LAW OFFICES
SHOOK, HARDY & BACON L.L.P.

KANSAS CITY
OVERLAND PARK
HOUSTON
SAN FRANCISCO
MIAMI

HAMILTON SQUARE
600 14TH STREET, NW, SUITE 800
WASHINGTON, D.C. 20005-2004
TELEPHONE (202) 783-8400 ▮ FACSIMILE (202) 783-4211

LONDON
ZURICH
GENEVA
MELBOURNE
BUENOS AIRES

Rodney L. Joyce
(202) 639-5602
rjoyce@shb.com

January 7, 2000

By Federal Express

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

Re: Network Access Solutions Corporation - Application for Authority to Provide Telecommunications Service, No. 99-00387

Dear Mr. Waddell:

At the request of Authority staff, this letter will supplement the application referred to above.

First, staff has asked that the applicant, Network Access Solutions Corporation ("NAS"), provide the higher education degrees held by key management staff. NAS has hired additional key management personnel since its application was filed. Att.1 to this letter lists each existing NAS officer and provides a brief biography of each officer, including experience in the telecommunications industry. The attachment also includes a biography of NAS's two outside directors since they too have considerable telecommunications experience. Att. 1 replaces Exhibits B and C of the application. Att. 2 provides the higher education degrees of each officer with operational authority.

Second, Att. 3 responds to the staff request that NAS provide information concerning the architecture of the network it proposes to operate in Tennessee. Att. 3 also describes the sources of supply for each major network component. It also describes areas in Tennessee where the company intends to deploy its network in the foreseeable future. Att. 3 also makes clear that NAS's customers will not be required to purchase the CPE they use in connection with NAS service.

Att. 4 provides the following supplemental financial information requested by Commission staff, as follows: (1) cost of the telecommunications infrastructure that the company will deploy; (2) pro forma financial statements for Tennessee operations for each of the next three years including a pro forma three-year capital budget for Tennessee operations; and (3) a discussion of NAS's sources of funds to finance Tennessee operations. The pro forma financial statements in Att. 4 do not assume that NAS will obtain revenue from reciprocal compensation.

In addition to providing the information requested by Commission staff, I want to update the application in other ways, as follows:

- Paragraph No. 1 of the application should be amended to add a new sentence at the conclusion of the second sentence of that paragraph, as follows:

  > "In March 2000, NAS's corporate headquarters will move to 13650 Dulles Technology Drive, Herndon, Virginia 20171-4602."

- The second sentence of Paragraph No. 4 of the application should be amended to read as follows:

  > "However, it intends later to provide intrastate dedicated (i.e., non-dial-up) data transmission service too."

- Paragraph No. 6 of the application should be replaced with the following:

  > "6. NAS is currently authorized to provide intrastate telecommunications service in Alabama, District of Columbia, Delaware, Florida, Georgia, Kentucky, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, and South Carolina. NAS's wholly owned subsidiary, Network Access Solutions LLC, is authorized to provide intrastate telecommunications service in Virginia. NAS has filed applications, which are still pending, requesting authority to provide intrastate telecommunications service in Arizona, Colorado, Connecticut, Louisiana, Minnesota, Nebraska, New Mexico, Oregon, Utah, and Washington. No state PUC has denied an application by NAS for authority to provide intrastate telecommunications service. NAS presently provides interstate data transmission service in Delaware, District of Columbia, Maryland, Massachusetts, New York, and Pennsylvania. Network

Access Solutions LLC presently provides interstate data transmission service in Virginia. Neither company provides intrastate telecommunications service at present in any state."

- The IPO referred to in Paragraph No. 8 of the application occurred in June 1999. NAS raised $90 million in that IPO.

- The first sentence of Paragraph No. 9 of the application should be amended to read as follows:

  "If granted certification, NAS has concrete plans to provide intrastate dedicated (i.e., non-dial-up) data transmission service."

- Paragraph No. 11 of the application should be revised in two ways. First, the following sentence should be added at the conclusion of the first sentence:

  "That toll-free number is 1 (888) 633-3375.

  Second, the fifth sentence in paragraph 11 should be revised to read as follows:

  "NAS's director of customer service for all states in which NAS operates is Joseph O'Laughlin."

I am enclosing an original and 13 copies of this letter with attachments. Please stamp the additional copy indicating the date on which it was filed and return it to me in the enclosed stamped and self-addressed envelope.

Sincerely,

Rodney L. Joyce
Counsel for Network Access Solutions Corp.

Enclosures

31119.1

LAW OFFICES

SHOOK, HARDY & BACON L.L.P.

KANSAS CITY
OVERLAND PARK
HOUSTON
SAN FRANCISCO
MIAMI

HAMILTON SQUARE
600 14TH STREET, NW, SUITE 800
WASHINGTON, D.C. 20005-2004
TELEPHONE (202) 783-8400 • FACSIMILE (202) 783-4211

LONDON
ZURICH
GENEVA
MELBOURNE
BUENOS AIRES

Rodney L. Joyce
(202) 639-5602
rjoyce@shb.com

'00 JAN 11 PM

January 7, 2000

By Federal Express

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

Re: Network Access Solutions Corporation - Application for Authority to Provide Telecommunications Service, No. 99-00387

Dear Mr. Waddell:

At the request of Authority staff, this letter will supplement the application referred to above.

First, staff has asked that the applicant, Network Access Solutions Corporation ("NAS"), provide the higher education degrees held by key management staff. NAS has hired additional key management personnel since its application was filed. Att.1 to this letter lists each existing NAS officer and provides a brief biography of each officer, including experience in the telecommunications industry. The attachment also includes a biography of NAS's two outside directors since they too have considerable telecommunications experience. Att. 1 replaces Exhibits B and C of the application. Att. 2 provides the higher education degrees of each officer with operational authority.

Second, Att. 3 responds to the staff request that NAS provide information concerning the architecture of the network it proposes to operate in Tennessee. Att. 3 also describes the sources of supply for each major network component. It also describes areas in Tennessee where the company intends to deploy its network in the foreseeable future. Att. 3 also makes clear that NAS's customers will not be required to purchase the CPE they use in connection with NAS service.

Att. 4 provides the following supplemental financial information requested by Commission staff, as follows: (1) cost of the telecommunications infrastructure that the company will deploy; (2) pro forma financial statements for Tennessee operations for each of the next three years including a pro forma three-year capital budget for Tennessee operations; and (3) a discussion of NAS's sources of funds to finance Tennessee operations. The pro forma financial statements in Att. 4 do not assume that NAS will obtain revenue from reciprocal compensation.

In addition to providing the information requested by Commission staff, I want to update the application in other ways, as follows:

- Paragraph No. 1 of the application should be amended to add a new sentence at the conclusion of the second sentence of that paragraph, as follows:

  > "In March 2000, NAS's corporate headquarters will move to 13650 Dulles Technology Drive, Herndon, Virginia 20171-4602."

- The second sentence of Paragraph No. 4 of the application should be amended to read as follows:

  > "However, it intends later to provide intrastate dedicated (i.e., non-dial-up) data transmission service too."

- Paragraph No. 6 of the application should be replaced with the following:

  > "6. NAS is currently authorized to provide intrastate telecommunications service in Alabama, District of Columbia, Delaware, Florida, Georgia, Kentucky, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, and South Carolina. NAS's wholly owned subsidiary, Network Access Solutions LLC, is authorized to provide intrastate telecommunications service in Virginia. NAS has filed applications, which are still pending, requesting authority to provide intrastate telecommunications service in Arizona, Colorado, Connecticut, Louisiana, Minnesota, Nebraska, New Mexico, Oregon, Utah, and Washington. No state PUC has denied an application by NAS for authority to provide intrastate telecommunications service. NAS presently provides interstate data transmission service in Delaware, District of Columbia, Maryland, Massachusetts, New York, and Pennsylvania. Network

> Access Solutions LLC presently provides interstate data transmission service in Virginia. Neither company provides intrastate telecommunications service at present in any state."

- The IPO referred to in Paragraph No. 8 of the application occurred in June 1999. NAS raised $90 million in that IPO.

- The first sentence of Paragraph No. 9 of the application should be amended to read as follows:

  > "If granted certification, NAS has concrete plans to provide intrastate dedicated (i.e., non-dial-up) data transmission service."

- Paragraph No. 11 of the application should be revised in two ways. First, the following sentence should be added at the conclusion of the first sentence:

  > "That toll-free number is 1 (888) 633-3375.

  Second, the fifth sentence in paragraph 11 should be revised to read as follows:

  > "NAS's director of customer service for all states in which NAS operates is Joseph O'Laughlin."

I am enclosing an original and 13 copies of this letter with attachments. Please stamp the additional copy indicating the date on which it was filed and return it to me in the enclosed stamped and self-addressed envelope.

Sincerely,

Rodney L. Joyce
Counsel for Network Access Solutions Corp.

Enclosures

31119.1

Technical and Managerial Qualifications of the
Officers and Directors of Network Access Solutions Corporation

Jonathan P. Aust

Mr. Aust founded NAS in December 1994 to provide total Wide Area Network (WAN) solutions for enterprise customers in the Mid-Atlantic states. From October 1987 to December 1994, Mr. Aust was the National Account Manager for AT&T Paradyne, responsible for the Federal Reserve System. During his seven years serving in this capacity, Mr. Aust managed a large team of engineers, sales and operations personnel who designed, sold and implemented the current Federal Reserve System's Electronic Access Net, known as FEDNET. FEDNET connects 18,000 member banks with the Fed Sys, the primary financial network for the United States. From June 1982 to October 1987, Mr. Aust held numerous engineering and sales positions with Paradyne Corporation, a manufacturer of data communications equipment.

Christopher J. Melnick

Mr. Melnick joined NAS in July 1998 as Chief Operating Officer. Mr. Melnick was the Vice President and General Manager for the Southeast Region of Level 3 Communications from March 1998 to July 1998. Mr. Melnick was the Vice President of Telcom Access Sales for the Washington, Baltimore and Richmond markets of WorldCom from December 1996 to March 1998. He was the Vice President of Sales for MFS Telcom from September 1995 to December 1996 and Sales Manager for Washington, D.C. and Baltimore MFS Telcom from June 1994 to September 1995. Mr. Melnick was a Senior Account Executive for MFS Telcom from April 1992 to June 1994.

Scott G. Yancey, Jr.

Mr. Yancey joined NAS in May 1998 as Chief Financial Officer. Mr. Yancey was the Chief Financial Officer and General Manager of the data division of Cable & Wireless USA, a telecommunications service provider, from July 1982 to May 1998. The products offered by the division included managed frame relay, dedicated Internet access, ATM-based services, and traditional domestic and international private lines. Mr. Yancey worked for Price Waterhouse as a senior auditor from 1974 to 1978, and for BDM (a Department of Defense consulting firm) as Director of Financial Reporting from 1978 to 1982.

James A. Aust

From NAS's founding until recently, Mr. Aust was Vice President of Engineering. Recently, he was appointed Vice President of Advanced Technology. Mr. Aust was a Consultant Systems Engineer for AT&T from May 1990 to July 1994. In this role, Mr. Aust was responsible for network design and implementation issues for key accounts, including Amtrak, Purdue Farms, First Virginia Bank, NationsBank, Sallie Mae, Bell Atlantic, and the Federal Reserve Bank. He worked closely with hardware and software developers at Bell Laboratories, defining products and feature sets to fulfill customer networking requirements. Mr. Aust played a significant role in defining the current network management platform used by the Federal

Reserve Bank. Mr. Aust also served on the AT&T Engineering Council, which was responsible for formulating methods and procedures for AT&T's System Engineering from August 1988 to May 1990. Prior to working in systems engineering, Mr. Aust spent five years in the field service organization for Paradyne Corporation. Mr. Aust initially supported customers' day-to-day operational needs, including IBM main frame channel extension and wide area voice and data networking needs. Mr. Aust was later promoted into a regional technical support position, where he was responsible for supporting field service technicians in the Mid-Atlantic area.

John J. Hackett

Mr. Hackett has been Vice President of Sales and Marketing since joining NAS in February 1999. Mr. Hackett was the Division President of MCI WorldCom and MFS Telcom from September 1993 to February 1999, where he was responsible for Sales and Customer Support.

Brion B. Applegate

Mr. Applegate has been a Director of NAS since August 1998. Mr. Applegate is a co-founder and has been a Managing General Partner of Spectrum Equity Investors since March 1993. Mr. Applegate is a director of Tut Systems, Inc.

Dennis R. Patrick

Mr. Patrick has been a Director of NAS since April 1999. Mr. Patrick is and has been the President and Chief Executive Officer of Patrick Communications, Inc. and Doeg Hill Ventures LLC since November 1997. Patrick Communications provides analysis of investment opportunities in the telecommunications and media industries to a select group of clients. Doeg Hill Ventures is a closely held venture capital enterprise focusing on early stage investments in the telecommunications industry. Mr. Patrick was the founder and Chief Executive Officer of Milliwave LP, a local exchange telephone company using digital radio frequencies to transmit data, from Jule 1995 to January 1997. Milliwave was acquired by Winstar Communications in January 1997 and Mr. Patrick served on the board of directors of the combined entity until September 1997. From February 1990 to December 1995, Mr. Patrick served as Chief Executive Officer of Time Warner Telecommunications, a division of Time Warner Entertainment. From November 1983 to August 1989, Mr. Patrick was a Commissioner and then Chairman of the Federal Communications Commission.

Worth D. MacMurray

Mr. Murray was appointed Vice President, Legal and Strategic Projects in October 1999. He is responsible for managing all NAS legal operations as well as working with senior company management and the Board of Directors on strategic and company growth-related projects. Prior to joining NAS, Mr. MacMurray served in senior executive positions with Reston, Virginia-based Landmark Systems Corporation as the company's Vice President, Legal and Administration; with INTERSOLV, Inc., a Rockville, Maryland firm as Vice President, General Counsel and Corporate Secretary, where he was involved with numerous corporate acquisitions and other strategic and business development projects. In addition, Mr. MacMurray is active in the Northern Virginia Technology Council, where he currently Co-chairs the Emerging Business Subcommittee of the Workforce Committee and is a member of the HR Advisory Board.

Brian D. Roberts

Mr. Roberts joined NAS in October 1999 as the Vice President, Engineering and Operations. In this position, he manages the engineering provisioning and field operations divisions as well as the network operations center while implementing "best practices" in processes, systems and communications. Prior to joining NAS, Mr. Roberts held executive positions in both the public and private sectors of the data communications field. Most recently, he served as Managing Partner, Network Solutions, for the Mid-Atlantic Region at USWeb/CKS Communications, Inc. He also held senior positions at MFS Communications (now MCI Worldcom) including Vice President of Operations, Data Services. Before entering the private sector, Mr. Roberts spent 15 years in the USAF, where he rose from enlisted to officer status. During his public sector experience, he was responsible for data communications at the White House Communications Agency, the Pentagon and Space Command.

Lester M. Lichter

Mr. Lichter was appointed Chief Information Officer in October 1999. He leads the company's Information Services Division and also is responsible for application research and development, collaborative development of the company's IS standards and new technology delivery systems and operations. Prior to joining NAS, Mr. Lichter served as Executive Vice President and Chief Information Officer at Dallas-based Excel Communications where he was responsible for developing innovative IS solutions to support the company's business development activities. He also held senior positions at leading telecom companies including: Senior Vice President and Chief Information Officer for Cable & Wireless, Inc.; Vice President and Chief Information Officer for AT&T's Business Communications Division; Vice President of Software Engineering for MCI; and Vice President of Corporate Systems Development for Sprint.

ATT. 2

NETWORK ACCESS SOLUTIONS CORPORATION

Higher Education Background of Certain NAS Officers

Name	Title	Degree
Jonathan P. Aust	President, Chief Executive Officer and Chairman of the Board	None
Christopher J. Melnick	Chief Operating Officer	Bachelor of Arts in English, George Mason University, Fairfax, Virginia, 1989
Scott G. Yancey, Jr.	Chief Financial Officer	Bachelor of Science in Business Administration, The College of William & Mary, Williamsburg, Virginia, 1970
James A. Aust	Vice President, Engineering & Advanced Technology	Associate of Science in Electrical Engineering, Northern Virginia Community College, 1985
John J. Hackett	Senior Vice President, Sales & Marketing	Bachelor of Science in Business Administration, Old Dominion University, Norfolk, Virginia, 1975; Master of Business Administration in Marketing, Old Dominion University, Norfolk, Virginia, 1977
Brian D. Roberts	Vice President, Engineering & Operations	Bachelor of Science in Computer Science, University of Maryland, College Park, Maryland,1989

NAS operates one or more metropolitan area networks ("MANs") in each state where it provides telecommunications service. These MANs are then interconnected by a leased high-speed fiber optic backbone. NAS plans to build a MAN in Nashville and Memphis during the first three years of its Tennessee operations. Each of these MANs will cover the core city as well as substantially all of the suburbs around that core city.

Each NAS MAN consists of copper telephone loops, central office collocation spaces, a variety of electronic equipment that NAS collocates in its collocation spaces (including DSLAMs, packet switches and routers), and metropolitan area transport. NAS obtains copper loops as an unbundled network element from the incumbent local exchange carrier serving the area where a given MAN is located. Similarly, the company leases collocation spaces in the central offices of that carrier. NAS owns all electronic equipment that it places inside of its collocation spaces, and it obtains transport to connect its various collocation spaces within a given MAN either from the incumbent local exchange carrier as an unbundled network element or through private lease arrangements with other transport suppliers. NAS obtains the intercity fiber optic transmission facilities that interconnect each of its MANs from existing operators of intercity fiber optic networks. The company manages its network infrastructure from an operations center located at its corporate headquarters in Sterling, Virginia.

A customer who subscribes to NAS's telecommunications service needs a modem that is compatible with the NAS offering. No customer will be required to purchase that modem.

Moreover, although NAS will offer to provide compatible modems to its customers, each customer also will have the option to lease or purchase a modem from alternative suppliers.

ATT. 4

Network Access Solutions
Expansion Plan - Tennessee
04-Jan-00

	Year 1				
	Q1	Q2	Q3	Q4	FY
Revenues	$0	$98,412	$191,092	$203,674	$493,179
Network Costs	$0	$382,977	$923,397	$1,228,386	$2,534,760
Bundle Costs	$0	$0	$9,319	$15,574	$24,892
SG&A Costs	$0	$1,434,620	$2,459,196	$2,888,270	$6,782,086
Tot OpEx	$0	$1,817,597	$3,391,912	$4,132,229	$9,341,738
EBITDA	$0	($1,719,185)	($3,200,820)	($3,928,555)	($8,848,560)
Depreciation/Amortization	$0	$144,583	$360,011	$434,370	$938,963
EBIT	$0	($1,863,767)	($3,560,831)	($4,362,925)	($9,787,523)
Capital Expenditures	$0	$3,847,678	$3,067,796	$981,176	$7,896,651
Cumulative PP&E	$0	$3,847,678	$6,770,892	$7,392,057	$7,392,057
# of Loops	0	955	4,378	9,003	14,336
Average Loops	0	477	2,666	6,690	7,168
Incremental Loops	0	955	3,423	4,626	14,336
# of Central Office Locations	0	16	37	40	40
Average Central Offices	0	8	27	39	20
Incremental Central Offices	0	16	21	3	40

Markets Served:

Nashville
Memphis

Year 2 Q1	Q2	Q3	Q4	FY	Year 3 FY
$206,740	$249,410	$336,806	$435,241	$1,228,196	$2,982,998
$1,762,762	$2,121,843	$2,648,901	$3,059,147	$9,592,653	$15,546,609
$33,538	$47,619	$74,864	$83,684	$239,705	$431,317
$3,962,845	$4,233,162	$4,723,977	$4,959,093	$17,879,077	$25,171,103
$5,759,145	$6,402,624	$7,447,741	$8,101,925	$27,711,435	$41,149,028
($5,552,405)	($6,153,214)	($7,110,936)	($7,666,684)	($26,483,239)	($38,166,030)
$539,518	$668,959	$818,968	$983,539	$3,010,985	$5,869,076
($6,091,923)	($6,822,174)	($7,929,904)	($8,650,223)	($29,494,224)	($44,035,106)
$1,971,451	$2,162,874	$2,560,776	$2,711,315	$9,406,416	$13,167,836
$8,929,138	$10,552,495	$12,444,312	$14,336,658	$14,336,658	$26,520,955
6,301	9,163	12,510	15,924	15,924	33,071
7,652	7,732	10,837	14,217	15,130	19,686
(8,035)	2,862	3,348	3,413	1,588	17,148
42	44	46	48	48	56
41	43	45	47	44	52
2	2	2	2	8	8

NAS has adequate cash resources to finance its planned operations in Tennessee. First, the company plans to sell up to $165 million of its common stock in a public offering within the next few weeks. It filed a Registration Statement with the SEC to conduct this offering on December 22, 1999. A copy of the Registration Statement is attached to this Att. 4.

Second, the company had more than $63 million in cash and cash equivalents as of September 30, 1999, as shown on its balance sheet accompanying the December 22, 1999 Registration Statement. See page F-3.

Third, the company has more than $85 million in unused lines of credit as discussed on page 31 of the Registration Statement.

As filed with the Securities and Exchange Commission on December 22, 1999

Registration No. 333-93455

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

NETWORK ACCESS SOLUTIONS CORPORATION

(Exact name of registrant as specified in its charter)

100 Carpenter Drive
Sterling, Virginia 20164
(703) 742-7700
(Address of principal executive offices)

Delaware	**4813**	**54-1738938**
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

Jonathan P. Aust
President and Chief Executive Officer
Network Access Solutions Corporation
100 Carpenter Drive
Sterling, Virginia 20164
(703) 742-7700
(Name, address, including zip code and telephone number, including area code of agent for service)

Copies to:

Sylvia M. Mahaffey, Esquire
Shaw Pittman
2300 N Street, N.W.
Washington, D.C. 20037
(202) 663-8000

Scott M. Wornow, Esquire
Paul, Hastings, Janofsky & Walker LLP
399 Park Avenue, 31st Floor
New York, New York 10022
(212) 318-6000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Shares of Common Stock, par value $.001	5,750,000	$27.875	$160,281,250	$42,314

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated , 2000

PROSPECTUS

Shares

[Network Access Solutions Logo Appears Here]

Common Stock

Network Access Solutions Corporation is selling shares of its common stock. Our common stock is traded on the Nasdaq National Market under the symbol "NASC." The last reported sales price of our common stock on was $ per share.

Investing in our common stock involves risks, which are described in the "Risk Factors" section beginning on page 7 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Network Access Solutions	$	$

The selling stockholders have granted the underwriters the right to purchase up to an additional shares of common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus, to cover over-allotments. We will not receive any proceeds from the sale of shares by the selling stockholders.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery in New York, New York on or about , 2000.

Merrill Lynch & Co.

The date of this prospectus is , 2000

(ART TO COME)

[Diagram of the structure of our region-wide network and one illustrative example of the structure of our city-wide networks. The model city-wide network shows how different customers would typically connect to our network, whether through a telephone company office or otherwise.]

TABLE OF CONTENTS

Unless otherwise indicated, the information in this prospectus assumes no exercise of the underwriters' over-allotment option.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

SUMMARY

This summary highlights certain important information regarding our business and this offering. You should read this entire prospectus, including the "Risk Factors" and the financial statements and all related notes before deciding to purchase our common stock.

About Our Business

We are a major provider of high-speed data communications services, and related applications, to business customers. We provide our data communications services using digital subscriber line, or DSL, technology, and generally market those services directly through our own sales force. DSL technology allows our customers to access their corporate networks and the Internet through high-speed, "always on" connections over traditional copper telephone lines at speeds up to 7 megabits per second, substantially higher than common dial-up modems. We have branded our DSL service "CopperNet," which we commercially launched in the northeast and mid-Atlantic regions of the United States, in January 1999.

In seeking to solve the data communications needs of our business customers, we offer them network services, telecommunications products and equipment made by others and consulting services. Although nearly all of our revenue has historically been derived from our product sales and consulting services, we expect to continue to dedicate most of our financial and management resources to further developing our network services business. Through this business, which includes our CopperNet service offering, we provide metropolitan area and wide area network services to our customers as well as manage and monitor our customers' networks. Through our product sales business, we sell telecommunications equipment that our customers use to build, maintain and secure their networks. Through our consulting services business, we design our customers' networks, install the related equipment and provide services to help them secure their networks. For the three months ended September 30, 1999, approximately 12.7% of our revenue resulted from network services, 74.7% from product sales and 12.6% from consulting services. During the same period in 1998, network services represented 2.7% of our revenue. If we are successful in implementing our business plan, we expect that network services will constitute most of our revenue.

We currently offer our DSL-based networking solutions in the following nine cities and their surrounding markets: Baltimore, Boston, New York, Norfolk, Philadelphia, Pittsburgh, Richmond, Washington D.C., and Wilmington. As of December 31, 1999, we had installed our equipment in central offices within our target markets and we expect to have installed our equipment in approximately 500 central offices by mid-2000, which will essentially complete the roll-out of our network in these markets. We believe that by concentrating the deployment of our network facilities in our target markets, we will be able to serve the overall networking and data communications needs of our business customers more effectively than our competitors. As of December 31, 1999, we had installed high-speed access lines.

We have designed our network to support our customers' changing data networking needs. Our network supports newer, evolving technologies designed to transmit both data and voice. Unlike traditional telecommunications networks, these newer technologies transmit data in small bundles, or packets, of information from multiple users over the same lines, and are referred to as packet-based technologies. These packet-based technologies generally allow for a more efficient use of a network. Our CopperNet service is compatible with packet-based communications systems such as asynchronous transfer mode, or ATM, frame relay, and Internet protocol, or IP. This same architecture also supports the traditional technologies that carry most of today's voice telephone conversations. This network design allows us to offer businesses and their telecommuters cost-effective solutions for accessing the Internet, as well as other emerging applications and services of corporate networks, such as video and audio conferencing, web and application hosting, multimedia and e-commerce. We create city-wide, or metropolitan area networks, or MANs, and connect them to our private, leased, high-speed fiber optic network, or backbone. This network design enables us to provide our customers seamless connections to remote offices or employees in other locations, including other cities. Our network provides dedicated connections to our customers, enabling them to operate as if they were using their own private network. These virtual private networks, or VPNs, have the capacity, speed, reliability and level of service that are designed to meet our customers' needs.

Market Opportunity

We believe that a substantial business opportunity exists because of the concurrence of several factors. The growing demand for high-speed data communications by businesses, their employees and consumers has created a need for a local access solution with a higher capacity than traditional dial-up modems and integrated services digital networks, or ISDNs. There is an increasing need by small- and medium-sized businesses for a cost-effective, high performance networking solution in order to access the Internet and utilize today's bandwidth applications. In addition, large businesses are seeking to improve remote worker productivity so that workers have access to the same high performance communication and networking resources available to workers located at corporate headquarters. Businesses are also looking to network service providers to implement and manage broadband-based applications and services. The commercial availability and acceptance of DSL technology has allowed service providers to meet their customers' needs through a high-speed access alternative that requires a much lower initial fixed investment than other alternatives, such as cable modems, fiber optic cable, fixed wireless and satellite communication systems. The 1996 Telecom Act and its related regulations also has allowed companies like us to implement DSL technology by taking advantage of traditional telephone companies' existing infrastructure rather than building our own at significant cost.

The NAS Solution

We provide a full range of services to allow businesses to effectively outsource their Internet access, data transport, and other telecommunications needs. Our service offering includes high-speed local connectivity through CopperNet, MAN and WAN solutions, along with network management, monitoring, security solutions and other value-added applications and services, which we expect to change over time to meet evolving customer needs.

The NAS Strategy

Our goal is to be the premier provider of data communications and networking solutions in the markets in which we focus. We plan to:

- Provide and expand coverage in our markets, initially within the northeast and mid-Atlantic regions and potentially in other regions in which we believe we can be successful;
- Focus on small- and medium-sized business customers, most of which do not have a cost-effective, high-performance and integrated solution to their Internet access and data transport needs;
- Focus on selected large enterprise customers, most of which do not have an adequate solution that allows them to provide high-speed access to remote workers;
- Continually enhance and expand our network to meet the broadest array of business requirements;
- Offer value-added, network-enabled features and applications to maximize revenues per customer;
- Provide superior customer care;

- Focus on direct marketing to our customers by using our experienced sales-force, which is supported by engineers who are trained, certified experts in the products and technologies we sell;
- Selectively utilize wholesale marketing channels; and
- Capitalize on the lower fixed-cost economics of DSL technology.

We are a Delaware corporation. Our headquarters are located at 100 Carpenter Drive, Sterling, Virginia 20164. Our telephone number is (703) 742-7700. We have established a Web site at www.nas-corp.com. The information on our Web site is not part of this prospectus.

We own the federal trademark for the mark COPPERNET and also own applications for federal registration and claim rights in the following trademarks: CU COPPERNET(TM) and CUNET(TM). This prospectus also refers to trade names and trademarks of other companies.

The Offering

Common stock offered by Network Access Solutions	shares
Common stock to be outstanding after this offering(1)	shares
Use of proceeds(1)	We expect to use the proceeds from this offering, after expenses, to finance capital expenditures, to finance operating losses that we expect to incur as we expand our customer base and network and for general corporate purposes. We have not definitively allocated any portion of the net proceeds of the offering. We will retain complete discretion in applying the proceeds of this offering.
Dividend policy	We do not anticipate paying cash dividends for the foreseeable future. Instead, we will retain our earnings, if any, for the future operation and expansion of our business.
Nasdaq National Market symbol	NASC

(1) If the underwriters exercise the option granted to them in this offering by our selling stockholders to purchase up to additional shares of our common stock to cover over-allotments, then the total number of shares to be offered would be increased to up to shares. We will not receive any proceeds from the sale of shares by the selling stockholders. The number of shares outstanding excludes options that have been granted or may be granted under our stock option plans. As of December 31, 1999, options were outstanding under our stock option plans.

SUMMARY FINANCIAL AND OTHER DATA

We were incorporated on December 19, 1994, but did not begin operations until after January 1, 1995. We present below summary financial and other data for our company. The summary historical statement of operations and other data for each of the three years ended December 31, 1998 have been derived from our audited financial statements that are included elsewhere in this prospectus. PricewaterhouseCoopers LLP has audited the financial statements as of and for each of the three years in the period ended December 31, 1998. The summary historical balance sheet data as of September 30, 1999 and the summary historical statement of operations and other data as of and for each of the nine months ended September 30, 1998 and 1999 have been derived from our unaudited financial statements that are included elsewhere in this prospectus. The summary financial data for the year ended December 31, 1995 have been derived from our unaudited financial statements that are not included in this prospectus. The unaudited financial statements include, in the opinion of our management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the information set forth. The results of the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the full year.

	Year Ended December 31,				Nine Months Ended September 30,	
	1995	1996	1997	1998	1998	1999
	(unaudited)				(unaudited)	
	(in thousands, except per share data)					
Statement of Operations Data:						
Revenue:						
Product sales	$1,891	$14,368	$8,150	$ 9,900	$7,394	$ 9,981
Consulting services	36	114	791	1,428	1,053	1,893
Network services	—	—	4	311	210	814
Total revenue	1,927	14,482	8,945	11,639	8,657	12,688
Cost of revenue:						
Product sales	1,475	11,975	7,180	8,639	6,354	8,706
Consulting services	15	91	231	761	598	1,178
Network services	—	—	2	41	15	2,142
Total cost of revenue	1,490	12,066	7,413	9,441	6,967	12,026
Operating expenses:						
Selling, general and administrative	299	2,255	1,437	4,017	2,404	16,726
Amortization of deferred compensation on employee stock options	—	—	—	219	48	6,699
Depreciation and amortization	9	7	12	130	60	2,497
Total operating expenses	308	2,262	1,449	4,366	2,512	25,922
Income (loss) from operations	129	154	83	(2,168)	(822)	(25,260)
Interest income (expense), net	—	(1)	(5)	64	(1)	753
Income (loss) before income taxes	129	153	78	(2,104)	(823)	(24,507)
Provision (benefit) for income taxes	39	63	36	(28)	(28)	(71)
Net income (loss)	$ 90	$ 90	$ 42	$(2,076)	$ (795)	$(24,436)
Net income (loss) per common share (basic and diluted)	$ 0.00	$ 0.00	$ 0.00	$ (0.08)	$(0.03)	$ (0.61)
Weighted average common shares outstanding (basic and diluted)	21,915	21,915	21,915	27,302	24,007	39,933
Other Data:						
EBITDA(1)	$ 138	$ 161	$ 95	$(1,819)	$ (714)	$(16,064)
Capital expenditures	18	30	122	5,021	1,416	40,879
Net cash provided by (used in) operating activities	3	(27)	805	(2,810)	(1,014)	(15,142)
Net cash used in investing activities	(18)	(30)	(122)	(1,341)	(1,394)	(21,482)
Net cash provided by financing activities	42	55	9	8,956	7,982	94,575

	As of September 30, 1999	
	Actual (unaudited)	(As Adjusted)(2)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$63,470	
Property and equipment, net	44,122	
Total assets	111,870	
Total debt (including capital lease obligations)	22,950	
Total stockholders' equity	82,372	

(1) EBITDA consists of net income (loss) excluding net interest, taxes, depreciation and amortization (including amortization of deferred compensation). EBITDA is provided because it is a measure of financial performance commonly used in the telecommunications industry. We have presented EBITDA to enhance your understanding of our operating results. You should not construe it as an alternative to operating income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity determined in accordance with GAAP. We may calculate EBITDA differently than other companies. For further information, see our financial statements and related notes elsewhere in this prospectus.

(2) As adjusted to reflect the sale of shares of our common stock offered by this prospectus at an offering price of $ per share, after deducting the underwriting discount and the estimated offering expenses that we will pay.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider carefully the following risks, together with all other information included in this prospectus, before you decide to buy our common stock.

Because the focus of our company has changed to the provision of network services, including high-speed digital communications service, our business is difficult to evaluate

We began operations in 1995 by helping our customers integrate their network equipment, by selling them that network equipment and by providing them with related network services. During the past several years, we have refocused our company, through our CopperNet services, on the provision of DSL-based high-speed digital communications services, which is a change from our historical activities. Because our business focus has changed, and we expect to dedicate most of our resources to develop our CopperNet services, it is difficult to evaluate our business.

Our financial results now and in the future are not, and will not be, directly comparable to our prior financial results. Substantially all of our revenue in 1995, 1996, 1997, 1998 and the first nine months of 1999 was derived from product sales and consulting services. Although in the short term we expect to continue to derive the majority of our revenue from these activities, we expect that over time our network services, which includes our CopperNet services, will constitute the more significant portion of our revenue. Revenue from network services, which we began offering in January 1999, represented 12.7% of our total revenue for the three months ended September 30, 1999. As a result, not only have we changed the focus of our company, you also have very limited historical financial information upon which to base your evaluation of our performance and an investment in our common stock. We are depending principally on the success of our CopperNet services to achieve future revenue growth. If our business does not evolve as we expect, we will likely grow at a significantly slower pace than would be the case if our CopperNet services are successful. If that situation arises, it is possible that the price of our common stock may reflect the slower growth that might be expected for a company that does not offer DSL-based services.

We have only provided our CopperNet services since January 1999, so it is difficult to assess whether we will be successful in this new and evolving market

Because we have only recently begun providing CopperNet services, it is difficult for us to predict the extent to which CopperNet will achieve market acceptance. The market for DSL-based services is in the early stages of development, is highly competitive and is quickly changing. Providers of high-speed data communications services are testing products from various suppliers for certain applications, and suppliers have not broadly adopted an industry standard. Critical issues concerning commercial use of DSL for Internet and local area network access, including security, reliability, ease and cost of access and quality of service, remain unresolved and may affect the growth of this market. If the market for CopperNet fails to develop, grows more slowly than anticipated or becomes saturated with competitors, our business will not reach or maintain the level of profitability we hope to achieve.

To remain successful, we must develop and market services that are widely accepted by businesses at profitable prices. We may never be able to achieve significant market acceptance, favorable operating results or profitability. Due to the relatively limited deployment of CopperNet at this time, we cannot guarantee that our network will be able to connect and manage a substantial number of DSL lines at high transmission speeds. We may be unable to scale our network to service a substantial number of DSL lines while achieving high performance.

Our failure to achieve or sustain market acceptance at desired pricing levels could impair our ability to achieve profitability or positive cash flow

Prices for data communication services have fallen historically, a trend we expect will continue. Accordingly, we cannot predict to what extent we may need to reduce our prices to remain competitive or whether we will be able to sustain future pricing levels as our competitors introduce competing services or similar services at lower prices. Our failure to achieve or sustain market acceptance at desired pricing levels could impair our ability to achieve profitability or positive cash flow, which would have a material adverse effect on our business, prospects, financial condition and results of operations.

We are an early stage company in a new and rapidly evolving market, subject to a number of risks that may limit our revenue growth

Our failure to address the risks, expenses and difficulties we may encounter as we expand our business in providing CopperNet services, including those frequently encountered by early stage companies in new and rapidly evolving markets, may limit our revenue growth and make it difficult for us to compete effectively with others. These risks include our ability to:

- rapidly expand the coverage of CopperNet within current and future target markets;
- attract and retain customers;
- increase awareness of CopperNet;
- respond to competitive developments;
- continue to attract, retain and motivate qualified persons;
- continue to upgrade our technologies;
- introduce and develop new technology for our network services; and
- effectively manage our expanding operations.

If we fail to manage these risks successfully, it would materially adversely affect our financial performance.

Our resources have been strained by our rapid growth, which could impair the expansion of our business

We are in the process of rapidly expanding, and plan to continue this rapid expansion of, our CopperNet operations. This rapid growth has placed, and will continue to place, a significant strain on our management, financial controls, operations systems, personnel and other resources. If we fail to manage this growth effectively, the expansion of our business could be impaired. We may be unable to meet our customers' need for services and technical support or provide the customer service they expect. To manage our growth effectively, we must:

- improve existing operational, financial and management information controls, reporting systems and procedures and implement new controls;
- hire, train and manage sufficient additional qualified personnel;
- expand and upgrade our technologies; and
- manage multiple relationships with our customers, vendors and other third parties.

If we fail to manage our growth effectively, it could adversely affect the expansion of our customer base and service offerings and could result in a lower level of profitability than we hope to achieve. In addition, if we were to make acquisitions in the future to expand our business, the integration of those acquisitions could further strain our resources.

Bell Atlantic's expansion into the digital subscriber line business or reluctance to cooperate with us could adversely affect our business

Bell Atlantic, as the dominant traditional telephone company operating in our initial target markets, is both an essential supplier of facilities and services for CopperNet and potentially a significant DSL competitor. Traditional telephone companies, like Bell Atlantic, pose a significant risk to the success of our business. Bell Atlantic has existing networks in local areas and across metropolitan areas and has its own Internet service provider businesses. It has also started residential sales of DSL-based access services. We believe that Bell Atlantic could, if it chose, deploy DSL services to businesses on a widespread basis.

Bell Atlantic is currently our sole supplier of copper telephone lines and of the central office space we need to place, or collocate, our DSL equipment and support services for CopperNet. Bell Atlantic may be reluctant to cooperate with us in meeting our supply needs. Bell Atlantic has in the past, and may in the future, reject certain of our collocation applications or delay providing us with the collocation space we need. We have experienced lengthy delays between the time we apply for collocation space and the time that Bell Atlantic actually permits us to place our equipment in this space. We face competition for this space from other competitive telecommunications companies. Bell Atlantic's position as both a DSL competitor and a supplier of numerous essential inputs to our DSL offering also gives Bell Atlantic an incentive to subsidize its own DSL offerings by failing to fully allocate to its retail DSL service the costs it incurs in providing that service.

Our business could suffer if high-quality copper lines are not available or cost us more than we expect

We significantly depend on the quality of the copper telephone lines and Bell Atlantic's maintenance of such lines. We cannot assure you that we will be able to obtain the copper telephone lines and the services we require from Bell Atlantic at quality levels, prices, terms and conditions satisfactory to us. Our failure to do so would have a material adverse effect on our business, prospects, financial condition and results of operations.

We depend on other carriers to provide fiber optic transmission facilities to connect our equipment, which is critical to providing our CopperNet services

We depend on the availability of fiber optic transmission facilities from Bell Atlantic and other third parties to connect our equipment within and between metropolitan areas. If these facilities are unavailable, we may not have alternative means immediately available to connect our DSL equipment in different locations. These fiber optic carriers include long distance carriers, traditional telephone companies like Bell Atlantic and other competitive telecommunications companies. Many of these entities are, or may become, our DSL competitors. We may be unable to negotiate or renew favorable supply agreements. We depend on the timeliness of fiber optic carriers to process our orders for customers who seek to use our services. We have in the past experienced supply problems with some of our fiber optic suppliers, and they may not be able to meet our needs on a timely basis in the future.

We depend on third parties to provide the equipment, installation and field service that are critical to providing our CopperNet services

We plan to purchase our equipment from many vendors, including Lucent Technologies Inc., Ascend Communications, which has been acquired by Lucent Technologies Inc., Cisco Systems, Inc., FORE Systems, Inc., a wholly-owned subsidiary of Marconi p.l.c., and Paradyne Corporation. We out-source a significant and growing percentage of installation and field service to third parties. Because we depend on third parties, we do not have guaranteed capacity nor do we fully control delivery schedules, quality assurance, production yields and costs. If any significant installer or field service provider interrupts its service to us or fails to perform to required specifications, or if any of our vendors reduces or interrupts its supply, this interruption or reduction would force us to seek alternative vendors and providers, which could disrupt our business. Our suppliers may be unable to manufacture and deliver the amount or quality of equipment we order, or the available supply may be insufficient to meet our demand. Currently, the DSL modem and other equipment used for a single connection over a copper telephone line must come from the same vendor since there are no existing interoperability standards for the equipment used in our higher speed services. If our competitors enter into exclusive or restrictive arrangements with our suppliers or licensors, then these events may materially and adversely affect the availability and pricing of the equipment we purchase and the technology we license.

Our success depends on the continuity of our interconnection agreements

We depend on contractual arrangements, or interconnection agreements, which enable us to use Bell Atlantic's copper telephone lines, to collocate our equipment in their offices and to obtain from Bell Atlantic the back office support systems we need in order to provide CopperNet services. The success of our strategy depends on our ability to renew our interconnection agreements, principally with Bell Atlantic and, as we expand, with other telephone companies, on a timely basis and on satisfactory terms and conditions. Delays in obtaining renewals or a failure to obtain satisfactory terms and conditions could have a material adverse effect on our business, prospects, financial condition and results of operations.

Interconnection agreements typically have limited terms of two to three years. Our Bell Atlantic interconnection agreements, for example, have initial terms that expire in March 2000 for agreements covering Delaware, the District of Columbia, Maryland, New Jersey, Pennsylvania and Virginia, and in January 2001, for agreements covering New York and the New England states. Although we recently have begun negotiations on new agreements to replace those expiring on March 1, 2000, those negotiations are not yet complete. We cannot guarantee that we will be able to negotiate new agreements with Bell Atlantic that will be beneficial to us.

Interconnection agreements are also subject to state telecommunications regulatory, FCC and judicial over-sight. These governmental bodies may modify the terms or prices of our interconnection agreements in ways that adversely affect our business, prospects, financial condition and results of operations.

Because two of our customers account for a high percentage of our revenue, the loss of a significant customer could harm our business

To date, our largest customers have been AT&T and Zeneca Pharmaceuticals, a division of Zeneca, Inc. AT&T and Zeneca accounted for 52.7% and 4.3%, respectively, of our revenue for the three months ended September 30, 1998 and 15.8% and 12.3%, respectively, of our revenue for the three months ended September 30, 1999. Almost all of this revenue was derived from product sales and consulting services. We have no long-term contracts with either customer and the loss of either of these customers could have a material adverse effect on our financial performance.

Our stock price may fluctuate significantly, depending on various factors, including future operating results

The price at which our common stock trades depends upon many factors, including our historical and anticipated quarterly and annual operating results, variations between our actual results and analyst and investor expectations, announcements by us or others and developments affecting our business, investor perceptions of our company and comparable public companies, changes in our industry and general market and economic conditions. Some of these factors are beyond our control. As a result, our operating results in one or more future periods could fail to meet or exceed the expectations of securities analysts or investors. If this happens, the trading price of our common stock would likely decline. You should be aware that the stock market has from time to time experienced extreme price and volume fluctuations.

The data communications market in which we operate is highly competitive and we may not be able to compete effectively against established industry competitors with significantly greater financial resources

We will face competition in the data communications market from many competitors with significantly greater financial resources, well-established brand names and large, existing installed customer bases. We expect the level of competition to intensify in the future, including through consolidation of our industry. Many of our competitors are offering, or may soon offer, technologies and services that will directly compete with some or all of our service offerings. Our competitors use technologies for local access connections that include DSL, wireless data, cable modems and ISDN technologies. ISDN is a technology that works with the traditional telephone system to send voice and data over existing copper telephone lines at speeds up to 128 kilobits per second. Some of our competitors or potential competitors may have the financial resources to withstand substantial price competition. Moreover, our competitors may be able to negotiate contracts with suppliers of telecommunications services that are more favorable than contracts negotiated by us.

Examples of competitive activity in our target markets include the following:

- Bell Atlantic, through its network integration services division, and other companies, like Tech Data Corporation, are offering product sales and consulting services focused on integrating network components that directly compete with our product sales and consulting services.
- Bell Atlantic and other traditional telephone companies present in our target markets are conducting technical and market trials or have commenced commercial deployment of DSL-based services.
- Many of the leading traditional long distance carriers, including AT&T, MCI WorldCom and Sprint Corporation, are expanding their capabilities to support high-speed networking services.
- The newer long-distance carriers, including The Williams Companies, Inc., Qwest Communications International Inc. and Level 3 Communications, are building and managing high bandwidth, nationwide packet-based networks and partnering with Internet service providers to offer services directly to the public.
- Cable modem service providers, like At Home Corporation, are offering or preparing to offer high-speed Internet access over cable and fiber networks to consumers and have positioned themselves to do the same for businesses.
- Several new companies are emerging as wireless or satellite-based data service providers.
- Some Internet service providers with significant and even nationwide presences provide DSL-based Internet access to residential and business customers.
- Other competitive telecommunications companies like us, including Covad Communications Group, Inc., Rhythms NetConnections Inc. and NorthPoint Communications Holdings, Inc., have begun offering DSL-based access services, and have attracted marketing allies and product development partners. Others are likely to do the same in the future.

Funding of our business may require significant additional capital in the future, which we may not be successful in obtaining at all or on favorable terms

We intend to fund our business, including anticipated operating losses, and the completion of our network rollout by mid-2000, with a combination of available funds, anticipated proceeds of this offering and, subject to certain funding conditions, financing available through our existing vendor relationships. We also expect that we would require significant additional capital for any expansion of our network beyond our initial target markets and into other regions. Our actual funding requirements may differ materially as our business evolves. We also may be unable to generate revenue in the amount and within the time frame we expect or if we have unexpected cost increases. Under any of these circumstances, we may be required to find other sources of capital, which we may not be successful in obtaining.

We may seek to borrow significant funds, the terms of which may contain restrictive covenants that limit our ability to incur additional indebtedness, pay dividends or undertake certain other transactions. These instruments also could require us to pledge assets as security for the borrowings. If we were to leverage our business by incurring significant debt, we would likely be required to devote a substantial portion of our available cash or our cash flow to service that indebtedness.

Uncertain federal and state tax and surcharges on our services may increase our payment obligations and have a material adverse effect on our business

Telecommunication service providers pay a variety of surcharges and fees on their gross revenue from interstate and intrastate services. The surcharges and fees we currently are required to pay may increase due to periodic revisions of the applicable surcharges by federal and state regulators. A finding that we misjudged the applicability of the surcharges and fees could increase our payment obligations and have a material adverse effect on our business, prospects, financial condition and results of operations.

Our services are subject to uncertain government regulation and changes in laws or regulations could restrict the way we operate our business

Because many of the facilities and services we need in order to provide CopperNet are subject to regulation at the federal, state and local levels, changes in applicable laws or regulations could have an adverse impact on our business. For example, the Federal Communications Commission, or FCC, and state telecommunications regulators help determine the terms under which collocation space is provided to us. They also oversee the terms under which we gain access to a traditional telephone company's copper telephone lines and transport facilities, including price, that we need in order to provide CopperNet services. Regulatory policies may also affect the terms under which traditional telephone companies provide us with the operational support and management of telephone line usage that are crucial to the success of CopperNet. Future federal or state regulations and legislation may have an adverse impact on our business. In addition, we may choose to expend significant resources to participate in regulatory proceedings at the federal or state level without achieving favorable results. We expect traditional telephone companies to pursue litigation in courts, institute administrative proceedings with the FCC and state telecommunications regulators and lobby the U.S. Congress in an effort to affect the applicable laws and regulations in a manner that would be more favorable to them and against our interests. Any changes in our regulatory environment could create greater competitive advantages for all or some of our competitors or could make it easier for additional parties to provide DSL services.

The interconnection agreements that enable us to provide our services are subject to uncertain regulation that is the subject of ongoing legal proceedings

We are subject to FCC regulation for our contractual, or interconnection, arrangements with the traditional telephone companies in our markets, but certain aspects of this regulation are uncertain because they are the subject of ongoing court and administrative proceedings. Several parties have brought court challenges to the FCC's interconnection rules, including the rules that establish the terms under which a competitive telecommunications company may use portions of a traditional telephone company's network. If a rule that is beneficial to our business is struck down by the courts, it could harm our ability to compete. In particular, the courts have not yet resolved the lawfulness of the methodology that the FCC established to determine the price that competitive telecommunications companies would have to pay traditional telephone companies for use of the traditional telephone companies' networks. The courts may determine that the FCC's pricing rules are unlawful, which would require the FCC to establish a new pricing methodology. If this occurs, the new pricing methodology that the FCC adopts may result in our having to pay a higher price to traditional telephone companies if we were to use a portion of their networks in providing our services, and this could have a detrimental effect on our business.

Various traditional telephone companies have requested regulatory relief to provide data transmission services, which if granted, would allow them to compete with us

Various traditional telephone companies have requested that the FCC substantially deregulate the retail price they charge for various types of telecommunications services, including high-speed data services like Copper-Net. The FCC recently issued a decision in response that establishes a procedure by which traditional telephone companies may apply for certain pricing flexibility. We cannot yet determine the extent to which traditional telephone companies will use this procedure or the impact of any pricing flexibility that the FCC awards to any given company under this new procedure, since no telephone company has yet applied for pricing flexibility under this new procedure. The ultimate impact of the FCC's order also is uncertain because the order has been appealed to the U.S. Court of Appeals. If the FCC were to substantially eliminate price regulation of the high-speed data services that traditional telephone companies provide in competition with CopperNet, our business could be adversely affected.

The FCC has also proposed to permit traditional telephone companies to provide advanced services through separate affiliates on a deregulated basis. This proposal could permit the separate affiliates to provide advanced services free of the requirements relating to interconnection, unbundling, resale and collocation imposed by the Telecommunications Act of 1996. Bills have been introduced in Congress that would grant regional Bell operating companies regulatory relief to provide data services in areas where they are currently restricted from doing so.

On November 2, 1999, the FCC held that a statute requiring that traditional local telephone companies offer their retail services at a wholesale price to competitors like us does not apply when these telephone companies provide a discounted DSL service directed to Internet service providers, or ISPs. In that case, while competitors may purchase the traditional telephone companies' ISP-directed DSL offering on the same terms as the ISPs, the FCC ruled that competitors have no legal right to a wholesale discount off the price paid by ISPs. This ruling could adversely affect us if it gives ISPs an economic incentive to meet all of their DSL needs by subscribing to the traditional telephone companies' ISP-directed discounted DSL offerings rather than by subscribing to DSL services offered by competitors like us.

The data communications industry is undergoing rapid technological change and new technologies may be superior to the technology we use, which could materially adversely affect our business

Our industry is subject to rapid and significant technological changes. DSL technology does not presently have widely accepted standards and continues to develop. Alternative technologies for providing high-speed data communications are available and may be superior to the technology we use. As a consequence:

- we will continue to rely on third parties, including some of our competitors and potential competitors, to develop and provide us with access to communications and networking technology;
- our success will depend on our ability to anticipate or adapt to new technology on a timely basis; and
- we expect that new products and technologies will emerge that may be superior to, or may not be compatible with, our current products and technologies.

If we fail to adapt successfully to technological changes or obsolescence or fail to obtain access to important technologies, our business, prospects, financial condition and results of operations could be materially adversely affected.

If we are unable to hire and retain our key personnel, our business will suffer

Given our stage of development, we depend on our ability to retain and motivate high quality personnel, especially our management. Our success depends on Jonathan P. Aust, our President and Chief Executive Officer, and our other executive officers and key employees. Members of our senior management team have worked together for only a short period of time. Moreover, we do not have "key person" life insurance policies on any of our employees. Although we have employment agreements with six members of the senior management team, these agreements can be terminated by the employees on thirty days' notice. Each of our other employees may terminate his or her employment with us at any time.

Our future success depends on our continuing ability to identify, hire, train and retain highly qualified technical, sales, marketing and customer service personnel. The industry in which we compete has a high level of employee mobility and aggressive recruiting of skilled personnel. In particular, we face intense competition for qualified personnel, particularly in software development, network engineering and product management. The northern Virginia region, which is the location of our headquarters and where we currently have our greatest hiring needs, is experiencing a severe shortage of qualified employees in each of these areas. As a result, the costs of attracting and retaining qualified employees has increased significantly during recent periods and is continuing to increase. We may be unable to continue to employ our key personnel or to attract and retain qualified personnel in the future.

A system failure could cause delays or interruptions of service to our customers

The reliability of our services would be impaired by a natural disaster or other unanticipated interruption of service at our owned or leased facilities. If a traditional telephone company, competitive telecommunications company or other service provider fails to provide the communications capacity we require, as a result of a natural disaster, operational disruption or any other reason, then this failure could interrupt our services and have a material adverse effect on our business.

A breach of our network security could cause delays or interruptions of service to our customers

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. Unauthorized access could also potentially jeopardize the security of confidential information stored in the computer systems of our customers, which might cause us to be liable to our customers, and might deter potential customers. Eliminating computer viruses and alleviating other security problems may require interruptions, delays or cessation of service to our customers and our customers' end users. Any of these factors relating to network security could have a material adverse effect on our business.

