DIVISION OF ADMINISTRATION

1999 DEC 22 PM 2:41

FLORIDA PUBLIC SERVICE COMM

ORIGINAL

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

3000 K STREET, NW, SUITE 300
WASHINGTON, DC 20007-5116
TELEPHONE (202)424-7500
FACSIMILE (202)424-7645

KEMAL HAWA
ATTORNEY
DIRECT DIAL (202)424-7500
KMHAWA@SWIDLAW.COM

NEW YORK OFFICE
919 THIRD AVENUE
NEW YORK, NY 10022

December 21, 1999

VIA OVERNIGHT MAIL

Florida Public Service Commission
Division of Telecommunications
Bureau of Certification and Service Evaluation
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

991994-TX

Re: Application of Concentric Carrier Services, Inc. for Authority to Provide Alternative Local Exchange Services Between Points Within the State of Florida

Dear Madam or Sir:

On behalf of Concentric Carrier Services, Inc. ("Concentric" or "Applicant"), please find enclosed for filing an original and seven (7) copies of Concentric's Application for Authority to Provide Alternative Local Exchange Services Between Points Within the State of Florida.

Please date stamp the enclosed extra copy of this filing and return it in the self-addressed, postage-prepaid envelope provided. Should you have any questions concerning this matter, please do not hesitate to contact Zenas Choi at (202) 295-8375.

Respectfully submitted,

Kemal Hawa

Kemal Hawa
Counsel for Concentric Carrier Services, Inc.

Note: Per Zenas Choi
250.00 filing fee will
be mailed 12/23/99
12/22/99
[illegible]

Enclosures

DOCUMENT NUMBER-DATE
15660 DEC 22 99
FPSC-RECORDS/REPORTING

** **FLORIDA PUBLIC SERVICE COMMISSION** **

DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- If you have questions about completing the form. contact:

  Florida Public Service Commission
  Division of Telecommunications
  Bureau of Certification and Service Evaluation
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6600

APPLICATION

1. This is an application for ✓ (check one):

   (√) **Original certificate** (new company).

   ( ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   ( ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   Concentric Carrier Services, Inc. ("Concentric" or "Applicant")

3. Name under which the applicant will do business (fictitious name, etc.):

   SAME

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   1400 Parkmoor Avenue

   San Jose, CA 95126

5. Florida address (including street name & number, post office box, city, state, zip code):

   Concentric does not currently have an office in the State of Florida. If Concentric does establish a Florida office in the future, Concentric will provide this information to the Commission.

6. Structure of organization:

( ) Individual
(√) Foreign Corporation
( ) General Partnership
( ) Other ______________
( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. **If individual,** provide:

Name: N/A

Title: ______

Address: ______

City/State/Zip: ______

Telephone No.: ______ **Fax No.:** ______

Internet E-Mail Address: ______

Internet Website Address: ______

8. If **incorporated in Florida,** provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**

   N/A

9. **If foreign corporation,** provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**

   F99000006369

10. **If using fictitious name-d/b/a,** provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

   (a) **The Florida Secretary of State fictitious name registration number:**

   N/A

11. **<u>If a limited liability partnership</u>**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

N/A ______________________________

12. **<u>If a partnership</u>**, provide name, title and address of all partners and a copy of the partnership agreement.

Name: **N/A** ______________________________

Title: ______________________________

Address: ______________________________

City/State/Zip: ______________________________

Telephone No.: ____________________ **Fax No.:** ____________________

Internet E-Mail Address: ______________________________

Internet Website Address: ______________________________

13. **<u>If a foreign limited partnership</u>,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:** **N/A** ______________________________

14. Provide **<u>F.E.I. Number</u>** (if applicable): **77-0528194** ______________________________

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. <u>Provide explanation</u>.

NONE ______________________________

____

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

NONE

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: **Kemal Hawa**

Title: **Attorney and Counsel for Concentric**

Address: **3000 K Street, Suite 300, N.W.**

City/State/Zip: **Washington, D.C. 20007-5116**

Telephone No.: **(202) 424 - 7500** **Fax No.:** **(202) 424 - 7645**

Internet E-Mail Address: **kmhawa@swidlaw.com**

Internet Website Address: **www.swidlaw.com**

(b) Official point of contact for the ongoing operations of the company:

Name: **John Peters**

Title: **EVP & GM, Corporate Strategy & Business Development**

Address: **1400 Parkmoor Avenue**

City/State/Zip: **San Jose, CA 95126**

Telephone No.: **(408) 817-2800** **Fax No.:** **(408) 817-2876**

Internet E-Mail Address: **jpeters@cncx.com**

Internet Website Address: **www.CONCENTRIC.com**

(c) Complaints/Inquiries from customers:

Name: **Peter Bergeron**

Title: **Secretary**

Address: **1400 Parkmoor Avenue**

City/State/Zip: **San Jose, CA 95126**

Telephone No.: **800-745-2747** **Fax No.:**

Internet E-Mail Address:

Internet Website Address: **www.CONCENTRIC.com**

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

Not applicable as Applicant has just recently been incorporated and is seeking to acquire certificates to operate as an alternative local exchange company.

(b) has applications pending to be certificated as an alternative local exchange company.

Arizona, California, Colorado, District of Columbia, Florida, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Texas, Vermont, Virginia, and Washington

(c) is certificated to operate as an alternative local exchange company.

Not applicable as Applicant has just recently been incorporated and is seeking to acquire certificates to operate as an alternative local exchange company.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

Not applicable, as Applicant has not been denied authority to operate as an alternative local exchange company in any state.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

Not applicable, as Applicant has not had regulatory penalties imposed for violations of statutes in any state.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Not applicable, as Applicant has not been involved in any civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity in any state.

18. Submit the following:

A. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL

Signature — Date: 12/15/99

Corporate Secretary
Title

(408) 817-2800
Telephone No.

Address:

(408) 817-2876
Fax No.

1400 Parkmoor Avenue

San Jose, CA 95126

ATTACHMENTS:

A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
B - INTRASTATE NETWORK
C - AFFIDAVIT

** APPENDIX A **

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

I, (Name)____,

(Title)____________________________ of____________________________

and current holder of Florida Public Service Commission Certificate Number #________

have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

____________________	____________
Signature	Date
____________________	____________
Title	Telephone No.
Address:____________________	____________
	Fax No.

____

____

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805,
25-24.810, and 25-24.815

**** APPENDIX B ****

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located. and indicate if owned or leased.

   1)**Not applicable** ______ 2)______

   3)______ 4)______

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   1)**Not applicable** ______ 2)______

   3)______ 4)______

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP	OWNERSHIP
1)**Not applicable**	
2)	
3)	
4)	

**** APPENDIX C ****

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

[signature] 12/15/99
Signature Date

Corporate Secretary **(408) 817-2800**
Title Telephone No.

Address: **(408) 817-2876**
Fax No.

1400 Parkmoor Avenue

San Jose, CA 95126

301919.1

LIST OF EXHIBITS

EXHIBIT 1	ARTICLES OF INCORPORATION CERTIFICATE OF AUTHORITY
EXHIBIT 2	FINANCIAL STATEMENTS
EXHIBIT 3	MANAGERIAL AND TECHNICAL QUALIFICATIONS

EXHIBIT 1

ARTICLES OF INCORPORATION AND CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "CONCENTRIC CARRIER SERVICES, INC.", FILED IN THIS OFFICE ON THE FIFTEENTH DAY OF NOVEMBER, A.D. 1999, AT 6 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

Edward J. Freel, Secretary of State

3126425 8100

AUTHENTICATION: 0084001

991486976

DATE: 11-16-99

CERTIFICATE OF INCORPORATION

OF

CONCENTRIC CARRIER SERVICES, INC.

FIRST: The name of the Corporation is Concentric Carrier Services, Inc.

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

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of all classes that the Corporation shall have authority to issue is 10,000 shares, par value $0.01 per share, to be issued as shares of Common Stock.

FIFTH: Except as otherwise required by law or expressly provided in this Certificate of Incorporation, each share of Common Stock shall entitle the holder thereof to one (1) vote of each matter submitted to a vote of the stockholders.

SIXTH: The name and mailing address of the incorporator of the Corporation are as follows:

Name	Address
Melanie J. Bosman	3000 K Street, N.W., Suite 300 Washington, D.C. 20007

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter or repeal the By-Laws of the Corporation, subject to any specific limitation on such power provided by any By-Laws adopted by the stockholders.

EIGHTH: Elections of directors need not be by written ballot unless the By-Laws of the Corporation so provide.

NINTH: The Corporation is to have perpetual existence.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon the stockholders herein are granted subject to this reservation.

ELEVENTH: A. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended. Any repeal or modification of this Section A by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

B. Each person who was or is made a party or is threatened to be made a party to or is or was involved in any action, suit, or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding'), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section C of this Article Eleventh with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors . The right to indemnification conferred in this Section B shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of any undertaking by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section B or otherwise.

C. If a claim under Section B of this Article Eleventh is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct that make it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or stockholder) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

D. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article Eleventh shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Law, agreement, vote of stockholders or disinterested directors or otherwise.

E. The Corporation may purchase and maintain insurance or furnish similar protection, including, but not limited to, providing a trust fund, letter of credit or self-insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expenses, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

F. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any agent of the Corporation to the fullest extent of the provisions of this Article Eleventh with respect to the indemnification and advancement of expenses of directors, officers and employees of the Corporation.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, makes this Certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly has hereunto set her hand and seal this 15th day of November, 1999.

Melanie J. Bosman

Melanie J. Bosman

State of Florida

Department of State

I certify from the records of this office that CONCENTRIC CARRIER SERVICES, INC., is a corporation organized under the laws of Delaware, authorized to transact business in the State of Florida, qualified on December 9, 1999.

The document number of this corporation is F99000006369.

I further certify that said corporation has paid all fees due this office through December 31, , that its most recent annual report was filed on , and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida
at Tallahassee, the Capitol, this the
Tenth day of December, 1999

Katherine Harris

Katherine Harris
Secretary of State

CR2EO22 (1-99)

APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

1. Concentric Carrier Services, Inc.
(Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION", or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)

2. Delaware
(State or country under the law of which it is incorporated)

3. 77-0528194
(FEI number, if applicable)

4. November 15, 1999
(Date of incorporation)

5. Perpetual
(Duration: Year corp. will cease to exist or "perpetual")

99 DEC -9 PM 2:01

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS

6. Upon Qualification
(Date first transacted business in Florida. (See sections 607.1501, 607.1502, and 817.155, F.S.))

7. 1400 Parkmoor Avenue, San Jose, California 95126
(Current mailing address)

8. provision of telecommunications services
(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)

9. Name and street address of Florida registered agent:

Name: C T Corporation System

Office Address: c/o C T Corporation System, 1200 South Pine Island Road

Plantation, Florida, 33324
(Zip Code)

10. Registered agent acceptance:
Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application. I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligation of my position as registered agent.

C T Corporation System

Kevin J. Gallagher

(Registered agent's signature) (Officer)

KEVIN J. GALLAGHER
ASSISTANT VICE PRESIDENT
(Type Name and Title of Officer)

(FL - 2189 - 11/16/94)
CT System

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors:

A. DIRECTORS

Chairman: Henry R. Nothhaft

Address: 1400 Parkmoor Avenue

San Jose, California 95126

Vice Chairman: ______

Address: ______

______

Director: Michael F. Anthofer

Address: 1400 Parkmoor Avenue

San Jose, California 95126

Director: ______

Address: ______

______

99 DEC -9 PM 2:01

B. OFFICERS

President: Henry R. Nothhaft

Address: 1400 Parkmoor Avenue

San Jose, California 95126

Vice President: Michael F. Anthofer

Address: 1400 Parkmoor Avenue

San Jose, California 95126

Secretary: Peter J. Bergeron

Address: 1400 Parkmoor Avenue

San Jose, California 95126

Treasurer: Michael F. Anthofer

Address: 1400 Parkmoor Avenue

San Jose, California 95126

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. ______________________________
(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. Henry R. Nothhaft, President
(Typed or printed name and capacity of person signing application)

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
99 DEC -9 PM 2:01

(FLA. 2189)

EXHIBIT 2

FINANCIAL STATEMENTS

Applicant is both technically and financially qualified to provide the proposed telecommunications services. Applicant has access to the financing and working capital necessary to fulfill any obligations it may undertake with respect to operation and maintenance of the operations specified in this Application. Specifically, Applicant will rely upon the substantial financial resources of its parent, Concentric Network Corporation, to provide the initial capital investment and to fund operating costs. Concentric Network Corporation is publicly traded on the NASDAQ Market under the symbol "CNCX." As of September 30, 1999, Concentric Network Corporation's total assets were valued at over $456 million, with quarterly revenue for the quarter ending September 30 of $38.1 million. With the resources of Concentric Network Corporation, Applicant possesses the sound financial support necessary to effectively procure, install and operate the facilities and services requested in this petition.

These financial resources are identified in the annual report information on Concentric Network Corporation's most recent 10K and 10Q filings with the SEC, which are attached hereto.

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1999

OR

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

For the transition period from ______ to ______

Commission File Number: 000-22575

CONCENTRIC NETWORK CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	65-0257497
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1400 Parkmoor Avenue
San Jose, California 95126
(Address of principal executive offices, including zip code)

(408) 817-2800
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. Yes [X] No [ ]

The number of issued and outstanding shares of the Registrant's Common Stock, $0.001 par value, as of September 30, 1999, was 42,119,597.

CONCENTRIC NETWORK CORPORATION

PART I--FINANCIAL INFORMATION

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

CONCENTRIC NETWORK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 1999 (Unaudited)	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$82,982	$98,988
Short term investments	70,396	52,226
Current portion of restricted cash	142,809	19,125
Accounts receivable, net	19,689	13,714
Other current assets	8,562	3,058
Total current assets	324,438	187,111
Property and equipment, net	73,927	64,268
Restricted cash, net of current portion	8,881	17,113
Goodwill and other intangible assets	16,190	20,364
Long term investments	22,206	--
Other assets	11,087	9,401
Total assets	$456,729	$298,257
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$27,419	$26,342
Accrued compensation and other employee benefits	3,269	2,024
Other current liabilities	10,915	4,559
Current portion of capital lease obligations	6,377	6,543
Deferred revenue	4,828	3,104
Total current liabilities	52,808	42,572
Capital lease obligations, net of current portion	6,788	10,434
Notes payable	146,354	146,021
Other long term liabilities	98	--
Commitments		
Redeemable exchangeable preferred stock	173,372	156,105
Convertible redeemable preferred stock	39,223	--
Stockholders' equity (deficit):		
Common stock	363,684	190,076
Accumulated deficit	(324,981)	(246,055)
Deferred compensation	(617)	(896)
Total stockholders' equity (deficit)	38,086	(56,875)
Total liabilities and stockholders' equity (deficit)	$456,729	$298,257

See accompanying notes.

CONCENTRIC NETWORK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Revenue.	$38,082	$21,579	$101,175	$57,725
Costs and expenses:				
Cost of revenue.	34,711	22,906	93,894	60,834
Development.	2,596	2,100	7,953	5,405
Marketing and sales	13,734	11,494	37,308	29,279
General and administrative	3,822	2,547	10,566	6,811
Amortization of goodwill and other intangible assets	1,392	1,100	4,175	2,449
Acquisition related charges.	--	--	--	1,291
Write off of in-process technology	--	--	--	5,200
Total costs and expenses	56,255	40,147	153,896	111,269
Loss from operations	(18,173)	(18,568)	(52,721)	(53,544)
Net interest expense and other	(1,920)	(2,390)	(7,775)	(10,885)
Loss before extraordinary item	(20,093)	(20,958)	(60,496)	(64,429)
Extraordinary gain on early retirement of debt	--	--	--	3,042
Net loss	(20,093)	(20,958)	(60,496)	(61,387)
Preferred stock dividends and accretion.	(7,115)	(5,279)	(18,430)	(6,556)
Net loss attributable to common stockholders	$(27,208)	$(26,237)	$(78,926)	$(67,943)
Net loss per share:				
Loss before extraordinary item	$(0.48)	$(0.71)	$(1.56)	$(2.23)
Extraordinary gain	--	--	--	0.11
Net loss	(0.48)	(0.71)	(1.56)	(2.12)
Preferred stock dividends and accretion.	(0.17)	(0.18)	(0.47)	(0.23)
Net loss attributable to common stockholders	$(0.65)	$(0.89)	$(2.03)	$(2.35)
Shares used in computing net loss per share attributable to common stockholders	41,789	29,388	38,920	28,858

See accompanying notes.

CONCENTRIC NETWORK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited
(In thousands)

	Nine Months Ended September 30,	
	1999	1998
Operating Activities		
Net loss.	$(78,926)	$(67,943)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	20,207	17,618
Amortization of deferred interest, cost of revenue and marketing and sales related to issuance of warrants	1,163	912
Amortization of goodwill and other intangible assets	4,174	2,450
Amortization of financing costs.	473	392
Amortization of other deferred assets.	1,554	2,538
Amortization of deferred compensation.	280	280
Preferred stock dividends and accretion.	18,429	6,556
Gain on early retirement of debt	--	(3,042)
Write-off of in-process technology	--	5,200
Changes in current assets and liabilities:		
Accounts receivable.	(6,718)	(3,679)
Other current assets	(420)	629
Prepaid expenses	(4,256)	(333)
Accounts payable	1,077	2,222
Accrued compensation and other employee benefits	1,245	(791)
Deferred revenue	1,723	175
Other current liabilities	6,705	3,616
Net cash used in operating activities	(33,290)	(33,200)
Investing Activities		
Net change in restricted cash	(123,684)	--
Additions of property and equipment	(28,919)	(11,288)
Proceeds from sale of property and equipment.	135	--
Net change in notes receivable.	(830)	--
Net change in short term investments.	(18,170)	(17,251)
Net change in long term investments	(22,206)	--
Cash investment in network services businesses, net of cash acquired.	--	(25,077)
Net cash used in investing activities	(193,674)	(53,616)
Financing Activities		
Net change in restricted cash	8,232	7,313
Repayment of notes payable	--	(1,960)
Repayment of lease obligations to a related party	--	(3,079)
Repayment of lease obligations to a related party-early retirement of debt.	--	(24,750)
Repayment of lease obligations.	(5,144)	(5,015)
Proceeds from issuances of stock and warrants	161,668	2,528
Proceeds from issuances of redeemable exchangeable preferred stock	--	144,250
Proceeds from issuances of convertible redeemable preferred stock	50,000	--
Deferred financing costs	(3,798)	(320)
Net cash provided by financing activities	210,958	118,967
Net change in cash and cash equivalents	(16,006)	32,151
Cash and cash equivalents at beginning of period.	98,988	119,959
Cash and cash equivalents at end of period.	$82,982	$152,110
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Capital lease obligations incurred with a related party	$--	$1,285
Capital lease obligations incurred	$1,294	$4,485

Supplemental Disclosures of Cash Flow Information		
Interest paid	$10,950	$12,499

CONCENTRIC NETWORK CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

These unaudited condensed consolidated financial statements and the related footnote information have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, the accompanying unaudited interim condensed financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. The results for the interim period ended September 30, 1999 are not necessarily indicative of results to be expected for the entire year ending December 31, 1999 or future operating periods.

All share and per share information presented herein, except as noted, and in the Company's condensed consolidated financial statements has been retroactively restated to reflect a two-for-one stock split of the Company's common stock on May 21, 1999, paid in the form of a stock dividend, to holders of record on April 30, 1999.

2. Cash, Cash Equivalents and Short Term Investments

The Company considers all highly liquid investments with an original maturity (at date of purchase) of three months or less to be the equivalent of cash for the purpose of balance sheet and statement of cash flows presentation. Investments with maturities between three and twelve months are considered to be short term investments. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's debt securities have been classified and accounted for as available-for-sale. These securities are carried at fair value and unrealized gains and losses have not been material to date. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income and have not been material to date. Cash and cash equivalents are held primarily with four financial institutions.

3. Net Loss Per Share

Basic and diluted net loss per share have been computed in accordance with the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share". Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common stock equivalent shares from stock options and warrants are not included as the effect is antidilutive.

4. Stockholders' Equity

In January 1999 SBC Communications Inc. purchased, prior to the stock split, 806,679 shares of common stock for an aggregate purchase price of approximately $19.5 million pursuant to an agreement reached between the two companies in October 1998. In connection with the agreement, the Company has issued to SBC a warrant to purchase an additional pre-split 906,679 shares. The warrant expires three years from the date of issuance and is exercisable at the pre-split price of $21.00 per share. The Company deemed the fair market value of the warrant, using the Black-Scholes method, to be $1.9 million which is being amortized as a marketing cost over the life of the agreement.

In February 1999 the Company effected a public offering of its common stock pursuant to a Registration Statement on Form S-3 filed with the Securities and Exchange Commission. The Company issued and sold 2,830,500 shares prior to the split at $44.50 per share for net proceeds of approximately $119.4 million. Certain selling stockholders exercised warrants to purchase directly from the Company 800,000 shares of pre split common stock having an aggregate purchase price of approximately $10.2 million, which shares were also registered and sold in the public offering by such stockholders.

In June 1999 the Company issued a warrant to Microsoft Corporation ("Microsoft"), in conjunction with Microsoft's $50 million purchase of preferred stock (see Note 8), to purchase 500,000 shares of its common stock. The warrant expires four years from the date of issuance and is exercisable at $33.27 per share. In connection with the issuance of the Series C Preferred the Company issued a warrant to purchase 500,000 shares of its common stock. The Company deemed the fair market value of the warrants, using the Black-Scholes model, to be approximately $11.9 million and is accreting this value over four years.

In June 1999 the Company amended an agreement with TMI Telemedia International, Ltd. ("TMI") and in connection with the agreement, the Company issued a warrant to purchase 50,000 shares of its common stock. The warrant expires in January 2001 and is exercisable at $25.1875 per share. The Company deemed the fair market value of the warrant, using the Black-Scholes method, to be $504,000, which was written off as other expense in June 1999.

5. Equity Investments

In January 1999 the Company purchased approximately $10.0 million of common stock from Covad Communications, Inc. ("Covad") and certain Covad stockholders at Covad's initial public offering price. In April 1999 the Company purchased approximately $5.0 million of Class B Common Stock from NorthPoint Communications Group, Inc. ("NorthPoint"). In July 1999 the Company purchased approximately $5.0 million of Series A Convertible Preferred Stock from Register.com, Inc. ("Register.com"). In August 1999 the Company purchased approximately $2.0 million of Series B Preferred Stock from Asia Online, Ltd. ("Asia Online").

6. Acquisitions

On February 5, 1998, the Company acquired all of the outstanding stock of InterNex Information Services, Inc. ("InterNex"). The transaction was accounted for using the purchase method of accounting. The total purchase price of approximately $23.9 million consisted of a $15.5 million cash payment upon closing and the assumption of approximately $8.4 million of InterNex's liabilities (including acquisition costs).

A summary of the purchase price allocation is as follows (in thousands):

Current and other assets	$1,348
Computer and telecommunications equipment	4,784
Goodwill	9,496
Other intangible assets	3,080
Write-off of in process technology	5,200
Total purchase price allocation	$23,908

Goodwill is being amortized over five years. Other intangible assets include developed technology, assembled workforce and customer lists and are being amortized over their useful lives ranging from two to four years.

In May 1998, the Company acquired Delta Internet Services, Inc. ("DeltaNet") in a transaction that was accounted for as a pooling of interests. The Company issued approximately 452,000 pre-split shares of its common stock to DeltaNet shareholders in exchange for all outstanding DeltaNet shares. The Company also assumed outstanding DeltaNet options and warrants which were converted to options and warrants to purchase approximately 196,000 and 14,000 pre-split shares, respectively, of the Company's common stock. The consolidated results of operations for the three and nine months ended September 30, 1998 include an acquisition related charge of $1.3 million primarily related to severance costs, reserves for redundant facilities and assets and professional fees.

In August 1998, the Company acquired all of the outstanding stock of AnaServe, Inc. ("AnaServe"). The transaction was accounted for using the purchase method of accounting. The total purchase price of approximately $13.0 million consisted of a $9.6 million cash payment upon closing and the assumption of approximately $3.4 million of AnaServe's liabilities (including acquisition costs).

A summary of the purchase price allocation is as follows (in thousands):

Current and other assets	$467
Computer and telecommunications equipment	497
Goodwill	11,630
Other intangible assets	416
Total purchase price allocation	$13,010

Goodwill is being amortized over five years. Other intangible assets include developed technology, assembled workforce and customer lists and are being amortized over their useful lives ranging from one to four years.

7. Early Retirement of Debt

On March 31, 1998, the Company retired a portion of debt in the form of capital lease obligations to a related party. The Company paid $24.8 million for extinguishment of debt. The Company recognized an extraordinary gain of $3.0 million in connection with this transaction.

8. Convertible Redeemable Preferred Stock

In June 1999, the Company issued 50,000 shares of Series C 7% Convertible Redeemable Preferred Stock due 2010 ("Series C Preferred") to Microsoft for $50 million. Each share of Series C Preferred has a liquidation preference of $1,000 per share. Dividends on the Series C Preferred accrue at the rate of 7% per annum of the liquidation preference thereof and are payable quarterly in arrears commencing on September 1, 1999. Dividends are payable in cash, except that on each dividend payment date dividends may be paid, at the Company's option, by the issuance of additional shares of Series C Preferred having an aggregate liquidation preference equal to the amount of such dividends.

The Series C Preferred is redeemable at the option of the Company, in whole or in part, at any time on or after June 1, 2003 at redemption rates commencing with 105.125% declining to 100% on June 1, 2010. The Series C Preferred is subject to mandatory redemption at its liquidation preference, plus accumulated and unpaid dividends on September 1, 2010. The holder of any Series C Preferred has the right, at its option, to convert at any time any shares of Series C Preferred into shares of common stock at the conversion price of $39.924.

The Company is accreting the Series C Preferred to its liquidation preference through the due date of the Series C Preferred. The accretion for the quarter and year-to-date period ended September 30, 1999 was approximately $888,000.

9. Consent Agreements

In July 1999, the Company solicited and received consents of more than a majority of the Company's outstanding 12 3/4% Senior Notes due 2007 ("12 3/4% Senior Notes") and the outstanding 13 1/2% Series B Redeemable Exchangeable Preferred Stock due 2010 ("Series B Preferred"). The consents allow the Company to increase its permitted investments under the Indenture relating to the 12 3/4% Senior Notes and the Certificate of Designation relating to the Series B Preferred. In August, the Company paid consent fees of approximately $3.8 million to the holders who delivered consents prior to the expiration date of such consents.

10. Income Taxes

The Company accounts for income taxes using the liability method in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" ("FAS 109"). No provision for income taxes is expected for 1999 as the Company expects to incur a net loss for the year and does not meet the criteria for recognizing an income tax benefit under the provisions of FAS 109.

11. Commitments

In May 1999, the Company signed an agreement to lease space in Irvine, California for an office and data center. The lease expires in June 2004. The average annual rent over the term of the lease is approximately $411,000.

In June 1999, the Company signed an agreement through which Microsoft will provide services to certain of the Company's customers and the Company will purchase $7.5 million worth of advertising during the term of the three year agreement.

In September 1999, the Company announced that it had reached an agreement to acquire Internet Technology Group plc, a provider of Internet access for consumers and dedicated access and hosting for businesses in the UK and Europe. The transaction is valued at approximately $217.0 million, consisting of 50% cash and 50% Concentric stock. The Company has placed $123.7 million into restricted cash pending completion of this transaction.

In November 1999, the Company signed an agreement to sublease office space in San Jose, California from November 1999 through March 2002 for approximately $1.2 million per year.

11. Subsequent Events

In October 1999 the Company acquired substantially all of the assets of 9 Net Avenue, Inc., a provider of web hosting services, for approximately $51.8 million in stock and cash and assumed approximately $9.9 million in liabilities.

In October 1999 the Company purchased approximately $5.0 million of Series C Preferred stock from Corio, Inc.

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

This section and other parts of this Report contain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the subsection entitled "Factors Affecting Operating Results". The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Financial Statements and the Notes thereto included elsewhere in this Report.

Overview

The Company was founded in 1991. From 1991 to mid-1993, the Company conducted development and network services planning activities and realized no revenues. Initially, the Company was focused on providing consumers with direct dial-up connectivity to bulletin board services. Online gaming and entertainment services for consumers were commenced in July 1993 through the utilization of a third party network infrastructure. The Company commenced operation of its own network in late 1994. In May 1995, new management led by Henry R. Nothhaft redefined and broadened the Company's strategy to provide a range of Internet and tailored, value-added Internet Protocol-based network services to consumers and businesses.

The Company's revenue prior to 1996 was primarily generated from providing Internet access to consumers. The Company's current focus is on developing and deploying virtual private networks or VPNs and providing dedicated network access, digital subscriber line (DSL) and Web hosting services for enterprise customers. Contracts with enterprise customers typically have a term ranging from one to three years. The Company expects enterprise-related revenue to represent an increasing portion of total revenue in future periods. The foregoing expectation is a forward-looking statement that involves risks and uncertainties, and actual results could vary as a result of a number of factors including the Company's operating results, the results and timing of the Company's launch of new products and services, governmental or regulatory changes, the ability of the Company to meet product and project demands, the success of the Company's marketing efforts, competition and acquisitions of complementary businesses, technologies or products.

In February 1998, the Company acquired InterNex, a provider of network services, collocation services and Web hosting facilities to enterprise customers. This acquisition was accounted for using the purchase method of accounting. As a result of the acquisition, the Company incurred a charge of $5.2 million relating to acquired in-process technology and recorded an aggregate of $12.6 million of goodwill and other intangible assets, which will be amortized on a straight-line basis over their estimated useful lives ranging from two to five years.

In May 1998, the Company acquired DeltaNet, a provider of dial-up and dedicated access services, Web hosting services and Web application development and design. This transaction was accounted for as a pooling of interests. As a result of the acquisition, the Company has incurred charges of approximately $1.3 million in transaction costs consisting primarily of severance costs, redundant facilities and assets and professional fees related to the acquisition.

In August 1998, the Company acquired AnaServe, a provider of Web hosting services. This acquisition was accounted for using the purchase method of accounting. As a result of the acquisition, the Company has recorded an aggregate of $12.0 million of goodwill and other intangible assets, which will be amortized on a straight-line basis over their useful lives ranging from one to five years.

In October 1999 the Company acquired 9Net Avenue, Inc. and has signed an agreement to acquire ITG. Both of these transactions will result in additional charges for goodwill. Additionally, the Company may acquire other complementary products or technology and if the Company were to incur additional charges for acquired in-process technology, amortization of goodwill and acquisition costs with respect to any future acquisitions, the Company's business, operating results and financial condition could be materially and adversely affected. See "Factors Affecting Operating Results--Our Acquisition Strategy Poses Several Risks" and "--Liquidity and Capital Resources."

The Company has incurred net losses and experienced negative cash flow from operations since inception and expects to continue to operate at a net loss and experience negative cash flow at least through 2001. The Company's ability to achieve profitability and positive cash flow from operations is dependent upon the Company's ability to substantially grow its revenue base and achieve other operating efficiencies. The Company experienced net losses attributable to common stockholders of approximately $66.4 million, $55.6 million and $94.1 million for the years ended December 31, 1996, 1997, and 1998, respectively and $78.9 million for the nine months ended September 30, 1999. We cannot assure you that the Company will be able to achieve or sustain revenue growth, profitability or positive cash flow on either a quarterly or an annual basis.

The Company expects to focus in the near term on building and increasing its revenue base, which will require it to significantly increase its expenses for personnel, marketing, network infrastructure and the development of new services, and may adversely impact short term operating results. As a result, the Company believes that it will incur losses in the near term and we cannot assure you that the Company will be profitable in the future.

The Company's operating results have fluctuated in the past and may in the future fluctuate significantly, depending upon a variety of factors, including the timely deployment and expansion of the Concentric network and new network architectures, the incurrence of related capital costs, variability and length of the sales cycle associated with the Company's product and service offerings, the receipt of new value-added network services and consumer services subscriptions and the introduction of new services by the Company and its competitors. Additional factors that may contribute to variability of operating results include: the pricing and mix of services offered by the Company; customer retention rate; market acceptance of new and enhanced versions of the Company's services; changes in pricing policies by the Company's competitors; the Company's ability to obtain sufficient supplies of sole- or limited-source components; user demand for network and Internet access services; balancing of network usage over a 24-hour period; the ability to manage potential growth and expansion; the ability to identify, acquire and integrate successfully suitable acquisition candidates; and charges related to acquisitions. In response to competitive pressures, the Company may take certain pricing or marketing actions that could have a material adverse affect on the Company's business. As a result, variations in the timing and amounts of revenues could have a material adverse affect on the Company's quarterly operating results. Due to the foregoing factors, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and that such comparisons cannot be relied upon as indicators of future performance. In the event that the Company's operating results in any future period fall below the expectations of securities analysts and investors, the trading price of the Company's common stock would likely decline.

Results of Operations

Revenue. Revenue totaled approximately $38.1 million for the three month period ended September 30, 1999, a $16.5 million increase over revenue of approximately $21.6 million for the three month period ended September 30, 1998. Revenue for the nine month period ended September 30, 1999 was approximately $101.2 million, a $43.5 million increase over revenue of approximately $57.7 million for the nine month period ended September 30, 1998. This increase reflects growth in revenue from:

. the Company's broadened product offerings to its enterprise customers;

. the Company's marketing arrangements with its strategic partners; and

. revenues from acquired operations.

The Company expects revenue growth from Internet access customers to flatten over time. Revenue from WebTV decreased to 24.0% of the Company's net revenue for the three month period ended September 30, 1999 compared to 25.9% for the three month period ended September 30, 1998. WebTV accounted for approximately 26.5% of net revenue for the nine months ended September 30, 1999 as compared to 27.0% for the comparable period in 1998. The Company expects revenue from WebTV to decrease as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the caption "Factors Affecting Operating Results--The Loss of Any of Our Major Customers Could Severely Impact Our Business."

Cost of Revenue. Cost of revenue consists primarily of personnel costs to maintain and operate the Company's network, access charges from local exchange carriers, backbone and Internet access costs, depreciation of network equipment and amortization of related assets. Cost of revenue for the three month period ended September 30, 1999 was approximately $34.7 million, an increase of $11.8 million from cost of revenue of $22.9 million for the three month period ended September 30, 1998. This increase is attributable to the overall growth in the size of the network and costs associated with acquired operations. As a percentage of revenue, such costs declined to 91.1% of revenue in the three month period ended September 30, 1999, down from 106.1% of revenue in the year earlier period, due to increased network utilization associated with the Company's revenue growth and lower per port costs of the Company's network. Cost of revenue for the nine months ended September 30, 1999 was approximately $93.9 million compared to $60.8 million for the nine months ended September 30, 1998. As a percentage of revenue, costs declined to 92.8% of revenue in the nine months ended September 30, 1999 from 105.4% of revenue in the year earlier period. The Company expects its cost of revenue to continue to increase in dollar amount, while declining as a percentage of revenue as the Company expands its customer base. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors, including those set forth under the captions "Factors Affecting Operating Results--We Have a Limited Operating History and Expect Continuing Operating Losses," "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources" and "Factors Affecting Operating Results--We Depend Upon New and Uncertain Markets."

Development Expense. Development expense consists primarily of personnel and equipment related expenses associated with the development of products and services of the Company. Development expense was approximately $2.6 million and $2.1 million for the three month periods ended September 30, 1999 and 1998, respectively. This higher level of development expense reflects an overall increase in personnel to develop new product offerings, to manage the overall growth in the network and from acquired operations. Development expense as a percentage of revenue declined to 6.8% for the three month period ended September 30, 1999 from 9.7% for the three month period ended September 30, 1998 as a result of the Company's increased revenue. Development expense for the nine month periods ending September 30, 1999 and 1998 was approximately $8.0 million and $5.4 million, respectively. As a percentage of revenue, development expense declined to 7.9% for the nine months ended September 30, 1999 from 9.4% for the nine months ended September 30, 1998. The Company expects its development spending to continue to increase in dollar amount, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors, including those set forth below under the captions "Factors Affecting Operating Results--We Have a Limited Operating History and Expect Continuing Operating Losses" and "Factors Affecting Operating Results--We Depend Upon New and Enhanced Services."

Marketing and Sales Expense. Marketing and sales expense consists primarily of personnel expenses, including salary and commissions, costs of marketing programs and the cost of 800 number circuits utilized by the Company for customer support functions. Marketing and sales expense was approximately $13.7 million for the three month period ended September 30, 1999 and $11.5 million for the three month period ended September 30, 1998. The $2.2 million increase in 1999 reflects an expansion of the customer support, marketing and sales organizations necessary to support the Company's expanded customer base. This increase also reflects a growth in subscriber acquisition costs, related to both increased direct marketing efforts as well as commissions paid to distribution partners. Marketing and sales expense as a percentage of revenue declined to 36.1% for the three month period ended September 30, 1999 from 53.3% in the year earlier period as a result of the Company's increased revenue. For the nine months ended September 30, 1999 and 1998, marketing and sales expense was approximately $37.3 million and $29.3 million, respectively, and was 36.9% and 50.7% of revenue, respectively. The Company expects marketing and sales expenditures to continue to increase in dollar amount, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the captions "Factors Affecting Operating Results--We Depend on New and Uncertain Markets" and "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources."

General and Administrative Expense. General and administrative expense consists primarily of personnel expense and professional fees. General and administrative expense was approximately $3.8 million for the three month period ended September 30, 1999 and $2.5 million for the three month period ended September 30, 1998. This higher level of expense reflects an increase in personnel and professional fees necessary to manage the financial, legal and administrative aspects of the business. General and administrative expense as a percentage of revenue declined to 10.0% for the three month period ended September 30, 1999 from 11.8% in the year earlier period as a result of the Company's increased revenue. For the nine months ended September 30, 1999 and 1998, general and administrative expense was approximately $10.6 million and $6.8 million, respectively. General and administrative expense as a percentage of revenue declined to 10.4% in the nine months ended September 30, 1999 from 11.8% for the comparable period in 1998. The Company expects general and administrative expense to increase in dollar amount, reflecting its growth in operations, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the captions "Factors Affecting Operating Results--We Depend on New and Uncertain Markets" and "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources."

Amortization of Goodwill and Other Intangible Assets. For the three month periods ended September 30, 1999 and September 30, 1998, respectively, the Company recorded amortization of goodwill and other intangible assets of $1.4 million and $1.1 million. Amortization of goodwill and other intangible assets for the nine month period ended September 30, 1999 was $4.2 million as compared to $2.4 million for the comparable period in 1998. The increase is primarily the result of the acquisition of AnaServe in August 1998.

Acquisition-Related Charges. For the nine month period ended September 30, 1998, the Company charged to operations one-time acquisition costs of $1.3 million related to the DeltaNet acquisition.

Write-off of In-Process Technology. In the nine month period ended September 30, 1998, the Company wrote-off $5.2 million of in-process technology related to the acquisition of InterNex.

Net Interest Expense and Other Expense. Net interest expense and other expense was approximately $1.9 million and $2.4 million for the three month periods ended September 30, 1999 and 1998, respectively. For the nine months ended September 30, 1999 and 1998, net interest expense and other expense was $7.8 million and $10.9 million, respectively. The decrease is primarily due to the early retirement of debt in the form of capital lease obligations in March 1998 and higher levels of cash, cash equivalents and short term investments in the three and nine months ended September 30, 1999. During the nine month period ended September 30, 1999, the Company wrote off $504,000 related to the issuance of a warrant to TMI.

Extraordinary Gain. For the nine month period ended September 30, 1998, the Company realized an extraordinary gain of $3.0 million related to the early retirement of debt in the form of capital lease obligations.

Preferred Stock Dividends and Accretions. For the three month periods ended September 30, 1999 and 1998, the Company recorded dividend and stock accretion of $7.1 million and $5.3 million, respectively, related to the Series A 13 1/2% Redeemable Exchangeable Preferred Stock due 2010 ("Series A Preferred") issued in June 1998, the Series B 13 1/2% Redeemable Exchangeable Preferred Stock due 2010 ("Series B Preferred") issued in September 1998 in exchange for all outstanding shares of Series A Preferred and the Series C 7% Convertible Redeemable Preferred Stock due 2010 ("Series C Preferred"). Dividend and stock accretion for the nine months ended September 30, 1999 and 1998, was $18.4 million and $6.6 million, respectively.

Net Loss Attributable to Common Stockholders. The Company's net loss attributable to common stockholders increased to approximately $78.9 million for the nine month period ended September 30, 1999 as compared to approximately $67.9 million for the nine month period ended September 30, 1998. For comparative purposes, the net loss attributable to common stockholders for the nine month period ended September 30, 1999 included $18.4 million of dividends and accretion related to the preferred stock issued in June 1998, an increase of $11.8 million over the prior year comparable period. The net loss attributable to common stockholders for the nine month period ended September 30, 1998 included a $5.2 million write-off of in-process technology partially offset by an extraordinary gain of $3.0 million on early retirement of debt.

Liquidity and Capital Resources

To date, the Company has satisfied its cash requirements primarily through the sale of capital stock, debt financings and capitalized lease financings. The Company's principal uses of cash are to fund working capital requirements and capital expenditures, to service its capital lease and debt financing obligations, to finance and fund acquisitions, to provide for the early retirement of debt and to finance equity investments in strategic partners. Net cash used in operating activities for the nine month periods ended September 30, 1999 and 1998 was approximately $33.3 million and $33.2 million, respectively. Cash used in operating activities in both periods was primarily affected by the net losses, caused by increased costs related to the expansion of the Company's network and organizational infrastructure.

Net cash used in investing activities for the nine month periods ended September 30, 1999 and 1998 was approximately $193.7 million and $53.6 million, respectively. Net cash used in investing activities for the nine month period ended September 30, 1999 consisted of equity investments of $10.0 million in Covad Communications, Inc., $5.0 million in NorthPoint Communications, Group, Inc., $5.0 million in Register.com, Inc. and $2.0 million in Asia Online, Ltd. Restricted cash of $123.7 million was placed in escrow for the pending Internet Technology Group acquisition, $28.9 million was used to purchase capital equipment to support the Company's expanded network infrastructure, and $18.2 million was used to purchase short term investments. For the nine month period ended September 30, 1998, net cash used in investing activities consisted primarily of $25.1 million for the acquisitions of InterNex, DeltaNet and AnaServe and $11.3 million for purchases of capital equipment.

For the nine month period ended September 30, 1999, net cash of approximately $211.0 million was provided from financing activities. Net proceeds from the public stock offering in February 1999 was $119.0 million, net proceeds from the issuance of Series C Preferred was approximately $50.0 million, net proceeds from the sale of stock to SBC was $19.5 million and net proceeds from other stock issuances, including the sale of stock to stockholders exercising warrants, was $23.2 million. For the nine month period ended September 30, 1998, net cash of approximately $119.0 million was provided by financing activities, of which $144.3 million was the net proceeds from the issuance of Series A Preferred and $24.7 million was used for the early retirement of capital lease obligations.

For the nine month period ended September 30, 1999 net cash decreased $16.0 million as compared to a net cash increase for the nine month period ended September 30, 1998 of $32.2 million.

At September 30, 1999, the Company had cash and cash equivalents of approximately $83.0 million, short term investments of $70.4 million, restricted cash of $151.7 million and working capital of $271.6 million. The Company expects to incur additional operating losses and will rely primarily on its available cash resources to meet its anticipated cash needs for working capital and for the acquisition of capital equipment through September 2000. However, the Company may require additional financing within this time frame. The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors, including those set forth under the caption "Factors Affecting Operating Results--We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available." The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. We cannot assure you that such additional funding, if needed, will be available on terms attractive to the Company, or at all.

Disclosures About Market Risk

The following discusses the Company's exposure to market risk related to changes in equity prices. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth under the caption "Factors Affecting Operating Results--We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available."

Equity Price Risk

The Company owns 833,334 shares of the common stock of Covad, purchased in January 1999 at a split adjusted price of $12.00 per share, 277,840 shares of Class B Common Stock of NorthPoint purchased in April 1999 at $18.00 per share, 416,667 shares of Series A Convertible Preferred Stock of Register.com purchased in July 1999 at $12.00 per share and 629,660 shares of Series B Preferred Stock of Asia Online purchased in August 1999 at $3.176 per share. The Company values these investments using the lower of cost or market method, and thus continues to value them at their respective costs of $10.0 million, $5.0 million, $5.0 million and $2.0 million. If the price per share of these stocks were to decline below the cost per share and such decline was considered to be other than temporary, the Company would be required to write-down the value of these investments. The Company is generally restricted from selling these shares for at least one year from the date of purchase. The Company does not hedge against equity price changes.

Impact of The Year 2000 Issue

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of normal business activities. The Company is currently in the process of reviewing its products and services, as well as its internal management information systems in order to identify and modify those products, services and systems that are not year 2000 compliant.

Based on the Company's assessment to date, the Company has determined that its internally developed software, including much of its operational, financial and management information systems software is year 2000 compliant. The Company's operational, financial and management information systems software which have not been internally developed have been certified as year 2000 compliant by the third party vendors who have supplied the software. The equipment and software that runs the Company's data centers are supplied by Microsoft, Nortel/Bay Networks and Sun Microsystems. The Company has implemented software patches supplied by Microsoft so that the Microsoft software in these data centers no longer contains any material year 2000 deficiencies. The Company implemented similar patches for the software supplied by Sun Microsystems at the end of 1998 and Bay Networks equipment and software during 1999 with versions which do not contain any material year 2000 deficiencies. Additionally, the Company is continuing to assess the year 2000 compliance of its products and services. To date, most newly introduced products and services of the Company do not contain material year 2000 deficiencies, however some of the Company's customers are running earlier product versions that are not year 2000 compliant. The Company has been encouraging such customers to migrate to current product versions. The Company estimates that the capital and other costs associated with the upgrade and conversion of its existing products, services and systems relating to the year 2000 issue will not be material. The Company does not separately track internal costs incurred to assess and remedy deficiencies related to the year 2000 problem, however, such costs are principally the payroll costs for its information systems group. The Company does not have and is not developing a contingency plan in the event its systems fail as a result of year 2000 related problems.

The Company's products, services and systems operate in complex network environments and directly and indirectly interact with a number of other hardware and software systems. The Company faces risks to the extent that suppliers of products, services and systems purchased by the Company and others with whom the Company transacts business on a worldwide basis, including those which form significant portions of the Company's network and may be sole- or limited-source suppliers, do not have business systems or products that comply with year 2000 requirements. The Company has not received significant assurances from its suppliers that their networks are year 2000 compliant. If these networks fail, the Company's business will be significantly impacted.

The Company's expectation that it will be able to upgrade its products, services and systems to address the year 2000 issue and its expectation regarding the costs associated with these upgrades are forward-looking statements subject to a number of risks and uncertainties. Actual results may vary materially as a result of a number of factors. There can be no assurance that the Company will be able to timely and successfully modify such products, services and systems to comply with year 2000 requirements. Any failure to do so could have a material adverse effect on the Company's operating results. Furthermore, despite testing by the Company and its vendors, the Company's products, services and systems may contain undetected errors or defects associated with year 2000 date functions. In the event any material errors or defects are not detected and fixed or third parties cannot timely provide the Company with products, services or systems that meet the year 2000 requirements, the Company's operating results could be materially adversely affected. Known or unknown errors or defects that affect the operation of the Company's products, services or systems could result in delay or loss of revenue, interruption of network services, cancellation of customer contracts, diversion of development resources, damage to the Company's reputation, and litigation costs. There can be no assurance that these or other factors relating to year 2000 compliance issues will not have a material adverse effect on the Company's business, operating results or financial condition.

Factors Affecting Operating Results

As described by the following factors, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

We Have a Limited Operating History and Expect Continuing Operating Losses

We were incorporated in 1991, commenced network operations in 1994 and completed initial deployment of our current network architecture and use of an advanced ATM backbone network in late 1996. Accordingly, we have a limited operating history upon which an evaluation of our prospects can be based. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets. To address these risks, we must, among other things:

. respond to competitive developments;

. continue to attract, retain and motivate qualified personnel; and

. continue to upgrade our technologies and commercialize network services incorporating such technologies.

We cannot assure you that we will be successful in addressing the risks we face. The failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We have incurred net losses and experienced negative cash flow from operations since inception. We expect to continue to operate at a net loss and experience negative cash flow at least through 2001. Our ability to achieve profitability and positive cash flow from operations is dependent upon our ability to substantially grow our revenue base and achieve other operating efficiencies. We experienced net losses attributable to common stockholders of approximately $66.4 million for the year ended December 31, 1996, $55.6 million for the year ended December 31, 1997, $94.1 million for the year ended December 31, 1998 and $78.9 million for the nine month period ended September 30, 1999. At September 30, 1999, we had an accumulated deficit of approximately $325.0 million. We cannot assure you that we will be able to achieve or sustain revenue growth, profitability or positive cash flow on either a quarterly or an annual basis.

Our estimates of the periods of time in which we expect to continue to operate at a net loss, experience negative cash flow and not generate taxable income are forward-looking statements that involve risks and uncertainties. Actual results could vary materially as a result of a number of factors, including those set forth in this Factors Affecting Operating Results section.

Our Operating Results Fluctuate and Could Decline

Our operating results have fluctuated in the past and may fluctuate significantly in the future. Our operating results fluctuate due to a variety of factors, including the following:

. timely deployment and expansion of our network and new network architectures;

. the incurrence of capital costs related to network expansion;

. variability and length of the sales cycle associated with our product and service offerings;

. the receipt of new value-added network services and consumer services subscriptions;

. the introduction of new services by us and our competitors;

. the pricing and mix of services offered by us;

. our customer retention rate;

. market acceptance of new and enhanced versions of our services;

. changes in pricing policies by our competitors;

. our ability to obtain sufficient supplies of sole- or limited- source components;

. user demand for network and Internet access services;

. balancing of network usage over a 24-hour period;

. the ability to manage potential growth and expansion;

. the ability to identify, acquire and successfully integrate suitable acquisition candidates; and

. charges related to acquisitions.

Variations in the timing and amounts of revenues due to these actions could have a material adverse effect on our quarterly operating results. Due to the foregoing factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful. Such comparisons cannot be relied upon as indicators of future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

The Loss of Any of Our Major Customers Could Severely Impact Our Business

We currently derive a substantial portion of our total revenue from WebTV. Revenue from WebTV accounted for 10.1% of our revenue for the year ended December 31, 1996, 33.4% of our revenue for the year ended December 31, 1997, 26.8% of our revenue for the year ended December 31, 1998 and 26.5% of our revenue for the nine month period ended September 30, 1999.

WebTV may terminate our current agreement at will after December 31, 2002. While we expect revenue from WebTV to decrease as a percentage of revenue in future periods, we believe that revenue derived from a limited number of customers may continue to represent a significant portion of our revenue. As a result, the loss of one or more of our major customers could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that revenue from customers that have accounted for significant revenue in past periods, individually or as a group, will continue, or will reach or exceed historical levels in any future period.

Our Growth and Expansion May Strain Our Resources

Our business and service offerings have grown rapidly since our inception. The growth and expansion of our business and our service offerings have placed, and are expected to continue to place, a significant strain on our management, operational and financial resources. In addition, we recently expanded and upgraded our network to use an ATM backbone. We plan to continue to substantially expand our network in 1999 and future periods. To manage our growth, we must, among other things:

. continue to implement and improve our operational, financial and management information systems, including our billing, accounts receivable and payable tracking, fixed assets and other financial management systems;

. hire, train and retain qualified personnel; and

. continue to expand and upgrade our network infrastructure.

We are currently in the process of replacing or updating our operational, financial and management information systems. The systems being replaced or updated include our billing, provisioning and other financial management systems. We began to replace our information systems facilities in the fourth quarter of 1998 and these efforts will continue throughout 1999. We will be consolidating two facilities in Southern California into one by the end of 1999. Management of the transition of our information systems and of the personnel and operational equipment to the new facility is expected to place additional strain on our resources. We cannot assure you that these transitions will be completed successfully or on a timely basis.

We cannot assure you that we will be able to expand our network or add services at the rate or according to the schedule presently planned by us. We had 96 employees and 47 independent contractors as of December 31, 1996, and have grown to 608 employees and 96 independent contractors as of September 30, 1999. We cannot assure you that we will be able to effectively manage this growth in personnel. Additionally, we cannot assure you that we will be able to hire, train and retain sufficient numbers of qualified personnel to meet our requirements.

Our expanding customer base demands the rapid growth of our network infrastructure and technical support resources. We may in the future experience difficulties meeting the demand for our access services and technical support. We cannot assure you that our technical support or other resources will be sufficient to facilitate our growth. We are striving to increase total network utilization and to optimize this utilization by targeting both business and consumer users to balance the network's usage throughout a 24-hour period. There will be additional demands on our customer support, sales and marketing resources as we pursue this utilization strategy. If we fail to manage our growth effectively, our business, financial condition and results of operations could be materially adversely affected.

Our Acquisition Strategy Poses Several Risks

We have completed four acquisitions to date, and have announced another acquisition which is subject to certain closing conditions, and may seek to acquire additional assets, technologies and businesses complementary to our operations. The completed acquisitions are and any subsequent acquisitions would be accompanied by the risks commonly encountered in such transactions. Such risks include, among other things:

. difficulties integrating the operations and personnel of acquired companies;

. the additional financial resources that may be needed to fund the operations of acquired companies;

. the potential disruption of our business;

. our management's ability to maximize our financial and strategic position by the incorporation of acquired technology or businesses into our service offerings;

. the difficulty of maintaining uniform standards, controls, procedures and policies;

. the potential loss of key employees of acquired companies;

. the impairment of relationships with employees and customers as a result of changes in management; and

. the incurrence of significant expenses in consummating acquisitions.

Any of the above risks could prevent us from realizing significant benefits from our acquisitions. In addition, the issuance of our common stock in acquisitions will dilute our stockholder interests in our company, while the use of cash will deplete our cash reserves. Finally, if we are unable to account for our acquisitions under the "pooling of interests" method of accounting, we may incur significant, one-time write-offs and amortization charges. These write- offs and charges could decrease our future earnings or increase our future losses.

