majority vote of the stockholders holding at least a majority of each class of stock outstanding and entitled to vote thereon.

NOTARY PUBLIC
STATE OF NEVADA
County of Clark
PATRICIA L. REILLY
My Appointment Expires Oct. 8, 1997

Nield J. Montgomery
*President or Vice President

Linda L. Montgomery
Secretary or Assistant Secretary

State of Nevada
County of Clark

On November 18th 1996, personally appeared before me, a Notary Public, Nield Montgomery & Linda Montgomery who acknowledged that they executed the above
Names of Persons Appearing and Signing Document

instrument.

Patricia L. Reilly
Signature of Notary

STATE OF NEVADA
Secretary of State

I hereby certify that this is a true and complete copy of the document as filed in this office.

NOV 26 '96

Dean Heller

DEAN HELLER
Secretary of State

By

SECRETARY OF STATE

STATE OF NEVADA

CORPORATE CHARTER

I, DEAN HELLER, the duly elected and qualified Nevada Secretary of State, do hereby certify that **NEVTEL, INC.** did on the **SIXTEENTH** day of **OCTOBER, 1995** file in this office the original Articles of Incorporation; that said Articles are now on file and of record in the office of the Nevada Secretary of State, and further, that said Articles contain all the provisions required by the law of said State of Nevada.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Great Seal of State, at my office, in Carson City, Nevada, this SIXTEENTH day of OCTOBER, 1995.

Dean Heller

Secretary of State

By

Certification Clerk

Secretary of State
Corporations Section
James K. Polk Building, Suite 1800
Nashville, Tennessee 37243-0306

DATE: 07/27/99
REQUEST NUMBER: 3717-1010
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 07/27/99 1105
EFFECTIVE DATE/TIME: 07/27/99 1105
CONTROL NUMBER: 0374606

TO:
MGC COMMUNICATIONS INC
3301 N BUFFALO DR

LAS VEGAS, NV 89129

RE:
MGC COMMUNICATIONS, INC.
APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED CERTIFICATE OF AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A CORPORATION ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DATE OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE CORPORATION'S FISCAL YEAR. PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION OF THE CORPORATION'S FISCAL YEAR. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE CORPORATION AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE CORPORATION TO ADMINISTRATIVE REVOCATION OF ITS CERTIFICATE OF AUTHORITY.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY - FOR PROFIT

ON DATE: 07/27/99

FROM:
C T CORPORATION SYSTEM (LOS ANGELES, CA)
818 W. SEVENTH ST.
2ND FLOOR
LOS ANGELES, CA 90017-0000

	FEES	
RECEIVED:	$600.00	$0.00
TOTAL PAYMENT RECEIVED:		$600.00

RECEIPT NUMBER: 00002527890
ACCOUNT NUMBER: 00000002

Riley C Darnell

RILEY C. DARNELL
SECRETARY OF STATE

SS-4458

==

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1999

Commission file number 0-24059

MGC Communications, Inc.
(Exact name of registrant as specified in its charter)

<TABLE>
<S> <C>

Nevada	88-0360042
(State of incorporation)	(IRS Employer Identification Number)

</TABLE>

3301 North Buffalo Drive
Las Vegas, Nevada 89129
(Address of principal executive offices)

(702) 310-1000
(Registrant's telephone number)

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

YES X NO

The number of shares outstanding of the issuer's common stock, as of November 15, 1999:

Common stock ($.001 par value) .... 22,906,952 shares outstanding

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MGC COMMUNICATIONS, INC.

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<CAPTION>

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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

MGC COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED September 30,		NINE MONTHS EN September 30
	1999	1998	1999
<S>	<C>	<C>	<C>
Operating revenues:			

Telecommunications services	$ 15,036	$ 4,908	$ 34,922
Operating expenses:			
Cost of operating revenues	12,460	4,789	31,449
Selling, general and administrative	10,544	5,364	27,469
Depreciation and amortization	4,740	1,158	12,406
	27,744	11,311	71,324
Loss from operations	(12,708)	(6,403)	(36,402)
Other income (expense):			
Gain on sale of investments available-for-sale	--	--	252
Interest income	2,348	2,524	5,228
Interest expense(net of amounts capitalized)	(4,635)	(5,213)	(13,822)
Net loss	(14,995)	(9,092)	(44,744)
Accrued preferred stock dividend	(1,197)	--	(1,926)
Net loss applicable to common stockholders	$ (16,192)	$ (9,092)	$ (46,670)
Basic and diluted loss per share of common stock	$ (.76)	$ (.53)	$ (2.50)
Basic and diluted weighted average shares outstanding	21,282,609	17,154,034	18,670,645

</TABLE>

See accompanying condensed notes to unaudited interim consolidated financial statements.

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MGC COMMUNICATIONS, INC.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	September 30, 1999 (UNAUDITED)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 93,224	$ 11,886
Investments available-for-sale	50,177	9,851
Restricted investments	30,375	20,797
Accounts receivable, less allowance for doubtful accounts of $478 and $257	16,145	6,360
Prepaid expenses and other	599	208
Total current assets	190,520	49,102
Property and equipment, net	151,159	116,380
Investments available-for-sale	35,560	63,212
Restricted investments	--	18,582
Deferred financing costs, net of amortization of $1,686 and $1,065	4,093	4,714
Other assets	482	129
Total assets	$ 381,814	$ 252,119
LIABILITIES, REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 283	$ 332
Accounts payable:		
Trade	8,912	5,314
Property and equipment	15,276	18,577
Accrued interest	10,400	5,200
Accrued other expenses	8,492	2,473
Total current liabilities	43,363	31,896
Senior Secured Notes, net of unamortized discount of $2,875 and $3,307	157,125	156,693
Other long-term debt	269	270
Total liabilities	200,757	188,859
Commitments and contingencies		

Redeemable preferred stock:		
10% Series B convertible preferred stock, 5,277,779 shares authorized and outstanding	46,663	--
Stockholders' equity:		
Preferred stock, 44,722,221 shares authorized and unissued	--	--
Common stock, $0.001 par value, 60,000,000 shares authorized, 22,810,060 and 17,190,428 shares issued, and 22,800,920 and 17,190,428 outstanding	23	17
Additional paid-in capital	227,955	108,991
Accumulated deficit	(91,062)	(44,392)
Less: Treasury stock	(76)	--
	136,840	64,616
Accumulated other comprehensive (loss)income	(360)	817
Notes receivable from stockholders for issuance of common stock	(2,086)	(2,173)
Total stockholders' equity	134,394	63,260
Total liabilities, redeemable preferred stock and stockholders' equity	$ 381,814	$ 252,119

</TABLE>

See accompanying condensed notes to unaudited interim consolidated financial statements.

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MGC COMMUNICATIONS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<TABLE>
<CAPTION>

	REDEEMABLE PREFERRED STOCK		COMMON STOCK	
	SHARES	AMOUNT	SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1997	5,148,570	$16,665	8,799,600	$9
Common stock issued for cash	--	--	100,680	--
Common stock issued for notes receivable	--	--	189,000	--
Warrants and options exercised for common stock	--	--	133,309	--
8% Series A Convertible Preferred Stock issued for cash	1,422,857	4,980	--	--
Accrued preferred stock dividend	--	--	--	--
Common stock issued for cash (IPO)	--	--	4,025,000	4
Conversion of preferred stock to common stock	(6,571,427)	(21,645)	3,942,839	4
Unrealized gain on investments available-for-sale	--	--	--	--
Net loss	--	--	--	--
BALANCE AT DECEMBER 31, 1998	--	$ --	17,190,428	$17
Unrealized loss on investments available-for-sale	--	--	--	--
Common stock issued	--	--	5,027,001	5
Warrants and options exercised for common stock	--	--	592,631	1
Payment on stockholder's note	--	--	--	--
Repurchase of common stock	--	--	(9,140)	--
10% Series B Convertible Preferred Stock issued for cash	5,277,779	46,663	--	--
Accrued preferred stock dividend	--	--	--	--
Net loss	--	--	--	--
BALANCE AT SEPTEMBER 30, 1999 (UNAUDITED)	5,277,779	$46,663	22,800,920	$23

	ACCUMULATED	TREASURY STOCK	NOTES RECEIVABLE FROM STOCKHOLDERS FOR ISSUANCE OF	ACCUMULATED OTHER COMPREHENSIVE

<S>	DEFICIT	SHARES	AMOUNT	COMMON STOCK	INCOME
BALANCE AT DECEMBER 31, 1997	$(12,463)	--	--	$(688)	$--
Common stock issued for cash	--	--	--	--	--
Common stock issued for notes receivable	--	--	--	(1,485)	--
Warrants and options exercised for common stock	--	--	--	--	--
8% Series A Convertible Preferred Stock issued for cash	--	--	--	--	--
Accrued preferred stock dividend	(654)	--	--	--	--
Common stock issued for cash (IPO)	--	--	--	--	--
Conversion of preferred stock to common stock	790	--	--	--	--
Unrealized gain on investments available-for-sale	--	--	--	--	817
Net loss	(32,065)	--	--	--	--
BALANCE AT DECEMBER 31, 1998	$(44,392)	--	--	$(2,173)	$817
Unrealized loss on investments available-for-sale	--	--	--	--	(1,177)
Common stock issued	--	--	--	--	--
Warrants and options exercised for common stock	--	--	--	--	--
Payment on stockholder's note	--	--	--	11	--
Repurchase of common stock	--	9,140	(76)	76	--
10% Series B Convertible Preferred Stock issued for cash	--	--	--	--	--
Accrued preferred stock dividend	(1,926)	--	--	--	--
Net loss	(44,744)	--	--	--	--
BALANCE AT SEPTEMBER 30, 1999 (UNAUDITED)	$(91,062)	9,140	$(76)	$(2,086)	$(360)

</TABLE>

See accompanying condensed notes to unaudited interim consolidated financial statements.

<PAGE> 6

MGC COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED September 30, 1999	1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$(44,744)	$(22,293)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,406	3,149
Gain on sale of investments available-for-sale	(252)	--
Amortization of debt discount	432	431
Amortization of deferred financing costs	621	658
Changes in assets and liabilities:		
Increase in accounts receivable, net	(9,785)	(2,531)
Increase(decrease) in prepaid expenses and other	(391)	47
Increase in other assets	(403)	(40)
Increase in accounts payable - trade	3,598	2,862
Increase in accrued interest and other expenses	9,292	8,644
Net cash used in operating activities	(29,226)	(9,073)
Cash flows from investing activities:		
Purchase of property and equipment, net of payables	(46,888)	(58,681)
Decrease in accounts payable - property and equipment	(3,301)	--
Purchase of investments held-to-maturity	--	(42,622)
Purchase of investments available-for-sale	(58,720)	--
Sale of investments available-for-sale	45,121	--
Sale of restricted investments	9,004	8,355
Net cash used in investing activities	(54,784)	(92,948)
Cash flows from financing activities:		
Costs associated with issuance of Senior Secured		

Notes and warrants	--	(133)
Proceeds from issuance of Convertible Preferred Stock, net of issuance costs	46,663	4,980
Payments on other long term debt	(296)	(210)
Payments received on stockholder's note	11	--
Proceeds from issuance of common stock	118,970	787
Proceeds from issuance of common stock (IPO)	--	62,963
Net cash provided by financing activities	165,348	68,387
Net increase (decrease) in cash	81,338	(33,634)
Cash and cash equivalents at beginning of period	11,886	45,054
Cash and cash equivalents at the end of period	$ 93,224	$ 11,420
Supplemental schedule of non-cash investing and financing activities:		
Increase in property and equipment purchases included in accounts/notes payable -- property and equipment	$ --	$ 8,455
Property acquired under capital lease	$ 247	--
Stock issued / repurchased from notes receivable	$ (76)	$ 1,485
Increase in accrued preferred stock dividends	$ 1,926	$ --
Other disclosures:		
Cash paid for interest net of amounts capitalized	$ 7,570	$ 10,996

</TABLE>

See accompanying condensed notes to unaudited interim consolidated financial statements.

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MGC COMMUNICATIONS, INC.

Condensed Notes to Unaudited Interim Consolidated Financial Statements

(1) PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of MGC Communications, Inc. (the "Company" or "MGC"), a Nevada corporation, include the accounts of the Company and its wholly-owned subsidiaries, MGC Lease Corporation and MGC LJ.Net, Inc. All significant inter-company balances and transactions have been eliminated.

These consolidated financial statements reflect all normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations, and cash flows for the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission.

The consolidated balance sheet at December 31, 1998 was derived from the audited consolidated financial statements, but does not include all disclosures required under generally accepted accounting principles.

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

<TABLE>
<CAPTION>

<S>	SEPTEMBER 30, 1999 (UNAUDITED) <C>	DECEMBER 31, 1998 <C>
Building and property	$ 5,298	$ 2,653
Switching equipment	113,132	57,045
Leasehold improvements	860	740
Computer hardware and software	3,629	2,218
Office equipment and vehicles	1,532	901
	124,451	63,557
Less accumulated depreciation and amortization	(18,834)	(6,555)

	105,617	57,002
Switching equipment under construction..........	45,542	59,378
Net property and equipment............	$151,159	$116,380

</TABLE>

(3) COMMITMENTS AND CONTINGENCIES

PURCHASE COMMITMENTS

In the ordinary course of business, the Company enters into purchase agreements with its vendors of telecommunications equipment. As of September 30, 1999 and December 31, 1998, the Company had a total for all vendors of approximately $53.4 million and $15.4 million, respectively, of remaining purchase commitments for purchases of switching and other telecommunications equipment.

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(4) RISKS AND UNCERTAINTIES

The Company recognizes operating revenues from communications services in the period the related services are provided. Due to current disputes and pending arbitration and litigation, the Company has recognized switched access revenues based on management's best estimate of the probable collections from such revenue. For the nine month period ended September 30, 1999 and for the year ended December 31, 1998, the Company has recognized in operating revenues switched access revenues of approximately $12,079,000 and $7,378,000, respectively. Included in accounts receivable in the accompanying balance sheets as of September 30, 1999 and December 31, 1998 are net receivables from carrier access billings of approximately $12,262,000 and $3,590,000, respectively.

(5) REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

In May 1999, the Company completed a private placement offering in which 5,277,779 shares of Series B Convertible Preferred Stock were issued at $9.00 per share for proceeds to the Company of $46.7 million, net of expenses.

Dividends accrue at the rate of 10% per annum, are cumulative and are payable in preference to any dividends that may be paid with respect to the Company's common stock. Beginning November 22, 1999, the Company may elect to terminate the accrual of dividends if the Company's stock price exceeds $27.00 per share (subject to certain adjustments) for 20 consecutive trading days (the "Market Threshold") prior to May 4, 2002.

The holders of the Series B Preferred Stock have the right to nominate one or more directors depending on the size of the Company's Board of Directors and the percentage of the Company's stock represented by the outstanding Series B Preferred Stock. The holders of the Series B Preferred Stock also have the right to have their Board representative serve on each committee of the Company's Board. The holders of the Series B Preferred will vote along with the common stock on an as-converted basis.

The Series B Preferred Stock is convertible into common stock at any time at the option of the holder. Initially, each share of Series B Preferred Stock is convertible into one share of common stock. The conversion price is subject to adjustment as a result of stock splits, stock dividends and certain other issuances of additional stock.

After the earlier of May 24, 2000 or the date on which the holders of the Series B Preferred Stock exercise their demand registration rights, the Company has the right to require the conversion of the Series B Preferred Stock if the Company's stock price exceeds the Market Threshold referenced above. If the Company requires conversion before May 4, 2002, no accrued dividends will be paid.

In July 1999, the Company issued 5,000,000 shares of common stock and received net proceeds, after expenses, of approximately $118.1 million. In this offering, existing stockholders sold an additional 587,695 shares of common stock for which the Company did not receive any proceeds.

In September 1999, the Company reacquired 9,140 shares of its common stock at an aggregate purchase price of $76,136 in partial cancellation of a note receivable from stockholder for issuance of common stock and is classified as treasury stock in the accompanying consolidated financial statements.

(6) SUBSEQUENT EVENTS

In October 1999, the Company entered into an agreement with Providence Equity Partners III L.P. and affiliate ("Providence")and JK&B Capital III L.P. ("JK&B III") under which Providence and JK&B III (the "Purchasers") are to purchase 1,250,000 shares of newly issued Series C Convertible Preferred Stock at $28.00 per share for a total consideration of $35.0 million. The terms of the new class of Series C Preferred Stock will be similar to those of the Series B Preferred Stock except for pricing and related features.

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

OVERVIEW

We began providing competitive local dialtone services to small business and residential customers in December 1996, and began offering long distance services by February 1998. Currently, we have switches fully operational in Las Vegas, Atlanta, Chicago, southern Florida, and in selected areas of southern California, including Los Angeles and San Diego.

Our revenues are generated from sales of communications services consisting primarily of local phone service, long distance services, switched access billings and non-recurring charges, principally installation charges.

Our principal operating expenses consist of cost of operating revenues, selling, general and administrative expenses and depreciation and amortization expense. Cost of operating revenues consists primarily of access charges, line installation expenses, transport expenses, compensation expenses of technical personnel, long distance expenses and collocation lease expenses. Selling, general and administrative expenses consist primarily of compensation expenses, advertising, provision for bad debts, professional fees and office rentals. Depreciation and amortization expense includes depreciation of switching and collocation equipment as well as general property and equipment.

During 1998, we expanded significantly with the installation of four additional switches and the build-out of 182 additional collocation sites. During the first nine months of 1999, we have continued this expansion with the build-out of 81 additional collocation sites. As expected, both cost of operating revenues and selling, general and administrative expenses increased as many of the fixed costs of providing service in new markets are incurred before significant revenue can be generated from those markets. In addition, we incurred significant marketing costs to build our initial base of customers in our new markets.

Building and expanding our business has required and will continue to require us to incur significant capital expenditures primarily consisting of the costs of purchasing switches, associated equipment and land for switching sites and constructing buildings or improving leased buildings to house our switching and collocation facilities. As part of our "smart build" network strategy, we purchased and installed host switches in each of our markets while leasing the means of transporting voice and data traffic from these switches to our customers' telephones or other equipment. We believe this facilities-based strategy, while initially increasing our level of capital expenditures and operating losses, will enhance long-term financial performance in comparison to a resale strategy.

We have experienced operating losses and generated negative cash flow from operations since inception and expect to continue to generate negative cash flow from operations for the foreseeable future while we continue to expand our network and develop our product offerings and customer base. There can be no assurance our revenue or customer base will grow or that we will be able to achieve or sustain positive cash flow from operations.

RESULTS OF OPERATIONS

QUARTER ENDED - SEPTEMBER 30, 1999 VS. SEPTEMBER 30, 1998

Total operating revenues increased to $15.0 million for the quarter ended September 30,1999 as compared to $4.9 million for the quarter ended September 30, 1998. The 206% increase is a result of the increase in the number of lines. We had 117,210 lines in service at the end of the third quarter 1999 as compared to 35,246 lines in service at September 30, 1998, a 233% increase.