Our intellectual property protection may be inadequate to protect our proprietary rights and we may be subject to infringement claims that could materially adversely affect our business

The steps we have taken may be inadequate to protect our technology or other intellectual property. Our inability to protect our proprietary rights could have a material adverse effect on our business, prospects, financial condition and results of operations. We currently have no patents or patent applications pending. We also rely on unpatented trade secrets and know-how to maintain our competitive position. We seek to protect this information by confidentiality agreements with employees, consultants and others. These agreements may be breached or terminated, leaving us with inadequate remedies. Our competitors may learn or discover our trade secrets. Our competitors may independently develop technologies that are substantially equivalent or superior to ours. Third parties, including our competitors, may assert infringement claims against us and, in the event of an unfavorable ruling on any claim, we may be unable to obtain a license or similar agreement to use technology we need to conduct our business. Our management personnel were previously employees of other telecommunications companies. In many cases, these individuals are conducting activities for us in areas similar to those in which they were involved prior to joining us. As a result, we or our employees could be subject to allegations of violation of trade secrets and other similar claims. If such claims materialize, it could materially adversely affect our business.

Our principal stockholders and management own a significant percentage of our company and will be able to exercise significant influence over our company, which could have a material and adverse effect on the market price of our common stock

Our executive officers, directors and principal stockholders together will beneficially own % of our common stock after this offering, or % if the underwriters exercise their over-allotment option in full. These stockholders will be able to determine the composition of our board of directors, will retain the voting power to approve all matters requiring stockholder approval including any merger, and will continue to have significant influence over our affairs. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the market price of our common stock or prevent you from realizing a premium over the market price for your shares of common stock.

Our failure and the failure of third parties to be Year 2000 compliant could negatively impact our business

Many computer programs have been written using two digits rather than four to define the applicable year. This poses a problem at the end of the century because these computer programs may recognize a date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures or miscalculations, and is generally referred to as the "Year 2000 issue." The Year 2000 issue could result in system failures or miscalculations, causing disruptions in our operations.

To the extent that Bell Atlantic or other third parties experience Year 2000 problems, our network and services could be adversely affected. We have not been able to verify Bell Atlantic's Year 2000 compliance. We do not have any way to verify information that our customers and other vendors have provided on their Year 2000 compliance. Furthermore, the purchasing patterns of our customers may be affected by Year 2000 issues as they expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available to purchase our services. Any of these developments could have a material and adverse effect on our business, operating results and financial condition. We have formulated a contingency plan to address the most reasonably likely worst case Year 2000 scenario.

You will incur immediate and substantial dilution of approximately $ per share

The public offering price is substantially higher than the net tangible book value of our outstanding common stock immediately after this offering. Accordingly, if you purchase common stock in this offering, you will incur immediate and substantial dilution of $ in the net tangible book value per share of the common stock you purchase in this offering. As of September 30, 1999, 10,724,209 shares of common stock were issuable upon exercise of outstanding stock options at a weighted average exercise price of $1.05 per share. If all of these stock options are exercised, you will experience further dilution in the amount of $ per share. This dilution may cause the value of your investment to decline.

Future sales of our common stock in the public market could depress our stock price

Sales of substantial amounts of common stock in the public market following this offering, or the appearance that a large number of shares is available for sale, could adversely affect the market price for our common stock. The number of shares of common stock available for sale in the public market will be limited by lock-up agreements under which certain holders of our outstanding shares of common stock and options to purchase common stock will agree not to sell or otherwise dispose of any of their shares for a period of days after the date of this prospectus without the prior written consent of Merrill Lynch & Co. However, Merrill Lynch & Co. may, in its sole discretion and at any time without notice, release all or any portion of the shares subject to lock-up agreements. In addition to the adverse effect a price decline could have on holders of common stock, that decline would likely impede our ability to raise capital through the issuance of additional shares of common stock or other equity securities.

After this offering, the holders of shares of common stock will have the right to require us to register the sale of their shares, subject to limitations and to the lock-up agreements with the underwriters. These holders and one of our directors also have the right to require us to include their shares in any future public offerings of our equity securities. On August 17, 1999, we filed a registration statement on Form S-8 under the Securities Act to register 11,250,000 shares of common stock subject to outstanding stock options or reserved for issuance under our stock incentive plan. The sale of these additional shares into the public market may further adversely affect the market price of our common stock.

Our certificate of incorporation and bylaws contain provisions that could delay or prevent a change in control and therefore could hurt our stockholders

Provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of our company, even if a change in control would be beneficial to stockholders. Our certificate of incorporation provides for a classified board of directors and will allow our board to issue, without stockholder approval, preferred stock with terms set by the board. The preferred stock could be issued quickly with terms that delay or prevent the change in control of our company or make removal of management more difficult. Also, the issuance of preferred stock may cause the market price of our common stock to decrease.

Any application of the Investment Company Act to our company would restrict our business activities and capital structure

We have a significant amount of cash and cash equivalents and, pending our utilization of all of the net proceeds from this offering, we will have an even greater amount of cash invested in short-term interest-bearing securities, which could subject us to the provisions of the U.S. Investment Company Act of 1940. We do not propose to engage in investment activities in a manner or to an extent that would require us to register as an investment company under the Investment Company Act. The Investment Company Act places restrictions on the capital structure and business activities of companies registered thereunder. Accordingly, we will seek to limit our holding of "investment securities" (as defined in that Act) to an amount that is less than 40% of the value of our total assets, calculated pursuant to the Investment Company Act. The Investment Company Act permits a company to avoid becoming subject to that Act for a period of up to one year despite the holding of investment securities in excess of that level if, among other things, its board of directors has adopted a resolution stating that the company does not intend to become an investment company. Any application to us of the restrictions mandated by the Investment Company Act would have a material adverse effect on our company.

This prospectus contains forward-looking statements that may not prove to be accurate and such inaccuracy could materially and adversely affect the market price of our common stock

This prospectus contains forward-looking statements and information relating to our company. We generally identify forward-looking statements in this prospectus using words like "believe," "intend," "expect," "may," "should," "plan," "project," "contemplate," "anticipate" or similar statements. These statements are based on our beliefs as well as assumptions we made using information currently available to us. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties and assumptions. Actual results may differ significantly from the results discussed in these forward-looking statements.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $ million. This amount reflects deductions from the gross proceeds of the offering of:

- approximately $ million, which will be retained by the underwriters as discounts and commissions; and
- approximately $ million, representing our estimated expenses for this offering.

We expect to use approximately $ million of the net proceeds from this offering to finance capital expenditures. We expect to use the remaining net proceeds to finance operating losses that we expect to incur as we expand our customer base and network and for general corporate purposes. The actual amount of net proceeds we spend on a particular use will depend on many factors, including:

- our future revenue growth, if any;
- our future capital expenditures; and
- the amount of cash generated by our operations.

Many of these factors are beyond our control. We have not definitively allocated any portion of the net proceeds of the offering. We will retain complete discretion in applying the proceeds of this offering.

We will not receive any of the proceeds from sales of shares by selling stockholders as part of the over-allotment option.

Until we use the net proceeds of this offering, we intend to invest the net proceeds in short-term investment-grade securities.

DIVIDEND POLICY

We have never declared or paid dividends. We do not anticipate declaring or paying cash dividends for the foreseeable future. Instead, for the foreseeable future, we will retain our earnings, if any, for the future operation and expansion of our business.

PRICE RANGE OF OUR COMMON STOCK

Since our initial public offering on June 3, 1999, our common stock has traded on the Nasdaq National Market under the symbol "NASC." The following table sets forth the range of the high and low closing sales prices of our common stock for the periods indicated:

	High	Low
Year ending December 31, 1999:		
Second Quarter (from June 3, 1999)	$13.94	$8.62
Third Quarter	18.00	10.00
Fourth Quarter		

On December 21, 1999, the last reported sales price for our common stock on the Nasdaq National Market was $32.875 per share. On December 15, 1999, there were 74 holders of record of our common stock.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 1999 on an actual basis and as adjusted to reflect the offering.

	September 30, 1999	
	Actual (unaudited)	As Adjusted(1)
	(in thousands)	
Cash and cash equivalents	$ 63,470	
Long-term obligations:		
Capital lease obligations (including current portion)	19,977	
Note payable	2,973	
Deferred compensation	333	
Total long-term obligations (including current portion)	23,283	
Stockholders' equity:		
Common stock, $0.001 par value, 150,000,000 shares authorized, 53,656,277 shares issued (actual), shares issued (as adjusted) (2)	54	
Additional paid-in capital	130,358	
Deferred compensation on stock options	(19,856)	
Accumulated deficit	(26,284)	
Less treasury stock, at cost, 8,550,000 shares	(1,900)	
Total stockholders' equity	82,372	
Total capitalization	$105,655	

(1) As adjusted to reflect the sale of shares of our common stock offered by this prospectus, after deducting the underwriting discount and the estimated offering expenses that we will pay.

(2) Excludes 10,724,209 shares of our common stock issuable upon exercise of stock options outstanding on September 30, 1999.

DILUTION

As of September 30, 1999, our net tangible book value was approximately $82.4 million or $1.83 per common share. Assuming no changes in our net tangible book value, other than to give effect to the sale of the common stock offered by this prospectus, our net tangible book value at September 30, 1999 would have been $, or $ per common share. Net tangible book value is the amount of total tangible assets less total liabilities. Net tangible book value per common share is net tangible book value divided by the number of shares of common stock outstanding.

This represents an immediate increase in net tangible book value of $ per common share to existing stockholders, and an immediate dilution in net tangible book value of $ per common share to new investors purchasing our common stock in this offering. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the as adjusted net tangible book value per share of our common stock at September 30, 1999. The following table illustrates this per share dilution.

Public offering price per common share		$
Net tangible book value per common share at September 30, 1999	$	
Increase per share attributable to new investors		
Net tangible book value per common share after this offering		
Dilution per common share to new investors		$

SELECTED FINANCIAL AND OTHER DATA

We were incorporated on December 19, 1994, but did not begin operations until after January 1, 1995. We present below summary financial and other data for our company. The summary historical balance sheet data as of December 31, 1998 and the summary historical statement of operations and other data for each of the three years ended December 31, 1998 have been derived from our audited financial statements that are included elsewhere in this prospectus. PricewaterhouseCoopers LLP has audited the financial statements as of and for each of the three years in the period ended December 31, 1998. The summary historical balance sheet data as of September 30, 1999 and the summary historical statement of operations and other data as of and for each of the nine months ended September 30, 1998 and 1999 have been derived from our unaudited financial statements that are included elsewhere in this prospectus. The balance sheet data as of December 31, 1996 has been derived from our audited financial statements not included in this prospectus. The summary financial data for the year ended December 31, 1995 have been derived from our unaudited financial statements that are not included in this prospectus. The unaudited financial statements include, in the opinion of our management, all adjustments, consisting of normal, recurring adjustments, necessary for a fair presentation of the information set forth. The results of the nine months ended September 30, 1999 are not necessarily indicative of the results that may be expected for the full year.

	Year Ended December 31,				Nine Months Ended September 30,	
	1995	1996	1997	1998	1998	1999
	(unaudited)				(unaudited)	
	(in thousands, except per share data)					
Statement of Operations Data:						
Revenue:						
Product sales	$ 1,891	$14,368	$ 8,150	$ 9,900	$ 7,394	$ 9,981
Consulting services	36	114	791	1,428	1,053	1,893
Network services	—	—	4	311	210	814
Total revenue	1,927	14,482	8,945	11,639	8,657	12,688
Cost of revenue:						
Product sales	1,475	11,975	7,180	8,639	6,354	8,706
Consulting services	15	91	231	761	598	1,178
Network services	—	—	2	41	15	2,142
Total cost of revenue	1,490	12,066	7,413	9,441	6,967	12,026
Operating expenses:						
Selling, general and administrative	299	2,255	1,437	4,017	2,404	16,726
Amortization of deferred compensation on employee stock options	—	—	—	219	48	6,699
Depreciation and amortization	9	7	12	130	60	2,497
Total operating expenses	308	2,262	1,449	4,366	2,512	25,922
Income (loss) from operations	129	154	83	(2,168)	(822)	(25,260)
Interest income (expense), net	—	(1)	(5)	64	(1)	753
Income (loss) before income taxes	129	153	78	(2,104)	(823)	(24,507)
Provision (benefit) for income taxes	39	63	36	(28)	(28)	(71)
Net income (loss)	$ 90	$ 90	$ 42	$(2,076)	$ (795)	$(24,436)
Net income (loss) per common share (basic and diluted)	$ 0.00	$ 0.00	$ 0.00	$ (0.08)	$ (0.03)	$ (0.61)
Weighted average common shares outstanding (basic and diluted)	21,915	21,915	21,915	27,302	24,007	39,933
Other Data:						
EBITDA(1)	$ 138	$ 161	$ 95	$(1,819)	$ (714)	$(16,064)
Capital expenditures	18	30	122	5,021	1,416	40,879
Net cash provided by (used in) operating activities	3	(27)	805	(2,810)	(1,014)	(15,142)
Net cash used in investing activities	(18)	(30)	(122)	(1,341)	(1,394)	(21,482)
Net cash provided by financing activities	42	55	9	8,956	7,982	94,575

	As of December 31,				As of September 30, 1999	
	1995	1996	1997	1998	Actual	As Adjusted(2)
	(unaudited)				(unaudited)	
			(in thousands)			
Balance Sheet Data:						
Cash and cash equivalents	$ 24	$ 22	$ 713	$ 5,518	$ 63,470	
Property and equipment, net	8	31	140	5,031	44,122	
Total assets	458	5,352	1,865	12,928	111,870	
Total debt (including capital lease obligations)	30	84	93	2,513	22,950	
Mandatorily redeemable preferred stock	—	—	—	5,641	—	
Total shareholders' equity	118	208	250	932	82,372	

(1) EBITDA consists of net income (loss) excluding net interest, taxes, depreciation and amortization (including amortization of deferred compensation). EBITDA is provided because it is a measure of financial performance commonly used in the telecommunications industry. We have presented EBITDA to enhance your understanding of our operating results. You should not construe it as an alternative to operating income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity determined in accordance with GAAP. We may calculate EBITDA differently than other companies. For further information, see our financial statements and related notes elsewhere in this prospectus.

(2) As adjusted to reflect the sale of shares of our common stock offered by this prospectus at an offering price of $ per share, after deducting the underwriting discount and the estimated offering expense that we will pay.

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

Overview

We began operations in 1995 by selling data communications products made by others and providing consulting services for wide area networks. Shortly thereafter, we began offering a wide range of networking solutions for the data communications needs of businesses. We provide network integration services, where we design our customers' networks and sell and install related network equipment. We also manage our customers' networks, ensure the security of their networks and provide related professional services. From 1995 through 1998, our revenue was derived primarily from product sales and consulting services. Historically, we have primarily depended on AT&T and Zeneca for revenue from our product sales and consulting services operations. AT&T accounted for 35.2% and 50.4% of total revenue for the nine months ended September 30, 1999 and 1998, respectively, while Zeneca accounted for 10.0% and 9.6% of total revenue for the nine months ended September 30, 1999 and 1998, respectively.

In 1996, we began to pursue deployment of a series of city-wide networks that enable DSL services. In February 1997, we began developing technical standards for delivery of DSL-based services within our target markets through a joint effort with Bell Atlantic. In April 1997, we entered into our first interconnection agreement with Bell Atlantic, which allowed us to use their copper telephone lines and to collocate our equipment in telephone company offices known as "central offices." Central offices serve as the central connection point for all copper telephone lines in a local area and form the basis for our network and a telephone company's network. We began CopperNet service trials in November 1997 and began commercially offering our CopperNet service in Philadelphia and Washington, D.C. in January 1999. We currently offer our CopperNet service in the following nine cities and surrounding markets: Baltimore, Boston, New York, Norfolk, Philadelphia, Pittsburgh, Richmond, Washington D.C., and Wilmington. As of December 31, 1999, we have completed collocating our equipment in central offices.

We currently are targeting the northeast and mid-Atlantic regions for our CopperNet service. We believe that our focus on the northeast and mid-Atlantic regions has allowed us to form a relationship with Bell Atlantic that we believe will allow us to provide responsive, consistent and high quality service in our target markets. Our depth of service enables us to provide our customers with a total business solution by providing them with access for substantially all of their end-users within our target markets, given our large coverage of not only businesses, but the suburban residential areas in which the employees of the business reside. As opportunities present themselves, we may decide to expand our network beyond our initial target markets and into other regions. Consistent with this strategy, we have entered into an interconnection agreement with BellSouth, which has been approved by the state public utility commissions in Alabama, Florida, Georgia, Kentucky, Louisiana and South Carolina. We also have interconnection agreements with GTE, Sprint Corporation and the Southern New England Telephone Company.

Since February 1997, we have invested increasing amounts in the development and deployment of our CopperNet service. We have funded the deployment of our CopperNet services through proceeds received from a preferred and common stock financing in August 1998, issuance of promissory notes that were converted into common stock during the three months ended June 30, 1999, capital lease financing and our initial public offering. We intend to increase our operating expenses and capital expenditures substantially in an effort to rapidly expand our equipment and human resource related infrastructure and DSL-based network services. We expect to incur substantial operating losses, net losses and negative cash flow during the build-out of our network and our initial penetration of each new market we enter. Although in the short term we expect to derive the majority of our revenue from our product sales and related consulting services, we expect that over time revenue from network services, which includes our CopperNet services, will constitute the more significant portion of our total revenue. This decline will force us to continue to price our services competitively in relation to those of the traditional telephone companies and other competitors in our markets, which may affect our future revenue growth.

Revenue

Revenue consists of:

- *Product sales.* We sell, install and configure selected equipment from our manufacturing partners. Our engineers select product solutions to improve our customers' operations and network efficiencies. Our engineers refer to a standard network design that they seek to customize to fit the needs of each customer.
- *Consulting services.* We bill customers for nonrecurring service activation and installation charges. We also bill our customers for network integration, on site network management, network security and professional services based on time and materials for contracted services. In addition, we derive revenue from the maintenance and installation of equipment. Some of these services may be provided through third-party providers under contract to us.
- *Network services.* We charge monthly service fees for access to our CopperNet local, metropolitan and wide area networks. We also provide a wide variety of network services to customers, including remote network management and monitoring, network security, dedicated private connections to our network, Internet access, e-commerce and other data applications. Some of these services are delivered to customers using resources from third party providers under contract to us.

Cost of Revenue

Product sales. We purchase equipment from various vendors whose technology and hardware solutions we recommend to our customers. We do not manufacture any of this equipment.

Consulting services. Consulting services cost of revenue consists of charges for hardware maintenance, installation and certain contract services that we purchase from third parties.

Network services. Our network service costs generally comprise non-employee-based charges such as:

- *CopperNet service fees.* We pay a monthly service fee for each copper line and for each collocation arrangement, as well as usage fees for the support services we obtain from the traditional telephone companies we work with in order to serve our CopperNet customers. Sometimes, we must pay these companies to perform special work, such as preparing a telephone line to use DSL technology, when such work is required in order to serve a particular client.
- *Other access costs and levied line expense.* We pay installation charges and monthly fees to competitive telecommunications companies or traditional telephone companies for other types of access, other than through our CopperNet network, which we provide to customers as part of our network services.
- *Backbone connectivity charges.* We incur charges for our fiber optic network, or backbone, within a metropolitan area, typically from a competitive telecommunications company or a traditional telephone company, and for the backbone interconnecting our networks in different metropolitan areas from a long distance carrier. We pay these carriers a one-time installation and activation fee and a monthly service fee for these leased network connections.
- *Network operations expenses.* We incur various recurring costs at our network operations center. These costs include data connections, engineering supplies and certain utility costs.
- *Equipment operating lease expenses.* In the future, we may decide to enter into operating leases for some or all of the equipment we use in our network, including the DSL equipment

we use in the traditional telephone company's central office locations and equipment installed on the customer's premises. Currently, we generally use capital leases to finance the acquisition of substantially all of this equipment, which we depreciate over a range of two to five years.

Operating Expenses

Selling, general and administrative expenses

Our selling, general and administrative expenses include all employee-based charges, including field technicians, engineering support, customer service and technical support, information systems, billing and collections, general management and overhead and administrative functions. Headcount in functional areas, such as sales, customer service and operations will increase significantly as we expand our network and as the number of customers increases.

- *Sales and marketing expenses.* We distribute our products and services through direct and indirect sales efforts, agents and telemarketing. Our direct sales and marketing efforts focus on attracting and retaining small, medium and large business customers in our target markets. We enter into relationships with companies, including Internet service providers, local and long distance carriers and other networking services companies to sell our services. These expenses have increased, and will continue to increase, as we develop our CopperNet services.
- *General and administrative expenses.* As we expand our network, we expect the number of employees located in specific markets to grow. Certain functions, such as customer service, network operations, finance, billing and administrative services, are likely to remain centralized in order to achieve economies of scale. We pay licensing fees for standard systems to support our business processes, such as billing systems.

Amortization of deferred compensation on stock options

We had outstanding stock options to purchase a total of 7,090,875 shares of common stock as of December 31, 1998 and 5,625,000 and 10,724,209 shares of common stock as of September 30, 1998 and 1999, respectively, at weighted average exercise prices of $0.09, $0.09 and $1.05 per share, respectively. At September 30, 1999, all of these options were exercisable into restricted shares of our common stock that generally vest over a three to four year period. In certain instances, we determined the fair value of the underlying common stock on the date of grant was in excess of the exercise price of the options. As a result, we recorded deferred compensation of $750,000 and $23.1 million for the nine months ended September 30, 1998 and 1999, respectively. We recorded this amount as a reduction to stockholders' equity that will be amortized as a charge to operations over the vesting periods. For the nine months ended September 30, 1998 and 1999, we recognized $48,000 and $6.7 million of stock compensation expense, respectively, related to these options.

On April 1, 1999, we entered into a stock option agreement, which granted to one of our directors an option to purchase 250,000 shares of our common stock at an exercise price of $6.67 per share. On June 3, 1999, this director exercised this option. In addition, the agreement stipulated that this director will be issued an additional option to purchase 407,500 shares of common stock at an exercise price of $3.00 per share. These options immediately vested upon our initial public offering. As a result we recognized approximately $3.5 million of compensation expense during the nine months ended September 30, 1999.

Depreciation and amortization

Depreciation expense arising from our network and equipment purchases for our customers' premises will be significant and will increase as we deploy our network. Collocation fees, build-out costs, including one-time installation and activation fees, and other DSL-based equipment costs are capitalized and amortized over a range of two to five years.

Interest Income (Expense), Net

Interest income (expense), net, primarily consists of interest income from our cash and cash equivalents less interest expense associated with our debt and capital leases. As our capital expenditures increase, we anticipate that our interest expense associated with our capital leases will increase.

Results of Operations

The following tables present our results of operations data and the components of net income (loss) in dollars and as a percentage of our revenue. See Segment Information in Note 12 to the Financial Statements included in this prospectus for additional financial information about industry segments.

	Year Ended December 31,			Nine Months Ended September 30,	
	1996	1997	1998	1998	1999
				(unaudited)	
	(dollars in thousands)				
Revenue:					
Product sales	$14,368	$8,150	$ 9,900	$7,394	$ 9,981
Consulting services	114	791	1,428	1,053	1,893
Network services	—	4	311	210	814
Total revenue	14,482	8,945	11,639	8,657	12,688
Cost of revenue:					
Product sales	11,975	7,180	8,639	6,354	8,706
Consulting services	91	231	761	598	1,178
Network services	—	2	41	15	2,142
Total cost of revenue	12,066	7,413	9,441	6,967	12,026
Gross profit	2,416	1,532	2,198	1,690	662
Operating expenses:					
Selling, general and administrative	2,255	1,437	4,017	2,404	16,726
Amortization of deferred compensation on employee stock options	—	—	219	48	6,699
Depreciation and amortization	7	12	130	60	2,497
Total operating expenses	2,262	1,449	4,366	2,512	25,922
Income (loss) from operations	154	83	(2,168)	(822)	(25,260)
Interest income (expense), net	(1)	(5)	64	(1)	753
Provision (benefit) for income taxes	63	36	(28)	(28)	(71)
Net income (loss)	$ 90	$ 42	$(2,076)	$ (795)	$(24,436)

	Year Ended December 31,			Nine Months Ended September 30,	
	1996	1997	1998	1998	1999
				(unaudited)	
	(percent of revenue)				
Revenue:					
Product sales	99.2%	91.1%	85.1%	85.4%	78.7%
Consulting services	0.8	8.8	12.3	12.2	14.9
Network services	—	0.1	2.6	2.4	6.4
Total revenue	100.0%	100.0%	100.0%	100%	100%
Cost of revenue:					
Product sales	82.7	80.3	74.2	73.4	68.6
Consulting services	0.6	2.6	6.5	6.9	9.3
Network services	—	0.0	0.4	0.2	16.9
Total cost of revenue	83.3	82.9	81.1	80.5	94.8
Gross profit	16.7	17.1	18.9	19.5	5.2
Operating expenses:					
Selling, general and administrative	15.6	16.1	34.5	27.8	131.8
Amortization of deferred compensation on employee stock options	—	—	1.9	0.5	52.8
Depreciation and amortization	0.0	0.1	1.1	0.7	19.7
Total operating expenses	15.6	16.2	37.5	29.0	204.3
Income (loss) from operations	1.1	0.9	(18.6)	(9.5)	(199.1)
Interest income (expense), net	0.0	0.0	0.6	—	6.0
Income (loss) before taxes	1.1	0.9	(18.0)	(9.5)	(193.1)
Provision (benefit) for income taxes	0.4	0.4	(0.2)	(0.3)	(0.5)
Net income (loss)	0.7%	0.5%	(17.8)%	(9.2)%	(192.6)%

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Revenue. We recognized $12.7 million in revenue for the nine months ended September 30, 1999, as compared to $8.7 million for the nine months ended September 30, 1998, an increase of $4.0 million, or 46.0%. This increase was principally attributable to a $2.6 million increase in product sales, primarily from one of our largest customers, AT&T. Consulting services increased by $840,000, which was attributable to increases in maintenance and consulting contracts. Network services revenue increased by $604,000 arising from the introduction of broader network service offerings in late 1998.

Cost of revenue. Cost of revenue was $12.0 million for the nine months ended September 30, 1999, as compared to $7.0 million for the nine months ended September 30, 1998, an increase of $5.0 million, or 71.4%. The increase was principally attributable to the increase in our product sales of $2.4 million and a growth in cost of network services of $2.1 million attributable to expenses incurred to continue to develop and operate our CopperNet and other networking services. These were accompanied by a growth in cost related to additional consulting services of $580,000.

Gross profit. Gross profit was $662,000 and 5.2% of revenue for the nine months ended September 30, 1999, as compared to $1.7 million and 19.5% of revenue for the nine months ended September 30, 1998. Gross profit as a percentage of revenue decreased primarily as a result of increased network services costs related to the continued expansion of our network. As a result of this expansion of our network, expenses have exceeded our revenue realized from our customer base.

Selling, general and administrative expenses. Selling, general and administrative expenses were $16.7 million and 131.8% of revenue for the nine months ended September 30, 1999, as compared to $2.4 million and 27.8% of revenue for the nine months ended September 30, 1998, an increase of $14.3 million, or 596%. This increase as a percentage of revenue was primarily due to increased staffing and other expenses incurred to develop and operate our CopperNet network and other networking solutions.

Amortization of deferred compensation on stock options. Amortization of deferred compensation was $6.7 million for the nine months ended September 30, 1999, as compared to $48,000 for the nine months ended September 30, 1998. This increase in amortization of deferred compensation expense is due to the granting of additional stock options to employees at exercise prices below fair market value. The unamortized balance of $19.9 million at September 30, 1999 will be amortized over the remaining vesting period of each stock option grant.

Depreciation and amortization expense. Depreciation and amortization expense was $2.5 million and 19.7% of revenue for the nine months ended September 30, 1999, as compared to $60,000 and less than 0.7% of revenue for the nine months ended September 30, 1998. This increase was primarily due to investments in our CopperNet network, computer equipment and software, office furnishings and leasehold improvements.

Loss from operations. Our loss from operations was $25.3 million for the nine months ended September 30, 1999, as compared to $774,000 for the nine months ended September 30, 1998. The increased loss for the nine months ended September 30, 1999 was primarily due to increased staffing, amortization of deferred compensation and other operating expenses we incurred in support of our CopperNet network.

Interest income (expense), net. For the nine months ended September 30, 1999, we recorded net interest income of $753,000, consisting of interest income of $1.3 million, which was primarily attributable to interest income earned from the net proceeds of our initial public offering of $81.8 million in June 1999, offset by $548,000 in interest expense, compared to $58,000 of interest expense for the nine months ended September 30, 1998. The increase in interest expense is primarily due to interest on notes payable and capital leases that commenced during 1999.

Benefit for income taxes. We had a benefit for income taxes of $71,000 for the nine months ended September 30, 1999, as compared to a benefit of $28,000 for the nine months ended September 30, 1998.

Net loss. For the foregoing reasons, our net loss was $24.4 million for the nine months ended September 30, 1999, as compared to a net loss of $747,000 for the nine months ended September 30, 1998.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Revenue. We recognized $11.6 million in revenue for the year ended December 31, 1998, as compared to $8.9 million for the year ended December 31, 1997, an increase of $2.7 million, or 30.3%. Revenue increased as a result of a $1.8 million increase in product sales, primarily from one of our largest customers, AT&T, from an increase in consulting services of $0.6 million attributable to increases in maintenance and consulting contracts, and from growth in network services revenue of $0.3 million arising from the introduction of broader network service offerings in late 1997.

Cost of revenue. Cost of revenue was $9.4 million for the year ended December 31, 1998, as compared to $7.4 million for the year ended December 31, 1997, an increase of $2.0 million, or 27.0%. The increase was attributable to growth in cost related to an increase in product sales of $1.5 million, growth in cost related to additional consulting services of $0.5 million and from growth in the cost of network services of $39,000 attributable to expenses incurred to develop and operate our CopperNet and other networking services.

Gross profit. Gross profit was $2.2 million and 18.9% of revenue for the year ended December 31, 1998, as compared to $1.5 million and 17.1% of revenue for the year ended December 31, 1997. The increase in gross profit as a percentage of revenue was attributable to higher product sales, increased revenue from consulting services and the introduction of broader network service offerings in late 1997.

Selling, general and administrative expenses. Selling, general and administrative expenses were $4.0 million and 34.5% of revenue for the year ended December 31, 1998, as compared to $1.4 million and 16.1% of revenue for the year ended December 31, 1997, an increase of $2.6 million, or 186%. This increase as a percentage of revenue was primarily due to increased staffing and other expenses incurred to develop our CopperNet network and other networking solutions.

Amortization of deferred compensation on employee stock options. Amortization of deferred compensation was $219,000 for the year ended December 31, 1998. We had no amortization of deferred compensation for the year ended December 31, 1997.

Depreciation and amortization expense. Depreciation and amortization expense was $130,000 and 1.1% of revenue for the year ended December 31, 1998, as compared to $12,000 and less than 1% of revenue for the year ended December 31, 1997, an increase of $118,000. This increase was primarily due to investments in computer equipment and software, office furnishings and leasehold improvements.

Income (loss) from operations. Our loss from operations was $2.2 million for the year ended December 31, 1998, as compared to income from operations of $83,000 for the year ended December 31, 1997. The loss in 1998 was primarily due to increased staffing and other operating expenses we incurred in support of our CopperNet network and other networking solutions.

Interest income (expense), net. For the year ended December 31, 1998, we recorded net interest income of $64,000, consisting of interest income of $145,000, which was primarily attributable to interest income earned from the proceeds of our issuance of $10.0 million of preferred and common stock in August 1998, offset by $81,000 in interest expense, compared to $5,000 of interest expense in 1997. The increase in interest expense is primarily due to interest on deferred compensation liabilities and notes payable.

Provision (benefit) for income taxes. We had a benefit for income taxes of $28,000 for the year ended December 31, 1998, as compared to a provision for income taxes of $36,000 for the year ended December 31, 1997. At December 31, 1998, our remaining tax effected net operating loss carryforward was $444,000.

Net income (loss). For the foregoing reasons, our net loss was $2.1 million for the year ended December 31, 1998, as compared to net income of $42,000 for the year ended December 31, 1997.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenue. We recognized $8.9 million in revenue for the year ended December 31, 1997, as compared to $14.5 million for the year ended December 31, 1996, a decrease of $5.6 million, or 38.6%. This decrease in revenue was primarily due to a decrease in product sales of $6.2 million to one of our largest customers, AT&T, which had purchased a significant amount of equipment from us in the last half of 1996, offset by an increase in consulting services of $0.7 million attributable to new maintenance and consulting service offerings.

Cost of revenue. Cost of revenue was $7.4 million for the year ended December 31, 1997, as compared to $12.1 million for the year ended December 31, 1996, a decrease of $4.7 million, or 38.8%, resulting from the decline in product sales, and offset by the increase in consulting services.

Gross profit. Gross profit was $1.5 million and 17.1% of revenue for the year ended December 31, 1997, as compared to $2.4 million and 16.7% of revenue for the year ended December 31, 1996. The increase in gross profit as a percentage of revenue was the result of the increase in consulting services, which has a higher gross profit percentage as compared to product sales.

Selling, general and administrative expenses. Selling, general and administrative expenses were $1.4 million and 16.1% of revenue for the year ended December 31, 1997, as compared to $2.3 million and 15.6% of revenue for the year ended December 31, 1996. This decrease in expenses was primarily due to decreased bonus and commissions compensation in 1997 attributable to lower revenue. The increase as a percentage of revenue was the result of a decrease in product sales, without a related reduction in selling, general and administrative expenses.

Depreciation and amortization expense. Depreciation and amortization expense was $12,000 and less than 1% of revenue for the year ended December 31, 1997, as compared to $7,000 and less than 1% of revenue for the year ended December 31, 1996, an increase of $5,000, or 71.4%. This increase was primarily due to investments in computer equipment and software, office furnishings and leasehold improvements.

Income (loss) from operations. Our income from operations was $83,000 for the year ended December 31, 1997, as compared to an income from operations of $154,000 for the year ended December 31, 1996, a decrease of $71,000, or 46.1%. This decrease was primarily due to the decline in products sales from 1996 to 1997, offset in part by lower bonus and commission payments in 1997.

Interest income (expense), net. For the year ended December 31, 1997, we recorded net interest expense of $5,000 as compared to $1,000 for the year ended December 31, 1996. The increase in interest expense was substantially due to a higher average balance on a bank line of credit during 1997. We terminated this bank line of credit in 1998.

Provision (benefit) for income taxes. We had a provision for income taxes of $36,000 for the year ended December 31, 1997, as compared to $63,000 for the year ended December 31, 1996, a decrease of $27,000, or 42.8%, giving us an effective tax rate above the aggregate statutory federal and state income tax rates due to certain non-deductible business expenses such as business meals and entertainment.

Net income (loss). For the foregoing reasons, our net income was $42,000 for the year ended December 31, 1997, as compared to net income of $90,000 for the year ended December 31, 1996, a decrease of $48,000, or 53.3%.

Quarterly Results of Operations

The following table presents our results of operations data and the components of net income (loss) for the last quarter of 1997, the four quarters of 1998 and the first three quarters of 1999. In the opinion of management, this information has been prepared substantially on the same basis as the financial statements appearing elsewhere in this prospectus, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the financial statements of the Company and related notes thereto appearing elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

Quarterly Summary

	Dec. 31, 1997	Mar. 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	June 30, 1999	Sept. 30, 1999
	(in thousands) (unaudited)							
Revenue								
Product sales	$1,901	$2,194	$2,297	$2,902	$ 2,507	$ 3,955	$ 2,913	$ 3,113
Consulting services	315	317	462	274	375	702	665	526
Network services	—	41	82	87	101	119	166	529
Total revenue	2,216	2,552	2,841	3,263	2,983	4,776	3,744	4,168
Cost of revenue								
Product sales	1,602	1,858	1,947	2,549	2,285	3,535	2,488	2,683
Consulting services	60	160	285	152	164	299	476	402
Network services	—	1	7	7	26	171	612	1,359
Total cost of revenue	1,662	2,019	2,239	2,708	2,475	4,005	3,576	4,444
Gross profit (loss)	554	533	602	555	508	771	168	(276)
Operating expenses:								
Selling, general and administrative	495	538	509	1,357	1,613	2,533	5,385	8,809
Amortization of deferred compensation on stock options	—	—	—	—	219	540	4,728	1,431
Depreciation and amortization	8	4	9	48	69	187	698	1,612
Total operating expenses	503	542	518	1,405	1,901	3,260	10,811	11,852
Income (loss) from operations	51	(9)	84	(850)	(1,393)	(2,489)	(10,643)	(12,128)
Interest income (expense), net	(3)	(12)	(14)	25	65	(9)	202	559
Income (loss) before taxes	48	21	70	(825)	(1,328)	(2,498)	(10,441)	(11,569)
Provision (benefit) for income taxes	22	(8)	27	(47)	—	—	(72)	1
Net income (loss)	$ 26	$ (13)	$ 43	$ (778)	$(1,328)	$(2,498)	$(10,369)	$(11,570)

Liquidity and Capital Resources

While we do not require significant capital expenditures for our product sales and consulting services segments, the development and expansion of our CopperNet network does require significant capital expenditures. The principal capital expenditures that we expect to incur during our CopperNet rollout include the procurement, design and construction of our collocation spaces and the deployment of DSL-based equipment in central offices and connection sites. Capital expenditures were $5.0 million for 1998 and $40.9 million for the nine months ended September 30, 1999. During the rest of 1999 and for future periods, we expect our capital expenditures to increase substantially primarily due to continued collocation construction and due to the purchase of telecommunications equipment for expansion of our network. Our capital expenditures will depend in part upon obtaining adequate volume commitments or demand from our CopperNet customers. We anticipate capital expenditures for 1999 to range from $55.0 million to $70.0 million for the expansion of our network to approximately 360 central offices. We will continue to expand our CopperNet related capital expenditures and our number of central offices as necessary to provide additional CopperNet service capacity. Based on our present plans, we anticipate capital expenditures during 2000 of between $40.0 million and $50.0 million, for the expansion of our network to approximately 500 central offices. The rollout of 500 central offices by mid-2000 will allow us to provide DSL services throughout our initial target markets at capacity levels anticipated by our business plan.

The net proceeds from our initial public offering were approximately $81.8 million. As of September 30, 1999, we have used approximately $18.3 million of these net proceeds. Of this amount, approximately $12.4 million was used to finance capital expenditures for central office installation and collocation fees, and approximately $3.6 million was used to finance operating losses. We expect to use approximately $17.6 million of the remaining net proceeds to finance additional capital expenditures for central office installation and collocation fees. We expect that the remaining portion of our capital expenditures, including DSL equipment, will be financed using capital leases. We expect to use the remaining net proceeds from our initial public offering to finance operating losses that we expect to incur as we expand our customer base and network, to make payments under lease commitments and for general corporate purposes.

Net cash used in operating activities was approximately $15.0 million and $1.0 million for the nine months ended September 30, 1999 and September 30, 1998, respectively. The net cash used in operations for the nine months ended September 30, 1999 was primarily the result of operating losses of $24.4 million attributable to the expansion of our network and the development of our CopperNet services, but also the result of an increase in accounts receivable and other current assets. These were offset by increases in non-cash expenses for amortization of deferred compensation of $6.7 million and depreciation of $2.5 million accompanied by increases in accounts payable and accrued liabilities. The net cash used for operations during the nine months ended September 30, 1998, was primarily the result of an increase in accounts receivable, but also the result of operating losses. These were partially offset by a increase in accounts payable. The net cash used in investing activities was $21.5 million and $1.4 million for the nine months ended September 30, 1999 and September 30, 1998, respectively. The net cash used for the nine months ended September 30, 1999, was primarily due to the deployment of equipment for our CopperNet services of $16.7 million accompanied by purchases of property and equipment of $4.8 million. The net cash used for the nine months ended September 30, 1998, was primarily due to the deployment of equipment for our CopperNet services of $1.3 million. Net cash provided by financing activities was $94.4 million for the nine months ended September 30, 1999. This was primarily the result of proceeds from our initial public offering of $83.7 million partially offset by issuance costs paid of $1.8 million, proceeds from the issuance of notes payable of $12.0 million and proceeds from exercise of stock options of $1.7 million. These were partially offset by principal payments on our capital leases of $934,000. Notes payable of $10.0 million were converted into common stock upon our initial public offering. Net cash provided by financing activities was $8.0 million for the nine months ended September 30, 1998. This was the net result of our preferred and common stock financing and the repurchase of common stock from existing shareholders.

Ascend has provided us with a $95.0 million capital lease facility to fund acquisitions of certain Ascend equipment, under which $10.4 million was outstanding as of September 30, 1999. The terms of our capital leases range from three to six years. These leases require monthly lease payments and have an interest rate of 9.5%. Ascend has the right to withdraw or suspend further advances to us if our interconnection agreements with Bell Atlantic are not renewed or are terminated, or if certain key employees terminate their employment with us without competent replacement in the reasonable commercial judgement of Ascend. In addition, we have an arrangement with Paradyne to lease up to $4.0 million of equipment, subject to vendor approval. Under the terms of the Paradyne master lease agreement, payments are due monthly for a lease period of 48 months, with a one dollar purchase option at lease expiration. The rental payments for each and every lease schedule under this master equipment lease is calculated and fixed at an interest rate of two hundred basis points above the prime interest rate as published in The Wall Street Journal on the first business day of the calendar quarter in which the lessor receives a request from the lessee to prepare a new lease schedule. As of September 30, 1999 approximately $2.7 million was outstanding under the Paradyne master lease agreement.

Ascend has also provided a $5.0 million line of credit for working capital loans, under which approximately $3.0 million was outstanding as of September 30, 1999. We can draw on the $5.0 million line of credit in $1.0 million increments up to a maximum of $5.0 million. We are required to make interest only payments at an annual rate of 8.25% on the amounts advanced for the first nine months from the date of the advance. For the next 33 months, we are required to make principal and interest payments in accordance with a 60 month amortization schedule using an interest rate of 8.25% for the first 18 months and a rate equal to the prevailing high yield bond index for the next 15 months. The remaining unpaid interest is due 42 months after the related advance. This facility is subject to the same right to withdraw and suspend further advances to us as noted above with respect to the capital lease facility.

We believe that our existing cash and cash equivalents, existing and anticipated equipment lease financings and future revenue generated from operations, will, together with the anticipated proceeds of this offering, be sufficient to fund our operating losses, capital expenditures, lease payments and working capital requirements to complete the network roll-out in our northeast and mid-Atlantic target markets. We expect our operating losses and capital expenditures to increase substantially primarily due to our network expansion. We expect that additional financing would be required in the future if we expand beyond our initial target markets and into other regions. We may attempt to finance such an expansion of our operations through a combination of commercial bank borrowings, leasing, vendor financing or the private or public sale of equity or debt securities. If we were to leverage our business by incurring significant debt, we may be required to devote a substantial portion of our cash flow to service that indebtedness. This cash flow would otherwise be available to finance the deployment of our network. If we are forced to use our cash flow in this manner, we may be forced to delay the capital expenditures necessary to complete our network. Any delay in the deployment of our network could have a material adverse effect on our business.

Our capital requirements may vary based upon the timing and success of our CopperNet rollout, as a result of regulatory, technological and competitive developments or if:

- demand for our services or cash flow from operations is more or less than expected;
- our development plans or projections change or prove to be inaccurate;
- we accelerate deployment of our network or otherwise alter the schedule or targets of our CopperNet rollout plan;
- we expand our network coverage beyond the northeast and mid-Atlantic regions in which we currently operate our network; or
- we engage in any strategic acquisitions or relationships.

Equity or debt financing may not be available to us on favorable terms or at all.

Impact of the Year 2000 Issue

Our Year 2000 plan applies to two areas: internal information technology systems and compliance by external providers. We have completed our Year 2000 compliance testing for all of our internal information technology systems and believe that these systems are Year 2000 compliant. When we use the phrase "Year 2000 compliant" or "Year 2000 compliance," we mean that the referenced information technology hardware and/or software systems are able to correctly interpret and manipulate dates up to and through the year 2000, without interruption as the result of the change to this date. Because our systems were implemented within the last two years, we do not anticipate significant Year 2000 issues to arise with our internal information technology systems, although we cannot be certain that all such systems are completely Year 2000 compliant. There have been few Year 2000 changes required to our existing information technology systems. However, because our systems will be interconnected with the systems of various third parties, including those of traditional telephone companies, and other service providers, any disruption of operations in the systems of these third parties could also have an adverse impact on our systems.

In the provision of our DSL and other services, we use third party equipment and software and interact with traditional telephone companies that have equipment and software that may not be Year 2000 compliant. We have completed a compliance check of our significant third party service and product providers. Based on responses from these third parties, we believe that they will not experience Year 2000 problems that would materially adversely affect our business. However, we do not have any way to verify information that our customers and other vendors have provided. To the extent that Bell Atlantic or other third parties experience Year 2000 problems, our network and services could be adversely affected. Furthermore, the purchasing patterns of our customers may be affected by Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available for our services. Any of these developments could have a material and adverse effect on our business, prospects, operating results and financial condition.

Our aggregate historical and future costs for Year 2000 analysis, planning and remediation have not been material and we do not expect them to be material in the future. However, we cannot assure you that these costs will not be greater than we currently expect. If these costs increase significantly, our business, prospects, operating results and financial condition could be adversely affected. We have completed a contingency plan to address the most reasonably likely worst case Year 2000 scenario.

Financial Information

The preceding discussion and analysis is based on our financial statements and the related notes and should be read in conjunction with the financial statements and the related notes included in this prospectus.

Forward-looking Statements

This prospectus includes forward-looking statements. These forward-looking statements address, among other things:

- our CopperNet deployment plans and strategies;
- development and management of our business;
- our ability to attract, retain and motivate qualified personnel;
- our ability to attract and retain customers;
- the extent of acceptance of our services;
- the market opportunity and trends in the markets for our services;
- our ability to upgrade our technologies;
- prices of telecommunication services;
- the nature of regulatory requirements that apply to us;
- our ability to obtain and maintain any required governmental authorizations;
- our future capital expenditures and needs;
- our ability to obtain and maintain financing on commercially reasonable terms;
- our ability to implement a Year 2000 readiness program; and
- the extent and nature of competition.

These statements may be found in this section, in the sections of this prospectus entitled "Summary," "Risk Factors," "Use of Proceeds" and "Business" and in this prospectus generally.

We have based these forward-looking statements on our current expectations and projections about future events. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of risks facing us, including risks stated in "Risk Factors," or faulty assumptions on our part. For example, assumptions that could cause actual results to vary materially from future results include, but are not limited to:

- our ability to successfully market our services to current and new customers;
- our ability to generate customer demand for our services in our target markets;
- market pricing for our services and for competing services;
- the extent of increasing competition;
- our ability to acquire funds to expand our network;
- the ability of our equipment and service suppliers to meet our needs;
- trends in regulatory, legislative and judicial developments; and
- our ability to manage growth of our operations.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

BUSINESS

We are a major provider of high-speed data communications services, and related applications to business customers. We provide our data communications services using digital subscriber line, or DSL, technology and generally market those services directly through our own sales force. DSL technology allows our customers to access their corporate networks and the Internet through high-speed, "always on" connections over traditional copper telephone lines at speeds up to 7 megabits per second, substantially higher than common dial-up modems. We have branded our DSL service CopperNet, which we commercially launched in the northeast and mid-Atlantic regions of the United States, in January 1999.

In seeking to solve the data communications needs of our business customers, we offer them network services, telecommunications products and equipment made by others and consulting services. Although nearly all of our revenue has historically been derived from our product sales and consulting services, we expect to continue to dedicate most of our financial and management resources to further developing our network services business. Through this business, which includes our CopperNet service offering, we provide metropolitan area and wide area network services to our customers as well as manage and monitor our customers' networks. Through our product sales business, we sell telecommunications equipment that our customers use to build, maintain and secure their networks. Through our consulting services business, we design our customers' networks, install the related equipment and provide services to help them secure their networks. For the three months ended September 30, 1999, approximately 12.7% of our revenue resulted from network services, 74.7% from product sales and 12.6% from consulting services. During the same period in 1998, network services represented 2.7% of our revenue. If we are successful in implementing our business plan, we expect that network services will constitute most of our revenue.

Since we began offering our DSL-based service we have made substantial progress in implementing our broadband network service platform. We currently offer our DSL-based networking solutions in the following nine cities and their surrounding markets: Baltimore, Boston, New York, Norfolk, Philadelphia, Pittsburgh, Richmond, Washington D.C., and Wilmington. As of December 31, 1999, we had installed our equipment in central offices within our target markets and we expect to have installed our equipment in approximately 500 central offices by mid-2000, which will essentially complete the roll-out of our network in these markets. The central offices where we currently have installed our equipment serve approximately 85% of the businesses in these areas. Upon the completion of our network deployment, we believe that the central offices where we have installed our equipment will serve approximately 95% of the businesses in these areas. We believe that by concentrating the deployment of our network facilities in our target markets, we will be able to serve the overall networking and data communications needs of our business customers more effectively than our competitors. As of December 31, 1999, we had installed high-speed access lines.

We have designed our network to support our customers' changing data networking needs. Our network supports newer, evolving technologies designed to transmit both data and voice. Unlike traditional telecommunications networks, these newer technologies transmit data in small bundles, or packets, of information from multiple users over the same lines, and are referred to as packet-based technologies. These packet-based technologies generally allow for a more efficient use of a network. Our CopperNet service is compatible with packet-based communications systems such as ATM, frame relay and IP. This same architecture also supports the traditional technologies that carry most of today's voice telephone conversations. This network design allows us to offer businesses and their telecommuters cost-effective solutions for accessing the Internet, as well as other emerging applications and services of corporate networks, such as video and audio conferencing, application and Web hosting, multimedia and e-commerce. We create city-wide MANs and connect them to our private, leased, high-speed fiber optic network, or backbone. This network design enables us to provide our customers seamless connections to remote offices or employees in other locations, including other cities. Our network provides dedicated connections to our customers, enabling them to operate as if they were using their own private network. These virtual private networks, or VPNs, have the capacity, speed, reliability and level of service that are designed to meet our customers' needs.

Industry Overview

We believe that a substantial business opportunity exists because of the concurrence of several factors.

Growing demand for high-speed data communications and networking solutions. Many businesses and other organizations are finding it extremely expensive and time-consuming to manage the complex elements of their networks. Businesses are implementing internal networks using Internet technology, or intranets, and remote local area networks, or LANs, to enable employees to work from remote locations and from home, and to create private networks that connect corporate networks in multiple locations. Gartner Group estimates that the U.S. market for packet-based, VPN and Internet data services will grow from $3.4 billion in 1997 to $14.5 billion in 2003, a compounded annual growth rate of 34%. Business demand for Internet access, e-mail, video and audio services, web and application hosting and e-commerce is also increasing.

This demand in turn drives the need for high-speed, high-capacity communications to support these applications. As businesses grow to take advantage of the extended power presented by their networks and the Internet, they will need extensive network management and security solutions designed to protect their internal data. International Data Corporation, or IDC, estimates that the U.S. market for network operations outsourcing services will more than double from $4.0 billion in 1997 to $9.1 billion in 2002, a compounded annual growth rate of 18%.

High-speed data communications have become important to businesses in part due to the dramatic increase in Internet usage. According to IDC, the number of Internet users worldwide reached approximately 69 million in 1997 and is forecasted to grow to approximately 320 million by 2002. IDC also estimates that the value of goods and services sold worldwide through the Internet will increase from $12 billion in 1997 to over $400 billion in 2002. To remain competitive, businesses increasingly need high-speed connections to maintain complex Web sites, access critical business information and communicate more efficiently with employees, customers and business partners.

Data communications is the fastest growing segment of the telecommunications industry. The Gartner Group forecasts data traffic to grow over five times faster than voice traffic through 2002. Furthermore, the Gartner Group projects an increase in the number of DSL lines in use from 3,000 in 1997, providing $1.87 billion in revenue to over 7.1 million lines providing $18.00 billion in revenue, in 2003, representing a 373% compounded annual growth rate in the number of lines and a 531% compounded annual growth rate in revenue.

Increasing network congestion. The growing use of bandwidth-intensive applications is creating a number of challenges for the existing copper lines of the public telephone network, and for public data networks and private networks. These challenges affect the structure of the existing network and limit the ability of businesses to take full advantage of the benefits of new information technologies. Networks are becoming increasingly congested due to the rapid growth in data traffic and the imbalance in capacity between local and wide area networks. Although high-speed local access technologies such as DSL will be deployed to help solve the local access or "last mile," bottle-neck, expertise and networking solutions will be needed to remedy the other bottlenecks throughout existing networks.

The "last mile" is defined as that part of the network that runs from an end-user's location to the first central office or nearest service entry point into the network. Since the break-up of AT&T, substantially all data services have been configured with a local carrier, typically a regional Bell operating company like Bell Atlantic, providing the last mile local access, and a long distance carrier like AT&T, MCI WorldCom or Sprint providing the long distance portion. Although competition in the long distance market has evolved quickly and caused price reductions, the local access markets have not similarly developed. As a result, the traditional local access market remains technologically behind the long distance market, with last mile access to major public networks like the Internet and data networks remaining either very slow or very expensive.

Commercial availability of low cost DSL technology. The full potential of Internet and remote local area network applications cannot be realized without removing the performance bottlenecks of the local telephone networks. DSL technology is designed to remove this performance bottleneck by increasing the data carrying capacity of copper telephone lines from the 56 kilobits per second speeds available with common dial-up modems and 128 kilobits per second speeds available on ISDN lines to DSL speeds of up to 7 megabits per second. Because DSL technology reuses existing copper telephone lines, DSL requires a lower initial fixed investment than that needed for existing alternative technologies, such as cable modems, fiber, wireless and satellite communications systems. After the build-out of a central office, our subsequent investments in DSL technology for customers within the area served by that central office are directly related to the number of paying customers.

Needs of Small- and Medium-Sized Businesses. A significant number of small- and medium-sized businesses have no practical alternative to low performance dial-up or integrated services digital network, or ISDN, lines and lack the financial resources to afford traditional high-cost alternatives, such as T-1 or T-3 lines. As a result, their employees suffer productivity limitations associated with slow transmission speeds. In addition, there is an increasing need by these businesses for integrated, value-added applications and services, such as web and application hosting or computer system back-up. These applications also require an increasing amount of bandwidth capacity.