Our Future Success Depends Upon Third-Party Distribution and Engineering Relationships

An important element of our strategy is to develop relationships with leading companies to enhance our distribution and engineering efforts. We have agreements with Netscape and Microsoft pursuant to which we distribute and modify their browsers. Our customization of browsers is an integral part of our current tailored VPN offerings. The Netscape agreement may be terminated at any time upon 60 days notice and the Microsoft agreement expires in March 2000. We have an agreement with Intuit for the development, operation and maintenance of a VPN that is the integrated access, dial-up network and infrastructure used by purchasers of Quicken, Turbo Tax and other Intuit software products. Intuit customers use this VPN to access the Quicken Financial Network Website and the Internet. The Intuit contract may be terminated at the election of Intuit upon six months prior notice of an election to terminate. We have also recently entered into strategic agreements with SBC and Teligent for the delivery of private-labeled services to their customers. We rely on these relationships for the acquisition of enterprise and consumer customers. Our inability to capitalize on these agreements, the termination of or failure to renew any of these agreements or our inability to enter into similar relationships with others could have a material adverse effect on our business, financial condition and results of operation.

We have an outsourcing agreement with Williams Technology Solutions, a subsidiary of Williams Communications Group, Inc., that enables us to use Williams employees for the operational support of our network. Our use of Williams employees and Williams engineering expertise was integral to the development of our network and continues to be integral to the ongoing operation of our network operations center. Pursuant to the agreement with Williams, all of the Williams employees currently working for us will become our employees when the agreement terminates in December 2000. Termination of any of these agreements or our failure to renew any of the agreements upon termination on terms acceptable to us could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon New and Uncertain Markets

We offer tailored, value-added network services for enterprises and consumers, including Internet access. These markets are in the early stages of development. It is difficult to predict the rate at which the market will grow, if at all, because these markets are relatively new and current and future competitors are likely to introduce competing services or products. New or increased competition may result in market saturation. Certain critical issues concerning commercial use of tailored, value-added services and Internet services, remain unresolved and may impact the growth of such services. These issues include, among others, security, reliability, ease and cost of access, and quality of service. Our business, financial condition and results of operations would be materially adversely affected if the markets for our services, including Internet access:

. fail to grow;

. grow more slowly than anticipated; or

. become saturated with competitors.

We Depend Upon New and Enhanced Services

We have recently introduced new enterprise service offerings, including the introduction of value-added, IP-based communication services to enterprises and DSL services in limited areas. Our failure to introduce new enterprise service offerings or the failure of these services to gain market acceptance in a timely manner or at all, or the failure to achieve significant market coverage could have a material adverse effect on our business, financial condition and results of operations. If we introduce new or enhanced services with reliability, quality or compatibility problems, then market acceptance of such services could be significantly delayed or hindered. Such problems or delays could adversely affect our ability to attract new customers and subscribers.

Our New or Enhanced Services May Have Errors or Defects

Our services may contain undetected errors or defects when new services or enhancements are first introduced. We cannot assure you that, despite testing by us or our customers, errors will not be found in new services or enhancements after commencement of commercial deployment. Such errors could result in:

. additional development costs;

. loss of, or delays in, market acceptance;

. diversion of technical and other resources from our other development efforts; and

. the loss of customers and subscribers.

Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

We Need to Balance Network Use to Provide Quality Service

If we do not achieve balanced network utilization over a 24-hour period, our network could become overburdened at certain periods during the day, which could adversely affect our quality of service. Conversely, due to the high fixed cost nature of our infrastructure, under-utilization of our network during certain periods of the day could adversely affect our ability to provide cost-efficient services at other times. Any failure to achieve balanced network utilization could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon Our Suppliers and Have Sole- and Limited-Sources of Supply for Certain Products and Services

We rely on other companies to supply certain key components of our network infrastructure. These components include critical telecommunications services and networking equipment, which, in the quantities and quality demanded by us, are available only from sole- or limited-sources. AT&T Corp., MCI WorldCom, Inc., PacWest Telecomm, Inc., Covad and Williams are our primary providers of data communications facilities and capacity. AT&T is currently the sole provider of the frame relay backbone of our network. MCI WorldCom and Williams are currently the providers of the ATM backbone of our network. We are also dependent upon LECs to provide telecommunications services to us and our customers. We experience delays from time to time in receiving telecommunications services from these suppliers. We cannot assure you that we will be able to obtain such services on the scale and within the time frames required by us at an affordable cost, or at all. Any failure to obtain such services on a sufficient scale, on a timely basis or at an affordable cost would have a material adverse effect on our business, financial condition and results of operations.

We purchase our Nortel/Bay, Cisco Systems, Netopia, Lucent Technologies, Sun Microsystems and other vendor equipment either directly from the manufacturer or via systems integrators including Milgo Solutions, Inc. and Williams. Some of these vendors are sole-source suppliers. We purchase these components pursuant to purchase orders placed from time to time with our suppliers. We do not carry significant inventories of these components and have no guaranteed supply arrangements for such components. Our suppliers also sell products to our competitors and may in the future themselves become our competitors. We cannot assure you that our suppliers will not enter into exclusive arrangements with our competitors or stop selling their products or components to us at commercially reasonable prices, or at all.

The expansion of our network infrastructure is placing, and will continue to place, a significant demand on our suppliers. Some of these suppliers have limited resources and production capacity. In addition, some of our suppliers rely on sole-or limited-sources of supply for components included in their products. Failure of our suppliers to meet increasing demand may prevent them from continuing to supply components and products in the quantities and quality and at the times required by us, or at all. Our inability to obtain sufficient quantities of sole- or limited-source components or to develop alternative sources, if required, could result in delays and increased costs in expanding, and overburdening of, our network infrastructure. Any such delay, increased costs or overburdening would have a material adverse effect on our business, financial condition and results of operations.

We also depend on our suppliers' ability to provide necessary products and components that comply with various Internet and telecommunications standards. These products and components must also interoperate with products and components from other vendors. Any failure of our suppliers to provide products or components that comply with Internet standards or that interoperate with other products or components used by us in our network infrastructure could have a material adverse effect on our business, financial condition and results of operations.

Some of our suppliers, including the RBOCs and other LECs, currently are subject to tariff controls and other price constraints that in the future may be changed. In addition, regulatory proposals are pending that may affect what the RBOCs and other LECs charge us. Any such regulatory changes could result in increased prices of products and services, which could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon Our Network Infrastructure

Our success depends upon the capacity, reliability and security of our network infrastructure. We currently derive a significant portion of our revenue from customer subscriptions. We expect that a substantial portion of our future revenue will be derived from the provision of tailored, value-added network services to our enterprise customers. We must continue to expand and adapt our network infrastructure as the number of users and the amount of information they wish to transfer increase and as customer requirements change. We currently project our network utilization will require rapid expansion of the network capacity to avoid capacity constraints that would adversely affect system performance. The expansion and adaptation of our network infrastructure will require substantial financial, operational and management resources in 1999 and future periods. We cannot assure you that we will be able to expand or adapt our network infrastructure to meet additional demand or our customers' changing requirements on a timely basis, at a commercially reasonable cost, or at all. In addition, if demand for network usage were to increase faster than projected or were to exceed our current forecasts, the network could experience capacity constraints, which would adversely affect the performance of the system. Our business, financial condition and results of operations could be materially adversely affected if, for any reason, we fail to:

. expand our network infrastructure on a timely basis;

. adapt our network infrastructure to changing customer requirements or evolving industry trends; or

. alleviate capacity constraints experienced by our network infrastructure.

Currently, we have transit agreements with MCI WorldCom, Sprint and UUNet and we have peering agreements with America Online, PSINet and other network providers to support the exchange of traffic between our network and the Internet. We also have public peering arrangements with multiple smaller Internet service providers. These public peering arrangements also support the exchange of traffic between our network and the Internet. The failure of the networks with which we have public peering, private peering or private transit, or the failure of any of our data centers, or any other link in the delivery chain, or any inability to successfully integrate new network resources into our existing infrastructure, and resulting interruption of our operations would have a material adverse effect on our business, financial condition and results of operations.

Our Market Is Extremely Competitive

The market for tailored value-added network services is extremely competitive. There are no substantial barriers to entry in this market, and we expect that competition will intensify in the future. We believe that our ability to compete successfully depends upon a number of factors, including:

. market presence;

. the capacity, reliability, low latency and security of our network infrastructure;

. technical expertise and functionality, performance and quality of services;

. customization;

. ease of access to and navigation of the Internet;

. the pricing policies of our competitors and suppliers;

. the variety of services;

. the timing of introductions of new services by us and our competitors;

. customer support;

. our ability to support industry standards; and

. industry and general economic trends.

Our competitors generally may be divided into four groups: telecommunications companies, online service providers, Internet service providers and Web hosting providers. Many of our competitors have greater market presence, engineering and marketing capabilities, and financial, technological and personnel resources than those available to us. As a result, they may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products and services than we can. In addition to the competitors discussed above, various organizations have entered into or are forming joint ventures or consortiums to provide services similar to those of our company.

We believe that new competitors will enter the value-added network services market. Such new competitors could include large computer hardware, software, media and other technology and telecommunications companies. Certain telecommunications companies and online services providers are currently offering or have announced plans to offer Internet or online services or to expand their network services. Certain companies, including America Online, BBN, PSINet and Verio, have also obtained or expanded their Internet access products and services as a result of acquisitions. Such acquisitions may permit our competitors to devote greater resources to the development and marketing of new competitive products and services and the marketing of existing competitive products and services. In addition, the ability of some of our competitors to bundle other services and products with virtual private network services or Internet access services could place us at a competitive disadvantage. Certain companies are also exploring the possibility of providing or are currently providing high-speed data services using alternative delivery methods such as over the cable television infrastructure, through direct broadcast satellites and over wireless cable.

As a result of increased competition and vertical and horizontal integration in the industry, we could encounter significant pricing pressure. This pricing pressure could result in significant reductions in the average selling price of our services. For example, telecommunications companies that compete with us may be able to provide customers with reduced communications costs in connection with their Internet access services or private network services, reducing the overall cost of their solutions and significantly increasing price pressures on us. We cannot assure you that we will be able to offset the effects of any such price reductions with an increase in the number of our customers, higher revenue from enhanced services, cost reductions or otherwise. In addition, we believe that the Internet access and online services businesses are likely to encounter consolidation in the near future. Consolidation could result in increased price and other competition in these industries and, potentially, the virtual private networks industry. Increased price or other competition could result in erosion of our market share and could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that we will have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully.

We Must Keep Up With Rapid Technological Change and Evolving Industry Standards

The markets for our services are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and frequent new product and service introductions. Our future success will depend, in part, on our ability to:

. effectively use leading technologies;

. continue to develop our technical expertise;

. enhance our current networking services;

. develop new services that meet changing customer needs;

. advertise and market our services; and

. influence and respond to emerging industry standards and other technological changes.

All this must be accomplished in a timely and cost-effective manner. We cannot assure you that we will be successful in effectively using new technologies, developing new services or enhancing our existing services on a timely basis. We cannot assure you that such new technologies or enhancements will achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense. We cannot assure you that we will succeed in adapting our network service business to alternate access devices and conduits as they emerge.

We believe that our ability to compete successfully is also dependent upon the continued compatibility and interoperability of our services with products and architectures offered by various vendors. Although we intend to support emerging standards in the market for Internet access, we cannot assure you that industry standards will be established. If industry standards are established, we cannot assure you that we will be able to conform to these new standards in a timely fashion and maintain a competitive position in the market. Specifically, our services rely on the continued widespread commercial use of TCP/IP. Alternative open protocol and proprietary protocol standards have been or are being developed. If any of these alternative protocols become widely adopted, there may be a reduction in the use of TCP/IP, which could render our services obsolete and unmarketable. In addition, we cannot assure you that services or technologies developed by others will not render our services or technology uncompetitive or obsolete.

An integral part of our strategy is to design our network to meet the requirements of emerging standards such as 56.6 Kbps modems and applications such as IP-based interactive video and voice conferencing communications. Our initial deployment of 56.6 Kbps modem technology was difficult for some of our customers, including WebTV, due to compatibility problems between the software and their modems. We had to remove the software from the network and modems to fix the problem. A modified version of the software was deployed in the network in the first quarter of 1999. If we fail, for technological or other reasons, to develop and introduce the 56.6 Kbps modem technology or other new or enhanced services that are compatible with industry standards and that satisfy customer requirements, then our business, financial condition and results of operations would be materially adversely affected. See "Business--The Concentric Network."

We face the risk of fundamental changes in the way Internet access is delivered. Internet services are currently accessed primarily by computers connected by telephone lines. Several companies have announced the development and planned sale of cable television modems, wireless modems and satellite modems to provide Internet access. Cable television, satellite and wireless modems can transmit data at substantially faster speeds than the modems we and our subscribers currently use. In addition, wireless modems have the potential to reduce the cost of network services. As the Internet becomes accessible through these cable television, wireless and satellite modems and by screen- based telephones, televisions or other consumer electronic devices, or subscriber requirements change the way Internet access is provided, we will have to develop new technology or modify our existing technology to accommodate new developments such as:

. Internet access through cable television, satellite and wireless modems;

. Internet access through screen-based telephones, televisions or other consumer electronic devices; or

. subscriber requirements that change the way Internet access is provided.

Our pursuit of these technological advances may require substantial time and expense. We cannot assure you that we will succeed in adapting our Internet access business to alternate access devices and conduits.

Our Network System Could Fail

Network expansion and growth in usage will place increased stress upon our network hardware and traffic management systems. Our network has been designed with redundant backbone circuits to allow traffic re-routing. We cannot assure you, however, that we will not experience failures relating to individual network POPs or even catastrophic failure of the entire network. Moreover, our operations are dependent upon our ability to protect our network infrastructure against damage from power loss, telecommunications failures and similar events. A significant portion of our computer equipment, including critical equipment dedicated to our Internet access services, is located at our facilities in Chicago, Illinois, and San Jose and Irvine, California. In addition, our modems and routers that serve large areas of the United States are located in these cities. Our network operations center, which manages the entire network, is in St. Louis, Missouri. Despite our precautions, a natural disaster, such as an earthquake, or other unanticipated problem at the network operations center, at one of our hubs (sites at which we have located routers, switches and other computer equipment that make up the backbone of our network infrastructure) or at a number of our POPs has from time to time in the past caused, and in the future could cause, interruptions in our services. In addition, our services could be interrupted if our telecommunications providers fail to provide the data communications capacity in the time frame required by us as a result of a natural disaster or for some other reason. Any damage or failure that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations.

Our System May Experience Security Breaches

Despite the implementation of network security measures, the core of our network infrastructure is vulnerable to computer viruses, break-ins and similar disruptive problems caused by our customers or Internet users. Computer viruses, break-ins or other problems caused by third parties could lead to interruptions, delays or cessation in service to our customers and subscribers. Furthermore, inappropriate use of the network by third parties could also potentially jeopardize the security of confidential information stored in our computer systems and our customer's computer systems. We may face liability and may lose potential subscribers as a result. Although we intend to continue to implement industry-standard security measures, such measures occasionally have been circumvented in the past. We cannot assure you that our security enclosures will not be circumvented in the future. The costs and resources required to eliminate computer viruses and alleviate other security problems may result in interruptions, delays or cessation of service to our customers that could have a material adverse effect our business, financial condition and results of operations.

We Depend Upon Key Personnel and May be Unable to Timely Hire and Retain Sufficient Numbers of Qualified Personnel

Our success depends to a significant degree upon the continued contributions of our executive management team, including Henry R. Nothhaft, the Company's Chairman, President and Chief Executive Officer, and John K. Peters, the Company's Executive Vice President of Corporate Strategy and Business Development. The loss of the services of Mr. Nothhaft or Mr. Peters could have a material adverse effect on us. We have Executive Continuity Agreements with six senior officers, including Mr. Nothhaft and Mr. Peters. These agreements provide for compensation, certain expense reimbursement and continued option vesting for these officers in the event of involuntary termination without cause or constructive termination without cause within 18 months of a change of control. We do not carry key man life insurance on the life of any such persons. Our success will also depend upon the continued service of the other members of our senior management team and technical, marketing and sales personnel. Competition for qualified employees is intense. Our employees may voluntarily terminate their employment with us at any time. Our success also depends upon our ability to attract and retain additional highly qualified management, technical, sales and marketing and customer support personnel. Locating personnel with the combination of skills and attributes required to carry out our strategy is often a lengthy process. The loss of key personnel, or the inability to attract additional, qualified personnel, could have a material adverse effect upon our results of operations, development efforts and ability to complete the expansion of our network infrastructure. Any such event could have a material adverse effect on our business, financial condition and results of operations.

We Have Incurred Substantial Indebtedness and May Not Be Able to Service Our Debt

We are and will continue to have a significant amount of outstanding indebtedness. We have significant debt service requirements as a result of this indebtedness. At September 30, 1999, our total debt (including current portion) was $159.5 million, and stockholders' equity was $38.1 million. Interest on such indebtedness totals approximately $19.1 million per year. We also issued 150,000 shares of preferred stock in June 1998 with dividends which accrue at the rate of 13 1/2 % per year and 50,000 shares of preferred stock in June 1999 with dividends which accrue at the rate of 7% per year. At September 30, 1999, cumulative dividends and accretion on the preferred stock totaled approximately $29.5 million. Dividends and accretion will total approximately $24.7 million in 1999 and are expected to grow in each successive year. To date, we have paid such dividends in shares of preferred stock, rather than in cash. We must also redeem both issuances of the preferred stock in 2010. As a result of these and other features, the preferred stock is substantially equivalent to debt. Our debt, including the preferred stock, has important consequences for our company and for you, including the following:

- our ability to obtain additional financing in the future, whether for working capital, capital expenditures, acquisitions or other purposes, may be impaired;
- a substantial portion of our cash flow from operations is dedicated to the payment of interest on our debt, which reduces the funds available to us for other purposes;
- our flexibility in planning for or reacting to changes in market conditions may be limited; and
- we may be more vulnerable in the event of a downturn in our business.

Our ability to meet our debt service and preferred stock dividend obligations will depend on our future operating performance and financial results. This ability will be subject in part to factors beyond our control. Although we believe that our cash flow will be adequate to meet our interest and dividend payments, we cannot assure you that we will continue to generate sufficient cash flow in the future to meet our debt service and preferred stock requirements. If we are unable to generate cash flow in the future sufficient to cover our fixed charges and are unable to borrow sufficient funds from other sources, then we may be required to:

. refinance all or a portion of our existing debt; or

. sell all or a portion of our assets.

We cannot assure you that a refinancing would be possible. We cannot assure you that any asset sales would be timely or that the proceeds which we could realize from such asset sales would be sufficient to meet our debt service requirements. In addition, the terms of our debt and preferred stock restrict our ability to sell our assets and our use of the proceeds from any such asset sale.

We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available

We currently anticipate that our available cash resources will be sufficient to meet our anticipated working capital and capital expenditure requirements through September 2000. However, we cannot assure you that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements. We may need to raise additional funds through public or private debt or equity financings in order to:

. take advantage of unanticipated opportunities, including more rapid international expansion or acquisitions of complementary businesses or technologies;

. develop new products or services; or

. respond to unanticipated competitive pressures.

We may also raise additional funds through public or private debt or equity financings if such financings become available on favorable terms. We cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of unanticipated opportunities, develop new products or services or otherwise respond to unanticipated competitive pressures. In such case, our business, results of operations and financial condition could be materially adversely affected. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors, including those set forth above.

We Face Risks Associated with International Expansion

A key component of our strategy is to expand into international markets. The following risks are inherent in doing business on an international level:

. unexpected changes in regulatory requirements;

. export restrictions;

. export controls relating to encryption technology;

. tariffs and other trade barriers;

. difficulties in staffing and managing foreign operations;

. longer payment cycles;

. problems in collecting accounts receivable;

. political instability;

. fluctuations in currency exchange rates;

. seasonal reductions in business activity during the summer months in Europe and certain other parts of the world; and

. potentially adverse tax consequences that could adversely impact the success of our international operations.

We cannot assure you that one or more of such factors will not have a material adverse effect on our future international operations and, consequently, on our business, financial condition and results of operations.

We have an agreement with TMI Telemedia International, Ltd., a subsidiary of the leading Italian telecommunications company, Telecom Italia, SpA, establishing an international network based on our network technology and expertise and TMI's existing telecommunications infrastructure. In exchange, we granted TMI certain exclusive rights in critical markets, including Europe. In June 1999 we amended the agreement to release TMI's exclusive rights in all territories but Italy, Spain and Austria. While the goal of this effort is to deliver a range of compatible network services worldwide, to date we have had only limited deployment of services under this agreement. Our experience in developing versions of our products and marketing and distributing our products internationally is limited. Our international strategy has not developed as rapidly as anticipated and may be further delayed if:

. we cannot successfully develop satisfactory relationships with other partners;

. we cannot successfully deploy our technology over our partners' infrastructure;

. we cannot transfer our knowledge to our partners' employees; or

. our partners do not devote sufficient management, technological or marketing resources to this project.

Our business, results of operation or financial condition could be materially adversely affected if delays in our international strategy continue or worsen.

We have entered into roaming agreements with third parties to allow our customers to access their Internet accounts from Japan and certain other foreign countries. In September 1999 we reached an agreement to acquire ITG which currently provides network services in the UK and Holland. We cannot assure you that we will be able to successfully market, sell and deliver our products in these markets.

We Could Face Government Regulation

The Federal Communications Commission ("FCC") currently does not regulate value-added network software or computer equipment related services that transport data or IP-based voice messages over telecommunication facilities as telecommunications services. We provide value-added IP-based network services, in part, through data transmissions over public telephone lines. Operators of these types of value-added networks that provide access to regulated transmission facilities only as part of a data services package are classified for regulatory purposes as providers of "information services" and are currently excluded from regulations that apply to "telecommunications carriers." As such, we are not currently subject to direct regulation by the FCC or any other governmental agency, other than regulations applicable to businesses generally. However, future changes in law or regulation could result in some aspects of our current operations becoming subject to one or more forms of telecommunication regulation by the FCC or other regulatory agencies.

The FCC currently is reviewing its regulatory positions on data transmissions over telecommunications networks and could seek to impose some form of telecommunications carrier regulation on the network transport and telecommunications functions of an enhanced or information services package. Further, the FCC could conclude that our protocol conversions, computer processing and interaction with customer-supplied information are insufficient to afford us with the benefits of the enhanced or information service regulatory classification. If the FCC reaches such conclusions, it may seek to regulate some segments of our activities as telecommunications services. One significant example of the type of regulation some incumbent LECs would like to have the FCC impose on IP-based services is typified by a recent Petition for Expedited Declaratory Ruling filed by US West seeking an FCC ruling that IP-based Telephony services provided over interexchange carrier networks not be considered information services, but telecommunications services subject to incumbent LEC-imposed interstate access charges. While the FCC has not taken action to date on the US West Petition, its filing indicates that there are telecommunications carriers anxious to reclassify exempt information services to be regulated telecommunications services.

State public utility commissions generally have declined to regulate enhanced or information services. Some states, however, have continued to regulate particular aspects of enhanced services in limited circumstances, such as where they are provided by incumbent LECs that operate telecommunications networks. Moreover, the public service commissions of some states continue to review potential regulation of such services. We cannot assure you that regulatory authorities of states where we provide Internet access, intranet and VPN services will not seek to regulate aspects of these activities as telecommunications services. The prices at which we may sell our services could be affected by regulatory changes:

. in the Internet connectivity market;

. that indirectly or directly affect telecommunications costs; or

. that increase the likelihood or scope of competition from the RBOCs.

We cannot predict the impact, if any, that future regulation or regulatory changes may have on our business and we cannot assure you that future regulation or regulatory changes will not have a material adverse effect on our business, results of operations or financial condition.

We Depend On Our Proprietary Technology and Technological Expertise

Our success and ability to compete is dependent in part upon our technology. In this regard, we believe our success is more dependent upon our technical expertise than our proprietary rights. We rely upon a combination of copyright, trademark and trade secret laws and contractual restrictions to protect our proprietary technology. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization or to develop similar technology independently. We cannot assure you that such measures have been, or will be, adequate to protect our proprietary technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology.

We operate a material portion of our business over the Internet. The Internet is subject to a variety of risks. Such risks include but are not limited to the substantial uncertainties that exist regarding the system for assigning domain names and the status of private rules for resolution of disputes regarding rights to domain names. We cannot assure you that we will continue to be able to employ our current domain names in the future or that the loss of rights to one or more domain names will not have a material adverse effect on our business and results of operations.

Third Parties May Claim We Infringe Their Proprietary Rights

Although we do not believe we infringe the proprietary rights of any third parties, we cannot assure you that third parties will not assert such claims against us in the future or that such claims will not be successful. We could incur substantial costs and diversion of management resources to defend any claims relating to proprietary rights, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to license our products in the United States or abroad. Such a judgment would have a material adverse effect on our business, financial condition and results of operations. In addition, we are obligated under certain agreements to indemnify the other party for claims that we infringe on the proprietary rights of third parties. If we are required to indemnify parties under these agreements, our business, financial condition and results of operations could be materially adversely affected. If someone asserts a claim relating to proprietary technology or information against us, we may seek licenses to such intellectual property. We cannot assure you, however, that we could obtain licenses on commercially reasonable terms, if at all. The failure to obtain the necessary licenses or other rights could have a material adverse effect on our business, financial condition and results of operations.

We Could Face Liability for Information Disseminated Through Our Network

The law relating to the liability of online service providers, private network operators and Internet service providers for information carried on or disseminated through the facilities of their networks is continuing to evolve and remains unsettled. In the past, at least one court has ruled that Internet service providers could be found liable for copyright infringement as a result of information disseminated through their networks. Such claims have been asserted against us in the past and we cannot assure you that similar claims will not be asserted in the future. Federal laws have been enacted, however, which, under certain circumstances, provide Internet service providers with immunity from liability for information that is disseminated through their networks when they are acting as mere conduits of information. A Federal Court of Appeals has recently held that the Telecommunications Act of 1996 creates immunity from liability on the part of Internet service providers for libel claims arising out of information disseminated over their services by third party content providers. In addition, the Digital Millennium Copyright Act, which was enacted in 1998, creates a safe-harbor from copyright infringement liability for Internet service providers that meet certain requirements. These requirements include certain technical measures and registering with the Copyright Office the identity of the provider's Designated Infringement Agent who is to receive notice of any claims of copyright infringement. We cannot assure you, however, that the Digital Millennium Copyright Act or any other legislation will protect us from copyright infringement liability.

The Child Online Protection Act of 1998 prohibits and imposes criminal penalties and civil liability on anyone engaged in the business of selling or transferring, by means of the World Wide Web, material that is harmful to minors without restricting access to such material by persons under seventeen years of age. Numerous states have adopted or are currently considering similar types of legislation. The imposition upon us, Internet service providers or Web server hosts of potential liability for such materials carried on or disseminated through our systems could require us to implement measures to reduce our exposure to such liability. Such measures may require the expenditure of substantial resources or the discontinuation of certain product or service offerings. Further, the costs of defending against any such claims and potential adverse outcomes of such claims could have a material adverse effect on our business, financial condition and results of operations. The Child Online Protection Act of 1998 has been challenged by civil rights organizations in part on the grounds that it violates the First Amendment. A similar statute was held unconstitutional by the United States Supreme Court in 1997. On February 1, 1999 a United States District Court preliminarily enjoined enforcement of the law pending final resolution of the case.

Our Stock Price Has Been and May Continue to Be Volatile

The trading price of our common stock has been and is likely to be highly volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

. actual or anticipated variations in quarterly operating results;

. announcements of technological innovations;

. new products or services offered by us or our competitors;

. changes in financial estimates by securities analysts;

. conditions or trends in the network services market;

. our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;

. additions or departures of key personnel;

. sales of common stock; and

. other events or factors that may be beyond our control.

In addition, the stock markets in general, and the Nasdaq National Market and the market for network services and technology companies in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. The trading prices of many technology companies' stocks are at or near historical highs and these trading prices and multiples are substantially above historical levels. These trading prices and multiples may not be sustained. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation often has been instituted against that company. Litigation like this, if instituted, could result in substantial costs and a diversion of management's attention and resources.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

27.1 Financial data schedule

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K dated October 22, 1999 to report under Item 5 the acquisition of substantially all of the assets of 9 Net Avenue, Inc. for approximately $51.8 million and the assumption of approximately $9.9 million of liabilities.

SIGNATURES

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

Date: November 15, 1999

CONCENTRIC NETWORK CORPORATION

By: /s/ Henry R. Nothhaft

Henry R. Nothhaft,
President, Chief Executive
Officer and Director

By: /s/ Michael F. Anthofer

Michael F. Anthofer,
Senior Vice President and
Chief Financial Officer

<ARTICLE> 5
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	9-MOS
<FISCAL-YEAR-END>	DEC-31-1999	DEC-31-1999
<PERIOD-START>	JUL-01-1999	JAN-01-1999
<PERIOD-END>	SEP-30-1999	SEP-30-1999
<CASH>	225,791	225,791
<SECURITIES>	70,396	70,396
<RECEIVABLES>	20,553	20,553
<ALLOWANCES>	864	864
<INVENTORY>	0	0
<CURRENT-ASSETS>	324,438	324,438
<PP&E>	134,452	134,452
<DEPRECIATION>	60,525	60,525
<TOTAL-ASSETS>	456,728	456,728
<CURRENT-LIABILITIES>	52,808	52,808
<BONDS>	0	0
<PREFERRED-MANDATORY>	212,595	212,595
<PREFERRED>	0	0
<COMMON>	363,684	363,684
<OTHER-SE>	(324,981)	(324,981)
<TOTAL-LIABILITY-AND-EQUITY>	456,728	456,728
<SALES>	38,082	101,175
<TOTAL-REVENUES>	38,082	101,175
<CGS>	34,711	93,894
<TOTAL-COSTS>	56,255	153,896
<OTHER-EXPENSES>	0	0
<LOSS-PROVISION>	0	0
<INTEREST-EXPENSE>	1,920	7,775
<INCOME-PRETAX>	(27,208)	(78,926)
<INCOME-TAX>	0	0
<INCOME-CONTINUING>	(27,208)	(78,926)
<DISCONTINUED>	0	0
<EXTRAORDINARY>	0	0
<CHANGES>	0	0
<NET-INCOME>	(27,208)	(78,926)
<EPS-BASIC>	(.65)	(2.03)
<EPS-DILUTED>	(.65)	(2.03)

-----BEGIN PRIVACY-ENHANCED MESSAGE-----
Proc-Type: 2001,MIC-CLEAR
Originator-Name: webmaster@www.sec.gov
Originator-Key-Asymmetric:
MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWyK3XmZv3dTINen
TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB
MIC-Info: RSA-MD5,RSA,
RI5LnRydEEuWwPGimEoqQb5t+gfZiiPpsTs2+CBuYn68XhoNUw0g/aJOqZbaJJSY
/dROIA7cSgUzTjtTnHjF9Q==

<SEC-DOCUMENT>0001012870-99-000341.txt : 19990209
<SEC-HEADER>0001012870-99-000341.hdr.sgml : 19990209
ACCESSION NUMBER: 0001012870-99-000341
CONFORMED SUBMISSION TYPE: 10-K/A
PUBLIC DOCUMENT COUNT: 3
CONFORMED PERIOD OF REPORT: 19981231
FILED AS OF DATE: 19990208

FILER:

COMPANY DATA:
COMPANY CONFORMED NAME: CONCENTRIC NETWORK CORP
CENTRAL INDEX KEY: 0001007304
STANDARD INDUSTRIAL CLASSIFICATION: TELEPHONE COMMUNICATIONS (N
IRS NUMBER: 650257497
STATE OF INCORPORATION: DE
FISCAL YEAR END: 1231

FILING VALUES:
FORM TYPE: 10-K/A
SEC ACT:
SEC FILE NUMBER: 000-22575
FILM NUMBER: 99524275

BUSINESS ADDRESS:
STREET 1: 10590 N TANTAU AVE
CITY: CUPERTINO
STATE: CA
ZIP: 95014
BUSINESS PHONE: 4083422800

MAIL ADDRESS:
STREET 1: 10590 NORTH TANTAU AVENUE
CITY: CUPERTINO
STATE: CA
ZIP: 95014
</SEC-HEADER>
<DOCUMENT>
<TYPE>10-K/A
<SEQUENCE>1
<DESCRIPTION>AMENDMENT #1 TO FORM 10-K
<TEXT>

<PAGE>

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K/A

FOR ANNUAL AND TRANSITIONAL REPORTS PURSUANT TO
SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
[X] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended: December 31, 1998

OR

[_] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number: 0-22575

CONCENTRIC NETWORK CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	65-0257497 (I.R.S. Employer Identification No.)
1400 Parkmoor Avenue, San Jose, CA (Address of principal executive office)	95126-3429 (zip code)

Registrant's telephone number, including area code: (408) 817-2800

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

Title of each class	Name of each exchange on which registered
None	None

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

Common Stock, $0.001 par value
(Title of Class)

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

Yes [X] No [_]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on January 29, 1999 as reported on the National Market of The Nasdaq Stock Market, was approximately $408,584,320.50. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. As of January 29, 1999, registrant had outstanding 15,981,314 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant has incorporated by reference into Part III of this Form 10-

K portions of its Proxy Statement for Registrant's Annual Meeting of Stockholders to be held May 19, 1999.
<PAGE>

The Business section and other parts of this Report contain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results" commencing on page 32.

PART I

Item 1. Business

BUSINESS

Concentric provides tailored, value-added IP-based network services for enterprises and consumers. To provide these services, the Company utilizes its low/fixed latency, high-throughput network, employing its advanced network architecture and the Internet. Concentric's service offerings for enterprises include VPNs, DAFs, DSL, remote access and Web hosting. These services enable enterprises to take advantage of standard Internet tools such as browsers and high-performance servers for customized data communications within an enterprise and between an enterprise and its suppliers, partners and customers. These services combine the cost advantages, nationwide access and standard protocols of public networks with the customization, high performance, reliability and security of private networks. Among the current enterprise customers are Intuit, SBC, Teligent and WebTV. Concentric's service offerings for consumers and small office/home office customers include local Internet dial-up access, DSL and applications hosting.

The Company was incorporated in Florida in 1991 under the name Engineered Video Concepts, Inc., changed its name to Concentric Research Corporation in 1992 and commenced network operations in 1994. In 1995, the Company changed its name to Concentric Network Corporation and reincorporated into Delaware in 1997.

Industry Background

Development of Private Networks

Historically, the data communications services offered by public carriers had limited security features, were expensive and did not adequately ensure accurate and reliable transmission. As a result, many corporations established and maintained their own private WANs to provide network-based services, such as transaction processing, to their customers and to coordinate operations between employees, suppliers and business partners. Such private WANs were frequently customized to specific applications, business practices and user communities. As a result, these private WANs had the capability of providing organizations and users with tailored performance and features, security, reliability and private-label branding.

The demand for WANs has grown as a result of today's competitive business environment. Factors stimulating the higher demand include the need to provide broader and more responsive customer service, to operate faster and more effectively between operating units, suppliers and other business partners, and the need to take advantage of new business opportunities for network-based offerings in a timely fashion. In addition, as businesses become more global in nature, the ability to access business information across the enterprise has become a competitive necessity.

Despite the attractive capabilities of private networks, limitations of many private WANs have impeded or reduced the effectiveness of their use. These networks, which traditionally have required the use of leased telephone lines with bandwidth dedicated solely to this purpose and the purchase of vendor-specific networking equipment, are inherently expensive to set up, operate and maintain. Private WANs often require the development and maintenance of proprietary software and lack cost-effective access. These aspects of developing, deploying and maintaining such private WANs have conflicted with the increased focus of many businesses on their core competencies, which has prompted the outsourcing of many non-core functions. The Company believes that many businesses have viewed as unacceptable the costs of maintaining a private WAN infrastructure and the risks of investing in new technologies in the absence of a single technological standard.

<PAGE>

Emergence of the Internet

The emergence of the Internet and the widespread adoption of IP as a data transmission standard in the 1990s, combined with deregulation of the telecommunications industry and advances in telecommunications technology have significantly increased the attractiveness of providing data communication applications and services over public networks. At the same time, growth in client/server computing, multimedia personal computers and online computing services and the proliferation of networking technologies have resulted in a large and growing group of people who are accustomed to using networked computers for a variety of purposes, including email, electronic file transfers, online computing and electronic financial transactions. These trends have led businesses increasingly to explore opportunities to provide IP-based applications and services within their organization, and to customers and business partners outside the enterprise.

Need for IP-Based Private Networks

The ubiquitous nature and relatively low cost of the Internet have resulted in its widespread usage for certain applications, most notably Web access and email. However, usage of the Internet for mission-critical business applications has been impeded by the limited security and unreliable performance inherent in the structure and management of the Internet. On the Internet, latency is frequently relatively high and variable, making it sub-optimal for these emerging applications. Although private networks are capable of offering lower and more stable latency levels, providers of these emerging applications also desire a network that will offer their customers full access to the Internet. As a result, these businesses and applications providers require a network that combines the best features of the Internet, such as openness, ease of access and low cost made possible by the IP standard, with the advantages of a private network, such as high security, low/fixed latency and customized features.

Industry analysts expect the market size for both value-added IP data networking services and Internet access to grow rapidly as businesses and consumers increase their use of the Internet, intranets and privately managed IP networks. According to industry analyst Forrester Research, Inc., the total market for these services is projected to grow from $6.2 billion in 1997 to approximately $49.7 billion in the year 2002, with approximately $27.9 billion in the enterprise market segment and $21.8 billion in the consumer market segment.

The Concentric Solution

Concentric provides tailored, value-added IP-based network services for businesses and consumers using a low/fixed latency, high-throughput network. Concentric allows enterprises to create virtual private networks providing tailored network access, content and services to enterprise-defined end users with higher reliability and more security than is available over the Internet. Concentric's VPN solutions also provide the ease of access and flexibility of public networks at a lower cost than private WANs without sacrificing reliability or security.

The Concentric network employs an advanced, geographically dispersed ATM and frame relay backbone, SuperPOPs in 19 major metropolitan areas and 143 secondary and tertiary POPs in other cities. The Company's architecture allows most customers in the U.S. and Canada to access its network through a local telephone call. In addition to dial-up access, the Company provides frame relay, DSL, fractional T-1, T-1 and DS3 access to the network. The Concentric network is engineered and managed to provide superior quality of service, balancing several key performance criteria. The Company provides guaranteed levels of service for dedicated access facilities to enterprise customers, and targets performance benchmarks for connection success rates, latency levels and throughput for all of its service offerings.

Business Strategy

The Company's objective is to become the leading supplier of value-added, IP-based network services worldwide. In order to achieve this goal, the Company is implementing a business strategy focused on the following key principles:

Rapidly Provide Cost-Effective, Tailored Network Solutions. The Company intends to capitalize on its expertise in developing tailored VPNs to establish a leadership position in rapidly developing, deploying and

<PAGE>

maintaining a range of value-added network services to meet the specific needs of its customers. The Company utilizes a set of software and hardware technology modules as "building blocks" to offer a variety of tailored network services on an IP-based network architecture with minimal additional investment in engineering and rapid time to market for businesses and consumers. These building blocks include modules for client and system software, dedicated and remote network connectivity, tracking and billing, Web hosting, customer support and security.

Optimize Network Utilization. Given the fixed cost nature of Concentric's network infrastructure, the Company strives to increase total network utilization and to optimize this utilization by targeting both daytime business and evening-intensive consumer users to balance the network's usage throughout a 24-hour period. Accordingly, while the Company's current strategic focus is on providing value-added IP-based communications services to enterprises, the Company intends to continue partnering with multi-channel distributors to acquire and maintain a base of consumer subscribers who access the Concentric network predominantly during non-business hours.

Acquire Complementary Assets, Technologies and Businesses. The Company is actively seeking to identify and acquire assets, technologies and businesses complementary to the Company's value-added enterprise network service strategy. Such acquisition efforts are targeted at businesses that offer the potential to expand the Company's revenue base, increase the scalability of the Company's network infrastructure and value-added service offerings, as well as optimize the utilization of the Company's network. As part of this strategy, the Company completed three acquisitions in 1998. The Company acquired InterNex, a Tier 1 provider of network services, colocation service and Web-hosting facilities to enterprise customers, in February 1998. The Company acquired Deltanet, a provider of network services, colocation and managed dedicated hosting services, in May 1998. The Company acquired AnaServe, a provider of shared hosting and managed dedicated hosting services, in August 1998.

Employ Leveraged Marketing Through Strategic Partners. The Company actively seeks to form alliances with certain software developers and telecommunications service and equipment suppliers that have substantially greater marketing, distribution and sales resources than does the Company and that have a large installed customer base. These alliances facilitate the cost-effective acquisition of consumer and business customers and increase Concentric's network utilization. These marketing relationships are developed and enhanced through the bundling of Concentric's IP-based network services with the products and services offered by the strategic partners. These relationships may involve customized browsers, registration services and specialized pricing, commissions and billing programs. To date, Concentric has established such strategic relationships with a number of companies, including WebTV, SBC, Williams, Covad, Teligent, Intuit, Nortel/Bay Networks, Inc. and TMI.

Deploy Network Services Internationally. The Company believes that its enterprise customers increasingly will require their network solutions providers to offer network services on a global basis. To date, the Company has launched the following initiatives to provide global solutions to its customers:

Mondonet. Pursuant to an agreement with TMI, entered into in August 1996, the Company is working to establish an international network based on Concentric's network technology and expertise and TMI's existing telecommunications infrastructure. The goal is to deliver a range of compatible network services worldwide. TMI currently has a telecommunications network deployed in 40 countries worldwide. In April 1998, the Company and TMI launched Mondonet, the first international network designed and built expressly to support VPN services with coverage in more than 30 cities in 24 countries.

Roaming Services in Japan. The Company entered into a roaming services agreement in June 1997 with NTT PC, a leading provider of IP services in Japan. The roaming services agreement allows Concentric customers to use the NTT PC network to access their Internet accounts in Japan and allows members of the NTT PC network to access their Internet accounts in the United States and Canada.

GRIC Roaming Alliance. The Company executed a roaming services agreement with GRIC International in October 1998. GRIC International is an alliance of 400 ISPs and telecommunication

<PAGE>

companies that together form a worldwide network of 2,700 POPs. The GRIC International alliance allows the Company's customers to access the Internet through these worldwide POPs while traveling outside of the United States.

Hosting Services in the United Kingdom. The Company entered into a strategic agreement with GX Networks, one of the largest ISPs located in the United Kingdom, in August 1998. The agreement allows GX Networks and the Company to expand Web hosting and extranet services for each other's customers. Through this agreement, the Company can serve the networking needs of its domestic United States customers based in the United Kingdom.

Global Web Hosting Facilities. The Company acquired Web hosting facilities in Stockholm, Sweden, Tokyo, Japan and Hong Kong in February 1998 as part of the acquisition of InterNex.

While the Company does not expect to generate significant revenue from deployment of international network services until at least the year 2000, the Company believes that the ability to deliver network solutions globally will be a key competitive factor in its industry. The foregoing expectation is a forward-looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--We Face Risks Associated with International Expansion."

Services

Concentric provides tailored, value-added IP-based network services for businesses and consumers. To provide these services, the Company employs a low/fixed latency high-throughput network based on an advanced, geographically dispersed ATM and frame relay backbone and the Internet.

Enterprise Solutions

The Company has developed a set of enterprise services including VPNs, dedicated access facilities, digital subscriber line services, wireless access services and applications hosting services. These services are marketed to Concentric's enterprise customers.

Virtual Private Network Services. Concentric's custom VPN solutions enable its customers to deploy tailored, IP-based mission-critical business applications for internal enterprise, business-to-business and business-to-customer data communications on the Concentric network while also affording high-speed access to the Internet. Concentric offers its customers a secure network on which to communicate and access information between an organization's geographically dispersed locations; collaborate with external groups or individuals, including customers, suppliers, and other business partners and use the Web to access information on the Internet and communicate with other Web users.

The Company's VPN solutions allow the enterprise customer to tailor the type of access, services and information that various users of the VPN are afforded according to the specific needs of the enterprise. Key benefits include rapid implementation time, lower operating and maintenance costs, minimal capital investment, higher quality of service overall and 24-hour network and customer support. For example, starting in October 1995 the Company created and now maintains the VPN used by Intuit customers using a customized version of the Netscape Navigator browser bundled with Quicken for Windows and Macintosh, Quickbooks, ProTax and TurboTax/MacInTax. The bundled software allows a Quicken customer to click on an icon that launches Netscape, and takes the user directly to Quicken Financial Network Website. On the Web page Quicken customers will find useful financial advice, information from Intuit's bank and financial institution partners, answers to commonly asked technical questions and tips on how to tap the full potential of Intuit's financial products.

<PAGE>

In addition to the custom VPNs that Concentric has developed and delivered, the following three distinct VPN products are now offered by the Company:

Concentric CustomLink. Concentric CustomLink provides a complete, private-labeled dial-up VPN service for customers. In addition, CustomLink permits the customer to segment its users, and apply various levels of services, such as Web access, email, and file transfer protocol to each customer group. CustomLink includes dial-up network access, customized and customer-branded client software, and private labeled help desk services. The dial-up network access offerings include local access, toll-free access, and a unique connection service, PremierConnect, which provides such subscribers with connectivity to the VPN, even if local access numbers are busy.

Enterprise VPN. The Company's Enterprise VPN service includes security hardware and software, high speed network access, network connectivity, customer premise routing equipment and customer support services. The Enterprise VPN service is targeted at customers seeking to create a secure, outsourced WAN for intranet and extranet applications. Installation support for the customer premise located routing and security equipment is also provided. Concentric can also provide management services for firewall and packet encryption equipment if desired by the customer.

Concentric RemoteLink. The Company's remote access service is targeted at businesses that have employees in remote locations. RemoteLink offers customers the potential to significantly reduce the high costs of telecommunications charges and user support associated with building, deploying, and maintaining an internal remote access infrastructure. RemoteLink enables an enterprise's salespeople and other mobile employees, telecommuters and business partners to dial into an enterprise's corporate network resources and use them as if they were connected locally, thus increasing potential productivity and allowing for information to be available on a real-time basis across the enterprise. Concentric's RemoteLink is designed to be highly customizable and provides the ability to interface with existing company network infrastructure.

Concentric performs around-the-clock monitoring of network performance. Concentric also enables its customers to monitor their network through the Company's proprietary ConcentricView software. ConcentricView is a Web-based network management tool which allows a customer to monitor usage on a call-by-call basis and performance of that portion of the Concentric network bandwidth supporting the customer's applications.

Dedicated Access Facilities. In January 1997, the Company began offering DAFs as a stand-alone product targeted at businesses that desire single or multipoint high-speed, dial-up and/or dedicated connections to distributed locations such as regional offices, warehouses, manufacturing facilities and/or to the Internet. DAF products are primarily targeted at providing intranet connectivity among distributed enterprise locations with the additional benefit of Internet access if desired by the customer. The Company provides a full range of connectivity options, allowing the customer to order the appropriate amount of bandwidth to meet its networking requirements. In addition, Concentric offers its DAF customers a guarantee on the quality of service and performance of these facilities. Furthermore, Concentric believes it is the only network service provider to bill customers based on average usage levels rather than peak usage levels.

Concentric has six offerings in its dedicated access product line: FullChannel T-1, FullChannel T-1 Protected, FlexChannel and LECFrame Relay, as well as FullChannel and FlexChannel offerings at DS3 bandwidth options which support up to 45 Mbps. The Company has begun working with key customers to support even higher speeds up to OC3 (155 Mbps).

FullChannel T-1 and DS3 pricing is based on a one time set-up fee and average utilization pricing. The customer's usage is measured at five-minute intervals throughout the month, and the average of all of those measurements is used to determine the customer's bill at the end of the month. The one time set-up fee for FullChannel T-1 service is $3,000 and the monthly fee ranges from $1,095 to $2,695 depending on usage. The one time set-up fee for FullChannel DS3 service is $5,000 and the monthly fee ranges from $6,000 to $40,500 depending on usage. FullChannel T-1 and DS3 pricing is the appropriate choice for those customers who have fluctuating and/or uncertain bandwidth consumption patterns.

FullChannel T-1 Protected gives a customer a fixed price for a full 1.5 megabits of bandwidth. The one time set-up fee is $3,000 and the monthly fee is set at $2,095. This is an economical choice for those customers who recognize in advance that their bandwidth throughput requirements will equal T-1 levels.

FlexChannel gives a customer the opportunity to purchase a fractional portion of a T-1 or DS3 for a fixed monthly fee. The set up fee is the same as for FullChannel pricing but the monthly fee ranges from $895 to $1,895 for FlexChannel T-1 service and from $5,900 to $40,500 for FlexChannel DS3 pricing. FlexChannel T-1 and DS3 pricing is the appropriate choice for the customers who know that their bandwidth requirements are going to be consistently less than a full T-1 or DS3.

LECFrame Relay is based on various LECs' Frame Relay facilities. Although Concentric does not offer service level guarantees over LECFrame Relay, Concentric does guarantee the committed information rate. This offering gives a lower cost, lower performance network service for those customers for whom performance is less imperative. Concentric charges a one time set-up fee of $2,000 LECFrame Relay services and monthly fees ranging from $395 to $1,195 depending on usage.

Digital Subscriber Lines. In December 1997, Concentric began offering Internet and intranet connectivity using DSL technology. DSL and its variants are a new dedicated access technology being deployed by telephone companies that allow high speed digital service over regular telephone lines. To expand its DSL service area, the Company has formed relationships with a number of CLECs, including Covad Communications Group, Inc. and NorthPoint Communications, Inc., as well as SBC's California subsidiary, Pacific Bell. Concentric's DSL service offerings are currently available in the following geographical markets: the San Francisco Bay Area, Los Angeles, San Diego, Boston, New York, Washington, D.C., and Chicago. Several additional markets are planned during 1999. The Company's DSL service offerings include a wide range of dedicated access speeds, from 144 Kbps to 1.5 Mbps symmetric DSL, as well as 1.5 Mbps/384 Kbps asymmetric DSL.

Concentric DSL services are targeted at the small-to-medium sized business, telecommuter and consumer markets. The "dedicated access feature" of DSL services combined with its high speed and low flat rate pricing are designed to appeal to the large installed base of ISDN users. Pricing for the service is low relative to traditional dedicated access services, making it attractive to medium sized businesses, while at the same time broadening the market to reach small businesses who previously could not justify the expense of dedicated Internet service.

Pricing is based on the bandwidth of the DSL circuit, and is a flat rate monthly fee ranging from $149 to $499 depending on the service speed. Concentric provides complete installation services including all the customer premise equipment necessary to provide the DSL service at fees ranging from $325 to $725.

Wireless Access Services. In October 1998, the Company introduced ConcentricWireless as an alternative to traditional access lines, particularly in areas where DSL is not yet available. ConcentricWireless has a unique distribution system that provides sustained speeds up to 1.5 Mbps and is priced competitively with ISDN and DSL services and significantly lower than T-1 services. At speeds ranging from 512 Kbps to 1.5 Mbps, ConcentricWireless provides high-speed personal Internet connectivity for the small business, small office/home office or telecommuting consumer. ConcentricWireless is currently available in the greater San Francisco Bay Area at prices ranging from $150 per month for 384 Kbps symmetric to $450 per month for 1.5 Mbps/152 Kbps.

Applications Hosting Services. The Company offers a range of high-performance applications hosting services, including Concentric Server

Solutions, a suite of sophisticated high-end hosting and Web site traffic management solutions for Internet-centric businesses, and ConcentricHost, a suite of Web hosting, e-commerce, and streamed media services designed for small to medium-sized businesses. The Company's other applications hosting services include a private-label version of ConcentricHost and a Windows NT-based hosting solution. The high performance of the Company's applications hosting services is enabled by Concentric's network architecture and its combination of public and private peering arrangements.

<PAGE>

Together, these applications hosting services manage a company's Web-based infrastructure and operational needs allowing customers to focus on their Web-based content. By outsourcing its Web hosting to Concentric, an enterprise can increase the reliability and performance of its Web applications and reduce its costs by taking advantage of Concentric's high quality data centers with back-up power, multiple high bandwidth network connections and Tier 1 Internet peering arrangements. In addition to state-of-the-art hosting facilities, Concentric provides server management tools and services to completely manage customers' servers for them.

For reliable, high performance flow of traffic between customer's Web servers and worldwide networks, Concentric has combined public peering and private peering arrangements to provide improved performance to users. Concentric currently operates data centers in Santa Clara, Cupertino, and Los Angeles, California, Chicago, Illinois and Washington, DC. A new 10,000 square foot data center in San Jose is scheduled to open in February 1999. Each Concentric data center is connected via multiple DS3 (45 Mbps) or OC3 (155 Mbps) high-speed links to geographically dispersed points in its private ATM backbone as well as to key public and private Internet exchange points. This architecture provides diversity and redundancy and high performance to customers while minimizing user costs. See"--The Concentric Network."

Concentric Server Solutions. In February 1998, Concentric announced the availability of Concentric Server Solutions, a line of Web hosting services designed for companies who require outsourced maintenance, management, bandwidth and housing for their Internet or extranet Web servers. Unlike colocation services that simply provide rack space in a data center and bandwidth, Concentric Server Solutions provide high-performance Internet access from state-of-the-art data centers, skilled technicians and systems administrators, maintenance programs that monitor servers 24 hours a day, seven days a week, and scalability to address the needs of companies as their businesses become increasingly reliant on the Web. The Company recently announced the following two enhancements to Concentric Server Solutions:

Distributed Server Environment. In September 1998, Concentric launched the Distributed Server Environment ("DSE") platform designed to manage distributed applications for content, media and Web-centric businesses. These businesses typically require high availability, fault tolerance and scalability for distributed hosted sites. DSE offers local and global load balancing and fail-over services. Load balancing allows for the intelligent distribution of user requests over multiple server resources to avoid transmission congestion and bottlenecks among Web servers.

