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TC03-058

TC03-058

DOCKET NO. TC03-058

In the Matter of IN THE MATTER OF THE APPLICATION OF C III COMMUNICATIONS OPERATIONS, LLC FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
3/21	03	Filed and Docketed;
3/27	03	Weekly Filing;
5/16	03	Order Granting COA;
5/16	03	Docket Closed.

STATE PUBLISHING CO., PIERRE, SOUTH DAKOTA—SMEAD 82 SP14130

TC03-058

MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
POPEO PC

Washington
Boston
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New Haven

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Washington, D.C. 20004
202 434 7300
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Robert E. Stup, Jr.

Direct dial 202 661 8711
restup@mintz.com

March 20, 2003

RECEIVED
MAR 21 2003
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

VIA FEDERAL EXPRESS

Ms. Pam Bonrud
Executive Director
Capitol Building
First Floor
500 East Capitol Avenue
Pierre, SD 57501-0570

Re: C III Communications Operations, LLC Application for Certificate of Authority and Notification About The Transfer of Assets and Customers Broadwing Communications Services, Inc. and Broadwing Telecommunications, Inc. To C III Communications Operations, LLC

Dear Ms. Bonrud:

Enclosed please find an original of the above referenced matter. I have enclosed an additional copy of the pleading without the attachments to be date-stamped and returned in the self-addressed federal express envelope. If you have any questions, please contact the undersigned.

Sincerely,

Robert E. Stup, Jr.

Enclosures

WDC 328769v1

TC03-058

RECEIVED
MAR 2 1 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Before the
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

In the Matter of C III Communications Operations, LLC Application for Certificate of Authority	Case ____________________

APPLICATION

C III Communications Operations, LLC ("C III Ops" or "Applicant") hereby applies to the South Dakota Public Utilities Commission for a Certificate of Authority ("COA") to provide interexchange services in South Dakota.

On February 22, 2003, C III Ops and its parent company, C III Communications, LLC ("C III") (collectively C III Ops, C III and its affiliates shall be referred to as the "C III Companies") entered into a purchase agreement with Broadwing Communications Services Inc. ("Broadwing-CSI") to acquire its broadband business, including the assets and customers of Broadwing Telecommunications ("Broadwing-TI") (collectively Broadwing-CSI and Broadwing-TI shall be referred to as the "Broadwing Companies"). Concurrently with the filing of this Application, C III, C III Ops and the Broadwing Companies have filed a notification with the Commission regarding the transfer of assets from the Broadwing Companies to C III Ops. The operating authority requested in this Application is necessary in order for C III Ops to take ownership and control of those assets and continue providing services to the customers currently served by the Broadwing Companies.

In support of this Application, the Applicant states as follows:

A. Background

1. The proposed transaction contemplates that Broadwing-CSI would sell to C III its entire broadband business, which includes interstate and intrastate long distance and private line services. C III, through its wholly-owned subsidiary, C III Ops, would continue to provide service to all of Broadwing-CSI's and Broadwing-TI's existing customers under the trade name "Broadwing." In addition, C III Ops would retain all of Broadwing-CSI's current employees.[1]

2. The proposed transaction must be structured as an asset sale rather than a transfer of control because of federal and state income tax implications. As a result, substantially all of the assets of Broadwing-CSI, including all of the assets and customers of its wholly owned subsidiary, Broadwing-TI, shall be transferred to C III Ops. Attached hereto, as Attachment 1, are organization charts depicting the proposed transaction. As shown in the charts, C III Ops would hold the operating authority and the customer contracts. Four special purpose entities, which are wholly owned subsidiaries of C III Ops, have been organized to hold the acquired assets and the employees.

B. The Parties

3. C III is a privately held Delaware limited liability company. C III is the parent company of C III Ops. C III does not currently hold any authority to provide telecommunications services. Upon closing of the proposed

[1] Broadwing-TI does not retain separate employees.

transaction, C III would be renamed Broadwing, LLC. Attached hereto as Attachment 2 is the current and proposed ownership of C III.

4. C III Ops is a Delaware limited liability company, which was incorporated on February 20, 2003, that is wholly owned by C III. Attached hereto as Attachment 3 is C III Ops' Articles of Incorporation with amendments. C III Ops does not have a principal office in South Dakota, but its registered agent information is set forth in Attachment 3 and its contact information for any questions or regulatory issues that may arise pending the closing of this transaction and/or the resolution of this application is set forth below in paragraphs 22 and 23. C III Ops would be the licensed service provider and enter into contracts with customers for the provisioning of services. C III Ops does not currently hold any authority to provide telecommunications services in South Dakota or any other state. Accordingly, as a condition precedent to the closing of the proposed transaction, C III Ops is seeking authority to provide competitive telecommunications services throughout the United States, including South Dakota. In addition, C III Ops is seeking all necessary authority from the Federal Communications Commission. The Federal tax identification number of C III Ops is 75-310520. Upon closing of the proposed transaction, C III Ops would be renamed Broadwing Communications, LLC.[2] A copy of the Certificate of Good Standing for C

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2 Applicant seeks the COA in the name of C III Communications Operations, LLC. Following the closing of the proposed transaction C III Ops would submit to the Commission a request for name change on the COA.

III Ops from the State of Delaware is attached hereto as Attachment 4. A copy of the Certificate of Authority to Do Business in South Dakota is attached hereto as Attachment 5. Attached hereto as Attachment 6 are the names, telephone numbers and business addresses of each the officers and directors of C III Ops. Also Attached hereto as Attachment 7 are the names, telephone numbers and business addresses of the officers and directors of C III, which wholly owns C III Ops.

5. Corvis Corporation ("Corvis") is the majority and controlling shareholder of C III, and the only shareholder of Corvis with more than a 20% ownership in Corvis is David R. Huber (24.8% of Corvis' voting securities) whose title and contact information follows below:

David R. Huber - Director and
Chairman of the Board
Corvis Corporation
7015 Albert Einstein Drive
Columbia, MD 21046
Tel: (443) 259-4000
Fax: (443) 259-4444

6. Corvis, a Delaware corporation, is a publicly-traded company (NASDAQ:CORV). Corvis is a world leader in the provision of optical network solutions. Corvis is the majority and controlling owner of C III. From point-to-point links to all-optical networks to transoceanic systems, Corvis delivers innovative optical network solutions that drive carrier profitability faster than any other vendor. Headquartered in Columbia, Maryland, Corvis provides carriers with scalable optical networking solutions and services that dramatically reduce the overall expenses

associated with building and operating networks. Carriers deploying Corvis' optical network solutions can provision new wavelength-based services and tailor dynamic service-level agreements for rapid revenue generation. Corvis does not currently hold any authority to provide telecommunications services. For more information about Corvis, please visit its website at www.corvis.com.

7. Cequel III, LLC ("Cequel III") was founded in January 2002 as a privately held Delaware limited liability company. Cequel III is a minority owner of C III and would control less than one percent of the voting interests of C III. Cequel III's mission is to acquire or invest in, and subsequently manage, growth-oriented firms in the telecommunications and cable industries, focusing on those companies that offer platforms for future acquisitions and industry consolidation. In May 2002, Cequel III made equity investments in and assumed management of AAT Communications Corporation, which owns or manages more than 6,000 tower sites across the United States, leasing tower space for wireless voice and data services to a broad tenant base. On February 12, 2003, Cequel III announced that it had assumed management of and agreed to invest in Classic Communications, a cable provider with approximately 325,000 subscribers. On February 21, 2003, Cequel III announced that, subject to regulatory approvals and customary closing conditions, it had entered into an agreement with certain affiliates of Shaw Communications, Inc., to

purchase that company's Texas-based cable systems, which serve approximately 27,000 customers.

8. Broadwing-TI, a Delaware corporation, is a wholly owned subsidiary of Broadwing-CSI, a Delaware Corporation. Broadwing-CSI is a wholly owned subsidiary of Broadwing Communications Inc. ("Broadwing Communications"), a Delaware corporation, which in turn is a wholly owned subsidiary of Broadwing Inc. an Ohio corporation. Broadwing Inc., a publicly-traded company (NYSE: BRW), is an integrated communications company comprised of Broadwing Communications and Cincinnati Bell. Broadwing Inc. is headquartered in Cincinnati, Ohio. Broadwing Inc. would have a minority (less than three percent) non-voting interest in C III. After the closing of the proposed transaction, Broadwing Inc., Broadwing Communications, Broadwing-CSI and Broadwing-TI would be renamed to a name that does not include "Broadwing." For more information about Broadwing Inc., please visit its website at www.broadwing.com. Broadwing-CSI is authorized to provide intrastate interexchange services in forty-eight states, including South Dakota. Broadwing-CSI currently does not serve end-user customers, but serves as a wholesale provider of service to other carriers. Broadwing-TI is authorized to provide resold intrastate interexchange services in forty-eight states, including South Dakota.

C. Financial, Managerial and Technical Qualifications of C II Ops

9. The financial, managerial and technical qualifications of C III Ops to provide competitive telecommunications in the South Dakota will be met through the proposed acquisition of the businesses of Broadwing-CSI and Broadwing-TI and is thus largely a matter of South Dakota Public Utilities Commission record. The South Dakota Public Utilities Commission has already found Broadwing-CSI and Broadwing-TI to be qualified to provide competitive telecommunications in South Dakota. Broadwing-CSI's existing employees, who already have a proven track record, would be employed by C III Ops, thus assuring operational continuity.[3] In addition, the proposed transaction would enhance these existing qualifications because of the additional financial, managerial and technical abilities to be contributed by the ultimate owners of C III Ops -- Corvis and Cequel III.

10. Financial Qualifications. When the companies were initially granted their COAs, Broadwing-CSI and Broadwing-TI were found by the South Dakota Public Utilities Commission to be financially qualified to provide telecommunications services in South Dakota. Attached hereto as Attachment 8 are unaudited financial statements of Broadwing-CSI and Broadwing-TI for the past two years.[4] While the companies have had significant operating losses over the last two years, the results from

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[3] The employees would be employed by C III Communications Employees, Inc., a wholly-owned subsidiary of C III Ops. All references herein to transferring employees to C III Ops shall mean C III Communications Employees, Inc.

[4] Audited financial statements are not available because the companies are part of a large publicly held corporation that prepares consolidated financial statements.

operations have been improving because Broadwing-CSI has previously taken the necessary steps to reduce operating expenses and capital expenditures. Furthermore, certain income statement and balance sheet items are not applicable to C III Ops. For example, C III Ops is not acquiring any of the existing debt of Broadwing-CSI or Broadwing-TI. In addition the value of long term assets, including associated depreciation and amortization, as well as long term liabilities and shareholder's equity will be determined and allocated once the transaction is closed. Such valuations will be based on the purchase price of the assets and not the historical costs.

11. More importantly, the additional financial resources available to the business as a result of the proposed transaction would better ensure its continued viability. Corvis and Cequel III plan to invest substantial capital to purchase the assets of Broadwing-CSI and Broadwing-TI. The C III Ops investors negotiated the proposed transaction at arms-length. Combined, Corvis and Cequel III would pay approximately $129 million in cash and have every incentive to ensure the financial success of C III Ops and a positive return on their investment. Towards that end, Corvis has committed to making a working capital infusion of up to $50 million, as needed, but in any event not later than December 31, 2003. This would provide C III Ops with additional financial resources in case of any unforeseen operating deficits or to further expand services.

12. Attached hereto as Attachment 9 is the most recent 10-Q filing of Corvis, as well as its annual reports for the prior two years which are attached hereto as Attachment 10. This filing demonstrates that Corvis has the financial resources necessary to contribute the $50 million in working capital and is otherwise qualified to be the controlling owner of a provider of competitive telecommunications services in South Dakota.

13. In short, if the financial resources of Corvis were combined with the operations of Broadwing-CSI and Broadwing-TI, the financial qualifications of the resulting business would be greatly improved. C III Ops would be better positioned than Broadwing-CSI or Broadwing-TI to continue to provide and expand service offerings to their South Dakota customers.

14. <u>Technical Qualifications</u>. The proposed transaction would have no negative impact on C III Ops' technical ability to continue to operate, maintain and expand the services currently offered by Broadwing-CSI and Broadwing-TI in South Dakota. All of the technical personnel, including the Chief Technology Officer, network engineers and field technicians employed by Broadwing-CSI would be transferred to C III Ops.

15. In addition, Corvis is a world leader in the design, manufacture and support of high-performance all-optical and electrical/optical communications systems. The network that would be transferred to C III Ops is primarily designed around Corvis equipment. All of the technical expertise of Corvis would be available to C III Ops. There is simply no

better qualified company to support C III Ops' network. Accordingly, the technical qualifications of C III Ops and Corvis would be sufficient to operate, maintain, and expand its telecommunications services in South Dakota. Attached hereto as Attachment 11 are the resumes of the primary technology personnel of C III Ops, including those employees of Broadwing-CSI who would become employees of C III Ops. In addition, Attachment 11 includes the resumes of Corvis personnel who would be available to support C III Ops' network.

16. Managerial Qualifications. C III Ops would be run on a day-to-day basis by its core management team, which would be transferred from Broadwing-CSI to C III Ops. Accordingly, the proposed transaction would have no negative impact on any Broadwing-CSI and Broadwing-TI services currently provided in South Dakota, but would instead allow the new company -- C III Ops -- to benefit from the combined management and industry expertise of Broadwing-CSI, Broadwing-TI, Corvis and Cequel III.

17. In addition to Corvis' substantial management expertise with designing, implementing and supporting state of the art optic networks, Cequel III has a demonstrated track record with respect to managing telecommunications and related companies. Jerry Kent (President and CEO of Cequel III) and Howard Wood (Chairman of Cequel III), among other business ventures, founded Charter Communications and built it into the nation's fourth-largest cable operator. Under their leadership, Charter

led the industry in standard performance metrics for five consecutive years.

18. Finally, the new company, with its improved financial position, would be better positioned to attract additional management talent. Attached hereto as Attachment 12 are the resumes of the officers, directors and managers of C III Ops, including the managers of Broadwing-CSI that will be transferring to C III Ops.

D. Service Provided by C III Ops

19. C III Ops proposes to provide facilities-based and resold interexchange communications services (switched long distance) and interexchange private line services. Applicant will provide such services throughout the state unless restricted by state rule. At the present time, there is no marketing plan available for C III Ops. Because C III Ops would provide uninterrupted services to the current customers of the Broadwing Companies and to ensure the proposed transaction would not result in any change in the terms, conditions and price of their services, C III Ops proposes to adopt Broadwing-CSI's and Broadwing-TI's currently effective tariffs.[5] Accordingly, attached hereto as Attachment 13 are the initial proposed tariffs of C III Ops. These tariffs are identical in substance to the tariffs that Broadwing-CSI and Broadwing-TI currently have on file with the South Dakota Public Utilities Commission. C III

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[5] As a competitive carrier, however, C III Ops reserves the right to modify its services and terms and conditions thereof, in accordance with the South Dakota Public Utilities' Commission's rules.

Ops will collect deposits per contracts and on credit risks on Carrier and Retail Customers.

20. As part of the purchase agreement, C III Ops would purchase the trade name "Broadwing" and would continue to provide service under that name. Customer invoices would continue to be issued in the same format in which they were issued prior to the asset transaction. Attached hereto as Attachment 14 are sample invoices.

21. South Dakota customers would be provided service using facilities in other states than South Dakota, and C III Ops will own no facilities in that state. C III Ops would acquire any facilities in other states through purchase. A copy of the Purchase Agreement is attached hereto as Attachment 15.

E. <u>Character Qualifications</u>

22. To the best of C III Ops' current knowledge, there are no outstanding formal or informal complaints pending against it before any state or federal regulatory commission.

23. To the best of C III Ops' current knowledge, neither C III Ops, nor any of its officers or directors have been involved in any civil or criminal investigations and/or had judgment entered against them in any civil matter or convicted of any crimes related to the delivery of telecommunications services.

24. Attached hereto is an affidavit from C III Ops' representative, confirming the accuracy of the statements made in this filing.

25. After the closing of the proposed transaction, all of the regulatory, customer and technical contacts of the Broadwing Companies will transfer to C III Ops. Their contact information, including addresses, telephone numbers, fax numbers and emails will remain the same. Upon closing, C III Ops will update all of the Commission's records as required. In addition, upon closing, the following toll free number will be available for customer complaints: 1-800-422-1199. Until closing, the principal business address, telephone number, and point of contact of C III Ops for all matters, including customer complaints, is as follows:[6]

C III Ops
Robert E. Stup, Jr.
Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo, L.C.
701 Pennsylvania Avenue, NW
Washington, D.C. 20004-2608
(202) 661-8711 – Voice
(202) 434-7400 – Facsimile
restup@mintz.com

23. Correspondence or communications regarding this filing should be directed to the following:

C III Ops
Robert E. Stup, Jr.
Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo, L.C.
701 Pennsylvania Avenue, NW
Washington, DC 20004-2608
(202) 661-8711 – Voice
(202) 434-7400 – Facsimile
restup@mintz.com

[6] C III Ops will not provide services until the closing of the proposed transaction. Thus, there would not be any customer complaints or other regulatory issues requiring the Commission to contact the Applicant until after the closing of the proposed transaction.

26. C III Ops is prepared to answer any questions, present additional information about their services or provide a copy of this Application to any interested party requesting a copy and to any persons that the South Dakota Public Utilities Commission directs by order or by its rules.

WHEREFORE, C III Ops respectfully requests that the Commission grant the Application, and grant any other relief that it deems appropriate.

Respectfully submitted,

Robert E. Stup, Jr.
Mintz, Levin, Cohn, Ferris, Glovsky
and Popeo, L.C.
701 Pennsylvania Avenue, N.W.
Washington, DC 20004-2608

Counsel for the C III Companies

Dated: March 20, 2003

AFFIDAVIT

STATE OF MARYLAND	)	
	)	ss
COUNTY OF HOWARD	)	

I, Lynn D. Anderson, declare under penalty of perjury that I am Vice President of C III Communications, LLC and C III Communications Operations, LLC; that I have read the foregoing and any attachments and know the contents thereof; that the same are true to the best of my knowledge, except as to the matters that are therein stated on information or belief, and as to those matters I believe them to be true.

By: Lynn D Anderson
Lynn D. Anderson

Subscribed and sworn to before me
this 20 day of March, 2003

Nancy B. Faber

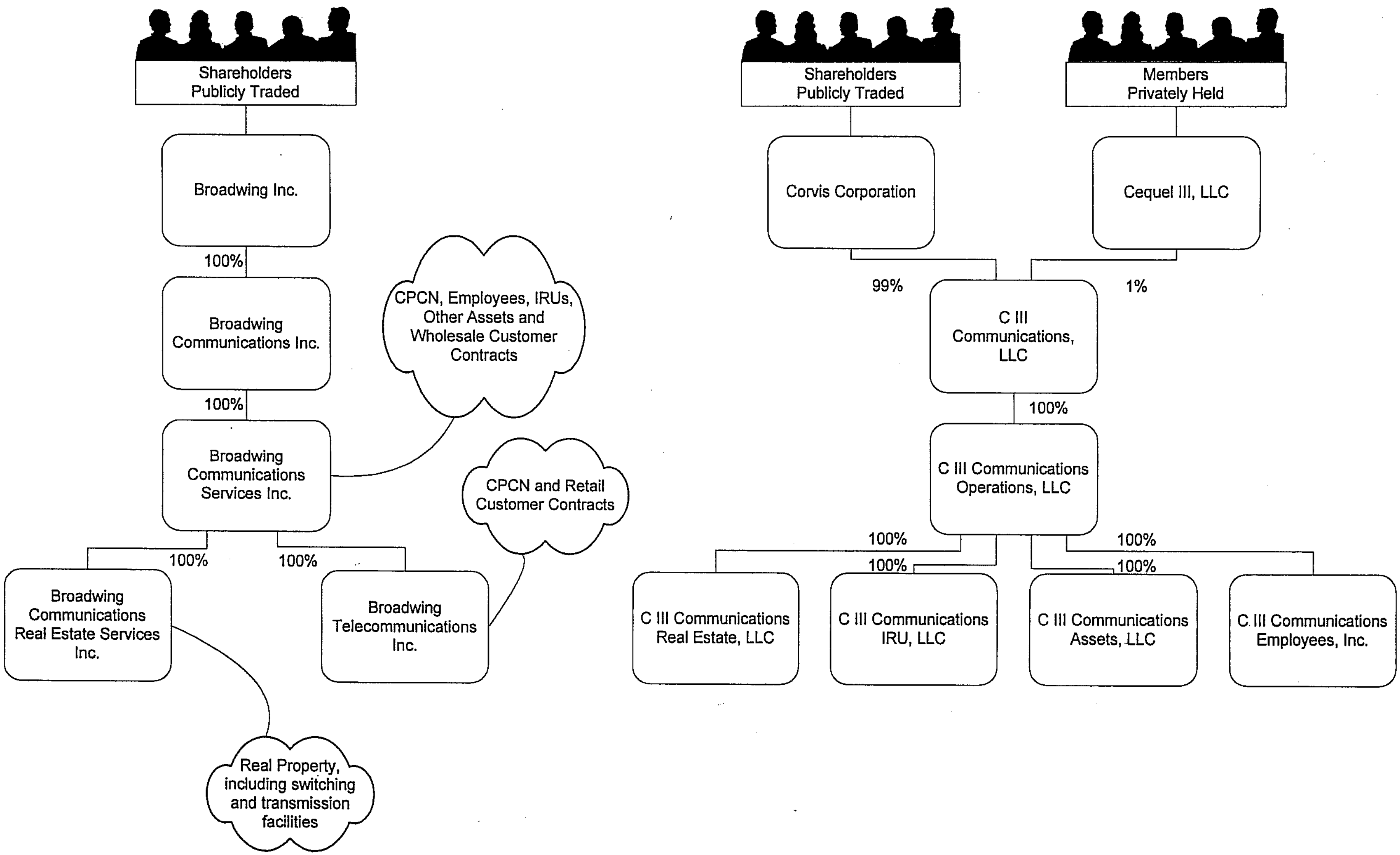
Nancy B. Faber
NOTARY PUBLIC
HOWARD COUNTY
MARYLAND
My Commission Expires Nov. 1 2006

12506.1

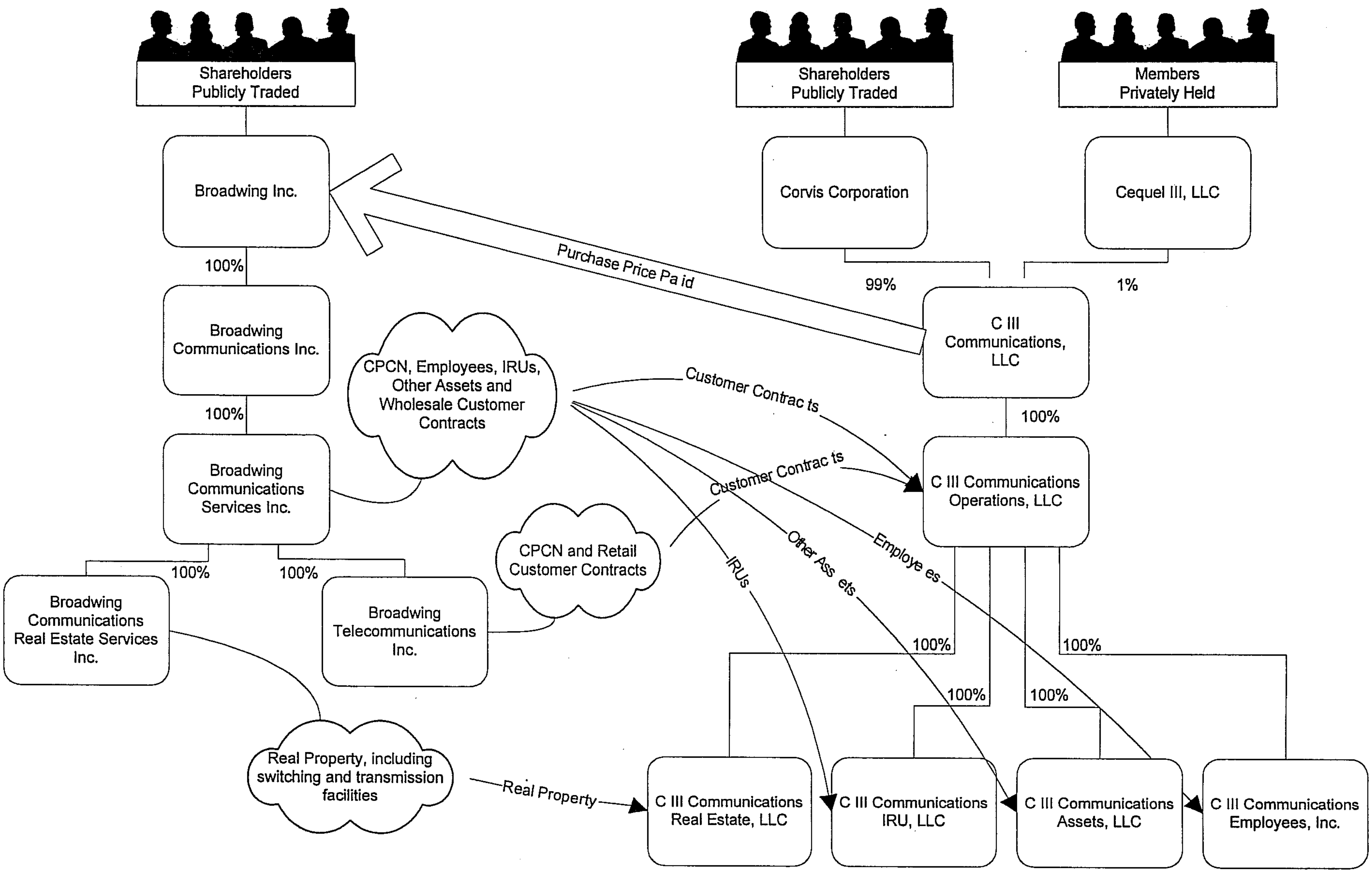
List of Attachments

Attachment 1	Charts of Proposed Transaction
Attachment 2	C III's Current and Proposed Ownership Structure
Attachment 3	C III Ops Articles of Incorporation and Amendments
Attachment 4	Certificate of Good Standing of C III Ops
Attachment 5	Certificate of Authority to Do Business in South Dakota
Attachment 6	C III Ops Officers and Directors
Attachment 7	C III's Officers and Directors
Attachment 8	Financial Statements
Attachment 9	Corvis' Most Recent 10 Q
Attachment 10	Corvis' Annual Reports for 2000 and 2001
Attachment 11	Technical Resumes
Attachment 12	Management Resumes
Attachment 13	Proposed Tariffs
Attachment 14	Sample Invoice
Attachment 15	Purchase Agreement

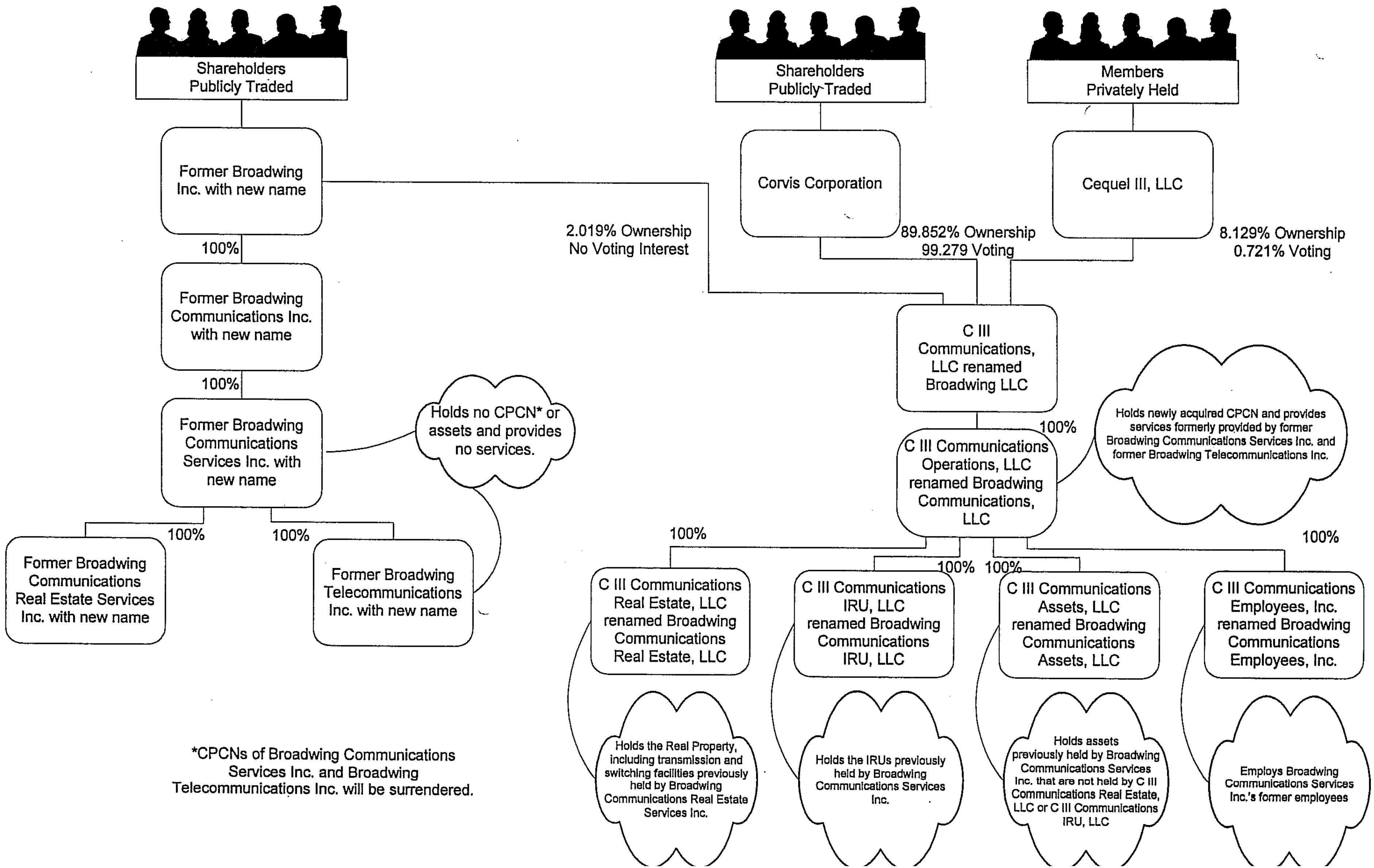
Current Structure



Proposed Transaction



Proposed Final Structure



C III's Current and Proposed Ownership Structure

<u>Current Ownership</u>

Corvis Corporation	99 Class A Units (Voting)
Cequel III, LLC	1 Class A Unit (Voting)

<u>Proposed Ownership</u>

Corvis Corporation	12,018,567 Class A Units (Voting)
Cequel III, LLC	87,300 Class A Units (Voting) and 1,000,000 Class C Units (Non-voting)
Broadwing, Inc.	270,000 Class B Units (Non-voting)

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "C III COMMUNICATIONS OPERATIONS, LLC", FILED IN THIS OFFICE ON THE TWENTIETH DAY OF FEBRUARY, A.D. 2003, AT 5 O'CLOCK P.M.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3627662 8100

030111245

AUTHENTICATION: 2268611

DATE: 02-21-03

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 05:00 PM 02/20/2003
030111245 – 3627662

CERTIFICATE OF FORMATION

of

C III Communications Operations, LLC

This Certificate of Formation is being duly executed and filed by the undersigned authorized person to form a limited liability company under the Delaware Limited Liability Company Act (the "Act"). It is hereby certified as follows:

FIRST. The name of the limited liability company (the "Company") is: C III Communications Operations, LLC.

SECOND. The address of the registered office of the Company in the State of Delaware is: c/o Corporation Service Company, 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, State of Delaware 19808. The name of the registered agent of the Company at such address is: Corporation Service Company.

THIRD. The purpose of the Company is to engage in any lawful act or activity for which a limited liability company may be organized under the Act.

FOURTH. In furtherance and not in limitation of the powers conferred by the Act, the Company shall be governed by a limited liability company agreement.

FIFTH. The Company shall to the fullest extent permitted by the provisions of Section 18-108 of the Act, as the same may be amended and supplemented, indemnify any and all persons whom it shall have the power to indemnify under said Section 18-108 from and against any and all matters, and the indemnification provided for herein shall not be deemed exclusive of any other right to which any person may be entitled under the Company's limited liability company agreement, or otherwise.

IN WITNESS WHEREOF, the undersigned authorized person has executed this Certificate of Formation as of February 20, 2003.

/s/ Joshua P. Kleiman
Joshua P. Kleiman
Authorized Person

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "C III COMMUNICATIONS OPERATIONS, LLC", FILED IN THIS OFFICE ON THE TWELFTH DAY OF MARCH, A.D. 2003, AT 12 O'CLOCK P.M.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3627662 8100

030165122

AUTHENTICATION: 2303463

DATE: 03-12-03

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 12:00 PM 03/12/2003
030165122 – 3627662

CERTIFICATE OF AMENDMENT

TO

CERTIFICATE OF FORMATION

OF

C III Communications Operations, LLC

1. The name of the limited liability company is C III Communications Operations, LLC.

2. The Certificate of Formation of the Company is hereby amended by deleting in its entirety Article SECOND of the Certificate of Formation and substituting the following therefor:

"**SECOND**. The address of the registered office of the Company in the State of Delaware is: Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware 19801. The name of the registered agent of the Company at such address is: The Corporation Trust Company."

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment to Certificate of Formation of C III Communications Operations, LLC this 12th day of March, 2003.

C III COMMUNICATIONS OPERATIONS, LLC

By: ______________________
Howard L. Rosenberg
Authorized Person

8961162 02062067

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "C III COMMUNICATIONS OPERATIONS, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SEVENTH DAY OF MARCH, A.D. 2003.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE NOT BEEN ASSESSED TO DATE.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3627662 8300

AUTHENTICATION: 2295856

030153650

DATE: 03-07-03

© GOES 34D
All Rights Reserved

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

Certificate of Authority
Limited Liability Company

ORGANIZATIONAL ID #: FL001541

I, Chris Nelson, Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for a Certificate of Authority of **C III COMMUNICATIONS OPERATIONS, LLC (DE)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Limited Liability Company Act, have been received in this office and are found to conform to law.

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

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this March 14, 2003.

Chris Nelson

Chris Nelson
Secretary of State

CertAuthLLC Merge.doc

Litho. in U.S.A.

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL AVE.
PIERRE, S.D. 57501
(605)773-4845
FAX (605) 773-4550

CERTIFICATE OF AUTHORITY APPLICATION OF A FOREIGN LIMITED LIABILITY COMPANY

RECEIVED
MAR 17 '03
S.D. SEC. of STATE

1. The name of the foreign Limited Liability Company is:

C III Communications Operations, LLC

2. The name of the state or country under whose law it is organized is: Delaware

3. The street address of its principal office is:

701 Pennsylvania Avenue, NW, Suite 900, Attn: Robert E. Stup, Jr., Washington, DC 20004

4. The address of its initial designated office in South Dakota is:

319 South Coteau Street, Pierre, SD 57501

Filed this 14th day of March, 2003
Chris Nelson
SECRETARY OF STATE

5. The name and street address of its initial agent for service of process in South Dakota is:

C T CORPORATION SYSTEM, 319 S. Coteau Street, Pierre, South Dakota 57501

6. The date of organization is: 02/20/2003, and the period of duration is: Perpetual

7. If the company is manager-managed, rather than member-managed, the name and address of each initial manager:

8. Whether one or more of the members of the company are to be liable for its debts and obligations under a provision similar to SDCL 47-34A-303 (c).

The application must be signed by a member if the company is a member-managed company or by a manager if its a manager-managed company.

Date March 12, 2003

(Signature and Title)
Member

FILING INSTRUCTIONS:

- The application for authority must be accompanied by the first Annual Report.
- One original and one exact or conformed copy must be submitted.
- The application must be accompanied by an original, currently dated *Certificate of Good Standing* or *Existence* from the Secretary of State in the state where it is organized.

callc.pdf

Secretary of State
State of South Dakota
500 E. Capitol
Pierre SD 57501-5070
605-773-4845

FIRST ANNUAL REPORT OF A LIMITED LIABILITY COMPANY

1. The name of the Limited Liability Company is:
C III Communications Operations, LLC

2. The state or country under whose law it is organized is:
Delaware.

3. The address of its registered office and the name and address of its registered agent for service of process in South Dakota is:
C T CORPORATION SYSTEM, c/o C T CORPORATION SYSTEM, 319 S. Coteau Street, Pierre, South Dakota 57501

4. The address of its principal office is:
701 Pennsylvania Avenue, NW, Suite 900, Attn: Robert E. Stup, Jr., Washington, DC 20004

5. The names and business addresses of any managers:

6. The dollar amount of the total agreed contributions to the limited liability company is $ 100.00.*

Date: March 12, 2003

[signature], Vice President - Member
Signature & Title

* FILING FEE:

AGREED CONTRIBUTION	FEE
Not in excess of $50,000	$ 90
$50,001 to $100,000	$150
In excess of $100,000	$150 for first $100,000 plus $.50 for each additional $1,000

The maximum amount charged may not exceed sixteen thousand dollars.

C III Ops' Officers and Directors

As a single member limited liability company, C III Ops is managed by its sole member, C III Communications, LLC and does not have directors.

Jerald L. Kent - President
Cequel III, LLC
12444 Powerscourt Drive
St. Louis, MO 63131
Tel: (314) 965-2020
Fax: (314) 965-0500

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Broadwing Communications Services Inc.

INCOME STATEMENT
9 Months Ending September 30, 2002
Unaudited

Net Revenues	$ 352,307,717
Operating Expenses:	
Cost of Services	274,643,334
Operations and Administration	97,174,065
Depreciation and Amortization	138,529,372
Other Operating Expenses	20,961,434
Operating Loss	(179,000,488)
Interest Expense	(124,674,592)
Equity Interest	(13,240,901)
Other, Net	(470,651)
Loss Before Income Taxes, Minority Interest and Change in Accounting Principle	(317,386,632)
Benefit for Income Taxes	141,385,945
Minority Interest	245,700
Change in Accounting Principle	(1,649,861,655)
Net Loss	($1,825,616,642)

Broadwing Communications Services Inc.

BALANCE SHEET
September 30, 2002
Unaudited

ASSETS

Current Assets	
Cash And Cash Equivalents	$ 12,992,120
Accounts Receivable	105,774,181
I/C Receivables From Affiliates	(1,880,761,057)
Prepaid Assets	7,524,840
Deferred Taxes & Other Current Assets	14,811,284
Total Current Assets	(1,739,658,632)
Fixed Assets, Net	813,163,663
Other Non-Current Assets	798,707,456
Investment In Subsidiaries	(577,454,091)
Total Assets	(705,241,604)

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities	
Accounts Payable	108,391,754
Deferred Revenue	30,337,108
Taxes Payable	98,238,623
Current Portion Of Long Term Debt	2,113,609
Other Current Liabilities	(263,038,356)
Total Current Liabilities	(23,957,262)
Non-Current Liabilities	
Total Long Term Debt Less Current Portion	1,074,228
Deferred Tax Liability	326,324,410
Total Other Liabilities	356,127,940
Minority Interest	(523,133)
Total Non-Current Liabilities	683,003,445
Total Liabilities	659,046,183
Stockholders Equity	
Total Retained Earnings	(3,632,058,370)
Additional Paid In Capital	2,267,770,583
Total Stockholders Equity	(1,364,287,787)
Total Liabilities And Stockholders Equity	($705,241,604)

Broadwing Telecommunications Inc.

INCOME STATEMENT
9 Months Ending September 30, 2002
Unaudited

Net Revenues	$204,453,503
Operating Expenses:	
Cost of Services	126,208,678
Operations and Administration	107,770,788
Depreciation and Amortization	3,255,290
Operating Loss	(32,781,253)
Interest Expense	(4,709,431)
Other, Net	(175,499)
Loss Before Income Taxes & Change in Accounting Principal	(37,666,183)
Benefit for Income Taxes	13,277,465
Change in Accounting Principal	(357,053,444)
Net Loss	($381,442,162)

Broadwing Telecommunications Inc.

BALANCE SHEET
September 30, 2002
Unaudited

ASSETS

Current Assets	
Cash and Cash Equivalents	$ -
Accounts Receivable	7,178,668
Prepaid Assets	2,050,576
Deferred Taxes	2,624,591
Other Assets	2,572,512
Total Current Assets	15,426,347
Fixed Assets, Net	7,597,972
Net Intangible Assets	145,031
Other Non-Current Assets	99,001,799
Total Assets	122,171,149

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities	
Accounts Payable	4,775,663
Accrued Liabilities	355,003,216
Taxes Payable	8,744,641
Other Accrued Liabilities	1,385,852
Total Current Liabilities	369,909,372
Non-Current Liabilities	
Deferred Tax Liability	3,389,297
Other Long Term Liabilities	755,848
Total Non-Current Liabilities	4,145,145
Total Liabilities	374,054,517
Stockholders Equity	
Total Retained Earnings	(708,706,095)
Additional Paid In Capital	456,822,727
Total Stockholders Equity	(251,883,368)
Total Liabilities And Stockholders Equity	$122,171,149

Broadwing Communications Services Inc.

INCOME STATEMENT
12 Months Ending December 31, 2001
Unaudited

Net Revenues	$ 617,242,503
Operating Expenses:	
Cost of Services	467,098,508
Operations and Administration	132,767,681
Depreciation and Amortization	264,265,142
Other Operating Expenses	212,305,187
Operating Loss	(459,194,015)
Interest Expense	(111,794,342)
Equity Interest	2,985,494
Other, Net	3,829,467
Loss Before Income Taxes and Minority Interest	(564,173,396)
Benefit for Income Taxes	213,057,553
Minority Interest	192,124
Net Loss	($350,923,719)

Broadwing Communications Services Inc.

BALANCE SHEET
December 31, 2001
Unaudited

ASSETS

Current Assets	
Cash And Cash Equivalents	$ 11,961,100
Accounts Receivable	69,872,252
I/C Receivables From Affiliates	(1,506,181,154)
Prepaid Assets	8,966,310
Deferred Taxes	8,043,714
Total Current Assets	(1,407,337,778)
Fixed Assets, Net	933,867,725
Other Non-Current Assets	2,348,247,327
Investment In Subsidiaries	(440,070,430)
Total Assets	1,434,706,844

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities	
Accounts Payable	172,003,740
Deferred Revenue	39,937,742
Taxes Payable	(7,324,388)
Current Portion Of Long Term Debt	2,887,592
Other Current Liabilities	(78,400,415)
Total Current Liabilities	129,104,271
Non-Current Liabilities	
Total Long Term Debt Less Current Portion	44,646,155
Deferred Tax Liability	290,499,169
Total Other Liabilities	425,384,851
Minority Interest	(277,432)
Total Non-Current Liabilities	760,252,743
Total Liabilities	889,357,014
Stockholders Equity	
Total Retained Earnings	(1,670,735,545)
Additional Paid In Capital	2,216,085,376
Total Stockholders Equity	545,349,831
Total Liabilities And Stockholders Equity	$1,434,706,845

Broadwing Telecommunications Inc.

INCOME STATEMENT
12 Months Ending December 31, 2001
Unaudited

Net Revenues	$ 246,772,451
Operating Expenses:	
Cost of Services	154,965,477
Operations and Administration	156,540,464
Depreciation and Amortization	24,319,967
Operating Loss	(89,053,457)
Interest Expense	(14,476,105)
Other, Net	(1,857,993)
Loss Before Income Taxes	(105,387,555)
Benefit for Income Taxes	32,956,974
Net Loss	($ 72,430,581)

Broadwing Telecommunications Inc.

BALANCE SHEET
December 31, 2001
Unaudited

ASSETS

Current Assets	
Cash And Cash Equivalents	$ 47,322
Accounts Receivable	(60,862,453)
Prepaid Assets	1,814,189
Deferred Taxes	3,162,796
Other Assets	(12,355,382)
Total Current Assets	(68,193,528)
Fixed Assets, Net	11,645,403
Net Intangible Assets	359,131,210
Other Non-Current Assets	80,917,949
Total Assets	383,501,034

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities	
Accounts Payable	3,181,269
Accrued Liabilities	246,857,682
Taxes Payable	803,940
Other Accrued Liabilities	400,953
Total Current Liabilities	251,243,844
Non-Current Liabilities	
Deferred Tax Liability	2,324,534
Other Long Term Liabilities	744,859
Total Non-Current Liabilities	3,069,393
Total Liabilities	254,313,237
Stockholders Equity	
Total Retained Earnings	(327,634,930)
Additional Paid In Capital	456,822,727
Total Stockholders Equity	129,187,797
Total Liabilities And Stockholders Equity	$ 383,501,034

FORM 10-Q

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

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

For the quarterly period ended September 28, 2002

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

For the transition period from______________ to __________________

Commission file number 0-12751

Corvis Corporation
(Exact name of registrant as specified in its charter)

Delaware	52-2041343
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7015 Albert Einstein Drive, Columbia, Maryland 21046-9400
(Address of principal executive offices) (Zip Code)

(443) 259-4000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Yes ___X____ No_______

Number of shares of Common Stock, $0.01 par value, outstanding at October 26, 2002: 412,290,812

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PART I - Financial Information

Item 1. Financial Statements.

CORVIS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	December 29, 2001	September 28, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 638,872	$ 510,729
Short-term investments	21,907	38,014
Trade accounts receivable	33,676	6,021
Inventory, net	96,426	74,472
Other current assets	17,486	12,544
Total current assets	808,367	641,780
Restricted cash, long-term	2,417	2,396
Property and equipment, net	134,393	104,852
Goodwill and other intangible assets, net	21,429	58,593
Other long-term assets, net	12,219	2,811
Total assets	$ 978,825	$ 810,432
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable, current portion	$ 126	$ 105
Capital lease obligations, current portion	6,796	3,866
Accounts payable	14,488	16,000
Accrued expenses and other liabilities	36,402	41,629
Provision for restructuring and other charges	24,050	19,696
Total current liabilities	81,862	81,296
Noncurrent liabilities:		
Notes payable, net of current portion	2,959	2,587
Capital lease obligations, net of current portion	1,743	167
Deferred lease liability and other	3,408	2,871
Total liabilities	89,972	86,921
Commitments and contingencies		
Stockholders' equity:		
Common stock—$0.01 par value; 1,900,000,000 shares authorized; 362,687,909 shares issued and outstanding as of December 29, 2001; 412,288,312 shares issued and outstanding as of September 28, 2002	3,621	4,117
Additional paid-in capital	2,648,955	2,798,275
Shareholder notes receivable	-	(32)
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	(10,796)	(8,377)
Accumulated deficit	(1,752,927)	(2,070,472)
Total stockholders' equity	888,853	723,511
Total liabilities and stockholders' equity	$ 978,825	$ 810,432

See accompanying notes to unaudited condensed consolidated financial statements.

CORVIS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 29, 2001	September 28, 2002	September 29, 2001	September 28, 2002
Revenue	$ 24,157	$ 1,353	$ 173,203	$ 13,092
Costs of Revenue:				
Product sales	15,554	757	108,999	9,478
Inventory write-downs and other charges	--	24,278	99,166	30,324
Gross profit (loss)	8,603	(23,682)	(34,962)	(26,710)
Operating expenses:				
Research and development, exclusive of equity-based expense	34,827	32,980	117,751	95,123
Sales and marketing, exclusive of equity-based expense	12,672	10,954	43,185	36,147
General and administrative, exclusive of equity-based expense	7,652	7,231	27,163	24,407
Equity-based expense:				
Research and development	10,940	7,152	36,368	22,209
Sales and marketing	8,265	2,954	15,560	9,092
General and administrative	8,997	7,601	27,346	23,383
Amortization of intangible assets	12,014	5,658	113,890	12,833
Purchased research and development	--	--	--	34,580
Restructuring, impairment and other charges	131	31,313	606,866	35,664
Total operating expenses	95,498	105,843	988,129	293,438
Operating loss	(86,895)	(129,525)	(1,023,091)	(320,148)
Interest income and other, net	6,269	2,127	19,804	2,603
Net loss	$ (80,626)	$ (127,398)	$(1,003,287)	$ (317,545)
Other comprehensive income (loss) — foreign currency translation adjustment	11,949	(128)	(68,726)	2,419
Comprehensive loss	$ (68,677)	$ (127,756)	$(1,072,013)	$ (315,126)
Basic and diluted net loss per common share	$ (0.23)	$ (0.31)	$ (2.87)	$ (0.82)
Weighted average number of common shares outstanding	352,335	410,323	349,490	385,643

See accompanying notes to unaudited condensed consolidated financial statements.

CORVIS CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 29, 2001	Nine Months Ended September 28, 2002
Cash flows from operating activities:		
Net loss	$ (1,003,287)	$ (317,545)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	148,245	38,807
Equity-based expense	79,274	54,684
Purchased research and development	--	34,580
Restructuring, impairment and other charges	672,162	48,716
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(41,020)	27,655
Decrease (increase) in inventory, net	(30,756)	686
Decrease (increase) in other assets	(4,940)	10,191
Increase (decrease) in accounts payable and accrued expenses	(20,603)	4,918
Net cash used in operating activities	(200,925)	(97,308)
Cash flows from investing activities:		
Purchase of property and equipment	(93,634)	(15,150)
Cash acquired in business combination	--	6,013
Purchases and sales of short-term investments, net	--	(16,107)
Decrease (increase) in deposits and other non-current assets	(15,150)	21
Net cash used in investing activities	(108,784)	(25,223)
Cash flows from financing activities:		
Payments on note payable and capital leases	(3,609)	(4,899)
Proceeds from the issuance of stock	5,420	941
Net cash provided by (used in) financing activities	1,811	(3,958)
Effect of exchange rate changes on cash and cash equivalents	(1,884)	(1,654)
Net decrease in cash and cash equivalents	(309,782)	(128,143)
Cash and cash equivalents—beginning	1,024,758	638,872
Cash and cash equivalents—ending	$ 714,976	$ 510,729
Supplemental disclosure of cash flow information:		
Interest paid	$ 2,866	$ 754
Supplemental disclosure of noncash activities:		
Obligations under capital lease	$ 3,299	$ --
Purchase business combinations consideration paid with common stock	--	91,818

See accompanying notes to unaudited condensed consolidated financial statements.

(Amounts in thousands, except per share data)

(1) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The unaudited condensed consolidated financial statements included herein for Corvis Corporation and subsidiaries (the "Company") have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the condensed consolidated financial statements included in this report reflect all normal recurring adjustments which the Company considers necessary for the fair presentation of the results of operations for the interim periods. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to understand the information presented. The operating results for interim periods are not necessarily indicative of the operating results for the entire year.

These financial statements should be read in conjunction with the Company's December 29, 2001 audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on March 21, 2002.

(b) Revenue and Costs of Revenue

Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved.

Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying condensed consolidated balance sheets. Revenue from annual maintenance agreements is recognized on a straight-line basis over the service period.

Costs of revenue include the costs of manufacturing the Company's products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to the Company's manufacturing, engineering, finishing and installation. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience.

(Amounts in thousands, except per share data)

(c) Uses of Estimates

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

(2) Inventory

Inventories are comprised of the following:

	December 29, 2001	September 28, 2002
Raw materials	$ 197,549	$ 197,931
Work-in-process	17,037	5,913
Finished goods	52,268	40,063
Less: reserve for excess inventory and obsolescence	(170,428)	(169,435)
Inventory, net	$ 96,426	$ 74,472

(3) Inventory Write-downs, Restructuring and Other Charges

During 2001 and 2002, unfavorable economic conditions resulted in reduced capital expenditures by telecommunications service providers causing a decline in the demand for the Company's products. In response to these conditions, in the second, third and fourth quarters of 2001, the Company implemented restructuring plans designed to decrease the Company's operating expenses and to align resources for long-term growth opportunities. These plans included the closure of the Company's Canadian operations. Additionally, the Company evaluated the recoverability of the carrying value of its inventory and long-lived assets in light of the economic environment, the delay of customer network build-outs and projected sales. As a result, the Company recorded charges of approximately $1.0 billion in the year ended December 29, 2001. These charges were comprised of $216.5 million in cost of revenue charges associated with inventory write downs; $77.7 million associated with consolidation of excess facilities, write-downs of idle equipment and workforce reductions; $711.5 million associated with the write-down of goodwill generated in the acquisition of Algety Telecom S.A.; and $12.3 million associated with permanent impairment charges on strategic equity investments carried at cost.

During the nine months ended September 28, 2002, the Company continued to develop and implement restructuring plans designed to further align resources for long-term growth opportunities.

(Amounts in thousands, except per share data)

Restructuring efforts included the completion of a multi-year manufacturing outsourcing agreement with Celestica, a world leader in electronics manufacturing services, in an affected to improve overall manufacturing flexibility and reduce costs. Under the agreement, the Company will transition all of its manufacturing capabilities to Celestica with the exception of final assembly, system integration and testing capabilities. The full transition of affected manufacturing capabilities is expected to be complete in the second quarter of 2003.

In September 2002, the Company completed plans for the reorganization of its French subsidiary, Corvis Algety. The reorganization will result in the elimination of jobs as well as the consolidation of facilities and equipment. These actions will result in staff reductions totaling approximately 165 employees or 80 percent of the local workforce over the next six months.

In light of these activities as well as the continued contraction within the telecommunications sector, the Company continued to evaluate the carrying value of its inventory and other assets. These events and analysis have resulted in the following inventory write-downs, restructuring, impairment and other special charges:

	Cost of Revenue	Restructuring and Other Charges				Interest Income and Other	
	Special Charges, Inventory Write-downs, Contract Losses and Purchase Commitments	Workforce Reduction	Facility Consolidation	Asset Impairments	Total Restructuring and Other Charges	Impairment of Investments	Total
			(In thousands)				
Restructuring liability as of December 29, 2001	$15,313	$1,146	$7,591	—	$8,737	—	$24,050
Quarter ended March 30, 2002:				—			
Restructuring and other charges	4,307	2,599	—	—	2,599	—	6,906
Non-cash charges	(4,307)	(775)	—	—	(775)	—	(5,082)
Cash payments	(5,002)	(2,034)	(151)	—	(2,185)	—	(7,187)
Quarter ended June 29, 2002:							
Restructuring and other charges	6,895	4,232	500	—	4,732	4,771	16,398
Non-cash charges	(6,895)	(1,847)	—	—	(1,847)	(4,771)	(13,513)
Cash payments	(2,396)	(1,394)	(176)	—	(1,570)	—	(3,966)
Accretion of interest	—	—	127	—	127	—	127
Adjustments of prior estimates	(5,155)	—	(2,980)	—	(2,980)	—	(8,135)
Quarter ended September 28, 2002:							
Restructuring and other charges	24,278	12,516	—	18,832	31,348	—	55,626
Non-cash charges	(23,841)	—	—	(18,832)	(18,832)	—	(42,673)
Cash payments	(908)	(1,576)	(388)	—	(1,964)	—	(2,872)
Accretion of interest	—	—	(81)	—	(81)	—	(81)
Effect of international exchange rates	132	—	—	—	—	—	132
Adjustments of prior estimates	—	—	(34)	—	(34)	—	(34)
Restructuring liability as of September 28, 2002	$2,421	$12,867	$4,408	—	$17,275	—	$19,696

(4) Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share are computed as follows (in thousands, except per share data):

(Amounts in thousands, except per share data)

	Three Months Ended	
	September 29, 2001	September 28, 2002
Net loss	$ (80,626)	$ (127,398)
Basic and diluted weighted average common shares	352,335	410,323
Basic and diluted net loss per common share	$ (0.23)	$ (0.31)

	Nine Months Ended	
	September 29, 2001	September 28, 2002
Net loss	$ (1,003,287)	$ (317,545)
Basic and diluted weighted average common shares	349,490	385,643
Basic and diluted net loss per common share	$ (2.87)	$ (0.82)

Options and warrants outstanding as of September 28, 2002 to purchase 52.3 million and 7.6 million shares of common stock, respectively, and 1.1 million unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the three and nine months period ended September 28, 2002 as their inclusion would be anti-dilutive.

Options and warrants outstanding as of September 29, 2001 to purchase 59.2 million and 7.6 million shares of common stock, respectively, and 6.4 million unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the three and nine months ended September 29, 2001 as their inclusion would be anti-dilutive.

(5) Dorsal Acquisition

On May 16, 2002, the Company completed its acquisition of Dorsal Networks, Inc., a privately held provider of next-generation transoceanic and regional undersea optical network solutions for 41.8 million shares of common stock valued at approximately $91.8 million. The acquisition was accounted for under the "purchase" method of accounting. Under the purchase method, the purchase price of Dorsal was allocated to identifiable assets and liabilities acquired from Dorsal, with the excess being treated as goodwill.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition which is based on an independent valuation.

(Amounts in thousands, except per share data)

Current assets	$ 6,632
Property and equipment	5,506
Other assets	577
Patents	30,799
In-process research and development	34,580
Goodwill	19,089
Total assets acquired	97,183
Current liabilities	(5,365)
Total liabilities assumed	(5,365)
Net assets acquired	$ 91,818

Acquired patents will be amortized over an estimated life of five years. Goodwill will have an indefinite life, but will be subject to periodic impairment tests. In process research and development was expensed during the nine months ended September 28, 2002. Dr. David R. Huber, the Company's Chairman and Chief Executive Officer, owned, directly or indirectly, approximately 31 percent of the outstanding stock of Dorsal.

The following unaudited pro forma data summarizes the results of operations for the period indicated as if the Dorsal acquisition had been completed as of the beginning of each period presented. The unaudited pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future.

	Three Months Ended	
	September 29, 2001	September 28, 2002
Revenues	$ 24,157	$ 1,353
Net Loss	(99,443)	(127,398)
Basic and diluted net loss per share	$ (0.28)	$ (0.31)

	Nine Months Ended	
	September 29, 2001	September 28, 2002
Revenues	$ 173,203	$ 13,092
Net Loss	(1,059,294)	(329,111)
Basic and diluted net loss per share	$ (3.03)	$ (0.85)

(6) Legal Matters

In July 2000, Ciena Corporation ("Ciena") informed the Company of its belief that there is significant correspondence between products that the Company offers and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that the Company is willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, monetary damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, the Company filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that the Company is willfully infringing two additional patents. Although a trial date has not been set, we believe that a trial will commence in the first quarter of 2003. Based on the status of the litigation, the Company cannot reasonably predict the likelihood of any potential outcome.

Between May 7, 2001 and June 15, 2001, nine class action lawsuits were filed in the United States District Court for the Southern District of New York relating to the Company's IPO on behalf of all persons who purchased Company stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: the Company, its directors and officers who signed the registration statement in connection with the Company's IPO, and certain of the underwriters that participated in the Company's IPO. Our directors and officers have since been dismissed from the case, without prejudice. The complaints allege that the registration statement and prospectus relating to the Company's IPO contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of the Company's common stock in the IPO and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for the Company's common stock in the aftermarket following the IPO. The complaints ask the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs.

By order dated October 12, 2001, the court appointed an executive committee of six plaintiffs' law firms to coordinate their claims and function as lead counsel. Lead plaintiffs have been appointed in almost all of the IPO allocation actions including the Corvis action. On October 17, 2001, a group of underwriter defendants moved for the judge's recusal. The judge denied that application. On December 13, 2001, the moving underwriter defendants filed a petition for writ of mandamus seeking the disqualification of the judge in the United States Court of Appeals for the Second Circuit. On April 1, 2002, the Second Circuit denied the moving underwriter defendants' application for a writ of mandamus seeking the judge's recusal from this action. On April 19, 2002, plaintiffs filed amended complaints in each of the IPO allocation actions, including the Corvis action. On May 23, 2002, a conference was held at which the court set a briefing schedule for the filing of motions to dismiss the amended complaints. On July 1, 2002, the underwriter defendants filed their motion to dismiss the amended complaints. On July 15, 2002, the issuer defendants filed their motion to dismiss the amended complaints. The briefing on the motions to dismiss has recently been completed, and the judge heard oral arguments on the motions on November 1, 2002. No discovery has occurred.

It is the position of Company management that, at this time, it is not possible to estimate the amount of a probable loss, if any, that might result from this matter. Accordingly, no provision for this matter has been made in the Company's consolidated financial statements.

(7) Concentrations

The Company has relied on four customers for all of its revenue: Wiltel Communications Group, Inc. (formally Williams Communications, LLC), Broadwing Communications Services, Inc., Telefonica de Espana S.A.U. and France Télécom. The Company expects that a significant portion of its future revenue will continue to be generated by a limited number of customers. The loss of any one of these customers or any substantial reduction in orders by any one of these customers could materially adversely affect the Company's financial condition or operating results.

(8) Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS 143), "Accounting for Asset Retirement Obligations," in August 2001. SFAS 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, and capitalize the cost by increasing the carrying amount of the related long-lived asset. The Company is required to adopt SFAS 143 on January 1, 2003. The adoption of this standard will not have a material effect on the company's results of operations.

The FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" in April 2002. SFAS 145 clarifies guidance related to the reporting of gains and losses from extinguishment of debt and resolves inconsistencies related to the required accounting treatment of certain lease modifications. The provisions of this statement relating to the extinguishment of debt are effective for financial statements issued for fiscal years beginning after May 15, 2002. The provisions of this statement relating to lease modifications are effective for transactions occurring after May 15, 2002. The Company does not believe this standard will have a material impact on its results of operations.

(Amounts in thousands, except per share data)

The FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities" in June 2002. SFAS 146 nullifies previous guidance on this issue and requires a liability for a cost associated with an exit or disposal activity to be recognized and measured at its fair value in the period in which the liability is incurred. The Company is required to adopt the provisions of this statement for exit or disposal activities initiated after December 31, 2002. The Company is assessing the impact that the adoption of this standard will have on the Company's results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses the accounting for acquisitions of businesses and is effective for acquisitions occurring on or after July 1, 2001. SFAS No. 142 addresses the method of identifying and measuring goodwill and other intangible assets acquired in a business combination, eliminates further amortization of goodwill, provides for classification of workforce intangibles as goodwill and requires periodic evaluations of impairment of goodwill balances. SFAS No. 141 and 142 are effective January 1, 2002, except for acquisitions occurring on or after July 1, 2001, for which the provisions of SFAS No. 141 and 142 are applicable. Accordingly, through December 29, 2001, the Company continued to amortize goodwill.

Had the amortization provisions of SFAS No. 142 been applied as of January 1, 2001, for all of the Company's acquisitions, the Company's income (loss) and earnings (loss) per share would have been as follows:

	Three Months Ended	
	September 29, 2001	September 28, 2002
Net loss, as reported	$ (80,626)	$ (127,398)
Goodwill amortization	8,982	—
Workforce in place amortization	110	—
Net loss, as adjusted	$ 71,534	$ 127,398
Basic and diluted per share data:		
Net loss per common share, as reported	$ (0.23)	$ (0.31)
Goodwill and workforce in place amortization per common share	0.03	—
Net loss per common share, as adjusted	$ (0.20)	$ (0.31)

	Nine Months Ended	
	September 29, 2001	September 28, 2002
Net loss, as reported	$ (1,003,287)	$ (317,545)
Goodwill amortization	104,790	—
Workforce in place amortization	334	—
Net loss, as adjusted	$ (898,163)	$ (317,545)

CORVIS CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share data)

	Nine Months Ended	
Basic and diluted per share data:	September 29, 2001	September 28, 2002
Net loss per common share, as reported	$ (2.87)	$ (0.82)
Goodwill and workforce in place amortization per common share	0.30	—
Net loss per common share, as adjusted	$ (2.57)	$ (0.82)

As of January 1, 2002, the Company reclassified approximately $0.7 million of intangible assets associated with an acquired employee workforce from intangible assets to goodwill, which in accordance with SFAS No. 142, are no longer separately identifiable from goodwill. As of September 28, 2002, the Company had approximately $87.9 million of intangible assets ($38.6 million net of accumulated amortization) related to patents and intellectual property, which are being amortized straight-line over a period of three years. The Company incurred amortization expense of $12.8 million during the nine months ended September 28, 2002 and anticipates amortization expense to be the following for the next five years:

Estimated Amortization Expense:	
For the year ended 12/28/02:	$18,492
For the year ended 12/27/03:	$17,771
For the year ended 12/25/04:	$10,966
For the year ended 12/24/05:	$ 4,141
For the year ended 12/23/06:	$ -

In August 2001, the Financial Accounting Standard Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and infrequently Occurring Events and Transactions", for the disposal of segments of a business (as previously defined in that opinion). The adoption of SFAS No. 144 did not have any effect on the Company's results of operations.

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

You should read the following discussion and analysis along with our unaudited condensed consolidated financial statements and the notes to those statements included elsewhere in this report and in conjunction with our Form 10-K for the year ended December 29, 2001 filed on March 21, 2002 with the Securities and Exchange Commission.

Overview

We design, manufacture and sell high performance all-optical and electrical/optical terrestrial and undersea communications systems that we believe accelerate carrier revenue opportunities and lower the overall cost of network ownership for carriers. Our optical products have enabled a fundamental shift in network design and efficiency by allowing for the transmission, switching and management of communications traffic entirely in the optical domain. By deploying our products, carriers eliminate the need for expensive and bandwidth limiting electrical regeneration and switching equipment, significantly reducing costs, increasing network capacity and allowing them to provide new services more quickly and efficiently. Our products also open new market opportunities for carriers by enabling a flexible, in-service migration path from existing point-to-point and ring electrical/optical networks to all-optical mesh networks.

Customers

We currently have six customers, including Broadwing Communications Services, Inc., Wiltel Communications Group, Inc. (formally Williams Communications, LLC), Qwest Communications Corporation, Telefonica de Espana S.A.U., France Telecom and the U.S. Federal Government.

Broadwing has agreed to purchase at least $200 million of our products and services as part of a multi-year purchase agreement. Since successfully completing field trials in July 2000, Broadwing has deployed a wide range of our optically optimized networking products, including the all-optical switch, to create a national all-optical network that has been in service for over a year. Sales to Broadwing continue as part of network expansions and maintenance. Cumulative sales to Broadwing through September 28, 2002 totaled $191.6 million.

In 2001, Wiltel accepted a field trial system and agreed to purchase up to $300 million of our products and services as part of a multi-year purchase agreement. Firm commitments totaling approximately $85.0 million must be purchased prior to December 31, 2003. Wiltel has deployed our switching and transport equipment to create a national all-optical network, which is currently in service carrying commercial traffic. Cumulative sales to Wiltel through September 28, 2002 total $77.5 million.

On April 22, 2002, we reached an agreement with Qwest Communications Corporation modifying the terms of our previous purchase agreement. Under the terms of the new agreement, Qwest agreed to purchase up to $150 million of our products and services over a multi-year period. Firm commitments totaling $7.0 million must be purchased in 2002 and $5.0 million must be purchased in 2003 subject to certain acceptance criteria. In addition, we have agreed with Qwest to enter into two field trials of Corvis ON transport and switching equipment as well as our Corvis Optical Convergence Switch (OCS). The field trials began in the third quarter of 2002.

During the first quarter of 2002, we completed the first sales of our XF repeaterless link product to Telefonica de Espana, which was deployed between the island of Mallorca and Telefonica's backbone network in Spain. In April 2002, we sold a XF repeaterless link to France Telecom to upgrade its link between the European mainland and the island of Corsica. The relationships with Telefonica and France Telecom are in early stages and the agreements do not include significant purchase commitment levels, however, we hope to develop these arrangements into long-term business relationships.

In the third quarter of 2002, we created a wholly owned subsidiary, Corvis Government Solutions, Inc. (CGSI), to provide optical networking solutions and services to the Federal marketplace. During the third quarter, CGSI secured its first contract and purchase order from the U.S. Federal Government.

We have also entered into lab trials and discussions regarding laboratory and field trials with other carriers for our ON, OCS and transoceanic subsea products. Upon successful completion of these field trials, we hope to enter into agreements for commercial deployment with new customers.

Starting in 2001 and continuing in 2002, conditions within the general economy and the telecommunications sector have resulted in reduced capital expenditures by carriers and a reduced demand for telecommunications networking systems. As a response to these conditions, we implemented restructuring plans designed to decrease our business expenses and to align resources for long-term growth opportunities. Additionally, we evaluated the carrying value of our inventory and long-term assets. As a result of these steps, we recorded charges totaling approximately $1.0 billion in the second, third and fourth quarters of 2001. These charges were comprised of $216.5 million in cost of revenue charges associated with inventory write-downs and losses on open purchase commitment cancellations; $24.5 million associated with workforce reductions; $53.2 million associated with consolidation of excess facilities and write-downs of idle equipment; $711.5 million associated with the write-down of goodwill; and $12.3 million associated with permanent impairment charges on strategic equity investments.

During the nine months ended September 28, 2002, we continued to develop and implement additional restructuring plans designed to further align resources for long-term growth opportunities.

Restructuring efforts included the execution of a multi-year manufacturing outsourcing agreement with Celestica, a world leader in electronics manufacturing services in an effort to improve overall manufacturing flexibility and reduce costs. Under the agreement, we will transition all of our manufacturing capabilities to Celestica with the exception of final assembly, system integration and test capabilities. The full transition of affected manufacturing capabilities is expected to be complete in the second quarter of 2003.

In September 2002, we completed plans for the reorganization of our French subsidiary, Corvis Algety. The reorganization will result in the elimination of jobs as well as the consolidation of facilities and equipment. These actions will result in total staff reductions of approximately 165 employees or 80 percent of the local workforce over the next six months.

In light of these activities as well as continued contraction within the telecommunications sector, we continued to evaluate the carrying value of our inventory and other assets. These events and analysis have resulted in the following inventory write-downs, restructuring, impairment and other special charges:

	Cost of Revenue	Restructuring and Other Charges				Interest Income and Other	
	Special Charges, Inventory Write-downs, Contract Losses and Purchase Commitments	Workforce Reduction	Facility Consolidation	Asset Impairments	Total Restructuring and Other Charges	Impairment of Investments	Total
			(In thousands)				
Restructuring liability as of December 29, 2001	$15,313	$1,146	$7,591	—	$8,737	—	$24,050
Quarter ended March 30, 2002:				—			
Restructuring and other charges	4,307	2,599	—	—	2,599	—	6,906
Non-cash charges	(4,307)	(775)	—	—	(775)	—	(5,082)
Cash payments	(5,002)	(2,034)	(151)	—	(2,185)	—	(7,187)
Quarter ended June 29, 2002:							
Restructuring and other charges	6,895	4,232	500	—	4,732	4,771	16,398
Non-cash charges	(6,895)	(1,847)	—	—	(1,847)	(4,771)	(13,513)
Cash payments	(2,396)	(1,394)	(176)	—	(1,570)	—	(3,966)
Accretion of interest	—	—	127	—	127	—	127
Adjustments of prior estimates	(5,155)	—	(2,980)	—	(2,980)	—	(8,135)
Quarter ended September 28, 2002:							
Restructuring and other charges	24,278	12,516	—	18,832	31,348	—	55,626
Non-cash charges	(23,841)	—	—	(18,832)	(18,832)	—	(42,673)
Cash payments	(908)	(1,576)	(388)	—	(1,964)	—	(2,872)
Accretion of interest	—	—	(81)	—	(81)	—	(81)
Effect of international exchange rates	132	—	—	—	—	—	132
Adjustments of prior estimates	—	—	(34)	—	(34)	—	(34)
Restructuring liability as of September 28, 2002	$2,421	$12,867	$4,408	—	$17,275	—	$19,696

We continue to monitor our financial position and will make strategic decisions as necessary to position us for long-term success, which may result in additional restructuring charges. These initiatives could lead to further reductions in our facility and fixed asset needs, resulting in associated asset impairment and write-down charges.

Critical Accounting Policies and Estimates

We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to asset impairment, revenue recognition, product warranty liabilities, allowance for doubtful accounts, and contingencies and litigation. We stated these accounting policies in the notes to our 2001 annual consolidated financial statements and at relevant sections in this discussion and analysis. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue. Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved. Customer contracts generally include extensive lab and field trial testing and some include other acceptance criteria.

Our products can be installed by our customers, third party service providers or by us. Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. To the extent customer contracts include both product sales and installation services, revenues are recognized based on their respective fair values. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each installation contract. Amounts received in excess of revenue recognized are included as deferred revenue in our condensed consolidated balance sheet. Revenue from annual maintenance agreements is recognized on a straight-line basis over the service period.

Costs of Revenue. Costs of revenue include the costs of manufacturing our products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing, engineering, finishing and installation operations. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience. Inventory obsolescence costs are estimated using certain assumptions, including projected sales and sales mix. Actual results may differ from those estimates. We continually monitor component failures, technical changes, and levels of on-hand inventory and adjust our estimates accordingly. If, however, actual results vary significantly from our estimates, we will adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate.

Allowance for Bad Debt. To date, we have relied on four customers for all of our revenues. We expect that a significant portion of our future revenue will continue to be generated by a limited number of customers. We monitor the financial conditions of these customers closely and have concluded that no allowance for bad debt was appropriate as of September 28, 2002.

Restructuring and Other Charges. Reflecting continued unfavorable economic conditions and continued lack of expected customer wins and product sales, our Board of Directors approved plans for the reduction of operations including the consolidation of facilities, reduction of employees and the outsourcing of a majority of our manufacturing capabilities. In addition, we evaluated the recoverability of the carrying value of our inventory and long-lived assets. As a result, we recorded charges associated with estimated excess inventory and open purchase commitments based on projected sales volumes, sales mix and estimated selling prices. Facility consolidation costs are based on assumed exit costs and timetables. Asset impairment charges are based on estimated salvage values and recoverability estimates. Goodwill impairment charges are based on estimated discounted future cash flows. If actual results differ significantly from our estimates and assumptions, we will adjust our reserves and allowances accordingly.

Goodwill and Other Intangible Assets. We have recorded goodwill and intangibles resulting from our acquisitions. Through December 29, 2001, goodwill and intangibles have been amortized on a straight-line basis over their respective lives of between 3 and 5 years. Upon the adoption of SFAS No. 142 on December 30, 2001, we ceased amortizing goodwill and will perform an annual impairment analysis to assess the recoverability of the goodwill, in accordance with the provisions of SFAS No. 142. Our annual impairment analysis will take place in the fourth quarter. If we are required to record an impairment charge in the future, it would have an adverse impact on our results of operations.

Litigation. In July 2000, Ciena Corporation ("Ciena") informed us of its belief that there is significant correspondence between products that we offer and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, monetary damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. Although a trial date has not been set, we believe that a trial will commence in the first quarter of 2003. Based on the status of the litigation, we cannot reasonably predict the likelihood of any potential outcome.

Between May 7, 2001 and June 15, 2001, nine class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. The complaints allege that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs.

By order October 12, 2001, the court appointed an executive committee of six plaintiffs' law firms to coordinate their claims and function as lead counsel. Lead plaintiffs have been appointed in almost all of the IPO allocation actions, including the Corvis action. On October 17, 2001, a group of underwriter defendants moved for the judge's recusal. The judge denied that application. On December 13, 2001, the moving underwriter defendants filed a petition for writ of mandamus seeking the disqualification of the judge in the United States Court of Appeals for the Second Circuit. On April 1, 2002, the Second Circuit denied the moving underwriter defendants' application for a writ of mandamus seeking the judge's recusal from this action. On April 19, 2002, plaintiffs filed amended complaints in each of the IPO allocation actions, including the Corvis action. On May 23, 2002, a conference was held at which the court set a briefing schedule for the filing of motions to dismiss the amended complaints. On July 1, 2002, the underwriter defendants filed their motion to dismiss the amended complaints. On July 15, 2002, the issuer defendants filed their motion to dismiss the amended complaints. The briefing on the motions to dismiss has recently been completed, and the judge heard oral arguments on the motions on November 1, 2002. No discovery has occurred.

Based on the status of the litigation, we cannot reasonably predict the likelihood of any potential outcome. We continue to monitor the status of the litigation, however we can give no assurances that an unfavorable outcome will not result in future charges.

Results of Operations

Three months ended September 28, 2002 compared to three months ended September 29, 2001

Revenue. Revenue decreased to $1.35 million for the three months ended September 28, 2002 from $24.2 million for the three months ended September 29, 2001. This decrease in revenue is primarily due to a reduction in capital spending by telecommunications carriers resulting in a decline in demand for telecommunications equipment, including our products. Revenue for the three months ended September 28, 2002 was attributable to two customers.

Service revenues, including maintenance, training and support totaled approximately $0.9 million.

Gross Profit (loss). Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. In addition, cost of revenue includes charges associated with our restructuring plans and excess inventories.

Gross profit (loss) decreased to $(23.7) million for the three months ended September 28, 2002 from $8.6 million for the three months ended September 29, 2001. Negative gross margins are attributable to inventory write-downs of $24.3 million recorded in the three months ended September 28, 2002. Excluding inventory write-downs and other charges, gross profit and gross margin were $0.6 million and 44% for the three months ended September 28, 2002 and $8.6 million and 36% for the three months ended September 29, 2001. The increase in gross margin is primarily due to an increase in the relative proportion of service revenue compared to product revenues as well as the recognition of certain product revenues which had been deferred pending final acceptance. We expect that gross margin, excluding inventory write-downs and other charges, will decrease in the coming quarters as a result of an increase in the relative proportion of product revenues.

Research and Development, Excluding Equity-Based Expense. Research and development expense, excluding equity-based expense consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with research and development, significant quarterly fluctuations may result. We believe that research and development is critical to achieving current and future strategic product objectives.

Research and development expenses, excluding equity-based expense decreased to $33.0 million for the three months ended September 28, 2002 from $34.8 million for the three months ended September 29, 2001. The decrease in expenses was primarily due to lower prototype and lab materials expense, offset in part by higher labor costs associated with the Dorsal acquisition.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses.

Sales and marketing expense, excluding equity-based expense, decreased to $11.0 million for the three months ended September 28, 2002 from $12.7 million for the three months ended September 29, 2001. The decrease in expenses was primarily attributable to the effects of cost saving initiatives including staff reductions and the curtailment of certain discretionary spending.

General and Administrative, Excluding Equity-Based Expense. General and administrative expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities.

General and administrative expenses, excluding equity-based expense, decreased to $7.2 million for the three months ended September 28, 2002 from $7.7 million for the three months ended September 29, 2001. The decrease in expenses was primarily attributable to staff reductions and professional service fees.

Equity-based Expense. Equity-based expense consists primarily of charges associated with employee options granted at below fair market value prior to our initial public offering.

Equity-based expense related to research and development, sales and marketing and general and administrative functions for the three months ended September 28, 2002 decreased to $17.7 million from $28.2 million for the three months ended September 29, 2001. The decrease in equity-based expense resulted from a decrease in employee headcount.

Amortization of Intangible Assets. Amortization of intangible assets relates to the amortization of certain intangible assets with finite lives. As a result of the issuance of SFAS No. 142, we no longer record amortization of goodwill, rather goodwill will be tested at least annually for impairment. There may be more volatility in reported income (loss) than previous standards because impairment losses are likely to occur irregularly and in varying amounts.

Amortization of intangible assets expenses decreased to $5.7 million for the three months ended September 28, 2002 from $12.0 million for the three months ended September 29, 2001. The decrease was primarily attributable to the discontinuation of amortization of goodwill resulting from the acquisition of Algety Telecom S.A. that was being amortized over five years.

Interest Income, Net. Interest income, net of interest expense, decreased to $2.1 million for the three months ended September 28, 2002 from $6.3 million of net interest income for the three months ended September 29, 2001. The decrease was primarily attributed to lower average invested cash balances and lower average returns on investments.

Nine months ended September 28, 2002 compared to nine months ended September29, 2001

Revenue. Revenue decreased to $13.1 million for the nine months ended September 28, 2002 from $173.2 million for the nine months ended September 29, 2001. This decrease in revenue is due to a reduction in capital spending by telecommunications carriers resulting in a sharp decline in demand for telecommunications equipment, including for our products. Revenue for the nine months ended September 28, 2002 was attributable to four customers. Service revenues, including maintenance, training and support totaled $4.3 million.

Gross Profit (loss). Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. In addition, cost of revenue includes charges associated with our restructuring plans and excess inventories.

Gross loss decreased to $(26.7) million for the nine months ended September 28, 2002 from $(35.0) million for the nine months ended September 29, 2001. Negative gross margins are primarily attributable to inventory write-downs of $30.3 million in the nine months ended September 28, 2002 and $99.2 million recorded in the nine months ended September 29, 2001. Excluding inventory write-downs and other charges, gross profit and gross margin were $3.7 million or 28% in the nine months ended September 28, 2002 and $64.2 million or 37% in the nine months ended September 29, 2001. Due to current competitive and economic pressures, we expect that gross margin, excluding inventory write-downs and other charges, may continue to decrease in the coming quarters.

Research and Development, Excluding Equity-Based Expense. Research and development expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with research and development, significant quarterly fluctuations may result. We believe that research and development is critical to achieving current and future strategic product objectives.

Research and development expenses, excluding equity-based expense, decreased to $95.1 million for the nine months ended September 28, 2002 from $117.8 million for the nine months ended September 29, 2001. The decrease in expenses was primarily attributable to the reduction in prototype and lab material expenses.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing expense, excluding equity-based expense, consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses.

Sales and marketing expense, excluding equity-based expense, decreased to $36.1 million for the nine months ended September 28, 2002 from $43.2 million for the nine months ended September 29, 2001. The decrease in expenses was primarily attributable to the effects of staff reductions and decreases in professional service fees and transportation expenses.

General and Administrative, Excluding Equity-Based Expense. General and administrative expense, excluding equity-based expense consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities.

General and administrative expenses, excluding equity-based expense, decreased to $24.4 million for the nine months ended September 28, 2002 from $27.2 million for the nine months ended September 29, 2001. The decrease in expenses was primarily attributable to the effects of cost saving initiatives including staff reductions, facility consolidations and the curtailment of certain discretionary spending, offset, in part, by increases in professional service fees.

Equity-based Expense. Equity-based expense consists primarily of charges associated with employee options granted at below fair market value prior to our initial public offering.

Equity-based expense related to research and development, sales and marketing and general and administrative functions for the nine months ended September 28, 2002 decreased to $54.7 million from $79.3 million for the nine months ended September 29, 2001. The decrease in equity-based expense resulted from decreases in employee headcount.

Amortization of Intangible Assets. Amortization of intangible assets relates to the amortization of certain intangible assets with finite lives. As a result of the issuance of SFAS No. 142, we no longer record amortization of goodwill on a straight-line basis, rather goodwill will be tested at least annually for impairment. There may be more volatility in reported income (loss) than previous standards because impairment losses are likely to occur irregularly and in varying amounts.

Amortization of intangible assets expenses decreased to $12.8 million for the nine months ended September 28, 2002 from $113.9 million for the nine months ended September 29, 2001. The decrease was primarily attributable to the discontinuation of amortization of goodwill resulting from the acquisition of Algety Telecom S.A. that was being amortized over five years.

Interest Income, Net. Interest income, net of interest expense, decreased to $2.6 million for the nine months ended September 28, 2002 from $19.8 million of net interest income for the nine months ended September 29, 2001. The decrease was primarily attributable to lower average invested cash balances, lower average returns on investments and the write down of certain strategic investments.

Liquidity and Capital Resources

Since inception through September 28, 2002 we have financed our operations, capital expenditures and working capital primarily through public and private sales of our capital stock, borrowings under credit and lease facilities and cash generated from product sales. At September 28, 2002, our cash and cash equivalents and short-term investments totaled $548.8 million.

Net cash used in operating activities was $97.3 million for the nine months ended September 28, 2002 and $200.9 million for the nine months ended September 29, 2001. Cash used in operating activities for the nine months ended September 28, 2002 was primarily attributable to a net loss of $317.5 million, offset in part by non-cash charges including depreciation and amortization of $38.8 million, equity-based expense of $54.7 million and purchased research and development expense of $34.6 million associated with our acquisition of Dorsal Networks in May 2002 and certain non-cash restructuring charges of $48.7 million. Cash flows from operating activities were further offset by changes in operating assets and liabilities of $43.7 million, principally a change in accounts receivable of $27.7 million.

Net cash used in investing activities was $25.2 million for the nine months ended September 28, 2002 and $108.8 million for the nine months ended September 29, 2001. The decrease in net cash used in investing activities for the nine months ended September 28, 2002 was primarily attributable to reductions in capital expenditures offset in part with cash acquired through our purchase of Dorsal Networks.

Net cash used in financing activities for the nine months ended September 28, 2002 was \$4.0 million, primarily attributable to the repayment of principal on notes and capital leases. Net cash provided by financing activities for the nine months ended September 29, 2001 was \$1.8 million, primarily attributable to proceeds from the exercise of warrants and employee stock options off-set in part by proceeds from the issuance of common stock.

As of September 28, 2002 long-term restricted cash totaled \$2.4 million associated with outstanding irrevocable letters of credit relating to lease obligations for various manufacturing and office facilities and other business arrangements. These letters of credit are collateralized by funds in our operating account. Various portions of the letters of credit expire at the end of each respective lease term or agreement term.

On October 24, 2002, we announced that our Board of Directors has authorized a share repurchase program under which we can acquire up to \$25 million of our common stock in the open market. The purchases will be executed at times and prices considered appropriate by us during the next two years. The share repurchase program may be implemented at such future date as we may determine and may be suspended at any time and from time-to-time without prior notice. The repurchase program will be funded using our existing cash balances and the repurchases shares may be used for corporate purposes in compliance with applicable law.

Due to current economic conditions, we have and may be required to sell our product to future customers at lower margins or be required to provide customers with financing which could result in reduced gross margins, extended payment terms or delayed revenue recognition, all of which could have a negative impact on our liquidity, capital resources and results of operations.

Our liquidity will also be dependent on our ability to manufacture and sell our products. Changes in the timing and extent of the sale of our products will affect our liquidity, capital resources and results of operations. We currently have a limited number of customers that could provide substantially all of our revenues for the near future and these customers are operating in a troubled economic environment. The loss of any of these customers, any substantial reduction in current or anticipated orders or an inability to attract new customers, could materially adversely affect our liquidity and results of operations. We plan to diversify our customer base by seeking new customers both domestically and internationally.

If we experience delays or disruptions in manufacturing output or we are unable to successfully manufacture our products and to develop alternative manufacturing sources in a timely manner, our sales, financial position and results of operations would be adversely affected.

We believe that our current cash and cash equivalents, short-term investments and cash generated from product sales will satisfy our expected working capital, capital expenditure and investment requirements through at least the next twelve months.

If cash on hand and cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing shareholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results. Increasingly, as a result of the financial demands of major network deployments, carriers are looking to their suppliers for financing assistance. From time to time, we have and may continue to provide or commit to extend credit or credit support to our customers as we consider appropriate in the course of our business.

Dorsal Networks

On May 16, 2002, we completed our acquisition of Dorsal Networks, Inc., a privately held provider of next-generation transoceanic and regional undersea optical network solutions for 41.8 million shares of common stock valued at approximately $91.8 million. The acquisition was accounted for under the "purchase" method of accounting. Under the purchase method, the purchase price of Dorsal was allocated to identifiable assets and liabilities acquired from Dorsal, with the excess being treated as goodwill. The acquisition resulted in an in-process research and development charge of approximately $34.6 million as well as the recognition of certain intangible assets of $30.2 million, which will be amortized over an estimated life of five years. In addition, the acquisition will result in goodwill of approximately $19.1 million, which will have an indefinite life, but will be subject to periodic impairment tests. Dr. David R. Huber, our Chairman and Chief Executive Officer, owned, directly or indirectly, approximately 31 percent of the outstanding stock of Dorsal.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in forward-looking statements. We maintain instruments subject to interest rate and foreign currency exchange rate risk. We categorize all of our market risk sensitive instruments as non-trading or other instruments.

Interest Rate Sensitivity

We maintain a portfolio of cash equivalents and short-term investments in a variety of securities including: commercial paper, certificates of deposit, money market funds and government and non-government debt securities. Substantially all amounts are in money market funds as well as high grade, short-term commercial paper and certificates of deposit, the value of which is generally not subject to interest rate changes. We believe that a 10% increase or decline in interest rates would not be material to our investment income or cash flows. Our long-term debt obligations bear fixed interest rates. As such, we have minimal cash flow exposure due to general interest rate changes associated with our long-term debt obligations.

Foreign Rate Sensitivity

We primarily operate in the United States; however, we have expanded operations to include research and development and sales offices in various European countries. As a result, we may have sales in foreign currencies exposing us to foreign currency rate fluctuations. For the nine months ended September 28, 2002, we recorded limited sales in a foreign currency. We are exposed to the impact of foreign currency changes, associated with the Euro, for financial instruments held by our European subsidiaries. These instruments are limited to cash and cash equivalents and trade receivables. It is the policy of management to fund foreign operations on a monthly basis, thus minimizing average cash and overnight investments in the Euro. At September 28, 2002, our European subsidiaries maintained cash and cash equivalents and trade accounts receivable of approximately (Euro) 6.2 million. We believe that a 10% increase or decline in the Euro exchange ratio would not be material to cash and cash equivalent balances, interest income, or cash flows from consolidated operations.

Item 4. Controls and Procedures

Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a–14 of the Securities Exchange Act of 1923 ("Exchange Act") promulgated thereunder, our chief executive officer and chief financial officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days prior to the date of the filing of this report (the "Evaluation Date") with the Securities and Exchange Commission. Based on such evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of the Evaluation Date to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. In addition, a Disclosure Committee has been established consisting of key legal, financial and business unit leaders to review the Company's public filings and to insure accurate and timely disclosure of required information.

Except for the establishment of a Disclosure Committee, there have been no significant changes in the internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

By letter dated July 10, 2000, Ciena Corporation ("Ciena") informed us of its belief that there is significant correspondence between products that we offer and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, monetary damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. Although a trial date has not been set, we believe that a trial will commence in the first quarter of 2003.

We have designed our products in an effort to respect the intellectual property rights of others. We intend to defend ourselves vigorously against these claims and we believe that we will prevail in this litigation. However, there can be no assurance that we will be successful in the defense of the litigation, and an adverse determination in the litigation could result from a finding of infringement of only one claim of a single patent. We may consider settlement due to the costs and uncertainties associated with litigation in general, and patent infringement litigation in particular, and due to the fact that an adverse determination in the litigation could preclude us from producing some of our products until we were able to implement a non-infringing alternative design to any portion of our products to which such a determination applied. Even if we consider settlement, there can be no assurance that we will be able to reach a settlement with Ciena. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as a redesign of some of our products, which could have a material adverse effect on our business, financial condition and results of operations.

We believe that defense of the lawsuit may be costly and may divert the time and attention of some members of our management. Further, Ciena and other competitors may use the existence of the Ciena lawsuit to raise questions in customers' and potential customers' minds as to our ability to manufacture and deliver our products. There can be no assurance that questions raised by Ciena and others will not disrupt our existing and prospective customer relationships.

Between May 7, 2001 and June 15, 2001, nine class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. Our directors and officers have since been dismissed from the case, without prejudice. The complaints allege that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs.

By order dated October 12, 2001, the court appointed an executive committee of six plaintiffs' law firms to coordinate their claims and function as lead counsel. Lead plaintiffs have been appointed in almost all of the IPO allocation actions, including the Corvis action. On October 17, 2001, a group of underwriter defendants moved for Judge Scheindlin's recusal. Judge Scheindlin denied that application. On December 13, 2001, the moving underwriter defendants filed a petition for writ of mandamus seeking the disqualification of Judge Scheindlin in the United States Court of Appeals for the Second Circuit. On April 1, 2002, the Second Circuit denied the moving underwriter defendants' application for a writ of mandamus seeking Judge Scheindlin's recusal from this action. On April 19, 2002, plaintiffs filed amended complaints in each of the actions, including the Corvis action. On May 23, 2002, a conference was held at which the court set a briefing schedule for the filing of motions to dismiss the amended complaints. On July 1, 2002, the underwriter defendants filed their motion to dismiss the amended complaints. On July 15, 2002, the issuer defendants filed their motion to dismiss the amended complaints. The briefing on the motions to dismiss has recently been completed, and the judge heard oral arguments on the motions on November 1, 2002. No discovery has occurred. We intend to vigorously defend ourselves.

Item 2. Changes in Securities and Use of Proceeds

(a) None.

(b) None.

(c) None.

(d) Not applicable.

Item 3. Defaults upon Senior Securities.

None.

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

(a) None.

(b) None.

(c) None.

(d) None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Certification under Section 906 of the Sarbanes-Oxley Act of 2002.

(b) On August 13, 2002, we filed a Current Report on Form 8-K dated August 13, 2002 containing the certification required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CORVIS CORPORATION

Date: November 12, 2002

/s/ Lynn D. Anderson
Lynn D. Anderson
Senior Vice President, Chief Financial Officer and Treasurer

Date: November 12, 2002

/s/ Timothy C. Dec
Timothy C. Dec
Vice President and Chief Accounting Officer

CERTIFICATE

I, David R. Huber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corvis Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ David R. Huber
Name: David R. Huber
Title: Chairman and
Chief Executive Officer

CERTIFICATE

I, Lynn D. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Corvis Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Lynn D. Anderson
Name: Lynn D. Anderson
Title: Senior Vice President,
Chief Financial Officer and
Treasurer

EXHIBIT INDEX

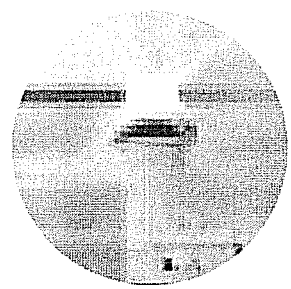
Exhibit No.	Description
99.1	Certificate of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

WE

MAKE IT

PERFECTLY

CLEAR



CORVIS CORPORATION

ANNUAL REPORT

2000

Corvis is lighting the way,

transforming yesterday's dream of an all-optical network into today's reality. As we begin the 21st Century, we see the dawn of a new era of communications, in which light is used to connect people and businesses.

Contents

corvis

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts)	*January 1,*	*December 30,*
OPERATIONS	2000	2000
Revenue	$ —	$ 68,898
Gross Profit	—	25,955
Net Loss	(71,270)	(283,611)
Pro Forma Net Loss (a)	(66,126)	(96,277)
Pro Forma Net Loss per share (a)	(2.16)	(0.61)
FINANCIAL POSITION		
Cash and Cash Equivalents	244,597	1,024,758
Inventory, Net	15,869	219,414
Total Assets	307,279	2,381,836
Stockholders' Equity	239,626	2,186,593
OTHER INFORMATION		
Working Capital	$ 236,839	$1,172,040
Total Employees	355	1,452

(a) Excludes other intangible asset amortization expense, equity-based expense and purchased research and development expense.