Needs of Large Businesses to Improve Remote Worker Productivity. Many large companies are supporting increasing numbers of remote offices and workers as a means of dealing with transportation infrastructure constraints, skilled worker unavailability and other workplace issues. These companies face the challenge of finding a cost effective way to make their workers as productive as those who have access to all of the high performance communications and networking resources available to workers located at corporate headquarters. A high-speed network solution that encompasses access to the corporate local area network, the corporate telephone system, the Internet, the corporate video conferencing system, customers, suppliers, and partners permits a substantial increase in remote office and worker productivity.

Significant and Growing Demand for Network-Enabled Broadband Applications and Services. As applications become more advanced and necessary to conduct day-to-day business, we expect that the demand for broadband capacity will rise accordingly. Many companies lack the resources to develop, implement, manage and continually enhance their business' hosting and information technology applications needs. As a result, not only should the demand for bandwidth capacity rise, but there should be strong demand for outsourcing many of these applications so that companies are able to focus on their core competencies.

Impact of the 1996 Telecom Act. The 1996 Telecom Act (including its related regulations) allows competitive telecommunications companies like us to take advantage of traditional telephone companies' existing copper telephone line networks rather than constructing a competing infrastructure at significant cost. The 1996 Telecom Act requires traditional telephone companies:

- to allow competitive telecommunications companies to lease copper lines on a line by line basis;
- to permit competitive telecommunications companies to collocate their equipment, including DSL equipment, in traditional telephone companies' central offices, which enables competitive telecommunications companies to access end-users through existing telephone line connections;
- to provide competitive telecommunications companies with the operations support services necessary for competitive telecommunications companies to compete; and
- to permit competitive telecommunications companies to share access to and provide service over traditional telephone companies' existing copper telephone lines.

The 1996 Telecom Act creates an incentive for some traditional telephone companies, including Bell Atlantic, to cooperate with competitive telecommunications companies because the incumbent carriers cannot provide long distance service in the regions where they provide local exchange service until the FCC determines that the traditional telephone company has satisfied specific statutory criteria for opening its local markets to competition.

The NAS Solution

We provide a full range of services to allow businesses to effectively outsource their Internet access, data transport, and other telecommunications or data communications needs. We market our services both directly to businesses through our sales force and indirectly through other service providers.

High-speed, "Last Mile" Connectivity. CopperNet is designed to solve the last mile challenge using DSL technology to convert standard copper telephone lines into high-speed data connections. Our network is capable of delivering data at speeds ranging incrementally from 128 kilobits per second to 2 megabits per second symmetrically, where data travels at the same speed to and from the customer, and up to 7 megabits per second asymmetrically, where data travels faster to the customer than from the customer. The highest CopperNet speeds allow our customers to transfer data at rates faster than standard high-speed data connections, like T-1 lines and frame relay circuits. We provide packet-based connections like other DSL providers, but because many of today's existing networks use channelized technology, we also provide channelized connections, which we believe no other major DSL provider currently offers. Thus, CopperNet addresses both older channelized network requirements, like traditional voice telephone networks, and the packet-based communications better suited for newer, more efficient technologies such as ATM, frame relay and IP, the set of standards that enable Internet communications. ATM and frame relay are different communications technologies, but both transmit data at high-speed and can accommodate multiple types of media, including voice, video and data.

Adaptable Network Design. The design of our network supports today's bandwidth-intensive business requirements, such as corporate networks, VPNs, office-to-office connectivity, telecommuting solutions, collaborative computing of users in different areas, Internet/intranet access, traditional voice, video conferencing, multimedia, e-mail, video and audio transmission, web and application hosting and e-commerce. We have designed our network so that we can individually configure a customer's features and speeds from our network operations center, eliminating the need for customers to upgrade their hardware or for us to visit their premises in order to enhance or upgrade services.

Metropolitan Area Network Solutions. We recognize that businesses with city-wide locations, as well as remote users who telecommute, need to communicate and share confidential information. We have constructed data communications networks that cover an entire city-wide, or metropolitan area. These MANs provide high-capacity, secure, direct connections between these remote locations and provide cost effective private network solutions to our customers with the capacity, speed, reliability and level of service that they require.

Wide Area Network Solutions. Many organizations have offices and employees in multiple cities. By linking our metropolitan area networks, we have constructed a data communications network that covers an entire region-wide, or WAN in our northeast and mid-Atlantic regions. This WAN provides high-capacity, secure and reliable connections between geographically dispersed locations. Because our WAN customers, like our MAN customers, are served end-to-end on our CopperNet infrastructure, we are able to deliver a wide area, private network to our customers with the capacity, speed, reliability and level of service that they require.

Network-Enabled Broadband Communications and Services. We believe that providing high-speed access and data communications solutions will only be part of our customers' solution. Because our emphasis is on building customer relationships through our direct sales force and working with them to provide the best communications solutions, we believe that we will be able to identify further customer needs and effectively market and sell new solutions to meet these needs. For example, we currently provide remote online control, monitoring and management of our customers' networks. In addition, we develop and implement sophisticated network security solutions to protect our customers' networks and vital data, including VPNs, encryption and access authentication, risk assessment and audits, design consulting, security testing through attempted breaches of security and analysis of and response to breaches of security. In the future, we intend to offer additional services that may include e-commerce, voice-over technology (including IP, frame relay and ATM), web and application hosting, video conferencing and server back-up services.

The NAS Strategy

Our goal is to be the premier provider of data communications and networking solutions in the markets in which we operate. To achieve our goal, and to take advantage of our market opportunity, we plan to continue to implement a strategy consisting of the following principal elements:

- *Provide in-depth coverage in our markets.* Because DSL is a localized technology tied to the proximity of end-users to central offices, we must collocate our equipment in many central offices in order to provide a wide area of coverage of our markets. Thus, we have pursued a strategy of providing services in a substantial majority of the central offices in each of our target markets. Furthermore, our focus on the northeast and mid-Atlantic regions has enabled us to deploy our network with speed and depth. We believe that our coverage within our target markets is much deeper than that of other providers of DSL-based broadband access, enabling us to better serve our customers by providing them with access for substantially all of their end-users.

- *Focus on small- and medium-sized business customers.* We believe that many small- and medium-sized businesses currently do not have a cost-effective and integrated solution to their Internet access and data transport needs. Many small- and medium-sized businesses want to provide high-speed Internet access to their employees and connect multiple branch offices in the same city or multiple cities through a MAN or WAN connection. Our CopperNet solution is more cost-effective than current solutions offered by traditional telephone companies, such as T-1 or ISDN connections. In addition, we believe that our marketing approach enables us to provide our customers with a more effective and integrated solution to their data communications needs.

- *Focus on selected large enterprise customers.* We believe that many large enterprise customers that want to provide cost-effective high-speed access to their remote workers do not have an adequate solution. Many large businesses have remote offices and workers that are not able to take advantage of the full array of communications and networking resources available to workers at the main office. Our extensive network coverage within our targets allows us to provide service to most remote workers or office locations within our markets.

- *Enhance and expand our network to meet the broadest array of business requirements.* Our network design and technology is designed to provide our customers with adaptable networking solutions that take advantage of many technologies. Our network supports a broad array of business requirements, such as corporate networks, VPNs, office-to-office connectivity, telecommuting solutions, collaborative computing of users in different areas, Internet/intranet access, video conferencing and multimedia, e-mail, video and audio transmission, web and application hosting and e-commerce. Our network provides a solution that can be adapted to meet the needs of our customers and integrate technological innovations as they are developed.

- *Expand network-enabled features and applications.* We seek to have our network become a platform that facilitates the delivery of productivity-enhancing features and applications to businesses and their employees. We intend to either directly offer or jointly provide these services. One of our objectives in providing these enhanced features and applications is to strengthen customer loyalty and increase revenue per customer.

- *Provide superior customer care.* We emphasize a comprehensive service solution for our customers by developing a complete project implementation plan for each installation and for the on-going maintenance of their service. This is to ensure that each customer receives the service for which it has contracted according to our service level agreements. We manage all aspects of our customers' connections to our network, including the design and installation of the end-user's connection, equipment configuration and network monitoring on a 24 hour a day, seven day a week basis. By providing our customers regular reports on the performance of their services, we are able to demonstrate to our customers our performance relative to our commitments and how customers may benefit by acquiring additional networking services from us.

- *Deliver our products and services through different types of marketing.* We emphasize direct sales and marketing to small- and medium-sized businesses and to selected large enterprises. We also sell our services indirectly through our sales partners, including Internet service providers, long distance and local carriers and other networking service companies. Our sales force, which included employees at December 31, 1999, is supported by engineers who are trained, certified experts in all our vendor-partners' products and technologies, including Ascend, Paradyne, Lucent, and Cisco Systems, Inc. We intend to leverage our existing customer base through selling them additional products and services. Some of our sales partners include Verio, Intermedia, Net2000 Communications, Crosslink, Concentric, Pae-tec, and DSL Networks.

- *Capitalize on economics of DSL.* DSL technology requires a lower initial fixed investment than that needed for existing alternative technologies because DSL uses existing copper telephone lines. Thus, we are able to offer businesses services comparable to traditional wide area networking technologies, like high-speed T-1 lines and frame relay circuits, at approximately 30% to 70% of the cost of such services. After we build out a central office, our subsequent investments in DSL technology for the customers within the area served by that central office are directly related to the number of paying customers, making a significant portion of our capital expenditures success-based.

- *Expand our network coverage area.* We may consider expanding our coverage area beyond our initial target markets in the northeast and mid-Atlantic regions and into other regions. For example, we have entered into interconnection agreements with BellSouth and other telephone companies that will permit us to operate in additional markets, subject to our seeking and obtaining required state regulatory approvals.

- *Accelerate growth through strategic acquisitions or relationships.* As part of our growth strategy, we intend to evaluate and consider opportunities to pursue strategic acquisitions, investments and relationships on an ongoing basis. We expect to focus our efforts on companies with complementary service capabilities, talented personnel with skills compatible with our business technologies that will permit us to enhance or expand our business and/or additional applications that will enable us to expand our network services. In addition, we may selectively acquire or partner with companies that permit us to increase our customer base.

Service and Product Offerings

We offer our customers network services, products for sale and consulting services. For the three months ended September 30, 1999, approximately 12.7% of our revenue resulted from network services, 74.7% from product sales and 12.6% from consulting services. During the same period in 1998, network services represented 2.7% of our revenue.

Network Services

Network Management Services. We provide our customers the opportunity to outsource network management services that are difficult or costly for them to manage internally. For example, we provide a single point of contact for vendor management/coordination, including vendors for equipment on the customers' premises, long distance carriers and traditional telephone companies, a help desk for network administrators, monitoring and coordinated maintenance of network services, analysis of network performance and capacity planning and network monitoring.

We provide a wide variety of network management solutions customizable to any requirement in order to meet our customers' unique management requirements arising from their network configuration. We believe our strategy of providing these services will allow us to address a larger market opportunity than that represented by CopperNet alone.

CopperNet. In January 1999, we began commercially offering our CopperNet services. CopperNet uses DSL technology to provide high-speed continuously connected packet-based and channelized communications services. CopperNet connects business users to our metropolitan area networks and wide area network using ATM, frame relay and DSL technologies over traditional copper telephone lines. CopperNet customers are able to connect to our regional networks to obtain high-capacity, secure and reliable connections between geographically dispersed locations. Because our customers are served end-to-end on our CopperNet network, we are able to deliver a true wide area, VPN with the capacity, speed, reliability and level of service that they require.

The chart below shows the service, speed, retail price (which includes equipment installed at the customer's location), range and performance of our CopperNet services, as of December 15, 1999:

Service(1)	Speed To End User(2)	Speed From End User(2)	Retail List Price for Activation(3)	Retail List Price for Monthly Service(3)	Market/Usage
Symmetrical:					
CopperNet 128	128 Kbps	128 Kbps	$270	$129	Integrated services digital network replacement for telecommuters.
CopperNet 256	256 Kbps	256 Kbps	$270	$146	Small businesses with standard e-mail and web usage.
CopperNet 384	384 Kbps	384 Kbps	$270	$162	Higher bandwidth solution for small to medium-sized businesses running moderately visited web sites.
CopperNet 512	512 Kbps	512 Kbps	$270	$185	Allows small- and medium-sized businesses to meet most network video and Internet needs.
CopperNet 768	768 Kbps	768 Kbps	$270	$217	Supports high bandwidth intensive applications such as e-commerce, video conferencing, frame relay and voice over frame relay.
CopperNet 1.0	1.0 Mbps	1.0 Mbps	$270	$239	Close to full T-1 for medium-to-large sized businesses.
CopperNet 1.5	1.5 Mbps	1.5 Mbps	$270	$294	Standard for large organizations that require high-capacity connections. Applications include the ability to integrate voice, data and Internet services over a single connection.
CopperNet 2.0	2.0 Mbps	2.0 Mbps	$270	$348	Full motion video and multimedia applications for large businesses.
Asymmetrical:					
CopperNet 1.5	1.5 Mbps	384 Kbps	$270	$239	High-speed web access, e-mail and file distribution.
CopperNet 4.0	4.0 Mbps	1.0 Mbps	$270	$429	Very high-speed web access e-mail and file distribution.
CopperNet 7.0	7.0 Mbps	2.0 Mbps	$270	$729	Bandwidth and capacity sufficient to meet most asymmetrical data communication requirements.

(1) In each case, the range from the central office is 18,000 feet. However, through our symmetrical CopperNet 128 application, there is no limitation on range.

(2) "Kbps" means kilobits per second. "Mbps" means megabits per second.

(3) Wholesale and volume discount prices are available for network service providers.

CopperNet Frame. CopperNet Frame provides access to a seamless local and long-distance network using ATM and DSL technologies to deliver a flexible suite of frame relay services. The benefit to CopperNet Frame customers is the low cost and simplicity of use when contrasted against traditional telephone company or long distance carrier frame relay services.

VPOP. Our VPOP service provides network service providers access to our entire CopperNet network. With VPOP, a network service provider can offer services throughout the entire CopperNet network without additional investment in network communications infrastructure. This service offers wholesale customers the opportunity to sell DSL circuits in cities outside of the local serving area in which they physically connect to the CopperNet network. Wholesale and volume discount prices are available for network service providers.

ROC Services. We offer remote online control, or ROC, services to meet our customers' outsourced network requirements. From our network operations center in Sterling, Virginia, we continuously monitor the integrity of our customers' metropolitan and wide area networks, evaluate their network utilization, implement problem resolution systems, provide network health and status monitoring and other customized management offerings. We proactively monitor the performance of our customers' network devices and perform trouble resolution to address network problems, often before our customers' end-users become aware of them.

SOC Services. We offer secure online control, or SOC, services to meet our customers' outsourced network security requirements. We provide proactive network monitoring, intrusion detection and management of these network security solutions on a 24 hour a day, seven day a week basis. We provide a variety of security solutions including barriers, or firewalls, between internal corporate networks and external networks like the Internet, VPN service, encryption and access authentication solutions for customers looking for the highest level of security on any network on which data is transported.

Value-Added Products and Services. We offer an array of network and broadband enabled applications and features that take advantage of DSL's high-speed connectivity. These applications extend the capabilities of small- and medium-sized businesses and provide them access to expanded markets, resources, and functionality.

Consulting Services

We provide professional consulting and network integration services to complement our CopperNet, ROC, SOC and network security services. We also provide network design, network evaluation, project and program management, staging, installation, maintenance and warranty services. Our consulting services include network security and professional services. We provide customers with network security services, including:

- *Risk assessments and audits.* We work in conjunction with a customer's engineering staff to determine if a network's critical components work together, provide for overlapping network protection features and adequate firewall security at the perimeter of a network. We also determine whether an optimal defensive strategy exists and if it is adhered to. We assess the effectiveness of a customer's reporting and response mechanisms and determine vulnerabilities and other critical issues.
- *Network security architecture consulting.* We provide expertise in designing, implementing, modifying and protecting data networks of all sizes.
- *Controlled security breaches.* We will conduct organized security breaches with software tools and techniques designed to expose unauthorized information security breaches. These controlled penetrations are tailored to customer requirements. Following a security breach, our engineers will interpret the outcome and present results to both senior executives and lead engineers. We also take steps to ensure that knowledge gained from a controlled security breach is not lost during subsequent implementation and maintenance phases.

Product Sales

We sell data communications products as part of our overall data communications solutions. We sell the network components and security components that our customers require in order to build, maintain and secure their networks. We provide equipment primarily manufactured by Ascend, Cisco, Paradyne and Lucent.

We do not manufacture any of this equipment ourselves. Our engineers select product solutions to improve our customers' operations and network efficiencies, and then help install and configure the equipment in our customers' networks.

Customers

As of December 31, 1999, we had more than customers. AT&T and Zeneca Pharmaceuticals, a division of Zeneca, Inc., accounted for 52.7% and 4.3%, respectively, of our revenue for the three months ended September 30, 1998, and 15.8% and 12.3% of our revenue, respectively, for the three months ended September 30, 1999, almost all of which arose from product sales and consulting services.

Network services, which includes our CopperNet service, represented 12.7% of our revenue for the three months ended September 30, 1999 and 2.7% of our revenue for the three months ended September 30, 1998.

Sales and Marketing

We emphasize direct sales and marketing to small- and medium-sized businesses and to select large enterprises. We also sell our services indirectly through our sales partners, including Internet service providers, long distance and local carriers and other networking services companies.

Direct Sales. We market our full complement of products and services, including our network services, consulting services and product sales, through a sales force of people at December 31, 1999. Our direct sales force is supported by sales engineers who also seek to sell our consulting services and network services. Our sales representatives focus on selling CopperNet connectivity to small and medium businesses and our account executives focus on selling CopperNet connectivity and consulting services and network services to medium and large businesses. We target enterprises that have at least one of the following requirements: Internet connectivity, remote local area network access, traditional voice and data applications and metropolitan or wide area network frame relay. We also generate lead referrals for our direct sales forces through telemarketing efforts. We intend to increase the size of our sales and technical support force to sell and support these services as we expand our business. We also seek to coordinate our direct sales and marketing efforts with our vendor partners, including Ascend, Paradyne and Cisco. Our direct sales process generally ranges from 30 to 60 days for small and medium businesses, which generally require simple connectivity and networking solutions. Larger businesses with more complex networking requirements often require customized solutions. The large business sales process may take up to six months and may involve:

- a significant technical evaluation;
- an initial trial rollout of our services; and
- a commitment of capital and other resources by the customer.

Indirect Sales. We sell our full complement of products and services, including our network services, consulting services and product sales, through network service providers, including Internet service providers, long distance and local carriers and other networking services companies. These providers combine one or more of our services with their own Internet, frame relay and voice services and resell those bundled services to their existing and new customers. We address these markets through sales and marketing personnel dedicated to this channel. We intend to augment our CopperNet sales through partnerships with other service providers which offer complementary services and can offer CopperNet as part of a complete business solution. We also leverage our equipment vendors' partnerships as sources for sales opportunities by offering joint technology seminars, implementing marketing campaigns and sharing cross-selling opportunities.

Key Strategic and Commercial Relationships

We have entered into, are continuing to explore, and expect to enter into additional strategic and commercial relationships. We believe that these relationships are valuable because they provide additional marketing and distribution, network resources, technology and geographic expansion opportunities. In some cases, these relationships involve capital investment, product development or targeted numbers of new lines or customers.

Cisco Systems, Inc. In November 1999, we were awarded Cisco Powered Network, or CPN, certification. The CPN certification represents our next step towards introducing an enhanced business-class Internet access service that includes Cisco routers as the customer premises equipment.

Verio Inc. In August, 1999, we were named as Verio's preferred provider of DSL service in Richmond, Virginia. Verio will use our CopperNet network to deliver reliable DSL Internet access up to 50 times faster than regular dial-up internet access, enabling Richmond organizations to increase the productivity of their online business activities.

Net2000 Communications. In May 1999, we entered into a master service agreement with Net2000 Communications, a competitive telecommunications company within the mid-Atlantic region, to provide Net2000 customers with CopperNet services. We are continuing to explore integration of our sales and marketing efforts in an effort to bring a bundled voice and data product to our mutual customers, although we and Net2000 are not obligated to do so.

DSL Networks. In May 1999, we entered into an agreement with DSL Networks. Under the agreement, DSL Networks will provide us with the first right to supply DSL circuits sold by DSL Networks in the mid-Atlantic region. Our first right to supply means that when DSL Networks is providing DSL services in the mid-Atlantic region, we will have the first opportunity to provide the circuit to DSL Networks, unless their customer requests otherwise. This agreement has a term of three years.

Ascend. Since 1995 we have sold data communications products and equipment made by Ascend. Ascend has provided us with a capital lease facility and a credit facility for working capital. In addition, we are continuing to explore opportunities to participate in product development and the distribution of products and services for their network of sales partners.

Paradyne. Since 1995 we have sold data communications products and equipment made by Paradyne. In addition, we are continuing to explore opportunities to participate in product development and the distribution of products and services for their network of sales partners.

Customer Service

Network service providers and communications managers at businesses typically have to assemble their digital communications networks using multiple vendors. This leads to additional work and cost for the customer as well as complex coordination issues. We work with each customer to develop project implementation plans. These plans include qualifying the customer for our service offerings, placing orders for connection facilities, coordinating the delivery of the connection, turn up and final installation. We emphasize a comprehensive service solution for our customers. We provide our service according to a predetermined service level commitment with each customer. Our comprehensive solution includes:

- *Customer Line Installation.* We work with each of our customers to establish all connection and configuration requirements to connect the customer's main location to our network. We order the copper telephone line for our customer, manage the installation process, test the copper telephone line once installed, assist the customer in configuring the equipment that terminates the copper telephone line, and monitor the copper telephone line from our network operations center.

- *End-User Line Installation.* We order all end-user connections from the traditional telephone companies according to pre-determined technical line specifications. We manage the traditional telephone company's provisioning performance, test the installed line, and monitor the end-user line from our network operations center.
- *End-User Premises Wiring and Modem Configuration.* We use both our own and contracted installation crews to install any required inside wiring at each end-user site. We rely on contracted crews to meet customers' demands at peak times. Our installation crews configure and install end-user equipment with information specific to each customer.
- *Network Monitoring.* We monitor our network from our network operations center on a continuous end-to-end basis, which often enables us to correct potential network problems before service to a customer or end-user is affected. We also provide direct monitoring access of end-users to our network service providers and enterprise customers.
- *Customer Reporting.* We communicate regularly with our customers about the status of their service. We provide web-based tools to allow individual network service providers and communications managers to monitor their end-users directly, to place orders for new end-users, to enter work orders on end-user lines and to communicate with us on an ongoing basis.
- *Customer Service and Technical Support.* We provide service and technical support 24 hours a day, 7 days a week to all our customers. We serve as the sole contact for customers to whom we make direct sales. We also provide the second level of support for our indirect customers. We have developed and will continue to expand a database containing the questions we have addressed and the answers we have provided in response to past network issues. In this way, we are able to better respond to future customer questions.
- *Operating Support Systems.* We have designed an integrated group of customized applications around our current and planned business processes. By customizing and integrating products from vendors such as Daleen Technologies, Inc. for billing, Eftia OSS Solutions Inc. for operating support systems and Hewlett-Packard Company for network management, we have designed a system that will facilitate rapid service responsiveness and reduce the cost of customer support. Our system integrates our critical business functions, including sales, ordering, provisioning, customer support, maintenance and repair, billing, accounting and decision support.

Network Structure and Technology

Overview. We operate a series of metropolitan area networks connected by our private, leased, high-speed fiber optic backbone. Our network employs a structure designed to deliver superior end-to-end capabilities, high-speed "last mile" connections and efficient data traffic management. Our technologically advanced network design has positioned us to deliver the high level of data communications services, including Internet access, virtual private networks, video conferencing and a broad array of multimedia services, increasingly demanded by businesses. We have planned for growth by ensuring that our network is scalable, flexible and secure.

- *Scalable.* Our adaptable, hierarchical network structure allows us to provide both channelized and packet-based services reliably and incrementally, which enables us to match investment with demand. As new CopperNet end-users are added to our network, capacity is automatically added so that reliable performance is achieved for all users as our network grows.

- *Flexible.* From our network operations center, we constantly monitor our network, the network service providers' networks and our customers' connections, as well as perform network diagnostics and equipment surveillance, and initialize our end-users' connections. Because our network is centrally managed, we can identify and dynamically enhance network quality, service and performance and address network problems promptly, often without our end-users becoming aware of the repairs. This capability also allows us to control costs associated with on-site network configuration and repair.
- *Secure.* With dedicated, direct access to our private network, our end-users and businesses generally experience fewer network security risks than users of common dial-up modems, ISDN lines or dedicated access to the Internet because there is less risk of unauthorized access. Our network is designed to ensure secure availability of all internal applications and information for all end-users, whether they are within the corporate headquarters or telecommuting from remote locations. Our network provides a direct connection between discrete locations, which reduces the possibility of unauthorized access and allows our customers to safely perform their required tasks.

Components. Our components are integrated into networks across local, metropolitan and wide areas that combine speed and balanced capacity in a manner designed to deliver a high performance networking experience for our customers.

- *Customer Endpoint.* We currently offer channelized and packet-based DSL connections in our network. We offer to provide the customer with a DSL modem as part of our complete service offering, the cost of which is included in the list price of the service. We configure and install these modems with the end-user's computer and network equipment along with any required on site wiring needed to connect the modem and the telephone line. Under FCC policies, a customer also is free to obtain compatible modems from sources other than us.
- *Copper Telephone Lines.* We lease copper telephone lines, known as unbundled network elements, which run from our network access points in central offices to the customer endpoint under terms specified in telecommunications regulations and our interconnection agreements. We have worked closely with Bell Atlantic to define specifications that provide for the quality of the copper telephone lines we receive, thereby ensuring the transmission speed of end-user connections.
- *Central Office Collocation Spaces.* Through FCC and state telecommunications regulatory policies as well as our interconnection agreements, we secure collocation space in central offices from which we desire to offer CopperNet. These collocation spaces are designed to offer the same high reliability and availability standards as the telephone companies' other central office spaces. At present, our collocation spaces are either physical, virtual or SCOPE, which is secured collocation in an open physical environment. With physical collocation, we install and maintain our equipment in central offices and have complete access to the space. With SCOPE collocation, we install and maintain our equipment in central offices, but our access to the space is non-exclusive. With virtual collocation, the telephone company installs and maintains the equipment on our behalf, but we have no access to the space. Approximately 80% of our central office collocations are physical, and we expect over time to eliminate virtual co-location.
- *Metropolitan Area Backbone.* Our metropolitan area backbone is a private, leased, high-speed, meshed, fiber optic network that connects our network access points in central offices, nodes sites, and selected customer locations. To date, we have leased fiber optic circuits capable of speeds of up to 45 megabits per second from Bell Atlantic, Level 3 Communications and other providers for metropolitan area backbone services. We continue to review alternative providers in an effort to reduce costs. We do not have long term lease agreements for these fiber optic circuits.

- *Node Sites.* A node site is a physical location where we connect with our central offices within a particular metropolitan area network to businesses and network service providers. The node site houses our equipment to switch and interconnect customer traffic from central offices within a region or across our entire network. Our node sites are housed in a secured facility in each of our nine metropolitan areas.
- *Wide Area Backbone.* Our wide area backbone is a private, leased, high-speed, fiber optic network that interconnects our node sites in various metropolitan areas. To date, we have leased fiber optic circuits capable of speeds of up to 155 megabits per second from Level 3 Communications, Virginia Electric and Power Company and other providers. We do not have long-term lease agreements for these fiber optic circuits. We intend to upgrade our wide area backbone to higher capacities as necessary to deliver the quality of service that our customers demand. We continue to evaluate alternative providers of capacity in order to reduce costs.
- *Network Operations Center.* We manage our network from our network operations center located in our corporate headquarters in Sterling, Virginia. We provide end-to-end network management to our customers using advanced network management tools on a 24 hour a day, seven day a week basis. This enhances our ability to address performance or connectivity issues before they affect the end-user experience. From our network operations center, we can monitor our network, including the equipment and circuits in our metropolitan area networks and central offices, and our customers' networks, including individual end-user lines and DSL modems.

Competition

In each of our businesses, we face competition from many companies with significantly greater financial resources, well-established brand names and large, existing installed customer bases. We expect the level of competition to intensify in the future. Some of the competitive factors we face in each of our business segments include:

- reliability of service;
- diversity of product and service offerings;
- breadth of network coverage;
- price/performance;
- network security;
- ease of access and use;
- service bundling;
- sales relationships;
- customer support;
- strategic relationships; and
- operating experience.

We believe that each potential customer presents a unique opportunity for competition and presents competitive challenges specific to that customer. The significance of the different competitive factors we face will vary with each customer depending on the needs of the particular customer and the particular competitor we face. For example, if we are competing for a customer against another provider of product sales and consulting services, we expect to compare favorably as to diversity of product and service offerings and operating experience, but perhaps less favorably as to brand recognition and financial resources. If we are competing for a customer against a traditional telephone company, we expect to compare favorably as to client support, transmission speed and price/performance, but perhaps less favorably as to brand recognition, access to capital and operating experience. If we are competing for a customer against another provider of DSL, we expect to compare favorably as to diversity of service offerings, sales relationships and operating experience, but perhaps less favorably as to the geographic breadth of network coverage. We expect to improve our competitive position relative to other DSL providers by expanding the geographic breadth of our network through opportunistic growth of our network and, in part, through strategic alliances. We believe that our most direct competition for product sales and consulting services will come from Bell Atlantic's network integration services division and from other providers of network integration services like Tech Data. Historically, these companies have been our principal competitors.

By focusing our business on high-speed data communications, we anticipate encountering a different set of competitors. We believe that our most direct competition for high-speed data communications services will come from Bell Atlantic and other traditional telephone companies operating in our target markets and other major DSL providers. However, we also anticipate competition from service providers using other technologies.

Bell Atlantic and Other Traditional Telephone Companies. Bell Atlantic and the other traditional telephone companies present in our target markets are conducting technical and/or market trials or have commenced commercial deployment of DSL-based services. We recognize that each traditional telephone company has the potential to quickly overcome many of the obstacles that we believe have delayed widespread deployment of DSL services by traditional telephone companies in the past. The traditional telephone companies currently represent and will in the future increasingly represent strong competition in all of our target markets. The traditional telephone companies have an established brand name, a large number of existing customers and a reputation for high quality in their service areas, possess sufficient capital to deploy DSL equipment rapidly, have their own copper lines and can bundle digital data services with their existing analog voice services to achieve economies of scale in serving customers. In the absence of strong oversight by the FCC and state telecommunications regulators, traditional telephone companies also have an economic incentive to benefit their own DSL retail operations by providing themselves with the copper telephone lines, collocation, support services and other essential DSL service inputs on more favorable terms than they provide these facilities and services to their DSL competitors, like us. These factors give the traditional telephone companies a potential competitive advantage compared with us. Accordingly, we may be unable to compete successfully against Bell Atlantic or the other traditional telephone companies, and any failure to do so would materially and adversely affect our business, operating results and financial condition.

Other Major DSL Providers. Other competitive telecommunications companies plan to offer or have begun offering DSL-based access services in our targeted markets, and others are likely to do so in the future. Competitive telecommunications companies that provide DSL service include Covad Communications, Rhythms Net-Connections and NorthPoint Communications.

Other Service Providers. Many of our competitors are offering, or may soon offer, technologies and services that will compete with some or all of our high-speed DSL offerings. These technologies include T-1, integrated services digital network, satellite, cable modems and analog modems and could be provided by the following:

- *Cable Modem Service Providers.* Cable modem service providers, like MediaOne, Excite@Home, through its @Home service offering, and their cable partners, are offering or preparing to offer high-speed Internet access over fiber and cable networks to consumers. At Home, through its @Work service offering, has positioned itself to do the same for businesses. Where deployed, these networks provide local access services, in some cases at higher speeds than our CopperNet. They typically offer these services at lower prices than our services, in part by sharing the capacity available on their cable networks among multiple end users.

- *Traditional Long Distance Carriers.* Many of the leading traditional long distance carriers, like AT&T, Sprint and MCI WorldCom, are expanding their capabilities to support high-speed, end-to-end networking services. Increasingly, their services include high-speed local access combined with metropolitan and wide area networks, and a full range of Internet services and applications. We expect them to offer combined data, voice and video services over these networks. These carriers have deployed large scale networks, have large numbers of existing business and residential customers and enjoy strong brand recognition, and, as a result, represent significant competition. For instance, they have extensive fiber networks in many metropolitan areas that primarily provide high-speed data and voice communications to large companies. They could deploy DSL services in combination with their current fiber networks. They also have interconnection agreements with many of the traditional telephone companies and have secured collocation spaces from which they could begin to offer competitive DSL services.
- *New Long Distance Carriers.* New long distance carriers, such as Williams Communications, Qwest Communications and Level 3 Communications, are building and managing high bandwidth, nationwide packet-based technology networks for the wide area network. These same providers are acquiring or partnering with Internet service providers to offer services directly to business customers. These companies could extend their existing networks to include fiber optic networks within metropolitan areas and high-speed services using DSL technology, either alone, or in partnership with others.
- *Internet Service Providers.* Internet service providers provide Internet access to business and residential customers. These companies generally provide Internet access over the traditional telephone company's networks at integrated services digital network speeds or below. Some Internet service providers have begun offering DSL-based access using DSL services offered by the traditional telephone company or other DSL-based competitive telecommunications companies. Some Internet service providers such as Concentric Network Corporation, Mindspring Enterprises, Inc., PSINet and Verio Inc. have significant and even nationwide marketing presences and combine these with strategic or commercial alliances with DSL-based competitive telecommunications companies.
- *Wireless and Satellite Data Service Providers.* Several new companies are emerging as wireless and satellite-based data service providers over a variety of frequency bands. Companies such as Teligent, Inc., Advanced Radio Telecom Corp. and WinStar Communications, Inc., hold point-to-point microwave licenses to provide fixed wireless services such as voice, data and videoconferencing. We also may face competition from satellite-based systems such as Motorola Satellite Systems, Inc., Hughes Space Communications, Iridium World Communications, Ltd., Globalstar and others that are planning or are in the process of building global satellite networks that can be used to provide broadband voice and data services.

Relationship with Bell Atlantic

Our relationship with Bell Atlantic is critical to our business. We depend on Bell Atlantic for collocation facilities, copper telephone lines, support services and some of the fiber optic transport that we use for CopperNet. Our interconnection agreements with Bell Atlantic govern much of this critical relationship. We have signed interconnection agreements with Bell Atlantic in each of the states covering our initial target markets. These agreements cover a number of aspects including:

- the price and terms to lease access to Bell Atlantic's copper lines;
- the special conditioning Bell Atlantic provides to enable the transmission of DSL signals on these lines;

- the price and terms for collocation of our equipment in Bell Atlantic's central offices;
- the price and terms to access Bell Atlantic's transport facilities;
- the terms to access conduits and other rights of way Bell Atlantic has constructed for its own network facilities;
- the operational support systems and interfaces that we use to place orders and trouble reports and monitor Bell Atlantic's response to our requests;
- the dispute resolution process we and Bell Atlantic use to resolve disagreements on the terms of the interconnection agreement; and
- the term of the interconnection agreement, its transferability to successors, its liability limits and other general aspects of our relationship with Bell Atlantic.

Our interconnection agreements with Bell Atlantic have initial terms that expire in March 2000, in the case of Delaware, Maryland, Pennsylvania, Virginia and Washington, D.C., and January 2001 in the case of Massachusetts and New York. Thereafter, the agreements will continue until terminated by either party upon ninety days prior notice. If an agreement is terminated, our service arrangements will continue without interruption under:

- terms of a new agreement;
- terms imposed by a state commission;
- tariff terms generally applicable to competitive carriers and other carriers; or
- if none of these are available, on a month-to-month basis under the terms of the initial agreement.

Recently, we have initiated negotiations with Bell Atlantic to renew each of the agreements expiring in March 2000. Although we expect to renew these agreements, there can be no assurance that we can do so on favorable terms.

Additionally, the FCC, state telecommunications regulators and the courts have authority to interpret our interconnection agreements and to resolve disputes in the event of a disagreement between us and Bell Atlantic. There can be no assurance that these bodies will not interpret the terms or prices of our interconnection agreements in ways that could adversely affect our business, operating results and financial condition.

If we expand into other regions that are served by traditional telephone companies other than Bell Atlantic, we will need to enter into interconnection agreements with those incumbent carriers. We have entered into an interconnection agreement with BellSouth with an initial term that expires December 1, 2000. This agreement has been approved by the state public utility commissions in Alabama, Florida, Georgia, Kentucky, Louisiana and South Carolina. We plan to submit the agreement for approval to state public utility commissions in North Carolina and Tennessee as well. We also have interconnection agreements with GTE (covering the states of Alabama, Florida, Kentucky, North Carolina, Pennsylvania, South Carolina and Virginia), with Sprint Corporation (covering New Jersey) and with the Southern New England Telephone Company (covering Connecticut).

Government Regulation

The following summary of regulatory developments and legislation describes material telecommunications regulations and legislation directly affecting our industry.

The facilities and services that we obtain from Bell Atlantic in order to provide CopperNet are regulated extensively by the FCC and state telecommunications regulatory agencies. To a lesser extent, the FCC and state telecommunications regulators exercise direct regulatory control over the terms under which we provide CopperNet to the public. Municipalities also regulate limited aspects of our telecommunications business by imposing zoning requirements, permit or right-of-way procedures or fees, among other regulations. The FCC and state regulatory agencies generally have the authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable laws, or rules, regulations or policies. Fines or other penalties also may be imposed for such violations. We cannot assure you that regulators or third parties would not raise issues regarding our compliance or non-compliance with applicable laws and regulations. We believe that we operate our business in compliance with applicable laws and regulations of the various jurisdictions in which we operate and that we possess the approvals necessary to conduct our current operations.

Federal Regulation. The 1996 Telecom Act substantially departs from prior legislation in the telecommunications industry by establishing competition as a national policy in all telecommunications markets. This legislation removes many state regulatory barriers to competition in telecommunications markets dominated by incumbent carriers and preempts, after notice and an opportunity to comment, laws restricting competition in those markets. Among other things, the 1996 Telecom Act also greatly expands the interconnection requirements applicable to traditional telephone companies. It requires the traditional telephone companies to:

- provide collocation, which allows competitive telecommunications companies to install and maintain their own network termination equipment in telephone company central offices;
- unbundle and provide access to components of their service networks to other providers of telecommunications services;
- establish "wholesale" rates for the services they offer at retail to promote resale by competitive telecommunications companies; and
- provide nondiscriminatory access to telephone poles, ducts, conduits and rights of way.

Traditional telephone companies also are required by the 1996 Telecom Act to negotiate an interconnection agreement in good faith with carriers requesting any or all of the above arrangements. If a requesting carrier cannot reach an agreement within the prescribed time, either carrier may request binding arbitration by the state telecommunications regulatory agency.

The FCC and state telecommunications regulators also are instructed by the 1996 Telecom Act to perform certain duties to implement the regulatory policy changes prescribed by the 1996 Telecom Act. The outcome of various ongoing proceedings to carry out these responsibilities, or judicial appeals of these proceedings, could materially affect our business, operating results and financial condition.

In July 1997, the United States Court of Appeals for the Eighth Circuit overruled some of the rules initially adopted by the FCC to implement the 1996 Telecom Act, including rules:

- providing the detailed standard that state telecommunication regulators must use in prescribing the price that traditional telephone companies charge for collocation and for the copper telephone lines and other network elements that competitive telecommunications companies must obtain from traditional telephone companies in order to provide service and
- giving competitive telecommunications companies the right to "pick-and-choose" interconnection provisions by requiring that a traditional telephone company enter into an interconnection agreement with the competitive telecommunications companies that combines provisions from a variety of interconnection agreements between that traditional telephone company and other competitive telecommunications companies.

The FCC and others appealed this decision to the U.S. Supreme Court. In January 1999, the U.S. Supreme Court reversed much of the Eighth Circuit's decision, finding that the FCC has broad authority to interpret the 1996 Telecom Act and issue rules for its implementation, including authority to establish the methodology that state telecommunication regulators must use in setting the price that incumbent carriers charge competitive telecommunications companies for collocation, copper telephone lines and other network elements. The Supreme Court also reversed the Eighth Circuit's holding invalidating the FCC's "pick-and-choose" rule. However, the Supreme Court found that the FCC had violated the 1996 Telecom Act in defining the individual network elements incumbent carriers must make available to competitive telecommunications companies, and required the FCC to reconsider its delineation of these elements. It sent the matter back to the FCC with instructions to consider further the question of which parts of a traditional telephone company's network must be provided to competitors. The FCC released an order on November 5, 1999 that sought to follow the Supreme Court's instructions in delineating the particular network elements that traditional telephone companies must make available to competitors. The FCC's November decision reaffirms its earlier holding that traditional telephone companies must make available the particular inputs that we need in order to provide our CopperNet services (including, but not limited to, copper telephone lines, transmission facilities between local telephone company offices and various back-office support services). In addition, the FCC's November order requires, upon the request of competitive telecommunications companies like us, that traditional telephone companies provide competitive carriers like us with certain other inputs (such as "subloops" and in some cases packet switching) that may prove useful as we expand our CopperNet service, especially into more suburban areas.

The Supreme Court's determination in its January 1999 order that the FCC rather than state telecommunications regulators has jurisdiction to determine pricing methodology also could be beneficial to us since the FCC has adopted a pricing standard that appears to be more beneficial to competitive telecommunications companies in some respects than the pricing standards that some state telecommunications regulators have employed. However, it remains unclear whether the particular pricing methodology prescribed by the FCC will go into effect because some parties have challenged the lawfulness of that methodology in the U.S. Court of Appeals for the Eighth Circuit, and that litigation is still pending.

In an order released March 31, 1999, the FCC adopted new regulations that are designed to clarify the obligations of a traditional telephone company in providing space inside its offices to competitors like us so that they can access the telephone company's copper telephone lines and connect those lines to the competitor's electronic equipment located inside that telephone company office. Another rule adopted in that order is intended to help ensure that the customers of companies who provide services like CopperNet do not receive harmful interference from other users of the traditional telephone company network on which the service is provided. Although these new FCC rules are now in effect, several traditional telephone companies have appealed them to the U.S. Court of Appeals for the District of Columbia Circuit. The appellants claim that some of these rules are unlawful. We do not know how the Court will decide these appeals, but any decision that invalidates one or more of these rules could potentially have adverse consequences for our CopperNet business.

An FCC order released on December 9, 1999 is designed to make it easier for companies like us to market high-speed data services like CopperNet to residential customers for accessing the Internet. Under this "line-sharing" order, traditional telephone companies are required to let a competitor use the same copper telephone line for providing the customer with data service that the telephone company uses for providing the same customer with local telephone service. At present, the traditional telephone companies provide residential customers with local phone service and high-speed Internet access service over a single phone line, but the traditional telephone companies require competitors like us to lease a separate phone line to provide high-speed Internet access to any residential customer when that customer obtains local phone service from the traditional local telephone company. The FCC's December 9, 1999 order is supposed to make it easier for companies like ours to compete with the traditional local telephone companies in the residential high-speed Internet access market by permitting competitors to reduce significantly their costs to serve this market. However, it is not yet clear that the FCC's order will achieve its intended objective since it will take several months before the incumbent local telephone companies put in place the policies and procedures necessary to implement the order. It also is possible that the order will be appealed to the courts on grounds that the FCC's new line sharing requirements are unlawful. If it is appealed, we have no way of determining whether the FCC's requirements will be affirmed.

The FCC made another potentially favorable ruling for our industry in another recent case. That case involved the question of whether a telecommunications service like CopperNet that provides high-speed dedicated access to the Internet is an interstate service or an intrastate service. An interstate service must be provided subject to FCC regulatory controls, whereas an intrastate service must be provided subject to regulatory controls of the telecommunications regulatory agency of the state where the service is offered. In its decision, the FCC held that such services are jurisdictionally interstate and therefore must be provided on terms and conditions set by the FCC rather than state telecommunications regulators. This ruling is potentially advantageous to us because it reduces the number of telecommunications regulatory agencies that control the terms under which we provide CopperNet. It also is potentially advantageous because FCC regulatory controls in many respects are less burdensome than state regulatory controls. For example, the 1996 Telecom Act authorizes the FCC to forbear from regulating the terms under which carriers classified as "non-dominant" provide interstate telecommunications service. The FCC has exercised its forbearance authority by issuing rulings that exempt non-dominant domestic carriers like us from obtaining a certificate from the FCC prior to providing any interstate service or from filing a tariff setting forth the terms under which they provide any interstate access service. Because we believe that CopperNet constitutes interstate service, we believe that we do not need a certificate from state telecommunications regulatory agencies to provide CopperNet. Moreover, since we believe CopperNet is special access, we provide the service to existing customers pursuant to contract rather than tariff.

On May 8, 1997, in compliance with the requirements of the 1996 Telecom Act, the FCC released an order establishing a new federal universal service support fund, which provides subsidies to carriers that provide service to underserved individuals and customers in high-cost or low-income areas, and to companies that provide telecommunications services for schools and libraries and to rural health care providers. We are required to contribute to the universal service fund and are also may be required to contribute to state universal service funds. The new universal service rules are administered jointly by the FCC, the fund administrator, and state regulatory authorities, many of which are still in the process of establishing their administrative rules. We cannot determine the net revenue effect of these regulations at this time.

On November 2, 1999, the FCC held that a statute requiring that traditional local telephone companies offer their retail services at a wholesale price to competitors like us does not apply when these telephone companies provide a discounted DSL service directed to Internet service providers, or ISPs. In that case, while competitors may purchase the traditional telephone companies' ISP-directed DSL offering on the same terms as the ISPs, the FCC ruled that competitors have no legal right to a wholesale discount off the price paid by ISPs. This ruling could adversely affect us if it gives ISPs an economic incentive to meet all of their DSL needs by subscribing to the traditional telephone companies' ISP-directed discounted DSL offerings rather than by subscribing to DSL services offered by competitors like us.

Various traditional telephone companies have requested that the FCC substantially deregulate the retail price they charge for various types of telecommunications services, including high-speed data services like CopperNet. The FCC recently issued a decision in response that establishes a procedure by which traditional telephone companies may apply for certain pricing flexibility. We cannot yet determine the extent to which traditional telephone companies will use this procedure or the impact of any pricing flexibility that the FCC awards to any given company under this new procedure, since no telephone company has yet applied for pricing flexibility under this new procedure. The ultimate impact of the FCC's order also is uncertain because the order has been appealed to the U.S. Court of Appeals. If the FCC were to substantially eliminate price regulation of the high-speed data services that traditional telephone companies provide in competition with CopperNet, our business could be adversely affected.

The FCC has also proposed to permit traditional telephone companies to provide advanced services like CopperNet through separate affiliates on a deregulated basis. This proposal could permit the separate affiliates to provide advanced services free of the requirements relating to interconnection, unbundling, resale and collocation imposed by the Telecommunications Act of 1996. Bills have been introduced in Congress that would grant regional Bell operating companies regulatory relief to provide data services in areas where they are currently restricted from doing so.

State Regulation. While it is clear from the January 1999 Supreme Court decision that the FCC has broad authority to implement provisions in the 1996 Telecom Act that are intended to open all telecommunications markets to competition, state telecommunications regulators also have substantial authority in this area. For example, although the Supreme Court's decision validated the FCC's jurisdiction to prescribe the methodology traditional telephone companies must use in setting the price of copper telephone wires and other network elements, the FCC has exercised that jurisdiction by adopting a pricing standard and has given state regulators substantial authority to apply that standard in order to determine actual prices. Many states have set only temporary prices for some network elements that are critical to the provision of DSL services because they have not yet completed the regulatory proceedings necessary to determine permanent prices. Other states have begun proceedings to set new permanent prices based on more current data. The results of these proceedings will determine the price we pay for, and whether it is economically attractive for us to use, these network elements and services.

The 1996 Telecom Act also gives state telecommunications regulators broad authority to approve or reject interconnection agreements that competitive telecommunications companies enter with traditional telephone companies and broad authority to resolve disputes that arise under these interconnection agreements. Under the 1996 Telecom Act, if we request, traditional telephone companies have a statutory duty to negotiate in good faith with us for agreements for interconnection and access to unbundled network elements. A separate agreement is signed for each of the states in which we operate. During these negotiations either the traditional telephone company or we may submit disputes to the state regulatory commissions for mediation and, after the expiration of the statutory negotiation period provided in the 1996 Telecom Act, we may submit outstanding disputes to the states for arbitration. The 1996 Telecom Act also allows state regulators to supplement FCC regulations as long as the state regulations are not inconsistent with FCC requirements.

In addition, CopperNet may, as to some future customers, be classified as intrastate service subject to state regulation. All of the states where we operate, or will operate, require some degree of state regulatory commission approval to provide certain intrastate services. We have obtained non-expiring state authorizations to provide intrastate services from the state regulatory agency in all states where we currently provide CopperNet service, except Maryland. Our application for certificate to provide intrastate services in Maryland is pending. We also have obtained non-expiring certificates to provide intrastate service in many of the states where we may provide CopperNet service in the future (Alabama, Florida, Georgia, Kentucky and South Carolina). Our applications for certificates to provide intrastate services are pending in several other states (Arizona, Colorado, Connecticut, Louisiana, Minnesota, Nebraska, New Mexico, North Carolina, Oregon, Tennessee, Utah and Washington). In most states, intrastate tariffs are also required for various intrastate services, although non-dominant carriers like us are not typically subject to price or rate of return regulation for tariffed intrastate services. In some states, pursuant to state statutes and regulations, regulated telecommunications carriers such as our company may be required to obtain prior approval for certain actions, such as issuing stock, incurring indebtedness, or transferring control of the company holding a state certification. We may be required to obtain approvals in connection with this offering. Actions by state telecommunications regulatory agencies could cause us to incur substantial legal and administrative expenses.

It is possible that laws and regulations could be adopted that address other matters that affect our business. We are unable to predict what laws or regulations may be adopted in the future, to what extent existing laws and regulations may be found applicable to our business, or the impact such new or existing laws or regulations may have on our business. In addition, laws or regulations could be adopted in the future that may decrease the growth and expansion of the Internet's use, thereby decreasing demand for our services.

Local Government Regulation. In certain instances, we may be required to obtain various permits and authorizations from municipalities in which we operate our own facilities. The extent to which such actions by local governments pose barriers to entry for competitive telecommunications companies that may be preempted by the FCC is the subject of litigation. Although our network consists primarily of unbundled network elements of the traditional telephone companies, in certain instances we may deploy our own facilities and therefore may need to obtain certain municipal permits or other authorizations. The actions of municipal governments in imposing conditions on the grant of permits or other authorizations or their failure to act in granting such permits or other authorizations could have a material adverse effect on our business, operating results and financial condition.

Intellectual Property

We regard our products, services and technology as proprietary and attempt to protect them with copy rights, trademarks, trade secret laws, restrictions on disclosure and other methods. There can be no assurance these methods will be sufficient to protect our technology and intellectual property. We also generally enter into confidentiality agreements with our employees and consultants, and generally control access to and distribution of our documentation and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our products, services or technology without authorization, or to develop similar technology independently. We own a federal trademark for the mark COPPERNET for use with "communications services, namely, high-speed electronic data transmission services." We also have pending applications for the marks CUNET and CU COPPERNET. We expect to seek registration of our copyrights in software and other intellectual property to the extent possible. There is no assurance that we will obtain any significant copyright protection for our systems that would protect our intellectual property from competition. Currently, we have not filed any patent applications. We intend to prepare applications and to seek patent protection for our systems and services to the extent possible. There is no assurance that we will obtain any patents or that any such patents would protect our intellectual property from competition that could seek to design around or invalidate such patents. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited in certain foreign countries, and the global nature of the Internet makes it virtually impossible to control the ultimate destination of our proprietary information. There can be no assurance that the steps we have taken will prevent misappropriation or infringement of our technology. In addition, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, operating results and financial condition. In addition, some of our information, including our competitive carrier status in individual states and our interconnection agreements, is a matter of public record and can be readily obtained by our competitors and potential competitors, possibly to our detriment.

Employees

As of December 31, 1999, we employed individuals in engineering, sales, marketing, customer support and related activities and general and administrative functions. None of these employees is represented by a labor union, and we consider our relations with our employees to be satisfactory. We are not a party to any collective bargaining agreement. Our ability to achieve our financial and operational objectives depends in large part upon the continued service of our senior management and key technical, sales, marketing and managerial personnel, and our continuing ability to attract and retain highly qualified technical, sales, marketing and managerial personnel. Competition for such qualified personnel is intense, particularly in software development, network engineering and product management, and we may be unable to identify, attract and retain such personnel in the future.

Properties

Our headquarters are in Sterling, Virginia in facilities consisting of approximately 15,000 square feet under a lease that will expire in August 2001 and approximately 62,000 square feet under a lease that will expire in 2004. We have established branch offices in Philadelphia and Richmond and plan to establish additional branch offices in Boston and New York to cover our nine initial target markets.

On October 27, 1999, we executed a lease for approximately 113,000 square feet in Herndon, Virginia. We intend to move our headquarters to this location in March, 2000.

We also lease collocation space in central offices from Bell Atlantic where we operate or plan to operate under the terms of our interconnection agreements with Bell Atlantic and regulations imposed by state telecommunications regulators and the FCC. While the terms of these leases are perpetual, the productive use of our collocation facilities is subject to the terms of our interconnection agreements that have initial terms that expire in 2000 and 2001. We will increase our collocation space as we expand our network.

Legal Proceedings

We are not currently involved in any legal proceedings that we believe could have a material adverse effect on our business, financial position, results of operations or cash flows. We are, however, subject to state telecommunications regulators, FCC and court decisions as they relate to the interpretation and implementation of the 1996 Telecom Act, the Federal Communications Act of 1934, as amended, various state telecommunications statutes and regulations, the interpretation of competitive telecommunications company interconnection agreements in general and our interconnection agreements in particular. In some cases, we may be deemed to be bound by the results of ongoing proceedings of these bodies or the legal outcomes of other contested interconnection agreements that are similar to our agreements. The results of any of these proceedings could have a material adverse effect on our business, operating results and financial condition.