Cost of operating revenues for the quarter ended September 30, 1999 was $12.5 million as compared to $4.8 million for the quarter ended September 30, 1998. The 160% increase is due to the increased number of lines in service and installation and operational expenses associated with the expansion of our network.

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For the quarter ended September 30, 1999, selling, general and administrative expenses totaled $10.5 million; a 94% increase over the $5.4 million for the quarter ended September 30, 1998. The increase is a result of increased costs attributable to marketing and delivering our service and supporting our continued network expansion.

For the quarter ended September 30, 1999, depreciation and amortization was $4.7 million as compared to $1.2 million for the quarter ended September 30, 1998. This increase is a result of placing additional assets in service in accordance with the planned build-out of our network.

Gross interest expense for the quarter ended September 30, 1999, totaled $5.6 million compared to $5.5 million for the quarter ended September 30, 1998. Interest capitalized for the quarter ended September 30, 1999 increased to $1.0 million as compared to $0.3 million for the quarter ended September 30, 1998. The increase in interest capitalized is due to the increase in switching equipment under construction. Gross interest expense is primarily attributable to the 13% Senior Secured Notes due 2004 ("Senior Secured Notes") we issued in September 1997.

Interest income was $2.4 million during the quarter ended September 30, 1999 compared to $2.5 million for the quarter ended September 30, 1998. The 4% decrease is a result of lower cash balances as cash and investments have been used to purchase switching equipment, pay interest on the Senior Secured Notes, and fund operating losses.

We incurred net losses of $15.0 million during third quarter 1999 and $9.1 million during the third quarter 1998.

NINE MONTH PERIOD ENDED - SEPTEMBER 30, 1999 VS. SEPTEMBER 30, 1998

Total operating revenues increased to $34.9 million for the nine months ended September 30, 1999 as compared to $11.8 million for the nine months ended September 30, 1998. The 196% increase is a result of the increase in the number of lines in service and increased long distance service and switched access revenues.

Cost of operating revenues for the nine months ended September 30, 1999 was $31.4 million as compared to $10.6 million for the nine months ended September 30, 1998. The 196% increase is due to the increased number of lines in service and installation and operational expenses associated with the expansion of our network.

For the nine months ended September 30, 1999, selling, general and administrative expenses totaled $27.5 million; a 143% increase over the $11.3 million for the nine months ended September 30, 1998. The increase is a result of increased costs attributable to marketing and delivering our service and supporting our continued network expansion.

For the nine months ended September 30, 1999, depreciation and amortization was $12.4 million as compared to $3.1 million for the nine months ended September 30, 1998. This increase is a result of placing additional assets in service in accordance with the planned build-out of our network.

Gross interest expense during each nine-month period ended September 30, 1999 and 1998 totaled $16.7 million. Interest capitalized for the nine months ended September 30, 1999 increased to $2.9 million as compared to $0.6 million for the nine months ended September 30, 1998. The increase in interest capitalized is due to the increase in switching equipment under construction. Gross interest expense is primarily attributable to the Senior Secured Notes issued in September 1997.

Interest income was $5.2 million during the nine months ended September 30, 1999 compared to $7.0 million for the nine months ended September 30, 1998. The 26% decrease is a result of the decrease in cash and investments since September 30, 1998. Cash and investments have been used to purchase switching equipment, pay interest on the Senior Secured Notes, and fund operating losses.

We incurred net losses of $44.7 million and $22.3 million for the nine-month periods ended September 30, 1999 and 1998, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our operations require substantial capital investment for the purchase of communications equipment and the development and installation of our network. Capital expenditures for the quarter ended September 30, 1999 were $22.9 million. We expect we will continue to require substantial amounts of capital to fund the purchase of the equipment necessary to continue expanding our network footprint in our existing markets and to develop new products and services. In addition, we expect to enter new markets during 2000. We expect capital expenditures of approximately $400.0 million over the next five years, including approximately $25 million of capital expenditures expected during the last three months of 1999. We expect to fund these capital expenditures from cash on hand and public or private debt or equity financing. In addition, we are currently evaluating financing proposals from vendors and equipment lease financing companies. We cannot assure you that we will be successful in raising sufficient debt or equity capital on acceptable terms.

In May 1999, we issued 5,277,779 shares of Series B Convertible Preferred Stock at $9.00 per share for net proceeds of $46.7 million.

In July 1999, we issued 5,000,000 shares of common stock and received net proceeds, after expenses, of approximately $118.1 million. In this offering, existing stockholders sold an additional 587,695 shares of common stock for which we did not receive any proceeds.

In October 1999, we entered into an agreement with Providence and JK&B III under which Providence and JK&B III agreed to purchase 1,250,000 shares of newly issued Series C Convertible Preferred Stock at $28.00 per share for a total consideration of $35.0 million.

The substantial capital investment required to initiate services and fund our initial operations has exceeded our operating cash flow. This negative cash flow from operations results from the need to establish our network in anticipation of connecting revenue-generating customers. We expect to continue recording negative cash flow from operations for a period of time because we are continuing network expansion activities. We cannot assure you we will attain break-even cash flow from operations in subsequent periods. Until sufficient cash flow from operations is generated, we will need to use our current and future capital resources to meet our cash flow requirements and may be required to issue additional debt and/or equity securities. We expect our available cash should be adequate to fund our operations and planned capital expenditures through the end of the first quarter 2001. The indenture governing the Senior Secured Notes and the terms of our Series B Convertible Preferred Stock impose restrictions upon our ability to incur additional debt or issue preferred stock.

IMPACT OF YEAR 2000

The Year 2000 issue, commonly referred to as Y2K, is a result of the way some computer systems store dates. In many cases, when a date is stored by a computer, a two digit field has been used to store the year (i.e., 01/01/98 = January 1, 1998). The system assumes that the first two digits in the year field are "19." With the end of the century approaching, those same systems should reflect 01/01/00 as being "January 1, 2000." However, a non-compliant system will read 01/01/00 as January 1, 1900.

We have been focused on Year 2000 issues since our inception in 1996. In recognition of the priority associated with the Year 2000 issue, we established a Year 2000 Project Team at the corporate level to lead the Year 2000 effort. Since we are young, much of the hardware and software currently in place was purchased with Y2K readiness in mind. However, in most cases, we have relied on representations of our vendors as to the Y2K compliance of the hardware and software we have purchased. We cannot assure you the vendor representations we relied upon are accurate or complete or that we will have recourse against any vendors whose representations prove misleading.

Our Y2K plans include a number of phases designed to evaluate the Y2K readiness of our network and computer systems. We have completed the inventory and assessment of all network and information systems and have begun the renovation and testing phases. Renovation of mission critical components of our network and operation support system for Year 2000 compliance was completed in June 1999. We will continue integration testing throughout the remainder of 1999.

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Subject to additional compliance testing, we believe our essential processes, systems and business functions will be ready for the 1999 to 2000 transition.

Our significant vendors, including the major communications equipment suppliers, have assured us their applications are Year 2000 compliant. Our business also relies on other third parties. The ability of third parties upon whom we rely to adequately address their Year 2000 issues is outside our control. However, we are coordinating efforts with these parties to minimize the extent to which our business will be vulnerable to their failure to remediate their own Year 2000 issues. We cannot assure you the systems of the third parties will be modified on a timely basis. Our business, financial condition and results of operations could be materially adversely affected by the failure of the systems and applications of third parties to properly operate after 1999.

We are continuously evaluating our contingency plans should mission critical systems fail as a result of Y2K issues.

In a recent SEC release regarding Year 2000 disclosure, the SEC stated that public companies must disclose the most reasonably likely worst case Year 2000 scenario. Although it is not possible to assess the likelihood of any of the following events, each must be included in a consideration of worst case scenarios: widespread failure of electrical, gas and similar suppliers serving us; widespread disruption of the services provided by common communications carriers; similar disruption to the means and modes of transportation for our employees, contractors, suppliers and customers; significant disruption to our ability to gain access to, and remain working in, office buildings and other facilities; the failure of substantial numbers of our critical computer hardware and software systems, including both internal business systems and systems controlling operational facilities such as electrical generation, transmission and distribution systems; and the failure of outside entities' systems, including systems related to banking and finance.

If we cannot operate effectively after December 31, 1999, we could, among other things, face substantial claims by customers or loss of revenue due to service interruptions, inability to fulfill contractual obligations or to bill customers accurately and on a timely basis, as well as increased expenses associated with litigation, stabilization of operations following critical system failures and the execution of contingency plans. We could also experience an inability by customers and others to pay, on a timely basis or at all, obligations owed to us. Under these circumstances, the adverse effects, although not quantifiable at this time, could be material.

FORWARD LOOKING STATEMENTS

Certain statements contained in this Report that state our intentions, hopes, beliefs, expectations or predictions of the future are forward-looking statements. We wish to caution you these forward-looking statements such as our plans to expand our existing network through collocation and into new markets, statements regarding development, introduction and acceptance of our products or business, statements regarding our ability to achieve or exceed our goals or reach profitability in the future, statements regarding the adequacy or availability of financing, statements regarding the outcome of regulatory proceedings or litigation or the effect of government regulations, statements regarding our ability or the ability of others to become Y2K compliant or similar statements contained in this Report regarding matters that are not historical facts, are only estimates or predictions. Actual results may differ materially as a result of risks facing us or actual results differing from assumptions underlying such statements. Such risks and assumptions include, but are not limited to, our ability to successfully market our existing and proposed services to current and new customers in existing and planned markets, successfully develop commercially viable data and Internet offerings, access markets, install switches and obtain suitable locations for our switches, negotiate and renew suitable interconnection agreements with the ILECs, obtain an acceptable level of cooperation from the ILECs, all in a timely manner, at reasonable cost and on satisfactory terms and conditions, as well as regulatory, competitive, legislative and judicial developments that could materially affect our future results. All forward-looking statements made in this Report are expressly qualified in their entirety by these cautionary statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

All of our long-term debt bears fixed interest rates, however, the fair market value of this debt is sensitive to changes in prevailing interest rates. We run the risk that market rates will decline and the fair market value of required payments will exceed those based on the current market rate. We do not use interest rate derivative instruments to manage our exposure to interest rate changes.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to numerous state and federal administrative proceedings. In these proceedings, we are seeking to define and/or enforce ILEC performance requirements related to:

- the cost and provisioning of unbundled network elements;
- the establishment of customer care and provisioning;
- the allocation of subsidies; and
- collocation costs and procedures.

The outcome of these proceedings will establish the rates and procedures by which we obtain and provide unbundled network elements and could have a material effect on our operating costs.

We are also involved in legal proceedings in which we are seeking to enforce our tariffed rates for originating and terminating switched access. As of September 30, 1999, we had outstanding receivables of approximately $12.2 million attributable to access charges from long distance carriers. Some of these long distance carriers have refused to pay the full amount of the access charges billed to them. We initiated proceedings against AT&T at the FCC under an FCC procedure for expedited settlement of disputes between common carriers. On July 16, 1999, the FCC released a decision ordering AT&T to pay us the full amount we billed to them for originating switched access charges from August 1998 through March 1999 at our tariffed rate, plus interest. This decision is subject to appeal by AT&T. We are currently preparing to file a similar complaint against Sprint. The final outcomes of the disputes with AT&T and Sprint are uncertain. If we are unable to collect our tariffed access charges from these long distance carriers, it could have a material impact on our financial condition.

On July 29, 1999, we settled our antitrust lawsuit against Sprint Corporation. Under the terms of the settlement, we and other CLECs will receive a residential market entry incentive of up to $3.65 per residential line in Nevada per month for the term of the agreement, which expires June 30, 2002.

From time to time, we engage in other litigation and governmental proceedings in the ordinary course of business. We do not believe that any pending litigation or governmental proceedings will have a material adverse effect on our results of operations or financial condition.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) During third quarter 1999, we issued 145,000 shares of common stock pursuant to the exercise of warrants acquired in a private placement, with respect to which we received nominal proceeds. All of the securities were acquired by the recipients thereof for investment and with no view toward the sale or redistribution thereof. In each instance, the offers and sales were made without any public solicitation; the stock certificates bear restrictive legends; and appropriate stop transfer instruction have been or will be given to the transfer agent. No underwriter was involved in this transaction and no commissions were paid with respect to the sale of such securities. These issuances of securities were made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933 (as a transaction by an issuer not involving a public offering) and by Section 3(a)(9) of the Securities Act of 1933.

(d) Our Registration Statement No. 333-49085 was declared effective on May 11, 1998, which was the offering date of our common stock thereunder. During the period from May 11, 1998 until

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September 30, 1999, we paid $4,790,000 in underwriting discounts and commissions and other offering expenses of $672,000 for total offering expenses of $5,462,000, resulting in net offering proceeds to us of $62,963,000. Of such amounts, expenses of $16,000 were paid for charter services to a related party of which two current board members are major shareholders. No other amounts were paid for offering expenses directly or indirectly to officers, Directors, 10% or greater stockholders or other affiliates of ours.

During the period from May 11, 1998 until September 30, 1999, the net offering proceeds were invested in government securities and money market funds. None of such amounts were paid directly or indirectly to officers, Directors, 10% or greater stockholders or other affiliates of ours.

ITEM 3. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The following exhibits are filed as part of this report. The exhibit numbers refer to Item 601 of Regulation S-K.

27 Financial Data Schedule

(b) The following Current Reports on Form 8-K have been filed by the Company:

Form 8-K dated July 19, 1999 to report the second quarter 1999 earnings.

Form 8-K dated October 14, 1999 to report the third quarter 1999 earnings and the hiring of a new chief executive officer and an agreement to issue $35 million of preferred stock at $28.00 per share.

SIGNATURES

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

<TABLE>
<S> <C>
MGC COMMUNICATIONS, INC.

Date: November 15, 1999

/s/ Maurice J. Gallagher, Jr.

Maurice J. Gallagher, Jr.
Chairman of the Board

Date: November 15, 1999

/s/ Linda M. Sunbury

Linda M. Sunbury
Senior Vice President
Chief Financial Officer


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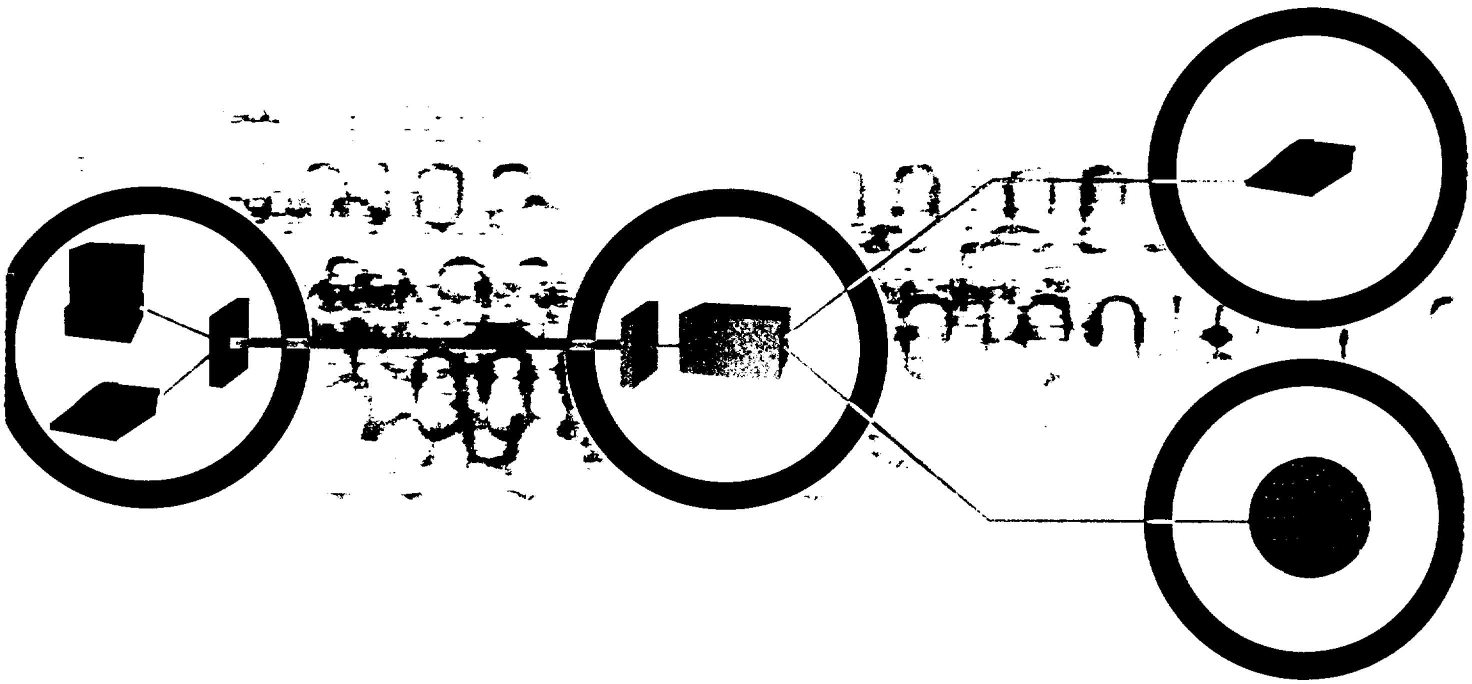
BUILDING THE CONVERGENT NETWORK