DRIVEN BY A VISION

TO OUR SHAREHOLDERS

THE YEAR 2000 WAS A REMARKABLE YEAR for Corvis and the entire optical communications industry. It was the year in which Broadwing Communications installed Corvis products, including the first commercial all-optical switch, in their network, demonstrating that all-optical networks can be a commercial reality. In addition, Williams Communications used Corvis products in its next-generation network to demonstrate for the first time that ultra-long distance optical transmission and Raman amplification technology can be used to deploy highly efficient, terrestrial networks. Also, we won a large contract from Qwest Communications to deploy Corvis products in its high-performance network. Finally, Corvis built state-of-the-art manufacturing facilities, expanded its research and development capabilities, increased its global presence and launched the most successful IPO in history for a venture-backed, technology start-up company.

Researchers predict that communications service provider spending for optical networking equipment will continue to grow from $21 billion in 2000. We believe that this spending will be targeted strategically toward technologies that enable service providers to compete more effectively in a marketplace that is transitioning from yesterday's short-distance, voice services to tomorrow's longer-distance, data-intensive services. Corvis is uniquely positioned to deliver these technologies.

OUR VISION

Our vision is clear. We believe that optical technologies can provide higher capacity, lower-cost and more efficient communication networks. This vision has been shared by engineers and scientists for many years. In fact, Alexander Graham Bell is said to have considered optical communications more than a century ago, but he discarded it in favor of electrical communications because optics technologies were not yet feasible.

But now, all-optical networks are feasible and we see the dawn of a new era in communications. We see the power of light transporting information over thousands of miles, uninhibited by the electrical equipment that has congested communication networks in the past. We see our customers deploying networks that eliminate excess equipment, enabling them to deliver innovative services at a fraction of today's costs.

THE CUSTOMERS' NEED

In the early 1990s, I, along with many dedicated engineers and scientists in the industry, developed the first commercial dense wavelength division multiplexing (DWDM) systems, which began to deliver on the promise of optical technology. DWDM systems allow information to be transmitted using multiple colors of light on a single fiber between electrical switches in a network. DWDM systems dramatically increased the transmission capacity and lowered the cost of communications at a time when data-intensive applications and the Internet were just taking off.

However, DWDM systems only began to address the challenges faced by the industry. These DWDM systems were designed for voice traffic, transmitting information up to 360 miles. While these systems were a significant improvement, the growth in the demand for capacity is driven by data traffic, which researchers indicate must be transmitted in excess of 1,400 miles on average through the networks and across multiple fiber links. As a result, service providers were forced to install systems that require excess signal processing equipment to accommodate the long-distance requirements of these new data demands.

In addition, because long-distance data traffic has to travel over multiple links, it became necessary for service providers to install excess electrical signal processing equipment and electrical switches merely to allow data traffic to continue onto the next link. The burden of operationally supporting all of this excess equipment in the network has made it difficult for service providers to scale their networks to meet the growing demand for longer distance data services.

THE TECHNOLOGY

We started Corvis with our vision that optical technology could be used to eliminate this excess equipment from communication networks. Our customers would then be able to provide cost-effective, innovative services required for data-intensive applications and grow their networks and business unencumbered by the electrical legacy of voice traffic networks. To accommodate data traffic in the network without excess equipment, ultra-long-distance all-optical transmission was required. Also, to accommodate the flow of data traffic across multiple fiber links, all-optical switching had to replace

"THE ALL-OPTICAL NETWORK IS NOT MERELY AN IMPROVEMENT OVER ELECTRICAL NETWORKS, BUT A CONVERGENCE OF NEXT-GENERATION TECHNOLOGIES THAT ENABLE NETWORKING TO BE VIEWED IN AN ENTIRELY NEW LIGHT."

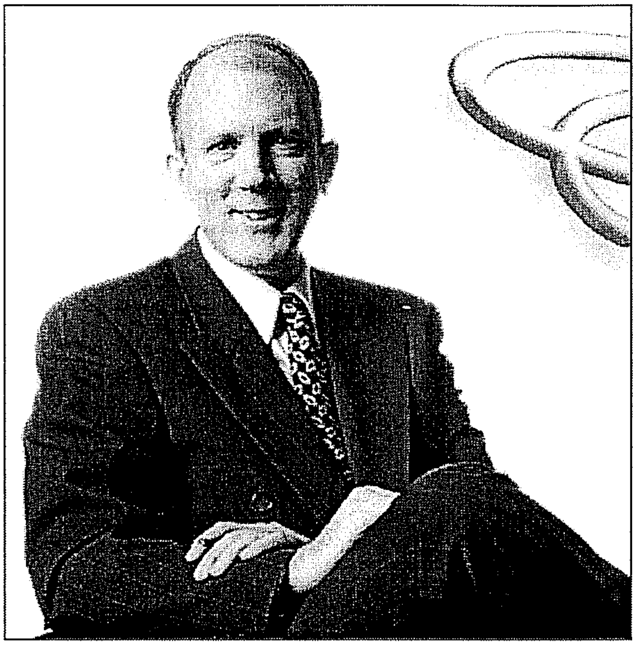
electrical switching and be integrated with the transmission equipment. In addition, it was necessary to provide an integrated network management system that could control and configure the network in a flexible manner. In summary, we aimed to put together the technology that would make the vision of an intelligent, all-optical network a reality.

After three years of incredibly hard work by a dedicated team of talented people, Corvis has delivered the world's first commercial all-optical network, the CorWave ON, and now stands alone as the only company offering networks designed for the communication industry's present and future traffic demands. We believe, and others are beginning to recognize, that DWDM was just the beginning of the optical communications era and that electrical networks patched together with DWDM systems are vestiges of the past.

The all-optical network is not merely an improvement over electrical networks, but a convergence of next-generation technologies that enable networking to be viewed in an entirely new light. Our all-optical switch not only eliminates excess electrical signal processing and switching equipment from the network, but also provides far greater switching capacities. In doing so, the all-optical switch consumes only a fraction of the electrical power, real estate and overall operational budget consumed by electrical switches. Our optical network gateways, optical amplifiers and optical add/drop multiplexers allow light to travel much longer distances at higher capacities and lower costs. These technologies also eliminate excess equipment and its associated operational costs from our customers' networks and enables them to tailor their network capacity to their service demands. In addition, our network management software enables our customers to provision services rapidly without costly, time-consuming installation trips for excess equipment.

THE FUTURE

The future is bright for technologies such as ours, that make communications networks more efficient, scalable and cost-effective. Recently, we announced two new product lines, the CorWave LR and CorWave XL/XF, that have been designed to provide high capacity transmission and eliminate excess equipment in regional networks.



We believe we are the only company offering a full suite of optical networking products designed for the present and future traffic patterns of our customers. In addition, we plan to continue to enhance our current product lines, as well as expand our product offering.

In the near term, we see the growth of service provider spending slowing and competition among service providers intensifying. We believe Corvis is well-positioned with products that enable our customers to compete by delivering innovative services cost-effectively and efficiently.

In looking back at 2000, we express our sincere thanks to our customers, our shareholders, our suppliers and our employees for contributing to a successful year. Your commitment and support have brought our vision to a commercial reality.

The year 2001 should prove to be another exciting year for Corvis and the communications industry. We look forward to sharing our progress with you over the next year.

David R. Huber

DAVID R. HUBER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MARCH 30, 2001

CORVIS MAKES IT PERFECTLY CLEAR

TODAY, THE CORVIS LIGHT MAKES COMMUNICATIONS CLEAR—LEADING THE WAY WITH THE ALL-OPTICAL NETWORK.

CORVIS CORWAVE PRODUCTS

THE CORWAVE ON IS A FULLY-INTEGRATED SUITE OF OPTICAL NETWORKING PRODUCTS THAT ENABLE SERVICE PROVIDERS TO BUILD INTELLIGENT, ALL-OPTICAL MESH NETWORKS. THE DIAGRAM TO THE RIGHT ILLUSTRATES HOW INFORMATION CAN BE TRANSMITTED FROM LOS ANGELES THROUGH DENVER TO CHICAGO USING CORVIS' CORWAVE ON PRODUCTS. THE CORWAVE ON SUITE INCLUDES OPTICAL NETWORK GATEWAYS, OPTICAL AMPLIFIERS, OPTICAL ADD/DROP MULTIPLEXERS AND OPTICAL SWITCHES, WHICH ARE INTEGRATED WITH THE CORMANAGER NETWORK MANAGEMENT SYSTEM AND CAN BE DEPLOYED WITH OUR OPTICAL PROTECTOR.

OPTICAL NETWORK GATEWAY (ONG)

Like a highway's on and off ramps, the Optical Network Gateway provides access to an all-optical network. The Optical Network Gateway currently provides up to 400 gigabits per second in each direction that can be transmitted up to 3,200 kilometers, or approximately 2,000 miles, without electronic regeneration over diverse fiber types. Capacity can be added incrementally by inserting transmitters and receivers into the Optical Network Gateway. Our Optical Network Gateway can be integrated with our Optical Add/Drop Multiplexers and Optical Switches, which can provide flexible traffic management, high network efficiency and rapid restoration of services.

OPTICAL AMPLIFIER (OA)

The Optical Amplifier employs various amplification technologies to support high-capacity, ultra-long transmission over diverse fiber types. Our Raman amplification technologies enable us to tailor our amplifiers to our customer's fiber plant and establish ultra-long transmission paths through the network. Our Optical Amplifiers currently support up to 400 gigabits per second in each direction and transmission distances of up to 3,200 kilometers, or approximately 2,000 miles, without electrical regeneration.

OPTICAL ADD/DROP MULTIPLEXER (OADM)

The Optical Add/Drop Multiplexer enables traffic to enter and exit the network at a network intersection without requiring an optical-to-electrical-to-optical conversion of all traffic passing through the intersection. The Optical Add/Drop Multiplexer can be integrated with the Optical Network Gateway to allow traffic to enter or exit the network, up to the full capacity of each fiber in each direction, at each network intersection.

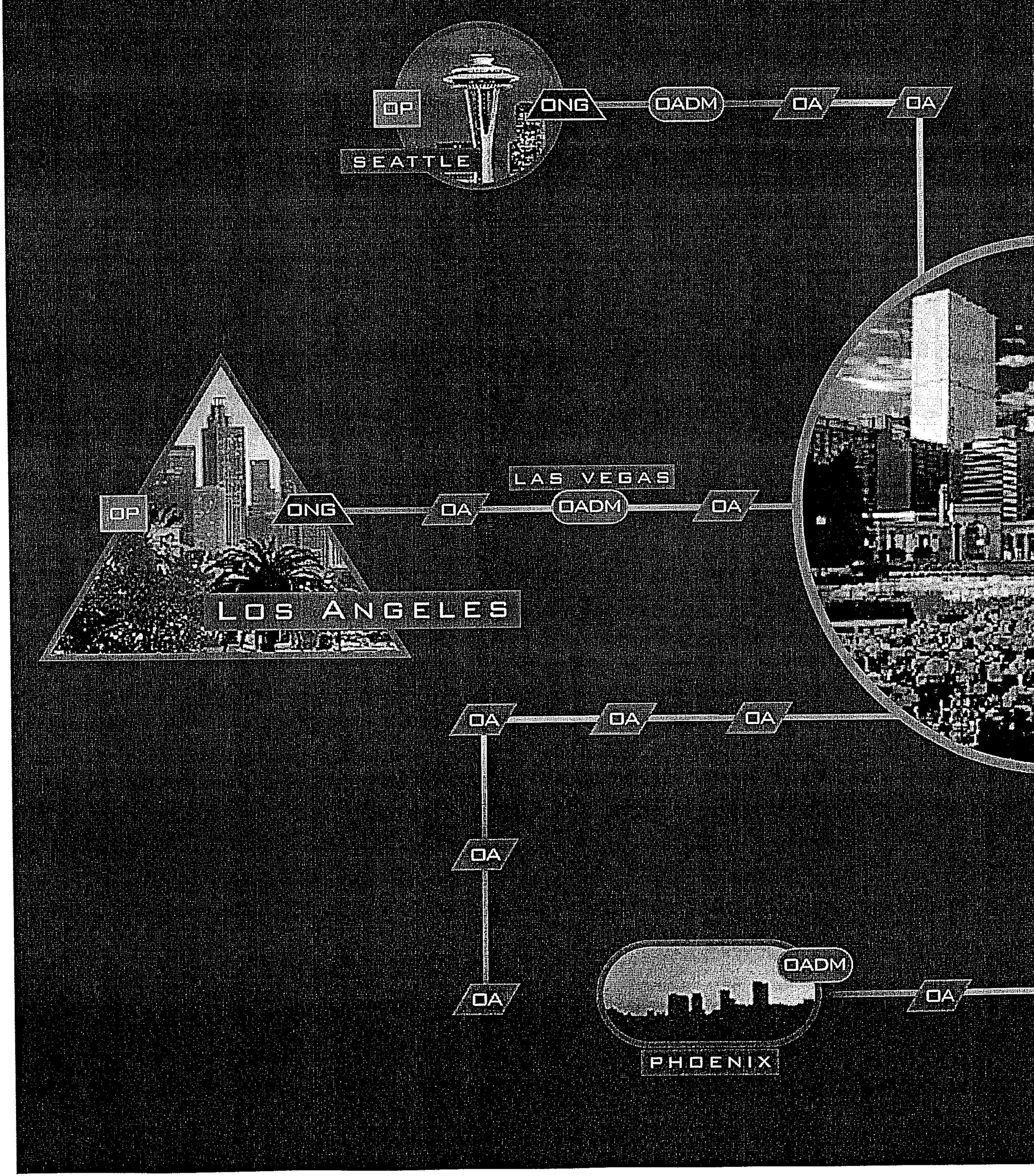
OPTICAL SWITCH (OS)

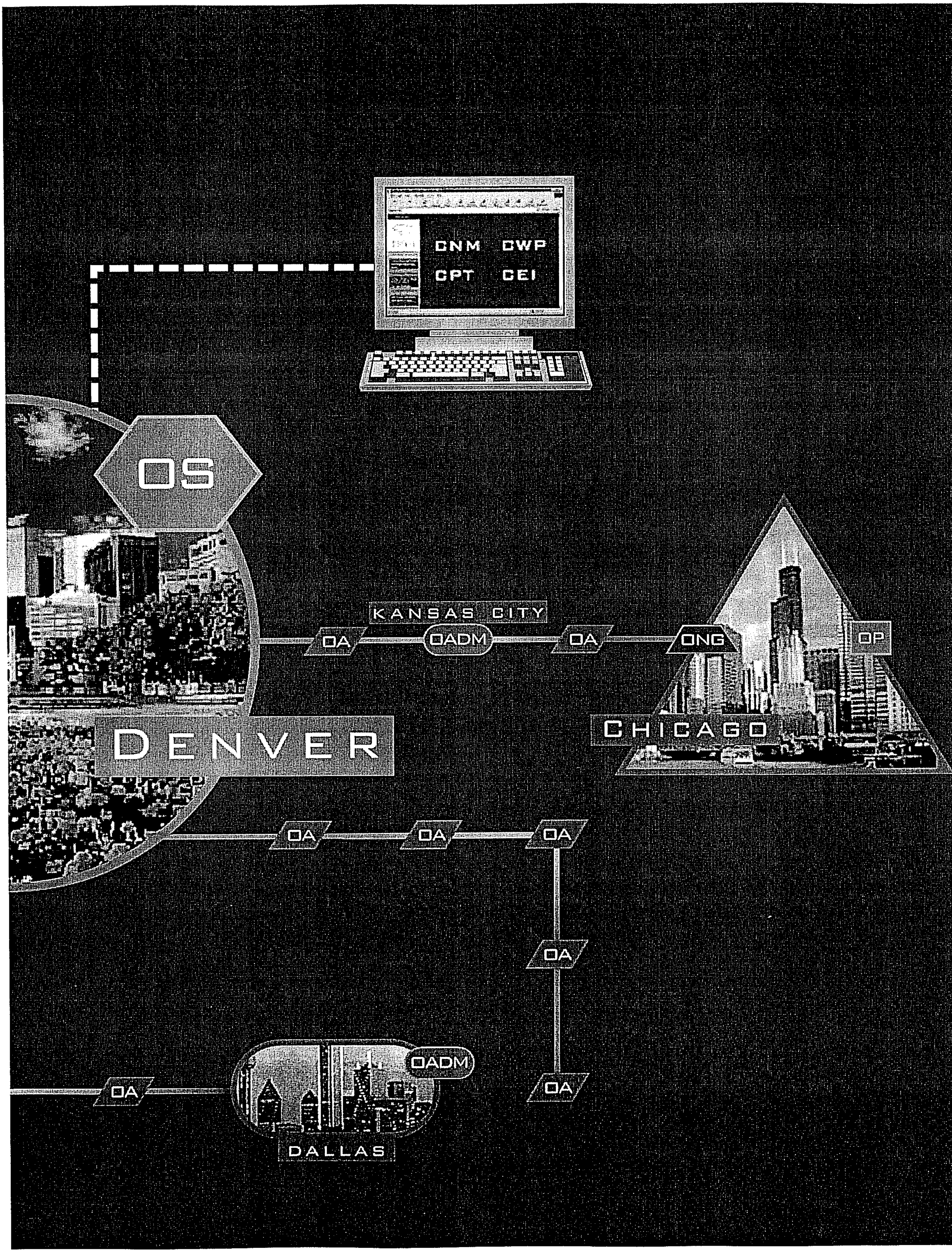
The Optical Switch functions like a highway's cloverleaf, enabling traffic to move between highways without exiting. The Optical Switch provisions routes and optically switches up to 2.4 terabits per second of traffic between fibers to provision services, reconfigure the network and restore services. The Optical Switch optically interconnects multiple fibers to switch traffic between one or more fibers entirely in the optical domain. In addition, the Optical Switch can be integrated with the Optical Network Gateway to allow traffic to enter or exit the fibers.

OPTICAL PROTECTOR (OP)

The Optical Protector provides optical layer protection and restoration to ensure network reliability against major failures such as fiber cuts and equipment failures. The Optical Protector meets the industry benchmark of 50 milliseconds protection switch time to ensure carrier-grade performance. The Optical Protector also provides bit rate-transparent and protocol-independent open interfaces, which support 2.5 and 10 gigabits per second applications, and SONET/SDH, Ethernet, IP and ATM protocol applications. The Optical Protector can be deployed with CorWave ON, CorWave LR, CorWave XL/XF systems, as well as interoperate with existing vendor equipment deployed in a service provider's network.

THE ALL-OPTICAL NETWORK AND HOW IT WORKS





CNM CWP
CPT CEI
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Software Products

CorManager Network Management System

The CorManager Network Management System includes four applications — Corvis Wave Planner, Corvis Provisioning Tool, Corvis Network Manager, Corvis Element Interface — that help service providers efficiently and quickly plan, provision and manage their network traffic. By integrating its hardware and software designs, Corvis gives service providers the ability to provision services with the "point and click" of a mouse, as opposed to taking many months to plan and install additional equipment in the network.

Corvis Wave Planner (CWP)

The Corvis Wave Planner enables service providers to plan the deployment of transmission and switching equipment in the network using current and future traffic patterns. In addition, service providers can evaluate and plan the redeployment of deployed network capacity to meet evolving capacity demands in the network.

Corvis Provisioning Tool (CPT)

The Corvis Provisioning Tool enables service providers to verify their network configuration and to provision their network traffic with a "point and click" of a mouse.

Corvis Network Manager (CNM)

The Corvis Network Manager enables a comprehensive view of the network, as well as fault, configuration, performance and security management in the network.

Corvis Element Interface (CEI)

The Corvis Element Interface provides detailed views of the Corvis products either using the Corvis Network Manager or by direct access to the Corvis product.

New Products

CorWave LR

The CorWave LR system provides up to 3.2 terabits per second in each direction that can be transmitted up to 2,000 kilometers, or approximately 1,240 miles, without electrical regeneration over diverse fiber types. Capacity can be added incrementally by inserting transmitters and receivers into the system. The CorWave LR system provides for transmission of 320 10 gigabits per second channels in each direction.

CorWave XL/XF

The CorWave XL/XF system provides up to 800 gigabits per second in each direction that can be transmitted up to 350 kilometers, or approximately 220 miles, without the use of in-line amplification equipment (i.e., repeaterless). Capacity can be added incrementally by inserting transmitters and receivers into the system.

Corvis at a Glance

Corvis Corporation is the first company to make the all-optical network a commercial reality. The company's solutions enable telecommunications service providers to construct manageable optical networks that will accommodate the continuing growth of Internet, video, voice and other data traffic.

Employees

As of December 30, 2000, Corvis employed 1,452 people, of whom 675 were primarily engaged in manufacturing, 484 in research and development activities and 293 in sales, marketing, customer service and support and general administrative services.

Locations

Corporate headquarters, research and development and manufacturing facilities are based in Columbia, Maryland. Manufacturing and research and development facilities are located in Lannion, France, and Quebec, Canada. Customer service facilities are located in Columbia, Maryland, and Lannion, France.

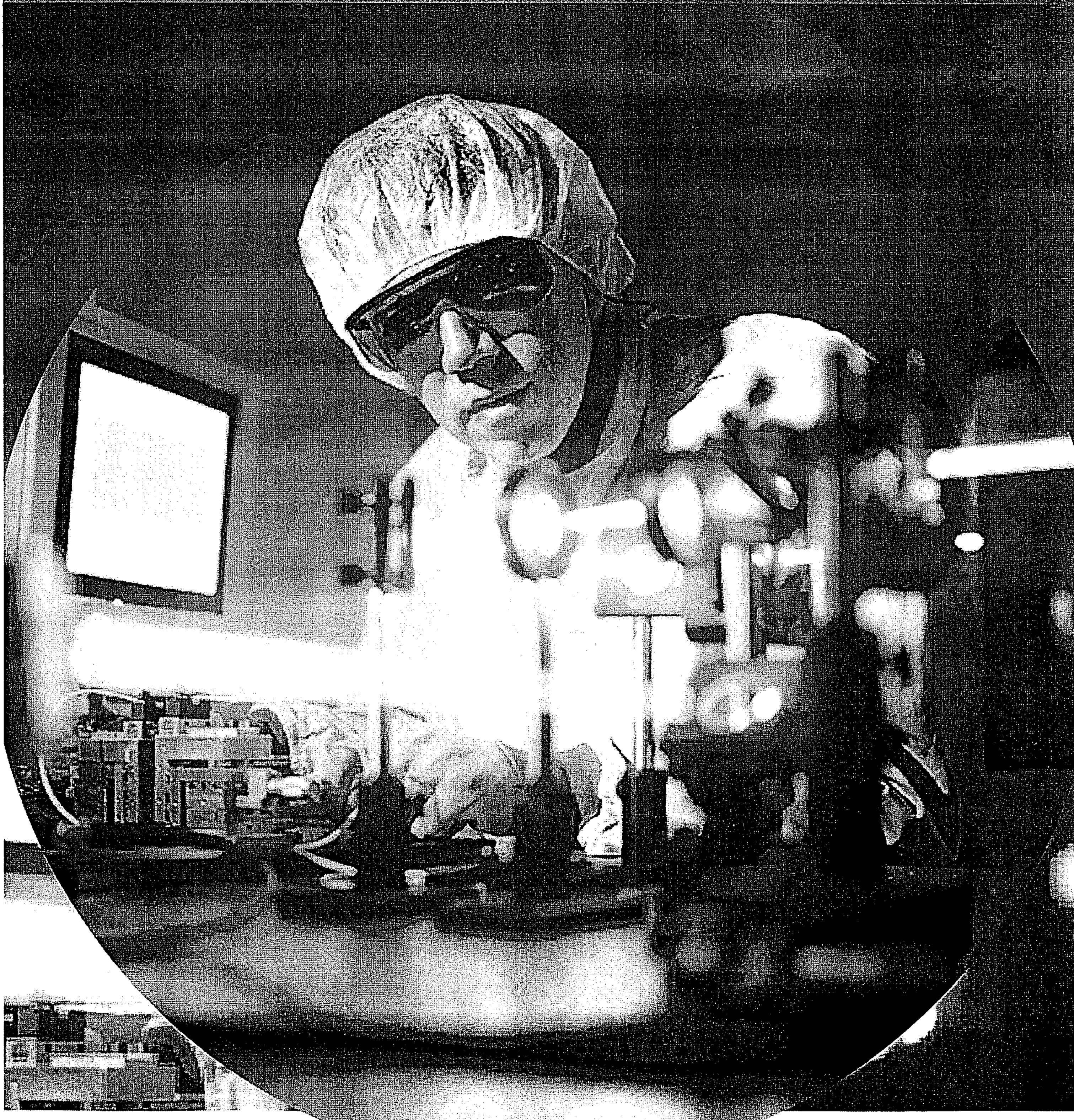
Customers

Telecommunications service providers including Broadwing Communications, Williams Communications and Qwest Communications International, Inc.

Market Leadership

Corvis' all-optical networking solutions, ultra-high-capacity, long-reach solutions and repeaterless solutions enable customers to eliminate excessive equipment and operational costs throughout their backbone networks.

LAUNCHING THE FIRST COMMERCIAL ALL-OPTICAL NETWORK



"OUR GOAL AT CORVIS IS TO PROVIDE THE CUSTOMER WITH SUPERIOR SERVICE. WE HAVE DEDICATED TEAMS THAT PROVIDE KNOWLEDGEABLE, TAILORED AND RESPONSIVE SERVICE TO EACH CUSTOMER TO ACHIEVE THIS GOAL."

KRISTINE M. BOSCHERT
VICE PRESIDENT, CUSTOMER SATISFACTION

THE YEAR 2000 WAS EXHILARATING FOR CORVIS CORPORATION as we worked with Broadwing Communications to enable the world's first commercial all-optical network. The Austin-based company deployed our full suite of CorWave products, including the first commercially available all-optical switch. During 2000, Broadwing signed a $200-million, two-year agreement with Corvis. Employees of Corvis who designed, built and deployed products to Broadwing were particularly excited to witness the debut of all-optical switching products:

CORVIS SWITCHING PRODUCTS

CORVIS OPTICAL SWITCH: In the simplest terms, the all-optical switch provides higher capacity switching at a lower cost than electrical switches. The Corvis Optical Switch directs optical signals among fibers without performing electrical conversions, thereby eliminating excess electrical signal processing and switching equipment, while providing unmatched flexibility for addressing a wide range of traffic requirements. The Corvis Optical Switch not only outperforms electrical switches in terms of capacity, but also consumes only a fraction of the electrical power, real estate and overall operational budget dedicated to electrical switches.

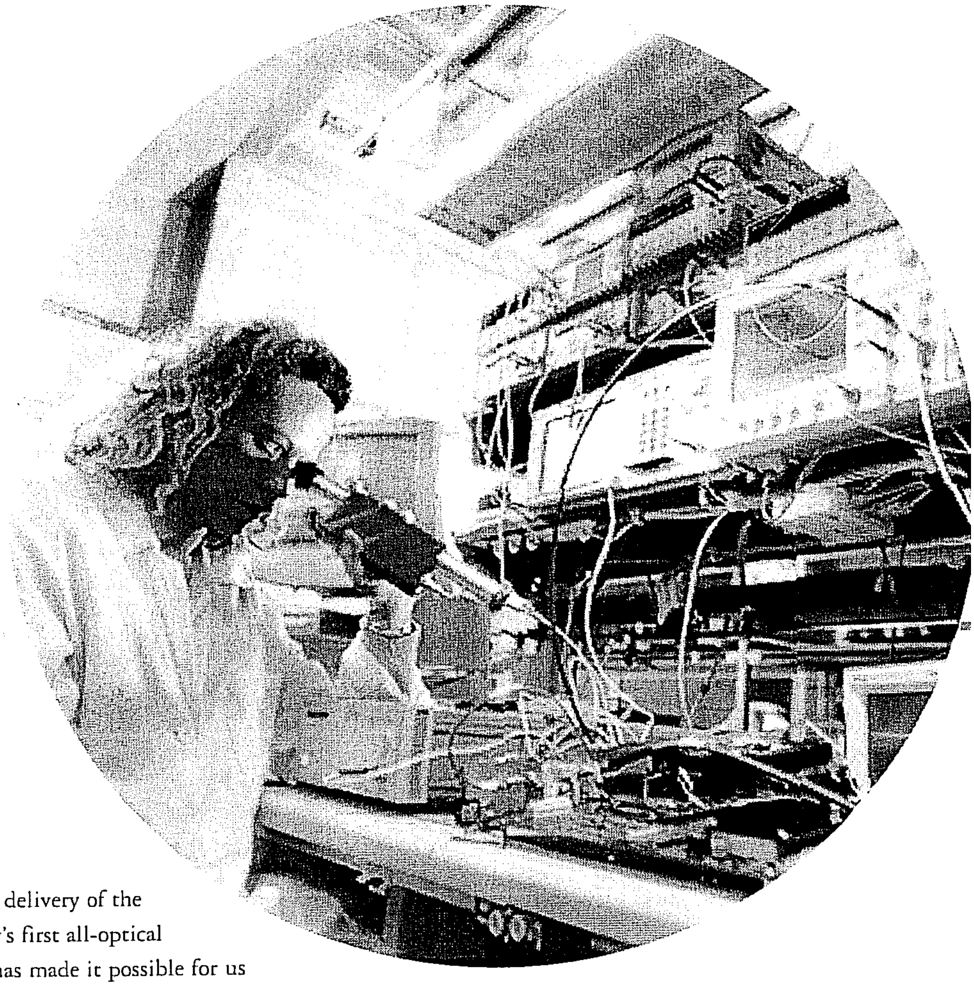
CORVIS OPTICAL ADD/DROP MULTIPLEXER: The Corvis Optical Add/Drop Multiplexer, or OADM as it is called, allows optical signals to be selectively added and dropped without converting every optical signal into an electrical signal. The OADM accommodates local and long-distance traffic, rapid service provisioning and reduced costs, thereby enhancing the flexibility of the network.

CUSTOMER SATISFACTION IS AN IMPERATIVE AT CORVIS

According to Kristine Boschert, Vice President, Customer Satisfaction, keeping a customer satisfied means providing fast and efficient quality service. Kristine has built a team that is focused on eliminating both the frustration and omissions she experienced at her previous job as a buyer of network equipment. She knows from personal experience: "Customer satisfaction and customer service go hand in hand." So, it's not unusual for Kristine to pull together within minutes individuals of all levels to find a solution to a customer's particular needs.

The Corvis CorManager software team works closely with customers to efficiently plan and manage their networks.

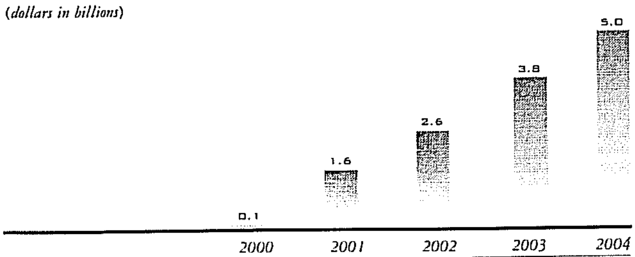
By leveraging its R&D expertise, Corvis can continue to deliver cutting-edge network performance.



THE BOTTOM LINE

"Corvis' delivery of the industry's first all-optical switch has made it possible for us to become the first provider to actually switch light and create the first generation of lightwave services to our customers," says Rick Ellenberger, Broadwing President and CEO, "Corvis provides a best-of-breed solution that enables carriers to build the next-generation of broadband networks that delivers speed and capacity in the most cost-effective manner."

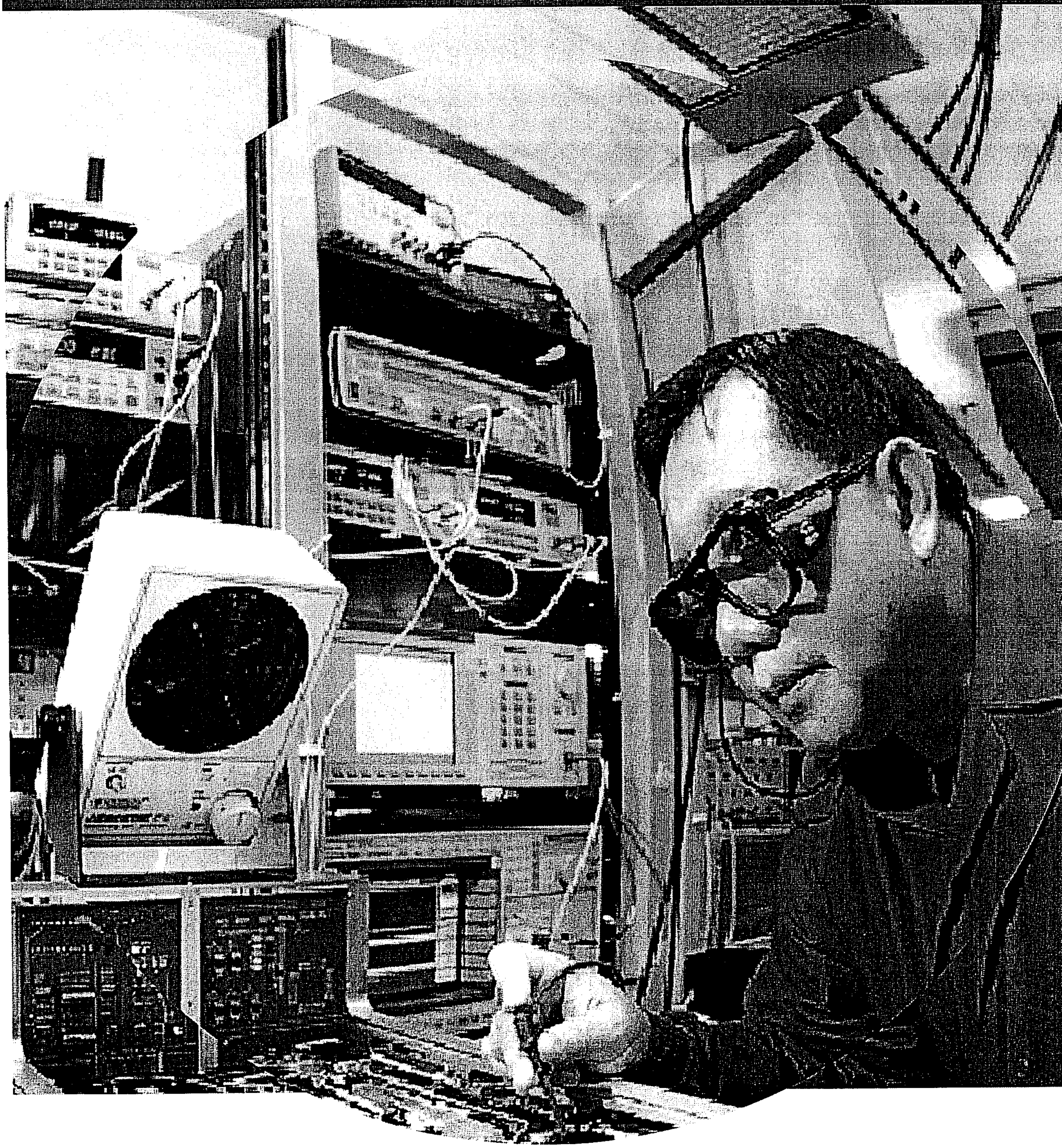
THE CORE OPTICAL SWITCHING MARKET



SOURCE: *RHK, Oct. 2000*

Corvis team assists in the deployment of the all-optical switch.

SPEEDING ALL-OPTICAL SOLUTIONS TO CARRIERS



"THE CORVIS EXPERIENCE HAS BEEN GREAT. IT'S IMPORTANT TO ME TO WORK FOR A HIGH-TECH COMPANY THAT CARES ABOUT QUALITY."

LORETTA JEFFERSON
MANUFACTURING INSPECTOR

AN EXCITING OPPORTUNITY FOR CORVIS has been to work with Williams Communications, a leader in providing broadband services. The Tulsa-based telecom provider completed its 33,000-mile U.S. network in 2000 and is looking to Corvis to add capacity cost-effectively.

CORVIS PRODUCTS PROVIDE WHAT CUSTOMERS NEED MOST

In January 2001, Williams completed an extensive field trial of Corvis' products and extended its contract with the company to a multi-year, $300-million agreement. The field trial included the industry's longest all-optical transmission on a terrestrial network traveling over 3,800 miles, or 6,400 kilometers, which is more than the distance from Boston to San Diego.

"The deployment of Corvis' all-optical technology will reduce our time-to-market in offering new optical services to our customers and allow them to reap the benefits of revolutionary technology without significant capital expense," says Jeff Storey, Senior Vice President and Chief Operations Officer for Williams Communications' network unit.

CORVIS TRANSPORT PRODUCTS

Ultra-long-haul transport is important to telecom providers like Williams because roughly 80 percent of all network traffic is sent over long distances. Corvis' ultra-long-haul transport products include the Optical Network Gateway and Optical Amplifier:

CORVIS OPTICAL NETWORK GATEWAY: This product provides access to an all-optical network from other networks. The Optical Network Gateway currently provides up to 400 gigabits per second in each direction that can be transmitted up to 3,200 kilometers without electronic regeneration over diverse fiber types. Our Optical Network Gateway can be integrated with our Optical Add/Drop Multiplexer and Optical Switch to provide flexible access to the network.

CORVIS OPTICAL AMPLIFIER: This product supports error-free transmission up to 3,200 kilometers, without electronic regeneration over a variety of fiber types. The Corvis Optical Amplifiers employ Raman amplification technology that allows them to be tailored to a customer's fiber plant to enable ultra-long distance transmission in their network.

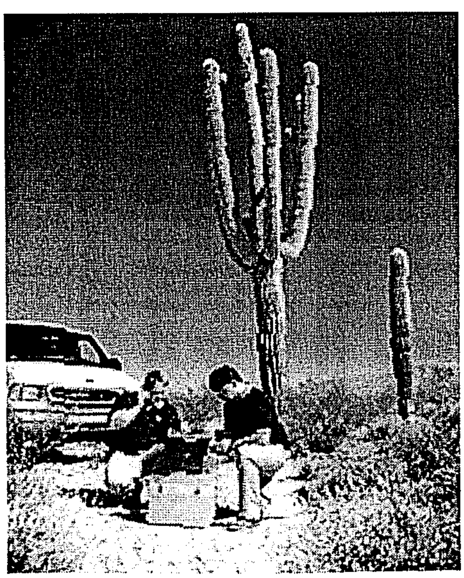
◀ *Corvis' world-class R&D group is delivering rapid, record-breaking all-optical performance.*

Employees like Loretta Jefferson are crucial to building high-performance products for customers like Williams. Loretta performs quality assurance testing of the Optical Network Gateway circuit boards. Her experience at various stages of the manufacturing cycle enables her and her team to perform the detailed inspections necessary to maintain the high quality standards for Corvis products. In-house manufacturing is strategic, giving Corvis a competitive advantage in terms of quality control and time to market.

THE BOTTOM LINE

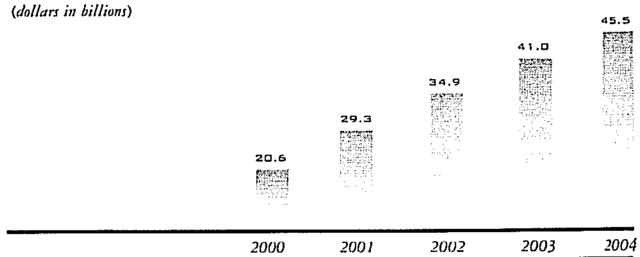
"We are committed to finding technologies, such as the Corvis equipment, that assure our customers the same high level of network reliability they have come to expect from Williams," says Jeff Storey.

Corvis technicians are trained to rapidly deploy Corvis solutions. ▼



THE NORTH AMERICAN OPTICAL TRANSPORT EQUIPMENT MARKET

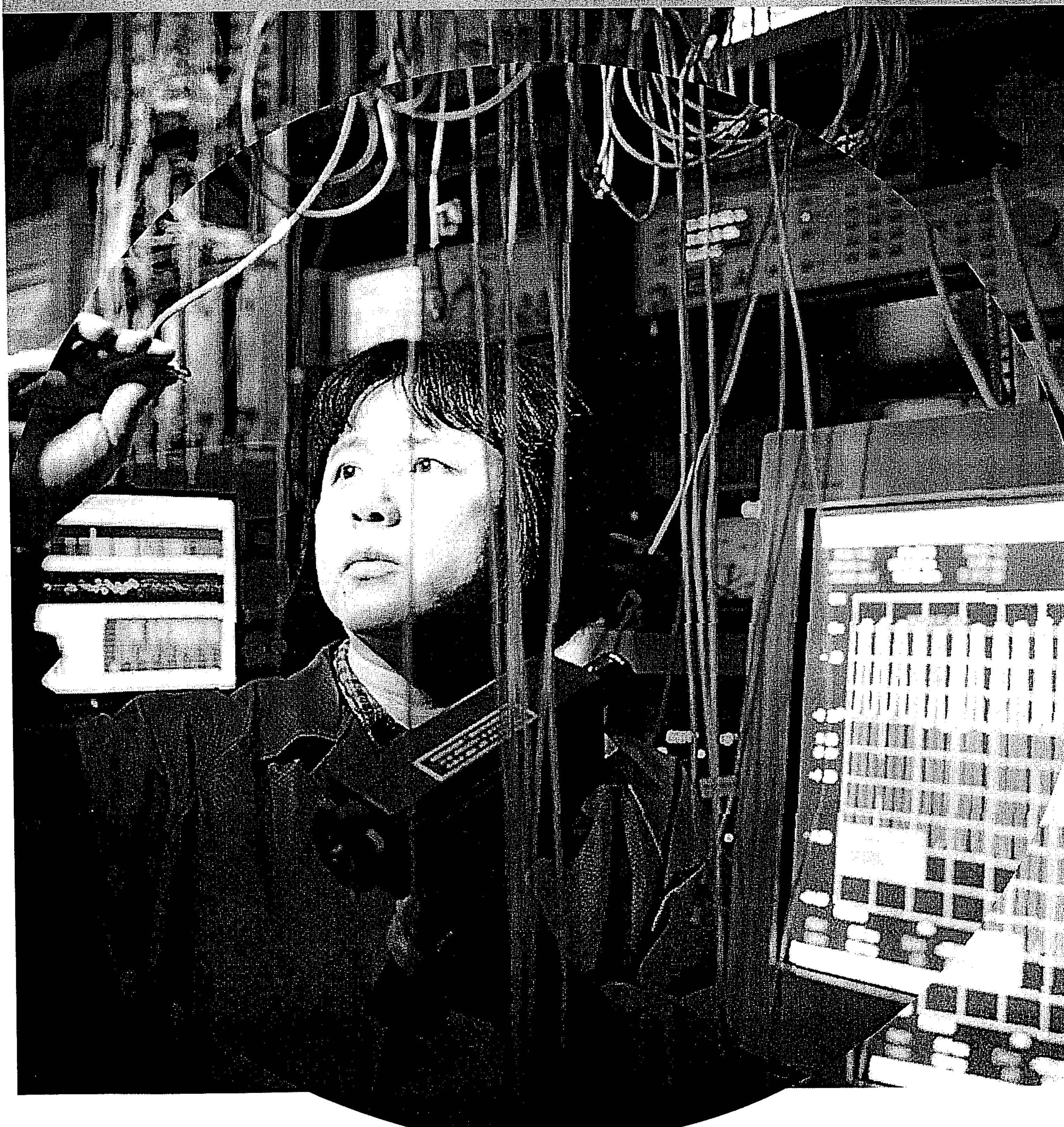
(dollars in billions)

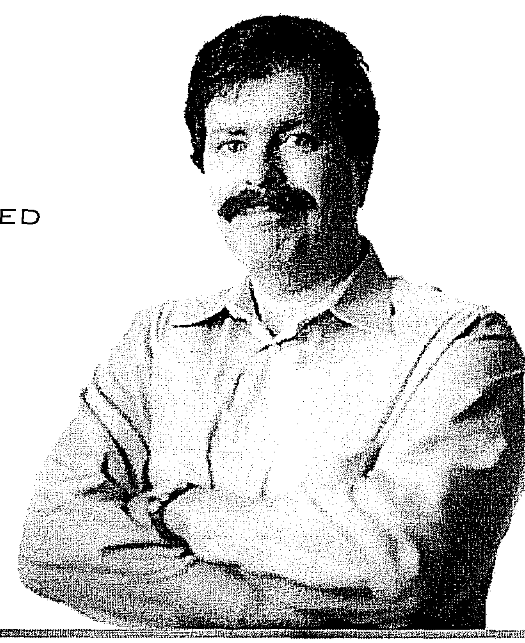


SOURCE: *RHK, Oct. 2000*

Corvis has scaled operations to meet the demands of building nationwide all-optical networks.

DEVELOPING CUTTING-EDGE PRODUCTS AT LIGHT SPEED





"I JOINED CORVIS BECAUSE I WAS VERY IMPRESSED WITH CORVIS' TECHNICAL VISION AND FELT LIKE I WOULD BE PARTICIPATING IN THE INFORMATION REVOLUTION. WE'RE WORKING ON CONCEPTS TO MAKE BANDWIDTH ALMOST INFINITE."

DR. STEPHEN GRUBB
EXECUTIVE ENGINEER

WE ARE ALSO PLEASED TO SUPPORT QWEST COMMUNICATIONS, a Denver-based leader in broadband Internet communications. In 2000, Qwest signed a $150-million, multi-year agreement with Corvis for next-generation transmission equipment.

CORVIS PRODUCTS ARE BASED ON EXTENSIVE R&D

Customers like Qwest are relying on companies like Corvis to develop leading-edge, next generation technologies to build more efficient networks. Therefore, research and development is critical. Corvis has 484 people working in research and development. Many are recognized leaders in their fields; many have Ph.Ds. The company has R&D facilities in Columbia, Maryland, as well as in Lannion, France, and Quebec, Canada.

"Although we are researchers working on cutting-edge technologies, we always think of ourselves as engineers," says Dr. Stephen Grubb, "That title implies executing and ensuring that products get to market quickly."

Such was the case with the CorWave ON all-optical products that Corvis deployed last year. "It went from a concept prototype to a new architecture commercially deployed in a national network in less than two years—lightning speed," Stephen says.

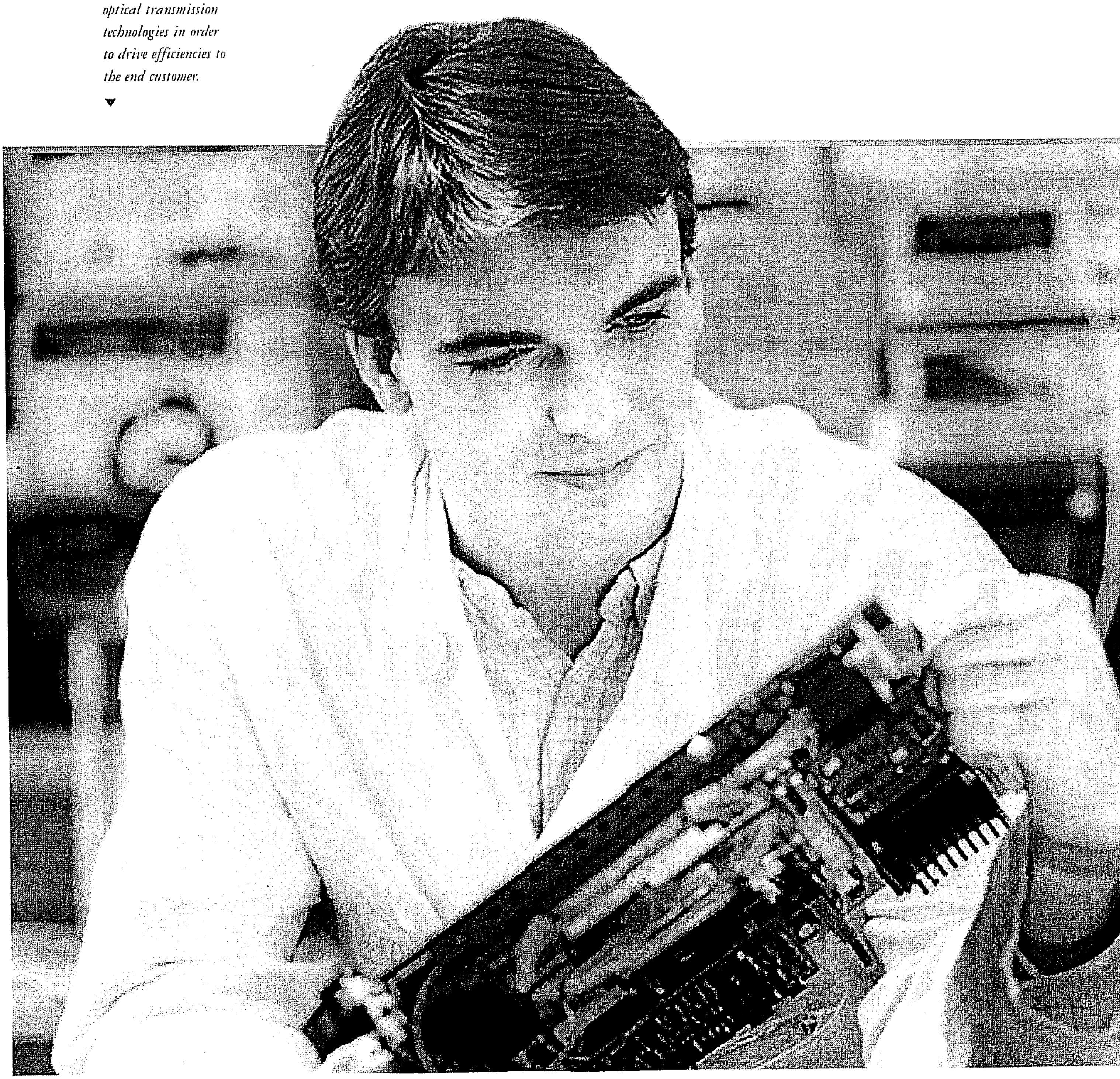
CORVIS EXTENDS NEXT-GENERATION OPTICAL NETWORKING

Corvis will continue to invest in market-driven R&D initiatives to expand the CorWave product family. Recently, we announced two new product lines, the CorWave LR and the CorWave XL/XF, that have been designed to provide high-capacity transmission and eliminate excess signal processing equipment in regional networks.

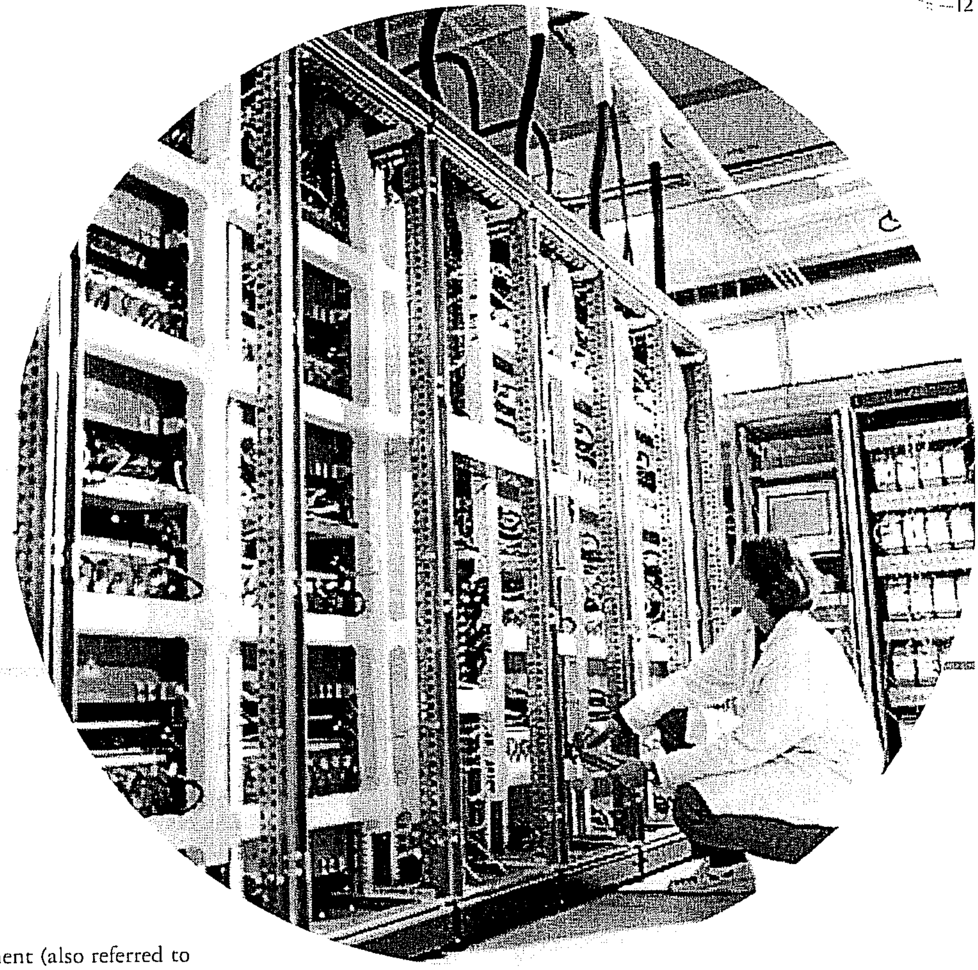
The CorWave LR system provides up to 3.2 terabits per second in each direction that can be transmitted up to 2,000 kilometers without electrical regeneration over diverse fiber types. The CorWave LR system provides for 10 gigabits per second transmission of 320 channels in each direction.

Our CorWave XL products for terrestrial links and CorWave XF products for undersea festoon links will enable service providers to deploy high-capacity, repeaterless systems that address a broader range of applications in existing networks and to develop new market opportunities. The CorWave XL/XF products will enable service providers to transmit up to 800 gigabits per second in each direction for distances up to 350 kilometers without the use of in-line amplification

Corvis Algety employees are always pushing limits of optical transmission technologies in order to drive efficiencies to the end customer.



Corvis Algety is driving new industry standards with its multi-terabit soliton transport technologies.

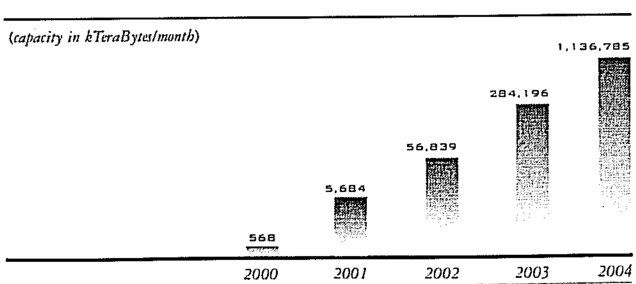


equipment (also referred to as a repeaterless link). The elimination of in-line amplification equipment in regional networks cuts operational costs dramatically, speeds regional network deployment and helps service providers to generate revenue more rapidly.

THE BOTTOM LINE

"Corvis is a good fit for us because their optical equipment will help us meet our customers' demands," said Mike Perusse, Qwest's Senior Vice President of Network Engineering. "Corvis' unique combination of scalability and forward-looking, all-optical architecture will support Qwest's cost-effective network and help meet the strong demand for broadband applications and services."

INTERNET BACKBONE TRAFFIC



SOURCE: *RHK*

Corvis has successfully scaled the company to deploy complete nationwide networks.

CORVIS LEADERSHIP

OFFICERS

DAVID R. HUBER, PH.D.
Chairman of the Board,
President and Chief Executive Officer

TERENCE F. UNTER, PH.D.
Chief Operating Officer

ANNE H. STUART
Senior Vice President,
Chief Financial Officer and Treasurer

KIM D. LARSEN
Senior Vice President,
General Counsel and Secretary

BOARD OF DIRECTORS

DAVID R. HUBER, PH.D.
Chairman of the Board,
President and Chief Executive Officer

FRANK A. BONSAL
Director
Partner of New Enterprise Associates

FRANK M. DRENDEL
Director
Chairman and Chief Executive Officer of CommScope, Inc.

JOSEPH R. HARDIMAN
Director
formerly President and Chief Executive Officer of National Association of Securities Dealers, Inc. and the Nasdaq Stock Market, Inc.

OSSAMA R. HASSANEIN, PH.D
Director
Managing General Partner of Newbury Ventures

DAVID S. OROS
Director
Chairman and Chief Executive Officer of Aether Systems, Inc.

KEY MANAGERS

MICHAEL C. ANTONE
Senior Vice President,
Intellectual Property Counsel

MOISE A. AUGIS
Senior Vice President,
Business Development and Marketing

RICHARD J. BAKOSH
Senior Vice President, Global Sales

KRISTINE M. BOSCHERT
Vice President, Customer Satisfaction

GHAZI M. CHAOUI, PH.D.
Vice President, Manufacturing

TIMOTHY C. DEC
Vice President, Chief Accounting Officer and Corporate Controller

JEROME FAUL
Vice President,
Business Development and
Managing Director,
Corvis Algety

RAMAN KASHYAP, PH.D.
Vice President, Corvis Canada

ALBERT J. RISDORFER
Vice President, Human Resources

RESEARCH & DEVELOPMENT

MICHAEL L. BORTZ, PH.D.
Executive Engineer

THOMAS J. CULLEN, PH.D.
Executive Engineer

THIERRY GEORGES, PH.D.
Senior Vice President, Technology
Corvis Algety

STEPHEN G. GRUBB, PH.D.
Executive Engineer

ALISTAIR J. PRICE
Executive Engineer

ROBERT L. RICHMOND
Senior Vice President,
Hardware Engineering

ADEL A. M. SALEH, PH.D.
Vice President and
Chief Network Architect

JANE M. SIMMONS, PH.D.
Executive Engineer

DAVID F. SMITH
Vice President, Hardware Engineering

THOMAS D. STEPHENS
Executive Engineer

GIL TADMOR
Vice President, Software Engineering

RAYMOND ZANONI, PH.D.
Executive Engineer

Financial Review

Selected Financial Data

(Amounts in thousands, except per share amounts)	Period from June 2, 1997 (inception) to December 31,	Year Ended December 31,	January 1,	December 30,
Statement of Operations Data:	1997	1998	2000	2000
Revenue	$ –	$ –	$ –	$ 68,898
Cost of revenue	–	–	–	42,943
Gross profit	–	–	–	25,955
Operating expenses:				
Research and development, excluding equity-based expense	249	15,746	41,565	88,874
Sales and marketing, excluding equity-based expense	–	167	3,422	30,871
General and administrative, excluding equity-based expense	288	3,190	18,993	31,127
Equity-based expense:				
Research and development	–	–	126	28,050
Sales and marketing	–	–	4,845	52,417
General and administrative	–	–	–	17,891
Amortization of intangible assets	–	–	173	46,746
Purchased research and development	–	–	–	42,230
Total operating expenses	537	19,103	69,124	338,206
Operating loss	(537)	(19,103)	(69,124)	(312,251)
Interest income (expense), net	43	(357)	(2,146)	28,640
Net loss	$ (494)	$ (19,460)	$ (71,270)	$ (283,611)
Basic and diluted net loss per common share	$ (0.02)	$ (0.86)	$ (2.33)	$ (1.80)
Weighted average number of common shares outstanding	21,600	22,638	30,599	157,349

	December 31,	December 31,	January 1,	December 30,
Balance Sheet Data:	1997	1998	2000	2000
Cash and cash equivalents	$ 1,620	$ 4,041	$ 244,597	$ 1,024,758
Working capital	1,552	(1,474)	236,839	1,172,040
Total assets	2,652	8,488	307,279	2,381,836
Notes payable and capital lease obligations, net of current portion	–	5,800	38,771	45,909
Total stockholders' equity (deficit)	2,506	(2,968)	239,626	2,186,593

Common Stock Market Data:

Fiscal Year 2000 Quarters	Price Range High	Price Range Low
First	–	–
Second	–	–
Third	$ 108.06	$ 61.05
Fourth	70.56	19.50

MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

You should read the following discussion and analysis along with our consolidated financial statements and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of various factors including the risks discussed in "Factors That May Affect Our Future Results" below.

OVERVIEW

We design, manufacture and market high performance optical communications systems that lower the overall cost of network ownership for service providers. Our all-optical products enable a fundamental shift in the design and efficiency of backbone networks by allowing for the transmission, switching and management of communications traffic entirely in the optical domain. Our products enable the creation of all-optical backbone networks that support transmission over long distances and eliminate the need for expensive and bandwidth-limiting electrical regeneration and switching equipment.

From our inception on June 2, 1997 until July 2000, we were a development stage company. Our operating activities consisted primarily of research and development, product design, manufacturing and testing. We also recruited and trained our administrative, financial, marketing and customer support organization and established a direct sales force.

We currently have three customers, Broadwing, Williams Communications and Qwest. During the first half of 2000, we shipped, installed and activated laboratory trial systems and field trial systems for both Broadwing and Williams Communications to allow for customer testing and inspection. In July 2000, we successfully completed the Broadwing Communications field trial and Broadwing agreed to purchase $200 million of our products and services over a two-year period. Throughout the remainder of 2000, we began the deployment of both transmission and switching equipment to Broadwing and built up finished goods inventory necessary to support customer orders in early 2001.

In January 2001, the field trial system provided to Williams Communications was accepted and Williams Communications agreed to purchase up to $300 million of our products and services over a multi-year period.

Qwest has agreed to purchase $150 million of our products, some of which are currently under development, over a two-year period beginning on the date that the products meet agreed-upon technical requirements. Qwest's purchase obligations are subject to our products being competitively priced and our ability to make products that meet agreed-upon technical requirements by the end of 2001.

We are in discussions with other service providers to begin field trials and to purchase our products and services.

REVENUE. Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations, provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved. Costs of revenues include the costs of manufacturing the Company's products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to the Company's manufacturing, engineering, finishing and installation operations. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience. Due to our limited customer base, significant quarterly fluctuations in revenue may result.

RESEARCH AND DEVELOPMENT, EXCLUDING EQUITY-BASED EXPENSE. Research and development, excluding equity-based expense consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory units and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with this process, significant quarterly fluctuations may result. We believe that research and development is critical in achieving current and future strategic product objectives. We expect that research and development expenses will continue to increase in the future as we continue to enhance our existing products and explore new or complementary technologies, and pursue various cost reduction strategies.

SALES AND MARKETING, EXCLUDING EQUITY-BASED EXPENSE. Sales and marketing, excluding equity-based expense consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses. We intend to continue to adjust our sales operations in order to increase market awareness and acceptance of our products. We also expect to initiate additional marketing programs to support our current products. Our success depends on establishing and maintaining key customer relationships. In order to achieve this objective, we expect to expand our customer service and support organization. We anticipate that our sales and marketing expenses will continue to increase in the future, but at lower rates than seen in prior periods.

GENERAL AND ADMINISTRATIVE, EXCLUDING EQUITY-BASED EXPENSE. General and administrative, excluding equity-based expense consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities. We anticipate that these costs will continue to increase in the future, but at lower rates than seen in prior periods.

Since our inception, we have incurred significant losses, and as of December 30, 2000, we had an accumulated deficit of $374.8 million. We do not expect to be cash flow positive before at least 2002. We have a lengthy sales cycle for our products and accordingly expect to incur significant research and development, sales and marketing and general and administrative expenses before we realize related revenue. As a result, we will need to generate significant revenue to achieve and maintain profitability.

During 1999, we changed our accounting reporting period from a calendar year-end to a manufacturing 52- or 53-week fiscal year-end, ending on the Saturday closest to December 31 in each year.

Results of Operations

Year ended December 30, 2000 compared to year ended January 1, 2000

REVENUE. Revenue increased to $68.9 million for the fiscal year ended December 30, 2000 from zero for the fiscal year ended January 1, 2000. The increase in revenue is attributable to the acceptance of a field trial system and the subsequent sale of network hardware and software to Broadwing under a $200 million two-year purchase agreement.

GROSS PROFIT. Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. Gross profit was $26.0 million for the year ended December 30, 2000. Gross margin as a percentage of revenues was 37.7%.

RESEARCH AND DEVELOPMENT, EXCLUDING EQUITY-BASED EXPENSE. Research and development expenses, excluding equity-based expense, increased to $88.9 million for the year ended December 30, 2000 from $41.6 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to significant increases in headcount and increased expenses associated with prototype development and laboratory materials.

SALES AND MARKETING, EXCLUDING EQUITY-BASED EXPENSE. Sales and marketing expenses, excluding equity-based expense, increased to $30.9 million for the year ended December 30, 2000 from $3.4 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to significant increases in headcount, increases in promotional and trade show activities and expenses related to laboratory systems provided to current and potential customers.

GENERAL AND ADMINISTRATIVE, EXCLUDING EQUITY-BASED EXPENSE. General and administrative expenses increased to $31.1 million for the year ended December 30, 2000 from $19.0 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to increases in salaries and related benefits due to the hiring of additional personnel and increased expenses incurred during the development of manufacturing processes.

EQUITY-BASED EXPENSE. Equity-based expense related to research and development, sales and marketing and general and administrative functions for the year ended December 30, 2000 increased to $98.4 million from $5.0 million in the year ended January 1, 2000. The increase in equity-based compensation resulted from options granted with exercise prices below fair value at the date of grant as well as expenses recognized upon the waiving of certain forfeiture provisions contained in warrants granted to certain customers.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets expenses increased to $46.7 million for the year ended December 30, 2000 from $0.2 million for the year ended January 1, 2000. The increase was primarily attributable to the amortization of intangibles resulting from our recent acquisition of Algety Telecom S.A., which resulted in approximately $876.7 million in goodwill that is being amortized over five years.

INTEREST INCOME (EXPENSE), NET. Interest income, net of interest expense, increased to $28.6 million for the year ended December 30, 2000 from $2.1 million of net interest expense for the year ended January 1, 2000. The increase was primarily attributable to higher invested cash balances from the proceeds of the initial public offering and other private placements, offset in part by interest incurred under various credit facilities.

Year ended January 1, 2000 compared to year ended December 31, 1998

REVENUE. We recognized no revenue in either period.

RESEARCH AND DEVELOPMENT, EXCLUDING EQUITY-BASED EXPENSE. Research and development expenses, excluding equity-based expense, increased to $41.6 million for the year ended January 1, 2000 from $15.7 million for the year ended December 31, 1998. The increase in expenses was primarily attributable to salaries and related benefits due to the hiring of additional personnel, prototype and laboratory materials, facilities costs and information systems support costs.

SALES AND MARKETING, EXCLUDING EQUITY-BASED EXPENSE. Sales and marketing expenses, excluding equity-based expense, increased to $3.4 million for the year ended January 1, 2000 from $0.2 million for the year ended December 31, 1998. The increase in expenses was primarily attributable to salaries and related benefits due to the hiring of additional personnel, promotional and trade show expenses.

GENERAL AND ADMINISTRATIVE, EXCLUDING EQUITY-BASED EXPENSE. General and administrative expenses, excluding equity-based expense, increased to $19.0 million for the year ended January 1, 2000 from $3.2 million for the year ended December 31, 1998. The increase in expenses was primarily attributable to professional fees, personnel and related benefits due to the hiring of additional personnel and information system support costs.

EQUITY-BASED EXPENSE. Equity-based expense related to research and development and sales and marketing for the year ended January 1, 2000 increased to $5.0 million from zero in the year ended December 31, 1998. The increase in equity-based compensation resulted from expenses recognized upon the waiving of certain forfeiture provisions contained in warrants granted to certain customers as well as options granted with exercise prices below fair value at the date of grant.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets expenses increased to $0.2 million for the year ended January 1, 2000 from zero for the year ended December 31, 1998. The increase was primarily attributable to amortization associated with our acquisition of Kromafibre, Inc.

INTEREST INCOME (EXPENSE), NET. Interest expense, net of interest income, increased to $2.1 million for the year ended January 1, 2000 from $0.4 million for the year ended December 31, 1998. Interest expense increased for the year ended January 1, 2000 as a result of increased borrowings under new and existing credit facilities, offset in part by an increase in interest income primarily attributable to proceeds from private placements.

Liquidity and Capital Resources

Since inception through December 30, 2000, we have financed our operations, capital expenditures and working capital primarily through public and private sales of our capital stock, borrowings under credit and lease facilities and cash generated from operations. At December 30, 2000, our cash and cash equivalents totaled $1,024.8 million.

Net cash used in operating activities was $235.0 million, $71.8 million and $16.2 million for the years ended December 30, 2000, January 1, 2000 and December 31, 1998, respectively. Cash used in operating activities for the year ended December 30, 2000 was primarily attributable to a net loss of $283.6 million and $195.4 million of inventory increases, partially offset by an increase in accounts payable of $79.7 million and non-cash expense items including purchased research and development of $42.2 million and equity-based expense of $98.4 million.

Net cash used in investing activities for the years ended December 30, 2000, January 1, 2000 and December 31, 1998 was $68.2 million, $14.0 million and $1.7 million, respectively. The increase in net cash used in investing activities for the year ended December 30, 2000 was primarily attributable to purchases of manufacturing and test equipment, information systems equipment and office equipment, partially offset by cash acquired in the Algety purchase. We are currently expanding our production and research facilities and have executed agreements with our existing landlords to build-out and improve additional facilities.

Net cash provided by financing activities for the year ended December 30, 2000 was $1,084.3 million, primarily attributable to proceeds from our initial public offering and other private placements. Net cash provided by financing activities for the year ended January 1, 2000 was $326.3 million, primarily attributable to private placements, and the issuance of notes payable, offset in part by the payment of debt and an increase in restricted cash. Net cash provided by financing activities for the year ended December 31, 1998 was $20.4 million, primarily attributable to private placements and the proceeds from the issuance of notes payable.

As of December 30, 2000, long-term restricted cash totaled $46.3 million, of which $43.5 million represents cash held as security under a note payable. This restriction will be released upon repayment of the note that is due in November 2002. In addition, as of December 30, 2000, we had outstanding irrevocable letters of credit aggregating $2.8 million relating to lease obligations for various manufacturing and office facilities and other business arrangements. These letters of credit are collateralized by funds in our operating account. Various portions of the letters of credit expire at the end of each respective lease term or agreement term.

We continue to evaluate our need to acquire additional production and administrative facilities to accommodate our expanding operations. We expect our expenditures associated with this expansion to be significant over the next several years. In addition, we have purchased and hold certain critical components in anticipation of future orders. A significant price increase or a shortage of these parts could adversely affect our liquidity, capital resources and results of operations.

Due to competitive economic conditions pressures, we may be required to sell our product to future customers at lower margins or be required to provide customers with financing which could result in reduced gross margins, extended payment terms or delayed revenue recognition, all of which could have a negative impact on our liquidity, capital resources and results of operations.

Our liquidity will also be dependent on our ability to manufacture and sell our products. Changes in the timing and extent of the sale of our products will affect our liquidity, capital resources and results of operations. We currently have three customers that could provide substantially all of our revenues for the near future. The loss of any of these customers, any substantial reduction in current or anticipated orders or an inability to attract new customers, could materially adversely affect our liquidity and results of operations. We plan to diversify our customer base by seeking new customers both domestically and internationally.

If cash on hand and cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing shareholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results. Increasingly, as a result of the financial demands of major network deployments, service providers are looking to their suppliers for financing assistance. From time to time, we may provide or commit to extend credit or credit support to our customers as we consider appropriate in the course of our business.

Recent Acquisitions

Algety Telecom S.A.

On July 1, 2000, we acquired Algety Telecom S.A., a French company that develops and markets high capacity, high speed optical transmission equipment. Algety, based in Lannion, France, was formed in April 1999, and was a development stage company with no revenue.

At the initial closing on July 1, 2000, we delivered to the Algety shareholders 1,301,822 shares of our Series I convertible preferred stock, which converted into 15,621,858 shares of common stock upon the closing of our initial public offering. We also delivered 348,402 shares of Series I convertible preferred stock to our escrow agent to secure potential warranty claims, which converted into 4,180,824 shares of common stock upon the closing of our initial public offering. In addition, we placed into escrow 2,275,032 shares of common stock that will be released contingent upon satisfaction of certain minimum employment terms for certain Algety employees. We incurred approximately $1.0 million of transaction costs relating to the transaction.

On November 3, 2000, consistent with the terms of the acquisition agreement, the Company completed a second closing in which an additional 11,385,358 shares of common stock were delivered to the former Algety stockholders. Total value of all shares delivered in the first and second closings was $947.1 million.

We have accounted for the acquisition using the purchase method whereby the net tangible and identifiable intangible assets acquired and liabilities assumed are recognized at their estimated fair market values at the date of acquisition. The excess of the aggregate purchase price over the estimated fair value of net assets acquired of $876.7 million, based upon the purchase price allocation, is being amortized on a straight-line basis over five years. In addition, $42.2 million of the purchase price was allocated to in-process research and technology and was expensed immediately.

Baylight Networks, Inc.

On May 19, 2000, we acquired Baylight, a company that designs optical network access systems and subsystems. Baylight was formed in February 2000 and was a development stage company with no revenue. In consideration for all of the outstanding shares of Baylight, we assumed $0.1 million of Baylight liabilities and placed in escrow 2,400,012 shares of common stock for release over the term of three-year employment agreements with the former Baylight shareholders. We have accounted for the acquisition using the purchase method. Accordingly, the operating results of Baylight are included in our financial results from the date of acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed is based on an internal analysis of the fair value of the assets and liabilities of Baylight. The excess of the aggregate purchase price over the fair value of net assets acquired of approximately $0.1 million is being amortized on a straight-line basis over five years. We are recognizing compensation expense over the terms of the employment agreements equal to the fair value of the shares to be issued.

Corvis Canada, Inc.

On July 6, 1999, we purchased all of the outstanding common stock of Corvis Canada, Inc., a Canadian company formerly known as Kromafibre, Inc., for 211,928 shares of Series D convertible preferred stock valued at approximately $1.9 million. Corvis Canada develops fiber optic technology that we use in some of our products. We accounted for the acquisition using the purchase method. Accordingly, the operating results of Corvis Canada have been included in our results since the date of our acquisition of Corvis Canada. We are amortizing the excess of the aggregate purchase price over the fair value of net assets acquired of approximately $1.7 million on a straight-line basis over five years.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities." This Statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the value of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date for SFAS No. 133," will be effective for our fiscal year ending December 29, 2001. We believe that the adoption of SFAS No. 133 and SFAS No. 137 will not have a material effect on our consolidated financial statements.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 is effective for transfers occurring after March 31, 2001 and for disclosures relating to the securitization transactions and collateral for fiscal years ending after December 15, 2000. We are reviewing the provisions of SFAS No. 140.

Litigation

On July 19, 2000, Ciena Corporation ("Ciena") filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. A trial date has been set for April 1, 2002. We are currently in the discovery phase of the litigation. We intend to defend ourselves vigorously against these claims and we believe that we will prevail in this litigation. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as a redesign of some of our products, which could have a material adverse effect on our business, financial condition and results of operations. If we are required to redesign our products, we have to stop selling our current products until they have been redesigned. We believe that defense of the lawsuit may be costly and may divert the time and attention of some members of our management.

Factors that May Affect Our Future Results

Risks Related to Our Financial Results

We have incurred significant losses since inception and expect to continue to incur losses in the future, all of which may adversely affect the market price of our common stock.

We have incurred significant net losses since inception. As of December 30, 2000, we had an accumulated deficit of $374.8 million. We cannot be certain that we will achieve or maintain profitability. We have large fixed expenses and expect to continue to incur significant and increasing manufacturing, research and development, sales and marketing, administrative and other expenses in connection with the continued development and expansion of our business. As a result, we will need to generate significant revenue to achieve and maintain profitability. We do not expect to be cash flow positive before at least 2002.

Our early stage of development makes it difficult to evaluate our business and prospects.

We were incorporated in June 1997 and began operations in August 1997. Because we have only recently begun commercial sales of our products, our revenue and profit potential is unproven and our limited operating history makes it difficult for you to evaluate our business and prospects. Further, due to our limited operating history, we have difficulty accurately forecasting our revenue, and we have limited historical financial data upon which to base operating expense budgets. You should consider our business and prospects in light of the heightened risks and unexpected expenses and problems we may face as a company in an early stage of development in a new and rapidly-evolving industry.

The unpredictability of our quarterly results may adversely affect the trading price of our common stock.

Our revenue and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause the price of our common stock to fluctuate. The primary factors that may affect us include the following:

- loss of customers;
- fluctuation in demand for optical network products;
- the length and variability of the sales cycle for our products;
- the timing and size of sales of our products;
- our ability to attain and maintain production volumes and quality levels for our products;
- our ability to obtain sufficient supplies of sole or limited source components;
- changes in our pricing policies or the pricing policies of our competitors;
- increases in the prices of the components we purchase;

- new product introductions and enhancements by our competitors and us;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- the timing and magnitude of prototype expenses;
- our ability to attract and retain key personnel;
- our sales of common stock or other securities in the future;
- costs related to acquisitions of technology or businesses; and
- general economic conditions as well as those specific to the communications, Internet and related industries.

Our operating expenses are largely based on anticipated organizational growth and revenue trends and a high percentage of our expenses are, and will continue to be, fixed. As a result, a delay in generating or recognizing revenue could cause significant variations in our operating results from quarter to quarter and could result in substantial operating losses. It is possible that in some future quarters our operating results may be below the expectations of analysts and investors. In this event, the price of our common stock will likely decrease.

The long and variable sales cycles for our products may cause revenue and operating results to vary significantly from quarter to quarter, which may adversely affect the trading price of our common stock.

Our products are designed to enable all-optical transmission and switching of data traffic over long distances. We expect that customers who purchase our products will do so as part of a large-scale deployment of these products across their networks. As a result, a customer's decision to purchase our all-optical network products will involve a significant commitment of its resources. A lengthy testing and product qualification process, a portion of which is funded by us, will precede any final decision to purchase our products. Throughout this sales and qualification cycle, we will spend considerable time and expense educating and providing information to prospective customers about the uses and features of our products.

The timing of deployment of our products may vary widely and will depend on the specific network deployment plan of the customer, the installation skills of the customer, the complexity of the customer's network environment and the degree of hardware and software configuration necessary. Customers with substantial or complex networks have traditionally expanded their networks in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular and unpredictable basis. Because of our limited operating history and the nature of our business, we cannot predict the timing or size of these sales and deployment cycles. Long sales cycles, as well as our expectation that customers will tend to place large orders sporadically with short lead times, may cause our revenue and results of operations to vary significantly and unexpectedly from quarter to quarter.

We currently have three customers and we expect that substantially all of our revenue will be generated from a limited number of customers.

The target customers for our products are service providers that operate backbone communications networks. There are only a limited number of potential customers in our target market. We currently have three customers who have signed agreements to purchase our products. Each of these agreements contains significant obligations, the breach of which could result in termination of the agreement. Our agreement with Qwest Communications Corporation will terminate if, among other circumstances, our products do not meet the agreed technical specifications. We expect that in the future substantially all of our revenue will depend on sales of our optical network products to a limited number of potential customers. The rate at which customers purchase products from us will depend, in part, on the increasing demand for bandwidth by service providers' customers. Any failure of service providers to purchase products from us for any reason, including any downturn in their business, would seriously harm our business, financial condition and results of operations.

We depend on our key personnel to manage our business effectively in a rapidly changing market. If we are unable to retain our key employees, our business, financial condition and results of operations could be harmed.

Our future success depends upon the continued services of our executive officers and other key engineering, manufacturing, operations, sales, marketing and support personnel who have critical industry experience and relationships that we rely on to implement our business plan. We do not have key person life insurance policies covering any of our employees. The loss of the services of any of our key employees, including Dr. David Huber, our founder, President and Chief Executive Officer, could delay the development and production of our products and negatively impact our ability to maintain customer relationships, which would harm our business, financial condition and results of operations.

We do not have significant experience in international markets and may have unexpected costs and difficulties in developing international revenue.

We plan to expand the marketing and sales of our products internationally. This expansion will require significant management attention and financial resources to successfully develop international sales and support channels. We have developed a sales and marketing staff outside of the United States. International operations may be subject to certain risks and challenges that could harm our results of operations, including:

- fluctuations in exchange rates;
- changes in regulatory requirements in the communications industry;
- expenses associated with developing and customizing our products for foreign countries;
- tariffs, quotas and other import restrictions on communications products;
- greater difficulty in accounts receivable collection and longer collection periods;
- difficulties and costs of staffing and managing foreign operations;
- reduced protection for intellectual property rights;
- potentially adverse tax consequences;
- longer sales cycles for our products;
- compliance with international standards that differ from domestic standards; and
- political and economic instability.

Risks Related to the Growth of Our Industry

The market for all-optical backbone network products is new and uncertain and our business will suffer if it does not develop as we expect.

Most service providers have made substantial investments in their current network infrastructure, and they may elect to remain with current network architectures or to adopt new architectures in limited stages or over extended periods of time. A decision by a customer to purchase our all-optical products will involve a significant capital investment. We will need to convince these service providers of the benefits of our all-optical network products for future network upgrades or expansions. We cannot be certain that a viable market for our products will develop or be sustainable. If this market does not develop, or develops more slowly than we expect, our business, financial condition and results of operations would be seriously harmed.

The market we serve is highly competitive and, as an early stage company, we may not be able to achieve or maintain profitability.

Competition in the backbone network communications equipment market is intense. This market has historically been dominated by large companies, such as Alcatel, Ciena, Cisco Systems, Lucent Technologies, NEC and Nortel Networks. We may face competition from other large communications companies who may enter our market. In addition, a number of private companies have announced plans for new all-optical products to address the same network needs that our products address. Due to several factors including the lengthy sales cycle, testing and deployment process and manufacturing constraints associated with large-scale deployments of our products, we may lose any advantage that we might have by being an early provider of all-optical network products prior to achieving market penetration. Many of our competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and sales and marketing resources than we do and may be able to undertake more extensive marketing efforts, adopt more aggressive pricing policies and provide more vendor financing than we can. Moreover, our competitors may foresee the course of market developments more accurately than we do and could develop new technologies that compete with our products or render our products obsolete. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources may enter our markets, further intensifying competition.

In order to compete effectively, we must deliver products that:

- provide extremely high reliability;
- increase network capability easily and efficiently with minimum disruption;
- operate with existing equipment and network designs;
- reduce the complexity of the network in which they are installed by decreasing the amount of equipment required;
- provide effective network management;
- reduce operating costs; and
- provide an overall cost-effective solution for service providers.

In addition, we believe that a knowledge of the infrastructure requirements applicable to service providers, experience in working with service providers to develop new services for their customers, and an ability to provide vendor financing are important competitive factors in our market. We have limited knowledge of service providers' infrastructure requirements and limited experience in working with service providers to develop new services. We currently provide only a limited vendor-sponsored financing program. Many of our competitors, however, are able to offer more complete financing programs, which may influence prospective customers to purchase from our competitors rather than from us.

If we are unable to compete successfully against our current and future competitors, we may have difficulty obtaining customers, and we could experience price reductions, order cancellations, increased expenses and reduced gross margins, any one of which would harm our business, financial condition and results of operations.

The communications industry is subject to government regulations which could harm our business.

The Federal Communications Commission, or FCC, has jurisdiction over the entire communications industry and, as a result, our products and our customers' products, are subject to FCC rules and regulations. Current and future FCC rules and regulations affecting communications services, our products or our customers' businesses or products could negatively affect our business. In addition, international regulatory standards could impair our ability to develop products for international service providers in the future. Delays caused by our compliance with regulatory requirements could result in postponements or cancellations of product orders, which would harm our business, results of operations and financial condition. Further, we cannot be certain that we will be successful in obtaining or maintaining any regulatory approvals that may, in the future, be required to operate our business.

Risks Related to Our Product Manufacturing

We have limited manufacturing experience and unproven manufacturing capabilities. If we are unable to adjust our manufacturing capacity in a timely manner or if we do not accurately project demand, we will not achieve or maintain profitability.

Our future operating results will depend on our ability to develop and manufacture our products cost-effectively. To do so, we will have to develop manufacturing processes that will allow us to produce sufficient quantities of products at competitive prices. We have limited manufacturing experience and have only used our current facilities for limited quantities of commercial products. Furthermore, our current facilities may not be sufficient for producing the volume of products required on a timely basis by our customers. Due to the complexities of the optical product manufacturing process, we may be unable to supplement our internal manufacturing capability by outsourcing manufacturing of our products to meet demand.

If we are unable to adjust our manufacturing capacity in a timely manner or if we do not accurately project demand, we will have insufficient capacity or excess capacity, either of which will seriously harm our business. There are numerous risks associated with adjusting our manufacturing capabilities, including the following:

- the inability to purchase and install the necessary manufacturing equipment;
- the scarcity and cost of manufacturing personnel;
- difficulties in achieving adequate yields from new manufacturing lines; and
- the scarcity and cost of certain components.

Our manufacturing facilities and related capital expenditures assume a level of customer orders that we may not realize or, if we do realize, may not be sustained over multiple quarters. If we do not receive anticipated levels of customer orders, our gross margins will decline and we will not be able to reduce our operating expenses quickly enough to prevent a decline in our operating results.

We are dependent on sole source and limited source suppliers for several key components. If we are unable to obtain these components on a timely basis, we will be unable to meet our customers' product delivery requirements, which would harm our business.

We currently purchase several key components from single or limited sources. From time to time, there have been industry-wide shortages of some optical components due to rapidly increasing demand. For some of these components, there can be waiting periods of six months or more between placement of an order and receipt of the components. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule. We currently have no long-term supply contracts for certain of our key components. Our suppliers may enter into exclusive arrangements with our competitors, be acquired by our competitors, stop selling their products or components to us at commercially reasonable prices, refuse to sell their products or components to us at any price or be unable to obtain or have difficulty obtaining components for their products from their suppliers, and we may be unable to develop alternative sources for the components. Even if alternate suppliers are available to us, identifying them is often difficult and time consuming. If we do not receive critical components from our suppliers in a timely manner, we will be unable to manufacture our products in a timely manner and would, therefore, be unable to meet customers' product delivery requirements. Any failure to meet a customer's delivery requirements could harm our reputation and decrease our sales, which would harm our business, financial condition and results of operations.

Some of our competitors are also our suppliers and if our supply relationship with them deteriorates, it could harm our business.

Some of our component suppliers are both our primary source for those components and major competitors in the market for communications equipment. For example, we buy some of our key components from Lucent and Alcatel, each of which offers communications systems and equipment that compete with our products. Our business, financial condition and results of operations could be harmed if these supply relationships were to change in any manner adverse to us.

Risks Related to Our Products

Because optical products are complex and are deployed in complex environments, our products may have defects that we discover only after full deployment, which could seriously harm our business.

Optical products are complex and are designed to be deployed in large quantities across complex networks. Because of the nature of the products, they can only be fully tested when completely deployed in large networks with high amounts of traffic. Our customers may discover errors or defects in the hardware or the software, or our products may not operate as expected, after they have been fully deployed. If we are unable to fix defects or other problems that may be identified in full deployment, we would experience:

- loss of, or delay in, revenue and loss of market share;
- loss of existing customers;
- failure to attract new customers or achieve market acceptance;
- diversion of development resources;
- increased service and warranty costs;
- legal actions by our customers; and
- increased insurance costs.

The occurrence of any of these problems would seriously harm our business, financial condition and results of operations. Defects, integration issues or other performance problems in our products could result in financial or other damages to our customers or could negatively affect market acceptance for our products. Our customers could also seek damages for losses from us, which, if they were successful, would seriously harm our business, financial condition and results of operations. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly and would put a strain on our management and resources.

Our business will suffer if we do not respond rapidly to technological changes.

The market for backbone network communications equipment is characterized by rapid technological change, frequent new product introductions and changes in customer requirements. We may be unable to respond quickly or effectively to these developments. We may experience design, manufacturing, marketing and other difficulties that could delay or prevent our development, introduction or marketing of new products and enhancements. The introduction of new products by competitors, market acceptance of products based on new or alternative technologies or the emergence of new industry standards could render our existing or future products obsolete, which would harm our business, financial condition and results of operations.

In developing our products, we have made, and will continue to make, assumptions about the industry standards that may be adopted by our competitors and potential customers. If the standards adopted are different from those which we have chosen to support, market acceptance of our products may be significantly reduced or delayed and our business will be seriously harmed. In addition, the introduction of products incorporating new technologies and the emergence of new industry standards could render our existing products obsolete. In order to introduce products incorporating new technologies and new industry standards, we must be able to gain access to the latest technologies of our suppliers, other network vendors and our potential customers. Any failure to gain access to the latest technologies would seriously harm our business, financial condition and results of operations.

Our business will suffer if our current and future products do not meet specific customer requirements.

Customers may require product features and capabilities that our current products do not have. To achieve market acceptance for our products, we must anticipate and adapt to customer requirements and offer products and services that meet customer demands. Our failure to develop products or offer services that satisfy customer requirements would seriously harm our business, financial condition and results of operations.

We intend to continue to invest in product and technology development. The development of new or enhanced products is a complex and uncertain process that requires the accurate anticipation of technological and market trends. We may experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products and enhancements. The introduction of new or enhanced products also requires that we manage the transition from older to newer products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. Our inability to effectively manage this transition would harm our business, financial condition and results of operations.

Our business will be adversely affected if we are unable to protect our intellectual property rights from third-party challenges.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners and control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

We are involved in an intellectual property dispute and in the future we may become involved in similar disputes, which could subject us to significant liability, divert the time and attention of our management and prevent us from selling our products.

On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit including attorneys' fees. We intend to defend ourselves vigorously against these claims and we believe that we will prevail in this litigation. However, there can be no assurance that we will be successful in the defense of the litigation, and an adverse determination in the litigation could result from a finding of infringement of only one claim of a single patent. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as a redesign of some of our products, which could have a material adverse effect on our business, financial condition and results of operations. We expect that defense of the lawsuit will be costly and will divert the time and attention of some members of our management. Further, Ciena and other competitors may use the existence of the Ciena lawsuit to raise questions in customers' and potential customers' minds as to our ability to manufacture and deliver our products. There can be no assurance that questions raised by Ciena and others will not disrupt our existing and prospective customer relationships.

We or our customers may be a party to additional litigation in the future to protect our intellectual property or to respond to allegations that we infringe others' intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers against the alleged infringement. If we are unsuccessful in any intellectual property litigation, we could be subject to significant liability for damages and loss of our proprietary rights. Intellectual property litigation, regardless of its success, would likely be time consuming and expensive to resolve and would divert management time and attention. In addition, we could be forced to do one or more of the following:

- stop selling, incorporating or using our products that include the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign those products that use the technology.

If we are forced to take any of these actions, our business would be seriously harmed.

If necessary licenses of third-party technology are not available to us or are very expensive, our business would be seriously harmed.

We currently license technology, and from time to time we may be required to license additional technology, from third parties to sell or develop our products and product enhancements. We cannot assure you that our existing and future third-party licenses will be available to us on commercially reasonable terms, if at all. Our inability to maintain or obtain any third-party license required to sell or develop our products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, any of which could seriously harm our business, financial condition and results of operations.

Risks Related to the Development of Our Business

Our business will suffer if we do not adjust our sales organization and our customer service and support operations.

Our products and services require a sophisticated sales effort targeted at a limited number of key individuals within our prospective customers' organizations. Our success will depend, in part, on our ability to develop and manage these relationships. This effort requires specialized sales personnel as well as experienced sales engineers. Competition for these individuals is intense because there are a limited number of people available with the necessary technical skills and understanding of our market. When we hire them or contract for these personnel, they may require extensive training in our network products. We might not be able to hire the kind and number of sales personnel and sales engineers required for us to be successful. If we are unable to adjust our sales, customer service and support operations, we may not be able to effectively market our products, which may prevent us from achieving and maintaining profitability.

We believe our future success will also depend in large part upon our ability to identify, attract and retain highly skilled managerial, engineering, sales and marketing and finance personnel. Competition for these individuals is also intense in our industry. We may not succeed in identifying, attracting and retaining personnel. Further, competitors and other entities may attempt to recruit our employees. If we are unable to hire any of these required personnel and expand our corporate infrastructure, we may not be able to increase sales of our products, which would seriously harm our business, financial condition and results of operations.

To date, two of our customers have acquired an equity interest in our company, and our third customer holds a warrant to purchase our common stock. If we discontinue this practice of selling equity to our customers, we may not attract new customers.

Two of our customers have purchased an equity interest in our company, and our third customer holds a warrant to purchase our common stock. Although these customers purchased the equity interests at fair value and the warrant has an exercise price equal to the fair value on the date of grant, the opportunity to invest in our company provided these customers with an additional incentive to purchase our products. It is unlikely that we will offer this opportunity to prospective customers, which may hurt our ability to sell our products.

Our business will suffer if we fail to properly manage our growth and continually improve our internal controls and systems.

We have expanded our operations rapidly since our inception. We continue to increase the scope of our operations, as well as broaden our in-house manufacturing and customer support capabilities, develop new distribution channels and fund greater levels of research and development. Our growth has placed, and our anticipated growth will continue to place, a significant strain on our management and resources. Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. In order to manage our growth properly, we must:

- retain existing personnel;
- hire, train, manage and retain additional qualified personnel, including engineers and research and development personnel;
- manage our manufacturing operations, controls and reporting systems;
- effectively manage multiple relationships with our customers, suppliers and other third parties; and
- implement additional operational controls, reporting and financial systems and procedures.

Failure to do any of the above in an efficient and timely manner could seriously harm our business, financial condition and results of operations.

If we become subject to unfair hiring claims we could incur substantial costs in defending ourselves or our management's attention could be diverted away from our operations.

Companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have received claims of this kind in the past, and we cannot assure you that we will not receive claims of this kind in the future as we seek to hire qualified personnel or that those claims will not result in material litigation. We could incur substantial costs in defending ourselves or our employees against such claims, regardless of the merits of the claims. In addition, defending ourselves from such claims could divert the attention of our management away from our operations.

Any acquisitions we make could disrupt our business and seriously harm our financial condition.

We may, from time to time, consider investments in complementary companies, products or technologies. We have recently acquired two companies, and we may acquire additional businesses, products or technologies in the future. In the event of any future acquisitions, we could:

- issue stock that would dilute our current stockholders' percentage ownership;
- incur debt;
- assume liabilities;
- incur amortization expenses related to goodwill and other intangible assets; or
- incur large and immediate write-offs.

Our operation of any acquired business will also involve numerous risks, including:

- problems combining the acquired operations, technologies or products;
- unanticipated costs;
- diversion of management's time and attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have no or limited prior experience; and
- potential loss of key employees, particularly those of acquired companies.

We cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future. Any failure to do so could seriously harm our business, financial condition and results of operations.

We may need additional capital to fund our existing and future operations. If we are unable to obtain additional capital, we may be required to reduce the scope of our planned product development and marketing and sales efforts, which would harm our business, financial condition and results of operations.

The development, marketing and sales of new products is expected to require a significant commitment of resources. We may incur significant operating losses or expend significant amounts of capital if:

- the market for our products develops more slowly than anticipated;
- we fail to establish market share or generate revenue;
- our capital expenditure forecasts change or prove inaccurate; and
- we need to respond to unforeseen challenges or take advantage of unanticipated opportunities.