MANAGEMENT

Our Directors and Executive Officers

The following table shows information about our directors and executive officers:

Name	Age	Position
Jonathan P. Aust	41	President, Chief Executive Officer and Chairman of the Board of Directors
Christopher J. Melnick	34	Chief Operating Officer and Director
Scott G. Yancey, Jr.	47	Chief Financial Officer and Director
James A. Aust	38	Vice President, Engineering
John J. Hackett	46	Vice President, Sales and Marketing
Worth D. MacMurray	45	Vice President, Legal and Strategic Projects
Lester M. Lichter	53	Chief Information Officer
Brian D. Roberts	40	Vice President, Engineering and Operations
Brion B. Applegate	45	Director
Dennis R. Patrick	48	Director

Jonathan P. Aust has been our Chief Executive Officer since founding Network Access Solutions, with his wife Longma, in December 1994. In August 1998, Mr. Aust also became our President and Chairman of the Board of Directors. Mr. Aust was the National Account Manager for AT&T Paradyne responsible for the Federal Reserve System from October 1987 to December 1994. From June 1982 to October 1987, Mr. Aust held numerous engineer and sales positions at Paradyne Corporation, a manufacturer of data communications equipment.

Christopher J. Melnick has been our Chief Operating Officer since joining us in July 1998 and a Director since August 1998. Mr. Melnick was the Vice President and General Manager for the Southeast Region of Level 3 Communications from March 1998 to July 1998. Mr. Melnick was a Vice President of Sales for Worldcom, and formerly, MFS Telcom, from September 1995 to March 1998. From June 1994 to September 1995, Mr. Melnick was a member of sales management at MFS Telcom.

Scott G. Yancey, Jr. has been our Chief Financial Officer since joining us in July 1998 and a Director since August 1998. Mr. Yancey was the Chief Financial Officer and General Manager of the data division of Cable & Wireless USA, a telecommunications service provider, from July 1982 to May 1998.

James A. Aust has been our Vice President of Engineering since joining us in July 1995. Mr. Aust was a Consultant Systems Engineer for AT&T from May 1990 to July 1994. In this role, Mr. Aust was responsible for network design and implementation issues for key accounts and worked closely with hardware and software developers at Bell Laboratories, defining products and feature sets to fulfill customer networking requirements. Mr. Aust also served on the AT&T Engineering Council, which was responsible for formulating methods and procedures for AT&T's System Engineering from August 1988 to May 1990.

John J. Hackett has been our Vice President, Sales and Marketing since joining us in February 1999. Mr. Hackett was the Division President of MCI WorldCom and MFS Telcom from September 1993 to February 1999 responsible for Sales and Customer Support.

Worth D. MacMurray has been our Vice President, Legal and Strategic Projects, since joining us in September, 1999. Prior to joining us, Mr. MacMurray served as Vice President, Legal & Administration from November 1998 to August 1999 at Landmark Systems Corporation, a performance management software company. Prior to joining Landmark, Mr. MacMurray served as Vice President and General Counsel of Intersolv, Inc., a software tools company, from October 1997 to October 1998. From February 1988 to September 1997, Mr. MacMurray served in various legal capacities for GTSI, an information technology reseller, including as general counsel.

Lester M. Lichter has been our Chief Information Officer since October 1999. Prior to joining us, Mr. Lichter was Executive Vice President and Chief Information Officer of Excel Communications from November 1997 to February 1999, where he was responsible for developing information services solutions to support the company's business development activities. Mr. Lichter was Chief Information Officer of Cable & Wireless USA from June 1996 to November 1997. Before joining Cable & Wireless USA, Mr. Lichter was Vice President and Chief Information Officer of AT&T from December 1993 to May 1996.

Brian D. Roberts has been our Vice President for Engineering and Operations since August 1999. Prior to joining us, Mr. Roberts was Managing Partner for Network Solutions in the Mid-Atlantic Region for USWeb/CKS from February 1998 to August 1999. Mr. Roberts was Vice President for Engineering and Operations for ACSI Advanced Data Systems Division (now e.spire Communications, Inc.) from November 1997 to February 1999. Before joining ACSI, Mr. Roberts was Vice President for Operations and Data Services at MFS Communications (now MCI WorldCom) from August 1992 to April 1997.

Brion B. Applegate has been a Director of Network Access Solutions since August 1998. Mr. Applegate is a co-founder and has been a Managing General Partner of Spectrum Equity Investors since March 1993. Mr. Applegate is a director of Tut Systems, Inc.

Dennis R. Patrick has been a Director of Network Access Solutions since April 1999. Mr. Patrick is and has been the President and Chief Executive Officer of Patrick Communications Inc. and Doeg Hill Ventures LLC since November 1997. Patrick Communications provides analysis of investment opportunities in the telecommunications and media industries to a select group of clients. Doeg Hill Ventures is a closely held venture capital enterprise focusing on early stage investments in the telecommunications industry. Mr. Patrick was the founder and Chief Executive Officer of Milliwave LP, a local exchange telephone company using digital radio frequencies to transmit data, from June 1995 to January 1997. Milliwave was acquired by Winstar Communications in January 1997 and Mr. Patrick served on the board of directors of the combined entity until September 1997. From February 1990 to December 1995, Mr. Patrick served as Chief Executive Officer of Time Warner Telecommunications, a division of Time Warner Entertainment. From November 1983 to August 1989, Mr. Patrick was a Commissioner and then Chairman of the FCC.

Our executive officers are elected by our board of directors and serve at its discretion. Jonathan P. Aust and James A. Aust are brothers. There are no other family relationships among our officers and directors.

Our certificate of incorporation and bylaws provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms. As a result, a portion of our board of directors will be elected each year. Prior to consummation of our initial public offering on June 3, 1999, two of the nominees to the board were elected to a one-year term, two were elected to two-year terms and one was elected to a three-year term. Thereafter, directors will be elected for three-year terms. Messrs. Yancey and Melnick are Class I directors with terms expiring at the 2000 annual meeting of stockholders, Messrs. Applegate and Patrick are Class II directors, with terms expiring at the 2001 annual meeting of stockholders, and Mr. Aust is Class III director, with a term expiring at the 2002 annual meeting of stockholders.

Board Committees

Our board of directors established an audit committee in April 1999. The audit committee consists of Messrs. Applegate and Patrick. The responsibilities of the audit committee include:

- recommending to our board of directors the independent public accountants to conduct the annual audit of our books and records;
- reviewing the proposed scope of the audit;
- approving the audit fees to be paid;
- reviewing accounting and financial controls with the independent public accountants and our financial and accounting staff; and
- reviewing and approving transactions between us and our directors, officers and affiliates.

Our board of directors established a compensation committee in August 1998. The compensation committee consists of Jonathan P. Aust, Mr. Applegate and Mr. Patrick. The compensation committee determines the compensation of our executive officers and administers our stock plans and generally reviews our compensation plans to ensure that they meet our objectives. Mr. Aust will not participate in decisions regarding his own compensation.

Compensation Committee Interlocks and Insider Participation

During 1998, members of our compensation committee were Messrs. Jonathan P. Aust and Brion B. Applegate. None of our executive officers has served as a member of the compensation committee or other committee serving an equivalent function of any other entity, whose executive officers served as a director of or member of our compensation committee. Mr. Aust is our President and Chief Executive Officer. Mr. Applegate is the Managing General Partner of Spectrum Equity Investors, which is a holder of approximately 43.6% of our common stock. See "Related Transactions and Relationships" for a description of transaction between our company and Mr. Aust and our company and Spectrum Equity Investors.

Directors' Compensation

Our directors have received no compensation for serving as directors. We reimburse our directors for reasonable expenses they incur to attend board and committee meetings. Our non-employee directors are eligible to receive grants of options to acquire our common stock under our stock incentive plan. In April 1999, we granted an option to acquire 250,000 shares of our common stock at a price of $6.67 per share to Mr. Patrick. On June 3, 1999, Mr. Patrick received an option to purchase an additional 407,500 shares of common stock at an exercise price equal to $3.00 per share. Mr. Patrick exercised the option to acquire 250,000 shares of our common stock on June 3, 1999. The options granted to Mr. Patrick vested immediately upon the completion of our initial public offering on June 3, 1999.

Executive Compensation

The following table summarizes the compensation paid to our chief executive officer, executive officers and two other individuals whose total salary and bonus exceeded $100,000 during 1998, whom we identify as "named executive officers":

SUMMARY COMPENSATION TABLE

	Annual Compensation			Long-Term Compensation	
Name and Principal Position	Salary	Bonus	Other	Securities Underlying Options	All Other Compensation
Jonathan P. Aust President and Chief Executive Officer	$122,992	$135,000	—	—	—
Christopher J. Melnick Chief Operating Officer	101,624	—	—	3,150,000	—
James A. Aust Vice President, Engineering	99,750	25,000	—	292,500	—
William H. Farrer Sales Manager	65,000	113,500	$85,601	—	$84,500
Gerald A. Buhl Account Executive	33,750	2,500	119,171	—	—

The salary paid to Mr. Melnick is from July 1998, the date of his employment. The other compensation paid to Mr. Farrer represents $85,601 of sales commissions and $84,500, representing the taxable compensation value of 585,000 shares of our common stock issued at $0.14 per share in exchange for past services rendered. The other compensation paid to Mr. Buhl represents sales commissions.

Options Grants in 1998

The following table shows information about our grants of options to purchase our common stock made to the named executive officers during 1998:

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(5)	
	Number of Securities Underlying Options Granted (1)	Percent of Total Options Granted to Employees in 1998(2)	Exercise or Base Price ($/share)	Market Price at Grant Date ($/share)(3)	Expiration Date(4)	5%	10%
Jonathan P. Aust	—	—%	$ —	$ —	—	$ —	$ —
Christopher J. Melnick	3,150,000	44.4	0.09	0.22	7/23/08	845,324	1,513,964
James A. Aust	292,500	4.1	0.09	2.09	11/1/08	969,459	1,559,295
William H. Farrer	112,500	1.6	0.09	2.09	11/1/08	372,869	599,729
Gerald A. Buhl	18,000	0.3	0.09	2.09	11/1/08	59,659	95,957

(1) All options were granted under our 1998 stock incentive plan. All options were incentive stock options that vest over time. Generally, these options vest in quarterly installments over 36 to 42 months. All of these options immediately vest in the event of a change in control of our company. If a majority of our stockholders elect to sell all or part of our company, then the option holder is required to sell an equivalent percentage of the shares underlying the option.

(2) Based on options to purchase 7,090,875 shares of our common stock granted to employees in 1998.
(3) We believe that these options were granted at an exercise price that equaled the fair market value of the underlying common stock on the date of grant. However, in connection with our initial public offering on June 3, 1999, we revisited the valuation of these options and determined that they did have a compensatory element. We now value these options on the basis of the price paid for our common stock in August 1998, an independent valuation, a treasury stock transaction with our founders, our general financial condition, discussions with our underwriters and information relating to other companies in our industry.
(4) The options have ten-year terms, subject to earlier termination upon death, disability or termination of employment.
(5) We recommend caution in interpreting the financial significance of the figures representing the potential realizable value of the stock options. They are calculated by multiplying the number of options granted by the difference between a future hypothetical stock price and the option exercise price and are shown pursuant to rules of the SEC. They assume the fair value of common stock appreciates 5% or 10% each year, compounded annually, for ten years (the term of each option). They are not intended to forecast possible future appreciation, if any, of our stock price or to establish a present value of options. Also, if appreciation does occur at the 5% or 10% per year rate, the amounts shown would not be realized by the recipients until the year 2008. Depending on inflation rates, these amounts may be worth significantly less in 2008, in real terms, than their value today.

None of the named executive officers exercised any stock options during 1998.

Year-End Option Values

The following table shows information about unexercised options held by the named executive officers at December 31, 1998:

	Number of Securities Underlying Unexercised Options at December 31, 1998		Value of Unexercised in-the-Money Options at December 31, 1998(1)	
	Exercisable	Unexercisable(2)	Exercisable	Unexercisable(2)
Jonathan P. Aust	—	—	—	—
Christopher J. Melnick	262,500	2,887,500	$3,126,375	$34,390,125
James A. Aust	—	292,500	—	3,483,675
William H. Farrer	—	112,500	—	1,339,875
Gerald A. Buhl	—	18,000	—	214,380

(1) Calculated on the basis of the initial public offering price of our common stock on June 3, 1999 ($12.00 per share), less the exercise price payable for those shares, multiplied by the number of shares underlying the option.
(2) Upon award, the options are immediately exercisable into shares of common stock that have certain transfer, vesting and forfeiture restrictions. Upon exercise, unvested common stock cannot be transferred and, until vested, is subject to repurchase by us in the event the named executive officer terminates his employment.

No compensation intended to serve as incentive for performance to occur over a period longer than one year was paid pursuant to a long-term incentive plan during the last year to any of the executive officers named above.

Employment Arrangements

We have entered into employment agreements with the following executive officers: James Aust, Jonathan Aust, John Hackett, Christopher Melnick, Worth MacMurray and Scott Yancey. Each of these agreements has an initial term of four years, subject to earlier termination upon 30 days prior notice. The term of each agreement is automatically extended for additional one year terms unless we or the executive elects to terminate the agreement within 30 days before the end of the current term. Under these agreements, these executives receive an initial annual base salary that will be increased by at least 5% each year, based upon performance objectives set by our board of directors. These executives also receive an annual bonus of up to 20% of the executive's then current salary. The bonus is payable in cash, stock or a combination of both at the election of our board of directors. The executives have received options to acquire shares of our common stock that vest in quarterly installments over either three or four years from the date of grant. The following table shows information about the compensation arrangements we have with our executive officers:

	Current Annual Base Salary	Maximum Annual Bonus	Options Granted (Shares)
Jonathan P. Aust	$450,000	20%	—
Christopher J. Melnick	200,000	20	3,150,000
Scott G. Yancey, Jr.	200,000	20	2,250,000
John J. Hackett	175,000	20	1,350,000
James A. Aust	125,000	20	292,500
Worth D. MacMurray	200,000	20	125,000

The annual bonus and any salary increase for Jonathan Aust will be determined by our compensation committee on an annual basis.

If, during the term of one of these employment agreements, we terminate the executive's employment without cause or the executive terminates his employment for good reason, then the executive will be entitled to receive his base salary, bonus and all employee benefits for a period of one year from the date of the termination of employment.

Under the terms of these agreements, these executives have agreed to preserve the confidentiality and the proprietary nature of all information relating to our business during the term of the agreement and after the agreement ends indefinitely. In addition, each of these executives has agreed to non-competition and non-solicitation provisions that will be in effect during the term of his agreement and for one year after the agreement ends.

We have no employment agreements with Messrs. Farrer or Buhl. These individuals each receive annual salaries of $65,000. They both receive bonuses based upon the achievement of sales milestones established by our board of directors and commissions based on the sales they generate.

We require all of our employees to sign agreements that prohibit the employee from directly or indirectly competing with us while they are employed by us and generally for a period of one year. We require all of our employees to sign agreements that prohibit the disclosure of our confidential or proprietary information.

1998 Stock Incentive Plan

Our stock incentive plan authorizes the grant of:

- stock options;
- stock appreciation rights;

- stock awards;
- phantom stock; and
- performance awards.

The compensation committee of our board of directors administers our stock incentive plan. The committee has sole power and authority, consistent with the provisions of our stock incentive plan, to determine which eligible participants will receive awards, the form of the awards and the number of shares of our common stock covered by each award. The committee may impose terms, limits, restrictions and conditions upon awards, and may modify, amend, extend or renew awards, to accelerate or change the exercise timing of awards or to waive any restrictions or conditions to an award.

The maximum number of shares available for issuance under our stock incentive plan is 11,250,000. As of September 30, 1999, we had issued 356,276 shares of our common stock in connection with awards granted, we had granted or committed to grant awards with respect to 10,724,209 shares of our common stock and 525,791 shares remained available for us to grant under our stock incentive plan.

Stock Options. Our stock incentive plan permits the granting of options to purchase shares of our common stock intended to qualify as incentive stock options under the Internal Revenue Code and stock options that do not qualify as incentive options. The option exercise price of each option will be determined by the committee. The term of each option will be fixed by the committee. The committee will determine at what time or times each option may be exercised and, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

Stock Appreciation Rights. The committee may grant a right to receive a number of shares or, in the discretion of the committee, an amount in cash or a combination of shares and cash, based on the increase in the fair market value of the shares underlying the right during a stated period specified by the committee.

Stock Awards. The committee may award shares of our common stock to participants at no cost or for a purchase price. These stock awards may be subject to restrictions or may be free from any restrictions under our stock incentive plan. The committee shall determine the applicable restrictions. The purchase price of the shares of our common stock will be determined by the committee.

Phantom Stock. The committee may grant stock equivalent rights, or phantom stock, which entitle the recipient to receive credits that are ultimately payable in the form of cash, shares of our common stock or a combination of both. Phantom stock does not entitle the holder to any rights as a stockholder.

Performance Awards. The committee may grant performance awards to participants entitling the participants to receive cash, shares of our common stock, or a combination of both, upon the achievement of performance goals and other conditions determined by the committee. The performance goals may be based on our operating income, or on one or more other business criteria selected by the committee.

RELATED TRANSACTIONS AND RELATIONSHIPS

In August 1998 we entered into a Series A Preferred Stock Purchase Agreement with Spectrum Equity Investors II, L.P., FBR Technology Venture Partners, LLC and other investors and issued a total of 10,000,000 shares of mandatorily redeemable preferred stock and 22,050,000 shares of common stock in exchange for $10,004,900. Pursuant to this agreement, we issued to Spectrum Equity Investors II, L.P. and its affiliates 8,470,000 shares of our preferred stock and 18,676,350 shares of our common stock in exchange for an aggregate purchase price of $8,474,150. As of September 30, 1999, Spectrum beneficially owned 43.8% of our common stock. Brion B. Applegate, a Managing General Partner of Spectrum, is a member of our board of directors. We also issued to FBR Technology Venture Partners, LLC 1,500,000 shares of our Series A Preferred Stock and 3,307,500 shares of our common stock in exchange for an aggregate purchase price of $1,500,735. As of September 30, 1999, FBR owned 7.8% of our common stock.

In March 1999, we amended our certificate of incorporation to modify the terms of our then outstanding preferred stock. Upon completion of our initial public offering on June 3, 1999, 50% of our redeemable preferred stock was cancelled and ceased to exist without compensation or recourse, and the remaining shares of preferred stock were converted into 416,667 shares of our common stock.

On March 31, 1999, we entered into a Note Purchase Agreement with Spectrum and FBR. Pursuant to this agreement, Spectrum purchased a convertible note in the principal amount of $4,250,000 and FBR purchased a convertible note in the principal amount of $750,000. The principal of and interest on the notes were converted into 416,667 shares of our common stock upon the closing of our initial public offering. Pursuant to our amended Note Purchase Agreement, Spectrum purchased an additional convertible note in the principal amount of $4,250,000 and FBR purchased an additional convertible note in the principal amount of $750,000 on May 17, 1999. Those notes converted into an aggregate of 416,667 shares of our common stock upon the closing of the initial public offering on June 3, 1999.

Following the sale of our preferred stock in August 1998, we repurchased some of the shares of our common stock held by James A. Aust, Jonathan P. Aust, Longma M. Aust and Stephen C. Aust. We repurchased 1,350,000 shares of our common stock for an aggregate purchase price of $300,000 from James A. Aust. We repurchased 1,953,950 shares of our common stock for an aggregate purchase price of $434,211 from Jonathan P. Aust. We repurchased 3,986,051 shares of our common stock for an aggregate purchase price of $885,789 from Longma M. Aust. We repurchased 1,260,000 shares of our common stock for an aggregate purchase price of $280,000 from Stephen C. Aust. Jonathan P. Aust and Longma M. Aust are husband and wife. James A. Aust, Jonathan P. Aust and Stephen C. Aust are brothers.

In July 1998, we issued an option to purchase 2,250,000 shares of our common stock at an exercise price of $0.09 per share to Mr. Yancey, our Chief Financial Officer. In August 1998, we issued 585,000 shares of our common stock to Mr. Farrer, one of our sales managers, in exchange for past services rendered valued at a price of $0.22 per share. In March 1999, we issued an option to purchase 1,350,000 shares of our common stock at an exercise price of $0.09 per share to Mr. Hackett, our Vice President, Sales and Marketing. In August 1999, we issued options to purchase 125,000 shares of common stock at an exercise price of $5.12 to both Mr. MacMurray, our Vice President, Legal and Strategic Projects, and Mr. Roberts, our Vice President, Engineering and Operations. In October 1999, we issued an option to purchase 75,000 shares of our common stock at an exercise price of $12.62 to Mr. Lichter, our Chief Information Officer. We have also granted options to acquire shares of our common stock to Messrs. Patrick, James A. Aust, Buhl, Farrer and Melnick that are described under "Management—Directors' Compensation" and "Management—Executive Compensation." We have entered into employment agreements with six of our senior executive officers. For details of these agreements, see "Management—Employment Arrangements."

We believe that the transactions discussed above were made on terms no less favorable to us than would have been obtained from unaffiliated third parties. We have adopted a policy that requires all future transactions between us and our officers, directors and affiliates to be on terms no less favorable than could be obtained from unrelated third parties. These transactions must be approved by a majority of the disinterested members of our board of directors.

PRINCIPAL STOCKHOLDERS

The following shows the number and percentage of outstanding shares of our common stock that were owned as of December 15, 1999 and that will be owned after this offering by:

- all persons known to us to beneficially own more that 5% of our common stock;
- each director and named executive officer; and
- all directors and executive officers as a group.

An asterisk indicates ownership of less than 1%.

As of December 15, 1999, there were 45,231,153 shares of our common stock outstanding. After this offering, shares of our common stock will be outstanding.

	Before Offering		After Offering	
Name of Beneficial Owner	**Shares Beneficially Owned(1)**	**Percent**	**Shares Beneficially Owned(1)**	**Percent**
Jonathan P. Aust(2)	9,387,000	20.8%		%
Christopher J. Melnick(3)	1,625,000	3.5		
James A. Aust(4)	1,891,406	4.2		
William H. Farrer(5)	620,156	1.4		
Gerald A. Buhl(6)	5,625	—		
Brion B. Applegate(7) 245 Lytton Avenue Palo Alto, CA 94301	19,737,601	43.6		
Dennis R. Patrick(8)	657,500	1.4		
Scott G. Yancey, Jr.(9)	1,155,000	2.5		
Spectrum Equity Investors II, L.P.(7) 245 Lytton Avenue Palo Alto, CA 94301	19,737,601	43.6		
FBR Technology Venture Partners, LP 1001 19th Street Arlington, VA 22209	3,495,000	7.7		
Stephen C. Aust(10)	1,953,000	4.3		
All executive officers and directors as a group (10 persons)(11)	35,329,569	72.5		

(1) The number of shares beneficially owned includes outstanding shares of our common stock held by that person and shares of our common stock issuable upon exercise of stock options exercisable within 60 days of December 15, 1999. The address of Messrs. Jonathan P. Aust, James A. Aust, Stephen C. Aust, Buhl, Farrer, Melnick, Patrick and Yancey is 100 Carpenter Drive, Sterling, Virginia 20164.

(2) Includes 374,999 shares held by the Jonathan P. Aust Grantor Retained Annuity Trust, 5,962,660 shares held by Longma M. Aust, Mr. Aust's wife, and 375,001 shares held by the Longma M. Aust Grantor Retained Annuity Trust.

(3) Includes 1,575,000 shares issuable upon exercise of options to acquire our common stock.

(4) Includes 91,406 shares issuable upon exercise of options to acquire our common stock and 162,000 shares held by the James Arthur Aust Grantor Retained Annuity Trust.

(5) Includes 35,156 shares issuable upon exercise of options to acquire our common stock.

(6) Includes 5,625 shares issuable upon exercise of options to acquire our common stock.

(7) Spectrum Equity Investors II, L.P. is under common control with SEA 1998 II, L.P. and, therefore, beneficial ownership of the shares of our common stock owned by SEA is attributed to Spectrum Equity Investors. Mr. Applegate is a Managing General Partner of Spectrum Equity Investors and, therefore, beneficial ownership of the shares of our common stock owned by Spectrum Equity Investors is attributed to Mr. Applegate.

(8) Includes 407,500 shares issuable upon exercise of options to acquire our common stock.

(9) Includes 1,125,000 shares issuable upon exercise of options to acquire our common stock.

(10) Includes 108,000 shares held by the Stephen C. Aust Grantor Retained Annuity Trust.

(11) Includes 3,487,968 shares issuable upon exercise of options to acquire our common stock that are held by Messrs. James A. Aust, Hackett, Lichter, MacMurray, Melnick, Patrick, Roberts and Yancey.

have granted the underwriters an option to purchase shares of common stock as part of the underwriters' overallotment option. If this option is exercised in full, after this offering, these stockholders would have the following beneficial ownership interests:

	Before Offering		After Offering	
Name of Beneficial Owner	Shares Beneficially Owned	Percent	Shares Beneficially Owned	Percent
	%	%		

DESCRIPTION OF OUR CAPITAL STOCK

Our authorized capital stock consists of 150,000,000 shares of common stock, par value $0.001 per share, and 15,000,000 shares of preferred stock, par value $0.001 per share. As of December 15, 1999, there were 45,231,153 shares of our common stock outstanding, held by 74 holders of record. As of December 15, 1999, there were no shares of our preferred stock outstanding.

After this offering, we will have outstanding   shares of common stock.

The following is a description of our capital stock.

Common Stock

We are authorized to issue 150,000,000 shares of common stock. Each stockholder of record will be entitled to one vote for each outstanding share of our common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. After satisfaction of the dividend rights of holders of preferred stock, holders of common stock are entitled to any dividend declared by the board of directors out of funds legally available for this purpose. After the payment of liquidation preferences to holders of any outstanding preferred stock, holders of our common stock are entitled to receive, on a pro rata basis, all our remaining assets available for distribution to the stockholders in the event of our liquidation, dissolution, or winding up. Holders of our common stock do not have any preemptive right to become subscribers or purchasers of additional shares of any class of our capital stock. In the opinion of our counsel, Shaw Pittman, the shares of common stock offered in this offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

Preferred Stock

Our certificate of incorporation allows us to issue without stockholder approval preferred stock having rights senior to those of our common stock. Our board of directors is authorized, without further stockholder approval, to issue up to 15,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, and to fix the number of shares constituting any series and the designations of these series. There currently are no shares of our preferred stock outstanding.

Our issuance of preferred stock may have the effect of delaying or preventing a change in control. Our issuance of preferred stock could decrease the amount of earnings and assets available for distribution to the holders of our common stock or could adversely affect the rights and powers, including voting rights, of the holders of our common stock. The issuance of preferred stock could have the effect of decreasing the market price of our common stock.

Registration Rights

Holders of an aggregate of 23,300,001 shares of our common stock can require us to register the sale of their shares under the Securities Act. Subject to limitations and the lock-up agreements with the underwriters, we must register the sale of these shares if at any time after six months following this offering, the holders of at least 4,660,000 of these shares request registration. We are not required to effect more than three of these requested registrations. Subject to limitations, these holders may require us to file an unlimited number of registration statements on Form S-3 when we are eligible to use Form S-3. If we propose to register our securities under the Securities Act after this offering, these stockholders and Mr. Patrick will be entitled to notice of the registration and to include their shares in the registration provided that the underwriters for the proposed offering will have the right to limit the number of shares included in the registration. We must pay all expenses in connection with these registrations, other than underwriters' discounts and commissions.

Limitation Of Liability

As permitted by the Delaware General Corporation Law, our certificate of incorporation provides that our directors shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law, relating to unlawful payment of dividends or unlawful stock purchase or redemption of stock; or
- for any transaction from which the director derives an improper personal benefit.

As a result of this provision, we and our stockholders may be unable to obtain monetary damages from a director for breach of his or her duty of care.

Our certificate of incorporation and bylaws provide for the indemnification of our directors and officers to the fullest extent authorized by the Delaware General Corporation Law, except that we will indemnify a director or officer in connection with an action initiated by that person only if the action was authorized by our board of directors. The indemnification provided under our certificate of incorporation and bylaws includes the right to be paid expenses in advance of any proceeding for which indemnification may be had, provided that the payment of these expenses incurred by a director or officer in advance of the final disposition of a proceeding may be made only upon delivery to us of an undertaking by or on behalf of the director or officer to repay all amounts so paid in advance if it is ultimately determined that the director or officer is not entitled to be indemnified. If we do not pay a claim for indemnification within 60 days after we have received a written claim, the claimant may at any time thereafter bring an action to recover the unpaid amount of the claim and, if successful the director or officer will be entitled to be paid the expense of prosecuting the action to recover these unpaid amounts.

Under our bylaws, we have the power to purchase and maintain insurance on behalf of any person who is or was one of our directors, officers, employees or agents, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against the person or incurred by the person in any of these capacities, or arising out of the person's fulfilling one of these capacities, and related expenses, whether or not we would have the power to indemnify the person against the claim under the provisions of the Delaware General Corporation Law. We intend to purchase director and officer liability insurance on behalf of our directors and officers.

Possible Anti-Takeover Effects

Our certificate of incorporation and bylaws contain provisions that are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors. In addition, provisions of Delaware law may hinder or delay an attempted takeover of our company other than through negotiation with our board of directors. These provisions could have the effect of discouraging attempts to acquire us or remove incumbent management even if some or a majority of our stockholders believe this action to be in their best interest, including attempts that might result in the stockholders' receiving a premium over the market price for the shares of our common stock held by the stockholders.

Classified Board of Directors; Removal, Vacancies. Our certificate of incorporation provides that our board of directors will be divided into three classes of directors serving staggered three-year terms. The classification of directors has the effect of making it more difficult for stockholders to change the composition of the board of directors in a relatively short period of time. Our certificate of incorporation provides that directors may be removed only for cause. In addition, vacancies and newly created directorships resulting from any increase in the size of our board of directors may be filled only by the affirmative vote of a majority of the directors then in office, a quorum, or by a sole remaining director. These provisions would prevent stockholders from removing incumbent directors without cause and filling the resulting vacancies with their own nominees.

Advance Notice Provisions for Stockholder Proposals and Stockholder Nominations of Directors. Our by-laws establish an advance notice procedure with regard to the nomination, other than by the board of directors, of candidates for election to our board of directors and with regard to certain matters to be brought before an annual meeting of our stockholders. For nominations and other business to be brought properly before an annual meeting by a stockholder, the stockholder must deliver notice to us not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting. Separate provisions based on public notice by us specify how this advance notice requirement operates if the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date. The stockholder's notice must set forth specified information regarding the stockholder and its holdings, as well as certain background information regarding any director nominee, together with the person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and a brief description of any business desired to be brought before the meeting, the reasons for conducting the business at the meeting and any material interest of the stockholder in the business proposed. In the case of a special meeting of stockholders called for the purpose of electing directors, nominations by a stockholder may be made only by delivery to us, no later than 10 days after the day on which public announcement of the special meeting is made, of a notice that complies with the above requirements. Although our bylaws do not give our board of directors any power to approve or disapprove stockholder nominations for the election of directors or any other business desired by stockholders to be conducted at an annual meeting, our bylaws:

- may have the effect of precluding a nomination for the election of directors or precluding the conduct of certain business at a particular annual meeting if the proper procedures are not followed; or
- may discourage or deter a third party from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of Network Access Solutions, even if the conduct of this solicitation or such attempt might be beneficial to Network Access Solutions and our stockholders.

Special Stockholders' Meetings. Our certificate of incorporation and bylaws provide that special meetings of stockholders, unless otherwise prescribed by statute, may be called only:

- by the board of directors or by our chairman or president; or
- by the holders of at least majority of our securities outstanding and entitled to vote generally in the election of directors.

Section 203 of Delaware Law. In addition to these provisions of our certificate of incorporation and bylaws, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. Section 203 prohibits publicly held Delaware corporations from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of a corporation's voting stock. These provisions could have the effect of delaying, deferring or preventing a change in control of our company or reducing the price that certain investors might be willing to pay in the future for shares of our common stock.

Transfer Agent and Registrar

American Stock Transfer & Trust Company is the transfer agent and registrar for our common stock.

SHARES ELIGIBLE FOR FUTURE SALE

After this offering, we will have shares of common stock outstanding. We sold 7,500,000 shares of common stock in our initial public offering on June 3, 1999. All of the shares we sell in this offering and those sold in the initial public offering will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by our affiliates, as that term is defined in Rule 144, may generally only be sold in compliance with the limitations of Rule 144 described below.

Of the remaining shares of common stock outstanding after this offering, shares will not be freely tradeable under the terms of the Securities Act. Transfer of shares will be further limited by lock-up agreements as described below.

We cannot predict what effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and could impair our future ability to raise capital through the sale of our equity securities.

Rule 144

In general, under Rule 144, a stockholder who owns restricted shares that have been outstanding for at least one year is entitled to sell, within any three-month period, a number of these restricted shares that does not exceed the greater of:

- one percent of the then outstanding shares of our common stock, or approximately shares immediately after this offering; or
- the average weekly trading volume in our common stock on the Nasdaq National Market during the four calendar weeks preceding the sale.

In addition, our affiliates must comply with the restrictions and requirements of Rule 144, other than the one-year holding period requirement, to sell shares of common stock that are not restricted securities.

Under Rule 144(k), a stockholder who is not currently, and who has not been for at least three months before the sale, an affiliate of ours who owns restricted shares that have been outstanding for at least two years may resell these restricted shares without compliance with the above requirements. The one- and two-year holding periods described above do not begin to run until the full purchase price is paid by the person acquiring the restricted shares from us or an affiliate of ours.

Registration Rights

We have entered into an investor rights agreement with some of our stockholders, who will own an aggregate of shares of our common stock after this offering assuming the sale of shares of our common stock by these stockholders in this offering. These stockholders and Mr. Patrick have certain registration rights. See "Description of our Capital Stock—Registration Rights."

Common Stock and Options Issuable under our Stock Incentive Plan

On August 17, 1999, we filed a registration statement on Form S-8 under the Securities Act registering 11,250,000 shares of our common stock underlying outstanding stock options or reserved for issuance under our 1998 stock incentive plan. This registration statement became effective upon filing, and shares covered by the registration statement are eligible for sale in the public market, subject to the lock-up agreements with the underwriters.

Lock-up Agreements

Other than with respect to up to shares to be sold by selling stockholders if the underwriters exercise their over-allotment option, our officers, directors, employees and certain of our other stockholders, who will hold an aggregate of approximately shares of common stock and options to acquire approximately shares of our common stock after this offering, have agreed that they will not, without the prior written consent of Merrill Lynch & Co., offer, sell, pledge or otherwise dispose of any shares of our capital stock or any securities convertible into or exercisable or exchangeable for, or any rights to acquire or purchase, any of our capital stock or publicly announce an intention to effect any of these transactions, for a period of days after the date of the underwriting agreement, other than shares of common stock transferred in connection with a pledge agreement or disposed of as bona fide gifts approved by Merrill Lynch & Co. The stockholders who are parties to our investor rights agreement are required by the terms of the investor rights agreement to enter into these lock-up agreements. Merrill Lynch & Co. has advised us that it has no current intention to consent to any disposition of shares covered by these lock-up agreements, but will consider each request for its consent at the time and under the circumstances of the request.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated is acting as representative of the underwriters named below. Subject to the terms and conditions described in a purchase agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of shares listed opposite their names below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Total	

The underwriters have agreed to purchase all of the shares sold under the purchase agreement if any of the shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representative has advised us and the selling stockholders that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and, if the overallotment option is exercised, the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their over-allotment options.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount			
Proceeds, before expenses, to Network Access			
Proceeds, before expenses, to the selling stockholders			

The expenses of the offering, not including the underwriting discount, are estimated at $ and are payable by us.

Over-allotment Option

The selling stockholders have granted an option to the underwriters to purchase up to shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any over-allotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

We, the selling stockholders and our executive officers and directors and certain of our other stockholders have agreed, with exceptions, not to sell or transfer any common stock for days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other persons or entities have agreed not to directly or indirectly

- offer, pledge, sell or contact to sell any common stock;
- sell any option or contact to purchase any common stock;
- purchase any option or contact to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

Quotation on the Nasdaq National Market

The shares are quoted on the Nasdaq National Market under the symbol "NASC."

Price Stabilization and Short Positions

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, *i.e.*, if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the over-allotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives or the lead managers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Passive Market Making

In connection with this offering, underwriters and selling group members may engage in passive market making transactions in the common stock on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Exchange Act during a period before the commencement of offers or sales of common stock and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

Other Relationships

Merrill Lynch and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us and with certain of the selling stockholders or other companies in which certain of the selling stockholders may have an ownership interest. They have received, and may in the future receive, customary fees and commissions for these transactions.

VALIDITY OF THE SHARES

Shaw Pittman, Washington, D.C., will pass upon the validity of the shares of common stock on our behalf. Paul, Hastings, Janofsky & Walker LLP, New York, New York, will pass upon legal matters for the underwriters.

EXPERTS

Our financial statements as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998 included in this prospectus have been included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of that firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the SEC a registration statement, including exhibits, schedules and amendments. This prospectus is a part of the registration statement and includes all of the information that we believe is material to an investor considering whether to make an investment in our common stock. We refer you to the registration statement for additional information about Network Access Solutions, our common stock and this offering, including the full texts of the exhibits, some of which have been summarized in this prospectus.

You can inspect and copy our registration statement, reports and other information at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site that contains our registration statement, reports and other information. The address of the SEC's Internet site is "http://www.sec.gov."

We intend to furnish our stockholders annual reports containing financial statements audited by our independent accountants. You may obtain copies of our annual and quarterly reports and proxy statements from our Web site at www.nas-corp.com.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
Network Access Solutions Corporation

In our opinion, the accompanying balance sheets and the related statements of operations, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Network Access Solutions Corporation (the Company) at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion expressed above.

/s/ PRICEWATERHOUSECOOPERS LLP

McLean, Virginia
March 18, 1999, except for
Note 1 for which the
date is May 7, 1999

NETWORK ACCESS SOLUTIONS CORPORATION

BALANCE SHEETS

	As of December 31, 1997	As of December 31, 1998	As of September 30, 1999 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 713,246	$ 5,518,117	$ 63,469,708
Accounts receivable, net of allowance for doubtful accounts	765,325	1,806,791	3,171,020
Prepaid and other current assets	—	105,693	697,784
Inventory	47,547	59,233	175,033
Total current assets	1,526,118	7,489,834	67,513,545
Property and equipment, net	140,177	5,030,793	44,121,873
Deposit	—	185,000	85,124
Income tax receivable	—	100,865	27,600
Deferred tax asset	198,732	121,586	121,586
Total assets	$1,865,027	$12,928,078	$111,869,728
LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 796,945	$ 2,525,102	$ 3,250,827
Accrued expenses	92,502	750,308	2,850,282
Current portion of deferred compensation liability	—	333,333	333,333
Current portion of capital lease obligations	—	328,982	4,995,643
Current portion note payable	93,348	—	389,871
Income tax payable	132,064	—	—
Other current liabilities	—	67,201	44,173
Deferred revenue	—	—	69,805
Total current liabilities	1,114,859	4,004,926	11,933,934
Long term portion of capital lease obligations	—	1,184,156	14,981,015
Long term portion note payable	—	1,000,000	2,583,224
Long term portion of deferred compensation liability	500,000	166,667	—
Total liabilities	1,614,859	6,355,749	29,498,173
Commitments and contingencies			
Series A mandatorily redeemable preferred stock, $.001 par value, 10,000,000 shares authorized, issued and outstanding, as of December 31, 1998 and no shares issued and outstanding as of September 30, 1999 (unaudited)	—	5,640,651	—
Stockholders' equity:			
Common stock, $.001 par value, 150,000,000 shares authorized, 21,915,000, 44,550,000 and 53,656,277 (unaudited) shares issued as of December 31, 1997, December 31, 1998 and September 30, 1999, respectively	21,915	44,550	53,656
Additional paid-in capital	—	8,097,566	130,357,583
Deferred compensation on stock options	—	(3,462,753)	(19,855,531)
Retained earnings (deficit)	228,253	(1,847,685)	(26,284,153)
Less treasury stock, at cost, 8,550,000 shares as of December 31, 1998 and September 30, 1999 (unaudited)	—	(1,900,000)	(1,900,000)
Total stockholders' equity	250,168	931,678	82,371,555
Total liabilities, mandatorily redeemable preferred stock and stockholders' equity	$1,865,027	$12,928,078	$111,869,728

The accompanying notes are an integral part of these financial statements.

NETWORK ACCESS SOLUTIONS CORPORATION

STATEMENTS OF OPERATIONS

	For the Years Ended December 31,			For the Nine Months Ended September 30,	
	1996	1997	1998	1998	1999
				(unaudited)	
Revenue:					
Product sales	$14,368,264	$8,149,680	$ 9,899,623	$7,393,788	$ 9,981,312
Consulting services	114,119	791,280	1,428,531	1,053,171	1,893,059
Network services	—	3,856	310,921	209,615	813,711
Total revenue	14,482,383	8,944,816	11,639,075	8,656,574	12,688,082
Cost of revenue:					
Product sales	11,975,534	7,180,064	8,639,337	6,353,364	8,705,594
Consulting services	90,851	230,565	761,315	597,900	1,178,251
Network services	—	2,406	40,738	15,268	2,142,000
Total cost of revenue	12,066,385	7,413,035	9,441,390	6,966,532	12,025,845
Gross profit	2,415,998	1,531,781	2,197,685	1,690,042	662,237
Operating expenses:					
Selling, general and administrative	2,255,231	1,436,513	4,017,057	2,403,371	16,725,879
Amortization of deferred compensation on stock options	—	—	218,997	47,529	6,699,302
Depreciation and amortization	7,256	12,298	130,004	60,412	2,497,445
Income (loss) from operations	153,511	82,970	(2,168,373)	(821,270)	(25,260,389)
Interest income	—	—	145,468	56,633	1,300,983
Interest expense	(868)	(5,144)	(81,006)	(58,217)	(548,354)
Income (loss) before income taxes	152,643	77,826	(2,103,911)	(822,854)	(24,507,760)
Provision (benefit) for income taxes	62,460	35,674	(27,973)	(27,973)	(71,292)
Net income (loss)	90,183	42,152	(2,075,938)	(794,881)	(24,436,468)
Preferred stock dividends	—	—	322,192	120,548	339,726
Preferred stock accretion	—	—	244,417	91,449	257,719
Net income (loss) applicable to common stockholders	$ 90,183	$ 42,152	$(2,642,547)	$(1,006,878)	$(25,033,913)
Net income (loss) per common share (basic and diluted):					
Net income (loss)	$ 0.00	$ 0.00	$ (0.08)	$ (0.03)	$ (0.61)
Preferred stock dividends and accretion	—	—	(0.02)	(0.01)	(0.02)
Net income (loss) applicable to common stockholders	$ 0.00	$ 0.00	$ (0.10)	$ (0.04)	$ (0.63)
Weighted average common shares outstanding (basic and diluted)	21,915,000	21,915,000	27,302,144	24,007,253	39,932,623

The accompanying notes are an integral part of these financial statements.

NETWORK ACCESS SOLUTIONS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended December 31, 1996, 1997 and 1998 and the nine months ended September 30, 1999 (unaudited)

	Common Stock		Additional Paid-in Capital	Deferred Compensation on Stock Options	Retained Earnings (Deficit)	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance, January 1, 1996	21,915,000	$21,915	$ —	$ —	$ 95,918	—	$ —	$ 117,833
Net income	—	—	—	—	90,183	—	—	90,183
Balance, December 31, 1996	21,915,000	21,915	—	—	186,101	—	—	208,016
Net income	—	—	—	—	42,152	—	—	42,152
Balance, December 31, 1997	21,915,000	21,915	—	—	228,253	—	—	250,168
Sale of common stock, net of direct issuance costs of $27,341	22,050,000	22,050	4,853,010	—	—	—	—	4,875,060
Purchase of treasury stock at cost	—	—	—	—	—	8,550,000	(1,900,000)	(1,900,000)
Shares issued to employee for service	585,000	585	129,415	—	—	—	—	130,000
Accrual of preferred stock dividends	—	—	(322,192)	—	—	—	—	(322,192)
Accretion of preferred stock	—	—	(244,417)	—	—	—	—	(244,417)
Deferred compensation	—	—	3,681,750	(3,681,750)	—	—	—	—
Amortization of deferred compensation	—	—	—	218,997	—	—	—	218,997
Net loss	—	—	—	—	(2,075,938)	—	—	(2,075,938)
Balance, December 31, 1998	44,550,000	44,550	8,097,566	(3,462,753)	(1,847,685)	8,550,000	(1,900,000)	931,678
Sale of common stock, net of direct issuance costs of $1,846,100 (unaudited)	7,500,000	7,500	81,846,400	—	—	—	—	81,853,900
Conversion of convertible notes (unaudited)	833,334	833	9,999,167	—	—	—	—	10,000,000
Conversion of preferred stock (unaudited)	416,667	417	4,999,583	—	—	—	—	5,000,000
Cancellation of preferred stock (unaudited)	—	—	1,238,096	—	—	—	—	1,238,096
Exercise of stock options (unaudited)	356,276	356	1,682,136	—	—	—	—	1,682,492
Accrual of preferred stock dividends (unaudited)	—	—	(339,726)	—	—	—	—	(339,726)
Accretion of preferred stock (unaudited)	—	—	(257,719)	—	—	—	—	(257,719)
Deferred compensation (unaudited)	—	—	23,092,080	(23,092,080)	—	—	—	—
Amortization of deferred compensation (unaudited)	—	—	—	6,699,302	—	—	—	6,699,302
Net loss (unaudited)	—	—	—	—	(24,436,468)	—	—	(24,436,468)
Balance, September 30, 1999 (unaudited)	53,656,277	$53,656	$130,357,583	$(19,855,531)	$(26,284,153)	8,550,000	$(1,900,000)	$ 82,371,555

The accompanying notes are an integral part of these financial statements.

NETWORK ACCESS SOLUTIONS CORPORATION

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 1996	1997	1998	For the Nine Months Ended September 30, 1998 (unaudited)	1999 (unaudited)
Cash flows from operating activities:					
Net income (loss)	$ 90,183	$ 42,152	$(2,075,938)	$ (794,881)	$(24,436,468)
Adjustment to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation and amortization expense	7,256	12,298	130,004	47,542	2,497,445
Provision for doubtful accounts receivable	—	23,826	28,133	—	91,082
Benefit (provision) for deferred income taxes	(62,337)	(118,274)	77,146	—	—
Shares issued to employee for services	—	—	130,000	130,000	—
Amortization of deferred compensation on stock options	—	—	218,997	47,529	6,699,302
Net changes in assets and liabilities:					
Accounts receivable	(4,435,883)	4,072,345	(1,069,599)	(905,149)	(1,455,311)
Inventory	(347,870)	300,678	(11,686)	11,402	52,003
Income tax receivable	—	—	(127,073)		73,265
Prepaid and other current assets	(10,000)	10,000	(105,693)	(181,145)	(960,135)
Accounts payable	4,138,912	(3,612,797)	(139,113)	448,833	617,021
Accrued expenses	241,254	(148,752)	173,795	146,890	1,822,392
Deferred compensation liability	208,333	291,667	—	—	(166,667)
Deposits	—	—	—	—	(22,850)
Income tax payable	—	—	(132,064)	(132,064)	—
Deferred tax asset	—	—	26,208	26,208	—
Deferred revenue	—	—	—	—	69,805
Other current liabilities	142,948	(68,195)	67,201	141,156	(23,028)
Net cash (used in) provided by operating activities	(27,204)	804,948	(2,809,682)	(1,013,679)	(15,142,144)
Cash flows from investing activities:					
Expenditures for networks	—	—	(640,511)	(1,296,970)	(16,704,704)
Purchases of property and equipment	(29,792)	(121,915)	(515,690)	(96,556)	(4,776,951)
Deposit for software and services	—	—	(185,000)	—	—
Net cash used in investing activities	(29,792)	(121,915)	(1,341,201)	(1,393,526)	(21,481,655)
Cash flows from financing activities:					
Borrowings on notes payable	1,500,000	1,500,000	2,406,652	—	12,000,000
Repayments of notes payable	(1,445,458)	(1,491,291)	(1,500,000)	(66,681)	(26,905)
Principal payments on capital leases	—	—	—	—	(934,098)
Issuance of common stock	—	—	4,902,401	4,902,401	83,700,000
Issuance of redeemable preferred stock	—	—	5,102,499	5,102,499	—
Exercise of stock options	—	—	—	—	1,682,492
Issuance costs related to preferred and common stock offerings	—	—	(55,798)	(55,798)	(1,846,099)
Treasury stock acquired	—	—	(1,900,000)	(1,900,000)	—
Net cash provided by financing activities	54,542	8,709	8,955,754	7,982,421	94,575,390
Net increase (decrease) in cash and cash equivalents	(2,454)	691,742	4,804,871	5,575,216	57,951,591
Cash and cash equivalents at the beginning of period	23,958	21,504	713,246	713,246	5,518,117
Cash and cash equivalents at the end of period	$ 21,504	$ 713,246	$ 5,518,117	$ 6,288,462	$ 63,469,708
Supplemental disclosure of cash flow information:					
Cash paid during the year for:					
Interest	$ 868	$ 5,142	$ 27,948	$ 17,999	$ 511,585
Income taxes	—	222,143	153,343	79,700	—
Non-cash investing and financing activities:					
Capital leases	—	—	1,513,138	22,757	19,397,618
Preferred stock dividends	—	—	322,192	120,548	339,726
Preferred stock accretion	—	—	244,417	91,449	257,719
Shares issued to employee for service	—	—	130,000	—	—
Expenditures for networks included in accounts payable and accrued expenses	—	—	2,351,281	—	—
Conversion of notes payable into common stock	—	—	—	—	10,000,000
Conversion of redeemable preferred stock into common stock	—	—	—	—	6,238,096

The accompanying notes are an integral part of these financial statements.

NETWORK ACCESS SOLUTIONS CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Business

The Company

Network Access Solutions Corporation (the Company), was originally incorporated in the Commonwealth of Virginia on December 19, 1994. On August 3, 1998, the Company reincorporated in the State of Delaware. Prior to the reincorporation, the Company had authorized 10,000 shares of common stock, of which 7,803 shares were issued and outstanding. As of August 3, 1998, the Company was recapitalized with authorized capital stock of 15,000,000 shares of common stock, \$.001 par value per share and 10,000,000 shares of preferred stock, \$.001 par value per share. On March 18, 1999, the Company increased the authorized common stock to 50,000,000 shares with a par value of \$.001 per share. In conjunction with this reincorporation and recapitalization, the Company changed from a July 31 year-end to a calendar year-end. On March 18, 1999, the Company and its Board of Directors declared a two for one stock split, effected as a stock dividend, of its common stock. On May 7, 1999, the Company and its Board of Directors declared a 2.25 for one stock split, effected as a stock dividend, of its common stock. All share information has been retroactively adjusted for all periods presented to reflect the new capital structure and stock splits.

The Company, which is a major provider of high-speed data communications services, and related applications, provides network services, telecommunications products and equipment and consulting services to business customers. Through its CopperNet branded service, the Company offers its customers high-speed connectivity using Digital Subscriber Line (DSL) technology. The Company provides metropolitan area and wide area network services, manages and monitors its customers' networks, sells telecommunications equipment, designs networks for its customers, installs the equipment and provides related services. The Company currently offers its DSL-based networking solutions in the following nine cities and their surrounding markets: Baltimore, Boston, New York, Norfolk, Philadelphia, Pittsburgh, Richmond, Washington, D.C., and Wilmington.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates involve judgments with respect to, among other things, various future factors which are difficult to predict and are beyond the control of the Company. Therefore, actual amounts could differ from these estimates.

Unaudited Interim Financial Statements

Financial information for the periods after December 31, 1999 are unaudited and accordingly, the consolidated balance sheet as of September 30, 1999, the consolidated statements of operations and cash flows for the nine months ended September 30, 1998 and 1999 and the statement of changes in stockholders' equity for the nine months ended September 30, 1999 have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. In the opinion of management, the interim data includes all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 1999 are not necessarily indicative of results that may be expected for the year ending December 31, 1999.

NETWORK ACCESS SOLUTIONS CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

Revenue Recognition

The Company's revenue is derived from the sale of products, consulting services and network services. The Company recognizes revenue on the sale of its products when a valid purchase order is received, shipment occurs, collection is probable and no significant obligations remain related to the completion of installation and performance of support services.

The Company provides consulting services, including network planning, design, and integration services, under time-and-material type contracts and recognizes revenue as services are performed and as costs are incurred.

The Company provides network services, including DSL-based services, under monthly and fixed rate service contracts. Revenue on monthly contracts is recognized when services are performed. Revenue on fixed rate service contracts is recognized as costs are incurred over the related contract period, which generally does not exceed one year. Payments received in advance of providing services are recorded as deferred revenue until the period in which such services are provided. Revenue related to installation and activitation fees are recognized to the extent of direct costs incurred. Any excess installation and activation fees over direct costs are deferred and amortized over a one year service contract. Such revenue is not expected to significantly exceed the direct costs. In certain situations, the Company will waive non-recurring installation and activation fees in order to obtain a sale. The Company will expense the related direct costs as incurred.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are held in a money market account at a national financial institution. The Company has not experienced any losses on its cash and cash equivalents.

The Company grants uncollateralized credit in the form of accounts receivable to its customers. As of December 31, 1998, AT&T, Corp. (AT&T) comprised 47% of accounts receivable. The customers with concentrations of revenue greater than 10% of total revenue are as follows:

	Years Ended December 31,			Nine Months Ended September 30,	
Customer	1996	1997	1998	1998	1999
				(unaudited)	(unaudited)
AT&T	$9,978,104	$3,421,878	$5,869,901	$4,364,752	$4,472,088
Zeneca, Inc.	—	921,356	933,556	$ 832,678	$1,273,614
Network Monitoring and Repair, Inc.	—	1,301,440	—	—	—
	$9,978,104	$5,644,674	$6,803,457	$5,197,430	$5,745,702

Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the weighted-average method. Inventories consist primarily of components, subassemblies and finished products held for sale.