Concentric Peak Protection. In December 1998, the Company introduced Concentric Peak Protection which offers "capacity on demand" or "peak insurance" for customers who need data center and network diversity and the ability to add Web site bandwidth capacity on-demand. Content providers, for example, can use Concentric Peak Protection to prepare for rapid growth and spikes in Web site traffic without making large up-front hardware and bandwidth investments ahead of demand. Concentric Peak Protection manages Web-site traffic spokes by seamlessly dividing traffic between Concentric hosting centers and other server locations. Concentric Peak Protection is ideal for companies that do not want to rely exclusively on a single hosting provider, ISP or their own data center for hosting and data center services.

Concentric Server Solutions, including Distributed Server Environment and Concentric Peak Protection range in price from $550 to $10,000 per month, depending upon the volume of traffic and number of customer servers required.

ConcentricHost. ConcentricHost is a suite of Web-hosting products and services designed to provide comprehensive solutions to the Internet needs of a small to medium-sized business in one account. Packages, which include Web hosting, multiple email IDs and dial-up Internet access range from $29.95 to $199.95 per month depending on the number of email accounts and the amount of disk space and bandwidth provided to the customer. These packages also offer shared security for e-commerce and are managed from a user-friendly Web interface. Other features include access to 24 hours a day, seven days a week toll free telephone and email based customer support and built-in self administration tools that allow the customer to buy more features online in

<PAGE>

real time as well as to analyze Web activity online in near real time. The system automatically notifies customers when they are approaching the allocation limits of their account encouraging them to upgrade online.

In June 1998, Concentric enhanced ConcentricHost with the introduction of the Virtual Development Environment ("VDE"), which provides Web developers high level security and performance on the ConcentricHost shared server hosting platform. At the same time, VDE offers maximum freedom to Web developers by providing them with their own virtually dedicated operating and file systems. These virtually dedicated systems provide Web developers the freedom to create complex CGI scripts without security and stability risks and without requiring them to be reviewed and approved prior to installation.

ConcentricHost Private Label. In November 1998, Concentric launched a private label hosting solution targeted at companies looking to quickly and cost-effectively add fully featured Web hosting to their small business service portfolio. The ConcentricHost Private Label solution allows service providers, small business retailers, and other resellers to leverage Concentric's proven technology in applications hosting with their own resources. This approach allows customers to avoid much of the time, equipment expense, and information services resources required to internally develop a Web hosting service.

Windows NT Hosting. The Company also has a line of Windows NT-based hosting and e-commerce services targeted at small to medium sized businesses. Concentric also offers Windows NT-based hosting services with its Concentric Small Business Server Internet Suite service which includes Web hosting, Internet email exchange and Internet access services designed to be used with Microsoft's Small Business Server.

Consumer Services

Concentric provides its individual and small office/home office customers with a broad range of Internet access options and Web hosting email, chat, file transfer protocol, Gopher and online shareware services. Users can choose from local and long distance direct dial 800-number and telnet services. Concentric offers the Microsoft Internet Explorer to its users when they sign up for dial-up or 800-number service.

Internet Access Pricing

<TABLE>

<CAPTION>

Plan	Monthly Fee	Additional Time
Starter Plan..........	$ 7.95	$1.95/hour after 5 hours
Standard Plan.........	$19.95	No charges for additional time. Unlimited active access for one monthly fee.
800-number Plan.......	$10.00	$5/hour after 2 hours
Inbound Internet Plan.................	$10.00	No charges for additional time. Unlimited active access for one monthly fee.

</TABLE>

The Company also offers consumers value-added services, including a collection of premium products targeted to vertical segments such as the family and small office/home office market. This includes the upselling of discounted products and services in such areas as retail products, software, hardware, telephony services with such partners as Amazon.com, Inc., QuadraCom, LLC, TuneUp.com, Connected OnLine Backup and Excite. Such arrangements not only provide an additional monthly revenue stream but also increase customer satisfaction and retention. Additional value-added products and services being reviewed by the Company for potential introduction include premium service, customer support, education research, virus protection, and faxing services.

<PAGE>

Customers

The following is a representative list of the Company's customers during the last 12 months, each of which accounted for more than $10,000 in revenues.

Acer America Corporation
Allegiance Telecom, Inc.
Amdahl Corp.
American Greetings Corporation
Ameritech Corporation
Andersen Consulting
AT&T Corp.
Bay Networks, Inc.
Bloomberg, L.P.
Citizens Communications, L.P.
Corel Corporation
Electric SchoolHouse LLC
First USA, Inc.
Graybar Electric Company, Inc.
Hitachi Metals America, Ltd.
Intuit Inc.
Iomega Corporation
Juno Online Services, L.P.
Kleiner, Perkins Caufield, & Byers
MCI WorldCom Inc.
Microsoft Corporation
Netpulse Communications, Inc.
Netscape Communications Corporation
Network Associates Inc.
NTT PC Communications, Inc.
Olin Corporation
OnCommand Corporation
OzeMail Interline Pty, Ltd.
Peapod L.P.
Philips Mobile Computing
PictureTel Corporation
Pierce Leahy Corp.
PointCast Incorporated
Qwest Communications Corporation
Redback Networks, Inc.
Rockwell International Corporation
SBC Communications Inc.
Sega of America, Incorporated
Teligent, Inc.
The Vanguard Group, Inc.
3Com Corporation
TMI Telemedia International, Ltd.
U.S. Office Products Company
USWeb Corporation
Wawa Inc.
WebTV Networks, Inc.
Williams Communications Inc.
You Bet! On-Line Entertainment
Ziff-Davis Publishing Co.

Revenue from WebTV accounted for 26.8% of the Company's revenue during the year ended December 31, 1998 and 33.4% of the Company's revenue during the year ended December 31, 1997.

Strategic Business Alliances

The Company aggressively pursues strategic business alliances with a variety of companies. Through these partners, the Company seeks to expand its enterprise and consumer customer base and increase the 24 hour utilization of the Concentric network. The following is a summary of selected strategic relationships:

WebTV Networks Inc. WebTV provides the world's first high-quality Internet solution for television. In the fall of 1996, WebTV's licensees, Sony Electronics, Inc. and Philips Electronics introduced a plug-and-play set-top box that enables Internet browsing from a television. As part of the WebTV service, Concentric and WebTV jointly designed and implemented a national virtual private dial-up network solution to connect WebTV NetworkTM users to the Internet, utilizing Concentric's network. The WebTV Internet terminal, combined with the virtual private network, allows anyone to browse the Internet from the comfort of their living room.

SBC Communications Inc. In October 1998, SBC and the Company agreed to integrate Concentric's Internet-based business data services and technology into SBC's portfolio of data products and services for business customers. Concentric and SBC plan to deploy a complete suite of packet-switched, IP-based services such as VPNs, Web hosting, shared software and electronic commerce for business customers. SBC is working with Concentric to design and offer a new product called Online Office. Targeted at medium and small businesses, Online Office is being designed to offer turnkey data solutions for businesses that want the benefits

<PAGE>

of data networking enjoyed by larger companies but lack the skill, time and resources to handle it themselves. Online Office is being designed to provide customers with local area network equipment, installation and network management services and network-hosted business applications. Applications include desktop office applications, email, calendaring and e-commerce. Online Office will also support more experienced businesses as they expand their data networking capabilities to include features like Web hosting, intranet and extranet services, electronic commerce and remote access. SBC and Concentric will host the services and software on remote servers and deliver the capabilities directly to the customers' desktops. SBC's Southwestern Bell and Pacific Bell units will provide the local telecommunications link between a customer's location and Concentric's network POP customers and Concentric will provide interLATA long distance transport. SBC and Concentric have introduced these new services on a trial basis in San Francisco, California and Austin, Texas. Widespread deployment of portions of Online Office is planned for the second quarter of 1999. The entire Online Office package is targeted for release in the third quarter of 1999.

As part of this relationship, SBC agreed in October 1998 to acquire 906,679 shares of Concentric's common stock either on the open market or from the Company. In December 1998, SBC purchased 100,000 shares of common stock in two open market purchases. The remaining 806,679 shares were purchased from the Company in January 1999 for an aggregate purchase price of approximately $19.5 million. We also issued SBC a warrant to purchase 906,679 shares of Concentric common stock at an exercise price of $21.00 per share.

Williams Communications Group, Inc. Concurrent with the closing of the Company's initial public offering of common stock in August 1997, the Company entered into a strategic relationship with Williams Communications Group, Inc., a subsidiary of the Williams Companies, Inc. (together, "Williams"). Williams provides a full range of enterprise network solutions, communications services and advanced applications to businesses, including equipment and services for data, voice and video, international satellite and fiber-optic transmission services, telemarketing services, and multipoint video- and audio-conferencing. As part of the strategic business relationship, Williams has made available, and the Company has agreed to purchase from Williams, a total of $21.2 million in telecommunications equipment and services through the five year period ending in 2002. At the election of Williams, $2.0 million of the minimum purchase commitment may be paid by the issuance of Common Stock by the Company at the then-current fair market value. Additionally, Williams and the Company have entered into a reseller agreement and an agency agreement through which Williams is able to sell the Company's products and services for an initial term of two years. The agreements with Williams provide that, in the event of a change of control of the Company, Williams will have a right to purchase a nonexclusive, perpetual license to use, distribute and modify all of the intellectual property of the Company, including any copyright, patent, license, trademark or trade secret which the Company has or obtains the right to transfer.

The relationship with Williams includes an equity investment in the Company by Williams of approximately $15.0 million which closed in August 1997.

Covad. In January 1999, the Company entered into a strategic relationship with Covad to combine Concentric's value-added IP services with Covad's high speed DSL local loop services. This strategic relationship allows Concentric to resell Covad's DSL local loop services to Concentric's customers. The companies also will co-market DSL in approximately 20 major metropolitan areas in the United States and jointly fund product development efforts in 1999 and 2000. Additionally, Concentric invested approximately $10.0 million in Covad, purchasing 555,556 shares of Covad's common stock at the initial public offering price of $18.00 per share.

Teligent. Concentric signed an agreement with Teligent, a wireless CLEC, in February 1998 to provide nationwide backbone data network services. Concentric's services enable Teligent to offer a full range of high quality, high-bandwidth communication services to small and medium-sized businesses. Teligent's digital wireless networks interconnect with Concentric's ATM backbone to deliver high speed, Internet-based services in several dozen metropolitan markets throughout the United States. These services were launched in July 1998. Teligent plans to ultimately offer services in 74 major markets across the country and to interconnect

<PAGE>

with Concentric for data services in each of these markets. In addition, the agreement enables Teligent to re-sell Concentric's VPN and Web hosting services through its nationwide sales team. Teligent's sales force began reselling selected Concentric products and services in August 1998.

Intuit. Intuit, a financial software and Web-based services company, is a market leader in personal and small business financial software. Intuit views its Websites as a key channel for communicating with its customers, and as a vehicle to provide personal finance, investment and tax related financial information. Concentric and Intuit partnered in October 1995 to launch integrated Internet access to the Quicken Financial Network and the Internet. The Internet access capability included both a virtual private network service designed to provide Intuit customers subsidized access to select Intuit Web sites and the ability to upgrade to full access to the Internet. Intuit has bundled tailored versions of the Netscape Navigator browser in its fiscal year 1998 and 1999 releases and the Microsoft Explorer browser in its 1998 and 1999 releases of Quicken, TurboTax, ProTax and Quickbooks. Concentric designed and implemented tailored registration and network access software to provide Intuit customers with seamless, subsidized access to select Intuit Web sites. Concentric provides an easy, Web-based upgrade process for customers desiring full Internet access and email services. Customers are billed for network time through Concentric's billing systems. In addition, Concentric provides private-labeled customer service to Intuit customers with full network access on a twenty-four hour a day, seven day a week basis. Intuit uses Concentric's high performance network primarily to enable customers to send electronic tax filings and software product registration.

Nortel/Bay Networks. In October 1997, Concentric began providing RemoteLink dial-up access service to Nortel/Bay Network's entire U.S.-based mobile workforce. Nortel/Bay Network's RemoteLink users dial into Concentric Network's high-performance network and are then "tunneled" through one of two secure T-1 connections to access their corporate intranet, never touching the Internet. A component of the service is that Nortel/Bay Networks controls authentication of the users permitted to access its corporate intranet. In addition, Nortel/Bay Networks uses Concentric's customer service center to provide round-the-clock user support. This outsourced solution has allowed Nortel/Bay Networks to realize considerable cost savings over traditional toll-free remote access and in-house help desk support services.

TMI. In August 1996, the Company entered into an agreement with TMI to establish an international network based on Concentric's network technology and expertise and TMI's existing telecommunications infrastructure. TMI currently has a telecommunications network deployed in 40 countries worldwide. In April 1998, the Company and TMI launched Mondonet, the first international network designed and built expressly to support VPN services with coverage in more than 30 cities in 24 countries. As part of the agreement with TMI, the Company granted TMI certain exclusive rights in certain critical markets, including Europe. While the goal of this effort is to deliver a range of compatible network services worldwide, only limited deployment of services has occurred under this agreement to date. The Company's experience in working with TMI to develop versions of its products and to market and distribute its products internationally is limited. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--We Face Risks Associated with International Expansion."

The Concentric Network

The Concentric network employs an advanced, geographically dispersed ATM and frame relay backbone, SuperPOPs in 19 major metropolitan areas plus a total of 143 secondary and tertiary POPs in other cities, allowing local dial-up access to the network to users in the U.S. and Canada. In addition, the Company can provide analog dial-up, frame relay, fractional T-1, T-1 and DS3 access to the network. Concentric is in the process of deploying 56.6 Kbps modems throughout its network and expects this deployment to be completed in the first quarter of 1999. This planned deployment is a forward looking statement and is subject to a number of risks and uncertainties and the actual results could differ materially as a result of a number of factors including those set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--We Depend Upon New and Enhanced Services" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--We Depend Upon Our Network Infrastructure."

<PAGE>

The Concentric network is managed via a centralized network control center in St. Louis, Missouri. Two data centers (located in Chicago, Illinois and Cupertino, California) house the servers that support log on/authentication, billing, email, Internet access, Web services and other network services. The Cupertino data center will be consolidated into the new San Jose, California headquarters building in mid-1999. In February 1998, the Company acquired InterNex, a provider of network services, colocation services and Web-hosting facilities to enterprise customers. With the acquisition of InterNex, the Company expanded its Internet connectivity strategy to include not only private transit with MCI, Sprint and UUNet, but also private peering with other network providers as well as public peering with multiple smaller Internet service providers. The Company's new hybrid private/public Internet connectivity strategy is designed to allow Concentric to offer superior Internet connectivity performance by avoiding congestion (packet loss) that may occur when connecting to certain network providers at many public peering points.

The Concentric SuperPOPs are designed to support both dial-up and dedicated access services within a broad geographic region. Typically, a SuperPOP will utilize one or more CLECs and LECs to aggregate dial traffic within a 50-200 mile radius of the SuperPOP and terminate it at the SuperPOP. This strategy allows Concentric to offer users local call coverage within the SuperPOP region without having to deploy individual POPs in each local calling area. All the calls are terminated at the modem equipment at the regional SuperPOP. This results in broader call coverage, lower costs due to the typically lower rates from CLECs and economies of scale from larger modem installations, lower maintenance costs, and easier capacity upgrades since equipment is located in a single location within a region.

DAFs and DSLs from customer locations in a region are terminated in the SuperPOP as well. Typically, Fractional T-1, T-1, and DS3 circuits are terminated directly into SuperPOP router equipment or via a channelized DS3 connected to a competitive access provider. Frame access is terminated via aggregated LEC Frame Access circuit(s). DSL is terminated via a multiplexed DS3 connection to a CLEC metropolitan area DSL network. Both dial-up and dedicated traffic is then aggregated by the routers/switches in the SuperPOP and directed to the Concentric ATM backbone via one or more DS3 ATM links.

The Concentric network also offers its customers the security, reliability and management features that companies require in their own private networks. Varying layers of security and encryption are supported and tailored to specific customer requirements. The network design includes a standard security layer and is compatible with most types of custom security applications. Further, security is provided at both the edge of the network and internally based on embedded firewall and encryption techniques. The Concentric network features colocation of network access and switching equipment in "hardened" facilities, direct connections to carrier facilities, a resilient ATM/frame relay backbone, dual data processing centers, and redundancy within data centers to substantially enhance its uptime performance.

Network managers, customer service and technical support staff require near real-time access to information about the performance and quality of their networks. In traditional private networks, this information is provided by network management, trouble reporting/tracking, and management information systems. Customers usually sacrifice a great deal of control and have access to less information when using a public network instead of a private network. It has been difficult for public network providers to provide their major customers with information regarding network performance that relates to that customer's usage without either compromising other customers' proprietary information or compromising the integrity of the network itself. Concentric has developed a set of non-intrusive software tools and reporting mechanisms, distributed to enterprise customers to allow a customer's network manager to monitor network performance and quality and to adequately support inquiries for help from their users. Web browsers and file transfer tools are used to provide access to much of this information. In some cases, custom integration of Concentric's network management and trouble tracking/reporting systems will be provided to customers.

<PAGE>

Sales and Marketing

The Company focuses on marketing its services to two distinct market segments: enterprises (primarily small and medium size businesses) and consumers. By attracting enterprise customers who use the network primarily during the daytime, and consumer customers who use the network primarily at night, the Company is able to utilize its network infrastructure more cost effectively. The Company pursues these customers through a multi-tiered sales strategy consisting of leveraged third party distribution channels, inbound and outbound telesales, value-added resellers, original equipment manufacturers and a direct sales force. As of December 31, 1998, the Company employed 168 persons in sales and marketing.

Leveraged Third Party Distribution. The Company has positioned itself as a key network services provider for companies that bundle network access in their products or services. For example, the Company's network service is bundled with Intuit's Quicken, TurboTax and Quickbooks products, Microsoft Office 98 and with WebTV's Internet access devices. Additionally, the Company is one of the Internet services providers listed on the Netscape Navigator and Microsoft Internet Explorer browser registration servers.

Telesales. The Company employs separate telesales groups to generate inbound leads in three market sectors. The consumer telesales group sells Internet connectivity and shared hosting to the consumer market. The Company's AnaServe sales group is focused on both shared and dedicated hosting and electronic commerce solutions for the small business sector. The inside enterprise sales group offers business solutions including T-1, DSL and wireless connectivity products as well as shared and dedicated hosting products to enterprise customers. In addition, an outbound group is dedicated to generating leads for field sales and resellers, as well as managing the customer installed base in the pursuit of upgrades and contract renewals.

Value-Added Resellers. The Company has established sales channels and significant market coverage through value-added resellers without incurring the commensurate costs of a large direct sales force. These resellers are categorized into four groups, national and regional network integrators and colocation and shared hosting resellers. In the enterprise market, these companies sell both network equipment and full service network/Internet solutions, including design, installation and maintenance. Williams Communications Solutions is a national network integrator with over 300 trained sales and support professionals who are compensated for selling Concentric's enterprise connectivity, VPN and dedicated hosting solutions. Concentric solicits shared hosting developers and resellers through a combination of on line advertising and direct telesales, and currently has over 500 resellers in this market. In addition, the Company has launched a trial program with Microsoft for the sale of the Microsoft Small Business Server bundled with Concentric DSL for sale through the Microsoft Value Added Provider channel.

OEM Sales. Concentric recently adopted an OEM, i.e. private-label, strategy that enables national telecommunications infrastructure providers to offer a full suite of private labeled IP-based consumer and enterprise network services. Concentric's OEM partners, such as Teligent and SBC, sell Concentric's services through their large sales forces into established customer bases.

Direct Sales Force. The Company employs 29 field sales people located in San Jose, Orange County and Los Angeles, California, Dallas, Texas, Washington, D.C., the New York metropolitan area, Atlanta, Georgia, Chicago, Illinois and Boston, Massachusetts for support of complex custom enterprise VPN solutions and to acquire, support, train and retain distribution channel partners. The Company's field sales force is supported by inside sales/account managers, project and program managers and systems engineers.

Concentric markets its enterprise services to marketing and information service professionals, enabling companies to take full advantage of IP-based WAN, intranet and extranet applications. The Company uses print advertising in targeted industry publications, end-user seminars and media spot advertisements specifically to build awareness and acquire leads for its VARs and its direct sales team.

In the consumer market, the Company focuses on direct mail to targeted audiences; establishment of customer referral programs; and co-marketing such as packaging literature with MasterCard mailers and Intuit

<PAGE>

software. In addition, the Company has implemented online customer retention programs, such as a Website "home" where they can learn how to use the service, how to use the Internet, and how to find information quickly. Additionally, the Company is generating advertising revenue on its Website from direct ad banner placements as well as from shared revenue relationships with content partners such as Excite, Inc. and Lycos, Inc.

The Company employs in-house public relations personnel and contracts with an outside public relations agency to provide broad coverage in network computer and vertical industry publications. The Company also participates in industry trade shows with and without its strategic marketing partners and conducts numerous seminar "road shows" for market awareness and lead generation.

Customer Service

Concentric believes that a high level of customer support is critical to attracting and retaining its enterprise and consumer customers. The Company's customer support strategy is based on the following principles:

- our technical expertise in devising cost-effective network solutions for customers;

- rapid development time and flexibility in meeting customer applications requirements; and

- responsive customer support and effective account management.

The Company maintains a customer support call center at its Saginaw, Michigan facility. Concentric offers several levels of customer support all of which are available 24 hours per day, seven days per week. The basic level of customer support includes support for customers on installing and using their software, customer communications and customer training. Premier level service programs guarantee an exceptional performance standard, offer supplemental support training, and provide monthly reports on operations. Private label support gives businesses a premier level of support provided by their own customer service team who answer calls with that customer's company name. Customer support is provided by email, telephone, Website and online chat. As of December 31, 1998, the Company employed 171 persons in customer support.

Competition

The market for tailored value-added network services is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future. The Company believes that its ability to compete successfully depends upon a number of factors, including market presence; the capacity, reliability, low latency and security of network infrastructure; technical expertise and functionality, performance and quality of services; customization; ease of access to and navigation of the Internet; the pricing policies of its competitors; the variety of services; the timing of introductions of new services by the Company and its competitors; customer support; the Company's ability to support industry standards; and industry and general economic trends.

The Company's current and prospective competitors generally may be divided into four groups. These groups and examples of key competitors in each group are listed below:

. telecommunications companies	AT&T MCI WorldCom Sprint Qwest Level 3 Communications, Inc. the RBOCs and other LECs various cable companies
. online service providers	America Online, Inc. CompuServe Corporation MSN, the Microsoft Network Prodigy Communications Corporation

<PAGE>

. Internet service providers	BBN Corporation, a subsidiary of GTE EarthLink Network, Inc. MindSpring Enterprises, Inc. PSINet Inc. Verio Inc. other national and regional providers
. Web hosting providers	AboveNet Communications Exodus Communications

Many of these competitors have greater market presence, engineering and marketing capabilities, and financial, technological and personnel resources than those available to the Company. As a result, they may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products than can the Company. In addition, various organizations, including certain of those identified above, have entered into or are forming joint ventures or consortiums to provide services similar to those of the Company.

The Company believes that new competitors, including large computer hardware, software, media and other technology and telecommunications companies will enter the value added network services markets, resulting in even greater competition for the Company. Certain of such telecommunications companies and online services providers are currently offering or have announced plans to offer Internet or online services or to expand their Internet access services. Certain companies, including America Online, MindSpring, PSINet and Verio have also obtained or expanded their Internet access products and services as a result of acquisitions. Such acquisitions may permit the Company's competitors to devote greater resources to the development and marketing of new competitive products and services and the marketing of existing competitive products and services. In addition, the ability of some of the Company's competitors to bundle other services and products with VPN and consumer network services could place the Company at a competitive disadvantage. Certain companies are also exploring the possibility of providing high-speed data services using alternative delivery methods such as over the cable television infrastructure, through direct broadcast satellite technology and by wireless cable. There can be no assurance that the Company will have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--Our Market Is Extremely

Competitive."

Proprietary Rights

The Company's success and ability to compete is dependent in part upon its technology, although the Company believes that its success is more dependent upon its technical expertise than its proprietary rights. The Company principally relies upon a combination of copyright, trademark and trade secret laws and contractual restrictions to protect its proprietary technology. It may be possible for a third party to copy or otherwise obtain and use the Company's products or technology without authorization or to develop similar technology independently, and there can be no assurance that protective measures have been, or will be, adequate to protect the Company's proprietary technology or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology. The Company operates a material portion of its business over the Internet, which is subject to a variety of risks. Such risks include but are not limited to the substantial uncertainties that exist regarding the system for assigning domain names and the status of private rules for resolution of disputes regarding rights to domain names. There can be no assurance that the Company will continue to be able to employ its current domain names in the future or that the loss of rights to one or more domain names will not have a material adverse effect on the Company's business and results of operations.

Although the Company does not believe that it infringes the proprietary rights of any third parties, we cannot assure you that third parties will not assert such claims against the Company in the future or that such claims will

16

<PAGE>

not be successful. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting Operating Results--Third Parties May Claim We Infringe Their Proprietary Rights."

Employees

As of December 31, 1998, Concentric had 508 employees and 61 independent contractors, including 168 persons in sales and marketing, 171 persons in network operations and development, 171 in customer support and 59 in finance and administrative functions. The Company believes that its future success will depend in part on its continued ability to attract, hire and retain qualified personnel. Competition for such personnel is intense, and We cannot assure you that the Company will be able to identify, attract, and retain such personnel in the future. None of the Company's employees is represented by a labor union, and management believes its employee relations are good.

17

<PAGE>

EXECUTIVE OFFICERS AND DIRECTORS OF THE COMPANY

Executive Officers, Directors and Senior Management

The following table sets forth certain information as of December 31, 1998, with respect to the executive officers and directors of the Company, as well as certain members of its senior management.

<TABLE>
<CAPTION>

Name	Age	Position
<S>	<C>	<C>
Henry R. Nothhaft....................	54	Chairman, President, Chief Executive

		Officer and Director
John K. Peters......................	50	Executive Vice President and General Manager, Network Services Applications Division
Michael F. Anthofer.................	46	Senior Vice President and Chief Financial Officer
Mark W. Fisher......................	38	Senior Vice President of Corporate Marketing, General Manager, Network Services Division
William C. Etheredge................	52	Senior Vice President of Sales
Eileen A. Curtis....................	50	Vice President of Customer Relations
James L. Isaacs.....................	38	Vice President of Business Development
Vinod Khosla(2).....................	44	Director
S. Miller Williams(1)...............	47	Director
Franco Regis(1).....................	42	Director
Gary E. Rieschel(2).................	42	Director

</TABLE>

- --------

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Henry R. Nothhaft joined the Company as President and Chief Executive Officer in May 1995 and was appointed a Director of the Company in August 1995 and Chairman of the Board in January 1998. From 1989 to August 1994, Mr. Nothhaft was President, Chief Executive Officer and a Director of David Systems, Inc., a networking company. From 1983 to 1989, Mr. Nothhaft held various positions with DSC Communications Corporation, including President of the Business Network Systems Group, President of the Digital Switch Corporation subsidiary, Senior Vice President of Marketing and a Corporate Director of DSC. From 1979 to 1983, Mr. Nothhaft was Vice President of Domestic Marketing and Vice President of Sales for GTE Telenet Communications Corporation (now Sprint). Mr. Nothhaft has an M.B.A. in Information Systems Technology from George Washington University and a B.S. from the U.S. Naval Academy, and is a former officer in the U.S. Marine Corps.

John K. Peters was named Executive Vice President and General Manager, Network Services Applications Division in June 1995. In June 1998, Mr. Peters assumed a new position as Executive Vice President and General Manager, Network Services Application Division. From 1993 to August 1995, Mr. Peters served as President of Venture Development Consulting, a consulting firm specializing in new communications and information services. From 1988 to 1993, Mr. Peters was Vice President and Chief Operating Officer of Pacific Bell Information Services, Inc. Prior to that, Mr. Peters spent three years as Vice President of Application Services for Telestream Corporation. In 1981, Mr. Peters co-founded Integrated Office Systems, Inc., a communications and information systems company. From 1976 to 1980, Mr. Peters was Vice President of Advanced Network Services for GTE Telenet Communications Corporation. Mr. Peters has an M.B.A. from Stanford Graduate School of Business and a B.S. in Statistics from Stanford University.

Michael F. Anthofer joined the Company in January 1996 as Vice President and Chief Financial Officer and became a Senior Vice President in November 1996. From January 1991 to December 1995, Mr. Anthofer served as an Executive Vice President and Chief Financial Officer, as well as a member of the Board of

<PAGE>

Directors, of Shared Resource Exchange, Inc., a privately held digital switching platform and PBX supplier. Prior to 1991, Mr. Anthofer held various executive positions at DSC Communications Corporation including Vice President, Corporate Business Planning, Vice President, Business Network Group and Vice President, Network Products Group. Mr. Anthofer has an M.B.A. and a B.S. from the University of California, Berkeley.

Mark W. Fisher joined the Company in June 1997 as Vice President of Corporate Marketing and was promoted to Senior Vice President and General Manager, Network Services Division in July 1998. From July 1996 to June 1997, Mr. Fisher was General Manager and Vice President, Marketing of Pacific Bell Internet Services, a wholly owned subsidiary of Pacific Bell. From June 1995 to August 1996, Mr. Fisher was Vice President, Marketing of Pacific Bell Internet Services. From 1989 to May 1995, Mr. Fisher held various data product marketing and data center operations positions at Pacific Bell. Mr. Fisher has an M.B.A. from the University of California, Berkeley and a B.S. in mechanical engineering from the U.S. Naval Academy.

William C. Etheredge joined the Company in March 1997 as the Senior Vice President of Sales. From May 1991 to March 1997, Mr. Etheredge served first as Vice President of Sales and Marketing and then as Vice President of Sales for Meridian Data, Inc., a provider of networked CD-ROM database creation and retrieval software and network servers. From July 1990 to May 1991, he served as Vice President of Strategic Accounts for Maxtor Corporation. From June 1985 to June 1990, he served first as Vice President US Sales and Marketing and then Vice President Western Region for Memorex-Telex Corporation. Mr. Etheredge has an M.B.A. from Bowling Green University and a B.A. from Westminster College.

Eileen A. Curtis became Customer Relations Manager in January 1995, Director of Customer Relations in September 1995 and Vice President, Customer Relations in November 1996. From August 1987 to July 1993, Ms. Curtis was employed by Cox Communications Saginaw, Inc. and served in various positions including Marketing and Public Relations Manager, Administrative Manager and Customer Service Manager. Ms. Curtis has an MBA and a B.S. from Central Michigan University.

James L. Isaacs joined the Company in October 1995 as the Director of Product Management. In March 1997, he became Vice President of Product Management and in November 1997 he was appointed Vice President of Business Development. From July 1988 to October 1995, Mr. Isaacs held various positions at Apple Computer, including Group Manager Product Marketing, Apple On Line Services Division and Business Development Manager of Apple On Line Services Division. Mr. Isaacs has an M.B.A. from the University of California, Berkeley and an A.B. from Stanford University.

Vinod Khosla has been a Director of the Company since April 1995. Mr. Khosla has been a General Partner with the venture capital firm of Kleiner Perkins Caufield & Byers from February 1986 to the present. Mr. Khosla was a co-founder of Daisy Systems and the founding Chief Executive Officer of Sun Microsystems, Inc. Mr. Khosla also serves on the boards of Excite, Inc., PictureTel, The 3DO Company, and Spectrum Holobyte. He has a B.S.E. from the Indian Institute of Technology in New Delhi, an M.S.E. from Carnegie Mellon University, and an M.B.A. from the Stanford Graduate School of Business.

S. Miller Williams has been a Director of the Company since September 1998. Mr. Williams is Vice President of Corporate Development for Williams Communications Group, Inc., a subsidiary of Williams Companies, Inc., a position he has held since 1992. Mr. Williams has a B.S. in Business Administration from the University of North Carolina and an M.B.A. from the University of Tulsa.

Franco Regis has been a Director of the Company since October 1996. Since 1994, Mr. Regis has been a Director of Business Development and Strategic Planning at Telecom Italia, SpA, the telephone operating company of Italy. From 1992 to 1994, Mr. Regis was a Director of Budget and Control for the business division of Telecom Italia. Mr. Regis has an engineering degree from the Rome State University.

Gary E. Rieschel has been a Director of the Company since October 1996. Mr. Rieschel is Executive Managing Partner at SOFTBANK Technology Ventures, having joined that company in January 1996. Mr. Rieschel was Vice President for N-Cube Corporation from August 1994 through December 1995. He was Sales

<PAGE>

Director at Cisco Systems, Inc. from July 1993 through October 1994. Prior to this, Mr. Rieschel was a General Manager and Sales Director at Sequent Computer for over nine years. Mr. Rieschel has an M.B.A. from Harvard Graduate School of Business and a B.A. in biology from Reed College.

Classified Board of Directors

The Company's Certificate of Incorporation provides that, so long as the Board of Directors consists of more than two directors, the Board of Directors will be divided into three classes of directors serving staggered three-year terms. As a result, one-third of the Company's Board of Directors will be elected each year.

Director Compensation

Directors are reimbursed for certain reasonable expenses incurred in attending Board or committee meetings. Officers of the Company are elected annually by the Board of Directors and serve at its discretion. The Company has entered into indemnification agreements with each member of the Board of Directors and certain of its officers providing for the indemnification of such person to the fullest extent authorized, permitted or allowed by law.

Compensation Committee

The Company's Board of Directors currently has a Compensation Committee that reviews and approves the compensation and benefits to be provided to the officers, directors, employees, and consultants of the Company, administers the Company's 1993 Incentive Stock Option Plan, 1995 Stock Incentive Plan for Employees and Consultants, and Amended and Restated 1996 Stock Plan, and the 1997 Stock Plan and 1997 Employee Stock Purchase Plan. The Compensation Committee currently consists of Messrs. Khosla and Rieschel.

Audit Committee

The Company's Board of Directors currently has an Audit Committee that monitors the corporate financial reporting and the external audits of the Company, reviews and approves material accounting policy changes, monitors internal accounting controls, recommends engagement of independent auditors, reviews related-party transactions and performs other duties as prescribed by the Board of Directors. The Audit Committee currently consists of Messrs. Bender and Regis.

Item 2. Properties

The Company's executive offices are located in San Jose, California, under a lease expiring on February 1, 2006. The Company also leases network operations facilities in Bay City, Michigan, under a lease expiring on December 31, 1999, data centers in Chicago, Illinois, under a lease expiring on June 30, 2008, in Santa Clara, California, under a lease expiring on May 31, 2000, in Newport Beach, California, under a lease expiring on June 30, 1999, and in Anaheim, California, under a lease expiring on June 30, 1999, and a customer support facility in Saginaw, Michigan under a lease expiring in December 2001.

Item 3. Legal Proceedings

In late April and early May, 1997, three putative securities class action complaints were filed in the United States District Court, Central District by certain stockholders of Diana, the parent corporation of Sattel, alleging securities fraud related to plaintiffs' purchase of shares of Diana Common Stock in reliance upon allegedly misleading statements made by defendants, Diana, Sattel and certain of their respective affiliates, officers and directors. Concentric was named as a defendant in the complaint in connection with certain statements made by Diana and officers of Diana related to Concentric's purchase of network switching equipment from Diana's Sattel subsidiary. The plaintiffs sought unspecified compensatory damages. A motion by the Company to dismiss the

<PAGE>

complaint was denied, and the court has allowed the action to proceed against the Company. The parties have agreed in principal to settle the case and expect to enter the settlement agreement with the court in February 1999.

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

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock has been traded on the Nasdaq National Market under the symbol "CNCX" since our initial public offering on August 1, 1997. The following table sets forth, for the periods indicated, the high and low sale prices for our common stock as reported by the Nasdaq National Market:

<TABLE>
<CAPTION>

<S>	High <C>	Low <C>
Fiscal Year Ended December 31, 1997:		
Third Quarter (from August 1, 1997)	$16	$11 3/8
Fourth Quarter	15	7 7/8
Fiscal Year Ended December 31, 1998:		
First Quarter	$20 3/8	$ 8 7/8
Second Quarter	31 1/2	18 5/8
Third Quarter	41	14 1/4
Fourth Quarter	37 1/4	14 1/2
Fiscal Year Ending December 31, 1999:		
First Quarter (through January 29, 1999)	$47 1/2	$31 7/8

</TABLE>

On January 29, 1999, the last reported sale price for our common stock on the Nasdaq National Market was $43.50 per share. As of January 20, 1999, we estimate that there were approximately 271 holders of record and over 4,388 beneficial owners of the common stock.

The Company currently intends to retain any earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future.

<PAGE>

Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with the

Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" commencing on page 24.

<TABLE>
<CAPTION>

	Year Ended December 31,				
	1994	1995	1996	1997	1998(1)
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:					
Revenue....................	$ 442	$ 2,483	$ 15,648	$ 45,457	$ 82,807
Cost of revenue............	2,891	16,168	47,945	61,439	85,352
Network equipment write-off(2)....................	--	--	8,321	--	--
Development................	534	837	2,449	4,850	7,734
Marketing and sales.........	639	3,899	16,609	24,622	39,793
General and administrative..	611	2,866	3,445	4,790	10,398
Amortization of goodwill and other intangible assets....	--	--	--	--	3,842
Acquisition-related charges...................	--	--	--	--	1,291
Write-off of in-process technology................	--	--	--	--	5,200
Total costs and expenses....	4,675	23,770	78,769	95,701	153,610
Loss from operations........	(4,233)	(21,287)	(63,121)	(50,244)	(70,803)
Other income (expense)......	--	--	--	1,233	(750)
Net interest expense........	(57)	(721)	(3,260)	(6,571)	(13,595)
Loss before extraordinary item......................	(4,290)	(22,008)	(66,381)	(55,582)	(85,148)
Extraordinary gain on early retirement of debt.........	--	--	--	--	3,042
Net loss...................	(4,290)	(22,008)	(66,381)	(55,582)	(82,106)
Preferred stock dividends and accretion..............	--	--	--	--	(11,958)
Net loss attributable to common stockholders........	$(4,290)	$(22,008)	$(66,381)	$(55,582)	$ (94,064)
Net loss per share attributable to common stockholders(3)............			$ (13.46)	$ (5.63)	$ (6.47)
Shares used in computing net loss per share attributable to common stockholders(3)..			4,937	9,872	14,547

<CAPTION>

	As of December 31,				
	1994	1995	1996	1997	1998
	(In thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Consolidated Balance Sheet Data:					

Cash and cash equivalents...	$ 63	$ 19,054	$ 17,657	$119,959	$ 98,988
Short term investments......	--	--	--	--	52,226
Restricted cash(4)..........	--	--	--	52,525	36,238
Property and equipment, net........................	1,303	16,289	47,927	53,710	64,268
Total assets................	1,798	37,235	70,722	244,489	298,257
Notes payable and capital lease obligations, net of current portion............	1,648	11,047	30,551	179,172	156,455
Redeemable exchangeable preferred stock............	--	--	--	--	156,105
Total stockholders' equity (deficit)..................	(4,202)	9,763	2,925	31,918	(56,875)

</TABLE>

(Footnotes appear on the next page.)

<PAGE>

- --------

(1) During 1998, the Company acquired InterNex, DeltaNet and AnaServe, the effects of which have been included in the 1998 financial results. See Note 13 of Notes to Consolidated Financial Statements.

(2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 of Notes to Consolidated Financial Statements.

(3) Net loss per share and shares used in computing net loss per share attributable to common stockholders are presented on a pro forma basis for the years ended December 31, 1996 and 1997 and on an historical basis for the year ended December 31, 1998. See Note 1 of Notes to Consolidated Financial Statements.

(4) Restricted cash of $36.2 million consists of funds held in escrow to pay interest relating to the Company's 12 3/4% Senior Notes. See Note 5 of Notes to Consolidated Financial Statements.

<PAGE>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Report contain forward-looking statements that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the subsection entitled "Factors Affecting Operating Results" commencing on page 32. The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Financial Statements and the Notes thereto included elsewhere in this Report.

Overview

The Company was founded in 1991. From 1991 to mid-1993, the Company conducted development and network services planning activities and realized no revenues. Initially, the Company was focused on providing consumers with direct dial-up connectivity to bulletin board services. Online gaming and entertainment services for consumers were commenced in July 1993 through the utilization of a third party network infrastructure. The Company commenced operation of its own network in late 1994. In May 1995, new management led by Henry R. Nothhaft redefined and broadened the Company's strategy to provide a range of Internet and tailored, value-added Internet Protocol-based network services to consumers and businesses.

The Company's revenue prior to 1996 was primarily generated from providing Internet access to consumers. The Company's current focus is on developing and deploying VPNs and providing dedicated network access and Web hosting services for enterprise customers. Contracts with enterprise customers typically have a term ranging from one to three years. The Company expects enterprise-related revenue to represent an increasing portion of total revenue in future periods. The foregoing expectation is a forward-looking statement that involves risks and uncertainties, and actual results could vary as a result of a number of factors including the Company's operating results, the results and timing of the Company's launch of new products and services, governmental or regulatory changes, the ability of the Company to meet product and project demands, the success of the Company's marketing efforts, competition and acquisitions of complementary businesses, technologies or products.

In February 1998, the Company acquired InterNex, a provider of network services, collocation services and Web hosting facilities to enterprise customers. This acquisition was accounted for using the purchase method of accounting. Accordingly, the Company's historical financial statements do not include results of operations, financial position or cash flows of InterNex prior to its acquisition in February 1998. In addition, as a result of the acquisition, the Company incurred a charge of $5.2 million relating to acquired in-process technology and recorded an aggregate of $12.6 million of goodwill and other intangible assets, which will be amortized on a straight-line basis over their estimated useful lives ranging from two to five years.

In May 1998, the Company acquired DeltaNet, a provider of dial-up and dedicated access services, Web hosting services and Web application development and design. This transaction was accounted for as a pooling of interests. Results of DeltaNet's operations for the period beginning April 1, 1998 through December 31, 1998 are included in the consolidated results of operations. In addition, as a result of the acquisition, the Company has incurred charges of approximately $1.3 million in transaction costs consisting primarily of severance costs, redundant facilities and assets and professional fees related to the acquisition.

In August 1998, the Company acquired AnaServe, a provider of Web hosting services. This acquisition was accounted for using the purchase method of accounting. The Company's historical financial statements do not include results of operations, financial position or cash flows of AnaServe prior to its acquisition. As a result of the acquisition, the Company has recorded an aggregate of $12.0 million of goodwill and other intangible assets, which will be amortized on a straight-line basis over their useful lives ranging from one to five years.

The Company may acquire other complementary products, technology and businesses. If the Company were to incur additional charges for acquired in-process technology, amortization of goodwill and acquisition costs

<PAGE>

with respect to any future acquisitions, the Company's business, operating results and financial condition could be materially and adversely affected. See "Factors Affecting Operating Results--Our Acquisition Strategy Poses Several Risks" and "--Liquidity and Capital Resources."

The Company has incurred net losses and experienced negative cash flow from operations since inception and expects to continue to operate at a net loss and experience negative cash flow at least through the remainder of 1999. The Company's ability to achieve profitability and positive cash flow from operations is dependent upon the Company's ability to substantially grow its revenue base and achieve other operating efficiencies. The Company experienced net losses attributable to common stockholders of approximately $66.4 million, $55.6 million and $94.1 million for the years ended December 31, 1996, 1997, and 1998, respectively. We cannot assure you that the Company will be able to achieve or sustain revenue growth, profitability or positive cash flow on either a quarterly or an annual basis. At December 31, 1998, the Company had approximately $90.0 million of gross deferred tax assets comprised primarily of net operating loss carry-forwards. The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of net losses since its inception and the fact that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology. The Company believes that, based on the current available evidence, it is more likely than not that the Company will not generate taxable income through 1999, and possibly beyond, and accordingly will not realize the Company's deferred tax assets through 1999, and possibly beyond. The Company will continue to assess the realizability of the deferred tax assets based on actual and forecasted operating results. In addition, the utilization of net operating losses may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization. See "Factors Affecting Operating Results--We Have a Limited Operating History and Expect Continuing Operating Losses."

The Company expects to focus in the near term on building and increasing its revenue base, which will require it to significantly increase its expenses for personnel, marketing, network infrastructure and the development of new services, and may adversely impact short term operating results. As a result, the Company believes that it will incur losses in the near term and we cannot assure you that the Company will be profitable in the future.

The Company's operating results have fluctuated in the past and may in the future fluctuate significantly, depending upon a variety of factors, including the timely deployment and expansion of the Concentric network and new network architectures, the incurrence of related capital costs, variability and length of the sales cycle associated with the Company's product and service offerings, the receipt of new value-added network services and consumer services subscriptions and the introduction of new services by the Company and its competitors. Additional factors that may contribute to variability of operating results include: the pricing and mix of services offered by the Company; customer retention rate; market acceptance of new and enhanced versions of the Company's services; changes in pricing policies by the Company's competitors; the Company's ability to obtain sufficient supplies of sole- or limited-source components; user demand for network and Internet access services; balancing of network usage over a 24-hour period; the ability to manage potential growth and expansion; the ability to identify, acquire and integrate successfully suitable acquisition candidates; and charges related to acquisitions. In response to competitive pressures, the Company may take certain pricing or marketing actions that could have a material adverse affect on the Company's business. As a result, variations in the timing and amounts of revenues could have a material adverse affect on the Company's quarterly operating results. Due to the foregoing factors, the Company believes that period-to-period comparisons of its operating results are not necessarily meaningful and that such comparisons cannot be relied upon as indicators of future performance. In the event that the Company's operating results in any future period fall below the expectations of securities analysts and investors, the trading price of the Company's common stock would likely decline.

Results of Operations

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

Revenue. Revenue totaled approximately $82.8 million for the year ended December 31, 1998, a $37.3 million increase over revenue of approximately $45.5 million for the year ended December 31, 1997. This increase reflects growth in revenue from:

- the Company's broadened product offerings to its enterprise customers;
- the Company's marketing arrangements with its strategic partners;
- continued growth in revenue derived from Internet access customers;
- revenue generated from network, colocation and Web hosting services provided by the Company's wholly-owned subsidiary, InterNex, which was acquired in February 1998; and
- revenues from DeltaNet and AnaServe which were acquired in May and August 1998, respectively.

The Company expects revenue growth from Internet access customers to flatten over time as it de-emphasizes this sector of its business. Revenue from WebTV declined to 26.8% of the Company's net revenue for the year ended December 31, 1998 compared to 33.4% for the year ended December 31, 1997. The Company expects revenue from WebTV to decrease as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the caption "Factors Affecting Operating Results--The Loss of Any of Our Major Customers Could Severely Impact Our Business."

Cost of Revenue. Cost of revenue consists primarily of personnel costs to maintain and operate the Company's network, access charges from local exchange carriers, backbone and Internet access costs, depreciation of network equipment and amortization of related assets. Cost of revenue for the year ended December 31, 1998 was approximately $85.4 million, an increase of $24.0 million from cost of revenue of $61.4 million for the year ended December 31, 1997. This increase is attributable to the overall growth in the size of the network and costs associated with acquired operations. As a percentage of revenue, such costs declined to 103.1% of revenue in the year ended December 31, 1998, down from 135.2% of revenue in the prior year, due to increased network utilization associated with the Company's revenue growth and lower per port costs of the Company's network architecture. The Company expects its cost of revenue to continue to increase in dollar amount, while declining as a percentage of revenue as the Company expands its customer base. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors, including those set forth under the captions "Factors Affecting Operating Results--We Have a Limited Operating History and Expect Continuing Operating Losses," "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources" and "Factors Affecting Operating Results--We Depend Upon New and Uncertain Markets."

Development Expense. Development expense consists primarily of personnel and equipment related expenses associated with the development of products and services of the Company. Development expense was approximately $7.7 million and $4.9 million for the years ended December 31, 1998 and 1997, respectively. This higher level of development expense reflects an overall increase in personnel to develop new product offerings, to manage the overall growth in the network and from acquired operations. Development expense as a percentage of revenue declined to 9.3% for the year ended December 31, 1998 from 10.7% for the year ended December 31, 1997 as a result of the Company's increased revenue. The Company expects its development spending to continue to increase in dollar amount, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors, including those set forth below under the captions "Factors Affecting Operating Results--We Have a Limited Operating History and Expect Continuing Operating Losses" and "Factors Affecting Operating Results--We Depend Upon New and Enhanced Services."

<PAGE>

Marketing and Sales Expense. Marketing and sales expense consists primarily of personnel expenses, including salary and commissions, costs of marketing programs and the cost of 800 number circuits utilized by the Company for customer support functions. Marketing and sales expense was approximately $39.8 million for the year ended December 31, 1998 and $24.6 million for the year ended December 31, 1997. The $15.2 million increase in 1998 reflects a substantial investment in the customer support, marketing and sales organizations necessary to support the Company's expanded customer base. This increase also reflects a growth in subscriber acquisition costs, related to both increased direct marketing efforts as well as commissions paid to distribution partners. Marketing and sales expense as a percentage of revenue declined to 48.1% for the year ended December 31, 1998 from 54.2% in the year earlier period as a result of the Company's increased revenue. The Company expects marketing and sales expenditures to continue to increase in dollar amount, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the captions "Factors Affecting Operating Results--We Depend on New and Uncertain Markets" and "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources."

General and Administrative Expense. General and administrative expense consists primarily of personnel expense and professional fees. General and administrative expense was approximately $10.4 million for the year ended December 31, 1998 and $4.8 million for the year ended December 31, 1997. This higher level of expense reflects an increase in personnel and professional fees necessary to manage the financial, legal and administrative aspects of the business. General and administrative expense as a percentage of revenue increased to 12.6% for the year ended December 31, 1998 from 10.5% in the prior year as a result of the Company's increased facilities costs and expenses related to updating the Company's information systems. The Company expects general and administrative expense to increase in dollar amount, reflecting its growth in operations, but to decline as a percentage of revenue. The foregoing expectation is a forward looking statement that involves risks and uncertainties and the actual results could vary materially as a result of a number of factors including those set forth under the captions "Factors Affecting Operating Results--We Depend on New and Uncertain Markets" and "Factors Affecting Operating Results--Our Growth and Expansion May Strain Our Resources."

Amortization of Goodwill and Other Intangible Assets. For the year ended December 31, 1998, the Company recorded amortization of goodwill and other intangible assets of $3.8 million resulting from the acquisition of InterNex in February 1998 and AnaServe in August 1998.

Acquisition-Related Charges. For the year ended December 31, 1998 the Company charged to operations one-time acquisition costs of $1.3 million related to the DeltaNet acquisition. Those costs principally related to professional fees, reserves for redundant assets and facilities and employee severance packages.

Write-off of In-Process Technology. For the year ended December 31, 1998, the Company wrote-off $5.2 million of in-process technology related to the acquisition of InterNex. This acquisition provided technology and expertise that the Company is using to enhance and expand the breadth of its product and service offerings to its customers.

Other Income (Expense). During the year ended December 31, 1998, the Company recorded $750,000 of other expense in connection with the settlement of certain litigation with the shareholders of Diana Corporation. During the year ended December 31, 1997, upon settlement of the Sattel litigation, the Company recorded $970,000 of other income related to the reversal of previously established reserves. Additionally, the Company recorded $425,000 of other income related to the re-negotiation of a third party services agreement.

Net Interest Expense. Net interest expense was approximately $13.6 million and $6.6 million for the years ended December 31, 1998 and 1997, respectively. The increase is primarily due to interest related to $150.0 million principal amount of 12 3/4% Senior Notes issued in December 1997.

Extraordinary Gain. For the year ended December 31, 1998, the Company realized an extraordinary gain of $3.0 million related to the early retirement of debt in the form of capital lease obligations.

<PAGE>

Preferred Stock Dividends and Accretions. For the year ended December 31, 1998, the Company recorded dividend and stock accretion of $12.0 million related to the preferred stock issued in June 1998.

Net Loss Attributable to Common Stockholders. The Company's net loss attributable to common stockholders increased to approximately $94.1 million for the year ended December 31, 1998 as compared to approximately $55.6 million for the year ended December 31, 1997. For comparative purposes, the net loss attributable to common stockholders for the year ended December 31, 1998 included expenses related to financing and acquisition charges of $1.3 million resulting from the acquisition of DeltaNet, $12.0 million of dividends and accretion related to the preferred stock issued in June 1998, $19.9 million of interest expense and amortization of debt issuance costs related to the 12 3/4% Senior Notes and warrants, $5.2 million write-off of in-process technology and $3.8 million of amortization of goodwill and other intangibles relating to the acquisitions of InterNex and AnaServe. These losses were partially offset by an extraordinary gain of $3.0 million on early retirement of debt.

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

Revenue. Revenue for the year ended December 31, 1997 totaled approximately $45.5 million, an increase of $29.9 million over revenue of $15.6 million for the year ended December 31, 1996. This increased revenue reflects growth in revenue from the Company's broadened product offerings to its enterprise customers and through the Company's leveraged marketing arrangements with its strategic partners, as well as continued growth in revenue derived from Internet access customers. WebTV accounted for approximately 33.4% of total revenue for the year ended December 31, 1997.

Cost of Revenue. Cost of revenue for the year ended December 31, 1997 totaled approximately $61.4 million compared with $47.9 million for the year ended December 31, 1996. This increase is attributable to the overall growth in the size of the network. As a percentage of revenue, costs declined to 135.2% of revenue in the year ended December 31, 1997 from 306.4% of revenue in the prior year due to increased network utilization associated with the Company's revenue growth and lower per port costs of the Company's SuperPOP network architecture deployed in the second half of 1996.

Development Expense. Development expense for the years ended December 31, 1997 and 1996 was approximately $4.9 million and $2.4 million, respectively. This higher level of development expense reflects an overall increase in personnel to develop new product offerings and to manage the overall growth in the network. As a percent of revenue, development expense declined to 10.7% for the year ended December 31, 1997 from 15.7% for the year ended December 31, 1996, as a result of the Company's increased revenue.

Marketing and Sales Expense. For the years ended December 31, 1997 and 1996, marketing and sales expense was approximately $24.6 million and $16.6 million, respectively. The $8.0 million increase in 1997 reflects a substantial investment in the customer support, marketing and sales organizations necessary to support the Company's expanded customer base. This increase also reflects a growth in subscriber acquisition costs, related to both increased direct marketing efforts as well as commissions paid to distribution partners. Additionally, the increase reflects the ramp-up of marketing efforts related to the introduction of enterprise products and services. Marketing and sales expense as a percentage of revenue declined to 54.2% for the year ended December 31, 1997 from 106.1% in the year earlier period as a result of the Company's increased revenue.