As a result, we may need to raise substantial additional capital. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing stockholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional capital, we may be required to reduce the scope of our planned product development and marketing and sales efforts, which would harm our business, financial condition and results of operations.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity

We maintain a portfolio of cash equivalents in a variety of securities including: commercial paper, certificates of deposit, money market funds and government and non-government debt securities. Substantially all amounts are in money market funds, the value of which is generally not subject to interest rate changes. The other available-for-sale securities are subject to interest rate risk and may fall in value if market interest rates increase, however, because of the short-term nature of these investments, we do not believe the risk is significant. Our long-term debt obligations bear fixed interest rates. As such, we have minimal cash flow exposure due to general interest rate changes associated with our long-term debt obligations.

Exchange Rate Sensitivity

We have two wholly owned subsidiaries which use a foreign currency as their functional currency and are translated into U.S. dollars. The functional currency of Algety is the French Franc and Corvis Canada's functional currency is the Canadian dollar, respectively. As such, we are exposed to risk related to the adverse movements in foreign currency exchange rates. These exposures may change over time and could have a material adverse impact on our financial results. For the year ended December 30, 2000, we recognized a foreign currency ranslation gain fo $60.2 million as part of Other Comprehensive Income.

Consolidated Statements of Operations

(Amounts in thousands, except per share amounts)	*Year Ended* December 31, 1998	January 1, 2000	December 30, 2000
Revenue	$ –	$ –	$ 68,898
Cost of revenue	–	–	42,943
Gross profit	–	–	25,955
Operating expenses:			
Research and development, exclusive of equity-based expense	15,746	41,565	88,874
Sales and marketing, exclusive of equity-based expense	167	3,422	30,871
General and administrative, exclusive of equity-based expense	3,190	18,993	31,127
Equity-based expense:			
Research and development	–	126	28,050
Sales and marketing	–	4,845	52,417
General and administrative	–	–	17,891
Amortization of intangible assets	–	173	46,746
Purchased research and development	–	–	42,230
Total operating expenses	19,103	69,124	338,206
Operating loss	(19,103)	(69,124)	(312,251)
Interest income (expense), net	(357)	(2,146)	28,640
Net loss	(19,460)	(71,270)	(283,611)
Other comprehensive income:			
Foreign exchange adjustment	–	–	60,176
Comprehensive loss	$ (19,460)	$ (71,270)	$ (223,435)
Basic and diluted net loss per common share	$ (0.86)	$ (2.33)	$ (1.80)
Weighted average number of common shares outstanding	22,638	30,599	157,349

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

ASSETS	January 1, 2000	December 30, 2000
Current assets:		
Cash and cash equivalents	$ 244,597	$ 1,024,758
Restricted cash	2,103	–
Trade accounts receivable	–	16,085
Inventory, net	15,869	219,414
Other current assets	1,641	26,802
Total current assets	264,210	1,287,059
Restricted cash, long-term	15,000	46,292
Property and equipment, net	22,355	106,681
Goodwill and other intangible assets, net	–	929,204
Other long-term assets, net	5,714	12,600
Total assets	$ 307,279	$ 2,381,836
LIABILITIES, REDEEMABLE STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable, current portion	$ 15,287	$ 1,438
Capital lease obligations, current portion	1,587	1,841
Accounts payable	6,823	90,995
Accrued expenses	3,674	20,745
Total current liabilities	27,371	115,019
Noncurrent liabilities:		
Notes payable, net of current portion	35,807	44,529
Capital lease obligations, net of current portion	2,964	1,380
Other long-term liabilities	1,511	4,315
Total liabilities	67,653	165,243
Commitments and contingencies		
Redeemable stock	–	30,000
Stockholders' equity:		
Series A convertible preferred stock; $0.01 par value; 1,550,000 shares authorized, 1,550,000 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	16	–
Series B convertible preferred stock; $0.01 par value; 6,685,931 shares authorized, 6,328,955 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	63	–
Series C convertible preferred stock; $0.01 par value; 3,270,819 shares authorized; 3,120,118 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	31	–
Series D convertible preferred stock; $0.01 par value; 273,314 shares authorized; 211,928 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	2	–
Series F convertible preferred stock; $0.01 par value; 1,946,906 shares authorized; 1,898,406 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	19	–
Series G convertible preferred stock; $0.01 par value; 573,989 shares authorized; 292,825 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	3	–
Series H convertible preferred stock; $0.01 par value; 3,186,710 shares authorized, 2,685,954 issued and outstanding at January 1, 2000; no shares authorized, issued or outstanding at December 30, 2000	27	–
Series I convertible preferred stock; $0.01 par value; no shares authorized; no shares issued and outstanding as of January 1, 2000 or December 30, 2000	–	–
Common stock – $0.01 par value; 425,121,094 shares authorized; 61,114,020 shares issued and outstanding as of January 1, 2000; 348,039,489 issued and outstanding as of December 30, 2000	609	3,478
Additional paid-in capital	331,303	2,497,773
Stockholder note receivable	(1,224)	–
Accumulated other comprehensive income:		
Foreign currency translation adjustment	–	60,176
Accumulated deficit	(91,223)	(374,834)
Total stockholders' equity	239,626	2,186,593
Total liabilities, redeemable stock and stockholders' equity	$ 307,279	$ 2,381,836

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Convertible Preferred Stock All Series		Common Stock		Additional Paid-in Capital	Stockholder Note Receivable	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
(Dollars in thousands)	Shares	Amount	Shares	Amount					
BALANCE AT DECEMBER 31, 1997	1,500,000	$ 15	21,600,000	$ 216	$ 2,769	$ –	$ –	$ (493)	$ 2,507
Private Placement –									
Series A preferred stock	50,000	–	–	–	100	–	–	–	100
Private Placement –									
Series B preferred stock	6,328,955	63	–	–	13,544	–	–	–	13,607
Issuance of common stock	–	–	1,200,000	10	–	–	–	–	10
Exercise of stock options	–	–	1,146,012	11	22	–	–	–	33
Issuance of warrants	–	–	–	–	236	–	–	–	236
Net loss	–	–	–	–	–	–	–	(19,460)	(19,460)
BALANCE AT DECEMBER 31, 1998	7,878,955	78	23,946,012	237	16,671	–	–	(19,953)	(2,967)
Private Placement –									
Series C preferred stock	3,075,736	31	–	–	28,103	–	–	–	28,134
Private Placement –									
Series D preferred stock	211,928	2	–	–	1,936	–	–	–	1,938
Private Placement –									
Series F preferred stock	1,898,406	19	–	–	46,017	–	–	–	46,036
Private Placement –									
Series G preferred stock	292,825	3	–	–	9,997	–	–	–	10,000
Private Placement –									
Series H preferred stock	2,685,954	27	–	–	216,273	–	–	–	216,300
Exercise of stock options									
and warrants	44,382	1	37,168,008	372	2,604	(1,224)	–	–	1,753
Issuance of warrants	–	–	–	–	9,576	–	–	–	9,576
Equity-based expense	–	–	–	–	126	–	–	–	126
Net loss	–	–	–	–	–	–	–	(71,270)	(71,270)
BALANCE AT JANUARY 1, 2000	16,088,186	161	61,114,020	609	331,303	(1,224)	–	(91,223)	239,626
Exercise of stock options									
and warrants	352,576	4	6,111,073	61	47,244	–	–	–	47,309
Private Placement –									
Series H preferred stock	496,710	5	–	–	40,000	–	–	–	40,005
Acquisition of Algety									
Telecom S.A.	1,301,822	13	11,385,358	114	916,942	–	–	–	917,069
Initial public offering									
and concurrent									
private placement, net	–	–	31,902,778	319	1,066,118	–	–	–	1,066,437
Equity-based expense	213,633	2	–	–	98,356	–	–	–	98,358
Conversion of preferred stock	(18,452,927)	(185)	237,526,260	2,375	(2,190)	–	–	–	–
Collection of									
shareholder note	–	–	–	–	–	1,224	–	–	1,224
Foreign exchange adjustment	–	–	–	–	–	–	60,176	–	60,176
Net loss	–	–	–	–	–	–	–	(283,611)	(283,611)
BALANCE AT DECEMBER 30, 2000	–	$ –	348,039,489	$ 3,478	$ 2,497,773	$ –	$ 60,176	$ (374,834)	$ 2,186,593

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year Ended December 31, 1998	Year Ended January 1, 2000	Year Ended December 30, 2000
Cash flows from operating activities:			
Net loss	$ (19,460)	$ (71,270)	$ (283,611)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,128	4,937	54,301
Equity-based expense	–	4,971	98,358
Purchased research and development	–	–	42,230
Changes in operating assets and liabilities:			
Increase in accounts receivable	–	–	(16,085)
Increase in inventory, net	–	(15,869)	(195,384)
Increase in other current assets	(48)	(1,465)	(29,125)
Increase in accounts payable	1,762	4,737	79,725
Increase in other current liabilities	380	2,207	14,591
Net cash used in operating activities	(16,238)	(71,752)	(235,000)
Cash flows from (used in) investing activities:			
Purchase of property and equipment	(1,543)	(14,180)	(90,659)
Cash acquired in business combination	–	37	22,496
Increase (decrease) in deposits and other long-term assets	(201)	167	–
Net cash used in investing activities	(1,744)	(13,976)	(68,163)
Cash flows from financing activities:			
Increase in restricted cash	–	(17,103)	(29,189)
Proceeds from issuance of note payable	5,000	49,091	43,500
Proceeds from stockholder note payable	1,653	8,347	–
Proceeds from equity offerings	13,717	290,470	1,071,443
Proceeds from stock options and warrants exercised	33	1,752	47,309
Proceeds from repayment of shareholder note	–	–	1,224
Payment of notes payable and capital lease obligations	–	(6,272)	(49,958)
Net cash provided by financing activities	20,403	326,285	1,084,329
Cash effect of foreign exchange adjustment	–	–	(1,004)
Net increase (decrease) in cash and cash equivalents	2,421	240,557	780,161
Cash and cash equivalents – beginning	1,620	4,040	244,597
Cash and cash equivalents – ending	$ 4,041	$ 244,597	$ 1,024,758
Supplemental disclosure of cash flow information:			
Interest paid	$ –	$ 564	$ 7,220
Supplemental disclosure of noncash activities:			
Financed leasehold improvements	$ 30	$ 3,164	$ 2,105
Obligations under capital lease	2,001	3,000	–
Issuance of warrants under capital lease obligation	49	94	–
Conversion of stockholder note payable	–	10,000	–
Stockholder note received for exercise of stock options	–	1,224	–
Purchase business combinations consideration paid with preferred and common stock	–	1,888	947,069
Issuance of stock for intellectual property	–	–	35,000

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) NATURE OF BUSINESS AND BASIS OF PRESENTATION

Corvis Corporation (the "Company") was incorporated on June 2, 1997 to design, manufacture and market products that enable a fundamental shift in the design and efficiency of backbone communications networks by allowing for the transmission, switching and management of traffic entirely in the optical domain. In July 2000, the Company commenced its planned principal operations, including production, shipment and delivery of its commercial products. Accordingly, the Company is no longer considered a development stage enterprise and previous disclosures related to a development stage enterprise are no longer required. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In 1999, the Company changed its year end from a calendar year end to a year ending on the Saturday closest to December 31.

On February 28, 2000 and July 21, 2000, the Company declared a 3-for-1 and a 4-for-1 split of its common stock, respectively. All share and per share amounts of common stock in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock splits.

(B) CASH AND CASH EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash in banks and investments in overnight repurchase agreements, certificates of deposit, money market funds and government and non-government debt securities. As of January 1, 2000 and December 30, 2000, investments in overnight repurchase agreements totaled $13.1 million and $0.8 million, respectively, and investments in commercial paper totaled $231.5 million and $1,011.5 million, respectively. The Company considers these investments as available-for-sale. As such, the securities are stated at their fair market value. Unrealized gains and losses on available-for-sale securities are recognized as a component of Other comprehensive income (loss). As of December 30, 2000, the fair value of the marketable securities approximated the carrying value.

As of December 30, 2000, restricted cash of $46.3 million is comprised of approximately $2.8 million supporting outstanding letters of credit and $43.5 million pledged as collateral under the terms of a long-term note.

As of January 1, 2000, restricted cash of $17.1 million is comprised principally of cash restricted under long-term working capital facilities.

(C) REVENUE AND COST OF REVENUE

Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved.

Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying consolidated balance sheets.

Costs of revenues include the costs of manufacturing the Company's products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to the Company's manufacturing, engineering, finishing and installation. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience.

(D) INVENTORY

Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). The Company records a provision for excess and obsolete inventory wherever such an impairment has been identified.

(E) PROPERTY AND EQUIPMENT

Internal network equipment, test and manufacturing equipment, furniture and fixtures, and leasehold improvements are stated at cost or estimated fair market value if acquired in a purchase business combination. Depreciation is calculated using the straight-line method over estimated useful lives ranging between three and seven years for internal network equipment, test and manufacturing equipment, and furniture and fixtures. Leasehold improvements and assets acquired under capital leases are amortized over the shorter of the lease term or the estimated useful life of the assets.

(F) GOODWILL

The Company has classified as goodwill the cost in excess of fair value of the net assets of companies acquired in purchase business combinations. Goodwill is being amortized using the straight-line method over five years.

(G) RECOVERY OF LONG-LIVED ASSETS

The Company's policy is to review its long-lived assets, including goodwill and other intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company recognizes an impairment loss when the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. The measurement of the impairment losses to be recognized is based upon the difference between the fair value and the carrying amount of the asset.

(H) RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

(I) INCOME TAXES

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to be recovered or settled.

(J) Foreign Currency Translation

The assets and liabilities of the Company's self-contained foreign operations for which the functional currency is the local currency are generally translated into U.S. dollars at current exchange rates and revenue and expenses are translated using average exchange rates for the period. Resulting translation adjustments are reflected as a component of other comprehensive income (loss).

(K) Earnings (Loss) Per Common Share

The computations of basic and diluted earnings (loss) per common share are based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share give effect to all potentially dilutive common securities. Potentially dilutive securities include convertible preferred stock, stock options and warrants.

(L) Uses of Estimates

The preparation of consolidated 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, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(M) Stock Options and Warrants

The Company accounts for its stock options in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair market value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to apply the provisions of APB Opinion No. 25 and provide pro forma net income disclosures for employee stock options granted as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosures of SFAS No. 123. Stock options and warrants granted to other than employees are recognized at fair market value.

(N) Concentrations

Substantially all of the Company's cash and cash equivalents are custodied at one major U.S. financial institution. Deposits held with banks exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, in the opinion of management, bear minimal risk.

During 2000, the Company has relied on one customer, a shareholder, for all of its revenue. The Company expects that a significant portion of its future revenue will continue to be generated by a limited number of customers. The loss of any one of these customers or any substantial reduction in orders by any one of these customers could materially adversely affect the Company's financial condition or operating results.

(O) Equity Investments

During 2000, the Company has made strategic equity investments in five companies for a total of $4.2 million. Because the Company does not have significant influence over any one of these entities, the Company accounts for these investments using the cost method.

(P) Reclassifications

Certain reclassifications have been made in the December 31, 1998 and January 1, 2000 consolidated financial statements to conform to the December 30, 2000 presentation. Such reclassifications had no effect on net loss or total stockholders' equity (deficit).

2. Inventory

Inventories are comprised of the following (in thousands):

	January 1, 2000	*December 30, 2000*
Raw materials	$ 13,467	$ 131,983
Work-in-process	4,173	50,161
Finished goods	–	51,119
	17,640	233,263
Less reserve for excess inventory and obsolescence	(1,771)	(13,849)
Inventory, net	$ 15,869	$ 219,414

3. Property and Equipment

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

	January 1, 2000	*December 30, 2000*
Test and manufacturing equipment	$ 15,657	$ 78,855
Furniture, fixtures and internal network equipment	4,140	20,209
Leasehold improvements	5,678	23,650
Total	25,475	122,714
Less accumulated depreciation and amortization	(3,120)	(16,033)
Property and equipment, net	$ 22,355	$ 106,681

4. Notes Payable

A summary of notes payable as of January 1, 2000 and December 30, 2000 is as follows (in thousands):

	January 1, 2000	*December 30, 2000*
Note payable due November 7, 2002	$ –	$ 43,500
Equipment note due April 2001	5,117	–
Equipment notes due May 2002	5,427	–
Equipment note due May 2002	2,615	–
Leasehold improvements loan due May 2009	1,181	1,102
Working capital facility due August 2002	36,587	–
Other	167	1,365
	$ 51,094	$ 45,967
Less current portion	(15,287)	(1,438)
Notes payable, net of current portion	$ 35,807	$ 44,529

During 1999, the Company executed long-term notes for equipment financing with a lender for approximately $6.1 million. The notes bore interest at the rate of 14.91%, and were collateralized by the underlying equipment. The debt was repayable in 36 monthly installments of principal and interest beginning June 1999. In connection with the issuance of the notes, the Company issued 19,679 warrants to purchase Series C convertible preferred stock to the lender. The warrants had an exercise price of $9.147 per share and expired three years from issuance, or upon an initial public offering. The fair market value of the warrants, approximately $0.1 million, was recognized as deferred financing fees. In August 2000, this note was repaid in full.

In January 1999, the Company executed a long-term collateralized equipment note with another lender for $3.0 million. The note bore interest at a rate of 11%. The debt was repayable in 36 monthly installments of principal and interest beginning June 1, 1999. In connection with the issuance of the notes, the Company issued 32,798 warrants to purchase Series C convertible preferred stock to the lender. The warrants had an exercise price of $9.147 per share. The fair value of the warrants, approximately $0.2 million, was recognized as deferred financing fees. In November 2000, this note was repaid in full.

In July 1999, the Company entered into a loan agreement with a landlord for tenant improvements associated with the lease of a new building in the amount of $1.2 million. As of December 30, 2000, the Company has drawn the entire $1.2 million commitment. The debt bears interest at a rate of 10.0%. The debt is repayable in 120 monthly installments of principal and interest which began June 1999.

During 1999, the Company obtained a commitment for an aggregate of $40.0 million of debt financing from a syndicate of lenders. As of January 1, 2000, the Company had drawn the entire $40.0 million commitment. The debt bore interest at a rate of 8.5%. The debt was repayable in 36 monthly installments of principal and interest beginning September 1999 and with aggregate balloon payments of 14% at maturity. In connection with the issuance of the debt, the Company issued 641,121 warrants to purchase Series E convertible preferred stock to the lender. The warrants have an exercise price of $9.147. The fair value of the warrants, approximately $3.7 million, was recognized as deferred financing fees. In November 2000, this facility was repaid in full.

In November 2000, the Company executed a long-term note payable with a lender for approximately $43.5 million. Interest associated with the note is due monthly while associated principal is due November 2002. The note bears interest at 6.5% so long as the Company maintains a cash balance with the lender of $347.0 million through November 2001 and $231.0 million through November 2002. If cash balances deposited with the lender drop below these minimum levels, the note will bear interest at LIBOR plus .80%. In addition, the Company pledged a certificate of deposit with a carrying value of $43.5 million as collateral under the agreement.

5. Equity

In December 1999, the Company issued 292,825 shares of Series G Convertible Preferred Stock for an aggregate purchase price of $10.0 million in a private placement transaction with a strategic investor. If certain minimum purchase commitments were not met by the holder of the Series G Convertible Preferred Stock on or before March 2000, the Company had the right to repurchase the shares at a price of $44.40 per share. In May 2000, the Company waived its right to repurchase the shares.

On August 2, 2000, the Company sold 31,625,000 of common stock in an initial public offering and 277,778 shares of common stock in a concurrent private placement for proceeds of $1,066.4 million after deducting underwriter discounts and commissions and offering expenses. Upon completion of the IPO, all outstanding shares of convertible preferred stock automatically converted into 237,526,260 shares of common stock at the following ratios: Series A Preferred, 24-to-1; all other Preferred Stock, 12-to-1.

6. Acquisitions

(A) Baylight Networks, Inc.

On May 19, 2000, the Company acquired Baylight Networks, Inc. ("Baylight"), a company that designs network systems and subsystems. Baylight, based in Palo Alto, California, was formed in February 2000 and was a development stage company with no revenue. In consideration for all of the outstanding shares of Baylight, the Company assumed $0.1 million of Baylight's liabilities and agreed to issue 2,400,012 shares of common stock over the term of three-year employment agreements with the former Baylight shareholders. The Company accounted for the acquisition as a purchase. Accordingly, the operating results of Baylight are included in the Company's financial results from the date of acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed has been based on an internal analysis of the fair value of the assets and liabilities of Baylight. The excess of the aggregate purchase price over the fair value of net assets acquired of approximately $0.1 million is being amortized on a straight-line basis over five years. The Company will recognize compensation expense over the term of the employment agreements equal to the fair value of the shares to be issued.

(B) Algety Telecom S.A.

On July 1, 2000, the Company acquired Algety Telecom S.A. ("Algety"), a French company that develops and markets high-capacity, high-speed optical transmission equipment. Algety, based in Lannion, France was formed in April 1999, and was a development stage company with no revenue. The acquisition price on the initial closing date equaled 1,301,822 shares of Series I convertible preferred stock. On November 3, 2000, consistent with the terms of the acquisition agreement, the Company completed a second closing at which time an additional 11,385,358 shares of common stock were delivered to the former Algety stockholders. The total value of all shares delivered in the first and second closing was $947.1 million. In addition, 2,275,032 shares of common stock has been placed into escrow to be released contingent upon satisfaction of certain minimum employment terms for certain Algety employees. The Company incurred approximately $1.0 million of transaction costs related to the acquisition.

The Company accounted for the acquisition as a purchase. Accordingly, the operating results of Algety are included in the Company's financial results from the date of acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed has been based upon an independent third-party valuation. Based upon the results of the valuation, the Company allocated $20.1 million to tangible assets, $6.0 million to liabilities and $1.3 million to identifiable intangible assets. In addition, the Company allocated $42.2 million of the purchase price to in-process technology, which is included in operating expenses in the accompanying consolidated statement of operations. The excess of the aggregate purchase price over the fair value of net assets acquired of $876.7 million is being amortized on a straight-line basis over five years.

Under the terms of the acquisition agreement, the Company granted certain former Algety shareholders the right to put certain shares of common stock back to the Company at the stock's then fair market value. The put right is available during a period from June 2001 to December 2001 and is enforceable only if no other liquidity sources are available to those shareholders. The fair market value of the common stock put to the Company cannot exceed $30 million. Stock associated with this put right has been classified as redeemable stock in the consolidated balance sheet as of December 30, 2000.

The following unaudited pro forma data summarizes the results of operations for the period indicated as if the Algety acquisition had been completed as of the beginning of the periods presented. The unaudited pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future (in thousands, except per share data).

	Year Ended		
	December 31, 1998	January 1, 2000	December 30, 2000
Revenues	$ –	$ –	$ 68,898
Net loss	(19,460)	(198,110)	(385,148)
Basic and diluted net loss per share	$ (0.86)	$ (6.47)	$ (2.45)

7. Stock Options

In July 1997, the Company adopted the 1997 Stock Option Plan (the "Plan") pursuant to which the Company's Board of Directors may grant options to purchase common stock to employees, officers, directors and consultants. The Company has reserved 103,600,000 shares of common stock for issuance under the Company's Stock Option Plan. Stock options are granted with an exercise price equal to the estimated fair value of the common stock at the date of grant. The stock options have a 10-year term, become fully exercisable when granted, and ownership vests over four years from the date of grant. Common stock associated with the exercise of options prior to vesting is placed into escrow and released to the employee as the shares vest. Prepayments made by employees are not refundable in the event of termination prior to vesting. As of December 30, 2000, 43,874,203 shares of common stock have been issued through the exercise of options under the Plan, of which 29,336,010 shares have vested.

The Company applies APB Opinion No. 25. Had compensation cost for the Company's plan been determined based on the fair value at the date of grant, consistent with the method of SFAS No. 123, the Company's net loss would have been increased to the pro forma amounts indicated below (in thousands):

	Year Ended		
	December 31, 1998	January 1, 2000	December 30, 2000
Net loss:			
As reported	$ (19,460)	$ (71,270)	$ (283,611)
Pro forma	(19,506)	(71,953)	(290,634)

The per share weighted-average fair value of stock options granted during 1998, 1999 and 2000 was $.001, $0.489 and $10.62, respectively, on the date of grant with the following weighted-average assumptions:

	Year Ended		
	December 31, 1998	January 1, 2000	December 30, 2000
Expected dividend yield	0%	0%	0%
Risk-free interest rate	4.56%	6.33%	5.00%
Expected life	4 years	4 years	3 years
Volatility	70%	70%	130%

The following is a summary of options granted:

	Number Outstanding	Weighted Average Exercise Price
December 31, 1997	6,828,000	$ .01
Granted	26,240,400	.02
Exercised	(1,146,012)	.01
Cancelled	–	–
December 31, 1998	31,922,388	.02
Granted	21,583,800	.40
Exercised	(37,168,008)	.07
Cancelled	(68,400)	.06
January 1, 2000	16,269,780	.39
Granted	43,744,848	8.18
Exercised	(5,560,183)	.52
Cancelled	(2,212,506)	4.64
December 30, 2000	52,241,939	$ 6.72

The following table summarizes information about outstanding and exercisable stock options at December 30, 2000:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contract Life	Number Exercisable
$0.01 – $ 0.34	7,196,061	8.1	7,196,061
$1.01 – $ 3.36	32,263,898	9.4	23,489,951
$9.03 – $21.00	9,767,016	9.5	2,800,872
$21.63 – 103.81	3,014,964	9.8	–
	52,241,939	9.2	33,486,884

8. Warrants

During 1998 and 1999, the Company issued warrants to purchase 140,497 shares of Series B preferred stock and Series C preferred stock, convertible into 1,685,964 shares of common stock in association with certain lease agreements. The warrants are immediately exercisable and expire seven years from the date of issuance. On December 30, 2000, associated warrants to purchase 1,685,964 shares of common stock remain outstanding with a weighted average exercise price of $0.27.

During 1998 and 1999, in connection with certain debt facilities, the Company issued warrants to purchase 1,052,683 shares of Series B preferred stock, Series C preferred stock and Series E preferred stock, convertible into 12,632,196 shares of common stock. The warrants are immediately exercisable and expire between three and seven years from the date of issuance. On December 30, 2000, associated warrants to purchase 8,853,912 shares of common stock with a weighted average exercise price of $0.54 remain outstanding.

In September 1999, the Company entered into a series of agreements with a strategic investor. Under a stock purchase agreement, the Company agreed to issue 164,948 shares of Series F convertible preferred stock for aggregate proceeds of approximately $4.0 million. Concurrently with the stock issuance, the Company entered into an exclusive license agreement with the investor for the use of certain intellectual property and a non-exclusive license for certain other technology. As consideration for the license, the Company agreed to make quarterly payments of $0.3 million over a four-year period. In addition, the Company granted the strategic investor a warrant to receive common stock valued at $35.0 million upon the consummation of a qualifying initial public offering ("IPO"). As part of the agreement, the Company had the right to accept ownership in the license in full if the qualifying IPO took place. After the Company's initial public offering in July 2000, the Company accepted ownership of the license and recorded an intangible asset valued at $35.0 million, which is being amortized ratably over a three-year life.

In November 1999, the Company issued warrants to purchase up to 5,270,856 shares of common stock at $2.85 per share to a strategic investor. A certain percent of the warrants were immediately exercisable, with the remaining amount contingent upon certain future purchasers of the Company's products by the strategic investor. These warrants were to expire in June 2001 if these conditions were not met. Of the total 5,270,856 shares of common stock committed in this warrant, the rights to purchase 2,635,428 shares expire on December 31, 2004 and the rights to purchase the remaining 2,635,428 shares expire on June 30, 2006. In 1999, the Company recorded equity-based sales and marketing expense of approximately $1.8 million for the estimated fair value at grant date of the warrants which were immediately exercisable. In June 2000, the Company waived the purchase requirements associated with the remaining warrants, resulting in an equity-based sales and marketing expense of approximately $19.5 million for the estimated fair value at the date the warrants became exercisable. On December 30, 2000, all warrants associated with the agreement remain outstanding.

In December 1999, the Company issued warrants to purchase 281,162 shares of Series G convertible preferred stock at $32.01 per share to another strategic investor. The warrants were immediately exercisable and would have expired upon the IPO. In December 1999, the Company recorded equity-based sales and marketing expense of approximately $3.1 million for the estimated fair value at grant date of the warrants issued. These warrants were exercised in full during 2000.

Also, in December 1999, the Company issued to this strategic investor, the right to purchase up to an additional $30.0 million of stock at a price equal to the most recently completed financing round subject to meeting certain minimum purchase commitments of the Company's product, and an additional $5.0 million of common stock in the event of a qualified public offering. In June 2000, the Company waived the minimum purchase commitments associated with the additional stock purchase rights and recorded equity-based sales and marketing expense of $10.5 million. These stock purchase rights were fully exercised in 2000.

In December 1999, the Company issued to another strategic investor the right to purchase 124,177 shares of Series H Convertible Preferred Stock at a price equal to $80.53 per share subject to meeting certain purchase commitments and an additional $5.0 million of common stock in the Company's Initial Public Offering. In May 2000, the Company waived the minimum purchase commitments associated with the Series H stock purchase rights and recorded equity-based sales and marketing expense of $3.5 million. Both stock purchase rights were fully executed in 2000.

9. Employee Stock Purchase Plan

During 2000, the Company established the Corvis Employee Stock Purchase Plan (the "Plan"). Under the Plan, the Company may issue up to 2,000,000 shares of common stock in each Purchase Plan year, up to a total of 10,000,000 shares during the life of the Plan. Eligible employees choose to participate in the Plan during offering periods by authorizing payroll deductions up to 15% of their salaries, subject to limitations imposed by the Internal Revenue Code. The first offering period began in July 2000. Subsequent periods will be six months long, with the first subsequent period beginning on January 1, 2001. As of the last business day of each offering period, called an "exercise date," the participant's accumulated payroll deductions as of that date are used to purchase shares of common stock. The purchase price per share of common stock purchased as of this date is the lower of either (1) 85% of the fair market value of a share of common stock on the first business day of the offering period or (2) 85% of the fair market value of a share of common stock on the exercise date.

10. Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share are computed as follows (in thousands):

	Year Ended		
	December 31, 1998	January 1, 2000	December 30, 2000
Net loss	$ (19,460)	$ (71,270)	$ (283,611)
Basic and diluted weighted average shares	22,638	30,599	157,349
Basic and diluted net loss per share	$ (0.86)	$ (2.33)	$ (1.80)

Convertible Preferred Stock outstanding as of December 31, 1998, convertible into 113,147,460 shares of common stock, options and warrants to purchase 4,283,712 and 31,922,388 shares of common stock, respectively, and 1,519,488 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended December 31, 1998 as their inclusion would be anti-dilutive.

Convertible Preferred Stock outstanding as of January 1, 2000, convertible into 211,658,232 shares of common stock, options and warrants to purchase 16,269,780 and 17,598,770 shares of common stock, respectively, and 25,556,484 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended January 1, 2000 as their inclusion would be anti-dilutive.

Options and warrants outstanding as of December 30, 2000 to purchase 52,241,939 and 15,810,732 shares of common stock, respectively, and 14,546,488 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended December 30, 2000 as their inclusion would be anti-dilutive.

11. Income Taxes

The Company has incurred operating losses since its inception and has recognized no current or deferred tax provision or benefit. The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to loss before income taxes. The items causing this difference are as follows (in thousands):

	Year Ended		
	December 31, 1998	January 1, 2000	December 30, 2000
Expected tax benefit at statutory rate	$ 6,811	$ 24,944	$ 99,264
State tax, net of federal benefit	885	3,198	9,026
Non-deductible goodwill amortization and purchased research and development	–	–	(29,400)
Research and development tax credits	1,526	1,030	4,055
Other, net	(389)	(440)	(1,697)
Increase in valuation allowance	(8,833)	(28,732)	(81,248)
	$ –	$ –	$ –

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows (in thousands):

	Year Ended	
	January 1, 2000	December 30, 2000
Deferred tax assets:		
Capitalized start-up and organization costs	$ 13,500	$ 28,860
Domestic net operating loss carryforwards	18,873	55,147
Foreign net operating loss carryforward	323	7,007
Accrued expenses	721	7,872
Research and development tax credit carryfowards	2,556	6,776
Non-cash stock compensation	1,966	24,867
Total gross deferred tax assets	37,939	130,529
Valuation allowance	(37,635)	(128,462)
Net deferred tax assets	304	2,067
Deferred tax liabilities – property and equipment, net due to depreciation	(304)	(2,067)
Net deferred tax	$ –	$ –

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or the entire deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible and credit carryforwards are available. Management considers scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies which can be implemented by the Company in making this assessment. Based upon the level of historical taxable income, scheduled reversal of deferred tax liabilities, and projections for future taxable income over the periods in which the temporary differences are deductible and tax credits are available to reduce taxes payable, the Company has established a valuation allowance of $128.5 million as of December 30, 2000.

The net change in the valuation allowance for the years ended December 31, 1998, January 1, 2000 and December 30, 2000 was an increase of approximately $8.8 million, $28.7 million and $90.8 million, respectively. The valuation allowances at January 1, 2000 and December 30, 2000 are a result of the uncertainty regarding the ultimate realization of the tax benefits related to the deferred tax assets. The domestic net operating loss carryforwards of $137.8 million will expire commencing in 2017 through the year 2020. Foreign net operating loss carryforwards of $18.9 million expire commencing in 2004. Further, as a result of certain financing and capital transactions, an annual limitation on the future utilization of a portion of the net operating loss carryforward has occured. As a result, the net operating loss carryforward may not be fully utilized before expiration.

12. Related Party Transactions

(A) Joint Venture

The Company has a 99% economic interest and a 49% voting interest in ACME Grating Ventures, LLC ("ACME LLC"). The remaining economic interest and voting interest are owned by ACME Gratings, Inc. ("ACME Corp."). An officer of the Company owns 100% of ACME Corp. ACME Corp. has contributed to ACME LLC certain licensed intellectual property and the Company has contracted with ACME LLC for its use of the Company's facilities, personnel, equipment and certain intellectual property. ACME LLC makes gratings that the Company purchases at a unit cost that is consistent with the requirements of the licensed intellectual property, which require that the gratings made with the licensed technology be sold for no less than the fair market value of comparable gratings that are available in the commercial marketplace.

According to the operating agreement of ACME LLC, the Company receives 99% of the profits and losses from the business, and ACME Corp. receives the remaining 1%; however, $0.3 million of ACME LLC-related start up costs incurred by ACME Corp. will be returned to ACME Corp. out of the net profits of ACME LLC before any distributions of net profits are made to the Company. Further, ACME Corp. is responsible for paying royalties to the licensor of the licensed technology contributed by ACME Corp., which vary in amounts ranging from 0.5% to 2.0% of the net invoice cost of each grating sold by ACME LLC. In addition to 1% of the profits, ACME LLC is obligated to pay to ACME Corp. an amount sufficient to pay the royalty obligations of ACME Corp.

(B) Strategic Relationships

During 2000, the Company has purchased approximately $0.9 million of components from Nufern. Certain officers and directors of the Company own a non-controlling interest in Nufern. As of December 30, 2000, no amounts were owed by the Company to Nufern.

During 2000, the Company purchased a non-controlling equity interest for $1.2 million in Redfern Broadband Network, Inc. The Company also entered into a strategic development agreement and a call option agreement with Redfern which, among other things, provides the Company with a two year option to acquire all of the outstanding shares of Redfern at a specified price. Certain officers and directors of the Company also own a non-controlling interest in Redfern.

During 2000, the Company purchased approximately $6.7 million of components from Wavesplitter Technologies. Certain officers and directors of the Company, in total, own a non-controlling interest in Wavesplitter. In addition, the Company has made a non-controlling equity investment in Wavesplitter Technologies totaling $2.0 million. As of December 30, 2000, amounts owed by the Company to Wavesplitter totaled $0.6 million. The Company has committed to purchases from Wavesplitter totaling $50.0 million over the next three years, which if not fulfilled, would result in cancellation penalties.

During 2000, the Company has purchased approximately $2.9 million of components from ITF Optical Technologies. Certain officers and directors of the Company owe a non-controlling interest in ITF. As of December 30, 2000, the Company owed $0.5 million to ITF.

13. Commitments and Contingencies

(A) Leases

Minimum annual rental payments under noncancellable operating leases, primarily for the rent of office space and manufacturing facilities are as follows (in thousands):

Year ending December 31,	Amount
2001	$ 9,549
2002	8,911
2003	6,349
2004	6,342
2005	6,542
Thereafter	34,187
Total	$ 71,880

Rent expense under operating leases was approximately $0.6 million, $1.7 million and $3.5 million for the years ended December 31, 1998, January 1, 2000 and December 30, 2000, respectively.

The Company has equipment under capital lease which require payments of principal and interest as follows (in thousands):

Year ending December 31,	*Amount*
2001	$ 2,072
2002	1,390
2003	54
2004	–
Total Payment	3,516
Less – amount attributable to interest	(295)
Capital lease obligation	3,221
Less – current portion	(1,841)
Long-term lease obligation	$ 1,380

Property and equipment includes approximately $5.2 million of test equipment as of December 30, 2000 that was acquired under capital lease. Accumulated amortization associated with this equipment totaled approximately $2.5 million as of December 30, 2000.

(B) Legal Matters

In July 2000, Ciena Corporation ("Ciena") informed the Company of its belief that there is significant correspondence between products that the Company offers and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that the Company is willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, the Company filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that the Company is willfully infringing two additional patents. Also, a trial date has been set for April 1, 2002. The litigation is currently in the discovery phase. Based on the status of the litigation, the Company cannot reasonably predict the likelihood of any potential outcome.

14. Summary of Quarterly Data (Unaudited):

The following is a summary of the quarterly results of operations of the Company for the years ended January 1, 2000 and December 30, 2000 (in millions, except per share amounts):

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
1999:					
Revenue	$ –	$ –	$ –	$ –	$ –
Gross profit	–	–	–	–	–
Net loss	(11.2)	(14.3)	(16.1)	(29.7)	(71.3)
Basic and diluted net loss per share	$ (0.41)	$ (0.55)	$ (0.56)	$ (0.92)	$ (2.33)
2000:					
Revenue	$ –	$ –	$ 22.9	$ 46.0	$ 68.9
Gross profit	–	–	8.4	17.6	26.0
Net loss	(26.8)	(100.7)*	(66.4)	(89.7)	(283.6)
Basic and diluted net loss per share	$ (0.65)	$ (2.51)	$ (0.29)	$ (0.27)	$ (1.80)

*Includes purchased research and development charges totaling $42.2 million.

Independent Auditors' Report

The Board of Directors and Stockholders
Corvis Corporation and subsidiaries:

We have audited the accompanying consolidated balance sheets of Corvis Corporation and Subsidiaries as of January 1, 2000 and December 30, 2000, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 1998, January 1, 2000 and December 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corvis Corporation and Subsidiaries as of January 1, 2000 and December 30, 2000, and the results of their operations and their cash flows for the years ended December 31, 1998, January 1, 2000 and December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
McLean, Virginia
January 23, 2001, except as to Note 13(b)
which is as of March 5, 2001

CORPORATE INFORMATION

CORPORATE HEADQUARTERS

Corvis Corporation
7015 Albert Einstein Drive
Columbia, Maryland 21046

SHAREHOLDER SERVICES

If you are a registered stockholder and would like to change or update your name or address, you can contact our transfer agent, Continental Stock Transfer & Trust Company, by calling (212) 509-4000 or write to:
Continental Stock Transfer & Trust Company
Two Broadway
19th Floor
New York, New York 10004

ANNUAL STOCKHOLDER MEETING

The 2001 annual meeting of stockholders will be held at the BWI Airport Marriott Hotel on Friday, May 11, 2001 at 10:00 a.m. E.S.T. The hotel is located at 1743 West Nursery Road, Baltimore, Maryland.

INVESTOR RELATIONS

Andrew G. Backman,
Director of Investor Relations
Stockholder inquiries, including requests for financial information and recent press releases, can be addressed through Investor Relations by dialing (866) 4-CORVIS (or 866-426-7847) or via email at investorinformation@corvis.com or via our corporate website, www.corvis.com.

STOCK DATA

Corvis Corporation began trading as a public company on July 28, 2000 and is traded on the Nasdaq National Stock Market under the symbol: CORV. As of March 16, 2001, there were 1,321 holders of record of our common stock.

PRINTED MATERIALS

All printed materials, including the most recent Annual Report, SEC Filings and Proxy Statement, can be obtained by dialing (866) 4-CORVIS (or 866-426-7847) or via our corporate website, www.corvis.com.

DIVIDEND POLICY

We have never paid or declared any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the forseeable future.

HUMAN RESOURCES

Corvis Corporation is committed to providing equal opportunity in all of our employment practices, including hiring, placement, promotion, transfer, training and compensation, to all qualified applicants and employees without regard to race, color, religion, sex, national origin, citizenship, veteran status, age, disability, marital status or any other category protected by U.S. Federal or State law. Please visit our corporate website, www.corvis.com/careers/career.htm for information about career opportunities.

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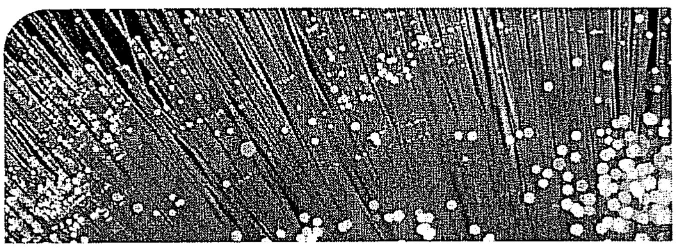
Corvis Corporation
2001 Annual Report



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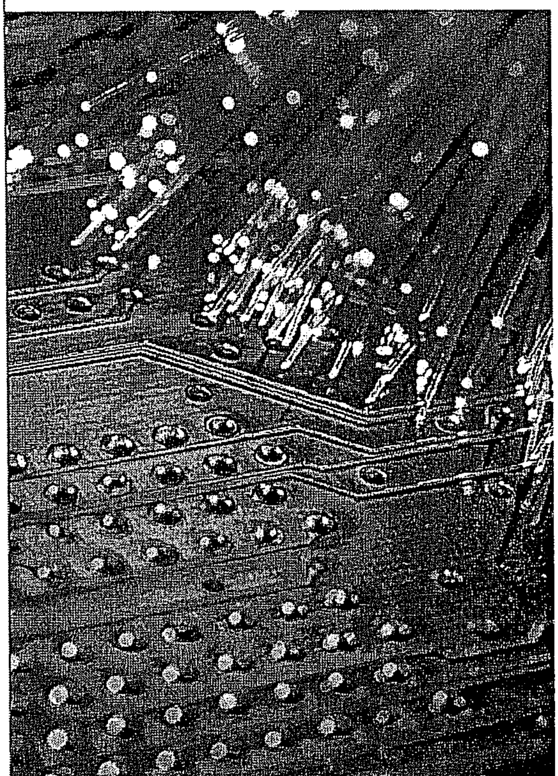
networks



Carriers are having to think differently because existing network equipment and architectures can not be scaled economically to meet the demand for capacity. Corvis allows carriers to overcome their network capacity limitations, while providing a path to increased profitability. Corvis enables carriers to minimize equipment and deliver capacity rapidly and cost-effectively by evolving their existing architectures into

optically optimized networks.

To Our Shareholders:

David R. Huber, Ph.D.

There is no doubt that the year 2001 was one of the most challenging for the telecommunications industry. Every company in this industry, including Corvis, faced financial pressure and disappointment with the prevailing market conditions.

In the current market environment, our mission remains clear: to create optical innovations that drive carrier profitability faster than anyone else.

Despite this difficult operating environment, 2001 was also a year of accomplishments at Corvis. We introduced a number of new products, helped set performance records and signed new customers. In addition, we focused on strengthening our financial position and established market share leadership in our sector. We recorded revenues of over $188 million for fiscal 2001, a twofold increase over the prior year.

Optically Optimized Networks

Given the current market conditions, we at Corvis believe carriers will continue to focus on preserving capital and controlling the escalating personnel, real estate, and power costs associated with maintaining and operating the equipment in their existing networks. How well the carriers manage these aspects of their business will affect the viability of their long-term business models.

We believe successful models must be based on what we call "optically optimized networks." An optically optimized network is one in which advanced optical equipment is strategically deployed in network architectures to offer the greatest return on investment and lowest cost of ownership. This results in simpler, more cost-effective and more powerful networks that provide our customers with the benefit of a wide range of architectures, from electrical/optical to all-optical. Most importantly, these networks help our customers effectively deploy capital and control operating costs in the network, which, combined with rapid service provisioning, leads directly to more revenue and greater profitability for carriers.

We are proud of the performance of our equipment in our customers' networks and the achievements our customers have demonstrated to date. For example:

In the first quarter of 2001, one of our customers began carrying live traffic on the world's first commercial all-optical network; this customer won two of the largest wavelength services contracts awarded in 2001.

One of our customers set a record in transmitting a signal 6,400 kilometers without electrical regeneration, using Corvis equipment.

The Corvis solution also enabled a customer to realize real-time provisioning speed – taking only 48 hours to turn up an OC-192 circuit for one of their customers; and,

Another customer turned up 31 OC-192 circuits in only 45 days, where competing equipment would have required several months.

Customers and Products

In view of the current market conditions, we are encouraged by the level of interest in our entire product portfolio from a number of carriers. During 2001, we shipped a broad range of our products to six current and potential customers for continued network deployments, lab trials, and field trials.

A key to our long-term success is delivering solutions that address our customers' needs. We are doing that through strategic research and development, acquisitions, and partnerships to give carriers what they require: a vendor that can offer end-to-end global networking solutions.

In fact, in 2001 we shipped the world's first multiband switch, the Corvis Optical Convergence Switch (OCS). We also introduced the Corvis XF festoon product, a product currently being deployed by two major international carriers.

We plan on introducing new product enhancements across our transport and switching portfolio in the near future. These enhancements will continue to expand the flexibility, upgradeability and migrateability of our products. The enhanced products will provide our customers with the opportunity to deliver additional revenue-generating services over a unified network platform and management system. We will provide specific details on these enhancements in the months to come.

In the current market environment, our mission remains clear: to create optical innovations that drive carrier profitability faster than anyone else.

Solid Financial Position

One of Corvis' key strengths is our balance sheet, which combines a solid cash position and *no* long-term debt. This financial strength allows us to maintain our focus on building our business for the long term. Continued financial discipline now, combined with strategic investment in R&D, will enable us to maintain our leadership position.

The management team has been quick to react to the changing climate of carrier spending. We made the important strategic decisions to preserve cash and weather the market downturn. We thank our employees for helping Corvis get through a tough year and position the company to take advantage of the business environment in 2002 and beyond.

Corvis continues to lead the market where it counts—next-generation products and solutions.

Market Share Leadership

We are increasingly recognized as the product innovation leader in optical networking. Corvis is the first and only vendor in the industry to deploy an all-optical network and integrated all-optical switches. With the introduction of the Optical Convergence Switch (OCS), Corvis is now the only vendor to deliver both electrical/optical and all-optical transport and switching products.

A report in February 2002 by RHK Inc., a leading market research firm, named Corvis as the dominant supplier for photonic optical core switches, controlling 76 percent of the total market in 2001. The RHK report also shows Corvis as the leader in dense wavelength division multiplexing (DWDM) systems, in the over 600 km market segment, for the second year in a row, with nearly 35 percent share of this market. We believe our market leadership in next-generation products enables us to deliver solutions that address the evolving business requirements of our customers. Further, we believe success in our space is directly linked to both financial strength and product innovation.

The Year Ahead

The near-term outlook remains difficult for every company in our sector. However, we believe our long-term prospects are good. Corvis will continue in 2002 to make the required strategic decisions to position the company for long-term success and profitability.

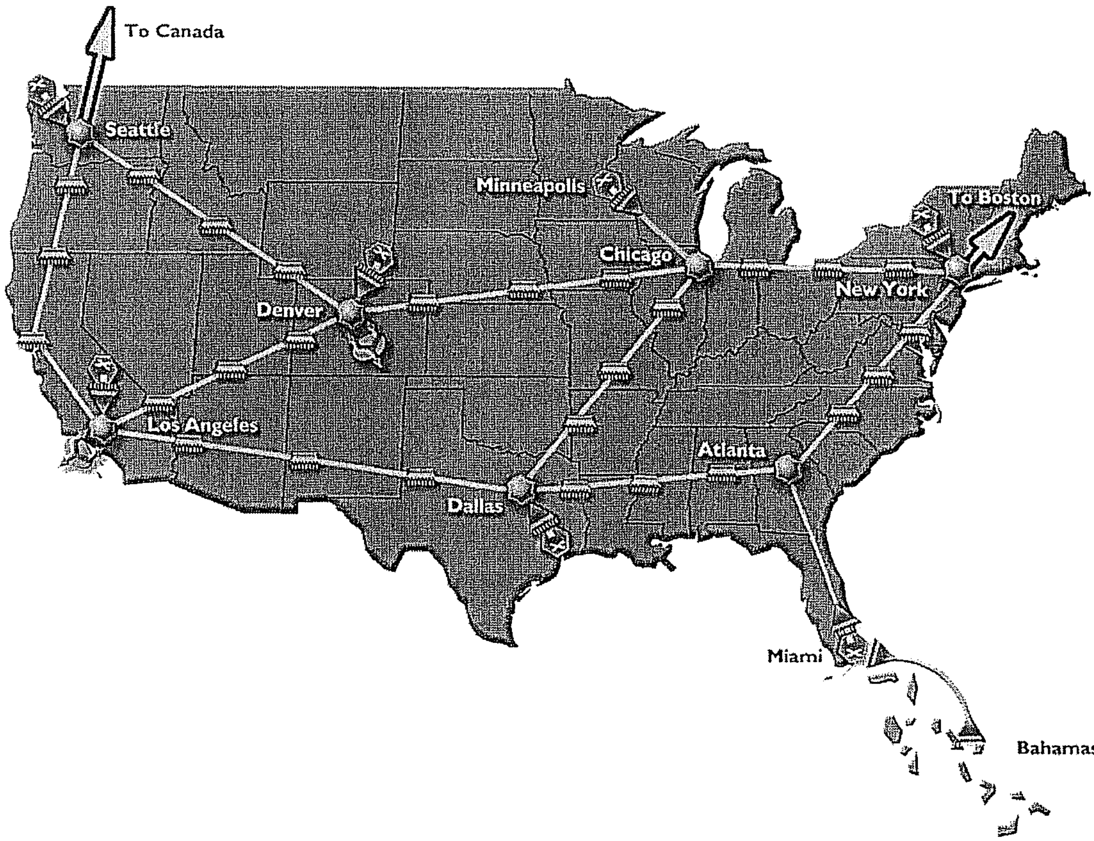
Finally, we would like to thank our customers, shareholders, and suppliers for contributing to a successful year. We look forward to your continued support in fiscal 2002.

Sincerely,

David R. Huber

David R. Huber, Ph. D.
President and Chief Executive Officer
March 25, 2002

Corvis Optical Network



Optical Network Gateway (ONG)
Our dense wavelength division multiplexing transport products enable carriers to increase capacity and reduce cost in the network and can be integrated fully with our all-optical switching products. Our ultra-long haul technology can be used to transport up to 2.8 Terabits per second and enable optical signals to travel up to 3,200 km without electrical regeneration, practically eliminating this costly and time-consuming process from the network while lowering the capital and operations expenses.

Optical Switch (OS)

Optical Add Drop/Multiplexer (OADM)
The industry's first and only all-optical switching products, capable of switching up to 16.8 Terabits per second of optical signals entirely in the optical domain. Provides a cost-effective in-service migration path from point-to-point links to all-optical mesh configurations. Our ONG can be deployed as a simple end terminal and upgraded to an OADM, which can be further upgraded to a multi-degree Optical Switch without interrupting existing optical signals.

Optical Convergence Switch (OCS)
The Optical Convergence Switch is the world's first multiband optical switch with both an electrical and optical switching fabric designed into a single network element. The OCS provides standard point-to-point, ring and mesh networking functionality, enabling carriers to deliver current SONET/SDH services as well as advanced wavelength services. The OCS efficiently manages, grooms, and aggregates up to 240 gigabits of traffic in a single shelf and is scalable to 11.5 terabits per second in a single network element, making it both the most dense and highest capacity switch in the market. The OCS provides grooming and switching down to the STS-1/VC-4 level and facilitates rapid service provisioning of sub-wavelength and wavelength services across the optical transport infrastructure.

Network Management
Our suite of software tools provides carriers with fault detection and administration, and configuration at the service, element, and network levels, in addition to network planning capabilities.

Optical Protector (OP)
The Optical Protector is an optical protection switching system that enables carriers to rapidly restore protected services in the event of fiber cuts and/or equipment failures. Designed to enable carriers to meet Service Level Agreements for service availability, utilizing optical switching technology to restore service within 50 milliseconds.

Corvis XL/XF (XL/XF)
The Corvis XL/XF is a point-to-point dense wavelength division multiplexing system for high capacity, long distance repeaterless links for terrestrial and undersea festooning applications. Utilizing advanced dense wavelength division multiplexing technology, the XL/XF delivers 800 gigabits of line capacity and is capable of transmitting signals up to 350 km without in-line amplification.

corvis

Corvis Corporation
2001 Financial Review

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SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those statements included elsewhere in this annual report. Operating results for historical periods are not necessarily indicative of the results that may be expected for future periods. During 1999, we changed our accounting reporting cycle from a calendar year-end to a manufacturing 52- or 53-week fiscal year-end, ending on the Saturday closest to December 31 in each year.

	Period from June 2, 1997 (inception) to December 31, 1997	Year Ended			
		December 31, 1998	January 1, 2000	December 30, 2000	December 29, 2001
		(in thousands except per share data)			
Statement of Operations Data:					
Revenue	$ —	$ —	$ —	$ 68,898	$ 188,450
Costs of revenue:					
Product sales	—	—	—	42,943	116,952
Inventory write-downs, contract losses and other	—	—	—	—	216,535
Gross profit (loss)	—	—	—	25,955	(145,037)
Operating expenses:					
Research and development, excluding equity-based expense	249	15,746	41,565	88,874	149,882
Sales and marketing, excluding equity-based expense	—	167	3,422	30,871	56,002
General and administrative, excluding equity-based expense	288	3,190	18,993	31,127	34,344
Equity-based expense:					
Research and development	—	—	126	28,050	45,409
Sales and marketing	—	—	4,845	52,417	17,756
General and administrative	—	—	—	17,891	35,642
Amortization of intangible assets	—	—	173	46,746	125,940
Purchased in-process research and development	—	—	—	42,230	—
Restructuring, impairment, and other charges	—	—	—	—	789,242
Total operating expenses	537	19,103	69,124	338,206	1,254,217
Operating loss	(537)	(19,103)	(69,124)	(312,251)	(1,399,254)
Interest income (expense), net	43	(357)	(2,146)	28,640	21,161
Net loss	$ (494)	$(19,460)	$ (71,270)	$ (283,611)	$(1,378,093)
Basic and diluted net loss per common share	$ (0.02)	$ (0.86)	$ (2.33)	$ (1.80)	$ (3.94)
Weighted average number of common shares outstanding	21,600	22,638	30,599	157,349	349,652

	December 31, 1997	December 31, 1998	January 1, 2000	December 30, 2000	December 29, 2001
			(in thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$ 1,620	$ 4,041	$244,597	$1,024,758	$ 638,872
Short-term investments	—	—	—	—	21,907
Working capital	1,552	(1,474)	236,839	1,172,040	726,505
Total assets	2,652	8,488	307,279	2,381,836	978,825
Notes payable and capital lease obligations, net of current portion	—	5,800	38,771	45,909	4,702
Redeemable stock	—	—	—	30,000	—
Total stockholders' equity (deficit)	2,506	(2,968)	239,625	2,186,593	888,853

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis along with our consolidated financial statements and the notes to those statements included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of various factors including the risks discussed in "Factors That May Affect Out Future Results" below and elsewhere in this report.

Overview

We design, manufacture and sell high performance all-optical and electrical/optical communications systems that we believe accelerate carrier revenue opportunities and lower the overall cost of network ownership for carriers. Our optical products have enabled a fundamental shift in network design and efficiency by allowing for the transmission, switching and management of communications traffic entirely in the optical domain. By deploying our products, carriers eliminate the need for expensive and bandwidth-limiting electrical regeneration and switching equipment, significantly reducing costs, increasing network capacity and allowing them to more quickly and efficiently provide new services. Our products also open new market opportunities for carriers by enabling a flexible, in-service migration path from existing point-to-point and ring electrical/optical networks to all-optical mesh networks.

We currently have five customers, including Broadwing Communications, Inc., Williams Communications, Inc., Qwest Communications Corporation, Telefonica de Espana S.A.U., and an unnamed major global carrier. During the first half of 2000, we shipped, installed and activated laboratory trial systems and field trial systems for both Broadwing and Williams to allow for customer testing and inspection. In July 2000, we successfully completed the Broadwing field trial and Broadwing agreed to purchase $200 million of our products and services as part of a multi-year purchase agreement. Throughout the remainder of 2000, we began the deployment of both transmission and switching equipment to Broadwing and built-up finished goods inventory necessary to support customer orders throughout 2001. Shipments of equipment to Broadwing continued throughout the year. Sales to Broadwing through December 29, 2001 have totaled $183.2 million.

In 2001, the field trial system provided to Williams was accepted and Williams agreed to purchase up to $300 million of our products and services in a multi-year purchase agreement, $85 million of which must be purchased prior to December 31, 2003. Sales to Williams through December 29, 2001 have totaled $74.2 million. Shipment of commercial equipment to Williams began late in the first quarter of 2001 and continues to date. In late February 2002, Williams announced that it is considering restructuring options, which may include filing a Chapter 11 bankruptcy case. At December 29, 2001, we were not aware of any factors that would indicate that Williams would be unable to meet its obligations to us.

Qwest agreed to purchase $150 million of our products, some of which are currently under development, over a two-year period beginning on the date that the products meet agreed technical requirements. Qwest's purchase obligations are also subject to our products being priced competitively. Although our agreement with Qwest anticipated technical acceptance by December 31, 2001, Qwest's testing of our equipment in its labs is ongoing. Recently, Qwest terminated a $110 million purchase order that it had issued to us under this agreement in April 2001. We expect to continue with further testing and product enhancements to meet Qwest's unique specifications for its network. We are currently in discussions with Qwest to modify the terms of the agreement to permit ongoing testing and further product development. These discussions are also likely to involve modifications to the agreement regarding network deployment schedules and purchase level obligations. We cannot be certain that we will be able to successfully agree to modified terms, or if we do, whether the new terms will include minimum purchase obligations. If we are able to agree on these modifications, it is likely that the agreement would provide Qwest with the ability to terminate if, among other circumstances, Corvis' products do not meet the new technical requirements. We expect that any new terms will be agreed to by March 31, 2002 and if new terms are not agreed to by that date, it is likely that the agreement will terminate.

In the second quarter 2001, the Company entered into a contract with an unnamed major global carrier and reached agreement with Spanish operator Telefonica for the delivery of our next generation optical products. These contracts are in early stages and do not include significant purchase commitment levels; however, we hope to develop these arrangements into long-term business relationships.

We have also entered into agreements and discussions regarding laboratory and field trials with other carriers. Upon successful completion of these trials, we hope to enter into agreements for commercial deployment with new carriers.

Recently, economic conditions have resulted in reduced capital expenditures by telecommunications carriers. In response to these conditions, we implemented restructuring plans, approved by our Board of Directors, designed to decrease our business expenses and to align resources for long-term growth opportunities. Additionally, we evaluated the carrying value of our inventory and long-term assets.

In the second quarter of 2001, our Board of Directors approved a plan for the reduction of operations. As a result of the restructuring plan and our evaluation of the recoverability of long-lived asset carrying values, we recorded charges of approximately $714.6 million. These charges were comprised of $99.2 million in cost of revenue charges associated with the inventory write-downs and losses on open purchase commitment cancellations; $9.4 million associated with workforce reduction; $9.0 million associated with consolidation of excess facilities and write-downs of idle equipment; $588.3 million associated with the write-down of goodwill generated in the acquisition of Algety Telecom S.A.; and $8.7 million associated with the permanent impairment charges on strategic equity investments carried at cost.

In the fourth quarter of 2001, after continued unfavorable economic conditions and the lack of expected contract wins and product sales, our Board of Directors approved an additional plan for further reductions in operations, including the closure of our operations in Canada. As a result of this restructuring plan and evaluation of our inventory and recoverability of long-lived assets carrying value in light of the continued decrease in customer activity, we recorded charges of approximately $303.4 million. These charges were comprised of $117.4 million in cost of revenue charges associated with inventory write-downs and losses on open purchase commitments and an unprofitable contract; $15.0 million associated with workforce reductions; $44.2 million associated with consolidation of excess facilities and write-downs of idle equipment; $123.2 million associated with write-down of goodwill principally generated in the acquisition of Algety; and $3.6 million associated with permanent impairment charges on strategic equity investments carried at cost.

We continue to monitor our financial position and will make strategic decisions as necessary to position the Company for long-term success.

Critical Accounting Policies

We have identified the following critical accounting policies that affect the more significant judgements and estimates used in the preparation of our consolidated financial statements. The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to asset impairment, revenue recognition, product warranty liabilities, allowance for doubtful accounts, and contingencies and litigation. We state these accounting policies in the notes to the consolidated financial statements and at relevant sections in this discussion and analysis. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue. Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. Customer contracts generally include extensive lab and field trial testing and some include other acceptance criteria. To the extent customer contracts include acceptance criteria, to date the Company has deferred revenue until customer acceptance criteria have been met.

Our products can be installed by our customers, third party service providers or by us. Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. To the extent customer contracts include both product sales and installation services, revenues are recognized on their respective fair values. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each installation contract. Amounts received in excess of revenue recognized are included as deferred revenue in our consolidated balance sheet.

Costs of Revenue. Costs of revenue include the costs of manufacturing our products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing, engineering, finishing and installation operations. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience. Inventory obsolescence costs are estimated using certain assumptions, including projected sales and sales mix. Actual results may differ from those estimates. We continually monitor component failures, technical changes, and levels of on-hand inventory and adjust our estimates accordingly. If, however, actual results vary significantly from our estimates, we will adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate.

Allowance for Bad Debt. During 2001, we have relied on two customers for all of our revenues. We expect that a significant portion of our future revenue will continue to be generated by a limited number of customers. We monitor the financial conditions of these customers closely and concluded that no allowance for bad debt was appropriate as of December 29, 2001.

At December 29, 2001, $29.0 million or 86 percent of our trade accounts receivable are due from Williams, with the balance due from Broadwing. Subsequent to the end of fiscal year 2001, Williams has paid us approximately $4 million of the December 29, 2001 accounts receivable as it became due. At December 29, 2001, all amounts due from Williams were current and, based on our historical collections from Williams and all publicly available financial information, we determined that no allowance for uncollectible amounts was necessary. Subsequent to year end, Williams has disclosed certain recent events that may potentially adversely affect its financial condition. Based on these events, in late February 2002, Williams announced that it is considering restructuring options, which may include filing a petition for Chapter 11 bankruptcy protection. If a customer files for bankruptcy protection under Chapter 11, we cannot be certain when we will receive outstanding payments, and if we do, how much will actually be received. In addition, there may be other provisions under bankruptcy laws that would impact our ability to collect any amounts owed and may affect some payments that we have already received. Bankruptcy laws may also allow Williams, under certain circumstances, to reject the purchase agreement. We continue to evaluate the need for allowances for accounts receivable and can give no assurances we will not be required to write-off some or all these outstanding amounts.

Restructuring and Other Charges. During 2001, after continued unfavorable economic conditions and continued lack of expected customer wins and product sales, our Board of Directors approved plans for the reduction of operations including the consolidation of facilities, reduction of employees and the discontinuation of certain product lines. In addition, we evaluated the recoverability of the carrying value of our inventory and long-lived assets. As a result, we recorded charges associated with estimated excess inventory and open purchase commitments based on projected sales volumes, facility consolidation costs based on assumed exit costs and time tables, disposal of property and equipment based on estimated salvage values and goodwill impairment charges based on estimated discounted future cash flows. If actual results differ significantly from our estimates and assumptions, we will adjust our reserves and allowances accordingly.

Goodwill and Other Intangible Assets. We have recorded goodwill and intangibles resulting from our acquisitions. Through December 29, 2001, goodwill and intangibles have been amortized on a straight-line basis over their respective lives of between 3 and 5 years. Upon the adoption of SFAS No. 142 on January 1, 2002, we will cease amortizing goodwill and will perform an annual impairment analysis to assess the recoverability of the goodwill, in accordance with the provisions of SFAS No. 142. If we are required to record an impairment charge in the future, it would have an adverse impact on our results of operations.

Litigation. In July 2000, Ciena Corporation ("Ciena") informed us of its belief that there is significant correspondence between products that we offer and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, monetary damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. A trial date had originally been set for April 1, 2002; however, it has recently been postponed by the court. The litigation is currently in the pre-trial phase.

Between May 7, 2001 and June 15, 2001, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York relating to our initial public offering on behalf of all persons who purchased our stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: Corvis, our directors and officers who signed the registration statement in connection with our initial public offering, and certain of the underwriters that participated in our initial public offering. The complaints allege that the registration statement and prospectus relating to our initial public offering contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of our common stock in the initial public offering and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for our common stock in the aftermarket following the initial public offering. The complaints ask the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs.

Plaintiffs have move to appoint lead plaintiff and lead counsel. By order October 12, 2001, the court appointed an executive committee of six plaintiffs' law firms to coordinate their claims and function as lead counsel. The motion to appoint lead plaintiff is pending.

On October 17, 2001, a group of underwriter defendants moved for Judge Scheindlin's recusal. Judge Scheindlin denied that application. On December 13, 2001, the moving underwriter defendants filed a petition for writ of mandamus seeking the disqualification of Judge Scheindlin in the United States Court of Appeals for the Second Circuit. The petition is currently pending before the Second Circuit. Judge Scheindlin issued a short order, stating that the court will continue to hold case management conferences, and will continue to handle other administrative and procedural matters. However, the court will refrain from making any substantive rulings pending the Second Circuit's decision on the mandamus petition.

Dispositive motions have not yet been filed. No discovery has occurred. The court has ordered plaintiffs to file consolidated amended complaints in each consolidated action at the end of March 2002.

Based on the status of the litigation, we cannot reasonably predict the likelihood of any potential outcome. We continue to monitor the status of the litigation, however we can give no assurances that an unfavorable outcome will not result in future charges.

Results of Operations

Year ended December 29, 2001 compared to year ended December 30, 2000

Revenue. Revenue increased to $188.5 million for the fiscal year ended December 29, 2001 from $68.9 million for the fiscal year ended December 30, 2000. The increase in revenue is attributable to the increased sales of our products for commercial use. Revenue for the year ended 2001 and 2000 is attributable to two customers and one customer, respectively. During 2001, our quarterly revenues have decreased from a high of $84.1 million in the first quarter of 2001 to a low of $15.2 million in the fourth quarter. We expect revenue for the first quarter of 2002 to be at or below fourth quarter levels.

Gross Profit (loss). Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. In association with discontinued product lines under our restructuring plans and excessive inventories due to reduced capital expenditures by telecommunication carriers, during 2001 we recorded cost of revenue charges totaling $216.5 million comprised of inventory write-downs of $174.0 million and losses from open purchase commitments and loss contracts of approximately $42.5 million.

Gross profit (loss) decreased to $(145.0) million for the fiscal year ended December 29, 2001 from $26.0 million for the year ended December 30, 2000. Gross margin as a percentage of revenue decreased to (77.0)% for the fiscal year ended December 29, 2001 from 37.7% for the fiscal year ended December 30, 2000. Excluding inventory write-downs and other charges of $216.5 million for the fiscal year ended December 29, 2001, gross profit and gross margin were $71.5 million and 37.9%, respectively. Due to current competitive and economic pressures on our prices, we expect that gross margin, excluding inventory write-downs and other charges, may decrease in the coming quarters.

Research and Development, Excluding Equity-Based Expense. Research and development, excluding equity-based expense consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with research and development, significant quarterly fluctuations may result. We believe that research and development is critical in achieving current and future strategic product objectives.

Research and development expenses, excluding equity-based expense, increased to $149.9 million for the year ended December 29, 2001 from $88.9 million for the year ended December 30, 2000. The increase in expenses was primarily attributable to increases in headcount and increased expenses associated with prototype development and laboratory materials.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing, excluding equity-based expense consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses.

Sales and marketing expenses, excluding equity-based expense, increased to $56.0 million for the year ended December 29, 2001 from $30.9 million for the year ended December 30, 2000. The increase in expenses was primarily attributable to increases in headcount, increases in promotional and trade show activities and expenses related to laboratory systems provided to current and potential customers.

General and Administrative, Excluding Equity-Based Expense. General and administrative, excluding equity-based expense consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities.

General and administrative expenses increased to $34.3 million for the year needed December 29, 2001 from $31.1 million for the year ended December 30, 2000. The increase in expenses was primarily attributable to increases in salaries and related benefits due to the hiring of additional personnel.

Equity-based Expense. Equity-based expenses consists primarily of charges associated with employee options granted at below fair market value prior to our initial public offering.

Equity-based expense related to research and development, sales and marketing and general and administrative functions for the year ended December 29, 2001 increased to $98.8 million from $98.4 million for the year ended December 30, 2000. The increase in equity-based compensation resulted from options granted with exercise prices below fair value at the date of grant related primarily to pre-IPO grants.

Amortization of Intangible Assets. Amortization of goodwill and other intangible assets primarily relates to the amortization of goodwill associated with the acquisition of Algety Telecom S.A. As a result of the issuance of SFAS No. 142, we will no longer record amortization of goodwill on a straight-line basis, rather goodwill will be tested at least annually for impairment. There may be more volatility in reported income (loss) than previous standards because impairment losses are likely to occur irregularly and in varying amounts. Intangible assets that are separate and have finite useful lives, such as acquired patent rights and intellectual property licenses, will continue to be amortized over their useful lives. As a result, amortization expense associated with goodwill should decrease in future periods.

Amortization of intangible assets expenses increased to $125.9 million for the year ended December 29, 2001 from $46.7 million for the year ended December 30, 2000. The increase was primarily attributable to the amortization of intangibles resulting from the acquisition of Algety Telecom S.A., which resulted in approximately $876.7 million in goodwill, excluding the impacts of the impairment charges described above, that is amortized over five years.

Interest Income (Expense), Net. Interest income, net of interest expense, decreased to $21.2 million for the year ended December 29, 2001 from $28.6 million of net interest income for the year ended December 30, 2000. The decrease was primarily attributable to lower average invested cash balances from the proceeds of the initial public offering and other private placements and lower average returns on investments, offset in part by interest incurred under various credit facilities.

Year ended December 30, 2000 compared to year ended January 1, 2000

Revenue. Revenue increased to $68.9 million for the fiscal year ended December 30, 2000 from zero for the fiscal year ended January 1, 2000. The increase in revenue is attributable to the acceptance of a field trial system and the subsequent sale of network hardware and software to Broadwing under a $200 million two-year purchase agreement.

Gross Profit. Costs of revenue consists of component costs, direct compensation costs, warranty and other contractual obligations, inventory obsolescence costs and overhead related to our manufacturing and engineering, finishing and installation operations. Gross profit was $26.0 million for the year ended December 30, 2000. Gross margin as a percentage of revenues was 37.7%.

Research and Development, Excluding Equity-Based Expense. Research and development, excluding equity-based expense consists primarily of salaries and related personnel costs, test and prototype expenses related to the design of our hardware and software products, laboratory costs and facilities costs. All costs related to product development, both hardware and software, are recorded as expenses in the period in which they are incurred. Due to the timing and nature of the expenses associated with research and development, significant quarterly fluctuations may result. We believe that research and development is critical in achieving current and future strategic product objectives.

Research and development expenses, excluding equity-based expense, increased to $88.9 million for the year ended December 30, 2000 from $41.6 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to increases in headcount and increased expenses associated with prototype development and laboratory materials.

Sales and Marketing, Excluding Equity-Based Expense. Sales and marketing, excluding equity-based expense consists primarily of salaries and related personnel costs, laboratory trial systems provided to customers, trade shows, other marketing programs and travel expenses.

Sales and marketing expenses, excluding equity-based expense, increased to $30.9 million for the year ended December 30, 2000 from $3.4 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to increases in headcount, increases in promotional and trade show activities and expenses related to laboratory systems provided to current and potential customers.

General and Administrative, Excluding Equity-Based Expense. General and administrative, excluding equity-based expense consists primarily of salaries and related personnel costs, information systems support, recruitment expenses and facility demands associated with establishing the proper infrastructure to support our organization. This infrastructure consists of executive, financial, legal, information systems and other administrative responsibilities.

General and administrative expenses increased to $31.1 million for the year ended December 30, 2000 from $19.0 million for the year ended January 1, 2000. The increase in expenses was primarily attributable to increases in salaries and related benefits due to the hiring of additional personnel and increased expenses incurred during the development of manufacturing processes.

Equity-based Expense. Equity-based expenses consists primarily of charges associated with employee options granted at below fair market value prior to our initial public offering.

Equity-based expense related to research and development, sales and marketing and general and administrative functions for the year ended December 30, 2000 increased to $98.4 million from $5.0 million for the year ended January 1, 2000. The increase in equity-based compensation resulted from options granted with exercise prices below fair value at the date of grant, as well as expenses recognized upon the waiving of certain forfeiture provisions contained in warrants granted to certain customers.

Amortization of Intangible Assets. Amortization of goodwill and other intangible assets primarily relates to the amortization of goodwill associated with the acquisition of Algety Telecom S.A. As a result of the issuance of SFAS No. 142, we will no longer record amortization of goodwill on a straight-line basis, rather goodwill will be tested at least annually for impairment. There may be more volatility in reported income (loss) than previous standards because impairment losses are likely to occur irregularly and in varying amounts. Intangible assets that have finite useful lives, such as acquired patent rights and intellectual property licenses, will continue to be amortized over their useful lives. As a result, amortization expense associated with goodwill should decrease in future periods.

Amortization of intangible assets expenses increased to $46.7 million for the year ended December 30, 2000 from $0.2 million for the year ended January 1, 2000. The increase was primarily attributable to the amortization of intangibles resulting from our acquisition of Algety Telecom S.A., which resulted in approximately

$876.7 million in goodwill, before considering the impairment charges described above, that is amortized over five years.

Interest Income (Expense), Net. Interest income, net of interest expense, increased to $28.6 million for the year ended December 30, 2000 from $2.1 million of net interest expense for the year ended January 1, 2000. The increase was primarily attributable to average higher invested cash balances from the proceeds of the initial public offering and other private placements, offset in part by interest incurred under various credit facilities.

Liquidity and Capital Resources

Since inception through December 29, 2001, we have financed our operations, capital expenditures and working capital primarily through public and private sales of our capital stock, borrowings under credit and lease facilities and cash generated from operations. At December 29, 2001, our cash and cash equivalents and short-term investments totaled $660.8 million.

Net cash used in operating activities was $255.5 million, $230.8 million and $71.8 million for the years ended December 29, 2001, December 30, 2000 and January 1, 2000, respectively. Cash used in operating activities for the year ended December 29, 2001 was primarily attributable to a net loss of $1,378.1 million, $35.1 million of inventory increases, and a decrease in accounts payable of $76.5 million, partially offset by an increase in other current liabilities payable of $38.8 million and non-cash expense items approximating $1,208.8 million including restructuring, goodwill impairment and other charges of $942.7 million, depreciation and amortization of $155.0 million equity-based expense of $98.8 million, and asset impairment and other charges of $12.3 million.

Net cash used in investing activities for the years ended December 29, 2001, December 30, 2000 and January 1, 2000 was $131.5 million, $72.4 million and $14.0 million, respectively. The increase in net cash used in investing activities for the year ended December 29, 2001 was primarily attributable to purchases of manufacturing and test equipment, information systems equipment and office equipment and purchases of short-term investments.

Net cash provided by financing activities for the year ended December 29, 2001 was $1.5 million, primarily attributable to the sale of investments associated with restricted cash, partially offset by the repayment of principal on notes and capital leases. Net cash provided by financing activities for the year ended December 30, 2000 was $1,084.3 million, primarily attributable to proceeds from our initial public offering and other private placements, and the issuance of notes payable, offset in part by the payment of debt and an increase in restricted cash. Net cash provided by financing activities for the year ended January 1, 2000 was $326.3 million, primarily attributable to private placements and the proceeds from the issuance of notes payable.

As of December 29, 2001, long-term restricted cash totaled $2.4 million associated with outstanding irrevocable letters of credit relating to lease obligations for various manufacturing and office facilities and other business arrangements. These letters of credit are collateralized by funds in our operating account. Various portions of the letters of credit expire at the end of each respective lease term or agreement term.

Due to competitive economic conditions, we have and may be required to sell our product to future customers at lower margins or be required to provide customers with financing which could result in reduced gross margins, extended payment terms or delayed revenue recognition, all of which could have a negative impact on our liquidity, capital resources and results of operations.

Our liquidity will also be dependent on our ability to manufacture and sell our products. Changes in the timing and extent of the sale of our products will affect our liquidity, capital resources and results of operations. We currently have a limited number of customers that could provide substantially all of our revenues for the near future and these customers are operating in a troubled economic environment. The loss of any of these customers, any substantial reduction in current or anticipated orders or an inability to attract new customers, could materially adversely affect our liquidity and results of operations. We plan to diversify our customer base by seeking new customers both domestically and internationally.

At December 29, 2001, $29.0 million or 86 percent of our trade accounts receivable are due from Williams with the difference due from Broadwing. In February 2002, Williams announced that it is considering restructuring options, which may include filing a Chapter 11 bankruptcy case. As of February 23, 2002, Williams owes us approximately $25.1 million. If Williams files for bankruptcy protection under Chapter 11, we cannot be certain when we will receive these outstanding payments, and if we do, how much will actually be received. In addition, there may be other provisions under bankruptcy laws that would impact our ability to collect these amounts and that may affect some payments that we have already received. Bankruptcy laws may also allow Williams under certain circumstances, to reject the purchase agreement. We cannot give any assurances or make any predictions as to whether Williams will file for bankruptcy and what effect that, or any other decisions that they make, will have on our business.

We believe that our current cash and cash equivalents and cash generated from operations will satisfy our expected working capital, capital expenditure and investment requirements through at least the next twelve months.

If cash on hand and cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell additional equity or debt securities. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing shareholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional financing, we may be required to reduce the scope of our planned product development and sales and marketing efforts, which could harm our business, financial condition and operating results. Increasingly, as a result of the financial demands of major network deployments, carriers are looking to their suppliers for financing assistance. From time to time, we may provide or commit to extend credit or credit support to our customers as we consider appropriate in the course of our business.

Algety Telecom S.A.

On July 1, 2000, we acquired Algety Telecom S.A., a French company that develops and markets high capacity, high speed optical transmission equipment. Algety, based in Lannion, France, was formed in April 1999, and was a development stage company with no revenue.

At the initial closing on July 1, 2000, we delivered to the Algety shareholders 1,301,822 shares of our Series I convertible preferred stock, which converted into 15,621,858 shares of common stock upon the closing of our initial public offering. We also delivered 348,402 shares of Series I convertible preferred stock to our escrow agent to secure potential warranty claims, which converted into 4,180,824 shares of common stock upon the closing of our initial public offering. In addition, we placed into escrow 2,275,032 shares of common stock that will be released contingent upon satisfaction of certain minimum employment terms for certain Algety employees. We incurred approximately $1.0 million of transaction costs relating to the transaction.

On November 3, 2000, consistent with the terms of the acquisition agreement, the Company completed a second closing in which an additional 11,385,358 shares of common stock were delivered to the former Algety stockholders. Total value of all shares delivered in the first and second closings was $947.1 million.

We accounted for the acquisition using the purchase method whereby the net tangible and identifiable intangible assets acquired and liabilities assumed are recognized at their estimated fair market values at the date of acquisition. The excess of the aggregate purchase price over the estimated fair value of net assets acquired of

$876.7 million, based upon the purchase price allocation, was being amortized on a straight-line basis over five years. In addition, $42.2 million of the purchase price was allocated to in-process research and technology and was expensed immediately. During 2001, the Company recorded restructuring and other charges of approximately $710.7 million associated with the impairment of the goodwill. Under SFAS 142, described below, the remaining balance of $2.3 million will no longer be amortized on a straight-line basis, but rather goodwill will be tested at least annually for impairment.

Subsequent Event

On January 29, 2002, we announced that we had signed a definitive merger agreement to acquire Dorsál Networks, Inc., a privately held provider of next-generation transoceanic and regional undersea optical network solutions. Subject to the satisfaction of various closing conditions, including the approval by our shareholders and the shareholders of Dorsál, we will acquire Dorsál in a stock transaction for approximately 40,923,500 shares of common stock. The shareholders meeting is expected to take place in the first half of 2002. The acquisition will be accounted for under the "purchase" method of accounting. Under the purchase method, the purchase price of Dorsál will be allocated to identifiable assets and liabilities acquired from Dorsál, with the excess being treated as goodwill. We preliminarily estimate that the acquisition will result in an in-process research and development charge of approximately $33.8 million as well as the recognition of certain intangible assets of $30.8 million, which will be amortized over an estimated life of five years. In addition, the acquisition will result in goodwill of approximately $7.6 million, which will have an indefinite life, but will be subject to periodic impairment tests. Dr. David R. Huher, our President and Chief Executive Officer, owns, directly or indirectly, approximately 31 percent of the outstanding stock of Dorsál. Effective upon the completion of the Dorsál transaction, Jim Bannantine, the current President and CEO or Dorsál Networks, will become the new President of Corvis Corporation, responsible for the day-to-day operations of the Company. Prior to completion of the Dorsál merger, Jim will lead the transition and integration planning efforts for both companies.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations". This statement addresses financial accounting and reporting for business combinations and supersedes APB Opinion No. 16, "Business Combinations" and FASB Statement No. 38, "Accounting for Reacquisition Contingencies of Purchased Enterprises". The provisions of this statement apply to all business combinations initiated after June 30, 2001. The application of this accounting standard is not expected to have a material effect on our consolidated financial statements.

SFAS No. 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This statement requires goodwill to be periodically reviewed for impairment, for fiscal years beginning after December 15, 2001. SFAS No. 142 supercedes APB Opinion No. 1, "Intangible Assets". We will adopt the provisions of this standard for our first quarter of fiscal 2002. We have recorded goodwill amortization expense of $0.2 million in fiscal 1999, $41.9 million in fiscal 2000 and $114.3 million in fiscal 2001, which will no longer be recorded in subsequent fiscal years. The application of this accounting standard is not expected to have a material effect on our consolidated financial statements.

In August 2001, the Financial Accounting Standard Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and infrequently Occurring Events and Transactions", for the disposal of segments of a business (as previously defined in that opinion). The adoption of SFAS No. 144 is not expected to have a material adverse effect on our results of operations.

Factors that May Affect Our Future Results

Risks Related to Our Financial Results

We have incurred significant losses since inception, and we expect losses to continue in the future.

We have incurred significant net losses since inception. As of December 29, 2001, We had an accumulated deficit of approximately $1.8 billion. We expect to incur significant losses in the near-term. We cannot be certain that we will ever achieve profitability. We will need to generate significant revenue and control costs to achieve profitability.

Our limited operating history makes financial forecasting and evaluation of our business difficult.

Our limited operating history makes it difficult to forecast our future operating results. We have only a limited history selling our optical network products. Although we began operations in 1997, we began generating revenue in the second half of 2000. Because we have a limited history upon which to base forecasts of future operating results, you should not rely on our past financial performance to evaluate our future financial performance and any predictions about our future revenues and expenses may not be as accurate as they would be if we had a longer, more stable business history.

The unpredictability of our quarterly results may adversely affect the trading price of our common stock.

Our revenue and operating results will vary significantly from quarter to quarter due to a number of factors, many of which are outside of our control and any of which may cause the price of our common stock to fluctuate. The primary factors that may affect our quarterly results include the following:

- loss of customers or the ability to attract new customers;
- satisfaction of contractual customer acceptance criteria;
- cancellation of or delays in customer orders;
- demand for optical networking products and services;
- the length and variability of the sales cycle for our products and services;
- the timing and size of sales of our products and services;
- our ability to maintain production volumes and quality levels for our products and services;
- our ability to obtain sufficient supplies of sole or limited source components;
- changes in our pricing policies or the pricing policies of our competitors;
- increases in the prices of the components that we purchase;
- new product introductions and enhancements by our competitors;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- the timing and magnitude of product development expenses;
- our ability to attract and retain key personnel;
- issuances or sales by us of common stock or other securities in the future;
- costs related to acquisitions of technology or businesses; and
- general economic conditions as well as those specific to the communications and related industries.

A delay in generating or recognizing revenue could cause significant variations in our operating results from quarter to quarter and could result in substantial operating losses. It is possible that in some future quarters our results may be below the expectations of analysts and investors. In this event, the price of our common stock will likely decrease.

The long and variable sales cycles for our products may cause our revenue and operating results to vary significantly from quarter to quarter, which may adversely affect the trading price of our common stock.

Certain of our products are designed to enable all-optical transmission and switching of data traffic over long distances. We expect that customers who purchase these products will do so as part of a large-scale deployment of these products across their networks. We also offer point-to-point solutions which we expect to be purchased by customers to cover high-traffic routes. In each case, a customer's decision to purchase our all-optical network products will involve a significant commitment of its resources. A lengthy testing and product qualification process, a portion of which is funded by us, will precede any final decision to purchase our products. Throughout this sales and qualification cycle, we will spend considerable time and expense educating and providing information to prospective customers about the uses and features of our products.

The timing of deployment of our products may vary widely and will depend on the specific network deployment plan of the customer, the installation skills of the customer, the complexity of the customer's network environment and the degree of hardware and software configuration necessary. Customers with substantial or complex networks have traditionally expanded their networks or upgraded their systems in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular and unpredictable basis. In addition, customers may request the cancellation of purchase orders.

Because of our limited operating history and the nature of our business, we cannot predict the timing or size of these sales and deployment cycles. Long sales cycles, as well as our expectation that customers will tend to place large orders sporadically with short lead times, may cause our revenue and results of operations to vary significantly and unexpectedly from quarter to quarter.

We currently have five customers and we expect that substantially all of our revenue will be generated from a limited number of customers.

The target customers for our products are carriers that operate communications networks. There are only a limited number of potential customers in our target markets. We currently have five customers who have signed agreements to purchase our products. Each of these agreements contains significant obligations, the breach of which could result in termination of the agreement. Qwest Communications Corporation has agreed to purchase $150 million of our products, some of which are currently under development, over a two-year period beginning on the date that the products meet agreed technical requirements. Qwest's purchase obligations are also subject to our products being priced competitively. Although our agreement with Qwest anticipated technical acceptance by December 31, 2001, Qwest's testing of our equipment in its labs is ongoing. Recently Qwest terminated a $110 million purchase order that it had issued to us under this agreement in April 2001. We expect to continue with further testing and product enhancements to meet Qwest's unique specifications for its network. We are currently in discussions with Qwest to modify the terms of the agreement to permit ongoing testing and further product development These discussions are also likely to involve modifications to the agreement regarding network deployment schedules and purchase level obligations. We cannot be certain that we will be able to successfully agree to modified terms, or if we do, whether the new terms will include minimum purchase obligations. If we are able to agree on these modifications, it is likely that the agreement would provide Qwest with the ability to terminate if, among other circumstances, Corvis' products do not meet the new technical requirements. We expect that any new terms will be agreed to by March 31, 2002 and if new terms are not agreed to by that date, it is likely that the agreement will terminate.

At December 29, 2001, $29.0 million or 86 percent of our trade accounts receivable are due from Williams, with the balance due from Broadwing. Subsequent to the end of fiscal year 2001, Williams has paid us approximately $4 million of the December 29, 2001 accounts receivable as it became due. At December 29, 2001, all amounts due from Williams were current and, based on our historical collections from Williams and all publicly available financial information, we determined that no allowance for uncollectible amounts was necessary. Subsequent to year end, Williams has disclosed certain recent events that may potentially adversely affect its financial condition. Based on these events, in late February 2002, Williams announced that it is considering restructuring options, which may include filing a petition for Chapter 11 bankruptcy protection. If Williams files for bankruptcy protection under chapter 11, we cannot be certain when we will receive these outstanding payments, and if we do, how much will actually be received. In addition, there may be other provisions under bankruptcy laws that would impact our ability to collect these amounts and that may affect some payments that we have already received. Bankruptcy laws may also allow Williams, under certain circumstances, to reject purchase agreement with us. We cannot give any assurances or make any predictions as to whether Williams will file for bankruptcy and what effect that, or any other decisions that they make, will have on our business.

We expect that in the future substantially all of our revenue will depend on sales of our optical network products to a limited number of potential customers. The rate at which customers purchase products from us will depend, in part, on the increasing demand for bandwidth by carriers' customers. Any failure of carriers to purchase products from us for any reason, including any downturn in their business, may seriously harm our business, financial condition and results of operations.

We depend on our key personnel to manage our business effectively. If we are unable to retain our key personnel, our business, financial condition and results of operations could be harmed.

Our future success depends upon the continued services of our executive officers and other key engineering, manufacturing, operations, sales, marketing and support personnel who have critical industry experience and relationships that we rely on to implement our business plan. The loss of the services of any of our key employees, including Dr. David Huber, our founder, President and Chief Executive Officer, could delay the development and production of our products and negatively impact our ability to maintain customer relationships, which would harm our business, financial condition and results of operations.

We do not have significant experience in international markets and may have unexpected costs and difficulties in developing international revenue.

We plan to expand the marketing and sales of our products internationally. This expansion will require significant management attention and financial resources to successfully develop international sales and support channels. We have developed a sales and marketing staff outside of the United States. International operations may be subject to certain risks and challenges that could harm our results of operations, including:

- difficulties and costs of staffing and managing foreign operations;
- longer sales cycles for our products;
- reduced protection for intellectual property rights;
- difficulty in accounts receivable collection and longer collection periods;
- longer sales cycles for our products;
- compliance with international standards that differ from domestic standards;
- political and economic instability;
- fluctuations in exchange rates;
- changes in regulatory requirements in the communications industry;
- expenses associated with developing and customizing our products for foreign countries;
- tariffs, quotas and other import restrictions on communications products; and
- potentially adverse tax consequences.

Risks Related to the Industry

Our Business Has Been Adversely Affected by Recent Developments in the Communications Industry and the Economy in General.

For much of the last five years the market for our equipment has been influenced by the entry into the communications services business of a substantial number of new companies. In the United States that was due largely to changes in the regulatory environment, in particular those brought about by the Telecommunications Act of 1996. These new companies raised billions of dollars in capital, much of which they invested in new equipment, causing an acceleration in the growth of the market for telecommunications equipment.

Recently, we have seen a reversal of this trend, including the failure of a large number of the new entrants and a sharp contraction of the availability of capital to the industry. This, in turn, has caused a substantial reduction in demand for telecommunications equipment, including our products.

This industry trend has been compounded by the slowing not only of the United States economy, but the economies in virtually all of the countries in which we are marketing our products. The combination of these factors has caused customers to become more conservative in their capital investment plans and more uncertain about their future purchases. As a consequence, we are facing a market that is both reduced in absolute size and more difficult to predict and plan for.

We expect the factors described above to affect our business, for at least several more quarters, if not longer, in several significant ways compared to the recent past:

- it is likely that our markets will be characterized by reduced capital expenditures by our customers; and
- our ability to forecast the volume and product mix of our sales will be substantially reduced.

We are exposed to the credit risk of our customers.

Industry and economic conditions have weakened the financial position of some of our customers and potential customers. To sell to some of these customers, we may be required to extend favorable payment terms. While we monitor these situations carefully and attempt to take appropriate measures to protect ourselves, it is possible that we may have to write-down or write-off doubtful accounts. Such write-downs or write-offs, if large, could have a material adverse effect on our operating results and financial condition. We have provided extended credit terms to some of our customers. While we have done only a limited amount of this type of financing in the past, the increasingly competitive environment in which we operate may require us to engage in more competitive financing arrangements. Our ability to recognize revenue from financed sales will depend on the relative financial condition of the specific customer, among other factors. Any change in the financial condition of our customers could have a material adverse effect on our operating results and financial condition.

The markets for optical networking products are evolving and uncertain and our business will suffer if they do not develop as we expect.

Most carriers have made substantial investments in their current network infrastructure, and may have announced significant reductions in their capital expenditures. It is uncertain when these reductions in capital expenditures will be reversed. In addition, carriers may elect to remain with current network architectures or to adopt new architectures in limited stages or over extended periods of time. A decision by a customer to purchase our optical networking solutions will involve a significant capital investment. We will need to convince these carriers of the benefits of our solutions for future network deployment. We cannot be certain that a viable market for our products will further develop or be sustainable. If this market does not develop further, or develops more slowly than we expect, our business, financial condition and results of operations would be harmed.

The markets we serve are highly competitive and we may not be able to achieve or maintain profitability.

Competition in optical networking markets is intense. These markets have historically been dominated by large companies, such as Alcatel, Cisco, Lucent, NEC and Nortel. We may face competition from other large communications equipment companies that are currently in or that may enter our market. In addition, a number of private companies have announced plans for new all-optical products to address the same network needs that our products address. Due to several factors including the lengthy sales cycle, testing and deployment process and manufacturing constraints associated with large-scale deployments of our products, we may lose any advantage that we might have by being an early provider of all-optical network products prior to achieving market penetration. Many of our competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and sales and marketing resources than we do and may be able to undertake more extensive marketing efforts, adopt more aggressive pricing policies and provide more vendor financing than we can. Moreover, our competitors may foresee the course of market developments more accurately than we do and could develop new technologies that compete with our products or render our products obsolete. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources may enter our markets, further intensifying competition.

In order to compete effectively, we must deliver products that:

- provide high reliability;
- provide an overall cost-effective solution for carriers;
- reduce operating costs;
- increase network capability easily and efficiently with minimal disruption;
- operate with existing equipment and network designs;
- reduce the complexity of the network in which they are installed by decreasing the amount of equipment required; and
- provide effective network management.

In addition, we believe that a knowledge of the infrastructure requirements applicable to carriers, experience in working with carriers to develop new services for their customers, and an ability to provide vendor financing are important competitive factors in our market. We have limited knowledge of carriers' infrastructure requirements and limited experience in working with carriers to develop new services. We currently provide only a limited vendor-sponsored financing program. Many of our competitors, however, are able to offer more complete financing programs, which may influence prospective customers to purchase from our competitors rather than from us.