Property and Equipment

Property and equipment, consists of network costs associated with the development and implementation of the DSL networks, office and computer equipment, and furniture and fixtures. The costs associated with the DSL network under development are comprised of collocation fees, equipment, equipment held under capital leases, and equipment installation. These assets are stated at cost. The Company leases certain of its equipment under capital lease agreements. The capital lease assets are stated at the lower of the present value of the net minimum lease payments or the fair value at the inception of the lease, and are depreciated over the shorter of the estimated useful life or the lease term. Depreciation of office and computer equipment and furniture and fixtures is computed using the straight-line method, generally over three to five years, based upon estimated useful lives, commencing when the assets are placed in service. The depreciation of the DSL network costs commences as individual network components are placed in service and are depreciated over two to five years. Expenditures for maintenance and repairs are expensed as incurred. When assets are retired or disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period.

Income Taxes

The Company accounts for income taxes by utilizing the liability method. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. The provision for income taxes consists of the Company's current provision (benefit) for federal and state income taxes and the change in net deferred tax assets and liabilities during the period.

Fair Value Information

The carrying amount of current assets and current liabilities approximates fair value because of the short maturity of these instruments. The fair value of redeemable preferred stock is estimated by discounting the remaining cash flows at the current interest rates. As of December 31, 1998, the carrying amount of these financial instruments approximates fair value.

Impairment of Long-Lived Assets

The Company periodically evaluates the recoverability of its long-lived assets. This valuation consists of a comparison of the carrying value of the assets with the assets' expected future cash flow undiscounted and without interest costs. If the carrying value of an asset exceeds the expected future cash flows, an impairment exists. An impairment loss is measured by the amount by which the carrying value of the asset exceeds future discounted cash flows. No impairment losses have been recognized to date.

Net Income (Loss) Per Share

The Company presents basic and diluted net income (loss) per share. Basic net income (loss) per share is computed based on the weighted average number of outstanding shares of common stock. Diluted net income (loss) per share adjusts the weighted average for the potential dilution that could occur if stock options, warrants or other convertible securities were exercised or converted into common stock. Diluted loss per share for the year ended December 31, 1998 and the nine months ended September 30, 1998 and 1999, are the same as basic loss per share because the effects of such items were anti-dilutive.

Stock-Based Compensation

The Company measures compensation expense for its employee stock-based compensation using the intrinsic value method and provides pro forma disclosures of net loss as if the fair value method had been applied in measuring compensation expense. Under the intrinsic value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the estimated fair value of the underlying stock on the date of grant, deferred compensation is recognized and is amortized to compensation expense over the applicable vesting period.

Segment Reporting

The Company has determined its reportable segments based on the Company's method of internal reporting, which disaggregates its business by product category. The Company's reportable segments are: network services, product sales and consulting services. The network services segment provides local, metropolitan and wide area data communications services to customers. This segment also provides a wide variety of other services to customers, including remote network management and monitoring, network security, virtual private networks, e-commerce and CopperNet, the Company's high-speed, continuously connected DSL access to telecommunications networks. The product sales segment provides sales of selected equipment from manufacturing partners. Engineers select product solutions based upon customized network designs to improve the customers' operations and network efficiencies. The consulting services segment provides nonrecurring service activation and installation, network integration, on site network management, network security consulting and professional services. In addition, the consulting services segment provides maintenance and installation of equipment, some of which may be provided through third party providers under contract. The Company's business is currently conducted principally in the eastern United States. There are no foreign operations.

Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS 133 is effective for fiscal years beginning after June 15, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. Currently the Company does not utilize derivative instruments, therefore the adoption of SFAS 133 is not expected to have a significant effect on the Company's results of operations or its financial position. The Company will adopt SFAS 133 for the year ending December 31, 2000.

3. Initial Public Offering

In June 1999, the Company completed an initial public offering (IPO) of 7,500,000 (unaudited) shares of common stock. Total proceeds to the Company were approximately $81,850,000 (unaudited), net of underwriting discounts and commissions of approximately $5,500,000 (unaudited) and offering costs of approximately $1,850,000 (unaudited). Concurrently with the IPO, $5,000,000 (unaudited) of the Company's Series A Mandatorily Redeemable Preferred Stock (Preferred Stock) was converted into 416,667(unaudited) shares of common stock at $12.00 per share, the public offering price, with the remaining shares of Preferred Stock and all accrued dividends and accretion amounting to $1,238,096 (unaudited) cancelled without additional payment to the holders of those shares. Concurrently with the IPO, $10,000,000 (unaudited) of the Company's 8% convertible notes (see Note 5) was converted into 833,334 (unaudited) shares of common stock at $12.00 per share, the public offering price.

4. Property and Equipment

Property and equipment consists of the following:

	December 31, 1997	December 31, 1998	September 30, 1999
			(unaudited)
Network placed in service	$ —	$ —	$28,926,259
Network development in process	—	4,657,975	11,709,003
Office and computer equipment	133,419	355,962	5,164,025
Furniture and fixtures	19,626	159,728	962,904
Less accumulated depreciation	(12,868)	(142,872)	(2,640,318)
Property and equipment, net	$140,177	$5,030,793	$44,121,873

The Company's network includes equipment under capital leases, equipment, installation, and collocation fees. Collocation fees represent nonrecurring fees paid to obtain central office space for location of certain equipment. When a new portion of the Company's network has been completed and made available for use, it is transferred from network development to network placed in service. As of December 31, 1998 and September 30, 1999, the recorded cost of the network equipment under capital leases was $1,513,138 and $22,333,126 (unaudited), respectively. Accumulated amortization for this equipment under capital leases was $20,739 and $1,774,870 (unaudited) as of December 31, 1998 and September 30, 1999, respectively.

For the years December 31, 1996, 1997 and 1998 and for the nine months ended September 30, 1998 and 1999, depreciation expense charged to operations amounted to $7,256, $12,298, $130,004, $47,542 (unaudited) and $2,497,445 (unaudited), respectively.

5. Debt

On October 16, 1998, the Company entered into a $10,000,000 line of credit agreement with Ascend Communications, Inc. (Ascend). Under the terms of the line of credit, the Company could draw on the line of credit in $1,000,000 increments up to a maximum of $5,000,000. The Company could draw down the remaining $5,000,000, also in $1,000,000 increments, upon (i) completing the purchase or lease of equipment in excess of $15,000,000 from Ascend and (ii) demonstrating that at least 70% of such equipment is being used by the Company to generate revenue. The Company was required to make interest only payments at an annual rate of 8.25% on the amounts advanced for the first nine months from the date of the advance. For the next thirty-three months the Company was required to make principal and interest payments in accordance with a sixty-month amortization schedule using an interest rate of 8.25% for the first eighteen months at a rate equal to the prevailing high yield bond index for the next fifteen months. The remaining unpaid interest was due forty-two months after the related advance. The credit agreement required immediate repayment in the event of an initial public offering or debt offering in excess of $40,000,000 or a change in control, as defined. At December 31, 1998, $1,000,000 was outstanding under this agreement.

On May 4, 1999, the Company amended its financing agreements with Ascend, increasing the Company's total available financing from this vendor from $40,000,000 (unaudited) to $100,000,000 (unaudited). The amendment increased the Company's line of credit available for leasing of equipment purchases from this vendor from $30,000,000 (unaudited) to $95,000,000 (unaudited). The amendment also reduced the line of credit available for working capital loans from $10,000,000 (unaudited) to $5,000,000 (unaudited) and relieved the Company's obligation to repay these loans upon the Company's IPO. As of September 30, 1999, the Company's total obligation under the agreement for leased equipment and for working capital loans was $10,217,169 (unaudited) and $2,973,095 (unaudited), respectively.

The Company had a $1,500,000 line of credit agreement with a bank which matured on November 30, 1998, was repaid and not renewed. Interest on outstanding borrowings accrued at the bank's prime rate of interest plus three-quarters of a percent (9.25% during 1998). At December 31, 1997, there was $93,348 of outstanding borrowings under this agreement.

On March 31, 1999, the Company entered into a financing agreement whereby certain holders of its preferred stock agreed to invest an additional $10,000,000 (unaudited) in the Company. Under the agreement, the Company received $5,000,000 (unaudited) on April 1, 1999 and an additional $5,000,000 (unaudited) on May 11, 1999 by issuing 8% convertible notes. Concurrent with the IPO, these notes, including principal and accrued interest, were converted into 833,334 (unaudited) shares of common stock.

6. Deferred Compensation Liability

The Company has an unfunded deferred compensation plan for certain key executives. Under the plan, executives deferred a portion of their compensation by electing future payments in three equal installments in June 1999, December 1999 and June 2000. At December 31, 1997 and 1998, the deferred compensation liability was $500,000, respectively. Interest accrues on deferred amounts on a quarterly basis at a rate determined by management which is currently 6% based on the rate of interest for 3-year Federal treasury notes. Accrued interest related to these amounts was $17,500 and $47,500 at December 31, 1997 and 1998, respectively.

7. Commitments and Contingencies

Leases

The Company leases and subleases office space in Virginia and Pennsylvania and collocation space in central offices under the terms of the interconnection agreements with Bell Atlantic and other vendors. Commitments for minimum rental payments under noncancelable leases and subleases at December 31, 1998 are as follows: $329,311 in 1999, $331,382 in 2000, $255,853 in 2001, and $9,212 in 2002.

Rent expense for the years ended December 31, 1996, 1997 and 1998 was $46,742, $80,103 and $113,600, respectively.

NETWORK ACCESS SOLUTIONS CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

On October 27, 1999, the Company entered into a lease for additional office space in Herndon, Virginia. The lease requires monthly payments of approximately $242,000 (unaudited), which payments begin on a graduated basis, in March 2000, and total payments of approximately $29.0 million over the lease term of ten years.

During 1998, the Company entered into capital leases related to the acquisition of equipment for the development of the DSL network. The present value of future minimum capital lease payments as of December 31, 1998 and September 30, 1999, is as follows:

Year ending December 31,	Amount
1999	$ 461,370
2000	501,064
2001	500,521
2002	330,892
2003	21,875
	1,815,722
Less amounts representing interest	302,584
Present value of net minimum lease payments	1,513,138
Less current portion of capital lease obligations	328,982
Long term portion of capital lease obligations	$ 1,184,156

Twelve months ended September 30, 1999	Amount
	(unaudited)
2000	$ 6,634,014
2001	6,649,325
2002	6,574,641
2003	3,604,174
2003 and thereafter	62,960
	23,525,114
Less amounts representing interest	3,548,456
Present value of net minimum lease payments	19,976,658
Less current portion of capital lease obligations	4,995,643
Long term portion of capital lease obligations	$14,981,015

The Company has entered into a master lease agreement with Ascend to finance purchases of up to $95,000,000 through capital lease agreements. The Company has an arrangement with Paradyne Corporation whereby the Company can finance DSL equipment purchases of up to $4,000,000 subject to vendor approval.

Purchase commitments

On November 24, 1998 the Company entered into an agreement with a software and service provider to support its DSL services. The Company's majority shareholder is also a shareholder of this software and service provider. Under the terms of the agreement, software licensing and service fees will approximate $1,023,700 which are payable through a $185,000 deposit which was made upon signing the agreement, $402,700 due upon project completion, and $436,000 payable within twenty-four months of project completion.

Amounts not paid within 30 days of project completion accrue interest at a rate of 10%. The agreement requires immediate payment if the Company obtains $40,000,000 in funding and requires accelerated payment, based on a formula, if the Company receives funding in excess of $10,000,000. The Company commenced implementing the software and support service in 1999. As of November 23, 1999, all fees under this agreement had been paid.

Employment agreements

The Company has entered into an employment agreement with each of its executive officers. Each agreement has an initial term of four years, subject to earlier termination upon 30 days prior notice. These agreements are automatically extended for additional one year terms unless the Company or the employee elects to terminate the agreement within 30 days before the end of the current term. Under these agreements, these employees will receive an initial annual base salary that will be increased by at least 5% each year, based upon performance objectives set by the Board of Directors. The employees will also receive an annual bonus of up to 20% of the executives' then current salary. The bonus is payable in cash, stock or a combination of both at the election of the board of directors.

Other Matter

The Company is not currently involved in any legal proceedings that it believes could have a material adverse effect on its business, financial position, results of operation or cash flows.

8. Income Taxes

The provision (benefit) for income taxes consists of the following:

	Years Ended December 31,		
	1996	1997	1998
Current tax (benefit) provision	$142,918	$153,948	$(105,119)
Deferred tax provision (benefit)	(80,458)	(118,274)	77,146
Total (benefit) provision for income taxes	$ 62,460	$ 35,674	$ (27,973)

Deferred tax assets are comprised of the following:

	As of December 31,	
	1997	1998
Deferred compensation	$193,100	$ 349,956
Accrued interest	5,632	19,149
Bad debt expense	—	20,066
Depreciation expense	—	(2,083)
Net operating loss	—	444,160
Valuation allowance	—	(709,662)
Net deferred tax asset	$198,732	$ 121,586

As of December 31, 1998, a valuation allowance was established to reduce total deferred tax assets to an amount that management believes will more likely than not be realized, based on income taxes paid in the loss carryback period net of refundable taxes.

A reconciliation between income taxes from operations computed using the federal statutory income tax rate and the Company's effective tax rate is as follows (there are no material changes to the Company's effective tax rate for 1999):

	Years Ended December 31,		
	1996	1997	1998
Federal statutory rate	34.0%	34.0%	(34.0)%
State income taxes, net of federal provision (benefit)	4.9	5.4	(2.7)
Increase to valuation allowance	—	—	33.7
Business meals, entertainment, penalties and other	2.0	6.4	1.5
	40.9%	45.8%	(1.5)%

9. Mandatorily Redeemable Preferred Stock and Stockholders' Equity

Mandatorily Redeemable Preferred Stock

Concurrently with the IPO, $5,000,000 (unaudited) of the Company's Series A Mandatorily Redeemable Preferred Stock (Preferred Stock) was converted into 416,667(unaudited) shares of common stock at $12.00 per share, the public offering price, with the remaining shares of Preferred Stock and all accrued dividends and accretion amounting to $1,238,096 (unaudited) cancelled without additional payment to the holders of those shares. Concurrently with the IPO, $10,000,000 (unaudited) of the Company's 8% convertible notes (see Note 5) was converted into 833,334 (unaudited) shares of common stock at $12.00 per share, the public offering price.

On August 6, 1998, the Company issued 10,000,000 shares of Series A mandatorily redeemable preferred stock (Preferred Stock) and 22,050,000 shares of common stock for total proceeds of $10,004,900, excluding direct issuance costs of $55,798. The Company had allocated $5,074,042 and $4,875,060 of the net proceeds to the Preferred Stock and common stock, respectively, based on the Company's estimate of fair value of the Preferred Stock and common stock. The Preferred Stock had a par value of $.001 per share, a stated value of $1.00 per share (Stated Value) and a cumulative dividend of 8% of the Stated Value per annum, compounded annually. The Company could not declare or pay any distributions by dividend or otherwise, payable other than in common stock, until the holders of the Preferred Stock first received a distribution equal to the cumulative dividend due for each outstanding share of Preferred Stock. Dividends continued to accrue until redemption. The Preferred Stock was redeemable, at the option of the holder, at the earlier of the closing of a public offering or the sixth anniversary of the initial Preferred Stock issuance at a redemption price equal to $1.00 per share plus any accrued and unpaid dividends. For the year ended December 31, 1998, the Company had accrued preferred stock dividends of $322,192 and increased the preferred stock carrying value by $244,417 for accretion to the redemption price.

In the event of a liquidation, dissolution, or winding up of the Company, the holders of the Preferred Stock were entitled to a liquidation preference equal to $1.00 per share plus any accrued and unpaid dividends. No dividends were declared through December 31, 1998. The Preferred Stock did not provide its holders with voting rights, however, the Company must have received approval from the holders of two-thirds of Preferred Stock to (i) authorize, create or issue, or increase the authorized or issued amount of any class of equity which is senior or equal to the Preferred Stock, (ii) reclassify or modify any class of equity such that it ranks senior or equal to the Preferred Stock or (iii) amend, alter or repeal any of the provisions applicable to the Preferred Stock so as to adversely change the dividend, liquidation and redemption terms.

On March 18, 1999, the Company's certificate of incorporation was amended to modify the terms of the Preferred Stock. In the event of an initial public offering in which the Company receives a market valuation in excess of $200,000,000, the terms of the Preferred Stock provide that (i) 50% of the Preferred Stock outstanding will be cancelled and cease to exist without compensation or recourse, (ii) the remaining shares of Preferred Stock will be automatically converted into common stock based on the Preferred Stock aggregate per share stated value of $5,000,000 divided by the per share public offering price and (iii) no dividends on the Preferred Stock whether accrued or unaccrued through the date of the offering will be payable.

The Preferred Stock activity is summarized as follows:

	Shares	Amount
Balance, December 31, 1997	—	$ —
Issuance of shares	10,000,000	5,102,499
Issuance costs	—	(28,457)
Accrued dividends	—	322,192
Accretion to redemption price	—	244,417
Balance, December 31, 1998	10,000,000	5,640,651
Accrued dividends (unaudited)	—	339,726
Accretion to redemption price (unaudited)	—	257,719
Conversion of preferred stock to common stock (unaudited)	(5,000,000)	(5,000,000)
Cancellation of preferred stock (unaudited)	(5,000,000)	(1,238,096)
Balance, September 30, 1999 (unaudited)	—	$ —

Stock Repurchase

On August 6, 1998, the Company repurchased 8,550,000 shares of common stock for $1,900,000 from certain founders of the Company. This treasury stock transaction was accounted for at cost.

10. Stock-Based Compensation

On July 23, 1998, the Company adopted the 1998 Incentive Stock Plan (the "Plan"), under which incentive stock options, non-qualified stock options, stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performace awards or any combination thereof may be granted to the Company's employees and certain other persons in accordance with the Plan. The Board of Directors, which administers the Plan, determines the number of options granted, the vesting period and the exercise price. The Board of Directors may terminate the Plan at any time. Options granted under the Plan are fully exercisable into restricted shares of the Company's common stock upon award and expire ten years after the date of grant. The restricted common stock generally vests over a three or four year period. Subsequent to exercise, unvested shares of restricted stock cannot be transferred while vested shares are subject to a right of first refusal by the Company to repurchase the shares at fair value. Upon voluntary termination, unvested shares of restricted stock can be repurchased by the Company at the lower of fair value or the exercise price. At December 31, 1998, 9,000,000 shares were reserved for issuance under the Plan. Effective March 18, 1999 and April 1, 1999, the Company increased the number of shares of common stock reserved for issuance under the Plan to 10,125,000 (unaudited) and 11,250,000 (unaudited), respectively.

On April 1, 1999, the Company entered into a stock option agreement, which granted a board of director member an option to purchase 250,000 (unaudited) shares of the Company's common stock at an exercise price of $6.67 (unaudited) per share. On June 3, 1999, the board member exercised the stock option by paying $1,667,500 (unaudited) to the Company. In addition, the agreement stipulated the board of director member was issued an additional option to purchase 407,500 (unaudited) shares of common stock at an exercise price of $3.00 (unaudited) per share and is unexercised as of September 30, 1999. These options immediately vested upon the Company's IPO. As a result, the Company recognized $3,504,375 (unaudited) of compensation expense during the nine months ended September 30, 1999.

As of December 31, 1998 and September 30, 1999, a total of 7,090,875 and 10,724,209 (unaudited), respectively, of stock options which were immediately exercisable as of those dates had been granted at an exercise prices ranging from $.09 to $16.25 per share. Stock option activity was as follows:

	Incentive Stock Options	Range of Exercise Price	Weighted Average Exercise Price
Options outstanding, December 31, 1997	—	$ —	$—
Options granted, July 1998	5,400,000	0.09	0.09
Options granted, August 1998	225,000	0.09	0.09
Options granted, November 1998	1,465,875	0.09	0.09
Options outstanding, December 31, 1998	7,090,875	0.09	0.09
Options granted, January 1999 (unaudited)	559,575	0.09	0.09
Options granted, March 1999 (unaudited)	1,350,000	0.09	0.09
Options granted, April 1999 (unaudited)	437,875	0.09 - 6.67	3.84
Options granted May 1999 (unaudited)	479,900	3.00 - 6.00	5.78
Options granted June 1999 (unaudited)	733,850	3.00 - 13.94	4.55
Options granted July 1999 (unaudited)	102,050	6.00 - 16.25	10.60
Options granted, August 1999 (unaudited)	395,050	5.13 - 12.75	6.43
Options granted, September 1999 (unaudited)	26,200	13.00 - 13.75	13.61
Options exercised (unaudited)	(356,276)	0.09 - 6.67	4.72
Options cancelled (unaudited)	(94,890)	0.09 - 16.25	2.71
Options outstanding, September 30, 1999 (unaudited)	10,724,209	$ 0.09 - 16.25	$1.05

In certain instances the Company has determined the fair value of the underlying common stock on the date of grant was in excess of the exercise price of the options. As a result, the Company recorded deferred compensation of $3,681,750, $750,000 (unaudited) and $23,092,080 (unaudited) for the year ended December 31, 1998 and for the nine months ended September 30, 1998 and 1999, respectively. This amount was recorded as a reduction to stockholders' equity and is being amortized as a charge to operations over the vesting periods which range from three to four years of the underlying restricted common stock. The Company recognized stock compensation expense related to those options of $218,997, $47,529 (unaudited) and $6,699,302 (unaudited) for the year ended December 31, 1998 and the nine months ended September 30, 1998 and 1999, respectively.

SFAS No. 123, *Accounting for Stock-Based Compensation*, encourages adoption of a fair value-based method for valuing the cost of stock-based compensation. However, it allows companies to continue to use the intrinsic value method for options granted to employees and disclose pro forma net loss and loss per share. Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net loss and loss per share would have been as follows:

	Year Ended December 31, 1998	Nine Months Ended September 30, 1999
		(unaudited)
Net loss as reported	$(2,075,938)	$(24,436,468)
Pro forma net loss	(2,100,700)	(25,336,863)
Net loss per share as reported, basic and diluted	(0.08)	(0.61)
Pro forma net loss per share, basic and diluted	(0.08)	(0.63)

The weighted-average fair value of options granted during the year ended December 31, 1998 and the nine months ended September 30, 1999 was approximately $1.04 and $7.43 (unaudited), respectively based on the Black-Scholes option pricing model. Upon termination, unvested shares of restricted stock are repurchased by the Company at the lower of the exercise price or fair market value.

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants during the year ended December 31, 1998 and the nine months ended September 30, 1999: Dividend yield of 0%; expected volatility of 0% to 60%; risk-free interest rates of 5.21% and 6.25%; and expected term of 5 years.

As of December 31, 1998 and September 30, 1999, the weighted average remaining contractual life of the options is 9.8 and 9.1 (unaudited) years, respectively.

11. Employee Benefit Plan

On September 16, 1998, the Company adopted the Network Access Solution, Inc. 401(k) Profit Sharing Plan and Trust (the Plan). As allowed under Section 401(k) of the Internal Revenue Code, the Plan provides tax-deferred salary deductions for eligible employees. Participants must be at least 21 years of age and may make voluntary contributions to the Plan of up to 15% of their compensation not to exceed the federally determined maximum allowable contribution. The Company is not obligated to make contributions or to match participant contributions. Participants incrementally vest in Company contributions on a linear basis over their first three years of employment. The Company did not make contributions to the Plan during 1998.

12. Segment Information

In accordance with SFAS No. 131, the Company discloses certain segment information. The financial results of the Company's segments are presented on an accrual basis. The Company evaluates the performance of its segments and allocates resources to them based on gross profit. There are no intersegment revenues. The table below presents information about the reported gross profit (loss) of the Company's reportable segments for the years ended December 31, 1996, 1997, and 1998 and for the nine months ended September 30, 1999. Asset information is not reported for the product sales and consulting services segments, as this data is not considered by the Company in making its decisions regarding operating matters.

	Network Services	Product Sales	Consulting Services	Reconciling Items	Total
			(dollars in thousands)		
For the year ended December 31, 1996:					
Revenue	$ —	$14,368	$ 114	$ —	$14,482
Gross profit	$ —	$ 2,393	$ 23	$ —	$ 2,416 (1)
For the year ended December 31, 1997:					
Revenue	$ 4	$ 8,150	$ 791	$ —	$ 8,945
Gross profit	$ 1	$ 970	$ 561	$ —	$ 1,532 (1)
As of and for the year ended December 31, 1998:					
Revenue	$ 311	$ 9,900	$1,428	$ —	$11,639
Gross profit	$ 270	$ 1,260	$ 668	$ —	$ 2,198 (1)
Property and equipment, net	$ 4,652	$ —	$ —	$ 379	$ 5,031
As of and for the nine months ended September 30, 1999 (unaudited):					
Revenue	$ 814	$ 9,981	$1,893	$ —	$12,688
Gross profit (loss)	$(1,328)	$ 1,275	$ 715	$ —	$ 662 (1)
Property and equipment, net	$38,571	$ —	$ —	$5,551	$44,122

NETWORK ACCESS SOLUTIONS CORPORATION

NOTES TO FINANCIAL STATEMENTS—(Continued)

Note 1: Adjustments that are made to the total of the segments gross profit in order to arrive at income (loss) before income taxes is as follows:

	For the years ended December 31,			For the nine months ended September 30,
	1996	1997	1998	1999
				(unaudited)
Gross profit (loss)	$2,416	$1,532	$ 2,198	$ 662
Operating expenses:				
Selling, general and administrative	2,255	1,437	4,017	16,726
Amortization of deferred compensation	—	—	219	6,699
Depreciation and amortization	7	12	130	2,497
Income (loss) from operations	154	83	(2,168)	(25,260)
Interest income	—	—	145	1,301
Interest expense	(1)	(5)	(81)	(548)
Income (loss) before income taxes	$ 153	$ 78	$(2,104)	$(24,507)

Shares

[LOGO OF NETWORK ACCESS SOLUTIONS CORPORATION]

Common Stock

PROSPECTUS

Merrill Lynch & Co.

, 2000

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

13. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses payable by the Registrant in connection with the sale and distribution of the securities offered hereby, other than underwriting discounts and commissions. All of the amounts shown are estimated except the Securities and Exchange Commission registration fee, the National Association Securities Dealers, Inc. filing fee and the Nasdaq National Market listing fee.

Securities and Exchange Commission registration fee	$ 42,314
National Association of Securities Dealers, Inc. filing fee	7,000
Nasdaq National Market listing fee	17,500
Transfer agent's and registrar's fees	10,000
*Printing expenses	100,000
*Legal fees and expenses	150,000
*Accounting fees and expenses	150,000
*Miscellaneous expenses	135,000
Total	$611,814

* Estimated.

14. Indemnification of Officers and Directors

Section 145 of the Delaware General Corporation Law ("Section 145") permits indemnification of directors, officers, agents and controlling persons of a corporation under certain conditions and subject to certain limitations. The Registrant's Bylaws include provisions to require the Registrant to indemnify its directors and officers to the fullest extent permitted by Section 145, including circumstances in which indemnification is otherwise discretionary. Section 145 also empowers the Registrant to purchase and maintain insurance that protects its officers, directors, employees and agents against any liabilities incurred in connection with their service in such positions.

At present, there is no pending litigation or proceeding involving a director or officer of the Registrant as to which indemnification is being sought nor is the Registrant aware of any threatened litigation that may result in claims for indemnification by any officer or director.

The form of Underwriting Agreement filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the Underwriters of the Registrant and its directors and officers, and by the Registrant of the Underwriters, for certain liabilities arising under the Securities Act.

15. Recent Sales of Unregistered Securities

The following information relates to securities issued or sold by the Registrant within the last three years. During that time, the Registrant has issued unregistered securities in the transactions described below. Securities issued in such transactions were offered and sold in reliance upon the exemption from registration under Section 4(2) of the Securities Act, relating to sales by an issuer not involving any public offering, or under Rule 701 under the Securities Act on the basis that these options were offered and sold either pursuant to a written compensatory benefit plan or pursuant to written contracts relating to compensation. The sales of securities were made without the use of an underwriter and the certificates evidencing the shares bear a restrictive legend permitting the transfer thereof only upon registration of the shares or an exemption under the Act.

(1) In August 1998 the Registrant issued 585,000 shares of Common Stock in a private placement to an employee at a price of $0.22 per share in exchange for services rendered.

(2) In August 1998 the Registrant issued 22,050,000 shares of Common Stock in a private placement to a group of four accredited investors at a purchase price of $0.0002 per share for an aggregate price of $4,900.

(3) In August 1998 the Registrant issued 10,000,000 shares of Series A Preferred Stock in a private placement to a group of four accredited investors, at a purchase price of $1.00 per share for an aggregate price of $10,000,000.

(4) In March 1999 the Registrant issued in a private placement to two of its existing accredited stockholders $5,000,000 aggregate principal amount of notes convertible into shares of Common Stock based upon the Registrant's initial public offering price on June 3, 1999.

(5) Between July 1998 and April 1999, the Registrant issued options to its employees and directors exercisable for an aggregate of 9,000,450 shares of Common Stock at an exercise price of $0.09 per share pursuant to its 1998 Stock Incentive Plan.

(6) In April 1999 the Registrant issued options to one of its directors exercisable for an aggregate of 250,000 shares of Common Stock at an exercise price of $6.67 per share, subject to adjustment pursuant to its 1998 Stock Incentive Plan.

(7) In May 1999 the Registrant issued in a private placement to two of its existing accredited stockholders $5,000,000 aggregate principal amount of notes convertible into shares of Common Stock based upon the Registrant's initial public offering price on June 3, 1999.

16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit No.	Description
1.1**	Form of Underwriting Agreement
3.1*	Amended and Restated Certificate of Incorporation of the Company
3.2*	Amended and Restated By-Laws of the Company
4.1*	Specimen stock certificate for shares of Common Stock of the Company
5.1**	Form of opinion of Shaw Pittman, regarding legality of securities being registered
10.1*†	Master Equipment Lease Agreement dated November 17, 1998, by and between the Company and Paradyne Credit Corporation
10.2*†	Purchase and Sale Agreement dated as of October 16, 1998, by and between the Company and Ascend Communications, Inc., as amended
10.3*	Master Lease Agreement dated October 9, 1998, by and between the Company and Ascend Credit Corporation
10.4*	Promissory Note dated October 16, 1998, by and between the Company and Ascend Communications, Inc., as amended
10.5*	Commercial Lease dated February 24, 1997, by and between the Company, Sterling/Gunston Limited Partnership and Bernstein Management Corporation
10.5.1*	First Lease Amendment dated June 26, 1998, by and between the Company and Sterling/Gunston LLC
10.5.2*	Third Lease Amendment dated February 1, 1999, by and between the Company and Sterling/Gunston LLC
10.6*	Sublease dated August 31, 1998, by and between the Company and U.S. Interactive, Inc.

Exhibit No.	Description
10.7*	Letter of Intent dated March 2, 1999 by and between the Company and Trans Dulles Center, Inc.
10.8*	Employment Agreement dated as of August 16, 1998, by and between the Company and Jonathan P. Aust
10.9*	Employment Agreement dated as of July 13, 1998, by and between the Company and Christopher J. Melnick
10.10*	Employment Agreement dated as of July 13, 1998, by and between the Company and Scott G. Yancey, Jr.
10.11*	Employment Agreement dated as of August 18, 1998, by and between the Company and James A. Aust
10.12*	Employment Agreement dated as of March 1, 1999, by and between the Company and John J. Hackett
10.13*	1998 Stock Incentive Plan, as amended
10.14*	Incentive Stock Option Grant Agreement dated July 23, 1998, by and between the Company and Scott G. Yancey, Jr., as amended
10.15*	Incentive Stock Option Grant Agreement dated July 23, 1998, by and between the Company and Christopher J. Melnick, as amended
10.16*	Incentive Stock Option Grant Agreement dated November 1, 1998, by and between the Company and James A. Aust
10.17*	Incentive Stock Option Grant Agreement dated March 30, 1999, by and between the Company and John J. Hackett
10.18*	Deferred Compensation Agreement dated June 1, 1997, by and between the Company and Jonathan P. Aust
10.19*	Deferred Compensation Agreement dated June 1, 1997, by and between the Company and James A. Aust
10.20*	Repurchase Agreement dated August 6, 1998, by and between the Company and Longma M. Aust, Jonathan P. Aust, James A. Aust and Stephen L. Aust
10.21*	Investor Rights Agreement dated August 6, 1998, by and between the Company, Spectrum Equity Investors II, L.P., SEA 1998 II, L.P., FBR Technology Venture Partners L.P. and W2 Venture Partners, LLC, as amended
10.22*	Series A Preferred Stock Purchase Agreement dated August 6, 1998, by and between the Company, Spectrum Equity Investors II, L.P., SEA 1998 II, L.P., FBR Technology Venture Partners L.P. and W2 Venture Partners, LLC
10.23*	Amended and Restated Note Purchase Agreement dated as of March 31, 1999 and amended as of May 11, 1999, by and between the Company, Spectrum Equity Investors II, L.P. and FBR Technology Venture Partners L.P.
10.24*	Amended and Restated Convertible Note dated as of March 31, 1999, by and between the Company and Spectrum Equity Investors II, L.P.
10.25*	Amended and Restated Convertible Note dated as of March 31, 1999, by and between the Company and FBR Technology Venture Partners L.P.
10.26*	Nonqualified Stock Option Grant Agreement dated April 1, 1999, by and between the Company and Dennis R. Patrick
10.27*	Deed of Lease dated April 8, 1999, by and between the Company and TransDulles Center, Inc.
10.28*	Letter Agreement dated May 6, 1999, by and between the Company and SBC Communications, Inc.
10.29*	Letter Agreement dated May 7, 1999, by and between the Company and Telefonos de Mexico, S.A. de C.V.
10.30*	Letter Agreement dated May 10, 1999, by and between the Company and DSL Solutions, Inc. d/b/a DSL Networks
10.31	Employment Agreement dated as of September 13, 1999 by and between the Company and Worth D. MacMurray

Exhibit No.	Description
10.32	Nonqualified Stock Option Grant Agreement dated August 9, 1999 by and between the Company and Worth D. MacMurray
10.33	Lease Agreement by and between Dulles Tech, Inc. and the Company dated October 27, 1999
23.1	Consent of PricewaterhouseCoopers, LLP
23.2**	Consent of Shaw Pittman (included as part of Exhibit 5.1)
24.1	Power of Attorney
27	Financial Data Schedule

* Incorporated by reference from the Company's Registration Statement on Form S-1 (No. 333-74679).

** To be filed by amendment.

† Information has been omitted from this exhibit pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

(b) Financial Statement Schedules:

Schedules have been omitted because the information required to be shown in the schedules is not applicable or is included elsewhere in our financial statements or the notes thereto.

17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions of its Certificate of Incorporation or Bylaws or the Delaware General Corporation Law or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted form the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Company has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Sterling, Virginia, on the 22nd day of December, 1999.

NETWORK ACCESS SOLUTIONS CORPORATION

By: /s/ JONATHAN P. AUST

Jonathan P. Aust
President, Chief Executive Officer and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

Name	Title	Date
/s/ JONATHAN P. AUST **Jonathan P. Aust**	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	December 22, 1999
/s/ SCOTT G. YANCEY, JR. **Scott G. Yancey, Jr.**	Chief Financial Officer and Director (Principal Accounting and Financial Officer)	December 22, 1999
/s/ CHRISTOPHER J. MELNICK **Christopher J. Melnick**	Chief Operating Officer and Director	December 22, 1999
/s/ BRION B. APPLEGATE **Brion B. Applegate**	Director	December 22, 1999
/s/ DENNIS R. PATRICK **Dennis R. Patrick**	Director	December 22, 1999

EXHIBIT INDEX

Exhibit No.	Description
1.1**	Form of Underwriting Agreement
3.1*	Amended and Restated Certificate of Incorporation of the Company
3.2*	Amended and Restated By-Laws of the Company
4.1*	Specimen stock certificate for shares of Common Stock of the Company
5.1**	Form of opinion of Shaw Pittman, regarding legality of securities being registered
10.1*†	Master Equipment Lease Agreement dated November 17, 1998, by and between the Company and Paradyne Credit Corporation
10.2*†	Purchase and Sale Agreement dated as of October 16, 1998, by and between the Company and Ascend Communications, Inc., as amended
10.3*	Master Lease Agreement dated October 9, 1998, by and between the Company and Ascend Credit Corporation
10.4*	Promissory Note dated October 16, 1998, by and between the Company and Ascend Communications, Inc., as amended
10.5*	Commercial Lease dated February 24, 1997, by and between the Company, Sterling/Gunston Limited Partnership and Bernstein Management Corporation
10.5.1*	First Lease Amendment dated June 26, 1998, by and between the Company and Sterling/Gunston LLC
10.5.2*	Third Lease Amendment dated February 1, 1999, by and between the Company and Sterling/Gunston LLC
10.6*	Sublease dated August 31, 1998, by and between the Company and U.S. Interactive, Inc.
10.7*	Letter of Intent dated March 2, 1999 by and between the Company and Trans Dulles Center, Inc.
10.8*	Employment Agreement dated as of August 16, 1998, by and between the Company and Jonathan P. Aust
10.9*	Employment Agreement dated as of July 13, 1998, by and between the Company and Christopher J. Melnick
10.10*	Employment Agreement dated as of July 13, 1998, by and between the Company and Scott G. Yancey, Jr.
10.11*	Employment Agreement dated as of August 18, 1998, by and between the Company and James A. Aust
10.12*	Employment Agreement dated as of March 1, 1999, by and between the Company and John J. Hackett
10.13*	1998 Stock Incentive Plan, as amended
10.14*	Incentive Stock Option Grant Agreement dated July 23, 1998, by and between the Company and Scott G. Yancey, Jr., as amended
10.15*	Incentive Stock Option Grant Agreement dated July 23, 1998, by and between the Company and Christopher J. Melnick, as amended
10.16*	Incentive Stock Option Grant Agreement dated November 1, 1998, by and between the Company and James A. Aust
10.17*	Incentive Stock Option Grant Agreement dated March 30, 1999, by and between the Company and John J. Hackett
10.18*	Deferred Compensation Agreement dated June 1, 1997, by and between the Company and Jonathan P. Aust
10.19*	Deferred Compensation Agreement dated June 1, 1997, by and between the Company and James A. Aust
10.20*	Repurchase Agreement dated August 6, 1998, by and between the Company and Longma M. Aust, Jonathan P. Aust, James A. Aust and Stephen L. Aust
10.21*	Investor Rights Agreement dated August 6, 1998, by and between the Company, Spectrum Equity Investors II, L.P., SEA 1998 II, L.P., FBR Technology Venture Partners L.P. and W2 Venture Partners, LLC, as amended

Exhibit No.	Description
10.22*	Series A Preferred Stock Purchase Agreement dated August 6, 1998, by and between the Company, Spectrum Equity Investors II, L.P., SEA 1998 II, L.P., FBR Technology Venture Partners L.P. and W2 Venture Partners, LLC
10.23*	Amended and Restated Note Purchase Agreement dated as of March 31, 1999 and amended as of May 11, 1999, by and between the Company, Spectrum Equity Investors II, L.P. and FBR Technology Venture Partners L.P.
10.24*	Amended and Restated Convertible Note dated as of March 31, 1999, by and between the Company and Spectrum Equity Investors II, L.P.
10.25*	Amended and Restated Convertible Note dated as of March 31, 1999, by and between the Company and FBR Technology Venture Partners L.P.
10.26*	Nonqualified Stock Option Grant Agreement dated April 1, 1999, by and between the Company and Dennis R. Patrick
10.27*	Deed of Lease dated April 8, 1999, by and between the Company and TransDulles Center, Inc.
10.28*	Letter Agreement dated May 6, 1999, by and between the Company and SBC Communications, Inc.
10.29*	Letter Agreement dated May 7, 1999, by and between the Company and Telefonos de Mexico, S.A. de C.V.
10.30*	Letter Agreement dated May 10, 1999, by and between the Company and DSL Solutions, Inc. d/b/a DSL Networks
10.31	Employment Agreement dated as of September 13, 1999 by and between the Company and Worth D. MacMurray
10.32	Nonqualified Stock Option Grant Agreement dated August 9, 1999 by and between the Company and Worth D. MacMurray
10.33	Lease Agreement by and between Dulles Tech, Inc. and the Company dated October 27, 1999
23.1	Consent of PricewaterhouseCoopers, LLP
23.2**	Consent of Shaw Pittman (included as part of Exhibit 5.1)
24.1	Power of Attorney
27	Financial Data Schedule

* Incorporated by reference from the Company's Registration Statement on Form S-1 (No. 333-74679).

** To be filed by amendment.

† Information has been omitted from this exhibit pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

Exhibit 10.31

Exhibit 10.31

EMPLOYMENT AGREEMENT

AGREEMENT dated as of September 13, 1999, by and between NETWORK ACCESS SOLUTIONS CORPORATION a Delaware corporation ("NAS" or the "Company"), and Worth MacMurray (the "Executive").

In consideration of the mutual covenants herein contained and of the mutual benefits herein provided, the Company and the Executive agree as follows:

1. Representations and Warranties. The Executive represents and warrants to the Company that Executive is not bound by any restrictive covenants and has no prior or other obligations or commitments of any kind that would in any way prevent, restrict, hinder or interfere with Executive's acceptance of continued employment or the performance of all duties and services hereunder to the fullest extent of the Executive's ability and knowledge. The Executive agrees to indemnify and hold harmless the Company for any liability which the Company may incur as the result of the existence of any such covenants, obligations or commitments.

2. Term of Employment. The Company will continue to employ the Executive and the Executive accepts continued employment by the Company on the terms and conditions herein contained for a period (the "Employment Period") provided in paragraph 5.

3. Duties and Functions.

(a) (1) The Executive shall be employed as Vice President, General Counsel of the Company and shall oversee and direct all legal and contractual affairs of the Company. The Executive shall report directly to the Chief Executive Officer

(2) The Executive agrees to undertake the duties and responsibilities inherent in the position of Vice President, General Counsel, which may encompass different or additional duties as may, from time to time, be assigned by the Board. The Executive agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any change thereof which may be adopted at any time by the Company.

(b) During the Employment Period, the Executive will devote his full time and efforts to the business of the Company and will not engage in consulting work or any trade or business for his own account or for or on behalf of any other person, firm or corporation which competes, conflicts or interferes with the performance of his duties hereunder in any way. The Executive may engage in non-competitive business or charitable activities for reasonable periods of time each month so long as such activities do not interfere with the Executive's responsibilities under this Employment Agreement.

4. Compensation.

(a) Base Salary: As compensation for his services hereunder, during the Executive's employment, the Company agrees to pay the Executive a base salary at the rate of $200,000 per annum, payable in accordance with the Company's normal payroll schedule, or on such other periodic basis as may be mutually agreed upon. Such salary shall be subject to annual review, based on corporate policy and contributions made by Executive to the enterprise. As a result of each annual review, the Executive's salary will increase by a minimum of five percent (5%). Said annual salary increase will commence, effective September 13, 2000, and continue annually on September 13th thereafter. The Company may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(b) Bonus: Executive shall be eligible to receive an annual cash and/or stock bonus award with a target bonus of 20% of the Executive's then current salary. Said bonus is contingent upon the Executive achieving deliverables or goals agreed to by the Executive and the Board or Compensation Committee. Said bonus shall be determined by the Board or Compensation Committee and paid annually in December. The Executive's bonus for calendar year 1999 shall be prorated to take into account the partial year of the Executive's employment contract period.

(c) Other Expenses: In addition to the compensation provided for above, the Company agrees to pay or to reimburse the Executive during his employment for all reasonable, ordinary and necessary, properly vouchered, client-related business or entertainment expenses incurred in the performance of his services hereunder in accordance with Company policy in effect from time to time, provided, however, that the amount available to the Executive for such travel, entertainment and other expenses may require advance approval by the Chief Executive Officer. The Executive shall submit vouchers and receipts for all expenses for which reimbursement is sought.

(d) Vacation: The Executive shall be allowed 3 weeks of paid vacation during each calendar year.

(e) Fringe Benefits: In addition to his compensation provided by the foregoing, the Executive shall be entitled to the benefits available generally to Company employees pursuant to Company programs, including, by way of illustration, personal leave, paid holidays, sick leave, profit-sharing, retirement, disability, dental, vision, group sickness, accident or health insurance programs of the Company which may now or, if not terminated, shall hereafter be in effect, or in any other or additional such programs which may be established by the Company, as and to the extent any such programs are or may from time to time be in effect, as determined by the Company and the terms hereof.

5. Employment Period; Termination.

(a) The Executive's employment shall continue unabated until terminated by either party pursuant to the terms of this Agreement.

(b) The Executive's employment with the Company under this Agreement shall be effective as of the date of this Agreement and shall continue until terminated upon the earlier to occur of the following events: (i) the close of business on the fourth anniversary of this Agreement or (ii) the death or permanent disability (as defined in Paragraph 5 (f)) of the Executive, provided, however, that, on the fourth anniversary of the date of this Agreement, and on every subsequent annual anniversary, and unless either party has given the other party written notice at least thirty (30) days prior to the such anniversary date, the term of this Agreement and the Employment Period shall be renewed for a term ending one (1) year subsequent to such date, unless sooner terminated as provided herein.

(c) Notwithstanding the provisions of paragraphs 5 (a) and (b) above, the Executive may terminate the employment relationship at any time for any reason by giving the Company written notice at least thirty (30) days prior to the effective date of termination. Unless otherwise provided by this Section, all compensation and benefits paid by the Company to the Executive shall cease upon his last day of employment. However, if the Executive terminates his employment due to a material breach of this Employment Agreement by the Company or due to a material reduction in the responsibilities or reporting relationship of the Executive, the Company will continue to pay the Executive's base salary, bonus compensation and medical benefits for up to twelve (12) months. The Executive acknowledges and agrees that the non-compete restrictions set forth in Section 7 of this Employment Agreement will remain in full force and effect for the twelve (12) month period after the termination of his employment. At its sole election and discretion, the Company may release the Executive from the non-compete restrictions of this Agreement. If said election is made, the Company will continue to pay the Executive's base salary, a pro-rated bonus and medical benefits for a six (6) month period.

(d) If the Executive's employment is terminated "for cause," the Executive will not be entitled to and shall not receive any compensation or benefits of any type following the effective date of termination. As used in this Agreement, the term "for cause" shall include a termination for conviction of a felony, a willful unauthorized disclosure of material confidential information, a violation of any material Company rule, regulation or policy which has a material adverse impact to the Company, or a breach of any material obligation under this Agreement, including, without limitation, willful refusal to perform the Executive's duties hereunder, except in the event that the Executive becomes permanently disabled as set forth in paragraph 5 (f). Anything herein to the contrary notwithstanding, the Company shall give the Executive written notice prior to terminating this Agreement of the Executive's material breach of this Agreement, setting forth the exact nature of any alleged breach and the conduct required to cure such breach. The Executive shall have thirty (30) days from the giving of such notice within which to cure, and shall be entitled to appear before the Board to discuss such written notice of material breach. Notwithstanding the forgoing, actions or inactions on the part of the Executive which were taken or not taken in good faith shall not constitute a material breach of this agreement.

(e) Upon sixty (60) days written notice, the Company shall retain the right to terminate the Executive without cause. If the Executive's employment is terminated by the Company without cause, the Executive shall continue to receive his base salary, bonus and medical benefits for a period of twelve (12) months. The Executive acknowledges and agrees that the non-compete restrictions set forth in Section 7 of this Employment Agreement will remain in full force and effect for the twelve (12) month period subsequent to his termination. At its sole election and discretion, the Company may release the Executive from the non-compete restrictions of this Agreement. If said election is made, the Company will continue to pay the Executive's base salary, a pro-rated bonus and medical benefits for a six (6) month period.

(f) In the event the Executive becomes permanently disabled during employment with the Company, the Company may terminate this Agreement by giving thirty (30) days notice to the Executive of its intent to terminate, and unless the Executive resumes performance of the duties set forth in Paragraph 3 within five (5) days of the date of the notice and continues performance for the remainder of the notice period, this Agreement shall terminate at the end of the thirty (30) day period. The Executive will not be entitled to and shall not receive any compensation or benefits of any type following the effective date of termination. "Permanently disabled" for the purposes of this Agreement means the inability, due to physical or mental ill health, to perform the Executive's duties for one hundred eighty (180) days during any one employment year irrespective of whether such days are consecutive.

(g) This Agreement will terminate immediately upon the Executive's death and no further compensation or benefits of any type will be paid to the Executive or his heirs thirty (30) days following the date of the Executive's death, except that bonuses earned but not paid prior to the Executive's death will be paid.

6. Company Property. All correspondence, records, documents, software, promotional materials, and other Company property, including all copies, which come into the Executive's possession by, through or in the course of his employment, regardless of the source and whether created by the Executive, are the sole and exclusive property of the Company, and

immediately upon the termination of the Executive's employment, the Executive shall return to the Company all such property of the Company.

7. Non-Competition.

(a) The Executive agrees that while he is in the employ of the Company and for a one year period after the termination of his employment, he shall not, either on his own behalf or on behalf of any third party, except on behalf of the Company, directly or indirectly:

(1) Other than through his ownership of stock of the Company, as an individual proprietor, partner, stockholder, officer, employee, director, joint venturer, investor, lender, or in any other capacity whatsoever (other than as the holder of not more than one percent (1%) of the total outstanding stock of a publicly held company), engage directly in any substantial business in markets where NAS has a physical office that competes against NAS for its existing customer base at the time of departure; or

(2) Attempt in any manner to solicit from a current client or customer of the Company at the time of his termination, business of the type performed by the Company or to persuade any client of the Company to cease to do business or to reduce the amount of business which any such client has customarily done or actively contemplates doing with the Company; or

(3) Recruit, solicit or induce, or attempt to induce, any employee or employees of the Company or its affiliates to terminate their employment with, or otherwise cease their relationship with the Company or its affiliates.

(b) The parties agree that the relevant public policy aspects of covenants not to compete have been discussed, and that every effort has been made to limit the restrictions placed upon the Executive to those that are reasonable and necessary to protect the Company's legitimate interests.

(c) If any restriction set forth in Section 7 are found by any court of competent jurisdiction to be unenforceable because it extends for too long a period of time or over too great a range of activities or geographic area, it shall be interpreted to extend over the maximum period of time, range of activities or geographic areas as to which it may be enforceable.

(d) The restrictions contained in Section 7 are necessary for the protection of the business and goodwill of the Company and/or its affiliates and are considered by the Executive to be reasonable for such purposes. The Executive agrees that any material breach of Section 7 will cause the Company and/or its affiliates substantial and irrevocable damage and therefore, in the event of any such breach, in addition to such other remedies which may be available, the Company shall have the right to seek specific performance and injunctive relief. The Executive acknowledges that he will receive compensation for the terms of Section 7 pursuant to various stock option agreements which will be executed between the Executive and the Company.

(e) The provisions of Section 7 shall survive termination of this Agreement.

8. Protection of Confidential Information. The Executive agrees that all information, whether or not in writing, relating to the business, technical or financial affairs of the Company and that it is generally understood in the industry as being confidential and/or proprietary information, is the exclusive property of the Company. The Executive agrees to hold in a fiduciary capacity for the sole benefit of the Company all secret, confidential or proprietary information, knowledge, data, or trade secret ("Confidential Information") relating to the Company or any of its affiliates or their respective clients, which Confidential Information shall have been obtained during his employment with the Company. The Executive agrees that he will not at any time, either during the Term of this Agreement or after its termination, disclose to anyone any Confidential Information, or utilize such Confidential Information for his own benefit, or for the benefit of third parties without written approval by an officer of the Company. Executive further agrees that all memoranda, notes, records, data, schematics, sketches, computer programs, prototypes, or written, photographic, magnetic or other documents or tangible objects compiled by him or made available to him during the Term of his employment concerning the business of the Company and/or its clients shall be the property of the Company and shall be delivered to the Company on the termination of his employment, or at any other time upon request of the Company.

9. Intellectual Property. During the Term of this Agreement, the Executive will disclose to the Company all ideas, concepts, inventions, product ideas, new products, discoveries, methods, software, business plans and business opportunities developed by him during working time through the use of Company resources, which relate directly or indirectly to the Company's business or the business of any of its affiliates or their respective clients, including without limitation, any process, product or product improvement, product ideas, new products, discoveries, methods or software which may or may not be patentable or copyrightable, any trade names, trademarks or slogans. The Executive agrees that such will be the property of the Company and that he will at the Company's request and cost do whatever is necessary to secure for the Company the rights thereto by patent, copyright or otherwise.

10. Publicity. Neither party shall issue without consent of the other party any press release or make any public announcement with respect to this Agreement or the employment relationship between them.

11. Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto, their heirs, personal representatives, successors and assigns. In the event the Company is acquired, is a non surviving party in a merger, or transfers substantially all of its assets, this Agreement shall not be terminated and the transferee or surviving company

shall be bound by the provisions of this Agreement. The parties understand that the obligations of the Executive are personal and may not be assigned by him.

12. Entire Agreement. This Agreement contains the entire understanding of the Executive and the Company with respect to employment of the Executive and supersedes any and all prior understandings, written or oral. This Agreement may not be amended, waived, discharged or terminated orally, but only by an instrument in writing. By entering into this Agreement, the Executive certifies and acknowledges that he has carefully read all of the provisions of this Agreement and that he voluntarily and knowingly enters into said Agreement.

13. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. Governing Law and Submission to Jurisdiction. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the Commonwealth of Virginia, without giving effect to the principles of conflicts of law thereof.

15. Notices. Any notice provided for in this Agreement shall be provided in writing. Notices shall be effective from the date of service, if served personally on the party to whom notice is to be given, or on the second day after mailing, if mailed by first class mail, postage prepaid. Notices shall be properly addressed to the parties at their respective addresses or to such other address as either party may later specify by notice to the other.

16. Arbitration. The parties agree that any controversy, claim or dispute arising out of or relating to this Agreement, or the breach thereof, or arising out of or relating to the employment of the Executive, or the termination thereof, including any statutory or common law claims under federal, state, or local law, but excluding actions to enforce provisions of Sections 7 and 8 hereof, shall be resolved by arbitration in Sterling, Virginia in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The parties agree that any award rendered by the arbitrator shall be final and binding, and that judgment upon the award may be entered in any court having jurisdiction thereof.