General and Administrative Expense. For the years ended December 31, 1997 and 1996, general and administrative expenses were approximately $4.8 million and $3.4 million, respectively. This higher level of expense reflects an increase in personnel and professional fees necessary to manage the financial, legal and administrative aspects of the business. For the year ended December 31, 1997, general and administrative expense declined to 10.5% from 22.0% for the year ended December 31, 1996 as a result of the Company's increased revenue.

Other Income (Expense). During the year ended December 31, 1997, upon settlement of the Sattel litigation, the Company recorded $970,000 of other income related to the reversal of previously established

<PAGE>

reserves. Additionally, the Company recorded $425,000 of other income related to the re-negotiation of a third party services agreement. The Company recorded no other income or expense during the year ended December 31, 1996.

Net Interest Expense. Net interest expense was approximately $6.6 million and $3.3 million for the years ended December 31, 1997 and 1996, respectively. The increase for the year ended December 31, 1997 was primarily due to a cost of financing charge of $930,000 associated with the value of warrants issued in connection with $5.0 million of bridge loans received in June 1997 and $744,000 associated with the issuance of the 12 3/4% Senior Notes. Additionally, the principal amount of capitalized lease obligations increased $7.0 million from December 31, 1996 to December 31, 1997. The year ended December 31, 1996 included approximately $330,000 associated with the value of warrants issued in connection with bridge loan financing.

Net Loss. For the year ended December 31, 1997 the net loss totaled $55.6 million as compared to $66.4 million for the year ended December 31, 1996.

Liquidity and Capital Resources

To date, the Company has satisfied its cash requirements primarily through capitalized lease financings, the sale of capital stock and debt financings. The Company's principal uses of cash are to fund working capital requirements and capital expenditures, to service its capital lease and debt financing obligations, to finance and fund acquisitions and to provide for the early retirement of debt. Net cash used in operating activities for the years ended

December 31, 1998 and 1997 was approximately $46.6 million and $45.9 million, respectively. Included in the amount for the year ended December 31, 1997 is $4.4 million of cash paid in settlement of a dispute with an equipment provider. Cash used in operating activities in both periods was primarily affected by the net losses, caused by increased costs related to the expansion of the Company's network and organizational infrastructure.

Net cash used in investing activities for the years ended December 31, 1998 and 1997 was approximately $101.9 million and $6.5 million, respectively. Net cash used in investing activities for the year ended December 31, 1998 consisted primarily of $52.2 million used to purchase short term investments, $23.5 million used for purchases of capital equipment to support the Company's expanded network infrastructure and $25.1 million of cash used to acquire InterNex and AnaServe. For the year ended December 31, 1997, net cash used in investing activities was primarily for purchases of capital equipment.

For the year ended December 31, 1998, net cash of $127.6 million was provided from financing activities, reflecting $144.1 million of net proceeds from the issuance of preferred stock in June 1998 less $24.8 million used for the early retirement of capital lease obligations, $10.2 million used for repayment of other capital lease obligations and restricted cash of $16.3 million used to pay interest on the 12 3/4% Senior Notes. For the year ended December 31, 1997 net cash of approximately $154.7 million was generated from financing activities, of which $74.0 million, net of issuance costs, was derived from the issuance of stocks and warrants and $145.0 million, net of issuance costs, was derived from the issuances of the 12 3/4% Senior Notes, net of $52.5 million investment in U.S. Government treasury strips held as restricted cash. The Company also received $5.0 million in debt financing in June 1997, of which $2.0 million was repaid and $3.0 million was converted into common stock, respectively, upon closing of the Company's initial public offering in August 1997. Concurrent with the closing of the initial public offering, the Company repurchased $2.2 million of common stock from certain stockholders. The remainder of financing activities for the year ended December 31, 1997 is comprised of $11.6 million used for repayment of capital lease obligations. The net cash decrease for the year ended December 31, 1998 was $21.0 million as compared to a net cash increase for the year ended December 31, 1997 of $102.3 million.

At December 31, 1998, the Company had cash and cash equivalents of approximately $99.0 million, short term investments of $52.2 million, restricted cash of $36.2 million and working capital of $144.5 million. The Company expects to incur additional operating losses and will rely primarily on its available cash resources, the

<PAGE>

net proceeds from the issuance of the common stock and financing available under a network equipment lease agreement (that currently has no maximum borrowing limit) to meet its anticipated cash needs for working capital and for the acquisition of capital equipment through at least the end of 1999. However, we cannot assure you that the Company will not require additional financing within this time frame. The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors, including those set forth on under the caption "Factors Affecting Operating Results--We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available." The Company may be required to raise additional funds through public or private financing, strategic relationships or other arrangements. We cannot assure you that such additional funding, if needed, will be available on terms attractive to the Company, or at all.

In January 1999, the Company used approximately $10.0 million in cash to purchase 555,556 shares of Covad's common stock. The investment was made as part of a broader strategic relationship with Covad. The shares of common stock were purchased at Covad's initial public offering price of $18.00 per share. Additionally, SBC purchased approximately $19.5 million of common stock from the Company in January 1999.

In January 1999, the Company filed a registration statement with the Securities and Exchange Commission for a proposed public offering of up to 2,875,000 shares of common stock. The proceeds of the offering will be used for general corporate purposes.

Disclosures About Market Risk

The following discusses the Company's exposure to market risk related to changes in interest rates, equity prices and foreign currency exchange rates. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth under the captions "Factors Affecting Operating Results--We Have Incurred Substantial Indebtedness and May Not Be Able to Service Our Debt" and "Factors Affecting Operating Results--We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available."

Interest Rate Sensitivity.

Short-Term Investments Owned By the Company. As of December 31, 1998, the Company had short term investments of $52.2 million. These short-term investments consist of highly liquid investments with original maturities at the date of purchase of between three and twelve months. These investments are subject to interest rate risk and will fall in value if market interest rates increase. A hypothetical increase in market interest rates by 10 percent from levels at December 31, 1998 would cause the fair value of these short-term investments to decline by an immaterial amount. The Company has the ability to hold these investments until maturity, and therefore the Company would not expect the value of these investments to be affected to any significant degree by the effect of a sudden change in market interest rates. Declines in interest rates over time will, however, reduce the Company's interest income.

Outstanding Debt of the Company. As of December 31, 1998, the Company had outstanding long term debt of approximately $150.0 million at a fixed interest rate of 12 3/4% and $150.0 million of preferred stock outstanding with a dividend rate of 13 1/2%. In certain circumstances, the Company may redeem this preferred stock or exchange long-term debt for this preferred stock. Because the interest and dividend rates on these instruments are fixed, a hypothetical 10 percent decrease in interest rates would not have a material impact on the Company. Increases in interest rates could, however, increase the interest expense associated with future borrowings by the Company, if any. The Company does not hedge against interest rate increases.

Equity Price Risk.

The Company owns 555,556 shares of the common stock of Covad. The Company purchased these shares at the time of Covad's initial public offering in January 1999 at a price of $18.00 per share. On January 25,

<PAGE>

1999, the closing price of Covad's common stock was $51.88 per share. The Company values this investment using the lower of cost or market method, and thus continues to value this investment at its cost of $10.0 million. If the price of Covad common stock were to decline below $18.00 per share and such decline was considered to be other than temporary, the Company would be required to write-down the value of this investment. The Company is generally restricted from selling these shares for at least one year from the date of their purchase. The Company does not hedge against equity price changes.

Foreign Currency Exchange Rate Risk.

All of the Company's revenues are realized in dollars and substantially all of the Company's revenues are from customers in the United States. Therefore, the Company does not believe it has any significant direct foreign currency exchange rate risk. The Company does not hedge against foreign currency exchange rate changes.

Impact of The Year 2000 Issue

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of normal business activities. The Company is currently in the process of reviewing its products and services, as well as its internal management information systems in order to identify and modify those products, services and systems that are not year 2000 compliant.

Based on the Company's assessment to date, the Company has determined that its internally developed software, including much of its operational, financial and management information systems software is year 2000 compliant. The Company's operational, financial and management information systems software which have not been internally developed have been certified as year 2000 compliant by the third party vendors who have supplied the software. The equipment and software that runs the Company's data centers are supplied by Microsoft, Nortel/Bay Networks and Sun Microsystems. The Company has implemented software patches supplied by Microsoft so that the Microsoft software in these data centers no longer contains any material year 2000 deficiencies. The Company implemented similar patches for the software supplied by Sun Microsystems at the end of 1998 and expects to replace the Bay Networks equipment and software by the end of March 1999 with versions which do not contain any material year 2000 deficiencies. The Company expects such modifications will be made on a timely basis and does not believe that the cost of such modifications will have a material effect on the Company's operating results. Additionally, the Company is continuing to assess the year 2000 compliance of its products and services. To date, most newly introduced products and services of the Company do not contain material year 2000 deficiencies, however some of the Company's customers are running earlier product versions that are not year 2000 compliant. The Company has been encouraging such customers to migrate to current product versions. The Company estimates that the capital and other costs associated with the upgrade and conversion of its existing products, services and systems relating to the year 2000 issue will not be material. The Company does not separately track internal costs incurred to assess and remedy deficiencies related to the year 2000 problem, however, such costs are principally the payroll costs for its information systems group. The Company does not have and is not developing a contingency plan in the event its systems fail as a result of year 2000 related problems.

The Company's products, services and systems operate in complex network environments and directly and indirectly interact with a number of other hardware and software systems. The Company faces risks to the extent that suppliers of products, services and systems purchased by the Company and others with whom the Company transacts business on a worldwide basis, including those which form significant portions of the Company's network and may be sole- or limited-source suppliers, do not have business systems or products that comply with year 2000 requirements. The Company has not received significant assurances from its suppliers that their networks are year 2000 compliant. If these networks fail, the Company's business will be significantly impacted.

The Company's expectation that it will be able to upgrade its products, services and systems to address the year 2000 issue and its expectation regarding the costs associated with these upgrades are forward-looking statements subject to a number of risks and uncertainties. Actual results may vary materially as a result of a

<PAGE>

number of factors. There can be no assurance that the Company will be able to timely and successfully modify such products, services and systems to comply with year 2000 requirements. Any failure to do so could have a material adverse effect on the Company's operating results. Furthermore, despite testing by the Company and its vendors, the Company's products, services and systems may contain undetected errors or defects associated with year 2000 date functions. In the event any material errors or defects are not detected and fixed or third parties cannot timely provide the Company with products, services or systems that meet the year 2000 requirements, the Company's operating results could be materially adversely affected. Known or unknown errors or defects that affect the operation of the Company's products, services or systems could result in delay or loss of revenue, interruption of network services, cancellation of customer contracts, diversion of development resources, damage to the Company's reputation, and litigation costs. There can be no assurance that these or other factors relating to year 2000 compliance issues will not have a material adverse effect on the Company's business, operating results or financial condition.

Factors Affecting Operating Results

As described by the following factors, past financial performance should not be considered a reliable indicator of future performance and investors should not use historical trends to anticipate results or trends in future periods.

We Have a Limited Operating History and Expect Continuing Operating Losses.

We were incorporated in 1991, commenced network operations in 1994 and completed initial deployment of our current network architecture and use of an advanced ATM backbone network in late 1996. Accordingly, we have a limited operating history upon which an evaluation of our prospects can be based. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new and rapidly evolving markets. To address these risks, we must, among other things:

- respond to competitive developments;

- continue to attract, retain and motivate qualified personnel; and

- continue to upgrade our technologies and commercialize network services incorporating such technologies.

We cannot assure you that we will be successful in addressing the risks we face. The failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We have incurred net losses and experienced negative cash flow from operations since inception. We expect to continue to operate at a net loss and experience negative cash flow at least through 1999. Our ability to achieve profitability and positive cash flow from operations is dependent upon our ability to substantially grow our revenue base and achieve other operating efficiencies. We experienced net losses attributable to common stockholders of approximately $66.4 million for the year ended December 31, 1996, $55.6

million for the year ended December 31, 1997 and $94.1 million for the year ended December 31, 1998. At December 31, 1998, we had an accumulated deficit of approximately $246.1 million. We cannot assure you that we will be able to achieve or sustain revenue growth, profitability or positive cash flow on either a quarterly or an annual basis.

Our estimates of the periods of time in which we expect to continue to operate at a net loss, experience negative cash flow and not generate taxable income are forward-looking statements that involve risks and uncertainties. Actual results could vary materially as a result of a number of factors, including those set forth in this Factors Affecting Operating Results section.

Our Operating Results Fluctuate and Could Decline.

Our operating results have fluctuated in the past and may fluctuate significantly in the future. Our operating results fluctuate due to a variety of factors, including the following:

. timely deployment and expansion of our network and new network architectures;

<PAGE>

. the incurrence of capital costs related to network expansion;

. variability and length of the sales cycle associated with our product and service offerings;

. the receipt of new value-added network services and consumer services subscriptions;

. the introduction of new services by us and our competitors;

. the pricing and mix of services offered by us;

. our customer retention rate;

. market acceptance of new and enhanced versions of our services;

. changes in pricing policies by our competitors;

. our ability to obtain sufficient supplies of sole- or limited-source components;

. user demand for network and Internet access services;

. balancing of network usage over a 24-hour period;

. the ability to manage potential growth and expansion;

. the ability to identify, acquire and successfully integrate suitable acquisition candidates; and

. charges related to acquisitions.

Variations in the timing and amounts of revenues due to these actions could have a material adverse effect on our quarterly operating results. Due to the foregoing factors, we believe that period-to-period comparisons of our operating results are not necessarily meaningful. Such comparisons cannot be relied upon as indicators of future performance. If our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

The Loss of Any of Our Major Customers Could Severely Impact Our Business.

We currently derive a substantial portion of our total revenue from WebTV. Revenue from WebTV accounted for 10.1% of our revenue for the year ended December 31, 1996, 33.4% of our revenue for the year ended December 31, 1997 and 26.8% of our revenue for the year ended December 31, 1998.

WebTV may terminate our current agreement at will after October 31, 2000. While we expect revenue from WebTV to decrease as a percentage of revenue in future periods, we believe that revenue derived from a limited number of customers may continue to represent a significant portion of our revenue. As a result, the loss of one or more of our major customers could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that revenue from customers that have accounted for significant revenue in past periods, individually or as a group, will continue, or will reach or exceed historical levels in any future period.

Our Growth and Expansion May Strain Our Resources.

Our business and service offerings have grown rapidly since our inception. The growth and expansion of our business and our service offerings have placed, and are expected to continue to place, a significant strain on our management, operational and financial resources. In addition, we recently expanded and upgraded our network to use an ATM backbone. We plan to continue to substantially expand our network in 1999 and future periods. To manage our growth, we must, among other things:

- continue to implement and improve our operational, financial and management information systems, including our billing, accounts receivable and payable tracking, fixed assets and other financial management systems;

- hire, train and retain qualified personnel; and

- continue to expand and upgrade our network infrastructure.

<PAGE>

We are currently in the process of replacing and updating our operational, financial and management information systems. The systems being replaced and updated include our billing, provisioning and other financial management systems. We began to replace our information systems facilities in the fourth quarter of 1998 and these efforts will continue throughout 1999. We also consolidated our Silicon Valley operations in a new, larger facility in the fourth quarter of 1998 and will transfer our remaining Silicon Valley data centers to this facility during the first two quarters of 1999. Management of the transition of our information systems and of the personnel and operational equipment to the new facility is expected to place additional strain on our resources. We cannot assure you that this transition will be completed successfully or on a timely basis.

We cannot assure you that we will be able to expand our network or add services at the rate or according to the schedule presently planned by us. We had 96 employees and 47 independent contractors as of December 31, 1996, and have grown to 508 employees and 61 independent contractors as of December 31, 1998. We cannot assure you that we will be able to effectively manage this growth in personnel. Additionally, we cannot assure you that we will be able to hire, train and retain sufficient numbers of qualified personnel to meet our requirements.

Our expanding customer base demands the rapid growth of our network infrastructure and technical support resources. We may in the future experience difficulties meeting the demand for our access services and technical support. We cannot assure you that our technical support or other resources will be sufficient to facilitate our growth. We are striving to increase total network utilization and to optimize this utilization by targeting both business and consumer users to balance the network's usage throughout a 24-hour period. There will be additional demands on our customer support, sales and marketing resources as we pursue this utilization strategy. If we fail to manage our growth effectively, our business, financial condition and results of operations could be materially adversely affected.

Our Acquisition Strategy Poses Several Risks.

We have completed three acquisitions to date and may seek to acquire additional assets, technologies and businesses complementary to our operations. The completed acquisitions are and any subsequent acquisitions would be accompanied by the risks commonly encountered in such transactions. Such risks include, among other things:

- difficulties integrating the operations and personnel of acquired companies;
- the additional financial resources that may be needed to fund the operations of acquired companies;
- the potential disruption of our business;
- our management's ability to maximize our financial and strategic position by the incorporation of acquired technology or businesses into our service offerings;
- the difficulty of maintaining uniform standards, controls, procedures and policies;
- the potential loss of key employees of acquired companies;
- the impairment of relationships with employees and customers as a result of changes in management; and
- the incurrence of significant expenses in consummating acquisitions.

Any of the above risks could prevent us from realizing significant benefits from our acquisitions. In addition, the issuance of our common stock in acquisitions will dilute our stockholder interests in our company, while the use of cash will deplete our cash reserves. Finally, if we are unable to account for our acquisitions under the "pooling of interests" method of accounting, we may incur significant, one-time write-offs and amortization charges. These write-offs and charges could decrease our future earnings or increase our future losses.

<PAGE>

Our Future Success Depends Upon Third-Party Distribution and Engineering Relationships.

An important element of our strategy is to develop relationships with leading companies to enhance our distribution and engineering efforts. We have agreements with Netscape and Microsoft pursuant to which we distribute and modify their browsers. Our customization of browsers is an integral part of our current tailored VPN offerings. The Netscape agreement may be terminated at any time upon 60 days notice and the Microsoft agreement expires in March 1999. We are currently discussing with Microsoft an extension of the term of our agreement, but we cannot assure you that these discussions will be successful. We have an agreement with Intuit for the development, operation and maintenance of a VPN that is the integrated access, dial-up network and infrastructure used by purchasers of Quicken, Turbo Tax and other Intuit software products. Intuit customers use this VPN to access the Quicken Financial Network Website and the Internet. The Intuit contract may be terminated at the election of Intuit upon six months prior notice of an election to terminate. We have also recently entered into strategic agreements with SBC and Teligent for the delivery of private-labeled services to their customers. We rely on these relationships for the acquisition of enterprise and consumer customers. Our inability to capitalize on these agreements, the termination of or failure to renew any of these agreements or our inability to enter into similar relationships with others could have a material adverse effect on our business, financial condition and results of operation.

We have an outsourcing agreement with Williams Technology Solutions, a subsidiary of Williams Communications Group, Inc., that enables us to use Williams employees for the operational support of our network. Our use of Williams employees and Williams engineering expertise was integral to the development of our network and continue to be integral to the ongoing operation of our network operations center. Pursuant to the agreement with Williams, all of the Williams employees currently working for us will become our employees when the agreement terminates in December 2000. Termination of any of these agreements or our failure to renew any of the agreements upon termination on terms acceptable to us could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon New and Uncertain Markets.

We offer tailored, value-added network services for enterprises and consumers, including Internet access. These markets are in the early stages of development. It is difficult to predict the rate at which the market will grow, if at all, because these markets are relatively new and current and future competitors are likely to introduce competing services or products. New or increased competition may result in market saturation. Certain critical issues concerning commercial use of tailored, value-added services and Internet services, remain unresolved and may impact the growth of such services. These issues include, among others, security, reliability, ease and cost of access, and quality of service. Our business, financial condition and results of operations would be materially adversely affected if the markets for our services, including Internet access:

- fail to grow;
- grow more slowly than anticipated; or
- become saturated with competitors.

We Depend Upon New and Enhanced Services.

We have recently introduced new enterprise service offerings, including the introduction of value-added, IP-based communication services to enterprises and a new line of DSL services in limited areas. The failure of these services to gain market acceptance in a timely manner or at all, or the failure of the DSL service in particular, to achieve significant market coverage could have a material adverse effect on our business, financial condition and results of operations. If we introduce new or enhanced services with reliability, quality or compatibility problems, then market acceptance of such services could be significantly delayed or hindered. Such problems or delays could adversely affect our ability to attract new customers and subscribers.

<PAGE>

Our New or Enhanced Services May Have Errors or Defects.

Our services may contain undetected errors or defects when new services or enhancements are first introduced. We cannot assure you that, despite testing by us or our customers, errors will not be found in new services or enhancements after commencement of commercial deployment. Such errors could result in:

- additional development costs;
- loss of, or delays in, market acceptance;
- diversion of technical and other resources from our other development efforts; and
- the loss of customers and subscribers.

Any of these consequences could have a material adverse effect on our business, financial condition and results of operations.

We Need to Balance Network Use to Provide Quality Service.

If we do not achieve balanced network utilization over a 24-hour period, our network could become overburdened at certain periods during the day, which could adversely affect our quality of service. Conversely, due to the high fixed cost nature of our infrastructure, under-utilization of our network during certain periods of the day could adversely affect our ability to provide cost-efficient services at other times. Any failure to achieve balanced network utilization could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon Our Suppliers and Have Sole- and Limited-Sources of Supply for Certain Products and Services.

We rely on other companies to supply certain key components of our network infrastructure. These components include critical telecommunications services and networking equipment, which, in the quantities and quality demanded by us, are available only from sole- or limited-sources. AT&T Corp., MCI WorldCom, Inc., PacWest Telecomm, Inc. and Williams are our primary providers of data communications facilities and capacity. AT&T is currently the sole provider of the frame relay backbone of our network. MCI WorldCom and Williams are currently the providers of the ATM backbone of our network. We are also dependent upon LECs to provide telecommunications services to us and our customers. We experience delays from time to time in receiving telecommunications services from these suppliers. We cannot assure you that we will be able to obtain such services on the scale and within the time frames required by us at an affordable cost, or at all. Any failure to obtain such services on a sufficient scale, on a timely basis or at an affordable cost would have a material adverse effect on our business, financial condition and results of operations.

We purchase our Nortel/Bay, Cisco Systems, Netopia, Lucent Technologies, Sun Microsystems and other vendor equipment either directly from the manufacturer or via systems integrators including Milgo Solutions, Inc. and Williams. Some of these vendors are sole-source suppliers. We purchase these components pursuant to purchase orders placed from time to time with our suppliers. We do not carry significant inventories of these components and have no guaranteed supply arrangements for such components. Our suppliers also sell products to our competitors and may in the future themselves become our competitors. We cannot assure you that our suppliers will not enter into exclusive arrangements with our competitors or stop selling their products or components to us at commercially reasonable prices, or at all.

The expansion of our network infrastructure is placing, and will continue to place, a significant demand on our suppliers. Some of these suppliers have limited resources and production capacity. In addition, some of our suppliers rely on sole-or limited-sources of supply for components included in their products. Failure of our suppliers to meet increasing demand may prevent them from continuing to supply components and products in the quantities and quality and at the times required by us, or at all. Our inability to obtain sufficient quantities of

<PAGE>

sole- or limited-source components or to develop alternative sources, if required, could result in delays and increased costs in expanding, and overburdening of, our network infrastructure. Any such delay, increased costs or overburdening would have a material adverse effect on our business, financial condition and results of operations.

We also depend on our suppliers' ability to provide necessary products and components that comply with various Internet and telecommunications standards. These products and components must also interoperate with products and components from other vendors. Any failure of our suppliers to provide products or components that comply with Internet standards or that interoperate with other products or components used by us in our network infrastructure could have a material adverse effect on our business, financial condition and results of operations.

Some of our suppliers, including the RBOCs and other LECs, currently are subject to tariff controls and other price constraints that in the future may be changed. In addition, regulatory proposals are pending that may affect what the RBOCs and other LECs charge us. Any such regulatory changes could result in increased prices of products and services, which could have a material adverse effect on our business, financial condition and results of operations.

We Depend Upon Our Network Infrastructure.

Our success depends upon the capacity, reliability and security of our network infrastructure. We currently derive a significant portion of our revenue from customer subscriptions. We expect that a substantial portion of our future revenue will be derived from the provision of tailored, value-added network services to our enterprise customers. We must continue to expand and adapt our network infrastructure as the number of users and the amount of information they wish to transfer increase and as customer requirements change. We currently project our network utilization will require rapid expansion of the network capacity to avoid capacity constraints that would adversely affect system performance. The expansion and adaptation of our network infrastructure will require substantial financial, operational and management resources in 1999 and future periods. We cannot assure you that we will be able to expand or adapt our network infrastructure to meet additional demand or our customers' changing requirements on a timely basis, at a commercially reasonable cost, or at all. In addition, if demand for network usage were to increase faster than projected or were to exceed our current forecasts, the network could experience capacity constraints, which would adversely affect the performance of the system. Our business, financial condition and results of operations could be materially adversely affected if, for any reason, we fail to:

- expand our network infrastructure on a timely basis;
- adapt our network infrastructure to changing customer requirements or evolving industry trends; or
- alleviate capacity constraints experienced by our network infrastructure.

Currently, we have transit agreements with MCI WorldCom, Sprint and UUNet and we have peering agreements with America Online, PSINet and other network providers to support the exchange of traffic between our network and the

Internet. We also have public peering arrangements with multiple smaller Internet service providers. These public peering arrangements also support the exchange of traffic between our network and the Internet. The failure of the networks with which we have public peering, private peering or private transit, or the failure of any of our data centers, or any other link in the delivery chain, or any inability to successfully integrate new network resources into our existing infrastructure, and resulting interruption of our operations would have a material adverse effect on our business, financial condition and results of operations.

Our Market Is Extremely Competitive.

The market for tailored value-added network services is extremely competitive. There are no substantial barriers to entry in this market, and we expect that competition will intensify in the future. We believe that our ability to compete successfully depends upon a number of factors, including:

. market presence;

<PAGE>

. the capacity, reliability, low latency and security of our network infrastructure;

. technical expertise and functionality, performance and quality of services;

. customization;

. ease of access to and navigation of the Internet;

. the pricing policies of our competitors and suppliers;

. the variety of services;

. the timing of introductions of new services by us and our competitors;

. customer support;

. our ability to support industry standards; and

. industry and general economic trends.

Our competitors generally may be divided into four groups: telecommunications companies, online service providers, Internet service providers and Web hosting providers. Many of our competitors have greater market presence, engineering and marketing capabilities, and financial, technological and personnel resources than those available to us. As a result, they may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their products and services than we can. In addition to the competitors discussed above, various organizations have entered into or are forming joint ventures or consortiums to provide services similar to those of our company.

We believe that new competitors will enter the value-added network services market. Such new competitors could include large computer hardware, software, media and other technology and telecommunications companies. Certain telecommunications companies and online services providers are currently offering or have announced plans to offer Internet or online services or to expand their network services. Certain companies, including America Online, BBN, PSINet and Verio, have also obtained or expanded their Internet access products and services as a result of acquisitions. Such acquisitions may permit our competitors to devote greater resources to the development and marketing of new competitive products and services and the marketing of existing competitive products and services. In addition, the ability of some of our competitors to bundle other services and products with virtual private network services or Internet access services could place us at a competitive disadvantage. Certain companies are also exploring the possibility of providing or are currently providing high-speed data services using alternative delivery methods such as over the cable television infrastructure, through direct broadcast satellites and over wireless cable.

As a result of increased competition and vertical and horizontal integration in the industry, we could encounter significant pricing pressure. This pricing pressure could result in significant reductions in the average selling price of our services. For example, telecommunications companies that compete with us may be able to provide customers with reduced communications costs in connection with their Internet access services or private network services, reducing the overall cost of their solutions and significantly increasing price pressures on us. We cannot assure you that we will be able to offset the effects of any such price reductions with an increase in the number of our customers, higher revenue from enhanced services, cost reductions or otherwise. In addition, we believe that the Internet access and online services businesses are likely to encounter consolidation in the near future. Consolidation could result in increased price and other competition in these industries and, potentially, the virtual private networks industry. Increased price or other competition could result in erosion of our market share and could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that we will have the financial resources, technical expertise or marketing and support capabilities to continue to compete successfully.

<PAGE>

We Must Keep Up With Rapid Technological Change and Evolving Industry Standards.

The markets for our services are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition and frequent new product and service introductions. Our future success will depend, in part, on our ability to:

- effectively use leading technologies;
- continue to develop our technical expertise;
- enhance our current networking services;
- develop new services that meet changing customer needs;
- advertise and market our services; and
- influence and respond to emerging industry standards and other technological changes.

All this must be accomplished in a timely and cost-effective manner. We cannot assure you that we will be successful in effectively using new technologies, developing new services or enhancing our existing services on a timely basis. We cannot assure you that such new technologies or enhancements will achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense. We cannot assure you that we will succeed in adapting our network service business to alternate access devices and conduits as they emerge.

We believe that our ability to compete successfully is also dependent upon the continued compatibility and interoperability of our services with products and architectures offered by various vendors. Although we intend to support emerging standards in the market for Internet access, we cannot assure you that industry standards will be established. If industry standards are established, we cannot assure you that we will be able to conform to these new standards in a timely fashion and maintain a competitive position in the market. Specifically, our services rely on the continued widespread commercial use of TCP/IP. Alternative open protocol and proprietary protocol standards have been or are being developed. If any of these alternative protocols become widely adopted, there may be a reduction in the use of TCP/IP, which could render our services obsolete and unmarketable. In addition, we cannot assure you that services or technologies developed by others will not render our services or technology uncompetitive or obsolete.

An integral part of our strategy is to design our network to meet the requirements of emerging standards such as 56.6 Kbps modems and applications such as IP-based interactive video and voice conferencing communications. Our initial deployment of 56.6 Kbps modem technology was difficult for some of our customers, including WebTV, due to compatibility problems between the software and their modems. We had to remove the software from the network and modems to fix the problem. We are currently testing a modified version of the software and we expect to redeploy it into the network in the first quarter of 1999. However, we cannot assure you that we will successfully redeploy the software. If we fail, for technological or other reasons, to develop and introduce the 56.6 Kbps modem technology or other new or enhanced services that are compatible with industry standards and that satisfy customer requirements, then our business, financial condition and results of operations would be materially adversely affected. See "Business--The Concentric Network."

We face the risk of fundamental changes in the way Internet access is delivered. Internet services are currently accessed primarily by computers connected by telephone lines. Several companies have announced the development and planned sale of cable television modems, wireless modems and satellite modems to provide Internet access. Cable television, satellite and wireless modems can transmit data at substantially faster speeds than the modems we and our subscribers currently use. In addition, wireless modems have the potential to reduce the cost of network services. As the Internet becomes accessible through these cable television, wireless and satellite modems and by screen-based telephones, televisions or other consumer electronic devices, or subscriber requirements change the way Internet access is provided, we will have to develop new technology or modify our existing technology to accommodate new developments such as:

. Internet access through cable television, satellite and wireless modems;

<PAGE>

. Internet access through screen-based telephones, televisions or other consumer electronic devices; or

. subscriber requirements that change the way Internet access is provided.

Our pursuit of these technological advances may require substantial time and expense. We cannot assure you that we will succeed in adapting our Internet access business to alternate access devices and conduits.

Our Network System Could Fail.

Network expansion and growth in usage will place increased stress upon our network hardware and traffic management systems. Our network has been designed with redundant backbone circuits to allow traffic re-routing. We cannot assure you, however, that we will not experience failures relating to individual network POPs or even catastrophic failure of the entire network. Moreover, our operations are dependent upon our ability to protect our network infrastructure against damage from power loss, telecommunications failures and similar events. A significant portion of our computer equipment, including critical equipment dedicated to our Internet access services, is located at our facilities in Chicago, Illinois, and Cupertino, California. In addition, our modems and routers that serve large areas of the United States are located in these cities. Our network operations center, which manages the entire network, is in St. Louis, Missouri. Despite our precautions, a natural disaster, such as an earthquake, or other unanticipated problem at the network operations center, at one of our hubs (sites at which we have located routers, switches and other computer equipment that make up the backbone of our network infrastructure) or at a number of our POPs has from time to time in the past caused, and in the future could cause, interruptions in our services. In addition, our services could be interrupted if our telecommunications providers fail to provide the data communications capacity in the time frame required by us as a result of a natural disaster or for some other reason. Any damage or failure that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations.

Our System May Experience Security Breaches.

Despite the implementation of network security measures, the core of our network infrastructure is vulnerable to computer viruses, break-ins and similar disruptive problems caused by our customers or Internet users. Computer viruses, break-ins or other problems caused by third parties could lead to interruptions, delays or cessation in service to our customers and subscribers. Furthermore, inappropriate use of the network by third parties could also potentially jeopardize the security of confidential information stored in our computer systems and our customer's computer systems. We may face liability and may lose potential subscribers as a result. Although we intend to continue to implement industry-standard security measures, such measures occasionally have been circumvented in the past. We cannot assure you that our security enclosures will not be circumvented in the future. The costs and resources required to eliminate computer viruses and alleviate other security problems may result in interruptions, delays or cessation of service to our customers that could have a material adverse effect our business, financial condition and results of operations.

We Depend Upon Key Personnel and May be Unable to Timely Hire and Retain Sufficient Numbers of Qualified Personnel.

Our success depends to a significant degree upon the continued contributions of our executive management team, including Henry R. Nothhaft, the Company's Chairman, President and Chief Executive Officer, and John K. Peters, the Company's Executive Vice President and General Manager, Network Services Applications Division. The loss of the services of Mr. Nothhaft or Mr. Peters could have a material adverse effect on us. We do not have employment agreements with any of our senior officers, including Mr. Nothhaft or Mr. Peters. Nor do we carry key man life insurance on the life of any such persons. Our success will also depend upon the continued service of the other members of our senior management team and technical, marketing and sales personnel. Competition for qualified employees is intense. Our employees may voluntarily terminate their employment with us at any time. Our success also depends upon our ability to attract and retain additional highly qualified management, technical, sales and marketing and customer support personnel. Locating personnel with

<PAGE>

the combination of skills and attributes required to carry out our strategy is often a lengthy process. The loss of key personnel, or the inability to attract additional, qualified personnel, could have a material adverse effect upon our results of operations, development efforts and ability to complete the expansion of our network infrastructure. Any such event could have a material adverse effect on our business, financial condition and results of operations.

We Have Incurred Substantial Indebtedness and May Not Be Able to Service Our Debt.

We are and will continue to have a significant amount of outstanding indebtedness. We have significant debt service requirements as a result of this indebtedness. At December 31, 1998, our total debt (including current portion) was $163.0 million and stockholders' deficit was $56.9 million. Interest on such indebtedness totals approximately $19.1 million per year. We also issued 150,000 shares of preferred stock in June 1998. Dividends accrue on the preferred stock at the rate of 13 1/2% per year. At December 31, 1998, dividends and accretion on the preferred stock totaled approximately $12.0 million. Dividends and accretion will total approximately $23.0 million in 1999 and are expected to grow in each successive year. To date, we have chosen to pay such dividends in shares of preferred stock, rather than in cash. We must also redeem the preferred stock in 2010. As a result of these and other features, the preferred stock is substantially equivalent to debt. Our debt, including the preferred stock, has important consequences for our company and for you, including the following:

. our ability to obtain additional financing in the future, whether for working capital, capital expenditures, acquisitions or other purposes, may be impaired;

. a substantial portion of our cash flow from operations is dedicated to the payment of interest on our debt, which reduces the funds available to us for other purposes;

. our flexibility in planning for or reacting to changes in market conditions may be limited; and

. we may be more vulnerable in the event of a downturn in our business.

Our ability to meet our debt service and preferred stock dividend obligations will depend on our future operating performance and financial results. This ability will be subject in part to factors beyond our control. Although we believe that our cash flow will be adequate to meet our interest and dividend payments, we cannot assure you that we will continue to generate sufficient cash flow in the future to meet our debt service and preferred stock requirements. If we are unable to generate cash flow in the future sufficient to cover our fixed charges and are unable to borrow sufficient funds from other sources, then we may be required to:

. refinance all or a portion of our existing debt; or

. sell all or a portion of our assets.

We cannot assure you that a refinancing would be possible. We cannot assure you that any asset sales would be timely or that the proceeds which we could realize from such asset sales would be sufficient to meet our debt service requirements. In addition, the terms of our debt and preferred stock restrict our ability to sell our assets and our use of the proceeds from any such asset sale.

We May Need Additional Capital in the Future and Such Additional Financing May Not Be Available.

We currently anticipate that our available cash resources, combined with the net proceeds from this offering and financing available under a network equipment lease agreement (that currently has no maximum borrowing limit), will be sufficient to meet our anticipated working capital and capital expenditure requirements through 1999. However, we cannot assure you that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements. We may need to raise additional funds through public or private debt or equity financings in order to:

- take advantage of unanticipated opportunities, including more rapid international expansion or acquisitions of complementary businesses or technologies;

<PAGE>

- develop new products or services; or

- respond to unanticipated competitive pressures.

We may also raise additional funds through public or private debt or equity financings if such financings become available on favorable terms. We cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of unanticipated opportunities, develop new products or services or otherwise respond to unanticipated competitive pressures. In such case, our business, results of operations and financial condition could be materially adversely affected. Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward looking statement that involves risks and uncertainties, and actual results could vary materially as a result of a number of factors, including those set forth above.

We Face Risks Associated with International Expansion.

A key component of our strategy is to expand into international markets. The following risks are inherent in doing business on an international level:

- unexpected changes in regulatory requirements;

- export restrictions;

- export controls relating to encryption technology;

- tariffs and other trade barriers;

- difficulties in staffing and managing foreign operations;

- longer payment cycles;

- problems in collecting accounts receivable;

- political instability;

- fluctuations in currency exchange rates;

- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world; and

. potentially adverse tax consequences that could adversely impact the success of our international operations.

We cannot assure you that one or more of such factors will not have a material adverse effect on our future international operations and, consequently, on our business, financial condition and results of operations.

We have an agreement with TMI Telemedia International, Ltd., a subsidiary of the leading Italian telecommunications company, Telecom Italia, SpA, to establish an international network based on our network technology and expertise and TMI's existing telecommunications infrastructure. In exchange, we granted TMI certain exclusive rights in critical markets, including Europe. While the goal of this effort is to deliver a range of compatible network services worldwide, to date we have had only limited deployment of services under this agreement. Our experience in working with TMI to develop versions of our products and to market and distribute our products internationally is limited. Our international strategy has not developed as rapidly as anticipated and may be further delayed if:

. we cannot successfully deploy our technology over TMI's infrastructure;

. we cannot transfer our knowledge to TMI's employees; or

. TMI does not devote sufficient management, technological or marketing resources to this project.

<PAGE>

Our business, results of operation or financial condition could be materially adversely affected if delays in our international strategy continue or worsen.

We have entered into roaming agreements with third parties to allow our customers to access their Internet accounts from Japan and certain other foreign countries. We provide Web hosting and extranet services for GX Networks' United Kingdom customers pursuant to an agreement signed in August 1998. We also acquired Web hosting facilities in Stockholm, Sweden, Tokyo, Japan and Hong Kong in February 1998 as a result of our acquisition of Internex. We cannot assure you that we will be able to successfully market, sell and deliver our products in these markets.

Our Business May Be Impacted By The Year 2000 Issue.

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. As a result, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of normal business activities. We are currently in the process of reviewing our products and services, as well as our internal management information systems in order to identify and modify those products, services and systems that are not year 2000 compliant.

Based on our assessment to date, we have determined that our internally developed software, including much of our operational, financial and management information systems software, is year 2000 compliant. Our operational, financial and management information systems software which have not been internally developed have been certified as year 2000 compliant by the third party vendors who have supplied the software. To the extent that our systems are not year 2000 compliant, we are modifying such systems to make them compliant. We expect such modifications will be made on a timely basis and do not believe that the cost of such modifications will have a material effect on our operating results. Additionally, we are continuing to assess the year 2000 compliance of our products and services. To date, most of our newly introduced products and services do not contain material year 2000 deficiencies, however some of our customers are running earlier product versions that are not year 2000 compliant. We have been encouraging such customers to migrate to current product versions. We estimate that the capital and other costs associated with the upgrade and conversion of our existing products, services and systems relating to the year 2000 issue will not be material. We do not have and are not developing a contingency plan in the event our systems fail due to year 2000 related problems.

Our products, services and systems operate in complex network environments and directly and indirectly interact with a number of other hardware and software systems. We face risks to the extent that suppliers of products, services and systems purchased by us and others with whom we transact business on a worldwide basis, including those which form significant portions of our network and may be sole- or limited-source suppliers, do not have business systems or products that comply with year 2000 requirements. We have not received any significant assurances from our suppliers that their networks are year 2000 compliant. If these networks fail, our business will be significantly impacted.

Our expectation that we will be able to upgrade our products, services and systems to address the year 2000 issue and our expectation regarding the costs associated with these upgrades are forward-looking statements subject to a number of risks and uncertainties. Actual results may vary materially as a result of a number of factors. We cannot assure you that we will be able to timely and successfully modify such products, services and systems to comply with year 2000 requirements. Any failure to do so could have a material adverse effect on our operating results. Furthermore, despite testing by us and our vendors, our products, services and systems may contain undetected errors or defects associated with year 2000 date functions. In the event any material errors or defects are not detected and fixed or third parties cannot timely provide us with products, services or systems that meet the year 2000 requirements, our operating results could be materially adversely affected. Known or unknown errors or defects that affect the operation of our products, services or systems could result in delay or loss of revenue, interruption of network services, cancellation of customer contracts, diversion of

<PAGE>

development resources, damage to our reputation, and litigation costs. We cannot assure you that these or other factors relating to year 2000 compliance issues will not have a material adverse effect on our business, operating results or financial condition.

We Could Face Government Regulation.

The Federal Communications Commission ("FCC") currently does not regulate value-added network software or computer equipment related services that transport data or IP-based voice messages over telecommunication facilities as telecommunications services. We provide value-added IP-based network services, in part, through data transmissions over public telephone lines. Operators of these types of value-added networks that provide access to regulated transmission facilities only as part of a data services package are classified for regulatory purposes as providers of "information services" and are currently excluded from regulations that apply to "telecommunications carriers." As such, we are not currently subject to direct regulation by the FCC or any other governmental agency, other than regulations applicable to businesses generally. However, future changes in law or regulation could result in some aspects of our current operations becoming subject to regulation by the FCC or another regulatory agency.

The FCC currently is reviewing its regulatory positions on data transmissions over telecommunications networks and could seek to impose some form of telecommunications carrier regulation on the network transport and telecommunications functions of an enhanced or information services package. Further, the FCC could conclude that our protocol conversions, computer processing and interaction with customer-supplied information are insufficient to afford us with the benefits of the enhanced or information service regulatory classification. If the FCC reaches such conclusions, it may seek to regulate some segments of our activities as telecommunications services.

State public utility commissions generally have declined to regulate enhanced or information services. Some states, however, have continued to regulate particular aspects of enhanced services in limited circumstances, such as where they are provided by incumbent LECs that operate telecommunications networks. Moreover, the public service commissions of some states continue to review potential regulation of such services. We cannot assure you that regulatory authorities of states where we provide Internet access, intranet and VPN services will not seek to regulate aspects of these activities as telecommunications services. The prices at which we may sell our services could be affected by regulatory changes:

- in the Internet connectivity market;
- that indirectly or directly affect telecommunications costs; or
- that increase the likelihood or scope of competition from the RBOCs.

We cannot predict the impact, if any, that future regulation or regulatory changes may have on our business and we cannot assure you that future regulation or regulatory changes will not have a material adverse effect on our business, results of operations or financial condition.

We Depend On Our Proprietary Technology and Technological Expertise.

Our success and ability to compete is dependent in part upon our technology. In this regard, we believe our success is more dependent upon our technical expertise than our proprietary rights. We rely upon a combination of copyright, trademark and trade secret laws and contractual restrictions to protect our proprietary technology. It may be possible for a third party to copy or otherwise obtain and use our products or technology without authorization or to develop similar technology independently. We cannot assure you that such measures have been, or will be, adequate to protect our proprietary technology. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology.

We operate a material portion of our business over the Internet. The Internet is subject to a variety of risks. Such risks include but are not limited to the substantial uncertainties that exist regarding the system for assigning

<PAGE>

domain names and the status of private rules for resolution of disputes regarding rights to domain names. We cannot assure you that we will continue to be able to employ our current domain names in the future or that the loss of rights to one or more domain names will not have a material adverse effect on our business and results of operations.

Third Parties May Claim We Infringe Their Proprietary Rights.

Although we do not believe we infringe the proprietary rights of any third parties, we cannot assure you that third parties will not assert such claims against us in the future or that such claims will not be successful. We could incur substantial costs and diversion of management resources to defend any claims relating to proprietary rights, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to license our products in the United States or abroad. Such a judgment would have a material adverse effect on our business, financial condition and results of operations. In addition, we are obligated under certain agreements to indemnify the other party for claims that we infringe on the proprietary rights of third parties. If we are required to indemnify parties under these agreements, our business, financial condition and results of operations could be materially adversely affected. If someone asserts a claim relating to proprietary technology or information against us, we may seek licenses to such intellectual property. We cannot assure you, however, that we could obtain licenses on commercially reasonable terms, if at all. The failure to obtain the necessary licenses or other rights could have a material adverse effect on our business, financial condition and results of operations.

We Could Face Liability for Information Disseminated Through Our Network.

The law relating to the liability of online service providers, private network operators and Internet service providers for information carried on or disseminated through the facilities of their networks is continuing to evolve and remains unsettled. In the past, at least one court has ruled that Internet service providers could be found liable for copyright infringement as a result of information disseminated through their networks. Such claims have been asserted against us in the past and we cannot assure you that similar claims will not be asserted in the future. Federal laws have been enacted, however, which, under certain circumstances, provide Internet service providers with immunity from liability for information that is disseminated through their networks when they are acting as mere conduits of information. A Federal Court of Appeals has recently held that the Telecommunications Act of 1996 creates immunity from liability on the part of Internet service providers for libel claims arising out of information disseminated over their services by third party content providers. In addition, the Digital Millennium Copyright Act, which was enacted in 1998, creates a safe-harbor from copyright infringement liability for Internet service providers that meet certain requirements. These requirements include certain technical measures and registering with the Copyright Office the identity of the provider's Designated Infringement Agent who is to receive notice of any claims of copyright infringement. We cannot assure you, however, that the Digital Millennium Copyright Act or any other legislation will protect us from copyright infringement liability.

The Child Online Protection Act of 1998 prohibits and imposes criminal penalties and civil liability on anyone engaged in the business of selling or transferring, by means of the World Wide Web, material that is harmful to minors without restricting access to such material by persons under seventeen years of age. Numerous states have adopted or are currently considering similar types of legislation. The imposition upon us, Internet service providers or Web server hosts of potential liability for such materials carried on or disseminated through our systems could require us to implement measures to reduce our exposure to such liability. Such measures may require the expenditure of substantial resources or the discontinuation of certain product or service offerings. Further, the costs of defending against any such claims and potential adverse outcomes of such claims could have a material adverse effect on our business, financial condition and results of operations. The Child Online Protection Act of 1998 has been challenged by civil rights organizations in part on the grounds that it violates the First Amendment. A similar statute was held unconstitutional by the United States Supreme Court in 1997. A United States District Court has temporarily enjoined enforcement of the law until February 1, 1999, and it is possible that additional injunctions prohibiting enforcement of the statute will be entered pending final resolution of the case.

<PAGE>

We Have Discretionary Authority Over the Use of Net Proceeds.

We have no specific allocations for the net proceeds of this offering. Consequently, management will retain a significant amount of discretion over the application of such proceeds. Because of the number and variability of factors that determine our use of the net proceeds of the offering, we cannot assure you that such applications will not vary substantially from our current intentions. Pending such uses, we intend to invest the net proceeds of the offering in short term U.S. investment grade and government securities.

Our Stock Price Has Been and May Continue to Be Volatile.

The trading price of our common stock has been and is likely to be highly volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated variations in quarterly operating results;
- announcements of technological innovations;
- new products or services offered by us or our competitors;
- changes in financial estimates by securities analysts;
- conditions or trends in the network services market;
- our announcement of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;
- sales of common stock; and
- other events or factors that may be beyond our control.

In addition, the stock markets in general, and the Nasdaq National Market and the market for network services and technology companies in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. The trading prices of many technology companies' stocks are at or near historical highs and these trading prices and multiples are substantially above historical levels. These trading prices and multiples may not be sustained. These broad market and industry factors may materially adversely affect the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation often has been instituted against that company. Litigation like this, if instituted, could result in substantial costs and a diversion of management's attention and resources.

<PAGE>

Item 8. Financial Statements and Supplementary Data

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders of Concentric Network Corporation

We have audited the accompanying consolidated balance sheets of Concentric

Network Corporation as of December 31, 1997 and 1998, and the related consolidated statements of operations, common stock subject to rescission and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule included in Item 14. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Concentric Network Corporation at December 31, 1997 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the financial information set forth therein.