If we are unable to compete successfully against our current and future competitors, we may have difficulty obtaining customers, and could experience price reductions, order cancellations, increased expenses and reduced gross margins, any one of which would harm our business, financial condition and results of operations.

The communications industry is subject to government regulations that could harm our business.

The Federal Communications Commission, or FCC, has jurisdiction over the entire communications industry and, as a result, our products and our customers' products are subject to FCC rules and regulations. Current and future FCC rules and regulations affecting communications services, our products or our customers' businesses or products could negatively affect our business. In addition, international regulatory standards could impair our ability to develop products for international carriers in the future. Delays caused by our compliance with regulatory requirements could result in postponements or cancellations of product orders, which would harm our business, results of operations and financial condition. Further, we cannot be sure that we will be successful in obtaining or maintaining any regulatory approvals that may, in the future, be required to operate our business.

Risks Related to Product Manufacturing

We have limited manufacturing experience and unproven manufacturing capabilities. If we are unable to adjust our manufacturing capacity in a timely manner or if we do not accurately project demand, we may not achieve or maintain profitability.

Our future operating results will depend on our ability to develop and manufacture our products cost-effectively. To do so, we will have to develop manufacturing processes that will allow us to produce sufficient quantities of products at competitive prices. We have limited manufacturing experience and have only used our current facilities for limited quantities of commercial products. Due to the complexities of the optical product manufacturing process, we may not be able to supplement our internal manufacturing capability by outsourcing manufacturing of our products to meet demand.

If we are unable to adjust our manufacturing capacity in a timely manner or if we do not accurately project demand, we will have insufficient capacity or excess capacity, either of which will seriously harm our business. There are numerous risks associated with adjusting manufacturing capabilities, including the following:

- the inability to purchase and install the necessary manufacturing equipment;
- the scarcity and cost of manufacturing personnel;
- difficulties in achieving adequate yields from new manufacturing lines; and
- the scarcity and cost of certain components.

Our manufacturing facilities and related capital expenditures assume a level of customer orders that we may not realize or, if we do realize, may not be sustained over multiple quarters. If we do not receive anticipated levels of customer orders, our gross margins will decline and we will not be able to reduce our operating expenses quickly enough to prevent a decline in our operating results.

We depend on sole source and limited source suppliers for several key components. If we are unable to obtain these components on a timely basis, we will be unable to meet our customers' product delivery requirements, which would harm our business.

We currently purchase several key components from single or limited sources. From time to time, there have been industry-wide shortages of some optical components. If any of our sole or limited source suppliers experiences capacity constraints, work stoppages or any other reduction or disruption in output, they may be unable to meet our delivery schedule. Our suppliers may enter into exclusive arrangements with our competitors, be acquired by our competitors, stop selling their products or components to us at commercially reasonable prices, refuse to sell their products or components to us at any price or be unable to obtain or have difficulty obtaining components for their products from their suppliers, and we may be unable to develop alternative sources for the components.

Even if alternate suppliers are available, identifying them is often difficult and time consuming. We have key components that are available from only one qualified supplier. The process of qualifying vendors can take a significant amount of time and is not always successful. If we do not qualify multiple vendors or receive critical components in a timely manner, we will be unable to manufacture our products in a timely manner and would, therefore, be unable to meet customers' product delivery requirements. Any failure to meet a customer's delivery requirements could harm our reputation and decrease our sales, which would harm our business, financial condition and results of operations.

Some of our competitors are also our suppliers and if our supply relationship with them deteriorates, it could harm our business.

Some of our component suppliers are both our primary source for those components and major competitors in the market for communications equipment. For example, we buy some of our key components from Lucent and Alcatel, each of which offers communications systems and equipment that compete with our products. Our business, financial condition and results of operations could be harmed if these supply relationships were to change in any manner adverse to us.

Risks Related to Our Products

Because optical networking products are complex and are deployed in complex environments, our products may have defects that we discover only after full deployment, which could seriously harm our business.

Optical products are complex and are designed to be deployed in large quantities across complex networks. Because of the nature of the products, they can only be fully tested when completely deployed in large networks with high amounts of traffic. Our customers may discover errors or defects in the hardware or the software, or our products may not operate as expected, after they have been fully deployed. If we are unable to fix defects or other problems that may be identified in full deployment, we would experience:

- loss of, or delay in, revenue and loss of market share;
- loss of existing customers;
- failure to attract new customers or achieve market acceptance;
- diversion of development resources;
- increased service and warranty costs;
- legal actions by our customers; and
- increased insurance costs.

The occurrence of any of these problems would seriously harm our business, financial condition and results of operations. Defects, integration issues or other performance problems in our products could result in financial or other damages to our customers or could negatively affect market acceptance for our products. Our customers could also seek damages for losses from us, which, if the customers were successful, would seriously harm our business, financial condition and results of operations. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly and would put a strain on our management and resources.

Our business will suffer if we do not respond rapidly to technological changes.

The market for network communications equipment is characterized by rapid technological change, frequent new product introductions and changes in customer requirements. We may not be able to respond quickly or effectively to these developments. We may experience design, manufacturing, marketing and other difficulties that could delay or prevent our development, introduction or marketing of new products and enhancements. The constant introduction of new products by competitors, market acceptance of products based on new or alternative technologies or the emergence of new industry standards has led to significant inventory write-downs and could render our existing or future products obsolete, which may harm our business, financial condition and results of operations.

In developing our products, we have made, and will continue to make, assumptions about the industry standards that may be adopted by our competitors and potential customers. If the standards adopted are different from those that we have chosen to support, market acceptance of our products may be significantly reduced or delayed and our business will be seriously harmed. In addition, the introduction of products incorporating new technologies and the emergence of new industry standards could render our existing products obsolete. In order to introduce products incorporating new technologies and new industry standards, we must be able to gain access to the latest technologies of our suppliers, other network vendors and our potential customers. Any failure to gain access to the latest technologies may seriously harm our business, financial condition and results of operations.

Our business will suffer if our current and future products do not meet specific customer requirements.

Customers may require product features and capabilities that our products do not have. To achieve market acceptance for our products, we must anticipate and adapt to customer requirements and offer products and services that meet customer demands. Our failure to develop products or offer services that satisfy customer requirements may seriously harm our business, financial condition and results of operations.

We intend to continue to invest in product and technology development. The development of new or enhanced products is a complex and uncertain process that requires the accurate anticipation of technological and market trends. We may experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products and enhancements. The introduction of new or enhanced products also requires that we manage the transition from older to newer products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products can be delivered to meet anticipated customer demand. Our inability to effectively manage this transition may harm our business, financial condition and results of operations.

Our business will be adversely affected if we are unable to protect our intellectual property rights from third-party challenges.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We also enter into confidentiality or license agreements with our employees, consultants and corporate partners and control access to and distribution of our software, documentation and other proprietary information. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

We are involved in an intellectual property dispute and in the future we may become involved in similar disputes, which could subject us to significant liability, divert the time and attention of our management and prevent us from selling our products.

On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that we are willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, monetary damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, we filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/ or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that we are willfully infringing two additional patents. We are currently in the pre-trial phase of the litigation and a trial date had originally been set for April 1, 2002; however, it has recently been postponed by the court. We intend to defend ourselves vigorously against these claims. An adverse determination in, or settlement of, the Ciena litigation could involve the payment of significant amounts by us, or could include terms in addition to payments, such as an injunction, preventing us from selling some of our products until we are able to implement a non-infringing design to any portion of our products to which such determination applied. An adverse determination could have a material adverse effect on our business, financial condition and results of operations. If we are required to redesign our products, we may have to stop selling our current products until they have been redesigned. We believe that defense of the lawsuit may be costly and may divert the time and attention of some members of our management.

We or our customers may be a party to additional litigation in the future to protect our intellectual property or to respond to allegations that we infringe others' intellectual property. Any parties asserting that our products infringe upon their proprietary rights would force us to defend ourselves and possibly our customers against the alleged infringement. If we are unsuccessful in any intellectual property litigation, we could be subject to significant liability for damages and loss of our proprietary rights. Intellectual property litigation, regardless of its success, would likely be time consuming and expensive to resolve and would divert management time and attention. In addition, we could be forced to do one or more of the following:

- stop selling, incorporating or using products that include the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all; or
- redesign those products that use the technology, which may be time-consuming or impossible.

If we are forced to take any of these actions, our business may be seriously harmed.

If necessary licenses of third-party technology are not available to us or are very expensive, our business would be seriously harmed.

We currently license technology, and from time to time we may be required to license additional technology, from third parties to sell or develop our products and product enhancements. Our existing and future third-party licenses may not be available to us on commercially reasonable terms, if at all. Our inability to maintain or obtain any third-party license required to sell or develop our products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, any of which could seriously harm our business, financial condition and results of operations.

Risks Related to the Development of Our Business

Our products and services require a sophisticated sales effort targeted at a limited number of key individuals within our prospective customers' organizations.

Our success will depend, in part, on our ability to develop and manage these relationships. This effort requires specialized sales personnel as well as experienced sales engineers. Competition for these individuals is intense because there are a limited number of people available with the necessary business background and understanding of our market. When we hire them or contract for these personnel, they may require extensive training in our network products. We might not be able to hire the kind and number of sales personnel and sales engineers required for us to be successful. If we are unable to adjust our sales, customer service and support operations, we may not be able to effectively market our products, which may prevent us from achieving and maintaining profitability.

We have previously offered warrants to purchase our common stock to three of our customers. We may be unable to attract new customers unless we continue to offer similar equity arrangements.

Two of our customers purchased an equity interest in us, and a third customer holds a warrant to purchase our common stock. Although these customers purchased the equity interests at fair value and the warrant has an exercise price equal to the fair value on the date of grant, the opportunity to invest in us provided these customers with an additional incentive to purchase our products. We may be unable to attract new customers, unless we offer equity to them. It is not our intention to offer equity to customers in the future.

Our business will suffer if we fail to properly manage our size and continually improve our internal controls and systems.

We continue to adjust the scope of our operations, as well as our in-house manufacturing and customer support capabilities, develop new distribution channels and fund research and development. Our ability to successfully offer our products and implement our business plan in a rapidly evolving market requires an effective planning and management process. In order to manage our size properly, we must:

- retain existing personnel;
- hire, train, manage and retain additional qualified personnel, including engineers and research and development personnel;
- manage our manufacturing operations, controls and reporting systems;
- effectively manage multiple relationships with our customers, suppliers and other third parties; and
- implement additional operational controls, reporting and financial systems and procedures.

Failure to do any of the above in an efficient and timely manner could seriously harm our business, financial condition and results of operations.

If we become subject to unfair hiring claims we could incur substantial costs in defending ourselves or management's attention could be diverted away from our operations.

Companies in our industry whose employees accept positions with competitors frequently claim that their competitors have engaged in unfair hiring practices. We have received claims of this kind in the past, and we may receive claims of this kind in the future as we seek to hire qualified personnel or that those claims will not result in material litigation. We could incur substantial costs in defending ourselves or our employees against such claims, regardless of the merits of the claims. In addition, defending ourselves from such claims could divert the attention of management away from our operations.

We may need additional capital to fund our existing and future operations. If we are unable to obtain additional capital, we may be required to reduce the scope of our planned product development and marketing and sales efforts, which would harm our business, financial condition and results of operations.

The development, marketing and sales of new products is expected to require a significant commitment of resources. We may incur significant operating losses or expend significant amounts of capital if:

- the market for our products develops more slowly than anticipated;
- we fail to establish market share or generate revenue;
- our capital expenditure forecasts change or prove inaccurate; and
- we need to respond to unforeseen challenges or take advantage of unanticipated opportunities.

As a result, we may need to raise additional capital. To the extent that we raise additional capital through the sale of equity or debt securities, the issuance of such securities could result in dilution to our existing stockholders. If additional funds are raised through the issuance of debt securities, the terms of such debt could impose additional restrictions on our operations. Additional capital, if required, may not be available on acceptable terms, or at all. If we are unable to obtain additional capital, we may be required to reduce the scope of our planned product development and marketing and sales efforts, which would harm our business, financial condition and results of operations.

Risks Related to the Dorsál Acquisition.

We may not realize any benefits from the merger.

Although there can be no assurance that the merger will be completed, we and Dorsál entered into the merger agreement with the expectation that the merger will result in benefits to each company, including:

- significantly broadening our addressable market opportunities;
- positioning us as one of the few end-to-end vendors of next-generation terrestrial and undersea optical networking solutions;

- accelerating sales to global carriers;
- leveraging the two companies' complementary technologies and enhancing their competitive strengths;
- leveraging both companies' sales and marketing resources to provide opportunities to increase market penetration and revenue growth;
- realizing cost savings in operations and new product development;
- addressing an attractive market opportunity in light of the current competitive landscape and compared to other areas of potential acquisition for us in the terrestrial space;
- expanding new product development opportunities through the integration of existing products and services;
- having greater capacity to respond to competition, market demands and technological change; and
- increasing management breadth and depth.

Achieving the benefits of the merger will depend in part on the successful integration of our and Dorsál's operations and personnel in a timely and efficient manner. Integrating Corvis and Dorsál will be a complex and time-consuming process. Employees and management of each of Corvis and Dorsál have played a key role in creating each company. The successful integration of these two companies will alter prior relationships and may affect productivity. In addition, the merger is likely to divert the attention of management of each company and could negatively affect the combined company's ability to operate and retain key employees after the merger. We cannot assure you that the operations of the companies can be successfully integrated or that any of the anticipated benefits will be realized, and the failure to do so could have a material adverse effect on our business and common stock price.

If we and Dorsál cannot quickly and efficiently make our technology, products and services operate together, many of the potential benefits of the merger may not be realized.

We intend to make Dorsál's technology, products and services operate together with our own products and services, as well as to offer Dorsál's technology, products and services separately. We cannot assure you that we will be able to do so quickly and effectively. In order to obtain the benefits of the merger, we must make Dorsál's technology, products and services operate together with our technology, products and services. We may be required to spend additional time and money on integration, which would otherwise be spent on developing our own products and services. If we do not integrate the technology effectively or if our management spends too much time on integration issues, it could harm the combined company's business, financial condition and results of operations.

Merger related accounting charges may delay and reduce our profitability.

We will account for the merger under the "purchase" method of accounting. Under the purchase method, the purchase price of Dorsál will be allocated to identifiable assets and liabilities acquired from Dorsál with any excess being treated as goodwill. As a result, we will incur accounting charges from the merger that may delay our profitability. These charges are currently preliminarily estimated to include an in-process research and development charge of approximately $33.5 million to be expensed in the period in which the merger is consummated. In addition, the merger will generate certain intangible assets of approximately $30.5 million which will be amortized over varying periods and estimated goodwill and other intangible assets with indefinite lives of approximately $8.2 million, which will be subject to periodic impairment tests and could result in potential write-down charges in future periods. These estimates may change based on a final independent valuation.

The market price of our common stock may decline as a result of the merger.

The market price of our common stock may decline as a result of the merger if:

- the integration of Corvis and Dorsál is unsuccessful or takes longer than expected;
- the perceived benefits of the merger are not achieved as rapidly or to the extent anticipated by financial analysts or investors;
- the effect of the merger on our financial results is not consistent with the expectations of financial analysts or investors; or
- dilution from the stock issued for the merger.

Quantitative and Qualitative Disclosures About Market Risk.

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in forward-looking statements. We maintain instruments subject to interest rate and foreign currency exchange rate risk. We categorize all of our market risk sensitive instruments as non-trading or other instruments.

Interest Rate Sensitivity

We maintain a portfolio of cash equivalents in a variety of securities including: commercial paper, certificates of deposit, money market funds and government and non-government debt securities. Substantially all amounts are in money market funds as well as high grade, short-term commercial paper and certificates of deposit, the value of which is generally not subject to interest rate changes. We believe that a 10% increase or decline in interest rates would not be material to our investment income or cash flows. Our long-term debt obligations bear fixed interest rates. As such, we have minimal cash flow exposure due to general interest rate changes associated with our long-term debt obligations.

Foreign Rate Sensitivity

We primarily operate in the United States; however, we have expanded operations to include research and development and sales offices in various European countries. As a result, we may have sales in foreign currencies exposing us to foreign currency rate fluctuations. For the fiscal year ended December 29, 2001, we recorded no sales in a foreign currency. We are exposed to the impact of foreign currency changes, associated with the Euro, for our European subsidiaries, financial instruments, which are limited to cash and cash equivalents. It is the policy of management to fund foreign operations on a monthly basis, thus minimizing average cash and overnight investments in the Euro. At December 29, 2002, our European subsidiaries maintained cash and cash equivalents of approximately €1.8 million. We believe that a 10% increase or decline in the Euro exchange ratio would not be material to cash and cash equivalent balances, interest income, or cash flows from consolidated operations.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Corvis Corporation and subsidiaries:

We have audited the accompanying consolidated balance sheets of Corvis Corporation and subsidiaries as of December 30, 2000 and December 29, 2001, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended January 1, 2000, December 30, 2000 and December 29, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corvis Corporation and subsidiaries as of December 30, 2000 and December 29, 2001 and the results of their operations and their cash flows for the years ended January 1, 2000, December 30, 2000 and December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

McLean, Virginia
January 29, 2002, except as to
Note 14 which is as of
February 25, 2002

CORVIS CORPORATION

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	December 30, 2000	December 29, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$1,024,758	$ 638,872
Short-term investments	—	21,907
Trade accounts receivable	16,085	33,676
Inventory, net	219,414	96,426
Other current assets	26,802	17,486
Total current assets	1,287,059	808,367
Restricted cash, long-term	46,292	2,417
Property and equipment, net	106,681	134,393
Goodwill and other intangible assets, net	929,204	21,429
Other long-term assets, net	12,600	12,219
Total assets	$2,381,836	$ 978,825
LIABILITIES, REDEEMABLE STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable, current portion	$ 1,438	$ 126
Capital lease obligations, current portion	1,841	6,796
Accounts payable	90,995	14,488
Accrued expenses	20,745	36,402
Provision for restructuring charge	—	24,050
Total current liabilities	115,019	81,862
Noncurrent liabilities:		
Notes payable, net of current portion	44,529	2,959
Capital lease obligations, net of current portion	1,380	1,743
Other long-term liabilities	4,315	3,408
Total liabilities	165,243	89,972
Commitments and contingencies		
Redeemable stock	30,000	—
Stockholders' equity:		
Preferred stock—$0.01 par value; 200,000,000 shares authorized; zero shares issued and outstanding as of December 30, 2000 and December 29, 2001	—	—
Common stock—$0.01 par value; 1,900,000,000 shares authorized; 348,039,489 shares and 362,687,909 shares issued and outstanding as of December 30, 2000 and December 29, 2001, respectively	3,478	3,621
Additional paid-in capital	2,497,773	2,648,955
Accumulated other comprehensive income (loss):		
Foreign currency translation	60,176	(10,796)
Accumulated deficit	(374,834)	(1,752,927)
Total stockholders' equity	2,186,593	888,853
Total liabilities, redeemable stock and stockholders' equity	$2,381,836	$ 978,825

See accompanying notes to consolidated financial statements.

CORVIS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

	Year Ended		
	January 1, 2000	December 30, 2000	December 29, 2001
Revenue	$ —	$ 68,898	$ 188,450
Costs of revenue			
Product sales	—	42,943	116,952
Inventory write-downs, contract losses and other	—	—	216,535
Gross profit (loss)	—	25,955	(145,037)
Operating expenses:			
Research and development, exclusive of equity-based expense	41,565	88,874	149,882
Sales and marketing, exclusive of equity-based expense	3,422	30,871	56,002
General and administrative, exclusive of equity-based expense	18,993	31,127	34,344
Equity-based expense:			
Research and development	126	28,050	45,409
Sales and marketing	4,845	52,417	17,756
General and administrative	—	17,891	35,642
Amortization of intangible assets	173	46,746	125,940
Purchased in-process research and development	—	42,230	—
Restructuring, impairment and other charges	—	—	789,242
Total operating expenses	69,124	338,206	1,254,217
Operating loss	(69,124)	(312,251)	(1,399,254)
Interest income (expense), net	(2,146)	28,640	21,161
Net loss	(71,270)	(283,611)	(1,378,093)
Other comprehensive income (loss):			
Foreign exchange adjustment	—	60,176	(70,972)
Comprehensive loss	$(71,270)	$(223,435)	$(1,449,065)
Basic and diluted net loss per common share	$ (2.33)	$ (1.80)	$ (3.94)
Weighted average number of common shares outstanding	30,599	157,349	349,652

See accompanying notes to consolidated financial statements.

CORVIS CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands)

	Convertible Preferred Stock All Series		Common Stock		Additional Paid-in Capital	Stockholder Note Receivable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 1998	7,878,955	$ 78	23,946,012	$ 237	$ 16,671	$ —	$ —	$ (19,953)	$ (2,967)
Private Placement—Series C preferred stock	3,075,736	31	—	—	28,103	—	—	—	28,134
Private Placement—Series D preferred stock	211,928	2	—	—	1,936	—	—	—	1,938
Private Placement—Series F preferred stock	1,898,406	19	—	—	46,017	—	—	—	46,036
Private Placement—Series G preferred stock	292,825	3	—	—	9,997	—	—	—	10,000
Private Placement—Series H preferred stock	2,685,954	27	—	—	216,273	—	—	—	216,300
Exercise of stock options and warrants	44,382	1	37,168,008	372	2,604	(1,224)	—	—	1,753
Issuance of warrants	—	—	—	—	9,576	—	—	—	9,576
Equity-based expense	—	—	—	—	126	—	—	—	126
Net loss	—	—	—	—	—	—	—	(71,270)	(71,270)
Balance at January 1, 2000	16,088,186	161	61,114,020	609	331,303	(1,224)	—	(91,223)	239,626
Exercise of stock options and warrants	352,576	4	6,111,073	61	47,244	—	—	—	47,309
Private Placement—Series H preferred stock	496,710	5	—	—	40,000	—	—	—	40,005
Acquisition of Algety Telecom S.A.	1,301,822	13	11,385,358	114	916,942	—	—	—	917,069
Initial public offering and concurrent private placement, net	—	—	31,902,778	319	1,066,118	—	—	—	1,066,437
Equity-based expense	213,633	2	—	—	98,356	—	—	—	98,358
Conversion of preferred stock	(18,452,927)	(185)	237,526,260	2,375	(2,190)	—	—	—	—
Collection of shareholder note	—	—	—	—	—	1,224	—	—	1,224
Foreign exchange adjustment	—	—	—	—	—	—	60,176	—	60,176
Net loss	—	—	—	—	—	—	—	(283,611)	(283,611)
Balance at December 30, 2000	—	—	348,039,489	3,478	2,497,773	—	60,176	(374,834)	2,186,593
Exercise of stock options and warrants	—	—	14,648,420	143	5,950	—	—	—	6,093
Equity-based expense	—	—	—	—	115,232	—	—	—	115,232
Expiration of put right	—	—	—	—	30,000	—	—	—	30,000
Foreign exchange adjustment	—	—	—	—	—	—	(70,972)	—	(70,972)
Net loss	—	—	—	—	—	—	—	(1,378,093)	(1,378,093)
Balance at December 29, 2001	—	$ —	362,687,909	$3,621	$2,648,955	$ —	$(10,796)	$(1,752,927)	$ 888,853

See accompanying notes to consolidated financial statements.

CORVIS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended		
	January 1, 2000	**December 30, 2000**	**December 29, 2001**
Cash flows used in operating activities:			
Net loss	$ (71,270)	$ (283,611)	$(1,378,093)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	4,937	54,301	154,965
Equity-based expense	4,971	98,358	98,807
Purchased in-process research and development	—	42,230	—
Non-cash restructuring, goodwill impairment, inventory write-downs and other charges	—	—	942,653
Asset impairment and other non-cash expenses	—	—	12,301
Changes in operating assets and liabilities:			
Increase in accounts receivable	—	(16,085)	(17,591)
Increase in inventory, net	(15,869)	(195,384)	(35,154)
Decrease (increase) in other current assets	(1,465)	(24,926)	9,316
Increase in other long-term assets	—	—	(5,005)
Increase (decrease) in accounts payable	4,737	79,725	(76,507)
Increase in other accrued expenses	2,207	14,591	38,791
Net cash used in operating activities	(71,752)	(230,801)	(255,517)
Cash flows used in investing activities:			
Purchase of property and equipment	(14,180)	(90,659)	(97,702)
Cash acquired in business combination	37	22,496	—
Minority equity investments	—	(4,199)	(11,891)
Purchase of investments	—	—	(21,907)
Decrease in deposits and other long-term assets	167	—	—
Net cash used in investing activities	(13,976)	(72,362)	(131,500)
Cash flows from financing activities:			
Decrease (increase) in restricted cash	(17,103)	(29,189)	43,875
Proceeds from issuance of note payable	49,091	43,500	—
Proceeds from stockholder note payable	8,347	—	—
Proceeds from equity offerings	290,470	1,071,443	—
Proceeds from stock options and warrants exercised	1,752	47,309	6,092
Proceeds from repayment of shareholder note	—	1,224	—
Payment of notes payable and capital lease obligations	(6,272)	(49,958)	(48,484)
Net cash provided by financing activities	326,285	1,084,329	1,483
Cash effect of foreign exchange adjustment	—	(1,004)	(352)
Net increase (decrease) in cash and cash equivalents	240,557	780,161	(385,886)
Cash and cash equivalents—beginning	4,040	244,597	1,024,758
Cash and cash equivalents—ending	$244,597	$1,024,758	$ 638,872
Supplemental disclosure of cash flow information:			
Interest paid	$ 564	$ 7,220	$ 3,831
Supplemental disclosure of noncash activities:			
Financed leasehold improvements	$ 3,164	$ 2,105	$ 10,919
Obligations under capital lease	3,000	—	—
Issuance of warrants under capital lease obligation	94	—	—
Receipt of warrants in association with purchase commitment	—	—	2,361
Conversion of stockholder note payable	10,000	—	—
Stockholder note received for exercise of stock options	1,224	—	—
Purchase business combinations consideration paid with preferred and common stock	1,888	947,069	—
Issuance of stock for intellectual property	—	35,000	—

See accompanying notes to consolidated financial statements.

CORVIS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies and Practices

(a) Nature of Business and Basis of Presentation

Corvis Corporation (the "Company") was incorporated on June 2, 1997 to design, manufacture and market products that enable a fundamental shift in the design and efficiency of backbone communications networks by allowing for the transmission, switching and management of traffic entirely in the optical domain. In July 2000, the Company commenced its planned principal operations, including production, shipment and delivery of its commercial products. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. In 1999, the Company changed its year end from a calendar year end to a year ending on the Saturday closest to December 31.

On February 8, 2000 and July 21, 2000, the Company declared a 3-for-1 and a 4-for-1 split of its common stock, respectively. All share and per share amounts of common stock in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock splits.

(b) Cash and Cash Equivalents

The Company considers short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash in banks and investments in overnight repurchase agreements, certificates of deposit, money market funds and government and non-government debt securities. As of December 30, 2000 and December 29, 2001, investments in overnight repurchase agreements totaled $0.8 million and $4.9 million, respectively, and investments in commercial paper totaled $1,011.5 million and $632.2 million, respectively. The Company considers these investments as available-for-sale. As such, the securities are stated at their fair market value and unrealized gains and losses, net of related tax effect, on these securities are recognized as a component of other comprehensive income (loss). As of December 30, 2000 and December 29, 2001, the fair value of these marketable securities approximated the carrying value.

As of December 29, 2001, restricted cash of $2.4 million is supporting outstanding letters of credit.

As of December 30, 2000, restricted cash of $46.3 million is comprised of approximately $2.8 million supporting outstanding letters of credit and $43.5 million is pledged as collateral under the terms of a long-term note, which was repaid in 2001.

(c) Short-term Investment Securities

Short-term investment securities at December 29, 2001 consist of U.S. corporate obligations. The Company classifies these securities as available-for-sale securities. Available-for-sale securities are recorded at fair value and unrealized holding gains and losses, net of the related tax effect, on these securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on specific identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related available-for sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

At December 29, 2001, all of the Company's available-for-sale securities were made up of U.S. corporate securities and are contractually due in one year or less. Amortized cost approximates fair value at December 29, 2001. Expected maturities may differ from contractual maturities because the issuer of the securities may have the right to repay obligations without prepayment penalties.

(d) Strategic Equity Investments

During 2000 and 2001, the Company made strategic equity investments in certain startup companies for a total of $4.2 million and $11.9 million, respectively. During 2001, the Company recorded charges totaling $12.3 million associated with the permanent impairment of these investments resulting from the impact of economic conditions on certain of these investees. Because the Company does not have significant influence over any one of these entities, the Company accounts for these investments using the cost method.

(e) Revenue and Cost of Revenue

Revenue from product sales is recognized upon execution of a contract and the completion of all delivery obligations provided that there are no uncertainties regarding customer acceptance and collectibility is deemed probable. If uncertainties exist, revenue is recognized when such uncertainties are resolved.

Revenue from installation services is recognized as the services are performed unless the terms of the supply contract combine product acceptance with installation, in which case revenues for installation services are recognized when the terms of acceptance are satisfied and installation is completed. Revenues from installation service fixed price contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date compared to estimated total costs for each installation contract. Amounts received in excess of revenue recognized are included as deferred revenue in the accompanying consolidated balance sheets.

Costs of revenues include the costs of manufacturing the Company's products and other costs associated with warranty and other contractual obligations, inventory obsolescence costs and overhead related to the Company's manufacturing, engineering, finishing and installation operations. Warranty reserves are determined based upon actual warranty cost experience, estimates of component failure rates and management's industry experience.

(f) Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value). The Company records a provision for excess and obsolete inventory whenever such an impairment has been identified.

(g) Property and Equipment

Internal network equipment, test and manufacturing equipment, furniture and fixtures, and leasehold improvements are stated at cost or estimated fair market value if acquired in a purchase business combination. Depreciation is calculated using the straight-line method over estimated useful lives ranging between three and seven years for internal network equipment, test and manufacturing equipment, and furniture and fixtures. Leasehold improvements and assets acquired under capital leases are amortized over the shorter of the lease term or the estimated useful life of the assets.

(h) Goodwill and Other Intangible Assets

The Company has classified as goodwill the cost in excess of fair value of the net assets of companies acquired in purchase business combinations. Goodwill is being amortized using the straight-line method over five years.

(i) Recovery of Long-lived Assets

The Company's policy is to review its long-lived assets, including goodwill and other intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company recognizes an impairment loss when the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset. The measurement of the impairment losses to be recognized is based upon the difference between the fair value, using discounted cash flows, using a discount rate considering the Company's cost of capital and the commensurate risks associated with the projected cash flows, and the carrying amount of the asset.

(j) Research and Development

Research and development costs are expensed as incurred.

(k) Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Foreign Currency Translation

The assets and liabilities of the Company's self-contained foreign operations for which the functional currency is the local currency are generally translated into U.S. dollars at current exchange rates and revenue and expenses are translated using average exchange rates for the period. Resulting translation adjustments are reflected as a component of other comprehensive income (loss).

(m) Earnings (Loss) Per Common Share

The computations of basic and diluted earnings (loss) per common share are based upon the weighted average number of common shares outstanding during the period. Dilutive earnings per share give effect to all potentially dilutive common securities. Potentially dilutive securities include convertible preferred stock (prior to the Company's initial public offering), stock options and warrants.

(n) Uses of Estimates

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

(o) Stock Options and Warrants

The Company accounts for its stock options in accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair market value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to apply the provisions of APB Opinion No. 25 and provide pro forma net income (loss) disclosures for employee stock options granted as if the fair value based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25, as interpreted by FIN 44, and provide the pro forma disclosures of SFAS No. 123. Stock options and warrants granted to other than employees are recognized at fair value.

(p) Reclassifications

Certain reclassifications have been made in the January 1, 2000 and December 30, 2000 consolidated financial statements to conform to the December 29, 2001 presentation. Such reclassifications had no effect on net loss or total stockholders' equity.

(2) Inventory write-downs, Restructuring and Other Charges

During 2001, unfavorable economic conditions have resulted in reduced capital expenditures by telecommunications service providers. In response to these conditions, the Company implemented in the second and fourth quarters of 2001 restructuring plans, approved by the Company's Board of Directors, designed to decrease the Company's operating expenses and to align resources for long-term growth opportunities. These plans included the closure of our Canadian operations. Additionally, the Company evaluated the recoverability of the carrying value of its long-lived assets in light of the new economic environment and the loss of key customer and projected sales. As a result of these initiatives, the Company recorded the following restructuring and other charges during 2001:

	Costs of Revenue	Restructuring and Other Charges				Interest Income and Other	
	Special Charges, Inventory Write-Down, Contract Losses and Purchase Commitments	Workforce Reduction	Facility Consolidation	Write-down of Impaired Goodwill	Total Restructuring and Other Charges	Impairment of Investments	Total
2001 Restructuring and Other Charges:							
Second quarter	$ 99,166	$ 9,409	$ 9,031	$ 588,295	$ 606,735	$ 8,682	$ 714,583
Third quarter	—	603	28	—	631	—	631
Third quarter change in estimate	—	(500)	—	—	(500)	—	(500)
Fourth quarter	117,369	15,017	44,131	123,228	182,376	3,619	303,364
Total restructuring charge	216,535	24,529	53,190	711,523	789,242	12,301	1,018,078
Cash payments	(27,187)	(6,952)	(4,935)	—	(11,887)	—	(39,074)
Non-cash expenses	(174,035)	(16,431)	(40,664)	(711,523)	(768,618)	(12,301)	(954,954)
Restructuring liability as of December 29, 2001	$ 15,313	$ 1,146	$ 7,591	$ —	$ 8,737	$ —	$ 24,050

(a) Cost of Revenue; Special Charges

The restructuring plans, approved by the Company's Board of Directors during the second and fourth quarters of 2001, included discontinuance of certain product lines and reduction of planned production levels that resulted in total charges of approximately $216.5 million, which have been classified as a component of costs of revenues. These charges include approximately $174.0 million associated with the write-down of excess inventory and $42.5 million in incremental costs associated with the cancellation of certain open purchase commitments, which are expected to be paid in 2002.

(b) Workforce Reduction

The Company's restructuring plans also included workforce reduction programs that resulted in the reduction of approximately 650 employees or a 50% decrease from the Company's North American employee base at December 30, 2000. As a result, the Company recorded total restructuring charges of approximately $24.5 million in the second, third and fourth quarters of 2001 of which approximately $24.4 million was associated with termination plans within the United States and $0.6 million recorded in the third quarter associated with termination plans in the Company's Canadian operations, net of approximately $0.5 million of reductions in estimates for second quarter restructuring charges. Restructuring charges recorded during the year ended December 29, 2001 consisted of $8.1 million for severance and benefits and $16.4 million for equity-based compensation.

(c) Facility Consolidation and Idle Equipment

To reduce costs and improve productivity, the restructuring plans approved in the second, third and fourth quarters of 2001 included the consolidation of excess facilities and equipment. Total losses on excess facility exit plans include $53.2 million in incremental lease exit costs and write-off of idle equipment. Consolidation of facilities is expected to be completed in early 2002.

(d) Impairment of Goodwill and Other Assets

When events and circumstances warrant a review, management evaluates the carrying value of long-lived assets to be held and used in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121 "*Accounting for the Impairment and for Long-Lived Assets to be Disposed Of.*" In the second quarter, unfavorable economic conditions resulted in a reduction in capital expenditures by telecommunications service providers. In light of the business environment and uncertain telecommunications spending, during the second and fourth quarters Corvis evaluated its long-lived assets in accordance with SFAS No. 121 and determined that the carrying value exceeded the estimated fair value of goodwill recorded in association with the acquisition of Algety Telecom S.A., resulting in a total impairment charge of approximately $711.5 million. In addition in the second and fourth quarters, the Company recorded an impairment charge of approximately $12.3 million associated with the write-down of certain investments carried at cost, resulting from the impact of economic conditions on the investees.

(3) Inventory

Inventories are comprised of the following (in thousands):

	December 30, 2000	December 29, 2001
Raw materials	$131,983	$ 197,549
Work-in-process	50,161	17,037
Finished goods	51,119	52,268
	233,263	266,854
Less reserve for excess inventory and obsolescence	(13,849)	(170,428)
Inventory, net	$219,414	$ 96,426

(4) Property and Equipment

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

	December 30, 2000	December 29, 2001
Test and manufacturing equipment	$ 78,855	$136,828
Furniture, fixtures and internal network equipment	20,209	25,049
Leasehold improvements	23,650	26,333
Total	122,714	188,210
Less accumulated depreciation and amortization	(16,033)	(53,817)
Property and equipment, net	$106,681	$134,393

(5) Notes Payable

A summary of notes payable as of December 30, 2000 and December 29, 2001 is as follows (in thousands):

	December 30, 2000	December 29, 2001
Note payable, repaid in 2001	$43,500	$ —
Leasehold improvements loan due May 2009	1,102	1,014
Other	1,365	2,071
	45,967	3,085
Less current portion	(1,438)	(126)
Notes payable, net of current portion	$44,529	$2,959

During 1999, the Company executed long-term notes for equipment financing with a lender for approximately $6.1 million. The notes bore interest at the rate of 14.91%, and were collateralized by the underlying equipment. The debt was repayable in 36 monthly installments of principal and interest beginning June 1999. In connection with the issuance of the notes during 1999, the Company issued 19,679 warrants to purchase Series C convertible preferred stock to the lender. The warrants had an exercise price of $9.147 per share and expired three years from issuance, or upon an initial public offering. The fair market value of the warrants, approximately $0.1 million, was recognized as deferred financing fees. In August 2000, this note was repaid in full without penalty or premium.

In January 1999, the Company executed a long-term collateralized equipment note with another lender for $3.0 million. The note bore interest at a rate of 11%. The debt was repayable in 36 monthly installments of principal and interest beginning June 1, 1999. In connection with the issuance of the notes, the Company issued 32,798 warrants to purchase Series C convertible preferred stock to the lender. The warrants had an exercise price of $9.147 per share. The fair value of the warrants, approximately $0.2 million, was recognized as deferred financing fees. In November 2000, this note was repaid in full without penalty or premium.

In July 1999, the Company entered into a loan agreement with a landlord for tenant improvements associated with the lease of a new building in the amount of $1.2 million. As of December 30, 2000, the Company had drawn the entire $1.2 million commitment. The debt bears interest at a rate of 10.0%. The debt is repayable in 120 monthly installments of principal and interest which began in June 1999.

During 1999, the Company obtained a commitment for an aggregate of $40.0 million of debt financing from a syndicate of lenders. As of January 1, 2000, the Company had drawn the entire $40.0 million commitment. The debt bore interest at a rate of 8.5%. The debt was repayable in 36 monthly installments of principal and interest beginning September 1999 and with aggregate balloon payments of 14% at maturity. In connection with the issuance of the debt, the Company issued 641,121 warrants to purchase Series E convertible preferred stock to the lender. The warrants have an exercise price of $9.147 per share. The fair value of the warrants, approximately $3.7 million, was recognized as deferred financing fees. In November 2000, this facility was repaid in full without penalty or premium.

In November 2000, the Company executed a long-term note payable with a lender for approximately $43.5 million. Interest associated with the note was due monthly while associated principal was due November 2002. The note bore interest at 6.5% so long as the Company maintained a minimum cash balance with the lender of $347.0 million through November 2001 and $231.0 million through November 2002. If cash balances deposited with the lender drop below these minimum levels, the note bore interest at LIBOR plus .80%. In addition, the Company pledged a certificate of deposit with a carrying value of $43.5 million as collateral under the agreement. In November 2001, this facility was repaid in full without penalty or premium.

(6) Equity

In December 1999, the Company issued 292,825 shares of Series G Convertible Preferred Stock for an aggregate purchase price of $10.0 million in a private placement transaction with a strategic investor. If certain minimum purchase commitments were not met by the holder of the Series G Convertible Preferred Stock on or before March 2000, the Company had the right to repurchase the shares at a price of $44.40 per share. In May 2000, the Company waived its right to repurchase the shares.

On August 2, 2000, the Company sold 31,625,000 of common stock in an initial public offering ("IPO") and 277,778 shares of common stock in a concurrent private placement for proceeds of $1,066.4 million after deducting underwriting discounts and commissions and offering expenses. Upon completion of the IPO, all outstanding shares of convertible preferred stock automatically converted into 237,526,260 shares of common stock at the following ratios: Series A Preferred, 24-to-1; all other Preferred Stock, 12-to-1.

(7) Acquisitions

(a) Baylight Networks, Inc.

On May 19, 2000, the Company acquired Baylight Networks, Inc. ("Baylight"), a company that designs network systems and subsystems. Baylight, based in Palo Alto, California, was formed in February 2000 and was a development stage company with no revenue. In consideration for all of the outstanding shares of Baylight, the

Company assumed $0.1 million of Baylight's liabilities and agreed to issue 2,400,012 shares of common stock over the term of three-year employment agreements with the former Baylight shareholders. The Company accounted for the acquisition as a purchase. Accordingly, the operating results of Baylight are included in the Company's financial results from the date of acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed has been based on an internal analysis of the fair value of the assets and liabilities of Baylight. The excess of the aggregate purchase price over the fair value of net assets acquired of approximately $0.1 million is being amortized on a straight-line basis over five years. The Company is recognizing compensation expense over the term of the employment agreements equal to the fair value of the shares to be issued.

(b) Algety Telecom S.A.

On July 1, 2000, the Company acquired Algety Telecom S.A. ("Algety"), a French company that develops and markets high-capacity, high-speed optical transmission equipment. Algety, based in Lannion, France, was formed in April 1999, and was a development stage company with no revenue. The acquisition price on the initial closing date equaled 1,301,822 shares of Series I convertible preferred stock. On November 3, 2000, consistent with the terms of the acquisition agreement, the Company completed a second closing at which time an additional 11,385,358 shares of common stock were delivered to the former Algety stockholders. The total value of all shares delivered in the first and second closing was $947.1 million. In addition, 2,275,032 shares of common stock have been placed into escrow to be released contingent upon satisfaction of certain minimum employment terms primarily over three years for certain Algety employees. The Company incurred approximately $1.0 million of transaction costs related to the acquisition.

The Company accounted for the acquisition as a purchase. Accordingly, the operating results of Algety are included in the Company's financial results from the date of acquisition. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed was based upon an independent third-party valuation. Based upon the results of the valuation, the Company allocated $20.1 million to tangible assets, $6.0 million to liabilities and $1.3 million to identifiable intangible assets. In addition, the Company allocated $42.2 million of the purchase price to in-process technology, which is included in operating expenses in the accompanying consolidated statement of operations. The excess of the aggregate purchase price over the fair value of net assets acquired of $876.7 million is being amortized on a straight-line basis over five years. As discussed in Note 2 above, the Company recorded $710.7 million in restructuring charges associated with goodwill for the year ended December 29, 2001. The remaining balance of goodwill at December 29, 2001 associated with Algety approximates $2.3 million.

When events and circumstances indicate a potential impairment, the Company evaluates the carrying value of long-lived assets to be held and used in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121 "*Accounting for the Impairment and for Long-Lived Assets to be Disposed Of.*" In the second quarter, unfavorable economic conditions resulted in a reduction in capital expenditures by telecommunications carriers. In light of the business environment and uncertain telecommunications spending, during the second quarter the Company evaluated its long-lived assets in accordance with SFAS No. 121 and determined that the carrying value exceeded the estimated fair value of goodwill recorded in association with the acquisition of Algety Telecom S.A., resulting in an impairment charge of approximately $588.3 million. As a result of continued losses, negative operating cash flows, continued unfavorable economic conditions and additional reductions in projected carrier capital expenditures over future periods, during the fourth quarter the Company reevaluated its long-lived assets under an analysis similar to that used in the second quarter and in accordance with SFAS No. 121, resulting in an impairment charge of $122.4 million.

Under the terms of the acquisition agreement, the Company granted certain former Algety shareholders the right to put certain shares of common stock back to the Company at the stock's then fair market value. The put right were available during a period from June 2001 to November 2001 and was enforceable only if no other liquidity sources were available to those shareholders. The fair market value of the common stock put to the Company could not exceed $30 million. Stock associated with this put right has been classified as redeemable stock in the consolidated balance sheet as of December 30, 2000. Since this right had lapsed as of December 29, 2001, the amount of previously redeemable stock was recognized as additional paid-in capital.

The following unaudited pro forma data summarizes the results of operations for the period indicated as if the Algety acquisition had been completed as of January 1, 1999. The unaudited pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles, but excluding the impact of the impairment charges discussed above. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of the periods presented or that may be obtained in the future (in thousands, except per share data).

	January 1, 2000	December 30, 2000
Revenues	$ —	$ 68,898
Net loss	(198,110)	(385,148)
Basic and diluted net loss per share	$ (6.47)	$ (2.45)

(8) Stock Options

In July 1997, the Company adopted the 1997 Stock Option Plan (the "Plan") pursuant to which the Company's Board of Directors may grant options to purchase common stock to employees, officers, directors and consultants. The Company has reserved 103,600,000 shares of common stock for issuance under the Company's Stock Option Plan. Stock options are granted with an exercise price equal to the estimated fair value of the common stock at the date of grant. The stock options have a 10-year term and ownership vests over four years from the date of grant. Common stock associated with the exercise of options prior to vesting is placed into escrow and released to the employee as the shares vest. Prepayments made by employees are not refundable in the event of termination prior to vesting. As of December 29, 2001, 49,317,299 shares of common stock have been issued through the exercise of options under the Plan, of which 8,425,869 shares have vested.

In June 2000, the Company adopted the 2000 Long Term Incentive Plan (the "2000 Plan") pursuant to which the Company may grant options to purchase common stock to employees, officers, directors and consultants. Under the 2000 Plan, 20,000,000 shares of the Company's shares of common stock are reserved for options issuable under the 2000 Plan. The number of shares authorized for issuance increases annually on January 1, by the lesser of five percent of outstanding shares on that date or such other number of shares as determined by the Board; however, incentive stock options issuable under the 2000 Plan are not to exceed 40,000,000 shares. These options vest over a four-year period and are exercisable once vested. Under the 2000 Plan, options may be incentive stock options or non-qualified options, and the exercise price shall not be less than the fair market value for incentive stock options and not less than par value for non-qualified options.

The Company applies APB Opinion No. 25. Had compensation cost for the Company's option plans been determined based on the fair value at the date of grant, consistent with the method of SFAS No. 123, the Company's net loss would have been increased to the pro forma amounts indicated below (in thousands):

	Year Ended		
	January 1, 2000	December 30 2000	December 29, 2001
Net loss:			
As reported	$(71,270)	$(283,611)	$(1,378,093)
Pro forma	(71,953)	(290,634)	(1,402,857)
Pro forma basic and diluted net loss per share	$ (2.35)	$ (1.85)	$ (4.01)

The per share weighted-average fair value of stock options granted during 1999, 2000 and 2001 was $0.49, $10.62 and $2.45, respectively, on the date of grant with the following weighted-average assumptions:

	Year Ended		
	January 1, 2000	December 30, 2000	December 29, 2001
Expected dividend yield	0%	0%	0%
Risk-free interest rate	6.33%	5.00%	3.49%
Expected life	4 years	3 years	3 years
Volatility	70%	130%	128%

The following is a summary of options granted:

	Number Outstanding	Weighted Average Exercise Price	Number Vested and Exercisable
December 31, 1998	31,922,388	$ .02	
Granted	21,583,800	.40	
Exercised	(37,168,008)	.07	
Canceled	(68,400)	.06	
January 1, 2000	16,269,780	.39	14,131,876
Granted	43,744,848	8.18	
Exercised	(5,560,183)	.52	
Canceled	(2,212,506)	4.64	
December 30, 2000	52,241,939	6.72	33,486,884
Granted	22,052,676	3.25	
Exercised	(5,436,500)	.55	
Canceled	(15,263,206)	7.93	
December 29, 2001	53,594,909	$5.56	16,683,076

The following table summarizes information about outstanding and exercisable stock options at December 29, 2001:

	Options Outstanding			Options Exercisable	
Actual Price Range	Actual Options Outstanding	Weighted Average Life	Weighted Avg. Exercise Price	Number Vested and Exercisable	Weighted Avg. Exercise Price
\$ 0.01-\$ 0.34	5,523,429	4.41	\$ 0.15	3,727,371	\$ 0.12
\$ 1.01-\$ 3.36	36,522,760	8.62	2.55	9,483,482	3.19
\$ 3.49-\$ 9.03	7,751,419	8.41	8.84	2,702,200	9.01
\$10.06-\$99.00	3,797,301	8.66	35.73	770,023	43.46
	53,594,909	8.16	5.56	16,683,076	5.31

The following table summarizes information about weighted-average grant date fair value of options granted during the year.

Fair Market Value at Grant vs. Grant Price	Number of Shares	Grant Price	Fair Value
In-the-money	3,235,803	\$0.23	\$0.38
At-the-money	16,755,802	\$4.04	\$3.03
Out-of-the-money	2,061,071	\$1.63	\$1.02
Totals	22,052,676	\$3.25	\$2.45

In-the-money-grants were issued in association with restructuring actions taken in the second and fourth quarter of fiscal year 2001. Out-of-the-money grants were issued to comply with individual tax law applicable to grants to employees of our foreign subsidiaries.

(9) Employee Stock Purchase Plan

During 2000, the Company established the Corvis Employee Stock Purchase Plan (the "Plan"). Under the Plan, the Company may issue up to 2,000,000 shares of common stock in each Purchase Plan year, up to a total of 10,000,000 shares during the life of the Plan. Eligible employees choose to participate in the Plan during offering periods by authorizing payroll deductions of up to 15% of their salaries, subject to limitations imposed by the Internal Revenue Code. The first offering period began in July 2000. Subsequent periods will be six months long, with the first subsequent period beginning on January 1, 2001. As of the last business day of each offering period, called an "exercise date," the participant's accumulated payroll deductions as of that date are used to purchase shares of common stock. The purchase price per share of common stock purchased as of this date is the lower of either (1) 85% of the fair market value of a share of common stock on the first business day of the offering period or (2) 85% of the fair market value of a share of common stock on the exercise date. During fiscal year 2001, 394,511 shares were purchased under the plan, resulting in aggregate proceeds of \$3.3 million.

The per share weighted average fair value of stock options granted under the ESPP during 2000 and 2001 was $16.61 and $3.80, respectively, on the date of grant with the following weighted average assumptions:

	Year Ended	
	December 30, 2000	December 29, 2001
Expected dividend yield	0%	0%
Risk-free interest rate	6.27%	3.91%
Expected life	.5 years	.5 years
Volatility	130%	128%

(10) Warrants

During 1999, the Company issued warrants to purchase 140,497 shares of Series B preferred stock and Series C preferred stock in association with certain lease agreements. During 2001, all of these warrants were exercised resulting in the issuance of 1,659,615 shares of common stock for proceeds of $0.5 million.

During 1999, in connection with certain debt facilities, the Company issued warrants to purchase 1,052,683 shares of Series B preferred stock, Series C preferred stock and Series E preferred stock. During 2001, warrants to purchase 6,371,295 shares of common stock were exercised resulting in proceeds of $3.0 million. The warrants are immediately exercisable and expire between three and seven years from the date of issuance. On December 29, 2001, associated warrants to purchase 2,322,864 shares of common stock with a weighted average exercise price of $0.76 remain outstanding.

In September 1999, the Company entered into a series of agreements with a strategic investor. Under a stock purchase agreement, the Company agreed to issue 164,948 shares of Series F convertible preferred stock for aggregate proceeds of approximately $4.0 million. Concurrently with the stock issuance, the Company entered into an exclusive license agreement with the investor for the use of certain intellectual property and a non-exclusive license for certain other technology. As consideration for the license, the Company agreed to make quarterly payments of $0.3 million over a four-year period. In addition, the Company granted the strategic investor a warrant to receive common stock valued at $35.0 million upon the consummation of a qualifying IPO. As part of the agreement, the Company had the right to accept ownership in the license in full if the qualifying IPO took place. After the Company's initial public offering in July 2000, the Company accepted ownership of the license and recorded an intangible asset valued at $35.0 million, which is being amortized ratably over a three-year life.

In November 1999, the Company issued warrants to purchase up to 5,270,856 shares of common stock at $2.85 per share to a strategic investor. A certain percent of the warrants were immediately exercisable, with the remaining amount contingent upon certain future purchases of the Company's products by the strategic investor. These warrants were to expire in June 2001 if these conditions were not met. Of the total 5,270,856 shares of common stock committed in this warrant, the rights to purchase 2,635,428 shares expire on December 31, 2004 and the rights to purchase the remaining 2,635,428 shares expire on June 30, 2006. In 1999, the Company recorded equity-based sales and marketing expense of approximately $1.8 million for the estimated fair value at grant date of the warrants which were immediately exercisable. In June 2000, the Company waived the purchase requirements associated with the remaining warrants, resulting in an equity-based sales and marketing expense of approximately $19.5 million for the estimated fair value at the date the warrants became exercisable. As of December 29, 2001, all warrants associated with the agreement remain outstanding.

In December 1999, the Company issued warrants to purchase 281,162 shares of Series G convertible preferred stock at $32.01 per share to another strategic investor. The warrants were immediately exercisable and would have expired upon the IPO. In December 1999, the Company recorded equity-based sales and marketing expense of approximately $3.1 million for the estimated fair value at grant date of the warrants issued. These warrants were exercised in full during 2000. Also, in December 1999, the Company issued to this strategic investor the right to purchase up to an additional $30.0 million of stock at a price equal to the most recently completed financing round subject to meeting certain minimum purchase commitments of the Company's product, and an additional $5.0 million of common stock in the event of a qualified IPO. In June 2000, the Company waived the minimum purchase commitments associated with the additional stock purchase rights and recorded equity-based sales and marketing expense of $10.5 million. These stock purchase rights were fully exercised in 2000.

In December 1999, the Company issued to another strategic investor the right to purchase 124,177 shares of Series H Convertible Preferred Stock at a price equal to $80.53 per share subject to meeting certain purchase commitments and an additional $5.0 million of common stock in the Company's IPO. In May 2000, the Company waived the minimum purchase commitments associated with the Series H stock purchase rights and recorded equity-based sales and marketing expense of $3.5 million. Both stock purchase rights were fully exercised in 2000.

(11) Basic and Diluted Net Loss Per Common Share

Basic and diluted net loss per common share are computed as follows (in thousands, except per share data):

	Year Ended		
	January 1, 2000	December 30, 2000	December 29, 2001
Net loss	$(71,270)	$(283,611)	$(1,378,093)
Basic and diluted weighted average common shares	30,599	157,349	349,652
Basic and diluted net loss per common share	$ (2.33)	$ (1.80)	$ (3.94)

Convertible Preferred Stock outstanding as of January 1, 2000, convertible into 211,658,232 shares of common stock, options and warrants to purchase 16,269,780 and 17,598,770 shares of common stock, respectively, and 25,556,484 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended January 1, 2000 as their inclusion would be anti-dilutive.

Options and warrants outstanding as of December 30, 2000 to purchase 52,241,939 and 15,810,732 shares of common stock, respectively, and 14,546,488 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended December 30, 2000 as their inclusion would be anti-dilutive.

Options and warrants outstanding as of December 29, 2001 to purchase 53,594,909 and 7,593,684 shares of common stock, respectively, and 4,306,755 unvested shares acquired through the exercise of options were not included in the computation of diluted loss per share for the year ended December 29, 2001 as their inclusion would be anti-dilutive.

(12) Income Taxes

The Company has incurred operating losses since its inception and has recognized no current or deferred tax provision or benefit. The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to loss before income taxes. The items causing this difference are as follows (in thousands):

	Year Ended		
	January 1, 2000	December 30, 2000	December 29, 2001
Expected tax benefit at statutory rate	$ 24,944	$ 99,264	$ 482,333
State tax, net of federal benefit	3,198	9,026	23,393
Non-deductible goodwill amortization and purchased in-process research and development	—	(29,400)	(289,023)
Research and development tax credits	1,030	4,055	3,436
Other, net	(440)	(1,697)	(4,534)
Increase in valuation allowance	(28,732)	(81,248)	(215,605)
	$ —	$ —	$ —

Temporary differences and carryforwards that give rise to deferred tax assets and liabilities are as follows (in thousands):

	December 30, 2000	December 29, 2001
Deferred tax assets:		
Capitalized start-up and organization costs	$ 28,860	$ 13,144
Domestic net operating loss carryforward	55,147	139,807
Foreign net operating loss carryforward	7,007	22,855
Accrued expenses	7,872	93,642
Research and development tax credit carryforwards	6,776	10,261
Non-cash stock compensation	24,867	70,700
Property and equipment	—	5,689
Total gross deferred tax assets	130,529	356,098
Valuation allowance	(128,462)	(356,098)
Net deferred tax assets	2,067	—
Deferred tax liabilities—property and equipment, net due to depreciation	(2,067)	—
Net deferred tax	$ —	$ —

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or the entire amount of deferred tax assets will not be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible and credit carryforwards are available. Management considers scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies which can be implemented by the Company in making this assessment. Based upon the lack of historical taxable income, scheduled reversal of deferred tax liabilities, and projections for future taxable income over the periods in which the temporary differences are deductible and tax credits are available to reduce taxes payable, the Company has established a valuation allowance of $356.1 million as of December 29, 2001.

The net change in the valuation allowance for the years ended January 1, 2000, December 30, 2000 and December 29, 2001 was an increase of approximately $28.7 million, $90.8 million and $227.6 million, respectively. The valuation allowances at December 30, 2000 and December 29, 2001 are a result of the uncertainty regarding the ultimate realization of the tax benefits related to the deferred tax assets. The domestic net operating loss carryforwards of $349.5 million will expire commencing in 2017 through the year 2021. Foreign net operating loss carryforwards of $62.2 million expire commencing in 2004. Further, as a result of certain financing and capital transactions, an annual limitation on the future utilization of a portion of the net operating loss carryforward may have occurred. As a result, the net operating loss carryforward may not be fully utilized before expiration.

The Company's domestic net operating loss carryforward has been increased for tax benefits associated with exercises of stock options and warrants. The Company receives an income tax benefit calculated as the difference between the fair value of the stock issued at the time of the exercise and the option price, tax effected. The tax benefits attributable to the exercise of stock options and warrants in excess of the compensation recorded for financial statement purposes will be credited directly to shareholders' equity when the net operating loss carryforwards are utilized against current tax liability. The benefits increasing gross deferred tax assets amounted to $33.1 million and $12.5 million for the years ended December 30, 2000 and December 29, 2001.

No deferred income taxes have been provided for the income tax liability, if any, which would be incurred on repatriation of the undistributed earnings of the Company's foreign subsidiaries because the Company intends to reinvest these earnings indefinitely outside of the United States.

(13) Related Party Transactions

(a) Joint Venture

The Company has a 99% economic interest and a 49% voting interest in ACME Grating Ventures, LLC ("ACME LLC"). The remaining economic interest and voting interest are owned by ACME Gratings, Inc. ("ACME Corp."). An officer of the Company owns 100% of ACME Corp. ACME Corp. has contributed to ACME LLC certain licensed intellectual property and the Company has contracted with ACME LLC for its use of the Company's facilities, personnel, equipment and certain intellectual property. ACME LLC makes gratings that the Company purchases at a unit cost that is consistent with the requirements of the licensed intellectual property, which require that the gratings made with the licensed technology be sold for no less than the fair market value of comparable gratings that are available in the commercial marketplace.

According to the operating agreement of ACME LLC, the Company receives 99% of the profits and losses from the business, and ACME Corp. receives the remaining 1%; however, $0.3 million of ACME LLC-related start up costs incurred by ACME Corp. will be returned to ACME Corp. out of the net profits of ACME LLC before any distributions of net profits are made to the Company. Further, ACME Corp. is responsible for paying royalties to the licensor of the licensed technology contributed by ACME Corp., which vary in amounts ranging from 0.5% to 2.0% of the net invoice cost of each grating sold by ACME LLC. In addition to 1% of the profits, ACME LLC is obligated to pay to ACME Corp. an amount sufficient to pay the royalty obligations of ACME Corp.

(b) Strategic Relationships

During 2000, the Company purchased a non-controlling equity interest in Redfern Broadband Network, Inc. ("Redfern") for $1.2 million. The Company also entered into a strategic development agreement and a call option agreement with Redfern which, among other things, provides the Company with a two-year option to acquire all of the outstanding shares of Redfern at a specified price. Certain officers and directors of the Company also own a non-controlling interest in Redfern.

The Company has purchased approximately $1.0 million and $0.5 million of components from Nufern during 2000 and 2001, respectively. Certain officers and directors of the Company own a non-controlling interest in Nufern.

During 2000, the Company purchased approximately $6.7 million of components from Wavesplitter Technologies. In addition, the Company has made a non-controlling equity investment in Wavesplitter Technologies totaling $2.0 million. As of December 30, 2000, amounts owed by the Company to Wavesplitter totaled $0.6 million. The Company has committed to purchases from Wavesplitter totaling $50.0 million over the next three years, which if not fulfilled, would result in cancellation penalties.

The Company purchased approximately $2.9 million and $2.7 million of components during 2000 and 2001, respectively, from ITF Optical Technologies ("ITF"). Certain officers and directors of the Company own a non-controlling interest in ITF.

In 2001, the Company purchased approximately $0.1 million of components from Codeon Corporation, but has cancelled all commitments to purchase additional components from Codeon. In total, certain officers and directors indirectly own a non-controlling interest in Codeon.

In 2001, the Company purchased approximately $0.2 million of components from Lightconnect, Inc. certain officers and directors own a non-controlling interest in Lightconnect.

(14) Concentrations

Substantially all of the Company's cash and cash equivalents are custodied at two major U.S. financial institutions. Deposits held with banks exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, in the opinion of management, bear minimal risk.

During 2001, the Company has relied on two customers, both of which are also shareholders, for all of its revenue. The Company expects that a significant portion of its future revenue will continue to be generated by a limited number of customers. The loss of any one of these customers or any substantial reduction in orders by any one of these customers could materially adversely affect the Company's financial condition or operating results.

At December 29, 2001, $29.0 million or 86 percent of the Company's trade accounts receivable are due from Williams, with the balance due from Broadwing. Subsequent to the end of fiscal year 2001, Williams has paid the Company approximately $4 million of the December 29, 2001 accounts receivable as it became due. At December 29, 2001, all amounts due from Williams were current and, based on our historical collections from Williams and all publicly available financial information, the Company determined that no allowance for uncollectible amounts was necessary. Subsequent to year end, Williams has disclosed certain recent events that may potentially adversely affect its financial condition. Based on these events, on February 25, 2002, Williams announced that it is considering restructuring options, which may include filing a petition for Chapter 11 bankruptcy protection. If Williams files for bankruptcy protection under Chapter 11, the Company cannot be certain when it will receive these outstanding payments, and if the Company does, how much will be actually received. In addition, there may be other provisions under bankruptcy laws that would impact the Company's ability to collect these amounts and that may affect some payments that the Company has already received. Bankruptcy laws may also allow Williams, under certain circumstances, to reject the purchase agreement. The Company cannot give any assurance or make any predictions as to whether Williams will file for bankruptcy and what effect that, or any other decisions that they make, will have on the Company's business.

(15) Commitments and Contingencies

(a) Leases

Minimum annual rental payments under noncancellable operating leases, primarily for the rent of office space and manufacturing facilities, are as follows (in thousands):

Fiscal year ending	
2002	8,054
2003	7,994
2004	7,577
2005	7,253
2006	5,591
Thereafter	8,151
Total	$44,620

Rent expense under operating leases was approximately $1.7 million, $3.5 million and $10.1 million for the years ended January 1, 2000, December 30, 2000 and December 29, 2001, respectively.

The Company has equipment under capital lease which require payments of principal and interest as follows (in thousands):

Fiscal year ending	Amount
2002	$7,431
2003	1,803
Total payments	9,234
Less—amount attributable to interest	(695)
Capital lease obligation	8,539
Less—current portion	6,796
Long-term lease obligation	$1,743

At December 29, 2001, property and equipment includes the following net assets under capital lease:

	Cost	Accumulated Depreciation	Plant, Property, and Equipment Net
Test and manufacturing equipment	$13,876	$4,662	$ 9,214
Furniture, fixtures and internal network equipment	1,790	420	1,370
Total	$15,666	$5,082	$10,584

(b) Legal Matters

In July 2000, Ciena Corporation ("Ciena") informed the Company of its belief that there is significant correspondence between products that the Company offers and several U.S. patents held by Ciena relating to optical networking systems and related dense wavelength division multiplexing communications systems technologies. On July 19, 2000, Ciena filed a lawsuit in the United States District Court for the District of Delaware alleging that the Company is willfully infringing three of Ciena's patents. Ciena is seeking injunctive relief, an unspecified amount of damages including treble damages, as well as costs of the lawsuit, including attorneys' fees. On September 8, 2000, the Company filed an answer to the complaint, as well as counter-claims alleging, among other things, invalidity and/or unenforceability of the three patents in question. On March 5, 2001, a motion was granted, allowing Ciena to amend its complaint to include allegations that the Company is willfully infringing two additional patents. The litigation is currently in the pre-trial phase. Based on the status of the litigation, the Company cannot reasonably predict the likelihood of any potential outcome.

Between May 7, 2001 and June 15, 2001, nine putative class action lawsuits were filed in the United States District Court for the Southern District of New York relating to the Company's IPO on behalf of all persons who purchased Company stock between July 28, 2000 and the filing of the complaints. Each of the complaints names as defendants: the Company, its directors and officers who signed the registration statement in connection with the Company's IPO, and certain of the underwriters that participated in the Company's IPO. The complaints allege that the registration statement and prospectus relating to the Company's IPO contained material misrepresentations and/or omissions in that those documents did not disclose (1) that certain of the underwriters had solicited and received undisclosed fees and commissions and other economic benefits from some investors in connection with the distribution of the Company's common stock in the IPO and (2) that certain of the underwriters had entered into arrangements with some investors that were designed to distort and/or inflate the market price for the Company's common stock in the aftermarket following the IPO. The complaints ask the court to award to members of the class the right to rescind their purchases of Corvis common stock (or to be awarded rescissory damages if the class member has sold its Corvis stock) and prejudgment and post-judgment interest, reasonable attorneys' and experts witness' fees and other costs.

Plaintiffs have moved to appoint lead plaintiff and lead counsel. By order dated October 12, 2001, the court appointed an executive committee of six plaintiffs' law firms to coordinate their claims and function as lead counsel. The motion to appoint lead plaintiff is pending.

On October 17, 2001, a group of underwriter defendants moved for the Judge's recusal. The Judge denied that application. On December 13, 2001, the moving underwriter defendants filed a petition for writ of mandamus seeking the disqualification of the Judge in the United States Court of Appeals for the Second Circuit. The petition is currently pending before the Second Circuit. The Judge issued a short order, stating that the court will continue to hold case management conferences, and will continue to handle other administrative and procedural matters. However, the court will refrain from making any substantive rulings pending the Second Circuit's decision on the mandamus petition.

Dispositive motions have not yet been filed. No discovery has occurred. The court has ordered plaintiffs to file consolidated amended complaints in each consolidated action at the end of March 2002.

It is the position of Company's management that, at this time, it is not possible to estimate the amount of a probable loss, if any, that might result from this matter. Accordingly, no provision for this matter has been made in the Company's consolidated financial statements.

(16) Subsequent Event

On January 29, 2002, the Company announced that it had signed a definitive merger agreement to acquire Dorsâl Networks, Inc., a privately held provider of next-generation transoceanic and regional undersea optical network solutions. Subject to the satisfaction of various closing conditions, including the approval by the Company's shareholders and the shareholders of Dorsâl, the Company will acquire Dorsâl in a stock transaction for approximately 40,923,500 shares of common stock. Shareholder meetings are expected to take place in the first half of 2002. The acquisition will be accounted for under the "purchase" method of accounting. Under the purchase method, the purchase price of Dorsâl will be allocated to identifiable assets and liabilities acquired from Dorsâl, with the excess being treated as goodwill. Certain officers and directors of Corvis own, directly or indirectly, 31 percent of the outstanding stock of Dorsál. There can be no assurance that this acquisition will be completed.

(17) Summary of Quarterly Data (Unaudited):

The following is a summary of the quarterly results of operations of the Company for the years ended December 30, 2000 and December 29, 2001 (in millions, except per share amounts):

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
2000:					
Revenue	$ —	$ —	$ 22.9	$ 46.0	$ 68.9
Gross profit	—	—	8.4	17.6	26.0
Net loss	(26.8)	(100.7)(a)	(66.4)	(89.7)	(283.6)
Basic and diluted net loss per share	$ (0.65)	$ (2.51)	$ (0.29)	$ (0.27)	$ (1.80)
Stock price:					
High	$ —	$ —	$114.75	$ 71.75	$ 114.75
Low	$ —	$ —	$ 60.81	$ 17.00	$ 17.00
2001:					
Revenue	$ 84.1	$ 65.0	$ 24.2	$ 15.2	$ 188.5
Gross profit	31.2	(74.7)	8.6	(110.1)	(145.0)
Net loss	(100.8)	(821.8)(b)	(80.6)(c)	(374.8)(d)	(1,378.0)(e)
Basic and diluted net loss per share	$ (0.29)	$ (2.36)	$ (0.23)	$ (1.05)	$ (3.94)
Stock Price:					
High	$ 30.00	$ 10.77	$ 4.63	$ 3.90	$ 30.00
Low	$ 6.28	$ 3.00	$ 1.19	$ 1.30	$ 1.19

(a) Includes purchased in-process research and development charges totaling $42.2 million.

(b) Includes total restructuring and other charges of $714.6 million. These charges were comprised of $99.2 million in cost of revenue charges associated with write-downs and losses on open purchase commitments; $9.4 million associated with workforce reduction; $9.0 million associated with the consolidation of excess facilities and write-downs of idle equipment; $588.3 million associated with the write-down of goodwill generated in the acquisition of Algety; and $8.7 million associated with permanent impairment charges on investment carried at cost.

(c) Includes total restructuring and other charges of $0.1 million. These charges were comprised of $0.6 million associated with workforce reduction and consolidation of excess facilities, net of a $0.5 million reduction in second quarter estimates.

(d) Includes total restructuring and other charges of $303.4 million. These charges were comprised of $117.4 million in cost of revenue charges associated with write-downs and losses on open purchase commitments; $15.0 million associated with workforce reduction; $44.1 million associated with the consolidation of excess facilities and write-downs of idle equipment; $123.2 million associated principally with the write-down of goodwill generated in the acquisition of Algety; and $3.6 million associated with permanent impairment charges on investments carried at cost.

(e) Includes total restructuring and other charges of $1.0 billion. The charges were comprised of $216.5 million in cost of revenue charges associated with write-downs and losses on open purchase commitments; $24.5 million associated with workforce reduction; $53.2 million associated with the consolidation of excess facilities and write-downs of idle equipment; $711.5 million associated principally with the write-down of goodwill generated in the acquisition of Algety; and $12.3 million associated with permanent impairment on investments carried at cost.

Officers

David R. Huber, Ph.D.
Chairman of the Board,
President and Chief Executive Officer

Terence F. Unter, Ph.D.
Chief Operating Officer

Lynn D. Anderson
Senior Vice President,
Chief Financial Officer and Treasurer

Kim D. Larsen
Senior Vice President,
Business Development,
General Counsel and Secretary

Board of Directors

David R. Huber, Ph.D.
Chairman of the Board,
President and Chief Executive Officer

Frank M. Drendel
Director
Chairman and Chief Executive Officer
of CommScope, Inc.

Joseph R. Hardiman
Director
Formerly President and Chief Executive
Officer of National Association of
Securities Dealers, Inc. and the Nasdaq
Stock Market, Inc.

David S. Oros
Director
Chairman and Chief Executive Officer
of Aether Systems, Inc.

Corporate Information

Corporate Headquarters
Corvis Corporation
7015 Albert Einstein Drive
Columbia, Maryland 21046
(443) 259-4000

Shareholder Services
If you are a registered stockholder and would like to change or update your name or address, you can contact our transfer agent, Continental Stock Transfer & Trust Company, by calling (212) 509-4000 or write to:

Continental Stock Transfer
& Trust Company
17 Battery Place
8th Floor
New York, New York 10004

Annual Stockholder Meeting
The 2002 annual meeting of stockholders will be held at the BWI Airport Marriott Hotel on Friday, May 10, 2002 at 10:00 a.m. E.S.T. The hotel is located at 1743 West Nursery Road, Baltimore, Maryland.

Investor Relations
Andrew G. Backman,
Director of Investor Relations
(443) 259-4000
Stockholder inquiries, including requests for financial information and recent press releases, can be addressed through Investor Relations by dialing (866) 4-CORVIS (or 866-426-7847) or via email at investorinformation@corvis.com or via our corporate website, www.corvis.com.

Stock Data
Corvis Corporation is traded on the Nasdaq National Stock Market under the symbol: CORV. As of March 13, 2002, there were 1,313 holders of record of our common stock.

Printed Materials
All printed materials, including the most recent Annual Report, SEC Filings and Proxy Statement, can be obtained by dialing (866) 4-CORVIS (or 866-426-7847) or via our corporate website, www.corvis.com.

Dividend Policy
We have never paid or declared any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the foreseeable future.

Human Resources
Corvis Corporation is committed to providing equal opportunity in all of our employment practices, including hiring, placement, promotion, transfer, training, and compensation, to all qualified applicants and employees without regard to race, color, religion, sex, national origin, citizenship, veteran status, age, disability, marital status, or any other category protected by U.S. Federal or State law. Please visit our corporate website, www.corvis.com/careers/career.htm for information about career opportunities.

corvis

The following individuals are currently employed by Broadwing and will be transferring to C III Ops upon the closing of the proposed transaction. Detailed resumes for each are attached hereto.

Mike Jones is Chief Technical Officer of Broadwing Communications. Mr. Jones, a 25-year veteran of the telecommunications industry, is responsible for all elements of network delivery for Broadwing, including planning, engineering, construction, access and operations for products and services. Mr. Jones joined the company in 1997 as Vice President of Facilities and Construction, and later served as Vice President of Network Construction. In these roles, he oversaw the implementation of Broadwing's nationwide, industry-leading fiber optic network. Prior to joining Broadwing, Mr. Jones served as Vice President of Network Business Development at Diamondback International Inc., a Texas provider of professional services for the telecommunications industry. In this capacity, he provided business development and consulting services to numerous companies, including Nortel and LCI. Jones also held a number of management and senior technical positions at MCI and GTE in network implementation, contract development, strategic network planning, program management, and major systems development.

David Torline, Chief Information Officer is responsible for the company's overall IT strategy and direction, which includes selecting, engineering and implementing key technologies and systems to support and drive the business. He also is responsible for maintaining and enhancing legacy systems and developing and managing strategic supplier relationships in the IT area. During his 33-year career at Broadwing and Cincinnati Bell, Mr. Torline has served in a variety of managerial and executive roles. As Vice President of Information Technology for Cincinnati Bell, he was responsible for the strategic direction of Cincinnati Bell's systems and for the development and implementation of the many business critical platforms that the company has utilized to deliver the outstanding customer service for which it has received international recognition. From October, 1992 through December, 1994, Mr. Torline also served as President of Cincinnati Bell Supply, a Broadwing subsidiary involved in desktop computer services and secondary telecommunications markets.

David A. King, Vice President, Voice Operations, brings over eighteen years of service in the telecommunications business to his current role as Vice President of Voice Operations for Broadwing Communications. Mr. King leads Broadwing's long distance voice services where he has been responsible for reorganizing the company's voice operations into a single business unit. While at Broadwing, Mr. King executed a successful 120-day profitability initiative that reduced voice cost of service by one-third, improved gross margin threefold, and improved service quality. Prior to his work at Broadwing, Mr. King was the Managing Partner of KEE Wireless, LLC., a provider of high-speed wireless internet access. In this role, Mr. King was responsible for designing and deploying the wireless network infrastructure and maintaining the day-to-day network infrastructure and operations for the business. Previously, Mr. King was Vice President of Engineering, Implementation and Operations at Cbeyond Communications, LLC and Vice President of Network and Technology for SteadFast.net, Inc. Mr. King began his telecommunications career with South Central Bell in 1986. Until 1996, King held positions of increasing responsibility in the switched services and network operations organizations of South Central Bell, Southern Bell, and BellSouth Telecommunications and also held positions in BellSouth's consumer marketing, product commercialization, and corporate strategy organizations.

Ed DeLong is the Vice President of Cost of Service for Broadwing Communications. In this position, Mr. DeLong is responsible for network planning, engineering, circuit design and implementation of Broadwing's 18,500-mile nationwide, next-generation all-optical network and all access services. Mr. DeLong is also responsible for planning Broadwing's nationwide ATM/frame relay network, and award-winning IP network. In this capacity, he has led optimization initiatives that have resulted in a 90% reduction in capital spending, and a 25% reduction in line costs, representing annual savings of over $400 million. Mr. DeLong has twenty years telecommunications experience in both the wired and wireless industries. Previously, he was the Vice President of Network Operations for Broadwing, Vice President and General Manager for Verizon Wireless, and the Vice President of Latin American Wireless Operations for Bell Atlantic International.

Christopher Rothlis, Vice President, Operations, is responsible for operating, maintaining and monitoring Broadwing's national networks and Internet hosting data centers. This includes field operations and internal operations for voice, data and IP networks. Mr. Rothlis, who has more than 21 years of experience in the telecommunications industry, joined Broadwing in 1998 as director of Technology Planning. He later served as vice president of New Product Development, and as vice president of Access Planning, where he helped develop the company's network strategy for local access. Most recently, Mr. Rothlis served as vice president of Network Engineering. Prior to Broadwing, Mr. Rothlis spent four years with the U.S. Air Force and 14 years at MCI. When he left MCI, he was senior manager of Systems Engineering, where he successfully managed many of the company's Intelligent Network capital programs and authored three Internet-related U.S. patents (pending).

Michael R. Jones

Chief Technology Officer

Summary

Results-driven executive with proven track record and strong background in general management, network engineering and deployment. Over 27 years of progressive industry management experience. Recognized leader in effective deployment of new technology platforms. Collaborative, team-oriented executive with great strengths in organizational development and achievement. Superior skills in negotiation, closing and implementation of major strategic agreements.

Experience

1997 - Current | Broadwing Inc. | Austin, Texas

Chief Technology Officer

- Planned and implemented premier North American "Next Generation" fiber optic network interconnecting more than 150 cities.
- Responsible for all aspects of the Broadwing network service platform, including Planning, Engineering, Access, Construction and Operations.
- Directed development and deployment of Broadwing data and voice product platforms. Broadwing received Interop's Infrastructure Award for Most Innovative Backbone Service Provider for it's All Optical network deployment in 2001.
- Improved on-net transport and switching costs by more than an order of magnitude during the period of employment.
- Reduced off-net Cost of Service across all product lines by more than 20%.
- Managed business restructuring of the Network Services function in 2001; costs were reduced by 40% and operational effectiveness was improved.
- Broadwing network received J.D. Powers awards for quality and customer satisfaction in 2001 and 2002.
- Managed capital deployment of approximately $2B through implementation cycle of network; annual expense budget of $96M.
- Reduced capital expense in 2002 to below target of $100M while increasing effective deployment of network capabilities.
- Other positions held include Senior Vice President, Network Engineering, and Vice President, Network Construction.

1995-1997 | Diamondback Engineering | Dallas, Texas

Senior Vice President, Business Development

- Founding partner in network strategic services and consulting company.
- Strategic network design resulting in significant cost structure improvement for LCI, Qwest, MCI, Verizon and other carriers.
- Successfully negotiated business agreements for clients with aggregate value in excess of $500M

1983-1995 MCI Telecommunications Washington, D.C.

Senior Manager, Network Development and Contracts

- Managed design and ROW development for company's network implementation phase..
- Developed and implemented rights of way contracts, network agreements, and other occupancy agreements with aggregate value in excess of $1B.
- Responsible for MCI's 5-year network strategic plan development and execution.
- Other positions held at MCI included:
  - Senior Manager, Network Facilities Implementation
  - Senior Manager, Rights of Way Management
  - Senior Manager, Network Systems Development
  - Chief of Staff, Product Program Management and Network Engineering

1978-1983 GTE Telenet Vienna, Virginia

Manager, Network Systems Development

- Development packet-switched network management platform.
- Development switch implementation software tools suite.
- Development, Systems Programming, Core Switch Management platform.

1975-1978 SAIC Vienna, Virginia

Senior Programmer/Analyst

- Development packet-switched network protocols and software tools.
- Development space-flight telemetry monitoring and analysis tools.

1972-1975 United States Army

- Honorably discharged with the rank of Sergeant.

Education

1985 George Mason University Fairfax, Virginia

- B.S. Computer Science
- Substantial graduate study in Computer Science and Mathematics.

Interests

Scuba, boating, fishing, music, conservation, reading, mathematics.

David A. Torline
Chief Information Officer

Summary

Senior executive with extensive information technology, telecommunications and general management experience. Successful leader and team builder in fast-paced, changing environments, dealing with state-of-the-art technology and services. Developed and implemented successful organizations that implemented innovative technology and business solutions in both local and national telecommunications companies. Key business partner to other business units in building and expanding companies to deliver bottom line results.

Professional Experience

Broadwing Inc.

November 1999 – March 2003

Chief Information Officer

Senior executive for $2.1 billion national communications carrier. Overall responsibility for all areas of IT in the company. Set the overall IT direction and architecture for all entities in the company. Also served as CIO of Broadwing Communications, the national network subsidiary effective January 2000. Developed and implemented business systems infrastructure in rapidly growing national network company that previously had limited systems and automation, improving overall work process flow and service delivery processes. Directly responsible for organization of 425 full time equivalent information technology professionals involved in activities ranging from IT architecture, through analysis and design, implementation and operations. Managed expense budgets of over $30 million and capital budgets of over $40 million. Also responsible on a indirect reporting basis for the local exchange IT function with over 200 FTE's.

Cincinnati Bell Telephone Company

January 1995 – November 1999

Vice President - Information Technology

Responsible for leading and supporting the company in the use of progressive information technologies and systems. Provided critical support to other company business units to define and select appropriate IT solutions for critical business needs. Directed main functional areas of

IT Planning/Architecture, Enterprise Computing Services and Network Operations, Systems Operations and Administration, Systems Development and Voice & Data Communications. Total staff of approximately 235 FTE's, including contractor personnel involved with outsourced functions. Direct responsibility for a total annual operating budget in excess of $32 million. Senior information systems executive within the company, reporting to the President of the company.

Responsible for directing a large number of IT initiatives resulting from a re-engineering of the company that were required to achieve forecasted productivity improvements throughout the company. These initiatives were a key to the successful downsizing of the company to meet competitive pressures.

Responsibilities also include final approval of vendor contracts, including both affiliated and non-affiliated entities.

Cincinnati Bell Supply Co.

October 1992 - December 1994

President

Chief executive officer of independent subsidiary of Cincinnati Bell operating in the desktop computer services and secondary telecommunications markets. Successfully managed a P/L of $20 million revenue while resolving significant inventory problems, eliminating potential $8 million corporate liability. Refocused company on core, strategic competencies and returned company to the position of being a positive contributor to CBI bottom line. Developed and maintained a strong team environment during a downsizing and restructuring process. Supervised a staff of approximately 50 persons responsible for all functional areas of the business. Successfully returned company to positive cash flow results, positioning the company for future sale.

Cincinnati Bell Inc.

October 1989 - October 1992

Director - Corporate Analysis & Development

Responsible for a wide variety of business development and opportunity evaluation activities. Project leader for major acquisition projects for holding company subsidiaries and for divestiture of selected operations. Projects included both domestic and international acquisitions and divestitures ranging from $5 million to $45 million in total deal value. Responsibilities included serving as team leader in information/data collection, valuation, due diligence and development of letters of intent and acquisition/divestiture contracts. Supported and participated in deal negotiations with senior executives and counsel. Reported to various senior managers as required on a project-by-project basis. Successfully worked in a team environment with business unit management, investment bankers, external and internal accounting and finance personnel, and legal counsel.

September 1988 - October 1989

Manager - Corporate Development & Analysis

Responsibilities included the review and evaluation of a wide variety of business opportunities involving various subsidiaries of CBI. Opportunities involved joint ventures, mergers, acquisitions and divestitures. Duties included screening potential opportunities, assisting subsidiaries in developing growth/divestiture strategies, evaluating proposed business plans, and serving as project leader in valuations, negotiations and subsequent execution of agreements.

<u>Cincinnati Bell Telephone Company.</u>

1987 - August 1988

Purchasing Manager - Administration & Planning Department
Support Services Division

Managed corporate purchasing group, reporting on a skip-level basis to the Vice President - Support Services. Expanded role of purchasing within the organization and developed processes and functions necessary to handle such expansion. Level of purchases increased from an estimated $20 million to $60 million on an annual basis. Met or exceeded all objectives including contract purchase levels, purchasing economies and minority supplier purchases.

1984 - 1986

Staff Manager - Administration & Planning Department
Office Systems Planning & Support

Formed Office Systems group to assess emerging microcomputer technology and develop corporate plans relating to its use and implementation. Responsible for implementation of corporate wide program. Staffed organization and assumed responsibility for corporate voice and data communications, and coordination function related to all external data processing work requests. Supervised an organization of 15 persons, working in both technical and administrative functions.

1983 - 1984

Staff Manager - Operations Staff Department

Operations Planning District

Expansion and continuation of previous assignment. Developed financial model used in evaluating and supporting major corporate contract negotiations related the to AT&T divestiture and was lead project on initial affiliate/subsidiary contract. Indirect supervision of associates on a project basis.

1978 - 1982

Staff Specialist - Operations Staff Department
Operations Planning District

Assessed and evaluated major mechanization projects involving the operating departments of the company. Project proposals originated from internal sources and AT&T general departments. Provided recommendations to upper level management team for the purpose of allocating resources and selecting projects for implementation.

1972 - 1978

Systems Analyst - Data Systems Division

Designed, developed and implemented computer based applications systems. Experience primarily in IBM system mainframe operations using COBOL programming language. This division was later made a separate subsidiary - Cincinnati Bell Information Systems, which was eventually spun off as a separate company - Convergys.

1969 - 1972
Management Trainee/Corporate Education Program

Assistant supervisory role in Accounting department within the Data Processing Division. Primarily involved with customer billing and data center operations.

Education

Masters of Business Administration
University of Cincinnati, 1977

Bachelors of Business Administration
University of Cincinnati, 1972

Professional Associations

Cincinnati CIO Roundtable
1997 to present

Selected Additional Training/Seminars

Duke Advanced Management Program
Duke University, Fuqua School of Business Executive Education
October 1997

IBM Executive Education Seminar
IBM Executive Center, 1995

Merger Week Seminar
J. L. Kellogg Graduate School of Management
Northwestern University, 1988

Community Activities

Board Member of Pro Seniors, Inc., a non-profit social service agency providing legal assistance and long-term care advocacy for senior citizens, 1995 to present

Member of the Greenhills-Forest Park Kiwanis, 1992 to present

DAVID A. KING
Vice President, Voice Operations

SUMMARY QUALIFICATIONS

- An experienced professional with broad exposure to all aspects of the telecommunications business including Strategy, Finance, Marketing and Network in both the startup and incumbent telecom environment.
- Executed a successful 120-day turnaround of a large Long Distance provider's voice operations.
- Primary focus revolves around the commercialization of emerging technologies for both high speed data and cutting-edge voice networks. Recent commercialization activities include:
  - Successfully designed, implemented, and took to market a high speed Wireless ISP using Wireless LAN (802.11b) technology.
  - Successfully deployed and stabilized the latest emerging packet voice technologies for a Voice over IP (VoIP) CLEC.

PROFESSIONAL SUMMARY

BROADWING COMMUNICATIONS, Austin, TX
Vice President – Voice Operations August 2002 –present
Direct the end-to-end operations of Broadwing's long distance voice services including: cost management, route purchasing and vendor negotiations, traffic engineering, network planning, 24x7 surveillance, Tier 2 and 3 technical support and the installation of customer services. Significant accomplishments include:

- Reorganized voice operations from several disparate groups into a single business unit responsible for 48% of the division's cash revenue and approximately half of the monthly cost of providing service.
- Successfully executed a major 120-day cost initiative reducing cost of service by one-third, improving Gross Margin threefold, and increasing service quality as evidenced by improved call completion ratios and reduced customer trouble rates

KEE WIRELESS, LLC., Atlanta, GA
Managing Partner August 2001 – January 2003
Launched a Wireless ISP providing high-speed Internet Access in public access areas using Wireless LAN (aka WLAN or 802.11b) technology. Carried the concept from initial business case to full deployment and subsequent operation in the marina environment under the product name of Aqua Access. The business was sold in January 2003.

CBEYOND COMMUNICATIONS, LLC., Atlanta, GA
Vice President – Engineering, Implementation, & Operations October 2000 – June 2001
Directed all network aspects - from design to daily operation - of a Voice over IP (VoIP) network infrastructure for this multi-city CLEC. Major accomplishments included:

- Steering the organization through the initial deployment of the first fully functional Class 5, IP Softswitch in the industry
- Spearheading a major stability effort to improve switch performance and reliability by leading a team of engineers and the vendor to resolution of over 150 trouble cases. Moved from daily outages in March 2001 to 100% uptime in of May 2001.
- Guiding the organization in the development of process and procedure for voice and data service delivery to the customer base, as well as piloting the necessary methods and ongoing procedures to monitor, augment, and optimize network capacity.

STEADFAST.NET, INC., Atlanta, GA
Vice President – Network and Technology January 1999 – June 2000
Oversaw all aspects of the architecture, engineering, deployment, and operation of the Integrated Communications Provider (ICP) model for this out-of-region CLEC subsidiary of BellSouth

Corporation. Successfully guided the company from concept through the rapid deployment and subsequent operation of an end-to-end network infrastructure which provided a consumer oriented, bundled product combining Local and Long Distance telephony services, Digital Subscriber Line (DSL) high-speed data access, and a cutting edge broadband ISP service.

BELLSOUTH CORPORATION, Atlanta, GA
Director – Strategic Management Unit April 1998 – December 1998
Led strategic consulting projects to define, resolve, and present to key company leadership resolution of crucial business issues facing BellSouth. Representative projects included:

- Project Fixit - performed the first analysis of ROA by wire center to identify underperforming Central Offices. Resulted in a refocusing of a significant portion of BellSouth Telecommunication's marketing effort yielding a $53M revenue increase in 1999.
- Consumer Contribution – Ascertained gross margin by class of residential customer to derive the primary drivers of profitability. Resulted in significant changes to the way new service is positioned across all BellSouth Call Centers and to modifications to the existing approaches for marketing enhanced services in rural areas.

BELLSOUTH TELECOMMUNICATIONS, INC., Atlanta, GA
Financial Manager - Intelligent Services Division March 1997 – April 1998
Controller for BellSouth's two largest enhanced networks with a combined $151M budget which generated over $685M in revenue in 1997 representing a 94% year over year growth. Responsibilities included oversight of business cases for all new products and initiatives, tracking and analysis of the division's financial performance, and development of BellSouth's Advanced Intelligent Network, Messaging, and Local Number Portability business plans.

Business Manager – Voice Messaging April 1996 - March 1997
Directed all Business Management functions of BellSouth's Messaging Integrated Business Unit. Responsibilities included coordination of budgets, development and implementation of performance control mechanisms, and network infrastructure evolution planning. Results included a four-fold improvement in customer service and a 21% revenue increase.

Special Projects October 1994 - April 1996
Played a troubleshooter role on multifunctional SWAT teams for special projects including:

- MemoryCall Performance Improvement - Recommendations led to a 25% reduction in customer trouble reports across the BellSouth region
- BellSouth Resale Strategy – Member of the core consulting team in developing BellSouth's resale strategy to address the Telecommunications Reform Act of 1996.

Specialist - Operations Planner April 1993 – October 1994
Project management for a variety of modernization efforts for BellSouth's nine state public Packet data network. Results include a 10% reduction in infrastructure capitalization levels and a 100% increase in network reliability.

Associate Manager - Packet Data Test Network April 1990 - April 1993
Managed teams of engineers responsible for the development of new data services as well as Tier Two technical support of existing data services.

Supervisor January 1986 - April 1990
Responsible for maintaining circuit switched telephone service in Memphis, TN as well as the the installation of all West Tennessee special services circuits.

EDUCATION

EMORY UNIVERSITY, Atlanta, GA
MASTERS OF BUSINESS ADMINISTRATION,
May 1997

UNIVERSITY OF MEMPHIS, Memphis, TN
BACHELOR OF SCIENCE - ELECTRONIC ENGINEERING TECHNOLOGY,
December 1985

Edgar S. DeLong, Jr.
Vice President, Cost of Service

Summary of Qualifications

Senior management executive with twenty years telecommunications experience (AT&T, Bell Atlantic, PrimeCo, Broadwing). Energetic, highly dedicated professional with an outstanding performance history. Results oriented, with a bias toward action. Strong leadership and coaching skills, supported by excellent oral and written communications skills.

Professional Experience

Broadwing Communications

Executive Management
August 2002 – Present

Vice President – Cost of Service
Responsible for network planning, engineering, circuit design, and implementation of Broadwing's 18,500 mile nationwide optical and data network and all access services. Led optimization initiatives that have resulted in a 90% reduction in capital spending and a 25% reduction in line costs, representing annual savings of over $400 million.

Executive Management
September 2000 – July 2002

Vice President – Network Planning and Implementation
Responsible for strategic planning, network architecture, routing, and capacity planning for Broadwing's national telecommunications network, including 18,500 mile all-optical fiber backbone, 13 circuit switched tandem switches, 48 ATM/frame relay switches, 11 managed hosting internet data centers, and award-winning tier one internet backbone. Implemented world's first all-optical core network, installing the most optical capacity of any telecommunications carrier worldwide.

Executive Management
January 1999 – August 2000

Vice President – Network Operations
Responsible for monitoring, surveillance, and trouble management of Broadwing's national network. Improved mean time to repair for high priority trouble tickets by over 300% to less than two hours, and increased network availability to over 99.99% by relentlessly focusing on network performance, reliability and customer service excellence. Developed Broadwing's state of the art Enterprise Maintenance Center, providing dedicated trouble management and technical support to national accounts including Perot Systems, Bank of America, and Oracle.

PrimeCo Personal Communications

Executive Management
September 1997 - November 1998

Vice President and General Manager - South Central Texas
P&L responsibility for PrimeCo's Austin, San Antonio, Corpus Christi, and Lower Rio Grand Valley markets. Responsibilities include sales, marketing, network expansion and performance, finance, public relations, and human resources. Increased subscribers 365% in first 12 months, making South Central Texas PrimeCo's most highly penetrated market. Won President's Sales Award for highest sales to plan for 3 consecutive quarters. Increased monthly revenue from $1.2 million to $3 million, and profitability by 320%. Successfully converted entire network infrastructure from Motorola to Lucent in less than 6 months, improving dropped calls from 2.7% to 1.6% - all with virtually no network outages or customer disruption. Market scored higher than company norm on all questions in annual employee satisfaction survey.