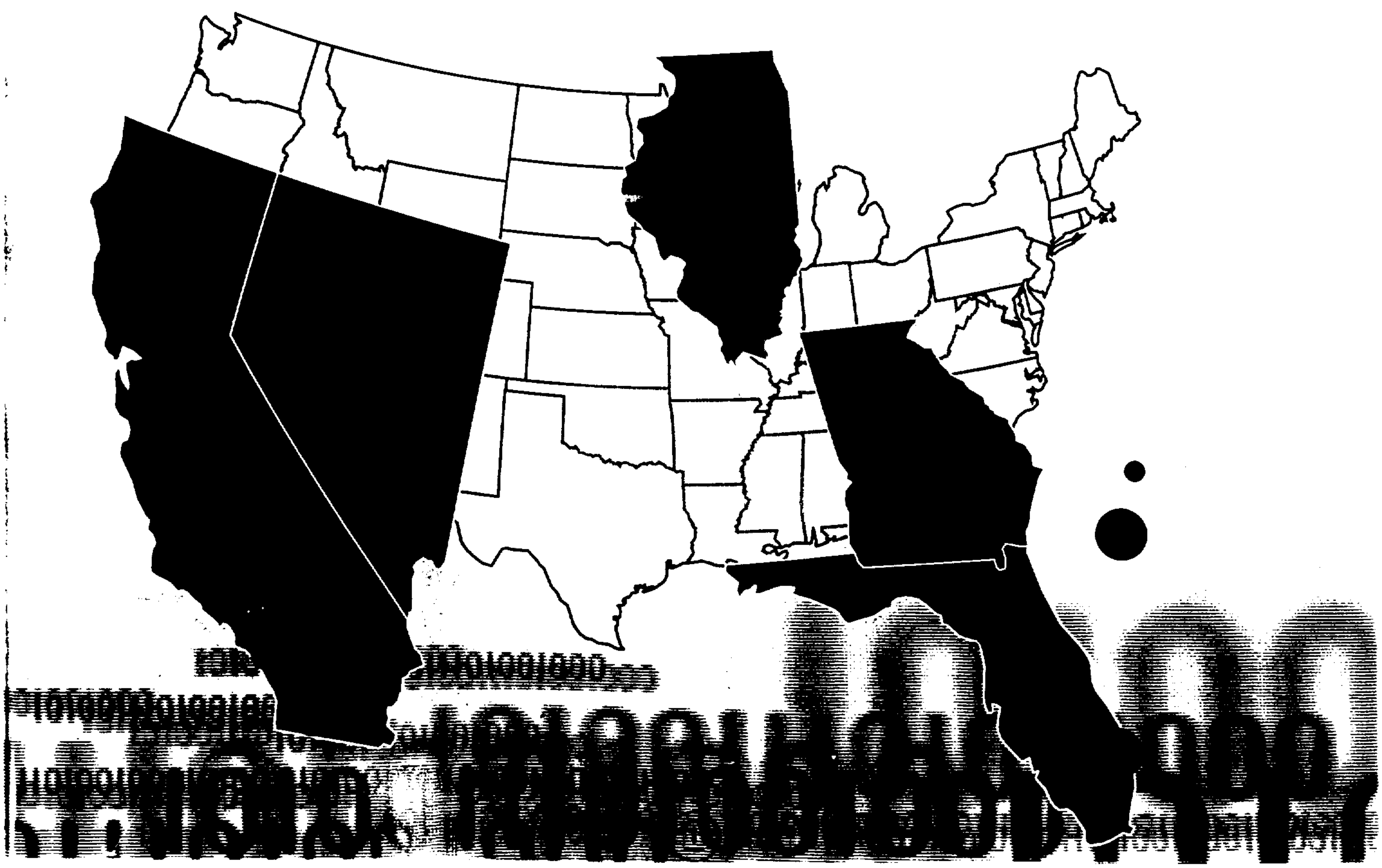
MGC COMMUNICATIONS, INC. 1998 ANNUAL REPORT

	Year Ended Dec 31, 1998	Year Ended Dec 31, 1997	Quarter Ended Dec 31, 1998	Quarter Ended Sep 30, 1998	Quarter Ended Jun 30, 1998	Quarter Ended Mar 31, 1998
Highlights of Operations:						
Operating Revenue [1]	$ 18,249	$ 3,791	$ 6,475	$ 4,908	$ 4,018	$ 2,848
EBITDA [1]	$(16,757)	$ (6,577)	$ (6,705)	$ (5,245)	$ (2,721)	$ (2,086)
Highlights of Financial Position:						
Gross Property and Equipment [1]	$122,935	$ 25,934	$122,935	$ 93,070	$ 61,751	$ 36,605
Total Assets [1]	$252,119	$191,977	$252,119	$258,596	$258,683	$198,807
Key Financial Data:						
Access Lines Sold and In Service	61,205	18,864	61,205	47,022	33,459	25,624
Addressable Lines [1]	11,362	1,286	11,362	4,127	2,418	1,501
Collocations Established	207	25	207	85	48	29

[1] In Thousands

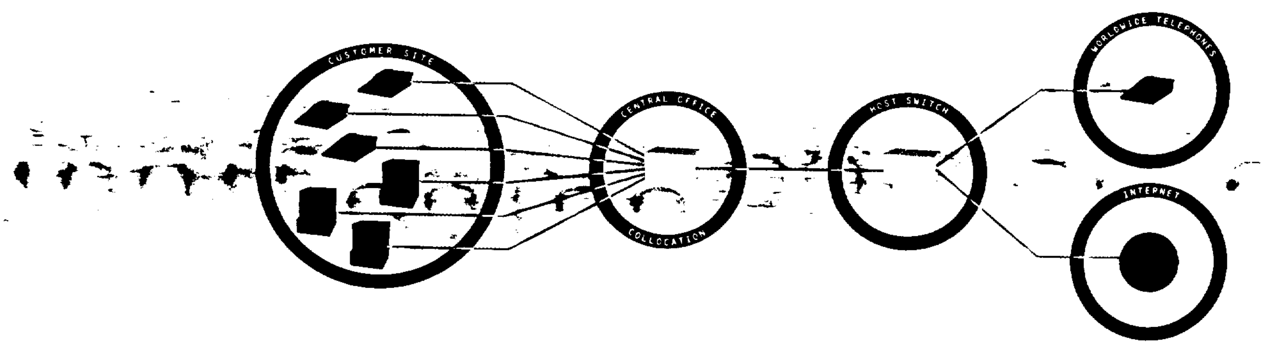
MGC is a new generation, facilities-based integrated communications services provider. Targeting small businesses, residential customers, and independent pay phone operators, we are focused on the suburban areas of large metropolitan markets. We currently operate through a network of over 200 collocates in Atlanta, Chicago, Las Vegas, Los Angeles, Long Beach, San Diego and Fort Lauderdale. As of year-end 1998, these collocate sites allowed us access to a market of 11.4 million lines.

MGC is building the convergent network. And we have been building it since inception – using a sophisticated, flexible architecture supported in the back office by advanced internal MIS. We have also developed business relationships with five Incumbent Local Exchange Carriers (ILECs). Since inception and while we were building, we sold and installed over 61,000 access lines. With our network, relationships and customers, the foundation is in place to go to the next step: bundling telephony and high-speed data combined in a single line.



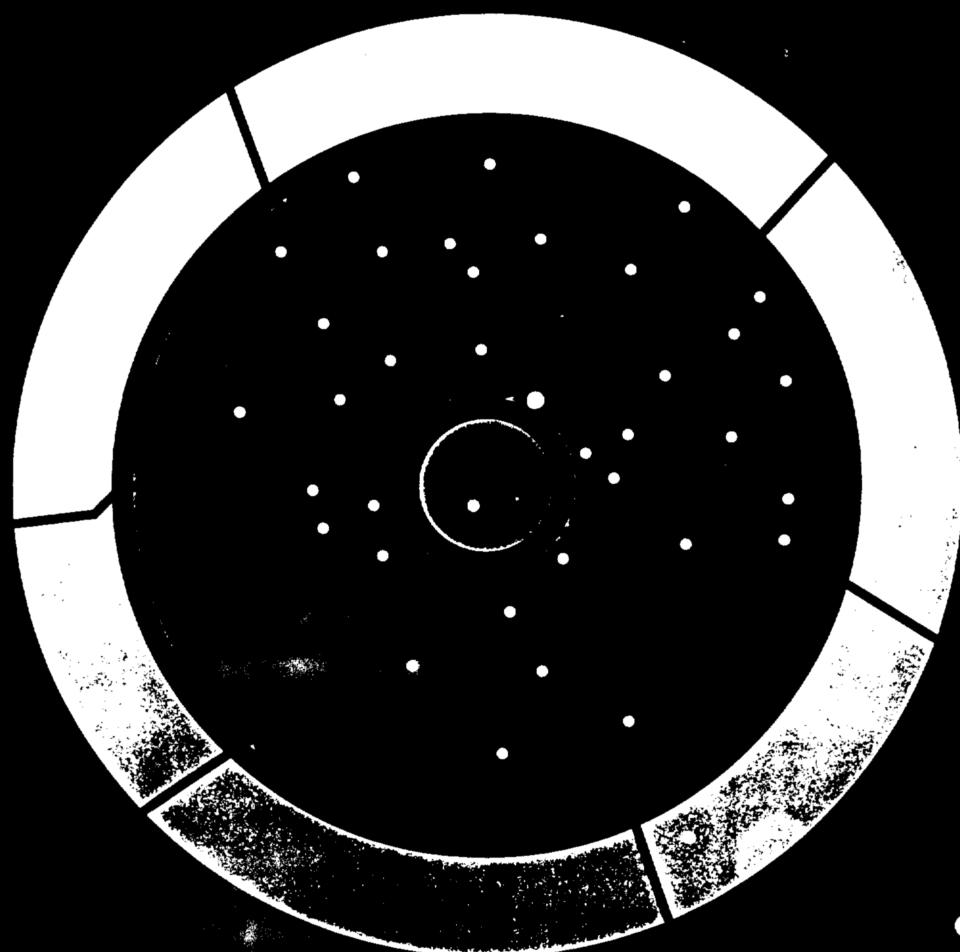
Putting the Infrastructure in Place

At MGC, we are focused on owning the network intelligence which allows us control of our customer base. We build and own the critical components of our network--switches and collocate facilities. We believe this strategy allows us to establish our first-to-market advantage.



In essence, our "Smart Build" strategy involves: (1) installing and owning the intelligent switches and related equipment in collocated facilities that routes and processes traffic, and (2) using transport, particularly unbundled loops from the ILEC. Access to unbundled loops allows us to serve the largest segment of the communications market, particularly small business customers with 5-15 lines. To date, competition for these customers from other new carriers has been minimal in each of our operational markets.

Following passage of the Telecommunications Act of 1996, which required ILECs to open their markets to competition, MGC moved quickly to secure and build the collocate sites and transport network to connect to our customers. As a result, we are located in prime collocates with large numbers of addressable lines. With over 11 million addressable lines at year-end 1998, we believe we have one of the largest network footprints of addressable lines of any Competitive Local Exchange Carrier (CLEC) in the markets we serve.



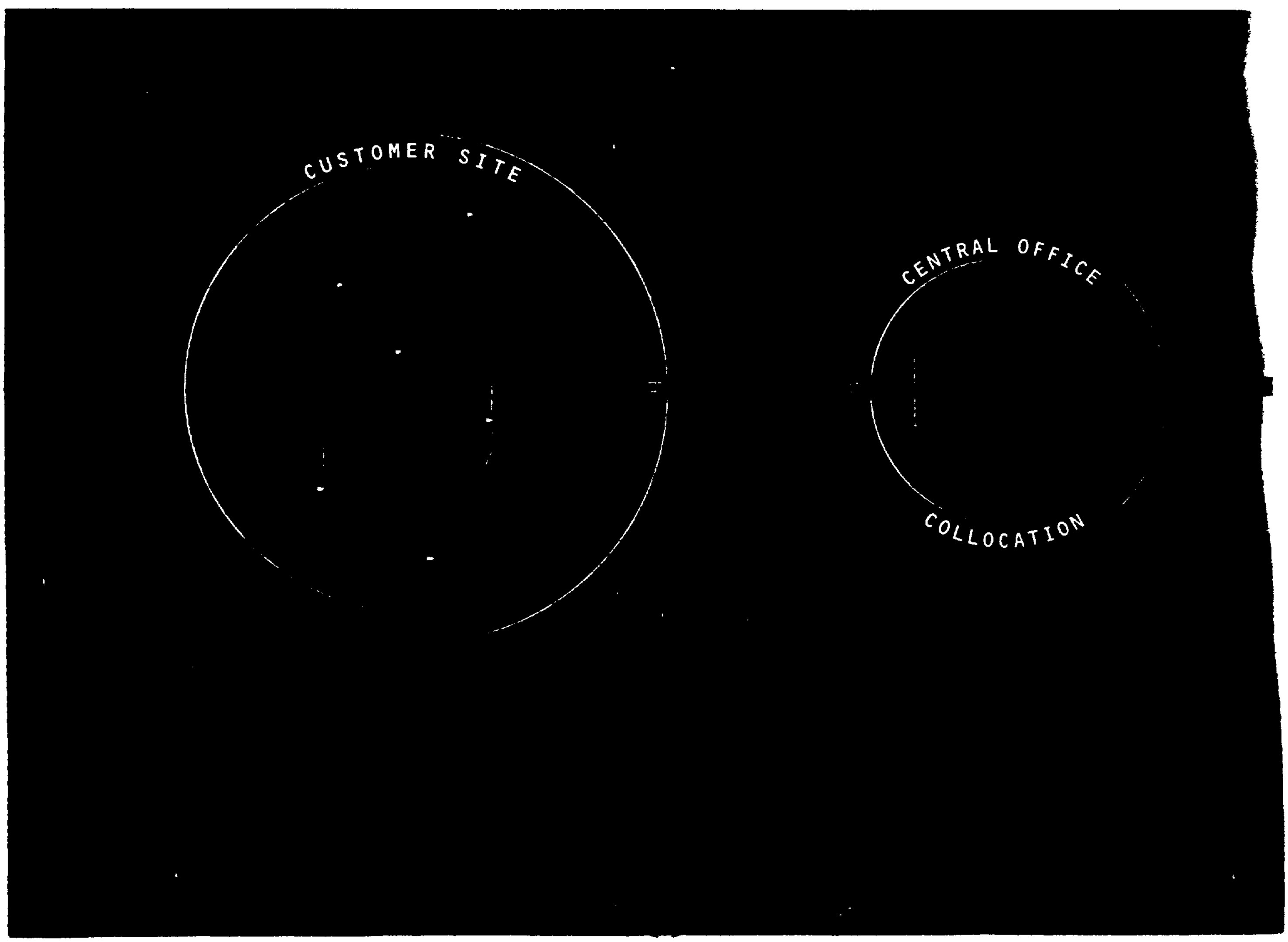
This represents MGC's host switch location in each market area. MGC has 7 Nortel DMS - 500 switches in operation.

These represent MGC's collocated facilities. At year-end 1998, MGC had 207 collocates which will provide access to 11.4 million addressable lines.

MGC targets the suburban/urban ring of Tier I markets. We build our network through collocation in the ILEC's facilities as represented by the dots shown in the middle ring of this sample market diagram. These areas have large concentrations of addressable lines, which serve MGC's targeted customer base – small businesses and independent pay phone operators.

Putting the Infrastructure to Work

MGC believes the world is ready for the benefits of a bundled voice and high-speed data communications solution. We are well positioned to incorporate the technology which facilitates this bundled solution thanks to the flexible, intelligent infrastructure we have built.

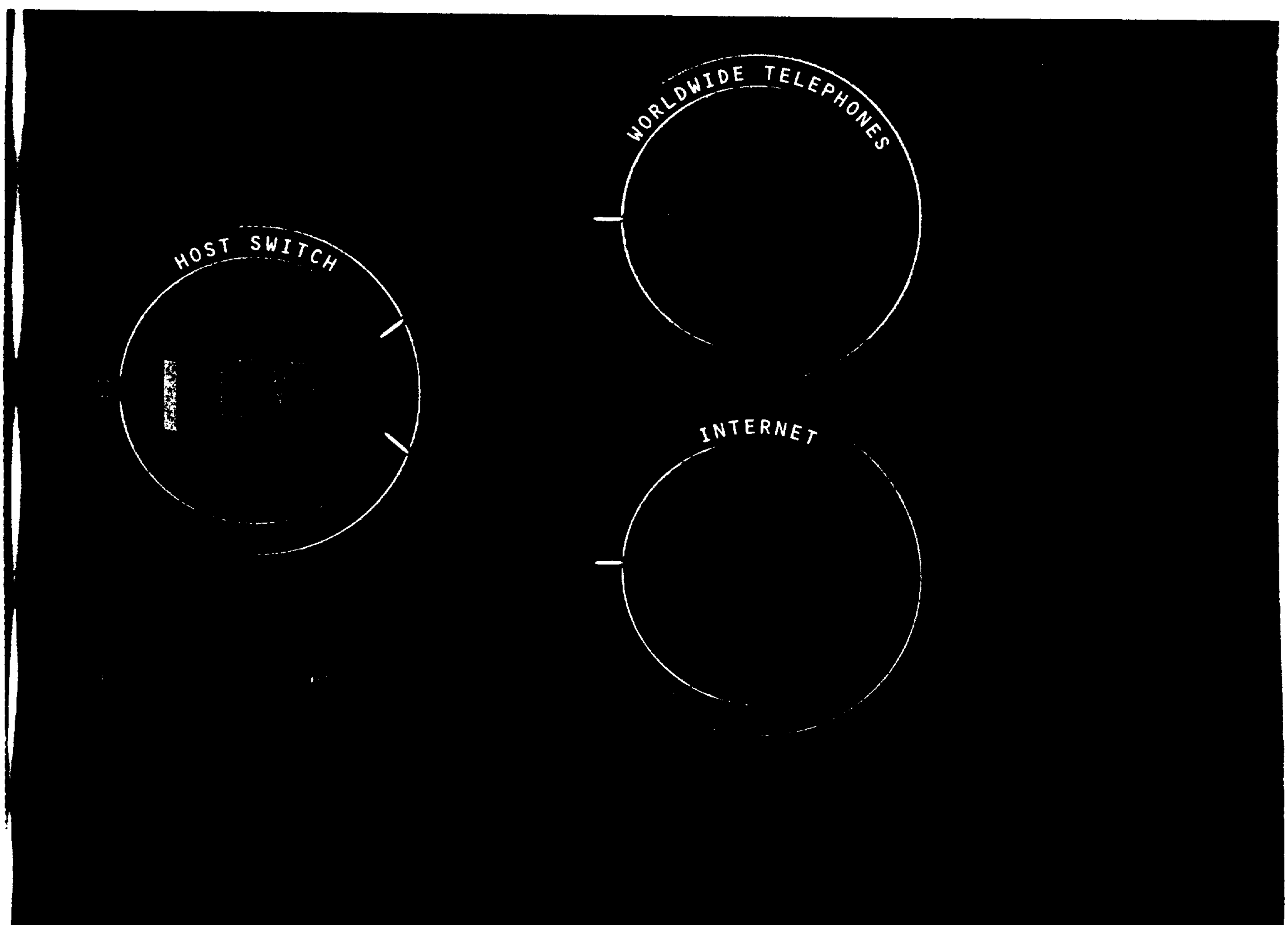


Our 1999 objective is to leverage our existing network through selling and provisioning our traditional telephony products.

We are also looking ahead to the next generation (actually a revolution) of telephony. The world is ready for the benefits of an innovative bundled voice and high-speed data communications solution. Our network is ideally suited for the deployment of this new technology, which transforms the "last mile" of traditional telephony's architecture into the "first mile" of a bundled voice and data delivery. This new technology will provide our targeted small business customers a one-stop solution for their telephony and data needs, including billing and customer service.

To provide this product, advanced devices installed at the customer's location and in central office facilities enhance the capacity of an existing copper line enabling it to carry multiple voice lines and data packets simultaneously. The Integrated Access Device (IAD) located on the customer's premises creates data and voice asynchronous transfer mode (ATM) packets for transport on the copper line connecting the customer to the second device, the Digital Subscriber Line Access Multiplexer (DSLAM) located in MGC's collocated facility. DSLAMs provide termination points for numerous customer IADs and facilitate the transport of ATM packets to MGC's host site, which is the aggregation point for many central offices where MGC is collocated. We believe we will be one of the first access providers to use this technology to deliver a total communications solution to small business customers. Moreover, our infrastructure, relationships, and focus is expected to facilitate our planned deployment.