17. Indemnification. The Company shall indemnify and hold harmless the Executive for any liability incurred by reason of any act or omission performed by the Executive while acting in good faith on behalf of the Company and within the scope of the authority of the Executive pursuant to this Agreement and under the rules and policies of the Company, except that the Executive must have in good faith believed that such action was in the best interest of the Company and such course of action or inaction must not have constituted gross negligence, fraud, willful misconduct, or breach of a fiduciary duty.

18. Miscellaneous.

(a) No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

(b) The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed and delivered under seal, by its authorized officers or individually, on the 19th day of August, 1999.

NETWORK ACCESS SOLUTIONS

____

Worth D. MacMurray

____

Scott Yancey

Exhibit 10.32

Exhibit 10.32

NETWORK ACCESS SOLUTIONS CORPORATION
1998 STOCK INCENTIVE PLAN

NONQUALIFIED STOCK OPTION GRANT AGREEMENT

This Grant Agreement (the "Agreement") is entered into by and between NETWORK ACCESS SOLUTIONS CORPORATION a Delaware corporation (the "Corporation"), and the grantee whose name appears on Schedule A hereto effective as of the Grant Date as defined in Article 1 hereof.

In consideration of the premises, mutual covenants and agreements herein, the Corporation and the Grantee agree as follows:

ARTICLE 1
GRANT OF OPTION

Section 1.1 Grant of Option. The Corporation hereby grants to the Grantee, pursuant to the provisions of the Network Access Solutions Corporation 1998 Stock Incentive Plan (the "Plan"), a nonqualified stock option to purchase shares of Common Stock, par value of $0.01 per share, of the Corporation ("Stock"), subject to the provisions of this Agreement (the "Option"). Unless stated otherwise herein, capitalized terms in this Agreement shall have the same meaning as defined in the Plan. Schedule A, attached hereto and incorporated herein, sets forth the following terms of the Option:

(i) the date the Administrator approved the Option (the "Grant Date");

(ii) the number of shares of Stock which the Grantee may purchase under the Option;

(iii) the exercise price per share (the "Exercise Price"); and

(iv) the date as of which the Option shall expire (the "Expiration Date"), at 5:00 p.m. Eastern Time, unless terminated earlier pursuant to other provisions of this Agreement.

Section 1.2 Limitation on Term of Option. Notwithstanding the foregoing, in no event shall the Option expire later than 5:00 p.m. Eastern Time on the day prior to the tenth (10th) anniversary of its Grant.

ARTICLE 2
VESTING

Section 2.1 Vesting Schedule Subject to Section 2.2 below, unless the Option has earlier terminated pursuant to the provisions of the Agreement, the Grantee shall become vested in the shares of Stock subject to the Option over a four (4) year period as follows: the Grantee shall become vested in 6.25% of the total shares of Stock subject to the Option on the date that is three months from the Grant Date (the "Initial Vesting Date") and shall become vested in 6.25% of the total shares of Stock subject to the Option every third (3rd) month after the Initial Vesting Date, on the date in each such month that corresponds with the Initial Vesting Date (each referred to as a "Vesting Date"), during the forty-eight (48) month period immediately following the Initial Vesting Date, so that the Grantee shall be vested in 100% of the shares of Stock subject to the Option on the fourth (4th) anniversary of the Grant Date; provided, however, that the Grantee must be in the continuous employ or service of the Corporation or an Affiliate at all times from the Grant Date through the specified Vesting Date or Initial Vesting Date, as applicable, for such vesting to occur.

Section 2.2 Acceleration of Vesting. Notwithstanding the foregoing, in the event of a "change of control," as defined below, the Grantee shall become vested in 100% of any unvested Option that has not been terminated in accordance with the terms of this Agreement. For purposes of this Agreement, a "change of control" shall be deemed to occur upon the first of the following events:

(i) any person becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 50% or more of the combined voting power of the Corporation's then outstanding voting securities and such person has the ability to elect a majority of the members of the Corporation's Board of Directors, if such ownership is not in place on the date of grant;

(ii) any person becomes the beneficial owner, directly or indirectly, of securities of the Corporation sufficient to elect a majority of the members of the Board of Directors of the Corporation, provided that Optionee's responsibilities as an employee or consultant of the Corporation are materially adversely diminished by such change in control; or

(iii) the sale of all or substantially all the assets of the Corporation, or a merger, consolidation, or similar transaction of the Corporation in which the Corporation is not the surviving entity or the Corporation's stockholders immediately prior to such transaction hold less than 50% of the voting securities of the surviving entity.

A "change in control" shall not include either of the following events:

(i) a transaction, the sole purpose of which is to change the state of the Corporation's incorporation; or

(ii) a transaction, the result of which is to sell all or substantially all of the assets of the Corporation to another entity (the "surviving entity"); provided that the surviving entity is owned directly or indirectly by the Corporation's stockholders immediately following such transaction in substantially the same proportions as their ownership of the Corporation's voting capital stock immediately preceding such transaction.

ARTICLE 3
EXERCISE OF OPTION

Section 3.1 Exercisability of Option. Pursuant to the terms of the Agreement, the Option may be exercised at any time, and from time to time, with respect to the number of shares subject to the Option.

Section 3.2 Stock Restriction Agreement. The Administrator in its sole discretion may require as a condition precedent to the exercise of the Option granted pursuant to Section 1.1, that the Grantee or such other person exercising the Option be, or shall execute and become, a party to a Stock Restriction Agreement in substantially the form attached to this Agreement as Exhibit A.

Section 3.3 Manner of Exercise. The Option may be exercised, in whole or in part, by delivering written notice to the Administrator in such form as the Administrator may require from time to time; provided, however, that the Option may not be exercised at any one time as to fewer than one hundred (100) shares (or such number of shares as to which the Option is then exercisable if such number of shares then exercisable is less than one hundred (100)). Such notice shall specify the number of shares of Stock subject to the Option as to which the Option is being exercised, and shall be accompanied by full payment of the Exercise Price for such shares.

Payment of the Exercise Price shall be made (a) in cash (or cash equivalents acceptable to the Administrator in the Administrator's discretion); (b) in the Administrator's discretion at the time of exercise, by tender to the Corporation of shares of the Corporation's common stock owned by the Grantee, having a Fair Market Value on the date of tender not less than the Exercise Price, which either have been owned by the Grantee at least six (6) months or were not acquired, directly or indirectly, from the Corporation; (c) in the Administrator's discretion at the time of exercise, by the Grantee's full recourse promissory note in a form approved by the Administrator; (d) by a broker-assisted cashless exercise in accordance with Regulation T of the Board of Governors of the Federal Reserve System and the provisions of the next paragraph; or (e) by any combination of the foregoing. In the Administrator's sole and absolute discretion, the Administrator may authorize payment of the Exercise Price to be made, in whole or in part, by such other means as the Administrator may prescribe. The Option may be exercised only in multiples of whole shares and no fractional shares shall be issued.

If the Stock is registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, payment of the exercise price may be made, in whole or in part, subject to such limitations as the Administrator may determine, by delivery of a properly executed exercise notice, together with irrevocable instructions: (i) to a brokerage firm approved by the Administrator to deliver promptly to the Corporation the aggregate amount of sale or loan proceeds to pay the exercise price and any withholding tax obligations that may arise in connection with the exercise, and (ii) to the Corporation to deliver the certificates for such purchased shares directly to such brokerage firm.

Section 3.4 Issuance of Shares and Payment of Cash upon Exercise. Upon exercise of the Option, in whole or in part, in accordance with the terms of the Agreement and upon payment of the Exercise Price for the shares of Stock as to which the Option is exercised and delivery of such executed Stock Restriction Agreement as may be required by the Administrator pursuant to Section 3.2, the Corporation shall issue to the Grantee or such other person exercising the Option, as the case may be, the number of shares of Stock so paid for, in the form of fully paid and nonassessable Stock and, except as otherwise provided in the Stock Restriction Agreement, shall deliver certificates therefor as soon as practicable thereafter. The stock certificates for any shares of Stock issued hereunder shall, unless such shares are registered or an exemption from registration is available under applicable federal and state law, bear a legend restricting transferability of such shares and referencing the Stock Restriction Agreement, if applicable.

ARTICLE 4
TERMINATION OF OPTION

Section 4.1 Termination, In General. The Option granted hereby shall terminate and be of no force or effect after the Expiration Date set forth on Schedule A, unless terminated prior to such time as provided below.

Section 4.2 Termination of Employment or Service for Reason Other Than Death or Disability. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, the Option shall terminate in its entirety, regardless of whether the Option is vested in whole or in part, thirty (30) days after the date the Grantee is no longer employed by, nor in the service of, the Corporation and its Affiliates for any reason other than the Grantee's death or Disability. Notwithstanding the foregoing, the Option shall terminate in its entirety, regardless of whether the Option is vested in whole or in part, upon termination of the employment or service of the Grantee by the Corporation or an Affiliate for "Cause".

If the Grantee is a party to a written employment agreement or service agreement with the Corporation or an Affiliate which contains a definition of "cause", "termination for cause" or words of similar import, whether such Grantee is terminated for "Cause" pursuant to this Section 4.2 shall be determined according to the terms of and in a manner consistent with the provisions of such written agreement. If the Grantee is not party to such a written employment agreement or service agreement with the Corporation or an Affiliate, then for purposes of this Section 4.2, "Cause" shall mean (a) the conviction of the Grantee of, or the entry of a pleading of guilty or nolo contendere by the Grantee to, any crime involving moral turpitude that may reasonably be expected to have an adverse impact on the Corporation's reputation or standing in the community or any felony, (b) willful misconduct in connection with the Grantee's duties, willful failure to follow the directions of the Grantee's supervisor or supervisors, or willful failure to perform his or her responsibilities in the best interest of the Corporation, except in cases involving the mental or physical incapacity or disability of the Grantee, or (c) in the sole judgment of the President of the Corporation, the Grantee has acted or is acting in a manner that is not in the best interest of the Corporation or its employees, including but not limited to, disparaging the Corporation or its products or engaging in harassment or other inappropriate behavior directed towards employees of the Corporation. "Willful misconduct" and "willful failure to perform" shall not include actions or inactions on the part of the Grantee which were taken or not taken in good faith by the Grantee. The good faith determination by the Administrator of whether the Grantee's employment or service was terminated by the Corporation for "Cause" shall be final and binding for all purposes hereunder.

Section 4.3 Upon Grantee's Death. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, upon the Grantee's death the Grantee's executor, personal representative, or the person(s) to whom the Option shall have been transferred by will or the laws of descent and distribution, may exercise all or any part of the outstanding Option with respect to the shares of Stock as to which the Option is vested as of the Grantee's date of death, provided such exercise occurs within twelve (12) months after the date of the Grantee's death, but not later than the Expiration Date of the Option. Unless sooner terminated, the Option shall terminate upon the expiration of such twelve- (12-) month period.

Section 4.4 Termination of Employment or Service by Reason of Disability. Unless the Option has earlier terminated pursuant to the provisions of the Agreement, in the event that the Grantee ceases, by reason of Disability, to be an employee or consultant of or in the service of the Corporation or an Affiliate, the outstanding Option may be exercised in whole or in part with respect to the shares of Stock as to which the Option is vested as of the date of the Grantee's termination of employment or service due to Disability at any time within twelve (12) months after the date of such termination, but not later than the Expiration Date of the Option. Unless sooner terminated, the Option shall terminate upon the expiration of such twelve- (12-) month period.

For purposes of this Agreement, Disability shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The

Administrator may require such proof of Disability as the Administrator in its sole discretion deems appropriate and the Administrator's determination as to whether the Grantee is Disabled shall be final and binding on all parties concerned.

Section 4.5 Leave of Absence. For purposes of this Agreement, the Grantee's employment or service with the Corporation or an Affiliate shall not be deemed to terminate if the Grantee takes any military leave, sick leave, or other bona fide leave of absence approved by the Administrator of ninety (90) days or less. In the event of a leave in excess of ninety (90) days, the Grantee's employment or service shall be deemed to terminate on the ninety-first (91st) day of the leave unless the Grantee's right to re-employment with the Corporation or Affiliate remains guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise determined by the Administrator (or required by law), a leave of absence shall not be treated as employment or service for purposes of vesting in additional shares of Stock during such leave pursuant to Section 2.1 of this Agreement.

ARTICLE 5
DRAG-ALONG RIGHTS

Section 5.1 Drag-Along Rights. If at any time any stockholder of the Corporation or group of stockholders owning a majority or more of the voting capital stock of the Corporation proposes to enter into any transaction involving (i) the sale of all or substantially all of the assets of the Corporation; (ii) the sale of more than fifty percent (50%) of the outstanding common stock of the Corporation in a non-public sale; (iii) any merger, share exchange, consolidation or other reorganization or business combination of the Corporation, if immediately after such transaction either (A) persons who were directors of the Corporation immediately prior to such transaction do not constitute at least a majority of the directors of the surviving entity, or (B) persons who hold a majority of the voting capital stock of the surviving entity are not persons who held a majority of the voting capital stock of the Corporation immediately prior to such transaction; or (iv) the dissolution or liquidation of the Corporation, the Corporation and/or the transferring stockholders may require the Grantee to participate in such transaction by giving the Grantee written notice thereof at least ten (10) days in advance of the date of the transaction or the date that tender is required, as the case may be. Upon receipt of such notice, the Grantee shall sell, assign, tender or transfer the same percentage of shares subject to the Option as the percentage of the shares of Stock proposed to be sold, assigned, tendered or transferred by the transferring stockholders collectively, upon the same terms and conditions applicable to the transferring stockholders and at a price equal to the difference between the Exercise Price per share under the Option and the price per share of Stock the transferring stockholders will receive pursuant to the terms of the transaction. If the Grantee has options to purchase Stock of the Corporation other than the Option hereunder, and such options are subject to terms similar to those set forth in this Section 5.1, then the Grantee's options shall be transferred in the order in which they were granted. The provisions of this Section 5.1 shall apply in the event of the Grantee's death, to the Grantee's executor, personal representative or the person(s) to whom the Option shall have been transferred by will or the laws of descent and distribution, as though such person is the Grantee.

ARTICLE 6
ADJUSTMENTS; BUSINESS COMBINATIONS

Section 6.1 Adjustments for Events Affecting Common Stock. In the event of changes in the Common Stock of the Corporation by reason of any stock dividend, split-up, recapitalization, merger, consolidation, business combination or exchange of shares and the like, the Administrator shall, in its discretion, make appropriate adjustments to the number, kind and price of shares covered by this Option, and shall, in its discretion and without the consent of the Grantee, make any other adjustments in this Option, including but not limited to reducing the number of shares subject to the Option or providing or mandating alternative settlement methods such as settlement of the Option in cash or in shares of Common Stock or other securities of the Corporation or of any other entity, or in any other matters which relate to the Option as the Administrator shall, in its sole discretion, determine to be necessary or appropriate.

Section 6.2 Pooling of Interests Transaction. Notwithstanding anything in the Plan or the Agreement to the contrary and without the consent of the Grantee, the Administrator, in its sole discretion, may make any modifications to the Option, including but not limited to cancellation, forfeiture, surrender or other termination of the Option in whole or in part regardless of the vested status of the Option, in order to facilitate any business combination that is authorized by the Board to comply with requirements for treatment as a pooling of interests transaction for accounting purposes under generally accepted accounting principles.

Section 6.3 Binding Nature of Adjustments. Adjustments under this Article 6 will be made by the Administrator, whose determination as to what adjustments, if any, will be made and the extent thereof will be final, binding and conclusive. No fractional shares will be issued pursuant to this Option on account of any such adjustments

ARTICLE 7
MISCELLANEOUS

Section 7.1 Non-Guarantee of Employment. Nothing in the Plan or the Agreement shall alter the employment status of the Grantee, nor be construed as a contract of employment between the Corporation (or an Affiliate) and the Grantee, or as a contractual right of the Grantee to continue in the employ or service of the Corporation or an Affiliate, or as a limitation of the right of the Corporation or an Affiliate to discharge the Grantee at any time with or without cause or notice.

Section 7.2 No Rights of Stockholder. The Grantee shall not have any of the rights of a stockholder with respect to the shares of Stock that may be issued upon the exercise of the Option until such shares of Stock have been issued to him upon the due exercise of the Option. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such certificate or certificates are issued.

Section 7.3 Nonqualified Nature of Option. The Option is intended to be a stock option that does not qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and this Agreement shall be so construed.

Section 7.4 The Corporation's Rights. The existence of this Option shall not affect in any way the right or power of the Corporation or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Corporation's capital structure or its business, or any merger or consolidation of the Corporation, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting the Stock or the rights thereof, or the dissolution or liquidation of the Corporation, or any sale or transfer of all or any part of the Corporation's assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

Section 7.5 Withholding of Taxes. The Corporation or any Affiliate shall have the right to deduct from any compensation or any other payment of any kind (including withholding the issuance of shares of Stock) due the Grantee the amount of any foreign, federal, state or local taxes required by law to be withheld as the result of the exercise of the Option or the lapsing of any restriction with respect to any shares of Stock acquired on exercise of the Option; provided, however, that the value of the shares of Stock withheld may not exceed the statutory minimum withholding amount required by law. In lieu of such deduction, the Administrator may require the Grantee to make a cash payment to the Corporation or an Affiliate equal to the amount required to be withheld. If the Grantee does not make such payment when requested, the Corporation may refuse to issue any Stock certificate under the Plan until arrangements satisfactory to the Administrator for such payment have been made.

Section 7.6 Grantee. Whenever the word "Grantee" is used in any provision of this Agreement under circumstances where the provision should logically be construed to apply to the estate, personal representative or beneficiary to whom this Option may be transferred by will or by the laws of descent and distribution, the word "Grantee" shall be deemed to include such person.

Section 7.7 Nontransferability of Option. The Option shall be nontransferable otherwise than by will or the laws of descent and distribution and during the lifetime of the Grantee, the Option may be exercised only by the Grantee or, during the period the

<PAGE>

Grantee is under a legal disability, by the Grantee's guardian or legal representative. Except as provided in the preceding sentence, the Option may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

Section 7.8 Notices. All notices and other communications made or given pursuant to the Agreement shall be in writing and shall be sufficiently made or given if hand delivered or mailed by certified mail, addressed to the Grantee at the address contained in the records of the Corporation, or addressed to the Administrator, care of the Corporation for the attention of its Secretary at its principal office or, if the receiving party consents in advance, transmitted and received via telecopy or via such other electronic transmission mechanism as may be available to the parties.

Section 7.9 Entire Agreement; Modification. The Agreement contains the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan or in a written document signed by each of the parties hereto. Any oral or written agreements, representations, warranties, written inducements, or other communications made prior to the execution of the Agreement shall be void and ineffective for all purposes.

Section 7.10 Conformity with Plan. This Agreement is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan, which is incorporated herein by reference. Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. In the event of any ambiguity in the Agreement or any matters as to which the Agreement is silent, the Plan shall govern. A copy of the Plan is available upon request to the Administrator.

Section 7.11 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia, other than the conflict of laws principles thereof.

Section 7.12 Headings. The headings in the Agreement are for reference purposes only and shall not affect the meaning or interpretation of the Agreement.

[signatures on next page]

<PAGE>

IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer as of the date first above written.

ATTEST:

NETWORK ACCESS SOLUTIONS CORPORATION

____

By: ______________________________

The undersigned hereby acknowledges that he/she has carefully read this Agreement and the Plan and agrees to be bound by all of the provisions set forth in such documents.

WITNESS:

GRANTEE

____

____

Date: ______________________________

Enclosure: Network Access Solutions, Inc. 1998 Stock Incentive Plan

SCHEDULE A

Stock Option Granted to:	Worth MacMurray
Grant Date:	August 9, 1999
Number of Shares:	125,000
Exercise Price Per Share:	$5.125
Expiration Date:	August 9, 2009

Exhibit 10.33

Exhibit 10.33

THREE DULLES TECH CENTER

LEASE AGREEMENT

BY AND BETWEEN

DULLES TECH, INC, AS LANDLORD

AND

NETWORK ACCESS SOLUTIONS CORPORATION, AS TENANT

October 27, 1999

LEASE AGREEMENT

TABLE OF CONTENTS

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made and entered into as of the 27th day of October, 1999, by and between DULLES TECH, INC., a Delaware corporation ("Landlord"), whose address is c/o West World Management, Inc., 4 Manhattanville Road, Purchase, New York 10577, and NETWORK ACCESS SOLUTIONS CORPORATION, a Delaware corporation ("Tenant"), whose address is 100 Carpenter Drive, Suite 206, Sterling, Virginia 20164, Attention: Manager, Facilities. Subject to all of the terms, provisions, covenants and conditions of this Lease, and in consideration of the mutual covenants, obligations and agreements contained in this Lease, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant agree as follows:

ARTICLE I.

BASIC LEASE PROVISIONS

Landlord, for and in consideration of the rents and all other charges and payments hereunder and of the covenants, agreements, terms, provisions and conditions to be kept and performed hereunder by Tenant, demises and leases to Tenant, and Tenant hereby hires and takes from Landlord, the premises described below, subject to all matters hereinafter set forth and upon and subject to the covenants, agreements, terms, provisions and conditions of this Lease for the term hereinafter stated. For purposes of this Lease, the following terms shall have the meanings ascribed to them below:

Base Year shall mean calendar year 2000.

Building shall mean the approximately 113,093 rentable square foot structure situated upon the Land (hereinafter defined) commonly known as Three Dulles Tech Center located at 13650 Dulles Technology Drive, Herndon, Virginia 20171, County of Fairfax, State of Virginia as the same currently exists or as it may from time to time hereafter be expanded or modified.

Commencement Date shall mean March 1, 2000, provided that the First Phase Premises are Substantially Complete (as defined in Exhibit E to this Lease). In the event the First Phase Premises are not Substantially Complete by March 1, 2000, the Commencement Date will be extended day for day until Landlord makes the First Phase Premises Substantially Complete.

Land shall mean that certain tract of 12.14 acres of land situated in Fairfax County, Virginia and more particularly described on Exhibit A attached hereto and hereby made a part hereof.

Lease Year shall mean each consecutive twelve (12) month period during the Term commencing with the Commencement Date.

Prepaid Rent shall mean the amount of $227,822.63 for the first and a portion of the second month of the Term. Prepaid Rent shall be paid by Tenant to Landlord no later than January 1, 2000.

Project shall mean the Building, together with the Land and the parking area serving the Building, all other improvements situated on the Land or directly benefitting the Building, and all additional facilities or improvements directly benefitting the Building that may be constructed in subsequent years.

Security Deposit shall mean the amount of $1,600,000 as shall be posted and

Term shall mean One Hundred Twenty (120) months from the Commencement Date, as the same may be extended pursuant to Section C of Exhibit C attached hereto.

ARTICLE II.

Section 2.1 Premises. The Premises demised by this Lease are deemed to be (i) 57,709 rentable square feet consisting of an approximately 10,397 rentable square foot portion of the first floor, as shown on Exhibit B attached hereto, and the entirety of Floors four and five of the Building (the "First Phase Premises"); (ii) 46,022 rentable square feet known or to be known as Suites 200 and 300, on Floors two and three, respectively, of the Building (with each Suite occupying the entire floor) (the "Second Phase Premises"); and (iii) 9,362 rentable square feet on the first floor of the Building, as shown on Exhibit B attached hereto, which is to serve as a network and/or telecommunications operations center or for similar use by Tenant (the "Third Phase Premises"), together with the nonexclusive use of the common areas of the Project made available by Landlord from time to time to all tenants of the Project (the First Phase Premises, the Second Phase Premises and the Third Phase Premises are collectively referred to herein as the "Premises"). The Premises are outlined on Exhibit B attached hereto and hereby made a part hereof. All square footage utilized in this Lease has been or will be as to future space, made in accordance with "Standard Method for Measuring Floor Area in Office Buildings", published by the Secretariat, Buildings Owners and Managers Association International (ANSI/BOMA Z65.1 - 1996), approved June 7, 1996 (the "Standard Measure"). Unless otherwise specifically designated, all references to square footage or square feet in this Lease are to rentable square footage or square feet. Landlord shall have its space planner or architect re-measure the Premises upon completion of the Tenant Space Plan (as defined in Exhibit E) and/or Tenant's Work (as defined in Exhibit E), and at no time thereafter, to confirm that the measurement provided herein is accurate and conforms to the Standard Measure. In the event that such re-measurement shows a different rentable square footage for the Premises, all relevant terms of this Lease shall be adjusted to conform to such re-measurement.

Section 2.2 Term. The Term of this Lease shall begin on the Commencement Date and shall continue in full force and effect for the Term of this Lease unless extended or sooner terminated in accordance with the provisions of this Lease. After the occurrence of the Commencement Date, Tenant and Landlord shall execute a certificate in the form attached as Exhibit D stipulating and agreeing to the Commencement Date. If the Commencement Date should be changed for any reason, including a change pursuant to the terms of Exhibit E hereto, Landlord shall not be liable or responsible for any claims, damages or liabilities in connection therewith or by reason thereof. If the First Phase Premises are not Substantially Complete as of March 1, 2000 for any reason other than a Tenant Delay, then the term Commencement Date shall mean such subsequent date upon which the First Phase Premises are Substantially Complete, and such failure to Substantially Complete the First Phase Premises on the earlier date shall not constitute a default by Landlord hereunder or render Landlord liable for any loss or damage that may be incurred as a result of such failure.

Section 2.3 Use. The Premises are to be used only for general office purposes, including but not limited to, use of a portion of the first floor of the Building, to the extent permitted by law or covenant, as a network and/or telecommunications operations center or related use and for no other business or purpose without the prior written consent of Landlord which consent shall not be unreasonably withheld or delayed. No act shall be done in or about the Premises that is unlawful or that will increase the existing rate of insurance on the Building. In the event of a breach of this covenant, Tenant shall, after

(b) with respect to acts that will or has increased the existing rate of insurance, Tenant shall either cease such act that is increasing or has increased the existing rate of insurance (and pay for any such increases theretofor charged to Landlord) or shall pay to Landlord any and all increases in insurance premiums resulting from such breach. Tenant shall not commit or allow to be committed any waste upon the Premises, or any public or private nuisance or other act or thing which disturbs the quiet enjoyment of any other tenant in the Building. If any of Tenant's office machines or equipment disturb any other tenant in the Building, then Tenant shall provide adequate insulation, or take such other action as may be necessary to eliminate the noise or disturbance at its sole cost and expense. Tenant shall not, without Landlord's prior consent which consent shall not be unreasonably withheld or delayed, install any equipment, machine, device, tank or vessel which is subject to any federal, state or local permitting requirement. Tenant, at its expense, shall comply with all laws, statutes, ordinances and governmental rules, regulations or requirements governing the installation, operation and removal of any such equipment, machine, device, tank or vessel. Tenant, at its expense, shall comply with all laws, statutes, ordinances, governmental rules, regulations or requirements, and the provisions of any recorded documents now existing or hereafter in effect relating to its use, operation or occupancy of the Premises and shall observe such reasonable and non-discriminatory rules and regulations as may be adopted and made available to Tenant by Landlord from time to time for the safety, care and cleanliness of the Premises or the Building and for the preservation of good order therein; provided, however, that such rules and regulations do not conflict with this Lease, materially increase Tenant's obligations or liability with respect to the Premises and to the extent such rules and regulations do conflict with the terms of this Lease, the terms of this Lease shall govern. The current rules and regulations for the Building are attached hereto as Exhibit F. Without limiting the foregoing, Tenant agrees to be wholly responsible at Tenant's sole cost and expense for any accommodations or alterations which need to be made to the Premises to comply with the provisions of the Americans With Disabilities Act of 1990, as amended (the "ADA"). Landlord will be responsible for compliance of the common areas of the Building as well as the Building shell (as described in Exhibit E) with the provisions of ADA.

ARTICLE III.

Section 3.1 Rental Payments.

(a) Base Rent. Commencing (i) on the Commencement Date as to the First Phase Premises, (ii) on the date of Substantial Completion of the Second Phase Premises (or such earlier date as the Second Phase Premises would have been Substantially Complete but for Tenant Delays) as to the Second Phase Premises, and (iii) on the earlier of July 1, 2000 or the date of Substantial Completion of the Third Phase Premises as to the Third Phase Premises, and continuing thereafter throughout the Term, Tenant shall pay the Base Rent, which is due and payable each Lease Year during the Term hereof in twelve (12) equal installments on the first (1st) day of each calendar month during the Term to Landlord at Landlord's address specified in this Lease (or such other address as may be designated by Landlord from time to time) monthly in advance at the following rates:

Lease Year	Base Rent Per Rentable Square Foot
1	$25.50
2	$25.94
3	$25.95
4	$25.94
5	$25.50
6	$25.50
7	$25.50
8	$25.50
9	$25.50
10	$25.50

So long as Tenant is not then in default under this Lease, in the event Tenant has paid Landlord any Prepaid Rent such Prepaid Rent shall be applied to the first (1st) monthly and a portion of the second (2nd) installment of Base Rent due hereunder.

(b) First Year Credit. Notwithstanding anything to the contrary in Section 3.1(a), Tenant shall receive a credit against the Base Rent payable during the first year of the Term of the Lease in an aggregate amount of Twelve Thousand Five Hundred and No/100's Dollars ($12,500.00) per month.

(c) Annual CPI Adjustment. On each anniversary of the Commencement Date, the annual Base Rent for the entire Premises (but, for purposes of this fourth lease years, the sums per rentable square foot of $0.44, $0.45 and $0.44 respectively) shall be adjusted as follows: beginning the first day of the second lease year following the Commencement Date, the Base Rent shall be increased by an amount equal to three hundred percent (300%) of any increase in the CPI. The amount of the adjustment shall be determined by multiplying the previous year's adjusted Base Rent by a product of (a) three hundred percent (300%) and (b) a fraction, the numerator of which shall be (i) the CPI for the period immediately preceding the anniversary date of the lease year for which the adjustment is to be made, minus (ii) the CPI for the period immediately preceding the previous lease year, and the denominator of which shall be the CPI for the period immediately preceding the previous lease year. Notwithstanding this calculation, the adjustment to the Base Rent shall not exceed three percent (3%) of the Base Rent for the immediately preceding Lease Year.

The CPI as used herein shall mean the United States Bureau of Labor Statistics, Consumer Price Index for Urban Consumers, all items for Washington, D.C.-MD-VA (CPI-U) (1982 - 1984 = 100). If the CPI shall be discontinued with no successor or comparable successor index, Landlord shall promptly so notify Tenant and the parties shall attempt to agree within thirty (30) days after Tenant's receipt of such notice upon a substitute index which measures, on at least an annual basis, fluctuations in the cost of goods to consumers of such goods in the Washington, D.C. metropolitan area. If the parties are unable to agree upon a substitute index, then the matter shall be determined by arbitration in accordance with the rules of the American Arbitration Association then prevailing.

(d) Partial Month. If the date for Tenant to start paying any of the amounts of Basic Rent set forth above is other than the first (1st) day of a calendar month or if this Lease expires or terminates on a day other than the last day of a calendar month, then the installments of Base Rent for such month or months shall be prorated based upon multiplying the applicable Base Rent by a fraction, the numerator of which shall be the number of days of the Term occurring during said commencement or termination month, as the case may be, and the denominator of which shall be the number of days in such month.

(e) Payment; Late Charge; Past Due Rate. The Base Rent, the Additional Rent (hereinafter defined), any Prepaid Rent and any and all other payments which Tenant is obligated to make to Landlord under this Lease shall constitute and are sometimes hereinafter collectively referred to as "Rent". Tenant shall pay all Rent and other sums of money as shall become due from and payable by Tenant to Landlord in lawful money of the United States of America at the times and in the manner provided in this Lease, without demand, deduction, abatement, setoff, counterclaim or prior notice. Tenant hereby acknowledges that late payment to Landlord of Rent or other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. If any Rent or other sum due from Tenant is not received on or before its due date, then Tenant shall pay to Landlord immediately upon Landlord's demand therefor, in addition to such overdue amount, a late charge in an amount equal to Five Thousand and No/100's Dollars ($5,000), plus any reasonable attorneys' fees and costs incurred by Landlord by reason of Tenant's failure to pay Rent and other charges when due hereunder; provided, however, that Landlord shall waive such charge as to the first such instance in any Lease year (but in no event more than three (3) times during the Term of the Lease) as to which such late charge would otherwise be payable. Additionally, all Rent under this Lease shall bear interest from the date due until paid at the lesser of twelve percent (12%) or the maximum nonusurious rate of interest then permitted by the applicable laws of the state in which the Building is located or the United States of America, whichever shall permit the higher nonusurious rate, such interest being in addition to and cumulative of any other rights and remedies which Landlord may have with regard to the failure of Tenant to make any such payments under this Lease.

Section 3.2 Additional Rent.

(a) Definitions:

(i) "Base Operating Expenses" means Operating Expenses (hereinafter defined) for the Base Year.

(ii) "Operating Expenses" means all expenses, costs and disbursements of every kind and nature, provided such expenses, costs and disbursements are actually incurred, relating to or incurred or paid in connection with the ownership and operation of the Project, computed on an accrual basis in accordance with generally accepted accounting principles consistently applied, including but not limited to the following:

(A) the proportionate share of wages and salaries of all persons directly engaged in the operation, maintenance, security or access control of the Project, including all taxes, insurance and benefits relating thereto, provided that no such amounts are allowed for any employee above the level of property engineer;

(B) the cost of all supplies, tools, equipment and materials used in the operation and maintenance of the Project, including rental fees for the same, if such items are not purchased and amortized pursuant to this Section 3.2 below;

(C) the cost of all utilities for the Project, including but not limited to the cost of water and power, heating, lighting, air conditioning and ventilating (excluding those costs billed to specific tenants) of the Building and Project;

(D) the cost of all maintenance and service agreements for the Project and the equipment therein, including but not limited to alarm service, security service, access control, landscaping, window cleaning, pest control, elevator maintenance and janitorial service;

(E) the cost of repairs and general maintenance, excluding (y) repairs and general maintenance paid by proceeds of insurance, by Tenant or by other third parties, and (z) alterations attributable solely to tenants of the Building;

(F) amortization (at an interest rate of 8% per annum) of the cost of capital investment items which are installed for the purpose of reducing operating expenses, promoting safety, complying with governmental requirements or maintaining the quality of the Building over the useful life of such item;

(G) the cost of all insurance relating to the Project, including, but not limited to, the cost of property insurance, casualty, rental loss and liability insurance applicable to the Project and Landlord's personal property used in connection therewith and the cost of commercially reasonable deductibles paid on claims made by Landlord;

(H) Landlord's and/or Landlord's managing agent's reasonable accounting and audit costs and attorneys' fees applicable to the Project;

(I) all property management fees for the Project, provided that such fees shall not exceed three percent (3%) of gross receipts for the Project; and

(J) all taxes, assessments and governmental charges, whether or not directly paid by Landlord, whether federal, state, county or municipal and whether they are imposed by taxing districts or authorities currently taxing the Project or by others subsequently created or otherwise, and any other taxes and assessments, assessed against or attributable to the Project or its operation, excluding, however, (i) federal and state taxes on income, death taxes, franchise taxes and any taxes imposed or measured on or by the income of Landlord from the operation of the Project, (ii) transfer taxes or fees imposed in connection with any change of ownership of the Project together with the reasonable cost (including attorneys, consultants and appraisers) of any negotiation, contest or appeal pursued by Landlord in an effort to reduce any such tax, assessment or charge, and all of Landlord's administrative costs in relation to the foregoing ("Real Estate Taxes"); provided, however, that if at any time during the Term the present method of taxation or assessment shall be so changed that the whole or any part of the taxes, assessments, levies, impositions or charges now levied, assessed or imposed on real estate and the of or in addition thereto, taxes, assessments, levies, impositions or charges shall be levied, assessed or imposed wholly or partially as a capital levy or otherwise on the rents received from the Project or the rents reserved herein or any part thereof, then such substitute or additional taxes, assessments, levies, impositions or charges, to the extent so levied, assessed or imposed, shall be deemed to be included within the Real Estate Taxes to the extent that such substitute or additional tax would be payable if the Project were the only property of the Landlord subject to such tax, (iii) any environment assessments, charges or liens arising in connection with the remediation of Hazardous Materials from the Project, the causation of which arose prior to the Commencement Date or was caused by Landlord, its agents, employees or contractors or any tenant of the Project (other than Tenant or its sublessees or assignees), (iv) costs or fees payable to public authorities in connection with any future construction, renovation and/or improvements to the Project other than Tenant's Work, including fees for transit, housing, schools, open space, child care, arts programs, traffic mitigation measures, environmental impact reports, traffic studies, and transportation system management plans or (v) reserves for future taxes.

Notwithstanding the foregoing provisions of this Section 3.2(a)(ii), Operating Expenses shall not include any of the following:

(A) legal fees, brokerage commissions, advertising costs or related expenses in connection with the leasing of the Project and/or administration of Landlord's ownership entity;

(B) except as allowable under Section 3.2(a)(ii)(F), capital repairs, alterations, additions, improvements or replacements connected with or arising from the renovation of the Project or any repairs or replacements made to rectify or correct any defect in the design, materials or workmanship of any portion of the Project or Commons Areas;

(C) costs incurred in connection with damage or repairs which are covered under any insurance policy carried by Landlord in connection with the Project or Common Areas (except for commercially reasonable deductibles);

(D) expenses for repair or replacement paid by condemnation awards;

(E) costs associated with damage or repairs to the Project or the Common Areas necessitated by the gross negligence or willful misconduct of Landlord or Landlord's employees, agents, contractors or invitees;

(F) increases in insurance premiums over those in effect on the Commencement Date to the extent any other tenant causes Landlord's insurance premiums to increase or obligates Landlord to purchase additional insurance;

(G) reserves for Landlord's repair, replacement or improvement of the Project or any portion thereof;

(H) charitable or political contributions or fees paid to trade associates;

(I) Landlord's general overhead expenses not related to the Project or Common Areas;

(J) all principal, interest, loan fees, and other carrying costs related to any mortgage or deed of trust encumbering the Project and all rental and other payables due under any ground or underlying lease;

(K) legal fees, accountant fees and other expenses incurred in disputes with other tenants or occupants of the Project or associated with the enforcement of any other leases or defense of Landlord's title to or interest in the Project or any part thereof;

(L) costs (including permit, license and inspection fees) incurred in renovating or otherwise improving, decorating, painting, expanding or altering space for other tenants or other occupants of vacant space in the Project;

(M) any costs, fines, or penalties incurred due to violations by Landlord or any tenant of the Project (other than Tenant) of any governmental rule or authority, this Lease or any other lease in the Project, or due to Landlord's gross negligence or willful misconduct;

(N) payments for rented equipment, the cost of which equipment would be a capital expenditure if such equipment were purchased by Landlord;

(O) the cost of any special service provided to Tenant or other occupants of the Project for which Landlord is entitled, pursuant to the terms of leases, to be reimbursed;

(P) the costs of major repairs and/or replacements of the roof, foundation, and structural supports of the Premises unless such costs are amortized over the useful life of the item;

(Q) any amounts paid to any person, firm or corporation related to or otherwise affiliated with Landlord or any general partner, officer, director or shareholder of Landlord or any of the foregoing, to the extent the same exceeds arm's length competitive prices paid in Fairfax County, Virginia for similar services or goods; and

(R) costs of acquisition of sculpture or other objects of art for the Project.

Operating Expenses shall be reduced by all cash discounts, trade discounts or quantity discounts received by Landlord or Landlord's managing agent in the purchase of any goods, utilities or services in connection with the prudent operation of the Building. In the calculation of any expenses hereunder, it is understood that no expense shall be charged more than once. Landlord shall use its reasonable efforts in good faith to effect an equitable proration of bills for services rendered to the Building and to any other property owned by Landlord or an affiliate of Landlord.

Landlord agrees that, upon Tenant's request from time to time, Landlord shall confer with Tenant to consider mutually acceptable ways to minimize or reduce Operating Expenses.

(iii) "Adjustment Period" means each calendar year occurring during the Term beginning with calendar year 2001, which shall be the first Adjustment Period.

(iv) "Tenant's Pro Rata Share" means the percentage calculated by dividing the rentable area of the Premises (numerator) by the rentable area of the Building (denominator), and expressing the fraction as a percentage.

(b) Gross-Up Adjustment. If the Building is less than fully occupied or if standard Landlord services are not provided to the entire Building during the Base Year or any Adjustment Period, then Operating Expenses for the Base Year or such Adjustment Period shall be "grossed up" by Landlord to that amount of Operating Expenses that, using reasonable projections, would normally be expected to be incurred during the Base Year or Adjustment Period if the Building was one hundred percent (100%) occupied and receiving building standard Landlord services during the Base Year or Adjustment Period, as determined under generally accepted accounting principles consistently applied.

(c) Payment by Tenant. If the Operating Expenses for any Adjustment Period exceed the Base Operating Expenses (any such excess being known collectively as the "Expense Increase"), then Tenant agrees to pay Landlord as additional rent (the "Additional Rent") Tenant's Pro Rata Share of the Expense Increase; provided, however, that notwithstanding any other provision of this Lease to the contrary, no such payment with respect to excess Operating Expenses shall be due from Tenant during the first twelve (12) months commencing with the Commencement Date.

(d) Manner of Payment.

(i) Landlord shall give Tenant notice of Landlord's estimate of amounts payable under this Section 3.2 for each Adjustment Period based upon generally accepted accounting principles consistently applied. By the first day of each month during the Adjustment Period, Tenant shall pay Landlord one-twelfth (1/12th) of the estimated amount. If for any reason the estimate is not given before the Adjustment Period begins, Tenant shall continue to pay on the basis of the previous year's estimate, if any, until the month after the new estimate is given.

(ii) Within one hundred twenty (120) days after each Adjustment Period ends, or as soon thereafter as reasonably practical, Landlord shall give Tenant a statement (the "Statement"), in reasonable detail as to line items, showing the: (A) actual Operating Expenses for the Adjustment Period; (B) Base Operating Expenses; (C) the Expense Increase for the Adjustment Period; (D) the amount of Tenant's Pro Rata Share of the Expense Increase; (E) the amount, if any, paid by Tenant during the Adjustment Period towards the Expense Increase; and (F) the amount Tenant owes towards the Expense Increase or the amount Landlord owes as a refund. Delay by Landlord in providing to Tenant any Statement shall not relieve Tenant from the obligation to pay any Expense Increase upon the rendering of such Statements nor shall it relieve Landlord from paying any refund if so due.

(iii) If the Statement shows that the actual amount Tenant owes for the Adjustment Period is less than any estimated Expense Increase paid by Tenant during the Adjustment Period, Landlord shall return the difference (the "Overpayment"). If the Statement shows that the actual amount Tenant owes is more than any estimated Expense Increase paid by Tenant during the Adjustment Period, Tenant shall pay the difference (the "Underpayment"). The Overpayment or Underpayment shall be paid within thirty (30) days after the Statement is delivered to Tenant.

(iv) During any Adjustment Period in which this Lease is not in effect for a complete calendar year, unless it was ended due to Tenant's default, Tenant's obligation for Additional Rent for those Adjustment Periods shall be prorated by multiplying the Additional Rent for the Adjustment Period by a fraction expressed as a percentage, the numerator of which is the number of days of the Adjustment Period included in the Term and the denominator of which is 365.

Section 3.3 Security. (a) Tenant has delivered to Landlord, as security for the performance of Tenant's obligations under this Lease, either (i) the sum of One Million Six Hundred Thousand and No/100 Dollars ($1,600,000.00) by good check (the "Security Deposit"), (ii) an unconditional, irrevocable letter of credit in the amount of One Million Six Hundred Thousand and No/100 Dollars ($1,600,000.00) in a form satisfactory to Landlord, issued by a New York Clearinghouse member bank, including First Union National Bank, or a bank reasonably satisfactory to Landlord and available for presentation in the Borough of Manhattan in New York, New York ("Letter of Credit") or (iii) a Security Deposit and a Letter of Credit, the sum of which equals One Million Six Hundred Thousand and No/100 Dollars ($1,600,000.00; such amount whether in the form of a Security Deposit or Letter of Credit or both being herein referred to as the "Initial Amount"). The Letter of Credit shall either (i) expire on the date which is sixty (60) days after the expiration or earlier termination of this Lease (the "LC Date") or (ii) be automatically self-renewing until the LC Date. If Landlord, at any time during the Term, is not reasonably satisfied with the bank issuing the Letter of Credit, it may so notify Tenant, and Tenant, within ten (10) business days after receipt of such notice, shall replace the Letter of Credit then held by Landlord with a substitute letter of credit (the "Substitute Letter of Credit") issued by a New York Clearinghouse member bank (or other bank reasonably acceptable to Landlord) which satisfies the terms of this Section 3.3(a). If the Letter of Credit or any replacement Letter of Credit has an expiration date or is otherwise scheduled to terminate prior to the LC Date, then at least thirty (30) days prior to such expiration or termination date, Tenant shall deliver to Landlord a replacement Letter of Credit issued by the issuing bank of the then current Letter of Credit, or a bank reasonably satisfactory to Landlord, available for presentation in the

the original Letter of Credit, and in the amount provided for herein. If Tenant shall not have provided such replacement Letter of Credit by the date which is thirty (30) days prior to the expiration or other scheduled termination of the then current Letter of Credit, then Landlord shall have the right to draw down the full amount the then current Letter of Credit, at which time the amount so drawn shall become the Security Deposit.

(b) On the third (3rd) anniversary of the Commencement Date, the Initial Amount shall be reduced to an amount equal to Nine Hundred Twenty Thousand and No/100 Dollars ($920,000.00), provided that no default shall then be continuing and any amounts drawn by Landlord upon the Security Deposit or the Letter of Credit have been replaced by Tenant. On the fourth (4th) anniversary of the Commencement Date, the amount of the Security Deposit or Letter of Credit or both, as applicable, shall then be reduced to an amount equal to Two Hundred Forty Thousand and No/100 Dollars ($240,000.00), provided that no default shall then be continuing and any amounts drawn by Landlord upon the Security Deposit or the Letter of Credit have been replaced by Tenant.

(c) On or before the LC Date: (i) if there shall be no uncured defaults hereunder, Landlord shall return to Tenant the Security Deposit or Letter of Credit or Substitute Letter of Credit then held by Landlord or (ii) if Landlord shall have drawn upon such Security Deposit or Letter of Credit or Substitute Letter of Credit to remedy defaults by Tenant in the payment or performance of any of Tenant's obligations under this Lease, Landlord shall return to Tenant that portion, if any, of such Security Deposit or of the proceeds of the Letter of Credit or Substitute Letter of Credit remaining in Landlord's possession, which has not been applied to remedy, and will not be required to remedy, any Tenant default. If Landlord shall have so drawn upon the Security Deposit or the Letter of Credit, Tenant shall, upon written demand made prior to the LC Date, deposit with Landlord, or cause the Letter of Credit to be increased by, a sum equal to the amount so drawn by Landlord.

Section 3.4 Tenant's Review Right. Following Tenant's receipt of the annual Statement for any Lease Year until ninety (90) days thereafter, Tenant shall have the right to dispute items on such Statement. In such event, Landlord and Tenant will consult in a good faith effort to resolve the dispute within thirty (30) days after Landlord receives notice of such dispute. In the event that such consultations within such thirty (30) day period do not resolve the matter, Tenant shall be entitled, provided that Tenant shall have paid to Landlord the amounts shown thereon as due from Tenant, to have an independent certified public accounting firm hired by Tenant and reasonably approved by Landlord review the books, receipts and records pertaining to such disputed items for such Lease Year. Tenant shall have the right to make copies of such books, receipts and records. The results of any such review shall be provided simultaneously to Landlord and Tenant by the accounting firm and shall be binding upon Landlord and Tenant and, in the event that any such review reveals a net underpayment or overpayment with respect to Operating Expenses and/or the Expense Increase, the applicable party shall pay to the other, within ten (10) business days following demand therefor, the amount necessary to effect the appropriate adjustments. In the event an overpayment exceeds 7%, Landlord shall pay the costs of the accounting firm's review, not to exceed $2,500.00. No more than one such review may be conducted with respect to any Lease Year. Tenant shall keep all information gained in connection with any review or inspection of Landlord's records, and all information contained in any annual Statement, confidential and shall not disclose it to third parties except to carry out the purposes of this Section and except as required by law; provided, however, that Tenant may disclose such information to the extent reasonably needed in connection with financing arrangements or assignments of Tenant's interests in the Premises so long as Tenant takes reasonable steps to assure that the applicable lender or proposed assignee keeps such information confidential.

ARTICLE IV.

Section 4.1 Services.

(a) Services Provided. Landlord shall furnish to Tenant while Tenant is occupying the Premises:

(i) Hot and cold domestic water in common use restrooms and toilets in locations provided for general use and as reasonably deemed by Landlord to be in keeping with the Project standards.

p.m. on Monday through Friday and 9:00 a.m. to 1:00 p.m. on Saturday ("Business Hours"), excluding the hereinafter defined Holidays, subject to curtailment as required by governmental laws, rules or regulations, in such amounts as are considered by Landlord to be standard, but such service at times during weekdays other than the hours stated above, and on Saturdays, Sundays and Holidays, shall be furnished only upon request of Tenant, and for such service Tenant shall pay Landlord upon demand an amount equal to Landlord's actual costs at that time of providing such service.

(iii) Electric lighting service for all public areas and special service areas of the Building in the manner and to the extent deemed by Landlord to be standard.

(iv) Janitor service on a five (5) day week basis in a manner considered by Landlord to be standard for similar projects in the area and as described in Exhibit H attached hereto; provided, however, if Tenant's floor coverings or other improvements require special care, Tenant shall pay the additional cleaning cost attributable thereto.

(v) Access control for the Project comparable as to coverage, control and responsiveness (but not necessarily as to means for accomplishing same) to other similarly situated multi-tenant office buildings in the vicinity; provided, however, Landlord shall have no responsibility to prevent, and shall not be liable to Tenant for, any liability or loss to Tenant, its agents, employees and visitors arising out of losses due to theft, burglary, or damage or injury to persons or property caused by persons gaining access to the Premises, and Tenant hereby releases Landlord from all liability for such losses, damage or injury.

(vi) Sufficient electrical capacity to operate (i) incandescent lights, typewriters, calculating machines, photocopying machines and other machines of similar voltage electrical consumption (120/220 volts), provided that the total rated electrical design load for said lighting and machines of low electrical voltage shall not exceed four and one-half (4.50) watts per square foot of rentable area; and (ii) lighting and equipment of high voltage electrical consumption (277/480 volts), provided that the total rated electrical design load for said lighting and equipment of high electrical voltage shall not exceed two (2.00) watts per square foot of rentable area (each such rated electrical design load to be hereinafter referred to as the "Building standard rated electrical design load"). Tenant shall be allocated Tenant's pro rata share of the Building standard circuits provided on the floor(s) Tenant occupies.

Should Tenant's fully connected electrical design load exceed the Building standard rated electrical design load for either low or high voltage electrical consumption, or if Tenant's electrical design requires low voltage or high voltage circuits in excess of Tenant's share of the Building standard circuits, Landlord will (at Tenant's expense) install one (1) additional high voltage panel and/or one (1) additional low voltage panel with associated transformer, space for which has been provided in the base building electrical closets based on a maximum of two (2) such additional panels per floor for all tenants on the floor (which additional panels and transformers shall be hereinafter referred to as the "additional electrical equipment"). If the additional electrical equipment is installed because Tenant's low or high voltage rated electrical design load exceeds the applicable Building standard rated electrical design load, then a meter shall also be added (at Tenant's expense) to measure the electricity used through the additional electrical equipment.

The design and installation of any additional electrical equipment (or related meter) required by Tenant shall be subject to the prior approval of Landlord (which approval shall not be unreasonably withheld). All expenses incurred by Landlord in connection with the review and approval of any additional electrical equipment shall also be reimbursed to Landlord by Tenant. Tenant shall also pay on demand the actual metered cost of electricity consumed through the additional electrical equipment (if applicable), plus any actual accounting expenses incurred by Landlord in connection with the metering thereof.

If any of Tenant's electrical equipment requires conditioned air in excess of Building standard air conditioning, the same shall be installed by Landlord and operating costs relating thereto.

If Tenant requires that certain areas within the Premises must operate in excess of the Business Hours set forth above, the electrical service to such areas shall be separately circuited and metered such that Tenant shall be billed the actual costs associated with electricity consumed during hours other than the Business Hours. Without limiting the foregoing, Tenant shall arrange to have its network and/or telecommunications operating center separately circuited and metered as aforesaid.

(vii) All fluorescent bulb and ballast replacement for Building standard lighting in all areas and all incandescent bulb replacement in public areas, toilet and restroom areas and stairwells.

(viii) Nonexclusive operatorless passenger elevator service to the Premises twenty-four (24) hours per day; provided, that Landlord may reasonably limit the number of elevators in operation on weekdays after the Business Hours.

(b) Cessation of Services. To the extent the services described in Section 4.1(a) of this Lease require electricity, gas and water supplied by public utilities, Landlord's covenants thereunder shall only impose on Landlord the obligation to use its reasonable efforts to cause the applicable public utilities to furnish the same. Failure by Landlord to furnish the services described in this Section 4.1 to any extent, or any cessation thereof, shall not, unless such failure was caused by the gross negligence or willful misconduct of Landlord or of Landlord's employees, agents and contractors, (i) render Landlord in default hereunder or liable in any respect for damages to either person or property, or (ii) be construed as an eviction of Tenant, or (iii) work an abatement of Rent, or (iv) relieve Tenant from fulfillment of any covenant or agreement hereof. In addition to the foregoing, should any of the equipment or machinery break down, cease to function properly for any cause other than the gross negligence or willful misconduct of Landlord or Landlord's employees, agents or contractors or be intentionally turned off for testing or maintenance purposes, Tenant shall have no claim for abatement or reduction of Rent or damages on account of an interruption in service occasioned thereby or resulting therefrom; provided, however, Landlord agrees to use diligent efforts to repair said equipment or machinery and to restore said services and Tenant's rent shall abate after five (5) consecutive business days of such cessation of services for the duration of the cessation so long as the Premises are not and cannot reasonably be used for the conduct of Tenant's business operation and are not being so used by Tenant.

(c) Holidays. The following dates shall collectively be known as "Holidays" and individually known as a "Holiday": New Year's Day; Memorial Day; Independence Day; Labor Day; Thanksgiving Day; Friday following Thanksgiving Day; Christmas Day; any other holiday recognized and taken by tenants occupying at least one-half (1/2) of the rentable area of office space of the Building and any other holiday recognized and taken by any unions which service the Building in any manner. If in the case of any Holiday, a different day shall be observed than the respective day above described, then that day which constitutes the day observed by national banks in the city or proximate area in which the Building is located, on account of such Holiday, shall constitute the Holiday under this Lease.