Executive Management September 1996 – August 1997	***Vice President and General Manager - Illinois*** P&L responsibility for PrimeCo's Illinois market. Launched Chicago with 249 base stations covering a population of over 8 million - the largest CDMA deployment in the world. Recruited and managed an organization of 280 employees. Led development of all sales channels - 12 company owned retail stores, 550 indirect retail points of presence, and 10 business to business account executives resulting in 25% of PrimeCo's total sales, nearly twice that of PrimeCo's next largest markets, Houston and South Florida.
Executive Management September 1994 – August 1996	**Bell Atlantic International Wireless** ***Vice President - Latin America Operations*** Responsible for wireless operations in Latin America, particularly Bell Atlantic's $1.04 billion investment in Iusacell, Mexico's second largest telecommunications company. Member, Iusacell Board of Directors, ensuring maximum effectiveness among the Bell Atlantic members of Iusacell's Board. Directed all knowledge transfer initiatives among the domestic staff and expatriates. Highest priority tasks included development of the corporate business plan, an incentive based compensation system, and an overall regulatory strategy designed to secure approval to provide long distance and radiotelephony services, and eliminate discrimination and cross subsidies by Telmex. Developed strategy for several cellular initiatives, including pricing, distribution, roaming, customer care, collections, and network performance.
Technical Management November 1990 - August 1994	**Bell Atlantic Mobile** ***Director - Network Planning*** Responsible for strategic network infrastructure planning throughout Bell Atlantic Mobile. Provided strategic network direction and goals to all Regional Network Directors, and developed corporate Construction Program ($300 million capital, $200 million expense), allocating resources across all operating regions. Provided support and direction to wireless R&D, PCS planning and business development. Directed overall switch and facilities planning, including AIN, network optimization, and interconnection. Negotiated master agreements with major equipment suppliers (AT&T, Motorola). Directed overall radio systems planning, including digital radio and microcell deployment strategy. Directed corporate network financial management, regulatory engineering, and real estate administration. Directed the integration of Metro Mobile network engineering and operations functions.
Marketing August 1987 - October 1990	**Bell Atlantic Network Services** ***Product Manager - Information Services*** Responsible for design, development, and implementation of Bell Atlantic's online information gateway service, Intelligate. Included hardware and software operations planning, network and system design, user interface design and maintenance, sales support, pricing, and contract negotiation.
Technical Planning December 1985 - July 1987	**Bell Telephone Company of Pennsylvania** ***Staff Manager - New Services Planning*** Responsible for technical planning of new services, including the Enhanced 9-1-1 System, and the Directory Assistance Audio Response System.
Operations June 1984 - November 1985	**Bell Telephone Company of Pennsylvania** ***Supervisor - Operations Test Center*** Responsible for mechanized trouble testing, and the scheduling and dispatch of installation and repair forces.

Project Management
December 1982 - May 1984

Bell Telephone Company of Pennsylvania
Assistant Manager - Carrier Access Billing System
Responsible for project management of the conversion to the Carrier Access Billing System at divestiture.

July 1982 - November 1982

Bell Telephone Company of Pennsylvania
Management Development Program

Education

1978 - 1982

Lehigh University
Bethlehem, PA
Formal education in engineering, with Bachelor of Science degree in Industrial Engineering awarded in 1982. Graduated with highest honors. President, Institute of Industrial Engineers, Treasurer, Kappa Sigma Fraternity, and member, Tau Beta Pi National Engineering Honor Society.

Personal

Born June 9, 1960. Married, two children. Interests include golf, swimming, and boating.

Board of Directors, Any Baby Can Child and Family Resource Center, since June, 1999.

Christopher S. Rothlis
Vice President, Network Operations

Summary

A proven track record of success spanning 23 years in the field of Telecommunications. A thorough understanding of how to profitably operate a long-haul telecommunications company. Demonstrated executive-level leadership in guiding an organization through the selection, operation, and decommissioning of telecommunications technology and assets.

Work Experience

Broadwing Communications Austin, TX	Vice President, Network Operations Vice President, Engineering Vice President, Local Access Director, Technology Planning	Mar 98 – Present

- Reduced SG&A spending from a planned $100M to $60M over a two year period while not adversely affecting customer service.
- Created an Internal Technical Assistance Center (ITAC) organization to reduce reliance on more costly vendor hardware and software support.
- Operate the industries most cost efficient Network Operations organization (219 people maintaining 18,500 route miles)
- Created the organization structure and processes necessary to evaluate and select technologies to meet the needs of the business. Oversaw the deployment of over $300M in equipment and assets.
- Managed the implementation of the industry's only all-optical network.
- Negotiated and/or renegotiated vendor contracts to ensure Broadwing received the best possible value.
- Created a "Local Access" organization to address Broadwing's disproportionate cost-of-service and improved connectivity for more rapid service turn-up. Reduced COS by $5M per month in three months.

MCI Telecommunications	Technician – Sr. Manager	Sep 83 – Mar 98

- Held increasing levels of responsibility from entry-level field technician through Acting Director, Intelligent Network Infrastructure Development.
- Successfully managed several areas of the business including Network Operations, Engineering, Program Management, Systems Engineering (software development), Financial Management.

United States Air Force	Staff Sergeant	Oct 79 – Aug 83

Attended technical training schools in electronics and telecommunications. Worked in fixed facility and mobile communications in support of the Air Force mission. Promoted early on two separate occasions in recognition of job knowledge. Received the Air Force Commendation Medal and was honorably discharged.

Education

Bachelor of Science Business Administration, Summa Cum Laude (3.97 GPA), Regis University, Denver, Colorado, August, 1998

David R. Huber, Ph.D., is the founder of Corvis. He has served as a Director and Chairman of our Board, President and Chief Executive Officer since June 1997. Dr. Huber has 20 years of experience in the development of optical communications systems. From 1992 through April 1997, Dr. Huber served first as Chief Technology Officer and later as Chief Scientist of Ciena Corporation, a company he founded in 1992. From 1989 through 1992, Dr. Huber managed the Lightwave Research and Development Program for General Instrument Corporation. Prior to 1989, Dr. Huber held positions in optical communications development at Rockwell International Corporation, Optelecom, Inc. and ITT Industries, Inc., formerly International Telephone & Telegraph Corporation. Dr. Huber holds 41 U.S. patents in optics technology and has numerous additional patents pending. He earned a Ph.D. in electrical engineering from Brigham Young University and a B.S. in physics from Eastern Oregon State University.

Lynn D. Anderson has been Senior Vice President, Chief Financial Officer and Treasurer of Corvis since January 2002. From May 2001 to December 2002, Mr. Andersen served as Chief Financial Officer of Optical Capital Group, LLC, a specialized technology investment firm focused on optical equipment related communications technology. From December 2000 to April 2001, Mr. Anderson was self-employed providing financial and strategic consulting services to companies in the technology, media and energy sectors. From February 2000 to November 2000, Mr. Anderson served as Chief Operating Officer and Chief Financial Officer of Zillacast, an Internet broadcasting company. From 1981 to 2000, Mr. Anderson held several financial positions with various divisions of General Electric Company, and later, as Chief Financial Officer of GE Capital Technology Management Services. Mr. Anderson earned his B.A. from Kansas State University and his M.B.A. from the University of Texas.

Jerry Kent is Chief Executive Officer of AAT Communications, the sixth largest independent provider of antenna sites and site management services to the wireless communications industry. A 20-year veteran of the cable television industry, he began his career as an officer of Cencom Cable Associates, Inc., co-founded Charter Communications in 1993 and Cequel III in 2002. Cequel III was established to acquire and manage growth-riented companies in the Telecommunications and Cable industry. Prior to founding Cequel, he was President and CEO of Charter Communications, Inc. Microsoft co-founder Paul Allen acquired Charter in 1998, and combined it with another investment, Marcus Cable, in early 1999, under the Charter Communications name. Mr. Kent was named President and CEO of this merged entity, which subsequently grew to some 7 million customers as the nation's fourth largest cable company. During his tenure, Charter went public in what was then the third largest IPO in U.S. history, became the largest issuer of high-yield bonds in the world and consistently led the industry in superior operating results. Mr. Kent received his MBA degree from Washington University. A native of St. Louis, Mr. Kent is active in that community.

Martin D. Kerckhoff is Executive Vice President and General Counsel of Cequel III, a broadband telecommunications management company founded in 2002. Prior to joining Cequel III, he was appointed by SBC Communications ("SBC") to serve as Group Executive Corporate Development and Initial Public Offering for Telkom SA Ltd ("Telkom"). Mr. Kerckhoff worked at Telkom, which is the national telephone company of the Republic of South Africa, for the previous five years. In that role, he was responsible for Telkom's Mergers and Acquisitions, Business Development, and Subsidiaries Groups and had primary responsibility for achieving Telkom's Initial Public Offering. He also served as Chairman of Telkom Directory Services, the national waite and yellow pages directory company, and as Director and Chairman of the Corporate Development Committee of Vodacom Ply Ltd, which is South Africa's largest cellular carrier. Before being appointed to Telkom, Mr. Kerckhoff was Senior Counsel with SBC's International Mergers and Acquisitions Legal Group. In that capacity he successfully negotiated SBC's investment in Telkom, as well as investments by SBC in VTR Inversiones (Chile), Mobile Telephone Networks (South Africa), Telnics (Mexico), and the purchase of two cable/telephony networks in the United Kingdom. He also assisted SBC restructure its investment in CGETBL (France) and represented SBC in its privatization bid for Peru's National Telephone Company. Mr. Kerckhoff received his LLM (Private International Law) from McGeorge School of Law, his JD from St. Louis University and his BA (Political Science) and BS (Psychology) degrees from Tulane University. He holds licenses to practice law in numerous states and federal courts.

The following individuals are currently employed by Broadwing and will be transferring to C III Ops upon the closing of the proposed transaction. Detailed resumes for each are attached hereto.

Robert (Bob) Shingler is President of Broadwing Communications, the company's national broadband voice, data and IP operations. He is responsible for sales activities, customer care and service, network engineering and operations, and other staff functions. Mr. Shingler joined Broadwing Communications in April, 2002 as President of Voice Services. Prior to joining Broadwing, Mr. Shingler spent more than twenty years at BellSouth Corp. and its subsidiaries in a variety of leadership positions. He also served in executive positions in two technology start-up companies, and served as Executive Vice President and Deputy CEO at Sonofon A/S, a cellular telephone provider based in Copenhagen, Denmark.

Matthew W. Booher is Senior Vice President of Finance and an officer of Broadwing Inc. He is responsible for all financial aspects of Broadwing Communications, including business development, planning, budgeting, reporting, accounting, collections, and internal auditing. Prior to his current position, Mr. Booher served as Chief Financial Officer of the financial services division of Norrell Corporation located in Atlanta, Georgia. Mr. Booher also served as executive director of business markets at MCI, where over a ten-year career he held a number of key finance positions, including Managing Director and Chief Financial Officer of Prepaid Markets, and Director of Business Analysis/Planning for MCI's business markets division.

Richard Putt is President, National Accounts for Broadwing Communications. Mr. Putt first joined Broadwing as the President of Business Markets in January, 2000 and helped engineer a dramatic and successful turnaround in the business unit, focusing on the large business and National Account segment. In June 2001, Mr. Putt was named President of National Accounts, as this division became the strategic focus of Broadwing. A 23-year veteran in the telecommunications industry, Mr. Putt has worked in virtually every segment of the industry and held various sales management and executive posts. He has successfully managed and developed multi-million dollar organizations, as well as built dynamic entrepreneurial businesses. Prior to joining Broadwing, Mr. Putt held various positions at MCI, including Vice President of General Business, Vice President of Global Accounts and Vice President of Carrier Sales. As Vice President of Global Accounts, Mr. Putt completed the first Managed International Network for MCI, and was responsible for growing the business from $30 million to over $200 million in billing.

Richard Calder is President, Business Enterprises for Broadwing Communications. As the President of Business Enterprises at Broadwing Communications, Mr. Calder leads Carrier Accounts, Large Accounts, and General Business Markets, comprising over $500 million in annual revenues. Mr. Calder drives overall strategic and tactical direction and P&L responsibility for these business units and leads Marketing as well as all direct customer-facing field operations, including the Enterprise Management Center for trouble resolution. A veteran of the telecommunications industry, Mr. Calder brings more than 18 years of experience to his position at Broadwing. At Winstar Communications he served in multiple senior management positions, most recently as President of the Winstar South Division where he was responsible for revenue and profit growth, and previously as Executive Vice President and Chief Marketing Officer. Prior to joining Winstar, Mr. Calder co-founded GO Communications, a wireless communications company, held various marketing and business development positions at MCI, and several engineering and marketing positions at Tellabs.

Gordon P. (Chuck) Williams, Jr. is Vice President, Associate General Counsel and Assistant Secretary of Broadwing Communications. He is an AV rated lawyer and has represented telecommunications companies, both in private practice and in-house, for more than twenty years. He currently is responsible for all legal support for Broadwing Communications. Prior to Broadwing, Mr. Williams was with MCI where he served as counsel to its local service subsidiary, MCIMetro, from its inception and oversaw its nationwide state certification process. Mr. Williams has served on numerous national level committees and panels and was chairman on several. He chaired the committee representing virtually the entire telecommunications industry to develop a municipal right of way policy that is still in use today.

Lisa A. Brown, Vice President, Customer Operations, brings more than twelve years of telecommunications experience to her dual roles as Vice President of General Business Markets and Vice President of Enterprise Management Services for Broadwing Communications. In her position, she is responsible for managing a monthly P&L in excess of $13 million supporting over 150,000 customers in the consumer, small business and mid market account sectors. Ms. Brown also manages Broadwing's Enterprise Management Center responsible for trouble repair supporting all Broadwing distribution channels and customers. Ms. Brown joined IXC in the merger with Network Long Distance in 1997, where she was Vice President of Network Administration for Network Long Distance. At Network Long Distance, she led network design and engineering, provisioning and cost of service management. In her long tenure with Broadwing, Ms. Brown has served in a variety of executive roles from Vice President of Sales Operations to Vice President, Provisioning.

Melinda K. Figeley, Vice President, Human Resources, joined Broadwing Communications as Vice President of Human Resources in October, 2000. Ms. Figeley has over eighteen years of varied human resources management experience, including twelve years at the senior management and executive levels. She began her career with General Motors in 1985, where she supported an employee base of 8,000 union-represented employees. Ms. Figeley has also held a variety of management and leadership roles with MCI Consumer Markets, Healthcare International, and Columbia/HCA. From 1993-98, she served as Director of Administration (Finance, Accounting and Human Resources) with the Texas Surplus Lines Insurance Department in Austin, Texas. Ms. Figeley has been a Consultant to several organizations in the Austin and Houston areas, in industries such as high technology, healthcare, staffing and government, and she has been an Instructor for seven years in the University of Texas' human resources certification program. She earned designation as a certified senior professional in human resources (SPHR) in 1995.

Karen Hanson, National Director, Regulatory Affairs, joined Broadwing as a Regulatory Analyst in 1998, when Network Long Distance was acquired. She was promoted to Director, Regulatory Affairs in November 2002. Ms. Hanson is in charge of all state and federal regulatory compliance issues. Ms. Hanson has eight years of experience in regulatory compliance in the telecommunications industry. Prior to becoming Regulatory Manager of Network Long Distance in 1995, Ms. Hanson, co-owned and operated a successful business for sixteen years.

ROBERT D. SHINGLER
President, Broadwing Communications

COMMUNICATIONS INDUSTRY EXECUTIVE

Technology, Software & Services Spanning Telecommunications, Wireless, Internet, Cable TV & Publishing

Recognized for expertise in quickly summing up a business – its strategy, model, financials, technology, market and competition – then outlining the right methods and tools to accelerate top and bottom-line success. Entrepreneur inside start-up, early-stage, transitional, rapid-growth and global enterprises. Successfully navigated large corporations, Boards of Directors and shareholders to create confidence in a vision, strategy or business plan that extends beyond the "norm."

MBA with 15+ years of P&L and investment/M&A experience. Excellent global business acumen with four years of experience in a foreign company and active involvement in investments/partnerships across Asia, Europe and South America. Well-rounded blend of operating, financial and marketing skills. Innate ability to see the potential and get the most out of staff, stirring their creativity and innovation to go beyond the obvious to create "win win" results.

PROFESSIONAL EXPERIENCE

ALBION CONNECT, INC., Atlanta, GA 2000 to 2001
Emerging Software Provider of Operating & Support Systems; Spin-off of Albion International, a Global Systems Integrator.

Chairman & Chief Executive Officer

Retained by the original owners to raise capital and restructure a $30 million fledgling technology company hit hard by downturn of the investment market. Provide strategic direction, financing and management oversight to 35 employees in software development, maintenance, sales and customer support.

Business Transition & Investment Funding

- Revamped the product strategy, business case and the management team, positioning Albion as an attractive candidate to secure $10-$15 million Series B funding. Led presentations and received interest from six well-known VC firms.
- Raised $1 million bridge loan, initiated actions to conserve cash flow and placed company in a holding pattern.
- Continued development and maintenance of core product and existing customers despite cutting overhead by 60%+.

STEADFAST.NET, Austin, Texas 1998 to 2000
Start-Up Provider of High Speed Internet Services using Digital Subscriber Line (DSL) Technology; BellSouth VC investment.

President – SteadFast.net Inc. (1999 to 2000)
Senior Director – BellSouth Emerging Business Group (1998 to 1999)

Challenged to develop new business to be funded from BellSouth's VC investment program that would allow BellSouth to expand outside of its regional territory. Leveraged business model designed in Europe to build a business case to launch a new Internet/voice venture, SteadFast.net. Established a CLEC with high-speed backbone and voice network, Internet Portal and broadband ISP. Hired a team of 100 for network and systems design and operations, customer service, sales, support, installation and maintenance. Created a national infrastructure for low cost on-line provisioning, billing, customer service and network operations.

Venture Funding & Start-Up

- Won $8 million in seed capital to fund a beta test. In six months, created and launched a complete business and technology platform that became an immediate competitor to SWBT, Time Warner and well-established ISPs.
- Led presentations to BellSouth's Executive Management to secure second round funding to expand into 30 states.
- Negotiated the sale of the business to a New York-based CLEC after a shift of BellSouth's vision and strategy. Facilitated the shut-down of the business after transaction failed to close due to softening capital markets.

Operating & Technology Infrastructure

- Lowered customer acquisition and support costs by 35% compared to competitors by deploying true online marketing, provisioning, billing, payment, customer service and account management tools.
- Deployed support systems infrastructure in 90 days by using off the shelf software. Contracted third party systems integrator to deliver under performance agreement. Total technology investments were under $4 million.
- Gained immediate customer satisfaction and loyalty by streamlining the installation process. Completed more installations in six weeks than BellSouth accomplished in six months of trials and two months of operation.

Market Penetration & Competitive Positioning

- Capitalized on the emergence of Internet direct marketing (websites, user groups, bulletin boards) to drive market awareness and customer acquisition through online platforms. Demonstrated the success of "viral marketing".
- Combined DSL, local and long distance services into a single line, bundled service, creating a competitive advantage.
- Structured strategic alliances with Akamai, CNN, music and video on demand services to create a value-added component to experience the Internet, not just a fast connection to get to the Internet.

SONOFON A/S, Copenhagen, Denmark 1994 to 1998
$4 billion full-service telecommunications company and minority investment of BellSouth Corporation.

Executive Vice President & Deputy CEO (1996 to 1998)
Member, Board of Directors (1994 to 1996)

Appointed to the Board to oversee BellSouth's 29% investment. Became actively involved in the business during a major turnaround that would facilitate Sonofon's transition from a GSM mobile communications operator to full-service telecommunications provider. Facilitated a complete reorganization of the business. Relocated corporate HQ, hired senior staff, and recruited a talented marketing team that would accelerate growth and move the business toward profitability.

Played a key role in negotiating a buyout of two investors to gain a 46.5% interest with 50/50 operating control. Promoted to Deputy CEO and as the only American in a 1000+ employee organization. Outlined the strategy, business model and operational requirements to start-up new lines of business and integrate them into the existing organization. Held full P&L responsibility for staffing, business development, regulatory, systems development, marketing, customer service and service delivery. Jointly responsible with CEO for overall company results and Board relations.

Turnaround & Rapid Growth of Foreign Investments

- Led Sonofon through an aggressive turnaround and first year of profitable operation since its inception. Delivered consolidated net income of $34 million in 1997 compared to $40 million loss in 1996.
- Realigned the business around the rapid development of new technology. Introduced new products that pushed Sonofon's market value from $500 million to $4 billion in four years.
- Led negotiation of $100 million buyout of minority partners increasing BellSouth's ownership to 46.5%.

Market Penetration & Competitive Positioning

- Increased cumulative market share from 18% to 38%, gaining more customers in 18 months than in prior three years. Achieved the highest cellular penetration in the world by 1997. Increased customer base by another 30% in 1998.
- Restructured international long distance agreements, cutting cost of service 50% for $18+ million in savings in 1997.
- Led successful lobby, accelerating deregulation and competition against the Tele Denmark monopoly.

New Products & Service Offerings

- Leveraged customer loyalty and deregulation to offer International Long Distance and Wireless Local Loop products.
- Outlined business model allowing Sonofon to deploy a fixed wireless technology when technology and radio spectrum in the region came up to speed. Sonofon launched significant market expansion in 2001 with original business model.
- Introduced new pricing and service programs that boosted volume by 9%, adding $10 million in service revenues in 1995. Launched prepaid services in 1997, bringing total revenues to in excess of $375 million.

BELLSOUTH EUROPE, Brussels, Belgium / **BELLSOUTH INTERNATIONAL**, Atlanta, GA 1993 to 1996
$3 billion newly-formed enterprise overseeing 12 partnerships in 10 countries with Europe accounting for 40%.

General Manager – BellSouth Denmark Inc. (1994 to 1996)
Director, Financial & Business Planning – BellSouth International (1993 to 1994)

Recruited into the international organization as the ad hoc CFO and BellSouth's front-man representing their minority financial interests in 12 partnerships in 10 countries. Accepted an expatriate assignment with the Belgium business development office to provide operational support for start-ups in Denmark, France and Germany and others expected in Spain, Italy, France and the Netherlands. Worked with shareholders and company management to set direction and benchmarks for revenue, profit and operating performance using same models applied inside BellSouth Enterprises.

International Investments & Global Market Expansion

- Appointed to the Board of Directors for operations in New Zealand, Argentina and Venezuela.
- Served on planning committee for Danish GSM operation, and finance committee for German cellular operation.
- Rationalized investments in France by negotiating the sale of two shareholdings to position for expansion through a new joint venture.

BELLSOUTH ENTERPRISES / BELLSOUTH CORPORATION, Atlanta, GA 1983 to 1993

$80 billion corporation with 44+ million customers in the US and 16 countries. Bellsouth Enterprises was a holding company for global subsidiaries in Cellular, Paging, Mobile Data, Long Distance, Advertising, Publishing and Cable TV.

Operations Manager, Financial & Business Planning (1990 to 1993)
Corporate Manager, Mergers & Acquisitions (1988 to 1990)
Investment Manager (1987 to 1988)
Staff Manager / Assistant Staff Manager, Earnings Analysis (1983 to 1987)

Charter employee in newly established BellSouth on fast-track promotion from Treasury to Investments and Mergers & Acquisitions. Following a reorganization and creation of BellSouth Enterprises, joined this group to analyze and support BellSouth's non-regulated ventures worldwide. Assessed revenue, profit and cash flow, benchmarked performance against the competition and adjusted budgets and projections based on industry, market, technology and regulatory trends.

Mergers, Acquisitions & Investments

- Bridged the gap between the corporation and entrepreneurial/emerging ventures to justify investments that would accelerate the top line without adversely affecting BellSouth's bottom-line. Led to:
  - Continued investments in cellular which fueled BellSouth's earnings growth from 1995 to 1999.
  - Exit from paging during industry consolidation, divesting assets for $1 billion.
- Prepared business cases and due diligence. Advised Chairman/Vice Chairman on merits/value of acquisitions.
  - Assembled a $500 million UK acquisition that would integrate telephony and cable services.
  - Led financial negotiations for acquisition of Irish CATV company and negotiated the purchase of shares in a national French cable operator.
  - Evaluated independent telephone, telecom equipment, systems integrator, software and printing companies. Recommended against acquisition based on valuation, earnings potential and/or strategic fit.
- Implemented an active trading program for BellSouth's $1 billion fund of taxable and tax-free money market securities. Delivered a 22% return increase vs. 7% market improvement resulting in $10 million added income.

Financial Analysis & Reporting

- Instituted a new approach for measuring subsidiary performance, focusing on fundamental analysis, strategic alternatives and future cash flow to maximize value. This approach replaced the previous system of accounting variance analysis and resulted in resource allocation to value creators for the company, such as continued cellular investment.
- Created an acquisition valuation model adopted by BellSouth's CFO and still used in Board of Director presentations.
- Designed a unique one-page summary of key operating indicators, comparing actual/forecast performance to budget.
- Created a standard platform for reporting on 10 distinctly different businesses that is still in place today.
- Provided cost of capital analysis and expert testimony in FCC Docket #84-800 gaining favorable access charges for BellSouth in interstate telephony.

EARLY EXPERIENCE – Student Engineer with South Central Bell Telephone while completing undergraduate degree. Gained experience in Data Center Operations, Billing, Collections and Customer Service with Southern Bell Telephone.

EDUCATION

MBA, Finance – Georgia State University, 1987
BS, Business / Computer Science – Vanderbilt University, 1980

Matthew W. Booher

PROFILE

Executive with proven record of success in general management, financial and operational management, investor relations and business development. Strong background in leadership of large organizations, improving business processes and operational efficiency, and in development and execution of business plans. Experienced in leading high-profile negotiations with customers, vendors and acquisition targets. Extensive background in management reporting, public accounting, process implementation and control, and a thorough knowledge of business information systems.

PROFESSIONAL EXPERIENCE

Broadwing, Inc / Broadwing Communications, Inc — **2000 - Present**

Senior Vice President – Finance / Division CFO — 2002 - Present

- Financial and operational responsibility for $900M (annual revenue) division.
- Responsible for re-engineering and reorganizing the division and positioning the business for increased profitability.
- Assist in determining the strategic direction of division or instituting a disposition strategy.

Broadwing, Inc / Cincinnati Bell Telephone Co. — 2000 - 2002

Vice President, Investor Relations

- Hired to define and implement professional level Investor Relations program.
- Member of the executive mgmt. team - participating in and influencing decisions and strategic plans.
- Responsible for quarterly earnings release calls, annual meetings and investor conferences and meetings.
- Initiated, developed and implemented corporate disclosure and Regulation FD policies.
- Cultivated and developed relationships with Wall Street research firms and buy-side firms.
- Responsible for targeting new owners and expanding institutional shareholder base.
- Increased 1M+ share shareholders from 17 to 31 and sell-side coverage from 6 to 17 analysts.
- Responsible for planning, creative design, and publishing company's annual report (2000 & 2001).

Norrell Corporation, & Interim Services Corporation, Atlanta, Georgia — **1998 – 2000**

CFO / Division Controller / Director of Finance & Administration

Norrell Financial Staffing / IMCOR / Norrell Information Services

- Responsible for finance, accounting, information systems and technology, and administrative functions for three Norrell business units totaling $370M in annual revenue.
- Oversight and responsibility for business unit financial performance and strategic direction, marketplace / customer development and sales strategy.
- Reversed operating losses and negative cash flow within four months by restructuring operations, altering the company's sales model, and re-engineering it's e-commerce strategy.

MCI Communications Corp. Atlanta, Georgia — **1990 – 1998**

Director / Business Unit CFO, Prepaid Sales — 1997 - 1998

MCI, Business Markets, Strategic Business Sales Unit

- Full P&L responsibility for $200M+ division.
- Responsible for guiding division out of monthly loss position (-$2M/mth) to profitability (+$2.5M/mth) in 12 months and exceeded revenue plan by 12%.
- Responsible for functional areas of accounting, planning, business development, billing and invoicing, customer and internal reporting, financial operations, and administration.

MCI Communications Corp. Atlanta, Georgia (continued)

Director / Business Unit CFO / Asst. General Manager, 1995 – 1997
Digital Imaging Division, MCI - Business Markets, Atlanta, Georgia & Greensboro, NC

- Financial and operations responsibility for $50M business unit of MCI, from acquisition through integration into MCI's core functional areas.
- Responsible for executive oversight during acquisition and initial start-up phases of business life cycle.
- Developed sales plans and operating plans for the unit.

Director, Business Analysis & Planning 1994 – 1995
MCI Business Markets Division

- Led finance organization of 40 professionals in the areas of business and financial planning, business analysis, and product pricing, for an $ 9 billion unit of MCI Communications during a period of record revenue and earnings growth.
- During tenure Business Markets revenue grew more than three times the industry average from 1994-95, resulting in over $2 billion in revenue growth, and growing earnings at more than 30% annually.
- Developed plans and budgets that achieved revenue growth while holding SG&A expenses constant and reduced capital expenses related to product development by 10% per year.
- Initiated revenue/pricing enhancements delivering more than $200M in contribution over two years.

Sr. Manager, Planning and Financial Analysis 1992 – 1994
MCI Business Markets Division

- Successfully integrated the planning organizations of five pre-existing business units into single Business Markets Planning organization.
- Developed financial planning process that was driven by specific operational performance plans, including sales productivity, product profitability, pricing and promotion plans.
- Developed customer level profitability system that provided revenue performance and profitability information by product.

Manager / Senior Financial Analyst, Business Development 1990 – 1992
MCI, Business Markets and Southern Division

- Held various positions of increasing responsibility from Sr. Analyst to Manager, in the areas of corporate development and finance.
- Negotiated special customer contracts for long-distance and data services.

McDonnell Douglas Corporation, St. Louis, Missouri 1988 – 1990
Senior Financial Analyst, Program Budgets

- Preparation and presentation of various financial data for senior management.
- Monthly revenue and P&L presentation to senior divisional executives.

Michigan State University, East Lansing, Michigan 1986 – 1988
Graduate Research Assistant, Finance Department

- Directed financial research study for the State of Michigan.
- Authored and published research results.

EDUCATION

Masters of Business Administration / Finance 1987
Michigan State University – East Lansing, Michigan

Bachelor of Science – Business Administration / Economics & Finance 1985
Southern Illinois University - Edwardsville, Illinois

Executive courses and seminars 1992 – present
Darden Graduate School / University of Virginia – Charlottesville, Virginia

Richard E. Putt
President, National Accounts

Professional Biography:

Broadwing Communications - January 2000 to present
- President of National Accounts
- President of Business Markets

espire Communications - December 1997 to January 2000
- Executive Vice President, Sales and Marketing

MCI Telecommunications - January 1987 to January 2000
- Vice President of State Government and University Markets
- Vice President of Carrier Sales and Support
- Vice President of Global Accounts
- Vice President of General Business
- Director of National Accounts
- Director of General Business
- Director of Alternate Channels

Norstan/Electronic Engineering Company - November 1979 to January 1987
- National Account Sales Manager

RICHARD D. CALDER, JR.

President, Business Enterprises

Experience

2001-present **BROADWING COMMUNICATIONS** **RESTON, VA**

President, Business Enterprises

- Lead the business units for Carrier Accounts, Large Accounts, and General Business Markets, and drive a P&L with $500 million in annual revenues.
- Drive overall strategic and tactical direction for the Business Units, Marketing, and all direct customer operations, including the Enterprise Management Center for trouble resolution.

President, Business Markets

- Led the Business Markets business unit, and drove a P&L with $150 million in annual revenue. Exceeded all P&L metrics for the 2002 plan and grew revenue by 50%.
- Executed strategic plan to drive up-market to larger enterprise accounts, to provide General Manager authority to field leaders, and to increase productivity resulting in a 150% improvement in field sales results.

1996-2001 **WINSTAR COMMUNICATIONS** **WASHINGTON, DC**

President, South Division

- Led the South Division business unit, and drove a P&L with $50 million in annual revenue. Exceeded all P&L and network deployment goals.
- Drove overall branch operations for sales and marketing, network operations, network deployment, and finance.

Executive Vice President, Chief Marketing Officer

- Established Winstar as a nationwide leader in broadband services, including high speed internet and data, web hosting, phone services, and e.commerce.
- Recruited and led a 100+ employee marketing organization for brand marketing, product marketing, market management, and training.

Senior Vice President / Vice President, Marketing

- Launched broadband services in top 60 US markets. Drove support for a nationwide field sales and service organization.
- Established and led the customer service team and 7x24 call centers. Developed and led the carrier sales channel.

1994-1996 **GO COMMUNICATIONS** **ALEXANDRIA, VA**

Vice President, Corporate Development and co-founder of this wireless communications company and bidder in the FCC auction for "C-Block" PCS licenses.

- Closed $150 million in equity financing and raised $700 million in senior debt financing.
- Negotiated and closed strategic financing and operating agreements with ALLTEL, Century Telephone, Fidelity Capital, Mitsubishi, and Nissho Iwai.

1990-1994 **MCI COMMUNICATIONS** **WASHINGTON, DC**

Director, Wireless Communications

- Led wireless business development and negotiated agreements with over 200 companies to join a national PCS consortium.
- Developed the wireless business plan and established business partner relationships with senior executives in the communications, cable, and publishing industries.

Senior Manager/Manager, Marketing

- Led marketing efforts for the 800 product line with over $1 billion in annual revenues; Launched initiatives for 800 number portability and increased 800 revenues by over 30%.
- Created and launched an enhanced voice services product line and managed the acquisition of a leading voice services provider.

RICHARD D. CALDER, JR.

President, Business Enterprises

1985-1988 **TELLABS, INC.** **LISLE, IL**

Senior Product Manager/Product Manager, Marketing

- Managed multiple product lines for this telecommunications manufacturer.
- Successfully launched the company's first network management product platform.

Staff Engineer

- Developed five microchips in new design group, and achieved first time success on each project.

Education

1988-1990 **HARVARD BUSINESS SCHOOL** **BOSTON, MA**

Awarded Master in Business Administration, general management curriculum.
Summer Associate, 1989, Booz, Allen & Hamilton Consulting Group, New York, NY.

1981-1985 **YALE UNIVERSITY** **NEW HAVEN, CT**

Awarded Bachelor of Science Degree, *cum laude*, in Electrical Engineering.
Selected to Tau Beta Pi, National Engineering Honor Society.
Earned four varsity letters as first diver on Division I Swimming & Diving team.

Personal Lived and traveled throughout Europe and the Middle East.

GORDON P. WILLIAMS, JR.

EXPERIENCE:

1997 – Present: Broadwing Communications Inc.(fka IXC Communications, Inc.), Austin, Texas

(1999 – present): Vice President, Associate General Counsel and Assistant Secretary. AV rated and responsible for developing team to provide all legal support for nationwide communications division of telecommunications company deploying a nationwide fiber optic system and with annual revenues in excess of $1 billion including complex transactions, major contract disputes, litigation, sales, vendor contracts, corporate matters, HR, IP, bankruptcy and work-outs, SEC, legal approval for marketing materials and press releases and back-up for General Counsel. Participate as member of senior management team.

(1997 – 1998): Assistant General Counsel and Director of Network Business Development. Developed and negotiated fiber purchase, sale and swap agreements. Developed forms and legal support for fiber transactions and right-of-way development. Developed complex transaction agreements. Chaired Industry Right-of-Way Group Policy Committee, representing the big three interexchange carriers and the ILECs, that developed and published a nationwide Right of Way Policy Paper that is still in use.

1988 – 1997: MCI Communications Corporation, Richardson, Texas

(1996-1997): Associate Counsel, Law and Public Policy. Responsible for legal and policy support for all matters involving public rights of way and development of first-rate legal team for municipal franchise and state legislative matters. Assumed lead for development and implementation of nationwide municipal franchise policy and strategies. Initiated legislative reform effort. Lead successful industry coalitions at both municipal and state legislative levels. Panelist at several industry and legal conferences. Named to industry Municipal Barriers Working Group. Special briefings presented to executive management, FCC and selected regulatory officials. Co-Chair American Bar Association State and Local Government Law Section Cable and Telecommunications Committee

(1990-1995): Senior Attorney, Office of The General Counsel. Primary Counsel to Texas-based MCI subsidiary, MCImetro Access Transmission Services, Inc. Responsible for ensuring that all of MCImetro's legal support needs were met. Main responsibility was to establish commercial contract forms and policies, perfect rights to communications facilities located in public rights-of-way, coordinate regulatory support, and oversee regulatory filings for MCImetro's nationwide local service initiative.

(1988-1990): Attorney, Office of The General Counsel. Handled complex municipal and utility right-of-way and franchise matters; zoning and land use; commercial contracts and disputes.

1986-1988: Lawyers Title Insurance Corporation, Richmond, Virginia

Senior Attorney (Corporate Officer), Managed claims handling by ten in-house attorneys. Directly handled major claims litigation matters in fifteen states including several major metropolitan areas (New York, Chicago, Boston and Philadelphia). Reorganized the claims organization in the Chicago Multi-States Office. Successfully established third party lead in a major ($178 million) title reinsurance case. Designed, wrote and implemented a national claims litigation budget program and database.

1982 – 1986: Conner, Hooker, Hydrick, Williams, and Wright, Richmond, Virginia

(1984– 1986): Partner - General litigation practice with emphasis on zoning and land use, real estate, small corporate representation, lease and acquisition agreements. Virginia Regional Zoning Counsel to MCI Communications Corporation.

(1982-1984): Attorney - Developed general litigation and land use practice.

BAR ADMISSION:

Virginia State Bar 1982

EDUCATION:

J.D. - T.C. Williams School of Law, University of Richmond, 1982.
Honors:
Carrico Moot Court Competition Winner - 1980
Barnett Moot Court Competition Winning Team - 1980
Barnett Scholarship for Excellence in Legal Writing - 1980
National Moot Court Team - 1981
Certified for Third Year Practice by the Virginia State Bar.
Internship, Henrico County Circuit Court - 1981
Internship, Henrico County Commonwealth's Attorney's Office. Prosecuted several hundred minor criminal and traffic cases and several appeals to Court of Record, all as first chair - 1981.

B.A. – Psychology, University of Richmond, Richmond, Virginia, 1979.

PUBLICATIONS:

Gordon P. Williams, Jr. *Municipal Regulation of Telecommunications and the Telecommunications Act of 1996 II*, The Urban Law Journal, Fall 1997
Gordon P. Williams, Jr. *Municipal Regulation of Telecommunications: the Telecommunications Act of 1996 and the Facets of the Paradigm*, The Urban Law Journal, Fall 1996
Tomas F. Geselbracht and Gordon P. Williams, Jr. *Information Superhighway Is Beset by Local Fees*, The National Law Journal, March 13 1995

ORGANIZATIONS:

Texas General Counsel Group
Texas General Counsel Forum
American Bar Association, Co-Chair Cable and Telecommunications Subcommittee, State and Local Government Law Section, 1996 - 1999.
American Corporate Counsel Association
American Society of Corporate Secretaries

MILITARY:

Major, Army Corps of Engineers United States Army Reserve. (Retired)

LISA M. BROWN
Vice President of General Business Markets and Enterprise Management Services

EXECUTIVE SUMMARY

Passionate leader with a wide range of professional experience from P&L, operations, sales and marketing brings a proven track record of building value through strong teams with a high energy style and commitment to get the job done.

PROFESSIONAL EXPERIENCE

BROADWING COMMUNICATIONS, INC – Austin Texas, 7/91 to Present

Vice President General Business Markets & Enterprise Management Services - Austin, Texas 11/02 to Present

General Business Markets:

- Responsible for P&L Management of this BU with monthly revenues of $13 MM per month supporting 150,000 consumer and business accounts spending under $10K per month and our strategic intra-company distribution channel.
- Established centralized sales & support team to service mid market accounts.
- Reorganized Alternate Channel Program to bring profitability to this distribution segment.
- Managed Customer Support Functions of Ordering, Service Delivery, Bill Activation, Customer Care & Collections. Staff includes 50 seat customer care center plus 35 positions for sales, marketing & account management support.
- Responsible for sales & marketing, generate new sales of $100K per month.

Enterprise Management Services:

- Converged traditional care center & NOC creating an innovative 'Tech to Tech' customer repair center with project management layer for high value customers.
- Manage this 80 person center that provides central support for 4 business units and serves customers buying simple & complex data solutions and dedicated voice services
- Cut MTTR & MTTC in half in first 60 days, improved quality of customer interaction and increased customer satisfaction
- Implemented Quality Program to improve call handling, process & procedure and tools.

Vice President Consumer and Small Business Markets & Customer Operations -Austin, Texas 4/02 to 11/02

Consumer & Small Business Markets:

- Managed $6MM per month P&L for BU of 130,000 customers in the consumer & small business accounts spending under $2K.
- Achieved 99% of revenue EBIDTA plan for 2002 contributing $81MM in Net Revenue & $29MM in EBIDTA.
- Developed & implemented marketing programs to support the segment.
- Converted 50-seat customer service center into a sales & service center focused on retention, achieved a 47% customer 'save' retention rate for '02
- Reduced customer churn significantly by resolving host of operational & billing issues

- Redesigned external web site to support this distribution segment.

Customer Operations:

- Responsible for managing central support teams of Provisioning, Billing & Customer Care serving 5 business units.
- Provisioning – Managed 120 person Provisioning Team delivering average of $2.5 million per month in new customer installs, managing backlog of 2,000+ orders valued at over $6 million. Delivered 85% on time, carried less than 10% of backlog in past due status.
- Customer Care – Managed 130 Customer Care seats in 3 centers (2 internal, 1 specialty outsource). Improved service level, answer rate and rep quality ratings. Rebuilt IVRs to gain efficiency, instituted quality standards including call standards, training program, monitoring, feedback and rep scorecards.
- Billing – Managed Billing Operations team of 55 people responsible for producing monthly billing in excess of $120 million in 6 billing environments. Billed 99% on time consistently. Also managed disputes & resolution process.

Vice President Sales Operations – Austin, Texas 12/00 to 4/02

- General Business Manager for the President of Business Enterprises Group responsible for planning & financial management of 5 business unit P&Ls generating $900 Million in annual revenue.
- Created & Implemented Central Sales Operations Support team providing support for 3 business units in the areas of Technical Sales Support & Business Operations.
  - Technical Sales Support provided - 2nd Level Technical Sales Engineering, Complex Bid / RFP Support team, 'Help Sell' a central call center for product & systems
  - Business Operations provided - Sales Administration, Compensation Plan Development & Administration, Executive Reporting

Vice President Provisioning – Austin, Texas 10/99 to 12/00

- Reduced service delivery intervals from 90+ days to average of 29 while more than doubling throughput.
- Eliminated backlog of 1,500+ past due orders (70%+) in 3 month period, while implementing new work process, team structure, support teams, tools, etc.
- Implemented a unique concept in work environment that promoted teamwork, ownership & accountability and alignment with customer sets and distribution channels.
- Rebuilt management team as well as staff, recruiting 70+ team members to replace contract staffers.
- Established Broadwing as industry leader in the area of service delivery.

Vice President Customer Enabling Services, IXC Communications – Newport News, VA 2/99 to 10/99 (acquired by Broadwing)

- Created, implemented, and managed IXC's 'Customer Enabling Services' organization, a sales support team supporting all channels of distribution for Training, Technical Sales Engineering and Media & Web Support.
- Responsible for taking new products to market – developing and delivering training from sales skills to product and technical training. Creating web & media based tools, product repositories and web-based support for sales. Lastly, delivering technical support, network design, rfp support and sales call support to the distribution channels.
- Managed Professional Services practice selling technology consulting & training.

MELINDA K. FIGELEY, SPHR
Vice President, Human Resources

PROFESSIONAL SUMMARY

Seasoned Human Resources management professional with 18 years diverse experience. Skilled in providing an effective linkage between business objectives and human capital, and in driving the attainment of business goals through performance-based consultation. Varied industry experience, including telecommunications, services, manufacturing and healthcare, in organizations of 50 - 8,000 employees. Demonstrated expertise in employee and labor relations; leadership and organizational development; and union avoidance strategy.

PROFESSIONAL EXPERIENCE

Broadwing Communications, Austin, Texas 10/00-Present
Vice President, Human Resources

Reporting to Chief Legal Officer. Lead staff of 65 throughout U.S., including 8 Directors/Managers.
Coaching And Professional Development

- Provide performance-based coaching to all levels of management, including senior executives.
- Valued by senior executives as a confidential resource/coach on critical business issues involving a variety of tactical and strategic initiatives.
- Recognized as highly competent business partner and valued member of ten-member senior leadership team.

Leadership And Organizational Development

- Developed and implemented two-tier management and leadership development program.
- Conducted organization-wide cultural and leadership assessment as part of merger/acquisition strategy.

Recruitment/Staffing

- In first nine months, implemented strategic recruitment plan which reduced costs by $4M/yr and reduced cost per hire to industry-low $3100/hire.

Budget/Operations

- Managed budget of $7M and human resources field operations in 36 states.

Labor/Employee Relations

- Reduced EEOC caseload by 75% in first year.
- Negotiated four (4) major employment claims in 2002, resulting in litigation/judgment savings of $750k.

MCI Telecommunications, Austin/El Paso, Texas 02/98-03/00
Sr. Manager, Human Resources

Reported to National Director, HR. Lead staff of 12, including 3 Managers.
Leadership And Organizational Development

- Developed and implemented a variety of highly customized management and leadership development initiatives, resulting in reduced employee attrition, improved leadership effectiveness, and reduced legal/third-party claims.

Human Resources Management

- Provided leadership for all Human Resources generalist functions.
- Recognized as highly competent business partner and valued member of eight-member senior leadership team.
- Provided proactive consultation to peer groups and mid-level management on a broad variety of strategic and tactical human resources issues.

Surplus Lines Insurance of Texas, Austin, TX 10/93-02/98
Director, Administration (Finance/Accounting and HR)
Reported to General Manager/CEO. Lead staff of 25, including 3 Managers.

Healthcare International, Austin, TX 02/89-10/93
Director, Human Resources.
Reported to CEO. Lead staff of 11, including 2 Managers.

General Motors Corporation, Chevrolet Truck & Bus Group, Flint, MI 09/85-09/87
Human Resources Specialist
Reported to Director, Personnel.

ADDITIONAL TRAINING & ORGANIZATIONAL DEVELOPMENT

Lead Instructor, University of Texas 09/95-Present
Human Resources Certificate Program
<u>*Curriculum Development & Instruction*</u>

- Instruct human resources curriculum, providing continuing education to experienced HR professionals in functional areas required for national certification; consistently evaluated at 3.8 - 4.0 (4.0 scale).
- Design instructional materials and facilitate continuing education programs, including:
  - "*Understanding Business Performance Metrics and Financials*".
  - "*Transformational HR Leadership*".

Consultant and Guest Speaker

- Frequent consultant on initiatives such as leadership development, HR risk management, union avoidance strategies, and HR compliance issues.
- Frequent guest speaker on subjects such as Dimensions of Change in HR and Transformational Leadership.

EDUCATION

University of Michigan, Ann Arbor, MI
Bachelor of Arts, with honors
Academic Honors/Awards: Alpha Lambda Delta, Phi Eta Sigma

University of Texas, Austin, TX
Certificate in Human Resources Management

Human Resources Certification Institute, Arlington, VA
Certified Senior Professional in Human Resources (SPHR)

Continuing Development and Education:
Creating and Sustaining High-Performance Teams; Creating a High-Performance Culture; Emotional Intelligence at Work; Creating and Marketing an Employment Brand; The Mergers & Acquisitions School of Hard Knocks Executive Roundtable; Strategy Thinking in Revolutionary Times; Total Employee Involvement; Knowledge Management; Customer Service Management; TQM; Leadership Development Community five-part executive program (Authenticity, Accountability, Intentionality, Courage and Velocity); Hughes & Luce Annual Employment Law Briefing.

PROFESSIONAL AFFILIATIONS

- Society for Human Resources Management (SHRM).
- Austin Human Resources Management Association (AHRMA).
- Appointed to Bureau of National Affairs Personnel Policy Forum, Washington, DC, 1997-98.

Karen T. Hanson

National Director – Regulatory Affairs

Achievement-oriented professional with diversified experience in regulatory compliance, tariff management, mergers and acquisitions. Knowledge of telecommunications regulations and products. Excellent multi-tasking and organizational aptitudes with proven ability to analyze revenue by product and regulatory requirement to insure adequate, but not excessive payments of fees and assessments to FCC, State Utility Commissions and all other established funds and agencies. Effective communicator and problem-solver. Enjoy supporting the efforts of multiple departments regarding policies and procedures through research and interpretation of individual rules, ordinances and statutes by state and jurisdiction.

SKILLS SUMMARY

- Government Relations
- Customer Relations
- Administrative Skills
- Written Presentation

Oral Presentation
Creative
Collecting Data
Analyzing Data

Meet Deadlines
Report Preparation
Teams/Task forces
Directing/Managing

EXPERIENCE

BROADWING COMMUNICATIONS – Austin, Texas
National facilities based telecommunications carrier
National Director-Regulatory Affairs, January 1, 2003 to present
Responsibilities include the supervision, filing and maintenance of all state tariffs; compliance with all state and federal rules and regulations; providing staff support to various departments in researching and interpreting state and federal rules and regulations; managing various issues and negotiating settlements regarding disputed billings issued to and billed by present employer; contract reviews; responding to any orders or requests issued by state and federal regulatory agencies; tracking and resolving all state and federal agencies complaints; tracking revenue for the purpose of authorizing payments to state and federal high cost funds; calculating and filing of 499A and 499Q information with the FCC; filing of all state and federal annual reports result in payment of $19 million in Regulatory assessments and fees.

Regulatory Compliance Specialist, to December 2002
Managed reporting and payment of assessments to federal and state regulatory authorities. Coordinated relationship between company and customers relative to billing of state and federal assessments. Secured and maintained state, county and municipal licenses. Worked on four mergers. **Key accomplishments.**

- **Earned Broadwing Encore and Ovation award** for finding revenue opportunities enough to fund entire Regulatory Department budget for a full year. ($1,000,000 +) *Presentation in Cancun, Mexico*

5107 Cree Lane * Austin, TX * 78734 * Home 512-266-0447 * RegularK3@aol.com

Regulatory Analyst – IXC/Broadwing, Austin, TX - August 1998 to
Managed required Secretary of State filings of withdrawal, and/or merger, and annual regulatory report filings for seven merged entities in forty-eight contiguous states.
Key accomplishment.

- **Earned – I Am Exceptional Award** for $189,000 in recovered revenue.
  Presentation in Scottsdale, AZ

Regulatory Manager – Network Long Distance, Inc. – Baton Rouge, LA
September 1995 to August 1998
Managed Regulatory, Secretary of State and Sales Tax Reporting in forty-eight states.
Responded to FCC and State Utility Commission Customer Complaints.
Key accomplishment.

- **Upon merger with IXC Communications** I was asked to join the Regulatory Department of IXC in Austin.

Vice President & Corporate Secretary – Baton Rouge Business Systems, Inc.
Cash Register Dealer - Baton Rouge, LA – October 1980 to December 1995
Managed office duties including A/P, A/R, Collections, Payroll, taxes, and employee benefits. Handled employee relations, retail customer relations as well as company relations with vendors and product manufacturers. Mastered programming and operating techniques of various cash register systems and implemented these features to fit customer needs. Programmed and trained customer and employees.
Key accomplishment.

- **Invited by Sanyo Corporation as one of ten key dealers in the nation, to critique a prototype cash register system.**

COMPUTER SKILLS

- Microsoft Excel
- Microsoft Word
- Lotus 1-2-3

Microsoft Outlook
Windows 2000/NT/98/95
Word Perfect

C III COMMUNICATIONS OPERATIONS, LLC

WHOLESALE INTEREXCHANGE TELECOMMUNICATIONS

SERVICE TARIFF

CHECK SHEET

Pages of this tariff, as indicated below, are effective as of the date shown at the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

PAGE	REVISION	PAGE	REVISION
1	Original	26	Original
2	Original	27	Original
3	Original	28	Original
4	Original	29	Original
5	Original	30	Original
6	Original	31	Original
7	Original	32	Original
8	Original	33	Original
9	Original	34	Original
10	Original	35	Original
11	Original	36	Original
12	Original	37	Original
13	Original	38	Original
14	Original	39	Original
15	Original	40	Original
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* - indicates those pages includes with this filing

CHECK SHEET (Continued)

Pages of this tariff, as indicated below, are effective as of the date shown at the bottom of the respective pages. Original and revised pages, as named below, comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

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By: Karen T. Hanson, National Director - Regulatory Affairs
C III Communications Operations, LLC
1122 Capital of Texas Highway South
Austin, Texas 78746

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TARIFF FORMAT

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

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

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

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

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

EXPLANATION OF SYMBOLS

Changes to this tariff shall be identified on the revised page(s) through the use of symbols. The following are the only symbols used for the purposes indicated below:

(C) - To signify a changed regulation.

(D) - To signify a discontinued rate or regulation.

(I) - To signify an increase in rate or charge.

(M) - To signify material relocated from one page to another without change.

(N) - To signify a new rate or regulation.

(R) - To signify a reduced rate or charge.

(S) - To signify a correction or reissued matter.

(T) - To signify a change in text but no change in rate or regulation.

APPLICATION OF TARIFF

This tariff contains the regulations, rates and charges applicable to the provision of interexchange telecommunications services by C III Communications Operations, LLC for the use of Customers transmitting messages on behalf of their End Users within the State of South Dakota, subject to the jurisdiction of the South Dakota Public Utilities Commission ("Commission").

This tariff is available for public inspection during normal business hours at the main office of C III Communications Operations, LLC, located at 1122 Capital of Texas Highway South, Austin, Texas 78746.

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS

Access Line - A facility arrangement which connects Customer's or End User′ s location to Carrier's network switching center.

Account Code - A series of digits entered by End User to associate a call with a particular department, cost center, or client. A non-verified Account Code shall be accepted if it contains the proper number of digits. A verified Account Code shall only be accepted if it can be matched with a number on the list of valid Account Codes provided by End User.

Aggregator - The person, firm, corporation or other entity that, in the normal course of its operations, makes telephones available to the public for operator assisted calling. The Aggregator is responsible for compliance with applicable terms of the Company's tariff.

ASR (Access Service Request) - Service ordered processed to the underlying local exchange or interexchange carrier.

Authorization Code - A numerical code, one or more of which are available to Customer′ s End Users to enable them to access Carrier's network, and which are used by Carrier both to prevent unauthorized access to its facilities and to identify End Users for billing purposes.

Carrier - Carrier

Casual Calling- Access to Carrier′ s network and the subsequent use of Service by an End User Customer through the dialing of an access code in the format of 10XXX or 101XXXX, where the three (3) digits or the four (4) digits represented by the AX@ are the unique Carrier Identification Code (CIC) assigned to Carrier.

Commission - The South Dakota Public Utilities Commission.

Consumer - A natural person or legal entity which initiates any telephone call using operator services.

Conversation Minutes - For billing purposes calls are billed based on Conversation Minutes, which begin when the called party answers, as determined by answer supervision, and end when either party disconnects.

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS (Continued)

Customer - The natural person or legal entity which orders Service and is therefore responsible for the payment of charges due as a result of using the Service and for compliance with the Company' s tariff. The Customer may be a certified reseller of telecommunications services who, under the terms of a Service Agreement, orders or uses Service and is therefore responsible for the payment of charges due and for compliance with Carrier's tariff regulations. The Customer may be an End User when placing a Casual Call, or a Consumer when placing a call through the use of Operator Services. A Customer is also the natural person or legal entity which accepts the charges on a collect or third party call.

Day - From 8 AM up to but not including 5 PM, Monday through Friday.

Dialed Number Information Service (DNIS) - A toll free service option, under which Carrier electronically transmits to Customer, identifying digits (up to 10 digits) that indicate which number was dialed when multiple numbers terminate on the same trunk group.

End User - The natural person or legal entity which either; (1) orders service through a certified Reseller Customer, or (2) uses the Company' s Casual Calling service directly as a Customer through dialing the Company' s designated access code or other access number

Expedite - The best effort acceleration of the installation date in advance of commitment date provided by the Company.

Hub - A point-of-presence of Carrier, at which location the network services of Carrier are accessed by Customer and/or its End Users.

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS (Continued)

Minimum Customer Usage Commitment - The minimum monthly usage charges (including interstate, intrastate, and international usage, but not including fixed charges) for which Customer is obligated to compensate Carrier under the terms of the applicable Service Agreement.

Non-Day - All hours other than those included in the Day rate period,

POP - See AHub.@

Post-engineering - After provisioning of service elements.

Pre-engineering - Prior to provisioning of service elements.

Reseller - A Customer which purchases Service from the Company through a Service Agreement and resells service to its own End Users. End Users of a Reseller are not Customers of the Company. A Reseller must be authorized to operate in the State before it can Resell Services to its End Users.

Service - Any or all service(s) provided by Carrier to Customer pursuant to Service Agreement and this tariff.

Service Agreement - An agreement between Carrier and Customer which, subject to the terms and conditions of this tariff, defines the relationship between Carrier and Customer.

Service Area - The geographic area in which Customer or its End Users may access and use Service. For Dial Access 1+ Service the Service Area includes all equal access areas within the State of South Dakota. For all other services the Service Area is the State of South Dakota.

SECTION 2 - REGULATIONS

2.1 Undertaking of the Carrier

2.1.1 Service is furnished for telecommunications originating at specified points within the State of South Dakota under the terms and conditions of this tariff.

2.1.2 Carrier shall install, operate, and maintain Service provided hereunder in accordance with the terms and conditions set forth in this tariff.

2.1.3 Carrier neither owns nor operates transmission facilities within the State of South Dakota, but rather resells telecommunications services provided by other carriers. Notwithstanding the foregoing, Customer shall be considered a customer of Carrier, and not a customer of any other carrier.

2.1.4 Carrier may, when authorized by Customer, act as Customer's agent for ordering dedicated Access Lines or facilities provided by other carriers to allow connection of specified locations of Customer and/or its End Users to the network of Carrier. Customer shall be responsible for all charges due for such service arrangements.

2.1.5 Service is provided under the terms and conditions of an applicable Service Agreement and this tariff, and is available twenty-four (24) hours per day, seven (7) days per week.

2.2 Limitations on Service

2.2.1 Service is offered subject to the availability of the necessary facilities and subject to the provisions of this tariff.

2.2.2 To the extent that any conflict arises between the terms and conditions of a Service Agreement and the terms and conditions of this tariff, the tariff shall prevail.

SECTION 2 - REGULATIONS (Continued)

2.2 Limitations on Service (Continued)

2.2.3 Carrier reserves the right to discontinue furnishing Service, or to limit the use of Service, when necessitated by conditions beyond its control, when Customer or an End User is using Service in violation of the law or in violation of the provisions of this tariff, or for non-payment by Customer.

2.2.4 Service provided under this tariff is directly controlled by Carrier, and Customer may not transfer or assign the use of Service, except with the prior written consent of Carrier. Such transfer or assignment shall only apply where there is no interruption in the use or location of Service, and all regulations and conditions contained in this tariff, as well as all conditions for Service, shall apply to all such permitted assignees or transferees.

2.2.5 Customer may request Carrier to assign one or more sub-accounts for billing purposes and to direct sub-account invoices to affiliates of Customer or other designated entities for payment purposes. Such requests shall not affect the liability of Customer, who shall remain solely liable to Carrier for payment of all invoices for Service requested and obtained by Customer, whether invoiced by Carrier to Customer, its affiliates, or other designated entities.

2.2.6 Service may not be used for any unlawful purpose.

2.3 Limitations on Liabilities

2.3.1 In view of the fact that the Customer has exclusive control of his or her communications over the facilities furnished by the Carrier, and other uses for which facilities may be furnished by the Carrier, and because of the unavoidableness of errors incident to the service and to the uses of such facilities and services of the Carrier, the services and facilities furnished by the Carrier are subject to the regulations and limitations specified herein.

2.3.2 The Carrier's failure to provide or maintain facilities under this tariff shall be excused by labor difficulties, government orders, civil commotions, acts of God and other circumstances beyond the Carrier's reasonable control, subject to the interruption allowance provisions of this tariff.

SECTION 2 - REGULATIONS (Continued)

2.3 Limitations on Liabilities (Continued)

2.3.3 If a Customer's service is interrupted other than by negligence or willful act of the Customer, and it remains out of order fro two normal working hours or longer after access to the premises is made available and after being reported to be out of order, appropriate adjustments or refunds shall be made to the Customer. The amount of adjustments or refunds to be made to the Customer shall be determined on the basis of the known period of interruption, generally beginning from the time the service interruption is first reported. The refund to the Customer shall be pro rata part of the month's late rate charges for the period of days and that portion of the service facilities rendered useless or inoperative. The refund may be accomplished by a credit on a subsequent bill for the service.

2.3.4 The Carrier's liability, if any, for its gross negligence or willful misconduct is not limited by the tariff. With respect to any other claim or suit by a Customer or by any others, the Customer indemnifies and saves harmless the Carrier against claims, losses or suits for injury to or death of any person, or damage to any property which arises from the use, placement or presence of the Carrier's equipments, facilities and associated wiring of the Customer's premises and further the Customer indemnifies and saves harmless the Carrier against claims for libel, slander, invasion of privacy or the infringement of copyright arising directly or indirectly from the material transmitted over the facilities of the Carrier or the use thereof by the Customer; against claims for infringement of patents arising from combining with or using in connection with, facilities furnished by the Carrier and apparatus, equipment and systems provided by the Customer; and against all other claims arising out of any act or omission of the Customer in connection with the services or facilities provided by the Carrier. No agents or employees of any other carrier shall be deemed to be agents or employees of the Carrier.

SECTION 2 - REGULATIONS (Continued)

2.3 Limitations on Liabilities (Continued)

2.3.5 The Carrier′ s liability, if any, for its gross negligence or willful misconduct is not limited by this tariff. With respect to any other claim or suit, by a Customer or any others, for damages arising out of mistakes, omissions, interruptions, delays or errors, or defects in transmission occurring in the course of furnishing service hereunder, Carrier′ s liability, if any, shall not exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which such mistake, omission, interruption, delay, error, or defect in transmission or service occurs and continues or as otherwise provided under South Dakota law. This liability shall be in addition to any amounts that may otherwise be due to the Customer, under this tariff as an allowance for interruptions. However, any such mistakes, omission, interruptions, delays, errors, or defects in transmission or service which are caused or contributed to by the negligence or willful act of the Customer, or authorized user, or joint user, or which arise from the use of Customer provided facilities or equipment shall not result in the imposition of any liability whatsoever upon the Carrier.

2.3.6 The Carrier shall not be liable for any damages, including usage charges, that the Customer may incur as a result of the unauthorized use of authorization codes or communications equipment. The unauthorized use of communications equipment includes, but is not limited to, the placement of calls from the Customer′ s premises, and the placement of calls through equipment controlled and /or provided by the Customer, that are transmitted over Carrier′ s network without the authorization of the Customer. The Customer shall be fully liable for all such usage charges.

SECTION 2 - REGULATIONS (Continued)

2.4 Cancellation or Discontinuance of Service by Carrier

Without incurring any liability, Carrier may under the following conditions cancel Service prior to commencement or discontinue Service that is being furnished, provided that, unless otherwise stated, Customer shall be given fifteen (15) days written notice of such cancellation or discontinuance of Service.

2.4.1 For noncompliance with or violation of any applicable State, municipal or Federal law, ordinance or regulation or noncompliance with or violation of any Commission regulation, provided that lesser notice may be required by order of such regulatory authorities.

2.4.2 For Customer's or End User's refusal to provide reasonable access to Carrier or its agents for the purpose of inspection and maintenance of equipment owned by Carrier.

2.4.3 For noncompliance with any of the provisions of this tariff governing Service.

2.4.4 For nonpayment of any sum due Carrier for more than thirty (30) days after delivery of an invoice to the custody of the U.S. Mail or other standard delivery service.

2.4.5 Without notice, in the event of Customer's or End User's use of equipment in such a manner as to adversely affect Carrier's equipment or Service to others.

2.4.6 Without notice, in the event of unauthorized or fraudulent use of Service. Whenever Service is discontinued for unauthorized use of Service, Carrier may, before restoring Service, require Customer to make, at its own expense, all changes in facilities or equipment necessary to eliminate unauthorized use and to pay to Carrier an amount reasonably estimated by Carrier as the loss in revenues to Carrier resulting from such unauthorized use plus claims lodged against Carrier by third parties.

2.4.7 Without notice, by reason of any order or decision of a court or other government authority having jurisdiction that prohibits Carrier from furnishing Service to Customer or its End Users.

SECTION 2 - REGULATIONS (Continued)

2.5 Cancellation or Termination of Service by Customer

2.5.1 Customer has ordered Service from Carrier pursuant to the terms and conditions of a Service Agreement. Any cancellation or termination of Service is subject to the terms and conditions of that Service Agreement.

2.5.2 If Customer, either on behalf of itself or an End User, orders Service from Carrier which requires special construction or facilities for Customer's or End User's use, and then cancels its order before Service begins, a charge shall be made to Customer for the non-recoverable portions of the expenditures or liabilities incurred on behalf of Customer or End User by Carrier.

2.5.3 If Customer terminates Service prior to the end of the term specified in the Service Agreement, Customer shall be responsible for all charges incurred to the date of termination, including, but not limited to, all charges to Carrier by other carriers for Service provided to Customer or its End Users, and any applicable cancellation or termination charges as specified in the Service Agreement.

2.6 Restoration of Service

The use and restoration of Service shall in all cases be in accordance with the priority system specified in Part 64, Subpart D, of the Rules and Regulations of the Federal Communications Commission.

2.7 Payment and Billing

2.7.1 Service is provided and billed on a monthly basis. Usage sensitive charges are billed in arrears and fixed monthly recurring charges, if any, are billed one month in advance.

SECTION 2 - REGULATIONS (Continued)

2.7 Payment and Billing (Continued)

2.7.2 Bills are due and payable upon receipt. Interest at the lesser of a rate of one and one-half percent (1.5%) per month, or the maximum rate allowed by law, shall be charged on any amount remaining unpaid after thirty (30) days from delivery of an invoice to the custody of the U.S. Mail or other standard delivery service.

2.7.3 The security of Authorization Codes used by Customer or its End Users are the responsibility of Customer. All calls placed using such Authorization Codes or using facilities owned or controlled by Customer or its End Users shall be billed to Customer and must be paid by Customer.

2.7.4 Carrier reserves the right to examine the credit record of Customer. A Customer whose Service has been discontinued for non-payment of bills shall be required to pay any unpaid balance due to Carrier before Service is restored.

2.7.5 Carrier reserves the right to collect a deposit, or obtain other forms of security, from a Customer who fails to comply with the payment terms of an applicable Service Agreement or this tariff.

2.7.6 If notice from Customer of a dispute as to charges is not received in writing by Carrier within thirty (30) days after delivery of an invoice to the custody of the U.S. Mail or other standard delivery service, the billing will be considered correct and binding.

2.8 Deposits

Based upon its review of applicable credit information, Carrier reserves the right to collect a deposit, or obtain other forms of security, from a Customer prior to providing Service.

2.9 Advance Payments

Carrier does not require or collect advance payments from Customers.

SECTION 2 - REGULATIONS (Continued)

2.10 Taxes

2.10.1 Service may be subject to state and/or local taxes at the prevailing rates, if Service originates and terminates in the State of South Dakota. All such taxes (e.g., gross receipts tax, sales tax, and municipal utilities tax) are listed as separate line items on Customer's invoice and are not included in the rates and charges listed herein.

2.10.2 Service shall not be subject to taxes for a given taxing jurisdiction if Customer provides Carrier with written verification, acceptable to Carrier and to the relevant taxing jurisdiction, that Customer has been granted a tax exemption.

2.10.3 Customer is solely responsible for the calculation, billing, and collection of all required taxes from its End Users.

2.10.4 Pay Telephone (Payphone) Surcharge

A surcharge shall be assessed for each call made from a pay telephone to a toll-free number, dialed using a travel card, or dialed using the Company' s access code. This charge is to compensate the Company for fees payable to the pay telephone service provider.

Per Call	$0.35

SECTION 2 - REGULATIONS (Continued)

2.11 Terminal Equipment

Service may be used with or terminated in terminal equipment or communications systems, such as a PBX or key telephone system, provided by Customer or its End User. Such terminal equipment or communications systems shall be furnished by and maintained at the expense of Customer or its End User, except as otherwise provided. Customer or its End User is also responsible for all costs at its premises incurred in the use of Service, including but not limited to equipment, wiring, electrical power, and personnel. When such terminal equipment or communications systems are used, they shall in all respects comply with the generally accepted minimum protective standards of the telecommunications industry as endorsed by the Federal Communications Commission.

2.12 Interconnection

Service furnished by Carrier to Customer or its End Users may be connected with the services or facilities of other carriers. Customer is responsible for all charges billed by other carriers in connection with the use of Service. Any special equipment or facilities necessary to achieve compatibility between carriers are the sole responsibility of Customer.

SECTION 2 - REGULATIONS (Continued)

2.13 Inspection, Testing and Adjustment

2.13.1 Carrier may, upon reasonable notice, make such tests and inspections as may be necessary to determine whether tariff requirements are being complied with in the installation, operation, and maintenance of Customer's, End User's, or Carrier's equipment. Carrier may, without notice, interrupt Service at any time, as necessary, because of a departure from any of these requirements and may continue such interruption until its requirements have been satisfied.

2.13.2 Upon reasonable notice, the facilities provided by Carrier shall be made available to Carrier by Customer or its End Users for such tests and adjustments as may be necessary for their maintenance to a condition satisfactory to Carrier.

2.13.3 Carrier shall not be liable to Customer or its End Users for any damages for Service interruption pursuant to this Section. Neither Customer nor its End Users shall be entitled to any credit for interruption of Service pursuant to this Section when the interruption of Service is less than two (2) hours.

2.14 Interruption of Service

2.14.1 Customer shall be given a credit allowance for any interruption of Service which is not due to (a) Carrier's inspection, testing or adjustment, if for a period of two (2) hours or less; (b) mistakes or errors of Customer or its End Users; or (c) the failure of facilities or equipment provided by Customer or its End Users.

2.14.2 Credit allowances shall be subject to the general liability provisions set forth in Section 2.3 herein. It shall be the obligation of Customer to notify Carrier immediately of any interruption of Service for which a credit allowance is desired. Before giving such notice, Customer shall ascertain that the trouble is not being 100 caused by action or omission of Customer or its End Users, or is not in facilities or equipment, if any, furnished by Customer or End User and connected to Carrier's facilities.

SECTION 2 - REGULATIONS (Continued)

2.14 Interruption of Service (Continued)

2.14.3 Customer is solely responsible for receiving, reviewing, and responding to any requests received from its End Users for credit due to interruption of Service.

2.14.4 For the purposes of credit computation, every month shall be considered to have seven hundred twenty (720) hours.

2.14.5 No credit shall be allowed for any interruption of Service of a continuous duration of less than two (2) hours.

2.14.6 Customer shall be credited for an interruption of Service of two (2) hours or more at the rate of 1/720th of the monthly non-usage sensitive charges for the Service affected for each hour or major fraction thereof that the interruption continues. The formula for calculating credit shall be as follows:

$$\text{Credit} = \frac{A}{720} \times B$$

"A" = Outage time in hours

"B" = Total monthly fixed, non-usage sensitive charge for affected facility

SECTION 2 - REGULATIONS (Continued)

2.15 Customer Inquiries and Complaints

2.15.1 Customer inquiries or complaints regarding service or billing may be made in writing or by telephone to Carrier at:

Carrier
1122 Capital of Texas Highway South
Austin, Texas 78746
(512) 231-5100
(800) 364-4852

2.15.2 Carrier shall respond within seventy-two (72) hours of receipt of an inquiry. If Customer is dissatisfied with Carrier's response to a complaint or inquiry, it may file with the Commission for resolution of the conflict. The South Dakota Public Utilities Commission can be reached at:

500 East Capitol
Pierre, SD 57501-5070
(605) 773-3201
(800) 332-1782

2.16 Unauthorized Carrier Change Charge

Carrier will assess Reseller a $200 Unauthorized Carrier Change Charge (UCCC) for each Primary Interexchange Carrier (PIC) made without prior valid authorization which results in Carrier being named in a compliant filed with a state or federal regulatory authority or counsel. Continued acts of unauthorized PIC's by any Reseller shall be considered grounds for refusing to provide service to that Reseller.

SECTION 3 - DESCRIPTION OF MEASURED SERVICES AND RATES

3.1 Availability of Service

Carrier offers interexchange telecommunications service within its Service Area to Customers, subject to the terms and conditions of a Service Agreement and this tariff. Service is available twenty-four (24) hours per day, seven (7) days per week.

3.2 Timing of Calls

3.2.1 Usage sensitive charges are based on the actual usage of Carrier's network. Such charges are measured in Conversation Minutes.

3.2.2 Chargeable time for Customer shall begin when the called party answers, as determined by hardware answer supervision, provided that such capabilities are available from the local telephone company. If hardware answer supervision is not available, then Carrier will employ industry accepted standards for the timing of calls. Chargeable time for a call shall end upon disconnection by either party.

3.2.3 Unless otherwise specified in the individual product descriptions contained in this tariff, Conversation Minutes, reflecting usage sensitive charges resulting from use of Service, for all non-prepaid, presubscribed services, are billed in increments of six (6) seconds with an initial period (minimum billing period) of six (6) seconds. Following the initial period, all charges are rounded to the next higher six (6) second increment for non-prepaid, presubscribed service.

3.2.4 If Customer believes it has been incorrectly billed for a call, Carrier shall, upon notification, investigate the circumstances and issue a credit as appropriate.

3.2.5 The amount of any credit issued to Customer by Carrier shall not exceed the calculated usage charges for a call with a duration equal to the lesser of three (3) minutes or the actual duration of the call being credited.

SECTION 3 - DESCRIPTION OF MEASURED SERVICES AND RATES, (Continued)

3.3 Resale Service Offerings - General

Dedicated Access Lines may be required to connect Customer or End User locations to Carrier′ s Hub. Such dedicated Access Lines, when required, shall be the sole responsibility of Customer. Notwithstanding such responsibility, Carrier shall, upon Customer's request, order such dedicated Access Lines on behalf of Customer or its End Users, and shall invoice Customer for all related recurring and non-recurring charges. Intrastate rate plans are tied to specific interstate and international rate plans which may include term plan options for interstate calling rates..

3.3.1 Minimum Reseller Customer Usage Commitment

Reseller service rates shall be based upon the Minimum Customer Usage Commitment made by Customer and listed in the Service Agreement. Applicable rates are as indicated below:

A. Option A Rates shall apply to all Customers with a Minimum Customer Usage Commitment of less than $1 million per month.

B. Option B Rates shall apply to all Customers with a Minimum Customer Usage Commitment equal to or greater than $1 million per month.

3.3.2 Availability of Non-Day Reseller Rates

Non-Day rates for reseller services are only available to those Customers who in their Service Agreement select the ANon-Day Rate Option@, and who ensure that a minimum of sixty percent (60%) of their monthly billable minutes fall within the Non-Day rate period.

3.3.3 Dedicated Access Lines

Dedicated Access Lines may be required to connect Customer′ s location(s) to Carrier′ s Point-of-Presence (POP). Such dedicated Access Lines, when required, shall be the sole responsibility of Customer. Notwithstanding such responsibility, Carrier shall, upon Customer′ s request, order such dedicated Access Lines on behalf of Customer, and shall invoice Customer for all related recurring and nonrecurring charges.

SECTION 3 - DESCRIPTION OF MEASURED SERVICES AND RATES, (Continued)

3.4 Switched and Dedicated Reseller Services Rates

3.4.1 Dial Access 1+ Service

Usage Sensitive Charges (Rate Per Minute):

	Day	Non-Day
Option A Rate	$0.1580	$0.1580
Option B Rate	$0.1501	$0.1501

3.4.2 Dedicated Access 1+ Service

Usage Sensitive Charges (Rate Per Minute):

	Day	Non-Day
Option A Rate	$0.0819	$0.0819
Option B Rate	$0.0778	$0.0778

3.4.3 Switched Termination 800 Service

Usage Sensitive Charges (Rate Per Minute):

	Day	Non-Day
Option A Rate	$0.1580	$0.1580
Option B Rate	$0.1501	$0.1501

Non-Usage Sensitive Charges:

Per Toll Free Number Per Month $0.50

SECTION 3 - DESCRIPTION OF MEASURED SERVICES AND RATES, (Continued)

3.4 Switched and Dedicated Reseller Service Rates, (Continued)

3.4.4 Dedicated Termination 800 Service

Usage Sensitive Charges (Rate Per Minute):

	Day	Non-Day
Option A Rate	$0.0819	$0.0819
Option B Rate	$0.0778	$0.0778

Non-Usage Sensitive Charges:

Per Directory Listed 800 Number Per Month	$15.00
Non-Recurring Charge for DNIS Installation	$100.00
Non-Recurring DNIS Change Order Charge	$50.00

3.4.5 Travel Card Service

Travel Card Service is a time-of-day banded outbound long distance service. This service allows Customer or its End Users to place long distance calls from locations other than their primary service location through the use of 800 number network access and an Authorization Code.

Usage Sensitive Charges (Rate Per Minute):

	Day	Non-Day
Option A Rate	$0.1880	$0.1880
Option B Rate	$0.1786	$0.1786

Non-Usage Sensitive Charges:

Charge Per Call	NONE

By: Karen T. Hanson, National Director - Regulatory Affairs
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SECTION 3 - DESCRIPTION OF MEASURED SERVICES AND RATES, (Continued)

3.5 Terminating LEX Service

3.5.1 General

Xnet: LEX Service is offered to Other Common Carriers. Rates vary based on originating LEC territory/state of outbound toll and aggregate monthly billing. NECA territories are served by local exchange carriers that participate in the NECA pool. All service is provided on a dedicated access basis. Each call is billed in six (6) second increments. Each call is individually rated and rounded up to the next full penny. Penalties for volume commitment shortfalls are found in the Company's FCC tariff.

3.5.2 Rates, per minute

Originating Territory, State	Monthly Volume		
	$500,000.00 to $1,000,000.00	over $1,000,000.00 to $2,000,000.00	Over $2,000,000.00
US West – SD	0.0850	0.0829	0.0809
NECA	0.0970	0.0946	0.0923
All Other Independents	0.0718	0.0700	0.0683

SECTION 4 - FRAME RELAY SERVICE

4.1 Frame Relay Service - Description

Frame Relay Service is an enhanced form of packet switching which uses variable length packets to connect multiple local area networks (LANs) for data transmission. Frame Relay Service is available throughout the United States where digital local access is available. The rules for Frame Relay Service in this Section are in addition to those rules found in Sections 1 through 3 of this tariff.

4.1.1 Definitions:

Asynchronous Transfer Mode (ATM) - an international high-speed, high-volume, packet-switched transmission protocol standard that supports integrated voice, video and data communications. ATM uses short uniform 53 byte cells to divide data into packets for ultra fast switching through the network. The 53-byte cells contain 5-byte destination address headers and 48 data bytes.

Committed information rate (CIR) - the statistical measurement of throughput on a PVC over time measured in bits per second. The CIR is the rate at which the network agrees to accept data from the user, and which the network commits to transfer data under normal operating conditions.

Permanent virtual circuit (PVC) - the facilities used to form a communications path connecting between two ports. Although a PVC may be defined in static manner with static parameters, it is not fixed to a stationary path through the network.

Port - a network entry or exit point on the frame relay switch that connects to the Company′ s frame relay network.

Service Date - The date Frame Relay Service is installed and available, or the date specified on the customer′ s order form, whichever is later. The service date is the date on which all nonrecurring charges will be billed and monthly charges begin for Frame Relay Service.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.2 Frame Relay - General

4.2.1 Rate Elements

Frame Relay Service has three rate elements:

A. local access facilities;

B. ports; and

C. a permanent virtual circuit (PVC).

4.2.2 Local Access

Local access facilities must be obtained to access Frame Relay Service. The local access facilities are ordered from the local exchange telephone company. The rates for the local access facilities vary by local exchange company and are found in that the Company' s tariff.

4.2.3 Port Speed

Port speed is selected to accommodate the various PVCs that use a particular port. The speed represents the highest attainable data rate into or out of the location at any point in time. Available speeds range from 56 Kbps to 1.536 Mbps. A frame relay port connection provides the physical interface into the network and provides the logical termination of PVCs assigned to that port.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.2 Frame Relay - General, (Continued)

4.2.4 PVC

The PVC connects the customer's specific end-points on the interexchange network. Each PVC is assigned a committed information rate (CIR), which is the average minimum data rate the network will allocate to the PVC under normal operating conditions. The data transmission rate for a PVC can be greater than the CIR when excess capacity is available on the port and on the network. When this excess capacity exists, an average data rate above the CIR may be achieved up to the port capacity. Data sent across a virtual connection in excess of that connection's CIR will be marked discard eligible in the event of network congestion, and will be delivered only if the instantaneous demand for output on a transmission channel is equal to or less than the capacity of the queue for that channel.

PVCs may be either asymmetrical (one-way) or symmetrical (two-way). Symmetrical (two-way) traffic requires the use of one symmetrical PVC or two asymmetrical PVCs.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees

4.3.1 Network Availability

Network availability is measured as the total number of minutes in a billing month during which core network PVC routes are available to exchange data between the two network infrastructure node end points, divided by the total number of minutes in a billing month. A lapse in network availability is calculated commencing with the date on which the customer informs the Company of service non-availability, and ends on the date of service restoration. The PVC route will be measured from infrastructure port to infrastructure port and will not include the customer premises equipment (CPE) or local access facilities.

4.3.2 Network Availability Objective

The Company engineer's its network to achieve availability of 99.9% for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve availability of at least 99.5%

4.3.3 Frame Delivery

Frame delivery measures the percentage of customer's frame relay packets delivered from the Company's network ingress port to the Company's network egress port. This percentage will not include packet delivery failures attributable to local access facilities or CPE.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees, (Continued)

4.3.4 Frame Delivery Objective

The Company engineers its network to achieve a frame delivery level of 99.9% of frames within a customer's CIR, and 99.0% of frames above a customer's CIR. These delivery rates apply for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve a frame delivery level of 99.0%.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees, (Continued)

4.3.5 Network Latency

Network latency measures the elapsed time, in milliseconds, required for one data cell (frame relay packets converted to ATM cells on the Company's backbone network) to be delivered from the customer's Frame Relay Service network ingress port to the network egress port. Packet delivery failures attributable to local access facilities or CPE are not included.

4.3.6 Network Latency Objective

The Company engineers its network to achieve a one-way network latency of 65 milliseconds. This parameter applies for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve a network latency of 75 milliseconds.

4.3.7 Frame Relay Service - Guarantee Exclusions

The standards described above do not include periods of non-attainment resulting in whole or in part from one or more of the following causes:

$ Any act or omission on the part of the customer, its contractors, or any other entity over which the customer exercises control or has the right to exercise control;
$ Scheduled maintenance;
$ Labor strikes
$ *Force Majeure* events beyond the control of the Company (including, but not limited to, acts of God, government regulation and national emergency); and,
$ Any act or omission on the part of a third party including, but not limited to, the local access provider.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.4 Minimum Service Terms

4.4.1 The minimum service requirement is one month for domestic service and one year for international service. The customer may subscribe to service under one, two, three, four or five-year term plans. For any term plan, the rates and term discounts will be fixed for the term at the discount level below. The term will begin on the first day of the month following the date the service is installed and available. Upon expiration, the term will be automatically extended at the term plan rates and discounts for successive ninety (90) day periods, unless thirty (30) days prior to the end of the term or each such extension either (a) the customer or the Company provides written notice to the other that it does not want such extension, or (b) the customer subscribes to another term plan and the rates of the new term plan apply.

4.4.2 If additional sites are added to a customer′ s Frame Relay Service after the initial subscription to a term plan, such sites will be incorporated into the customer′ s term plan and will have the same termination date as the customer′ s original term plan.

4.4.3 Existing customers may subscribe to a new term plan for Frame Relay Service of the same or greater value prior to the end of the customer′ s existing term plan without incurring any termination liability if the new term plan extends beyond the old term plan termination date by at least one year.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.4 Minimum Service Terms, (Continued)

4.4.4 AWholesale@ Discounts and Terms

Monthly Recurring	Discount Term in Years				
	One	Two	Three	Four	Five
$50,000	8%	10%	12%	14%	16%
$125,000	12%	14%	17%	19%	21%
$250,000	14%	17%	20%	23%	25%
$500,000	18%	21%	24%	27%	30%

4.5 Termination of Frame Relay Service

Customer must provide the Company with 30 days written notice before terminating frame relay service. Customers terminating service prior to fulfilling their term commitment will be assessed a termination liability equal to one hundred percent (100%) of the monthly recurring charge for each access line, port and PVC service terminated multiplied by the number of months remaining in the first year of the term plan, plus fifty percent (50%) of the monthly recurring charges for each circuit canceled multiplied by the number of months remaining in the term plan after the first year. The customer will not have any termination liability if it subscribes to another Company service of the same or greater monthly revenues and volume, and with a term no less than the remaining months of the term plan or one year, whichever is greater, at the same time the notice of termination is received. The customer will also be liable for a pro-rata amount of any waived installation charges based on the number of months remaining in the term plan.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates

4.6.1 AWholesale@ Port Connection Charges

Speed (Kbps)	Monthly Rate Per Port	Non-Recurring Charge
56 / 64	$130.00	$220.00
112 / 128	$236.00	$220.00
168 / 192	$255.20	$220.00
224 / 256	$275.20	$220.00
280 / 320	$339.20	$220.00
336 / 384	$400.00	$220.00
448 / 512	$508.00	$220.00
504 / 576	$544.00	$220.00
560 / 640	$580.00	$220.00
616 / 704	$616.00	$220.00
672 / 768	$680.00	$220.00
896 / 024	$808.00	$220.00
1120 /1280	$908.00	$220.00
1344 /1536	$1060.00	$220.00

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.2 Permanent Virtual Circuit (PVC) Pricing

Nonrecurring Charges: A nonrecurring charge of $15 each per asymmetrical PVC and $30 per Symmetrical PVC, for installation, modification or reconfiguration.

CIR (Kbps)	Monthly Rate Asymmetrical (One-Way)	Monthly Rate Symmetrical (Two-Way)
0	$0.00	$0.00
4	$5.00	$10.00
8	$8.00	$16.00
16	$16.30	$32.60
32	$31.80	$63.60
48	$46.10	$92.20
64	$53.00	$106.00
128	$101.00	$202.00
192	$151.00	$302.00
256	$201.00	$402.00
320	$252.00	$504.00
384	$302.00	$604.00
448	$352.00	$704.00
512	$403.00	$806.00
576	$453.00	$906.00
640	$504.00	$1,008.00
704	$554.00	$1,108.00
768	$604.00	$1,208.00

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.2 Permanent Virtual Circuit (PVC) Pricing (Continued)

CIR (Kbps)	Monthly Rate Asymmetrical (One-Way)	Monthly Rate Symmetrical (Two-Way)
832	$655.00	$1,310.00
896	$705.00	$1,410.00
960	$755.00	$1,510.00
1024	$806.00	$1,612.00
1088	$856.00	$1,712.00
1152	$906.00	$1,812.00
1216	$957.00	$1,914.00
1280	$1,007.00	$2,014.00
1344	$1,057.00	$2,114.00
1408	$1,108.00	$2,216.00
1472	$1,158.00	$2,316.00
1536	$1,208.00	$2,416.00

4.6.3 Local Access

Local access facilities shall be provided under the local exchange company's tariff.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.4 Expedite Charges

Expedite charges apply when the customer requests an installation interval shorter than the standard and the Company is able to comply with that request.

Port Connection	$50
PVC (install, moves, changes, disconnect)	$75
Local Access	$50*

* In addition to any local exchange company expedite charges which will be directly passed on to the customer.

4.6.5 Engineering Charges

Re-mapping of facilities	$100

SECTION 5 - PRIVATE LINE SERVICES

5.1 General

The Company provides interstate Private Line Service to Customers with transmission speeds ranging from 64 Kbps to 622.08 Mbps. Private Line Services are offered on a point-to-point basis. Each Private Line Service is dedicated to the Customer and the entire usable bandwidth for each service is available to the Customer for their exclusive use.

5.1.1 Two Point Service

Two Point Service allows two Customer designated locations to be connected by one Private Line Service. The service terminated at both locations must be the same speed and the same capacity.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates

5.2.1 Recurring Charges

Recurring charges for Private Line Services vary based on the capacity of service, the distance of service, the term plan selected and the monthly revenue commitment made by the Customer. Unless otherwise stated in the description associated with the rate element in this tariff, Private Line Service recurring charges are applied on a circuit basis, per DS0 equivalent. A minimum circuit charge applies which varies by circuit bandwidth.

5.2.2 Term and Volume Discounts

Recurring charges for services purchased under a Term Plan will be fixed for the life of the term. The rate level applicable throughout the Term Plan is based on the volume commitment specified by the Customer at the time service is ordered. Customer may terminate any circuit upon 90 days′ notice; provided that if termination occurs; (i) prior to the Activation Date, Customer shall reimburse Company for all costs of the implementation of such Circuit; or (ii) on or after such date, Customer shall pay: (a) all charges for services previously rendered and (b) the amount due through the end of the applicable circuit lease term.

5.2.3 Nonrecurring Charges

Nonrecurring Charges (NRC) are one-time only charges. NRC's may be waived for certain promotions and under the specific terms of individually negotiated contract services.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates (Continued)

5.2.4 Pass-Through Charges

All charges incurred by the Company on the Customer's behalf from any Local Exchange Carrier, Competitive Access Provider or Competitive Local Exchange Provider will be directly passed on the Customer. Cross-Connect Charges apply to Company facilities that are connected by the Company to other carriers or Customer interconnect/collocation facility within the same Point of Presence.

Notes

1. All charges incurred by Supplier on Customer's behalf from any Local Exchange Carrier, Competitive Access Provider or Competitive Local Exchange Carrier will be directly passed on to the Customer.

2. Service not described above will be considered special handling and charges will be assessed on an Individual Case Basis (ICB).

3. All of the above changes are subject to changes with a 30-day notice.

4. All Private Line ancillary service charges to cities not listed will be priced on an individual case basis and will be subject to the terms and charges of the underlying carrier.

5.2.5 Interconnect Charges

Interconnect Charges apply to connections between the Company's POPs in the same city or between the Company's suite to another suite in the same building. Since costs vary widely by location, the interconnect charges specified in this tariff are the minimum amount that will be charged monthly. All interconnect, construction charges and individual case basis charges incurred by the Company will be passed through to the Customer. Interconnect arrangements are subject to the continuing economic availability of the necessary facilities and equipment.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates (Continued)

5.2.6 Order Cancellation Policy

The Company will provide an order confirmation after the Customer places an order for service. If the Customer changes the order, a change order charge will apply based on the scope of the change. If the Customer cancels the order, the Customer must reimburse the Company for all costs incurred to that point. The Customer must notify the Company of service date changes 45 days prior to the due date. Service date changes may be extended by the Customer a maximum of thirty days from the due date. Service date changes for OC-3, OC-12 and OC-48 bandwidths are restricted to one change, after which the order will be subject to all recurring and nonrecurring charges applicable to the service.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.3 Service Descriptions

Private Line Service allows the Customer to connect two locations with private dedicated service at one of a number of transmission speeds.

5.3.1 DS0 Service

DS0 Service is a dedicated digital channel with line speeds of 2.4, 4.8, 9.6, 56 or 64 Kbps.

5.3.2 DS1 Service

DS1 Service is a dedicated, high capacity channel with a line speed of 1.544 Mbps. DS1 Service has the equivalent capacity of 24 Voice Grade services or 24 DS0 services.

5.3.3 DS3 Service

DS3 Service is a dedicated, high capacity channel with a line speed of 44.736 Mbps. DS3 Service has the equivalent capacity of 28 DS1 Services at 1.544 Mbps or 672 Voice Grade Services at 56/64 Kbps.

5.3.4 OC-3 Service

OC-3 Service is a high capacity channel for the full duplex, synchronous, optical transmission of digital data based on the SONET standard at a rate of 155.52 Mbps.

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SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.3 Service Descriptions (Continued)

5.3.6 OC-12 Service

OC-12 Service is a high capacity channel for the full duplex, synchronous, optical transmission of digital data based on the Synchronous Optical Network (SONET) standard at a rate of 622.08 Mbps. OC-12 service may be ordered with backup or reroute capability (OC-12 System Service). The OC-12 System Service must be ordered and installed at the same time as the corresponding OC-12 service.

5.3.7 OC-48 Service

OC-48 Service is a high capacity channel for the full duplex, synchronous, optical transmission of digital data based on the Synchronous Optical Network (SONET) standard at a rate of 2488.32 Mbps. OC-48 Service may be ordered with backup or reroute capability (OC-48 System Service). The OC-48 System Service must be ordered and installed at the same time as the corresponding OC-48 Service.

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SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.3 Service Descriptions (Continued)

5.3.8 Collocation

Where facilities, space and equipment permit, the Company offers collocation of the Carrier Customer within the Company's POP. The minimum term for collocation is two years and must include the purchase of long-haul bandwidth terminating at the collocation site. The Company shall supply, install and terminate interconnect equipment in the Company's equipment room and install cable to rack. All interconnection arrangements are priced on an individual case basis and subject to change with thirty days' notice.

5.3.9 Special Construction

Special construction or arrangement of facilities may be undertaken on a reasonable efforts basis at the request of the Customer, and upon a determination by the Company that such charges should apply in that particular instance. Special Construction is undertaken:

(a) where facilities are not presently available,

(b) where the service is of a type other than that which the Company would normally utilize in the furnishing of its service;

(c) where the service is requested over a route other than that which the Company would normally utilize in the furnishing of its services;

(d) where the service is in a quantity greater than that which the Company would normally provide;

(e) where service is requested on an expedited basis

(f) where service is requested on a temporary basis until permanent facilities are available;

(g) where the service requested involves abnormal costs; or

(h) where service is requested in advance of the Company's normal construction schedule.

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SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.3 Service Descriptions (Continued)

5.3.10 Time and Material Service

This service provides for the Labor and Material charges associated with installation, maintenance, testing and repair deemed to be associated with equipment and facilities not provided by the Company or deemed to be non-standard or non- routine.

The Company shall have no responsibility for the maintenance and repair of any kind with respect to equipment and facilities not provided by the Company. The Company will charge the Customer time, materials and charges listed in Section 5.5 for any maintenance visits with respect to service problems which are determined to arise from equipment or facilities not provided by the Company.