This technology also positions us well for the potential future offering of a wide range of innovative products and services to our customers, including transparent Local Area Network services, virtual private networks, voice over ATM, corporate voice and data access, and telecommuting services traditionally not offered to our target markets. Additionally, MGC will offer customers the benefits of bundled products, competitively priced through simplified flat rate packages, all presented on a single bill.

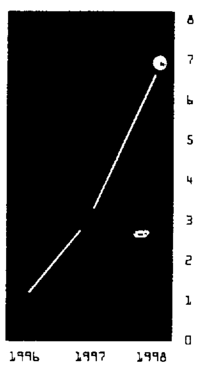


To Our Stockholders

Since this is our first opportunity to address the majority of our investors, we'd like to take a moment to discuss our efforts to date and how they are shaping MGC's future. Today we believe your company has positioned itself to become one of the first integrated communications services providers able to deliver traditional telephony services and high-speed data on the same line via xDSL technology. This new technology is critical to providing affordable broadband access to the majority of the communications market, including our targeted small business customers. We believe MGC is ideally positioned to effectively implement this technology.

Since our inception, we have accomplished a number of milestones:

- We were one of the first integrated communications services providers to propose a "Smart Build" strategy resulting in a scalable, intelligent network infrastructure.
- We were one of the first CLECs to establish collocation facilities in order to access customers via the local line rather than through resale of the ILECs' product sets.
- We were one of the first to selectively target the small business market segment.

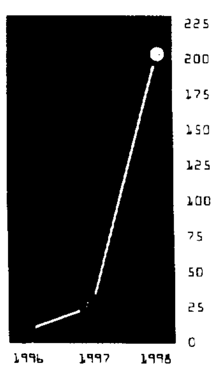


SWITCHES DEPLOYED

We are also proud of our financial performance to date. During 1998, we recorded $18.2 million in revenue, added over 42,000 lines to our network, achieved positive EBITDA in our first market and established a sizable footprint for future growth. Our employee base grew from 151 at the end of 1997 to 425 by year-end. We want to thank each and every employee for their hard work and contributions during the past year.

Facilities-Based Company, On-Network Strategy

We owe many of our initial successes to a critical decision made early in our corporate history–namely, to be a facilities-based company. To understand this crucial distinction between MGC and many other CLECs, it's helpful to recall events immediately following deregulation of the telecommunications industry in 1996. While many companies scrambled to enter the local dial tone marketplace as resellers of ILECs' products, we quickly determined that resale was an undesirable strategy due to poor profit margins. Instead, we focused on developing an on-network strategy. By installing our own switching infrastructure, we could retain control of our customers and deploy our capital where it could be most productive, in network intelligence. Moreover, this approach allows us to deploy capital incrementally with the growth in our customer base.



COLLOCATION SITES ESTABLISHED

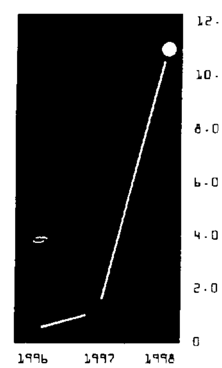
A key requirement in our network build was to construct collocation facilities in the incumbents' central offices to access unbundled loops. We were one of the first CLECs to employ this strategy, specifically targeting the suburban/urban ring of large metropolitan markets. This strategy reduced competition from new entrants and allowed us to access, via our network, high densities of our targeted small business and pay phone customers. These incumbent collocation sites are connected to our host switch in each of the seven major metropolitan areas we serve.

As of year-end 1998 we:

- installed 7 Nortel DMS-500 switches;
- established 207 central office collocations;
- built access to an addressable market of 11.4 million lines;
- sold and installed in excess of 61,000 access lines, 97% of which are "on-net."

Said another way, we are unbundled loop specialists. By exercising control from the customer's point of connection to our network we can add value and evolve product enhancements. MGC's value proposition is achieved by providing single-source telephony to our customers - with simpler pricing and one bill. Pursuing this philosophy, during 1998 we also demonstrated that our basic network strategy and service model is sound, turning EBITDA positive in Las Vegas within 15 months from the commencement of operations.

A critical component of our success is our back office system. Internal systems are paramount for tracking our sales and provisioning efforts, billing and financial reporting and answering customers' inquiries. We chose to build our back office billing and customer care systems ourselves. This has enabled us to create an optimal internal platform to support the new products planned for 1999 and beyond.



ADDRESSABLE LINES IN MILLIONS

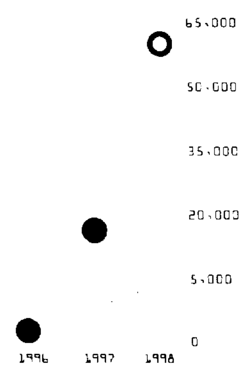
By the end of 1998, we recognized the need to enhance our product offering to meet the growing customer demand for data services. To assist in meeting this need, we acquired LjNet, an Internet Service Provider to facilitate our offering of a dial-up Internet product. Our offering, **MGCi.com**, is the first step toward the bundled voice and high-speed data solution to follow. The introduction of this next generation solution will allow us to migrate from a primarily commodity-based product set to one incorporating true product differentiation from our competition.

1999: Selling and Provisioning

Last year, we spent a great deal of our time and efforts constructing our network, adding four new switches and over 180 collocation facilities providing year-end access to over 11 million lines. This year we will concentrate on aggressively selling and provisioning new lines on our expanded network.

Selling

We will leverage our sales capabilities continuing our focused sales and marketing strategy which targets small businesses and independent pay phone operators. Our current product set consists of local dial tone, custom calling features and long distance service – the basic elements required by our targeted customers. By choosing to adhere to this streamlined product list, the sales cycle with our customers is a limited time event, thus maximizing our sales efforts and resulting in higher productivity. The direct sales force will be greatly expanded in 1999 to provide appropriate sales coverage for our extensive network. Additionally, we will continue developing agent/vendor channels.



ACCESS LINES SOLD AND IN SERVICE

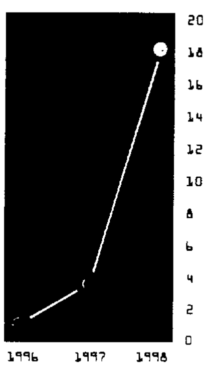
Provisioning

In the course of building our local networks across the country, we have developed productive relationships with five ILECs. We have learned their processes for collocating and provisioning unbundled loops, become familiar with their individual corporate cultures and established relationships at their various points of contact. Additionally, we have become familiar with, and have started to electronically interact with their Operating Support Systems (OSS), to more efficiently provision lines. During 1999, we intend to improve these OSS interfaces and our internal automation. Thus, rather than establish new relationships in 1999, we will focus on leveraging those already in place.

Letter to Stockholders

1999: Development of New Generation Solutions

While our primary efforts in 1999 are selling and provisioning, we are also developing and intend to deploy dial-up Internet and high-speed access products, the latter offering dramatically increases on-line speeds from existing dial-up service. However, this high-speed capability will be used for more than data transmission; it will transport multiple voice lines and data over one unbundled loop using xDSL technology. Our physical presence in the ILECs' facilities allowing access to unbundled loops is critical to achieving xDSL performance. We plan to install and provision the necessary DSLAMs (to terminate a customer's xDSL service) and transport to our host site where a customer's data and voice traffic can be delivered to their respective destinations in an expeditious manner.



ANNUAL REVENUE (IN THOUSANDS)

The other primary component of the delivery mechanism for this product is the installation of IADs at customers' premises. The installation of IADs will shift the weight of service origination from a process, which is to 'ely reliant on the ILEC, to one largely controlled by MGC, resulting in greater control over the provisioning process. This next generation product will again allow us a first-to-market advantage with a unique product providing all of a customer's voice and data needs on one bill from a single source, MGC. Furthermore, by consolidating many operational functions within a single, scalable platform, we expect to significantly reduce the cost of installation and provisioning. By aggregating traffic, we can service more customers with better transport economics. Finally, by enabling us to offer incremental services over our customer's unbundled loop, we have the potential to generate additional revenue at reduced unit costs. We expect these cost reductions and revenue opportunities to deliver significant benefits to our bottom line.

In closing, we would like to thank our customers, stockholders and business partners for their continued support. The coming year promises many exciting developments with positive implications for MGC's growth. We look forward to achieving many more milestones as we work to establish your company as a primary provider of communications solutions to our existing and targeted customers.

Maurice J. Gallagher, Jr.
CHAIRMAN OF THE BOARD

Nield J. Montgomery
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Financial Table of Contents

Selected Financial Data and Market for Common Equity and Related Stockholder Matters

Selected Financial Data

(IN THOUSANDS, EXCEPT PER SHARE DATA)	1998	1997	1996
Operating revenues	$ 18,249	$ 3,791	$ 1
Net loss	(32,065)	(10,836)	(1,491)
Basic and diluted loss per share of common stock [1]	(2.26)	(1.30)	(2.11)
Total assets	252,119	191,977	12,339
Long-term debt including current maturities	157,295	156,637	--
Redeemable Series A Convertible Preferred Stock	--	16,665	--
Unrestricted Cash [2]	84,949	102,764	7,897
EBITDA [3]	(16,757)	(6,577)	(1,500)

Market for Common Equity and Related Stockholder Matters

MGC's (the "Company") Common Stock, $.001 par value, is traded on the NASDAQ Stock Market under the symbol "MGCX." As of March 15, 1999, there were approximately 164 holders of record of the Company's Common Stock. The following sets forth the reported high and low sale prices for the Common Stock for each fiscal quarter since the Company's Common Stock first commenced trading on May 11, 1998.

Market Information

For the periods:	High	Low
May 11, 1998 through June 30, 1998	$19.56	$14.00
July 1, 1998 through September 30, 1998	17.93	8.00
October 1, 1998 through December 31, 1998	10.50	5.25

As of March 15, 1999 the closing price per share of the Common Stock was $8.25.

No cash dividends have ever been declared by the Company on its Common Stock. The Company intends to retain earnings to finance the development and growth of its business. Accordingly, the Company does not anticipate that any dividends will be declared on its Common Stock for the foreseeable future. Future payments of cash dividends, if any, will depend on the Company's financial condition, results of operations, business conditions, capital requirements, restrictions contained in agreements, future prospects and other factors deemed relevant by the Company's Board of Directors. The Company's ability to declare and pay dividends on its Common Stock is restricted by certain covenants in the Indenture governing the Senior Secured Notes.

(1) See Note 1 in the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report.

(2) Unrestricted cash consists of cash and cash equivalents plus investments held-to-maturity and investments available-for-sale.

(3) EBITDA consists of earnings before interest, income taxes, depreciation and amortization. While EBITDA is not an alternative indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity as defined by generally accepted accounting principles and EBITDA may not be comparable to other similarly titled measures of other companies, management believes EBITDA is a measure commonly used in the communications industry to analyze and compare communications companies on the basis of operating performance, leverage and liquidity. See the "Consolidated Statements of Cash Flows" included in the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Annual Report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

MGC began providing competitive local exchange services to small business and residential customers in December 1996, and in February 1998, began offering long distance services in its existing markets. MGC's network strategy consists of purchasing and deploying switching equipment, collocating equipment in ILECs central offices and leasing fiber optic transmission capacity from ILECs and other providers of communications transport services. Currently, the Company has switches fully operational in Las Vegas, Atlanta, Chicago, Southern Florida, and in selected suburban areas of Southern California, including the Los Angeles area and San Diego.

The Company's 1997 revenues were generated from sales of telecommunications services consisting primarily of local phone service, switched access billings and non-recurring charges, principally installation charges. In 1998, long distance services also contributed to the Company's revenue base.

The Company's principal operating expenses consist of cost of operating revenues, selling, general and administrative costs and depreciation and amortization expense. Cost of operating revenues consists primarily of access charges, line installation expenses, transport expenses, compensation expenses of technical personnel, long distance expenses and central office facility rentals. Selling, general and administrative expenses consist primarily of compensation expenses, advertising, provision for bad debts, professional fees and facility rentals. Depreciation and amortization expense includes depreciation on switching and collocation equipment as well as general property and equipment.

During 1998, the Company expanded significantly with the installation of four additional switches and the build-out of 182 additional collocation sites. As expected, both cost of operating revenues and selling, general and administrative costs increased as many of the fixed costs of providing service in new markets are incurred before significant revenue can be generated from those markets. In addition, significant levels of marketing activity were incurred in new markets in order for the Company to build its initial base of customers.

The development and expansion of the Company's business has required and will continue to require significant capital expenditures primarily consisting of the purchase of communications switching and associated equipment, the purchase of land for switching sites and the construction of buildings or leasehold improvements to switching and collocation facilities. As part of its "Smart Build" network strategy, the Company purchased and installed host switches in each of its markets while leasing transport and unbundled network elements (UNEs) from the ILEC and other CLECs. The Company believes this facilities-based strategy, while initially increasing its level of capital expenditures and operating losses, will enhance its long-term financial performance in comparison to a resale strategy.

The Company has experienced operating losses and generated negative EBITDA since inception and expects to continue to generate negative EBITDA through the 1999 fiscal year while it continues to expand its networks and develop its product offerings and customer base. There can be no assurance the Company's revenue or customer base will grow or that the Company will be able to achieve or sustain positive EBITDA.

Results of Operations

Year Ended December 31, 1998 vs. 1997

Total operating revenues for the year ended December 31, 1998 were $18.2 million as compared to $3.8 million for the year ended December 31, 1997. The 379% increase is a result of the installation of four additional switches, an increase in the number of lines in service and the introduction of long distance service in early 1998. The Company provided telecommunications services in only Las Vegas until December, 1997 when service was initiated in Atlanta and the Inland Empire region of Southern California. As a result of the network expansion, service was also offered in Chicago as well as additional suburban areas of Southern California, including San Diego during 1998. The Company had 47,744 lines in service as of December 31, 1998 as compared to 15,590 lines in service as of December 31, 1997, a 206% increase.

Cost of operating revenues for the year ended December 31, 1998 was $17.1 million as compared to $3.9 million for the year ended December 31, 1997. The 338% increase is due to the increased number of lines in service during 1998, network expenses associated with long distance service, and installation and operational expenses associated with the significant expansion of the Company's network.

For the year ended December 31, 1998, selling, general and administrative expenses totaled $17.9 million, a 180% increase over the $6.4 million for the year ended December 31, 1997. The increase in expenses resulted from increased costs attributable to the marketing of the Company's services, delivery of customer service and to support the Company's continued network expansion.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the year ended December 31, 1998, depreciation and amortization was $5.2 million as compared to $1.3 million for the year ended December 31, 1997. This increase is a result of placing additional assets in service during the period in accordance with the Company's planned build-out of its network. As of December 31, 1998 the Company had seven operational switches and 207 collocation sites built-out as compared to three switches and 25 collocation sites as of December 31, 1997.

Interest expense for fiscal 1998 totaled $19.1 million as compared to $5.5 million for fiscal 1997. The increase is primarily attributable to a full year of interest incurred on the Senior Secured Notes issued by the Company in September 1997.

Interest income was $8.8 million for the year ended December 31, 1998 compared to $2.5 million for the year ended December 31, 1997. The income is attributable to earnings on investments made with the proceeds from the issuance of Senior Secured Notes in September 1997 and with the proceeds from the sale of the Company's common and preferred stock.

The Company incurred net losses of $32.1 million and $10.8 million during the 1998 and 1997 fiscal years, respectively.

Year Ended December 31, 1996

The Company's operations prior to December 1996 were limited to start-up activities and, as a result, the Company's revenues and expenditures for the period were not indicative of anticipated revenues which may be attained or expenditures which may be incurred by the Company in future periods. The Company did not begin revenue-generating operations until December 1996. As a result, any comparison of the year ended December 31, 1997 with the year ended December 31, 1996 would not be meaningful.

During the year ended December 31, 1996, the Company generated $1,000 in operating revenues as a result of commencing service during the month of December. The Company had cost of operating revenues of $0.3 million which represents primarily fixed costs. In addition, the Company incurred other operating expenses, including depreciation and amortization, of $1.3 million in connection with the commencement of operations and the build-out of its network. These expenses consisted primarily of payroll expenses, professional fees, expenses related to the introduction of initial service and a one-time write-off of purchased software.

The Company earned interest income in the period of $0.1 million.

As a result, the Company incurred a net loss in the period of $1.5 million. This loss is primarily attributable to the expenses incurred in connection with the initial development of the Company's business.

Liquidity and Capital Resources

The Company's operations require substantial capital investment for the purchase of telecommunications equipment and the development and installation of the Company's network. Capital expenditures for the years ended December 31, 1998 and 1997 were $97.0 million and $22.6 million, respectively. The Company expects it will continue to have substantial capital requirements in connection with the purchase of equipment necessary for continued expansion of its network footprint in its existing markets, and the development of new products and services. In addition, the Company is currently evaluating possible expansion into new markets during 1999. Management expects capital expenditures of approximately $40.0 million for fiscal year 1999, which will be funded by cash on hand and investments available-for-sale that were generated through the private sales of debt and equity securities as well as through its initial public offering of common stock. In addition, the Company is currently evaluating financing proposals from vendor and equipment lease financing companies. Should this financing be available on acceptable terms, the Company may consider accelerating its growth plans and expanding its product offerings

From its inception through its initial public offering (IPO), the Company raised approximately $17.9 million from private sales of common stock.

In September 1997, the Company completed a $160.0 million offering of Senior Secured Notes and warrants to purchase 862,923 shares of common stock (after giving effect to certain anti-dilution adjustments). At the closing of the sale of the Senior Secured Notes, the Company used approximately $56.8 million of the net proceeds from the sale of the Senior Secured Notes to purchase a portfolio of securities that has been pledged as security to cover the first six interest payments on the Senior Secured Notes. The Company used approximately $3.1 million of the net proceeds to pay accounts payable incurred in connection with the acquisition of equipment. In addition, the Company has granted the holders of the Senior Secured Notes a security interest in a substantial portion of the Company's telecommunications equipment.

In November 1997 and January 1998, the Company issued an aggregate of 6,571,427 shares of Series A Convertible Preferred Stock at $3.50 per share for net proceeds of $21.6 million. In May 1998, the shares of Series A Convertible Preferred Stock were converted into 3,942,856 shares of common stock simultaneously with the Company's initial public offering which is discussed below.

The Company's Registration Statement on Form S-1 relating to the sale of common stock was declared effective by the Securities and Exchange Commission on May 11, 1998. A total of 4,025,000 shares were sold resulting in net proceeds to the Company of $63.0 million. In connection with the initial public offering of the Company's common stock, the Company effected a six for ten reverse stock split. In addition to the stock split, the Company's outstanding shares of preferred stock were converted into common stock.