/s/ Ernst & Young LLP

San Jose, California
January 25, 1999, except for Note 15, as to which the date is February 1, 1999

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	December 31, 1997	December 31, 1998
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 119,959	$ 98,988
Short term investments	--	52,226
Current portion of restricted cash	19,125	19,125
Accounts receivable, net of allowances of $80 in 1997 and $690 in 1998	4,549	13,714
Prepaid expenses and other current assets	3,871	3,058
Total current assets	147,504	187,111
Property and equipment:		
Computer and telecommunications equipment	71,942	89,668
Software	1,519	5,427
Furniture and fixtures and leasehold improvements	2,984	11,357

	76,445	106,452
Accumulated depreciation and amortization	22,735	42,184
	53,710	64,268
Restricted cash, net of current portion	33,400	17,113
Goodwill and other intangible assets, net of current portion	--	20,364
Other assets	9,875	9,401
Total assets	$ 244,489	$ 298,257
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 10,144	$ 26,342
Accrued compensation and other employee benefits	1,577	2,024
Other current liabilities	4,917	4,559
Current portion of capital lease obligations, including $13,600 in 1997 to a related party	15,326	6,543
Deferred revenue	1,435	3,104
Total current liabilities	33,399	42,572
Capital lease obligations, including $32,373 in 1997 to a related party, net of current portion	33,595	10,434
Notes payable	145,577	146,021
Commitments and contingencies		
Redeemable exchangeable preferred stock	--	156,105
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value; issuable in series: Authorized shares--10,000 in 1997 and 1998 Issued and outstanding shares--none in 1997 and 1998	--	--
Common stock, $0.001 par value; issuable in classes: Authorized shares--100,000 in 1997 and 1998 Issued and outstanding shares--14,139 in 1997 and 15,144 in 1998	182,721	190,076
Accumulated deficit	(149,534)	(246,055)
Deferred compensation	(1,269)	(896)
Total stockholders' equity (deficit)	31,918	(56,875)
Total liabilities and stockholders' equity (deficit)	$ 244,489	$ 298,257

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenue	$ 15,648	$ 45,457	$ 82,807
Costs and expenses:			

Cost of revenue	47,945	61,439	85,352
Network equipment write-off	8,321	--	--
Development	2,449	4,850	7,734
Marketing and sales, including $2,448, $2,600 and $1,085 to a related party for the years ended December 31, 1996, 1997 and 1998, respectively	16,609	24,622	39,793
General and administrative	3,445	4,790	10,398
Amortization of goodwill and other intangible assets	--	--	3,842
Acquisition-related charges	--	--	1,291
Write-off of in-process technology	--	--	5,200
Total costs and expenses	78,769	95,701	153,610
Loss from operations	(63,121)	(50,244)	(70,803)
Other income (expense)	--	1,233	(750)
Interest income	614	1,217	9,975
Interest expense, including $3,065, $6,197 and $1,272 to related parties for the years ended December 31, 1996, 1997 and 1998, respectively	(3,874)	(7,788)	(23,570)
Loss before extraordinary item	(66,381)	(55,582)	(85,148)
Extraordinary gain on early retirement of debt	--	--	3,042
Net loss	(66,381)	(55,582)	(82,106)
Preferred stock dividends and accretion	--	--	(11,958)
Net loss attributable to common stockholders	$(66,381)	$(55,582)	$(94,064)
Net loss per share (pro-forma 1996 and 1997, historical 1998)			
Loss before extraordinary item	$ (13.46)	$ (5.63)	$ (5.86)
Extraordinary gain	--	--	.21
Net loss	(13.46)	(5.63)	(5.65)
Preferred stock dividends and accretion	--	--	(.82)
Net loss per share attributable to common stockholders	$ (13.46)	$ (5.63)	$ (6.47)
Shares used in computing net loss and net loss attributable to common stockholders per share (pro-forma 1996 and 1997, historical 1998)	4,937	9,872	14,547

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED STATEMENTS OF COMMON STOCK SUBJECT TO RESCISSION AND STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

<TABLE>
<CAPTION>

	Common Stock Subject to	Stockholders' Equity (

	Rescission		Preferred Stock		Common Stock		Accumu
	Shares	Amount	Shares	Amount	Shares	Amount	Defi
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	445	$ 5,080	2,078	$ 35,695	1,388	$ 1,639	$ (27
Issuance of Class A common stock	--	--	--	--	--	1	
Conversion of debentures to Class A common stock	10	70	--	--	--	--	
Exercise of options	--	--	--	--	5	22	
Conversion of note to Series C preferred stock (net of issuance costs)	--	--	123	2,960	--	--	
Issuance of Series D preferred stock (net of issuance costs)	--	--	2,451	48,533	--	--	
Conversion of note to Series D preferred stock	--	--	249	5,072	--	--	
Warrants issued to purchase Series D preferred stock	--	--	--	2,955	--	--	
Deferred compensation resulting from grant of options	--	--	--	--	--	188	
Net loss	--	--	--	--	--	--	(66
Balance at December 31, 1996	455	5,150	4,901	95,215	1,393	1,850	(93
Issuance of Class A common stock for services	--	--	--	--	5	17	
Conversion of Class B common to Series A preferred stock	--	--	7	--	(7)	--	
Conversion of Series A, B, C and D preferred to Class A common stock	--	--	(5,693)	(99,604)	5,693	99,604	
Shares issued upon the initial public offering (net of issuance costs)	--	--	--	--	4,945	52,757	
Shares issued in a private placement	--	--	--	--	1,246	14,950	
Conversion of note to Class A common stock	--	--	--	--	253	3,041	
Repurchase of Class A common stock in connection with the initial public offering	--	--	--	--	(185)	(2,217)	
Shares issued subject to dilution ratios	--	--	484	--	--	--	
Exercise of options to purchase stock	--	--	--	--	65	243	
Exercise of warrants to purchase stock	--	--	301	3,281	309	1,201	
Warrants issued to purchase stock	--	--	--	1,108	--	5,370	

Deferred compensation resulting from grant of options...........	--	--	--	--	--	1,303	
Amortization of deferred compensation.........	--	--	--	--	--	--	
Expiration of statutes of limitations on common stock subject to rescission.........	(422)	(4,602)	--	--	422	4,602	
Repurchase of shares for cancellation in connection with Rescission Offer......	(33)	(548)	--	--	--	--	
Net loss..............	--	--	--	--	--	--	(55
Balance at December 31, 1997..................	--	$ --	--	$ --	14,139	$182,721	$(149

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED STATEMENTS OF COMMON STOCK SUBJECT TO RESCISSION AND STOCKHOLDERS' EQUITY (DEFICIT)--(Continued)
(In thousands)

<TABLE>
<CAPTION>

	Common Stock Subject to Rescission	
<S>	Shares <C>	Amount <C>
Amortization of deferred compensation......................	--	$ --
Common stock issued under stock purchase plan.....................	--	--
Common stock issued in acquisition of DeltaNet Services, Inc..........	--	--
Exercise of options to purchase common stock......................	--	--
Exercise of warrants for no cash consideration.....................	--	--
Warrants issued to purchase stock...	--	--
Net loss..........................	--	--
Preferred stock dividends and accretion.........................	--	--
Balance at December 31, 1998.........	--	$ --

<CAPTION>

Stockholders	
Preferred Stock	Common Stock

	Shares	Amount	Shares	Amount
Amortization of deferred compensation......................	--	$ --	--	$ --
Common stock issued under stock purchase plan....................	--	--	74	781
Common stock issued in acquisition of DeltaNet Services, Inc..........	--	--	226	1,147
Exercise of options to purchase common stock......................	--	--	612	3,527
Exercise of warrants for no cash consideration.....................	--	--	93	--
Warrants issued to purchase stock...	--	--	--	1,900
Net loss...........................	--	--	--	--
Preferred stock dividends and accretion.........................	--	--	--	--
Balance at December 31, 1998.........	--	$ --	15,144	$190,076

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
OPERATING ACTIVITIES			
Net loss	$(66,381)	$(55,582)	$ (82,106)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization................	7,528	16,852	24,442
Amortization of deferred interest, cost of revenue and marketing and sales related to issuance of warrants......................	1,942	1,720	1,210
Amortization of goodwill and other intangible assets.................................	--	--	3,842
Amortization of deferred financing costs related to 12 3/4% Senior Notes............	--	--	526
Amortization of other deferred assets........	--	--	3,025
Amortization of deferred compensation........	--	658	373
Gain on early retirement of debt............	--	--	(3,042)
Write-off of in-process technology..........	--	--	5,200
Loss on disposal of equipment...............	--	162	--
Network equipment write-off.................	8,321	--	--
Changes in current assets and liabilities:			
Prepaid expenses and other current assets...	(57)	(3,581)	1,009
Accounts receivable.........................	(1,734)	(2,700)	(7,140)
Accounts payable............................	5,129	(7,287)	7,408

Accrued compensation and other employee benefits	484	863	(315)
Deferred revenue	1,097	197	509
Other current liabilities	1,546	2,795	(1,575)
Net cash used in operating activities	(42,125)	(45,903)	(46,634)
INVESTING ACTIVITIES			
Additions of property and equipment	(6,889)	(6,130)	(23,489)
Increase in refundable deposits	(442)	--	(1,200)
Decrease (increase) in note receivable	--	(370)	100
Purchase of short term investments	--	--	(52,226)
Acquisition of InterNex Information Services, Inc., net of cash acquired	--	--	(15,452)
Acquisition of AnaServe, Inc., net of cash acquired	--	--	(9,625)
Net cash used in investing activities	(7,331)	(6,500)	(101,892)
FINANCING ACTIVITIES			
Proceeds from notes payable	6,300	155,000	--
Change in restricted cash	--	(52,525)	16,287
Repayment of lease obligations to a related party	(4,561)	(10,039)	(3,079)
Repayment of lease obligations to a related party--early retirement of debt	--	--	(24,750)
Repayment of lease obligations	(886)	(1,517)	(7,079)
Repayment of notes payable	(1,300)	(2,000)	(1,960)
Repurchase of common stock	--	(2,765)	--
Deferred financing costs	--	(5,006)	(320)
Proceeds from issuance of redeemable exchangeable preferred stock, net of issuance costs	--	--	144,148
Proceeds from issuances of stock and warrants	48,506	73,557	4,308
Net cash provided by financing activities	48,059	154,705	127,555
Increase (decrease) in cash and cash equivalents	(1,397)	102,302	(20,971)
Cash and cash equivalents at beginning of period	19,054	17,657	119,959
Cash and cash equivalents at end of period	$ 17,657	$119,959	$ 98,988

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
(In thousands)

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES			

Stock exchanged for notes payable, including accrued interest	$ 8,082	$ 3,041	$ --
Capital lease obligations incurred with a related party	30,945	23,042	1,285
Capital lease obligations incurred	2,136	--	5,363
Reduction of accounts payable through capital lease obligations incurred	--	2,000	--
Convertible debentures exchanged for stock	70	--	--
Issuance of warrants	2,955	5,370	1,900
Purchase of property and equipment through accounts payable	6,344	--	--
Accretion of dividends and financing costs related to Redeemable Exchangeable Preferred Stock	--	--	11,958
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Interest paid	$ 2,807	$ 5,728	$22,609

</TABLE>

See accompanying notes.

<PAGE>

CONCENTRIC NETWORK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

The Company

Concentric Network Corporation (the Company or Concentric) was incorporated in the state of Florida in 1991 and reincorporated into Delaware in 1997. The Company operates primarily in one business segment in the United States. Concentric provides tailored, value-added Internet Protocol (IP) based network services for businesses and consumers. To provide these services, the Company utilizes its low/fixed latency, high-throughput network, employing its advanced network architecture and the Internet. Concentric's service offerings for enterprises include virtual private networks (VPNs), dedicated access facilities (DAFs), digital subscriber line services (DSL), remote access and Web hosting. These services enable enterprises to take advantage of standard Internet tools such as browsers and high-performance servers for customized data communications within an enterprise and between an enterprise and its suppliers, partners and customers. These services combine the cost advantages, nationwide access and standard protocols of public networks with the customization, high performance, reliability and security of private networks.

Basis Of Presentation And Preparation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Cash, Cash Equivalents and Short Term Investments

The Company considers all highly liquid investments with an original maturity (at date of purchase) of three months or less to be the equivalent of cash for the purpose of balance sheet and statement of cash flows presentation. Investments with maturities between three and twelve months are considered to be short term investments. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's debt securities have been classified and accounted for as available-for-sale. These securities are carried at fair value and unrealized gains and losses have not been material to date. Comprehensive net loss per share is not materially different from net loss for all years presented. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income and have not been material to date. Cash and cash equivalents are held primarily with three financial institutions.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the related assets as follows: computer and telecommunications equipment: three to five years; purchased software: three to five years; furniture and fixtures: eight to ten years; and leasehold improvements: the shorter of the remaining term of the related leases or the estimated economic useful lives of the improvements. Equipment under capital leases is amortized over the shorter of the expected useful life or the related lease term (see Note 4).

<PAGE>

Revenue and Customer Receivables

Revenue is recognized over the period in which services are provided, generally monthly. Payments received in advance of services being provided are included in deferred revenue. Substantially all end-user subscribers pay for services with major credit cards for which the Company receives daily remittances from the credit card carriers.

Commissions and other obligations to strategic partners through marketing and distribution arrangements are expensed as incurred, at the time the associated revenue is recognized.

Concentration of Credit Risk

The Company typically offers its enterprise customers credit terms. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral. Credit losses have historically been insignificant.

Advertising Costs

The Company expenses the costs of advertising as incurred except for direct-response advertising costs meeting certain specific criteria. To date, no direct-response advertising costs have been capitalized.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (FAS 109).

Basic and Diluted Net Loss Per Share

Basic and diluted net loss per share have been computed in accordance with the Financial Accounting Standards Board issued Statement No. 128, "Earnings Per Share."

Except as noted below, net loss per share is computed using the weighted average number of shares of common stock outstanding excluding common stock subject to rescission. Common stock equivalent shares from convertible preferred stock and from stock options and warrants are not included as the effect is antidilutive. Pursuant to the Securities and Exchange Commission Staff Accounting Bulletin No. 98 (SAB No. 98) which was issued in February 1998, common and common equivalent shares issued by the Company for nominal consideration during any of the periods for which a statement of operations was presented in the Company's initial public offering registration statement have been included in the calculation of basic and diluted net loss per share for all such periods in a manner similar to a stock split.

<PAGE>

Pro forma net loss per share gives effect, even if antidilutive, to common equivalent shares from convertible preferred shares that were automatically converted to common shares upon the closing of the Company's initial public offering (using the as-if-converted method). The following table sets forth the computation of basic and diluted loss per share, on a historical and pro forma basis.

<TABLE>
<CAPTION>

	Twelve Months Ended December 31,		
	1996	1997	1998
	(In thousands, except per share data)		
<S>	<C>	<C>	<C>
NUMERATOR:			
Net loss before extraordinary item	$(66,381)	$(55,582)	$(85,148)
Extraordinary gain on early retirement of debt	--	--	3,042
Net loss	(66,381)	(55,582)	(82,106)
Preferred stock dividends and accretion	--	--	(11,958)
Numerator for basic and diluted loss per share	$(66,381)	$(55,582)	$(94,064)
DENOMINATOR:			
Denominator for basic and diluted earnings per share--weighted average shares (historical)	1,391	6,665	14,547
Adjustments to reflect the effect of the assumed conversion of convertible preferred stock from the date of issuance	3,546	3,207	
Denominator for basic and diluted earnings per			

share--weighted average shares (pro forma).....	4,937	9,872	
Basic and diluted net loss per share (historical):			
Loss before extraordinary item................	$ (47.72)	$ (8.34)	$ (5.86)
Extraordinary gain..........................	--	--	.21
Net loss....................................	(47.72)	(8.34)	(5.65)
Preferred stock dividends and accretion.......	--	--	(.82)
Net loss attributable to common stockholders..	$ (47.72)	$ (8.34)	$ (6.47)
Basic and diluted net loss per share (pro forma)......................................	$ (13.46)	$ (5.63)	

</TABLE>

Stock-Based Compensation

The Company accounts for employee stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and has adopted the "disclosure only" alternative described in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123).

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company continually reviews long-lived assets to assess recoverability based upon undiscounted cash flow analysis. Impairments, if any, are recognized in operating results in the period in which a permanent diminution in value is determined (see Note 3).

<PAGE>

Customer Concentrations

The Company currently derives a substantial portion of its total revenue from a single customer. For the years ended December 31, 1996, 1997 and 1998, revenue from WebTV Networks, Inc. represented approximately 10.1%, 33.4% and 26.8%, respectively, of the Company's total revenue.

Sole or Limited Sources of Supply

The Company relies on other companies to supply certain key components of their network infrastructure. These components include critical telecommunications services and networking equipment, which, in the quantities and quality demanded by us, are available only from sole- or limited-sources. Four companies provide the data communications facilities and capacity for the Company. The Company is also dependent upon local exchange carriers to provide telecommunications services to the Company and its customers. The Company has experienced delays from time to time in receiving telecommunications services from these suppliers. There can be no assurance that such services on the scale and within the time frames required by the Company at an affordable cost will be attainable. Any failure to obtain such services on a sufficient scale, on a timely basis and at an affordable cost would have a material adverse effect on the business, financial condition and results of operations of the Company.

The Company purchases its network equipment primarily from five vendors. Two companies also act as systems integrators. One company is the sole supplier of the servers primarily used in the Company's network infrastructure. The Company purchases these components pursuant to purchase orders placed from time to time with these suppliers. The Company does not carry significant inventories of these components and has no guaranteed supply arrangements for such components. The Company's suppliers also sell products to competitors and may in the future themselves become competitors. There can be no assurance that suppliers will not enter into exclusive arrangements with competitors or stop selling their products or components to the Company at commercially reasonable prices, or at all.

2. Cash, Cash Equivalents and Short-Term Investments

The following table summarizes the Company's available-for-sale securities at amortized cost, which approximates fair value, as of December 31, 1998 (in thousands):

<TABLE>

<S>	<C>
U.S. Corporate securities	$25,132
Total included in cash and cash equivalents	25,132
U.S. Treasury securities	$17,424
U.S. Corporate securities	34,802
Total included in short-term investments	$52,226

</TABLE>

As of December 31, 1998, there are no investments with maturities greater than 12 months. The Company's U.S. Corporate securities include commercial paper. The Company's cash equivalents and short term investments have generally been held until maturity. The Company's cash and cash equivalents at December 31, 1997 consisted primarily of money market funds and U.S. Corporate Securities.

<PAGE>

3. Network Equipment Write-off

In December 1996, the Company wrote off approximately $8,321,000 representing the net book value and future commitments for certain network equipment purchased from Sattel Communications LLC (Sattel), a stockholder of the Company. The Company decided not to deploy the equipment in the network because of concerns that the equipment would not provide the functionality and reliability required by the Company and concerns that the equipment provider would be unable to provide timely maintenance and support (see Note 12).

4. Commitments

Operating Leases

The Company has an agreement with a related party through which such related party makes available the premises at which the Company's POP sites throughout the United States are located. POP sites are locations where certain telecommunications switching and related equipment are installed. This agreement expires in December 2000, and the amount of the payments is based, among other things, on the number of POP sites maintained by the Company, subject to certain minimums. Costs of approximately $1,622,000, $1,326,000 and $1,267,000 were incurred during the years ended December 31, 1996, 1997 and 1998, respectively, for these facilities. Additionally, the Company has agreements with three telecommunications companies to locate POP sites and certain of such equipment at their facilities. Costs of approximately $1,246,000 were incurred during the year ended December 31, 1998 for these facilities. The expiration dates associated with these agreements range from December 1998 to January 2000.

The Company leases its facilities and certain office equipment under non-cancelable operating leases which expire at various dates through January 2006. Total rent expense for all operating leases was approximately $2,060,000, $2,418,000 and $4,743,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

Future minimum lease commitments for all noncancelable operating leases with initial terms of one year or more consists of the following at December 31, 1998 are (in thousands):

<TABLE>

<S>	<C>
1999	$ 4,257
2000	4,030
2001	3,248
2002	2,533
2003	2,513
Thereafter	5,164
Total	$21,745

</TABLE>

Capital Leases

In August 1994, the Company entered into a master lease agreement under which a related party began installing networking equipment at the Company's POP sites and data center. This agreement became effective upon installation and acceptance by the Company on March 31, 1995. The lease provides for monthly payments for terms of 48 or 60 months, depending upon the type of equipment. The Company has continued to install equipment under the terms of this agreement, resulting in a monthly payment of approximately $896,000, $1,443,000 and $536,000 at December 31, 1996, 1997 and 1998, respectively. In March 1998, the Company retired a portion of the capital lease obligations to the related party. The Company paid $24,750,000

<PAGE>

for the extinguishment of the debt. The Company recognized an extraordinary gain of $3,042,000 in connection with this transaction. Subsequent to March 1998, the related party sold its stockholdings in the Company and is no longer considered a related party.

In September 1995, the Company entered into a master lease agreement with a third party for an equipment lease line. The term of the lease is 36 months and provides for monthly payments of approximately $114,000 as of December 31, 1998.

Assets capitalized under capital leases totaled approximately $61,927,000 and $28,068,000 at December 31, 1997 and 1998, respectively, and are included in computer and telecommunications equipment. Accumulated amortization for assets capitalized under capital leases totaled approximately $18,542,000 and $8,356,000 at December 31, 1997 and 1998, respectively. Amortization of leased assets is included in depreciation and amortization expense. The Company has granted a security interest in all equipment under capital lease agreements. Future minimum lease payments under capital lease obligations at December 31, 1998 are as follows (in thousands):

<TABLE>

<S>	<C>
1999	$ 7,285
2000	6,257
2001	4,312
2002	1,956
Thereafter	504
Total minimum lease payments	20,314
Less amount representing interest	3,337
Present value of net minimum lease payments	16,977
Less current portion of capital leases	6,543
Long-term portion of capital leases	$10,434

</TABLE>

Other

The Company has a noncancelable service agreement with AT&T for the utilization of its frame relay telecommunications network. The agreement provides for minimum payments to AT&T of approximately $300,000 per month over its three-year term, expiring in June 1999.

The Company has a noncancelable service agreement with MCI for the utilization of its ATM telecommunications network. The agreement provides for minimum payments to MCI of approximately $1,200,000 per year over its term, expiring three years after the end of an initial ramp up period but no later than June 2000. The Company also has a noncancelable telecommunications service agreement with MCI for other services, including dedicated access and 800 service, that provides for minimum payments of approximately $8,500,000 over the term of the agreement, which expired in June 1998. The Company had incurred expenses, through the life of the agreement, of approximately $3,700,000, $8,100,000 and $4,143,000 for the years ended December 31, 1996, 1997 and 1998, respectively, related to these other services. The agreement was renewed in August 1998 and provides for minimum payments of $6,000,000 per year over its term, expiring July 2000. The Company incurred expenses of approximately $3,042,000 related to the new agreement for the five month period ended December 31, 1998.

In November 1995, the Company entered into a two-year service agreement under which a third party provided substantially all of the network analysis and deployment and maintenance of POP sites. In 1997, the third party was purchased by Williams Communication, Group Inc. (Williams), a stockholder of the

CONCENTRIC NETWORK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Company that also has a seat on the Board of Directors of the Company, and the agreement was extended to December 31, 2000. The Company will reimburse Williams for its employee compensation and direct costs for services provided. Related party payments to Williams for these services were approximately $1,884,000 and $4,848,000 for the years ended December 31, 1997 and 1998, respectively. At the end of the agreement, Williams is obligated to transfer to the Company those personnel, resources, and facilities used to support the Company's network analysis, POP site deployment, and maintenance.

In August 1997, the Company entered into a five-year service and equipment agreement under which Williams, a related party, will provide telecommunication services and equipment. The agreement provides for minimum payments as follows: $1.2 million in 1998, $2.5 million in 1999, $7.0 million in 2000, $6.5 million in 2001 and $4.0 million in 2002. At the election of Williams, $2.0 million of the minimum payments may be paid by the issuance of common stock of the Company at the then-current fair market value. The Company made payments totaling $4,843,000 for the year ended December 31, 1998 related to this agreement, of which $4,311,000 relates to the purchase of equipment from Williams.

5. Convertible Debentures and Notes Payable

Bridge Loans

At December 31, 1995, convertible debentures in the amount of $70,000, representing 9,802 shares of common stock, were outstanding. The conversion of these debentures into shares of common stock subject to rescission was completed in March 1996.

In 1995, the Company issued convertible notes totaling $7,000,000 to shareholders of which $4,000,000, plus accrued interest, was converted into Series B convertible preferred stock in December 1995. The remaining $3,000,000 outstanding at December 31, 1995 was converted into Series C convertible preferred stock in February 1996.

In June 1997, the Company borrowed $3 million from a related party in the form of a 10% convertible secured promissory note (the Secured Note). The Secured Note automatically converted into 253,403 shares of common stock upon the closing of the Public Offering at a per share conversion price equal to the Public Offering price of $12.00. In connection with the Secured Note, the Company issued a warrant to purchase 63,351 shares of common stock at an exercise price of $6.00 per share (see Note 8).

Notes Payable

In December 1997, the Company issued 150,000 units (collectively, the Units), each consisting of $1,000 principal amount of 12 3/4% Senior Notes (the 12 3/4% Senior Notes) due 2007 and one warrant (a Warrant), each Warrant entitling the holder thereof to purchase 6.34 shares of common stock at $10.86 per share and such Warrants expire on December 15, 2007 (see Note 8) for aggregate cash proceeds of $150,000,000. Approximately $52,525,000 of the cash proceeds was placed in a escrow account to fund the first six interest payments in accordance with the Senior Note agreement which is classified as restricted cash. As of December 31, 1998, the Company had $36,238,000 remaining in the escrow account restricted for future interest payments.

The Warrants resulted in the right of the holders to purchase 951,108 shares of the Company's common stock. The Company deemed the fair value of the warrants, using the Black-Scholes method, to be approximately $4,440,000 which was recorded as a discount on the 12 3/4% Senior Notes. The discount is being amortized as interest expense over the term of the 12 3/4% Senior Notes. Amortization expense was $17,000 and $444,000 for the years ended December 31, 1997 and 1998, respectively.

The 12 3/4% Senior Notes will be redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2002, at the redemption rates (expressed as a percentage of the principal amount) commencing with 106.375% on December 15, 2002 and declining to 100% on December 15, 2005, plus accrued interest to the date of redemption. In addition, on or prior to December 15, 2000, the Company may redeem up to 35% of the original aggregate principal amount of the 12 3/4% Senior Notes at a redemption price of 112.75% of the principal amount, together with accrued and unpaid interest to the date of redemption with the net cash proceeds of one or more public equity offerings or the sale of common stock to a strategic investor, provided that at least 65% of the original aggregate principal amount of the 12 3/4% Senior Notes remain outstanding.

In connection with the issuance of the 12 3/4% Senior Notes, the Company incurred approximately $5,300,000 of debt issuance costs which are classified as other assets. These costs are being amortized as interest expense over the term of the 12 3/4% Senior Notes. Amortization expense was $526,000 for the year ended December 31, 1998.

6. Common Stock Subject to Rescission

In August 1993, the Company commenced sales of convertible debentures and certain additional shares of its common stock. Through March 31, 1995, sales of convertible debentures aggregated $4,260,000, and issuance of common stock aggregated $890,000. The sale of common stock and sale of and/or conversion of debentures into common stock was not made pursuant to a registration statement filed under the Securities Act of 1933 (the Act) or any filings pursuant to the laws of any of the states in which such sales occurred (State Blue Sky Laws). Although at the time the Company believed the sale and conversion, if applicable, of these securities was exempt from the provisions of the Act and applicable State Blue Sky Laws, it appears that the appropriate exemptions may not have been available. As a result, on September 30, 1997, the Company made rescission offers (the "Rescission Offer") to certain purchasers of these securities who are entitled to a return of the consideration paid for their stock or debentures. As such, these shares have been classified as common stock subject to rescission in the accompanying financial statements. Additionally, options issued pursuant to the Company's 1995 Stock Incentive Plan to Employees and Consultants and non-plan options were issued in various states for which the Company may not have had an available exemption under state laws. Such options are potentially subject to rescission and the Company has included them in the Rescission Offer. As of December 31, 1997, statutes of limitations under federal and state securities laws applicable to the shares which may have been issued without securities laws exemptions have lapsed and the Rescission Offer had expired. Pursuant to the Rescission Offer, the Company offered to rescind the issuance of shares and options as to which the applicable statute of limitations had not run. There can be no assurances that the Company will not otherwise be subject to additional liabilities with respect to such issuances. The Company repurchased 32,423 shares of Common Stock subject to the Rescission Offer for $548,000 and paid related interest charges of $125,000. Based upon the above, the Company has reclassified the remaining rescission liability and shares into stockholders' equity.

7. Stockholders' Equity

Initial Public Offering and Direct Placements

Effective July 30, 1997, the Company reincorporated under the laws of the state of Delaware. In addition, the Company authorized 100,000,000 shares of its common stock. Upon closing of the initial public offering (the Public Offering), all outstanding shares of Series A, B, C, and D convertible preferred stock and Class B common stock were converted into common stock.

On August 1, 1997, the Company effected its Public Offering of common stock. The offering consisted of 4,300,000 shares of common stock issued to the public at $12.00 per share. Concurrent with the closing of the

<PAGE>

Public Offering, certain strategic investors, including Williams, purchased directly from the Company 1,499,236 shares of common stock having an aggregate purchase price of approximately $18 million (including the cancellation of approximately $3 million in indebtedness). Such shares are unregistered shares and were purchased at the Public Offering price of $12.00 per share.

In connection with the direct purchase, the Company issued warrants to one of the strategic investors to purchase 291,667 shares of the Company's common stock at $6.00 per share (see Note 8). In September, the underwriters exercised an option to purchase an additional 645,000 shares of common stock at the Public Offering price of $12.00 per share to cover over-allotments in connection with the Public Offering.

Redeemable Exchangeable Preferred Stock

In June 1998, the Company completed a $150 million private placement of 13 1/2% Series A Senior Redeemable Exchangeable Preferred Stock due 2010 (Series A Preferred). In September 1998, the Company issued 154,657 shares of its 13 1/2% Series B Senior Redeemable Exchangeable Preferred Stock due 2010 (Series B Preferred) in exchange for all outstanding shares of the Series A Preferred pursuant to a registered exchange offer. Each share of Series B Preferred has a liquidation preference of $1,000 per share. Dividends on the Series B Preferred accrue at a rate of 13 1/2% per annum of the liquidation preference thereof and are payable quarterly in arrears commencing on September 1, 1998. Dividends are payable in cash, except that on each dividend payment date occurring on or prior to June 1, 2003, dividends may be paid, at the Company's option, by the issuance of additional shares of Series B Preferred having an aggregate liquidation preference equal to the amount of such dividends. For the year ended December 31, 1998, the Company issued a total of 9,865 shares of Series B Preferred Stock as payment of the quarterly dividends. Series B Preferred Stock has no voting rights.

The Series B Preferred is redeemable at the option of the Company, in whole or in part, at any time on or after June 1, 2003, at redemption rates (expressed as a percentage of the liquidation preference) commencing with 106.75% on June 1, 2003 and declining to 100% on June 1, 2008, plus accumulated and unpaid dividends to the date of redemption. In addition, prior to June 1, 2001, the Company may, at its option, redeem up to a maximum of 35% of the initially issued Series B Preferred from the net proceeds of one or more public equity offerings or the sale of common stock to a strategic investor. The Series B Preferred is subject to mandatory redemption at its liquidation preference, plus accumulated and unpaid dividends on June 1, 2010.

On any scheduled dividend payment date, the Company may, at its option, exchange in whole but not in part the then outstanding shares of Series B Preferred for 13 1/2% Senior Subordinated Debentures due 2010 (Exchange Debentures) with a principal amount equal to the aggregate liquidation preference of the Preferred Stock. If the Exchange Debentures were issued, they would mature on June 1, 2010. Interest on the Exchange Debentures would be payable semi-annually in arrears. Interest payable on or prior to June 1, 2003 may be paid in the form of additional Exchange Debentures valued at the principal amount thereof.

The Company is accreting the Series B Preferred to its liquidation preference through the due date of the Series B Preferred. The accretion for the year ended December 31, 1998 was approximately $11,676,000. In connection with the issuance of Series A Preferred and Series B Preferred, the Company incurred approximately $5,852,000 of issuance costs. These costs are being accreted over 12 years which amounted to $282,000 for the year ended December 31, 1998.

Stock Option Plans

1995 Stock Incentive Plan for Employees and Consultants. The Company's 1995 Stock Incentive Plan for Employees and Consultants (the 1995 Plan) provided for the granting to employees of incentive stock options

<PAGE>

and for the granting to employees and consultants of nonstatutory stock options, stock appreciation rights (SARs) and restricted stock awards (RSAs). No SARs or RSAs have been granted under the 1995 Plan. The 1995 Plan was terminated effective October 4, 1996. As of December 31, 1998, options to purchase 162,157 shares of common stock at a weighted exercise price of $3.75 per share were outstanding under the 1995 plan of which 102,910 options were vested.

Amended and Restated 1996 Stock Plan. The Company's Amended and Restated 1996 Stock Plan (the Restated 1996 Plan) provides for the granting to employees of incentive stock options and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights (Rights). The Restated 1996 Plan has been terminated. As of December 31, 1998, options to purchase 678,846 shares of common stock at a weighted average exercise price of $6.40 per share were outstanding of which 246,460 were vested.

The Restated 1996 Plan provides that in the event of a merger of the Company with or into another corporation, a sale of substantially all of the Company's assets or a like transaction involving the Company, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted as described in the preceding sentence, the Restated 1996 Plan provides the optionee or Right holder to have the right to exercise the option or Right as to all of the optioned stock, including shares as to which it would not otherwise be exercisable.

1997 Stock Plan. The Company's 1997 Stock Plan (the 1997 Plan) provides for the granting to employees of incentive stock options and for the granting to employees, directors and consultants of nonstatutory stock options and stock purchase rights (Rights). The 1997 Plan was approved by the Board of Directors on June 6, 1997 and by the stockholders on June 30, 1997. An amendment increasing the number of shares thereunder from 1,500,000 to 2,250,000 was approved by the Board of Directors on April 10, 1998, 1998 and the Stockholders on May 20, 1998. Unless terminated sooner, the 1997 Plan will terminate automatically in 2007. Options granted under the 1997 Plan must generally be exercised within three months of the end of optionee's status as an employee, director or consultant of the Company, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's term. The exercise price of all incentive stock options granted under the 1997 Plan must be at least equal to the fair market value of the common stock on the date of grant. The exercise price of nonstatutory stock options and Rights granted under the 1997 Plan is determined by the 1997 Plan's Compensation Committee, but with respect to nonstatutory stock options intended to qualify as "performance-based compensation," the exercise price must at least be equal to the fair market value of the common stock on the date of grant. With respect to any participant who owns stock possessing more than 10% of the voting power of all classes of the Company's outstanding capital stock, the exercise price of any incentive stock option granted must equal at least 110% of the fair market value on the grant date and the term of such incentive stock option must not exceed five years. The term of other incentive stock options granted under the 1997 Plan may not exceed ten years. A total of 2,250,000 shares of common stock are currently reserved for issuance pursuant to the 1997 Plan. As of December 31, 1998, options to purchase 2,113,929 shares of common stock at a weighted average exercise price of $18.21 per share were outstanding of which 111,909 were vested, and 96,582 shares of common stock remained available for future grants under the 1997 Plan.

The 1997 Plan provides that in the event of a merger of the Company with or into another corporation, a sale of substantially all of the Company's assets or a like transaction involving the Company, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted as described in the preceding sentence, the 1997 Plan provides for the optionee or Right holder to have the right to exercise the option or Right as to all of the optioned stock, including shares as to which it would not otherwise be exercisable.

<PAGE>

1997 Employee Stock Purchase Plan. The Company's 1997 Employee Stock Purchase Plan (the 1997 Purchase Plan) was approved by the Board of Directors on June 6, 1997 and by the stockholders on June 30, 1997. A total of 500,000 shares of common stock has been reserved for issuance under the 1997 Purchase Plan. The 1997 Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code, consists of 24-month offering periods beginning on the first trading day on or after February 15 and August 15 of each year, except for the first such offering period, which commenced on August 4, 1997 and ended on February 13, 1998. Each offering period contains four six-month purchase periods. Employees are eligible to participate if they are customarily employed by the Company or any designated subsidiary for at least 20 hours per week and more than five months in any calendar year. The 1997 Purchase Plan permits eligible employees to purchase common stock through payroll deductions of up to 10% of an employee's compensation (excluding overtime, shift premium, and other bonuses and incentive compensation), up to a maximum of $25,000 for all offering periods ending within the same calendar year. No employee may purchase more than 25,000 shares in any purchase period. The price of stock purchased under the 1997 Purchase Plan is 85% of the lower of the fair market value of the common stock at the beginning of the offering period or at the end of the current purchase period. Employees may end their participation at any time during an offering period, and they will be paid their payroll deductions to date. Participation ends automatically upon termination of employment with the Company. During the year ended December 31, 1998, 74,142 shares were purchased under the 1997 Purchase Plan at a weighted average price of $10.54 per share.

The 1997 Purchase Plan provides that, in the event of a merger of the Company with or into another corporation or a sale of substantially all of the Company's assets, each outstanding option shall be assumed or an equivalent option shall be substituted for it, or the Board of Directors or its committee shall shorten the purchase and offering periods then in progress (so that employees' rights to purchase stock under the Plan are exercised prior to the merger or sale of assets). The 1997 Purchase Plan will terminate in 2007.

The Company issued options to purchase 179,300 shares of common stock in December 1996, 40,267 shares of common stock in January 1997, 216,733 shares of common stock in June 1997, and repriced 181,473 options in July 1997. The Company recorded deferred compensation, for financial reporting purposes, of approximately $188,000 in 1996 and $1,303,000 for the year ended December 31, 1997, with respect to such option grants to reflect the difference between the exercise price and the deemed fair value for financial reporting purposes of these shares. Amortization of this deferred compensation was $0, $222,000 and $373,000 for the years ended December 31, 1996, 1997 and 1998, respectively. The amortization of this deferred compensation will continue over the four year vesting period of the associated stock options.

1999 Nonstatutory Stock Option Plan. The Company's 1999 Nonstatutory Stock Option Plan (the "1999 Plan") provides for the granting to employees, directors and consultants of nonstatutory stock options. The 1999 Plan was approved by the Board of Directors in January 1999. Unless terminated sooner, the 1999 Plan will terminate automatically in 2009. A total of 550,000 shares of Common Stock are currently reserved for issuance pursuant to the 1999 Plan, options to purchase all of which were granted in January 1999.

The 1999 Plan may be administered by the Board of Directors or a committee of the Board (as applicable, the "Administrator"). The Administrator has the power to determine the terms of the options, including the exercise price, the number of shares subject to each option, the exercisability thereof, and the form of consideration payable upon such exercise. In addition, the Administrator has the authority to amend, suspend or terminate the 1999 Plan, provided that no such action may affect any share of Common Stock previously issued and sold or any option previously granted under the 1999 Plan.

<PAGE>

Options granted under the 1999 Plan are not generally transferable by the optionee, and each option is exercisable during the lifetime of the optionee only by such optionee. Options granted under the 1999 Plan must generally be exercised within three months of the end of the optionee's status as an employee or consultant of the Company, or within twelve months after such optionee's termination by death or disability, but in no event later than the expiration of the option's term. The exercise price of nonstatutory stock options granted under the 1999 Plan is determined by the Administrator.

The 1999 Plan provides that in the event of a merger of the Company with or into another corporation, a sale of substantially all of the Company's assets, each option shall be assumed or an equivalent option substituted by the successor corporation. If the outstanding options are not assumed or substituted, the Administrator shall provide for the Optionee to have the right to exercise the option as to all of the optioned stock, including shares as to which it would not otherwise be exercisable for a period of fifteen (15) days from the date of such notice, and the option will terminate upon the expiration of such period.

<PAGE>

CONCENTRIC NETWORK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The following table summarizes stock option activity under all of the Plans:

<TABLE>
<CAPTION>

<S>	Number of Shares <C>	Price Per Share <C>
Balance at December 31, 1995	807,083	\$ 3.75--\$ 33.00
Granted	421,620	\$3.75
Exercised	(4,483)	\$ 3.75--\$ 9.00
Canceled	(95,218)	\$ 3.75--\$ 30.00
Balance at December 31, 1996	1,129,002	\$ 3.75--\$ 33.00
Granted	1,472,338	\$ 3.75--\$ 11.25
Exercised	(64,544)	\$3.75
Canceled	(244,630)	\$ 3.75--\$ 11.25
Balance at December 31, 1997	2,292,166	\$ 3.75--\$ 30.00
Granted	1,883,958	\$ 9.88--\$ 75.89
Exercised	(611,694)	\$ 3.75--\$ 20.87
Canceled	(247,831)	\$ 3.75--\$ 75.89
Balance at December 31, 1998	3,316,599	\$ 3.75--\$ 75.89

</TABLE>

The weighted average fair value of options granted during 1996, 1997 and 1998 was $0.87, $1.87 and $12.67, respectively.

The following table summarizes information concerning currently outstanding and exercisable options as of December 31, 1998:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
Exercise Prices <S>	Number Outstanding <C>	Weighted Average Remaining Contractual Life <C>	Weighted Average Exercise Price <C>	Number Exercisable and Vested <C>	Weighted Average Exercise Price <C>
\$3.75	565,168	7.31	\$ 3.75	374,715	\$ 3.75
\$6.00	311,828	8.04	\$ 6.00	131,443	\$ 6.00
\$8.85--\$9.30	218,564	8.47	\$ 9.13	78,058	\$ 9.15
\$9.88--\$11.25	515,066	8.86	\$11.04	111,409	\$11.21
\$12.45--\$30.00	1,693,688	9.38	\$20.26	72,812	\$14.47

$37.95--$75.89...........	12,285	8.46	$60.07	6,539	$60.30
Total....................	3,316,599			774,976	

</TABLE>

Stock-Based Compensation

Pro forma information regarding results of operations and loss per share is required by FAS 123 for awards granted after December 31, 1994 as if the Company had accounted for its stock-based awards to employees under a valuation method permitted by FAS 123. The value of the Company's stock-based awards to employees in 1995 and 1996 was estimated using the minimum value method. Options granted after the Public Offering have been valued using the Black-Scholes option pricing model. Among other things, the Black-Scholes model considers the expected volatility of the Company's stock price, determined in accordance with FAS 123, in

<PAGE>

arriving at an option valuation. The minimum value method does not consider stock price volatility. Further, certain other assumptions necessary to apply the Black-Scholes model may differ significantly from assumptions used in calculating the value of options granted in 1995 and 1996 under the minimum value method.

The fair value of the Company's stock-based awards to employees was estimated assuming no expected dividends and the following weighted average assumptions:

<TABLE>
<CAPTION>

<S>	1996 <C>	1997 <C>	1998 <C>
Expected volatility.....................................	N/A	.250	.935
Expected life of options in years.........................	4.0	3.3	3.49
Risk-free interest rate..................................	6.3%	6.0%	5.0%
Expected dividend yield..................................	0.00%	0.00%	0.00%

</TABLE>

For pro forma purposes, the estimated minimum value of the Company's stock-based awards to employees is amortized over the options' vesting period. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by FAS 123, net loss and net loss per share would have increased to the pro forma amounts indicated in the table below (in thousands except per share amounts):

<TABLE>
<CAPTION>

	Year Ended December 31,		
<S>	1996 <C>	1997 <C>	1998 <C>
Net loss attributable to common stockholders as reported................................	$(66,381)	$(55,582)	$ (94,064)
Net loss attributable to common stockholders--pro forma....................	$(66,605)	$(56,224)	$(100,030)

Net loss per share attributable to common stockholders--as reported	$ (13.46)	$ (5.63)	$ (6.47)
Net loss per share attributable to common stockholders--pro forma	$ (13.49)	$ (5.70)	$ (6.88)

</TABLE>

8. Warrants to Purchase Common Stock

In connection with the Company's Public Offering, all of the outstanding warrants to purchase preferred stock were converted to warrants to purchase common stock. The following warrants to purchase shares of the Company's common stock were outstanding at December 31, 1998:

<TABLE>
<CAPTION>

	Warrants Outstanding		
Exercise Prices	Number of Shares	Weighted Average Exercise Price	Year Expires
<S>	<C>	<C>	<C>
$19.49	877,718	$19.49	1999
$3.75-$26.87	185,742	$20.42	2000
$6.00-$68.30	439,668	$ 6.19	2002
$10.86	951,108	$10.86	2007
	2,454,236		

</TABLE>

The Company is obligated to issue a warrant to purchase 906,679 shares to SBC Communications Inc. in connection with an agreement signed in October 1998. The warrant will be issued upon the closing of the SBC Financing Agreement (See Note 14).

The above warrants were issued at various times over the last several years in connection with a service agreements, a capital lease agreement, several debt and equity financings and a reseller agreement The Company

<PAGE>

has deemed the fair market value of such warrants, using the Black-Scholes method, to be $822,000, $61,000, $5,700,000, $2,623,000 and $1,900,000, respectively. The Company is amortizing the value of the warrants over the term of the related agreements which range from one to ten years. Amortization expense for the years ended December 31, 1996, 1997 and 1998 was $1,942,000, $1,720,000 and $767,000, respectively. The Company has reserved the amount of shares necessary to meet the exercise of these warrants.

9. Employee Benefit Plans

Retirement Savings Plan

The Company maintains a contributory 401(k) plan that covers substantially all employees. The Company contributes $0.30 for every $1.00 contributed by the participant up to a maximum of 1.5% of the participants' compensation. The Company contributed $45,000, $158,000 and $266,000 to the plan during the years ended December 31, 1996, 1997 and 1998, respectively.

10. Income Taxes

As of December 31, 1998, the Company had federal and state net operating loss carryforwards of approximately $208,000,000 and $138,000,000, respectively. The net operating loss carryforwards will expire at various dates beginning in the years 2003 through 2018, if not utilized.

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes of December 31, 1997 and 1998 are as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1997 <C>	1998 <C>
Deferred tax assets:		
Net operating loss carryforwards	$ 55,000	$ 85,000
Write-off of network equipment	4,000	4,000
Other, net	1,000	3,000
Total deferred tax assets	60,000	92,000
Deferred tax liabilities:		
Other, net	2,000	2,000
Net deferred tax assets	58,000	90,000
Valuation allowance	(58,000)	(90,000)
	$ --	$ --

</TABLE>

The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of net losses since inception and the fact that the market in which the Company competes is intensely competitive and characterized by rapidly changing technology. The Company believes that, based on the currently available evidence, it is more likely than not that the Company will not generate taxable income through 1999, and possibly beyond, and accordingly will not realize the Company's deferred tax assets through 1999 and possibly beyond. The Company will continue to assess the realizability of the deferred tax assets based on actual and forecasted operating results. In addition, the utilization of net operating losses may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

The net valuation allowance increased by approximately $21,000,000 in 1997 and $32,000,000 in 1998.

<PAGE>

11. Related Party Transactions--Other

A former officer of the Company is a majority shareholder of a vendor of the Company. The Company incurred marketing fees to the vendor totaling $2,448,000, $2,600,000 and $1,085,000 in the years ended December 31, 1996, 1997, and 1998, respectively.

12. Contingencies

In late April and early May, 1997, three putative securities class action complaints were filed in the United States District Court, Central District by certain stockholders of Diana Corporation (Diana), the parent corporation of Sattel Communications LLC (Sattel), alleging securities fraud related to plaintiffs' purchase of shares of Diana Common Stock in reliance upon allegedly misleading statements made by defendants, Diana, Sattel and certain of their respective affiliates, officers and directors (Diana Suit). The Company was named as a defendant in the complaint in connection with certain statements made by Diana and officers of Diana related to the Company's purchase of network switching equipment from Diana's Sattel subsidiary. The plaintiffs seek unspecified compensatory damages (See Note 15).

While the ultimate outcome of such litigation is uncertain, the Company believes it has meritorious defenses to the claims and intends to conduct a vigorous defense. An unfavorable outcome in this matters could have a material adverse effect on the Company's financial condition. In addition, even if the ultimate outcomes is resolved in favor of the Company, the defense of such litigation could entail considerable cost and the diversion of efforts of management, either or which could have a material adverse effect on the Company's results of operations.

Sattel Settlement

On April 22, 1997, a complaint was filed in the Los Angeles County, California Superior Court against the Company and other unnamed defendants by Sattel Communications LLC (Sattel). Sattel's complaint alleged that the Company was in breach of an agreement to pay for up to $4.3 million of DSS Switches from Sattel for use in the Company's network and also sought unspecified consequential and punitive damages. On July 11, 1997, the Company settled the complaint with Sattel in the amount of $4.4 million. The Company also purchased 32,986 shares of the Company's common stock held by Sattel on the day after the closing of the offering at the Public Offering price. In August, 1997 the Company made cash payments to Sattel totaling approximately $4.8 million, to satisfy its obligations pursuant to the settlement agreement and the repurchase of common stock. Upon the settlement of the Sattel complaint, the Company recorded $970,000 of other income related to the reversal of previously established reserves.

13. Business Combinations

On February 5, 1998, the Company acquired all of the outstanding stock of InterNex Information Services, Inc. (InterNex). The transaction was accounted for using the purchase method of accounting. The total purchase price of approximately $23.9 million consisted of a $15.5 million cash payment upon closing and the assumption of approximately $8.4 million of InterNex's liabilities (including acquisition costs).

A summary of the purchase price allocation is as follows (in thousands):

<TABLE>

<S>	<C>
Current and other assets	$ 1,348
Computer and telecommunications equipment	4,784
Goodwill	9,496
Other intangible assets	3,080
Write-off of in process technology	5,200
Total purchase price allocation	$23,908

=======

</TABLE>

<PAGE>

CONCENTRIC NETWORK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Goodwill arising from the acquisition is being amortized on a straight-line basis over 5 years. Other intangible assets include developed technology, assembled workforce and customer lists and are being amortized over their useful lives ranging from two to four years.

In May 1998, the Company acquired Delta Internet Services, Inc. ("DeltaNet") in a transaction that was accounted for as a pooling of interests. The Company issued approximately 226,000 shares of its common stock to DeltaNet shareholders in exchange for all outstanding DeltaNet shares. The Company also assumed outstanding DeltaNet options and warrants which were converted to options and warrants to purchase approximately 98,000 and 7,000 shares, respectively, of the Company's common stock. The results of operations of DeltaNet for the period from April 1, 1998 through December 31, 1998 are included in the consolidated results of operations. The Company's historical consolidated financial statements prior to the combination have not been restated to reflect the financial results of DeltaNet as these results are not material. The consolidated results of operations for the year ended December 31, 1998 include an acquisition related charge of $1.3 million primarily related to severance costs, reserves for redundant facilities and assets and professional fees.

In August 1998, the Company acquired all of the outstanding stock of AnaServe, Inc. ("AnaServe"). The transaction was accounted for using the purchase method of accounting. The total purchase price of approximately $13.0 million consisted of a $9.6 million cash payment upon closing and the assumption of approximately $3.4 million of AnaServe's liabilities (including acquisition costs).

A summary of the purchase price allocation is as follows (in thousands):

<TABLE>

<S>	<C>
Current and other assets	$ 467
Computer and telecommunications equipment	497
Goodwill	11,630
Other intangible assets	416
Total purchase price allocation	$13,010

</TABLE>

Goodwill is being amortized over five years. Other intangible assets include developed technology, assembled workforce and customer lists and are being amortized over their useful lives ranging from one to four years.

The following unaudited pro forma information represents the combined results of operations as if the acquisitions of InterNex, DeltaNet and AnaServe had occurred as of the beginning of the periods presented and does not purport to be indicative of what would have occurred had the acquisitions been made as of that date or the results which may occur in the future.

<TABLE>
<CAPTION>

	Year ended December 31, 1996	1997	1998
	(In thousands, except per share data)		
<S>	<C>	<C>	<C>
Pro forma net revenues	$ 25,958	$ 61,424	$ 89,435
Pro forma net loss attributable to common stockholders	(78,769)	(71,351)	(92,967)
Pro forma net loss per share attributable to common stockholders	(15.26)	(7.07)	(6.37)

</TABLE>

The pro forma results include the historical operations of the Company and the historical operations of the acquired businesses adjusted to reflect certain pro forma adjustments, including the amortization of intangible assets, totaling $5.6 million during the years ended December 31, 1996 and 1997, and $1,724,000 during the year ended December 31, 1998. The pro forma results do not include the write-off of purchased research and development of $5.2 million since it is considered a non-recurring adjustment.

<PAGE>

14. Strategic Relationship

In October 1998, the Company entered into a strategic business arrangement (Commitment Agreement) with SBC Communications Inc. (SBC) to integrate Concentric's Internet-based business data services and technology into SBC's "Online Office" portfolio of data products and services for business customers. In connection with this arrangement, SBC agreed to acquire 906,679 shares of Concentric common stock either on the open market or from the Company at a price of $24.15 per share (SBC Financing Agreement). In December 1998, SBC purchased 100,000 shares of the Company's common stock in two open market purchases. The Company also agreed to issue a warrant to SBC to purchase an additional 906,679 shares. The warrant expires three years from the date of issuance and will be exercisable at $21 per share. The Company used the Black-Scholes method to determine the fair market value of the warrant and allocated $1,900,000 of the warrant value to the Commitment Agreement which will be amortized over the life of the Commitment Agreement.

15. Subsequent Event

Public Offering

On January 15, 1999, the Board of Directors authorized the Company to proceed with a public offering of the Company's common stock.

Litigation

On January 24, 1999, the Company agreed in principle to settle the Diana Suit for $750,000. The settlement is contingent upon court approval and certain other conditions.

Equity Investment

On January 22, 1999, the Company purchased approximately $10.0 million of common stock from Covad Communications in a private placement.

SBC Financing Agreement

On January 29, 1999, SBC purchased 806,679 shares of common stock from the Company in connection with the SBC Financing Agreement for net proceeds of approximately $19,500,000 and issued SBC a warrant to purchase 906,679 shares of the Company's common stock at an exercise price of $21.00 per share.

<PAGE>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Certain information required by Part III is omitted from this Report in that the registrant will file a definitive Proxy Statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference.

Item 10. Directors and Officers of the Company

Certain information regarding the directors and officers of the Company is contained herein under Item 1, "Executive Officers and Directors of the Company."

Information regarding directors appearing under the caption "Election of Directors--Directors and Nominees for Director" in the Proxy Statement is hereby incorporated by reference.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is hereby incorporated herein by reference from the section entitled "Election of Directors--Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 is set forth under the caption, "Executive Compensation" in the Company's Proxy Statement, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is set forth under the caption "Security Ownership" in the Company's Proxy Statement, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is set forth under the captions "Compensation Committee Interlocks and Insider Participation" and "Certain Transactions" in the Company's Proxy Statement, which information is incorporated herein by reference.

<PAGE>

PART IV

Item 14. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a) 1. Financial Statements.

See Item 8 above.

2. Financial Statement Schedule.

See Item 14(d) below.

3. Exhibits.

The following exhibits are filed with this Report:

<TABLE>
<CAPTION>

Exhibit Number	Exhibit Title
<C>	<S>
3.1	Form of Amended and Restated Certificate of Incorporation of Registrant. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the Securities and Exchange Commission ("SEC") on July 31, 1997).
3.2	Amended and Restated Bylaws of Registrant. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
3.3	Certificate of Designation of Voting Power, Designation Preferences and Relative, Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of 13 1/2% Series A and Series B Senior Redeemable Exchangeable Preferred Stock, due 2010 of the Registrant. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
4.1	Form of $150,000,000 12 3/4% Senior Notes due 2007. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).
4.2	Form of Warrant to purchase common stock. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-58641), as declared effective by the SEC on August 11, 1998).
10.1	Amended and Restated Registration Rights Agreement, as amended and restated as of August 21, 1996, by and among the Registrant, GS Capital Partners, L.P., Kleiner Perkins Caufield & Byers VII, Comdisco, Inc., Intuit, Inc., certain listed holders of Series C Convertible Preferred Stock, certain listed holders of Common Stock, certain listed holders of Series D Convertible Preferred Stock, and Racal-Datacom, Inc. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.2	Preferred Stock and Warrant Purchase Agreement, dated as of April 20, 1995, by and among the Registrant, GS Capital Partners, L.P., and Kleiner Perkins Caufield & Byers VII and KPCB Information Sciences Zaibatsu Fund 11, as amended. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.3	Form of Director and Officer Indemnification Agreement. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).

</TABLE>

<PAGE>

<TABLE>

<C>	<S>
10.4	1995 Stock Incentive Plan for Employees and Consultants, as amended February 21, 1996. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.5	Amended and Restated 1996 Stock Plan. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.6	1997 Stock Plan. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.7	1997 Employee Stock Purchase Plan. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.8*	Amended and Restated Employee Services and Staffing Agreement, dated June 19, 1997, between the Registrant and Critical Technologies, Inc., as amended on September 30, 1996, and October 23, 1996, including Colocation Services Agreement, dated as of November 1, 1994, between the Registrant and Critical Technologies, Inc. and amendments thereto. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.9*	Internet-Sign Up Wizard Referral and Microsoft Internet Explorer License and Distribution Agreement, dated March 28, 1997, between the Registrant and Microsoft Corporation. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.10*	OEM License Agreement dated July 27, 1995, between the Registrant and Netscape Communications Corporation, as amended by First Amendment, dated January 2, 1996, Second Amendment, effective January 2, 1996, and Third Amendment, dated May 21, 1996. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.11*	"Dial up Client" Agreement, dated August 21, 1995, between the Registrant and Netscape Communications Corporation. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.12*	"Internet Account Server" Participation Agreement, dated as of January 14, 1997, between the Registrant and Netscape Communications Corporation. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.13*	Special Customer Arrangement, dated May 17, 1996, between MCI Telecommunications Corporation and Sattel Communications LLC, as amended by First Amendment, dated July 2, 1996; assigned to Registrant by Assignment and Novation Agreement #2, dated as of August 7, 1996. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.14*	Master Agreement for MCI Enhanced Services, effective November 1, 1996, between the Registrant and MCI Telecommunications Corporation. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.15*	Amended and Restated Employee Services and Staffing Agreement. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by

the SEC on July 31, 1997).
10.16* Amendment No. 3 to Internet Access Services Agreement, dated August 23, 1996, between the Registrant and Intuit Inc. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
</TABLE>

<PAGE>

<TABLE>
<C> <S>

10.17*	Contract for Services, dated June 17, 1996, by and between the Registrant and MFS Telephone, Inc. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.18*	AT&T Contract Tariff Order, dated June 17, 1996, and Addendum of even date therewith. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.19*	Master Lease Agreement Number CON01C Between Concentric Research Corporation and Racal-Datacom, Inc. ("Racal"), dated August 4, 1994, as Supplemented by Letter Agreement, dated March 30, 1995, Between the Corporation and Racal. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.20*	Lease Agreement Number CON04C between Concentric Network Corporation and Racal- Datacom, Inc., dated June 26, 1996. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.21*	Master On-site Maintenance Plan Agreement Number CON02C Between Concentric Research Corporation and Racal-Datacom, Inc., dated August 24, 1994. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.22	Lease Agreement, dated November 1, 1996, effective March 11, 1996, by and between the Registrant and Saginaw Video Associates, d.b.a. Saginaw Conference Center. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.23	Amended and Restated Lease Agreement, dated as of October 7, 1996, between the Registrant and Larry Shackley. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.24*	Internet Access Service Agreement, dated December 11, 1995, effective as of August 1, 1995, between the Registrant and Intuit, Inc., as amended. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.25*	Virtual Private Network Services, dated August 16, 1996, between the Registrant and WebTV Networks, Inc. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.26*	Support Services Agreement, dated March 31, 1997, by and between the Registrant and MCI Telecommunications Corporation. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.27	Note and Warrant Purchase Agreement, dated June 19, 1997, by and between the Registrant and Williams Communications Group, Inc. ("WCG"). (Incorporated by reference from Registrant's Registration

	Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.28	Service Credits Letter Agreement, dated June 19, 1997, by and between the Registrant and WCG. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.29	$1,100,000 Obligation Letter Agreement, dated June 19, 1997, between the Registrant and WCG. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).