When a Customer reports a trouble to the Company for clearance and no trouble is found in the Company's facilities, the Customer shall be responsible for payment of Time and Materials Charges as listed in Section 5.5 for the period of time from when the Company personnel were dispatched to the Customer's premises to when the work is completed. Failure of Company personnel to find trouble in Company facilities will result in no charge if the trouble is actually in those facilities, but not discovered at the time.

If the Customer, after being informed that the trouble is not in Company facilities, wishes to have the maintenance work performed by Company, and the Company agrees to perform the work, the Time and Material Charges listed in Section 5.5 will apply.

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases Time and Material Charges listed in Section 5.5 will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules

5.4.1 Nonrecurring Charges

	DS-0	DS-1	DS-3	0C-3	0C-12	0C-48
NEW ORDER INSTALLATION	$150.00	$400.00	$2,000.00	$6,000.00	$12,000.00	$18,000.00
CHANGE OF REQUESTED SERVICE DATE - 1ST	Free	Free	Free	$1,000.00	$1,000.00	$1,000.00
CHANGE OF REQUESTED SERVICE DATE - 2ND OR MORE	$200.00	$200.00	$200.00	N/A*	N/A*	N/A*
ORDER CHANGE (PRE-ENGINEERING)	$50.00	$50.00	$50.00	$500.00	$500.00	$500.00
ORDER CHANGE (POST-ENGINEERING)	$200.00	$400.00	$600.00	$2,000.00	$2,000.00	$4,000.00
ORDER CANCELLATION (PRE-ENGINEERING)	$200.00	$250.00	$250.00	$500.00	$500.00	$500.00
ORDER CANCELLATION (POST-ENGINEERING)	$200.00	$400.00	$2,000.00	$2,000.00	$2,000.00	$4,000.00
ASR (NEW OR DISCONNECT) SPECIAL ACCESS	$250.00	$250.00	$250.00	$250.00	$250.00	$250.00
ASR SUPPLEMENT	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
ORDER EXPEDITE	$200.00	$250.00	$250.00	$250.00	$250.00	$250.00
RECONFIGURATION	$200.00	$600.00	$2,000.00	$6,000.00	$12,000.00	$18,000.00

* Customer must notify Carrier of service date charges 45 days prior to due date. Service date changes can be extended a maximum of 30 days after due date. Service date charges for OC-1, OC-12 and OC-48 bandwidth are restricted to one change after which order will be subject to billing.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges

A. DS-O Service

Minimum Circuit Charge: $75.00

Rate per V&H DS-0 Mile

DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $50,000.00	0.390	0.260	0.250	0.240
5%	$50,001 - $150,000	0.371	0.247	0.238	0.228
10%	$150,001 - $250,000	0.351	0.234	0.225	0.216
15%	$250,001 - $500,000	0.332	0.221	0.213	0.204
20%	$500,001 - $1,000,000	0.312	0.208	0.200	0.192
25%	Over $1,000,000	0.293	0.195	0.188	0.180

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

B. DS-1 Service

Minimum Circuit Charge: $750.00

Term Discount

		Rate per V&H DS-0 Mile			
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $50,000.00	0.156	0.104	0.102	0.100
5%	$50,001 - $150,000	0.148	0.099	0.097	0.095
10%	$150,001 - $250,000	0.140	0.094	0.092	0.090
15%	$250,001 - $500,000	0.133	0.088	0.087	0.085
20%	$500,001 - $1,000,000	0.125	0.083	0.082	0.080
25%	Over $1,000,000	0.117	0.078	0.077	0.075

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

C. DS-3 Service

Minimum Circuit Charge: $2,000.00

Term Discount

			Rate per V&H DS-0 Mile		
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $50,000.00	0.063	0.042	0.041	0.040
5%	$50,001 - $150,000	0.060	0.040	0.039	0.038
10%	$150,001 - $250,000	0.057	0.038	0.037	0.036
15%	$250,001 - $500,000	0.054	0.036	0.035	0.034
20%	$500,001 - $1,000,000	0.050	0.034	0.033	0.032
25%	Over $1,000,000	0.047	0.032	0.031	0.030

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

D. OC-3c Service

Minimum Circuit Charge: $6,000.00

Term Discount

		Rate per V&H DS-0 Mile			
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $250,000.00	0.054	0.036	0.035	0.034
5%	$250,001 - $500,000	0.051	0.034	0.033	0.032
10%	$500,001 - $1,000,000	0.049	0.032	0.032	0.031
15%	Over $1,000,000	0.046	0.031	0.030	0.029

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

E. OC-12c Service

Minimum Circuit Charge: $14,000.00

Term Discount

Rate per V&H DS-0 Mile

DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $250,000.00	0.050	0.033	0.031	0.029
5%	$250,001 - $500,000	0.047	0.031	0.029	0.028
10%	$500,001 - $1,000,000	0.045	0.030	0.028	0.026
15%	Over $1,000,000	0.042	0.028	0.026	0.025

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SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

F. OC-12 System Service

Minimum Circuit Charge: $14,000.00

Term Discount

		Rate per V&H DS-0 Mile			
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $250,000.00	0.045	0.030	0.028	0.026
5%	$250,001 - $500,000	0.043	0.029	0.027	0.025
10%	$500,001 - $1,000,000	0.041	0.027	0.025	0.023
15%	Over $1,000,000	0.038	0.026	0.024	0.022

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 **Rate Schedules** (Continued)

5.4.2 **Monthly Recurring Charges** (Continued)

G. **OC-48c Service**

Minimum Circuit Charge: $45,000.00

Term Discount

		Rate per V&H DS-0 Mile			
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $250,000.00	0.036	0.024	0.023	0.022
5%	$250,001 - $500,000	0.034	0.023	0.022	0.021
10%	$500,001 - $1,000,000	0.032	0.022	0.021	0.020
15%	Over $1,000,000	0.031	0.020	0.020	0.019

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

H. OC-48 System Service

Minimum Circuit Charge: $24.00 $45,000.00

Term Discount

			Rate per V&H DS-0 Mile		
DISCOUNT%	MONTHLY COMMITMENT	6 Mos.	1 Year	2 Years	3 Years
BASE	$0 - $250,000.00	0.033	0.022	0.021	0.020
5%	$250,001 - $500,000	0.031	0.021	0.020	0.019
10%	$500,001 - $1,000,000	0.030	0.020	0.019	0.018
15%	Over $1,000,000	0.028	0.019	0.018	0.017

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.2 Monthly Recurring Charges (Continued)

I. Other Charges

	Recurring	Nonrecurring
M1/3 multiplex charges		
1 year term	$875.00	
2 year term	$600.00	
3 year term	$475.00	
DACS Charge (Switching Only) per DSO	$ 35.00	
DACS Port Charge (Bell Access to DACS) per DSO	$ 25.00	
DS-1 DACS Port		$125.00
Echo Canceller (Per Circuit End)	$250.00	$500.00
Second End Loop (Ex; for ADPCM)	$ 50.00	$ 50.00

5.4.3 Interconnect Charges

Interconnect charges apply to connections between Supplier POP′ s in the same city or between Supplier suite to another suite in the same building. Since costs vary widely by location, the interconnect charges indicated above are the minimum amount that will be charged monthly. All I.C.B. charges incurred by Supplier will be passed through to the Customer.

	DS-1	DS-3	0C-3	0C-12	0C-48
RECURRING	$50.00	$200.00	$500.00	$1,000.00	$3,000.00
NON RECURRING	$250.00	$500.00	$1,000.00	$1,000.00	$3,000.00

5.4.4 Collocation ICB

5.4.5 Special Construction ICB

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SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules (Continued)

5.4.6 Time and Material Service

Monday through Friday, 8:00AM to 5:00 PM, excluding Company-recognized holidays	$75.00 per hour, 4 hour minimum
All other times and days	$95.00 per hour, 4 hour minimum

<u>Maintenance Charges</u>

Trouble Assistance Ticket per dispatch (work limited to recovery of downed circuits or equipment, not new installations)

Monday through Friday 8 am to 5pm	$75/hr, 4 hr minimum
After Hours	$95/hr, 4 hr minimum

SECTION 6 - MISCELLANEOUS SERVICES AND RATES

6.1 General

Miscellaneous Services and Rates are those services and charges that apply to either a retail end user or a Reseller Customer of Carrier who uses or authorizes the use of these services in addition to or as an adjunct to services to which the Customer subscribes. Unless otherwise noted in the specific service description, usage-sensitive calls are measured and billed individually in one-minute increments. The minimum call duration for billing purposes is one minute. When calculations result in fractional cents, the charge for a call is rounded up to the next whole cent.

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.2 Resale Service Offerings

6.2.1 Resale Service Rates

A. Customer Account Activation Fee

Non-Recurring Charge for Account Activation	$1,000.00

B. Non-Verified Account Codes

Monthly Charge for Non-Verified Account Codes:	NONE

C. Verified Account Codes

Monthly Charge for Verified Account Code Table:	$15.00

D. Returned Check

Returned Check Charge (Per Check):	$10.00

E. Directory Assistance

Charge Per Directory Assistance Call:	$0.75

By: Karen T. Hanson, National Director - Regulatory Affairs
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SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.3 Prepaid Calling Service

Prepaid Calling Service allows End Users of a Reseller to originate outbound, Direct Dial long distance calls on a prepaid basis via an 800-access number. All calls are rated on a flat-rate basis, and are rounded for billing purposes to the next higher full minute. Calls may only be charged against an account that has a sufficient available balance. Customer shall be given notice two (2) minutes before the available account balance is depleted, based upon the applicable rates for the call in progress. When the available balance is depleted, the call shall be terminated. A prepaid calling account shall expire on the date specified on the card, unless replenished by a charge to a commercial credit card is authorized by the Customer beforehand.

Per Minute Rate - All Times/All Miles	$0.30

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.4 Casual Calling

Casual Calling Service allows Customers to obtain Service without the necessity of presubscription of their local lines. Customers utilizing Casual Calling Service shall access Service by dialing an access code in the form of 10XXX or 101XXXX, where AX@ is a 3 or 4 digit Carrier Identification Code (CIC) assigned to the Carrier and provided to the Customer. When dialing, the access code shall be followed by the normal sequence of 1+Area Code+Number. Calls placed using Casual Calling Service are billed to Customer in whole minute increments rounded up to the next full minute through the serving Local Exchange Carrier′ s (LEC) monthly bill. All End Users of Casual Calling are Customers of the Company, even when they are End Users of a Reseller for other Services.

6.4.1 Rates

Mileage Range	DAY		Evening		Night	
	First Minute	Add'l Minutes	First Minute	Add'l Minutes	First Minute	Add'l Minutes
0-10	.2850	.1710	.2280	.1370	.1710	.1030
11-16	.3610	.1900	.2890	.1520	.2170	.1140
17-22	.3710	.2090	.2960	.1670	.2220	.1250
23-30	.4090	.2280	.3270	.1820	.2450	.1370
31-40	.4280	.2470	.3420	.1980	.2570	.1480
41-55	.4560	.2760	.3650	.2200	.2740	.1650
56-85	.4850	.3040	.3880	.2430	.29101	.1820
86-124	.5040	.3230	.4030	.2580	.3020	.1940
125-244	.5130	.3420	.4100	.2740	.3080	.2050
245-over	.5230	.3610	.4180	.2890	.3140	.2170

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.5 Operator Services

Operator services are available to Consumers from any Customer location. Operator Services allows the Consumer to place a call from a Customer location and arrange for billing other than to the originating telephone number. Calls are rounded up to the next whole minute for billing purposes and are billed to the Consumer through the monthly bill of the Consumer's local exchange carrier.

The following billing arrangements are available to Consumers through the Company's Operator Services:

a) Customer Dialed Calling/Credit Card

This is a service whereby the end user dials all of the digits necessary to route and bill the call without any operator assistance. Such calls may be billed either to a telephone company issued calling card or a commercial credit card.

b) Operator Station

This is a service whereby the caller places a non-person-to-person call with the assistance of an operator (live or automated). When placing an operator station call, the caller is connected to a non-specified individual at the terminating end. Such calls may be billed to a calling card, credit card, the called number (collect) or a valid third party telephone number.

c) Person-to-Person

This is a service whereby the person originating the call specifies to Carrier's operator a particular person to be reached, or a particular person, station, room number, department, or office to be reached through a PBX attendant. Person-to-person calls may be billed to a calling card, credit card, the called number (collect) or a valid third party telephone number.

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.5 Operator Services (Continued)

Operator services are available to Consumers from any Customer location. Operator Services allows the Consumer to place a call from a Customer location and arrange for billing other than to the originating telephone number. Calls are rounded up to the next whole minute for billing purposes and are billed to the Consumer through the monthly bill of the Consumer's local exchange carrier.

The following billing arrangements are available to Consumers through the Company's Operator Services:

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c) Person-to-Person

This is a service whereby the person originating the call specifies to IXC Long Distance's operator a particular person to be reached, or a particular person, station, room number, department, or office to be reached through a PBX attendant. Person-to-person calls may be billed to a calling card, credit card, the called number (collect) or a valid third party telephone number.

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.5 Operator Services, (Continued)

6.5.1 Rates

Mileage Range	DAY		Evening		Night	
	First Minute	Add'l Minutes	First Minute	Add'l Minutes	First Minute	Add'l Minutes
0-10	.3000	.1800	.2400	.1440	.1800	.1080
11-16	.3800	.2000	.3040	.1600	.2280	.1200
17-22	.3900	.2200	.3120	.1760	.2340	.1320
23-30	.4300	.2400	.3440	.1920	.2580	.1440
31-40	.4500	.2600	.3600	.2080	.2700	.1560
41-55	.4800	.2900	.3840	.23203	.2880	.1740
56-85	.5100	.3200	.4080	.2560	.3060	.1920
86-124	.5300	.3400	.4240	.2720	.3180	.2040
125-244	.5400	.3600	.4320	.2880	.3240	.2160
245-over	.5500	.3800	.4400	.3040	.3300	.2280

Operator Assisted Surcharges:

Customer Dialed Calling Card Station	$1.05
Operator Dialed Calling Card	$2.10
Operator Station	$2.10
Billed to Third Party	$2.17
Person to Person	$4.50

SECTION 6 - MISCELLANEOUS SERVICES AND RATES, (Continued)

6.6 Employee Concessions

The Company offers employee discounted rates on long distance services as part of their normal compensation.

SECTION 7 - PROMOTIONS

7.1 Special Promotions

Carrier may, from time to tome, waive or vary the rates and charges associated with certain services for promotional, market research, or other similar purposes. In no case, shall the resulting rates and charges exceed the rates and charges listed in this tariff for the same services.

7.2 Competitive Response Promotion

In order to acquire or retain Customers, the Carrier will match certain offers made by other interexchange carriers/resellers where the Customer can demonstrate to the Carrier's satisfaction that it intends to accept such offer as an inducement to subscribe to or remain subscribed to such other interexchange carrier's/reseller's services. Promotional rates will be submitted to the Commission for approval when required.

WDC 327823v1

C III Communications Operations, LLC

RETAIL INTEREXCHANGE TELECOMMUNICATIONS

SERVICE TARIFF

By:

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CHECK SHEET

All pages of this tariff are effective as of the date shown at the bottom of the respective sheets. Revised pages comprise all changes from the original tariff. All original and revised pages are currently in effect as of the date on the bottom of this page.

PAGE		PAGE		PAGE	
1	Original	29	Original	57	Original
2	Original	30	Original	58	Original
3	Original	31	Original	59	Original
4	Original	32	Original	60	Original
5	Original	33	Original	61	Original
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9	Original	37	Original	65	Original
10	Original	38	Original	66	Original
11	Original	39	Original	67	Original
12	Original	40	Original	68	Original
13	Original	41	Original	69	Original
14	Original	42	Original	70	Original
15	Original	43	Original	71	Original
16	Original	44	Original	72	Original
17	Original	45	Original	73	Original
18	Original	46	Original	74	Original
19	Original	47	Original	75	Original
20	Original	48	Original	76	Original
21	Original	49	Original	77	Original
22	Original	50	Original	78	Original
23	Original	51	Original	79	Original
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By:

Karen T. Hanson, National Director - Regulatory Affairs
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SYMBOLS

The following are the only symbols used for the purposes indicated below:

C - Change in regulation or rate structure.

D - Delete or discontinue

I - Increase in rate.

M - Moved from another tariff location.

N - New rate or regulation.

R - Reduction in rate.

T - Change in text or regulation but no change in rate or charge.

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TARIFF FORMAT

A. **Page Numbering -** Page numbers appear in the upper right corner of the sheet. Pages are numbered sequentially. However, new pages are occasionally added to the tariff. When a new page is added between existing pages with whole numbers, a decimal is added. For example, a new page added between pages 34 and 35 would be page 34.1.

B. **Page Revisions -** Revision numbers also appear in the upper right corner of the page. These numbers are used to determine the most current page version on file with the Commission. For example, 4th Revised Page 34 cancels the 3rd Revised Page 34. Consult the check sheet for the page currently in effect.

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

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

D. **Check Sheet** - When a tariff is filed with the commission, an updated check sheet accompanies the filing. The check sheet lists the tariff pages, with a cross-reference to the current revision number. When new sheets are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made. The tariff user should refer to the latest check sheet to find out if a particular page is the most current on file with the Commission.

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SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

1.1 Definitions

Application for Service - a standard order form which includes all pertinent billing, technical and other descriptive information which will enable the carrier to provide the communication service.

ASR (Access Service Request) - Service order processed to the underlying local exchange or interexchange carrier.

Authorization Code - a numerical code, one or more of which are assigned to a customer to enable a reseller to identify use of service on its account and to bill the customer accordingly for such service. Multiple authorization codes may be assigned to a customer to identify individual users or groups of users on its account.

Authorized User - a person, firm, corporation or other entity authorized by the customer to receive or send communications.

Automatic Dialing Device - an apparatus provided by the carrier which, when attached to customer's telephone equipment, dials the carrier's facilities, emits an authorization code, and forwards the called number to the carrier's facilities.

Bandwidth - the total frequency band allocated for a channel.

Business Customer - any Customer of the Company who is not a Residential Customer as described herein.

Busy Hour - the two consecutive half hours during which the greatest volume of traffic is handled.

Cancellation of Order - a customer-initiated request to discontinue processing a service order, either in part or in its entirety, prior to its completion.

Carrier - C III Communications Operations, LLC, unless specifically stated otherwise.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (Continued)

1.1 Definitions: (Continued)

Company - C III Communications Operations, LLC, sometimes referred to as "carrier."

Completed Calls - calls answered at the distance end. If a customer is charged for an incomplete call, the Company will issue a one-minute credit upon the customer's request.

Custom Account Coding - key, legend or table created by the customer for a unique project or account numbers for its private use.

Customer - the person, firm, corporation or other entity that orders or uses service and is responsible for payment of the rates and charges under a contract or this tariff.

Customer Premises Equipment - communications equipment located at the customer's premises. Such equipment may be provided by the customer or by The Company.

Day Rate Period - unless otherwise specified in this tariff, the Day Rate Period applies during the hours of 8:00 a.m. to, but not including 5:00 p.m., Monday through Friday.

Dedicated Port - a port on reseller's switch which is dedicated, at extra charge, to customer's exclusive use, and which is connected to the customer's premises by a private line furnished by the customer or the customer's serving local exchange company.

Delinquent or Delinquency - an account for which a bill or payment agreement for services or equipment has not been paid in full on or before the due date. Amounts due and unpaid after the due date may be subject to a late payment charge.

Disconnect - to render inoperable or to disable circuitry thus preventing outgoing and incoming toll communications service.

Dialed Number Information Service (DNIS) - A toll free service option, under which Carrier electronically transmits to Customer, identifying digits (up to 10 digits) that indicate which number was dialed when multiple numbers terminate on the same trunk group.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (Continued)

1.1 Definitions: (Continued)

Evening Rate Period - unless otherwise specified in this tariff, the Evening Rate Period applies during the hours of 5:00 p.m. to, but not including 11:00 p.m., Sunday through Friday.

Excessive Call Attempt - a customer attempt to call over the carrier□s network using an invalid authorization code during a measured 15 minute period, within which 10 or more incomplete call attempts are made by the customer from the same customer line, and where those attempts do not complete because the customer has not used a valid authorization code.

Holidays - for the purposes of this tariff recognized holidays are New Year□s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas day.

Holiday Rate Period - the evening rate will apply to calls made on the Company recognized holidays, provided, however, that calls made on holidays during the Night/Weekend Rate Period shall be billed at the lower of the Evening Rate and the Night/Weekend Rate.

Interexchange Utility - a utility, resale carrier or other entity that provides intrastate telecommunications services and facilities between exchanges within the state, without regard to how such traffic is carried. A local exchange utility that provides exchange service may also be considered an interexchange utility.

Local Distribution Area - metropolitan locations served by the Company which have been defined by the local exchange telephone company as a local calling area under its local exchange tariff.

Measured Use Service - the provision of long distance measured time communications telephone service to customers who access the carrier□s services at its switching and call processing equipment by means of access facilities obtained from another carrier by the customer or otherwise provided at its own expense (the customer is responsible for arranging for the access line).

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (Continued)

1.1 Definitions: (Continued)

Message - a completed telephone call by a customer or end-user.

Network Terminal - any location where the Company provides services described herein.

Night/Weekend Rate Period - unless otherwise specified in this tariff, the Night/Weekend Rate Period applies during the hours of 11:00 p.m. to, but not including 8:00 a.m., Monday through Friday; all day Saturday; and from 8:00 a.m. to, but not including 5:00 p.m. Sunday.

Normal Business Hours - the hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays.

Physical Change - the modification of a circuit, dedicated access line, or port at the request of the customer requiring an actual material change.

Post-engineering - After provisioning of service elements.

Pre-engineering - Prior to provisioning of service elements.

Premises - the space occupied by an individual customer in a building, in adjoining buildings occupied entirely by that customer, or on contiguous property occupied by the customer separated only by a public thoroughfare, a railroad right of way or a natural barrier.

Rate - money, charge, fee or other recurring assessment billed to customers for services or equipment.

Residential Customer - For the purpose of this tariff, a Residential Customer is a Customer of the Company whose primary use of the Company's service is for personal use in a house, apartment or other residential dwelling. A Residential Customer is also a Customer who accesses the Company□s service using an access line that has not been assigned a business class of service by the local service provider.

Routing Function - terminating number for toll free service may be designated by time of day, day of the week, region of originating ANI or percentage of calls.

** Certain material previously located on this page is now found on Page 10.*

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS, (Continued)

1.1 Definitions: (Continued)

Suspension - temporary disconnection or impairment of service which disables either outgoing or incoming toll communications services provided by the Company.

Speed Number - a signaling arrangement by which a customer may elect to dial a pre-programmed four-digit number in place of a designated ten-digit number.

Terminal Equipment - telephone instruments, including pay telephone equipment, the common equipment of large and small key and PBX systems and other devices and apparatus, and associated wiring, which are intended to be connected electrically, acoustically or inductively to the telecommunication system.

Toll Free Service - a service that provides long distance calling to a predesignated destination where charges are the responsibility of the call terminated party.

United States - the forty-eight contiguous United States and the District of Columbia.

Validated Account Codes - account codes that have restricted access.

1.2 Abbreviations:

CPE - Customer Premises Equipment
LATA - Local Access and Transport Area
LDA - Local Distribution Area
LEC - Local Exchange Carrier
MTS - Message Telecommunications Service
NSF - Non-sufficient funds
PBX - Private Branch Exchange
SAL - Special Access Line
V&H - Vertical and Horizontal Coordinates
WATS- Wide Area Telephone Service

**** Certain material found on this page was previously located on Page 9.***

SECTION 2 - REGULATIONS

2.1 Undertaking of the Company

The Company provides long distance message telecommunications service to customers for their direct transmission of voice, data and other types of telecommunications.

Communications originate when the customer accesses the Company directly or through the facilities of another carrier via one or more access lines, equal access or on a dial-up basis. The Company may act as the customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the customer, to allow connection of a customer's location to the Company's network. The customer shall be responsible for all charges due for such service arrangements.

The Company's services are provided on a monthly basis, unless otherwise stated in this tariff. Services are available twenty-four (24) hours per day, seven (7) days per week.

2.2 Limitations on Service

2.2.1 Service is offered subject to the availability of the necessary facilities and/or equipment and subject to the provisions of this tariff.

2.2.2 The Company reserves the right to discontinue furnishing service upon written notice, when necessitated by conditions beyond its control or when the customer is using the service in violation of the provisions of this tariff or in violation of the law.

2.2.3 To the extent that any conflict arises between the terms and conditions of a service agreement or other contract and the terms and conditions of this tariff, the tariff shall prevail.

2.2.4 Title to all equipment provided by the Company under this tariff remains with the Company.

SECTION 2 - REGULATIONS, (Continued)

2.2 Limitations on Service, (Continued)

2.2.5 The customer may not transfer or assign the use of service provided under this tariff except with the prior written consent of the Company. Such transfer or assignment shall only apply where there is no interruption in the use or location of the service, and all regulations and conditions contained in this tariff, as well as all conditions for service, shall apply to all such permitted assignees or transferees.

2.2.6 Customer may request Carrier to assign one or more sub-accounts for billing purposes, and to direct sub-account invoices to customer's affiliates or other designated entities for payment. Such requests shall not affect the liability of the customer, who shall remain solely liable to the Company for payment of all invoices for service requested and obtained by customer, whether invoiced by the Company to the customer, the customer's affiliates, or other designated entities.

2.3 Use of Service

Service may not be used for any unlawful purposes or for any purpose for which any payment or other compensation is received by the customer, except where the customer is a duly authorized and regulated common carrier.

2.4 Limitation of Liability

2.4.1 In view of the fact that the customer has exclusive control of its communications over the facilities furnished by the Company, and other uses for which facilities may be furnished by the Company, and because of the unavoidableness of errors incident to the services and to the use of such facilities of the Company, the services and facilities furnished by the Company are subject to the regulations and limitations specified herein.

SECTION 2 - REGULATIONS, (Continued)

2.4 Limitation of Liability, (Continued)

2.4.2 The Company□s failure to provide or maintain facilities under this tariff shall be excused by labor difficulties, governmental orders, civil commotions, acts of God and other circumstances beyond the Company□s reasonable control, subject to the interruption allowance provisions under this tariff.

2.4.3 Defacement of premises - No liability shall attach to the Company by reason of any defacement or damage to the customer□s premises resulting from the existence of the Company□s equipment or facilities on such premises, or by the installation or removal thereof, when such defacement or damage is not the result of the negligence of the Company or its employees.

2.4.4 Indemnification - The Company□s liability, if any, for its gross negligence or willful misconduct is not limited by this tariff. With respect to any other claim or suit by a customer or by any others, the customer indemnifies and saves harmless the Company against claims, losses or suits for injury to or death of any person, or damage to any property which arises from the use, placement or presence of the Company□s equipment, facilities and associated wiring of the customer□s premises and further the customer indemnifies and saves harmless the Company against claims for libel, slander, invasion of privacy or the infringement of copyright arising directly or indirectly from the material transmitted over the facilities of the Company or the use thereof by the customer; against claims for infringement of patents arising from combining with or using in connection with, facilities furnished by the Company and apparatus, equipment and systems provided by the customer; and against all other claims arising out of any act or omission of the customer in connection with the services or facilities provided by the Company. No agents or employees of other carriers shall be deemed to be agents or employees of the Company

SECTION 2 - REGULATIONS, (Continued)

2.4 Limitation of Liability, (Continued)

2.4.5 The Company□s liability, if any, for its gross negligence or willful misconduct is not limited by this tariff. With respect to any other claim or suit, by a customer or any others, for damages arising out of mistakes, omissions, interruptions, delays or errors, or defects in transmission occurring in the course of furnishing service hereunder, the Company□s liability, if any, shall not exceed an amount equivalent to the proportionate charge to the customer for the period of service during which such mistake, omission, interruption, delay, error, or defect in transmission or service occurs and continues. This liability shall be in addition to any amounts that may otherwise be due to the customer under this tariff as an allowance for interruptions. However, any such mistakes, omission, interruptions, delays, errors, or defects in transmission or service which are caused or contributed to by the negligence or willful act of the customer, or authorized user, or joint user, or which arise from the use of customer provided facilities or equipment shall not result in the imposition of any liability whatsoever upon the Company.

2.4.6 The Company shall not be liable for any damages, including usage charges, that the customer may incur as a result of the unauthorized use of authorization codes or communications equipment. The unauthorized use of communications equipment includes, but is not limited to, the placement of calls from the customer's premises, and the placement of calls through equipment controlled and/or provided by the customer, that are transmitted over the Company's network without the authorization of the customer. The customer shall be fully liable for all such usage charges.

SECTION 2 - REGULATIONS, (Continued)

2.5 Interruption of Service

2.5.1 If a customer's service is interrupted other than by the negligence or willful act of the customer, and it remains out of order for eight normal working hours or longer after access to the premises is made available and after being reported to be out of order, appropriate adjustments or refunds shall be made to the customer. The amount of adjustment or refund shall be determined on the basis of the known period of interruption, generally beginning from the time the service interruption is first reported. The refund to the customer shall be a pro rata part of the monthly recurring charges (but not for per minute or per call charges) for the period of days and that portion of the service facilities rendered useless or inoperative. The refund may be accomplished by a credit on a subsequent bill for the service.

2.5.2 A credit allowance for interruptions of service which are not due to the Company's testing or adjusting, to the negligence of the customer, or to the failure of the channels, equipment, and/or communications systems provided by the customer, are subject to the general liability provisions set forth herein. It shall be the obligation of the customer to notify the carrier of any interruption in service. Before giving such notice, the customer shall ascertain that the trouble is not being caused by any action or omission by or within the customer's control and is not in wiring or equipment connected to the carrier terminal.

2.6 Restoration of Service

The use and restoration of service in emergencies shall be in accordance with the Part 64, Sub-part D of the Federal Communications Commission's rules and Regulations which specifies the priority system for such activities.

SECTION 2 - REGULATIONS, (Continued)

2.7 Customer Responsibility

2.7.1 All customers assume general responsibilities in connection with the provisions and use of the Company□s service. When facilities, equipment, and/or communication systems provided by others are connected to the Company□s facilities, the customer assumes additional responsibilities. All customers are responsible for the following:

A. The customer is responsible for placing orders for service, paying all charges for service rendered by the Company and complying with all of the Company□s regulations governing the service. The customer is also responsible for assuring that its users comply with regulations.

B. When placing an order for service, the customer must provide:

1. The names and addresses of the persons responsible for the payment of service charges, and

2. The names, telephone numbers, and addresses of the customer contact persons.

C. The customer must pay the Company for the replacement or repair of the Company□s equipment when the damage results from:

1. The negligence or willful act of the customer or user;

2. Improper use of service; and

3. Any use of equipment or service provided by others.

D. After receipt of payment for the damages, the Company will cooperate with the customer in prosecuting a claim against any third party causing damage.

SECTION 2 - REGULATIONS, (Continued)

2.7 Customer Responsibility, (Continued)

2.7.2 Upon reasonable notice, the equipment provided by the Company shall be made available for such tests and adjustments as may be necessary to maintain them in satisfactory condition. No interruption allowance will be granted for the time during which such tests and adjustments are made.

2.7.3 Deposits

Applicants or customers whose financial condition is not acceptable to the Company or is not a matter of general knowledge, may be required to make, at any time, a cash deposit up to an amount equaling two and one-half times (2.5x) one (1) month's actual or estimated charges for the purpose of guaranteeing final payment for service, in accordance with the rules of the Commission. Interest on cash deposits will be payable per the deposit rules and regulations prescribed by the Commission for the period during which the deposit is held. Such deposit will be refunded or credited to the customer upon termination or after one year of prompt payment for service.

2.7.4 Credit Allowance

Credit for failure of service or equipment will be allowed only when failure is caused by or occurs in equipment owned, provided and billed for, by the Company.

A. Credit allowances for failure of service or equipment starts when the customer notifies the Company of the failure or when the Company becomes aware of the failure and ceases when the operation has been restored and an attempt has been made to notify the customer.

B. The customer shall notify the Company of failures of service or equipment and make reasonable attempts to ascertain that the failure is not caused by the customer or in wiring or equipment connected to the terminal.

SECTION 2 - REGULATIONS, (Continued)

2.7 Customer Responsibility, (Continued)

2.7.4 Credit Allowance, (Continued)

C. Only those portions of the service or equipment operation disabled will be credited. No credit allowances will be made for:

1. Interruptions of service resulting from the Company performing routine maintenance;

2. Interruptions of service for implementation of a customer order for a change in the service;

3. Interruption caused by the negligence of the customer or an authorized user;

4. Interruptions of service because of the failure of service or equipment due to the customer or authorized user provided facilities.

2.7.5 Cancellation by Customer

If a customer orders services requiring special equipment and/or facilities dedicated to the customer□s use and then cancels its order before the service begins, before a completion of the minimum period mutually agreed upon by the customer and the Company, a charge will be made to the customer for the non-recoverable portions of expenditures or liabilities incurred expressly on behalf of the customer by the Company and not fully reimbursed by installation and monthly charges. If, based on such an order, any construction has either begun or been completed, but no such services provided, the non-recoverable cost of such construction shall be borne by the customer.

SECTION 2 - REGULATIONS, (Continued)

2.7 Customer Responsibility, (Continued)

2.7.6 Payment and Charges for Services

Charges for service are applied on a recurring and nonrecurring basis. Service is provided and billed on a monthly basis. Service continues to be provided until disconnection is requested by the customer in writing, or until canceled by the Company pursuant to this tariff.

A. Payment of Charges

Payment will be due upon receipt of the statement. A payment is considered delinquent thirty (30) days after rendition of the bill. A bill is considered rendered when deposited in the U.S. Mail for delivery to customer's last known address.

1. The customer is responsible for payment of all charges for service furnished to the customer. Charges based on actual usage during a month will be billed monthly in arrears. All fixed monthly and nonrecurring charges for services ordered will be billed monthly in advance.

2. Service may be denied or discontinued by the Company for non-payment of past due or delinquent amounts due the Company. Restoration of service will be subject to all applicable installation charges. Disconnection may not occur before thirty (30) days from invoice and the Company must give five (5) days written notice before any disconnection can occur.

2.7.7 Application of Rates

The rates for service are those in effect for the period that service is furnished.

SECTION 2 - REGULATIONS, (Continued)

2.8 Responsibility of the Company

2.8.1 Calculation of Credit Allowance Under the limitations of section 2.7.4, when service is interrupted the credit allowance will be computed on the following basis.

A. No credit shall be allowed for an interruption of less than two hours.

B. The customer shall be credited for an interruption of two hours or major fraction thereof that the interruption continues.

C. Where there has been an outage, and a minimum usage charge applies, and the customer fails to meet the minimum usage, a credit shall be applied against that minimum. The credit shall equal 1/360th of the monthly minimum charges associated with the portion of service disabled for each period of two hours or major fraction thereof that the interruption continues.

2.8.2 Cancellation of Credit

Where the Company cancels a service or the provision of equipment and the final service period is less than the monthly billing period, a credit will be issued for any amounts billed in advance, prorated at 1/30th of the monthly recurring charge for each day the service was rendered or the equipment was provided. This credit will be issued to the customer or applied against the balance remaining on the customer□s account.

SECTION 2 - REGULATIONS, (Continued)

2.8 Responsibility of the Company, (Continued)

2.8.3 Disconnection of Service by the Company

Upon five (5) days written notice, the Company may discontinue service or cancel an application for service without incurring any liability for any of the following reasons:

A. Non-payment of any sum due to the Company for service for more than thirty days beyond the date of rendition of the bill for such service;

B. Violation of any regulation governing the service under this tariff;

C. Violation of any law, rule, or regulation of an government authority having jurisdiction over the service; or

D. The Company is prohibited from furnishing services by order of a court or other government authority having jurisdiction.

E. Customer uses equipment is such a manner as to adversely affect the Company□s equipment or service to others.

2.8.4 Fractional Charges

Charges for a fractional part of a month (which follows a full month) are calculated by counting the number of days remaining in the billing period after service is furnished or has been discontinued. The number of days remaining in the billing period are counted starting with the day after the service was furnished or discontinued. Divide that figure by thirty days. The resultant fraction is then multiplied by the monthly charge to arrive at the fractional monthly charge.

2.8.5 Insufficient Fund Checks

Customers will be charged $20.00 on all checks issued to the Company which are returned due to insufficient funds. At the discretion of the Company, the insufficient funds check charge may be waived under appropriate circumstances (e.g. a bank error).

SECTION 2 - REGULATIONS, (Continued)

2.9 Taxes and Fees

2.9.1 All state and local taxes (e.g., gross receipts tax, sales tax, municipal utilities tax) are not included in the rates under this tariff, but shall be listed as separate line items on the customer's bill.

2.9.2 To the extent that a municipality, other political subdivision or local agency of government, or commission imposes and collects from the Company a gross receipts tax, occupation tax, license tax, permit fee, franchise fee, or regulatory fee, such taxes and fees shall, as allowed by law, be billed pro rata to the customer receiving service from the Company within the territorial limits of such municipality, other political subdivision or local agency of government.

2.9.3 Service shall not be subject to taxes for a given taxing jurisdiction if the customer provides the Company with written verification, acceptable to the Company and to the relevant taxing jurisdiction, that the customer has been granted a tax exemption.

2.9.4 The Company may adjust its rates or impose additional rates on its customer to recover amounts it is required by governmental or quasi-governmental authorities to collect from or pay to others. The Company may also adjust its rates or impose additional rates to cover the administrative cost of collecting such charges or paying compensation to other entities. Examples of such programs include, but are not limited to, the Universal Service Fund (USF), the Presubscribed Interexchange Carrier Charge (PICC), and compensation to pay telephone service providers for the use of their pay telephones to access the Company's services.

SECTION 2 - REGULATIONS, (Continued)

2.10 Unauthorized Carrier Change Charge

Carrier will assess Reseller a $200 Unauthorized Carrier Change Charge (UCCC) for each Primary Interexchange Carrier (PIC) made without prior valid authorization which results in Carrier being named in a complaint filed with a state or federal regulatory authority or counsel. Continued acts of unauthorized PIC□s by any Reseller shall be considered grounds for refusing to provide service to that Reseller.

2.11 Unauthorized Service Change Charge

Carrier will assess Reseller a $200 Unauthorized Service Change Charge (USCC) for each unauthorized addition of services on an end user□s bill which results in Carrier being named in a complaint filed with a state or federal regulatory authority or counsel. Continued acts of unauthorized service changes by any Reseller shall be considered grounds for refusing to provide service to that Reseller.

SECTION 3 - LONG DISTANCE SERVICES

3.1 Timing of Calls

3.1.1 The customer□s monthly usage charges for the Company service are based upon the total number of minutes the customer uses and the service options to which the customer subscribes. Chargeable time begins when the connection is established between the calling station and the called station or PBX. Chargeable time ends when the either party hangs up. If the called station hangs up but the calling station does not, chargeable time ends when the connection is released by automatic timing equipment within the telecommunications network.

3.1.2 No charges apply if a call is not completed.

3.2 Start of Billing

For billing purposes, the start of service is the day following acceptance by the customer of the Company□s service or equipment. The end of service date is the last day of the minimum notification of cancellation or any portion of the last day, after receipt by the Company of notification of cancellation as described in Section 2 of this tariff.

3.3 Interconnection

Service furnished by the Company may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by the Company. Service technical limitations established by the Company. Service furnished by the Company is not part of a joint undertaking with such other carriers. Any special interface equipment of the Company and other participating carriers shall be provided at the customer□s expense.

Interconnection with the facilities or services of other carriers shall be under the applicable terms and conditions of other carriers□ tariffs. The customer is responsible for taking all necessary legal steps for inter connecting its customer-provided terminal equipment or communications systems with the Company□s. The customer shall secure all licenses, permits, right-of-ways, and other arrangements necessary for such interconnection.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.4 Terminal Equipment

The Company□s service may be used with or terminated in customer provided terminal equipment or customer provided communication systems, such as teleprinter, handsets, or data sets. Such terminal equipment shall be furnished and maintained at the expense of the customer, except as otherwise provided. The customer is responsible for all costs at its premises, including customer personnel, wiring, electrical power, and the like incurred in its use of the Company□s service.

The customer shall ensure that its terminal facilities are of the proper mode, band-width, power, data, speed, and signal level for the intended use of the customer, and that the signals do not damage the Company□s equipment, injure personnel or degrade service to other customers.

If the customer fails to maintain and operate its terminal equipment properly, resulting in the occurrence or possibility of harm to the Company□s equipment or personnel, or impairment to the quality of service to other customers, the Company may, upon written notice, require the use of protective equipment at the customer□s expense. If this fails to produce satisfactory quality and safety of service, the Company may, upon written notice, terminate the customer□s service.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.5 Calculation of Distance

Usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call.

The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. The Company uses the rate centers and associated vertical and horizontal coordinates that are currently being used within the industry.

Formula:

3.6 Minimum Call Completion Rate

The customer can expect a call completion rate of 99% per 100 calls attempted during peak use periods for all Feature Group D (1+) services. The Company will engineer its switching systems on the basis that ninety-nine percent (99%) of the customers accessing their system will be served during the busy hour.

3.7 Special Service Arrangements

Special Service Arrangement charges will be based on the estimated cost of furnishing such services including the cost of operating and maintaining such a service, the cost of equipment and materials used in providing such a service, the cost of installation including engineering, labor supervision, transportation, and the cost of any other specific item associated with the particular Special Service Arrangement request.

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SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.8 General

The Company offers Message Telecommunications Service or MTS, outbound Wide Area Telecommunications Service (WATS), Inbound 800 Service, Travel Card Service, Operator Assisted calling programs, Private Line Services and Frame Relay Service. The customer□s total monthly use of Carrier□s service is charged at the applicable rates per minute set forth herein.

3.8.1 Message Telecommunications Service (MTS)

MTS or 1+ dialing is achieved by when the LEC programs the customer□s telephone lines to automatically route 1+ calls to the Company□s network. Service is billed in six (6) second increments, with partial seconds of usage rounded up to the next six (6) second increment, with a minimum billing of eighteen (18) seconds.

3.8.2 Toll Free (i.e., 800/888) Service

Toll Free Service is inbound telecommunications service which permits calls to be completed to the customer□s location without charge to the calling party. Access to the service is gained by dialing a ten-digit telephone number which terminates at the customer□s location. Toll Free Services originate via normal shared use facilities and are terminated via the customers□ local exchange service access line.

The Company will accept a prospective Toll Free Service at customer□s request for up to ten (10) toll free telephone numbers and will reserve such numbers on a first-come first-served basis. All request for Toll Free Service number reservations must be written, dated and signed by the customer. The Company does not guarantee the availability of numbers until assigned. The requested Toll Free Service telephone numbers, if available, will be reserved for and furnished to the customer.

If a customer who has received a Toll Free Service number does not subscribe to Toll Free Service within thirty (30) days, the Company reserves the right to re-assign the number to another customer.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.8 General, (Continued)

3.8.3 Travel Card Service

Travel Card Service allows subscribers who are away from home or office to place calls by gaining access to the Company's network via an 800 number. Travel Card Service is provided upon request to presubscribed customer and is not a stand-alone product.

3.8.4 Directory Assistance

Listed telephone numbers will be provided to requesting customers at a per call charge.

Certain material previously found on this page is now located on Page 27.1.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.8.5 Business Customer Term and Volume Discounts

Customers of certain services contained in tariff are eligible for volume and term discounts as shown below. Term and volume discounts are applied before all other applicable discounts are calculated. Term and volume discounts contained in this section do not apply to Residential, Obsolete or Grandfathered Services, Guest Rates Services, Operator Assisted Services or to Roadside Advantage programs, or to Business Rate Plan.

A. Volume Discounts

Volume Discounts are applied based on the Customer□s total billing in any one billing cycle. The Monthly Service Volume is the Customer□s monthly usage of eligible services, before any discounts are applied, not including feature charges, nonrecurring charges, charges for dedicated access connections, taxes or fees.

Monthly Service Volume	Base Discounts
$0 - $500.99	0%
$501 - $2,000.99	3%
$2,001 - $10,000.99	5%
$10,001 - $20,000.99	8%
$20,001 +	10%

Certain material now found on this page was previously located on Page 27.

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SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.8 General, (Continued)

3.8.5 Business Customer Term and Volume Discounts, (Continued)

B. Additional Term Discounts

Term Discounts apply in addition to Volume Discounts when the Customer elects to enter into a term agreement for eligible Carrier services. Term Discounts are calculated after applicable Volume Discounts are applied and before service-specific discounts are calculated. A penalty is computed and applied as a lump sum to the Customer's bill when the Customer cancels service prior to expiration of the term commitment. The penalty is computed by multiplying the difference between the rate the Customer would have paid for term served and the rate the Customer actually paid, by the number of months the higher discount was received.

Term	Percent Discount
12 Month Term	5%
24 Month Term	10%
36 Month Term	15%

3.8.6 Roadside Advantage

Roadside Advantage provides toll free service to residence Customers. Roadside Advantage is a stand alone service that includes free national roadside assistance provided by The Advantage Auto Club and other non-telecommunications related services. Calls terminate to the Customer's standard local line(s).

Calls are billed in sixty (60) second increments. The minimum call duration for billing purposes is sixty (60) seconds.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.9 Usage Charges and Billing Increments

3.91 Usage Charges

Usage charges are determined by the time of day rate periods and minutes of use within each rate period. The rate period is determined by the time and day of call origination at the customer□s location.

3.9.2 Billing Increments

Unless specifically stated in the product description, usage is billed in sixty (60) second increments.

3.10 Presubscribed Interexchange Carrier Charge (PICC)

A monthly Federal PICC shall be charged to each telephone number that is presubscribed to the Company as filed in Carrier's FCC Domestic Tariff No. 1.

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SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.10 Presubscribed Interexchange Carrier Charge (PICC), (Continued)

3.11 Pay Telephone (Payphone) Surcharge

A surcharge shall be assessed for each call made from a pay telephone to a Company-provided toll-free number or placed by using a travel card and dialing the Company's prefix in the form 101XXXX. This charge is to compensate the Company for the Federal Communications Commission assessment which is paid by the Company to pay telephone service providers for the use of their pay telephone instruments.

Per Call Charge: $0.35

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.12 Business Customer Switched and Travel Card Services

The following rates are only available to existing Customers at existing locations prior to January 15, 2003.

Rates:

Switched 1+	$0.1360/minute
Standard Switched Toll Free Services	$0.1360/minute
Switched Toll Free Services with Routing Function	$0.15/minute
plus monthly recurring charge	$9.00
Travel Card Services	$0.25/minute
Dedicated Outbound WATS Services	$0.0740/minute
Dedicated Toll Free Services	$0.0740/minute

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.13 Business Customer Affinity Programs

Developed for use by alternative marketers. Provided to independent agents, telemarketers, multi-level marketing groups, organizations and clubs.

Rates:

Switched 1+	$0.1360/minute
Standard Switched Toll Free Services	$0.1360/minute
Switched Toll Free Services with Routing Function	$0.15/minute
plus monthly recurring charge	$9.00
Travel Card Services	$0.25/minute
Dedicated Outbound WATS Services	$0.0740/minute
Dedicated Toll Free Services	$0.0740/minute

3.14 Directory Assistance Charge

Per Call Charge	$0.99

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.15 Operator Services

Operator services are available to Consumers from any Customer location. Operator Services allows the Consumer to place a call from a Customer location and arrange for billing other than to the originating telephone number. Calls are rounded up to the next whole minute for billing purposes and are billed to the Consumer through the monthly bill of the Consumer□s local exchange carrier.

The following billing arrangements are available to Consumers through the Company□s Operator Services:

a) Customer Dialed Calling/Credit Card

This is a service whereby the end user dials all of the digits necessary to route and bill the call without any operator assistance. Such calls may be billed either to a telephone company issued calling card or a commercial credit card.

b) Operator Station

This is a service whereby the caller places a non-person-to-person call with the assistance of an operator (live or automated). When placing an operator station call, the caller is connected to a non-specified individual at the terminating end. Such calls may be billed to a calling card, credit card, the called number (collect) or a valid third party telephone number.

c) Person-to-Person

This is a service whereby the person originating the call specifies to Carrier□s operator a particular person to be reached, or a particular person, station, room number, department, or office to be reached through a PBX attendant. Person-to-person calls may be billed to a calling card, credit card, the called number (collect) or a valid third party telephone number.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.15 Operator Services, (Continued)

3.15.1 Rates

Mileage Range	DAY		Evening		Night	
	First Minute	Add'l Minutes	First Minute	Add'l Minutes	First Minute	Add'l Minutes
0-10	.3000	.1800	.2400	.1440	.1800	.1080
11-16	.3800	.2000	.3040	.1600	.2280	.1200
17-22	.3900	.2200	.3120	.1760	.2340	.1320
23-30	.4300	.2400	.3440	.1920	.2580	.1440
31-40	.4500	.2600	.3600	.2080	.2700	.1560
41-55	.4800	.2900	.3840	.23203	.2880	.1740
56-85	.5100	.3200	.4080	.2560	.3060	.1920
86-124	.5300	.3400	.4240	.2720	.3180	.2040
125-244	.5400	.3600	.4320	.2880	.3240	.2160
245-over	.5500	.3800	.4400	.3040	.3300	.2280

Operator Assisted Surcharges:

Customer Dialed Calling Card Station	$1.05
Operator Dialed Calling Card	$2.10
Operator Station	$2.10
Billed to Third Party	$2.17
Person to Person	$4.50

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.16 Integrated Access Service

3.16.1 General

Integrated Access Service (IAS) offers a discount for Customers who purchase two or more services from the Company under a term agreement of one, two, or three years. The discount offered is based on the number of services purchase and the contract commitment term. Eligible Customers must commit to a minimum aggregated monthly usage of at least $2,500. If during any month of the term, the Customer□s usage of Carrier□s services is less than the minimum commitment, the Customer will pay to Carrier the difference between the minimum commitment and the Customer□s actual usage of Carrier services. Services eligible for the discount are all Company provided switched and dedicated voice services, dedicated Internet service, Frame Relay Service and Private Line Services billed to one account, including all remote locations (CPE). Dedicated access line charges, customer-premises equipment (CPE), installation and ancillary charges (such as Directory Assistance charges and Operator Services) are not eligible for the discount and do not contribute to the minimum usage commitment. Eligible intrastate, interstate and international usage contribute to the minimum commitment and are discounted according to 3.16.2 below.

A. Broadband Services

In addition to the provisions above and in 3.16.4, broadband services (i.e., Frame Relay) customers with an IAS plan will be subject to the following additional provisions:

1. At the end of the Customer□s service term, service will renew for successive three month periods. Either the Customer or Carrier may terminate services upon thirty (30) days written notice prior to then of the term or any successive three month renewal.

2. If the Customer terminates usage of IAS services prior to the end of the term, the Customer will pay to Carrier 100% of the then-current dedicated access monthly charges (for access provided by the Company), multiplied by the number of months remaining in the term.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.16 Integrated Access Service, (Continued)

3.16.2 Discounts

	Term Commitment		
	One Year	Two Year	Three Year
Two Services	10%	15%	20%
Three Services	15%	20%	25%
Four Services	15%	20%	25%

3.16.3 Nonrecurring Charges

A nonrecurring charge applies to establish IAS. All local installation charges of the local carrier are also passed through to the IAS Customer.

Nonrecurring IAS Establishment Charge: $1,500.00

3.16.4 Early Termination

A penalty is computed and applied as a lump sum to the Customer's bill when the Customer cancels service prior to expiration of the term commitment by multiplying fifty percent (50%) of the minimum usage commitment times the number of months remaining in the term. In addition, the Customer who cancels service prior to the expiration of the term must reimburse the Company for all CPE.

3.16.5 Pass Through Charges

The Company will pass through to the IAS Customer all charges incurred from local exchange carriers in providing dedicated high capacity access (T-1).

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.17 Residential Customer Service

3.17.1 Description of Service

Three options are available to Residential Customers for outbound direct dial, inbound toll free and calling card service: Bonus Package, Premier Package, and Exclusive Package. Calls for all plans are billed in one minute increments. The minimum call duration for billing purposes is one minute. Reduced international call rates are offered to subscribers to all Residential packages for a fixed international monthly fee. All Residential Customers subscribed to any other Company service, including obsolete services, will be migrated to Bonus Package after due notice, unless the Customer specifies an alternative optional Package.

A. Bonus Package

Bonus Package offers the Residential Customer low usage rates with no monthly plan charges. Travel card calling is offered with a per call service charge. Residential interstate PICC charges apply. A monthly minimum usage charge applies to each line associated with the service.

B. Premier Package Service

Premier Package Service offers the Residential Customer reduced interstate calling rates for a fixed monthly fee for each line associated with the service. Travel card calling is offered with a per call service charge. Residential interstate PICC charges apply. No minimum usage charge applies to Premier Package Service.

C. Exclusive Package Service

Exclusive Package Service offers the Residential Customer further interstate usage rate reductions for a fixed monthly fee for each line associated with the service. Travel card calling is offered with no per call service charge. Residential interstate PICC charges apply. No minimum usage charge applies to Exclusive Package Service.

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.17 Residential Customer Service, (Continued)

3.17.2 Minimum Monthly Usage Charge

For those packages which include a Minimum Monthly Usage Charge, all outbound and inbound, interstate, intrastate, and travel card usage, contribute towards the minimum. Fixed monthly add-on charges for international calling discounts, pay telephone surcharges, taxes and fees do not contribute to the monthly minimum. When the Residential Customer□s combined usage charge in any monthly billing cycle falls below the minimum, the Minimum Monthly Usage Charge will apply instead of the actual usage charges incurred.

3.17.3 Rates and Charges

Package Option	Minimum Monthly Usage Charge	Fixed Monthly Fee	Outbound Usage Rate Per Minute	Inbound (toll-free) Usage Rate Per Minute	Travel Card Usage Rate Per Minute	Travel Card Per Call Service Charge
Bonus	$5.00	None	$0.1400	$0.100	$0.25	$0.89
Premier	None	$4.95	$0.1400	$0.100	$0.25	$0.89
Exclusive	None	$6.95	$0.1400	$0.100	$0.150	None

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.18 Consumer and Small Business Rate Plan

3.18.1 General

The Consumer and Small Business Rate Plan is offered to Residential and Business Customers with 5 or fewer lines presubscribed to the Company. This Plan is offered only in conjunction with the Company's corresponding interstate plan. Each Option listed below includes a monthly calling allowance of 0, 300, 500, or 1000 minutes that can be used for direct dialed interstate or intrastate calling. Calls in excess of the allowance in a monthly bill cycle are billed at the rate specified below. A monthly recurring charge applies per once monthly per line and includes the interstate and intrastate calling allowance.

3.18.2 Description of Options

Option	Monthly Call Allowance Per Bill Cycle
Option 1	300 minutes
Option 2	500 minutes
Option 3	1000 minutes
Option 4	0 minutes

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.18 Consumer and Small Business Rate Plan, (Continued)

3.18.3 Rates and Charges

A. Calculation of Charges

All calls are recorded in one minute increments. Total monthly usage is determined by measuring each call individually and rounding the call to the next full minute on a per-call basis. The total monthly usage during a billing period is the sum of the minutes computed for each individual call. The total usage sum, minus the monthly call allowance for the option selected by the Customer, is multiplied by the usage rate specified below. The resulting product is then rounded up to the next cent.

B. Monthly Recurring Charges

The Monthly Recurring Charge applies to each line presubscribed to the Consumer and Small Business Rate Plan. Multiple lines at a single premises may each be presubscribed to a different Option.

	Monthly
Option 1	$19.95
Option 2	$29.95
Option 3	$64.95
Option 4	$6.95

C. Usage Charges

	Direct Dialed Outbound	Travel Card
All Options	$0.069 per minute	$0.25 per minute
Per Call	none	none

SECTION 3 - LONG DISTANCE SERVICES, (Continued)

3.19 Business Rate Plan

3.19.1 Description

Business Rate Plan is available to the Company's business Customers with no monthly minimum charges or line count restrictions. This service utilizes switched or dedicated access lines. Outbound calls are billed in six (6) second increments after an initial minimum call duration of eighteen (18) seconds. Dedicated Toll Free Service is billed in six (6) second increments after a minimum call duration of thirty (30) seconds. No term and volume discounts apply to this service.

3.19.2 Rates

Switched 1+	$0.1540/minute
Standard Switched Toll Free Services	$0.1540/minute
Switched Toll Free Services with Routing Function	$0.15/minute
plus monthly recurring charge	$9.00
Travel Card Services	$0.25/minute
Dedicated Outbound WATS Services	$0.0745/minute
Dedicated Toll Free Services	$0.0745/minute

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SECTION 4 - FRAME RELAY SERVICE

4.1 Frame Relay Service - Description

Frame Relay Service is an enhanced form of packet switching which uses variable length packets to connect multiple local area networks (LANs) for data transmission. Frame Relay Service is available throughout the United States where digital local access is available. The rules for Frame Relay Service in this Section are in addition to those rules found in Sections 1 through 3 of this tariff.

4.1.1 Definitions:

Asynchronous Transfer Mode (ATM) - an international high-speed, high-volume, packet-switched transmission protocol standard that supports integrated voice, video and data communications. ATM uses short uniform 53 byte cells to divide data into packets for ultra fast switching through the network. The 53 byte cells contain 5-byte destination address headers and 48 data bytes.

Committed information rate (CIR) - the statistical measurement of throughput on a PVC over time measured in bits per second. The CIR is the rate at which the network agrees to accept data from the user, and which the network commits to transfer data under normal operating conditions.

Permanent virtual circuit (PVC) - the facilities used to form a communications path connecting between two ports. Although a PVC may be defined in static manner with static parameters, it is not fixed to a stationary path through the network.

Port - a network entry or exit point on the frame relay switch that connects to the Company□s frame relay network.

Service Date - The date Frame Relay Service is installed and available, or the date specified on the customer□s order form, whichever is later. The service date is the date on which all nonrecurring charges will be billed and monthly charges begin for Frame Relay Service.

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SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.2 Frame Relay - General

4.2.1 Rate Elements

Frame Relay Service has three rate elements:

A. local access facilities;

B. ports; and

C. a permanent virtual circuit (PVC).

4.2.2 Local Access

Local access facilities must be obtained to access Frame Relay Service. The local access facilities are ordered from the local exchange telephone company. The rates for the local access facilities vary by local exchange company and are found in that the Company□s tariff.

4.2.3 Port Speed

Port speed is selected to accommodate the various PVCs that use a particular port. The speed represents the highest attainable data rate into or out of the location at any point in time. Available speeds range from 56 Kbps to 1.536 Mbps. A frame relay port connection provides the physical interface into the network and provides the logical termination of PVCs assigned to that port.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.2 Frame Relay - General, (Continued)

4.2.4 PVC

The PVC connects the customer□s specific end-points on the interexchange network. Each PVC is assigned a committed information rate (CIR), which is the average minimum data rate the network will allocate to the PVC under normal operating conditions. The data transmission rate for a PVC can be greater than the CIR when excess capacity is available on the port and on the network. When this excess capacity exists, an average data rate above the CIR may be achieved up to the port capacity. Data sent across a virtual connection in excess of that connection□s CIR will be marked discard eligible in the event of network congestion, and will be delivered only if the instantaneous demand for output on a transmission channel is equal to or less than the capacity of the queue for that channel.

PVCs may be either asymmetrical (one-way) or symmetrical (two-way). Symmetrical (two-way) traffic requires the use of one symmetrical PVC or two asymmetrical PVCs.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees

4.3.1 Network Availability

Network availability is measured as the total number of minutes in a billing month during which core network PVC routes are available to exchange data between the two network infrastructure node end points, divided by the total number of minutes in a billing month. A lapse in network availability is calculated commencing with the date on which the customer informs the Company of service non-availability, and ends on the date of service restoration. The PVC route will be measured from infrastructure port to infrastructure port and will not include the customer premises equipment (CPE) or local access facilities.

4.3.2 Network Availability Objective

The Company engineer□s its network to achieve availability of 99.9% for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve availability of at least 99.5%

4.3.3 Frame Delivery

Frame delivery measures the percentage of customer□s frame relay packets delivered from the Company□s network ingress port to the Company□s network egress port. This percentage will not include packet delivery failures attributable to local access facilities or CPE.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees, (Continued)

4.3.4 Frame Delivery Objective

The Company engineers its network to achieve a frame delivery level of 99.9% of frames within a customer's CIR, and 99.0% of frames above a customer's CIR. These delivery rates apply for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve a frame delivery level of 99.0%.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.3 Frame Relay Service - Guarantees, (Continued)

4.3.5 Network Latency

Network latency measures the elapsed time, in milliseconds, required for one data cell (frame relay packets converted to ATM cells on the Company□s backbone network) to be delivered from the customer□s Frame Relay Service network ingress port to the network egress port. Packet delivery failures attributable to local access facilities or CPE are not included.

4.3.6 Network Latency Objective

The Company engineers its network to achieve a one-way network latency of 65 milliseconds. This parameter applies for networks designed with ten (10) or more network sites and a fully meshed network topology or a star network topology in which each remote site has PVCs connected to at least two network hubs engineered to a separate infrastructure node. In all other instances, the Company engineers its network to achieve a network latency of 75 milliseconds.

4.3.7 Frame Relay Service - Guarantee Exclusions

The standards described above do not include periods of non-attainment resulting in whole or in part from one or more of the following causes:

- Any act or omission on the part of the customer, its contractors, or any other entity over which the customer exercises control or has the right to exercise control;
- Scheduled maintenance;
- Labor strikes
- *Force Majeure* events beyond the control of the Company (including, but not limited to, acts of God, government regulation and national emergency); and,
- Any act or omission on the part of a third party including, but not limited to, the local access provider.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.4 Minimum Service Terms

4.4.1 The minimum service requirement is one month for domestic service and one year for international service. The customer may subscribe to service under one, two, three, four or five year term plans. For any term plan, the rates and term discounts will be fixed for the term at the discount level below. The term will begin on the first day of the month following the date the service is installed and available. Upon expiration, the term will be automatically extended at the term plan rates and discounts for successive ninety (90) day periods, unless thirty (30) days prior to the end of the term or each such extension either (a) the customer or the Company provides written notice to the other that it does not want such extension, or (b) the customer subscribes to another term plan and the rates of the new term plan apply.

4.4.2 If additional sites are added to a customer□s Frame Relay Service after the initial subscription to a term plan, such sites will be incorporated into the customer□s term plan and will have the same termination date as the customer□s original term plan.

4.4.3 Existing customers may subscribe to a new term plan for Frame Relay Service of the same or greater value prior to the end of the customer□s existing term plan without incurring any termination liability if the new term plan extends beyond the old term plan termination date by at least one year.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.4 Minimum Service Terms, (Continued)

4.4.4 Term Discounts

Monthly Billing	Discount Term in Years				
	One	Two	Three	Four	Five
$2,000	5%	6%	7%	8%	9%
$5,000	8%	10%	12%	14%	16%
$10,000	12%	14%	17%	19%	21%
$25,000	14%	17%	20%	23%	25%
$50,000	16%	19%	22%	25%	27%
$100,000	18%	21%	24%	27%	30%

4.5 Termination of Frame Relay Service

Customer must provide the Company with 30 days written notice before terminating frame relay service. Customers terminating service prior to fulfilling their term commitment will be assessed a termination liability equal to one hundred percent (100%) of the monthly recurring charge for each access line, port and PVC service terminated multiplied by the number of months remaining in the first year of the term plan, plus fifty percent (50%) of the monthly recurring charges for each circuit canceled multiplied by the number of months remaining in the term plan after the first year. The customer will not have any termination liability if it subscribes to another Company service of the same or greater monthly revenues and volume, and with a term no less than the remaining months of the term plan or one year, whichever is greater, at the same time the notice of termination is received. The customer will also be liable for a pro-rata amount of any waived installation charges based on the number of months remaining in the term plan.

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SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates

4.6.1 Port Charges

Nonrecurring Charges: A nonrecurring charge of $275 each for installation per port applies.

Speed (Kbps)	Monthly Rate Per Port
56 - 64	$162.00
112 - 128	$295.00
168 - 192	$319.00
224 - 256	$344.00
280 - 320	$424.00
336 - 384	$500.00
448 - 512	$635.00
504 - 576	$680.00
560 - 640	$725.00
616 - 704	$770.00
672 - 768	$850.00
896 - 1024	$1,010.00
1120 -1280	$1,135.00
1344 -1536	$1,325.00

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.2 PVC Charges

Nonrecurring Charges: A nonrecurring charge of $15 each per asymmetrical PVC and $30 per Symmetrical PVC, for installation, modification or reconfiguration.

CIR (Kbps)	Monthly Rate Asymmetrical (One-Way)	Monthly Rate Symmetrical (Two-Way)
0	$0.00	$0.00
4	$5.00	$10.00
8	$8.00	$16.00
16	$16.30	$32.60
32	$31.80	$63.60
48	$46.10	$92.20
64	$53.00	$106.00
128	$101.00	$202.00
192	$151.00	$302.00
256	$201.00	$402.00
320	$252.00	$504.00
384	$302.00	$604.00
448	$352.00	$704.00
512	$403.00	$806.00
576	$453.00	$906.00
640	$504.00	$1,008.00
704	$554.00	$1,108.00
768	$604.00	$1,208.00

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.2 PVC Charges (Continued)

CIR (Kbps)	Monthly Rate Asymmetrical (One-Way)	Monthly Rate Symmetrical (Two-Way)
832	$655.00	$1,310.00
896	$705.00	$1,410.00
960	$755.00	$1,510.00
1024	$806.00	$1,612.00
1088	$856.00	$1,712.00
1152	$906.00	$1,812.00
1216	$957.00	$1,914.00
1280	$1,007.00	$2,014.00
1344	$1,057.00	$2,114.00
1408	$1,108.00	$2,216.00
1472	$1,158.00	$2,316.00
1536	$1,208.00	$2,416.00

4.6.3 Local Access

Local access facilities shall be provided under the local exchange company's tariff.

SECTION 4 - FRAME RELAY SERVICE, (Continued)

4.6 Rates, (Continued)

4.6.4 Expedite Charges

Expedite charges apply when the customer requests an installation interval shorter than the standard and the Company is able to comply with that request.

Port Connection	$50
PVC (install, moves, changes, disconnect)	$75
Local Access	$50*

* In addition to any local exchange company expedite charges which will be directly passed on to the customer.

4.6.5 Engineering Charges

Re-mapping of facilities	$100

SECTION 5 - PRIVATE LINE SERVICES

5.1 General

The Company provides interstate Private Line Service to Customers with transmission speeds ranging from 64 Kbps to 1.544 Mbps. Private Line Services are offered on a point-to-point basis. Each Private Line Service is dedicated to the Customer and the entire usable bandwidth for each service is available to the Customer for their exclusive use.

5.1.1 Two Point Service

Two Point Service allows two Customer designated locations to be connected by one Private Line Service. The service terminated at both locations must be the same speed and the same capacity.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates

5.2.1 Recurring Charges

Recurring charges for Private Line Services vary based on the capacity of service, the distance of service, the term plan selected and the monthly revenue commitment made by the Customer. Unless otherwise stated in the description associated with the rate element in this tariff, Private Line Service recurring charges are applied on a circuit basis, per DS0 equivalent. A minimum circuit charge applies which varies by circuit bandwidth.

5.2.2 Term and Volume Discounts

Recurring charges for services purchased under a Term Plan will be fixed for the life of the term. The rate level applicable throughout the Term Plan is based on the volume commitment specified by the Customer at the time service is ordered. Customer may terminate any circuit upon 90 days' notice; provided that if termination occurs; (i) prior to the Activation Date, Customer shall reimburse Company for all costs of the implementation of such Circuit; or (ii) on or after such date, Customer shall pay: (a) all charges for services previously rendered and (b) the amount due through the end of the applicable circuit lease term.

5.2.3 Nonrecurring Charges

Nonrecurring Charges (NRC) are one-time only charges. NRC's may be waived for certain promotions and under the specific terms of individually negotiated contract services.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates (Continued)

5.2.4 Pass-Through Charges

All charges incurred by the Company on the Customer's behalf from any Local Exchange Carrier, Competitive Access Provider or Competitive Local Exchange Provider will be directly passed on the Customer. Cross-Connect Charges apply to Company facilities that are connected by the Company to other carriers or Customer interconnect/collocation facility within the same Point of Presence.

Notes

1. All charges incurred by Supplier on Customer's behalf from any Local Exchange Carrier, Competitive Access Provider or Competitive Local Exchange Carrier will be directly passed on to the Customer.

2. Service not described above will be considered special handling and charges will be assessed on an Individual Case Basis (ICB).

3. All of the above changes are subject to changes with a 30 day notice.

4. All Private Line ancillary service charges to cities not listed will be priced on an individual case basis and will be subject to the terms and charges of the underlying carrier.

5.2.5 Interconnect Charges

Interconnect Charges apply to connections between the Company's POPs in the same city or between the Company's suite to another suite in the same building. Since costs vary widely by location, the interconnect charges specified in this tariff are the minimum amount that will be charged monthly. All interconnect, construction charges and individual case basis charges incurred by the Company will be passed through to the Customer. Interconnect arrangements are subject to the continuing economic availability of the necessary facilities and equipment.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.2 Application of Rates (Continued)

5.2.6 Order Cancellation Policy

The Company will provide an order confirmation after the Customer places an order for service. If the Customer changes the order, a change order charge will apply based on the scope of the change. If the Customer cancels the order, the Customer must reimburse the Company for all costs incurred to that point. The Customer must notify the Company of service date changes 45 days prior to the due date. Service date changes may be extended by the Customer a maximum of thirty days from the due date.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.3 Service Descriptions

Private Line Service allows the Customer to connect two locations with private dedicated service at one of a number of transmission speeds.

5.3.1 DS0 Service

DS0 Service is a dedicated digital channel with line speeds of 2.4, 4.8, 9.6, 56 or 64 Kbps.

5.3.2 DS1 Service

DS1 Service is a dedicated, high capacity channel with a line speed of 1.544 Mbps. DS1 Service has the equivalent capacity of 24 Voice Grade services or 24 DS0 services.

SECTION 5 - PRIVATE LINE SERVICES, (Continued)

5.4 Rate Schedules

5.4.1 On-Net DS-O

	Fixed		Per Mile		Local Loop	Installation
0 - 100 MILES	$75.00	I	$0.35	R	Cost	$150.00
100 + MILES	$75.00	R	$0.35	I	Cost	$150.00

5.4.2 On-Net DS-1

	Minimum	Per DSO		Local	Installation
0 - 200 MILES	$250.00	$0.11	R	Cost	$400.00
200-500 MILES	-----	$0.11	R	Cost	$400.00
500 + MILES	-----	$0.11	I	Cost	$400.00

5.4.3 On Net Private Line Term Discounts

1 Year	5%
2 Year	10%
3 Years	15%

SECTION 6 - OBSOLETE SERVICE OFFERINGS

The services in this Section are available only to existing Business customers. Upon expiration of the contract term, existing customers my either elect to continue these services at these rates or may subscribe to the then current service offerings under preceding paragraphs of this tariff.

6.1 Obsolete Service Options Formerly Offered by Network Long Distance, Inc.

6.1.1 Obsolete MTS Service Options

Obsolete MTS Service offerings are only available for the remaining period of any existing contract. After the expiration of the contract the customer may subscribe to MTS under the current service offerings under the preceding paragraphs of this tariff.

Plan 4

Plan 4 is a flat rated two -way calling multipoint service, accessible by customers on a dial up basis and intended for small business customers utilizing between $0 and $49 per month in long distance services.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.1 Obsolete WATS Service Options Formerly Offered by Network Long Distance, Inc., (Continued)

6.1.1 Obsolete MTS Service Options, (Continued)

Plan 5

Plan 5 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for small business customers utilizing between $50 and $199 per month in long distance services.

Plan 6

Plan 6 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for small business customers utilizing between $200 and $349 per month in long distance services.

Plan 7

Plan 7 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for small business customers utilizing between $350 and $499 per month in long distance services.

Plan 8

Plan 8 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for small business customers utilizing between $500 and $749 per month in long distance services.

Plan 9

Plan 9 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for large business customers utilizing between $750 and $999 per month in long distance services.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.1 Obsolete WATS Service Options Formerly Offered by Network Long Distance, Inc., (Continued)

6.1.1 Obsolete MTS Service Options, (Continued)

Plan 10

Plan 10 is a flat rated two-way calling multipoint service, accessible by customers on a dial up basis and intended for large business customers utilizing over $1000 per month in long distance services.

6.1.2 Obsolete 800 Services

800 Service is the furnishing of dial-type intrastate telecommunications originating on feature group facilities provided by the Local Exchange Carrier (LEC) and terminating on a Regular Business Line or a Special Access Line (SAL).

A. **Incoming 800 Service (Nationwide)**

Plan 20

Plan 20 is an incoming 800 service intended for customers utilizing between $0 and $99 per month in 800 service.

Plan 21

Plan 21 is an incoming 800 service intended for customers utilizing between $100 and $499 per month in 800 service.

Plan 22

Plan 25 is an incoming 800 service intended for customers utilizing between $500 or more per month in 800 service.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.1 Obsolete Service Options Formerly Offered by Network Long Distance, Inc., (Continued)

6.1.3 Obsolete Travel Services

Travel Service is a feature whereby a customer may access Carrier's network by means of an 800 number (provided by Carrier) from any touchtone phone, anywhere in the continental United States.

Plan 30

Available to customers utilizing $0 to $49 per month in long distance services.

Plan 31

Available to customers utilizing $50 to $499 per month in long distance service.

Plan 32

Available to customers utilizing $500 or more per month in long distance service.

6.1.4 Operator Services

Carrier does not provide operator services.

6.1.5 Directory Assistance

Residential customers shall be provided with a record of the date and time of each directory assistance call made from their residence.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.1 Obsolete Service Options Formerly Offered by Network Long Distance, Inc., (Continued)

6.1.6 Rates For Obsolete Services Formerly Offered by Network Long Distance, Inc., (Continued)

A. MTS Rates per minute

	Day	Evening	Night/Weekend
Plan 4	$0.200	$0.200	$0.200
Plan 5	$0.180	$0.180	$0.180
Plan 6	$0.170	$0.170	$0.170
Plan 7	$0.165	$0.165	$0.165
Plan 8	$0.160	$0.160	$0.160
Plan 9	$0.155	$0.155	$0.155
Plan 10	$0.150	$0.150	$0.150

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.2 Obsolete Service Offerings Formerly Offered by United WATS, Inc.

6.2.1 Obsolete Message Toll Service (MTS)

The customer will access the Carrier□s network via a 10XXX access code provided by the Company.

6.2.2 800 Service

800 Service is virtual banded inbound toll service which permits calls to be completed at the subscriber□s location without charge to the calling party. Access to the service is gained by dialing a ten digit telephone number which terminates at the customer□s location.

6.2.3 Travel Card Service

Allows subscribers who are away from home or office to place calls by gaining access to the Carrier□s network via an 800 number.

6.2.4 Directory Assistance

Directory Assistance will be provided by the Carrier at per call charge as set forth in this tariff.

6.2.5 Operator Service

The Company does not provide Operator Service at this time.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.2 Obsolete Service Offerings Formerly Offered by United WATS, Inc. (Continued)

6.2.6 Rates for Obsolete Service Offerings Formerly Offered by United WATS, Inc.

A. Obsolete Switched MTS Services

$0.1490 per minute. Service is billed with a 6 second minimum and in 6 second increments thereafter. Partial seconds of usage are rounded up to the next highest 6 second increment.

2. 800 Switched Services

$0.1590 per minute. Service is billed with a 6 second minimum and in 6 second increments thereafter. Partial seconds of usage are rounded up to the next highest 6 second increment.

C. Travel Card Services

$0.2500 per minute. Service is billed with a 30 second minimum and in 6 second increments thereafter. Partial minutes of usage rounded up to the next highest minute.

D. Dedicated Outbound WATS :

$0.0875 per minute. Service is billed with a 6 second minimum and in 6 second increments thereafter. Partial seconds of usage are rounded up to the next highest 6 second increment.

E. Dedicated Inbound 800 Services

$0.0875 per minute. Service is billed with a 6 second minimum and in 6 second increments thereafter. Partial seconds of usage are rounded up to the next highest 6 second increment.

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SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.2 Obsolete Service Offerings Formerly Offered by United WATS, Inc. (Continued)

6.2.6 Rates for Obsolete Service Offerings Formerly Offered by United WATS, Inc.

1. Directory Assistance

   Directory assistance will be provided at a charge of $0.50 per call.

2. Late Payment Penalty

   Customers will be charged 1.5% of any amounts owed to the Company beyond the due date as set forth within this tariff.

3. Dishonored Check Charge

   Per Check Charge: $20.00

4. Promotional Offerings

   The Company may, from time to time, make promotional offerings.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.3 Obsolete Service Offerings Formerly Offered by National Teleservice, Inc.

6.3.1 Obsolete Outbound 1+ Services

Outbound 1+ rates apply when the person originating the call dials the telephone number desired and completes the call, and the call is billed to the calling station.

Rate Per Minute: $0.149

6.3.2 Calling Card

A calling card service that may be accessed from any touch tone or rotary telephone. The Customer dials the appropriate telephone number desired and completes the call and the call is billed to the Calling Card.

Rate Per Minute:	Day:	$0.27
	Evening:	$0.23
	Night:	$0.23

6.3.3 Inbound 800

Inbound 1+ rates apply when the person originating the call dials the 800 telephone number desired and completes the call, and the call is billed to the called station.

Rate Per Minute: $0.166

6.3.4 Directory Assistance

Rate Per Call: $0.87

6.3.5 Bad Check Charge

Charge Per Check: $20.00

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company

6.4.1 Business Outbound Standard Service

Switched 1+ Long Distance Service allows Business Customers to make direct dialed long distance calls. Customers access the service via local exchange company-provided Feature Group D switched access circuits.

6.4.2 Business In-Bound "Toll-Free" Service

Switched In-Bound 800 Service is a "toll-free calling" service offered to business customers. The CBLD Customer is billed for each 800/888 call, rather than the call originator. Calls terminate to the Customer over local exchange Company provided switched access circuits.

6.4.4 TravelMaster Select Service

TravelMaster Select Service enables customers to use CBLD's service while away from their home or office. Customers must dial an access code in addition to an authorization number and the destination telephone number.

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SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.5 Directory Assistance

Directory Assistance is available to Customers of CBLD. A Directory Assistance charge applies to each call to the Directory Assistance Bureau. Up to two requests may be made on each call to Directory Assistance.

6.4.6 Debit Card/Prepaid Card Service

The CBLD Debit Card/Prepaid Card allows customers to pay a fixed dollar amount in advance for long distance calling over CBLD's network. Customers use an "800/888" number for access from touch tone phones. Customers can place direct dial calls using the service.

The following types of calls may not be completed using the Debit Card/Prepaid Card:

* calls to 700, 800, and 900 numbers
* calls to directory assistance
* operator assisted calls
* conference calls
* calls requiring time and/or charges

6.4.7 Association Program

The following program is offered to qualified Association Groups for their association members. Association Groups include, but are not limited to, trade associations, professional or social associations, nonprofit groups, or other bona fide associations. Association Groups who will jointly market the company's service are required to qualify as an Agent of the Company.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.8 Operator Assisted Services

The Company provides the Customer operator services where technically available on a per call service charge basis. The Company's operator services are accessible on a twenty-four (24) hour a day, seven (7) days a week basis.

6.4.9 Network Plus

Network Plus Service is a switched service which allows Customers to make direct dialed long distance calls and receive toll free inbound service for the same per minute rate. For billing purposes, call timing is rounded up to the nearest six (6) second increment after the initial minimum period of six (6) seconds.

Calls are not time-of-day or mileage sensitive. Customers are billed based on actual monthly usage billing. All domestic interstate and intrastate usage contributes to and receives the volume discount.

In addition to the volume discount, Customers may receive an additional discount by signing a term commitment of 24 months or 36 months.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.10 Core Business Service

Core Business Service is a switched bundled service including inbound and outbound calling, a travel card option and access to directory assistance. This service is targeted at business Customers with at least $25.00 in monthly billing for all Customer locations. Customers choosing this service will be billed the difference between actual usage and the $25.00 minimum should billing in any given month fall below the stated minimum.

Calls are not time-of-day nor mileage sensitive. Calls are billed in six (6) second increments with an initial increment for billing purposes of six (6) seconds. Travel Card calls are billed in six (6) second increments with an initial period, for billing purposes, of thirty (30) seconds.

Customers receive a discount based upon actual billing per month on combined usage of all interstate, intrastate and international calling including calls to directory assistance and made through the use of a Company travel card. Customers who commit to a 12 or 24 month agreement receive an additional discount.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.11 Enterprise Service

Enterprise Service is a dedicated bundled service with switched access overflow. Service includes inbound and outbound calling, a travel card option and access to directory assistance. This service is targeted at business customers with at least $3,000.00 in monthly billing. Customers choosing this service select a rate plan based on anticipated minimum monthly billing for all Customer locations. Customers choosing this service will be billed the difference between actual usage and the minimum should billing in any given month fall below the stated minimum.

Calls are not time-of-day nor mileage sensitive. Calls are billed in six (6) second increments with an initial increment for billing purposes of six (6) seconds. Travel Card calls are billed in six (6) second increments with an initial period, for billing purposes, of thirty (30) seconds.

Customers must commit to a twelve (12) or twenty-four (24) month term. Customers receive a discount based upon actual billing per month on combined usage of all interstate, intrastate and international calling including calls to directory assistance and made through the use of a Company travel card.

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates

A. Business Outbound Standard Service

For billing purposes, call timing is rounded up to the nearest six (6) second increment after the initial minimum period of thirty (30) seconds.

	PEAK	OFF-PEAK
Rate per minute:	$0.1500	$0.1500

B. Business In-Bound "Toll-Free" Service

For billing purposes, call timing is rounded up to the nearest six (6) second increment after the initial minimum period of thirty (30) seconds.

	PEAK	OFF-PEAK
Rate per minute:	$0.1500	$0.1500

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

D. TravelMaster Select Service

Calls are billed in six (6) second increments with a minimum call duration of thirty (30) seconds.

Rate per minute:	$0.2500
Rate per call:	$0.0000

E. Directory Assistance

The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number.

Per call to Directory Assistance: $0.65

F. Debit Card/Prepaid Card Service

Cards are decremented for each minute or fractional minute of use as set forth below. As calls are placed, charges for the call are deducted on a real-time basis until the full amount of the card is exhausted. Customers will be notified in advance of the exhaustion of the card. Payment must be received by the Company or its authorized agent prior to activation of the account.

Rate per minute:	$0.33

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

G. Association Program

To qualify for this program, Association Groups must have sign a minimum of 10 members to CBLD's long distance service and bill a minimum of $250 per month within six months of beginning service with CBLD. Service is provided to qualified Association Groups under contract. This program offers outbound direct dialing, inbound "toll-free" 800/888 service, and travel service. Calls are billed in six (6) second increments after a minimum call duration of thirty (30) seconds.

Per Minute Rate:

Product Type	**PEAK**	**OFF-PEAK**
Outbound	$0.1200	$0.1200
Inbound 800/888	$0.1300	$0.1300
TravelMaster	$0.2500	$0.2500

Directory assistance, per call: $0.50

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

H. Operator Assisted Services

The Company provides the Customer operator services where technically available on a per call service charge basis. The Company's operator services are accessible on a twenty-four (24) hour a day, seven (7) days a week basis. In addition to the usage charges, at least one per-call service charge applies.

Rates

Mileage	**Day**		**Evening**		**Night/Weekend**	
	Initial Minute	Each Add'l Minute	Initial Minute	Each Add'l Minute	Initial Minute	Each Add'l Minute
1 – 10	$0.3000	$0.1800	$0.2400	$0.1440	$0.1800	$0.1080
11 – 16	0.3800	0.2000	0.3040	0.1600	0.2280	0.1200
17 – 22	0.3900	0.2200	0.3120	0.1760	0.2340	0.1320
23 – 30	0.4300	0.2400	0.3440	0.1920	0.2580	0.1440
31 – 40	0.4500	0.2600	0.3600	0.2080	0.2700	0.1560
41 – 55	0.4800	0.2900	0.3840	0.2320	0.2880	0.1740
56 – 85	0.5100	0.3200	0.4080	0.2560	0.3060	0.1920
86 –124	0.5300	0.3400	0.4240	0.2720	0.3180	0.2040
125-244	0.5400	0.3600	0.4320	0.2880	0.3240	0.2160
245-475	0.5500	0.3800	0.4400	0.3040	0.3300	0.2280

Per Call Operator Service Charges

Customer Dialed Calling Card	$1.05	
Operator Dialed Calling Card		$2.10
Operator Station		
Collect		$2.10
Billed to Third Party		$2.17
Person-to-Person	$4.50	
Operator Dialed Surcharge:		$1.00

Issued: ______________ Effective: ______________

By: Karen T. Hanson, National Director - Regulatory Affairs
C III Communications Operations, LLC
1122 Capital of Texas Highway South
Austin, Texas 78746

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

I. Network Plus

For billing purposes, call timing is rounded up to the nearest six (6) second increment after the initial minimum period of six (6) seconds.

Calls are not time-of-day or mileage sensitive. Customers are billed based on actual monthly usage billing. All domestic interstate and intrastate usage contributes to and receives the volume discount.

In addition to the volume discount, Customers may receive an additional discount by signing a term commitment of 24 months or 36 months.

Rates

Per Minute Rates: $0.2500

Volume Discount:

Monthly Billing	Percentage Discount
$0.00 - $49.99	0%
$50.00 - $99.99	5%
$100.00 - $499.99	15%
$500.00 - $999.99	20%
$1000.00 - $2499.99	25%
$2500.00 +	30%

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

I. Network Plus, (Continued)

Term Discount:

24 month term commitment	5%
36 month term commitment	7%

J. Core Business Service

Calls are not time-of-day nor mileage sensitive. Calls are billed in six (6) second increments with an initial increment for billing purposes of six (6) seconds. Travel Card calls are billed in six (6) second increments with an initial period, for billing purposes, of thirty (30) seconds.

Rates

Outbound service	$0.23 per minute
Inbound service	$0.23 per minute
Travel Card service	$0.23 per minute
Directory Assistance	$0.80 per call

Volume and Term Discount Schedule

Billing Volume	Month-to-Month	12 month	24 month
$25.00-$249.99	0.0%	10.0%	15.0%
$250.00-749.99	5.0%	15.0%	20.0%
$750.00+	7.5%	17.5%	22.5%

SECTION 6 - OBSOLETE SERVICE OFFERINGS, (Continued)

6.4 Obsolete Service Offerings Formerly Offered by Cincinnati Bell Long Distance Company, (Continued)

6.4.12 Rates, (Continued)

K. Enterprise Service

Calls are not time-of-day nor mileage sensitive. Calls are billed in six (6) second increments with an initial increment for billing purposes of six (6) seconds. Travel Card calls are billed in six (6) second increments with an initial period, for billing purposes, of thirty (30) seconds.

Rates

	Dedicated	Switched overflow
Outbound service	$0.10 per minute	$0.23 per minute
Inbound service	$0.10 per minute	$0.23 per minute
Travel Card service	$0.23 per minute	$0.23 per minute
Directory Assistance	$0.80 per call	$0.80 per call

Volume and Term Discount Schedule

Billing Commitment	12 month	24 month
$3,000.00	5.0%	10.0%
$6,000.00	10.0%	15.0%
$9,000.00	12.5%	17.5%

SECTION 7 - PROMOTIONS

WDC 327868v1

Broadwing

www.broadwing.com

FOR CUSTOMER SERVICE CALL 1-800-364-2828

Customer Name	Account Number	Group Number	Billing Period	Bill Date	Page
			-		1 of 3

Broadwing can offer you a technically superior network for all your communication needs- internet, voice, data and beyond.

This nationwide network, built from the ground up, was engineered to support growing businesses, expansive technologies and provide one complete communications solution.

Please contact our Customer Care Department for more information on Broadwing's full line of products and services:
Phone (800) 364-2828

If you dispute any portion of this invoice, please call Customer Service at 1-800-422-1199 immediately. Invoices not disputed within 30 days may not be subject to dispute thereafter.

Account Summary	Amount	Total
PREVIOUS BALANCE		
PAYMENTS RECEIVED		0.00
ADJUSTMENTS		0.00

Balance Forward	30.52

Summary of New Charges	
NEW USAGE CHARGES	0.00
RECURRING CHARGES	0.00
NON-RECURRING CHARGES	
OTHER CHARGES AND CREDITS	
SERVICE CHARGES	0.
TAXES	0.

Total New Charges Due		

Total Amount Due

Please detach and return bottom portion with payment- do not fold. THANK YOU! EC101A 09/03/02

Broadwing

1122 Capital of Texas Hwy S
Austin, TX 78746

Bill Close Date	Due
Account/Group #	**Total Amount Due**

To avoid a 1.5% late payment charge, payment must be received by Payment Due Date

PLEASE MAKE CHECK PAYABLE TO:

Broadwing Communications, LLC
P.O. Box 7015
Washington, DC 20500

309004000028034502002112600000046863

67279

Broadwing

FOR CUSTOMER SERVICE CALL 1-800-364-2828

Customer Name	Account Number	Group Number	Billing Period	Bill Date	Page
					2 of 3

CURRENT ACCOUNT ACTIVITY

NON-RECURRING CHARGES:
FUSF RECOVERY SURCHARGE VOICE MRC

TOTAL NON-RECURRING CHARGES:
OTHER CHARGES AND CREDITS:
SURCHARGES:
COMMON CARRIER SUBSCRIPTION
TOTAL SURCHARGES:

TOTAL OTHER CHARGES AND CREDITS:
TAXES:
FEDERAL EXCISE TAX

TOTAL TAXES:

SERVICE CHARGE
TOTAL CURRENT CHARGES

EC01B 7.3.98

Broadwing

FOR CUSTOMER SERVICE CALL 1-800-364-2828

Customer Name	Account Number	Group Number	Billing Period	Invoice Date	Page
					3 of 3

Date	Time	Rate	Call Destination	Number Called	Minutes	Charges

IMPORTANT UPDATE

Broadwing assesses a Federal Universal Service Fund fee of 7.2805% on recurring and non-recurring charges for data telecommunication services, with the exception of Internet services. Broadwing charges a Common Carrier Subscription Charge (CCSC) of $2.54 per switched voice residential lines and $4.67 for switched voice business lines.

Date	Time	Rate	Call Destination	Number Called	Minutes	Charges

D = DAY
SI = STANDARD INTL
T = TRAVEL
X = ORIGINATING NUMBER UNAVAILABLE
E = EVENING
DI = DISCOUNT INTL
I = INTL ORIGINATION
N = NIGHT/WEEKEND
P = PAY PHONE
EI = ECONOMY INTL
M = MULTIPLE RATE PERIOD
* = ORIGINATING NUMBER INDICATED FOR TOLL FREE CALLS
S = PROMOTIONS

67261 ECL002 5.20.99

Broadwing Communications, LLC

Broadwing Communications, LLC
P.O. Box 7015
Washington, DC 20500

	Account No
INVOICE SUMMARY	ACCOUNT SUMMARY
INVOICE NUMBER: INVOICE DATE:	FOR BILLING INQUIRIES:

CURRENT CHARGES AND CREDITS		Phone: (877) 946-4777 Fax: (888) 335-1339	
		Previous Balance:	
Finance Charges:	$0.00	Payments Received:	$0.00
Recurring Charges:		Adjustments:	
Usage Charges:	$0.00	Total Current Charges:	
Non-Recurring Charges:	$0.00		
Discounts:	$0.00		
Taxes:	$0.00	Total Amount Due:	
Total Current Charges:			
		PAYMENT DUE DATE:	

TERMS

Finance charge of 1.5% per month is assessed on unpaid balance after due date.	If a dispute arises as to any portion of this invoice, please pay the undisputed amount of the invoice and send a written description of the disputed amount not later then 30 days from the date of the invoice.

To ensure proper credit, include remittance portion of invoice along with payment.

Broadwing

Please send payment to:

Broadwing Communications, LLC
P.O. Box 7015
Washington, DC 20500

Account Number:
Invoice Date:

Invoice Number:
Payment Due:
Total Amount Due:

The world's first beauti... network.℠

Check here if name, address, or telephone number has changed.
☐

Amount Enclosed: ____________

ADJUSTMENTS DETAIL

Date	Description	Circuit ID	Amount
	Credit Miscellaneous Credit Adj -		
	Credit Miscellaneous Credit Adj -		
	Credit Miscellaneous Credit Adj -		
	Disconnect Credit -		
		Subtotal for Adjustments:	

RECURRING CHARGES

PRIVATE LINE SERVICES PRODUCT LINE

Billing Period	Circuit ID	Customer Circuit ID	City Pair	Description	Service Order	Amount

RECURRING CHARGES

PRIVATE LINE SERVICES PRODUCT LINE

Billing Period	Circuit ID	Customer Circuit ID	City Pair	Description	Service Order	Amount

Subtotal for Private Line Services Product Line (Service Level):

RECURRING CHARGES

PRIVATE LINE SERVICES PRODUCT LINE

Billing Period	Circuit ID	Customer Circuit ID	City Pair	Description	Service Order	Amount

RECURRING CHARGES

FRAME RELAY SERVICES PRODUCT LINE

Billing Period	Circuit ID	Customer Circuit ID	City Pair	Description	Service Order	Amount

Subtotal for Frame Relay Services Product Line (Service Level):

Subtotal for Frame Relay Services Product Line:

Subtotal for Recurring Charges:

Subtotal for Account 211:

Total for This Invoice:

AGREEMENT FOR THE PURCHASE AND SALE OF ASSETS

by and between

the Sellers party hereto

and

the Buyers party hereto

dated as of February 22, 2003

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AGREEMENT FOR THE PURCHASE AND SALE OF ASSETS

THIS AGREEMENT FOR THE PURCHASE AND SALE OF ASSETS is made as of February, 22, 2003 by and between Broadwing Communications Services Inc., a Delaware corporation, Broadwing Communications Services of Virginia, Inc., a Virginia corporation, Broadwing Communications Real Estate Services LLC, a Delaware limited liability company, Broadwing Services LLC, a Delaware limited liability company, IXC Business Services LLC, a Delaware limited liability company, Broadwing Logistics LLC, a Delaware limited liability company, Broadwing Telecommunications Inc., a Delaware corporation, IXC Internet Services, Inc., a Delaware corporation, and MSM Associates, Limited Partnership, a Delaware limited partnership (individually, a "Seller" and collectively, "Sellers"), on the one side, and C III Communications, LLC, a Delaware limited liability company ("C III"), and C III Communications Operations, LLC, a Delaware limited liability company (individually, a "Buyer" and collectively, "Buyers"), on the other side.