The substantial capital investment required to initiate the Company's services and the funding of the Company's initial operations has resulted in negative investing and operating cash flow since the Company's inception. This negative cash flow from operations is a result of the need to establish the Company's network in anticipation of connecting revenue-generating customers. The Company expects to continue recording negative cash flow from operations throughout the 1999 fiscal year due to continued network expansion activities. There can be no assurance the Company will attain break-even cash flow from operations in subsequent periods. Until sufficient cash flow from operations is generated, the Company will be required to utilize its current and future capital resources to meet its cash flow requirements and may be required to issue additional debt and/or equity securities. Based upon its current business plan, the Company does not expect to require additional financing; however, there can be no assurance the Company will not require additional financing, or as to the availability or the terms of any such financing. Moreover, the indenture governing the Senior Secured Notes imposes certain restrictions upon the Company's ability to incur additional indebtedness or issue preferred stock.

Impact of Year 2000

The Year 2000 issue, commonly referred to as Y2K, is rooted in the way computer systems have been set up to handle the computation of dates. In many cases, where a date is used in computer code, a two digit field has been used to indicate the year, (i.e., 01/01/98 = January 1, 1998). The system assumes that the first two digits in the year field are "19." With the end of the century approaching, those same systems should reflect 01/01/00 as being "January 1, 2000." However, a non-compliant system will read 01/01/00 as January 1, 1900.

MGC has been focused on Year 2000 issues since its inception in 1996. In recognition of the priority associated with the Year 2000 issue, the Company has established a Year 2000 Project Team at the corporate level to lead the Year 2000 effort. Since the Company is young, much of the hardware and software currently in place was purchased with Y2K readiness in mind. The Company's Y2K plans include a number of phases designed to evaluate and prepare for readiness by June 1999.

The Company has completed the inventory and assessment of all network and information system elements and has begun the renovation and testing phases. The mission critical components, including the telecommunications network and systems which execute processes such as service assurance, access management, service delivery, customer service and billing, are targeted for Year 2000 compliance by June 1999. Integration testing will continue throughout the remainder of 1999. Subject to additional compliance testing, the Company believes that its essential processes, systems and business functions will be ready for the 1999 to Year 2000 transition.

The Company has received assurance from its significant vendors including its major telecommunications equipment supplier that their applications are Year 2000 compliant. Maintenance or modification costs associated with making changes, if needed, will be expensed as incurred.

The Company's business relies in part on third parties. The ability of third parties, upon whom the Company relies, to adequately address their Year 2000 issue is outside the Company's control. However, the Company is coordinating efforts with these parties to minimize the extent to which its business will be vulnerable to their failure to remediate their own Year 2000 issues. There can be no assurance that the systems of the third parties will be modified on a timely basis. The Company's business, financial condition and results of operations could be materially adversely affected by the failure of those systems and applications, licensed to or operated for third parties, or operated by other parties to properly operate on dates beyond 1999.

The Company is currently in the process of developing contingency plans should certain mission critical systems fail as a result of Y2K issues. The Company is also participating in industry-wide efforts to address Year 2000 issues with the goal of developing contingency plans addressing not only the Company's issues but also those of the telecommunications industry as a whole.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Impact of Recently Issued Accounting Standards

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income. SFAS No. 130 requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity sections of a statement of financial position and is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has adopted SFAS No. 130 for 1998 as reported in the accompanying financial statements.

In June 1997, the FASB issued SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information. SFAS No. 131 establishes additional standards for segment reporting in financial statements and is effective for fiscal years beginning after December 15, 1997. The Company currently operates as one segment.

The American Institute of Certified Public Accountants recently issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires start-up costs, as defined, to be expensed as incurred and is effective for financial statements for fiscal years beginning after December 15, 1998. The Company currently expenses all start-up costs as incurred and the application of SOP 98-5 will have no material impact on the Company's financial statements.

Change in Accountants

MGC did not re-elect KPMG LLP ("KPMG") as its independent accountants on February 6, 1998. KPMG's report on the Company's financial statements for the years ended December 31, 1996 and 1995, did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope or accounting principles. The decision to change accountants was approved by the Company's Board of Directors. During KPMG's engagement with the Company, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which were not resolved to KPMG's satisfaction. During KPMG's engagement with the Company, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K issued under the Securities Act of 1933, as amended).

As of February 6, 1998, Arthur Andersen LLP has been engaged by the Company as its principal accountants to audit the Company's financial statements for the years ended December 31, 1998 and 1997. The Company had not consulted Arthur Andersen LLP prior to its engagement regarding the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on the Company's financial statements or any matter that was either the subject of a disagreement with KPMG or a reportable event.

Quantitative and Qualitative Disclosures about Market Risk

The Company's long term debt bear fixed interest rates; however, the fair market value of this debt is sensitive to changes in prevailing interest rates. The Company runs the risk that market rates will decline and the required payments will exceed those based on the current market rate. The Company does not use interest rate derivative instruments to manage its exposure to instruments to manage its exposure to interest rate changes.

Consolidated Balance Sheets

(in thousands, except share and per share amounts)

December 31,	1997
Assets	
Current assets:	
Cash and cash equivalents	$ 45,054
Investments held-to-maturity	7,797
Investments available-for-sale	–
Restricted investments	18,482
Accounts receivable, less allowance for doubtful accounts of $257 and $216 at December 31, 1998 and 1997, respectively	1,200
Prepaid expenses	277
Total current assets	72,810
Property and equipment, net	24,617
Investments held-to-maturity	49,913
Investments available-for-sale	–
Restricted investments	39,092
Deferred financing costs, net of accumulated amortization of $1,065 and $198 as of December 31, 1998 and 1997, respectively	5,448
Other assets	97
Total assets	$191,977
Liabilities, Redeemable Preferred Stock and Stockholders' Equity	
Current liabilities:	
Current maturities of long-term debt	$ 381
Accounts payable:	
Trade	462
Property and equipment	3,123
Accrued interest	5,328
Accrued other expenses	786
Total current liabilities	10,080
Senior Secured Notes, net of unamortized discount of $3,307 and $3,882 at December 31, 1998 and 1997, respectively	156,118
Other long-term debt	138
Total liabilities	166,336
Commitments and contingencies	
Redeemable preferred stock:	
8% Series A convertible preferred stock, 6,571,450 shares authorized, 5,148,570 issued and outstanding at December 31, 1997	16,665
Stockholders' equity:	
Preferred stock, 43,428,550 shares authorized but unissued	–
Common stock, $0.001 par value, 60,000,000 shares authorized, 17,190,428 and 8,799,600 shares issued and outstanding	9
Additional paid-in capital	22,118
Accumulated deficit	(12,463)
	9,664
Accumulated other comprehensive income	–
Notes receivable from stockholders for issuance of common stock	(688)
Total stockholders' equity	8,976
Total liabilities, redeemable preferred stock and stockholders' equity	$191,977

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

(in thousands, except share and per share data)

Year Ended December 31,	1998	1997	1996
Operating revenues:			
Telecommunications services	**$ 18,249**	$ 3,791	$ 1
Operating expenses:			
Cost of operating revenues (excluding depreciation)	**17,129**	3,928	305
Selling, general and administrative	**17,877**	6,440	841
Depreciation and amortization	**5,238**	1,274	54
Write-off of purchased software	**–**	–	355
	40,244	11,642	1,555
Loss from operations	**(21,995)**	(7,851)	(1,554)
Other income (expense):			
Gain on sale of investments	**223**	–	–
Interest income	**8,771**	2,507	63
Interest expense (net of amount capitalized)	**(19,064)**	(5,492)	–
Net loss	**(32,065)**	(10,836)	(1,491)
Accrued preferred stock dividend	**–**	(136)	–
Net loss applicable to common stockholders	**$ (32,065)**	$ (10,972)	$ (1,491)
Basic and diluted loss per share of common stock	**$ (2.26)**	$ (1.30)	$ (2.11)
Basic and diluted weighted average shares outstanding	**14,178,729**	8,458,991	707,359

See accompanying notes to consolidated financial statements.

Consolidated Statements of Redeemable Preferred Stock and Stockholders' Equity

(in thousands, except share amounts)

	Redeemable Preferred Stock Shares	Redeemable Preferred Stock Amounts	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Notes Receivable from Stockholders for Issuance of Common Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 1996	–	$ –	240,000	$ –	$ 1	$ –	$ –	$ –	$ [illegible]
Common stock issued for services contributed by stockholder	–	–	480,000	1	1	–	–	–	[illegible]
Common stock issued for cash	–	–	6,456,000	6	12,274	–	–	–	12,280
Net loss	–	–	–	–	–	(1,491)	–	–	(1,491)
Balance at December 31, 1996	–	–	7,176,000	7	12,276	(1,491)	–	–	10,792
Common stock issued for cash	–	–	1,458,600	2	4,860	–	–	–	4,862
Common stock issued for notes receivable	–	–	165,000	–	688	–	(688)	–	[illegible]
Proceeds from offering allocated to warrants	–	–	–	–	3,885	–	–	–	[illegible]
Warrants issued for common stock commitment	–	–	–	–	409	–	–	–	[illegible]
Net loss	–	–	–	–	–	(10,836)	–	–	[illegible]
8% Series A Convertible Preferred Stock issued for cash	5,148,570	16,665	–	–	–	–	–	–	[illegible]
Accrued preferred stock dividend	–	–	–	–	–	(136)	–	–	[illegible]
Balance at December 31, 1997	5,148,570	16,665	8,799,600	9	22,118	(12,463)	(688)	–	[illegible]
Common stock issued for cash	–	–	100,680	–	774	–	–	–	[illegible]
Common stock issued for notes receivable	–	–	189,000	–	1,485	–	(1,485)	–	[illegible]
Warrants and options exercised for common stock	–	–	133,309	–	14	–	–	–	[illegible]
8% Series A Convertible Preferred Stock issued for cash	1,422,857	4,980	–	–	–	–	–	–	[illegible]
Accrued preferred stock dividend	–	–	–	–	–	(654)	–	–	[illegible]
Common stock issued for cash (IPO)	–	–	4,025,000	4	62,959	–	–	–	[illegible]
Conversion of preferred stock to common stock	(6,571,427)	(21,645)	3,942,839	4	21,641	790	–	–	[illegible]
Unrealized gain on investments available-for-sale	–	–	–	–	–	–	–	817	[illegible]
Net loss	–	–	–	–	–	(32,065)	–	–	[illegible]
Balance at December 31, 1998	–	$ –	17,190,428	$17	$108,991	$(44,392)	$(2,173)	$817	[illegible]

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

YEAR ENDED DECEMBER 31,	1997	1996
Cash flows from operating activities:		
Net loss	$ (10,836)	$ (1,491)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,274	54
Write-off of purchased software	–	355
Gain on sale of investments	–	–
Amortization of debt discount	144	–
Amortization of deferred debt financing costs	198	–
Stock issued for services rendered	–	2
Changes in assets and liabilities:		
Increase in accounts receivable, net	(1,190)	(9)
Decrease (increase) in prepaid expenses	(254)	(23)
Increase in other assets	(91)	(5)
Increase in accounts payable–trade	386	76
Increase in accrued expenses	5,879	99
Net cash used in operating activities	(4,490)	(942)
Cash flows from investing activities:		
Purchase of property and equipment, net of payables	(20,207)	(2,287)
Purchase of investments held-to-maturity	(57,710)	–
Purchase of investments available-for-sale, net	–	–
Sale (purchase) of restricted investments	(57,574)	–
Net cash used in investing activities	(135,491)	(2,287)
Cash flows from financing activities:		
Proceeds from issuance of Senior Secured Notes net of discount of $4,026	155,974	–
Costs associated with issuance of Senior Secured Notes and warrants	(5,237)	–
Proceeds from issuance of 8% Series A Convertible Preferred Stock, net of issuance costs	16,665	–
Proceeds from issuance of warrants	3,885	–
Proceeds (payments) on other long term debt, net	(164)	–
Proceeds from issuance of common stock	6,015	11,126
Proceeds from issuance of common stock (IPO)	–	–
Net cash provided by financing activities	177,138	11,126
Net (decrease) increase in cash	37,157	7,897
Cash and cash equivalents at beginning of period	7,897	–
Cash and cash equivalents at the end of period	$ 45,054	$ 7,897
Supplemental schedule of non-cash investing and financing activities:		
Stock issued for services rendered	$ –	$ 2
Increase in property and equipment purchases included in accounts payable – property and equipment	$ 1,751	$ 1,372
Notes payable issued for property and equipment	$ 683	$ –
Stock issued for notes receivable	$ 688	$ –
Warrants issued as consideration in debt offering capitalized as deferred financing costs	$ 409	$ –
Other disclosures:		
Cash paid for interest net of amounts capitalized	$ 164	$ –

See accompanying notes to consolidated financial statements.

(1) Principles of Consolidation and Basis of Presentation

Description of Business

The accompanying consolidated financial statements of MGC Communications, Inc. (the "Company"), a Nevada corporation, include the accounts of the Company and its wholly-owned subsidiary, MGC Lease Corporation. All significant inter company balances have been eliminated.

The Company was organized on October 16, 1995 as a competitive local exchange carrier to provide low cost alternative communication services to residential and small business users through the utilization of Company owned switches and network architecture leased from incumbent local exchange carriers. During the year ended December 31, 1998, the Company operated in Las Vegas, Atlanta, Chicago, southern Florida, and selected suburban areas of southern California including San Diego with substantially all of its operating revenues being derived from the Las Vegas, Ontario, and Atlanta operations.

Revenue Recognition

The Company recognizes operating revenues from communication services in the period the related services are provided. Due to current disputes and pending arbitration and litigation, the Company has recognized switched access revenues based on management's best estimate of the probable collections from such revenue. For the years ended December 31, 1998, 1997 and 1996, the Company has recognized in operating revenues switched access revenues of approximately $7,378,000, $730,000 and $0, respectively. Included in trade accounts receivable in the accompanying balance sheets as of December 31, 1998 and 1997 are receivables related to switched access of approximately $3,590,000 and $730,000, respectively.

Cash and Cash Equivalents

The Company considers short-term investments with a remaining maturity of three months or less at the date of purchase to be cash equivalents.

Restricted Investments

Restricted investments consist of U.S. Treasury Notes which are restricted in that they must be used for the repayment of interest on certain debt and are stated at amortized cost plus accrued interest. Management designated these investments as held-to-maturity securities in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The carrying value of the restricted investments approximates the fair value.

Advertising Costs

The Company expenses advertising costs in the period incurred. As of December 31, 1998, 1997, and 1996 the Company had expensed advertising costs of $810,000, $125,000, and $0 respectively.

Investments

Investments classified as available-for-sale at December 31, 1998 were classified as held-to-maturity as of December 31, 1997. During the fourth quarter of 1998, the Company sold investments, previously classified as held-to-maturity, prior to their maturity date. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the classification of these investments has been appropriately changed in the accompanying consolidated financial statements.

Available–for-sale securities represent investments principally in commercial paper and government securities. The commercial paper matures in March of 1999 and the government securities mature periodically through September 30, 2001. The unamortized cost basis of these investments at December 31, 1998 is approximately $72,246,000. The cost basis for which the realized gain was calculated on available-for-sale securities was $72,023,000 using the specific identification method.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. Direct and indirect costs of construction are capitalized, and include $3,175,000 and $188,000 of interest costs related to construction during 1998 and 1997, respectively. Depreciation is computed using the straight-line method over estimated useful lives beginning in the month an asset is put into service.

Estimated useful lives of property and equipment are as follows:

Buildings	40 years
Telecommunications and other switching equipment	5-10 years
Computer hardware and software	3-5 years
Office furniture & equipment	3-5 years
Leasehold improvements	the lesser of the estimated useful lives or term of lease

Deferred Financing Costs

Deferred financing costs are amortized to interest expense over the life of the related financing using the effective interest method.

Income Taxes

The Company has applied the provisions of SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the consequences of temporary differences between amounts reported for financial reporting and income tax purposes. SFAS No. 109 requires recognition of a future tax benefit of net operating loss carryforwards and certain other temporary differences to the extent that realization of such benefit is more likely than not; otherwise, a valuation allowance is applied.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosure About Fair Value of Financial Instruments," requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. SFAS No. 107 defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. At December 31, 1998 and 1997, the carrying value of all financial instruments (accounts receivable, accounts payable and long-term debt) approximates fair value due to the short term nature of the instruments or interest rates, which are comparable with current rates.

Long-Lived Assets

Management periodically evaluates the carrying value of its long-lived assets, including property, equipment and intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated future cash inflows attributable to the asset, less estimated future cash outflows, is less than the carrying amount, an impairment loss is recognized. Management believes no material impairment in the value of long-lived assets exists at December 31, 1998 or 1997.

Impact of Recently Issued Accounting Standards

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and is effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has adopted SFAS No. 130 as reflected in the accompanying consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." SFAS No. 131 establishes additional standards for segment reporting in financial statements and is effective for fiscal years beginning after December 15, 1997. The Company currently operates as one segment.

The American Institute of Certified Public Accountants recently issued Statement of Position ("SOP") 98-5, "Reporting the Costs of Start-Up Activities." SOP 98-5 requires start-up costs, as defined, to be expensed as incurred and is effective for financial statements for fiscal years beginning after December 15, 1998. The Company currently expenses all start-up costs as incurred and the application of SOP 98-5 will have no material impact on the Company's financial statements.

Concentration of Suppliers

The Company currently leases its transport capacity from a limited number of suppliers and is dependent upon the availability of collocation space and fiber optic transmission facilities owned by the suppliers. The Company is currently vulnerable to the risk of renewing favorable supplier contracts, timeliness of the supplier in processing the Company's orders for customers and is at risk to regulatory agreements that govern the rates to be charged to the Company.

Use of Estimates

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

Reclassification

Certain reclassifications, which have no effect on net income, have been made in the prior period financial statements to conform to the current presentation.

(2) Plan of Operations

In September 1997, the Company completed an offering of 160,000 units consisting of $160 million of 13% Senior Secured Notes due in 2004 (the "Notes") and warrants to purchase shares of common stock, as discussed in Note 4. The Company expects to continue its expansion and development of services into new markets. The Company expects to fund its capital requirements through existing resources, debt or equity financing and internally generated funds.

Management recognizes that the Company must generate additional resources or consider modifications to its expansion plans. To the extent the Company is unable to achieve its funding plan, management has contingency plans which include curtailing capital expenditure activities, reducing infrastructure costs associated with expansion and development plans and achieving profitable operations as soon as practicable. However, no assurance can be given that the Company will be successful in raising additional capital, achieving profitable results, or entering into new markets.

Management also recognizes that certain risks are inherent to the industry. Such risks and assumptions include, but are not limited to, the Company's ability to successfully market its existing and proposed services to current and new customers in existing and planned markets, successfully develop commercially viable data and Internet offerings, access markets, install switches and obtain suitable locations for its switches, negotiate suitable interconnect agreements with the ILECs, obtain an acceptable level of cooperation from the ILECs, all in a timely manner, at reasonable cost and on satisfactory terms and conditions, as well as regulatory, legislative and judicial developments that could materially affect the Company's future results.