</TABLE>

<PAGE>

<TABLE>

<C>	<S>
10.30	Agency Agreement and Distribution Agreement, dated June 19, 1997, between the Registrant and WCG. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.31*	Co-Marketing Service Agreement, dated June 23, 1997 between the Registrant and Netscape Communications, Inc. ("Netscape"). (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.32*	Trademark License Agreement, dated June 23, 1997, between the Registrant and Netscape. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.33*	Software License Order Form, dated June 23, 1997, between the Registrant and Netscape. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.34	Note and Warrant Purchase Agreement, dated June 23, 1997, between the Registrant, Kleiner Perkins, Caufield & Byers VII and KPCB Information Science Zaibatsu Fund VII. (Incorporated by reference from Registrant's Registration Statement on Form S-1 (File No. 333-27241), as amended, declared effective by the SEC on July 31, 1997).
10.35*	Amendment to Virtual Private Network Services Agreement between the Registrant and WebTV Networks, Inc., dated November 1, 1997. (Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, filed with the SEC on November 14, 1997).
10.36	Registration Rights Agreement, dated as of December 18, 1997 between the Registrant and UBS Securities LLC, Bear Stearns & Co., Inc., and Wheat First Securities, Inc. (the "Initial Purchasers"). (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).
10.37	Purchase Agreement, dated as of December 15, 1997 between the Registrant and the Initial Purchasers. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).
10.38	Warrant Agreement, dated as of December 18, 1997, between the Registrant and Chase Manhattan Bank and Trust Company, National Association, as warrant agent. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).
10.39	Warrant Registration Rights Agreement, dated as of December 18, 1997, between the Registrant and the Initial Purchasers. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).

10.40	Escrow Agreement, dated December 18, 1997, between the Registrant and Chase Manhattan Bank and Trust Company, National Association. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-45055), as amended, declared effective by the SEC on March 24, 1998).
10.41	Standard Industrial Lease, dated as of February 17, 1995, by and between Tiara Computer Systems, Inc. and InterNex Information Services, Inc. (Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
10.42	Standard Industrial Lease, dated as of July 25, 1996, by and between San Tomas Investors II and InterNex Information Service, Inc. (Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
10.43	Form of Warrant to purchase common stock. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-58641), as declared effective by the SEC on August 11, 1998).

</TABLE>

<PAGE>

<TABLE>

<C>	<S>
10.44	Purchase Agreement, dated as of June 3, 1998, by and among the Registrant and the Initial Purchasers. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-58641), as declared effective by the SEC on August 11, 1998).
10.45	Registration Rights Agreement, dated as of June 8, 1998, by and among the Registrant and the Initial Purchasers. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-58641), as declared effective by the SEC on August 11, 1998).
10.46	Form of Indenture for Exchange Debentures. (Incorporated by reference from Registrant's Registration Statement on Form S-4 (File No. 333-58641), as declared effective by the SEC on August 11, 1998).
10.47*	Carrier Agreement by and between the Registrant and MCI Telecommunications Corporation, dated August 12, 1998. (Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, filed with the SEC on November 16, 1998).
10.48	Stock Purchase Agreement by and between the Registrant and Southwestern Bell Internet Services, Inc., dated October 19, 1998. (Incorporated by reference from Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, filed with the SEC on November 16, 1998).
10.49*	Amendment Number Four to Virtual Private Services Agreement between the Registrant and WebTV, Inc., dated November 18, 1998. (Incorporated by reference from Registrant's Registration Statement on Form S-3 (File No. 333-71235) filed with the SEC on January 27, 1999).
10.50	Form of 1999 Non-Statutory Stock Option Plan.
21.1+	List of Subsidiaries.
23.1	Consent of Ernst & Young, LLP, Independent Auditors.
24.1+	Power of Attorney (see signature page).
27.1	Financial Data Schedule. (Incorporated by reference to Registrant's Registration Statement on Form S-3 (File No. 333-71235) filed with the SEC January 20, 1999).

</TABLE>

- --------

* Certain information in this exhibit was omitted and filed separately with the SEC pursuant to a confidential treatment request.

\+ Previously filed.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the last quarter of the period covered by this report.

(c) Exhibits.

See item 14(a)(3) above.

(d) Financial Statement Schedules.

Schedule II--Valuation and Qualifying Accounts

<TABLE>
<CAPTION>

Description	Balance at Beginning of Period	Additions Charge to Costs & Expenses	Deductions Uncollectable Accounts Written Off	Balance at End of Period
<S>	<C>	<C>	<C>	<C>
For the period ended December 31, 1998.........	$80,049	$1,155,356	$545,051	$690,354
For the period ended December 31, 1997.........	56,000	40,000	15,951	80,049
For the Period ended December 31, 1996.........	0	56,000	0	56,000

</TABLE>

All other schedules have been omitted because the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements including the notes thereto.

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 8, 1999

CONCENTRIC NETWORK CORPORATION

By: /s/ Henry R. Nothhaft

Henry R. Nothhaft
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>

/s/ Henry R. Nothhaft Henry R. Nothhaft	President and Chief Executive Officer (Principal Executive Officer), Director, Chairman of the Board	February 8, 19
* Michael F. Anthofer	Chief Financial Officer (Principal Financial and Accounting Officer)	February 8, 19
* Vinod Khosla	Director	February 8, 19
* Franco Regis	Director	February 8, 19
* Gary E. Rieschel	Director	February 8, 19
* S. Miller Williams	Director	February 8, 19
*By: /s/ Henry R. Nothhaft Henry R. Nothhaft	Director	February 8, 19

</TABLE>

78

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-10.50
<SEQUENCE>2
<DESCRIPTION>FORM OF 1999 NON-STATUTORY STOCK OPTION PLAN
<TEXT>

<PAGE>

EXHIBIT 10.50

CONCENTRIC NETWORK CORPORATION

1999 NONSTATUTORY STOCK OPTION PLAN

1. Purposes of the Plan. The purposes of this Nonstatutory Stock Option Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

Options granted under the Plan will be Nonstatutory Stock Options.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Options are, or will be, granted under the Plan.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

(f) "Common Stock" means the Common Stock of the Company.

(g) "Company" means Concentric Network Corporation, a Delaware corporation.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.
<PAGE>

(k) "Employee" means any person, including Officers, employed by the Company or any Parent or Subsidiary of the Company. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the last market trading day prior to the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(n) "Notice of Grant" means a written or electronic notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.

(o) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(p) "Option" means a nonstatutory stock option granted pursuant to the Plan, that is not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(q) "Option Agreement" means an agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(r) "Option Exchange Program" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.

<PAGE>

(s) "Optioned Stock" means the Common Stock subject to an Option.

(t) "Optionee" means the holder of an outstanding Option granted under the Plan.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Plan" means this 1999 Nonstatutory Stock Option Plan.

(w) "Service Provider" means an Employee including an Officer, Consultant or Director.

(x) "Share" means a share of the Common Stock, as adjusted in accordance with Section 12 of the Plan.

(y) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan. Subject to the provisions of Section 12 of the Plan, the maximum aggregate number of Shares which may be optioned and sold under the Plan is five hundred fifty thousand (550,000) Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Option Exchange Program, the unpurchased Shares which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated).

4. Administration of the Plan.

(a) Administration. The Plan shall be administered by (i) the Board or (ii) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock;

(ii) to select the Service Providers to whom Options may be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

<PAGE>

(iv) to determine the number of shares of Common Stock to be covered by each Option granted hereunder;

(v) to approve forms of agreement for use under the Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(viii) to institute an Option Exchange Program;

(ix) to construe and interpret the terms of the Plan and awards granted pursuant to the Plan;

(x) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(xi) to modify or amend each Option (subject to Section 14(b) of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options longer than is otherwise provided for in the Plan;

(xii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option previously granted by the Administrator;

(xiii) to determine the terms and restrictions applicable to Options;

(xiv) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(xv) to make all other determinations deemed necessary or advisable for administering the Plan.

-4-

<PAGE>

(c) <u>Effect of Administrator's Decision.</u> The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options.

5. <u>Eligibility.</u> Options may be granted to Service Providers.

6. <u>Limitation.</u> Neither the Plan nor any Option shall confer upon an Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall they interfere in any way with the Optionee's right or the Company's right to terminate such relationship at any time, with or without cause.

7. <u>Term of Plan.</u> The Plan shall become effective upon its adoption by the Board. It shall continue in effect for ten (10) years, unless sooner terminated under Section 14 of the Plan.

8. <u>Term of Option.</u> The term of each Option shall be stated in the Option Agreement.

9. <u>Option Exercise Price and Consideration.</u>

(a) <u>Exercise Price.</u> The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator.

(b) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. Such consideration may consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

<PAGE>

(vi) a reduction in the amount of any Company liability to the Optionee, including any liability attributable to the Optionee's participation in any Company-sponsored deferred compensation program or arrangement;

(vii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or

(viii) any combination of the foregoing methods of payment.

10. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 12 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Relationship as a Service Provider. If an Optionee ceases to be a Service Provider, other than upon the Optionee's death or Disability, the Optionee may exercise his or her Option, but only within such period of time as is specified in the Option Agreement, and only to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for three (3) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

<PAGE>

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, on the date of termination, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. If an Optionee dies while a Service Provider, the Option may be exercised within such period of time as is specified in the Option Agreement (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant), by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance, but only to the extent that the Option is vested on the date of death. In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. If, at the time of death, the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. The Option may be exercised by the executor or administrator of the Optionee's estate or, if none, by the person(s) entitled to exercise the Option under the Optionee's will or the laws of descent or distribution. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted based on such terms and conditions as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

11. Non-Transferability of Options. Unless determined otherwise by the

----
Administrator, an Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option transferable, such Option shall contain such additional terms and conditions as the Administrator deems appropriate.

12. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock

<PAGE>

dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Optionee as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Optionee to have the right to exercise his or her Option until ten (10) days prior to such transaction as to all of the Optioned Stock covered thereby, including Shares as to which the Option would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option applicable to any Shares purchased upon exercise of an Option shall lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Option will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the Option, the Optionee shall fully vest in and have the right to exercise the Option as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee in writing or electronically that the Option shall be fully vested and exercisable for a period of fifteen (15) days from the date of such notice, and the Option shall terminate upon the expiration of such period. For the purposes of this paragraph, the Option shall be considered assumed if, following the merger or sale of assets, the option or right confers the right to purchase or receive, for each Share of Optioned Stock, immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

<PAGE>

13. Date of Grant. The date of grant of an Option shall be, for all purposes, the date on which the Administrator makes the determination granting such Option, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to options granted under the Plan prior to the date of such termination.

15. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

16. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

-9-

<PAGE>

CONCENTRIC NETWORK CORPORATION

1999 NONSTATUTORY STOCK OPTION PLAN

STOCK OPTION AGREEMENT

Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

[Optionee's Name and Address]

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number	______________________
Date of Grant	______________________
Vesting Commencement Date	______________________
Exercise Price per Share	$_____________________
Total Number of Shares Granted	______________________
Total Exercise Price	$_____________________
Type of Option:	Nonstatutory Stock Option
Term/Expiration Date:	______________________

Vesting Schedule:

Subject to the Optionee continuing to be a Service Provider on such dates, this Option shall vest and become exercisable in accordance with the following schedule:

[25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/48th of the Shares subject to the Option shall vest upon the last day of each month thereafter.]

Termination Period:

This Option may be exercised for _____ [days/months] after Optionee ceases to be a Service Provider. Upon the death or Disability of the Optionee, this Option may be exercised for such longer period as provided in the Plan. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.
<PAGE>

II. AGREEMENT

1. Grant of Option. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

2. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be completed by the Optionee and delivered to [Title]. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

3. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(d) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

-2-

<PAGE>

4. Non-Transferability of Option. This Option may not be transferred in
----
any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. Term of Option. This Option may be exercised only within the term set
----
out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. Tax Consequences. Some of the federal tax consequences relating to this
----
Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercising the Option. The Optionee may incur regular federal
----
income tax liability upon exercise of an NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(b) Disposition of Shares. If the Optionee holds NSO Shares for at
----
least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

7. Entire Agreement; Governing Law. The Plan is incorporated herein by
----
reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

8. NO GUARANTEE OF CONTINUED SERVICE. OPTIONEE ACKNOWLEDGES AND AGREES

THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL,

-3-

<PAGE>

AND SHALL NOT INTERFERE WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE	CONCENTRIC NETWORK CORPORATION
- --------------------------------	----------------------------------
Signature	By
- --------------------------------	----------------------------------
Print Name	Title
- --------------------------------	
Residence Address	
- --------------------------------	

<PAGE>

EXHIBIT A

CONCENTRIC NETWORK CORPORATION

1999 NONSTATUTORY STOCK OPTION PLAN

EXERCISE NOTICE

Concentric Network Corporation

[address]

Attention: [Title]

1. Exercise of Option. Effective as of today, ________________, _____, the undersigned ("Purchaser") hereby elects to purchase ______________ shares (the "Shares") of the Common Stock of Concentric Network Corporation (the "Company") under and pursuant to the 1999 Nonstatutory Stock Option Plan (the "Plan") and the Stock Option Agreement dated ______, ___ (the "Option Agreement"). The purchase price for the Shares shall be $_______, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the

full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 12 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with
<PAGE>

the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. Entire Agreement; Governing Law. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of California.

Submitted by:	Accepted by:
PURCHASER	CONCENTRIC NETWORK CORPORATION
Signature	By
Print Name	Title
	Date Received
Address:	Address:

-2-

</TEXT>
</DOCUMENT>
<DOCUMENT>
<TYPE>EX-23.1
<SEQUENCE>3
<DESCRIPTION>CONSENT OF ERNST & YOUNG, LLP
<TEXT>

<PAGE>

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG, LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the Incentive Stock Option Plan, 1995 Stock Incentive Plan for Employees and Consultants Option Agreements, Amended and Restated 1996 Stock Plan, 1997 Stock Plan and 1997 Employee Stock Purchase Plan and in the Registration Statement (Form S-8) pertaining to the 1996 Stock Option Plan, Stock Option Agreement and Warrant Agreement of Delta Internet Services, Inc. and in the related Prospectuses, of Concentric Network Corporation of our report dated January 25, 1999 (except for Note 15, as to which the date is February 1, 1999), with respect to the consolidated financial statements and financial statement schedule of Concentric Network Corporation included in this annual report (Form 10-K/A) for the year ended December 31, 1998.

/s/ Ernst & Young LLP

San Jose, California
February 1, 1999
</TEXT>
</DOCUMENT>
</SEC-DOCUMENT>
-----END PRIVACY-ENHANCED MESSAGE-----

EXHIBIT 3

MANAGERIAL AND TECHNICAL QUALIFICATIONS

Concentric's expansive business plan will be driven by the technical and managerial expertise of its investors and strategic partners. In order to manage and protect their substantial investments in Concentric, the investors and strategic partners will ensure that Concentric's key personnel have the managerial and technical expertise to make it a successful endeavor. Each of Concentric's strategic partners are major investment and telecommunications firms with a proven track record of identifying excellent and capable management for successful telecommunications companies around the world. Through its partnerships, Concentric has enhanced its network and broadened its products, solutions, and services. By combining its resources and expertise with that of its partners, Concentric can offer customers the advantage of more comprehensive, integrated, and powerful solutions. Brief descriptions of Concentric's officers' and directors' experiences in telecommunications are attached hereto.

TELECOMMUNICATIONS AND MANAGERIAL EXPERIENCE

BIOGRAPHIES OF KEY PERSONNEL IN SUPPORT OF THE APPLICATION OF Concentric Carrier Services, Inc.

Henry "Hank" Nothhaft - Chief Executive Officer

Mr. Nothhaft joined the company as President and Chief Executive Officer in May 1995, becoming a Director of the Company in August 1995 and Chairman of the Board in January 1998. From 1989 to 1994, Mr. Nothhaft was President, Chief Executive Officer and a Director of David Systems, Inc., a networking company. From 1983 to 1989, he held various positions with DSC Communications Corporation, including President of the Business Network Systems Group, President of Digital Switch Corporation subsidiary, and Senior Vice President of Marketing, in addition to serving as a Member of the Board of Directors. From 1979 to 1983, Mr. Nothhaft was Vice President of Domestic Marketing and Vice President of Sales for GTE Telenet Communications Corporation (now Sprint). Mr. Nothhaft serves on the Boards of Directors of Vertical Networks the telecommunications advisory board of Compaq Computer, Asia Online Ltd., and Santa Clara Council Boy Scouts of America. He has an M.B.A. in Information Systems Technology from George Washington University and a B.S. degree from the U.S. Naval Academy, and is a former officer in the U.S. Marine Corps.

Michael F. Anthofer - Chief Financial Officer

Mr. Anthofer joined the company in January 1996 as Vice President and Chief Financial Officer and became a Senior Vice President in November 1996. From January 1991 to December 1995, Mr. Anthofer served as Executive Vice President and Chief Financial Officer, as well as a member of the Board of Directors, of Shared Resource Exchange, Inc., a privately held digital switching platform and PBX supplier. Prior to 1991, he held various executive positions at DSC Communications Corporation, including Vice President, Corporate Business Planning, Vice President, Business Network Group, and Vice President, Network Products Group. Mr. Anthofer has an M.B.A. and a B.S. degree from the University of California, Berkeley.

EXHIBIT 4

ILLUSTRATIVE TARIFF

CONCENTRIC CARRIER SERVICES, INC.

REGULATIONS AND SCHEDULE OF INTRASTATE CHARGES

APPLYING TO END-USER COMMUNICATIONS SERVICES

WITHIN THE STATE OF FLORIDA

This tariff applies to the end-user telecommunications services furnished by Concentric Carrier Services, Inc. ("Carrier" "Company" or "Concentric") between one or more points in the State of Florida. This tariff is on file with the Florida Public Service Commission and copies may be inspected, during normal business hours, at Carrier's principal place of business, 1400 Parkmoor Avenue, San Jose, CA 95126.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

CHECK SHEET

The sheets of this tariff are effective as of the date shown. The original and revised sheets named below contain all changes from the original tariff and are in effect on the date shown.

Sheet	Revision	Sheet	Revision	Sheet	Revision	Sheet	Revision
1	Original	31	Original	61	Original	91	Original
2	Original	32	Original	62	Original	92	Original
3	Original	33	Original	63	Original	93	Original
4	Original	34	Original	64	Original	94	Original
5	Original	35	Original	65	Original	95	Original
6	Original	36	Original	66	Original	96	Original
7	Original	37	Original	67	Original	97	Original
8	Original	38	Original	68	Original	98	Original
9	Original	39	Original	69	Original	99	Original
10	Original	40	Original	70	Original	100	Original
11	Original	41	Original	71	Original	101	Original
12	Original	42	Original	72	Original	102	Original
13	Original	43	Original	73	Original	103	Original
14	Original	44	Original	74	Original	104	Original
15	Original	45	Original	75	Original	105	Original
16	Original	46	Original	76	Original	106	Original
17	Original	47	Original	77	Original	107	Original
18	Original	48	Original	78	Original	108	Original
19	Original	49	Original	79	Original	109	Original
20	Original	50	Original	80	Original	110	Original
21	Original	51	Original	81	Original	111	Original
22	Original	52	Original	82	Original	112	Original
23	Original	53	Original	83	Original	113	Original
24	Original	54	Original	84	Original	114	Original
25	Original	55	Original	85	Original	115	Original
26	Original	56	Original	86	Original	116	Original
27	Original	57	Original	87	Original	117	Original
28	Original	58	Original	88	Original	118	Original
29	Original	59	Original	89	Original	119	Original
30	Original	60	Original	90	Original	120	Original

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

CHECK SHEET

Sheet	Revision	Sheet	Revision	Sheet	Revision	Sheet	Revision
121	Original	151	Original	181	Original		
122	Original	152	Original	182	Original		
123	Original	153	Original	183	Original		
124	Original	154	Original	184	Original		
125	Original	155	Original	185	Original		
126	Original	156	Original				
127	Original	157	Original				
128	Original	158	Original				
129	Original	159	Original				
130	Original	160	Original				
131	Original	161	Original				
132	Original	162	Original				
133	Original	163	Original				
134	Original	164	Original				
135	Original	165	Original				
136	Original	166	Original				
137	Original	167	Original				
138	Original	168	Original				
139	Original	169	Original				
140	Original	170	Original				
141	Original	171	Original				
142	Original	172	Original				
143	Original	173	Original				
144	Original	174	Original				
145	Original	175	Original				
146	Original	176	Original				
147	Original	177	Original				
148	Original	178	Original				
149	Original	179	Original				
150	Original	180	Original				

TABLE OF CONTENTS

EXPLANATION OF SYMBOLS

A revision of a Tariff sheet is coded to designate the type of change from the previous revision. These symbols, which appear in the right-hand margin of the sheet, are used to signify:

C - Change In Regulation

D - Discontinued Rate Or Regulation

I - Increased Rate

M - Text Relocated Without Change

N - New Rate Or Regulation

R - Reduction In A Rate Or Charge

S - To Signify A Reissued Matter

T - Change In Text But No Change In Rate Or Regulation

Z - Correction

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

EXPLANATION OF TERMS

AGENCY

For 911 or E911 service, the government agency(ies) designated as having responsibility for the control and staffing of the emergency report center.

ALTERNATE ROUTING ("AR")

Allows E911 calls to be routed to a designated alternate location if (1) all E911 exchange lines to the primary PSAP (see definition of PSAP below) are busy, or (2) the primary PSAP closes for a period (night service).

AUTHORIZED USER

A person, corporation or other entity who is authorized by the Company's customer to utilize service provided by the Company to the customer. The customer is responsible for all charges incurred by an Authorized User.

ATTENDANT

An operator of a PBX console or telephone switchboard.

AUTOMATIC LOCATION IDENTIFICATION ("ALI")

The name and address associated with the calling party's telephone number (identified by ANI as defined below) is forwarded to the PSAP for display. Additional telephones with the same number as the calling party's (secondary locations, off premises, etc.) will be identified with the address of the telephone number at the main location.

AUTOMATIC NUMBER IDENTIFICATION ("ANI")

A system whereby the calling party's telephone number is identified and sent forward with the call record for routing and billing purposes. E911 Service makes use of this system.

EXPLANATION OF TERMS (Cont'd)

CALL INITIATION

The point in time when the exchange network facility are initially allocated for the establishment of a specific call.

CALL TERMINATION

The point in time when the exchange network facility allocated to a specific call is released for reuse by the network.

CENTRAL OFFICE

An operating office of the Company where connections are made between telephone exchange lines.

CENTRAL OFFICE LINE

A line providing direct or indirect access from a telephone or switchboard to a central office. Central office lines subject to PBX rate treatment are referred to as central office trunks.

CHANNEL

A point-to-point bi-directional path for digital transmission. A channel may be furnished in such a manner as the Company may elect, whether by wire, fiber optics, radio or a combination thereof and whether or not by means of single physical facility or route. One 1.544 Mbps Service is equivalent to 24 channels.

COMPANY

Concentric Carrier Services, Inc. unless otherwise clearly indicated from the context.

COMMISSION

Florida Public Service Commission.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

EXPLANATION OF TERMS (Cont'd)

CONVERSION

Conversion refers to the point when the customer converts or cuts over to Concentric service. If the customer applies for blocking in their initial request for service with Concentric, there is no additional $10.00 non-recurring charge for the blocking piece. If a customer applies for the blocking charge at some point in the future after the customer had been cutover/converted to Concentric, a $10.00 non-recurring charge applies.

CUSTOMER

The person, firm, corporation, or other entity which orders service pursuant to this Tariff and utilizes service provided under Tariff by the Company. A customer is responsible for the payment of charges and for compliance with all terms of the Company's Tariff.

CUSTOMER "DIALED" PER CALL OPERATOR SERVICE

A billing arrangement whereby the originating caller may bill charges for a call to the called party, provided the called party agrees to accept the charges. The terms and conditions of the called party's local exchange company apply to payment arrangements for Collect Billed Customer Dialed Calls.

CUSTOMER PREMISES EQUIPMENT ("CPE")

Equipment provided by the customer for use with the Company's services. CPE can include a station set, facsimile machine, key system, PBX, or other communication system.

DEFAULT ROUTING ("DR")

When an incoming E911 call cannot be selectively routed due to an ANI failure, garbled digits or other causes, such incoming calls are routed from the E911 Control Office to a default PSAP. Each incoming E911 facility group to the Control Office is assigned to a designated default PSAP.

DIAL PULSE ("DP")

The pulse type employed by a rotary dial station set.

EXPLANATION OF TERMS (Cont'd)

DIRECT INWARD DIAL ("DID")

A service attribute that routes incoming calls directly to stations, by-passing a central answer point.

DIRECT OUTWARD DIAL ("DOD")

A service attribute that allows individual station users to access and dial outside numbers directly.

DUAL TONE MULTI-FREQUENCY ("DTMF")

The pulse type employed by tone dial station sets. (Touch tone)

E911 SERVICE AREA

The geographic area in which the government agency will respond to all E911 calls and dispatch appropriate emergency assistance.

E911 CUSTOMER

A governmental agency that is the customer of record and is responsible for all negotiations, operations and payment of bills in connection with the provision of E911 service.

EXCHANGE

An area, consisting of one or more central office districts, within which a call between any two points is a local call.

EXCHANGE ACCESS LINE

A central office line furnished for direct or indirect access to the exchange system.

EXPLANATION OF TERMS (Cont'd)

EXCHANGE SERVICE

The provision to the subscriber of access to the exchange system for the purpose of sending and receiving calls. This access is achieved through the provision of a central office line (exchange access line) between the central office and the subscriber's premises.

FINAL ACCOUNT

A customer whose service has been disconnected who has outstanding charges still owed to the Company.

FLAT RATE SERVICE

The type of exchange service provided at a monthly rate with an unlimited number of calls within a specified primary calling area.

EXPLANATION OF TERMS (Cont'd)

HANDICAPPED PERSON

A person who is legally blind, visually handicapped or physically handicapped, under the following definitions from the Federal Register (Vol. 35 #126 dated June 30, 1970).

Legally Blind - a person whose visual acuity is 20/200 or less in the better eye with correcting glasses, or whose widest diameter of visual field subtends an angular distance no greater than 20 degrees.

Visually Handicapped - a person whose visual disability, with correction and regardless of optical measurement with respect to legal blindness, are certified as unable to read normal printed material.

Physically Handicapped - a person who is certified by competent authority as unable to read or use ordinary printed materials as a result of physical limitation, or a person whose disabling condition causes difficulty with hand and finger coordination and use of a coin telephone.

The term "Handicapped Person", when used in connection with a person having a speech or hearing impairment which requires that they communicate over telephone facilities by means other than voice is defined below:

Hearing - a person with binaural hearing impairment of 60% or higher on the basis of the procedure developed by the American Academy of Otolaryngology (A.A.O.) as set forth in "Guide for Conservation of Hearing in Noise" 38-43, A.A.O., 1973; "guides to the Evaluation of Permanent Impairment" 103-107, American Medical Association, 1971.

Speech - a person with 65% or higher of impairment on the basis of the procedure recommended by the American Medical Association's Committee on Rating of Mental and Physical Impairment to evaluate speech impairment as to three categories: audibility, intelligibility and functional efficiency, as set forth in "Guides to the Evaluation of Permanent Impairment" 109-III, American Medical Association, 1971.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

EXPLANATION OF TERMS (Cont'd)

INTERFACE

That point on the premises of the subscriber at which provision is made for connection of facilities provided by someone other than the Company to facilities provided by the Company.

INTERRUPTION

The inability to complete calls, either incoming or outgoing or both, due to Company facilities malfunction or human errors.

LATA

Local Access and Transport Area. The area within which the Company provides local and long distance ("intraLATA") service. For call to numbers outside the area ("interLATA") service is provided by long distance companies.

LINK

The physical facility from the network interface on an end-user's or carrier's premises to the point of interconnection on the main distribution frame of the Company's central office.

LOCAL CALL

A call which, if placed by a customer over the facilities of the Company, is not rated as a toll call.

LOCAL CALLING AREA

The area, consisting of one or more central office districts, within which a subscriber for exchange service may make telephone calls without a toll charge.

LOCAL SERVICE

Telephone exchange service within a local calling area.

LOOP START

Describes the signaling between the terminal equipment or PBX/key system interface and the Company's switch. It is the signal requesting service.

EXPLANATION OF TERMS (Cont'd)

LOOPS

Segments of a line that extend from the serving central office to the originating and to the terminating point.

MESSAGE RATE SERVICE

A type of exchange service provided at a monthly rate with an additional charge for local calling based on the usage of the local network. One completed call is equal to one message.

MOVE

The disconnection of existing equipment at one location and reconnection of the same equipment at a new location in the same building or in a different building on the same premises.

MULTILINE HUNT

A method of call signaling by which a call placed to one number is subsequently routed to one or more alternative numbers when the called number is busy.

ON-NET

Telecommunications services which are transported exclusively over facilities installed by the Company rather than the facilities of another carrier.

PERSON TO PERSON

A per call charge that applies in addition to long distance usage charges for calls placed with the assistance of a Company operator to a particular party at the destination number. This charge applies regardless of billing arrangement, including, but not limited to, billing to the originating line, a Company calling card, commercial credit card, collect, by deposit of coins in pay telephones, or to a third party. This charge does not apply unless the specified party or an acceptable substitute is available.

PORT

A connection to the switching network with one or more voice grade communications channels, each with a unique network address (telephone number) dedicated to the customer. A port connects a link to the public switched network.

EXPLANATION OF TERMS (Cont'd)

PRIVATE BRANCH EXCHANGE SERVICE ("PBX")

Service providing facilities for connecting central office trunks and tie lines to PBX stations, and for interconnecting PBX station lines by means of a switchboard or dial apparatus.

RATE CENTER

A geographic reference point with specific coordinates on a map used for determining mileage when calculating changes.

REFERRAL PERIOD

The time frame, during which calls to a number that has been changed, will be sent to a recording which will inform the caller of the new number.

SELECTIVE ROUTING ("SR")

A feature that routes an E911 call from a Central Office to the designated primary PSAP based upon the identified number of the calling party.

TOLL CALL

Any call extending beyond the local exchange of the originating caller which is rated on a toll schedule by the Company.

STATION TO STATION

A per call charge that applies in addition to long distance usage charges for non-Person-to-Person calls placed with the assistance of a Company operator. This charge applies regardless of billing arrangement, including, but not limited to, billing to the originating line, a Company calling card, commercial credit card, collect, by deposit of coins in pay telephones, or to a third party.

THIRD PARTY BILLED

A billing arrangement whereby charges for a call may be billed to a telephone number that is different from the calling number and the called number. The terms and conditions of the third party's local exchange company apply to payment arrangements for Third Party Billed calls.

1 - APPLICATION OF TARIFF

1.1 Application of Tariff

A. This tariff contains the regulations and rates applicable to intrastate local exchange telecommunications services provided by Carrier for telecommunications between points within the State of Florida. Carrier's services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff.

B. The rates and regulations contained in this tariff apply only to the services furnished by Carrier and do not apply, unless otherwise specified, to the lines, facilities, or services provided by an interexchange telephone company or other common carrier for use in accessing the services of Carrier.

C. The Subscriber is entitled to limit the use of Carrier's services by Users at the Subscriber's facilities, and may use other common carriers in addition to or in lieu of Carrier.

D. At the option of the Company, service may be offered on a contract basis to meet specialized requirements of the Customer not contemplated in this tariff as approved by the Florida Public Service Commision. The terms of each contract shall be mutually agreed upon between the Customer and Company and may include discounts off of rates contained herein, waiver of recurring or nonrecurring charges, charges for specially designed and constructed services not contained in the Company's general service offerings, or other customized features. The terms of the contract may be based partially or completely on the term and volume commitment, type of originating or terminating access, mixture of services or other distinguishing features. Service shall be available to all similarly situated Customers for a fixed period of time following the initial offering for the first contract Customer as specific in each individual contract. The terms and rates of each shall be filed with the Florida Public Service Commission for tariff approval.

2 - GENERAL RULES AND REGULATIONS

2.1 USE OF FACILITIES AND SERVICE

2.1.1 Undertaking of the Company

The Company shall be responsible only for the installation, operation and maintenance of service that it provides and does not undertake to transmit messages under this tariff.

Services provided under this tariff are provided 24 hours a day, seven days per week, unless otherwise specified in applicable sections of this tariff.

2.1.2 Obligation of the Company

In furnishing facilities and service, the Company does not undertake to transmit messages, but furnishes the use of its facilities to its customers for communications. The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the State of Florida.

A. The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

B. The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

The Company's obligation to furnish facilities and service is dependent upon its ability (a) to secure and retain, without unreasonable expense, suitable facilities and rights for the construction and maintenance of the necessary circuits and equipment; (b) to secure and retain, without unreasonable expense, suitable space for its plant and facilities in the building where service is or will be provided to the customer; or (c) to secure reimbursement of all costs where the owner or operator of a building demands relocation or rearrangement of plant and facilities used in providing service therein.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.2 Obligation of the Company (Cont'd)

The Company shall not be required to furnish, or continue to furnish, facilities or service where the circumstances are such that the proposed use of the facilities or service would tend to adversely affect the Company's plant, property or service.

The Company reserves the right to refuse an application for service made by a present or former customer who is indebted to the Company for service previously rendered pursuant to this Tariff until the indebtedness is satisfied.

2.1.3 Use of Service

A. Carrier's services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services.

B. The use of Carrier's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

C. The use of Carrier's services without payment for service or attempting to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.

D. Carrier's services are available for use twenty-four (24) hours per day, seven (7) days per week.

E. Carrier does not transmit messages pursuant to this tariff, but its services may be used for that purpose.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.3 Use of Service (Cont'd)

F. Carrier's services may be denied for nonpayment of charges or for other violations of this tariff.

G. Carrier's services may be denied for any use by Customer that is illegal, or poses an undue risk or liability to Carrier, or is obtained through fraud or willful misrepresentation.

H. The Customer obtains no property right or interest in the use of any specific type of facility, service, equipment, number, process, or code. All right, title and interest to such items remain, at all times, solely with the Company.

I. Recording of telephone conversations of service provided by the Company under this tariff is prohibited except as authorized by applicable federal, state and local laws.

J. Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the Customer's option. The Customer remains solely responsible for all use of service ordered by it or billed to its account(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The Customer may advise its customers that a portion of its service is provided by the Company, but the Customer shall not represent that the Company jointly participates with the Customer in the provision of the service.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.3 Use of Service (Cont'd)

K. PROHIBITED USES

(1) The services the Company offers shall not be used for any unlawful purpose or for any use as to which Customer has not obtained all governmental approvals, authorization, licenses, consents and permits required to be obtained by the Customer with respect hereto.

(2) The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to demonstrate that their use of the Company offerings complies with relevant laws, regulations, policies, orders, and decisions.

(3) The Company may require a Customer to immediately shut down its transmission of signals if said transmission is causing interference to others.

(4) A Customer may not use the services so as to interfere with or impair service over any facilities and associated equipment, or so as to impair the privacy of any communications over such facilities and associated equipment.

(5) Customer use of any service obtained from other service providers by the Company and resold to Customer shall also be subject to any applicable restrictions in the underlying providers' publicly available tariffs.

(6) The services of the Company shall not be used to transmit impermissible content.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.4 Limitations

A. Service is offered subject to the availability of the necessary facilities and/or equipment and subject to the provisions of this tariff. The Company may decline applications for service to or from a location where the necessary facilities or equipment are not available. The Company may discontinue furnishing service in accordance with the terms of this tariff.

B. The Company reserves the right to discontinue or limit service when necessitated by conditions beyond its control (examples of these conditions are more fully set forth elsewhere in this tariff), or when service is used in violation of provisions of this tariff or the law.

C. The Company does not undertake to transmit messages, but offers the use of its service when available, and, as more fully set forth elsewhere in this tariff, shall not be liable for errors in transmission or for failure to establish connections.

D. The Company reserves the right to discontinue service, limit service, or to impose requirements as required to meet changing regulatory or statutory rules and standards, or when such rules and standards have an adverse material affect on the business or economic feasibility of providing service, as determined by the Company in its reasonable judgment.

E. The Company reserves the right to refuse an application for service made by a present or former Customer who is indebted to the Company for service previously rendered pursuant to this Tariff until the indebtedness is satisfied.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.5 Customer-Authorized Use

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the Customer's option. The Customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use. The Customer may advise its customers that a portion of its service is provided by the Company, but the Customer shall not represent that the Company jointly participates with the Customer in the provision of the service.

2.1.6 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition (subject to reasonable wear and tear). The Customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the Customer's premises, including loss or damage caused by agents, employees or independent contractors of the Customer through any negligence.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.7 Minimum Use Contracts

The Company may offer services that require a minimum use guarantee ("MUG"). The Customer agrees to pay the minimum amount per period agreed to upon commencement of service. Customers falling below their MUG will be billed for the minimum amount due per period pursuant to the MUG agreement (even though this is below their actual usage amount).

Should the Customer choose to terminate a MUG agreement prior to its expiration date, the Customer will be liable for the minimum usage requirements contained in the agreement multiplied by the number of months remaining in the term, unless, with the Company's approval, the Customer converts to another Company service with equal or greater term and minimum usage commitments. If no minimum usage requirement is specified in the agreement, upon early termination of Customer's agreement, Customer will be liable for its monthly average usage (calculated over the last three full months immediately preceding the date of termination) multiplied by the number of months remaining in the term.

The minimum billing liability for any service under this section is one month. Subsequent periods shall be for additional one-month increments unless otherwise specified.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability

A. The liability of the Company for damages arising out of the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or arising out of the failure to furnish the service, whether caused by acts or omission, shall be limited to the extension of allowances for interruption as set forth in this tariff. The extension of such allowances for interruption shall be the sole remedy of the Customer and the sole liability of the Company. The Company will not be liable for any direct, indirect, incidental, special, consequential, exemplary or punitive damages to Customer as a result of any Company service, equipment or facilities, or the acts or omissions or negligence of the Company's employees or agents.

B. The Company shall not be liable for any delay or failure of performance or equipment due to causes beyond its control, including but not limited to: acts of God, fire, flood, explosion or other catastrophes; any law, order, regulation, direction, action, or request of the United States Government, or of any other government, including state and local governments having or claiming jurisdiction over the Company, or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of these federal, state, or local governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; unavailability of rights-of-way or materials; or strikes, lock-outs, work stoppages, or other labor difficulties.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

C. The Company shall not be liable for any act or omission of any entity furnishing to the Company or to the Company's Customers facilities or equipment used for or with the services the Company offers.

D. The Company shall not be liable for any damages or losses due to the fault or negligence of the Customer or due to the failure or malfunction of Customer-provided equipment or facilities.

E. The Company shall not be liable for the claims of vendors supplying equipment to Customers of the Company that may be installed at the premises of the Company nor shall the Company be liable for the performance of said vendor or vendor's equipment.

F. The Company does not guarantee nor make any warranty with respect to installations it provides for use in an explosive atmosphere. The Customer indemnifies and holds the Company harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted, or asserted by any other party or person(s), and for any loss, damage, or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of any installation so provided. The Company reserves the right to require each Customer to sign an agreement acknowledging acceptance of the provisions of this section as a condition precedent to such installations.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

G. The Company shall not be liable for any damages resulting from delays in meeting any service date due to delays resulting from normal construction procedures. Such delays shall include, but not be limited to, delays in obtaining necessary regulatory approvals for construction, delays in obtaining right-of-way approvals, and delays in actual construction work.

H. The Company is not liable for any defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof, unless such defacement or damage is caused by negligence or willful misconduct of the Company's agents or employees.

I. The Company shall not be liable for any damages whatsoever associated with service, facilities, or equipment that the Company does not furnish or for any act or omission of Customer or any other entity furnishing facilities or equipment used for or in conjunction with the Company's service.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

J. The Company is not liable for any claims for loss or damages involving:

(1) Breach in the privacy or security of communications transmitted over the Company's facilities;

(2) Injury to property or injury or death to persons, including claims for payments made under Worker's Compensation law or under any plan for employee disability or death benefits arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected or to be connected to the Company's facilities;

(3) Any representations made by Company employees that do not comport, or that are inconsistent, with the provisions of this tariff;

(4) Any act or omission in connection with the provision of 911, E911 or similar services;

(5) Any noncompletion of calls due to network busy conditions;

(6) Unauthorized use of the Customer's equipment or facilities that interconnect with Company's facilities, including usage such as, but not limited to, unauthorized calls, and toll or usage fraud; and

(7) Any placement of calls from Customer's premises, with or without the Customer's equipment, which are transmitted through the Company's network.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

K. The Company shall be indemnified, defended held harmless by the Customer against any claim, loss, or damage arising from Customer's use of services, involving claims for libel, slander, invasion of privacy, or infringement of copyright arising from the Customer's own communications.

(1) The Company shall be indemnified, defended and held harmless by the Customer or end user from and against any and all claims, loss, demands, suits, expense, or other action or any liability whatsoever for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, including environmental contamination, whether owned by the Customer or by any other party, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, presence, condition, location, use or removal of any Company or Customer equipment or facilities or service provided by the Company.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

K. (Cont'd)

(2) The Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or nonpreemptibility as may be provided by the other entities.

(3) Any claim of whatever nature against the Company shall be deemed conclusively to have been waived unless presented in writing to the Company within thirty (30) days after the date of the occurrence that gave rise to the claim.

L. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

M. The entire liability for any claim, loss, damage or expense from any cause whatsoever shall in no event exceed sums actually paid Company by Customer for the specific services giving rise to the claim. No action or proceeding against the Company shall be commenced more than one year after the service is rendered.

N. THE COMPANY MAKES NO WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED EITHER IN FACT OR BY OPERATION OF LAW, STATUTORY OR OTHERWISE, INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR USE, EXCEPT THOSE EXPRESSLY SET FORTH HEREIN.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.8 Limitations on Liability (Cont'd)

O. Year 2000 Readiness Disclosure

The Company will operate as specified in these and other applicable tariffs during the 20th and 21st centuries. The Company will make reasonable efforts to cure any material failure to provide Services caused solely by year 2000 (Y2K) defects in the Company's hardware, software, or systems. Due to the interdependence among telecommunications companies, and the interrelationship with non-Company processes, equipment, and systems, the Company is not responsible for failures caused by circumstances beyond its control including, but not limited to, failures caused by:

1. a local exchange carrier;
2. customer premise equipment; or
3. the user or Customer.

In addition, the Company is not liable for any incompatibility between the Company's Services and any non-Company services used by the Customer or user.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.9 Use of Service

Any service provided under this Tariff may be resold to or shared (jointly used) with other persons at the customer's option. The customer remains solely responsible for all use of service ordered by it or billed to its telephone number(s) pursuant to this Tariff, for determining who is authorized to use its service, and for promptly notifying the Company of any unauthorized use.

2.1.10 Use and Ownership of Equipment

The Company's equipment, apparatus, channels and lines shall be carefully used. Equipment furnished by the Company shall remain its property and shall be returned to the Company whenever requested, within a reasonable period following the request, in good condition, reasonable wear and tear accepted. The customer is required to reimburse the Company for any loss of, or damage to, the facilities or equipment on the customer's premises, including loss or damage caused by agents, employees or independent contractors of the customer through any negligence.

2.1.11 Blocking of Service

The Company's facilities can not be used to originate calls to other telephone company or Information Provider caller-paid information services. The Company reserves the right to block services that violate the prohibited use policy.

2.1.12 Testing, Maintenance, and Adjusting

Upon suitable notice, the Company may make such tests, adjustments, and inspections as may be necessary to maintain the Company facilities in satisfactory operating condition. No interruption allowance will be credited to the Customer for the periods during which the Company makes such tests, adjustments, or inspections.

The Company shall have no responsibility for the maintenance and repair of any kind with respect to equipment and facilities not provided by the Company. The Company will charge the Customer for any maintenance visits with respect to service problems which are determined to arise from equipment or facilities not provided by the Company.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.13 Non-routing Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on not less than the cost of actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.14 Ownership of Facilities

Title to all facilities provided in accordance with this Tariff remains in the Company, its agents or contractors. Customer shall not have, nor shall it assert, any right, title, or interest in all the facilities and associated equipment provided by the Company hereunder.

2.1.15 Rights-of-way

Any and all costs associated with obtaining and maintaining the rights-of-way from the point of entry at the Customer's location to the Customer, including but not limited to, the costs of installing conduit or of altering the structure to permit installation of Company provided facilities, shall be borne entirely by the Customer. Customer's use of such rights-of-way shall in all respects be subject to the terms, conditions, and restriction of such rights-of-way and of agreements between the Company and such third parties relating thereto, including without limitation, the duration applicable to and the condemnation of such rights-of-way, and shall not be in violation of any applicable governmental ordinance, law, rule, regulation or restriction. Where applicable, Customer agrees that it shall assist Company in the procurement and maintenance of such right-of-way.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.16 Services Provided by Other Carriers

Company shall have no responsibility with respect to billings, charges, or disputes related to services used by Customer, which are not included in the services herein, including, without limitation, any local, regional, and long distance services not offered by the Company. Customer shall be fully responsible for the payment of any bills for such services and for the resolution of any disputes or discrepancies with the service provider.

2.1.17 Governmental Authorizations

The provision of services under this Tariff is subject to and contingent upon the Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the services into conformance with any rules, regulations, orders, decisions, or directives imposed by the commission or other applicable agency, and Customer shall fully cooperate in and take such action as may be requested by Company to comply with any such rules, regulations, orders, decisions or directives.

2.1.18 Assignment

The Company may, without obtaining any further consent from Customer, assign any rights, privileges, or obligations under this Tariff. Customer shall not, without prior written consent of Company, which consent shall not be unreasonably withheld, assign, transfer, or in any other manner dispose of, any of its rights, privileges, or obligations under this Tariff, and any attempt to make such an assignment, transfer, disposition without consent shall be null and void.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.1 USE OF FACILITIES AND SERVICE (Cont'd)

2.1.19 Network Management

The Company will administer its network to insure the provision of acceptable service levels to all users of the Company's network services. Generally, service levels are considered acceptable only when both end users and customers are able to establish connections with little or no delay encountered within the Company's network.

The Company maintains the right to apply protective controls, i.e., those actions such as call gapping, which selectively cancels the completion of traffic, over any traffic carried over its network. These measures would only be taken as a result of occurrences such as failure or overload of Company or Customer facilities, natural disasters, mass calling or national security demands. In the event that the protective controls applied by the Company result in the complete loss of service to the Customer, the Customer will be granted a Credit Allowance for Service Interruptions as set forth below.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.2 MINIMUM PERIOD OF SERVICE

The minimum period of service is one month except as otherwise provided in this Tariff. The customer must pay the regular tariffed rate for the service they subscribe to for the minimum period of service. If a customer disconnects service before the end of the minimum service period, that customer is responsible for paying the regular rates for the remainder of the minimum service period. When the service is moved within the same building, to another building on the same premises, or to a different premises entirely, the period of service at each location is accumulated to calculate if the customer has met the minimum period of service obligation.

If service is terminated before the end of the minimum period of service as a result of condemnation of property, damage to property requiring the premises to be abandoned, or by the death of the customer, the customer is not obligated to pay for service for the remainder of the minimum period.

If service is switched over to a new customer at the same premises after the first month's service, the minimum period of service requirements are assigned to the new customer if the new customer agrees in writing to accept them. For facilities not taken over by the new customer, the original customer is responsible for the remaining payment for the minimum service period in accordance with the terms under which the service was originally furnished.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICE RENDERED

2.3.1 Responsibility for All Charges

Any applicant for facilities or service may be required to sign an application form requesting the Company to furnish the facilities or service in accordance with the rates, charges, rules and regulations from time to time in force and effect. The customer is responsible for all local and toll calls originating from the customer's premises and for all calls charged to the customer's line where any person answering the customer's line agrees to accept such charge.

2.3.2 Deposits

A. The Company reserves the right to validate the credit worthiness of the Customer prior to the commencement of service, and to reject, in Company's sole judgment, unqualified Customers. No Customer shall have any claim against Company for a credit rejection. If the Customer's financial condition is unknown or unacceptable to the Company, the Customer may be required to provide the Company with a security deposit that the Company may apply against overdue charges. The amount of the security deposit shall be equal to two month's estimated usage but may vary with the Customer's credit history and projected usage. The Customer shall be apprised that after one year of service the Account shall be reviewed, and in the event that all amounts due have been paid within the terms and conditions of this tariff, the deposit shall be refunded in full. If subsequent payment or usage patterns change, the Company may request an increase in or re-submission of the security deposit as appropriate. The Company may also require a security deposit before service is restored (along with the payment of overdue charges) from the Customer whose service has been discontinued for nonpayment of overdue charges. Such security deposit may be based on a new credit history (taking into account the discontinuance of service) and estimates of usage.

B. The fact that a deposit has been made shall in no way relieve the applicant or customer from complying with the Tariff regulations for the prompt payment of bills on presentation. Each applicant from whom a deposit is collected will be given a certificate of deposit and circular containing the terms and conditions applicable to deposits, in accordance with the Rules and Regulations of the Commission pertaining to customer deposits.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICE RENDERED (Cont'd)

2.3.2 Deposits (Cont'd)

C. Inadequate Deposit

If the amount of a deposit is proven to be less than required to meet the requirements specified above, the customer shall be required to pay an additional deposit upon request.

D. Return of Deposit

When a deposit is to be returned, the customer may request that the full amount of the deposit be issued by check. If the customer requests that the full amount be credited to amounts owed the Company, the Company will apply the deposit to any amount currently owed to the Company, and return any remaining amount of the deposit to the customer by check.

E. Interest on Deposits

Simple interest at the rate specified by the Commission shall be credited or paid to the customer while the Company holds the deposit.

2.3.3 Advance Payments

The Company reserves the right to require an advance payment from the Customer instead of or in addition to a security deposit. The advance payment shall be in an amount equal to or less than estimated installation charges plus two months estimated billing.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICE RENDERED (Cont'd)

2.3.4 Payment of Charges

A. Charges for facilities and service, other than usage charges, are due monthly in advance. All other charges are payable upon request of the Company. Bills are due on the due date shown on the bill and are payable at any business office of the Company, by U.S. Mail, or at any location designated by the Company. If objection is not received by the Company within three months after the bill is rendered, the items and charges appearing thereon shall be determined to be correct and binding upon the customer. A bill will not be deemed correct and binding upon the customer if the Company has records on the basis of which an objection may be considered, or if the customer has in his or her possession such Company records. If objection results in a refund to the customer, such refund will be with interest at the greater of the unadjusted customer deposit rate or Company's applicable late payment charge.

B. Where an objection to the bill involves a superseded service order, the items and charges appearing on the bill shall be deemed to be correct and binding upon the customer if objection is not received by the Company within two months after the bill is rendered.

2.3.5 Returned Check Charge

When a check that has been presented to the Company by a customer in payment for charges is returned by the bank, the customer shall be responsible for the payment of a Returned Check Charge of $20.00. This charge will be in addition to any charges assessed by any bank.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICE RENDERED (Cont'd)

2.3.6 Late Payment Charges

A. Customer bills for telephone service are due on the due date specified on the bill. A customer is in default unless payment is made on or before the due date specified on the bill. If payment is not received by the customer's next billing date, a late payment charge of 1.5% will be applied to all amounts previously billed under this Tariff, excluding one month's local service charge, but including arrears and unpaid late payment charges.

B. Late payment charges do not apply to those portions (and only those portions) of unpaid balances that are associated with disputed amounts. Undisputed amounts on the same bill are subject to late payment charges if unpaid and carried forward to the next bill.

C. Late payment charges do not apply to final accounts.

D. Late payment charges do not apply to government agencies of the State of Florida. These agencies are required to make payment in accordance with applicable state law.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.3 PAYMENT FOR SERVICE RENDERED (Cont'd)

2.3.7 Customer Overpayments

The Company will provide interest on customer overpayments that are not refunded within 30 days of the date the Company receives the overpayment. An overpayment is considered to have occurred when payment in excess of the correct charges for service is made because of erroneous Company billing. The customer will be issued reimbursement for the overpayment, plus interest, or, if agreed to by the customer, credit for the amount will be provided on the next regular Company bill. The rate of interest shall be the greater of the customer deposit interest rate or the Company's applicable Late Payment Charge.

Interest shall be paid from the date when overpayment was made, adjusted for any changes in the deposit rate or late payment rate, and compounded monthly, until the date when the overpayment is refunded. The date when overpayment is considered to have been made will be the date on which the customer's overpayment was originally recorded to the customer's account by the Company.

2.3.8 Validation of Credit

Carrier reserves the right to validate the creditworthiness of Subscribers or Users prior to the commencement of service, and to reject, in Carrier's sole judgement, unqualified Subscribers or Users. No Subscriber or User shall have any claim against Carrier for a credit rejection.

2.4 INSTALLATION SERVICE

The Company provides a Half-Day Installation Plan, which offers customers half-day appointments (i.e., morning/afternoon or a rolling interval) for connection of Commission regulated service involving a customer premise visit.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.5 ACCESS TO CUSTOMER'S PREMISES

The customer shall be responsible for making arrangements or obtaining permission for safe and reasonable access for Company employees or agents of the Company to enter the premises of the customer or any joint user or customer of the customer at any reasonable hour for the purpose of inspecting, repairing, testing or removing any part of the Company's facilities.