RECITALS

A. WHEREAS, Sellers are, among other things, engaged in the Business (as defined herein);

B. WHEREAS, Sellers desire to sell, transfer and assign to Buyers, and Buyers desire to purchase from Sellers, the Business and the Acquired Assets (as defined herein), and Buyers are willing to assume the Assumed Liabilities (as defined herein), in each case as more fully described and upon the terms and subject to the conditions set forth herein;

C. WHEREAS, Sellers, on the one side, and Buyers, on the other side, contemplate entering into the Bill of Sale, the Assignment and Assumption Agreement, each as defined herein, and the other documents and instruments to be executed and delivered to effectuate the transfer of the Acquired Assets and the assumption of the Assumed Liabilities and the other transactions contemplated hereby; and

D. WHEREAS, one or more of Sellers and/or their Affiliates, on the one side, and Buyers, on the other side, contemplate entering into the Help Desk Agreement, the APTIS Software Agreement, the Intercompany Agreements, the Transition Services Agreement, and certain other Collateral Agreements, each as defined herein, among other reasons, to enable Buyers to continue to conduct the Business substantially as currently conducted by Sellers.

NOW, THEREFORE, in consideration of the mutual agreements, covenants, representations and warranties contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions hereinafter set forth, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

AGREEMENT

1. Definitions

1.1 Defined Terms

For the purposes of this Agreement, the following words and phrases shall have the following meanings whenever used in this Agreement (including the Schedules and Exhibits hereto):

"Accounting Firm" has the meaning assigned to it in Section 2.4(e).

"Accounting Firm Determination" shall have the meaning assigned to it in Section 2.4(e).

"Acquired Assets" means, collectively, the Purchased Assets, the Purchased Contracts and Permits and the Transferred Communications Licenses.

"Action" means any action, litigation, claim, suit, mediation, arbitration, inquiry, government or other investigation or proceeding of any nature, whether criminal, civil, legislative, administrative, regulatory, prosecutorial or otherwise, by or before any mediator, arbitrator or Governmental Body or similar Person.

"Adjusted CWC Purchase Price" has the meaning assigned to it in Section 2.4(g).

"Adjustment Receivables" means all Receivables and "Disputes Withheld" and "Disputes Paid Under Protest" included in the accepted cost of services as contemplated by, and calculated in accordance with the principles applied in calculating the Adjustment Receivables as of December 31, 2001 set forth in, Schedule 2.4(h).

"Adjustment Statements" has the meaning assigned to it in Section 2.4(d).

"Affiliate" of any Person means any Person that controls, is controlled by, or is under common control with such Person. As used herein, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise. For purposes of Sections 3.8, 3.9 and 5.2, "Affiliate" also means subsidiaries of the Sellers or any Person in which a Seller holds any equity interest (other than any minority equity interests held solely for investment purposes by any Seller).

"Agreement" means this Agreement for the Purchase and Sale of Assets, as amended, supplemented or otherwise modified in accordance with the terms herein.

"Allocation" has the meaning assigned to it in Section 5.3(b).

"APTIS Software Agreement" has the meaning assigned to it in Section 5.11(b).

"Assets" means any assets and properties, tangible and intangible, including the Business Records, the Personal Property, Seller IP and Seller IPR, used in the conduct of the Business (including all such assets that comprise a part of the Network), other than Contracts, Permits and Communications Licenses.

"Assignment and Assumption Agreement" has the meaning assigned to it in Section 6.2(b).

"Assumed Liabilities" has the meaning assigned to it in Section 2.5(a).

"Balance Sheet" means the statement of assets and liabilities included in the Financial Statements.

"Bankruptcy" means, with respect to a Person, that such Person becomes insolvent or generally fails to pay, or admits in writing its inability to pay, debts as they become due; or such Person applies for, consents to or acquiesces in the appointment of a trustee, receiver or other custodian for such Person or any property thereof, or makes a general assignment for the benefit of creditors; or, in the absence of such application, consent or acquiescence, a trustee, receiver or other custodian is appointed for such Person or for a substantial part of its property and is not discharged within 30 days; or any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution or liquidation proceeding is commenced in respect of any of such Person, and, if such case or proceeding is not commenced by such Person, it is consented to or acquiesced in by such Person or remains for 30 days undismissed or an order for relief is entered in any such involuntary bankruptcy; or such Person takes any corporate action to authorize, or in furtherance of, any of the foregoing.

"BCI" shall mean Broadwing Communications, Inc., a Delaware corporation.

"BCI and Sellers' Guaranties" has the meaning assigned to it in Section 5.20.

"Benefit Plan" means each "employee benefit plan," as defined in Section 3(3) of ERISA (including any "multiemployer plan" as defined in Section 3(37) of ERISA) and each profit-sharing, bonus, stock option, stock purchase, stock ownership, pension, retirement, severance, deferred compensation, excess benefit, supplemental unemployment, post-retirement medical or life insurance, welfare or incentive plan, or sick leave, long-term disability, medical, hospitalization, life insurance, other insurance plan, or other employee benefit plan, program or arrangement, whether written or unwritten, qualified or non-qualified, funded or unfunded, sponsored, maintained or contributed to by Sellers in which any current or former Business Employee participates or with respect to which the Sellers have any liability, with respect to any current or former Business Employee.

"Bill of Sale" has the meaning assigned to it in Section 6.2(a).

"Broadwing Name" shall mean any name that contains or is derived from the words "Broadwing", "Broadwing Communications", "Broadwing Services", any derivatives thereof, or any name intended or likely to be confused or associated with any such words.

"Business" shall mean the businesses currently operated by Sellers of providing data and voice communications services via a national fiber network with multiple protocols to carrier and enterprise customers; provided, that "Business" shall not be deemed to include the Retained Business, any Excluded Asset or any Excluded Liability.

"Business Day" means a day that is not a Saturday, a Sunday or a day on which banks in The City of New York are authorized or required by law, regulation or executive order to remain closed.

"Business Employees" means the (i) employees of BCI or Sellers who work primarily in the Business and who continue to be employees of Sellers working primarily in the Business until and as of the First Stage Closing Date and (ii) employees hired by the Business between the date of this Agreement and the First Stage Closing Date who continue to be employees of BCI or Sellers working primarily in the Business until and as of the First Stage Closing Date.

"Business Records" means, collectively, all business books, records, ledgers and files or other similar business information of Sellers (in any form or medium) related to the Business, except the general ledger (other than the Oracle software on which the general ledger is kept containing a copy of the general ledger), stock ledgers, corporate minute books, litigation files, Tax Returns and other corporate level information and all information with respect to the Excluded Assets, Excluded Liabilities and the Retained Business (collectively, the "Excluded Business Records").

"Buyers" has the meaning assigned to it in the preamble.

"Buyers' Consents" has the meaning assigned to it in Section 4.3(b).

"Buyers' Covenant Failure" shall have the meaning assigned to it in Section 5.7(b).

"Buyers' Parent" means Corvis Corporation, a Delaware Corporation.

"Buyers' Parent Guaranty" has the meaning assigned to it in Section 2.8.

"Buyers' R&W Breach" shall have the meaning assigned to it in Section 5.7(b).

"Cap" shall have the meaning assigned to it in Section 8.3(b).

"C III" has the meaning assigned to it in the preamble.

"C III LLC Agreement" has the meaning assigned to it in Section 5.11(e).

"Circuit Commitments" means those commitments for circuits or local loops of the Business comprising a part of the Network arising from orders placed pursuant to tariffs or master circuit lease agreements with third party vendors such as RBOCs, competitive access providers or competitive local exchange carriers.

"Claim" has the meaning assigned to it in Section 8.2(a).

"Closing Adjustment Receivables" and "Closing Adjustment Receivables Statement" have the meanings assigned to them in Section 2.4(h).

"Closing Adjustment Receivables Pool" means Seven Million Five Hundred Thousand U.S. Dollars ($7,500,000).

"Closing Disagreement Notice" has the meaning assigned to it in Section 2.4(e).

"Closing Working Capital" has the meaning assigned to it in Section 2.4(d).

"Closing Working Capital Statement" has the meaning assigned to it in Section 2.4(d).

"COBRA Coverage" means health continuation coverage as required by Section 4980 of the Code of Part 6 of Title I of ERISA.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral Agreements" means the Bill of Sale, Assignment and Assumption Agreement, Help Desk Agreement, APTIS Software Agreement, Intercompany Agreements, Intellectual Property Rights Assignment Agreement, C III LLC Agreement, Escrow Agreement (Working Capital/Indemnity), Escrow Agreement (Cranberry Adjustment), Escrow Agreement (Closing Adjustment Receivables), Escrow Agreement (Second Stage Closing), Transition Services Agreement, Sellers' Parent Guaranty, Buyers' Parent Guaranty, and the other documents and instruments to be executed and delivered to effectuate the transfer of the Acquired Assets and the assumption of the Assumed Liabilities and the other transactions contemplated hereby, and any other agreement or instrument entered into at or prior to the First Stage Closing Date and/or the Second Stage Closing Date pursuant to the provisions of this Agreement, each as amended, supplemented or otherwise modified in accordance with the terms herein and/or therein.

"Collected Closing Adjustment Receivables I" and "Collected Closing Adjustment Receivables II" have the meanings assigned to them in Section 2.4(h).

"Collected PA Accounts" has the meaning assigned to it in Section 5.22.

"Commitment Letter" has the meaning assigned to it in Section 5.23.

"Communications Act" has the meaning assigned to it in Section 3.3(b).

"Communications Licenses" has the meaning assigned to it in Section 3.5(a).

"Compete" has the meaning assigned to it in Section 5.8.

"Confidential Information" has the meaning assigned to it in Section 5.9.

"Consent" means any consent, action, approval, authorization, waiver or Order.

"Contracts" means all contracts, agreements, leases, subleases, licenses, sublicenses, commitments, assignments and arrangements, whether written or oral.

"Cranberry Plan Adjustment Amount" means an adjustment to the Initial Purchase Price determined in accordance with Exhibit A attached hereto.

"Cranberry Plan Adjustment Statement" has the meaning assigned to it in Section 2.4(d).

"Credit Agreement" shall mean that certain Credit Agreement, dated as of November 9, 1999, amended and restated as of January 12, 2000, and as further amended from time to time, among Cincinnati Bell and IXCS, as the borrowers, Cincinnati Bell as parent guarantor, the Initial Lenders, Initial Issuing Banks and Swing Line Banks, each named and as defined therein, Bank of America, N.A., as syndication agent, Citicorp USA, Inc., as administrative agent, Credit Suisse First Boston and The Bank of New York, as co-documentation agents, PNC Bank, N.A., as agent and Salomon Smith Barney Inc. and Banc of America Securities LLC, as joint lead arrangers, together with all collateral agreements thereto.

"Current Assets" has the meaning assigned to it in Section 2.4(i).

"Current Liabilities" has the meaning assigned to it in Section 2.4(i).

"Customer Contracts" shall have the meaning assigned to it in Section 2.2.

"Easements" means easements, rights of way and similar interests in real property.

"ELI Contract" means that certain Fiber and Construction Lease Agreement, dated February 28, 1999, between IXC Communications Services, Inc. and Electric Lightwave, Inc.

"ELI Dispute" shall have the meaning assigned to it in Section 5.16(c).

"ELI Replacement Fibers" shall have the meaning assigned to it in Section 5.16(c).

"ELI Route" shall have the meaning assigned to it in Section 5.16(c).

"Employment Agreement" means a contract, offer letter or agreement of Sellers with or addressed to any Business Employee pursuant to which Sellers have any actual or contingent liability or obligation to provide compensation or benefits in consideration for past, present or future services, or pursuant to which any Business Employee undertakes confidentiality or non-competition obligations.

"Encumbrance" means any mortgage, pledge, security interest, easement, hypothecation, assignment, lien or other encumbrance.

"Environmental Law or Order" shall mean any Law or Order which relates to or otherwise imposes liability or standards of conduct concerning discharges, emissions, releases or threatened releases of noises, pathogens, odors, pollutants, or contaminants or hazardous or toxic wastes, substances or materials, whether as matter or energy, into air (whether indoors or out), water (whether surface or underground) or land (including any subsurface strata), or otherwise relating to their manufacture, processing, generation, distribution, use, treatment, storage, disposal, cleanup, transport or handling, including the following Laws: Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Superfund Amendments and Reauthorization Act of 1986, as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Toxic Substances Control Act of 1976, as amended, the Federal Water Pollution Control Act Amendments of 1972, the Clean Water Act of 1977, as amended, the National Environmental Policy Act of 1969, and any state provision analogous to any of the foregoing.

"Environmental Liability" means, without limitation, all damages, losses and liabilities (including investigation, cleanup, compliance, enforcement, response and toxic tort liabilities) (whether absolute, contingent, matured, liquidated, accrued, known, or unknown), including fines, penalties, capital expenditures, fees and expenses of any kind or nature whatsoever, including of counsel or consultants, and whether arising out of loss of life, personal injuries, liens or other claims against property or improvements thereon or other obligations of any kind or character, in each case, that relate in arise under any way to Environmental Law or Order or any Hazardous Substance.

"Environmental Permit" shall mean any Permit required by or pursuant to any applicable Environmental Law or Order.

"Environmental Warranties" shall mean the representations and warranties in Section 3.14.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Escrow Agreement (Cranberry Adjustment)" has the meaning assigned to it in Section 5.11(f).

"Escrow Agreement (Closing Adjustment Receivables)" has the meaning assigned to it in Section 5.11(f).

"Escrow Agreement (Second Stage Closing)" has the meaning assigned to it in Section 5.11(f).

"Escrow Agreement (Working Capital/Indemnity)" has the meaning assigned to it in Section 5.11(f).

"Escrow Amount (Closing Adjustment Receivables)" means Three Million Seven Hundred Fifty Thousand U.S. Dollars ($3,750,000).

"Escrow Amount (Cranberry Adjustment)" means Five Million U.S. Dollars ($5,000,000).

"Escrow Amount (Second Stage Closing)" means Twenty-Three Million One Hundred Ten Thousand U.S. Dollars ($23,110,000).

"Escrow Amount (Working Capital/Indemnity)" means Five Million U.S. Dollars ($5,000,000).

"Excluded Assets" has the meaning assigned to it in Section 2.3.

"Excluded Liabilities" has the meaning assigned to it in Section 2.5(c).

"FCC" means the Federal Communications Commission.

"Financial Statements" has the meaning assigned to it in Section 3.9(a).

"First Stage Closing" has the meaning assigned to it in Section 6.1.

"First Stage Closing Date" has the meaning assigned to it in Section 6.1.

"First Stage Customer Contracts" has the meaning assigned to it in Section 2.2(a).

"First Stage Purchased Assets" has the meaning assigned to it in Section 2.1(a).

"First Stage Transferred Communications Licenses" has the meaning assigned to it in Section 2.2(a).

"First Stage Purchased Contracts" has the meaning assigned to it in Section 2.2(a).

"First Stage Purchased Permits" has the meaning assigned to it in Section 2.2(a).

"500K Customers" means any customer of the Business that generated in excess of $500,000 of revenues, as calculated by multiplying twelve (12) times revenues generated from such customer for the month ending November 30, 2002.

"GAAP Exceptions" means the exceptions described on Schedule 3.9(a).

"General Cap" shall have the meaning assigned to it in Section 8.2(f)(ii).

"Generally Accepted Accounting Principles" means United States generally accepted accounting principles applied on a basis consistent with the application of such principles in the preparation of the Financial Statements, but subject to the GAAP Exceptions.

"Governmental Body" means any nation or government, any state or other political subdivision thereof, any legislative, executive or judicial unit or instrumentality of any governmental entity (foreign, federal, state or local) or any department, commission, board, agency, bureau, official or other regulatory, administrative or judicial authority thereof or any entity (including a court or self-regulatory organization) exercising executive, legislative, judicial, Tax, regulatory or administrative functions of or pertaining to government.

"Hazardous Substance" shall mean any material, substance, form of energy or pathogen which (i) constitutes a "hazardous substance", "toxic substance" or "pollutant", "contaminant", "hazardous material", "hazardous chemical", "regulated substance", or "hazardous waste" (as such terms are defined by or pursuant to any Environmental Law) or (ii) is otherwise regulated or controlled by, or gives rise to liability under, any Environmental Law. Without limiting the generality of the foregoing, Hazardous Substance shall include any substance that contains asbestos or petroleum.

"Help Desk Agreement" has the meaning assigned to it in Section 5.11(a).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Taxes" has the meaning assigned to it in Section 5.3(e).

"Indemnified Party" has the meaning assigned to it in Section 8.2(a).

"Indemnifying Party" has the meaning assigned to it in Section 8.2(a).

"Initial Purchase Price" has the meaning assigned to it in Section 2.4(b).

"Intellectual Property" or "IP" shall mean all trade secrets, computer software (including source code, object code and existing user and technical documentation, databases, websites (including the content thereof in electronic form), technology, processes, methodologies, technical information and data, specifications, research materials, designs, drawings and other similar intangible property.

"Intellectual Property Rights" or "IPR" shall mean any right, title or interest in or to any packaging designs or trade dresses, any derivatives or combinations thereof, any patents, patent registrations, patent applications, trademarks, trademark registrations, trademark applications, tradenames, service names, domain names, registrations and applications therefor, copyrights, copyright applications, copyright registrations, trade secrets and inventions.

"Intellectual Property Rights Assignment Agreement" has the meaning assigned to it in Section 5.11(d).

"Intercompany Agreements" has the meaning assigned to it in Section 5.11(c).

"IRS" means the U.S. Internal Revenue Service.

"IRU Portion" has the meaning assigned to it in Section 3. 15.

"Key Employees" has the meaning assigned to it in Section 7.2(d).

"Knowledge" means, in connection with any representation and warranty contained in this Agreement that is expressly qualified by reference to the Knowledge of Sellers or Buyers, with respect to Knowledge of Sellers, the actual knowledge of those persons set forth on Schedule 1.1(a), or, with respect to Knowledge of Buyers, the actual knowledge of those persons set forth on Schedule 1.1(b).

"Law" or "Laws" shall mean any law, statute, ordinance, rule, regulation or code of any Governmental Body.

"Leased Real Property" has the meaning assigned to it in Section 3.11(a).

"Losses" has the meaning assigned to it in Section 8.2(a).

"Material Adverse Effect" means a material adverse effect on the business, operations, assets, condition (financial or other) or results of operations of the Business or the Sellers (taken as a whole) or the Buyers (taken as a whole) as the context requires; provided, that none of the following shall be deemed, either alone or in combination, to constitute a Material Adverse Effect: (i) conditions generally affecting any of the industries or markets in which Sellers or Buyers, as the context requires, operate, (ii) any disruption arising out of the announcement of the transactions contemplated hereby, (iii) the engagement in hostilities by the United States, an escalation in hostilities involving the United States or a declaration of a national emergency or war by the United States or (iv) any change in general economic, political or financial condition of the United States, including, without limitation, as a result of terrorist activities.

"Monthly Statements" has the meaning assigned to it in Section 3.9(a).

"Network" means all Assets, Contracts, Permits and Communications Licenses comprising fiber, cables, ducts, conduit, equipment, the network operating center, software, systems, schematics and diagrams, licenses or other IP, and associated administrative, access and storage equipment and facilities (including without limitation hand holes and space in equipment cages) and other support facilities comprising and/or used in connection with the network, other telecommunications facilities, network management and operations and systems owned and/or operated by Sellers, covering, at a minimum, the routes indicated on the map, the route register, and the points of presence ("POPs") and other network metrics, in each case with respect to such routes, route register and POPs as indicated on Schedule 1.1(e).

"Orders" means any judgment, order (consent or other), writ, stipulation, injunction, ruling (Tax or otherwise), decision or decree of any Governmental Body.

"Overall Cap" shall have the meaning assigned to it in Section 8.2(f)(iii).

"Owned Portion" has the meaning assigned to it in Section 3.15.

"Owned Real Property" has the meaning assigned to it in Section 3.11(a).

"Participating Accounts" means accounts of the Sellers that do not constitute Current Assets for the purposes of Section 2.4, and which are set forth on Schedule 1.1(d).

"party" means a Buyer or a Seller or Buyers or Sellers, as the context requires.

"Permits" means all permits, licenses, certificates, approvals, qualifications, registrations, and similar authorizations issued to Sellers by a Governmental Body related to the Business as currently conducted, including any amendment, modification, limitation, condition or renewal thereof, other than Communications Licenses.

"Permitted Encumbrances" means (i) liens for Taxes not yet due and payable or that are being contested in good faith by appropriate proceedings, (ii) any mechanics', carriers', workmen's, repairmen's or other similar liens arising or incurred in the ordinary course of business not in excess of $100,000, (iii) any liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business, (iv) mortgages, liens, security interests and similar Encumbrances which secure debt that is reflected as a liability on the Financial Statements and the existence of which is expressly indicated in the notes thereto, (v) any imperfections of title which do not, individually or in the aggregate, have a material impact on the ability of Sellers to use the Acquired Assets in the conduct of the Business as currently conducted or on the ability of the Buyer, after the applicable Staged Closing Date, to use the Acquired Assets in the conduct of the Business as currently conducted by Sellers, (vi) any restriction or limitation or other similar Encumbrance included as a term of any of the Purchased Contracts and Permits or Transferred Communications Licenses, and (vii) those Encumbrances that are set forth in Schedule 1.1(c), of which those marked with an asterisk are to be released at or before the applicable Staged Closing Date.

"Person" means any individual, corporation, partnership, limited liability company, limited liability firm, association, joint venture, joint stock company, trust, unincorporated organization or other entity, or any Governmental Body.

"Personal Property" means all fixtures, fiber, fiber rights, vehicles, machinery, equipment, rolling stock, tools, furniture, pallets, phones, office supplies and other items of personal property, related to the Business, whether or not recorded on the books of Sellers.

"Preliminary Adjustment Amount" has the meaning assigned to it in Section 2.4(b).

"Preliminary Disagreement Notice" has the meaning assigned to it in Section 2.4(a).

"Preliminary Working Capital" has the meaning assigned to it in Section 2.4(a).

"Preliminary Working Capital Statement" has the meaning assigned to it in Section 2.4(a).

"Prime Rate" has the meaning assigned to it in Section 2.4(g).

"Purchase Price" has the meaning assigned to it in Section 2.4(g).

"Purchased Assets" has the meaning assigned to it in Section 2.1.

"Purchased Contracts" has the meaning assigned to in Section 2.2(b).

"Purchased Contracts and Permits" has the meaning assigned to it in Section 2.2(b).

"Purchased Permits" has the meaning assigned to it in Section 2.2(b).

"Real Property" has the meaning assigned to it in Section 3.11(a).

"Real Property Leases" has the meaning assigned to it in Section 3.11(a).

"Receivables" means all accounts receivable, including billed and unbilled amounts, which are payable as a result of goods and services provided by Sellers in the conduct of the Business, other than those that comprise Excluded Assets.

"Retained Business" means the business of Broadwing Technology Solutions Inc. that is described on Schedule 1.1(f).

"Revenues Statement" has the meaning assigned to it in Section 5.26.

"Second Stage Closing" has the meaning assigned to it in Section 6.1.

"Second Stage Closing Date" has the meaning assigned to it in Section 6.1.

"Security Agreement" has the meaning assigned to it in Section 5.11(j).

"Seller IP" shall mean all IP used by Sellers primarily in their conduct of the Business and comprises (a) all such IP that is owned by Sellers ("Seller Owned IP") and (b) all such IP which is licensed to Seller ("Seller Licensed IP"), as generally described on Schedule 2.2.

"Seller IPR" shall mean all IPR used by Sellers primarily in their conduct of the Business and comprises (a) all such IPR that is owned by Sellers ("Seller Owned IPR") and as set forth on Schedule 2.2, and including, without limitation, the business name, brand name, trade name, trademark, service mark, logo and domain name "Broadwing" and any business name, brand name, trade name, trademark, service mark and domain name that includes the word "Broadwing" and any and all derivatives thereof, and (b) all such IPR which is licensed to Seller ("Seller Licensed IPR"), as generally described on Schedule 2.2.

"Sellers" has the meaning assigned to it in the preamble hereof.

"Sellers' Consents" has the meaning assigned to it in Section 3.3(b).

"Sellers' Covenant Failure" shall have the meaning assigned to it in Section 5.7(a).

"Sellers' Parent" means Broadwing Inc., an Ohio corporation.

"Sellers' Parent Guaranty" has the meaning assigned to it in Section 2.8.

"Sellers' R&W Breach" shall have the meaning assigned to it in Section 5.7(a).

"Staged Closing Dates" means, collectively, the First Stage Closing Date and the Second Stage Closing Date.

"State Licenses" has the meaning assigned to it in Section 3.5(a).

"State PUCs" means state public service and utility commissions or similar Governmental Bodies.

"Statements" has the meaning assigned to it in Section 3.9(a).

"Tax Returns" means all returns and reports (including elections, declarations, disclosures, schedules, estimates and information returns) required to be supplied to a Tax authority or any Person relating to Taxes.

"Tax Warranties" shall mean the representations and warranties in Sections 3.7(c), 3.7(d) and 3.12.

"Taxes" mean all taxes of any kind, charges, fees, customs, levies, duties, imposts, required deposits or other assessments, including all net income, capital gains, gross income, gross receipt, property, franchise, sales, use, excise, withholding, payroll, employment, social security, worker's compensation, unemployment, occupation, capital stock, ad valorem, value added, transfer, gains, profits, license, net worth, asset, transaction, and other taxes, imposed upon any Person by any Law, Order or Governmental Body, together with any interest and any penalties, or additions to tax, with respect to such taxes.

"Territory" has the meaning assigned to it in Section 5.8.

"Third Party" means any Person other than, and not an Affiliate of, the other referenced Person or Persons.

"Third Party Claim" has the meaning assigned to it in Section 8.3(a).

"Title and Authorization Warranties" shall mean the representations and warranties in Sections 3.1, 3.2, 3.4(a), 4.1 and 4.2.

"Total Escrow Amount" has the meaning assigned to it in Section 2.4(b).

"Transfer Date" has the meaning assigned to it in Section 5.4(a).

"Transferred Employee" has the meaning assigned to it in Section 5.4(a).

"Transition Services Agreement" has the meaning assigned to it in Section 5.11(g).

"Two Stage Waiver Notice" shall have the meaning assigned to it in Section 6.1.

"Working Capital" has the meaning assigned to it in Section 2.4(i).

"9% Notes" shall mean the 9% Senior Subordinated Notes due 2008 of BCI.

"12 ½% Preferred Stock" shall mean the 12 ½ % Preferred Stock of BCI.

"Senior Notes" shall mean the 12 ½% Senior Notes of BCI.

1.2 Other Definitional and Interpretive Matters

Unless otherwise expressly provided, for purposes of this Agreement and the Collateral Agreements, the following rules of interpretation shall apply:

(a) Calculation of Time Period. When calculating the period of time before which, within which or following which any act is to be done or step taken, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

(b) Gender and Number. Any reference to gender shall include all genders, and words imparting the singular number only shall include the plural and vice versa.

(c) Headings. The provision of a Table of Contents, the division into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement and the Collateral Agreements. All references in this Agreement to any "Section" are to the corresponding Section of this Agreement, the Collateral Agreement or the other agreement in which such Section occurs (unless otherwise specified).

(d) Herein. The words such as "herein," "hereinafter," "hereof," "hereunder," "therein," "thereof" and "thereunder" refer to this Agreement, the Collateral Agreement or the other agreement to which such reference is made, as a whole and not merely to a subdivision in which such words appear (unless the context otherwise requires).

(e) Including. The word "including" or any variation thereof means "including without limitation" and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

(f) Schedules and Exhibits. The Schedules and Exhibits attached to each of this Agreement and the Collateral Agreements shall be construed with and as an integral part of this Agreement and the Collateral Agreements, respectively, to the same extent as if the same had been set forth verbatim herein and therein. Disclosure in any of the Schedules provided pursuant to Article 3 or Article 4 shall be deemed to be disclosure on every other Schedule so provided in which it may be relevant, if the disclosure of any matter in a Schedule other than in the relevant Schedule provides the other party with sufficiently full disclosure such that the party should reasonably be expected to know that the matter disclosed was applicable to the disclosure contained in the relevant Schedule. By listing matters on the Schedules, neither Sellers nor Buyers shall be deemed to have established any materiality standard, admitted any liability, or concluded that any one or more of such matters are material, or expanded in any way the scope or effect of the representations and warranties of Sellers or Buyers, as applicable, contained in this Agreement.

2. Purchase and Sale of the Assets

2.1 Purchased Assets

(a) First Stage Closing. Upon the terms and subject to the conditions of this Agreement, at and as of the First Stage Closing Date, Sellers shall sell and transfer, assign, convey and deliver to Buyers, and Buyers shall purchase, acquire and accept from Sellers, all of the Sellers' right, title and interest in, to and under, all of the Assets for which the sale, transfer, assignment, conveyance and delivery do not require FCC or State PUC Consents or for which FCC and State PUC Consents have been obtained, but excluding the Excluded Assets (collectively, the "First Stage Purchased Assets"), including the Assets listed on Schedule 2.1 (but only to the extent FCC and State PUC Consents are not required or have been obtained). In addition, as FCC and State PUC Consents (up to the last required FCC and State PUC Consent) necessary to sell, transfer, assign and convey to Buyers any Assets are obtained, such

Assets shall be deemed so sold, transferred, assigned and conveyed and to constitute "First Stage Purchased Assets" as of the date obtained.

(b) Second Stage Closing. Upon the terms and subject to the conditions of this Agreement, Sellers shall sell and transfer, assign, convey and deliver to Buyers, and Buyers shall purchase, acquire and accept from Sellers, all of Sellers' right, title and interest in, to and under, each remaining Asset not transferred pursuant to the First Stage Closing, but excluding the Excluded Assets (collectively, with the First Stage Purchased Assets, the "Purchased Assets"), including the remaining Assets listed on Schedule 2.1, when and as the last FCC and State PUC Consent(s) required to sell, transfer, assign, convey and deliver such Assets are obtained.

2.2 Assignment of Contracts and Permits

(a) First Stage Closing. Upon the terms and subject to the conditions of this Agreement, at and as of the First Stage Closing Date, Sellers shall assign and transfer to Buyers all of Sellers' right, title and interest in and to, and Buyers shall take assignment of all of the following (as to which FCC and State PUC Consents are not required or have been obtained): (a) all of the Contracts related to the Business (including, without limitation, the Network) to which one or more Sellers is a party, excluding Contracts that comprise Excluded Assets, but including all of the Contracts with customers of the Business ("First Stage Customer Contracts"), the Employment Agreements set forth on Schedule 3.8(a) to the extent the Business Employee under such an Employment Agreement executes and delivers to Buyers a Commitment Letter and becomes a Transferred Employee and all of the other Contracts listed on Schedule 2.2 (collectively, including the First Stage Customer Contracts, the "First Stage Purchased Contracts"), (b) all of the Permits of Sellers related to the Business, (including, without limitation, the Network) set forth on Schedule 2.2 which are transferable, excluding Permits that comprise Excluded Assets, but including the Permits listed on Schedule 2.2 (collectively, the "First Stage Purchased Permits"); and (c) the Communications Licenses of Sellers related to the Business (including, without limitation, the Network) that are transferable, excluding Communications Licenses that comprise Excluded Assets (collectively, the "First Stage Transferred Communications Licenses"). In addition, when and as the FCC and State PUC Consents (up to the last required FCC and PUC Consent) necessary to assign and transfer to Buyers all of Sellers' right, title and interest in and to all Contracts, Permits and Communications Licenses described in the preceding clauses (a), (b) and (c), respectively, are obtained, all such items shall be deemed so assigned and transferred to Buyers and to constitute "First Stage Purchased Contracts", "First Stage Purchased Permits" and "First Stage Transferred Communications Licenses", respectively, as of the date obtained.

(b) Second Stage Closing. Upon the terms and subject to the conditions of this Agreement, when and as the last FCC and State PUC Consent(s) required to assign and transfer the following are obtained, Sellers shall assign and transfer to Buyers all of Sellers' right, title and interest in and to, and Buyers shall take assignment of all of the following: (a) all of the remaining Contracts related to the Business to which one or more Sellers is a party, excluding Contracts that comprise Excluded Assets, but including all of the remaining Contracts with customers of the Business (collectively, with the First Stage Customer Contracts, the "Customer Contracts") and all of the other remaining Contracts listed on Schedule

2.2 (collectively, including the Customer Contracts, with the First Stage Purchased Contracts, the "Purchased Contracts"); (b) all of the remaining Permits of Sellers related to the Business set forth on Schedule 2.2 which are transferable, excluding Permits that comprise Excluded Assets, but including the remaining Permits listed on Schedule 2.2 (collectively, with the First Stage Purchased Permits, the "Purchased Permits"; and together with the Purchased Contracts, the "Purchased Contracts and Permits"); and (c) the remaining Communications Licenses of Sellers related to the Business that are transferable, excluding Communications Licenses that comprise Excluded Assets (collectively, with the "First Stage Transferred Communications Licenses", the "Transferred Communications Licenses").

2.3 Excluded Assets

Notwithstanding Sections 2.1 and 2.2, Sellers shall not sell or transfer, assign, convey or deliver, and Buyers shall not assume or acquire any interest in, any Assets, Contracts, Permits or Communications Licenses that are listed on Schedule 2.3 (the "Excluded Assets").

2.4 Purchase Price

(a) (i) On or before fifteen (15) days before the First Stage Closing Date, Sellers shall deliver to Buyers a statement (the "Preliminary Working Capital Statement"), setting forth the Working Capital as of the close of business on the last day of the immediately preceding month. The Preliminary Working Capital Statement shall be prepared by the Sellers in accordance with the terms of this Agreement.

(ii) During the ten (10) day period following Buyers' receipt of the Preliminary Working Capital Statement, Sellers shall provide access to the Business Records and Business Employees and provide Buyers' independent accountants with such access, upon reasonable prior notice and during normal business hours, to the work papers of Sellers as is reasonably necessary to verify the calculation of the Working Capital. The Preliminary Working Capital Statement shall be final and shall be accepted by and be binding on the parties on the tenth (10th) day following delivery thereof unless Buyers give written notice to Sellers of its disagreement with the Preliminary Working Capital Statement (such notice, a "Preliminary Disagreement Notice") prior to such date. Any Preliminary Disagreement Notice shall specify in reasonable detail the nature of any disagreement so asserted. If a Preliminary Disagreement Notice is received by Sellers on or prior to such date, then the Preliminary Working Capital Statement (as revised in accordance with clause (iii) below) shall become final and binding upon each Seller and each Buyer on the date Sellers and Buyers resolve in writing any differences they have with respect to the matters specified in such Preliminary Disagreement Notice.

(iii) During the two (2) day period following delivery of a Preliminary Disagreement Notice, Sellers and Buyers shall seek in good faith to resolve in writing any differences which they may have with respect to the matters set forth in such Preliminary Disagreement Notice. If any disagreement included in the Preliminary Disagreement Notice is not resolved in writing within such two (2) day period, the amount of the Working Capital shall be equal to the amount that was not the subject of the Preliminary Disagreement Notice plus any additional amount that Sellers and Buyers have mutually agreed upon (as set forth in the Preliminary Working Capital Statement and adjusted, if necessary pursuant to this Section 2.4(a), the "Preliminary Working Capital").

(b) In consideration of the sale, transfer, assignment, conveyance and delivery by Sellers of the Business and the Acquired Assets, Buyers shall (i) (A) pay Ninety-Two Million Four Hundred Forty Thousand U.S. Dollars ($92,440,000) in cash to Sellers at the First Stage Closing Date which amount shall be either (1) increased by an amount, if any, by which the Preliminary Working Capital is greater than $0 or (2) reduced by an amount, if any, by which Preliminary Working Capital is less than $0 (the amount in the preceding clause (1) or clause (2), whichever is applicable, the "Preliminary Adjustment Amount"), (B) place the Escrow Amount (Second Stage Closing) in an interest bearing escrow account in which it will be held pursuant to the terms of the Escrow Agreement (Second Stage Closing) to support Buyers' obligation to pay the amount Buyers' are obligated to pay at the Second Stage Closing, (C) place the Escrow Amount (Working Capital/Indemnity) in an interest bearing escrow account in which it will be held pursuant to the terms of the Escrow Agreement (Working Capital/Indemnity) to support Sellers' obligations to pay any amount required to be paid by Sellers under Section 2.4(g) regarding the difference between Closing Working Capital and Preliminary Working Capital and Sellers' indemnification obligations in accordance with Article 8, (D) place the Escrow Amount (Cranberry Adjustment) in an interest bearing account in which it will be held pursuant to the terms of the Escrow Agreement (Cranberry Adjustment) to support Sellers' obligation to pay amounts, if any, required to be paid by Sellers under Section 2.4(g) regarding the Cranberry Plan Adjustment Amount, and (E) place the Escrow Amount (Closing Adjustment Receivables) in an interest bearing account in which it will be held pursuant to the terms of the Escrow Agreement (Closing Adjustment Receivables) to support Sellers' obligation to pay amounts, if any, required to be paid by Sellers under Section 2.4(h) and (ii) assume the First Stage Assumed Liabilities. The amount in Section 2.4(b)(i)(A), as adjusted by the Preliminary Adjustment Amount plus the Escrow Amount (Working Capital/Indemnity), the Escrow Amount (Cranberry Adjustment) and the Escrow Amount (Closing Adjustment Receivables) (the three such escrow amounts in the preceding clauses (C), (D) and (E) referred to herein collectively as the "Total Escrow Amount") constitutes the "Initial Purchase Price".

(c) All payments of the Purchase Price, except for the Total Escrow Amount, shall be made by wire transfer in immediately available funds to an account designated by Sellers in written instructions to be delivered to Buyers on or prior to the payment date.

(d) Within thirty (30) days after the First Stage Closing Date, Sellers shall deliver to Buyers a statement (the "Closing Working Capital Statement"), setting forth the Working Capital as of the close of business on the First Stage Closing Date (the "Closing Working Capital") and a Cranberry Plan Adjustment Statement (the "Cranberry Plan Adjustment Statement") setting forth the Cranberry Plan Adjustment Amount. The Closing Working Capital Statement and the Cranberry Plan Adjustment Statement shall be referred collectively to as the "Adjustment Statements". The Adjustment Statements shall be prepared by the Sellers, and the Sellers' independent accountants shall provide an attestation thereof, in accordance with the terms of this Agreement. The Cranberry Plan Adjustment Statement shall apply the principles and will be calculated consistently with the model Cranberry Plan Adjustment Statements attached as Annex I to Exhibit A hereto.

(e) During the thirty (30) day period following Buyers' receipt of the Adjustment Statements, Sellers shall provide access to the Business Records and Business Employees and shall cause Sellers' independent accountants to provide Buyers' independent accountants with such access, upon reasonable prior notice and during normal business hours, to the work papers of Sellers' independent accountants as is reasonably necessary to verify the calculation of the Closing Working Capital and the Cranberry Plan Adjustment Amount. The Adjustment Statements shall be final and shall be accepted by and be binding on the parties on the thirtieth (30th) day following delivery thereof unless Buyers give written notice to Sellers of their disagreement with the Adjustment Statements (such notice, a "Closing Disagreement Notice") prior to such date. Any Closing Disagreement Notice shall specify in reasonable detail the nature of any disagreement so asserted. If a Closing Disagreement Notice is received by Sellers on or prior to such date, then the Adjustment Statements (as revised in accordance with Section 2.4(f)) shall become final and binding upon each Seller and each Buyer, on the earlier of (1) the date Sellers and Buyers resolve in writing any differences they have with respect to the matters specified in such Closing Disagreement Notice and (2) the date that a nationally or regionally recognized independent accounting firm mutually agreed upon by Sellers and Buyers (the "Accounting Firm") delivers to the Sellers and Buyers its written determination of all disputed matters submitted to it pursuant to Section 2.4(f) (the "Accounting Firm Determination").

(f) During the thirty (30) day period following delivery of a Closing Disagreement Notice, Sellers and Buyers shall seek in good faith to resolve in writing any differences which they may have with respect to the matters set forth in such Closing Disagreement Notice. If any disagreement included in the Closing Disagreement Notice is not resolved in writing within such thirty (30) day period, Sellers and Buyers shall submit to the Accounting Firm for review and determination of any and all matters which remain in dispute. The scope of the Accounting Firm's review shall be limited to only those matters which have not been resolved in writing within such thirty (30) day period. Sellers and Buyers shall use all reasonable efforts to cause the Accounting Firm to deliver the Accounting Firm Determination within thirty (30) days of the receipt of such submission. Sellers and Buyers agree that the Accounting Firm Determination shall be final and binding on the parties and that judgment may be entered upon the Accounting Firm Determination in any court having jurisdiction over the party against which such Determination is to be enforced. The Accounting Firm Determination shall be accompanied by a certificate of the Accounting Firm that it reached the Accounting Firm Determination in accordance with the provisions of this Section 2.4. The cost incurred in connection with the Accounting Firm Determination (including the fees and expenses of the Accounting Firm and of any enforcement of the Accounting Firm Determination) pursuant to this Section 2.4 shall be borne by Buyers and Sellers in inverse proportion as they may prevail on matters resolved by the Accounting Firm, which proportionate allocation shall be calculated on an aggregate basis based on the relative dollar values of the amounts in dispute and shall be determined by the Accounting Firm at the time the Accounting Firm Determination is rendered on the merits of the matter submitted.

(g) The Initial Purchase Price shall be (i) increased by the amount, if any, by which the Closing Working Capital, as finally determined pursuant to this Section 2.4, exceeds the Preliminary Working Capital, and (ii) decreased by (x) the amount of any Cranberry Plan Adjustment Amount, as finally determined pursuant to this Section 2.4, and (y) the amount, if any, by which the Closing Working Capital, as finally determined pursuant to this Section 2.4, is less than the Preliminary Working Capital (the Initial Purchase Price as so increased or decreased shall hereinafter be referred to as the "Adjusted CWC Purchase Price"). Within five (5) Business Days after the Closing Working Capital and the Cranberry Plan Adjustment Amount have been finally determined in accordance with this Section 2.4, (I) if the Closing Working Capital is in excess of the Preliminary Working Capital, Buyers shall pay to Sellers an amount equal to such excess, together with interest thereon at a rate per annum equal to the rate of interest from time to time publicly announced by Citibank, N.A., in its New York office as its prime or base rate (the "Prime Rate"), calculated on the basis of the actual number of days elapsed over 365 from the date of delivery of the Closing Working Capital Statement pursuant to Section 2.4(d) to the date of payment, (II) if the Closing Working Capital is less than the Preliminary Working Capital, Buyers shall receive from the Escrow Amount (Working Capital/Indemnity) pursuant to the Escrow Agreement (Working Capital/Indemnity), and from Sellers to the extent such Escrow Amount (Working Capital/Indemnity) is insufficient, an amount equal to such deficit, together with interest thereon at the Prime Rate, calculated on the basis of the actual number of days elapsed over 365 from the date of delivery of the Closing Working Capital Statement pursuant to Section 2.4(d) to the date of payment and (III) if there is a Cranberry Plan Adjustment Amount owing from Sellers to Buyers, Buyers shall receive from the Escrow Amount (Cranberry Adjustment) pursuant to the Escrow Agreement (Cranberry Adjustment) and, to the extent the Escrow Amount (Cranberry Adjustment) is insufficient, at Buyers' election, from Sellers or from any remaining Escrow Amount (Working Capital/Indemnity), an amount equal to the Cranberry Plan Adjustment Amount, together with interest thereon calculated as set forth in the preceding clause; and any remaining funds in the Escrow Amount (Cranberry Adjustment) shall be returned to Sellers pursuant to the terms of the Escrow Agreement (Cranberry Adjustment). Payments in respect of this Section 2.4 shall be made by wire transfer in immediately available funds to an account that is designated by the party entitled to payment at least two (2) Business Days prior to the date of payment.

(h) (i) Within one-hundred twenty (120) days after the First Stage Closing, Buyers shall provide to Sellers a statement showing all of the Adjustment Receivables that were included in Current Assets or Current Liabilities on the Closing Working Capital Statement (collectively, the "Closing Adjustment Receivables"), and stating the amount of the Closing Adjustment Receivables that have been collected by Buyers and by Sellers (and remitted to and received by Buyers, or credits have been issued to Buyers) as of ninety (90) days after the First Stage Closing Date (collectively, the "Collected Closing Adjustment Receivables I"). Buyers shall collect the Closing Adjustment Receivables in the ordinary course of business and according to the past practices of the Business. Buyers shall deliver monthly financial information detailing the collections (and any dispute credits issued) described herein.

a. In the event the Closing Adjustment Receivables are in excess of the Collected Closing Adjustment Receivables I and such excess is less than the

Escrow Amount (Closing Adjustment Receivables), Seller shall not at that time be obligated to pay to Buyers the amount of such excess.

b. In the event there is an excess of Closing Adjustment Receivables over the Collected Closing Adjustment Receivables I and such excess is also in excess of the Escrow Amount (Closing Adjustment Receivables), Sellers shall pay to Buyers an amount of the excess of the Closing Adjustment Receivables over the Collected Closing Adjustment Receivables I (up to the maximum amount of the Closing Adjustment Receivables Pool), within five (5) Business Days. In the event Sellers do not make such payment, Buyers shall be entitled to withdraw such payment from the Escrow Amount (Closing Adjustment Receivables), and Sellers shall continue to be liable for the amount, if any, of such required payment in excess of the Escrow Amount (Closing Adjustment Receivables), as well as interest on the amount of the Escrow Amount (Closing Adjustment Receivables) so withdrawn and any such excess at the Prime Rate.

(ii) Within one-hundred eighty (180) days after the First Stage Closing, Buyers shall provide to Sellers a statement showing all of the Closing Adjustment Receivables, and stating the amount of the Closing Adjustment Receivables that have been collected by Buyers and by Sellers (and remitted to and received by Buyers) as of one-hundred fifty (150) days after the First Stage Closing Date (collectively, the "Collected Closing Adjustment Receivables II"). In the event the Closing Adjustment Receivables are in excess of the Collected Closing Adjustment Receivables II, Sellers and Buyers shall effect a true-up that results in the receipt by Buyers, in the aggregate, pursuant to Section 2.4(h)(i) and (ii) of an amount equal to such excess (up to the maximum amount of the Closing Adjustment Receivables Pool) plus any interest payable by Sellers under Section 2.4(h)(i)(b), (x) with any additional amount that is to be paid by Sellers to Buyers to come first from the Escrow Amount (Closing Adjustment Receivables) and, to the extent the Escrow Amount (Closing Adjustment Receivables) is insufficient, then from the Sellers, in each case within five (5) Business Days and (y) any repayment to be made by Buyers to Sellers to be within five (5) Business Days (it being understood and agreed that any such repayment shall not exceed the payment received by Buyers under Section 2.4(h)(i)(b)).

(iii) Illustrations of the operation ~~at this~~ ~~Section 2.4(h)~~ are ~~shown in~~ Schedule 2.4(h)(iii).

(i) The term "Working Capital" shall mean Current Assets minus Current Liabilities. The term "Current Assets" means, with respect to the Business, Receivables less reserves and allowances for Receivables determined in accordance with Generally Accepted Accounting Principles as consistently applied with historical methods, inventory, materials and supplies and prepaid expenses which accrue or will accrue to the benefit of Buyers, vendor and real estate deposits and costs incurred and not billed related to reimbursable projects for Governmental Bodies, and the term "Current Liabilities" means accounts payable-trade, accrued cost of service, accrued liabilities, short and long term capital lease liabilities, advance billings and customer deposits, accrued vacation liability as required in Section 5.4(f) and minority interest, in each case with respect to the Business and calculated in accordance with the principles applied in calculating the Working Capital for the Business as of December 31, 2002, attached hereto as Schedule 2.4(i) and with Generally Accepted Accounting Principles (except as otherwise provided on Schedule 2.4(i)). Notwithstanding anything in this Agreement to the contrary, Working Capital shall not include any Excluded Assets or Excluded Liabilities.

(j) At the Second Stage Closing, the Escrow Amount (Second Stage Closing) shall be released to Sellers pursuant to the Escrow Agreement (Second Stage Closing) and the sum of the Adjusted CWC Purchase Price and such Escrow Amount shall constitute the "Purchase Price".

2.5 Assumed Liabilities

(a) Upon the terms and subject to the conditions in this Agreement, at and as of the First Stage Closing Date, Sellers shall assign, and Buyers shall assume and agree to honor, pay and discharge when due, all of the following liabilities and obligations of Sellers: (i) the obligations under the First Stage Purchased Contracts, First Stage Purchased Permits and the First Stage Transferred Communications Licenses, to the extent arising out of, or resulting from, facts, events and circumstances occurring, or which accrue, after the First Stage Closing Date (other than due to any failure to comply or breach of any of Sellers or any of their Affiliates, whether before, on or after the First Stage Closing Date); (ii) all liabilities reflected on the balance sheet of the Business on the First Stage Closing Date that are included as Current Liabilities in the calculation of Working Capital; provided that to the extent Sellers fail to make any payment provided for in Section 2.4(g)(II) the amount equal to the amount of any such deficiency shall not be assumed by Buyers as an Assumed Liability; (iii) all Circuit Commitments to the extent arising out of, or resulting from, facts, events and circumstances occurring, or which accrue, after the First Stage Closing Date (other than due to any failure to comply or breach of any of Sellers or any of their Affiliates, whether before, on or after the First Stage Closing Date); and (iv) those liabilities and obligations listed on Schedule 2.5(a), in each case except any Excluded Liabilities (collectively, the "First Stage Assumed Liabilities"); provided, that with respect to First Stage Purchased Contracts, First Stage Purchased Permits and First Stage Transferred Communications Licenses that are conveyed pursuant to the last sentence of Section 2.2(a), such items will constitute First Stage Assumed Liabilities as of the applicable conveyance date(s).

(b) Upon the terms and subject to the conditions in this Agreement, at and as of (a) the Second Stage Closing Date, Sellers shall assign, and Buyers shall assume and agree to honor, pay and discharge when due, all of the following liabilities and obligations of Sellers: the obligations under the Second Stage Purchased Contracts, Second Stage Purchased Permits and the Second Stage Transferred Communications Licenses, to the extent arising out of, or resulting from, facts, events and circumstances occurring, or which accrue, after the Second Stage Closing Date (other than due to any failure to comply or breach of any of Sellers or any of their Affiliates, whether before, on or after the Second Stage Closing Date), in each case except any Excluded Liabilities (collectively, the "Second Stage Assumed Liabilities" and, collectively with the First Stage Assumed Liabilities, the "Assumed Liabilities").

(c) The Assumed Liabilities shall not include any liabilities or obligations of Sellers which are not described in Sections 2.5(a) and (b), including without limitation those liabilities and obligations that are listed on Schedule 2.5(c) (the "Excluded Liabilities"), it being understood that the Second Stage Assumed Liabilities shall constitute Excluded Liabilities until the occurrence of the Second Stage Closing.

2.6 No Offset

Except for the determinations of Purchase Price set forth in Section 2.4, Buyers' and Sellers' obligations under Sections 2.4 and 2.5 shall not be subject to offset or reduction for any reason, including by reason of any actual or alleged breach of any representation, warranty or covenant contained in this Agreement or any of the Collateral Agreements or any right or alleged right to indemnification hereunder or thereunder.

2.7 Further Assurances; Further Conveyances and Assumptions; Consent of Third Parties

(a) Subject to the specific terms and conditions hereof, Sellers and Buyers agree to use reasonable best efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated hereby. Sellers will from time to time subsequent to the applicable Staged Closing Date, at Buyers' request and assistance as necessary, execute and deliver such other instruments of conveyance, assignment and transfer and take such other actions as Buyers may reasonably request in order more effectively to convey, assign, transfer to and vest in Buyers the Acquired Assets, subject to any restrictions under applicable Law. Buyers and Sellers will work together from the date of this Agreement to and following the applicable Staged Closing Date to transfer electronic data and records and accounting and personnel information related to the Business and similar information that are being transferred in connection with the Business and the Acquired Assets. Buyers will from time to time subsequent to the applicable Staged Closing Dates, at Sellers' request, execute and deliver such other instruments of conveyance, assignment and transfer and take such other actions as Sellers may reasonably request in order more effectively to accomplish the assumption of the related Assumed Liabilities.

(b) Anything in this Agreement or the Collateral Agreements to the contrary notwithstanding, neither this Agreement nor the Collateral Agreements shall constitute an attempt or agreement to sell, assign, sublease, sublicense or assume any Acquired Asset, including without limitation, any Contract, Permit or Communications License or Business Record or any claim or right or any benefit or obligation thereunder or resulting therefrom, if a sale, assignment, sublease, sublicense or assumption thereof would violate any Law or Order or, without the Consent of a Third Party thereto or a Governmental Body, would constitute a breach or violation of such Acquired Asset and if such a Consent is not obtained at or prior to the applicable Staged Closing Date. (Notwithstanding the prior sentence, Sellers' representations and warranties, covenants and agreements regarding Acquired Assets shall include any Assets (other than Excluded Assets), Contracts or Permits or Communications Licenses that would constitute Acquired Assets but for the fact that a Consent is required to sell, assign, sublease, sublicense, or assume such Assets, Contracts or Permits or Communications Licenses.) Sellers shall use reasonable best efforts, and Buyers shall reasonably cooperate with Sellers, to obtain such prior Consents and to resolve the impediments to the sale, assignment, sublease, sublicense or assumption required by this Agreement or the Collateral Agreements; provided, that Sellers shall not be required to pay any fees or make any other concessions to any Person in order to obtain any Consents other than those listed on Schedule 3.3(b) in response to Sections 3.3(b)(ii) and (iii). In the event any such Consents are not obtained on or prior to the applicable Staged Closing Date, Sellers shall continue to use reasonable best efforts to obtain any such Consents after the applicable Staged Closing Date, and Sellers shall reasonably cooperate with Buyers (at Buyers' request) in any lawful and economically feasible arrangement to provide that Buyer shall receive the interest of Sellers in the benefits under any such Asset, Contract or Permit which require Consent to sell, assign, sublease, sublicense, or assume such Asset, Contract or Permit, including performance by Sellers, as agent, if economically feasible; provided, that Buyers shall undertake to pay or satisfy the corresponding liabilities for the enjoyment of such benefit to the extent Buyers would have been responsible therefor hereunder if such Consent had been obtained; provided, further that Sellers shall not be required to pay any fees or make any other concessions to any Person in order to obtain any Consents other than those listed on Schedule 3.3(b) in response to Sections 3.3(b) (ii) and (iii). Upon the receipt of any such Consent(s) after the applicable Staged Closing Date, the relevant Asset(s), Contract(s) and/or Permit(s) and/or Communications License(s) shall constitute Acquired Assets. During such time as the parties are attempting to obtain Consents to assignment or assumption of any Contracts hereunder following the applicable Staged Closing Date (including, any Contract that required a Consent of a court for Sellers to perform services or receive compensation under the Contract), if, and to the extent that, Buyers are unable to provide services under any such Contract (including, by virtue of the fact that a court does not provide its Consent to Sellers ceasing to perform services under the Contract or otherwise), Sellers may, notwithstanding anything to the contrary herein, continue to do so, if they so elect, and receive their customary fees and expenses thereunder, or if Sellers are unable to do so for any reason (and Buyers are not able for any reason to perform the work being performed by the Seller), Sellers may terminate or withdraw from the Contract where necessary to avoid material Losses (unless Buyers agree to indemnify, defend and hold harmless Sellers under Section 8.2(c)).

2.8 Delivery of Guaranties

Simultaneously with the execution and delivery of this Agreement, (i) Buyers' Parent is executing and delivering a guaranty to Sellers, the form of which is attached hereto as Exhibit B (the "Buyers' Parent Guaranty"), and (ii) Sellers' Parent is executing and delivering to Buyers a guaranty, the form of which is attached hereto as Exhibit C (the "Sellers' Parent Guaranty").

3. Representations and Warranties of Sellers

Sellers hereby jointly and severally represent and warrant to Buyers as follows:

3.1 Organization and Qualification

Each Seller is a corporation, limited partnership or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all requisite power and authority to carry on the Business as currently conducted and to own, lease or license and operate the Acquired Assets owned, leased or licensed by it as currently operated. Sellers are licensed or qualified to do business and are in good standing as foreign corporations in each jurisdiction set forth on Schedule 3.1. Except as set forth on Schedule 3.1, no Seller owns any capital stock or other equity interest in any Person. Except as set forth on Schedule 3.1, all of the capital stock of Sellers is held by BCI or other Sellers party hereto.

3.2 Authorization; Binding Effect

(a) Each Seller has all requisite power and authority to execute and deliver this Agreement and each Collateral Agreement to which it will be a party and to effect the transactions contemplated hereby and thereby. Except as set forth on Schedule 3.2, the execution, delivery and performance by each Seller of this Agreement and each Collateral Agreement to which it will be a party and the consummation by each Seller of the transactions contemplated hereby and thereby have been duly and validly approved by each Seller's board of directors and, to the extent required by applicable Law or Contract, by any Affiliate of any Seller, and all stockholders or other securityholders of each Seller (and each Affiliate of any Seller) entitled to vote thereon, and no other actions or proceedings on the part of any Seller (or any Affiliates of any Seller or any stockholder or other securityholder of any Seller or any Affiliates of any Seller) are necessary to authorize the execution, delivery and performance by each Seller of this Agreement or the Collateral Agreements to which it will be a party or the transactions contemplated hereby and thereby.

(b) Except as set forth on Schedule 3.2, this Agreement has been, and each Collateral Agreement to which Sellers will be a party will be, on or prior to First Stage Closing Date, duly and validly executed and delivered by each Seller, as applicable. Assuming due execution by Buyers, this Agreement is, and each Collateral Agreement to which Sellers will be a party, when duly executed and delivered by each applicable Seller, will be, valid and legally binding obligations of each applicable Seller, enforceable against each applicable Seller in accordance with their respective terms, except as such agreements may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws and equitable principles relating to or affecting or qualifying the rights of creditors generally and general principles of equity.

3.3 Non-Contravention; Consents

(a) Except as set forth on Schedule 3.3(b), the execution and delivery of this Agreement by each Seller and the Collateral Agreements by each Seller party thereto, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (i) conflict with or result in a breach or violation of any provision of any organizational document of Sellers' Parent or any Seller, provided that the approvals of the shareholders of Sellers' Parent and of the Sellers are required to effect the name changes contemplated in Section 5.17(a); (ii) violate or result in a breach of or constitute an occurrence of default under any provision of, result in the acceleration or cancellation of any obligation under, or give rise to a right by any party to terminate or amend its obligations under, any Contract to which any Seller is a party or is otherwise bound, except in each case for Contracts that are not material to the conduct of the Business and having an annual value or involving annual consideration that is less than $100,000 individually or $1,000,000 in the aggregate, or that would not materially impair, delay or prevent the consummation by any of the Sellers of the transactions contemplated by this Agreement or any of the Collateral Agreements; (iii) or result in the creation of any Encumbrance upon any of the Acquired Assets (other than a Permitted Encumbrance), or permit the acceleration of the maturity of any indebtedness of Sellers or indebtedness secured by any of the Acquired Assets, having a value in excess of $100,000 individually or $1,000,000 in the aggregate; or (iv) violate in any material respect any Law or Order of any Governmental Body (including any State PUC) having jurisdiction over any Seller or the Acquired Assets.

(b) No Consent (including a waiver of any right of first refusal or first offer) of, filing or registration with, or cooperation from, any Governmental Body or any other Person not a party to this Agreement is necessary in connection with the execution, delivery and performance by Sellers of this Agreement or the Collateral Agreements to which Sellers will be a party or the consummation by Sellers of the transactions contemplated hereby or thereby, except for (i) any filings required to be made under the HSR Act, (ii) filings with the FCC under the Communications Act of 1934, as amended (the "Communications Act"), and filings with State PUCs as required by applicable Law, as set forth in Schedule 3.3(b), and (iii) Consents of Third Parties required to transfer or assign to Buyers the Acquired Assets, or assign the benefits of or delegate performance with regard thereto, in each case as set forth in Schedule 3.3(b), except in each case for Purchased Contracts (other than Customer Contracts) and Permits or other Acquired Assets that are not material to the conduct of the Business and have a value or involving consideration having an annual value or involving annual consideration of less than $200,000 individually and $1,000,000 in the aggregate and Customer Contracts that are not material to the conduct of the Business and have a value or involving consideration having an annual value of less than $500,000 (the "Sellers' Consents").

3.4 Title to Purchased Assets; Sufficiency of Assets

(a) Sellers have, and at the applicable Staged Closing Date will have, good and valid title to, or a valid and binding leasehold interest, right, or license in, the Acquired Assets, free and clear of any Encumbrance (except for Permitted Encumbrances, excluding on the applicable Staged Closing Date, those contemplated by Section 7.2(f) to be removed). Except as set forth on Schedule 3.4(a), Sellers have the full right to sell, convey, transfer, assign and deliver the Acquired Assets to Buyers, and, at and as of the applicable Staged Closing Date, Sellers will sell, convey, transfer, assign and deliver the Acquired Assets to Buyers by instruments of sale, conveyance, transfer and assignment effective to vest in Buyers, and Buyers shall have, good and valid title to, or a valid and binding leasehold interest, right, or license in, all of the ~~Acquired Assets, free and clear of all Encum~~brances (except for Permitted Encumbrances, excluding on the applicable Staged Closing Date, those contemplated by Section 7.2(f)).

(b) Except as set forth on Schedule 3.4(b), all of the tangible Purchased Assets, whether real or personal, owned or leased, have been well maintained and are in good operating condition and repair (with the exception of normal wear and tear) in all material respects.

(c) Except as set forth on Schedule 3.4(c) or with respect to other items which are not material to the conduct of the Business or which have a value of less than $100,000, the Acquired Assets constitute all of the Assets, Contracts, Permits and Communications Licenses (in each case, except for the Excluded Assets) that are currently used in the conduct of the Business (including the operation of the Network).

3.5 Licenses and Permits

(a) Sellers have obtained all necessary registrations, certifications and other regulatory authorizations from the appropriate state and local Governmental Bodies (collectively, the "State Licenses"), including State PUCs, and hold all licenses, permits, certificates, franchises, registrations and other authorizations issued by the Federal Communications Commission (collectively, the "FCC Licenses"), that are required for the conduct of the Business as currently conducted, and for the holding of the Acquired Assets, except where the failure to hold such State Licenses or FCC Licenses (collectively, the "Communications Licenses") would not reasonably be expected to result in a Material Adverse Effect. All of the Communications Licenses are set forth in Schedule 3.5(a) hereto.

(b) Other than Communications Licenses that are immaterial, each of the Communications Licenses was duly issued (to Sellers' Knowledge) and is valid and in full force and effect and each of the Communications Licenses has not been modified, canceled, revoked, or conditioned in any adverse manner other than in a manner that is immaterial.

(c) Each holder of a Communications License is set forth in Schedule 3.5(c) and has operated in all material respects in compliance with all terms thereof. Each holder of a Communications License is in all material respects in compliance with, and its businesses have operated in all material respects in compliance with, the Communications Act, as applicable, and with any other applicable Laws and Orders, and has filed all registrations and reports and paid all required fees, including any renewal applications, required by the Communications Act and any applicable Laws and Orders. Except as would not reasonably be expected to result in a Material Adverse Effect, (i) there is no pending or, to Sellers' Knowledge, threatened Action by or before the FCC or any State PUC to revoke, cancel, suspend, modify or refuse to renew any of the Communications Licenses, and (ii) except as set forth in Schedule 3.5(c), there is not now any issued, outstanding or, to Sellers' Knowledge, threatened notice by the FCC or any State PUC of any violation or complaint against Sellers with respect to the operation of their respective businesses.

(d) Except as set forth in Schedule 3.5(d) or as would not reasonably be expected to result in a Material Adverse Effect, no event has occurred that permits the revocation or termination of any of the Communications Licenses or the imposition of any restriction thereon.

(e) Sellers hold (i) all valid and effective Permits, leases, Communications Licenses, Easements, rights of way, licenses and other Consents, whether issued by a Governmental Body or otherwise, necessary to retain in place, operate and use the Owned Portion as currently conducted, (ii) all valid and effective IRUs and other agreements, or any other Consents necessary to retain in place, operate and use the IRU Portion as currently conducted, and (iii) all material Permits that are required for them to own, lease or operate their Assets and to carry on the Business as currently conducted, except as set forth on Schedule 3.5(e). Sellers are in compliance in all material respects with each Permit identified on Schedule 3.5(e), and no Action is pending or, to Sellers' Knowledge, threatened to revoke or limit any such Permit. Except as set forth on Schedule 3.5(e), Sellers have received no notice of and have no Knowledge of any event or circumstance that could reasonably be expected to cause a material impairment of their rights to retain, operate and/or use the Owned Portion or the IRU Portion.

3.6 Compliance With Laws; Litigation

(a) Except as set forth on Schedule 3.6(a) and except as would not materially impair, delay or prevent the consummation by any of the Sellers of the transactions contemplated hereby, Sellers are in material compliance with all Laws and Orders applicable to the Business or the Acquired Assets.

(b) Except as set forth on Schedule 3.6(b), no Order that names a Seller and is related to the Business or the Acquired Assets is in effect and that imposes a material obligation on the ongoing conduct of the Business (including the operation of the Network). Except as set forth on Schedule 3.6(b), Sellers have not entered into any agreement to settle or compromise any Action pending or threatened against them which has involved any obligation other than the payment of money or for which Sellers have any continuing obligation. Except for individual Actions having an amount in controversy, and which could not reasonably result in a Loss of, greater than $200,000, and except as set forth on Schedule 3.6(b), there are no Actions pending (to Sellers' Knowledge with respect to investigations of Governmental Bodies) or, to Sellers' Knowledge, threatened, against or affecting Sellers or any of their officers, directors, employees, agents or stockholders in their capacity as such, in each case with respect to the Business or the Acquired Assets, and to Sellers' Knowledge, there are no facts or circumstances which may give rise to any of the foregoing.

(c) There are no Actions pending (to Sellers' Knowledge with respect to investigations of Government Bodies) or, to Sellers' Knowledge, threatened by or against Sellers with respect to this Agreement or any of the Collateral Agreements, or in connection with the transactions contemplated hereby or thereby, and Sellers have no reason to believe there is a valid basis for any such Action.

3.7 Business Employees; Employee Benefits

(a) Schedule 3.7(a) contains a list of the position held and aggregate annual compensation for Sellers' last fiscal year and date of hire with respect to each Business Employee (which list shall be updated as of the First Stage Closing Date and no update is deemed to be an inaccuracy if in compliance with Section 5.2).

(b) Schedule 3.7(b) contains a list of all Benefit Plans (which list shall be updated as of the First Stage Closing Date and no update is deemed to be an inaccuracy if in compliance with Section 5.2). With respect to each of the Benefit Plans identified on Schedule 3.7(b), Sellers have made available to the Buyers true and complete copies of all plan documents and benefit schedules, or if none exist, a summary of the material terms thereof.

(c) Each Benefit Plan has been administered in accordance with its terms, except for any failures so to administer any Benefit Plan that would not individually or in the aggregate have a Material Adverse Effect with respect to the Business. Sellers and all Benefit Plans are in [material] compliance with the applicable provisions of ERISA, the Code and all other applicable Laws and Orders and the terms of all applicable collective bargaining agreements, except for any failures to be in such compliance that would not individually or in the aggregate have a Material Adverse Effect with respect to the Business.

(d) Except as set forth on Schedule 3.7(d), no Seller sponsors, maintains or contributes to any Benefit Plan that is subject to Title IV of ERISA and no Benefit Plan is a multiemployer plan (within the meaning of Section 3(37) of ERISA). No Benefit Plan which is subject to Title IV of ERISA has been terminated and all contributions to any such plan which are due have been paid.

(e) Sellers are in [material] compliance with all Federal, state, local and foreign requirements regarding employment, except for any failures to comply that would not individually or in the aggregate have a Material Adverse Effect with respect to the Business. No Seller is a party to any collective bargaining or other labor union contract applicable to persons employed by any Seller in the United States and as of the date of this Agreement no such collective bargaining agreement is being negotiated by any Seller. There is no (i) strike against or otherwise affecting any Seller pending, or to Seller's Knowledge, threatened; or (ii) work stoppage or other labor dispute against or otherwise affecting any Seller pending or, to Sellers' Knowledge, threatened, which may materially interfere with the respective business activities of any Seller with respect to the Business. To Sellers' Knowledge, within the last three (3) years, no Seller or any of their respective representatives or employees has committed any unfair labor practice in connection with the operation of the respective businesses of Sellers, and there is no action, charge or complaint against any Seller by the National Labor Relations Board or any comparable Governmental Body pending or, to Sellers' Knowledge, threatened in writing.

(f) (i) No employee of any Seller will be entitled to any additional benefits or any acceleration of the time of payment or vesting of any benefits under any Benefit Plan or otherwise (other than acceleration of vesting of options in accordance with their terms) as a result of the transactions contemplated by this Agreement, (ii) no amount payable, or economic benefit provided, by any Seller (including any acceleration of the time of payment or vesting of any benefit (other than acceleration of vesting of options in accordance with their terms)) could be considered an "excess ~~parachute payment" under Section 280G of the Code and (iii)~~ no person is entitled to receive any additional payment from any Seller or any other person in the event that the excise tax of Section 4999 of the Code is imposed on such person, in each case except where such additional benefits or payments or acceleration (other than acceleration of vesting of options in accordance with their terms), would not individually or in the aggregate have a Material Adverse Effect with respect to the Business.

(g) Except as set forth in Schedule 3.7(g), no Seller has implemented any plant closing or layoff of employees that could implicate the Worker Adjustment Retraining and Notification Act of 1988, as amended ("WARN"), or any similar state or local Law, within the last 90 days.

3.8 Contracts

Schedule 3.8 contains a complete and accurate list of all Contracts to which one or more of the Sellers are a party and that are related to the Business as follows (which list shall be updated as of the First Stage Closing Date and the Second Stage Closing Date and no such update is deemed to be an inaccuracy if in compliance with Section 5.2).

(a) any Employment Agreement or other Contract of any kind with any stockholder, director, officer or employee of any Seller or any of its Affiliates;

(b) any Customer Contracts, except for (i) Customer Contracts that generate aggregate annual revenues of $500,000 or less, or (ii) Customer Contracts entered into on or after November 30, 2002;

(c) any Contract with any Person for the purchase or delivery of goods, or performance of services, to Sellers, including goods or services used to provide services, or to be resold, to Sellers' customers, in each case other than Contracts entered into in the ordinary course of business or having a value or annual consideration less than $100,000 or that has a term, or requires the performance of any obligations by any Seller over a period of less than one (1) year;

(d) any Contract which is material to the conduct of the Business or that has a value in excess of $100,000 pursuant to which any Seller grants or is granted any license or other rights to use any of the Acquired Assets or any material rights of joint use with respect to any of the Acquired Assets (other than any Real Property Lease or IP License or IPR License);

(e) any Contract with a sales representative, sales agency, advertising agency or other Person engaged in sales or promotional activities, or any Contract to act as one of the foregoing on behalf of any Person in which the expected annual payment to such Person is in excess of $100,000;

(f) any Contract pursuant to which any Seller has made or will make loans or advances, or has or will have incurred debts or become a guarantor or surety or pledged its credit on or otherwise become responsible with respect to any undertaking of another Person (except for the negotiation or collection of negotiable instruments in transactions in the ordinary course of business), individually in excess of $25,000 or in the aggregate in excess of $100,000;

(g) any indenture, credit agreement, loan agreement, note, mortgage, security agreement, lease of real property or personal property, loan commitment or other Contract relating to the borrowing of funds, an extension of credit or financing, individually in excess of $25,000 and in the aggregate in excess of $100,000;

(h) any Contract having a value or containing payment or other obligations in excess of $25,000 involving a partnership, joint venture or other cooperative undertaking;

(i) any Contract involving any material restrictions with respect to the geographical area of operations or scope or type of business of any Seller, including the Business;

(j) any power of attorney or agency Contract with any Person pursuant to which such Person is granted the authority to act for or on behalf of any Seller, or any Seller is granted the authority to act for or on behalf of any Person;

(k) any Contract, whether or not fully performed, relating to any acquisition or disposition of any stock of, or any material portion of the assets of, any Seller, or any acquisition or disposition of any subsidiary, division, line of business or real property of any Seller, except as such Contract relates to any Excluded Asset or Excluded Liability; and

(l) any Contract having a value individually in excess of $100,000 or in the aggregate in excess of $300,000, not made in the ordinary course of business and consistent with past practice and that is to be performed in whole or in part at or after the date hereof.

Sellers have provided Buyers with access to (i) true, accurate and complete copies of each of the Contracts and the other documents set forth on Schedule 3.8, as amended or modified and (ii) a written description of each oral arrangement so listed on Schedule 3.8.

Each and all of (i) the Customer Contracts and (ii) the other Contracts which, individually or in the aggregate, are material to the Business are valid and binding on the applicable Seller and, to such Seller's Knowledge, on the other parties thereto in accordance with its terms and is in full force and effect. Except as set forth on Schedule 3.8(m), no Seller has received any written notice that it is in default or breach of and is otherwise delinquent in performance in any material respect under any Contract, and, to Sellers' Knowledge, each of the other parties thereto has performed in all material respects all obligations required to be performed by it and is not in default in any material respect thereunder.

Except as set forth on Schedule 3.8(n), since December 31, 2002, no $500K Customer has terminated or informed a Seller that it intends to terminate, renegotiate or let expire, or materially reduce the amount of goods and/or services received under, such Customer Contract(s) and, to Sellers' Knowledge, there are no material disputes with any $500K Customers.

3.9 Financial Statements; Absence of Changes

(a) Schedule 3.9(a)(i) contains correct and complete copies of the audited consolidated statements of BCI of (1) Assets and Liabilities, (2) Income Statement and (3) Cash Flows (the "Statements"), in each case for the fiscal year ended December 31, 2001 and the unaudited Statements for the nine-months ended September 30, 2002 (collectively, the "Financial Statements"). Also attached as Schedule 3.9(a)(i) is a correct and complete copy of the unaudited consolidated balance sheet and profit and loss statement of BCI and the Sellers for each of October 2002, November 2002, December 2002 and January 2003 (collectively, the "Monthly Statements"). The Financial Statements and the Monthly Statements include information with respect to and reflect the financial condition and results of operation of the Retained Business which are not being transferred hereby, and as to which Sellers makes no representation or warranty of any kind. The Financial Statements and Monthly Statements were prepared in conformity with Generally Accepted Accounting Principles, except as set forth on

Schedule 3.9(a)(ii) and subject, in the case of the unaudited Statements for the nine-months ended September 30, 2002 and the Monthly Statements, to year-end adjustments consistent with past practice.

(b) Except as set forth therein or on Schedule 3.9(b) with respect to the Business, the Financial Statements and Monthly Statements present fairly the consolidated financial condition and results of operations of BCI and its subsidiaries as of and for the periods then ended.

(c) Schedule 3.9(c) is an accurate and complete aging schedule of all Receivables as of November 30, 2002. Except as set forth on Schedule 3.9 (c), (i) each Receivable represents a sale made in the ordinary course of business which arose pursuant to an enforceable written Contract for a bona fide sale of goods or for services performed, and (ii) the applicable Seller has performed all of its obligations to produce the goods or perform the services to which such Receivable relates.

(d) Except as set forth in the balance sheets included in the Financial Statements or the balance sheets in the Monthly Statements or on Schedule 3.9(d), there are no liabilities, debts, claims or obligations, whether accrued, absolute, contingent or otherwise, whether due or to become due that are required to be included in such Financial Statements in accordance with Generally Accepted Accounting Principles or which are contemplated by this Agreement to constitute Assumed Liabilities.

(e) Since December 31, 2002, Sellers have conducted and operated the Business in the ordinary course consistent with past practice, and except as set forth in Schedule 3.9(e):

(i) there has been no material destruction, damage or other loss to any material Purchased Assets;

(ii) other than in the ordinary course of business, there has been no sale, lease, or other disposition of any Acquired Asset, except for any such transaction less than $100,000 individually in value or $250,000 in value in the aggregate for all such transactions;

(iii) Except in compliance with Section 5.15, other than in the ordinary course of business consistent with past practice, there has been no purchase, lease or other acquisition of any properties or assets related to the Business or other capital expenditures related to the Business or with respect to the Acquired Assets other than any such transaction less than $100,000 individually in value or $250,000 in the aggregate for all such transactions;

(iv) no Seller has entered into or authorized any material Contract related to the Business or any material amendment or modification to any such Contract, other than in the ordinary course of business and consistent with past practice; and, to Sellers' Knowledge, no parties to such Contracts (including any Seller) having the right to do so have accelerated, terminated, made modifications to or cancelled any such Contract.

(v) no Seller has suffered or permitted the imposition of any material Encumbrance (other than Permitted Encumbrances) upon any Acquired Asset;

(vi) no Seller has granted any license or sublicense of any rights under or with respect to any IP or IPR related to the Business other than in the ordinary course of business and consistent with past practice;

(vii) no Seller has made any loan or advance, individually in excess of $10,000 or in the aggregate in excess of $25,000, or capital contribution to, or investment in, any other Person;

(viii) no Seller has entered into any transaction or arrangement of any kind with any director, officer or employee of any Seller or any Affiliate of any Seller (other than another Seller), except as set forth in Schedule 3.8 in response to Section 3.8(a);

(ix) no Seller has granted any increase in the base compensation of any of the Business Employees other than in the ordinary course of business consistent with past practice;

(x) no Seller has made any other material change to the employment terms for any of the Business Employees terminated the employment of any material Business Employee of any Seller or established or materially modified any Benefit Plan other than as required by applicable Law or entered into an Employment Agreement;

(xi) no change has occurred (or circumstance involving a prospective change) which is reasonably likely to have a Material Adverse Effect;

(xii) no Seller has waived, released or canceled any claims against third parties or debts owing to it or any rights which have a value in excess of $200,000 individually or $1,000,000 in the aggregate;

(xiii) no Seller has made any changes in its accounting systems, policies, principles or practices, other than any changes required by applicable accounting standards or the Securities and Exchange Commission rules and regulations;

(xiv) no Seller has made any borrowing, incurred any debt (other than ordinary course borrowings under the Credit Agreement and trade payables in the ordinary course of business and consistent with past practice) or assumed, guaranteed, endorsed (except for the negotiation or collection of negotiable instruments in transactions in the ordinary course of business and consistent with past practice and the guarantee of lease obligations by Broadwing Communications Real Estate Services LLC) or otherwise become liable (whether directly, contingently or otherwise) for the obligations of any other Person, or made any payment or repayment in respect of any indebtedness (other than ordinary course borrowings under the Credit Agreement and accrued expenses in the ordinary course of business and consistent with past practice), in each case, in excess of $50,000 individually or $200,000 in the aggregate;

(xv) no Seller has paid any amount, performed any obligation or agreed to pay any amount or perform any obligation, in settlement or compromise of any Action or other claims of liability against any Seller, or any of its directors, officers, employees or agents, in each case, in excess of $200,000 individually or $500,000 in the aggregate; or

(xvi) no Seller has contractually committed or agreed to any of the foregoing in the future.

3.10 Intellectual Property

(a) Sellers own or possess the right to use all of the Seller IP and Seller IPR. Sellers have the right to convey by sale or by license any such Seller IP and Seller IPR that is so conveyed.

(b) Sellers have not granted any license to any Person to use any of the Seller IP or Seller IPR other than in the ordinary course of business. Except as set forth on Schedule 3.10, (i) no Action is pending or, to Sellers' Knowledge, threatened, against Sellers or any of their Affiliates where any of the Seller IP or Seller IPR is the basis for the Action; (ii) no Seller has received written notice that a Person has claimed and, to Sellers' Knowledge no Person has alleged, any rights to the Seller IP or Seller IPR; (iii) to Sellers' Knowledge, the conduct by Sellers of the Business, any process, method, part, design, material or other Seller IP or Seller IPR it employs, and the marketing and use by Sellers of such Business and Seller IP or Seller IPR, in each case, does not infringe any IP or IPR of any other Person; (iv) Sellers are not obligated to pay any recurring royalties to any Person with respect to the use of any Seller IP or Seller IPR; and (v) to Sellers' Knowledge, no other Person has interfered with, infringed upon, or misappropriated, any Seller IP or Seller IPR.

(c) Upon the applicable Staged Closing Date, Sellers will, subject to any third party rights therein, deliver to Buyers complete and correct copies of the source code, object code and user and technical documentation for all computer software included in the Seller IP and Seller IPR.

3.11 Real Property

(a) Schedule 3.11(a)(i), sets forth a true, accurate and complete list of all of the parcels of land owned by any Seller and used by such Seller in the conduct of the Business by street address, block and lot or other appropriate description (the "Owned Real Property"). Schedule 3.11(a)(ii) sets forth (i) a true, accurate and complete list of all of the leases of real property to which any Seller is a party and which provide for the lease to or by any Seller of any real property and used by such Seller in the conduct of the Business (all such real property leased to any Seller, collectively, the "Leased Real Property") and (ii) the street addresses and current use of all of the Leased Real Property. Except as otherwise disclosed on Schedule 3.11(a)(i), Sellers hold fee simple title to the Owned Real Property, subject only to the Permitted Encumbrances. Except as otherwise disclosed on Schedule 3.11(a)(ii), Sellers have a valid leasehold interests in the Leased Real Property leased to or by Sellers pursuant to the leases described on Schedule 3.11(a)(ii) (the "Real Property Leases"), subject only to the Permitted Encumbrances. Except as otherwise disclosed on Schedule 3.9(a)(iii), Sellers hold good title to those licenses or Easements appurtenant to the Leased Real Property or Owned Real Property necessary to conduct the Business in all material respects as it is currently being conducted (the Easements and the Leased Real Property and the Owned Real Property, collectively the "Real Property"), subject only to Permitted Encumbrances.

(b) All of the Real Property Leases necessary to conduct the Business in all material respects as it is currently conducted are in full force and effect, and are valid and enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws in effect which affect the enforcement of creditors' rights generally, by equitable limitations on the availability of specific remedies and by principles of equity.

(c) No Seller has received any notice of any, and, to Seller's Knowledge, there exists no, dispute, claim, event of default or event which constitutes or would constitute (with notice or lapse of time or both) a default under any Real Property Lease or Easement, except in each case that would not result in, or would not reasonably be expected to result in, individually or in the aggregate, a liability or other obligation with respect to the Business in an amount in excess of $100,000. All rent due and payable with respect to the Real Property Leases have been paid through the date of this Agreement and all rent due and payable with respect to the Real Property Leases on or prior to the Staged Closing Dates will have been paid on or prior to the Staged Closing Dates or the parties will otherwise reimburse the others so that they have effectively prorated the rent.

3.12 Taxes

(a) None of the Purchased Assets is "tax exempt use property" within the meaning of Section 168(h) of the Code; (b) no liens for material Taxes have been filed and no material claims for Taxes have been asserted in writing, with respect to the Acquired Assets, the Assumed Liabilities or the Business, except for taxes that are being contested in good faith by Sellers and their Affiliates; (c) Sellers have paid all material Taxes required to be paid by it with respect to the Business, the Acquired Assets and the Assumed Liabilities that could become liens against the Business or the Acquired Assets or could otherwise affect the Buyer; and (d) all Taxes which are required by Law or Order to be withheld or collected with respect to the Business, including sales and use taxes, and amounts required to be withheld for Taxes of employees, have been duly withheld or collected and, to the extent required, have been paid over to the proper Governmental Bodies or are held in separate bank accounts for such purpose.

3.13 Brokers

No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission from Buyers in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of any Seller or any of their respective Affiliates.

3.14 Environmental Matters.

Except as set forth on Schedule 3.14 or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect:

(a) Each Seller is complying in all [material] respects with all applicable Environmental Laws and Orders, which compliance includes the possession and maintenance of all Environmental Permits that are necessary for the operation of the Business.

(b) No Seller is a party to any Action nor, to Sellers' Knowledge, is any Action threatened, against any Seller with respect to the Business that relates to any Environmental Laws or Orders or any Hazardous Substance.

(c) There are no Environmental Liabilities of any Seller with respect to the Business, and, to Sellers' Knowledge, there are no facts, conditions, situations or set of circumstances that could reasonably be expected to result in or be the basis of any such Environmental Liability.

(d) This Section 3.14 contains the sole and exclusive representations and warranties of the Sellers with respect to any environmental matters.

3.15 Network

The Network (i) is operational, (ii) has a minimum of 12 fibers in each segment cross-section, with an average of 28 fibers or more, and (iii) covers approximately 18,700 route miles of fiber-optic transmission facilities across the contiguous United States, as set forth on Schedule 1.1(e), including approximately 7,700 route miles built and owned by Sellers (the "Owned Portion") and approximately 11,000 miles acquired through IRUs (the "IRU Portion").

3.16 Overall Material Adverse Effect

The preceding representations and warranties of Sellers in this Article 3 (with the deletion of any and all references to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) do not result in any breach or inaccuracy in any and all such representations and warranties, where such breach and/or inaccuracy would individually or in the aggregate have, or be reasonably likely to have, a Material Adverse Effect on the Business or the Buyers (taken as a whole).

3.17 No Other Representations

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 3 OR IN THE COLLATERAL AGREEMENTS (TO THE EXTENT THAT THE SELLERS ARE PARTY THERETO), SELLERS MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WRITTEN OR ORAL, AND HEREBY TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW DISCLAIMS ANY SUCH

REPRESENTATION OR WARRANTY (INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE), WHETHER BY SELLERS, THEIR AFFILIATES OR ANY OF THEIR OFFICERS, DIRECTORS, PARTNERS, MEMBERS, PRINCIPALS, EMPLOYEES, AGENTS, MEMBERS OR REPRESENTATIVES OR ANY OTHER PERSON, WITH RESPECT TO THE ACQUIRED ASSETS, ASSUMED LIABILITIES AND THE BUSINESS OR THE EXECUTION AND DELIVERY OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

4. Representations and Warranties of Buyers

Buyers represent and warrant to Sellers that:

4.1 Organization and Qualification

Each Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and each Buyer has all requisite limited liability company power and authority to carry on its business as currently conducted and to own or lease and operate its properties.

4.2 Authorization; Binding Effect

(a) Each Buyer has all requisite limited liability company power and authority to execute and deliver this Agreement and the Collateral Agreements and to effect the transactions contemplated hereby and thereby and has duly authorized the execution, delivery and performance of this Agreement and the Collateral Agreements by all requisite limited liability company action.

(b) This Agreement has been duly executed and delivered by each Buyer and this Agreement is, and each of the Collateral Agreements when duly executed and delivered by each Buyer will be, valid and legally binding obligations of such Buyer enforceable against it in accordance with its terms, except as such agreements may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws and equitable principles relating to or affecting or qualifying the rights of creditors generally and general principles of equity.

4.3 No Violations

(a) The execution, delivery and performance of this Agreement and the Collateral Agreements by Buyers and the consummation of the transactions contemplated hereby and thereby do not and will not (i) conflict with or result in a breach or violation of any provision of the limited liability company agreement of any Buyer; (ii) violate or result in a breach of or constitute an occurrence of default under any provision of, result in the acceleration or cancellation of any obligation under, or give rise to a right by any party to terminate or amend its obligations under, any mortgage, deed of trust, conveyance to secure debt, note, loan, indenture, lien, lease, contract, agreement, instrument, order, judgment, decree or other arrangement or commitment to which any Buyer is a party or by which it or its assets or properties are bound, or result in the creation of any Encumbrance (other than a Permitted Encumbrance) upon any of its assets or properties, which violation, breach, default or Encumbrance would individually or in the aggregate be have a Material Adverse Effect with respect to Buyers (taken as a whole); or (iii) violate any Law or Order of any Governmental Body having jurisdiction over Buyers or any of their properties, which violation would individually or in the aggregate be material to Buyers or materially impair, delay or prevent the consummation by Buyers of the transactions contemplated hereby.

(b) Except as set forth on Schedule 4.3(b), no Consent of, registration, declaration or filing with, any Person (including any Governmental Body) is required to be obtained by Buyers in connection with the execution and delivery by Buyers of this Agreement and the Collateral Agreements to which Buyers will be a party or the consummation by Buyers of the transactions contemplated hereby or thereby that has not been obtained, other than any filings required to be made under the HSR Act (such scheduled Consents registrations, declarations and filings being referred to herein collectively as the "Buyers' Consents"), and other such consents the failure to obtain which would not materially impair, delay or prevent the consummation of the transactions contemplated hereby.

4.4 Litigation

(a) Except as set forth on Schedule 4.4(a) and except as would not materially impair, delay or prevent the consummation by any of the Buyers of the transactions contemplated hereby, Buyers are in material compliance with all Laws and Orders applicable to Buyers.

(b) Except for individual Actions having an amount in controversy, and which could not reasonably result in a Loss of, greater than $100,000, and except as set forth on Schedule 4.4(b), there are no Actions pending (to Buyers' Knowledge with respect to investigations by Governmental Bodies) or, to Buyers' Knowledge, threatened, against or affecting Buyers or any of their officers, directors, employees, agents or stockholders in their capacity as such, and to Buyers' Knowledge, there are no facts or circumstances which may give rise to any of the foregoing.

(c) There are no Actions pending (to Buyers' Knowledge with respect to investigations by Governmental Bodies) or, to Buyers' Knowledge, threatened by or against Buyers with respect to this Agreement or any of the Collateral Agreements, or in connection with the transactions contemplated hereby or thereby, and Buyers have no reason to believe there is a valid basis for any such Action.

4.5 No Additional Representations or Warranties

Buyers acknowledge that no Seller nor any of their respective Affiliates or any other Person acting on behalf of any Seller (a) has made any representation or warranty, express or implied, including any implied representation or warranty as to the condition, merchantability, suitability or fitness for a particular purpose of any of the Acquired Assets, or (b) has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding Sellers, the Business or the Acquired Assets, in each case except as expressly set forth in this Agreement or any Collateral Agreement or as and to the extent required by this Agreement or any Collateral Agreement to be disclosed on the Schedules hereto or thereto. Buyer further agrees that no Seller nor any of their respective Affiliates or any other Person acting on behalf of any Seller will have or be subject to any liability, except as specifically set forth in this Agreement, to Buyers resulting from the distribution to Buyers, for Buyers' use, of any such information, and any information, document or material made available to Buyers in certain "data rooms," management presentations or any other form in expectation of the transactions contemplated by this Agreement.

4.6 Brokers

No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission from Sellers in connection with the transactions contemplated by this Agreement based on arrangements made by or on behalf of Buyers or an Affiliate of Buyers.

4.7 Financing

Buyers have as of the date hereof, and will have as of the First Stage Closing Date, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to pay the Purchase Price.

4.8 Overall Material Adverse Effect

The preceding representations and warranties of Buyers in this Article 4 (with the deletion of any and all references to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) do not result in any breach or inaccuracy in any and all such representations and warranties, where such breach and/or inaccuracy would individually or in the aggregate have, or be reasonably likely to have, a Material Adverse Effect on Sellers (taken as a whole).

4.9 No Other Representations

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ARTICLE 4 OR IN THE COLLATERAL AGREEMENTS (TO THE EXTENT THAT BUYERS ARE PARTY THERETO), BUYERS MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WRITTEN OR ORAL, AND HEREBY TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW DISCLAIM ANY SUCH REPRESENTATION OR WARRANTY (INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE), WHETHER BY BUYERS, THEIR AFFILIATES OR ANY OF THEIR OFFICERS, DIRECTORS, PARTNERS, MEMBERS, PRINCIPALS, EMPLOYEES, AGENTS, MEMBERS OR REPRESENTATIVES OR ANY OTHER PERSON, WITH RESPECT TO THE ACQUIRED ASSETS, ASSUMED LIABILITIES AND THE BUSINESS OR THE EXECUTION AND DELIVERY OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

5. Certain Covenants

5.1 Access to Information

(a) Subject to any restrictions under applicable Law, Sellers will (i) give to the Buyers and their officers, employees, accountants, counsel and other representatives reasonable access, including for inspection and copying, during normal business hours throughout the period prior to the Staged Closing Dates, to the properties, personnel, books, contracts, commitments, reports of examination and records reasonably requested by Buyers, (ii) furnish or shall cause to be furnished any and all financial, technical and operating data and other information pertaining to the Business and the Acquired Assets as Buyers may reasonably request, and (iii) provide or cause to be provided such copies or extracts of documents and records related to its business as Buyers may reasonably request; provided, that no Seller shall be obligated to disclose or provide hereunder information other than related to the Business.

(b) For a period of six (6) years after the First Stage Closing Date, upon reasonable prior written notice, Buyers and Sellers shall furnish or cause to be furnished to each other and their employees, agents, auditors and representatives access, during normal business hours, to such information, books and records relating to the Business as is reasonably necessary for financial reporting and accounting matters, for reports or filings with any Governmental Bodies, for the preparation and filing of Tax Returns, reports or forms for the defense of any Tax claims, assessments, audits or disputes, or for the prosecution or defense of any Action, provided that with respect to any Tax Returns or other records relating to Tax matters or any other Action, either party shall have reasonable access to such information until the applicable statute of limitations, if any, shall have expired. Except as otherwise agreed in writing, each party shall reimburse the other for reasonable out-of-pocket costs and expenses incurred in assisting the other pursuant to this Section 5.1(b). Each party shall have the right to copy any of such records at its own expense. Neither party shall be required by this Section 5.1(b) to take any action that would unreasonably interfere with the conduct of its business or unreasonably disrupt its normal operations.

(c) Sellers and Buyers agree to preserve all Business Records in their possession for at least six (6) years after the First Stage Closing Date; provided that each party will preserve all such records relating to Tax matters until expiration of the applicable statute of limitations. After such six (6) years period or expiration of the applicable statute of limitations and at least six (6) days prior to the planned destruction of any Business Records or Tax-related records, but in any event no longer than the later of six (6) years after the Second Staged Closing Date or the expiration of the applicable statue of limitations, the party planning to destroy such Business Records or Tax-related records shall notify in writing and shall make available to the other, upon its reasonable request, such Business Records or Tax-related records.

5.2 Conduct of Business

From and after the date of this Agreement and until the First Stage Closing Date, except as set forth on Schedule 5.2 or as otherwise contemplated by this Agreement or the Schedules and Exhibits hereto or as Buyers shall otherwise consent to in writing, in each case to the extent related to the Business, Sellers:

(a) will incur and pay costs and otherwise operate the Business only in the ordinary course and in a manner consistent with past practice, and shall use their commercially reasonable efforts to (i) preserve intact the present business organization and the Business Employees, (ii) preserve the goodwill and advantageous relationships of the Business with customers, suppliers, independent contractors and other Persons material to the operation of the Business, (iii) prevent any event that could have a Material Adverse Effect and (iv) not permit any action or omission that would cause any of the representations or warranties of Sellers contained herein to become inaccurate or any of the covenants of Sellers to be breached, in either case in any material respect.