(3) Property and Equipment

Property and equipment consist of the following:

December 31,	1998	1997
	(In thousands)	
Building and property	$ 2,653	$ 278
Switching equipment	57,045	21,621
Leasehold improvements	740	956
Computer hardware and software	2,218	1,404
Office equipment and vehicles	901	300
	63,557	24,559
Less accumulated depreciation and amortization	(6,555)	(1,317)
	57,002	23,242
Switching equipment under construction	59,378	1,375
Net property and equipment	$116,380	$24,617

(4) Debt

Long-term borrowings at December 31, 1998 and 1997 consist of the following (in thousands):

December 31,	1998	1997
13% Senior Secured Notes, due October 1, 2004, net of unamortized discount of $3,307 and $3,882	$156,693	$156,118
10% note payable in monthly installments through February 1999	225	441
Other	377	78
	157,295	156,637
Less current portion	(332)	(381)
	$156,963	$156,256

Maturities of long-term debt for each of the next six years ending December 31, consist of the following (in thousands):

1999	$ 332
2000	174
2001	96
2002	–
2003	–
2004	156,693
	$157,295

In September 1997, the Company completed an offering for 160,000 units consisting of $160 million of 13% Senior Secured Notes due in 2004 and warrants to purchase 774,720 shares of common stock (collectively the "Offering").

The Notes bear interest at the rate of 13% per annum, payable semi-annually in arrears on April 1 and October 1, commencing April 1, 1998. As set forth in the Indenture pursuant to which the Notes were issued the Company is required to hold in a trust account sufficient funds to provide for payment in full of interest on the Notes through October 1, 2000. The accompanying consolidated financial statements reflect approximately $39.4 million as restricted investments as security for the interest payments on the Notes. In addition, the Notes are secured by a security interest in certain telecommunications equipment owned by the Company or which may be acquired in the future. As of December 31, 1998, the Notes were secured by a security interest in telecommunications equipment with a net book value of $85.3 million .

In conjunction with the Offering, the Company engaged an investment-banking firm that determined a value for each warrant and share of common stock. Consistent with this determination, the Company has allocated a portion of the Offering proceeds to the warrants based on a value of $4.68 per share of common stock less the exercise price of $.02 per share for the warrant.

The warrants are exercisable at any time on or after the earlier to occur of (i) October 1, 1998, or (ii) the date on which a change in control occurs. The agreement pursuant to which the warrants were issued required an anti-dilution adjustment if the preferred stock offering was consummated at a price less than $5.00 per share. As further discussed in Note 5, the Company completed the preferred stock offering for $3.50 per share. Accordingly, the warrants issued in connection with the Offering were increased from 774,200 to 862,923 and have been reflected in the accompanying consolidated financial statements as of December 31, 1998 and 1997. Expenses allocated to the warrants in connection with the Offering were $141,000. The warrants expire on October 1, 2004.

In conjunction with the Offering, certain persons deposited an aggregate of $15.0 million in escrow (the Common Stock Commitment), which funds were to have been applied to the purchase of shares of common stock in the event the Company failed to sell at least $15.0 million of preferred stock within a certain period of time. Since sufficient preferred stock was issued within the time period, the investors received a return of their funds contributed to escrow. As a commitment fee for the Common Stock Commitment, the Company issued to all such persons contributing to the escrow funds warrants to purchase an aggregate of 90,000 shares of common stock at $.02 per share.

The Company has recorded the commitment fee as non-cash consideration in connection with the Offering. The value of the warrants issued as a commitment fee was determined based on a value of the Companv's common stock at $4.68 per share less the exercise price of $.02 per share for the warrant. All such warrants were exercised in January and February 1998.

The Notes may be redeemed at the option of the Company, in whole or in part, on or after October 1, 2001, at a premium declining to par in 2003, plus accrued and unpaid interest and liquidated damages, if any, through the redemption date as follows:

YEAR	PERCENTAGE
2001	106.50
2002	103.25
2003 and thereafter	100.00

In the event of a sale by the Company prior to October 1, 2000 of its capital stock in one or more equity offerings, up to a maximum of 35% of the aggregate principal amount of the Notes originally issued will, at the option of the Company, be redeemed from the net cash proceeds at a redemption price equal to 113% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to the redemption date, provided at least 65% of the aggregate principal amount of Notes originally issued remain outstanding immediately after the occurrence of such redemption. As of the date of these consolidated financial statements, management has no intention of redeeming the Notes prior to their stated redemption date.

The Indenture contains certain covenants that among other things, limit the ability of the Company and its restricted subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends or make other distributions, repurchase equity interests or subordinated indebtedness, acquire an aggregate of more than 20 switches until consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) is positive for two consecutive quarters (with certain exceptions), engage in sale and lease back transactions, create certain liens, enter into certain transactions with affiliates, sell assets of the Company or its restricted subsidiaries, conduct certain lines of business, issue or sell equity interests of the Company's restricted subsidiaries or enter into certain mergers and consolidations. As of December 31, 1998, management believes it is in compliance with all debt covenants.

In conjunction with the Offering, the authorized capital stock of the Company was increased to 60,000,000 shares of common stock, $.001 par value per share, and 50,000,000 shares of preferred stock, $.001 par value per share.

In January 1998, the Company filed a registration statement offering to exchange the Notes for 13% Series B Senior Secured Notes due 2004 under the Securities Act of 1933, as amended. Terms of the 13% Series B Senior Secured Notes due 2004 are substantially the same as the Notes. The exchange was consummated in March 1998.

Associated with the issuance of the Notes, expenses of $68,000 were paid to a related party for charter services in 1997.

(5) Redeemable Preferred Stock and Stockholders' Equity

Common Stock

On December 6, 1996, the Board of Directors approved a four-hundred-for-one stock split, effected in the form of a stock dividend distributed on December 31, 1996 to shareholders of record as of June 8, 1996. All share and per share data presented in the consolidated financial statements and notes thereto have been retroactively restated to give effect to this stock split.

During 1995, in exchange for expending cash to incorporate the Company, a shareholder received 240,000 shares of $.001 par value common stock valued at $.0042 per share. The Company capitalized the value of the issued shares as organization costs included in other assets in the accompanying consolidated financial statements, which costs are being amortized over 60 months using the straight-line method.

In April 1996, the Company issued 480,000 shares of $.001 par value common stock valued at $.0042 per share in exchange for services rendered by a stockholder.

Notes to Consolidated Financial Statements

During 1996, NevTEL LLC (the "LLC") was formed for the purpose of funding the development stage of MGC Communications, Inc. In June 1996, the Company and LLC entered into an agreement whereby LLC would acquire 3,696,000 shares of $.001 par value common stock of the Company for $.83 per share. The agreement called for LLC to advance funds for operating expenses incurred by the Company (to be applied against the purchase price of the stock) until the Company produced operating revenues, at which time the remaining purchase price would be remitted to the Company, the Company's common stock would be issued to LLC owners and LLC would terminate. The agreement stipulated that the funds advanced for operating expenses were to be paid back to LLC if the Company did not generate operating revenue by December 31, 1996. The Company began revenue generating activities in December 1996. The shares were issued to LLC owners on December 31, 1996, at which time LLC terminated and the remaining purchase price was owed to the Company. Such amount was transferred to the Company in February 1997 and is classified as amounts receivable for shares issued at December 31, 1996.

In December 1996, the Company offered 4,068,600 shares of $.001 par value common stock at $3.33 per share through a private placement. In connection with this offering, the Company issued 1,308,600 shares and 2,760,000 shares of $.001 par value common stock and received proceeds of $4,362,000 and $9,200,000 during the years ended December 31, 1997 and 1996, respectively.

In June 1997, the Company approved agreements with two key members of management granting them rights to purchase a total of 150,000 shares at $3.33 per share and 165,000 shares at $4.17 per share. In both cases, the Company retains the right to repurchase these shares at their cost in the event of termination of employment for any reason and has agreed to finance the purchase price of the shares purchased at $4.17 per share over a period of three years. During September 1997, the members of management exercised their rights and the respective aforementioned shares were issued. The Company received $500,000 for the 150,000 shares issued at $3.33 per share. The $688,000 owed to the Company for the 165,000 shares issued at $4.17 per share has been classified in the accompanying consolidated statements of redeemable preferred stock and stockholders' equity as notes receivable from stockholders for issuance of common stock.

During 1998, the Company issued 100,680 shares of $.001 par value common stock at prices ranging from $5.83 to $8.33 per share, for total proceeds to the Company of $774,000.

During 1998, the Company approved agreements with 11 key members of management to purchase a total of 189,000 shares of common stock. The purchase price of these shares ranged from $5.83 to $8.33 per share. The $1,485,000 owed to the Company is classified in the accompanying consolidated statements of redeemable preferred stock and stockholders' equity as notes receivable from stockholders for issuance of common stock.

During May and June 1998, the Company sold 4,025,000 shares of common stock at $17.00 per share pursuant to the registration statement filed on Form S-1, which was declared effective by the Securities and Exchange Commission on May 11, 1998. In connection with the initial public offering of the Company's common stock, the Company effected a six for ten reverse stock split, which has been reflected in the accompanying financial statements. In addition to the reverse stock split, the Company's 6,571,427 outstanding shares of Preferred Stock (as defined below) were converted to 3,942,839 shares of the Company's common stock upon completion of the initial public offering. The conversion of the Preferred Stock has been reflected in the accompanying consolidated financial statements.

Redeemable Preferred Stock

The Company has authorized the issuance of up to 50,000,000 shares of preferred stock. In November 1997, the Company designated 6,571,450 shares as 8% Series A Convertible Preferred Stock (the "Preferred Stock").

In November 1997, the Company completed a private placement offering in which 5,148,570 shares of the Preferred Stock were issued at $3.50 per share, for total proceeds to the Company of approximately $16.7 million, net of expenses.

In January 1998, the Company completed an additional private placement offering in which 1,422,857 shares of Preferred Stock were issued at $3.50 per share for total proceeds to the Company of approximately $5.0 million, net of expenses. The terms of the offering were substantially identical to those of the previous preferred stock offering.

Each share of Preferred Stock was automatically converted into common stock on a six for ten basis upon the consummation of the Company's IPO. In accordance with the terms of the Preferred Stock, the accrued dividends were reversed at the time of conversion.

(6) Stock Option Plan

In June 1996, the Company adopted a stock option plan which allows the Board of Directors to grant incentives to employees in the form of incentive stock options and non-qualified stock options. As of December 31, 1997, the Company had reserved 1,440,000 shares of common stock to be issued under the plan. In March 1998, the Board of Directors approved an additional 1,200,000 shares of common stock to be issued under the plan.

In July 1998, the Company filed a registration statement on Form S-8 to register the reserved shares of the Company's common stock under the MGC Communications, Inc. Stock Option Plan.

Under the plan, substantially all options have been granted to employees at a price equal to the then-current market price, as estimated by management, and vest primarily over a 5-year period. All options expire within ten years of the date of grant.

Stock option transactions during 1998, 1997 and 1996 are as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1995	–	–
Granted	811,860	$1.35
Canceled	(30,000)	$1.67
Outstanding at December 31, 1996	781,860	$1.35
Granted	274,560	$5.78
Canceled	(3,300)	$5.08
Outstanding at December 31, 1997	1,053,120	$2.50
Granted	865,700	$8.48
Exercised	(7,380)	$1.77
Canceled	(85,240)	$5.84
Outstanding at December 31, 1998	1,826,200	$5.18
Exercisable at December 31, 1996	11,760	$3.33
Exercisable at December 31, 1997	165,720	$1.47
Exercisable at December 31, 1998	378,660	$2.07

For options granted during the year ended December 31, 1998, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%; expected option life of 6.5 years; and risk free interest rate of 5.06% and an expected volatility of 80.5%.

The weighted average fair value of each of the options issued during the years ended December 31, 1997 and 1996, substantially all of which have been granted at a price equal to the then current market price as estimated by management, was estimated to be $4.03 and $.92, respectively, using an option pricing model with the following assumptions: dividend yield of 0%; expected option life of 6.5 years; and risk free interest rate at December 31, 1997 and 1996 of 5.06% and 6.12%, respectively.

The following table summarizes information about stock options outstanding at December 31, 1998:

Range of Exercise Price	Number Outstanding at Dec. 31, 1998	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Dec. 31, 1998	Weighted Average Exercise Price
$0.83 to $3.50	745,980	7.38 years	$ 1.33	320,400	$1.37
$5.00 to $6.50	488,920	8.97 years	$ 5.99	56,760	$5.84
$7.50 to $10.00	496,800	9.58 years	$ 8.45	1,500	$8.33
$12.50 to $17.00	94,500	9.44 years	$14.10	–	$ –
$0.83 to $17.00	1,826,200	8.51 years	$ 5.18	378,660	$2.07

The Company applied Accounting Principles Board (APB) Opinion No. 25 in accounting for its plan. No compensation expense was recognized for the years ended December 31, 1998, 1997 and 1996. Had the Company determined compensation cost using the fair value based method defined in SFAS No. 123, the Company's loss for the years then ended would have increased by $565,000, $7,000 and $10,000, respectively.

(7) Loss Per Share

SFAS No. 128, "Earnings Per Share," requires the Company to calculate its earnings per share based on basic and diluted earnings per share, as defined. Basic and diluted loss per share for the years ended December 31, 1998, 1997 and 1996 were computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock.

The Company's warrants, preferred stock and stock options granted and issued during 1998, 1997 and 1996, and outstanding as of December 31, 1998 and 1997, are antidilutive and have been excluded from the diluted loss per share calculation for the years ended December 31, 1998, 1997 and 1996. Had the Company shown the effects of dilution, the warrants, preferred stock and options would have added an additional 1.8 million, 1.6 million and 0.5 million shares to the weighted average shares outstanding for the years ended December 31, 1998, 1997 and 1996, respectively.

(8) Income Taxes

The net deferred tax asset as of December 31, 1998 and 1997 is as follows (in thousands):

	1998	1997
Deferred Tax Asset		
Net operating loss carry-forward	$17,804	$ 4,529
Start-up expenditures	164	220
Other	534	141
	18,502	4,890
Less: valuation allowance	(15,517)	(4,309)
Net deferred tax asset	2,985	581
Deferred Tax Liability		
Excess of tax depreciation over book	2,769	481
Other	216	100
Net deferred tax liability	2,985	581
Net	$ -	$ -

SFAS No. 109 requires recognition of the future tax benefit of these assets to the extent realization of such benefits is more likely than not; otherwise, a valuation allowance is applied. At December 31, 1998 and 1997, the Company determined that $15,517,000 and $4,309,000, respectively, of tax benefits did not meet the realization criteria because of the Company's historical operating results. Accordingly, a valuation allowance was applied to reserve against the applicable deferred tax asset.

At December 31, 1998 and 1997, the Company had net operating loss carry-forwards available for income tax purposes of approximately $50,869,000 and $12,940,000, respectively, which expire principally from 2011 to 2018.

(9) Commitments and Contingencies

Lease Obligations

The Company has entered into various leasing agreements for its switching facilities, offices, and office equipment. The facility which houses the Company's headquarters in Las Vegas is owned by an entity principally owned by two of the Company's principal stockholders and directors. Management believes the terms and conditions of this agreement are equal to or better than the terms which would be available from an unaffiliated lessor.

Future minimum lease obligations in effect as of December 31, 1998 are as follows (in thousands):

Payments during the year ending December 31:	
1999	$1,389
2000	1,272
2001	1,166
2002	977
2003	159
Thereafter	342
	$5,305

Rent expense was $850,000, $207,000, and $33,000 for the years ended December 31, 1998, 1997, and 1996 respectively of which $614,000 was paid to a related party during 1998.

Purchase Commitments

In the ordinary course of business, the Company enters into purchase agreements with its vendors of telecommunications equipment. As of December 31, 1998, the Company had a total for all vendors of approximately $15.4 million of remaining purchase commitments for purchases of switching equipment.

Litigation

The Company is a party to various legal proceedings, most of which relate to routine matters incidental to its business. Management does not believe that the outcome of such proceedings will have a material adverse effect on the Company's financial position or results of operations.

Interconnection Agreements

The Company has interconnection agreements with five incumbent local exchange carriers. These agreements expire on various dates through July 2000.

The Company is dependent on the cooperation of the incumbent local exchange carriers to provide access service for the origination and termination of its local and long distance traffic. Historically, these access charges can make up a significant percentage of the overall cost of providing these services. To the extent the access services of the local exchange carriers are used, the Company and its customers are subject to the quality of service, equipment failures and service interruptions of the local exchange carriers.

(10) Risks and Uncertainties

Certain rates in the interconnection agreements have been established by the Federal Communications Commission (FCC) and are subject to adjustment upon final negotiations. The Company has recorded costs of sales related to the Sprint (Nevada) interconnection agreement at amounts which are management's best estimates of the probable outcome of the final negotiated rates, which are less than the FCC established rates. The difference, which totals approximately $1.7 million and $1.1 million at December 31, 1998 and 1997, respectively, has not been recorded in the accompanying consolidated financial statements. Management believes that the resolution of this matter will not have an adverse effect on the Company's financial position, results of operations, or liquidity.

(11) Related Party Transaction

In May 1997, the Company entered into an agreement with a company, the owner of which is a former officer and current stockholder of the Company, for the purchase of certain computer software pursuant to which the Company paid the contract price of $600,000 in six equal monthly installments beginning July 1, 1997. In addition, the Company has paid $656,000 and $40,000 during 1998 and 1997, respectively, under such agreement to support and maintain the Company's proprietary management information computer system. Management believes the terms and conditions of this agreement are equal to the terms which would be available from an unaffiliated party.

Report of Independent Public Accountants

To the Stockholders and Board of Directors of MGC Communications, Inc.:

We have audited the accompanying consolidated balance sheets of MGC Communications, Inc. (a Nevada corporation) and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, redeemable preferred stock and stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MGC Communications, Inc. and subsidiary as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Las Vegas, Nevada

March 2, 1999

Independent Auditors' Report

The Board of Directors MGC Communications, Inc.

We have audited the accompanying statements of operations, stockholders' equity and cash flows of MGC Communications, Inc. for the year ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of MGC Communications, Inc. for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP

Las Vegas, Nevada

August 18, 1997

Supplemental Table of Quarterly Financial Data

	Operating Revenues	Loss from Operations	Net Loss Applicable to Common Stockholders	Basic and Diluted Loss per Common Share
1998				
Fourth Quarter	$ 6,477	$ (8,793)	$ (9,327)	$ (.54)
Third Quarter	4,908	(6,403)	(9,092)	(.53)
Second Quarter	4,018	(3,845)	(6,912)	(.52)
First Quarter	2,846	(2,954)	(6,734)	(.76)
Total	**$18,249**	**$(21,995)**	**$(32,065)**	**$(2.26)**
1997				
Fourth Quarter	$ 1,867	$ (2,490)	$ (5,834)	$ (.65)
Third Quarter	1,060	(2,293)	(2,342)	(.28)
Second Quarter	652	(1,698)	(1,554)	(.18)
First Quarter	212	(1,370)	(1,242)	(.15)
Total	**$ 3,791**	**$ (7,851)**	**$(10,972)**	**$(1.30)**

Corporate Information

Board of Directors

Maurice J. Gallagher, Jr.
Chairman of the Board,
MGC Communications, Inc.