2.6 TELEPHONE SURCHARGES/TAXES

2.6.1 General

In addition to the rates and charges applicable according to the rules and regulations of this Tariff, various surcharges and taxes may apply to the customer's monthly billing statement. The Customer is responsible for payment of any and all such fees charges, surcharges and taxes, however designated, imposed by any local, state, or federal government on or based upon the provision, sale or use of Network Services. Fees, charges, and taxes imposed by a city, county, or other political subdivision will be collected only from those Customers receiving service within the boundaries of that subdivision, or as deemed taxable by the political subdivision.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.7 FLEXIBLE PRICING

2.7.1 Conditions

A. The Company reserves the right to change prices at any time subject to regulatory requirements by filing a revised Tariff with the Commission.

B. Individual written notice to Customers of rate changes shall be made in accordance with Commission regulations. Where there are not regulations, notification will be make in a manner appropriate to the circumstances involved.

C. A rate shall not be changed unless it has been in effect for at least thirty (30) days.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE

2.8.1 Suspension or Termination for Nonpayment

A. In the event that any bill rendered or any deposit required is not paid, the Company may suspend service or terminate service until the bill or the required deposit has been paid. If service is suspended or terminated for nonpayment, the customer will be billed a Connection Charge as well as any payment due and any applicable deposits upon reconnection.

B. Suspension or termination shall not be made until:

(1) At least 10 days after written notification has been served personally on the Customer, or at least 20 days after written notification has been mailed to the billing address of the Customer or;

(2) At least 10 days after the Customer has either signed for or refused a registered letter containing written notification mailed to the billing address of the Customer.

C. Telephone service shall only be suspended during the hours between 8:00 AM and 4:00 PM, Monday through Thursday. It shall not be suspended or terminated for nonpayment on weekends, public holidays, other federal and state holidays proclaimed by the President or the Governor, or on days when the main business office of the Company is not open for business, or during the periods from December 23rd through December 26th or December 30th through January 1st.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.2 Exceptions to Suspension and Termination

Telephone service shall not be suspended or terminated for:

A. Nonpayment of bills rendered for charges other than telephone service or deposits requested in connection with telephone service;

B. Nonpayment for service for which a bill has not been rendered;

C. Nonpayment for service which have not been rendered;

D. Nonpayment of any billed charge which is in dispute or for the nonpayment of a deposit which is in dispute during the period before a determination of the dispute is made by the Company in accordance with Company's complaint handling procedures. These procedures shall be in accordance with the Commission's Rules and Regulations.

E. Telephone service may be suspended or terminated for nonpayment of the undisputed portion of a disputed bill or deposit if the customer does not pay the undisputed portion after being asked to do so.

F. Nonpayment of back-billed amounts as outlined in 2.10.12.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.3 Verification of Nonpayment

Telephone service shall not be suspended or terminated for nonpayment of a bill rendered or a required deposit unless:

A. The Company has verified, in a manner approved by the Commission, that payment has not been received at any office of the Company or at any office of an authorized collection agent through the end of the period indicated in the notice, and

B. The Company has checked the customer's account on the day that suspension or termination is to occur to determine whether payment has been posted to the customer's account as of the opening of business on that day.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.4 Termination For Cause Other Than Nonpayment

A. General

The Company, after notice in writing to the customer and after having given the customer an appropriate opportunity to respond to such notice, may terminate service and sever the connection(s) from the customer's premises under the following conditions:

(1) in the event of prohibited, unlawful or improper use of the facilities or service, or any other violation by the customer of the rules and regulations governing the facilities and service furnished, or

(2) if, in the judgment of the Company, any use of the facilities or service by the customer may adversely affect the Company's personnel, plant, property or service. The Company shall have the right to take immediate action, including termination of the service and severing of the connection, without notice to the customer when injury or damage to telephone personnel, plant, property or service is occurring, or is likely to occur, or

(3) in the event of unauthorized use, where the customer fails to take reasonable steps to prevent the unauthorized use of the facilities or service received from the Company, or

(4) in the event that service is connected for a customer who is indebted to the Company for service or facilities previously furnished, that service may be terminated by the Company unless the customer satisfies the indebtedness within 20 days after written notification.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.4 Termination For Cause Other Than Nonpayment (Cont'd)

B. Prohibited, Unlawful or Improper Use of the Facilities or Service

Prohibited, unlawful or improper use of the facilities or service includes, but is not limited to:

(1) The use of facilities or service of the Company without payment of tariff charges;

(2) Calling or permitting others to call another person or persons so frequently or at such times of the day or in such manner as to harass, frighten, abuse or torment such other person or persons;

(3) The transmission of impermissible content.

(4) The use of the service in such a manner such that it interferes with the service of other customers or prevents them from making or receiving calls;

(5) The use of a mechanical dialing device or recorded announcement equipment to seize a customer's line, thereby interfering with the customer's use of the service;

(6) Permitting fraudulent use.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.4 Termination For Cause Other Than Nonpayment (Cont'd)

C. Abandonment or Unauthorized Use of Facilities

(1) If it is determined that facilities have been abandoned, or are being used by unauthorized persons, or that the customer has failed to take reasonable steps to prevent unauthorized use, the Company may terminate telephone service.

(2) In the event that telephone service is terminated for abandonment of facilities or unauthorized use and service is subsequently restored to the same customer at the same location:

(a) No charge shall apply for the period during which service had been terminated, and

(b) Reconnection charges will apply when service is restored. However, no charge shall be made for reconnection if the service was terminated due to an error on the part of the Company.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.8 SUSPENSION OR TERMINATION OF SERVICE (Cont'd)

2.8.4 Termination For Cause Other Than Nonpayment (Cont'd)

D. Change in the Company's Ability to Secure Access

Any change in the Company's ability (a) to secure and retain suitable facilities and rights for the construction and maintenance of the necessary circuits and equipment or (b) to secure and retain suitable space for its plant and facilities in the building where service is provided to the customer may require termination of a customer's service until such time as new arrangements can be made. No charges will be assessed the customer while service is terminated, and no connection charges will apply when the service is restored.

2.8.5 Emergency Termination of Service

The Company will immediately terminate the service of any customer, on request, when the customer has reasonable belief that the service is being used by an unauthorized person or persons. The Company may require that the request be submitted in writing as a follow-up to a request made by telephone.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.9 ADDITIONAL PROVISIONS APPLICABLE TO BUSINESS CUSTOMERS

2.9.1 Application of Rates

A. Business rates as described in this Tariff apply to service furnished:

(1) In office buildings, stores, factories and all other places of a business nature;

(2) In hotels, apartment houses, clubs and boarding and rooming houses except when service is within the customer's domestic establishment and no business listings are provided; colleges, hospitals and other institutions; and in churches except when service is provided to an individual of the clergy for personal use only and business service is already established for the church at the same location;

(3) At any location when the listing or public advertising indicates a business or a profession;

(4) At any location where the service includes an extension which is at a location where business rates apply unless the extension is restricted to incoming calls;

(5) At any location where the customer resells or shares exchange service;

B. Public Access Line service is classified as business service regardless of the location.

C. The use of business facilities and service is restricted to the customer, customers, agents and representatives of the customer, and joint users.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.9 ADDITIONAL PROVISIONS APPLICABLE TO BUSINESS CUSTOMERS (Cont'd)

2.9.2 Telephone Number Changes

When a business customer change telephone numbers, the referral period for the disconnected number is 180 days.

The Company reserves all rights to the telephone numbers assigned customers. The customer may order a Vanity Number where facilities permit for an additional charge as specified in Section 5.9 of this Tariff.

When service in an existing location is continued for a new customer, the existing telephone number may be retained by the new customer only if the former customer consents in writing, and if all charges against the account are paid or assumed by the new customer.

2.9.3 Deposits

Deposits will be returned to business customers after three years, unless the customer is delinquent in payment, in which case the Company will continue to retain the deposit until the delinquency is satisfied. If a service is involuntarily discontinued, the deposit is applied against the final bill, and any balance returned to the customer.

2.9.4 Dishonored Checks

If a business customer who has received a notice of discontinuance pays the bill with a check that is subsequently dishonored, the account remains unpaid and the Company is not required to issue any additional notice before disconnecting service.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS

2.10.1 Application of Rates

Residential rates as described in this Tariff apply to service furnished in private homes or apartments (including all parts of the customer's domestic establishment) for domestic use. Residential rates also apply in college fraternity or sorority houses, convents and monasteries, and to the clergy for domestic use in residential quarters.

Residential rates do not apply to service in residential locations if the listing indicates a business or profession. Residential rates do not apply to service furnished in residential locations if there is an extension line from the residential location to a business location unless the extension line is limited to incoming calls.

The use of residential service and facilities is restricted to the customer, members of the customer's domestic establishment, and joint users.

2.10.2 Telephone Number Changes

When a residential customer changes telephone numbers, the referral period for the disconnected number is 90 days.

The company reserves all rights to any telephone numbers assigned to customers from local service. Customers may order Vanity Numbers where facilities permit for an additional charge as specified in section 5.9 of this tariff.

When service in an existing location is continued for a new customer, the existing number may be retained by the new customer only if the former customer consents in writing, and if all charges against the account are paid or assumed by the new customer.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.3 Deposits

A. General

Except as provided in (B) following, the Company may require a deposit, not to exceed $50.00, from a residential customer who is applying for service if the customer: 1) has had service terminated for nonpayment once within the preceding six-month period, or 2) is delinquent in payment. A customer is delinquent in payment if that customer has received two consecutive telephone bills without making payment of at least one-half the total arrears due on the due date of the second bill. A customer is not considered delinquent, however, if an amount in dispute is not paid before the dispute is resolved.

An existing customer is an applicant for service who was a customer of the Company within twelve months of making the request, provided that prior service was not terminated for nonpayment, unless service is requested within 10 days of such termination for nonpayment. Applicants for residential service and existing residential customers are permitted to pay deposits in installments over a period not to exceed 6 months.

A new customer is an applicant for service who has not been a customer of the Company within twelve months of making the request for service. A new customer shall not be required to post a security deposit as a condition of receiving telephone service.

A seasonal customer is an individual who applies for and receives telephone service periodically each year, intermittently during the year or at other regular intervals scheduled at the time of application. A seasonal customer may be required to post a deposit.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.3 Deposits (Cont'd)

B. Customers Exempt from Deposits

(1) A new customer or existing customer who is 62 years of age or older shall be exempt from any deposit requirement unless such person's telephone service was terminated for nonpayment during the preceding six months. Proof of age will be required from any person claiming exemption from deposit requirements because of age. If the proof requested by the Company is not received within 30 days from the date service is connected, or 30 days from the date that verification of age is requested from an existing customer, the Company may suspend or terminate service unless the customer pays the required deposit. Any new customer or existing customer 62 years of age or older shall be permitted to pay a deposit in installments over a period not to exceed 12 months.

(2) The Company shall not require any person it knows to be a recipient of public assistance, supplemental security income or additional state payments to post a deposit.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.3 Deposits (Cont'd)

C. Recent Payment History

A customer who has a recent payment history (within the preceding twelve months) with the Company are entitled to service without payment of a deposit unless their records indicate that they are delinquent in payment or have had service terminated for nonpayment within the last six (6) months. Customers who still owe money to the Company for residential service on a prior account shall be offered a deferred payment plan provided that the customer had service for three months and was not terminated for nonpayment during that period. (See Deferred Payment Agreements, 2.10.7 below.)

New deposits from residential customers are reviewed after the first 3 monthly bills have been rendered; if too much has been taken, the excess is returned. The entire deposit is returned to a residential customer after 1 year, unless the customer is delinquent in payment, in which case the Company may continue to retain the deposit until the delinquency is satisfied. If the service is discontinued, the deposit is applied against the final bill, and any balance is returned to the customer.

2.10.4 Installment Billing For Nonrecurring Charges

Residential customers may elect to pay service connection and other nonrecurring charges associated with service orders in monthly installments for up to a 12-month period. When installment billing is requested, all nonrecurring charges associated with a given service order will be included in the calculation of the monthly installment.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.4 Installment Billing For Nonrecurring Charges (Cont'd)

Installment billing is subject to the following restrictions:

A. Installment billing may be used only by residential customers;

B. Charges will be billed in the number of installments of equal dollar amounts as requested by the customer up to a maximum of 12 installments over the course of 12 months;

C. A customer may not pay a portion of the charges and then request installment billing for the remaining charges;

D. More than one installment plan may be in effect for the same customer at the same time;

E. If a customer disconnects service during the installment payment period, all unbilled charges will be included in the final bill rendered;

F. A customer may elect to pay the unbilled charges before the expiration of the installment plan;

G. Installment billing payments will continue even when an account is temporarily suspended;

H. No interest or carrying charges will be applied to the outstanding balance during the installment period.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.5 Adjusted Payment Schedule

Customers on fixed incomes (e.g., pension and public assistance) shall be offered the opportunity to pay their bills on a reasonable schedule that is adjusted for periodic receipt of income.

2.10.6 Suspension or Termination for Nonpayment

A. Suspension/termination notices may not be issued until at least 25 days after the date of the bill. Bills must be mailed to the customer no later than 6 business days after the date of the bill.

B. After issuing the written notification in accordance with the terms of this Tariff, at least one attempt shall be made during non-working hours to contact the residential customer by telephone before the scheduled date of suspension/termination.

C. Suspension/termination may occur only between the hours of 8 a.m. and 4 p.m. Monday through Thursday, provided that such day or the following day is not a public holiday or a day on which the main office is closed. In addition, service may not be disconnected during the periods of December 23 through the 26 and December 30 through January 2.

D. Telephone service may be suspended or terminated for nonpayment of the undisputed portion of a disputed bill or deposit if the customer does not pay the undisputed portion after being asked to do so. Suspended or terminated residential service shall be reconnected within 24 hours following payment or within 24 hours of the end of circumstances beyond the Company's control which delay the reconnection. The Commission may direct that service be reconnected in less than 24 hours.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.7 Deferred Payment Agreements

Service will not be suspended or terminated unless the customer has been advised that a deferred payment plan can be arranged. Existing residential customers with three or more months service and for whom service has not been terminated for nonpayment is eligible for Deferred Payment Arrangements (DPA). Final notice of suspension/termination will advise the customer of deferred payment arrangements and will include, in bold print, a notice that assistance in reaching an agreement may be obtained from the Commission. The DPA notice will be mailed no less than six days before termination of total service.

A Deferred Payment Agreement will be for a period of no less than (10) months unless otherwise agreed to by the customer and for amounts of up to $450 unless greater amounts are agreed to by the company. Down payments shall be not exceed the lesser of one-fifth of the amount deferred or three (3) moths of a customer's average billing, plus the difference between the total amount of arrears and the amount deferred.

If the Company believes that the customer has the resources to pay the bill, it shall notify both the customer and the Commission in writing of the reasons for its belief. The Commission shall make the final determination as to whether a DPA should be provided. A customer with medical emergencies and a customer who is elderly, blind or disabled shall be exempt from such eligibility criteria.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.8 Dishonored Checks

When a check received from a residential customer is dishonored, the company shall make two attempts, one outside of normal business hours, to contact the customer within 24 hours. The customer shall be given an additional 24 hours to pay before suspension/termination. The additional notice will be given provided that the customer has not submitted a dishonored check within the past 12 months.

2.10.9 Suspension or Termination - Abandonment

Suspension/termination of residential service for abandonment or unauthorized use may occur only after the Company makes a reasonable attempt to determine occupancy or authorized use, or the customer takes reasonable steps to prevent unauthorized use. A notice must be sent to the customer five days before such suspension or termination. The notification requirement is waived when previous mailings are returned by the Post Office or the company is advised that a new customer has moved into the location.

2.10.10 Suspension or Termination - Medical Emergencies

In the event of a medical emergency, an additional 30 days will be allowed for a residential customer before suspension or termination. A medical certificate must be supplied. This status may be extended beyond 30 days upon submission of specified documentation. During the emergency, customers can defer payment of monthly charges up to an amount specified by the Commission until the emergency ceases or it is determined that the customer has the ability to pay the charges. Charges in any month in excess of the amount specified are due by the due date of the bill. These rules also apply to any new applicant for service.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.11 Suspension or Termination - Elderly, Blind or Disabled

An additional 20 days will be allowed before suspension or termination may occur when:

A. the customer is known to or identified to the Company as being blind or disabled;

B. the customer is 62 years of age or older, and all other residents of the customer's household are: under 18 years of age, over 62 years of age, blind or disabled.

In cases where service has been suspended or terminated and the Company subsequently learns that the customer is entitled to the protection established herein, the Company shall within 24 hours of such notification restore service for an additional 20 days and make a diligent effort to contact in person an adult resident at the customer's premises for the purpose of devising a payment plan.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.10 ADDITIONAL PROVISIONS APPLICABLE TO RESIDENTIAL CUSTOMERS (Cont'd)

2.10.12 Backbilling for Residential Customers

The Company shall not charge a residential customer for previously unbilled service or adjust upward a bill previously rendered when the period for the unbilled service or billing adjustment is more than twenty-four months prior to the mailing of the bill or the upward adjustment unless the conduct of the customer caused or contributed to the failure of the Company to render timely accurate billing. Unless the customer causes the late billing, the Company shall explain the reason for the late billing and shall advise the customer that suspension/termination of service is not permitted for charges billed in excess of six months after the service was provided. The customer will be given the opportunity to pay the charges under an installment plan on a schedule equal in time to the length of the backbilling period.

2.11 ALLOWANCES FOR INTERRUPTIONS IN SERVICE

Interruptions in service, which are not due to the negligence of, or non-compliance with the provisions of this Tariff by the Customer, or the operation or malfunction of the facilities, power, or equipment provided by the Customer, will be credited to the Customer as set forth below for the part of the service that the interruption affects. A credit allowance will be made when an interruption occurs because of a failure of any component furnished by the Company under this Tariff.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.11 ALLOWANCES FOR INTERRUPTIONS IN SERVICE (Cont'd)

2.11.1 Credit for Interruptions

A. An interruption period begins when the Customer reports a service, facility, or circuit to be interrupted and releases it for testing and repair. An interruption period ends when the service, facility, or circuit is operative. If the Customer reports a service, facility, or circuit to be inoperative but declines to release it for testing and repair, it is considered to be impaired, but not interrupted.

B. For calculating credit allowances, every month is considered to have 30 days. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

C. A credit allowance will be given, upon request of the customer to the business office, for interruptions of 30 minutes or more. Credit allowances will be calculated as follows:

(1) if interruption continues for less than 24 hours:

(a) 1/30th of the monthly rate if it is the first interruption in the same billing period.

(b) 2/30ths of the monthly rate if there was a previous interruption of at least 24 hours in the same billing period.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.11 ALLOWANCES FOR INTERRUPTIONS IN SERVICE (Cont'd)

2.11.1 Credit for Interruptions (Cont'd)

(2) if interruption continues for more than 24 hours:

(a) if caused by storm, fire, flood or other condition out of Company's control, 1/30th of the monthly rate for each 24 hours of interruption.

(b) for other interruption, 1/30 of the monthly rate for the first 24 hours and 2/30ths of such rate for each additional 24 hours (or fraction thereof); however, if service is interrupted for over 24 hours, more than once in the same billing period, the 2/30ths allowance applies to the first 24 hours of the second and subsequent interruptions

Two or more interruptions of 15 minutes or more during any one 24-hour period shall be considered as one interruption.

D. Credit to Customer

Credits attributable to any billing period for interruptions of service shall not exceed the total charges for that period for the service and facilities furnished by the Company rendered useless or substantially impaired.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.11 ALLOWANCES FOR INTERRUPTIONS IN SERVICE (Cont'd)

2.11.1 Credit for Interruptions (Cont'd)

E. "Interruption" Defined

For the purpose of applying this provision, the word "interruption" shall mean the inability to complete calls either incoming or outgoing or both due to Company equipment malfunction or human errors. "Interruption" does not include and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capacity shortages. Nor shall the interruption allowance apply where service is interrupted by the negligence or willful act of the subscriber or where the Company, pursuant to the terms of the Tariff, suspends or terminates service because of nonpayment of bills due to the company, unlawful or improper use of the facilities or service, or any other reason covered by the Tariff. No allowance shall be made for interruptions due to electric power failure where, by the provisions of this Tariff, the subscriber is responsible for providing electric power. Allowance for interruptions of measured rate service will not affect the subscriber's local call allowance during a given billing period.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.11 ALLOWANCES FOR INTERRUPTIONS IN SERVICE (Cont'd)

2.11.2 Limitations on Credit Allowances

No credit allowance will be made for:

A. interruptions due to the negligence of, or non-compliance with the provisions of this Tariff, by any party other than the Company, including but not limited to the customer, authorized user, or other common carriers connected to, or providing service connected to, the service of the Company or to the Company's facilities;

B. interruptions due to the failure or malfunction of non-Company equipment, including service connected to customer provided electric power;

C. interruptions of service during any period in which the Company is not given full and free access to its facilities and equipment for the purpose of investigating and correcting interruptions;

D. interruptions of service during a period in which the customer continues to use their service on a impaired basis;

E. interruptions of service during any period when the customer has released service to the Company for maintenance purposes or for implementation of a customer order for a change in service arrangements; and,

F. interruptions in service due to circumstances or causes beyond the control of the Company.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.12 AUTOMATIC NUMBER IDENTIFICATION

2.12.1 General

This option provides the automatic transmission of a seven or ten digit number and information digits to the Customer's premises for calls originating in the LATA, to identify the calling station. The ANI feature, which is a software function, will be associated on a call-by-call basis with (1) all individual transmission paths in a trunk group routed directly between an end office and a Customer's premises or, where technically feasible, with (2) all individual transmission paths in a trunk group between an access tandem and a Customer's premises.

Additional ANI information digits will be transmitted as agreed to by the Customer and the Company.

2.12.2 Up to 7 Digit Outpulsing of Access Digits to Customer

This Option provides for the end office capability of providing up to 7 digits of the uniform access code (950-10XX) to the Customer premises. The Customer can request that only some of the digits in the access code be forwarded. The access code digits would be provided to the Customer premises location using multifrequency signaling, and transmission of the digits would precede the forwarding of ANI if that feature were provided.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.12 AUTOMATIC NUMBER IDENTIFICATION

2.12.3 Regulations

The Company will provide Automatic Number Identification (ANI) associated with an intrastate service, by tariff, to any entity (ANI recipient), only under the following terms and conditions:

A. The ANI recipient or its designated billing agent may use or transmit ANI information to third parties for billing and collection, routing, screening, ensuring network performance, and completion of a telephone subscriber's call or transaction, or for performing a service directly related to the telephone subscriber's original call or transaction, or for performing a service directly related to the telephone subscriber's original call or transaction.

B. The ANI recipient may offer to any telephone subscriber with whom the ANI recipient has an established customer relationship, a product or service that is directly related to products or service previously purchased by the telephone subscriber from the ANI recipient.

C. The ANI recipient or its designated billing agent is prohibited from utilizing ANI information to establish marketing lists or to conduct outgoing marketing calls, except as permitted by the preceding paragraph, unless the ANI recipient obtains the prior written consent of the telephone subscriber permitting the use of ANI information for such purposes. The foregoing provisions notwithstanding, no ANI recipient or its designated billing agent may utilize ANI information if prohibited elsewhere by law.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.12 AUTOMATIC NUMBER IDENTIFICATION (Cont'd)

2.12.3 Regulations (Cont'd)

D. The ANI recipient, or its designated billing agent, is prohibited from reselling, or otherwise disclosing ANI information to any other third party for any use, other than those listed above, unless the ANI recipient obtains the prior written consent of the subscriber permitting such resale or disclosure.

E. Violation of any of the foregoing terms and conditions by any ANI recipient other than a Telephone Corporation shall result, after a determination through the Commission's complaint process, in suspension of the transmission of ANI by the Telephone Corporation until such time as the Commission receives written confirmation from the ANI recipient that the violations have ceased or have been corrected. If the Commission determines that there have been three or more separate violations in a 24 month period, delivery of ANI to the offending party shall be terminated under terms and conditions determined by the Commission.

F. The ten-digit ANI telephone number consists of the Numbering Plan Area (NPA) plus the seven-digit ANI telephone number. The ten-digit ANI telephone number will be transmitted on all calls except in the case of ANI failure, in which case only the NPA will be transmitted (in addition to the information digit described below).

G. Where ANI cannot be provided, information digits will be provided to the Customer.

The information digits identify: (1) telephone number is the station billing number - no special treatment required, (2) ANI failure has occurred in the end office switch which prevents identification of calling telephone number - must be obtained by operator or in some other manner. The ANI telephone number is the listed telephone number of the Customer and is not the telephone number of the calling party.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.12 AUTOMATIC NUMBER IDENTIFICATION (Cont'd)

2.12.4 Terms and Conditions

Violation of any of the foregoing terms and conditions by a Telephone Corporation may result in Commission prosecution of penalty and enforcement proceedings.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.13 HEALTH CARE PROVIDERS SUPPORT PROGRAM

2.13.1 General

The purpose of the Health Care Providers Support Program is to enable public and non-profit rural health care providers to have access to telecommunications services necessary for the provision of health care services at rates comparable to those paid for similar services in urban areas. The Heath Care Providers Support Program offers eligible public and non-profit health care providers located in rural areas reduced rates for Company intrastate services, available in this Tariff. Such services must be purchased in accordance with the Rules adopted by the Federal Communications Commission (FCC) in its Universal Service Order 97-157, issued May 8, 1997. The FCC Rules are codified at 47 Code of Federal Regulations (C.F.R.) 54.601 *et. seq.*, and any amendments made thereto.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.13 HEALTH CARE PROVIDERS SUPPORT PROGRAM (Cont'd)

2.13.1 General (Cont'd)

A. To be eligible for the reduced rates, rural health care providers are required to comply with the terms and conditions set forth in the FCC Rules.

B. Reduced rates are available only to the extent that they are funded by the federal universal service fund.

C. Eligible rural health care providers may aggregate demand with other entities to create a consortium. Universal service support shall apply only to the portion of eligible services used by an eligible health care provider.

D. Responsibility of eligible health care providers

1) Rural health care providers and consortia shall participate in a competition bidding process for all service eligible for reduced rates in accordance with any state and local procurement rules.

2) Rural health care providers and consortia shall submit requests for services to the program Administrator, as designated by the FCC, and follow established procedures.

3) Services requested must be used for purposes related to the provision of health care services or instruction that the health care provider is legally authorized to provide under the law.

4) A health care provider that cannot obtain toll free access to an Internet service provider and who is eligible for support for limited toll-free access under the Rules must certify that it lacks toll-free Internet access and that it is an eligible health care provider.

5) Services cannot be sold, resold or transferred in consideration for money or any other thing of value.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.13 HEALTH CARE PROVIDERS SUPPORT PROGRAM (Cont'd)

2.13.1 General (Cont'd)

E. Responsibility of the Company

1) The Company shall offer the rates and charges as specified in this Tariff, to eligible health care providers to the extent that facilities and services are available and offered in this Tariff.

2) The Company shall offer services to eligible rural health care providers and consortia at prices no higher than the highest urban rate as defined in the FCC Order and Rules.

3) In competitive bidding situations, where specific flexible pricing arrangements are allowed, the Company may offer flexible pricing (to determine the reduced rate) subject to Florida Public Service Commission approval, if necessary.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.13 HEALTH CARE PROVIDERS SUPPORT PROGRAM (Cont'd)

2.13.2 Rates and Charges

The following price adjustments will be available to eligible rural health care providers, except subparagraph C., which shall be available to all eligible health care providers, regardless of location.

A. A reduced rate for telecommunications services, using a bandwidth capacity of up to 1.544 Mbps, not to exceed the highest tariffed or publicly available rate charged to a commercial customer for a similar service provided over the same distance in the nearest city in State of Florida with a population of at least 50,000.

B. An exemption from some mileage charges for any telecommunications services, using a bandwidth capacity of up to 1.544 Mbps, that is necessary for the provision of health care services. The exempted mileage includes the distance between the rural health care provider and the most distant perimeter of the nearest city in State of Florida with a population of 50,000 or more, less the standard urban distance, which is the maximum average diameter of all cities with population of 50,000 or more in the state.

C. Each eligible health care provider that cannot obtain toll-free access to an Internet service provider is entitled to receive toll charge credits for toll charges imposed for connecting to an Internet service provider as per the FCC Rules. Such toll charges are available pursuant to applicable toll tariffs.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.14 SCHOOLS AND LIBRARIES DISCOUNT PROGRAM

2.14.1 General

The Schools and Libraries Discount Program permits eligible schools (public and private, grades Kindergarten through 12) and libraries to purchase the Company services offered in this tariff at a discounted rate, in accordance with the Rules adopted by the Federal Communications Commission (FCC) in its Universal Service Order 97-157, issued May 8, 1997. The Rules are codified at 47 Code of Federal Regulation (C.F.R.) 54.500 et. seq.

As indicated in the Rules, the discounts will be between 20 and 90 percent of the pre-discount price, which is the price of services to schools and libraries prior to application of a discount. The level of discount will be based on an eligible school or library's level of economic disadvantage and by its location in either an urban or rural area. A school's level of economic disadvantage will be determined by the percentage of its students eligible for participation in the national school lunch program, and a library's level of economic disadvantage will be calculated on the basis of school lunch eligibility in the public school district in which the library is located. A non-public school may use either eligibility for the national school lunch program or other federally approved alternative measures to determine its level of economic disadvantage. To be eligible for the discount, schools and libraries will be required to comply with the terms and conditions set forth in the Rules. Discounts are available only to the extent that they are funded by the federal universal service fund. Schools and libraries may aggregate demand with other eligible entities to create a consortium.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.14 SCHOOLS AND LIBRARIES DISCOUNT PROGRAM (Cont'd)

2.14.2 Obligations of Eligible Schools and Libraries

Schools, libraries, and consortia shall participate in a competitive bidding process for all services eligible for discounts, in accordance with any state and local procurement rules.

Schools, libraries, and consortia shall submit requests for services to the Schools and Libraries Corporation, as designated by the FCC, and follow established procedures.

Services requested will be used for educational purposes.

Services will not be sold, resold or transferred in consideration for money or any other thing of value.

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.14 SCHOOLS AND LIBRARIES DISCOUNT PROGRAM (Cont'd)

2.14.3 Obligations of Carrier

Carrier will offer discounts to eligible schools and libraries on commercially available telecommunications services contained in this tariff. Those services contained in this tariff which are excluded from the discount program, in accordance with the Rules are included as an attachment to this tariff.

Carrier will offer services to eligible schools, libraries, and consortia at prices no higher than the lowest price it charges to similarly situated non-residential customers for similar services (lowest corresponding price).

In competitive bidding situations, Carrier may offer flexible pricing or rates other than in this tariff, where specific flexible pricing arrangements are allowed, subject to Florida Public Service Commission approval, if necessary.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

2 - GENERAL RULES AND REGULATIONS (Cont'd)

2.14 SCHOOLS AND LIBRARIES DISCOUNT PROGRAM (Cont'd)

2.14.4 Discounted Rates for Schools and Libraries

A. Discounts for eligible schools, libraries, and consortia shall be set as a percentage from the pre-discount price, which is the price of services to schools and libraries prior to application of a discount.

B. The discount rate will be applied to eligible intrastate services purchased by eligible schools, libraries, or consortia.

C. The discount rate is based on each school or library's level of economic disadvantage as determined in accordance with the FCC Order or other federally approved alternative measures (as permitted by the Rules) and by its location in either an urban or rural area.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

3 - CONNECTION CHARGES

3.1 CONNECTION CHARGE

3.1.1 General

Connection Charges are nonrecurring charges which apply to the following: (a) the installation of a new service; (b) the transfer of an existing service to a different location; (c) a change from one class of service to another at the same or a different location; or (d) restoral of service after suspension or termination for nonpayment. Connection Charges are listed with each service to which they apply.

The Connection Charge is comprised of a Service Order Charge

The general application of this charge is as follows:

A. A Service Order charge applies per customer order for all work or services ordered to be provided at one time, on the same premises, for the same customer. The charge recovers the cost of receiving, recording, and processing a customer's request for service.

3 - CONNECTION CHARGES (Cont'd)

3.1 CONNECTION CHARGE (Cont'd)

3.1.2 Exceptions to the Charge

A. No charge applies for a change to a service for which a lower monthly rate applies, made within 90 days after any general rate increase, if a lower grade of service is offered in the customer's exchange.

B. No charge applies for one change in the class of residence service, provided that the change is ordered within 90 days of the initial connection of the customer's exchange service.

C. The Company may from time to time waive or reduce the charge as part of a promotion. See Section 5.3.

D. The service order charge does not apply for a company initiated charge or company error, a change in billing address, or a removal of service.

3.1.3 Custom Calling Features

A. Connection charges apply to custom calling features under certain circumstances.

3.2 RESTORAL CHARGE

A restoral charge applies each time a service is reconnected after suspension or termination for nonpayment but before cancellation of the service, as deemed in Section 1 of this Tariff.

3.3 TIME AND MATERIALS CHARGE

A charge for the labor time & materials expended to diagnose any trouble on the customer's side of the demarcation point.

3.4 PRIMARY INTEREXCHANGE CARRIER CHANGE CHARGE

The customer will incur a charge each time there is a change in the long distance carrier associated with the customer's line after the initial installation of service.

4- ACCESS SERVICES

4.1 ACCESS SERVICES

Switched Access Service, which is available to Customers for their use in furnishing their services to end users, provides a two-point communications path between a Customer's premises and an end user's premises. It provides for the use of common terminating, switching and Trunking facilities. Switched Access Service provides for the ability to originate calls from an end user's premises to a Customer's premises (or a collocated interconnection location), and to terminate calls from a Customer's premises (or a collocated interconnection location) to an end user's premises in the LATA where it is provided. Switched Access Service must be ordered separately for each LATA in which the Customer desires to originate or terminate calls.

Switched Access Service is provided in the following service categories, which are differentiated by their technical characteristics and the manner in which an end user or Customer accesses them when originating or terminating calls.

Feature Group D ("FGD") Access, which is available to all Customers, provides trunk-side access to Company end office switches with an associated uniform 10XXX or 101XXXX access codes for the Customer's use in originating and terminating communications. End users may also originate calls to a selected FGD Access Customer by dialing 1 +NPA-NXX-XXXX when using the Company's presubscription service.

Toll Free Data Base Access Service, which is available to all Customers, provides trunk- side access to Company end office switches in the originating direction only, for the Customer's use in originating calls dialed by an end user to telephone numbers beginning with the prefix "800" or "888".

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order

A) Ordering Access Service Types

An Access Service Order is used by the Company to provide a Customer Access Service. When placing an order for Access Service, the Customer shall provide, at a minimum, the following information:

1) For FGD Switched Access Service:

(a) When direct routing to an end office is desired, the Customer shall specify:

- the number of trunks,
- the end office and
- the Local Transport and Local Switching options desired.

(b) When end office routing via an access tandem switch operated by another Exchange Telephone Company is desired, the Customer shall specify:

- the number of trunks,
- the access tandem switch,
- the Local Transport and Local Switching options desired, and
- an estimate of the amount of traffic to be generated to and/or from each Company end office subtending another Exchange Telephone Company's access tandem.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

A) Ordering Access Service Types (cont'd)

In addition, the Customer shall also specify for terminating only access, whether the trunks are to be arranged in trunk group arrangements or provided as single trunks.

2) For FGD Switched Access Service, the Customer shall specify the number of Busy Hour Minutes of Capacity (BHMC) from the Customer's premises to the end office by traffic type. This information is used to determine the number of transmission paths. The Customer shall also specify the Local Transport and Local Switching options. When FGD is ordered by specifying the number of trunks and direct routing to an end office is desired, the Customer shall specify:

- the end office and
- the Local Transport and Local Switching options desired.

When FGD is ordered by specifying the number of trunks and end office routing via an access tandem operated by another Exchange Telephone Company is desired, the Customer shall specify:

- the access tandem,
- the Local Transport and Local Switching options desired, and
- an estimate of the amount of traffic to be generated to and/or from each Company end office subtending another Exchange Telephone Company's access tandem.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

A) Ordering Access Service Types (cont'd.)

2) (cont'd.)

In addition, for FGD with the SS7 signaling option, the Customer shall specify the switching point codes and trunk circuit identification codes for trunks with the SS7 signaling option, and the STP point codes, signaling link codes and link type for each Common Channel Signaling Access (CCSA) connection ordered.

When a Customer orders FGD in trunks, the Customer is responsible to assure that sufficient access facilities have been ordered to handle its traffic.

3) For Toll Free Data Base Access Service, the Customer shall order the service in accordance with the preceding provisions set forth for Feature Group D. If the Customer desires any of the optional features available with Toll Free Data Base Service, the Customer shall so specify on the order for service.

B) Access Service Order Service Date Intervals

Access Service is provided with one of the following service date intervals:

- Standard Interval
- Negotiated Interval
- Advance Order Interval

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

B) Access Service Order Service Date Intervals (cont'd)

1) Standard Interval

A schedule of Standard Intervals applicable for Switched Access Services and is as follows:

Trunk Groups	Standard Interval
1 to 4 Trunks	28 Days
5 to 24 Trunks	30 Days

2) Negotiated Interval

The Company will negotiate a service date interval with the Customer when:

(a) There is no Standard Interval for the service, or;

(b) The quantity of Access Services orders exceeds the quantities specified in the Standard Intervals, or;

(c) The Customer requests a service date beyond the applicable Standard Interval service date except as set forth in (C) following.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

B) Access Service Order Service Date Intervals (cont'd)

2) Negotiated Interval (cont'd)
The Company will offer a service date based on the type and quantity of Access Services the Customer has requested. The Negotiated Interval may not exceed by more than six months the Standard Interval service date, or, when there is no Standard Interval, the Company offered service date. All services for which rates are applied on an individual case basis are provided with a Negotiated Interval.

Common Channel Signaling Access (CCSA) links will be provided on a Negotiated Interval. New or existing FGD trunks ordered with the SS7 signaling option will be provided on a Negotiated Interval.

The addition and/or deletion of a Toll Free Access Service six digit Customer identification NXX is provided with a Negotiated Interval. The addition of a Toll Free Access Service ten digit Customer identification record to the Toll Free Access Service data base or the deletion of a Toll Free Access Service ten digit Customer identification record from the Toll Free Access Service data base is provided with a Negotiated Interval.

	Maximum Interval
Initial establishment of service where Customer is:	
- Not yet provided with any Trunk Group service in the LATA	6 months
- Provided Trunk Group service in the LATA	90 Days

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

B) Access Service Order Service Date Intervals (cont'd)

3) Advance Order Interval

When placing an Access Service Order, a Customer may request an Advance Order Interval for a service date of 12 to 24 months from the application date for the following services:

- A minimum of 24 voice grade equivalent Switched Access Service lines or trunks or 720 BHMCs

Orders for less than the minimum quantities will be accommodated under Standard or Negotiated Interval provisions.

Advance Order Interval Access Service Orders are subject to all ordering conditions of Standard and Negotiated Interval Access Service Orders except for the following:

(a) Advance Payment

A nonrefundable Advance Payment will be calculated as follows:

Advance Payment (Nonrefundable)	The minimum monthly charge for the minimum period plus the applicable nonrecurring charges for the services ordered.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

B) Access Service Order Service Date Intervals (cont'd)

3) Advance Order Interval (cont'd)

(a) Advance Payment (cont'd)

This Advance Payment is due 10 working days from the date the Company confirms acceptance of the order, or on the application date, whichever date is the later date. If the Advance Payment is not received by such payment date, the order will be canceled.

When the Access Services are connected on the service date, the Advance Payment will be applied, as a credit, to the Customer's billed service charges. When there has been a decrease in the number of services originally ordered, as set forth in (2) following, only the portion of the Advance Payment for services actually installed will be credited.

(b) Cancellation or Partial Cancellation of an Advance Order Interval Access Service Order

When the Customer cancels an Access Service Order, the order will be withdrawn. The Advance Payment will not be credited or refunded.

Any decrease in the number of ordered Access Services will be treated as a partial cancellation, and the portion of the Advance Payment for the services canceled will not be credited or refunded.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

C) Access Service Order Modifications

The Customer may request a modification of its Access Service Order at any time prior to notification by the Company that service is available for the Customer's use or prior to the service date, whichever is later.

Any increase in the number of Switched Access Service lines, trunks or Busy Hour Minutes of Capacity or CCSA signaling connections will be treated as a new Access Service Order (for the increased amount only).

1) Service Date Change Charge

Access Service Order service dates for the installation of new services or rearrangements of existing services may be changed, but the new service date may not exceed the original service date by more than 30 calendar days. When, for any reason, the Customer indicates that service cannot be accepted for a period not to exceed 30 calendar days, and the Company accordingly delays the start of service, a Service Date Change Charge will apply. If the Customer requested service date is more than 30 calendar days after the original service date, the order will be canceled by the Company and reissued with the appropriate cancellation charges applied.

A Service Date Change Charge will apply, on a per order per occurrence basis, for each service date changed. The applicable charge is found in this Tariff.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

C) Access Service Order Modifications (cont'd)

2) Partial Cancellation Charge

Any decrease in the number of ordered Switched Access Service lines, trunks or Busy Hour Minutes of Capacity ordered with a Standard or Negotiated Interval Access Service Order will be treated as a partial cancellation and the charges as set forth in this Tariff will apply. Partial cancellation charges do not apply to Advance Order Interval Access Service Orders.

3) Design Change Charge

The Customer may request a design change to the service ordered. A design change is any change to an Access Service Order which requires engineering review. Design changes do not include a change of Customer premises, end user premises, end office switch, Feature Group type except for changes to Feature Group D. Changes of this nature will require the issuance of a new order and the cancellation of the original order with appropriate cancellation charges applied.

The Design Change Charge will apply on a per order per occurrence basis, for each order requiring a design change. The applicable charge is found in this Tariff.

If a change of service date is required, the Service Date Change Charge will also apply.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

C) Access Service Order Modifications (cont'd)

4) Expedited Order Charge

When placing an Access Service Order for service(s) for which Standard Intervals exist, a Customer may request a service date that is prior to the Standard Interval service date. A Customer may also request an earlier service date on a pending Standard, Negotiated or Advance Order Interval Access Service Order. If the Company agrees to provide service on an expedited basis, an Expedited Order Charge will apply.

If the Company receives a request for an expedited service date at the time a Standard Interval Access Service Order is placed, the Expedited Order Charge is calculated by summing all the nonrecurring charges associated with the order and then dividing this total by the number of days in the Standard Interval. The charge is then applied on a per day of improvement basis, per order, but in no event shall the charge exceed fifty percent of the total nonrecurring charges associated with the Access Service Order.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

D) Cancellation of an Access Service Order

1) A Customer may cancel an Access Service Order for the installation of service at any time prior to notification by the Company that services available for the Customer's use or prior to the service date, whichever is later. The cancellation date is the date the Company receives written or verbal notice from the Customer that the order is to be canceled. The verbal notice must be followed by written confirmation within 10 days. If a Customer or a Customer's end user is unable to accept Access Service within 30 calendar days after the original service date, the Customer has the choice of the following options:

- The Access Service Order shall be canceled and charges set forth in (2) following will apply, or

- Billing for the service will commence.

If no cancellation request is received within the specified 30 calendar days, billing for the service will commence. In any event, the cancellation date or the date billing is to commence, as applicable, shall be the 31st day beyond the original service date of the Access Service Order.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

D) Cancellation of an Access Service Order (cont'd)

2) When a Customer cancels a Standard or Negotiated Interval Access Service Order for the installation of service, a Cancellation Charge will apply as follows:

(a) When the Customer cancels an Access Service Order, a charge equal to the estimated provisioning costs incurred at a particular date for the service ordered by the Company shall apply.

(b) If the Company misses a service date for a Standard or Negotiated Interval Access Service Order by more than 30 days, due to circumstances such as acts of God, governmental requirements, work stoppages and civil commotions, the Customer may cancel the Access Service Order without incurring cancellation charges.

E) Minimum Period

1) The minimum period for which Access Service is provided and for which charges are applicable, is one month.

2) The following changes will be treated as a discontinuance of the existing service and an installation of a new service. All associated nonrecurring charges will apply for the new service.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

E) Minimum Period (cont'd)

2) (cont'd)

The changes listed below are those which will be treated as a discontinuance and installation of service and for which a new minimum period will be established

(a) A move to a different building.

(b) A change in type of service.

(c) A change in Switched Access Service Interface Group.

(d) Change in Switched Access Service traffic type.

(e) A change in STP Access link.

(f) A change in STP Port.

(g) Change in Company-provided Switched Access Service to a collocated interconnection arrangement or vice versa.

(h) Change to an existing FGD service to include the provision of 64 kbps Clear Channel Capability.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

F) Minimum Period Charges

When Access Service is disconnected prior to the expiration of the minimum period, charges are applicable for the balance of the minimum period.

The Minimum Period Charge for monthly billed services will be determined as follows:

- For Switched Access Service, the charge for a month or fraction thereof is equal to the applicable minimum monthly charge for the capacity.
- All applicable nonrecurring charges for the service will be billed in addition to the Minimum Period Charge.

G) Nonrecurring Charges

Nonrecurring charges are one-time charges that apply for a specific work activity (i.e., installation or change to an existing service). Types of nonrecurring charges that apply for Switched Access Service are: installation of service and service rearrangements.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

G) Nonrecurring Charges (cont'd)

1) Installation of Service

Nonrecurring charges apply to each Switched Access Service installed. For Switched Access Services ordered on a per trunk basis, the charge is applied per trunk or out of band signaling connection. For Switched Access Services ordered on a Busy Hour Minutes of Capacity basis, the charge is also applied on a per trunk basis but the charge applies only when the capacity ordered requires the installation of an additional trunk(s). In addition, nonrecurring charges apply when an out of band signaling connection is installed for use with FGD.

2) Service Rearrangements

All changes to existing services other than changes involving administrative activities only will be treated as a discontinuance of the existing service and an installation of a new service. The nonrecurring charge described in (1) preceding will apply for this work activity. Moves that change the physical location of the point of termination are described below.

(a) Moves Within the Same Building

When the move is to a new location within the same building, the charge for the move will be an amount equal to one half of the nonrecurring charge for the capacity affected. There will be no change in the minimum period requirements.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.1 Access Service Order (cont'd)

G) Nonrecurring Charges (cont'd)

2) Service Rearrangements (cont'd)

(b) Moves to a Different Building

Moves to a different building will be treated as a discontinuance and start of service and all associated nonrecurring charges will apply. New minimum period requirements will be established for the new service. The Customer will also remain responsible for satisfying all outstanding minimum period charges for the discontinued service.

H) Network Blocking Charge

The Customer will be notified by the Company to increase its capability (Busy Hour Minutes of Capacity or quantities of trunks) when excessive trunk group blocking occurs on groups carrying FGD traffic and the measured access minutes for that hour exceed the capacity purchased.

If the order for additional capacity has not been received by the Company within 15 days of the notification, the Company will bill the Customer, at the rate set forth in this Tariff, for each overflow in excess of ordered capacity.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories

The following rate categories apply to all forms of Switched Access Service, except as stated elsewhere in this tariff:

- Carrier Common Line
- Local Transport
- End Office

A) Carrier Common Line

The Carrier Common Line rate category provides for the use of Company common lines by Customers for access to end users to furnish Customer intrastate communications. Carrier Common Line is provided where the Customer obtains Company provided Switched Access Service.

1) Limitations

(a) A telephone number is not provided with Carrier Common Line.

(b) Detail billing is not provided for Carrier Common Line.

(c) Directory listings are not included in the rates and charges for Carrier Common Line.

(d) Intercept arrangements are not included in the rates and charges for Carrier Common Line.

(e) All trunk-side connections provided in the same combined access group will be limited to the same features and operating characteristics.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

A) Carrier Common Line (cont'd)

2) Undertaking of the Company

Where the Customer is provided with Switched Access Service under this Tariff, the Company will provide the use of Company common lines by a Customer for access to end users at rates and charges as set forth in this Tariff.

3) Obligations of the Customer

(a) The Customer facilities at the premises of the ordering Customer shall provide the necessary on-hook and off-hook supervision.

(b) All Switched Access Service provided to the Customer will be subject to Carrier Common Line charges, excluding the Common Channel Signaling Access exemption.

4) Common Channel Signaling Access Exemption

The Common Channel Signaling Access Signal Transfer Point (STP) Port Termination charge, as set forth in this Tariff, is not subject to a Carrier Common Line charge.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

A) Carrier Common Line (cont'd)

5) Rate Regulations

(a) The Carrier Common Line charges will be billed per access minute to each Switched Access Service Customer.

(b) When the Customer reports interstate and intrastate use of Switched Access Service, the Carrier Common Line charges will be billed only to intrastate interLATA and/or intraLATA Switched Access Service access minutes based on the data reported by the Customer set forth in Section 2.3.3 preceding.

B) Local Transport

The Local Transport rate category provides for transmission facilities between the Customer's premises or collocated interconnection location and the Company's end office switch(es) where the Customer's traffic is switched to originate or terminate its communications.

Charges for Local Transport service are computed in accordance with Section 2.6.7 preceding (Ordering, Rating, and Billing of Access Services Where More Than One Exchange Telephone Company Is Involved). For purposes of determining Local Transport mileage, distance will be measured from the wire center that normally serves the Customer's premises to the end office switch(es).

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

B) Local Transport (cont'd)

The following paragraphs describe the Local Transport rate elements.

Local Transport - Entrance Facility
Direct-Trunked Transport
Common Switched Transport
Interconnection Charge

1) Entrance Facility

The Entrance Facility provides for that communication path between a Customer's premises and the Company service wire center (SWC) of that premises for the sole use of the Customer. The Entrance Facility category is comprised of a DS1 rate. An Entrance Facility is required whether the Customer's premises and the SWC are located in the same or different buildings.

2) Direct-Trunked Transport

a. Direct Trunked transport provides transmission path for the following:

1. End Office to Serving Wire Center
2. Tandem to Serving Wire Center
3. End Office Tandem

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

B) Local Transport (cont'd)

2) Direct-Trunked Transport (cont'd)

a. The Direct-Trunked Transport rate category is comprised of a monthly fixed rate and a monthly per mile rate based on the facility provided. The fixed rate provides the circuit equipment at the ends of the transmission links. The per mile rate provides the transmission facilities, including intermediate transmission circuit equipment, between the end points of the circuit. The Direct-Trunked Transport rate is the sum of the fixed rate and the per mile rate. For purposes of determining the per mile rate, mileage shall be measured as airline mileage between the serving wire center of the Customer's premises and the end office or directly to the access tandem using the V&H coordinates method.

b. The Local Switching Dedicated End Office Trunk Port monthly rate provides for termination of a dedicated trunk in the end office port. The rate is assessed per DSO.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

3) Common Switched Transport

Common Switched Transport is comprised of two rate elements. The two rate elements are as follows:

(a) The Local Transport Termination rate provides for that portion of the voice frequency transmission path at the end office and at the Customer's premises.

(b) The Local Transport Facility rate provides for that portion of the voice frequency transmission path between the end office and at the Customer's premises.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

B) Local Transport (cont'd)

4) Interconnection Charge

The Interconnection Charge provides for interconnection with the Company's Switched Access network. This rate element will be applied to all switched access calls that originate or terminate at a Company end office.

5) Network Call Blocking

6) Common Channel Signaling Access

Common Channel Signaling Access (CCSA) is comprised of a Signal Transfer Point (STP) Link and a dedicated STP Port. The STP Link provides the connection from the Customer designated premises to the Company's STP. The STP Port provides the Customer access to the Company's SS7 network. The STP Links and STP Port are dedicated to the Customer.

7) Interface Groups

The Interface Group is provided for terminating the Local Transport at the Customer's premises. The Interface Group provides a specified premises Interface. Where transmission facilities permit, the individual transmission path between the Customer's premises and the first point of switching may at the option of the Customer be provided with optional features.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

B) Local Transport (cont'd)

7) Interface Groups (cont'd)

Interface Group 1 provides a transmission path between the point of termination at the Customer designated premises and the Customer's serving wire center may be comprised of any form or configuration of plant capable of and typically used in the telecommunication industry for the transmission of voice and associated telephone signals within the frequency bandwidth of 300 to 3000 Hz.

C) End Office

The End Office rate category provides the local end office switching and end user termination functions necessary to complete the transmission of switched access communications to and from the end users served by the Company's end office. The End Office rate category consists of the Local Switching rate and Information Surcharge elements.

1) Local Switching

The Local Switching rate element provides for: a) the use of end office switching equipment; b) the terminations for the end user common lines terminating in the local end office; and c) the termination of a call at a Company intercept operator or recording. The operator or recording tells a caller why a call, as dialed, could not be completed, and if possible, provides the correct number. Intercept rates are assessed to a Customer based on the total number of access minutes.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.2 Standard Rate Categories (cont'd)

C) End Office (cont'd)

2) Information Surcharge

The Information Surcharge is a charge to recover costs that are incurred in the provision of interstate Directory Assistance Service. The Information Surcharge is assessed to the Customer on a per call basis. The rate is set forth in this Tariff.

D) Shared End Office Port

The Local Switching Shared End Office Trunk Port minutes-of-use rate provides for the use of the shared end office trunk ports for termination of common transport trunks.

E) Shared Multiplexer Charge

The Shared Multiplexer Charge is a charge to recover the Multiplexing costs on the End Office side of the Tandem.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.3 Other Rate Categories

A) Toll Free Data Base Access Service

Toll Free Data Base Access Service is a service offering utilizing originating trunk-side Switched Access Service. The service provides for the forwarding of end user dialed Toll Free calls to a Company Service Switching Point which will initiate a query to the data base to perform the Customer identification and delivery function. The call is forwarded to the appropriate Customer based on the dialed Toll Free number. Toll Free Data Base Access Service is comprised of the following elements:

1) Customer Identification Charge

The Toll Free Data Base Access Service Customer Identification Charge applies for the identification and delivery of the appropriate Customer. The charge is assessed to the Customer on a per query and per minute of use basis and may include an area of service which may range from a single NPA/NXX to an area consisting of all LATAs and NPAs in the State of Florida. The Toll Free Carrier Identification Charge is set forth in 5.1.6. The per minute of use charges can be found with the Local Transport and Local Switching rates.