(b) without limiting the generality of clause (a), until the First Stage Closing Date, except as set forth on Schedule 5.2 or with the prior written consent of Buyers, Sellers will not:

(i) do any act or omit to do any act, or permit any act or omission to act, which would cause a material breach of any of the Purchased Contracts, Purchased Permits and Transferred Communications Licenses or any liabilities or obligations contemplated by this Agreement or any of the Collateral Agreements to be an Assumed Liability, the breach of which is reasonably likely to have a Material Adverse Effect;

(ii) sell, transfer, convey, assign or otherwise dispose of any of the Acquired Assets with a fair market value in excess of $100,000 (without purchasing a replacement of the same or better quality and condition) other than for goods or inventory, including parts or supplies, sold or otherwise disposed of in the ordinary course of business and consistent with past practice;

(iii) except for capital improvements, purchases and expenditures permitted by clause (iv), purchase, lease or other acquisition of any Acquired Assets, except for any such transaction less than $50,000 individually in value or $250,000 in the aggregate in value, except for circuits and services acquired in the ordinary course of business and consistent with past practice for the purpose of supporting ongoing sales activities;

(iv) authorize or make any capital improvements or purchases or other capital expenditures that individually or in the aggregate are in excess of those contemplated by Section 5.15(c);

(v) other than in the ordinary course of business and consistent with past practice, waive, release or cancel any claims against third parties or debts owing to it, or any rights which have a value of $200,000 individually or $500,000 in the aggregate, other than any claims against or debts owing from Affiliates;

(vi) (A) make any borrowing, incur any debt (other than ordinary course borrowings under the Credit Agreement or from Sellers' Parent, and trade payables in the ordinary course of business and consistent with past practice); (B) assume, guarantee, endorse (except for the negotiation or collection of negotiable instruments in the ordinary course of business and consistent with past practice and the guarantee of lease obligations of Broadwing Communications Real Estate Services LLC where any such guarantee is not an Assumed Liability) or otherwise become liable (whether directly, contingently or otherwise) for the obligations of any other Person; or (C) make any payment or repayment in respect of any indebtedness (other than (i) trade payables and accrued expenses in the ordinary course of business and consistent with past practice or (ii) except as provided for in the Credit Agreement, repayments or prepayments of Debt (as defined in the Credit Agreement) owed to Sellers' Parent or any of its Subsidiaries (as defined in the Credit Agreement)); in each case in excess of \$25,000 individually or \$100,000 in the aggregate;

(vii) grant or permit the creation of any Encumbrance over any of the Acquired Assets, other than Permitted Encumbrances (except for items (iv) and (v) included in the definition of Permitted Encumbrances with respect to any Acquired Assets owned by any Seller on the date hereof). Until such time as the Required Lenders under the Credit Agreement shall have consented to the first sentence of this clause (vii) (or otherwise amended or waived the provisions of Section 5.02(l) of the Credit Agreement) or the Credit Agreement shall be terminated, this clause (vii) shall be subject to (x) the restrictions on, and (y) the exceptions to the restrictions on, the creation of Encumbrances set forth in Section 5.02(l) of the Credit Agreement

(viii) make any loan, advance or capital contribution (other than to any of the other Sellers) to, or investment in, any other Person in excess of \$10,000 individually or \$25,000 in the aggregate;

(ix) enter into, adopt, amend or terminate any bonus, profit sharing, compensation, termination, stock appreciation right, restricted stock, performance unit, pension, retirement, deferred compensation, employment, severance or other employee benefit agreement, trust, plan, fund or other arrangement for the benefit or welfare of any director, officer, consultant (except with respect to termination of any consultants) or employee, or increase in any manner the compensation or fringe benefits of any director, officer, consultant or employee or pay any benefit not required by any existing plan and arrangement or enter into any Contract to do any of the foregoing, which, in each case, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect;

(x) (A) terminate the employment of any Key Employee without cause; or (B) terminate the employment of any other Business Employees without cause (which termination contemplated by this clause (B), individually, or in the aggregate, is reasonably likely to have a Material Adverse Effect);

(xi) pay any amount, perform any obligation or agree to pay any amount or perform any obligation, in settlement or compromise of any suits or claims of liability against any Seller or any of its directors, officers, employees or agents which would be an Assumed Liability or, in each case in excess of $200,000 individually or $1,000,000 in the aggregate;

(xii) other than in the normal course of business and consistent with past practice, terminate, rescind, modify, amend or otherwise alter or change any of the material terms or provisions of any of the Purchased Contracts, Purchased Permits or Transferred Communications Licenses, or reduce, discount, waive or forego any material payment or right thereunder, or agree to any compromise or settlement with respect thereto, in each case in excess of $100,000 individually or $500,000 in the aggregate;

(xiii) enter into any Employment Agreement or other Contract of any kind with any director, officer or employee of any Seller or any of the respective Affiliates of such individuals, or with any Affiliate of any Seller, which, in each case, is related to the Business or would be an Assumed Liability;

(xiv) enter into any Contract pursuant to which any Seller grants or is granted any license or sublicense or other right to use any of the Acquired Assets;

(xv) other than in the ordinary course of business and consistent with past practice, incur any obligation or enter into, amend or modify any Contract or arrangement, which is related to the Business or would be an Assumed Liability, that either (i) requires a payment by any party in excess of, or a series of payments which in the aggregate exceed, $500,000 or provides for the delivery of goods or performance of services, or any combination thereof, having a value in excess of $500,000 and (ii) has a term, or requires the performance of any obligations by Seller over a period, in excess of one (1) year;

(xvi) enter into any material Contract with a sales representative, sales agency, advertising agency or other Person engaged in sales, distributing or promotional activities, or any material Contract to act as one of the foregoing on behalf of any Person;

(xvii) enter into any Contract with respect to any material modification or termination of any Real Property Lease; or

(xviii) enter into any Contract to do any of the foregoing.

(c) without limiting the generality of clause (a), until the First Stage Closing Date, except as set forth on Schedule 5.2, each Seller shall use their commercially reasonable efforts to:

(i) maintain all Communications Licenses and Permits that are required for and material to the conduct of the Business as currently conducted and for the holding of the Acquired Assets.

(ii) maintain their books, accounts and records in the usual, regular and ordinary manner, and on a basis consistent with the Financial Statements and past practices, and

(iii) duly comply in all material respects with all Laws and Orders applicable to Sellers or as may be required for the valid and effective transfer and assignment of the Acquired Assets.

(d) Sellers shall continue to carry their existing "occurrence" liability insurance applicable to periods up to the Second Staged Closing Date and shall not allow any breach, default, termination or cancellation of such insurance policies or agreements to occur or exist.

Any Contract or other obligation which is related to the Business and would be an Assumed Liability which requires the prior written consent of Buyers pursuant to Section 5.2(b) and which is entered into or incurred with the prior written consent of Buyers shall be included in the Acquired Assets and shall constitute an Assumed Liability, and the Schedules to this Agreement shall be deemed to have been updated to include any such Contract or obligation. Any Contract or other obligation entered into or incurred in violation of Section 5.2(b) shall not be included in the Acquired Assets, shall constitute an Excluded Liability, and shall not be included on any of the Schedules to this Agreement.

5.3 Taxes

(a) Sellers and Buyers acknowledge and agree that (i) Sellers will be responsible for and will perform all applicable Tax withholding, payment and reporting duties with respect to any wages and other compensation and benefits paid or provided by Sellers to any Business Employee for a taxable period or portion thereof ending on or prior to the First Stage Closing Date, and (ii) Buyers will be responsible for and will perform all Tax withholding, payment and reporting duties with respect to any wages and other compensation and benefits paid or provided by Buyers or any of their Affiliates to any Transferred Employee after the First Staged Closing Date.

(b) Buyers and Sellers shall use commercially reasonable efforts to agree upon an allocation of the Purchase Price (and the amount of Assumed Liabilities that are liabilities for Federal income tax purposes) among the Acquired Assets (the "Allocation"), consistent with the principles to be mutually agreed between Sellers and Buyers and set forth in Schedule 5.3(b) on or prior to the first Stage Closing Date and Section 1060 of the Code and the Treasury Regulations thereunder, within a reasonable amount of time following the Staged Closing Dates. Buyers shall provide a proposed Allocation to Sellers within sixty (60) days following the Staged Closing Dates. Sellers shall propose any changes to the Allocation within thirty (30) days thereafter, together with a reasonably detailed explanation of the reasons therefor. Buyers and Sellers will negotiate in good faith to resolve any disputed items. If Buyers and Sellers are unable to agree on the Allocation within thirty (30) days following delivery of Sellers' proposed changes, then Buyers and Sellers shall be permitted to use their respective Allocations.

(c) If Buyers and Sellers are able to agree to an Allocation, (i) each Seller and Buyer shall timely file IRS Form 8594 and all other Federal, state, local and foreign Tax Returns in accordance with the Allocation, as adjusted pursuant to Section 5.3(b) and (ii) neither Sellers nor Buyers nor any of their respective Affiliates or representatives shall take any position on any Tax Return that is inconsistent with the Allocation. Sellers and Buyers agree to promptly provide the other party with any additional information as so adjusted required to complete Form 8594.

(d) Buyers and Sellers shall cooperate fully with respect to all Tax matters and shall keep each other promptly apprised of any Tax audit or other controversy that may affect the other or reasonably could be expected to result in an indemnification obligation hereunder.

(e) Each of Buyers and Sellers shall pay fifty percent (50%) of all sales, transfer, value added (to the extent not creditable) or similar Taxes and all recording and filing fees and other similar costs that may be imposed, assessed or payable by reason of the sales, transfers, leases, rentals, licenses, assignments and assumption of liabilities, if any, required for performance under this Agreement and the Collateral Agreements. Buyers and Sellers shall cooperate in timely making and filing all filings, Tax Returns, reports and forms as may be required with respect to any Taxes described in the preceding sentence. Buyers and Sellers shall use commercially reasonable efforts to avail themselves of any available exemptions or other opportunities to reduce or eliminate any such Taxes or fees. Notwithstanding any other provision hereof, Sellers shall be responsible for income and capital gains Taxes or franchise or other Taxes based on overall gross or net income of Sellers from the sale of the Acquired Assets ("Income Taxes").

(f) Liability of Sellers for real, personal and intangible property Taxes for the 2003 tax year including the Staged Closing Dates shall be equal to the amount of such property Taxes for the entire period multiplied by a fraction, the numerator of which is the number of days in such period that precede the First Stage Closing Date and the denominator of which is the number of days in the entire period. Liability for the remainder of such Taxes shall be borne by Buyers. Sellers shall pay all such amounts to the taxing authority when due and shall provide to Buyers proof of such payment and a schedule setting out in reasonable detail the amount of Buyers' liability. Buyers shall promptly pay to Sellers the amount of their liability as determined in this Section 5.3(f) within five (5) days of Sellers' payment and notice thereof. Sellers and Buyers shall cooperate with respect to any protest or audit proceedings, and shall share the costs of such proceedings in proportion to the fraction determined in the first sentence of this Section 5.3(f). Neither Sellers nor Buyers shall settle any such proceeding without the prior written consent of the other party, which consent shall not be unreasonably withheld.

(g) Sellers shall deliver to Buyers at the First Stage Closing Date a certification of non-foreign status as described in Section 1.1445-2(b)(2) of the Treasury Regulations.

5.4 Employees and Employee Benefits

(a) Sellers shall provide Buyers with an update to Schedule 3.7(a) immediately prior to the First Stage Closing Date. Unless otherwise agreed in writing prior to the First Stage Closing Date, Buyers shall make offers of employment to all of the Business Employees of Sellers as of the First Stage Closing Date, provided that Sellers shall comply with the covenant set forth in Section 5.15(b). Business Employees who accept such offer of employment, as of the effective date of their employment with Buyers or one of its Affiliates (the "Transfer Date"), shall be referred to as "Transferred Employees." All liabilities, costs and Actions related to Business Employees who do not accept such offers of employment shall be Excluded Liabilities hereunder. Each offer of employment shall provide for a base salary no less than their base salary as an employee of Sellers as of the First Stage Closing Date and health, welfare, retirement and severance benefits as shall be applicable to comparable Buyers' employees generally; provided, however, that any Transferred Employee who is a Key Employee shall receive base salary and health, welfare, retirement and severance benefits (other than any defined benefit plans) that are, taken as a whole, substantially equivalent to that currently enjoyed by such Transferred Employee as an employee of Sellers.

(b) To the extent permitted by law, Buyers' benefit plans and policies, including vacation, floating holidays, retirement, severance and welfare plans, shall recognize, for purposes of determining eligibility to participate all service with Sellers that was recognized by Sellers for a similar purpose under a corresponding Benefit Plan. Nothing in this paragraph (b) shall require the Buyers to provide duplicate benefits to any Transferred Employee.

(c) Except as specifically provided in this Section 5.4: (i) no Buyer or any of its Affiliates shall adopt, become a sponsoring employer of, or have any obligations under or with respect to the Benefit Plans, and Sellers shall be responsible for any and all liabilities which have arisen or may arise under or in connection with any Benefit Plan; and (ii) Sellers shall be responsible for any and all liabilities relating to or arising out of the employment of any Business Employee by Sellers before the First Stage Closing Date.

(d) Buyers shall be responsible for all liabilities, costs and Actions to the extent arising out of, or resulting from, facts, events and circumstances occurring, or which accrue, after the First Stage Closing Date (other than due to any failure to comply or breach of any Sellers or any of their Affiliates, whether before, on or after the First Stage Closing Date) related to (i) the Transferred Employees, and (ii) the Business Employees with respect to whom Buyers have not extended an offer as required under Section 5.4(a) and whose employment with Sellers terminates within two (2) months after the First Stage Closing Date (other than due to any failure or breach of any Sellers or any of its Affiliates, whether before, on or after the First Stage Closing Date). Sellers shall provide within three (3) months after the First Stage Closing Date written reconciliation of any amount owed with respect to such Transferred Employees and Business Employees, from and after the First Stage Closing Date, including without limitation: (A) claims for the type of benefits described in Section 3(1) of ERISA (whether or not covered by ERISA but in no event to include such claims with respect to Business Employees to whom offers have not been extended, in accordance with the terms hereof, who are on long term disability) and for workers compensation, in each case that are incurred by or with respect to any Transferred Employee on or after his or her Transfer Date, and (B) claims relating to severance, redundancy and similar pay, salary continuation, and similar obligations (collectively, "Severance Pay") relating to the termination or alleged termination of employment of any Business Employee described in clause (ii) of this Section 5.4(d) with Sellers, whether arising under a Benefit Plan, an Employment Agreement or other agreement, in each case only with respect to those which have been disclosed to Buyers on Schedule 3.7(b), with an individual Business Employee, or applicable Law. Buyers shall indemnify and hold harmless Sellers from: (i) all COBRA Coverage and related Losses attributable to "qualifying events" with respect to any Business Employees described in clause (ii) of this Section 5.4(d) and his or her beneficiaries and dependents that occur on or after the First Stage Closing Date (other than due to any failure to comply or breach of any of the Sellers or any of their Affiliates, whether before, on or after the First Stage Closing) and (ii) all liabilities, costs, claims and Actions arising under the Worker Adjustment and Retraining Notification Act ("WARN") with respect to any Business Employees described in clause (ii) of this Section 5.4(d) because of the failure of Buyers or their Affiliates to extend offers of employment to Business Employees as required by Section 5.4(a) (other than due to any failure to comply or breach of any of the Sellers or any of their Affiliates, whether before, on or after the First Stage Closing).

(e) Buyers shall provide Sellers with information concerning the employment status of Transferred Employees, including any date of termination from Buyers and its Affiliates, so as to enable Sellers to administer its Benefit Plans with respect to such Transferred Employees. Such information shall be provided from time to time in such form (including any electronic media) as reasonably requested by Sellers.

(f) Buyers shall credit each Transferred Employee with vacation accrued but not used through his or her Transfer Date.

5.5 Regulatory Compliance

(a) Sellers and Buyers shall use their reasonable best efforts to take, or cause to be taken, all appropriate action, and do, or cause to be done, all things necessary, proper or advisable under applicable Law or otherwise to consummate and make effective the transactions contemplated by this Agreement as promptly as practicable, including to: (i) obtain from Governmental Bodies any consents, licenses, permits, waivers, approvals, authorizations or orders required to (A) be obtained or made by Sellers or Buyers or any of their Affiliates to consummate the transactions contemplated by this Agreement or (B) avoid any action or proceeding by any Governmental Body (including those in connection with the HSR Act and antitrust and competition Laws of any other applicable jurisdiction) in connection with the authorization, execution and delivery of this Agreement and to permit the consummation of the transactions contemplated hereby to occur as soon as reasonably possible, and (ii) promptly make all necessary filings, and thereafter make any other required submissions, with respect to this Agreement required under (A) the HSR Act and antitrust and competition Laws of any other applicable jurisdiction, in each case, to the extent required by applicable Law, (B) the Communications Act or (C) any other applicable Law. Sellers and Buyers shall cooperate with each other in connection with the making of all filings referenced in the preceding sentence. Sellers and Buyers shall bear its own costs and expenses in connection with its performance under this Section 5.5, except the filing fees in connection with any required filings or submissions under the HSR Act shall be apportioned fifty percent (50%) to Sellers and fifty percent (50%) to Buyers.

(b) Without limiting the foregoing, Buyers and Sellers shall:

(i) promptly provide to the Federal Trade Commission or Department of Justice, as the case may be, such information as may reasonably and legally be requested by the Federal Trade Commission or Department of Justice, as the case may be, and shall cause their respective officers and employees to respond to any reasonable and legal information or other requests from the Federal Trade Commission or Department of Justice, as the case may be (including complying with requests for in-person meetings), in connection with the review by the Federal Trade Commission or Department of Justice, as the case may be, of this Agreement and the transactions contemplated hereby; and

(ii) promptly submit to the FCC, any State PUCs, regulatory agencies or similar Governmental Bodies as required by applicable Law and all other applicable Governmental Bodies all applications, notices and other filings necessary to consummate the transactions contemplated by this Agreement and the Collateral Agreements, including those indicated on Schedule 3.3(b) and Schedule 4.3(b) and obtain any other Consents necessary to consummate the transactions contemplated hereby.

5.6 Certain Provisions Relating to the Transfer

(a) In the event that record or beneficial ownership or possession of any Excluded Asset or Excluded Liability has been transferred to Buyers on or after the Staged Closing Dates, Sellers and Buyers shall use their commercially reasonable efforts to transfer, or cause to be transferred, to Sellers such Excluded Asset or Excluded Liability; and, pending such transfer to Sellers, Buyers shall hold such Excluded Asset or Excluded Liability and provide to Sellers all of the benefits and liabilities associated with the ownership and operation of such Excluded Asset or Excluded Liability and, accordingly, Buyers shall cause such Excluded Asset or Excluded Liability to be operated or retained as may reasonably be instructed by Sellers.

(b) In the event that record or beneficial ownership or possession of any Acquired Asset or any Assumed Liability has not been transferred to Buyers on the Staged Closing Dates, Sellers and Buyers shall cooperate and shall use their commercially reasonable efforts to transfer, or cause to be transferred, from Sellers to Buyers, such Acquired Asset or Assumed Liability, and pending such transfer to Buyers, Sellers shall hold such Acquired Asset or Assumed Liability and provide to Buyers all of the benefits and liabilities associated with the ownership and operation of such Acquired Asset or Assumed Liability and, accordingly, Sellers shall cause such Acquired Asset or Assumed Liability to be operated or retained as may reasonably be instructed by Buyers.

5.7 Advice of Changes

(a) Sellers will promptly provide written notice to Buyers of (i) any event known to Sellers which has rendered or reasonably could be expected to render any representation or warranty of Sellers contained in this Agreement or any Collateral Agreement (A) which does not contain materiality, Material Adverse Effect or any other materiality qualifier, if made on or as of the date of such event or the date of the First Stage Closing Date, untrue or inaccurate in any material respect or (B) which does contain a materiality, Material Adverse Effect or other materiality qualifier, if made on and as of the date of such event or the First Stage Closing Date, untrue or inaccurate in any respect (each, a "Sellers' R&W Breach"), or (ii) any failure of Sellers to comply with or satisfy (X) in any material respect any covenant, condition or agreement contained in this Agreement or any Collateral Agreement which does not contain materiality, Material Adverse Effect or any other materiality qualifier to be complied with or satisfied by Sellers hereunder or thereunder on or prior to the First Stage Closing Date or (Y) any covenant, condition or agreement contained in this Agreement or any Collateral Agreement which does contain materiality, Material Adverse Effect or any other materiality qualifier to be complied with or satisfied by Sellers hereunder or thereunder on or prior to the First Stage Closing Date (each, a "Sellers' Covenant Failure").

(b) Buyers will promptly provide written notice to Sellers of (i) any event known to Buyers which has rendered or reasonably could be expected to render any representation or warranty of Buyers contained in this Agreement or any Collateral Agreement (A) which does not contain materiality, Material Adverse Effect or any other materiality qualifier, if made on or as of the date of such event or the date of the First Stage Closing Date, untrue or inaccurate in any material respect or (B) which does contain a materiality, Material Adverse Effect or other materiality qualifier, if made on and as of the date of such event or the First Stage Closing Date, untrue or inaccurate in any respect (each, a "Buyers' R&W Breach"), or (ii) any failure of Buyers to comply with or satisfy (X) in any material respect any covenant, condition or agreement contained in this Agreement or any Collateral Agreement which does not contain materiality, Material Adverse Effect or any other materiality qualifier to be complied with or satisfied by Buyers hereunder or thereunder on or prior to the First Stage Closing Date or (Y) any covenant, condition or agreement contained in this Agreement or any Collateral Agreement which does contain materiality, Material Adverse Effect or any other materiality qualifier to be complied with or satisfied by Buyers hereunder or thereunder on or prior to the First Stage Closing Date (each, a "Buyers' Covenant Failure").

(c) The parties acknowledge and agree that if the Buyers have been given notice of any Sellers' R&W Breach(es) and/or Sellers' Covenant Failure(s) in accordance with Section 5.7(a) and Buyers proceed with the First Stage Closing when Buyers have the right not to proceed to Closing under Section 7.2(a), then Buyers shall not be deemed to have waived such Breach(es) and Failure(s), and Buyers and their related Indemnified Parties shall be entitled to be indemnified pursuant to Section 8.2 relating to such Breach(es) and/or Failure(s) to the extent solely of the Losses up to Five Million U.S. Dollars ($5,000,000). The disclosure by Sellers of any Sellers' R&W Breach(es) and/or Sellers' Covenant Failure(s) shall not limit any right of Buyers to terminate this Agreement in accordance with Article 9, nor shall such notice constitute an admission by Sellers that any such Breach(es) and/or Failure(s) constitute or give rise to a Material Adverse Effect, failure of a condition in Article 7 or right to terminate in accordance with Article 9.

(d) The parties acknowledge and agree that if the Sellers have been given notice of any Buyers' R&W Breach(es) and/or Buyers' Covenant Failure(s) in accordance with Section 5.7(b) and Sellers proceed with the First Stage Closing, Sellers shall not be deemed to have waived such Breach(es) or Failure(s), and Sellers and their related Indemnified Parties shall be entitled to be indemnified pursuant to Section 8.2 hereof relating to such Breach(es) and/or Failure(s) to the extent solely of the Losses up to Five Million U.S. Dollars ($5,000,000). The disclosure by Buyers of any Buyers' R&W Breach(es) and/or Buyers' Covenant Failure(s) shall not limit any right of Sellers to terminate this Agreement in accordance with Article 9, nor shall such notice constitute an admission by Buyers that any such Breach(es) and/or Failure(s) constitute or give rise to a Material Adverse Effect, failure of a condition in Article 7 or right to terminate in accordance with Article 9.

(e) Sellers, on the one hand, and Buyers, on the other hand, will promptly give notice to the other upon becoming aware that any Action is pending or threatened by or before any Governmental Body, in each case with respect to the transactions contemplated by this Agreement or any Collateral Agreement. Sellers, on the one hand, and Buyers, on the other hand, (i) will cooperate in connection with the prosecution, investigation or defense of any such Action, (ii) will supply promptly all information reasonably and legally requested by the other, by any such Governmental Body or by any party to any such Action and (iii) will use commercially reasonable efforts to cause any such Action to be determined as promptly as practicable and in a manner which does not impact adversely on, and is consistent with, the transactions contemplated by this Agreement and the Collateral Agreements.

5.8 Covenant Not to Compete; No Solicitation and No Hiring

Sellers covenant and agree that for a period of thirty-six (36) months following the First Stage Closing Date, except as required or permitted by the Collateral Agreements listed in Sections 5.11(c) and 5.11(e) hereof, none of the Sellers or their subsidiaries shall, directly or indirectly (and Sellers will use their commercially reasonable efforts to cause their respective Affiliates not to), (i) engage in, control, advise, manage, serve as a director, officer, or employee of, act as a consultant to, receive any economic benefit from (other than any economic benefit from the C III LLC Agreement) or exert any influence upon, any business which conducts the same activities as those conducted by the Business (individually and collectively "Compete"), except the delivery of products and services to the Buyers under the Collateral Agreements and the conduct of the Retained Business, within the continental United States (the "Territory"); or (ii) solicit, divert or attempt to solicit or divert any party who is, was, or was solicited to become, a customer or supplier of the Business at any time prior to the Second Stage Closing Date, except solely the attempted solicitation or solicitation of any such customer or supplier to become a customer or supplier of a business that does not Compete with the Business, except the delivery of products and services to the Buyers under the Collateral Agreements and the conduct of the Retained Business, within the Territory. For a period of thirty-six (36) months following the Second Stage Closing Date, neither Sellers nor their respective Affiliates (other than any directors, officers or employees of Sellers provided not in their capacity as such) shall directly or indirectly solicit for employment or hire as an employee or consultant, any of the Transferred Employees or other employees of Buyers or its Affiliates engaged in the Business unless such employee's employment is earlier terminated by Buyers. For the avoidance of doubt, neither the covenant in this Section nor the Sellers' Parent's Non-Competition and Confidentiality Agreement shall prohibit Sellers' Parent or its Affiliates from continuing to conduct their respective businesses described on Schedule 5.8. For a period of twelve (12) months following the Second Stage Closing Date, Buyers and their Affiliates shall not directly or indirectly solicit for employment or hire as an employee or consultant, any employee (other than a Transferred Employee) who works for Sellers or their respective Affiliates unless such employee's employment is earlier terminated by Sellers or any of their respective Affiliates. Notwithstanding the foregoing, this Section 5.8 shall not prevent Buyers or Sellers (or any of their respective Affiliates or any Person acting on their behalf) from conducting general searches for employees by use of advertisements or the media that are not directly targeted at the employees of the other party.

5.9 Confidentiality

Except for confidential information related to or otherwise contained in the Excluded Assets (other than any Excluded Assets that comprise Business Records) including Intellectual Property not being sold, but being licensed to Buyers, for a period of four (4) years after the Second Stage Closing Date, Sellers will not, and Sellers will use commercially reasonable efforts to cause their respective Affiliates not to, use for its or their own benefit or divulge or convey to any Third Party, any Confidential Information (as hereinafter defined) relating to the Business, provided that Sellers shall be entitled to provide copies of this Agreement and the Collateral Agreements to the lenders under the Credit Agreement. For purposes of this Agreement, Sellers shall not be deemed to have violated this Section 5.9 if any Seller or any of their respective Affiliates receives a request to disclose all or any part of the Confidential Information under the terms of a subpoena, civil investigative demand or order issued by a Governmental Body, and such Seller or such Affiliate, to the extent not inconsistent with such request and to the extent time reasonably allows: (a) notifies Buyers of the existence, terms and circumstances surrounding such request; (b) consults with Buyers on the advisability of taking legally available steps to resist or narrow such request; and (c) if disclosure of any Confidential Information is advisable, to prevent such Seller or such Affiliate or any of its or their partners, principals or employees from becoming subject to any penalty, to furnish only such portion of the Confidential Information as it reasonably determines that such Seller or such Affiliate is legally obligated to disclose and to exercise commercially reasonable efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to the disclosed Confidential Information. For purposes of this Agreement and subject to the first sentence of this Section 5.9, "Confidential Information" consists of all information, knowledge or data related to the Business not in the public domain or otherwise publicly available which are or were treated as confidential by the Business. Information that enters the public domain or is or becomes publicly available loses its confidential status hereunder so long as neither Sellers nor any of their respective Affiliates, directly or indirectly, improperly causes such information to enter the public domain.

5.10 Waiver of Restrictions on Certain Business Employees

Sellers hereby agree to waive, effective as of the First Stage Closing Date, any non-competition and other applicable restrictions on Business Employees who become Transferred Employees so as to permit them to participate in the conduct by Buyers and their Affiliates (and their respective successors and assigns) of the Business, whether such restrictions are in their respective Employment Agreements or any other Contracts.

5.11 Additional Agreements

(a) Buyers and Sellers shall have entered into an agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit D hereto, relating to Buyers' use of Broadwing Technology Solutions Inc.'s provision of help desk services (the "Help Desk Agreement").

(b) Buyers and Sellers shall have entered into an agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit E hereto, relating to Buyers' use of Sellers' APTIS software (the "APTIS Software Agreement").

(c) Buyers and Sellers shall have entered into agreements prior to on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit F hereto, including with respect to the business of (i) providing underlying goods and services for resale to Sellers' Parent and its Affiliates' customers, (ii) providing goods and services for internal use by Sellers' Parent and its Affiliates and (iii) acting as an agent of Buyers with respect to Sellers' Parent and Affiliates' customers (collectively, the "Intercompany Agreements").

(d) Buyers and Sellers shall have entered into an agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit G hereto, pursuant to relating to Buyers' use of certain of Sellers' IP and Sellers' IPR (the "Intellectual Property Rights Assignment Agreement").

(e) C III and Sellers' Parent shall have entered into a limited liability agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit H hereto relating to Sellers' Parent becoming a member of C III (the "C III LLC Agreement").

(f) Buyers and Sellers and the escrow agent thereunder shall have entered into (w) an escrow agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit I-1 hereto, relating to the Escrow Amount (Working Capital/Indemnity) (the "Escrow Agreement (Working Capital/Indemnity)"), (x) an escrow agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit I-2 hereto, relating to the Escrow Amount (Cranberry Adjustment) (the "Escrow Agreement (Cranberry Adjustment)"), (y) an escrow agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit I-3 hereto, relating to the Escrow Amount (Closing Adjustment Receivables) (the "Escrow Agreement (Closing Adjustment Receivables)"), and (z) an escrow agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit I-4 hereto, relating to the Escrow Amount/Second Stage Closing (the "Escrow Agreement (Second Stage Closing)").

(g) Buyers and Sellers and Sellers' Parent shall have entered into an agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit J hereto relating to transition services to be provided by Sellers and Sellers' Parent to Buyers (the "Transition Services Agreement").

(h) Buyers and Sellers' Parent shall have entered into a letter agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit K hereto relating to the obligation of Sellers' Parent and their Affiliates to comply with Section 5.8 (the "Sellers' Parent's Non-Competition Agreement").

(i) Buyers and Sellers and Sellers' Parent shall have entered into an agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit L hereto relating to management services to be provided by Buyers to Sellers during the period between the First Stage Closing and the Second Stage Closing (the "Management Services Agreement").

(j) Buyers and Sellers shall have entered into a security agreement prior to or on the First Stage Closing Date, substantially on the terms and conditions contained in Exhibit M hereto relating to a security interest to be provided by Sellers to Buyers in the Acquired Assets that are contemplated by this Agreement to be sold, transferred, assigned and conveyed after the First Stage Closing to secure the obligation of Sellers to effect the Second Stage Closing (the "Security Agreement").

5.12 Other Securities

(a) Sellers covenant and agree (i) to retire the 9% Notes and the Senior Notes or (ii) to obtain a consent and/or waiver from the holders of the 9% Notes and the Senior Notes with respect to the transactions contemplated hereby, in either case on or prior to the First Stage Closing Date.

(b) Sellers covenant and agree to use their best efforts (i) to retire or exchange the 12 ½% Preferred Stock or (ii) to obtain any necessary consents and/or waivers from the holders of the 12 1/2% Preferred Stock with respect to the transactions contemplated hereby, in either case on or prior to the First Stage Closing Date.

5.13 No Solicitation

From and after the date of this Agreement, Sellers shall not, and shall use their respective reasonable best efforts to cause their respective Affiliates, representatives and agents (including, without limitation, investment bankers, attorneys and accountants) not to, directly or indirectly, through any officer, director, agent or otherwise, enter into, solicit, initiate, conduct or continue any discussions or negotiations with, or knowingly encourage any inquiries or proposals or offers by, or provide any information to, or otherwise cooperate in any other way with, any Person or group, other than Buyers and their representatives and agents, concerning (i) any sale of all or any portion of the Business or the Acquired Assets to any Person other than Buyers, (ii) any merger, acquisition, consolidation, recapitalization, liquidation, dissolution or similar transaction involving the Business or the Acquired Assets or (iii) any transaction or transactions that would have an effect similar to the transactions described in clause (i) or (ii).

5.14 Communication and Cooperation with Respect to Customers

Sellers and Buyers shall, within ten (10) days after the date hereof, reach mutual agreement on a communications plan with respect to customers and other Persons who are important to the conduct of the Business which communications plan shall constitute Exhibit N hereto. Seller shall use reasonable commercial efforts to communicate with customers and such other Persons as set forth in such communications plan, and otherwise as Buyers shall reasonably request, with the objective of reducing any adverse consequences arising from the announcement of the transactions contemplated hereby and by the Collateral Agreements. Buyers shall have the right to review and comment upon any communication, or plan to communicate, about the transaction prior to such communication or plan being made or implemented.

5.15 Sellers' Business Plan

Except as otherwise consented to by Buyers, Sellers will:

(a) Use commercially reasonable efforts to Employ at least seventy-five (75) national market sales persons as of the First Stage Closing Date.

(b) Employ, as of the First Stage Closing Date, a number of Business Employees in each of the line item categories listed on Schedule 5.15(b), equal to (i) no more than ten percent (10%) greater than or ten percent (10%) less than the number of Business Employees for those line items with one hundred (100) or more employees, and (ii) no more than twenty percent (20%) greater than or twenty percent (20%) less than the number of Business Employees for those line items with fewer than 100 employees. The minimums in this paragraph are on a commercially reasonably basis. The number of Business Employees for this purpose shall be rounded to the nearest whole person.

(c) Make capital expenditures no more than twenty percent (20%) greater than and no less than twenty percent (20%) less than the capital expenditure budget set forth in the Cranberry Capital Expenditure budget set forth on Schedule 5.15(c).

(d) Except as set forth on Schedule 5.15(d), not to exit or terminate any line of business of the Business that accounted for greater than Five Million U.S. Dollars ($5,000,000) of annual revenue for the fiscal year ending December 31, 2002.

(e) Not to terminate or discontinue access to circuits that are necessary to generate any revenues of the Business.

5.16 Agreements Regarding Certain Actions

With respect to the Actions set forth on Schedule 5.16 and all other Excluded Liabilities, Sellers and Buyers hereby agree as follows:

(a) All such Actions shall be Excluded Assets and Excluded Liabilities; and

(b) Buyers shall provide Sellers with access to all information that constitutes a part of the Acquired Assets and shall otherwise cooperate with Sellers (including by the provision of a reasonable amount of the time of Key Employees to assist Sellers) in Sellers' prosecution of all such Actions; provided that such cooperation shall not unreasonably interfere with the operation of Buyers' business and, except as set forth in Section 5.16(c), Sellers shall have exclusive control with respect to such Actions.

(c) One or more Sellers and/or their Affiliates have a dispute under the ELI Contract (the "ELI Dispute") which, among other things, could result in the loss by Sellers of the rights to the IRU under the ELI Contract with respect to the ELI route from Sacramento to Seattle (the "ELI Route"). Sellers shall provide Buyers with access to all information that does not constitute a part of Acquired Assets and shall otherwise cooperate with Buyers (including by the provision of a reasonable amount of time of the personnel of Sellers and their Affiliates to assist Buyers) in Buyers' prosecution of the ELI Dispute and Buyers shall have exclusive control with respect to the ELI Dispute, except that Buyers shall allow Sellers to participate in (at Seller's expense) and be kept informed regarding, such dispute, and Buyers shall not be entitled to settle the dispute in a manner which imposes any liability on Sellers or any of their Affiliates, without the prior written consent of the applicable Seller(s). If at any time within one (1) year after the Closing Date, Buyers' rights to the IRU with respect to the ELI Route become unavailable for any reason (including without limitation in connection with the ELI Dispute) other than Buyers' breach thereunder, then Sellers shall use commercially reasonable efforts to procure for Buyers, immediately after the loss or anticipated loss of such route and at no cost to Buyers, four (4) fiber pairs of comparable or better fiber type with hut, space, power and other features comparable to the existing fiber pairs (the "ELI Replacement Fibers") for use with the Corvis ON platform on the same route. Sellers shall transfer to Buyers, upon terms and conditions (including price) to be negotiated in good faith at such time, any fiber, conduit, rights of way, huts or similar items obtained by one or more Sellers in connection with the dispute with El Paso Global Networks.

5.17 Ownership and Use of Broadwing Names Following Staged Closings

(a) Sellers covenant and agree that Sellers shall, and Sellers shall cause all of their Affiliates (including Sellers' Parent and BCI) which use the Broadwing Name, to pass all required resolutions and to amend their respective articles or certificate of incorporation or other organizational documents to change their corporate or company name to a name that does not include the word "Broadwing" or any name intended or likely to be confused or associated with any Broadwing Name prior to or on the First Stage Closing Date, and shall make commercially reasonable efforts to cause the registration of the new name with the appropriate Governmental Bodies no later than the Second Stage Closing Date. Promptly following receipt of confirmation from the appropriate Governmental Bodies that such name change has been effected, Sellers shall provide to Buyers written proof that such name change has been effected.

(b) Sellers acknowledge that the Broadwing Name shall be and remain, subsequent to the Second Stage Closing, the sole and exclusive property of Buyers or their Affiliates.

(c) Sellers shall grant Buyers an exclusive license to the use of the Broadwing Name in every jurisdiction where Sellers are permitted by Law, Governmental Body or applicable Communications License to grant such license, and shall extend such license to additional jurisdiction as Consents are obtained under Section 2.7.

(d) Subsequent to the Second Stage Closing, neither Sellers nor any of their Affiliates shall have any right, title or interest in or to, and, subject to Sections 5.17(e), Buyers are not granting Sellers or any of their Affiliates, a license to use, the Broadwing Name.

(e) Sellers agree:

(i) that, as soon as reasonably practicable, but, in any event, within ninety (90) days following the Second Stage Closing, no stationery, purchase order, invoice, receipt or other similar document containing any reference to the Broadwing Name shall be printed, ordered or produced for use by any Seller or any of its Affiliates and that Sellers shall, and Sellers shall cause each of their respective Affiliates to, following the Second Stage Closing, cease to use any of its Affiliates and that Sellers shall, and Seller shall cause each of their respective Affiliates to, following the Second Stage Closing, cease to use any stationery, purchase order, invoice, receipt or other similar document containing any reference to the Broadwing Name or shall only use such stationery, purchase order, invoice, receipt or other similar document after having deleted, pasted over or placed a sticker over such references. The obligations in this paragraph (i) shall not apply (x) to the extent use of the Broadwing Name is required by Law or otherwise reasonably required pending the registration of the change of corporate name (as set out in Section 5.17), (y) to the extent use of the Broadwing Name is reasonably required in order to enable collection or payment of invoices issued by a Seller or any of its Affiliates, or (z) to the extent use of the Broadwing Name is reasonably required pending registration of products under the new corporate name (as set out in Section 5.17);

(ii) as soon as reasonably practicable after the First Stage Closing, and in any event no later than (A) ninety (90) days after the First Closing Date, with respect to all premises and signs and (B) sixty (60) days after the First Stage Closing Date, with respect to all vehicles, to remove the Broadwing Name from all such premises, signs and vehicles which are used by or in connection with the Sellers and their Affiliates, except in those jurisdictions where an exclusive license is not granted pursuant to Section 5.17(c);

(iii) that following the First Stage Closing, no brochures, leaflets or similar documents and no packaging containing any reference to the Broadwing Name shall be printed, ordered or produced for use by any Seller or any of its Affiliates (or in connection with its business) and, with respect to existing brochures, leaflets or similar documents and packaging containing a reference to the Broadwing

Name, that Sellers shall, and Sellers shall cause each of its Affiliates to, use its reasonable efforts to ensure that, as soon as reasonably practicable but in no event later than sixty (60) days following the First Stage Closing, such references are deleted, pasted over or a sticker is put over such references, except in those jurisdictions where an exclusive license is not granted pursuant to Section 5.17(c); and

(iv) that Sellers shall, and Sellers shall cause each of its Affiliates to, use its reasonable efforts to ensure that, from and following the First Stage Closing, no stocks, goods, products, services or software are manufactured, produced or provided showing or having marked thereon or using the Broadwing Name; provided that any stocks, goods or products of a Seller or any of its Affiliates which, at the date hereof, show the Broadwing Name or have the Broadwing Name marked thereon may be used by such Seller or Affiliate in the conduct of their business as carried on at the date hereof, except in those jurisdictions where an exclusive license is not granted pursuant to Section 5.17(c).

(f) Notwithstanding any other provision of this Agreement, it is understood and agreed that the remedy of indemnity payments pursuant to Article 8 and other remedies at Law would be inadequate in the case of a breach of any of the covenants contained in this Section 5.17. Accordingly, Buyers shall be entitled to equitable relief, including the remedy of specific performance, with respect to any breach or attempted breach of such covenants, in accordance with Section 10.11.

5.18 Business Audited Financials

At or prior to Closing, Sellers shall deliver to Buyers financial statements for the Business for the periods as at and ending December 31, 2000, 2001 and 2002 which have been audited by Sellers' independent public accountants in compliance with applicable requirements of generally accepted accounting principles, generally accepted auditing standards and Securities and Exchange Commission requirements for inclusion in a periodic report on Form 8-K. Buyers shall be responsible for all fees charged and costs incurred by such independent public accountants for the audit of such financial statements and for any out-of-pocket expenses incurred by Sellers in connection therewith. Buyers acknowledge and agree that Sellers make, and shall make, no representation or warranty with respect to such financial statements to be prepared pursuant to this Section.

5.19 Additional Monthly Financials

For each month ending after the date of this Agreement and prior to the First Stage Closing Date, as soon as available but in any event within twenty (20) days after the end of each such month, Sellers shall deliver to Buyers an unaudited consolidated balance sheet and profit and loss for the Business (which for purposes hereof may include the Retained Business) in substantially the form of the Monthly Statements.

5.20 Certain BCI and Sellers' Guaranties

BCI and Sellers have executed and delivered the guaranties listed on Schedule 5.20 pursuant to which BCI and Sellers have guaranteed certain liabilities and/or obligations of one or more of the Sellers that constitute Assumed Liabilities (collectively, the "BCI and Sellers' Guaranties"). Buyers and Sellers shall use reasonable commercial efforts to obtain the Consent of the Persons who are the named beneficiaries of the BCI and Sellers' Guaranties to the replacement of BCI or applicable Seller, as guarantor under the BCI and Sellers' Guaranties, with Buyers' Parent, with respect to the Assumed Liabilities, provided that neither Buyers nor Buyers' Parent shall be required to pay any fees or make any other financial or other concession to any such Persons, including without limitation, any amendment, supplement or other modification to any BCI or Seller Guaranty. In the event Buyers' Parent has not replaced BCI or the applicable Seller under any BCI or Seller Guaranty on or prior to the Second Stage Closing, Buyers shall indemnify, defend and hold harmless BCI or the applicable Seller with respect to any Assumed Liabilities under such BCI and Seller Guaranty(ies) as set forth in Section 8.2(c)(i). BCI and Sellers shall remain on, and continue to be liable under, the BCI and Sellers' Guaranties with respect to any Excluded Liabilities, and Sellers shall indemnify, defend and hold harmless Buyers with respect to any Excluded Liabilities under the BCI and Sellers' Guaranties as set forth in Section 8.2(b)(i).

5.21 Collection of Receivables

Prior to the applicable Staged Closing Date, Sellers shall continue to collect Receivables in the ordinary course of business and according to past practices, provided that Sellers shall not be obligated to initiate a suit or other cause of action in order to collect any of the Receivables.

5.22 Participating Accounts

From and after the First Stage Closing Date, Buyers shall use reasonable commercial efforts to collect the Participating Accounts, provided that Buyers shall not be obligated to initiate a suit or other cause of action in order to collect any of the Participating Accounts. Within thirty (30) days after the end of each month after the First Stage Closing for the first six (6) months after such Closing, and within thirty (30) days after the end of each calendar quarter for two (2) years thereafter, Buyers shall provide a written statement to Sellers showing the collections of any amount of the Participating Accounts (the "Collected PA Amounts"), and the out-of-pocket expenses incurred by Buyers to make such collections. Buyers shall submit to Sellers with each such statement an amount equal to the product of seventy-five percent (75%) and the excess of the Collected PA Amounts over such out-of-pocket expenses.

5.23 Commitment Letters

Prior to the First Stage Closing Date, Buyers shall meet with each Business Employee who has an Employment Agreement set forth on Schedule 3.8(a), explain such Business Employee his or her contemplated position within Buyers and make a corresponding offer of employment. Buyers shall assume the Employment Agreement of each such Business Employee who agrees to accept such offer (including such position) and executes a letter agreeing to the assumption of such Employment Contract and that such assumption (and the position to be held by such Business Employee) is not a constructive termination under such Employment Contract (a "Commitment Letter").

5.24 Optional Intercompany Agreements

At the First Stage Closing, Buyers shall have the right (but not the obligation) to enter into the Collateral Agreements set forth on Schedule 5.24 on the terms set forth therein. In the event that Buyers determine, in their sole discretion, not to accept such terms, Buyers and Sellers shall undertake good faith negotiations to attempt to reach agreement on mutually acceptable terms for such Collateral Agreements. Any election or failure to reach mutual agreement pursuant to this Section 5.24 will not be grounds for the failure of a condition under Section 7.3(b).

5.25 BTS Employees.

On or before the First Stage Closing Date, the Broadwing Technology Services, Inc. employees set forth on Schedule 5.25 shall be transferred to the Business and become Business Employees.

5.26 Revenues by State

Within sixty (60) days prior to the contemplated First Stage Closing Date, Sellers shall deliver to Buyers a statement showing the allocation of the revenues of the Business under Customer Contracts for each state in the United States in which Sellers conduct the Business, such statement to be as of the last day of the immediately preceding month (the "Revenues Statement"), accompanied by a certification from the financial officer of Sellers who prepared the Revenue Statement that it was prepared consistent with the methodology used to fulfill prior annual reporting requirements of Sellers to the relevant State PUCs.

6. Closing

6.1 Closing

The closing of the transactions contemplated by this Agreement (the "Closing") shall take place in two (2) stages at the offices of Gibson, Dunn & Crutcher LLP in New York City. The first closing stage (the "First Stage Closing"), at which the Initial Purchase Price shall be paid in full, shall commence at 9:00 a.m. local time on the last Business Day of the month containing the date on which all FCC and State PUC Consents necessary to effectuate the transfer of Customer Contracts that generate not less than eighty percent (80%) of the revenues of the Business set forth in the Revenues Statement have been obtained (the "First Stage Closing Date"). The second closing stage (the "Second Stage Closing") shall commence at 9:00 a.m. local time on the first Business Day after the date on which the last FCC and the last State PUC Consent(s) necessary to effectuate transfer of the remaining Acquired Assets, including the Customer Contracts, have been obtained (the "Second Stage Closing Date"). Buyers may elect to effect the Second Stage Closing at any time on or subsequent to the First Stage Closing Date, by written notice to Sellers at least five (5) Business Days before the Second Stage Closing Date contained in such notice (the "Two Stage Waiver Notice").

6.2 Deliveries by Sellers

At the applicable Staged Closing Date, and as applicable, Sellers shall deliver to Buyers the following:

(a) a bill of sale for the Acquired Assets (other than those Acquired Assets being conveyed pursuant to the Assignment and Assumption Agreement, the Intellectual Property Rights Assignment Agreement and the other agreements and instruments of conveyance executed at the applicable Staged Closing), which shall include a schedule of the Acquired Assets (or a reasonably specific description of the categories thereof) being transferred or assigned from the respective Sellers to the respective Buyers, substantially in the form of Exhibit O (the "Bill of Sale"), duly executed by Sellers;

(b) a counterpart of the Assignment and Assumption Agreement substantially in the form of Exhibit P (the "Assignment and Assumption Agreement") which shall include a schedule of the Assumed Liabilities (or a reasonably specific description of categories thereof) being transferred to or assumed by the respective Buyers from the respective Sellers, duly executed by Sellers;

(c) executed counterparts of each other Collateral Agreement;

(d) a certificate of non-foreign status as described in U.S. Treasury Regulation section 1.1445-2(b)(2) of the Treasury Regulations;

(e) other instruments of transfer reasonably required by Buyers to evidence the transfer of the Acquired Assets to Buyers;

(f) certificate, dated the First Stage Closing Date, of Sellers certifying as to the compliance by Sellers with Sections 7.2(a) and (b);

(g) an opinion, dated the First Stage Closing Date, from Gibson, Dunn & Crutcher LLP, counsel(s) for Sellers, and/or such other counsel(s) reasonably acceptable to Buyers, in form and substance reasonably satisfactory to Buyers and to the effect set forth and otherwise as contemplated on Exhibit Q.

6.3 Deliveries by Buyers

At the applicable Staged Closing Date, and as applicable, Buyers shall deliver, or shall cause a subsidiary of Buyers, as applicable, to deliver, to Sellers or their respective designee(s) the following:

(a) the Initial Purchase Price;

(b) a counterpart of the Bill of Sale and the Assignment and Assumption Agreement, duly executed by Buyers;

(c) executed counterparts of each other Collateral Agreement;

(d) a certificate, dated the First Stage Closing Date, of Buyers, certifying as to compliance by Buyers with Sections 7.3(a) and (b); and

(e) An opinion, dated the First Stage Closing Date, of Mayer, Brown, Rowe & Maw, special counsel for Buyers, and/ or such other counsel reasonably acceptable to Sellers, in form and substance reasonably satisfactory to Sellers and to the effect set forth and otherwise as contemplated on Exhibit R.

6.4 Contemporaneous Effectiveness

All acts and deliveries prescribed by this Article 6, regardless of chronological sequence, will be deemed to occur contemporaneously and simultaneously on the occurrence of the last act or delivery, and none of such acts or deliveries will be effective until the last of the same has occurred.

7. Conditions Precedent to Staged Closings

7.1 First Stage Closing General Conditions

The respective obligations of Buyers and Sellers to effect the First Stage Closing of the transactions contemplated hereby are subject to the fulfillment, prior to or at the First Stage Closing Date, of each of the following conditions; provided that such conditions shall only be a condition to the obligations of and may only be waived by, the party(ies) adversely affected thereby:

(a) No Action by any Governmental Body or other Person shall have been instituted or threatened which (i) has had, or is reasonably likely to have, a Material Adverse Effect or (ii) is reasonably likely to enjoin, restrain or prohibit, or could result in substantial damages in respect of, any provision of this Agreement or any Collateral Agreement or the consummation of the transactions contemplated hereby or thereby, or affect materially and adversely the right of Buyers to own the Acquired Assets or to operate the Business.

(b) Any applicable waiting period under the HSR Act relating to the transactions contemplated by this Agreement and the Collateral Agreements shall have expired or been terminated.

7.2 First Stage Closing Conditions Precedent to Buyers' Obligations

The obligations of Buyers to effect the First Stage Closing of the transactions contemplated hereby are subject to the fulfillment, prior to or at the First Stage Closing Date, of each of the following conditions, any of which may be waived in writing by Buyers in their sole discretion:

(a) (i) The representations and warranties of Sellers contained in this Agreement shall be true and correct both when made and at and as of the First Stage Closing Date, as though such representations and warranties were made at and as of the First Stage Closing Date (except to the extent that such representations and warranties are made as of a specified date, in which case such representations and warranties shall be true and correct as of such specified date) and (ii) each Seller shall have performed all obligations and agreements and complied with all covenants and conditions required by this Agreement and the Collateral Agreements to be performed or complied with by it prior to or at the First Stage Closing Date, except where (x) with respect to clause (i) the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality or Material Adverse Effect or other materiality qualifiers as set forth therein) and/or (y) with respect to clause (ii) the failure to so perform or comply (without giving effect to any limitation as to materiality or Material Adverse Effect or other materiality qualifiers as set forth therein), have not individually or in the aggregate had, or would not individually or in the aggregate be reasonably likely to have, a Material Adverse Effect with respect to the Business or Buyers (taken as a whole) or a material adverse effect on the ability of any of the Sellers to consummate the transactions contemplated hereby or a material adverse effect on Sellers' Parent's ability to consummate the transactions contemplated by Sellers' Parent Guaranty.

(b) Each Seller party thereto shall have executed and delivered, and have caused the other parties thereto (other than Buyers) to have executed and delivered the agreements, instruments and documents listed in Section 6.2.

(c) No change since December 31, 2002 (i) shall have occurred which has had a Material Adverse Effect with respect to the Business or Buyers (taken as a whole) or has had a material adverse effect on the ability of any of the Sellers to consummate the transactions contemplated hereby or on the Sellers' Parent's ability to consummate the transactions contemplated by the Sellers' Parent Guaranty, and (ii) shall have occurred (or circumstance involving a prospective change) which is reasonably likely to have a Material Adverse Effect with respect to the Business.

(d) Seventy-five percent (75%) of the thirty (30) Business Employees set forth on Schedule 7.2(d) and identified as key sales and operations employees or replacements that are acceptable to Buyers in their sole discretion (collectively, the "Key Employees") shall have accepted Buyers' offer of employment.

(e) Buyers shall have received written evidence reasonably satisfactory to them (i) that the Sellers' Consents set forth and indicated as required on Schedule 3.3(b) (including without limitation an amendment of the Credit Agreement, or Consent under the Credit Agreement, that permits the consummation of the transactions contemplated by this Agreement and the Collateral Agreements) and (ii) the Buyers' Consents set forth and indicated as required on Schedule 4.3(b) have been received.

(f) Buyers shall have received written evidence reasonably satisfactory to them that each of the Encumbrances (other than Permitted Encumbrances) on the Acquired Assets, and Permitted Encumbrances marked with an asterisk on Schedule 1.1(c), has been released, including, without limitation, any Encumbrance under the Credit Agreement.

(g) The Sellers' Parent Guaranty shall continue to be in full force and effect, and Sellers' Parent shall have received the written amendment of the Credit Agreement, or Consent under the Credit Agreement, necessary to permit the execution, delivery and performance of Sellers' Parent Guaranty.

(h) No facts, events or circumstance shall have occurred prior to First Stage Closing Date that, in the aggregate, cause or permit, or are reasonably likely to cause or permit before or after First Stage Closing Date, the Pension Benefit Guaranty Corporation to seek to impose or impose an Encumbrance on any of the Acquired Assets.

(i) Buyers shall have received written evidence reasonably satisfactory to them (A) that the resolutions and amendments to the articles or certificate of incorporation and/or other organizational documents contemplated by Section 5.17(a) have been obtained, and (B) that the related registrations are to become effective on the Second Stage Closing Date.

(j) There shall not have been or be any Encumbrance (other than Permitted Encumbrances, excluding those contemplated by Section 7.2(f) to be removed) imposed on any of the Acquired Assets in connection with any Bankruptcy of any Seller or any of their Affiliates (including, without limitation, Sellers' Parent and/or BCI).

7.3 First Stage Closing Conditions Precedent to Sellers' Obligations

The obligations of Sellers to effect the First Stage Closing of the transactions contemplated hereby are subject to the fulfillment, prior to or at the First Stage Closing Date, of each of the following conditions, any of which may be waived in writing by Sellers in their sole discretion:

(a) (i) The representations and warranties of Buyers contained in this Agreement shall be true and correct both when made and at and as of the First Stage Closing Date, as though such representations and warranties were made at and as of the First Stage Closing Date (except to the extent that such representations and warranties are made as of a specified date, in which case such representations and warranties shall be true and correct as of such specified date) and (ii) Buyers shall have performed all obligations and agreements and complied with all covenants and conditions required by this Agreement or any Collateral Agreement to be performed or complied with by their prior to or at the First Stage Closing Date, except where (x) with respect to clause (i) the failure of such representations and warranties to be true and correct (without giving effect to any limitation as to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) and/or (y) with respect to clause (ii) the failure to so perform or comply (without giving effect to any limitation as to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) has not individually or in the aggregate had, or would not individually or in the aggregate be reasonably expected to have, a Material Adverse Effect with respect to Sellers (taken as a whole), a material adverse effect on the ability of any of the Buyers to consummate the transactions contemplated hereby or a material adverse effect on Buyers' Parent to consummate the transactions contemplated by the Buyers' Parent Guaranty.

(b) Buyers shall have executed and delivered, and have caused the other parties thereto (other than Sellers and Sellers' Parent) to have executed and delivered the documents listed in Section 6.3.

(c) The Buyers' Parent Guaranty shall continue to be in full force and effect.

(d) Buyers shall have delivered the Initial Purchase Price.

(e) Sellers shall have received written evidence reasonably satisfactory to them (i) that the Buyers' Consents set forth and indicated as required on Schedule 4.3(b) have been received and (ii) an amendment of the Credit Agreement, or Consent under the Credit Agreement, that permits the consummation of the transactions contemplated by this Agreement and the Collateral Agreements has been received.

7.4 Second Stage General Conditions

The respective obligations of Buyers and Sellers to effect the Second Stage Closing of the transactions contemplated hereby are subject to (i) there not being an injunction or other court order prohibiting the consummation of the transactions contemplated by this Agreement to occur on the Second Stage Closing Date and (ii) Sellers shall have changed their corporate or company name to a name that does not include the word "Broadwing" or any name intended or likely to be confused or associated with any Broadwing Name and have caused the registration of the new name with the appropriate Governmental Body.

8. Survival and Indemnity

The rights and obligations of Buyers and Sellers under this Agreement shall be subject to the following terms and conditions:

8.1 Survival of Representations and Warranties

The representations and warranties of Buyers and Sellers contained in this Agreement and in any Collateral Agreement shall survive the First Stage Closing Date for eighteen (18) months, except the Environmental Warranties which shall survive for three (3) years, Tax Warranties which shall survive for the applicable statutes of limitations plus ninety (90) days and Title and Authorization Warranties which shall survive forever. Neither Sellers nor Buyers shall have any liability whatsoever with respect to any such representations or warranties unless a claim is made hereunder prior to expiration of the survival period for such representation or warranty.

8.2 General Agreement to Indemnify

(a) Sellers, jointly and severally, on the one side, and Buyers, on the other side (Sellers or Buyers, whichever has the obligation to indemnify, defend and hold harmless, the "Indemnifying Party") shall indemnify, defend and hold harmless the other party hereto and their Affiliates and any employee, representative, agent, director, officer, partner, member or principal, as applicable, or assign of such party and their Affiliates (each, an "Indemnified Party") from and against any and all Actions, whether by a third party against an Indemnified Party or by one party against another party (collectively, "Claims") related to or arising out of or resulting from, liabilities, losses, damages, costs and expenses (including reasonable attorneys', accountants' and experts' fees and costs, and costs and expenses of establishing entitlement to indemnification) (collectively, "Losses") incurred by any Indemnified Party related to, or arising out of or resulting from (i) any breach of or any inaccuracy in any representation or warranty of the Indemnifying Party contained in this Agreement or any Collateral Agreement when made or as of the applicable Staged Closing Date (or as of such different date or period specified for such representation or warranty) as though such representation or warranty were made at the applicable Staged Closing Date (or at such different date or period specified for such representation or warranty) (and for purposes of determining liability under this Section 8.2, after removing any reference to materiality or Material Adverse Effect or any other materiality qualifiers contained in such representations and warranties other than such of the foregoing that are underlined, provided that when an underlined reference to the word "material" or "materiality" also appears in brackets, the applicable representations and warranties should not be read for purposes of this Agreement (other than the proceeding portion of this sentence) as though such terms were therein) or (ii) the breach by the Indemnifying Party of any covenant or agreement of such party contained in this Agreement or any Collateral Agreement.

(b) Sellers further agree jointly and severally to indemnify, defend and hold harmless Buyers and any other Indemnified Party of Buyers from and against any Losses incurred by such party arising out of, resulting from, or relating to (i) any of the Excluded Assets (including the Retained Business) or Excluded Liabilities (including those related to the Retained Business), (ii) any matters identified on Schedule 8.2(b), (iii) any matters identified on Schedule 3.6(a) or (b), (iv) any Taxes of Sellers (except any such Taxes for which Buyers are responsible pursuant to Section 5.3 or Section 10.2) and (v) any failure of Sellers to comply with the provisions of any bulk transfer laws which may be applicable to the transactions contemplated hereby and by the Collateral Agreements.

(c) Buyers further agree to jointly and severally indemnify, defend and hold harmless Sellers and any other Indemnified Party of Sellers from and against any Losses incurred by such party arising out of, resulting from, or relating to: (i) any of the First Stage Assumed Liabilities after the First Stage Closing and the Second Stage Assumed Liabilities after the Second Stage Closing; (ii) any claim, demand or liability for the Taxes for which Buyers are responsible pursuant to Section 5.3; (iii) any other liability or obligation with respect to the conduct of the Business transferred on the First Stage Closing Date after such Closing Date and with respect to the conduct of the Business transferred after the First Stage Closing, to the extent arising out of, or resulting from, facts, events or circumstances occurring, or which accrue, after the applicable Staged Closing Date (other than due to any failure to comply or breach of any of Sellers or any of their Affiliates, whether before, on or after the applicable Staged Closing Date); and (iv) any Third Party Claims arising out of the Two Stage Waiver Notice (if any).

(d) Whether or not the Indemnifying Party chooses to defend or prosecute any Third Party Claim (as defined in Section 8.3(a)), both parties hereto shall cooperate in the defense or prosecution thereof and shall furnish such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials and appeals, as may be reasonably requested in connection therewith, except that nothing herein shall permit

Sellers, or require Buyers as a condition to obtaining indemnification, to seek to collect back sales or use Tax from clients or customers of the Business.

(e) The indemnification obligations of each party hereto under this Article 8 shall inure to the benefit of the Affiliates of the other party and the employees, representatives, agents, directors, officers, partners, members and principals, as applicable, of the other party hereto and their Affiliates on the same terms as are applicable to such other party.

(f) Sellers' and Buyers' respective liability for all Claims under Section 8.2(a)(i) shall be subject to the following limitations:

(i) neither the Sellers nor Buyers, respectively, shall have any liability for any Losses arising from such Claims unless the aggregate of all Losses for which the Sellers or Buyers, respectively, would, but for this provision, be liable exceeds on a cumulative basis an amount equal to Five Hundred Thousand U.S. Dollars ($500,000) (the "Threshold"), provided, that in the event that such Losses of Sellers or Buyers, as applicable, on a cumulative basis exceed the Threshold, the liability shall be from the first dollar of Losses. Notwithstanding the foregoing, the Threshold shall not apply (i) to Claims or Losses with respect to the Title and Authorization Warranties, Tax Warranties and the representations and warranties contained in Sections 3.13 and 4.6, or (ii) when Buyers have the right not to proceed to Closing under Section 7.2(a) but proceed to Closing under Section 5.7(c);

(ii) the Sellers' or Buyers' respective aggregate liability for all Losses arising from such Claims (other than any such Claims with respect to the Title and Authorization Warranties, the Tax Warranties and the representations and warranties in Sections 3.13 and 4.6) shall not exceed fifty percent (50%) of the Purchase Price (the "General Cap");

(iii) the Sellers' or Buyers' respective aggregate liability with respect to their respective Title and Authorization Warranties shall not exceed the Purchase Price (the "Overall Cap"), and the Sellers' or Buyers' respective aggregate liability under the preceding clause (ii) and this clause (iii) shall not exceed the Overall Cap;

(iv) Sellers' or Buyers' respective liability for Tax Warranties and the representations and warranties contained in Sections 3.13 and 4.6 shall not be subject to the General Cap or the Overall Cap; and

(v) in no event shall Sellers be obligated to indemnify Buyers or any other Person with respect to any Loss to the extent that a specific accrual or reserve for the amount of such Loss was included in the calculation of the Closing Working Capital. No Indemnified Party may make a claim for indemnification under Section 8.2(a)(i) for breach by the Indemnifying Party of a particular representation or warranty after the expiration of the survival period specified in Section 8.1.

(g) The amount of any Loss for which indemnification is provided under this Article 8 shall be net of any amounts recovered or recoverable by the Indemnified Party under insurance policies with respect to such Loss.

(h) Notwithstanding anything herein or in the Collateral Agreements (other than the Security Agreement) to the contrary, none of the parties hereto or thereto shall be liable to the other, whether in contract, tort or otherwise, for any special, indirect, incidental, consequential, punitive or exemplary or other similar type of damages whatsoever, which in any way arise out of, relate to, or are a consequence of, its performance or nonperformance hereunder or the Collateral Agreements (other than through fraud), including loss of profits, business interruptions and claims of customers, except to the extent to which a Third Party Claim against an Indemnified Party includes such damages.

(i) Each party further acknowledges and agrees that, should the First Stage Closing occur, its sole and exclusive remedy with respect to any and all claims relating to this Agreement, the Collateral Agreements, the transactions contemplated hereby, the Business and its assets, liabilities and business (other than claims of, or causes of action arising from, fraud; provided that inaccuracies of representations or warranties (whether or not accurate facts were knowable by inquiry including title searches or otherwise) shall not be construed to be fraud, absent intent to deceive) shall be pursuant to the indemnification provisions set forth in this Article 8. In furtherance of the foregoing, except as set forth in the preceding sentence, each party hereby waives and releases, from and after the First Stage Closing Date, any and all rights, claims and causes of action (other than claims of, or causes of action arising from, fraud, subject to the proviso set forth above in this Section 8.2(i)) it may have against the other party and its Affiliates arising under or based upon any Federal, state, local or foreign statute, law, ordinance, rule or regulation or otherwise (except pursuant to the indemnification provisions set forth in this Article 8) arising out of or related to this Agreement and the Collateral Agreements. Notwithstanding the foregoing, nothing in this Section 8.2(i) or elsewhere in this Agreement shall be deemed to limit any party's right to seek specific performance or other equitable relief in any court of competent jurisdiction of its rights and remedies hereunder or in any Collateral Agreement, in accordance with Section 10.11.

8.3 General Procedures for Indemnification

(a) Procedures Relating to Indemnification. In order for the Indemnified Party to be entitled to any indemnification provided for under this Agreement in respect of, arising out of or involving a Claim made by any Person against the Indemnified Party (each, a "Third Party Claim"), such Indemnified Party must notify the Indemnifying Party in writing, and in reasonable detail, of the Third Party Claim within ten (10) Business Days after receipt by such Indemnified Party of written notice of the Third Party Claim; provided, that the failure of the Indemnified Party to give notice in the manner specified above shall not relieve the Indemnifying Party of its obligations under this Article 8 except to the extent (if any) that the Indemnified Party shall have been materially prejudiced thereby.

If the Indemnifying Party does not object in writing to such indemnification claim within thirty (30) days of the Indemnifying Party's knowledge of its receipt of notice thereof, the Indemnified Party shall be entitled to recover promptly from the Indemnifying Party the amount of such claim, and no later objection by the Indemnifying Party shall be permitted. If the Indemnifying Party agrees that it has an indemnification obligation but objects that it is obligated to pay only a lesser amount, the Indemnified Party shall nevertheless be entitled to recover promptly from the Indemnifying Party the lesser amount, without prejudice to the Indemnified Party's claim for the difference.

If a Third Party Claim is made against an Indemnified Party, the Indemnifying Party shall be entitled to participate in the defense thereof and to assume the defense thereof with counsel selected by the Indemnifying Party which is reasonably satisfactory to the Indemnified Party. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party shall not be liable to the Indemnified Party for legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof unless the Indemnified Party reasonably determines in its judgment that representation by the Indemnifying Party's counsel of both the Indemnifying Party and the Indemnified Party would present such counsel with a conflict of interest, then such Indemnified Party may employ separate counsel to represent or defend it in any such Third Party Claim and the Indemnifying Party shall pay the reasonable fees and disbursements of one such separate counsel. If the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in the defense thereof and to employ counsel, at its own expense (subject to the preceding sentence), separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense. The Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnified Party for any period during which the Indemnifying Party has failed to assume the defense thereof (other than during the period prior to the time the Indemnified Party shall have given notice of the Third Party Claim as provided above). All attorneys' fees and expenses shall count towards the indemnity limit specified in Section 8.2(f).

(b) If the Indemnifying Party so elects to assume the defense of any Third Party Claim, all of the Indemnified Parties shall reasonably cooperate with the Indemnifying Party in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the Indemnifying Party's request) the provision to the Indemnifying Party of records and information that are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Any settlement or compromise made or caused to be made by the Indemnified Party (which is permitted if the Indemnifying Party has declined to assume the defense thereof) or the Indemnifying Party, as the case may be, of a Third Party Claim referred to in this paragraph shall also be binding upon the Indemnifying Party or the Indemnified Party, as the case may be, in the same manner as if a final judgment or decree had been entered by a court of competent jurisdiction in the amount of such settlement or compromise; provided, that no such settlement by the Indemnifying Party shall be binding upon the Indemnified Party without its prior written consent, which shall not be unreasonably withheld or delayed with respect to proposed settlements whereby the Indemnified Party is held harmless with respect to all Losses and no other material obligation is imposed upon the Indemnified Party (provided that in the event a Third Party Claim is subject to the General Cap or the Overall Cap (each, a "Cap"), the Indemnified Party need only be held harmless up to the amount of the remaining balance of the applicable Cap); and provided, further that where a Third Party Claim is subject to a Cap and the proposed settlement involves Losses in excess of such Cap (and does not impose any other material obligation on the Indemnified Party) either the Indemnified Party shall accept the proposed settlement or agree to assume the defense thereof and hold harmless the Indemnifying Party for all Losses over the lesser of the amount of the proposed settlement or the remaining balance of the applicable Cap.

(c) Each Seller and Buyers shall make commercially reasonable efforts to mitigate any Claim or other liability with respect to which one party is obligated to indemnify the other party hereunder.

9. Termination

9.1 Termination

This Agreement may be terminated at any time prior to the applicable Staged Closing Date by:

(a) The mutual written consent of Buyers and Sellers.

(b) Buyers or Sellers, if there shall be in effect a non-appealable injunction or order of a Governmental Body of competent jurisdiction prohibiting the consummation of the transactions contemplated hereby.

(c) Buyers or Sellers, if the First Stage Closing Date shall not have occurred by the date that is ten (10) months following the date hereof; provided that the failure of the First Stage Closing to occur on or before such date did not result from the failure by the party seeking termination of this Agreement to fulfill any undertaking or agreement or satisfy any condition provided for herein that is required to be fulfilled or satisfied by it prior to First Stage Closing.

(d) By Sellers, if there shall have been a breach of any representation and warranty or covenant of Buyers hereunder or under any of its Collateral Agreements, and such breach shall not have been remedied within sixty (60) days after receipt by Buyers of notice in writing from Sellers specifying the breach and requesting such be remedied, except where such breach of representation and warranty or covenant (without giving effect to any limitation as to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) has not individually or in the aggregate had, or would not individually or in the aggregate be reasonably likely to have, a Material Adverse Effect with respect to Sellers (taken as a whole) or on the ability of any of the Buyers to consummate the transactions contemplated hereby or a material adverse effect on Buyers' Parent's ability to consummate the transactions contemplated by the Buyers' Parent Guaranty.

(e) By Buyers, if there shall have been a breach of any representation and warranty or covenant of Sellers hereunder or under any of its Collateral Agreements, and such breach shall not have been remedied within sixty (60) days after receipt by Sellers of notice in writing from Buyers specifying the breach and requesting such be remedied, except where such breach of representation and warranty or covenant (without giving effect to any limitation as to materiality or Material Adverse Effect or any other materiality qualifiers as set forth therein) has not individually or in the aggregate had, or would not individually or in the aggregate be reasonably likely to have, a Material Adverse Effect with respect to the Business or Buyers (taken as a whole) or on the ability of any of the Sellers to consummate the transactions contemplated hereby or a material adverse effect on the Sellers' Parents' ability to consummate transactions contemplated by the Sellers' Parent's Guaranty.

9.2 Effect of Termination

In the event of the termination of this Agreement in accordance with Section 9.1, this Agreement shall become void and have no effect, without any liability on the part of any party or its directors, officers, partners, members, principals or stockholders, except for the obligations of the parties hereto as provided in Sections 10.1, 10.2, 10.4, 10.5, 10.12 and this Section 9.2, and except that, notwithstanding anything in this Agreement to the contrary, neither Sellers nor Buyers shall be relieved or released from any liabilities or damages arising out of its breach of any provision of this Agreement.

10. Miscellaneous Provisions

10.1 Notices

All notices and other communications hereunder and under the Collateral Agreements shall be in writing and shall be deemed to have been duly given upon receipt if (i) mailed by certified or registered mail, return receipt requested, (ii) sent by a nationally recognized overnight delivery service (receipt requested), fee prepaid, (iii) sent via facsimile with receipt confirmed, or (iv) delivered personally, addressed as follows or to such other address or addresses of which the respective party shall have notified the other.

(a) If to Sellers, to:

Broadwing Inc.
201 East Fourth Street, 102-745
Cincinnati, Ohio 45204
Attention: General Counsel
Facsimile: (513) 721-7358

With an additional copy to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, New York 10166
Attention: Steven Shoemate
Facsimile: (212) 351-5316

(b) If to Buyers, to:

C III Communications LLC
7015 Albert Einstein Drive
Columbia, MD 21046
Attention: Kim Larsen
Facsimile: (443) 259-4418

and:

C III Communications LLC
Suite 450
12444 Powerscourt Dr.
St. Louis, MO 63131
Attention: Martin Kerckhoff
Facsimile: 314-965-0500

With a copy to:

Mayer, Brown, Rowe & Maw
1909 K Street, N.W.
Washington, D.C. 20006
Attention: Stuart P. Pergament
Facsimile: (202) 263-3300

and

Paul Hastings, Janofsky & Walker LLP
75 East 55th Street
New York, New York 10022
Attention: Leigh P. Ryan
Facsimile: (212) 319-4090

10.2 Expenses

Any sales, use or other transfer taxes arising out of or incurred in connection with the transactions contemplated by this Agreement shall be paid in accordance with Section 5.3. Except as provided in the preceding sentence or otherwise expressly provided in this Agreement or the Collateral Agreements, each party will pay its own costs and expenses, including legal and accounting expenses, related to the transactions contemplated by this Agreement, irrespective of when incurred and whether or not the Closing occurs; provided, that Buyers and Sellers shall bear their portion of the fees and expenses of the filings under the HSR Act irrespective of the occurrence of Closing hereunder.

10.3 Entire Agreement

The agreement of Sellers and Buyers, which is comprised of this Agreement, the Schedules and Exhibits hereto and the documents referred to herein and therein, including the Collateral Agreements, sets forth the entire agreement and understanding between the parties and supersedes any prior agreement or understanding, written or oral, relating to the subject matter of this Agreement.

10.4 Jurisdiction, Service of Process

Each of the parties hereto hereby irrevocably and unconditionally consents to submit to the exclusive jurisdiction of the (a) Supreme Court of the State of New York, New York County and (b) United States District Court for the Southern District of New York, for any actions, suits or proceedings arising out of or relating to this Agreement and the Collateral Agreements (and agrees not to commence any action, suit or proceeding relating thereto except in such courts), and further agrees that service of any process, summons, notice or document by U.S. registered mail to its respective address set forth in Section 10.1 will be effective service of process for any action, suit or proceeding brought against it in any such court. Each of the parties hereto hereby irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the Collateral Agreements in the courts of the State of New York or the United States of America located in the City of New York and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

10.5 Governing Law

This Agreement and the Collateral Agreements will be construed in accordance with and governed by the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State without regard to conflicts of laws principles thereof.

10.6 Waiver

The rights and remedies of the parties to this Agreement and the Collateral Agreements are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by Law, (a) no claim or right arising out of this Agreement or the Collateral Agreements can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given and will not operate as a waiver of, or estoppel with respect to, any subsequent or other failure or noncompliance; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the Collateral Agreements.

10.7 No Oral Modification

Neither this Agreement nor any Collateral Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment. Any attempted amendment in violation of this Section 10.7 will be void ab initio.

10.8 Assignments, Successors

No party may assign any of its rights under this Agreement or any Collateral Agreements without the prior written consent of the other parties hereto or thereto. Notwithstanding the foregoing, Buyers may assign this Agreement or rights and obligations of Buyers hereunder, in each case in whole or part, to any Affiliate of Buyers and to any successor to all or substantially all of the Business (whether by merger, consolidation, sale of assets or otherwise), provided that Buyers shall remain liable for all of their obligations under this Agreement. Subject to the preceding sentences, this Agreement and the Collateral Agreements will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties.

10.9 Severability

If any provision of this Agreement or the Collateral Agreements is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement and the Collateral Agreements will remain in full force and effect. Any provision of this Agreement or the Collateral Agreements held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

10.10 Captions

The Article, section and paragraph captions herein and the table of contents hereto are for convenience of reference only, do not constitute part of this Agreement and the Collateral Agreements and will not be deemed to limit or otherwise affect any of the provisions hereof or thereof. Unless otherwise specified, all references herein to numbered Articles and Sections are to articles and sections of this Agreement, all references herein to Schedules are to Schedules to this Agreement and all references herein to Exhibits are to Exhibits to this Agreement.

10.11 Specific Performance

Each party recognizes and affirms that in the event of breach by him or it of any of the provisions of Sections 5.8, 5.9, or 5.17 money damages would be inadequate and the other parties would have no adequate remedy at law. Accordingly, each party agrees that the other parties shall have the right, in addition to any other rights and remedies existing in their favor, to enforce their respective rights and the breaching party's obligations under Sections 5.8, 5.9 or 5.17 not only by an action or actions for damages, but also by an action or actions for specific performance, injunction and/or other equitable relief in order to enforce or prevent any violations (whether anticipatory, continuing or future) of the provisions of Sections 5.8, 5.9 or 5.17. If a bond is required to be posted in order for any party to secure an injunction, the parties agree that such bond need not exceed the sum of $1,000.

10.12 No Third Party Beneficiaries

Nothing in this Agreement or the Collateral Agreements, express or implied, is intended to or shall constitute the parties hereto as partners or as participants in a joint venture. This Agreement is solely for the benefit of the parties hereto and, only to the extent provided in Article 8, their respective Affiliates and employees, representatives, agents, directors, officers, partners, members or principals, as applicable, or their respective assigns, for whom the parties shall be entitled to enforce this Agreement, and no provision of this Agreement shall be deemed to confer upon any other Third Parties any remedy, claim, liability, reimbursement, cause of action or other right (including a right to enforce). Nothing in this Agreement or the Collateral Agreements shall be construed as giving to any Business Employee, or any other individual, any right or entitlement of any kind of nature, whether under any Benefit Plan, policy or procedure maintained by any Seller or Buyer or otherwise. No Third Party shall have any rights under Section 502, 503 or 504 of ERISA or any regulations thereunder because of this Agreement or the Collateral Agreements that would not otherwise exist without reference to this Agreement or the Collateral Agreements. No Third Party shall have any right, independent of any right that exists irrespective of this Agreement or the Collateral Agreements, under or granted by this Agreement or the Collateral Agreements, to bring any Action at law or equity for any matter governed by or subject to the provisions of this Agreement (except for Indemnified Parties as provided in Section 8.2) or the Collateral Agreements.

10.13 Counterparts

This Agreement and Collateral Agreements may be executed simultaneously in two or more counterparts, each of which will be deemed to be an original copy of this Agreement and the Collateral Agreements and all of which together will be deemed, respectively, to constitute one and the same agreement.

10.14 Waiver of Compliance with Bulk Transfer Laws

Buyers hereby waive compliance by Sellers with the provisions of any bulk transfer laws which may be applicable to the transactions contemplated hereby and by the Collateral Agreements.

10.15 Publicity

No public release or announcement concerning the transactions contemplated by this Agreement and/or the Collateral Agreements shall be issued by any party (or any of its Affiliates) without the prior written consent of the other parties, except as such release or announcement may be required by Law or the rules or regulations of any securities exchange or other Governmental Body, in which case the party required to make the release or announcement shall allow the other parties reasonable time to comment on such release or announcement in advance of such issuance. Buyers and Sellers to discuss further.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each party has caused this Agreement to be duly executed on its behalf by its duly authorized officers as of the date first written above.

BROADWING COMMUNICATIONS SERVICES INC.

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

BROADWING COMMUNICATIONS SERVICES OF VIRGINIA INC.

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

BROADWING COMMUNICATIONS REAL ESTATE SERVICES LLC

By: ______________________
Name: Thomas L. Schilling
Title: Manager

BROADWING SERVICES LLC

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

IXC BUSINESS SERVICES, LLC

By: ______________________
Name: Thomas L. Schilling
Title: Manager

BROADWING TELECOMMUNICATIONS INC.

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

IXC INTERNET SERVICES, INC.

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

BROADWING LOGISTICS LLC

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

MSM ASSOCIATES, LIMITED PARTNERSHIP

By: MUTUAL SIGNAL CORPORATION OF MICHIGAN, its General Partner

By: ______________________
Name: Kevin W. Mooney
Title: Chief Executive Officer

C III COMMUNICATIONS, LLC

By: Martin Kerckhoff
Name: Martin Kerckhoff
Title: Authorized Director

C III COMMUNICATIONS OPERATIONS, LLC

By: Martin Kerckhoff
Name: Martin Kerckhoff
Title: Authorized Director

TC03-058

ROBERT E. STUP JR.
CAROLYN K. STUP
3270 WORTHINGTON ST., NW
WASHINGTON, DC 20015-2361

4190

60-8111/2313

March 20, 2003
DATE

PAY TO THE ORDER OF South Dakota Public ~~Service~~ Utilities Commission $ 250.00

Two Hundred Fifty and no/100 DOLLARS

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Robert E. Stup, Jr.

Direct dial 202 661 8711
restup@mintz.com

March 21, 2003

RECEIVED
MAR 24 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA FEDERAL EXPRESS

Ms. Pam Bonurd
Executive Director
South Dakota Public Utilities Commission
Capitol Building
1st Floor
500 East Capitol Avenue
Pierre, SD 57501

Re: C III Communications Operations, LLC Application for Certificate of Authority and Notification About the Transfer of Assets and Customers Broadwing Communications Services, Inc. and Broadwing Telecommunications, Inc. to C III Communications Operations, LLC.

Dear Ms. Bonurd:

Enclosed please find eight (8) copies of the above referenced matter. These copies were inadvertently not attached to the original filing we sent to your office yesterday. We apologize for any inconvenience this may have caused. Thank you for your understanding. If you have any questions, please contact the undersigned.

Sincerely,

Robert E. Stup, Jr.

South Dakota Public Utilities Commission

WEEKLY FILINGS

For the Period of March 20, 2003 through March 26, 2003

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705

ELECTRIC

EL03-012 In the Matter of the Request for an Electric Service Rights Exception between Black Hills Power and West River Electric Association, Inc.

On March 21, 2003, Black Hills Power (BHP) and West River Electric Association (WREA) submitted a joint request to the South Dakota Public Utilities Commission for approval of an Electric Service Rights Exception. The request would allow WREA to provide electrical service to three signs owned by Epic Outdoor Advertising adjacent to I-90, located in BHP's service territory. The signs are located in Sections 16 and 21, T2N, R7E, Pennington County.

Staff Analyst: Michele M. Farris
Staff Attorney: Kelly Frazier
Date Docketed: 03/21/03
Intervention Deadline: 04/11/03

TELECOMMUNICATIONS

TC03-058 In the Matter of the Application of C III Communications Operations, LLC for a Certificate of Authority to Provide Interexchange Telecommunications Services in South Dakota.

C III Communications Operations, LLC has filed an application for a Certificate of Authority to provide intrastate interexchange telecommunications services in South Dakota. The applicant intends to provide resold intrastate interexchange services, including message telecommunications service, outbound wide area telecommunication service, inbound 800 service, travel card service, operator assisted calling programs, private line services and frame relay service throughout South Dakota.

Staff Analyst: Bonnie Bjork
Staff Attorney: Kelly Frazier
Date Docketed: 03/21/03
Intervention Deadline: 04/11/03

TC03-059 In the Matter of the Application of Consolidated Communications Operator Services, Inc. for a Certificate of Authority to Provide Operator Assisted Telecommunications Services and Services for Payphones in South Dakota.

Consolidated Communications Operator Services, Inc. has filed an application for a Certificate of Authority to provide live and automated long distance assistance and directory assistance services, as well as services for coinless and coin-operated public telephones.

Staff Analyst: Bonnie Bjork
Staff Attorney: Karen Cremer
Date Docketed: 03/21/03
Intervention Deadline: 04/11/03

TC03-060 In the Matter of the Filing by Excel Telecommunications, Inc. for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.

On March 20, 2003, Excel Telecommunications, Inc. (Excel). filed its South Dakota P.U.C. access tariff No. 4 for approval. The proposed tariff introduces Excel's intrastate switched access services and rates including, Carrier Common Line Access, Local Transport, Local Switching and Toll-Free Database Query.

Staff Analyst: Keith Senger
Staff Attorney: Kelly Frazier
Date Docketed: 03/25/03
Intervention Deadline: 04/11/03

TC03-061 In the Matter of the Filing by VarTec Telecom, Inc. for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.

On March 20, 2003, VarTec Telecom, Inc. filed its South Dakota Access Tariff No. 2 for approval. The proposed tariff introduces VarTec's intrastate switched access services and rates, including Carrier Common Line Access, Local Transport, Local Switching and Toll-Free Database Query.

Staff Analyst: Michele M. Farris
Staff Attorney: Karen Cremer
Date Docketed: 03/25/03
Intervention Deadline: 04/11/03

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202 434 7300
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Robert E. Stup, Jr.

Direct dial 202 661 8711

April 7, 2003

RECEIVED
APR 08 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA FEDERAL EXPRESS

Ms. Pam Bonrud
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st Floor
500 East Capitol Avenue
Pierre, South Dakota 57501-0570

RE: SDPUC Docket TC03-058 – Application for Certificate of Authority for C III Communications Operations, LLC

Dear Ms. Bonrud:

Please accept this letter as a written request on behalf of C III Communications Operations, LLC ("C III Ops") in the above-referenced matter for waiver of Chapter 20:10:24:02(8) of the Commission's rules requiring the submission of current financial statements. C III Communications Operations, LLC ("C III Ops") is a newly formed company and, as such, this information is not available.

Further, C III Ops does not offer prepaid calling cards or services, or collect customer deposits and advance payments in the state of South Dakota. As such, C III Ops does not impose the issuance of restrictions on its ability to do so. However, C III Ops reserved the right in the future to apply to the Commission for removal of the restrictions.

Additionally, the Federal tax identification number was incorrectly provided to the Commission in the above-referenced application. The correct number is 75-3105020.

I believe that this letter will meet your requirements with respect to the application of C III Ops. Please let me know if you have any further questions.

Very truly yours,

Robert E. Stup, Jr.

cc: Kelly Frazier, Staff Attorney

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF C III COMMUNICATIONS OPERATIONS, LLC FOR A CERTIFICATE OF AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA	**))))))**	**ORDER GRANTING CERTIFICATE OF AUTHORITY** **TC03-058**

On March 21, 2003, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from C III Communications Operations, LLC (C III).

C III proposes to provide resold intrastate interexchange services, including message telecommunications service, outbound wide area telecommunication service, inbound 800 service, travel card service, operator assisted calling programs, private line services and frame relay service throughout South Dakota. A proposed tariff was filed by C III. The Commission has classified long distance service as fully competitive.

On March 27, 2003, the Commission electronically transmitted notice of the filing and the intervention deadline of April 11, 2003, to interested individuals and entities. No petitions to intervene or comments were filed and at its May 6, 2003, meeting, the Commission considered C III's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that C III not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. Commission Staff further recommended a waiver of ARSD 20:10:24:02(8).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that C III has met the legal requirements established for the granting of a certificate of authority. C III has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive ARSD 20:10:24:02(8). The Commission approves C III's application for a certificate of authority, subject to the condition that C III not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that C III's application for a certificate of authority to provide interexchange telecommunications services is hereby granted, effective May 21, 2003, subject to the condition that C III not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission. It is

FURTHER ORDERED, that the Commission waives ARSD 20:10:24:02(8). It is

FURTHER ORDERED, that C III shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 16th day of May, 2003.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 5/20/03

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State of South Dakota

Authority was Granted effective May 21, 2003
Docket No. TC03-058

This is to certify that

C III COMMUNICATIONS OPERATIONS, LLC

is authorized to provide interexchange telecommunications services in South Dakota, subject to the condition that it not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 16th day of May, 2003.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

ROBERT K. SAHR, Chairman

GARY HANSON, Commissioner

JAMES A. BURG, Commissioner

Bob Sahr, Chair
Gary Hanson, Vice-Chair
Jim Burg, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
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(605) 773-3809 fax

Transportation/Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

October 8, 2003

Ms. Connie Wightman
Technologies Management, Inc.
P. O. Drawer 200
Winter Park, FL 32790-0200

Re: Corporate Name Change from C III Communications Operations, LLC to Broadwing Communications, LLC
Docket TC03-058

Dear Ms. Wightman:

As requested in your letter dated October 3, 2003, enclosed you will find a Certificate of Authority issued in the name of Broadwing Communications, LLC with reference to Docket TC03-058, which was originally issued in the name of C III Communications Operations, LLC.

Very truly yours,

Delaine Kolbo
Legal Secretary

Enc.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State of South Dakota

Authority was Granted effective May 21, 2003
Docket No. TC03-058

This is to certify that

BROADWING COMMUNICATIONS, LLC

is authorized to provide interexchange telecommunications services in South Dakota, subject to the condition that it not offer a prepaid calling card or require or accept deposits or advance payments without prior approval of the Commission.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 7th day of October, 2003.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

ROBERT K. SAHR, Chairman

GARY HANSON, Commissioner

JAMES A. BURG, Commissioner

210 N. Park Ave.
Winter Park, FL
32789

P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

October 3, 2003
Via Overnight Delivery

RECEIVED
OCT 06 2003
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Ms. Pamela Bonrud
Executive Director
South Dakota Public Utilities Commission
Capitol Building, 1st Floor
500 East Capitol Ave.
Pierre, SD 57501-5070

RE: Corporate Name Change from C III Communications Operations, LLC to Broadwing Communications, LLC.

Dear Ms. Bonrud:

Enclosed for filing please find the replacement long distance tariff filed on behalf of Broadwing Communications, LLC, formerly known as C III Communications Operations, LLC. The Company respectfully requests an effective date of October 6, 2003.

On June 18, 2003 C III Communications Operations, LLC amended its Articles of Incorporation to reflect a name change to Broadwing Communications, LLC. C III was granted authority to provide long distance telecommunications services in South Dakota in Order Number TC03-058 on May 16, 2003. Upon approval of this filing, please reissue the Company's certificate with the new name of Broadwing Communications, LLC.

The Company's presubscribed customers have been notified of this name change. Furthermore, this transaction is being made in a seamless fashion that will cause no negative effect on the level of service and rates offered to the Company's presubscribed customers.

A copy of the amended Articles of Incorporation and Qualification as a Foreign Corporation is included with this letter as ***Exhibit A***.

Exhibit B includes the company's replacement. This replacement tariff Cancels C III Communications Operations, LLC South Dakota P.U.C. Tariff No. 1 (Wholesale Services) and South Dakota P.U.C. Tariff No. 1 (Retail Services). The company's services previously listed in tariffs numbers 1 and 2 are now merged in one tariff - South Dakota P.U.C. Tariff No. 3. In addition to the name change, the following additional changes have been incorporated in this replacement tariff:

Frame Relay and Private Line Services are now priced on an individual case basis ("ICB").

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1. Roadside Advantage (previously listed in the retail tariff) has been deleted;

2. The "Obsolete Services"section (previously listed in the retail tariff) has been removed. This section contained services that were added over the years to the Broadwing Telecommunications Inc. tariff through previous acquisitions of other carriers, i.e., Network Long Distance, Inc., United WATs, Inc., Eastern Telecom, Corp. and Telecom One, Inc. When C III Communications Operations, LLC acquired the assets of Broadwing Telecommunications Inc. and filed its initial tariff, C III mirrored Broadwing Telecommunications Inc.'s existing tariff as on file with the South Dakota Public Utilities Commission. However, through attrition over the years, the obsolete services had been integrated in the current services and rates as listed in the current section of the tariff. Consequently, the Obsolete Services Section by itself has now become obsolete.

3. The operator assisted per minute usage rates and per call service charges and directory assistance per call charge have been updated to mirror AT&T's current rates.

4. The Pay Telephone Surcharge now reflects separate rates for wholesale Customers and Retail Customers.

To further update Commission with information on the Company, please note that the Company's contact for ongoing regulatory matters is:

Karen T. Hanson, National Director - Regulatory Affairs
Broadwing Communications, LLC.
1122 Capital of Texas Highway South
Austin, Texas 78746

Telephone:	(512) 742-2647
Toll Free	(800) 847-5705
Facsimile:	(512) 328-7902
email:	karen.hanson@broadwing.com

The Company's contact for customer inquiries / complaints is:

Linda Gilmore, Regulatory Analyst
Broadwing Communications, LLC.
1122 Capital of Texas Highway South
Austin, Texas 78746

Telephone:	(512) 742-4123
Facsimile:	(512) 328-7902
Toll Free:	(800) 847-5705 or (800) 422-1199
email:	linda.gilmore@broadwing.com
Company Web Page:	www.broadwing.com

The Company's contact for reporting requirements:

Brenda Buch
Broadwing Communications, LLC.
1122 Capital of Texas Highway South
Austin, Texas 78746

Telephone:	(512) 742-3723
Facsimile:	(512) 328-7902
Toll Free:	(800) 847-5705
email:	brenda.buch@broadwing.com
Company Web Page:	www.broadwing.com

The Company's main telephone number is :

Telephone:	(512) 742-3700
Toll Free:	(800) 847-5705

Questions regarding this notice may be directed to my attention at (407) 740-8575 or via e-mail at cwightman@tminc.com.

To keep our records complete, please acknowledge receipt of his filing by returning, file-stamped, the extra copy of this correspondence in the self-addressed stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,

C.M.W.

Connie Wightman
Consultant to Broadwing CIII

Enclosure

CW/im.

cc: Michele Cadin, Mintz, Et Al *(w/out enclosures)*
cc: Karen Hanson, Broadwing C III
File: Broadwing CIII - SD
TMS: SDO0301