Section 4.2 Keys and Locks. Subject to the terms and provisions of this Lease, Tenant shall have access to the Premises 24 hours a day, 7 days a week. Landlord shall initially furnish Tenant with [five hundred thirty-one (531)] card keys or keys, respectively, for the building entrance and for the standard corridor doors serving the Premises. Additional keys will be furnished by Landlord upon an order signed by Tenant and at Tenant's expense. All such keys shall remain the property of Landlord. Without the prior written consent of Landlord, no additional locks shall be allowed on any door of the Premises, and Tenant shall not make or permit to be made any duplicate keys, except those furnished by Landlord. Upon termination or expiration of this Lease or a termination of possession of the Premises by Tenant, Tenant shall surrender to Landlord all keys to any locks on doors entering or within the Premises.

control device or mechanism as Landlord may from time to time elect to provide) intended to limit the general public's access to the Building during other than Business Hours. Landlord, however, shall have no liability to Tenant, its employees, agents, invitees or licensees for any loss, damage or injury of any kind or nature caused by or as a result of the presence of any unauthorized person in the

Premises, the Building or the Project, including without limitation any loss, damage or injury due to theft, burglary or other criminal conduct by any person, nor shall Landlord be required to insure against any such loss, damage or injury

Section 4.3 Graphics and Building Directory. Landlord shall provide and install, at Tenant's expense, all letters or numerals at the entrance to the Premises, and a strip containing a listing of Tenant's name on the Building directory board to be placed in the main lobby of the Building. All such letters and numerals shall be in Building standard graphics. Landlord shall not be liable for any inconvenience or damage occurring as a result of any error or omission in any directory or graphics. No signs, numerals, letters or other graphics shall be used or installed by Tenant on the exterior of, or which may be visible from outside, the Premises, unless approved in writing by Landlord. Additionally, Landlord agrees to provide to Tenant, at Tenant's sole cost and expense, prominent and exclusive signage (subject however to the provisions of Section 5.2) at or about the top of the Building to the maximum size permitted under the signage provisions of the Fairfax County Zoning Ordinance and any other applicable laws or covenants. The design, size, placement, style, lighting, colors and materials of such sign shall require Landlord's prior approval, which approval will not be unreasonably withheld, conditioned or delayed, and will be subject further to Tenant's obtaining approval from the Dulles Tech Center association and applicable governmental authorities. Upon the expiration or earlier termination of this Lease, Tenant shall remove all such signage and/or graphics and repair any and all damage caused by or resulting from the installation, maintenance, operation and/or removal of such signage or graphics at Tenant's sole cost and expense. Tenant's proposed signage is attached hereto as Exhibit G, and Landlord approves such signage, subject to Tenant's obtaining the other approvals and permits referred to hereinabove.

ARTICLE V.

Section 5.1 Occupancy of Premises. Tenant shall throughout the Term of this Lease, at its own expense, maintain the Premises and all improvements thereon and keep them free from waste, damage or nuisance, and shall deliver up the Premises in a clean and sanitary condition at the expiration or termination of this Lease or the termination of Tenant's right to occupy the Premises by Tenant, in good repair and condition, reasonable wear and tear excepted. In the event Tenant should neglect to maintain and/or return the Premises in such manner at any time, Landlord shall have the right, but not the obligation, to cause repairs or corrections to be made, and any reasonable costs therefor shall be payable by Tenant to Landlord within ten (10) days of demand therefor by Landlord. Upon the expiration or termination of this Lease or the termination of Tenant's right to occupy the Premises by Tenant, Landlord shall have the right to reenter and resume possession of the Premises. No act or thing done by Landlord or any of Landlord's agents (hereinafter defined) during the Term of the Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless the same be made in writing and executed by Landlord. Tenant shall notify Landlord at least ten (10) days prior to vacating the Premises and shall arrange to meet with Landlord for a joint inspection of the Premises. If Tenant fails to give such notice or to arrange for such inspection, then Landlord's inspection of the Premises shall be deemed correct for the purpose of determining Tenant's responsibility for repair and restoration of the Premises.

Section 5.2 Entry for Repairs and Inspection. Tenant shall permit Landlord and its agents to enter the Premises (provided Landlord gives Tenant reasonable prior notice and Tenant has the option to have a representative accompanying Landlord during such entry) at all reasonable times to inspect the same; to show the Premises to prospective tenants (within twelve (12) months of the expiration of the term of this Lease), or interested parties such as prospective lenders and purchasers; to exercise its rights under this Lease; to clean, repair, alter or improve the Premises or the Building; to discharge Tenant's obligations when Tenant has failed to do so within the time required under this Lease or within a reasonable time after written notice from Landlord, whichever is earlier; to post notices of nonresponsibility and similar notices and "For Sale" signs at any time and to place "For Lease" signs upon or adjacent to the Building or the Premises at any time within twelve (12) months of the agents to enter the Premises at any time in the event of an emergency. When reasonably necessary, Landlord may temporarily close entrances, doors, corridors, elevators or other facilities without liability to Tenant by reason of such closure.

Section 5.3 Hazardous Materials.

(a) As used in this Lease, the term "Hazardous Materials" shall mean and include any substance that is or contains petroleum, asbestos, polychlorinated biphenyls, lead, or any other substance, material or waste which is now or is hereafter classified or considered to be hazardous or toxic under any federal, state or local law, rule, regulation or ordinance relating to pollution or the protection or regulation of human health, natural resources or the environment (collectively "Environmental Laws") or poses or threatens to pose a hazard to the health or safety of persons on the Premises or any adjacent property. Landlord represents and warrants that to the best of Landlord's actual knowledge, there are no Hazardous Materials located in, on or under the Building or the Land, and Landlord has received no notices concerning violation of any laws relating to Hazardous Materials with respect to the Building or the Land. If Hazardous Materials are discovered in the Building or on the Land after the Commencement Date and were not caused or permitted by Tenant or Tenant's employees, assignees agents or invitees, then Landlord will be responsible for all costs and expenses associated with regulatory requirements to eliminate any violations of law resulting from such presence and Landlord shall indemnify, defend, and hold Tenant and Tenant's employees, assignees, agents and invitees harmless from any and all claims, costs, liabilities or expenses associated with such Hazardous Materials.

(b) Tenant agrees that during its use and occupancy of the Premises it will not permit Hazardous Materials to be present on or about the Premises except in a manner and quantity necessary for the ordinary performance of Tenant's business and that it will comply with all Environmental Laws relating to the use, storage or disposal of any such Hazardous Materials.

(c) If Tenant's use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises or the property in which the Premises are located, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (a) the requirements of (i) all Environmental Laws and (ii) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (b) any additional requirements of Landlord that are reasonably necessary to protect the value of the Premises or the property in which the Premises are located. Landlord shall also have the right, but not the obligation, to take whatever action with respect to any such Hazardous Materials that it deems reasonably necessary to protect the value of the Premises or the property in which the Premises are located. All costs and expenses paid or incurred by Landlord in the exercise of the right set forth in this Section 5.3(c) shall be payable by Tenant upon demand.

(d) Upon reasonable notice to Tenant, Landlord may, at its sole cost and expense unless a violation is discovered, inspect the Premises for the purpose of determining whether there exists on the Premises any Hazardous Materials or other condition or activity that is in violation of the requirements of this Lease or of any Environmental Laws. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord's part to inspect the Premises, or liability on the part of Landlord for Tenant's use, storage or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

(e) Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of debris, waste or Hazardous Materials placed on or about the Premises by Tenant or its agents, employees, contractors or invitees, and in a condition which complies with all Environmental Laws.

(f) Tenant agrees to indemnify and hold harmless Landlord and Landlord's employees, assignees, agents and invitees from and against any and all claims, losses (including, without limitation, loss in value of the Premises or the property in which the Premises are located), liabilities and expenses (including reasonable attorney's fees) sustained by Landlord attributable to (i) any Hazardous Materials placed on or about the Premises by Tenant or its agents, employees, contractors or invitees or (ii) Tenant's breach of any provision of this Section 5.3.

(g) The provisions of this Section 5.3 shall survive the expiration or earlier termination of this Lease.

ARTICLE VI.

Section 6.1 Leasehold Improvements.

(a) Acceptance of Premises. Tenant has made a complete inspection of the Premises and, except as set forth in this Section 6.1 and Exhibit E, shall accept the Premises and the Project in their "AS IS," "WHERE IS," and "WITH ALL FAULTS" condition on the Commencement Date without recourse to Landlord, subject to the terms of Exhibit E attached hereto and hereby made a part hereof. Except as expressly provided in this Lease, Landlord shall have no obligation to furnish, equip or improve the Premises or the Project. The taking of possession of the Premises by Tenant shall be, except as set forth in this Section 6.1 and Exhibit E, conclusive evidence against Tenant that (i) Tenant accepts the Premises and the Project as being suitable for its intended purpose and in a good and satisfactory condition, (ii) acknowledges that the Premises and the Project comply fully with Landlord's covenants and obligations under this Lease and (iii) waives any defects in the Premises and its appurtenances and in all other parts of the Project. Notwithstanding the foregoing, Landlord agrees that upon the Commencement Date, the Building, its common areas, and all central mechanical, electrical and plumbing systems will be in good working order, condition and repair, and the Building and the Land will be in compliance with all applicable laws in effect at the Commencement Date (subject to Tenant's performance of the Tenant Work). In the event of a material breach of the covenant contained in the preceding sentence, Landlord shall promptly after receipt of written notice from Tenant setting forth the nature and extent of such material breach, rectify same at Landlord's cost and expense, as Tenant's sole remedy therefor. After the Commencement Date, Landlord will be responsible for the costs of compliance with applicable laws with respect to the common areas of the Building and the Land as well as all structural elements of the Building, provided that such costs are not the result of Tenant's use, occupancy, manner of use or occupancy, or the negligence of Tenant.

(b) Improvements and Alterations. Tenant shall not make or allow to be made (except as otherwise provided in this Lease) any improvements, alterations or physical additions (including fixtures) in or to the Premises or the Project, without first obtaining the written consent of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed (except in the case of structural changes or changes to any Building system, in which case Landlord may withhold such approval in its sole discretion), including Landlord's written approval of Tenant's contractor(s) and of the plans, working drawings and specifications relating thereto (none of which shall be unreasonably withheld, conditioned or delayed, except in the case of structural changes or changes to any Building system, in which case Landlord may withhold such approval in its sole discretion). Approval by Landlord of any of Tenant's drawings and plans and specifications prepared in connection with any alterations, improvements, modifications or additions to the Premises or the Project shall not constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or alterations, improvements, modifications or additions to which they relate, for any use, purpose or conditions, but such approval shall merely be the consent of Landlord as required hereunder. Except as otherwise expressly provided in Exhibit E attached hereto, any and all furnishing, equipping and improving of or other alteration and addition to the Premises shall be: (i) made at Tenant's sole cost, risk and expense, and Tenant shall pay for Landlord's reasonable costs incurred in connection with and as a result of such alterations or additions; (ii) performed in a good and workmanlike manner with labor and materials of such quality as Landlord may reasonably require; (iii) constructed in accordance with all plans and specifications approved in writing by Landlord prior to the commencement of any such work; (iv) prosecuted diligently and continuously to completion so as to minimize interference with the normal business operations of other tenants in mortgage or ground lease covering or affecting all or any part of the Building or the Land and any work being done by contractors engaged by Landlord with respect to or in connection with the Building; and (v) performed by contractors approved in writing by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant shall have no (and hereby waives all) rights to payment or compensation for any such item.

Tenant shall notify Landlord upon completion of such alterations, improvements, modifications or additions and Landlord shall inspect same for workmanship and compliance with the approved plans and specifications. Tenant and its contractors shall comply with all commercially reasonable requirements Landlord may impose on Tenant or its contractors with respect to such work (including but not limited to, insurance and indemnity requirements), and shall deliver to Landlord a complete copy of the "as-built" or final plans and specifications for all alterations or physical additions so made in or to the Premises within thirty (30) days of completing the work. Tenant shall not place safes, vaults, filing cabinets or systems, libraries or other heavy furniture or equipment within the Premises without Landlord's prior written consent, which approval shall not be unreasonably withheld, conditioned or delayed.

Notwithstanding the foregoing provisions of this Section 6.1(b), Tenant shall notify Landlord of, but shall not be obligated to obtain Landlord's prior consent for any improvement, alteration or physical addition which costs less than $20,000.00 and does not affect the Building's structure or the Building's HVAC, electrical or plumbing systems.

(c) Title to Alterations. All alterations, physical additions, modifications or improvements in or to the Premises (including fixtures) shall, when made, become the property of Landlord and shall be surrendered to Landlord upon termination or expiration of this Lease or termination of Tenant's right to occupy the Premises, whether by lapse of time or otherwise, without any payment, reimbursement or compensation therefor; provided, however, that (i) Tenant shall retain title to and shall remove from the Premises movable equipment or furniture owned by Tenant, (ii) Tenant repairs any damage caused by a removal pursuant to Section 6.1(c)(i), and (iii) Tenant returns the Premises to their condition existing immediately prior to removal (with respect to a removal of an improvement pursuant to Section 6.1(c)(i) only). Notwithstanding any of the foregoing to the contrary, Landlord may require Tenant to remove all alterations, additions or improvements to the Premises (including, but not limited to, the network and/or telecommunications operations center) that are other than a standard office buildout in the Reston/Herndon area in which the Building is located, including, without limitation, any cabling or other computer, satellite or telecommunications equipment or hardware, whether or not such alterations, additions, or improvements are located in the Premises upon the expiration or earlier termination of this Lease or the termination of Tenant's right to possession of the Premises and restore the same to Building standard condition, reasonable wear and tear excepted. If Tenant fails to remove any movable equipment or furniture or any alterations, additions or improvements so required hereunder to be removed, then Landlord may remove such items, at Tenant's sole cost and expense. The rights conferred to Landlord under this Section 6.1(c) shall be in addition to (and not in conflict with) any other rights conferred on Landlord by this Lease, in equity or at law. Notwithstanding the foregoing provisions of this Section 6.1(c), Tenant shall not be required to remove any addition, modification or improvement to the Premises unless Landlord informs Tenant in writing, either at the time Landlord gives its consent to such addition, modification or improvement or within ten (10) business days of Tenant's written request for an addition, modification or improvement which does not require Landlord's consent, that it will have to remove such addition, modification or improvement at the expiration or earlier termination of this Lease.

(d) Personal Property Taxes; Sales, Use and Excise Taxes. Tenant shall be responsible for and shall pay ad valorem taxes and other taxes, assessments or charges levied upon or applicable to Tenant's personal property, the value of Tenant's leasehold improvements in the Premises in excess of Building standard (and if the taxing authorities do not separately assess Tenant's leasehold improvements, Landlord may make a reasonable allocation of the taxes assessed on the Project to give effect to this Section 6.1(d)) and all license fees and other fees or charges imposed on the business conducted by Tenant on the

Tenant shall also pay to Landlord with all Rent due and owing under this Lease an amount equal to any sales, rental, excise and use taxes levied, imposed or assessed by the State or any political subdivision thereof or other taxing authority upon any amounts classified as Rent.

Section 6.2 Repairs by Landlord. All repairs, alterations or additions that affect the Project's structural components shall be made by Landlord or its contractors only, and, in the case of any damage to such components or systems caused the negligence or willful misconduct of Tenant or Tenant's agents, shall be paid for by Tenant in an amount equal to Landlord's costs plus twelve percent (12%) as an overhead expense. Unless otherwise provided herein, Landlord shall not be required to make any improvements to or repairs of any kind or character to the leasehold improvements located in the Premises during the Term, except such repairs as Landlord deems necessary for normal maintenance operations of the Building.

Section 6.3 Repairs by Tenant. Subject to Section 6.2 of this Lease, Tenant shall be responsible, at its own cost and expense, for all repair or replacement of any damage to the leasehold improvements in the Premises (unless such damage is caused by the negligence or willful misconduct of Landlord or Landlord's employees, agents or contractors), together with any damage to the Project or any part thereof caused by Tenant or any of Tenant's agents. Except insofar as Landlord is expressly obligated under this Lease to maintain and repair the Building, in addition to the maintenance and repair obligations of Tenant otherwise expressly set forth in this Lease, Tenant is also obligated to perform, at Tenant's own cost and expense and risk, all other maintenance and repairs necessary or appropriate to cause the Premises to be maintained in good condition and suitable for Tenant's intended commercial purpose reasonable wear and tear excepted.

Section 6.4 Liens. Tenant shall keep the Premises and the Building free from any liens, including but not limited to liens filed against the Premises by any governmental agency, authority or organization, arising out of any work performed, materials ordered or obligations incurred by or on behalf of Tenant, and Tenant hereby agrees to indemnify and hold Landlord, its agents, employees, independent contractors, officers, directors, partners, and shareholders harmless from any liability, cost or expense associated with any lien caused by Tenant. Tenant shall cause any lien imposed as a result of Tenant's actions or inaction to be released of record by payment or posting of the proper bond acceptable to Landlord within ten (10) days after the earlier of imposition of the lien or written request by Landlord. Tenant shall give Landlord written notice of Tenant's intention to perform work on the Premises which might result in any claim of lien, at least ten (10) days prior to the commencement of such work to enable Landlord to post and record a notice of nonresponsibility or other notice deemed proper before commencement of any such work. If Tenant fails to remove any lien within the prescribed ten (10) day period, then Landlord may do so at Tenant's expense and Tenant's reimbursement to Landlord for such amount, including reasonable attorneys' fees and costs, shall be deemed Additional Rent. Tenant shall have no power to do any act or make any contract which may create or be the foundation for any lien, mortgage or other encumbrance upon the reversion or other estate of Landlord, or of any interest of Landlord in the Premises.

Section 6.5 Indemnification. Tenant shall defend, indemnify and hold harmless Landlord, its agents, employees, officers, directors, partners and shareholders ("Landlord's Related Parties") from and against any and all liabilities, judgments, demands, causes of action, claims, losses, damages, costs and expenses, including reasonable attorneys' fees and costs, arising out of the use, occupancy, conduct, operation, or management of the Premises by, or the willful misconduct or negligence of, Tenant, its officers, contractors, licensees, agents, servants, employees, guests, invitees, or visitors in or about the Building or Premises or arising from any breach or default under this Lease by Tenant, or arising from any accident, injury, or damage, howsoever and by whomsoever caused, to any person or property, occurring in or about the Building or Premises. This indemnification shall survive termination or expiration of this Lease. This provision shall not be construed to make Tenant responsible for loss, damage, liability or expense resulting from injuries to third parties caused by the negligence or willful misconduct of Landlord, or its officers, contractors, licensees, agents, employees, or invitees.

Landlord shall indemnify, defend and hold harmless Tenant as well as Tenant's employees, agents and invitees ("Tenant's Related Parties") from and against all liability, claims, losses and expenses (i) resulting from the negligent acts, omissions or willful misconduct of Landlord or Landlord's Related Parties in connection with Landlord's or Landlord's Related Parties' of Tenant or Tenant's agents, shall be paid for by Tenant in an amount equal to Landlord's costs plus twelve percent (12%) as an overhead expense. Unless otherwise provided herein, Landlord shall not be required to make any improvements to or repairs of any kind or character to the leasehold improvements located in the Premises during the Term, except such repairs as Landlord deems necessary for normal maintenance operations of the Building.

Section 6.3 Repairs by Tenant. Subject to Section 6.2 of this Lease, Tenant shall be responsible, at its own cost and expense, for all repair or replacement of any damage to the leasehold improvements in the Premises (unless such damage is caused by the negligence or willful misconduct of Landlord or Landlord's employees, agents or contractors), together with any damage to the Project or any part thereof caused by Tenant or any of Tenant's agents. Except insofar as Landlord is expressly obligated under this Lease to maintain and repair the Building, in addition to the maintenance and repair obligations of Tenant otherwise expressly set forth in this Lease, Tenant is also obligated to perform, at Tenant's own cost and expense and risk, all other maintenance and repairs necessary or appropriate to cause the Premises to be maintained in good condition and suitable for Tenant's intended commercial purpose reasonable wear and tear excepted.

Section 6.4 Liens. Tenant shall keep the Premises and the Building free from any liens, including but not limited to liens filed against the Premises by any governmental agency, authority or organization, arising out of any work performed, materials ordered or obligations incurred by or on behalf of Tenant, and Tenant hereby agrees to indemnify and hold Landlord, its agents, employees, independent contractors, officers, directors, partners, and shareholders harmless from any liability, cost or expense associated with any lien caused by Tenant. Tenant shall cause any lien imposed as a result of Tenant's actions or inaction to be released of record by payment or posting of the proper bond acceptable to Landlord within ten (10) days after the earlier of imposition of the lien or written request by Landlord. Tenant shall give Landlord written notice of Tenant's intention to perform work on the Premises which might result in any claim of lien, at least ten (10) days prior to the commencement of such work to enable Landlord to post and record a notice of nonresponsibility or other notice deemed proper before commencement of any such work. If Tenant fails to remove any lien within the prescribed ten (10) day period, then Landlord may do so at Tenant's expense and Tenant's reimbursement to Landlord for such amount, including reasonable attorneys' fees and costs, shall be deemed Additional Rent. Tenant shall have no power to do any act or make any contract which may create or be the foundation for any lien, mortgage or other encumbrance upon the reversion or other estate of Landlord, or of any interest of Landlord in the Premises.

Section 6.5 Indemnification. Tenant shall defend, indemnify and hold harmless Landlord, its agents, employees, officers, directors, partners and shareholders ("Landlord's Related Parties") from and against any and all liabilities, judgments, demands, causes of action, claims, losses, damages, costs and expenses, including reasonable attorneys' fees and costs, arising out of the use, occupancy, conduct, operation, or management of the Premises by, or the willful misconduct or negligence of, Tenant, its officers, contractors, licensees, agents, servants, employees, guests, invitees, or visitors in or about the Building or Premises or arising from any breach or default under this Lease by Tenant, or arising from any accident, injury, or damage, howsoever and by whomsoever caused, to any person or property, occurring in or about the Building or Premises. This indemnification shall survive termination or expiration of this Lease. This provision shall not be construed to make Tenant responsible for loss, damage, liability or expense resulting from injuries to third parties caused by the negligence or willful misconduct of Landlord, or its officers, contractors, licensees, agents, employees, or invitees.

Landlord shall indemnify, defend and hold harmless Tenant as well as Tenant's employees, agents and invitees ("Tenant's Related Parties") from and against all liability, claims, losses and expenses (i) resulting from the negligent acts, omissions or willful misconduct of Landlord or Landlord's Related Parties in connection with Landlord's or Landlord's Related Parties' or claim is for damage to Tenant's personal property, fixtures or furniture in the Premises and is covered by insurance that Tenant is required to obtain under this Lease (or would have been covered had Tenant carried the insurance required under this Lease) and (ii) Landlord's breach of this Lease. This provision shall not be construed to make Landlord responsible for any losses, liabilities, damages or expenses resulting from injuries or damage caused by the negligence or willful misconduct of Tenant, or its officers, contractors, licensees, agents, employees or invitees.

ARTICLE VII.

Section 7.1 Condemnation.

(a) Total Taking. In the event of a taking or damage related to the exercise of the power of eminent domain, by any agency, authority, public utility, person, corporation or entity empowered to condemn property (including without limitation a voluntary conveyance by Landlord in lieu of such taking or condemnation) (individually, a "Taking") of (i) the entire Premises, (ii) so much of the Premises as to prevent or substantially impair its use by Tenant during the Term of this Lease or (iii) portions of the Building or Project required for reasonable access to, or reasonable use of, the Premises including, without limitation, material portions of the parking areas (individually, a "Total Taking"), the rights of Tenant under this Lease and the leasehold estate of Tenant in and to the Premises shall cease and terminate as of the date upon which title to the property taken passes to and vests in the condemnor or the effective date of any order for possession if issued prior to the date title vests in the condemnor ("Date of Taking").

(b) Partial Taking. In the event of a Taking of only a part of the Premises or of a part of the Project which does not constitute a Total Taking during the Term of this Lease (individually, a "Partial Taking"), the rights of Tenant under this Lease and the leasehold estate of Tenant in and to the portion of the property taken shall cease and terminate as of the Date of Taking, and an adjustment to the Rent shall be made based upon the reduced area of the Premises.

(c) Termination by Landlord. In the event of a Taking of the Building (other than the Premises) such that, in Landlord's reasonable opinion, the Building cannot be restored in a manner that makes its continued operation practically or economically feasible, Landlord may terminate this Lease by giving notice to Tenant within ninety (90) days after the date notice of such Taking is received by Landlord.

(d) Rent Adjustment. If this Lease is terminated pursuant to this Section 7.1, Landlord shall refund to Tenant any prepaid unaccrued Rent and any other sums due and owing to Tenant (less any sums then due and owing Landlord by Tenant), and Tenant shall pay to Landlord any remaining sums due and owing Landlord under this Lease, each prorated as of the Date of Taking where applicable.

(e) Repair. If this Lease is not terminated as provided for in this Section 7.1, then Landlord at its expense shall promptly repair and restore the Building, Project and/or the Premises to approximately the same condition that existed at the time Tenant entered into possession of the Premises, wear and tear excepted (and Landlord shall have no obligation to repair or restore Tenant's improvements to the Premises or Tenant's Property), except for the part taken, so as to render the Building or Project as complete an architectural unit as practical, but only to the extent of the condemnation award received by Landlord for the damage.

(f) Awards and Damages. Except as expressly provided below, Landlord reserves all rights to damages and awards paid because of any Partial or Total of the award payable to Landlord, Tenant (i) shall be entitled to receive any amount attributable to any excess of the market value of the Premises for the remainder of the Term over the present value as of the Expiration Date of the rent payable for the remainder of the Term and (ii) shall have the right to make a separate claim in any condemnation proceeding for the taking of the unamortized or undepreciated value of the improvements and alterations owned by Tenant which Tenant may remove at the expiration or earlier termination of this Lease, reasonable removal and relocation costs for any improvements Tenant has the right to remove and elects to remove, relocation costs, the claim for which Tenant may pursue by separate action independent of this Lease and any other amount. Tenant shall have the right to negotiate directly with the condemnor for the recovery of the portion of the award that Tenant is entitled to under subsection (ii) above. Further, Tenant shall not make claims against Landlord or the condemning authority for damages. If a temporary taking of part of the Premises or a portion of the Project which prevents Tenant's use or occupancy of all or a material portion of the Premises occurs through (a) the exercise of any government power (by legal proceedings or otherwise) by condemnor or (b) a voluntary sale or transfer by Landlord to any condemnor, either under threat of exercise of eminent domain by a condemnor or while legal proceedings for condemnation are pending, Rent shall abate during the time of such taking in proportion to the portion of the Premises taken. The entire award relating to the temporary taking shall be and remain the property of Landlord. Tenant irrevocably assigns and transfers to Landlord all rights to and interest in such award and fully releases and relinquishes any claim to, right to make a claim on, and any other interest in the award.

Section 7.2 Force Majeure. Neither Landlord nor Tenant shall be required to perform any term, provision, agreement, condition or covenant in this Lease (other than the obligations of Tenant to pay Rent as provided herein) so long as such performance is delayed or prevented by "Force Majeure", which shall mean acts of God, strikes, injunctions, lockouts, material or labor restrictions by any governmental authority, civil riots, floods, fire, theft, public enemy, insurrection, war, court order, requisition or order of governmental body or authority, and any other cause not reasonably within the control of Landlord or Tenant and which by the exercise of due diligence Landlord or Tenant is unable, wholly or in part, to prevent or overcome. Neither Landlord nor any mortgagee shall be liable or responsible to Tenant for any loss or damage to any property or person occasioned by any Force Majeure, or for any damage or inconvenience which may arise through repair or alteration of any part of the Project as a result of any Force Majeure.

Section 7.3 Fire or Other Casualty Damage.

(a) Damage. If any portion of the Premises shall be destroyed or damaged by fire or any other casualty, Tenant shall immediately give notice thereof to Landlord. Within thirty (30) days of the date of Tenant's notice, Landlord shall provide Tenant with a reasonable written estimate, calculated in good faith, of the number of days that it will take to restore the Building and/or Premises (the "Restoration Estimate"). If the Restoration Estimate is greater than 180 days, both Landlord and Tenant shall have the right to terminate this Lease by giving 30 days written notice to the other. If the Restoration Estimate is less than 180 days, Landlord shall promptly commence and diligently pursue through completion the restoration of the Building and/or Premises and this Lease shall continue in full force and effect. If, however, the cost of the restoration exceeds the insurance proceeds Landlord reasonably expects to receive due to the casualty (provided, however, that the insurance required to be carried by Landlord by this Lease was in effect on the date of the casualty) or Landlord's lender demands that such insurance proceeds be paid to it, Landlord may terminate the Lease, subject to Tenant's right to propose keeping the Lease in effect by Tenant's paying for the restoration. If Tenant elects to do so, Tenant shall notify Landlord within ten (10) business days of receiving Landlord's notice of termination of the Lease, and the parties shall engage in good faith negotiations to determine the terms of Tenant's election to pay for the restoration; provided, however, that if the parties do not reach agreement to keep this Lease in effect within ten (10) business days after Tenant delivers such written notice to Landlord, then this Lease shall terminate as of the date set forth in Landlord's notice of termination. Following a casualty, Tenant's obligation to pay Rent shall be abated in proportion to the interference caused to its use and occupation of the Premises provided that Tenant no longer occupies or uses such affected Premises for the active conduct of its business.

Notwithstanding the terms of the foregoing paragraph, if the casualty occurs in the last year of the Term (unless Tenant shall have renewed this Lease as provided herein) and materially affects Tenant's use or occupation of the Premises (i.e., more than 25% of the Premises has been damaged, or the cost to repair is reasonably estimated by Landlord to exceed $250,000), either Landlord or Tenant may elect to terminate this Lease by giving the other party 30 days preceding paragraph to the contrary, if Landlord elects to terminate this Lease as a result of such casualty occurring in the last year of the Term (unless Tenant shall have renewed this Lease as provided herein), Tenant shall not have the right to keep this Lease in effect by paying for the restoration.

(b) Repair. Landlord shall use reasonable efforts to give Tenant written notice of its decisions, estimates or elections under this Section 7.3 within thirty (30) days after any such damage or destruction. If Landlord is obligated to repair and restore the Premises or other portion of the Project, this Lease shall continue in full force and effect, and the repairs will be made as promptly as is commercially reasonable (not to exceed 120 days from the date of the Restoration Estimate, subject to the provisions of Section 7.2 of this Lease. Should the repairs, despite Landlord's use of commercially reasonable efforts, not be completed within that period, both Landlord and Tenant shall each have the option of terminating this Lease by written letter of termination. If this Lease is terminated as herein permitted, Landlord shall refund to Tenant any prepaid Rent (unaccrued as of the date of damage or destruction) and any other sums due and owing by Landlord to Tenant (less any sums then due and owing Landlord by Tenant) and any remaining sums due and owing by Tenant to Landlord shall be paid to Landlord. If Landlord has elected to repair and reconstruct the Premises or other portion of the Project to the extent stated above, the Term will be extended for a time equal to the period from the occurrence of such damage to the completion of such repair and reconstruction. If Landlord elects to rebuild the Premises or other portion of the Project, Landlord shall only be obligated to restore or rebuild the Premises or other portion of the Project to approximately the same condition as existed at the time Tenant entered into possession of the Premises, wear and tear excepted and not be required to rebuild, repair or replace any part of Tenant's Property or Tenant's leasehold improvements. Notwithstanding anything contained in this Lease to the contrary, if Landlord shall elect to repair and restore the Premises or other portion of the Project pursuant to this Section 7.3, in no event shall Landlord be required to expend under this Article VII any amount in excess of the proceeds actually received from the insurance carried by Landlord pursuant to Section 7.4(a) of this Lease. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage or destruction or the disregard of the repair thereof.

(c) Negligence of Tenant. Notwithstanding the provisions of Sections 7.3(a) and 7.3(b) of this Lease, if the Premises, the Project or any portion thereof, are damaged by fire or other casualty resulting from the fault or negligence of Tenant or any of Tenant's agents, the Rent under this Lease will not be abated during the repair of that damage, and Tenant will be liable to Landlord for the cost and expense of the repair and restoration of the Premises, the Project or any part thereof, caused thereby to the extent that cost and expense is not covered by insurance proceeds (including without limitation the amount of any insurance deductible).

Section 7.4 Insurance.

(a) Landlord shall maintain, or cause to be maintained, standard fire and extended coverage insurance on the Buildings and Building standard tenant improvements (excluding leasehold improvements by Tenant in excess of Building standard and Tenant's Property) in amounts considered by Landlord to be reasonable and customary. The insurance required to be obtained by Landlord may be obtained by Landlord through blanket or master policies insuring other entities or properties owned or controlled by Landlord.

(b) Tenant shall, at its sole cost and expense, procure and maintain during the Term of this Lease (and during any period prior to the Commencement Date in which Tenant is performing work in any portion of the Building) all such policies of insurance as Landlord may require, including without limitation commercial general liability insurance (including personal injury liability, premises/operation, property damage, independent contractors) in amounts of not less than a combined single limit of $5,000,000; comprehensive automobile liability insurance; business interruption insurance for a period of at least twelve (12) months; contractual liability insurance; property insurance with respect to Tenant's Property, and all leasehold improvements, alterations and for full replacement cost; worker's compensation and employer's liability insurance; and comprehensive catastrophe liability insurance; all maintained with companies, on forms and in such amounts as Landlord may, from time to time, reasonably require and endorsed to include Landlord as an additional insured (on all but the workers compensation coverage), with the premiums fully paid on or before the due dates. The insurer must be licensed to do business in the state in which the Building is located. Tenant, and not Landlord, will be liable for any costs or damages in excess of the statutory limit for which Tenant would, in the absence of worker's compensation, be liable. In the event that Tenant fails to take out or maintain any policy required by this Section 7.4 to be maintained by Tenant, such failure shall be a defense to any claim asserted by Tenant against Landlord by reason of any loss sustained by Tenant that would have been covered by such policy, notwithstanding that such loss may have been proximately caused solely or partially by the negligence or willful misconduct of Landlord or any of Landlord's Related Parties. If Tenant does not procure insurance as required, Landlord may, upon advance written notice to Tenant, cause this insurance to be issued and Tenant shall pay to Landlord the premium for such insurance within ten (10) days of Landlord's demand, plus interest at the past due rate provided for in Section 3.1(c) of this Lease until repaid by Tenant.

All policies of insurance required to be maintained by Tenant shall specifically provide that Landlord shall be given at least thirty (30) days' prior written notice of any cancellation or nonrenewal of any such policy. A certificate evidencing each such policy shall be deposited with Landlord by Tenant on or before the Commencement Date, and a replacement certificate evidencing each subsequent policy shall be deposited with Landlord at least thirty (30) days prior to the expiration of the preceding such policy. All insurance policies obtained by Tenant shall be written as primary policies (primary over any insurance carried by Landlord), not contributing with and not in excess of coverage which Landlord may carry, if any.

Section 7.5 <u>Waiver of Subrogation Rights</u>. Each party hereto waives all rights of recovery, claims, actions or causes of actions arising in any manner in its (the "Injured Party's") favor and against the other party for loss or damage to the Injured Party's property located within or constituting a part or all of the Project, to the extent the loss or damage: (a) is covered by the Injured Party's insurance; or (b) would have been covered by the insurance the Injured Party is required to carry under this Lease, whichever is greater, regardless of the cause or origin, including the sole, contributory, partial, joint, comparative or concurrent negligence of the other party. This waiver also applies to each party's directors, officers, employees, shareholders, partners, representatives and agents. All insurance carried by either Landlord or Tenant covering the losses and damages described in this Section 7.5 shall provide for such waiver of rights of subrogation by the Injured Party's insurance carrier to the maximum extent that the same is permitted under the laws and regulations governing the writing of insurance within the state in which the Building is located. Both parties hereto are obligated to obtain such a waiver and provide evidence to the other party of such waiver. The waiver set forth in this Section 7.5 shall be in addition to, and not in substitution for, any other waivers, indemnities or exclusions of liability set forth in this Lease.

ARTICLE VIII.

Section 8.1 <u>Default by Tenant</u>. The occurrence of any one or more of the following events shall constitute a default by Tenant under this Lease:

(a) Tenant shall fail to pay to Landlord any Rent or any other monetary charge due from Tenant hereunder as and when due and payable;

(b) Tenant breaches or fails to comply with any term, provisions, conditions or covenant of this Lease, other than as described in Section 8.1(a), or with any of the Building rules and regulations now or hereafter established to govern the operation of the Project;

(c) A Transfer (hereinafter defined) shall occur, without the prior written approval of Landlord;

(d) The interest of Tenant under this Lease shall be levied on under execution or other legal process;

(e) Any petition in bankruptcy or other insolvency proceedings shall be filed by or against Tenant, or any petition shall be filed or other action taken to declare Tenant a bankrupt or to delay, reduce or modify Tenant's debts or obligations or to reorganize or modify Tenant's capital structure or property of Tenant, or any proceeding or other action shall be commenced or taken by any governmental authority for the dissolution or liquidation of Tenant and, within thirty (30) days hereafter, Tenant fails to secure a discharge thereof;

(f) Tenant shall become insolvent, or Tenant shall make an assignment for the benefit of creditors, or Tenant shall make a transfer in fraud of creditors, or a receiver or trustee shall be appointed for Tenant or any of its properties; or

(g) Tenant shall abandon the Premises or any substantial portion thereof for any reason other than destruction or condemnation of the Premises.

Section 8.2 Landlord's Remedies. Upon occurrence of any default by Tenant under this Lease and (i) if the event of default described in Section 8.1(a) is not cured within five (5) days after receipt by Tenant of written notice from Landlord of such default stating the nature of the default; or (ii) the events described in Sections 8.1 (b), (d), (f) and (g) are not cured within thirty (30) days after receipt by Tenant of written notice stating the nature of the default from Landlord of such default provided that if such default cannot be cured within thirty (30) days after receipt by Tenant of such notice, Tenant shall not be in default hereunder so long as Tenant promptly commences curative action within such thirty (30) day period and thereafter diligently and continuously pursues such cure to completion within ninety (90) days after delivery of such notice (there being no notice and cure period for events of defaults described in Sections 8.1 (c) and (e) except as otherwise set forth herein), the Landlord shall have the option to do and perform any one or more of the following in addition to, and not in limitation of, any other remedy or right permitted it by law or in equity by this Lease:

(a) Continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate this Lease, and Landlord shall have the right to collect Rent, Additional Rent and other charges when due.

(b) Terminate this Lease, and Landlord may forthwith repossess the Premises and be entitled to recover as damages a sum of money equal to the total of (i) the cost of recovering the Premises, (ii) the cost of removing and storing Tenant's or any other occupant's property, (iii) the unpaid Rent and any other sums accrued hereunder at the date of termination, (iv) a sum equal to the amount, if any, by which the present value of the total Rent and other benefits which would have accrued to Landlord under this Lease for the remainder of the Term, if the terms of this Lease had been fully complied with by Tenant, discounted at five percent (5%) per annum exceeds the total fair market value of the Premises for the balance of the Term (it being the agreement of the parties hereto that Landlord shall receive the benefit of its bargain), (v) the cost of any attempted reletting or reletting and the collection of rent accruing from such reletting, (vi) the cost of any reasonable brokerage fees or commission payable by Landlord in connection with any reletting or attempted reletting, (vii) any other costs reasonably incurred by Landlord in connection with any such reletting or attempted reletting, (viii) any increase in insurance premiums caused by the vacancy of the Premises and (ix) any other sum of money or damages owed by Tenant to Landlord at law, in equity or hereunder. In the event Landlord shall elect to terminate this Lease, Landlord shall at once have all the rights of reentry upon the Premises, without becoming liable for damages, or guilty of trespass.

(c) Terminate Tenant's right of occupancy of the Premises and reenter and repossess the Premises by entry, forcible entry or detainer suit or otherwise, without demand or notice of any kind to Tenant and without terminating this Lease, without acceptance of surrender of possession of the Premises, and without becoming liable for damages or guilty of trespass, in which event Landlord may, but shall be under no obligation to, relet the Premises or any part thereof for the account of Tenant (nor shall Landlord be under any obligation to relet the Premises before Landlord relets or leases any other portion of the Project or any other property under the ownership or control of Landlord) for a period equal to or lesser or greater than the remainder of the Term of the Lease on whatever terms and conditions Landlord, at Landlord's sole discretion, deems advisable. Tenant shall be liable for and shall pay to Landlord all Rent payable by Tenant under this Lease (plus interest at the past due rate provided in Section 3.1(c) of this Lease if in arrears) plus an amount removing and storing any of Tenant's or any other occupant's property left on the Premises or the Project after reentry, (iii) the cost of decorations, repairs, changes, alterations and additions to the Premises and the Project, (iv) the cost of any attempted reletting or reletting and the collection of the rent accruing from such reletting, (v) the cost of any brokerage fees or commissions payable by Landlord in connection with any reletting or attempted reletting, (vi) any other costs incurred by Landlord in connection with any such reletting or attempted reletting, (vii) the cost of any increase in insurance premiums caused by the termination of possession of the Premises, (viii) the amount of any unamortized improvements to the Premises paid for by Landlord, (ix) the amount of any unamortized brokerage commissions or other costs paid by Landlord in connection with the leasing of the Premises and (x) any other sum of money or damages owed by Tenant to Landlord at law, in equity or hereunder, all reduced by any sums received by Landlord through any reletting of the Premises; provided, however, that in no event shall Tenant be entitled to any excess of any sums obtained by reletting over and above Rent provided in this Lease to be paid by Tenant to Landlord. For the purpose of such reletting Landlord is authorized to decorate or to make any repairs, changes, alterations or additions in or to the Premises that may be necessary. Landlord may file suit to recover any sums falling due under the terms of this Section 8.2(c) from time to time,and no delivery to or recovery by Landlord of any portion due Landlord hereunder shall be any defense in any action to recover any amount not theretofore reduced to judgment in favor of Landlord. No reletting shall be construed as an election on the part of Landlord to terminate this Lease unless a written notice of such intention is given to Tenant by Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous default and/or exercise its rights under Section 8.3(b) of this Lease.

(d) Enter upon the Premises and do whatever Tenant is obligated to do under the terms of this Lease; and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in effecting compliance with Tenant's obligations under this Lease twelve percent (12%) of such cost to cover overhead plus interest at the past due rate provided in this Lease, and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action. No action taken by Landlord under this Section 8.2(d) shall relieve Tenant from any of its obligations under this Lease or from any consequences or liabilities arising from the failure to perform such obligations.

(e) Without waiving such default, apply all or any part of any unapplied Prepaid Rent to cure the default or to any damages suffered as a result of the default to the extent of the amount of damages suffered. Tenant shall reimburse Landlord for the amount of such depletion of any Prepaid Rent on demand.

(f) Change all door locks and other security devices of Tenant at the Premises and/or the Project, and Landlord shall not be required to provide the new key to the Tenant except during Tenant's regular business hours, and only upon the condition that Tenant has cured any and all defaults hereunder and in the case where Tenant owes Rent to the Landlord, reimbursed Landlord for all Rent and other sums due Landlord hereunder. Landlord, on terms and conditions satisfactory to Landlord in its sole discretion, may upon request from Tenant's employees, enter the Premises for the purpose of retrieving therefrom personal property of such employees, provided, Landlord shall have no obligation to do so.

(g) Exercise any and all other remedies available to Landlord in this Lease, at law or in equity.

Section 8.3 Waiver of Duty to Relet or Mitigate. Notwithstanding anything contained herein to the contrary, to the full extent permitted under applicable law, Tenant and Landlord agree that Landlord shall have no duty to relet the Premises or otherwise mitigate damages under this Lease and Tenant hereby releases Landlord from any and all duty to relet the Premises or otherwise mitigate damages. Tenant agrees that Landlord shall not be liable, nor shall Tenant's obligations hereunder be diminished, because of Landlord's failure to relet the Premises or collect rent due with respect to such reletting. Furthermore, Tenant hereby waives any and all rights to plead such failure of Landlord to mitigate damages as affirmative defense in any proceeding based on any Default by Tenant under this Lease. In the event, and only in the event, applicable law requires Landlord to attempt to mitigate damages, Landlord and Tenant agree that any such duty to mitigate shall be satisfied and Landlord shall be deemed to have used objectively reasonable efforts to fill the Premises by doing the following: (a) posting a "For Lease" sign on the Premises; (b) advising Landlord's leasing agent of the availability of the Premises; and (c) advising at least one outside commercial brokerage entity of the availability of the Premises; provided, however, that Landlord shall not be obligated to relet the Premises before leasing any other unoccupied portions of the Project and any other property under the ownership or control of Landlord. If Landlord receives any payments from the reletting of the Premises and is required to mitigate damages (despite the intent of the parties hereunder), any such payment shall first be applied to any costs or expenses incurred by Landlord as a result of Tenant's Default under this Lease.

Section 8.4 Reentry. If Tenant fails to allow Landlord to reenter and repossess the Premises, Landlord shall have full and free license to enter into and upon the Premises with or without process of law for the purpose of repossessing the Premises, expelling or removing Tenant and any others who may be occupying or otherwise within the Premises, removing any and all property therefrom and changing all door locks of the Premises. Landlord may take these actions without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, without accepting surrender of possession of the Premises by Tenant, and without incurring any liability for any damage resulting therefrom, including without limitation any liability arising under applicable state law and without relinquishing Landlord's right to Rent or any other right given to Landlord hereunder or by operation of law or in equity, Tenant hereby waiving any right to claim damage for such reentry and expulsion, including without limitation any rights granted to Tenant by applicable state law.

Section 8.5 Rights of Landlord in Bankruptcy. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy or insolvency, by reason of the expiration or termination of this Lease or the termination of Tenant's right of occupancy, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damages referred to in this Section 8.5. In the event that under applicable law, the trustee in bankruptcy or Tenant has the right to affirm this Lease and continue to perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all defaults of Tenant hereunder outstanding as of the date of the affirmance of this Lease and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligations under this Lease.

Section 8.6 Waiver of Certain Rights. Tenant hereby expressly waives any and all rights Tenant may have under applicable state law to its right to recover possession of the Premises or terminate this Lease. Tenant hereby waives any and all liens (whether statutory, contractual or constitutional) it may have or acquire as a result of a breach by Landlord under this Lease. Tenant also waives and releases any statutory lien and offset rights it may have against Landlord, including without limitation the rights conferred upon applicable state law.

Section 8.7 NonWaiver. Failure on the part of Landlord to complain of any action or nonaction on the part of Tenant, no matter how long the same may continue, shall not be deemed to be a waiver by Landlord of any of its rights under this Lease. Further, it is covenanted and agreed that no waiver at any time of any of the provisions hereof by Landlord shall be construed as a waiver of any of the other provisions hereof and that a waiver at any time of any of the provisions hereof shall not be construed as a waiver at any subsequent time of the same provisions. The consent or approval by Landlord to or of any action by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or of any subsequent similar act by Tenant.

Section 8.8 Holding Over. In the event Tenant remains in possession of the Premises after the expiration or termination of this Lease without the execution of a new lease, then Tenant, at Landlord's option, shall be deemed to hundred fifty percent (150%) of the then applicable Base Rent, and shall otherwise remain subject to all the conditions, provisions and obligations of this Lease insofar as the same are applicable to a tenancy at will, including without limitation the payment of all other Rent; provided, however, nothing

contained herein shall require Landlord to give Tenant more than thirty (30) days prior written consent to terminate Tenant's tenancy-at-will. No holding over by Tenant after the expiration or termination of this Lease shall be construed to extend or renew the Term or in any other manner be construed as permission by Landlord to hold over. Tenant shall indemnify Landlord (y) against all claims for damages by any other tenant to whom Landlord may have leased all or any part of the Premises, effective upon the date that is forty-five (45) days after the date of termination or expiration of this Lease and (z) for all other losses, costs and expenses, including reasonable attorneys' fees, incurred by reason of such holding over after such 45th day.

Section 8.9 Abandonment of Personal Property. Any personal property left in the Premises or any personal property of Tenant left about the Project at the expiration or termination of this Lease, the termination of Tenant's right to occupy the Premises or the abandonment, desertion or vacating of the Premises by Tenant, shall be deemed abandoned by Tenant and may, at the option of Landlord, be immediately removed from the Premises or such other space by Landlord and stored by Landlord at the full risk, cost and expense of Tenant. Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. In the event Tenant does not reclaim any such personal property and pay all costs for any storage and moving thereof within thirty (30) days after the expiration or termination of this Lease, the termination of Tenant's right to occupy the Premises or the abandonment, desertion or vacating of the Premises by Tenant, Landlord may dispose of such personal property in any way that it deems proper. If Landlord shall sell any such personal property, it shall be entitled to retain from the proceeds the amount of any Rent or other expenses due Landlord, together with the cost of storage and moving and the expense of the sale. Notwithstanding anything contained herein to the contrary, in addition to the rights provided herein with respect to any such property, Landlord shall have the option of exercising any of its other rights or remedies provided in the Lease or exercising any rights or remedies available to Landlord at law or in equity.

ARTICLE IX.

Section 9.1 Transfers. Tenant shall not, by operation of law or otherwise, (a) assign, transfer, mortgage, pledge, hypothecate or otherwise encumber this Lease, the Premises or any part of or interest in this Lease or the Premises, (b) grant any concession or license within the Premises, (c) sublet all or any part of the Premises or any right or privilege appurtenant to the Premises, or (d) permit any other party to occupy or use all or any part of the Premises (collectively, a "Transfer"), without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. This prohibition against a Transfer includes, without limitation, (i) any subletting or assignment which would otherwise occur by operation of law, merger, consolidation, reorganization, transfer or other change of Tenant's corporate or proprietary structure; (ii) an assignment or subletting to or by a receiver or trustee in any federal or state bankruptcy, insolvency, or other proceedings; (iii) the sale, assignment or transfer of all or substantially all of the assets of Tenant, with or without specific assignment of Lease; (iv) the change in control in a partnership; or (v) conversion of Tenant to a limited liability entity. If Tenant converts to a limited liability entity without obtaining the prior written consent of Landlord: (i) the conversion shall be null and void for purposes of the Lease, including the determination of all obligations and liabilities of Tenant and its partners to Landlord; (ii) all partners of Tenant immediately prior to its conversion to a limited liability shall be fully liable, jointly and severally, for obligations of Tenant accruing under this Lease pre-conversion and post-conversion, and all members and other equity holders in Tenant post-conversion shall be fully liable for all obligations and liabilities of Tenant accruing under the Lease after the date such members and other equity holders are admitted to the limited liability entity as if such person or entity had become a general partner in a partnership; and (iii) Landlord shall have the option of declaring Tenant in default under this Lease. If Tenant requests Landlord's consent to any Transfer, then Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer, copies of the proposed documentation, and the following information about the proposed transferee: name and address; reasonably satisfactory information about its business and business history; its proposed use of the Premises; a copy of the proposed sublease or assignment agreement; banking, financial and other credit information; and transferee's creditworthiness and character. In addition to its right to approve or reject the proposed Transfer, Landlord shall have the option, upon written notice to Tenant within thirty (30) days after the receipt of such information concerning the proposed transferee, to (x) sublease the applicable space on the terms and conditions of this Lease or (y) in the case of a proposed assignment or proposed subletting for all or substantially all of the Term, to terminate this Lease as to the space so affected as of the date of the proposed assignment or such subletting, in which event the provisions of this Lease governing such space shall terminate (except for any provisions that pursuant to this Lease expressly survive such termination); provided, however, that Landlord's rights set forth in this sentence shall not apply if (A) the proposed subletting is for less than fifty percent (50%) of the Premises and (B) the proposed term of such subletting is for less than a four (4) year term (including any renewal terms). Landlord's consent to a Transfer shall not release Tenant from performing its obligations under this Lease, but rather Tenant's transferee shall assume all of Tenant's obligations under this Lease in a writing satisfactory to Landlord, and Tenant and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfer. While the Premises or any part thereof are subject to a Transfer, Landlord may collect directly from such transferee all rents or other sums relating to the Premises becoming due to Tenant or Landlord and apply such rents and other sums against the Rent and any other sums payable hereunder. If the aggregate rental, bonus or other consideration paid by a transferee for any such space exceeds the sum of (y) Tenant's Rent to be paid to Landlord for such space during such period and (z) Tenant's costs and expenses actually incurred in connection with such Transfer, including reasonable brokerage fees, reasonable costs of finishing or renovating the space affected and reasonable cash rental concessions, which costs and expenses are to be amortized over the term of the Transfer, then fifty percent (50%) of such excess shall be paid to Landlord within thirty (30) days after such amount is earned by Tenant. Such overage amounts in the case of a sublease shall be calculated and adjusted (if necessary) on a Lease Year (or partial Lease Year) basis, and there shall be no cumulative adjustment for the Term. Landlord shall have the right to audit Tenant's books and records relating to the Transfer. Tenant authorizes its transferees to make payments of rent and any other sums due and payable, directly to Landlord upon receipt of notice from Landlord to do so. Any attempted Transfer by Tenant in violation of the terms and covenants of this Article IX shall be void and shall constitute a default by Tenant under this Lease. In the event that Tenant requests that Landlord consider a sublease or assignment hereunder, Tenant shall pay Landlord's reasonable attorneys' fees and costs incurred by Landlord in connection with the consideration of such request or such sublease or assignment.