Nield J. Montgomery
President and Chief Executive Officer,
MGC Communications, Inc.

Timothy P. Flynn
Principal, Flynn Gallagher Associates, LLC

Jack Hancock
Director, Union Bank of California and
Wittaker Corporation

David Kronfeld
Managing Partner, JK&B Management, LLC
Partner, Boston Capital Ventures

Thomas Neustaetter
Principal, The Chatterjee Group

Executive Officers

Nield J. Montgomery
President and
Chief Executive Officer

John Boersma
Vice President-Operations

Michael E. Burke
Vice President-
Network Operations

Patrick Chicas
Vice President-Data Services

David S. Clark
Vice President-Marketing

Kent F. Heyman
Vice President and General
Counsel

James J. Hurley III
President-Midwest Region

Thomas G. Keough
Vice President-Sales

James Mitchell
President-Eastern Region

Carol Mittwede
Vice President-Human
Resources

Mark W. Peterson
President-Western Region

David A. Rahm
Vice President-Network
Development

Walter J. Rusak
Vice President-Engineering

Linda M. Sunbury
Vice President and Chief
Financial Officer

Corporate Information

Corporate Headquarters
MGC Communications, Inc.
3301 North Buffalo Drive
Las Vegas, NV 89129
(702) 310-1000

Internet: www.mgccom.com

Independent Accountants
Arthur Andersen LLP
3773 Howard Hughes
Parkway
Suite 500 South
Las Vegas, NV 89109
(702) 836-8600

Legal Counsel
Ellis, Funk, Goldberg, Labovitz
& Dokson, P.C.
3490 Piedmont Road, N.E.
Suite 400
Atlanta, GA 30305
(404) 233-2800

Annual Report on Form 10-K
The Annual Report on Form 10-K of MGC Communications, Inc. filed with the Securities and Exchange Commission may be obtained upon request and without charge. Requests should be directed to Investor Relations at the corporate mailing address.

Common Stock
The Company's common stock trades on the NASDAQ Exchange under the symbol "MGCX."

Other Publicly Traded Securities
Over the Counter
MGC Communications, Inc.
13% Senior Secured Notes
Due October 1, 2004

Agent and Trustee
Continental Stock Transfer
& Trust Company
2 Broadway
New York, NY 10004
Common Stock Transfer Agent

Marine Midland Bank
140 Broadway 12th Floor
New York, NY 10005-1180
Trustee for the 13% Senior
Secured Notes

Annual Meeting

The annual meeting of Stockholders will be held at 10:00AM Pacific Daylight Time, on May 21, 1999, at the Desert Vista Community Center, 10360 Sun City Blvd., Las Vegas, Nevada. March 31, 1999 is the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting of Stockholders.

Forward-Looking Statements

When used in this report and elsewhere by management from time to time, the words "hopes", "beliefs" and "expects" and similar expressions are intended to identify forward-looking statements with respect to the financial condition, results of operations and network expansion of the Company. Management wishes to caution the reader these forward-looking statements such as the Company's plans to expand its existing network through collocation, statements regarding development, introduction and acceptance of the Company's products or business, statements regarding the Company's ability to achieve or exceed its goals or reach profitability in the future, statements regarding the adequacy or availability of financing, statements regarding the outcome of regulatory proceedings or the effect of government regulations or similar statements contained in this Annual Report regarding matters that are not historical facts, are only estimates or predictions. Actual results may differ materially as a result of risks facing the Company or actual results differing from assumptions underlying such statements. Such risks and assumptions include, but are not limited to, the Company's ability to successfully market its existing and proposed services to current and new customers in existing and planned markets, successfully develop commercially viable data and Internet offerings, access markets, install switches and obtain suitable locations for its switches, negotiate and renew suitable interconnect agreements with the ILECs, obtain an acceptable level of cooperation from the ILECs, all in a timely manner, at reasonable cost and on satisfactory terms and conditions, as well as regulatory, legislative and judicial developments that could materially affect the Company's future results. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is contained from time to time in the Company's SEC filings, including but not limited to the Company's report on Form 10-K for the year ended December 31, 1998. Copies of this filing may be obtained by contacting the Company or the SEC.

Designed and produced by Perceive, Long Beach California

BIOGRAPHIES

Maurice J. Gallagher, Jr. is the Chairman of the Board of Directors and a founder of MGC, Inc. Mr. Gallagher was instrumental in organizing MGC with Mr. Montgomery. Mr. Gallagher was a founder of ValuJet Airlines, Inc. in 1993 and served as a Director with Valujet from 1993 until November, 1997. Mr. Gallagher also held prior positions (President and CFO) with ValuJet from 1993 to 1994 and served as Vice Chairman from 1994 to 1997. Prior to that, Mr. Gallagher was a founder and President of WestAir Holding Inc. ("WestAir"), a commuter airline headquartered in Fresno, California. WestAir was sold to Mesa Airlines ("Mesa") in June, 1992. Mr. Gallagher was a member of the Mesa Board of Directors from June 1992 through March, 1993 and served as a Director of Submicron Systems, Inc. from April 1997 until November, 1997.

Rolla P. Huff is the newly named President and Chief Executive Officer of MGC Communications, Inc. Prior to joining MGC, Huff was president and Chief Financial Officer for Frontier Communications, where he was responsible for overseeing the corporate finance, consolidated accounting, tax, treasury and investor relations departments of the firm. In addition, Huff had responsibility for the company's strategic sourcing, real estate and facilities, access planning across the company and other general administrative functions. A certified public accountant, Huff served more than five years with AT&T corporation and AT&T Wireless, where he held numerous executive positions with increasing responsibilities, including the title of president for the Central United States. As President, he was responsible for AT&T's wireless business in 15 states, encompassing approximately 1.6 million customers and representing more than $1 billion in annual revenue. During his tenure with AT&T Wireless, Huff also served as Senior vice president and Chief Financial Officer from 1995 to 1997. As CFO, he was the key interface with the investment community, financial analysts, and rating agencies for the wireless business. Under his leadership, the wireless division met its profit commitments in each year that Huff developed the group's financial plan. Prior to his appointment as CFO, he was the Financial Vice President of AT&T's Mergers and Acquisitions group.

Nield J. Montgomery, the former Chief Executive Officer and President, and a current member of the Board of Directors of the Company since he participated in it founding. Mr. Montgomery has over 35 years of telephone experience, most recently serving as General Manager for ICG from April 1994 to June, 1995. In that capacity he was responsible for developing strategy and deploying telephone switches nationally to position the company to enter the local phone service business. Prior to that, Mr. Montgomery served as General Marketing and Sales Manager for Sprint/Centel (successor to Centel Nevada) ("Centel"). During his 13 year Centel career from 1979 to 1993, he served in senior executive positions directing engineering, operations, business office, sales, and marketing functions. Before joining Centel, Mr. Montgomery held a variety of management positions with NYNEX.

Timothy P. Flynn has served as a member of the Board of Directors of the Company since 1996. Mr. Flynn served as a member of the Board of Directors of ValuJet Airlines, Inc. since he participating in its founding in 1993 until November, 1997. Prior to that, Mr. Flynn was Chairman of the Board and CEO of WestAir Holding, Inc. He and Mr. Gallagher founded WestAir in 1983 and operated it through June, 1992 when it was sold to Mesa. Mr. Flynn was a member of the Board of Directors of Mesa from June, 1992 through March, 1993. Mr. Flynn and Mr. Gallagher are affiliated in a number of other transactions.

Jack Hancock has served as a Member of the Board of Directors of the Company since 1996. Mr. Hancock was Vice President of Systems Technology and Executive Vice President, Product and Technology for PacBell (from 1988 to 1993). Prior to joining PacBell, Mr. Hancock was Executive Vice President for Information Systems, Strategic Planning, and Human Resources at Wells Fargo Bank (from 1982 to 1987). Before that, he was Senior Vice President for Management Information Systems at Chemical Bank (from 1978 to 1981). He is a member of the Boards of Directors of several public and private companies, including Union Bank of California (from 1994 to present) and Wittaker Corporation (from 1994 to present).

David Kronfeld was elected to serve as a Director of the Company in February, 1998. Mr. Kronfeld is the founder of JK&B Management Co., L.L.C., a venture capital firm, and has managed its affairs since 1995. Since 1989, Mr. Kronfeld has also been a partner at Boston Capital Ventures, a venture capital firm where he specialized in the telecommunications and software industries. Mr. Kronfeld was Vice President of Acquisitions and Venture Investments at Ameritech. Prior to Ameritech, Mr. Kronfeld was a Senior Manager at Booz, Allen & Hamilton, an international management consulting firm from 1977 to 1982 and a systems analyst at Electronic Data Systems from 1973 to 1975.

Thomas Neustaetter was elected to service as a Director in February, 1998. Since January, 1996, Mr. Neustaetter has been a principal in The Chatterjee Group ("TCG"), an investment firm. Prior to that, he was managing director and founder of Bancroft Capital (financial advisory services) from January, 1996 to December, 1996 and was a managing director at Chemical Bank from 1990 to 1995.

John Boersma has served as Senior Vice President of Operations of the Company since May, 1997. He served as Vice President of Carrier Relations for ICG Telecom Group, Inc. from 1996 to 1997. He was responsible for ICG's relationship with local exchange carriers and implementation, purchase agreements and service quality and served as vice President, Northern California Operations from April, 1994 to September, 1996. He joined Bay Area Transport, now a part of ICG Telecom Group, in 1986 and held various positions, including responsibility for overall financial and operational performance, marketing management, new business development, regulatory affairs, and information systems development. He has been a member of the Board of Directors of ALTS, and served as the chairman of the association's Tariff Committee from 1991 until February, 1993.

Michael E. Burke has served as Vice President—Network Operations of the Company since December, 1996. Mr. Burke has over 27 years of engineering and engineering project management experience in the telecommunications industry, and served most recently as a member of the Board of Directors and as Vice President—Network Design for Contel of California. Mr. Burke also served in various engineering management roles with Continental Telephone Company, California Pacific Utilities, and General Telephone Company of California.

Michele Sadwick is a new Vice President of Corporate Communications and in that capacity will oversee all of MGC's internal and external communications, including public relations and employee relations. Michele has more than 10 years of public relations and communications experience. For the past six years she worked with the national, regional, and local media, as well as the telecommunications trade publications as director of public relations for Frontier, now Global Crossing. She also managed the company's internal communications program.

Kent F. Heyman has served as Senior Vice President and General Counsel of the Company since June, 1996. Mr. Heyman has 17 years of legal experience, most recently as chairman of the litigation department and Senior Trial Counsel of the Dowling, Magarian, Aaron & Heyman Law Firm. Mr. Heyman has served as a California Superior Court Judge pro tempore presiding over trial, settlement conference and other proceedings from 1990 to 1996.

James J. Hurley III has served as President, Midwest Region of the Company since March, 1998. He previously served as Chief Operating Officer of Wireless Works, Inc. in Chicago from 1996 to 1998. From 1992 to 1996, Mr. Hurley was President and Chief Executive Officer of Inn Room Systems, Inc. (a manufacturer of on-line room refreshment center). From 1976 to 1992, he held various finance, administration and operations management positions with Centel corporation. Mr. Hurley began his career with Arthur Andersen and Company from 1970 to 1976.

James Mitchell has served as President, Eastern Region of the Company since February, 1998. Mr. Mitchell has over eight years of telephone industry experience, serving from 1990 to 1998 in various sales and marketing management roles with MCI, his last position being Regional Sales and Marketing Manager for the Southwest Region. Prior to joining MCI, Mr. Mitchell served as General Partner and Chief Financial Officer of Oak Value Partners, (a private money management firm) from 1987 to 1990. Mr. Mitchell began his career as an auditing associate with Price Waterhouse in Philadelphia.

Mark Peterson has served as President, Western Region of the Company since March, 1997. He previously served as head of corporate affairs for both WestAir Holding, Inc., operating as United Express in Fresno, California from 1988 to 1992 and for AirCal Airlines in Newport Beach, California from 1978 to 1982. He also served as marketing communications manager with Bank of America in San Francisco, worked as a marketing consultant in Northern California and was an instructor in business communications at California State University, Chico.

Linda Sunbury has served as Vice President of the Company since June, 1996 and is currently the Treasurer. Ms. Sunbury has over 12 years accounting and administrative experience, having held similar positions in the airline industry. Most recently, Ms. Sunbury was Vice President of Administration for Business Express, Inc. ("Business Express") dba the Delta Connection from 1994 to 1996. Prior to that, Ms. Sunbury served as Controller for WestAir Holding Inc. operating as United Express from 1988 to 1994. Ms. Sunbury began her career with the accounting firm of KPMG Peat Marwick, LLP where she was employed from 1983 to 1988.

EXHIBIT 5

OFFICERS AND DIRECTORS

The names, addresses, and telephone numbers of the officers and directors of MGC are as follows:

OFFICERS:

Maurice J. Gallagher
Chairman of the Board
3291 N. Buffalo Drive
Suite 8
Las Vegas, NV 89129
Phone: 702-256-4332
Fax: 702-256-7209

Rolla P. Huff
President / CEO
3171 Sullys Trail
Pittsford, NY 14534
Phone: 716-218-6540
Fax: 716-218-0881

Kent F. Heyman
Senior Vice President / Secretary
3301 N. Buffalo Drive
Las Vegas, NV 89129
Phone: 702-310-8258
Fax: 702-310-5689

Michael Daley
CFO
3171 Sullys Trail
Pittsford, NY 14534
Phone: 716-218-6543
Fax: 716-218-0881

Linda M. Sunbury
Treasurer
3301 N. Buffalo Drive
Las Vegas, NV 89129
Phone: 702-310-8269
Fax: 702-310-1111

DIRECTORS:

Maurice J. Gallagher
3291 N. Buffalo Drive
Suite 8
Las Vegas, NV 89129

Nield J. Montgomery
3301 N. Buffalo Drive
Las Vegas, NV 89129

Timothy P. Flynn
3291 N. Buffalo Drive
Las Vegas, NV 89129

Jack Hancock
236 Natchez Court
Walnut Creek, CA 94598

David Kronfeld
JK&B Capital LP
205 N. Michigan Street
Chicago, IL 60601

Thomas Neustaetter
The Chatterjee Group
888 7th Ave., 30th Floor
New York, NY 10106

At this time, none of MGC's officers or directors are located in Tennessee.

**Small and Minority-Owned
Telecommunications Business
Participation Plan**

Pursuant to T.C.A. § 65-5-212, as amended, MGC Communications ("MGC") submits this small and minority-owned Telecommunications business participation plan (the "Plan") along with its Application for a Certificate of Public Convenience and Necessity to provide competing intrastate interexchange and local exchange services in Tennessee.

I. PURPOSE

The purpose of Section 65-5-212 is to provide opportunities for small and minority-owned business to provide goods and services to Telecommunications service providers. MGC is committed to the goals of Section 65-5-212 and to taking steps to support the participation of small and minority-owned Telecommunications businesses in the Telecommunications industry. MGC will endeavor to provide opportunities for small and minority-owned Telecommunications businesses to compete for contracts and subcontracts for goods and services. As part of its procurement process, MGC will make efforts to identify and inform minority-owned and small businesses that are qualified and capable of providing goods and services to MGC of such opportunities. MGC's representatives have already contacted the Department of Economic and Community Development, the administrator of the small and minority-owned Telecommunications assistance program, to obtain a list of qualified vendors. Moreover, MGC will seek to increase awareness of such opportunities so that companies not otherwise identified will have sufficient information to participate in the procurement process.

II. DEFINITIONS

As defined in Section 65-5-212:

Minority-Owned Business. Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars ($4,000,000).

Small Business. Small business shall mean a business with annual gross receipts of less than four million dollars ($4,000,000).

III. ADMINISTRATION

MGC's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting MGC's full efforts to provide equal opportunities for small and minority-owned businesses. The Administrator of the Plan will be:

James Mitchell
Regional Vice President – Southeastern U.S.
MGC COMMUNICATIONS, INC.
3301 North Buffalo Drive
Las Vegas, NV 89129
(702) 310-8258

The Administrator's responsibilities will include:

(1) maintaining an updated Plan in full compliance with Section 65-5-212 and the rules and orders of the Tennessee Regulatory Authority.

(2) establishing and developing policies and procedures necessary for the successful implementation of the Plan.

(3) preparing and submitting such forms as may be required by the Tennessee Regulatory Authority, including the filing of required annual updates.

(4) serving as the primary liaison to and cooperate with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-owned businesses to locate and use qualified small and minority-owned businesses as defined in Section 65-5-212.

(5) searching for and developing opportunities to use small and minority-owned businesses and encouraging such business to participate in and bid on contracts and subcontracts.

(6) providing records and reports and cooperate in any authorized surveys as required by the Tennessee Regulatory Authority.

(7) establishing a record-keeping system to track qualified small and minority-owned businesses and efforts to use such businesses.

(8) providing information and educational activities to persons within MGC and training such persons to seek out, encourage, and promote the use of small and minority-owned businesses.

In performance of these duties, the Administrator will utilize a number of resources, including:

Chambers of Commerce
The Tennessee Department of Economic and Community Development
The United States Department of Commerce
    Small Business Administration
    Office of Minority Business
The National Minority Supplier Development Counsel
The National Association of Women Business Owners
The National Association of Minority Contractors
Historically Black Colleges, Universities, and Minority Institutions

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily spelled out in the Administrator's duties above. Additional efforts to provide opportunities to small and minority-owned businesses will including offering, where appropriate and feasible, small and minority-owned businesses assistance with technical, insurance, bonding, licensing, production and deadline requirements.

III. RECORDS AND COMPLIANCE REPORTS

MGC will maintain records of qualified small and minority-owned business and efforts to use the goods and services of such business. In addition, MGC will maintain records of educational and training activities conducted or amended and of the internal procurement procedures adopted to support this Plan.

MGC will submit records and reports required by the Tennessee Regulatory Authority concerning the Plan. Moreover, MGC will cooperate fully with any surveys and studies required by the Tennessee Regulatory Authority.

MGC Communications, Inc.

By: ____________________
Name
Title

Dated: December 7, 1999

Bringing the world to you! Year 200

Year 2000

Year 2000 Readiness Program Stat
MGC Communications, Inc.

July 1, 1999

This document is a Year 2000 readiness disclosure under the 'Year 2000 Informa Act' (Senate Bill 2392).

Contact us at
Toll free
888-777-5802

Is MGC Communications currently Year 2000 Compliant?
MGC Communications currently believes that its essential processes, sys business functions are ready for the 1999 to Year 2000 transition.

MGC Communications has completed the inventory, assessment and ren network and information system elements. Our mission critical compone MGC Communications network and systems which execute processes su assurance, access management, service delivery, customer service and successfully been certified for Year 2000 compliance. Integration testing throughout the remainder of 1999.

How does MGC Communications Define Y2K Compliance?
MGC Communications' compliance specification is based on the Internati Organization 8601 date and time standard and Bellcore's General require specification for the telecommunications industry. Year 2000 readiness is Communications as "Mission critical hardware, software and/or firmware correct identification, manipulation and calculation using dates, including l outside of the 1900-1999 year range and have been tested as such."