Notwithstanding the prohibition against assignment and subleasing contained in the immediately preceding paragraph, Tenant may, without the prior written consent of Landlord, but only after giving Landlord at least thirty (30) days prior written notice (which notice shall include the identity of the Affiliate (hereinafter defined) and the relationship of the Affiliate to Tenant), sublet the Premises or any part thereof to an affiliate or assign this Lease to an Affiliate or permit occupancy of any portion of the Premises by an Affiliate (each a "Permitted Transfer"). If Tenant is a partnership, the term "Affiliate" shall mean (i) any corporation which, directly or indirectly, controls or is controlled by or is under common control with the general partner of Tenant, (ii) any corporation not less than fifty percent (50%) of whose outstanding stock shall, at the time be owned directly or indirectly by Tenant's general partner or (iii) any partnership or joint venture in which Tenant or the general partner of Tenant is a general partner or joint venturer (with joint and several liability for all of the partnership's or venture's obligations). If Tenant is a corporation or individual, the term "Affiliate" shall mean (i) any corporation which, directly or indirectly, controls or is controlled by or is under common control with Tenant or (ii) any corporation not less than fifty percent (50%) of whose outstanding stock shall, at the time, be owned directly or indirectly by Tenant or Tenant's parent corporation. An "Affiliate" shall also include any entity resulting from the merger, consolidation or other reorganization with Tenant, whether or not Tenant is the surviving entity or any person or legal entity which acquires all or substantially all of the assets or stock of Tenant. Before such transfer shall be effective, (y) in the event of an assignment of this Lease, said Affiliate shall assume, in full, the obligations of Tenant under this Lease and (z) the use of the Premises by the Affiliate shall be as set forth in Section 2.3. For purposes of this paragraph, a public or private offering of Tenant stock is a Permitted Transfer and the term "control" means the possession, directly or indirectly, of the power to direct or cause the ownership of voting securities, by contract or otherwise. The bonus rental provisions of this Section 9.1 shall not apply to a transfer by Tenant to a Permitted Transfer. A Permitted Transfer shall not constitute a Transfer for purposes of this Lease.

Section 9.2 Assignment by Landlord. Landlord shall have the right at any time to sell, transfer or assign, in whole or in part, by operation of law or otherwise, its rights, benefits, privileges, duties, obligations or interests in this Lease or in the Premises, the Building, the Land, the Project and all other property referred to herein, without the prior consent of Tenant, and such sale, transfer or assignment shall be binding on Tenant provided that (i) Tenant is notified of the transfer and (ii) except as provided in any SNDA, any such transferee shall assume, in writing, all non-accrued obligations of Landlord under this Lease. After such sale, transfer or assignment, Tenant shall attorn to such purchaser, transferee or assignee, and Landlord shall be released from all liability and obligations under this Lease accruing after the effective date of such sale, transfer or assignment.

Section 9.3 Limitation of Landlord's Liability. Any provisions of this Lease to the contrary notwithstanding, Tenant hereby agrees that no personal, partnership or corporate liability of any kind or character (including, without limitation, the payment of any judgment) whatsoever now attaches or at any time hereafter under any condition shall attach to Landlord or any of Landlord's Related Parties or any mortgagee for payment of any amounts payable under this Lease or for the performance of any obligation under this Lease. The exclusive remedies of Tenant for the failure of Landlord to perform any of its obligations under this Lease shall be to proceed against the interest of Landlord in and to the Project and/or the proceeds of insurance or condemnation. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successors in interest or any suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Landlord. In no event shall Landlord be liable to Tenant, or any interest of Landlord in the Project be subject to execution by Tenant, for any indirect, special, consequential or punitive damages.

ARTICLE X.

Section 10.1 Subordination. This Lease shall be subject and subordinated at all times to (a) all ground or underlying leases which may hereinafter be executed affecting the Project, and (b) the lien or liens of all mortgages and deeds of trust in any amount or amounts whatsoever hereafter placed on the Project or Landlord's interest or estate therein or on or against such ground or underlying leases and to all renewals, modifications, consolidations, replacements and extensions thereof and to each advance made or hereafter to be made thereunder; provided, however, that Tenant obtains from the holder of such mortgage or deed of trust a Tenant's non-disturbance agreement in such party's standard form (the "SNDA"). Tenant shall execute and deliver upon demand any instruments, releases or other commercially reasonable documents requested by any lessor or mortgagee for the purpose of subjecting and subordinating this Lease to such ground leases, mortgages or deeds of trust, subject to Tenant's receipt of the SNDA. Tenant shall, subject to its receipt of the SNDA, attorn to any party succeeding to Landlord's interest in the Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease or otherwise, only upon such party's request and at such party's sole discretion but not otherwise. Notwithstanding such attornment, Tenant agrees that any such successor in interest shall not be (a) liable for any act or omission of, or subject to any rights of setoff, claims or defenses otherwise assertable by Tenant against, any prior owner of the Project (including without limitation, Landlord), (b) bound by any rents paid more than one (1) month in advance to any prior owner, and (d) if such successor is a mortgagee or a ground lessor whose address has been previously given to Tenant, bound by any modification, amendment, extension or cancellation of the Lease not consented to in writing by such mortgagee or ground lessor. Subject to Tenant's receipt of the SNDA, Tenant shall execute all such commercially reasonable agreements confirming such attornment as such party may reasonably request. Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any mortgagee or lessor under a lien instrument or lease covering the Premises whose address has been given to Tenant, and affording such mortgagee or lessor a reasonable generality of the foregoing, any mortgagee or ground lessor may at any time subordinate any such deeds of trust, mortgages, other security instruments or ground leases to this Lease on such terms and conditions as such mortgagee or ground lessor may deem appropriate. Tenant shall execute any such subordination or attornment documents as described herein within ten (10) days after demand therefor, subject to Tenant's receipt of the SNDA. Landlord represents and warrants that, as of the date of this Lease, there is no mortgagee or holder of a deed of trust on the Project.

Section 10.2 <u>Estoppel Certificate or Three-Party Agreement</u>. Tenant agrees within ten (10) days following written request therefor by Landlord (a) to execute, acknowledge and deliver to Landlord and any other persons specified by Landlord, a certificate or three-party agreement among Landlord, Tenant and/or any third party dealing with Landlord, certifying (i) that this Lease is unmodified and in full force and effect, or, if modified, stating the nature of such modification (ii) the date to which the Rent and other charges are paid in advance, if any, (iii) that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or so specifying such defaults, if any, as are claimed and/or (iv) any other matters as such third party may reasonably require in connection with the business dealings of Landlord and/or such third party and (b) to deliver to Landlord current financial statements of Tenant, including a balance sheet and a profit and loss statement for at least two (2) years, all prepared in accordance with generally accepted accounting principles consistently applied. Tenant's failure to deliver such certificate or three-party agreement within such ten (10) day period shall be conclusive upon Tenant (x) that this Lease is in full force and effect without modification except as may be represented by Landlord, (y) that to Tenant's knowledge there are no uncured defaults in Landlord's performance, and (z) that no Rent has been paid in advance except as set forth in this Lease.

Section 10.3 <u>Notices</u>. Any Notice, demand, request, consent, approval, disapproval or certificate ("<u>Notice</u>") required or desired to be given under this Lease shall be in writing and given by certified mail, return receipt requested, by personal delivery or by Federal Express or a similar nationwide over-night delivery service providing a receipt for delivery. Notices may not be given by facsimile. Notwithstanding anything to the contrary herein, whenever any provision of the Lease provided the Tenant with a grace period in which to perform an obligation of Tenant hereunder, such time period shall not commence until Tenant has actually received (or has refused receipt of) a copy of such written notice by one of the methods described in this <u>Section 10.3</u>. Any written notice whose receipt is refused by either Landlord or Tenant shall be deemed given on the date that such written notice is refused. All notices, demands, requests, consents, approvals, disapprovals, or certificates shall be addressed as follows:

<u>To Landlord:</u>

DULLES TECH, INC.
C/o West World Management, Inc.
4 Manhattanville Road, 2nd Floor
Purchase, NY 10577

<u>To Tenant (if prior to Commencement Date):</u>

Network Access Solutions Corporation
100 Carpenter Drive
Suite 206
Sterling, VA 20164
Attn: Manager, Facilities

<u>To Tenant (if after Commencement Date):</u>

Network Access Solutions Corporation
at the Premises
Attn: Manager, Facilities

<u>With a copy to:</u>

Watt, Tieder, Hoffar & Fitzgerald, L.L.P.
7929 Westpark Drive, Suite 400
McLean, Virginia 22102
Attention: John G. Lavoie, Esquire

Either party may change its address by giving notice of same in accordance with the methods described in this paragraph reasonably in advance.

ARTICLE XI.

Section 11.1 Right to Relocate Tenant. [Intentionally Omitted.]

Section 11.2 Rights and Remedies Cumulative. The rights and remedies of Landlord under this Lease shall be nonexclusive and each right or remedy shall be in addition to and cumulative of all other rights and remedies available to Landlord under this Lease or at law or in equity. Pursuit of any right or remedy shall not preclude pursuit of any other rights or remedies provided in this Lease or at law or in equity, nor shall pursuit of any right or remedy constitute a forfeiture or waiver of any Rent due to Landlord or of any damages accruing to Landlord by reason of the violation of any of the terms of this Lease.

Section 11.3 Legal Interpretation. This Lease and the rights and obligations of the parties hereto shall be interpreted, construed and enforced in accordance with the laws of the state in which the Building is located and the United States. The determination that one or more provisions of this Lease is invalid, void, illegal or unenforceable shall not affect or invalidate any other provision of this Lease, and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Lease, and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. All obligations of either party hereunder not fully performed as of the expiration or termination of the Term of this Lease shall survive the expiration or termination of the Term of this Lease and shall be fully enforceable in accordance with those provisions pertaining thereto. Article and section titles and captions appearing in this Lease are for convenient reference only and shall not be used to interpret or limit the meaning of any provision of this Lease. No custom or practice which may evolve between the parties in the administration of the terms of this Lease shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms of this Lease. This Lease is for the sole benefit of Landlord and Tenant, and, without the express written consent thereto, no third party shall be deemed a third party beneficiary hereof. Tenant agrees that this Lease supersedes and cancels any and all previous statements, negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant with respect to the subject matter of this Lease or the Premises and that this Lease, including written extrinsic documents referred to herein, is the entire agreement of the parties, and that there are no representations, understandings, stipulations, agreements, warranties or promises (express or implied, oral or written) between Landlord and Tenant with respect to the subject matter of this Lease or the Premises. It is likewise agreed that this Lease may not be altered, amended, changed or extended except by an instrument in writing signed by both Landlord and Tenant. The terms and provisions of this Lease shall not be construed against or in favor of a party hereto merely because such party is the "Landlord" or the "Tenant" hereunder or because such party or its counsel is the draftsman of this Lease. All references to days in this Lease and any Exhibits or Addenda hereto mean calendar days, not working or business days, unless otherwise stated.

Section 11.4 Authority. Each party warrants and represents to the other that (a) it is a duly organized and validly existing legal entity, in good standing and qualified to do business in the state in which the Building is located, with no proceedings pending or contemplated for its dissolution or reorganization, voluntary or involuntary, (b) it has full right, power and authority to execute, deliver and perform this Lease, (c) the person executing this Lease on its behalf is authorized to do so, and (d) upon execution of this Lease by such party, this Lease shall constitute a valid and legally binding obligation of such party.

Section 11.5 No Brokers. Landlord and Tenant warrant and represent to the other that it has not dealt with any real estate broker and/or salesman (other

Irving Group, who represented Tenant) in connection with the negotiation or execution of this Lease and no such broker or salesman has been involved in connection with this Lease, and each party agrees to defend, indemnify and hold harmless the other party from and against any and all costs, expenses, attorneys' fees or liability for any compensation, commission and charges claimed by any real estate broker and/or salesman (other than the aforesaid brokers) due to acts of such party or such party's representatives. Landlord shall pay the brokers identified above pursuant to separate agreements.

Section 11.6 Consents by Landlord. In all circumstances under this Lease where the prior consent or permission of Landlord is required before Tenant is authorized to take any particular type of action, such consent must be in writing and the matter of whether to grant such consent or permission shall, except as otherwise expressly provided herein, be within the sole and exclusive judgment and discretion of Landlord, and it shall not constitute any nature of breach by Landlord under this Lease or any defense to the performance of any covenant, duty or obligation of Tenant under this Lease that Landlord delayed or withheld the granting of such consent or permission, whether or not the delay or withholding of such consent or permission was prudent or reasonable or based upon good cause.

With respect to any provision of this Lease which provides that Landlord shall not unreasonably withhold or unreasonably delay any consent or any approval, Tenant, in no event, shall be entitled to make nor shall Tenant make any claim for, and Tenant hereby waives any claim for money damages; nor shall Tenant claim any money damages by way of setoff, counterclaim or defense, based upon any claim or assertion by Tenant that Landlord has unreasonably withheld or unreasonably delayed any consent or approval; but, unless Landlord shall have acted in bad faith, Tenant's sole remedy shall be an action or proceeding to enforce any such provision, or for specific performance, injunction or declaratory judgment.

Section 11.7 Joint and Several Liability. If there is more than one Tenant, then the obligations hereunder imposed upon Tenant shall be joint and several.

Section 11.8 Independent Covenants. The obligation of Tenant to pay Rent and other monetary obligations provided to be paid by Tenant under this Lease and the obligation of Tenant to perform Tenant's other covenants and duties under this Lease constitute independent, unconditional obligations of Tenant to be performed at all times provided for under this Lease, save and except only when an abatement thereof or reduction therein is expressly provided for in this Lease and not otherwise, and Tenant acknowledges and agrees that in no event shall such obligations, covenants and duties of Tenant under this Lease be dependent upon the condition of the Premises or the Project, or the performance by Landlord of its obligations hereunder.

Section 11.9 Attorneys' Fees and Other Expenses. In the event either party hereto defaults in the faithful performance or observance of any of the terms, covenants, provisions, agreements or conditions contained in this Lease, the party in default shall be liable for and shall pay to the nondefaulting party all reasonable expenses incurred by such party in enforcing any of its remedies for any such default, and if the nondefaulting party places the enforcement of all or any part of this Lease in the hands of an attorney, the party in default agrees to pay the nondefaulting party's reasonable attorneys' fees in connection therewith.

Section 11.10 Recording. Neither Landlord nor Tenant shall record this Lease, but a short- form memorandum hereof may be recorded at the request of Landlord.

Section 11.11 Disclaimer; Waiver of Jury Trial. LANDLORD AND TENANT EXPRESSLY ACKNOWLEDGE AND AGREE, AS A MATERIAL PART OF THE CONSIDERATION FOR LANDLORD'S ENTERING INTO THIS LEASE WITH TENANT, THAT, EXCEPT AS OTHERWISE SET FORTH IN THIS LEASE, (a) LANDLORD HAS MADE NO WARRANTIES TO TENANT AS TO THE USE OR CONDITION OF THE PREMISES OR THE PROJECT, EITHER EXPRESS OR IMPLIED, AND (b) LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE

ANY OTHER WARRANTY (EXPRESS OR IMPLIED) REGARDING THE PREMISES OR THE PROJECT. EXCEPT AS EXPRESSLY SET FORTH IN THIS LEASE, LANDLORD AND TENANT EXPRESSLY AGREE THAT THERE ARE NO, AND SHALL NOT BE ANY, IMPLIED WARRANTIES OF MERCHANTABILITY,

HABITABILITY, FITNESS FOR A PARTICULAR PURPOSE OR ANY OTHER KIND ARISING OUT OF THIS LEASE, ALL SUCH OTHER EXPRESS OR IMPLIED WARRANTIES IN CONNECTION HEREWITH BEING EXPRESSLY DISCLAIMED AND WAIVED.

LANDLORD AND TENANT WAIVE THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, OR RELATED TO, THE SUBJECT MATTER OF THIS LEASE. THIS WAIVER IS KNOWINGLY, INTENTIONALLY, AND VOLUNTARILY MADE BY TENANT AND TENANT ACKNOWLEDGES THAT NEITHER LANDLORD NOR ANY PERSON ACTING ON BEHALF OF LANDLORD HAS MADE ANY REPRESENTATIONS OF FACT TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. TENANT FURTHER ACKNOWLEDGES THAT IT HAS BEEN REPRESENTED (OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED) IN THE SIGNING OF THIS LEASE AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL. TENANT FURTHER ACKNOWLEDGES THAT IT HAS READ AND UNDERSTANDS THE MEANING AND RAMIFICATIONS OF THIS WAIVER PROVISION AND AS EVIDENCE OF SAME HAS EXECUTED THIS LEASE.

Section 11.12 <u>Access to Roof.</u> At no additional charge by Landlord during the Term and any renewal thereof, Tenant shall have the sole and exclusive access to the Building's (i) roof to install, repair and maintain upon the Building's roof telecommunication devices, such as satellite dishes and antennae or other similar devices, for the purpose of receiving and sending radio, television, computer, telephone or other communications signals for its own use and (ii) risers and conduits in order to connect such telecommunication devices to the Premises as well as to outside cable, fiber and/or telephone lines, including easements or rights of way, as reasonably required. Tenant shall advise Landlord at least ten (10) days in advance of the planned installation of such devices which such installation shall be subject to Landlord's prior approval, which approval shall not be unreasonably withheld, conditioned or delayed. Tenant will be responsible for complying and/or obtaining all required association or governmental approvals or permits with respect to the installation of the telecommunication devices set forth herein (including screening of such telecommunication devices if so required). To the extent that any telecommunication devices installed by Tenant interferes with other telecommunication devices installed by Landlord or any of Landlord's tenants at 13600 Dulles Technology Drive, Landlord may require that Tenant relocate, at Landlord's sole cost and expense, such telecommunication device to another area of the Building's roof such that it does not interfere with such other telecommunication device. Tenant shall remove the telecommunication devices and any connecting equipment from the Building upon the expiration or earlier termination of this Lease. Tenant shall be solely responsible and shall pay for any damage to the Building arising out of or resulting from the installation, operation, maintenance and/or removal of the antennae.

Section 11.13 <u>Parking.</u> Tenant's occupancy of the Premises shall include, at no additional cost, the use of five hundred thirty-one (531) parking spaces (at a ratio of 4.7/1000 rentable square feet) which shall be used in common with other tenants, invitees and visitors of the Building, as shown on <u>Exhibit I</u> attached hereto. Tenant shall have access to up to fifteen (15) visitor's spaces reserved for Tenant's use in locations proximate to the Building mutually acceptable to Landlord and Tenant. Tenant agrees not to overburden the parking facilities, to cooperate with Landlord and other tenants in use of the parking facilities and that neither it nor shall any of its employees, agents or invitees park any vehicles overnight in the parking facilities. Landlord reserves the right in its absolute discretion to determine whether the parking facilities are becoming overburdened and to allocate and reassign parking spaces among Tenant and other tenants, and to reconfigure the parking area and modify the existing ingress to and egress from the parking area as Landlord shall deem reasonably appropriate provided that Tenant continues to have use of and access to the [five hundred thirty-one (531)] parking spaces set forth above.

Section 11.14 <u>No Accord or Satisfaction.</u> No payment by Tenant or receipt by Landlord of a lesser amount than the Rent and other sums due hereunder shall be deemed to be other than on account of the earliest Rent or other sums due, nor shall any endorsement or statement on any check or accompanying any check or payment be deemed an accord and satisfaction; and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or other sum and to pursue any other remedy provided in this Lease.

Section 11.15 Acceptance. The submission of this Lease by Landlord does not constitute an offer by Landlord or other option for, or restriction of, the Premises, and this Lease shall only become effective and binding upon Landlord, upon full execution hereof by Landlord and delivery of a signed copy to Tenant.

Section 11.16 Waiver of Counterclaim. Tenant hereby waives the right to interpose any counterclaim of whatever description in any summary proceeding.

Section 11.17 Time Is of the Essence. Time is of the essence of this Lease. Unless specifically provided otherwise, all references to terms of days or months shall be construed as references to calendar days or calendar months, respectively.

Section 11.18 Counterparts. This Lease may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but such counterparts shall together constitute one and the same instrument.

IN TESTIMONY WHEREOF, the parties hereto have executed this Lease as of the day and year first above written.

LANDLORD:

DULLES TECH, INC.,
a Delaware corporation

By: ________________________________
    Charles Schouten, President

Tax Identification No.: ____________________________________

[Remainder of Page Intentionally Left Blank.]

TENANT:

NETWORK ACCESS SOLUTIONS CORPORATION, a Delaware corporation

By: ______________________________
Name: ______________________________
Title: ______________________________

Tax Identification No.: ____________________

[Remainder of Page Intentionally Left Blank.]

NOTE: Certain exhibits have been omitted from the filing. The Registrant undertakes to supply these exhibits to the Securities and Exchange Commission supplementally upon request.

EXHIBIT A

LEGAL DESCRIPTION OF LAND

EXHIBIT B

FLOOR PLAN OF PREMISES

EXHIBIT C

SPECIAL STIPULATIONS

These Special Stipulations are hereby incorporated into this Lease and in the event that they conflict with any provisions of this Lease, these Special Stipulations shall control.

A. Renewal Options. 1. If, on the expiration of the Term of this Lease and the date Tenant notifies Landlord of its intention to renew the Lease Term (as provided in subsection (2) below), (i) Tenant is not in default under this Lease beyond any applicable notice and cure period provided for in this Lease, and (ii) this Lease is in full force and effect, then Tenant shall have and may exercise an option to renew this Lease for an additional term of five (5) years (the "Renewal Term") upon the same terms and conditions contained in this Lease with the exceptions that the rental for the Renewal Term shall be the then-prevailing market rate of rent in the Herndon, Virginia area, inclusive of consideration of then-current market concessions (including, without limitation, refurbishment allowances and rent abatement) (the "Renewal Rental Rate").

2. If Tenant desires to renew this Lease pursuant to subsection (1) above, Tenant must notify Landlord in writing of its intention to renew (the "Renewal Notice") not less than twelve (12) months prior to the expiration of the Term of this Lease (the "Expiration Date"). Landlord shall, within ten (10) business days following the later of Landlord's receipt of such Renewal Notice or the date which is twelve (12) months prior to the Expiration Date, notify Tenant in writing of Landlord's determination of the Renewal Rental Rate and Tenant shall, within the next ten (10) business days following receipt of Landlord's determination of the Renewal Rental Rate, notify Landlord in writing of Tenant's acceptance or rejection of Landlord's determination of the Renewal Rental Rate. If Tenant timely notifies Landlord of Tenant's acceptance of Landlord's determination of the Renewal Rental Rate, this Lease shall be extended as provided herein and Landlord and Tenant shall enter into an amendment to this Lease to reflect the extension of the Lease Term and changes in Base Rent in accordance with this Exhibit. If (i) Tenant timely notifies Landlord in writing of Tenant's rejection of Landlord's determination of the Renewal Rental Rate or (ii) Tenant does not notify Landlord in writing of Tenant's acceptance or rejection of Landlord's determination of the Renewal Rental Rate within such ten (10) business day period, Landlord and Tenant will promptly attempt to agree on the Renewal Rental Rate. If Landlord and Tenant cannot agree within ten (10) business days of Tenant's rejection in subclause (i) hereinabove or the expiration of the ten (10) business days period referred to in subclause (ii) hereinabove, then Tenant may either (A) withdraw its Renewal Notice by written notice to Landlord, in which event, all of Tenant's rights under this Paragraph A shall immediately and irrevocably terminate, or (B) proceed promptly to determine the Renewal Rental rate by appraisal, in which case, Landlord and Tenant shall each select a qualified independent real estate broker or appraiser (i.e., a real estate broker or appraiser with no prior or existing contractual relationship with either party) with at least five (5) years experience in leasing office buildings in the Herndon, Virginia area to determine the Renewal Rental Rate. If the values determined by the brokers/appraisers are less than ten percent (10%) apart, the average of the values determined by them shall be deemed the Renewal Rental Rate for the Premises. If the brokers/appraisers do not agree, and if their determinations are more than ten percent (10%) apart, then on or before seventy-five (75) days prior to the commencement of the Renewal Term, the two brokers/appraisers shall select a third independent broker/appraiser who will determine the Renewal Rental Rate for the Premises. If the value determined by the third broker/appraiser is between the values determined by the two prior broker/appraisers, the determination of the third broker/appraiser will control. If the third broker/appraiser's determination is not between the values determined by the two prior broker/appraisers, then the value of the first two

Renewal rental Rate for the Premises. Each party shall pay the fees and expenses of its broker/appraiser, and the fees and expenses of the third broker/appraiser shall be shared equally between Landlord and Tenant.

B. Landlord Lien Waiver. Landlord hereby waives any lien rights which it may otherwise have concerning Tenant's property, which shall include furniture, fixtures, equipment, any and all equipment and/or supplies utilized by Tenant in its business operations, and Tenant shall have the right to remove the same at any time without Landlord's consent. Furthermore, Landlord acknowledges Tenant's right to finance and to secure under the Uniform Commercial Code, inventory, furnishings, furniture, equipment, machinery, leasehold improvements and other personal property located in or at the Premises, and Landlord agrees to execute commercially reasonable waiver forms releasing liens in favor of any purchase money seller, lessor or lender who has financed or may finance in the future such items. Without limiting the effectiveness of the foregoing, provided that no default shall have occurred and be continuing, Landlord shall, upon the request of Tenant, and at the Tenant's sole cost and expense, execute and delivery any commercially reasonable instruments necessary or appropriate to confirm any such grant, release, dedication, transfer, annexation or amendment to any person or entity permitted under this paragraph including landlord waivers with respect to any of the foregoing.

EXHIBIT D

COMMENCEMENT DATE AGREEMENT

This Commencement Date Agreement (this "Agreement") is made and entered into this ____day of ___________, 19___, by and between DULLES TECH, INC. ("Landlord") and NETWORK ACCESS SOLUTIONS ("Tenant").

WHEREAS, Landlord and Tenant entered into that certain Lease (the "Lease") dated October ___, 1999, with respect to certain premises located at 13650 Dulles Technology Drive, Herndon, Virginia 20171, as such demised premises are more particularly described in the Lease.

WHEREAS, this Agreement is executed by Landlord and Tenant to confirm the Commencement Date and the Expiration Date, as those terms are defined in the Lease;

NOW, THEREFORE, for and in consideration of the demised premises and the mutual covenants expressed in the Lease, it is hereby agreed by Landlord and Tenant as follows:

1. The Premises were substantially complete and the Base Rent and Additional Rent (as such terms are defined in the Lease) commenced on _____________, 19__ (the "Commencement Date") and will expire on ___________, 20___ (the "Expiration Date").

2. This Agreement shall not be deemed or construed to alter or amend the Lease in any manner.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Agreement to be executed as of the day and year first above written.

LANDLORD:

DULLES TECH, INC., a Delaware corporation

By: ______________________________
Charles Schouten, President

TENANT:

NETWORK ACCESS SOLUTIONS CORPORATION,
a Delaware corporation

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT E

WORK LETTER AGREEMENT ("WORK AGREEMENT")

The following provisions shall govern (A) the preparation and approval process for the drawings and specifications for the build-out of the Premises and (B) terms and conditions relating to contractors and subcontractors in connection with the build-out of the Premises.

A. Description of Landlord's Work. Subject to the terms and conditions of this Work Agreement, Landlord agrees to construct, at its sole cost and expense, a building shell which shall contain the following items ("Landlord's Work"):

As described in Landlord's October 15, 1999 proposal attached hereto in Exhibit E-2 with the following additions:

1) All concrete flooring should be level, complete and ready to accept carpet, VCT or other floor applications.

2) The base Building should have an energy management system of a quality found in similar class buildings in Reston/Herndon, Virginia submarket.

B. General Matters regarding Plans and Specification. Tenant shall cause its architect (The M Group, except as otherwise set forth in this Work Agreement) and/or engineer (B&A Consulting Engineers, except as otherwise set forth in this Work Agreement) to prepare "Tenant's Space Plans", the "Working Drawings" and the "Final Plans" (as such terms are defined below) for the Tenant Improvement Work. The fees of Tenant's architect and engineer shall be paid by Landlord from the "Tenant Improvement Allowance", as defined below.

C. Tenant Improvement Work. (1) Tenant shall submit to Landlord for Landlord's approval a space plan for the build-out of the Premises ("Tenant's Space Plans"), by the respective date(s) for each phase shown on the construction schedule set forth in Exhibit E-1 hereto, prepared by Tenant's architect showing the interior layout of the Premises and its integration with Building systems, core areas and the building shell improvements in sufficient detail to permit Landlord a reasonable opportunity to review and provide preliminary approval or comments regarding Tenant's proposed interior design. Landlord shall review and approve or disapprove of Tenant's Space Plans as to the First Phase Premises and Second Phase Premises by the date set forth on the attached construction schedule set forth in Exhibit E-1 hereto, which approval shall not be unreasonably withheld, conditioned or delayed, except or to the extent such plans affect the structure of the Building or the Building's systems, in which case, Landlord may withhold such approval in its sole discretion. Landlord shall endeavor to adhere to a similar construction schedule, review periods and level of cooperation with Tenant as to the planning, approving and completion of the Third Phase Premises thereafter. If Landlord disapproves, either in whole or in part, of Tenant's Space Plans, Landlord shall provide to Tenant with reasonable specificity Landlord's reasons for its disapproval, which shall be commercially reasonable to the extent required in the preceding sentence. Tenant shall promptly correct or otherwise address all disapproved items identified by Landlord. The work shown in Tenant's Space Plans shall be deemed "Tenant Improvement Work." (2) Landlord and Tenant hereby covenant and agree that Rent pursuant to the Lease shall commence for each phase of construction upon substantial completion of all Tenant Improvement Work ("Substantial Completion") as defined pursuant to

Section (L) below so that Tenant could obtain its Certificate of Occupancy and occupy each phase of the Premises then intended for occupancy. For every day after March 1, 2000 that such First Phase Premises are not Substantially Complete, absent any delay on the part of the Tenant or any occurrence of Force Majeure, Landlord shall pay to Tenant as a fixed and agreed upon sum and not as a penalty, an amount equal to one (1) day's rent for the First Phase Premises for each day after March 1, 2000 that the Tenant is unable to occupy the First Phase Premises because the same is not Substantially Complete. Notwithstanding the foregoing, there shall be no Force Majeure condition excusing Landlord from its obligation to pay the damages specified herein if Landlord is delayed due to its inability to procure sufficient labor, either for its general contractor, its subcontractors, its Construction Manager, or any other entity, required to complete the First Phase or the Second Phase. Landlord shall pay to Tenant such amounts in immediately available U.S. funds monthly at the end of each month unless and until the First Phase Premises are Substantially Complete.

D. Working Drawings and Final Plans. Tenant shall cause its architects and/or engineers to prepare, and Tenant shall submit to Landlord, complete preliminary architectural plans, construction drawings and mechanical, electrical and plumbing drawings for the Premises (the "Working Drawings"), including those base Building improvements (such as HVAC and sprinkler distribution and the like) which are interior to the Premises or otherwise need to be coordinated with Landlord's Work in order to be performed properly. Said Working Drawings shall be submitted to Landlord in form sufficient for the permitting and construction of the Premises, and the bidding of the Tenant Improvement Work (that is, in such form so that, if approved by Landlord without revision, the same would be sufficient for the permitting and construction of the Premises, and the bidding of the Tenant Improvement Work). Within five (5) business days, Landlord or its designated contractor shall provide Tenant with a list of its objections, modifications, deletions or qualifications to the same. Tenant shall cause Tenant's architect and engineer to prepare final drawings, plans, and specifications (the "Final Plans"), based on the Working Drawings but conforming to Landlord's objections, modifications, deletions or qualifications which shall be commercially reasonable to the extent required hereunder, by the date set forth on the attached construction schedule set forth in Exhibit E-1 hereto. No plans and specifications shall constitute the Final Plans hereunder unless and until the same have been acknowledged, approved and agreed in writing as to the exact description, detail and date of the Final Plans by both Landlord and Tenant. Such acknowledgment shall be attached hereto as Exhibit E-3.

Landlord agrees to respond to Tenant within five (5) business days of Tenant's written request for Landlord's approval. If Landlord fails to respond with the five (5) business days period, Tenant may deliver a second request for approval; if Landlord does not respond within five (5) business days of delivery of such second notice, then Landlord's approval shall be deemed granted.

E. Construction. Following the preparation and approval of Tenant's Space Plans and the Working Drawings, Landlord agrees to build out the Premises according to the Final Plans. All construction for the Premises shall be awarded following a competitive bid format, with Trammell Crow Company serving as construction manager ("Construction Manager"). The Construction Manager shall: (1) prepare a bid package approved by Landlord and Tenant; (2) solicit bids from a minimum of three (3) qualified general contractors approved by Landlord and Tenant; (3) prepare a bid analysis for review by Landlord and Tenant; and (4) award the bid to the lowest qualified general contractor which such contractor shall be subject to Tenant's reasonable approval. On behalf of Landlord and Tenant, the Construction Manager shall supervise the construction for the Premises.

F. Tenant Improvement Allowance. Landlord agrees to provide to Tenant an allowance with respect to the Premises of Twenty Five Dollars ($25.00) per rentable square foot (the "Tenant Improvement Allowance") (i.e., a total of 113,093 sf x $25.00 prsf = Two Million Eight Hundred Twenty Seven Three Hundred Twenty Five Dollars ($2,827,325.00). Any unused portion of the Tenant Improvement Allowance shall be applied against any move related costs including any cabling requirements, antenna or signage costs, and any further remaining allowances may be used to offset rent throughout the Term or any renewal term. Provided Tenant uses The M Group as its architect to perform Tenant's Space Plans, Working Drawings or Final Plans, except as to the network and/or telecommunications operations center, Landlord's three percent (3%) construction management fee shall be charged only against hard construction costs.

G. Delay in Preparation of Tenant's Space Plans. If a "Tenant Delay"(as defined below) occurs, and Substantial Completion of the Premises is delayed as a result thereof, then Tenant shall pay to Landlord on the date Rent would have commenced hereunder in the absence of such delay, a sum of money equivalent to the Rent for the Premises for the period during which Tenant would have been obligated to pay Rent to Landlord had not the Commencement Date been so delayed; *provided, however*, that Landlord shall have notified Tenant in writing that a Tenant Delay has occurred, which such notice shall describe the nature of the Tenant Delay, within five (5) business days following Landlord's learning about the Tenant Delay. Each Tenant Delay shall be offset against each day Landlord fails to Substantially Complete Landlord's Work due to a Landlord Delay (as defined below).

H. Changes to Tenant Plans. Tenant shall have the right to request changes in the Final Plans and any such change shall be initiated by Tenant's architect and approved by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed (except for changes which affect the structure of the Building or the Building's systems, in which case Landlord may withhold its consent in its sole discretion) and reasonably approved by the general contractor. Further, if changes are made by Tenant to the Final Plans after Landlord's approval, and should these changes to Tenant's Final Plans cause Landlord to fail to achieve Substantial Completion of the Premises by the dates specified herein or delay the Commencement Date, then Landlord shall have the right to refuse to permit the making of such changes unless and until Tenant shall have committed in writing, in a manner reasonably satisfactory to Landlord, to pay to Landlord on the date Rent would have commenced hereunder in the absence of such delay, a sum of money equivalent to the Rent for the applicable phase of the Premises for the period during which Tenant would have been obligated to pay Rent to Landlord had not this Lease Commencement Date been so delayed.

I. Tenant's Work. Notwithstanding anything to the contrary in this Exhibit E, Tenant shall be responsible for all work, construction and installation in the Premises which is not designated as Landlord's Work and Tenant Improvement Work (including but not limited to all fixtures, furniture, equipment and other office installations). Such work shall be referred to as "Tenant's Work," and shall be at Tenant's sole cost and expense subject to the application of the Tenant Improvement Allowance. Tenant's Work shall be considered an alteration for purposes of this Lease, and shall be subject to the provisions of Section 6.1 thereof. Notwithstanding the foregoing, any plans Tenant has attached hereto as Exhibit E-4 as of the date this Lease is executed depicting such Tenant Work are hereby deemed approved by Landlord. Prior to commencing any other Tenant's Work, Tenant shall submit drawings and specifications for Tenant's Work to Landlord, showing all aspects of such work, to Landlord for Landlord's review and approval, which approval as to non-structural matters and matters not affecting the Building's systems shall not be unreasonably withheld, conditioned or delayed. In order to perform the Tenant's Work, upon Tenant's notice (reasonably sufficient to permit Landlord to supervise Tenant's Work), Landlord shall grant Tenant, its contractors and agents access to the extent permitted by law to the Building, loading dock, and a dedicated elevator for freight use during the hours of 6:00 a.m. to 6:00 p.m. and 8:00 a.m. to 1:00 p.m. on Saturday (except as to Tenant's move-in which shall be over one or more weekends and the hours adjusted accordingly to accommodate Tenant's scheduled move) and such additional time as may be reasonably agreed between Landlord and Tenant subject to compliance with the Building Rules and Regulations set forth in Exhibit F to the Lease, from the time the Lease is executed and further during the move-in phases related to the Tenant Work or the Premises. Furthermore, Landlord, shall grant access to and normal and customary use of reasonable temporary utilities including, but not limited, to electricity, HVAC, plumbing and water, during such stated hours and such additional time as may be agreed between Landlord and Tenant. Tenant agrees that it will pay Landlord directly for the actual portion of utilities used by Tenant in the Project to construct the Tenant Work within thirty (30) days after written request accompanied by presentation and verification of documented costs and charges for such utility usage. Tenant agrees that such entry into the Premises shall be deemed to be under all of the terms, covenants, conditions and provisions of the Lease, except that the covenant to pay periodic Rent shall not apply until the Lease Commencement Date. Tenant acknowledges that the Landlord Work and Tenant Improvement Work take precedence over the completion of the Tenant's Work, but Landlord shall reasonably cooperate with Tenant as to the scheduling and completion of the Tenant's Work.

shall obtain all necessary permits in connection with Landlord's Work and Tenant Improvement Work. On or before the date Landlord tenders delivery of the Premises to Tenant, Landlord agrees to obtain all final inspection approvals which are required for Landlord to deliver the Premises to Tenant with Landlord's Work completed, and to obtain all Certificates of Occupancy, pursuant to Section (L) hereof, that can be obtained by Landlord prior to Tenant

installing its fixtures, furniture and equipment. Tenant shall be responsible for applying for and obtaining all permits required for Tenant to perform Tenant's Work, and for obtaining the final fire inspection approval after installation of Tenant's Work, if any.

K. Notice. Tenant and Landlord shall, by notice to the other in writing, designate a single individual who Tenant or Landlord agrees shall be available to meet and consult with the other at the Premises as Tenant's or Landlord's representative respecting the matters which are the subject of this Exhibit and who, as between Landlord and Tenant, shall have the power to legally bind Tenant and Landlord, in making requests for changes, giving approval of plans or work, giving directions to Tenant and Landlord or the like, under this Exhibit (each of these representatives shall be a "Construction Representative"); provided, however, that Landlord's Construction Representative shall not have authority to approve changes without Landlord's prior approval.

L. Substantial Completion. For purposes of this Lease, "Substantially Complete" or "Substantial Completion" as to the Premises or the applicable phase thereof means full completion, except for minor or insubstantial details of construction, decoration or installation such that a Certificate of Occupancy has been issued for Landlord's Work and Tenant Improvement Work to the extent that the same can be issued prior to the completion of Tenant's Work, if any. In the event that Landlord is unable to obtain a Certificate of Occupancy due to unfinished Tenant's Work which is not delayed due to Landlord, Landlord shall be deemed to have achieved Substantial Completion when Landlord obtains final and complete trade inspections for all major trades. Landlord shall use commercially reasonable efforts to give Tenant at least ten (10) business days prior written notice of the date that the Premises, or the applicable phase thereof, will be Substantially Complete.

M. Permits; Compliance with Laws. The Tenant's Space Plans shall be in a form in which building permits can be readily obtained and shall comply with all applicable local, state and federal laws, ordinances, codes and regulations. The architect shall certify to Landlord and Tenant that Tenant's Space Plans comply with the Americans with Disabilities Act of 1990 ("ADA") and all other applicable local, state and federal laws, ordinances, codes and regulations.

N. Default. The failure by Landlord or Tenant to comply with the provisions of this Exhibit E shall constitute a default by that respective entity under the Lease and the non-defaulting party shall have the benefit of all remedies provided for in the Lease.

O. No Liability. Notwithstanding the review and approval by Landlord of Tenant's Space Plans and specifications, Landlord shall have no responsibility or liability in regard to the safety, sufficiency, adequacy or legality thereof and Tenant shall be solely responsible for the compliance of such plans and specifications with all applicable laws and regulations, the architectural completeness and sufficiency thereof and other matters relating thereto, except to the extent a valid construction permit is issued therefore.

P. Code Compliance. Landlord shall construct the base Building Landlord Work so that it is in compliance with all applicable codes and laws, including the ADA.

Q. Back-Up Generator. Landlord shall provide a location mutually acceptable to Landlord and Tenant for the location of a generator to be installed by Tenant (the costs of which may be deducted from the Tenant Improvement Allowance) to provide back up power and for any supplemental HVAC equipment that will be required. The generator shall be reasonably screened and buffered as required; the costs of which may be deducted from the Tenant Improvement Allowance.

R. Network and/or Telecommunications Operations Center. Tenant shall have an approximately nine thousand three hundred sixty two (9,362) square feet network and/or telecommunications operations center in the Building that will operate twenty four (24) hours per day, seven (7) days per week, that will be contained within the Third Phase Premises. Landlord and Tenant shall work together to achieve the most cost effective method to accommodate this need. Tenant may utilize at no additional cost the base Building condenser water riser system for its supplement HVAC equipment. Notwithstanding anything else in this Lease, Tenant shall have the right, subject to Landlord's reasonable approval, to choose its architect, engineer, consultants, general contractor and subcontractors to perform this work.

S. Landlord Delays or Tenant Delays. 1. As used herein, "Landlord Delay" shall mean a delay which is primarily attributable to one or more of the following:

(a) Landlord's (for purposes of this Exhibit E, "Landlord" shall be deemed to include the Landlord, Landlord's Construction Representative, Landlord's consultants, the general contractor and the agents of all of these), (i) failure to comply with any of the deadlines specified in this Work Agreement, (ii) unjustifiably withholding, delaying or refusal to (A) fund, or permit to be funded by Tenant, any draw request of the Tenant Improvement Allowance, or (b) make any advance or grant any approval requested by Tenant relating to the Tenant Space Plans, Working Drawings or Final Plans, Landlord Work, Tenant Improvement Work or Tenant Improvement Allowance as indicated by Tenant prevailing in the dispute resolution process described in Section (W) hereof, or (iii) Landlord's breach of its obligations under the terms of this Work Agreement or the Lease;

(b) Landlord's request for changes or additions to the Final Plans for the Tenant Improvement Work subsequent to the date of Landlord's approval of the Final Plans and not related to Tenant Final Plan changes;

(c) The gross negligence or willful misconduct of Landlord, in connection with the Landlord Work, Tenant Improvement Work or this Work Agreement;

(d) Landlord's unreasonable interference with the Tenant's schedule for Tenant Work or the general contractor's schedule for the Landlord Work or Tenant Improvement Work; or

(e) The time and delay incurred by the enforcement of the dispute resolution process outlined in Section (W) to this Work Agreement, to the extent that Tenant is the prevailing party therein.

2. As used herein, "Tenant Delay" shall mean a delay which is primarily attributable to one or more of the following:

a. Tenant's (for purposes of this Exhibit E, "Tenant" shall be deemed to include the Tenant, Tenant's Construction Representative, Tenant's consultants and the agents of all of these), (i) failure to comply with any of the deadlines specified in this Work Agreement, (ii) unjustifiably withholding, delaying or refusing to make any approval sought by Landlord or (iii) breach of its obligations under the terms of this Work Agreement or the Lease;

b. Tenant's request for changes or additions to the Final Plans after Landlord's approval of same that cause Landlord to fail to achieve Substantial Completion of the Premises by the dates specified herein;

c. The gross negligence or willful misconduct of Tenant, in connection with the submittal of Tenant's Space Plans and Working Drawings, Tenant's Work or this Work Agreement;

d. Tenant's unreasonable interference with the Landlord's or general contractor's schedule for Landlord Work or Tenant Improvement Work;

e. The time and delay incurred by the enforcement of the dispute resolution process outlined in Section (W) to this Work Agreement, to the extent that Landlord is the prevailing party.

T. Access. [Intentionally Deleted.]

U. Adjustment of Tenant Improvement Allowance. At such time as the exact square footage of the Premises is determined in accordance with Section 2.1 of the Lease, then in that event the Tenant Improvement Allowance shall be adjusted to reflect the correct amounts based upon the re-computed and agreed upon rentable square footage of the Premises.

V. Time for Performance. Wherever in this Work Agreement a date for performance falls on a Saturday, Sunday or legal holiday, the time for performance shall be extended until the following business day.

W. Disputes. In the event that either party shall have any claim or dispute under this Exhibit E, both parties agree that such claim or dispute shall be decided by arbitration in accordance with the Construction Industry Rules of the American Arbitration Association. Both parties irrevocably submit to such arbitration. Both parties further agree that any decision so rendered through that arbitration shall be final and binding on both parties hereto and may be entered in any court of competent jurisdiction.

List of Exhibits

Exhibit E-1 Schedule

Exhibit E-2 Completed Shell Definitions

Exhibit E-3 Written Confirmation of Tenant's Final Plans

Exhibit E-4 Tenant's Work

EXHIBIT E-1

<TABLE>
<CAPTION>

	First Phase	Second Phase
Tenant Executes Lease Document	Oct 27,1999	Oct 27, 1999
<S>	<C>	<C>
Tenant to submit approved Space Plan to Landlord for review.	Nov 5, 1999	Dec 6, 1999
Tenant to submit completed load letter to Landlord.	Nov 5, 1999	Dec 6, 1999
Landlord to complete review and approve or disapprove Tenant Space Plan	Nov 9, 1999	Dec 9, 1999
Tenant to submit approved Construction Drawings and Specifications to Landlord for review.	Nov 19, 1999	Dec 20, 1999
Landlord to complete review and approve or disapprove Tenant Construction Drawings and Specifications.	Nov 23, 1999	Dec 23, 1999
Landlord to submit for Building Permit.	Nov 23, 1999	Dec 23, 1999
Landlord to send construction bid packages to general contractors.	Nov 23, 1999	Dec 23, 1999
General contractors' bids due	Dec 14, 1999	Jan 13, 2000
Construction Bid acceptance date (LL awards to low, qualified general contractor)	Dec 17, 1999	Jan 17, 2000
Construction Start Date	Dec 20, 1999	Jan 19, 2000
Building Permit approved by Fairfax County	Jan 3, 2000	Feb 2, 2000
General contractor to submit for sprinkler & fire alarm Permits.	____________	____________
Fairfax County approves sprinkler & fire alarm permits	____________	____________
Target Date for Substantial Completion	March 1, 2000	April 1, 2000

</TABLE>

EXHIBIT E-2

COMPLETED SHELL DEFINITIONS

EXHIBIT E-3

WRITTEN CONFIRMATION OF TENANT'S FINAL PLANS

[TO BE ATTACHED SUBSEQUENT TO LEASE SIGNING UPON MUTUAL AGREEMENT OF LANDLORD AND TENANT]

EXHIBIT E-4

TENANT'S WORK

[TO BE ATTACHED SUBSEQUENT TO LEASE SIGNING UPON MUTUAL AGREEMENT OF LANDLORD AND TENANT]

EXHIBIT F

BUILDING RULES AND REGULATIONS

1. Sidewalks, doorways, vestibules, halls, stairways, and other similar areas shall not be used for the disposal of trash, be obstructed by Tenant or be used by Tenant for any purpose other than ingress and egress to and from the Premises and for going from one part of the Building to another part of the Building.

2. Plumbing fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags, or other unsuitable material shall be thrown or placed therein. Damage resulting to any such fixtures or appliances from misuse by Tenant shall be paid by such Tenant and Landlord shall not in any case be responsible therefor.

3. Signs, advertisements, or notices visible in or from public corridors or from outside the Building shall be subject to Landlord's prior written approval. Without Landlord's prior consent, which consent shall not be unreasonably withheld, no curtains or other window treatments shall be placed between the glass and the Building standard window treatments.

4. With respect to work being performed by Tenant in the Premises, Tenant shall refer all contractors, contractors' representatives, and installation technicians rendering any service to Tenant to Landlord for Landlord's supervision and approval before the performance of any contractual services. This provision shall apply to all work performed in the Building, including, but not limited to, installations of telephones, telegraph equipment, electrical devices and attachments, and any and all installations of every nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment, and other physical portions of the Building.

5. Movement in or out of the Building of furniture, office equipment, safes and other heavy equipment, or the dispatch or receipt by Tenant of any bulky material or merchandise, or materials which require use of elevators or stairways or movement through the Building entrances or lobby, shall be restricted to such hours as Landlord reasonably designates. All such movement shall be under the supervision of Landlord and in the manner reasonably agreed between Tenant and Landlord by prearrangement before performance. Such prearrangement, to be initiated by Tenant, will include reasonable determination by Landlord as to the time, method, and routing of such movement and as to limitations for safety or other concerns. Tenant assumes all risks of damage to articles moved and injury to persons engaged or not engaged in such movement. Tenant shall be liable to personnel of Landlord damaged or injured as a result of acts in connection with carrying out this service for Tenant, and Landlord shall not be liable for the acts of any person engaged in, or any damage or loss to any property or persons resulting from any act in connection with, such service performed for Tenant.

6. Building management shall have the right and authority to prescribe the maximum weight and position of safes and other heavy equipment which may overstress any portion of a floor. All damages done to the Building by taking in or putting out any property of Tenant, or done by Tenant's property while in the Building, shall be repaired at the expense of Tenant, unless caused by Landlord's gross negligence or willful misconduct.

7. Corridor doors, when not in use, shall be kept closed.

8. Tenant space visible from a public area must be kept neat and clean.

9. Should Tenant require telegraphic, telephonic, annunciator, or other communication services, Landlord will direct the electricians as to where and how wires are to be introduced and placed, and none shall be introduced or placed except as Landlord shall reasonably direct. Electric current shall not be used for power or heating without Landlord's prior written permission, which consent shall not be unreasonably withheld.

10. No animals shall be brought into or kept in, on, or about the Building.

11. Passenger elevators are to be used only for the movement of persons, unless an exception is approved by the Building management office.

12. Tenant shall not tamper with or attempt to adjust temperature control thermostats in the Premises. Landlord shall adjust thermostats as required to maintain the Building standard temperature. Landlord requests that all window blinds remain down and tilted at a 45 degree angle toward the street to help maintain comfortable room temperatures and conserve energy.

13. Tenant will comply with all reasonable security procedures provided to Tenant in writing during business hours and after hours and on weekends.

14. Tenants are requested to lock all office doors leading to corridors and to turn out all lights at the close of their working day.

15. All requests for overtime air conditioning or heating must be submitted in writing to the Building management office by 4:00 p.m. on the preceding Business Day.

16. No flammable or explosive fluids or materials shall be kept or used within the Building except in areas approved by Landlord, and Tenant shall comply with all applicable building and fire codes relating thereto.

17. Tenant may not place any items on the balconies of the Building without obtaining Landlord's prior written consent.

18. No smoking shall be permitted in the Premises. Smoking shall only be permitted in the areas expressly designated by Landlord from time to time.

19. Subject to the terms of the Lease, Landlord reserves the right to rescind any of these rules and regulations and to make such other and further reasonable and non-discriminatory rules and regulations as in its good faith judgment shall from time to time be needed for the safety, protection, care and cleanliness of the Property, the operation thereof, the preservation of good order therein, and the protection and comfort of the tenants and their agents, employees, and invitees, provided such rules and regulations do not materially increase Tenant's obligations or liabilities under the Lease and which rules and regulations, when made and written notice thereof is given to Tenant, shall be binding upon Tenant in like manner as if originally herein prescribed.

EXHIBIT G

PROPOSED TENANT SIGNAGE

[TO BE ATTACHED SUBSEQUENT TO LEASE SIGNING UPON MUTUAL AGREEMENT OF LANDLORD AND TENANT]

EXHIBIT H

CLEANING SPECIFICATIONS

EXHIBIT I

PARKING AREA

[TO BE ATTACHED SUBSEQUENT TO LEASE SIGNING UPON MUTUAL AGREEMENT OF LANDLORD AND TENANT]

Exhibit 23.1

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in this Registation Statement on Form S-1 of our report dated March 18, 1999, except for Note 1 for which the date is May 7, 1999, relating to the financial statements of Network Access Solutions Corporation, which appear in such Registration Statement. We also consent to the references to us under the headings "Experts," "Summary Financial and Other Data," and "Selected Financial And Other Data" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

McLean, Virginia
December 22, 1999

Exhibit 24.1

Exhibit 24.1

Power of Attorney

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99

/s/ Jonathan P. Aust

Jonathan P. Aust
President, Chief Executive Officer and
Chairman of the Board of Directors

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99

/s/ Scott G. Yancey, Jr.

Scott G. Yancey, Jr.
Chief Financial Officer and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99

/s/ Christopher J. Melnick

Christopher J. Melnick
Chief Operating Officer and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99

/s/ Brion B. Applegate

Brion B. Applegate
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99 /s/ Dennis R. Patrick

Dennis R. Patrick
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Jonathan B. Aust, Scott G. Yancey, Jr., Worth MacMurray, and each of them, as his true and lawful attorney-in-fact and agent, each with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, with full power to act alone, to sign any or all documents (including both pre- and post-effective amendments to the Registration Statement on Form S-1) and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as each said attorney-in-fact and agent might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or any substitute or substitutes for any of them, may lawfully do or cause to be done by virtue hereof.

Date: 12/21/99

/s/ Worth D. MacMurray

Worth D. MacMurray
Vice President, Legal and Strategic Projects

Exhibit 27

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM NETWORK ACCESS SOLUTIONS CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<MULTIPLIER> 1,000
<TABLE>
<S> <C>
<PERIOD-TYPE> 9-MOS
<FISCAL-YEAR-END> DEC-31-1998
<PERIOD-END> SEP-30-1999
<CASH> 63,470
<SECURITIES> 0
<RECEIVABLES> 3,314
<ALLOWANCES> (143)
<INVENTORY> 175
<CURRENT-ASSETS> 67,514
<PP&E> 46,762
<DEPRECIATION> (2,640)
<TOTAL-ASSETS> 111,870
<CURRENT-LIABILITIES> 11,934
<BONDS> 0
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 54
<OTHER-SE> 82,318
<TOTAL-LIABILITY-AND-EQUITY> 111,870
<SALES> 12,688
<TOTAL-REVENUES> 12,688
<CGS> 12,026
<TOTAL-COSTS> 12,026
<OTHER-EXPENSES> 25,922
<LOSS-PROVISION> 0
<INTEREST-EXPENSE> 548
<INCOME-PRETAX> (24,508)
<INCOME-TAX> 71
<INCOME-CONTINUING> (24,436)
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> (24,436)
<EPS-BASIC> (0.61)
<EPS-DILUTED> (0.61)
</TABLE>