What plans have been implemented for MGC Communicati 2000 compliant?
MGC has been focused on Year 2000 issues since early 1996. Since the young and relatively new to the industry, much of the hardware and softw place within the company was originally purchased with Y2K readiness in plans include a number of phases designed to evaluate and prepare MG to be ready by June 1999.

Awareness Phase		Completed 6/1998
Assessment Phase		Completed 12/1998
Renovation Phase		Completed 4/1999
Validation Phase		Completed 5/1999
Implementation Phase		Completed 6/1999

Has MGC's management clearly established the implement 2000 actions as a high priority?

In recognition of the priority associated with the Year 2000 issue, MGC C has established a Year 2000 Project Team at the corporate level to lead t Year 2000 effort.

At what level of corporate management is the year 2000 pr sponsored?

The Year 2000 project is considered an important initiative for MGC Com 1998, an expert team was formed with executive sponsorship. This team developing the processes and procedures that will ensure that MGC Com ready to meet the challenges of the Year 2000.

Is MGC's Year 2000 program status regularly reported to M management?

MGC's corporate Year 2000 project team reviews the company's progres adherence to its Year 2000 Compliance Plan. The results of these monthl regularly presented to MGC senior management.

Based on the established schedule, is MGC's Year 2000 pr

MGC's overall Year 2000 program performance, when compared to the e is on schedule.

What is the Year 2000 Problem Definition?

The Year 2000 issue, commonly referred to as Y2K, is rooted in the way have been set up to handle the computation of dates. In many cases, wh in computer code, a two digit field has been used to indicate the year, (i.e January 1, 1998). The system assumes that the first two digits in the year With the end of the century approaching, those same systems should refl being "January 1, 2000". However, a non-compliant system will read 01/ 1, 1900.

Does MGC's Year 2000 program include education of empl importance of this project?

Yes, our employees are scheduled to receive information on the Year 20 with updates on our company's progress regarding Y2K readiness. This t known as the "MGC, Y2K Employee Survival Kit" will be delivered throug updates into the first quarter of 2000. Company newsletters, postings, Int visibility will be our chosen mediums in which to disseminate information

Can we acquire documentation on MGC Communications I Communication Networks Testing?

Testing results are considered confidential and proprietary information an published as part of the Year 2000 program.

Readiness priorities

MGC Communications has assigned top priority to the systems and netw supporting those business processes that have the greatest impact on ou Additionally, we have identified and classified all systems within the comp major categories: Mission Critical, Mission Important and Mission Suppor

Mission Critical Systems

This term refers to components of MGC's infrastructure that could have a on our ability to provide services to our customers. It identifies systems th voice transport services. Examples of mission critical systems include net essential support systems that enable customers to receive and use local data telecommunications services, such as residential and business telep Centrex, ISDN, and dedicated voice and data transport services.

Service Assurance: Business processes associated with sustaining customers' pr phone activation.

Mission Important Systems

This term refers to components of MGC's infrastructure that could have s ability to provide secondary services to our customers. Examples of miss systems include features such as voicemail, caller ID, etc.

Mission Supportive Systems

This term refers to those internal systems within MGC Communications th customer service: business processes associated with responding to cus and maintenance requests. Supporting systems include order entry and information systems.

Billing: Business processes associated with rating, invoicing and mailing custom systems include invoice processing system.

Mission Critical Systems

The following categories represent business functions that are critic Communications operations. These items affect service to our cust represent the highest priority within the plan.

The following items represent the critical network elements involved for maintainin to our customers.

Functional Area	Type	Classification	Trading Partner Contacted	Contact Completion Date	Y2K Compliant Target Date	Co
DMS-500	Local/LD Switch	Mission Critical	Yes	1Qtr 1999	June 1999	
Central Office Equipment	Nortel AccessNode	Mission Critical	Yes	1Qtr 1999	June 1999	
Central Office Equipment	Reltek	Mission Critical	Yes	1Qtr 1999	June 1999	
Central Office Equipment	Nortel RSC	Mission Critical	Yes	1Qtr 1999	June 1999	

The following items represent the critical components for maintaining Dial-up acce serving for our ISP customers.

Functional Area	Classification	Trading Partner Contacted	Contact Completion Date	Y2K Compliant Target Date	Y2K Compliant	Respo Cont
Transport	Mission Critical	Yes	1Qtr 1999	June 1999	Yes	IS
Dial-up access	Mission Critical	Yes	1Qtr 1999	June 1999	Yes	IS
MGCI Web Servers	Mission Critical	Yes	1Qtr 1999	June 1999	Yes	IS

Mission Important Systems

The following categories represent business functions that are impo operations, and do not impact the mission critical areas of service a our customers.

Functional Area	Classification	Trading Partner Contacted	Contact Completion Date	Y2K Compliant Target Date	Y2K Compliant	Resp Co
Voice mail	Mission Important	Yes	1Qtr 1999	June 1999	Yes	Engin
Automatic Call Distribution	Mission Important	Yes	1Qtr 1999	June 1999	Yes	Engin

Mission Supportive Systems

The Information Systems within MGC Communications, Inc. operate different platforms. The following information summarizes the Y2K mission supportive systems.

Functional Areas	Classification	Trading Partner Contacted	Contact Completion Date	Y2K Compliant Target Date	Y2K Compliant	Resp Co
Order entry / Order Provisioning	Mission Supportive	Yes	1Qtr 1999	June 1999	Yes	

Third Party Products

A number of products are utilized within the company to enable interfaces or supp performing work. These products are not always visible, but are integrated into th business systems.

Functional Areas	Classification	Trading Partner Contacted	Contact Completion Date	Y2K Compliant Target Date	Y2K Compliant	Respo Cont
Interface Support Software	Mission Supportive	Yes	1Qtr 1999	June 1999	Yes	I/

External Data Exchange

MGC Communications production systems are currently capable of handling date 4 digit fields. We are currently in the process of contacting all of our trading part compliance with all external data file formats. Telecommunications systems and technology are both highly complex and interdependent. Moreover, data inputs fr may or may not be Year 2000 compliant. It is thus impossible to guarantee full Y compliance for all systems despite serious efforts to achieve that goal.

Does your system accept and provide only valid 4 digit dat

The Information processing systems supporting order entry, order provisi are also currently working with 4 digit dates. Today, many interfaces exis billing and customer information with our trading partners. MGC interface accept both 2 digit or 4 digit years.

Date Range Considerations

Date Consideration		Testing
12/31/1998 transition to 1/01/1999		The first occurrence of the year "99" that may be used as a special flag, and "99" as a two-digit year.
4/09/1999		The 99th day of the year 1999. "9999" denotes the end of input in many computer programs.
8/21/1999 transition to 8/22/1999		The event horizon date for Global Positioning System (GPS) satellite receivers.
9/09/1999		9999, which is often used as an infinity date to protect settings from expiration, as an actual date (9/9/99)
12/31/1999 transition to 1/01/2000		The change of century date and the 01/01/00 date.
1/02/2000		The first date change in the Year 2000
1/03/2000		The first work day in the Year 2000
1/04/2000		The first work date change in the Year 2000
1/06/2000		The day in the Year 2000 (which falls on a Thursday). The day fell on a Saturday in 1900.

1/07/2000		The first weekly change in the new century for applications / network elements looking for the number of the week, e.g., week 10
1/08/2000		The end of the first full week in the Year 2000
1/10/2000		The requirement of seven digits of space to write to the date in numbers
1/31/2000 transition to 2/01/2000		The first monthly calendar change in the new century
2/28/2000 transition to 3/01/2000		The first leap year in the new century
03/31/2000 through 4/03/2000		The first calendar quarterly change
06/30/2000 through 7/03/2000		The second quarter calendar quarterly change
10/10/2000		The requirement of eight digits of space to write the date in numbers
12/31/2000 transition to 1/01/2001		The end of the first year in the new century, the transition to the new millennium and the Julian day of 00366 due to Year 2000 being a leap year.
2/28/2001 transition to 3/01/2001		The first non-leap year change; the first non-leap year month change date, and a negative test for 2/29/2001 (error condition)
2/28/2004 transition to 3/01/2004		The first regular leap year date change in the new century, and a positive test for 2/29/2004
12/31/2009 transition to 1/02/2010		The first decade change in the new century
12/31/2027 transition to 1/01/2028		The 28 year "bump" (the calendar repeats itself every 28 years).
2/28/2028 transition to 3/01/2028		The leap year date change
12/31/2037 transition to 10/01/2038		The UNIX platform internal clock which expires in 2038

Contingency Plans

MGC Communications, Inc. is currently in the process of developing Year plans for the company. Areas of focus include:

Focus Area		Target Completion Date
Utility Power Failures		June 1999
Utility Water Failures		June 1999
Security System Failures		June 1999
Personnel Planning Concerns		June 1999
Financial Planning		June 1999

MGC Communications, Inc.
Tennessee IntraLATA Presubscription Implementation Plan

Introduction

MGC Communications, Inc. ("MGC") has in place a process that will give end user customers the opportunity to designate a carrier for their intraLATA toll call traffic in those market areas in which MGC is a facilities-based local exchange service provider. IntraLATA toll calls will automatically be directed to the designated carrier without the necessity of dialing an access code.

General Information

MGC will deploy Two-PIC (presubscribed interexchange carrier) technology in its switches. This technology will enable the customer to separately presubscribe intraLATA service and interLATA service to the same or different carriers. Although a service may be presubscribed, users may reach any carrier by dialing the appropriate access code. All eligible MGC end user telephone line numbers will be presubscribed according to this plan.

Implementation of this plan will be concurrent with the commencement of offering service in the state.

Carrier Information

Carriers will have the option of offering intraLATA service only or interLATA and intraLATA service. MGC will notify potential carriers sixty days prior to the initial availability of presubscription in specific market areas and provide forms of non-disclosure and participation agreements. Carriers will have the option of participating in any or all of such areas. Carriers will be required to return a completed non-disclosure agreement and participation agreement(s). Participating carriers will be requested to submit Access Service Requests/Translation Questionnaires to the access tandem owner and MGC.

MGC will not participate in billing disputes concerning intraLATA service between alternative competing carriers and their customers.

Network Information

All originating intraLATA traffic initially will be routed through the incumbent local exchange carrier ("ILEC") access tandem or through direct trunks between the MGC switch and the carrier locations, which may be used when traffic volumes warrant. Carriers must have Feature Group D trunks in place (or ordered) between their points of presence and the ILEC access tandem(s).

MGC will route all originating intraLATA traffic to the designated carrier and will only block traffic at the request of the customer or in compliance with regulatory requirements. Requests from carriers to block traffic or to remove customers from their networks will not be honored. Calls that cannot be completed to a carrier will be routed to an announcement.

LATAs Served

MGC intends to offer services in the LATAs in which Nashville and Memphis are located.

Customer Contact Information

When customers enroll for service with MGC, MGC representatives will provide alternative carriers' names and contact telephone numbers (if provided by the carrier) to customers in random order upon customer request. MGC representatives will not discuss alternative carrier rates or services and will not provide customers with carrier identification codes or access dialing instructions. MGC representatives will not initiate or accept three-way calls from alternative carriers to discuss presubscription.

MGC will not ballot or allocate its customer base. MGC will accept as a bona fide PIC a selection of "No PIC" as a choice, and customers who do not choose a carrier will be designated "No PIC". Such customers will have access code dialing capability to reach participating intraLATA carriers. MGC will provide customers with a confirmation, notifying them of their PIC selection (MGC or an alternative carrier).

Presubscription Changes

Alternative carriers shall submit PIC changes to MGC using the customer account record exchange ("CARE") system via facsimile or other paper medium. MGC will respond with PIC confirmation or rejection information using the CARE format. Details of the process, including the CARE system, will be provided as part of the correspondence with the carriers.

A $5.00 PIC change charge may be assessed against the customer for each eligible line where a PIC change is made.

In an effort to reduce unauthorized PIC changes, MGC will offer intraLATA PIC freeze service to all customers at no charge. A PIC freeze can only be initiated or removed by the customer requesting it through a MGC representative

Ported Telephone Numbers

For customers who change their local exchange service provider from an ILEC to MGC and retain their ILEC telephone number, MGC, as part of the CARE process, will provide the presubscribed interexchange carrier-select with both the retained ILEC telephone number and the assigned MGC telephone number.

Regulatory Compliance

MGC will comply with all rules of the TRA and the FCC concerning intraLATA toll dialing parity.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

APPLICATION OF MGC COMMUNICATIONS INC. FOR A CERTIFICATE TO PROVIDE FACILITIES-BASED LOCAL EXCHANGE SERVICE, INTRASTATE INTEREXCHANGE SERVICE, AND ACCESS SERVICE WITHIN TENNESSEE	§ § § § § § §	TRA Docket No. 99-_______

PRE-FILED TESTIMONY OF RICHARD E. HEATTER

I, Richard E. Heatter, do hereby testify as follows in support of the application of MGC Communications Inc. ("MGC") for a certificate of convenience and necessity as a competing telecommunications service provider to provide telecommunications services throughout the State of Tennessee:

Q: Please state your full name, business address, and title.

A: My name is Richard E. Heatter and my business address is 171 Sully's Trail, Suite 202, Pittsford, New York 14534. I am MGC's Vice President, Legal of MGC.

Q: Are all statements in MGC's application for a certificate of convenience and necessity filed before the Tennessee Regulatory Authority ("TRA") true and correct to the best of your knowledge, information and belief?

A: Yes.

Q: Please describe the current corporate structure of MGC.

A: MGC is a corporation organized under the laws of the State of Nevada and has authority to transact business in Tennessee.

Q: Does MGC possess the requisite managerial, financial, and technical abilities to provide the services for which it has applied for authority?

A: Yes.

Q: Please describe MGC's financial qualifications.

A: MGC is financially qualified to provide facilities-based and resold local exchange, exchange access and interexchange services in Tennessee and elsewhere. MGC has provided the TRA with its audited financial statements as of December 31, 1998, and unaudited financial statements for the nine-month period ending September 30, 1999.

Q: Please describe MGC's managerial and technical qualifications.

A: MGC possesses the managerial and technical qualifications to provide its proposed facilities-based and resold local exchange access, and interexchange services in Tennessee, and to maintain MGC's facilities over which such services will be deployed. As described in the biographical information accompanying its application, MGC's management team has extensive management and business experience in telecommunications.

Q: What services will MGC offer?

A: MGC seeks authority to provide a full-range of local, exchange access, interexchange (including intraLATA and interLATA) and switched and special access telecommunications services throughout the State of Tennessee. MGC intends to offer this broad range of telecommunications services through the use of its own facilities, through resold services, and through a combination of these provisioning approaches. Consequently, MGC seeks certification to provide all of the services that can be provided by a local exchange company under the Tennessee Regulatory Authority's Rules. MGC also seeks certification to provide all services that can be provided by interexchange services providers and long distance resellers in

Tennessee. MGC intends to provide access services as well as flat rate local exchange service, EAS service, toll restrictions, call control options, tone dialing, custom calling services, caller ID and any other services available on a resale basis from the underlying incumbent local exchange carrier or other certificated carrier within MGC's service area. MGC anticipates initially offering its services to business customers and then to residential customers, as market conditions and demand warrants. MGC either directly or through arrangements with other carriers or companies will provide those services required by TRA Rule 1220-4-8-.04(3)(b). MGC will, upon certification and before offering service, file its initial tariff with the TRA setting forth the rates, charges and regulations for its services. If MGC offers new services in the future, it will similarly comply with such requirements.

Q: Will the granting of a certificate of convenience and necessity to MGC serve the public interest?

A: Yes. The grant of a certificate of public convenience and necessity to MGC to provide facilities-based and resold services within Tennessee will benefit the public because it will increase competition and customer choice for users of local exchange, exchange access interexchange and services in the State of Tennessee. In addition, intrastate offering of these services is in the public interest because the services will provide Tennessee customers with access to new technologies and service choices and can permit customers to achieve increased efficiencies and cost savings. Authorizing MGC to provide these telecommunications services will enhance materially the telecommunications infrastructure in the State of Tennessee and will facilitate economic development. In particular, the public will benefit both directly, through the use of competitive services to be offered by MGC, and indirectly, because MGC's presence in

Tennessee will increase the incentives for other telecommunications providers to offer more innovative services, reduce their prices and improve their quality of service.

Q: Has MGC filed its small and minority-owned business participation plan?

A: Yes.

Q: Has MGC filed its Year 2000 Disclosure Statement?

A: Yes.

Q: Has MGC filed its toll dialing parity plan?

A: Yes.

Q: Will MGC offer telecommunications services in areas served by rural telcos or telephone cooperatives?

A: Unless otherwise permitted by federal or state law, MGC does not plan to offer local exchange telecommunications services in areas served by any incumbent local exchange telephone company ("ILEC") that has a rural exemption under Section 251(f) of the Telecommunications Act of 1996, except for any ILEC that has voluntarily entered into an agreement with a competing telecommunications service provider or that has applied to provide telecommunications services in an area outside its service area existing as of June 6, 1995. MGC also does not plan to provide such services in any area served by a telephone cooperative unless otherwise permitted by applicable federal or state law. MGC reserves the right to expand its services into these areas should any rulings of the TRA or any court or administrative agency allow the provision of service in such areas.

Q: Is MGC authorized to provide telecommunications service in any other states?

A: Yes. MGC is authorized to provide local exchange and interexchange services in California, Florida, Georgia, Illinois, and Nevada.

Q: Who is knowledgeable about MGC's operations and will serve as MGC's regulatory and customer service contact?

A: I will serve as the responsible regulatory officer for the TRA to contact regarding MGC filing requirements subsequent to approval. With respect to the service contract, MGC has made arrangements for its customers to call the company at its toll-free customer service number, 1-888-777-5802. In addition, customers may contact MGC in writing at MGC's headquarters, as well as via e-mail at www.mgci.com.

Q: Has MGC been involved in any pertinent mergers or acquisitions?

A: No.

Q: Will MGC comply with all applicable statutes, rules and orders pertaining to the provision of telecommunications services in Tennessee?

A: Yes.

Q: Does this conclude your testimony?

A: Yes.

I swear that the foregoing testimony is true and correct to the best of my knowledge.

____

Richard E. Heatter
MGC Communications, Inc.

Subscribed and sworn to before me this ____ day of December, 1999.

____

Notary Public

State of Nevada

County of __________________________

My Commission expires _______________

NOTICE OF FILING

MGC Communications, Inc. has filed an Application with the Tennessee Regulatory for a Certificate to Provide Facilities-Based Local Exchange Service, Intrastate Interexchange Service, and Access Service Within Tennessee. Copies of the Application can be obtained from the Tennessee Regulatory Authority. The undersigned hereby certifies that a copy of this notice has been served on the following persons via U.S. mail this 29th day of December, 1999.

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Michael B. Bressman

*Served with a copy of the Application (without exhibits) in addition to this Notice.

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