2) POTS Translation Charge

The POTS Translation provides the option of having the ten digit POTS number NPA + NXX-XXXX delivered instead of the Toll Free dialed number (e.g., 800 + NXX-XXXX) delivered to the service provider. A POTS Translation Charge is assessed per query, in addition to the Toll Free Carrier Identification Charge as set forth in this tariff. The charges can be found with the Local Transport and Local Switching rates.

4- ACCESS SERVICES (Cont'd)

4.1 ACCESS SERVICES (cont'd)

4.1.3 Other Rate Categories (cont'd)

A) Toll Free Data Base Access Service (cont'd)

3) Call Handling and Destination Feature Charge

The Toll Free Call Handling and Destination Features Package, available only with the Toll Free Data Base Access Service, provides feature functionality in addition to basic query. The feature package may include various destination options such as carrier selection, time-of-day routing, day-of-week routing, specific date routing, geographic routing, routing based on percent of allocation, and emergency routing profiles.

A Call Handling and Destination Feature Charge is assessed on a per-query basis, in addition to the Customer Identification Charge and the POTS Translation Charge as set forth in this Tariff.

4.2 MISCELLANEOUS SERVICES

4.2.1 Presubscription

A) Presubscription is an arrangement whereby an end user may select and designate to the Company an Interexchange Carrier (IXC) to access, without an access code, for intrastate interLATA calls and interstate interLATA calls subject to the Company's FCC Access Tariff. This IXC is referred to as the end user's Primary Interexchange Carrier (PIC). The end user may select as its PIC the Company, or any other IXC that orders originating Feature Group D Switched Access Service at the end office that serves the end user. After the end user's initial selection of a predesignated IXC, for any additional change in selection, a non-recurring charge applies.

4- ACCESS SERVICES (Cont'd)

4.2 MISCELLANEOUS SERVICES (cont'd)

4.2.1 Presubscription (cont'd)

B) At the request of a new or existing end user served by a Feature Group D end office, the Company will provide a list of IXCs the end user may select as its PIC. At no additional charge for the initial selection, the Customer may choose either of the following options.

- Designate an IXC as a PIC and dial 10XXX or 101XXXX to reach other IXCs.

- Designate that they do not want to be presubscribed to any IXC and choose to dial 10XXX or 101 XXXX for all calls to all IXCs.

New end users subscribing to the Company's Exchange Access Service which do not specify a PIC will default to the Company as their initial PIC selection. Subsequent to the installation of Exchange Access Service, and after the end user's initial selection of a PIC, for any additional change in selection, a nonrecurring charge applies. This charge is billed to the end user which is the subscriber to the Exchange Access Service, or upon request by the selected IXC, billed to the IXC on behalf of the end user.

4.2.2 Unauthorized PIC Change

If an IXC requests a PIC change on behalf of a billed party (e.g., an end user), and the billed party subsequently denies requesting the change, and the IXC is unable to substantiate the change with a letter of authorization signed by the billed party; then:

The billed party will be reassigned to their previously selected IXC. No charge will apply to the billed party for this reassignment.

The Unauthorized Presubscription Change Charge will apply to the IXC that requested the unauthorized PIC change. This charge is applied in addition to the PIC change charge set forth in this Tariff.

5 - SUPPLEMENTAL SERVICES

5.1 CUSTOM CALLING SERVICE

5.1.1 General

The features in this section are made available on an individual basis or as part of multiple feature packages. All features are provided subject to availability; features may not be available with all classes of service. Transmission levels may not be sufficient in all cases.

5.1.2 Description of Features

A. Three Way Conference, Consultation, Transfer

The Three Way Calling feature allows a customer to add a third party to an existing two-way call and form a three-way call. The call must have been originated from outside the station group and terminate to a station within the station group. The Call Hold feature allows a customer to put any in-progress call on hold by flashing the switchhook and dialing a code. This frees the line to allow the customer to make an outgoing call to another number. Only one call per line can be on hold at a time. The third party cannot be added to the original call.

B. Call Forwarding

Call Forwarding, when activated, redirects attempted terminating calls to another customer-specific line. The customer may have to activate and deactivate the forwarding function and specify the desired terminating telephone number during each activation procedure. Call originating ability is not affected by Call Forwarding.

The calling party is billed for the call to the called number. If the forwarded leg of the call is chargeable, the customer with the Call Forwarding is billed for the forwarded leg of the call.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.1 CUSTOM CALLING SERVICE (Cont'd)

5.1.2 Description of Features (Cont'd)

B. Call Forwarding (Cont'd)

Call Forwarding - Busy automatically reroutes an incoming call to a customer predesignated number when the called number is busy.

Call Forwarding - Don't Answer automatically reroutes an incoming call to a customer predesignated number when the called number does not answer within the number of rings programmed by the Company.

Call Forwarding - Variable allows the customer to choose to reroute incoming calls to another specified telephone number. The customer must activate and deactivate this feature.

C. Call Waiting/Cancel Call Waiting

Call Waiting provides a tone signal to indicate to a customer already engaged in a telephone call that a second caller is attempting to dial in. It will also permit the customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting (CCW) allows a Call Waiting (CW) customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the customer disconnects from the call.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.1 CUSTOM CALLING SERVICE (Cont'd)

5.1.2 Description of Features (Cont'd)

D. Multiline Hunting

This feature is a line hunting arrangement that provides sequential or circular searches of available numbers within a multiline group.

Hunt group charges apply to sequential and circular.

E. Speed Calling

This feature allows a user to dial selected numbers using one or two digits. Up to eight numbers (single digit, or thirty numbers with two digits) can be selected.

F. Blocking Service or a telephonic block can only be removed pursuant to a written request by the customer of record, or the customer of record providing the correct password over the telephone, or by a request made in person by such customer. The customer of record can provide a personal password to use to remove blocking service at the time blocking service is established.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.1 CUSTOM CALLING SERVICE (Cont'd)

5.1.3 Rates and Charges

A. Monthly Rates

Rates for this service are located in Section 12.

B. Connection Charges (Nonrecurring Charges)

Connection charges may apply when a customer requests connection to one or more custom calling features. Orders requested for the same customer account made at the same time for the same premises will be considered one request. These charges may not apply if the features are ordered at the same time as other work for the same customer account at the same premises.

See Rate Schedule in Section 12 of this tariff.

C. Trial Period

The Company may elect to offer a free or reduced rate trial of any new custom calling feature(s) to prospective customers within 90 days of the establishment of the new feature. See 5.3, Service and Promotional Trials, below.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.2 CLASS SERVICES

5.2.1 General

The features in this section are made available on an individual basis or as part of multiple feature packages. All features are provided subject to availability; features may not be available with all CLASS services. Transmission levels may not be sufficient in all cases.

5.2.2 Description of Features

A. Caller ID/Block Caller ID

The Caller ID feature allows a customer to see a caller's name and number previewed on a display screen before the call is answered allowing a customer to prioritize and or screen incoming calls. Caller ID records the name, number, date and time of each incoming call -- including calls that aren't answered by the customer. Caller ID service requires the use of specialized CPE not provided by the company. It is the responsibility of the customer to provide the necessary CPE.

B. Continuous Redial

The Continuous Redial feature allows a customer to automatically callback the last number dialed. This is accomplished by the customer activating a code. The network periodically tests the busy/free status of the called line for up to 30 minutes until both lines are found free and then completes the call for the customer.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.2 CLASS SERVICES (Cont'd)

5.2.2 Description of Features (Cont'd)

B. Continuous Redial (Cont'd)

The Continuous Redial feature also allows customers, having reached a busy number, to dial a code before hanging up. Continuous Redial feature then continues to try the busy number for up to 30 minutes until it becomes free. Once the busy line is free the call is automatically called back and the customer is notified of the connected call via a distinctive ring.

Continuous Redial will not work for the following types of calls:

- Calls to 800 Service numbers
- Calls to 900 Service numbers
- Calls preceded by an interexchange carrier access code
- International Direct Distance Dialed calls
- Calls to Directory Assistance
- Calls to 911

C. Call Return

The Call Return stores the number of the most recent incoming call (including unanswered incoming calls) to a customer's number. This allows a customer to dial back any missed or unanswered telephone calls.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.2 CLASS SERVICES (Cont'd)

5.2.2 Description of Features (Cont'd)

D. Call Trace

Call Trace allows customers to key in a code that alerts the network to trace the last call received. The traced telephone number is automatically sent to the company for storage for a limited amount of time and is retrievable by legally constituted authorities upon proper request by them. By contacting the company the customer can use this application to combat nuisance calls.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.2 CLASS SERVICES (Cont'd)

5.2.3 Rates and Charges

A. Monthly Rates

Rates for this service are located in Section 12.7, Residential Network Switched Service, and Section 12.8, Business Network Switched Service.

B. Connection Charges (Nonrecurring Charges)

Connection charges may apply when a customer requests connection to one or more features. Orders requested for the same customer account made at the same time for the same premises will be considered one request. These charges may not apply if the features are ordered at the same time as other work for the same customer account at the same premises.

See Rate Schedule in Section 12 of this Tariff.

C. Trial Period

The Company may elect to offer a free or reduced rate trial of any new CLASS feature(s) to prospective customers within 90 days of the establishment of the new feature. See 5.3, Service and Promotional Trials, below.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.3 SERVICE AND PROMOTIONAL TRIALS

5.3.1 General

The Company may establish temporary promotional programs wherein it may waive or reduce nonrecurring or recurring charges, to introduce a present or potential customer to a service not previously subscribed to by the customer. All promotional programs shall be subject to Florida Public Service Commission approval.

5.3.2 Regulations

A. Appropriate notification of the Trial will be made to all eligible customers and to the Commission. Appropriate notification may include direct mail, bill inserts, broadcast or print media, direct contact or other comparable means of notification.

B. During a Service Trial, the service(s) is provided automatically to all eligible customers, except those customers who choose not to participate. Customers will be offered the opportunity to decline the trial service both in advance and during the trial. A customer can request that the designated service be removed at any time during the trial and not be billed a recurring charge for the period that the feature was in place. At the end of the trial, customers that do not contact the Company to indicate they wish to retain the service will be disconnected from the service at no charge.

C. During a Promotional Trial, the service is provided to all eligible customers who ask to participate. Customers will be notified in advance of the opportunity to receive the service in the trial for free. A customer can request that the service be removed at any time during the trial and not be billed a recurring charge for the period that the service was in place. At the end of the trial, customers that do not contact the Company will be disconnected from the service.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.3 SERVICE AND PROMOTIONAL TRIALS (Cont'd)

5.3.2 Regulations (Cont'd)

D. Customers can subscribe to any service listed as part of a Promotional Trial and not be billed the normal Connection Charge. The offering of this trial period option is limited in that a service may be tried only once per customer, per premises.

E. The Company retains the right to limit the size and scope of a Promotional Trial.

5.4 BUSY LINE VERIFICATION AND INTERRUPT SERVICE

5.4.1 General

Upon request of a calling party, the Company will verify a busy condition on a called line. An operator will determine if the line is clear or in use and report to the calling party. In addition, the operator will intercept an existing call on the called line if the calling party indicates an emergency and requests interruption.

5.4.2 Rate Application

A. A Busy Line Verification Charge will apply when:

(1) The operator verifies that the line is busy with a call in progress,

or

(2) The operator verifies that the line is available for incoming calls.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.4 BUSY LINE VERIFICATION AND INTERRUPT SERVICE (Cont'd)

5.4.2 Rate Application (Cont'd)

B. Both a Busy Line Verification Charge and a Verification and Interruption Charge will apply when the operator verifies that a called number is busy with a call in progress and the customer requests interruption. The operator will interrupt the call advising the called party of the name of the calling party and the called party will determine whether to accept the interrupt call. Charges will apply whether or not the called party accepts the interruption.

See Rate Schedule in Section 12 of this tariff.

C. No charge will apply when the calling party advises that the call is from an official public emergency agency.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.5 DIRECTORY ASSISTANCE SERVICE

5.5.1 General

A customer may obtain assistance, for a charge, in determining a telephone number by dialing Directory Assistance Service. A customer can also receive assistance by writing the Company with a list of names and addresses for which telephone numbers are desired.

5.5.2 Regulations

A Directory Assistance Charge applies for each telephone number, area code, and/or general information requested from the Directory Assistance operator except as follows:

A. Calls from pay telephones.

B. Requests for telephone numbers of non-published service.

C. All residence main telephone lines.

D. Requests from elderly individuals and individuals with certified visual or physical handicaps in which the handicap prevents the use of a local directory. Individuals must be certified in accordance with the terms outlined under "Handicapped Person" in Section 8 of this Tariff.

E. Exchange lines of the State of Florida and its political subdivisions.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.5 DIRECTORY ASSISTANCE SERVICE (Cont'd)

5.5.3 Rates

Unless one of the exceptions listed above applies, the charges as shown below apply for each request made to the Directory Assistance operator:

See Rate Schedule in Section 12 of this tariff.

5.6 LOCAL OPERATOR SERVICE

Local calls may be completed or billed with the live or mechanical assistance by the Company's operator center. Calls may be billed collect to the called party, to an authorized 3rd party number, to the originating line, or to a valid authorized calling card. Local calls may be placed on a station to station basis or to a specified party (see Person to Person), or designated alternate. Usage charges for local operator assisted calls are those usage charges that would normally apply to the calling party's service.

See Rate Schedule in Section 12 of this tariff.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.7 BLOCKING SERVICE

5.7.1 General

Blocking service is a feature that permits customers to restrict access from their telephone line to various discretionary services. The following blocking options are available to residential and business customers:

A. 500, 700, 900 Blocking - allows the subscriber to block all calls beginning with the 500, 700 or 900 prefixes (i.e. 900-XXX-XXXX) from being placed. This feature can be used specifically for either 500, 700 or 900 numbers or any combination thereof.

B. Third Number Billed and Collect Call Restriction - provides the subscriber with a method of denying all third number billed and collect calls to a specific telephone number provided the transmitting operator checks their validation data base.

C. Toll Restriction (1+ and 0+ Blocking) - provides the subscriber with local dialing capabilities but blocks any customer-dialed call that has a long distance charge associated with it. Toll Restriction will not block the following types of calls: 911 (Emergency), 1 + 800 (Toll Free), and operator assisted toll calls, and 411 calls.

D. Toll Restriction Plus Directory Assistance- provides subscribers with Toll Restriction, as described in 5.8.1.C. of this Section, and blocking of 411 calls.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.7 BLOCKING SERVICE (Cont'd)

5.7.2 Regulations

A. The Company will not be liable for any charge incurred when any long distance carrier or alternative operator service provider accepts third number billed or collect calls.

B. Blocking Service is available where equipment and facilities permit.

5.7.3 Rates and Charges

See Rate Schedule in Section 12 of this tariff.

Connection charges apply as specified in Section 3 of this tariff.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.8 VANITY NUMBER SERVICE

5.8.1 General

A. Vanity Number Service allows a customer to order a specified telephone number rather than the next available number.

B. Vanity Number Service is furnished subject to the availability of facilities and requested telephone numbers.

C. The Company will not be responsible for the manner in which Vanity Numbers are used for marketing purposes by the customer.

D. When a new customer assumes an existing service which includes Vanity Number Service, the new customer may keep the Vanity Number, at the tariffed rate, with the written consent of the Company and the former customer.

E. The Company reserves and retains the right:

(1) To reject any request for specialized telephone numbers and to refuse requests for specialized telephone numbers;

(2) Of custody and administration of all telephone numbers, and to prohibit the assignment of the use of a telephone number by or from any customer to another, except as otherwise provided in this Tariff;

(3) To assign or withdraw and reassign telephone numbers in any exchange area as it deems necessary or appropriate in the conduct of its business.

(4) The limitation of liability provisions of this tariff in Section 2.1 are applicable to Vanity Number Service.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.8 VANITY NUMBER SERVICE (Cont'd)

5.8.2 Conditions

A. Charges for Vanity Number Service apply when a customer:

(1) Requests a telephone number other than the next available number from the assignment control list, and such requested number is placed into service within six months of the date of the request.

(2) Requests a number change from the customer's present number to a Vanity Number.

B. The Company shall not be liable to any customer for direct, indirect or consequential damages caused by a failure of service, change of number, or assignment of a requested number to another customer whether prior to or after the establishment of service. In no case shall the Company be liable to any person, firm or corporation for an amount greater than such person, firm or corporation has actually paid to the Company for Vanity Number Service.

See Rate Schedule in Section 12 of this tariff.

5 - SUPPLEMENTAL SERVICES (Cont'd)

5.9 CUSTOMER REQUESTED SERVICE SUSPENSIONS

A. At the request of the customer the Company will suspend incoming and outgoing service on the customer's access line for a period of time not to exceed one year. The equipment is left in place and directory listings are continued during the suspension period without change. At the customer's request the Company will provide the customer with an intercept recording referring callers to another number.

B. The company will assess a lower monthly rate for Customer Requested Service Suspension as noted below. However, any mileage charges, monthly cable charges or monthly construction charges are still due, without reduction during the period of suspension.

Period of Suspension	Charge
- First Month or Partial Month	Regular Monthly Rate (no reduction)
- Each Additional Month (up to the one-year limit)	½ Regular Monthly Rate

6 - RESIDENTIAL NETWORK SWITCHED SERVICES

6.1 GENERAL

Residential Network Switched Service provides a residential customer with a connection to the Company's switching network that enables the customer to:

A. place and receive calls from other stations on the public switched telephone network;

B. access the Company's local calling service;

C. access the Company's operators and business office for service related assistance; access toll-free telecommunications services such as 800 NPA; and access 911 service for emergency calling; and

D. access the service of providers of interexchange service. A customer may presubscribe to such provider's service to originate calls on a direct dialed basis or to receive 800 service from such provider, or may access a provider on an ad hoc basis by dialing the provider's Carrier Identification Code (10XXX). At the time of initial subscription, the customer shall designate a Primary Interexchange Carrier (PIC) for intra-LATA and inter-LATA toll service. If the customer does not select an intra-LATA PIC, and does not request blocking of intra-LATA toll calls, the customer must default to 10XXX dialing.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

6 - RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

6.2 SERVICE DESCRIPTIONS

The following Residential Network Switched Service Options are offered:

Residential Measured Rate Service:

All Residential Network Switched Service may be connected to customer-provided terminal equipment such as station sets or facsimile machines. Service may be arranged for two-way calling, inward calling only or outward calling only.
The following Custom Calling Service features are offered to Residential Network Switched Service Subscribers:

Three Way Conference, Consultation, Call Transfer (carries a separate MRC and NRC)
Call Forward Busy
Call Forward Don't Answer
Call Forward Variable
Call Waiting (Terminating, and Originating)
Cancel Call Waiting
Speed Calling (One/Two Digit)
Operator Assistance

6 - RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

6.2 SERVICE DESCRIPTIONS (Cont'd)

The following features are available with Residential Line Service at an additional charge:

HUNT GROUP CHARGES	HUNT LINE CHARGES
Sequential Hunting	Sequential Hunting
Circular Hunting	Circular Hunting

The following CLASS features are offered to Residential Network Switched Service Subscribers:

Caller ID
Block Caller ID
Continuous Redial (Repeat Dialing)
Call Return
Call Trace

Charges for Residential Network Switched Service include a nonrecurring service connection charge and a monthly recurring charge for each line. Monthly recurring charges apply to optional voice mail and service features. Measured charges apply to Measured Rated Service, in addition to other rate elements described above.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

6 - RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

6.2 SERVICE DESCRIPTIONS (Cont'd)

6.2.1 Measured Rate Service

Measured Rate Service provides the customer with a single, analog, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Calls to points within the local exchange area are charged on the basis of call duration in addition to a base monthly charge. Local calling areas are as specified in Section 11.

A. Description

Each Measured Rate Service Line corresponds with a single, analog, voice-grade channel that can be used to place or receive one call at a time. Measured Rate Service lines are provided for connection to a single, customer, customer-provided station set or facsimile machine.

Each Measured Rate Service has the following characteristics:

Terminal Interface:	2-wire
Signaling Type:	Loop Start
Pulse Type:	Dual Tone Multi-Frequency (DTMF) or Dial Pulse (DP)
Directionality:	Two-way, In-Only, or Out-Only, as specified by the customer.

6 - RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

6.2 SERVICE DESCRIPTIONS (Cont'd)

6.2.1 Measured Rate Service (Cont'd)

B. Recurring and Nonrecurring Charges

In addition to the nonrecurring charges listed in the Rate Schedule in Section 12 of this Tariff, service order charges apply as described in Section 3 of this Tariff. In certain circumstances, service to customers may require the use of a link (and, or) number portability arrangements provided by the Incumbent Local Exchange Carrier. In such circumstances, the monthly recurring charge to the customer will be the greater of the company's Base Service Line charge set forth below or the charge to the company by the Incumbent Local Exchange Carrier for the link used to serve the customer. If the customer is served through a Number Portability Arrangement, the monthly charge to the customer will be increased by the applicable charge from the Incumbent Local Exchange Carrier to the company of the Number Portability arrangement.

Charges for each Measured Rate Service line include a monthly recurring Base Service Charge and usage charges for completed calls originated from the customer's line based on the total number of calls during the billing period.

See Rate Schedule in Section 12 of this Tariff.

C. Local Measured Service Time Periods:

See Time Periods and Rate Schedule in Section 12 of this Tariff.

7 - BUSINESS NETWORK SWITCHED SERVICES

7.1 GENERAL

Business Network Switched Service provide a business customer with a connection to the Company's switching network which enables the customer to:

A. receive calls from other stations on the public switched telephone network;

B. access the Company's local calling service;

C. access the Company's operators and business office for service related assistance; access toll-free telecommunications service such as 800 NPA; and access 911 service for emergency calling; and

D. access the service of providers of interexchange service or intraLATA toll service. A customer may presubscribe to such provider's service to originate calls on a direct dialed basis or to receive 800 service from such provider, or may access a provider on an ad hoc basis by dialing the provider's Carrier Identification Code (10XXX). At the time of initial subscription, the customer shall designate a Primary Interexchange Carrier (PIC) for intra-LATA and inter-LATA toll service. If the customer does not select an intra-LATA PIC, and does not request blocking of intra-LATA toll calls, the customer must default to 10XXX dialing.

Business Network Switched Service is provided via one or more channels terminated at the customer's premises. Each Business Network Switched Service channel corresponds to one or more analog, voice-grade telephonic communications channels that can be used to place or receive one call at a time.

Connection charges as described in Section 3 apply to all service on a one-time basis unless waived pursuant to this Tariff.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS

The following Business Access Service Options are offered:

Basic Business Line Service
PBX Trunks

Basic Business Line Service and PBX trunks are offered with measured rate local service.

All Business Network Switched Service may be connected to customer-provided terminal equipment such as station sets, key systems, PBX systems, or facsimile machines. Service may be arranged for two-way calling, inward calling only or outward calling only. Optional Voice Mail Service is available.

The following features as described in Section 5 are available with Business Line Service for an additional charge:

Three Way Conference, Consultation
Call Forwarding (Variable, Busy Line, Don't Answer)
Call Waiting/Cancel Call Waiting
Speed Calling One Digit (8)
Speed Calling Two Digit (30)
Call Forwarding Remote Access
Call Transfer

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

The following features are available with Business Line Service at an additional charge.

HUNT GROUP CHANGES	HUNTING LINE CHANGES
Sequential Hunting	Sequential Hunting
Circular Hunting	Circular Hunting

The following CLASS features are offered to business network switched service subscribers at an additional charge:

Caller ID + Name
Block Caller ID
Call Return
Repeat Dialing (Continuous Redial)
Call Trace
Anonymous Call Rejection

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.1 Basic Business Line Service

A. General

Basic Business Line Service provides a customer with a one or more analog, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Local calling service is available at a flat rate included in the line price, or on a measured usage basis. Basic Business Lines are provided for connection of customer-provided single-line terminal equipment such as station sets or facsimile machines.

Each Basic Business Line has the following characteristics:

Terminal Interface: 2-wire

Signaling Type: Loop start

Pulse Types: Dual Tone Multifrequency (DTMF) or Dial Pulse (DP)

Directionality: Two-Way, In-Only, or Out-Only, at the option of the customer

B. Measured Rate Basic Business Line Service

1) Description

Calls to points within the local exchange area are charged on the basis of the duration of completed calls originating from the customer's service in addition to a base monthly charge. Local calling areas are as specified in Section 11.

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.1 Basic Business Line Service (Cont'd)

B. Measured Rate Basic Business Line Service (Cont'd)

2) Recurring and Nonrecurring Charges

Charges for each Measured Rate Service line include a monthly recurring Base Service Charge and usage charges for completed calls originated from the customer's line based on the duration of calls during the billing period. In addition to the nonrecurring charges listed below, service order charges apply as described in Section 3 of this tariff. In certain circumstances, service to customers may require the use of a link (and, or) number portability arrangements provided by the Incumbent Local Exchange Carrier. In such circumstances, the monthly recurring charge to the customer will be the greater of the company's Base Service Line charge set forth below or the charge to the company by the Incumbent Local Exchange Carrier for the link used to serve the customer. If the customer is served through a Number Portability Arrangement, the monthly charge to the customer will be increased by the applicable charge from the Incumbent Local Exchange Carrier to the Company of the Number Portability Arrangement.

3) Usage Charges

See Rate Schedule in Section 12

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.2 PBX Trunk Service

A. General

PBX trunks are provided for connection of customer-provided PBX terminal equipment. Trunks can be delivered at a DS0 level or at the DS1 level.

DID service allows callers to reach the called party without going through a PBX attendant. DOD service allows end users to dial outside of a PBX system without going through the PBX attendant to get access to an outside line. Digital trunks cannot be two-way trunks, but must be ordered as with either Direct Inward Dialing (DID) or Direct Outward Dialing (DOD).

For DID configured PBX trunks additional charges apply for Direct Inward Dial Station numbers.

Each DS0 level Trunk has the following characteristics:

Terminal Interface:	2-wire or 4-wire, as required for the provision of service
Signaling Type:	Loop, Ground, E&M I, II, III
Pulse Type:	Dual Tone Multi-Frequency (DTMF) or Dial Pulse (DP)
Directionality:	In-Coming Only (DID), Out-Going Only (DOD), or Two-Way

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.2 PBX Trunk Service (Cont'd)

B. DS1 PBX Trunk Service

1) Description

DS1 PBX Trunk Service provides a customer with connection to the Company switch via a DS1 digital fiber optic transmission facility operating at 1.544 Mbps and time division multiplexed into 24 voice grade telephonic communications channels. Digital PBX Trunks are provided for connection of customer-provided PBX equipment or trunk capable key systems to the Company switch. Each DS1 PBX Trunk has the following characteristics:

Terminal Interface:	Channel Bank or DSX-1 panel
Signaling Type:	Loop, Ground, E&M I, II, III
Start Dial Indicator:	Immediate Wink, Delay Dial, Dial Tone
Pulse Type:	Dual Tone Multi-Frequency (DTMF)
Directionality:	In-Coming or Out-Going Only, as specified by the customer

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.2 PBX Trunk Service (Cont'd)

B. DS1 PBX Trunk Service (Cont'd)

2) Recurring and Nonrecurring Charges

In addition to the nonrecurring charges listed in Section 12 of this Tariff, service order charges apply as described in Section 3 of this tariff. Charges for each Measured Rate DS1 PBX Trunk include a monthly recurring Base Service Charge and usage charges for completed calls originated from the customer's lines based on the duration of calls during the billing period. In certain circumstances, service to customers may require the use of private line facilities obtained by the company from the Incumbent Local Exchange Carrier or another underlying provider. In such circumstances, the monthly recurring charges to the customer will be the greater of the Company's Monthly Recurring Charges set forth below or the charge to the Company by the Incumbent Local Exchange Carrier or other underlying provider for the private line facility used to serve the customer. If the customer is served through a Number Portability Arrangement, the monthly charge to the customer will be increased by the applicable charge from the Incumbent Local Exchange Carrier to the Company of the Number Portability Arrangement.

Where appropriate facilities do not exits, special construction charges apply.

3) Measured Usage Charges

Measured usage charges for DS1 Trunks are the same as those indicated for a basic business line as described in Section 7.2.1.B.

7 - BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

7.2 SERVICE DESCRIPTIONS (Cont'd)

7.2.3 Term Liability/Termination Charges

Several of the services offered above are available at reduced prices if the Customer agrees at the time the order is placed to continued service for a specified period of time ("term"). If the Customer terminates service prior to the end of the term, in part or in whole, then termination charges may apply. If a customer disconnects service prior to the fulfillment of the term plan contracted, then a termination liability will be due to Company from Customer. The termination liability charge will be the difference between the monthly rate for the highest term period which could have been satisfied prior to service discontinuance and the monthly rate for the selected commitment period multiplied by the actual number of months the plan has been in effect. The monthly rates used for this calculation will be those in effect at the time the service is disconnected.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

8 - SPECIAL SERVICES AND PROGRAMS

8.1 LIFELINE TELEPHONE SERVICE

8.1.1 Lifeline Discounted Service

This service provides either a 50% reduction in the port charge (as defined in Section 5 of this tariff) paid by the Customer, or a credit of $3.50, which ever is greater. In no case will the total service charge for Lifeline Discounted Service exceed that of the dominant local exchange service provider in the same area. Current Lifeline rates are shown in Section 12 of this Tariff.

8.1.2 Eligibility

These services are restricted to low income residential customers for a single exchange access line at the principle residence. To qualify for Lifeline service a customer must be certified as income eligible for benefits from any one of the Home Energy Assistance Programs (HEAP) or at least one of the following Entitlement Programs:

Aid to Families with Dependent Children (AFDC)
Food Stamps
Home Energy Assistance Program (HEAP)
Home Relief
Medicaid
Supplemental Security Income (SSI)

In addition, applicants are eligible for Lifeline service when approved to receive either a Veteran's Disability Pension or a Veteran's Surviving Spouse Pension. Applicants must provide proof to the Company that they are receiving one of these Pensions. Eligibility is limited to those eligible under federal guidelines.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.1 LIFELINE TELEPHONE SERVICE (Cont'd)

8.1.2 Eligibility (Cont'd)

Life Line services are effective upon receipt of a completed and signed form of eligibility. If the form is not returned, no further action is taken by the Company to establish eligibility. The Life Line discount is credited as of the service connection date.

An individual's eligibility may be documented by information obtained by the Company as a result of enrollment programs, including but not limited to confidential computerized matching programs, conducted by the Company in conjunction with state agencies.

The Company, in coordination with appropriate agencies, will periodically verify each Lifeline Customer's eligibility. If a Customer is identified as being ineligible, the Customer will be notified that unless the information is shown to be in error, the Lifeline discount will be discontinued. The customer will be billed for discounts received for any period in which he or she is proven to be ineligible for the service.

8.1.3 Charges

For connection of new service, service connection charges apply unless the customer qualifies for connection assistance under the Link Up America plan as outlined in Section 8.2 following.

Service connection charges do not apply to change existing service from:

A. Flat Rate Service to Basic Lifeline service;

B. Basic Lifeline service to Flat Rate Service.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.2 LINK UP AMERICA

The Link Up America program is a connection assistance plan that provides for the reduction of one-half of the charges associated with connection of telephone service, up to $30.00, subject to the following eligibility criteria:

8.2.1 The applicant must meet the requirements for qualification for Lifeline Telephone Service stipulated in Section 8.1.2 of this tariff;

8.2.2 The assistance can only apply for a single telephone line at the principal place of residence of the applicant;

8.2.3 The applicant must not be a dependent for federal income tax purposes, unless he or she is more than 60 years old.

In no cases will the charges for connection of service for eligible Customers exceed that of the dominant local exchange provider in the same area.

8.3 SPECIAL EQUIPMENT FOR THE HEARING OR SPEECH IMPAIRED CUSTOMER

8.3.1 The Company will provide, upon request, specialized telecommunications equipment for customers certified as hearing or speech impaired.

8.3.2 A customer can be certified as hearing or speech impaired by a licensed physician, otolaryngologist, speech-language pathologist, audiologist or an authorized representative of a social agency that conducts programs for persons with hearing or speech impairments in cooperation with an official agency of the State of Florida.

8.3.3 The Company will make every reasonable effort to locate and obtain equipment for a certified customer.

8.3.4 The customer may purchase equipment at a price not to exceed the actual purchase price (including any applicable shipping costs) the Company pays.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.3 SPECIAL EQUIPMENT FOR THE HEARING OR SPEECH IMPAIRED CUSTOMER (Cont'd)

8.3.5 The Company will also advise customers who request this equipment of the applicable terms for purchase.

8.4 DISCOUNTED SERVICE FOR THE HEARING OR SPEECH IMPAIRED CUSTOMER

8.4.1 General

Handicapped persons who have been certified to the Company as having a hearing or speech impairment which requires that they communicate over telephone facilities by means other than voice, and who either use non-voice equipment or make calls through an interpreter, will receive, upon application to the Company, a fifty percent (50%) discount on local measured rate service.

8.4.2 Certification

Acceptable certifications are:

A. Those made by a licensed physician, otolaryngologist, speech-language pathologist or audiologist or an authorized representative of a social agency that conducts programs for persons with hearing or speech impairment in cooperation with an official agency of the State of Florida, or

B. Pre-existing certifications establishing the impairment of hearing or speech such as those which qualify the handicapped person for social security benefits on the basis of total hearing impairment or for the use of facilities of an agency for a person with hearing or speech impairment.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.4 DISCOUNTED SERVICE FOR THE HEARING OR SPEECH IMPAIRED CUSTOMER (Cont'd)

8.4.3 Qualification

Those customers qualifying for the discount are persons whose impairment is such that competent authority would certify them as being unable to use a telephone for voice communication. See Explanation of Terms, "Handicapped Person," for a listing of the necessary qualifications.

8.4.4 Billing

The reduction in charges is applied only at one location, designated by the impaired person.

8.5 UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE

8.5.1 General

Universal Emergency Telephone Number Service (911 Service) is an arrangement of network facilities whereby any telephone user who dials the number 911 will reach the emergency report center for the telephone from which the number is dialed or will be routed to an operator if all lines to an emergency report center are busy. If no emergency report center customer exists for a central office entity, a telephone user who dials the number 911 will be routed to an operator. The telephone user who dials the 911 number will not be charged for the call.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.5 UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE

8.5.2 Regulations

A. This service is furnished to municipalities and other governmental agencies only for the purpose of voice reporting of emergencies by the public. For this service, the municipality or government agency(s) designated by the customer as responsible for the control and staffing of the emergency report center is referred to as the "Agency".

B. When 911 service replaces an existing emergency number, intercept service shall be the responsibility of the Agency. However, if the Agency is unable to provide this service, the operator will intercept and forward requests for emergency aid for a period of at least one year

C. 911 service is furnished for incoming calls only.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.5 UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE

8.5.3 Conditions of Furnishing Service

This service is offered solely as an aid in handling assistance calls in connection with fire, police, medical, and other emergencies. The Company is not responsible, in the absence of gross negligence or willful misconduct, for any losses, claims, demands, suits, or any liability, whether suffered, made, instituted, or asserted by the customer or by any other party or person, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, whether owned by the customer or others, caused or claimed to have been caused by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of such facilities. By dialing 911, the customer agrees to release, indemnify, defend, and hold harmless the Company from any and all loss or claims, whatsoever, whether suffered, made, instituted, or asserted by the destruction of any property, whether owned by the customer or others. Not withstanding any provision to the contrary, in no event shall the Company be liable for any special, incidental, consequential, exemplary, or punitive damages of any nature whatsoever.

The Company is not responsible for any infringement or invasion of the right of privacy of any person or persons, caused, or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of the 911 service features and the equipment associated therewith, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing the 911 service.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.6 ENHANCED UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE

8.6.1 General

Enhanced Universal Emergency Telephone Number Service (E911 Service) is a Call Delivery Network whereby any telephone user who dials the number 911 will reach a designated Public Safety Answering Point (PSAP). E911 Service is offered in the Company's serving area subject to the availability of stored program control central office facilities, Enhanced 911 software, and ANI equipment. The telephone user who dials the 911 number will not be charged for the call.

8.6.2 Regulations

A. In addition to the following, the regulations in 8.5.2 apply.

B. This tariff does not provide for the inspection or constant monitoring of facilities to discover errors, defects, or malfunctions in the service, nor does the company undertake such responsibility. The Agency shall make such operational tests as in their judgment are required to determine whether the system is functioning properly for its use. The Agency shall promptly notify the Company in the event the system is not functioning properly.

C. E911 information, consisting of the names, addresses, and telephone numbers of all telephone customers, is confidential, The Company will release such information to the Agency periodically for the update of their systems.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.6 ENHANCED UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE (Cont'd)

8.6.2 Regulations (Cont'd)

D. The E911 calling party, by dialing 911, waives the privacy afforded by non-listed and non-published service to the extent that the telephone number ("ANI") and address ("ALI") associated with the originating station location are furnished to the PSAP, on a call by call basis, after an E911 call has been received.

E. Service boundaries of the Company and political subdivision boundaries may not coincide. In the event that the Agency does not subscribe to Selective Routing, it must make arrangements to handle all 911 calls that originate from telephones served by Central offices in the local service areas (i.e., exchange) whether or not the calling telephone is situated on property within the geographical boundaries of the Agency's public safety jurisdiction.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.6 ENHANCED UNIVERSAL EMERGENCY TELEPHONE NUMBER SERVICE (Cont'd)

8.6.3 Conditions of Furnishing Service

This service is offered solely as an aid in handling assistance calls in connection with fire, police, medical, and other emergencies. The Company is not responsible, in the absence of gross negligence or willful misconduct, including default routing, for any losses, claims, demands, suits, or any liability, whether suffered, made, instituted, or asserted by the customer or by any other party or person, for any personal injury to or death of any person or persons, and for any loss, damage, or destruction of any property, whether owned by the customer or others, caused or claimed to have been caused by the installation, operation, failure to operate, maintenance, removal, presence, condition, location, or use of such facilities. By dialing 911, the customer agrees to release, indemnify, defend, and hold harmless the Company from any and all loss or claims, whatsoever, whether suffered, made, instituted, or asserted by the destruction of any property, whether owned by the customer or others. Not withstanding any provision to the contrary, in no event shall the Company be liable for any special, incidental, consequential, exemplary, or punitive damages of any nature whatsoever, including for default routing.

The Company is not responsible for any infringement or invasion of the right of privacy of any person or persons, caused, or claimed to have been caused, directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of the 911 service features and the equipment associated therewith, including, but not limited to, the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing the 911 service.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

FLORIDA RELAY SERVICE

8.7.1 General

The Company will provide access to a telephone relay center for Relay Service. The service permits telephone communications between hearing and/or speech impaired individuals who must use a Telecommunications Device for the Deaf (TDD) or a Teletypewriter (TTY) and individuals with normal hearing and speech. The Relay Service can be reached by dialing an 800 number. Specific 800 numbers have been designated for both impaired and non-impaired customers to use.

8.7.2 Regulations

A. Only intrastate calls can be completed using the State of Florida Relay Service.

B. Charges for calls placed through the Relay Service will be billed as if direct distance dialed (DDD) from the point of origination to the point of termination. The actual routing of the call does not affect billing.

C. Calls through the Relay Service may be billed to a third number only if that number is within the State of Florida. Calls may also be billed to calling cards issued by the Company or other carriers who may choose to participate in this service.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.7 FLORIDA RELAY SERVICE (Cont'd)

8.7.2 Regulations (Cont'd)

D. The following calls may not be placed through the Relay Service:

1) calls to informational recordings and group bridging service:

2) calls to time or weather recorded messages;

3) station sent paid calls from coin telephones; and

4) operator-handled conference service and other teleconference calls.

8.7.3 Liability

The Company contracts with an outside provider for the provision of this service. The outside provider has complete control over the provision of the service except for the facilities provided directly by the Company. In addition to other provisions of this Tariff dealing with liability, in the absence of gross negligence or willful misconduct on the part of the Company, the Company shall not be liable for and the customer, by using the service, agrees to release, defend, and hold harmless for all damages, whether direct, incidental or consequential, whether suffered, made, instituted, or asserted by the customer, or by any other person, for any loss or destruction of any property whatsoever, whether covered by the customer or others, or for any personal injury or death of, any person. Not withstanding any provision to the contrary, in no event shall the Company be liable for any special, incidental, consequential, exemplary, or punitive damages of any nature whatsoever.

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.8 SPECIAL CREDIT CARD FOR BLIND AND DISABLED PERSONS

8.8.1 General

Persons who are blind or whose disability causes difficulty with hand and finger coordination and use of a telephone qualify for a Special Credit Card. The card may be used from any telephone within the Company's territory to place calls within and outside the State of Florida at a special rate or to place calls from a telephone outside of the Company's territory, but within the State of Florida at rates applicable to the territory from which the call is made.

8.8.2 Rates

Within the Company's Territory:
Station to station toll calls placed with operator assistance will be billed at the lower rate normally applicable to calls placed without operator assistance. Local calls cannot be charged to the card. Person-to-person calls charged to the card will be billed at the higher operator handled rate.

Outside the Company's Territory, but within the State of Florida:
All rates, charges, billing and restriction in effect in the territory from which the call is made will apply.

8.8.3 Qualification

The following criteria will be used to determine eligibility for the Special Credit Card:

a. "Legally Blind" - those whose visual acuity is 20/200 or less in the better eye with correcting glasses or whose widest diameter or visual field subtends an angular distance no greater than 20 degrees.

b. "Physically Handicapped" - those who are certified by competent authority as unable to read or use ordinary printed materials as a result of physical limitations.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

8 - SPECIAL SERVICES AND PROGRAMS (Cont'd)

8.8 SPECIAL CREDIT CARD FOR BLIND AND DISABLED PERSONS (Cont'd)

8.8.3 Qualification (Cont'd)

c. Persons whose disabling condition causes difficulty with hand and finger coordination and utilization of a coin or non-coin telephone. Acceptable certifications are those made by a licensed physician ophthalmologist or optometrist.

8.8.4 Billing Authorization

Responsibility for payment of charges may be handled in one of two ways:

a. The handicapped person (the applicant) may accept responsibility for payment of his or her own bill. In this case, the applicant must be 18 years of age or older and must reside within the Company's service territory, but he or she does not need to have other service from the Company.

b. Another party may agree to accept responsibility for payment of charges incurred through use of at the Special Credit Card by the applicant. When this option is chosen, the person accepting this responsibility must be 18 years of age or older, but does not need to reside within the Company's service territory.

In either case, the applicant is the only authorized user of the Special Credit Card. If the person accepting payment responsibility has service within the Company's service territory, charges will be billed on a regular monthly bill; otherwise a separate bill will be sent.

9 - SPECIAL ARRANGEMENTS

9.1 SPECIAL CONSTRUCTION

9.1.1 Basis for Charges

Basis for Charges where the Company furnishes a facility or service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company (including return) and may include:

a. nonrecurring charges;
b. recurring charges;
c. termination liabilities; or
d. combinations of a, b, and c.

9.1.2 Basis for Cost Computation

The costs referred to in 9.1.1 preceding may include one or more of the following items to the extent they are applicable:

A. Costs to install the facilities to be provided including estimated costs for the rearrangements of existing facilities. These costs include:

1) equipment and materials provided or used;
2) engineering, labor, and supervision;
3) transportation; and
4) rights of way and/or any required easements.

B. Cost of maintenance.

C. Depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

9 - SPECIAL ARRANGEMENTS (Cont'd)

9.1 SPECIAL CONSTRUCTION (Cont'd)

9.1.2 Basis for Cost Computation (Cont'd)

D. Administration, taxes, and uncollectible revenue on the basis of reasonable average cost for these items.

E. License preparation, processing, and related fees.

F. Tariff preparation, processing and related fees.

G. Any other identifiable costs related to the facilities provided; or

H. An amount for return and contingencies.

9.1.3 Termination Liability

To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of a customer.

A. The period on which the termination liability is based is the estimated service life of the facilities provided.

9 - SPECIAL ARRANGEMENTS (Cont'd)

9.1 SPECIAL CONSTRUCTION (Cont'd)

9.1.3 Termination Liability (Cont'd)

B. The amount of the maximum termination liability is equal to the estimated amounts (including return) for:

1) Costs to install the facilities to be provided including estimated costs for the rearrangements of existing facilities. These costs include:

a. equipment and materials provided or used;
b. engineering, labor, and supervision;
c. transportation; and
d. rights of way and/or any required easements;

2) license preparation, processing, and related fees;

3) tariff preparation, processing and related fees;

4) cost of removal and restoration, where appropriate; and

5) any other identifiable costs related to the specially constructed or rearranged facilities.

C. The termination liability method for calculating the unpaid balance of a term obligation is obtained by multiplying the sum of the amounts determined as set forth in Section 9.1.3.B. preceding by a factor related to the unexpired period of liability and the discount rate for return and contingencies. The amount determined in Section 9.1.3.B. preceding shall be adjusted to reflect the redetermined estimated net salvage, including any reuse of the facilities provided. This amount shall be adjusted to reflect applicable taxes.

9 - SPECIAL ARRANGEMENTS (Cont'd)

9.2 NON-ROUTINE INSTALLATION AND/OR MAINTENANCE

At the customer's request, installation and/or maintenance may be performed outside the Company's regular business hours, or (in the Company's sole discretion and subject to any conditions it may impose) in hazardous locations. In such cases, charges based on the cost of labor, material, and other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

9.3 INDIVIDUAL CASE BASIS (ICB) ARRANGEMENTS

Rates for ICB arrangements will be developed on a case-by-case basis in response to a bona fide request from a customer or prospective customer for service which vary from tariffed arrangements. Rates quoted in response to such requests may be different for tariffed service than those specified for such service in this Tariff. ICB rates will be offered to customers in writing and will be made available to similarly situated customers. A summary of each ICB contract pricing arrangement offered pursuant to this paragraph will be filed as an addendum to this Tariff within 30 days after the contract is signed by both the Company and the customer. The following information will be included in the summary:

1) LATA and type of switch
2) The V&H distance from the central office to the customer's premises
3) Service description
4) Rates and charges
5) Quantity of circuits
6) Length of the agreement.

10 - DIRECTORY

10.1 ALPHABETICAL DIRECTORY

10.1.1 Main Listings

A. The Company contracts with an outside provider, which may be the Incumbent Local Exchange Carrier, for directory listings. All references to the directory of the Company will mean the directory published by the outside provider.

B. The term "listing" refers to the information in light face type in the alphabetical directory and the Directory Assistance Records of the Company.

C. Listings provided without charge are as follows:

1) One listing for each individual line. Where individual lines are grouped for incoming service, only one listing will be provided for each such group.

2) One listing for each PBX or interconnecting system.

D. The name listed in the directory has no bearing on who is responsible for payment of the account associated with the number being listed.

10 - DIRECTORY (Cont'd)

10.1 ALPHABETICAL DIRECTORY (Cont'd)

10.1.2 Composition of Listings

A. Listings are limited to information essential to the identification of the listed party.

B. Addresses

1) Each listing normally includes the number and street name location where the telephone service is furnished. the name of a building may be shown in case of buildings commonly known by name.

2) Upon Customer request, the address may be omitted, a post office box number may be shown, or a partial address (omitting number) may be shown. In directories where locality names are normally part of the address, a partial address consisting of the name of a locality may be shown.

C. The Customer may request a main listing different from the billing name and address of the service. All such requests will be honored to the extent possible under the terms of the contract described in 10.1.1.a above.

10.1.3 Types of Listings

In addition to the main listing as described above, the following options are available for an additional charge.

10 - DIRECTORY (Cont'd)

10.1 ALPHABETICAL DIRECTORY (Cont'd)

10.1.3 Types of Listings (Cont'd)

A. Non-Listed

Telephone numbers of non-listed service are not listed in the Company's directories or on the directory assistance records. Non-listed service is available with all classes of main telephone exchange service provided the customer has other exchange service, which is listed in the directory or is on directory assistance records in the same name and at the same address. There are no restrictions against furnishing name, address or number information for non-listed services.

B. Additional Listing

A listing in addition to the main listing.

C. Cross Reference Listing

A Customer may have a related listing in the same alphabetic group listing when required for identification of the listed party and not designated for advertising purposes.

D. Extra Line Listing

This feature provides information after a main or additional listing. It refers callers to an alternative telephone number that is listed immediately below the main number.

E. Foreign Listing

This feature provides a listing for a customer in a directory other than the directory that serves their local service area.

10 - DIRECTORY (Cont'd)

10.1 ALPHABETICAL DIRECTORY (Cont'd)

10.1.4 Non-Published Service

A. General

The telephone numbers of non-published service are not listed in either the Company's alphabetical directory or Directory Assistance records available to the general public. However, where a government agency subscribes to Universal Emergency Telephone Number Service (911) or Enhanced Universal Emergency Telephone Service (E911), the telephone number, name, and address of a Customer with non-published service will be displayed when the Customer dials 911 and is connected to a Public Safety Answering Point (PSAP) for dispatch of emergency service. In addition, the Company will provide a Customer's non-published number when a law enforcement agency requests it in writing.

B. Regulations

1) Except as otherwise provided in this paragraph, incoming calls to non-published service will be completed only when the calling party places the call by number. In claims of emergencies involving life and death, the operator will call the non-published number and request permission to make an immediate connection to the calling party. If the connection is refused, the calling party will be advised.

2) The acceptance by the Company of the Customer's request to refrain from publishing his or her telephone number in the Directory does not create any relationship or obligation, direct or indirect, to any person other than the Customer.

10 - DIRECTORY (Cont'd)

10.1 ALPHABETICAL DIRECTORY (Cont'd)

10.1.4 Non-Published Service (Cont'd)

B. Regulations (Cont'd)

3) In the absence of gross negligence or willful misconduct, no liability for damages arising from publishing the telephone number of non-published service in the directory or disclosing said number to any person shall attach to the Company, and where such a number is published in the directory, the Company's liability shall be limited to and satisfied by a refund of any monthly charges which the Company may have made for such non-published service.

4) The Customer indemnifies and saves the Company harmless against any and all claims for damages caused or claimed to have been caused, directly, by the publication of the number of a non-published service or the disclosing of said number to any person.

10 - DIRECTORY (Cont'd)

10.2 [RESERVED FOR FUTURE USE]

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

10 - DIRECTORY (Cont'd)

10.3 DIRECTORY INFORMATION REQUESTS

Requests for directory information are provided by dialing Directory Assistance. (See Section 5.5.) Information will not be issued by the Company outside of normal directory assistance procedures unless the request the request is made by an emergency agency. Directory information will only be provided to emergency agencies after a formal request is presented to the Company in writing. The requesting agency must agree to pay for the costs incurred by the Company in providing the information, and must certify that the information will be used only for the purpose of providing its services to the community.

10.4 LIABILITY OF THE COMPANY FOR ERRORS

10.4.1 General

In the absence of gross negligence or willful misconduct, and except for the allowances stated elsewhere in this Tariff, no liability for any damage of any nature whatsoever arising from errors in directory listings or errors in listings obtainable from the Directory Assistance operator, including errors in reporting thereof, shall attach to the Company. A listing is considered in error only when it shows the Customer on the wrong street, or in the wrong community. The Customer must notify the Company of an error.

10.4.2 Allowance for Errors

An allowance for errors in published directory listings or for errors in listings obtainable from the Directory Assistance operator shall be given as follows:

10 - DIRECTORY (Cont'd)

10.4 LIABILITY OF THE COMPANY FOR ERRORS (Cont'd)

10.4.2 Allowance for Errors (Cont'd)

A. Free Listings

For Free or non-charge published directory listings, credit shall be given at the rate of two times the monthly rate for an additional or charge listing affected, for each month of the life of the directory or the charge period during which the error occurs. The Company may issue the credit in a lump sum if it chooses to do so.

B. Charge Listings

For each additional or charge published directory listing, credit shall be given at the monthly tariff rate for each individual line affected, for each month of the life of the directory or the charge period during which the error occurs.

C. Operator Records

For free or charge listings obtainable from records used by the Directory Assistance operator, upon notification to the Company of the error in such records by the Customer, the Company shall be allowed a period of three business days to make the correction. If the correction is not made in that time for reasons within the control of the Company, credit shall be given at the rate of two-thirtieths (2/30) of the basic monthly rate for the line or lines in question for each day thereafter that the records remain uncorrected.

The total amount of any credit shall not exceed, on a monthly basis, the total of the charges for each listing plus the basis monthly rate for the line(s) in question. No allowance will be provided for errors caused by other carriers or operator service providers.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

11 - SERVICE AREAS

Service Areas: Where suitable facilities permit, the services referred to in this tariff will be provided by the Company within the local service areas of BellSouth, GTE and Sprint.

12 - RATES & CHARGES

12.1 CONNECTION CHARGES

12.1.1 Service Order Charge:

	Business	Residence
First	$10	$10
Additional	$10	$10

12.2 RESTORAL CHARGE

	Business	Residence
First	$30	$30
Additional	$30	$30

12.3 TIME AND MATERIALS CHARGE

First 60 Minutes	$75.00
Additional 30 Minute Increments	$37.50

12.4 PRIMARY INTEREXCHANGE CARRIER CHANGE CHARGE

Charge: $5.00

12 - RATES & CHARGES (Cont'd)

12.5 ACCESS SERVICES

12.5.1 Service Orders

		Nonrecurring Charge First	Nonrecurring Charge Add'l
A)	Service Implementation		
	1) Installation Charge	$ICB	$ICB
	2) Access Service Order Charge	$ICB	$ICB
	3) Engineering Charge	$ICB	$ICB
B)	Service Date Change - Per Access Service Order	$N/A	$N/A
C)	Design Change - Per Access Service Order	$N/A	$N/A

12.5.2 Carrier Common Line

		Tandem	Direct
A)	Originating	$0.010000	$0.009500
B)	Terminating	$0.018570	$0.017642

12 - RATES & CHARGES (Cont'd)

12.5 ACCESS SERVICES (Cont'd)

12.5.3 Local Transport

Interconnection Charge (Per minute of use)

	Tandem	Direct Access
Originating	$0.000000	$0.000000
Terminating	$0.002990	$0.002841

12.5.4 End Office

Local Switching

	Tandem	Direct Connect
Per Access Minute		
Feature Group D	$0.007395	$0.007025

Information Surcharge

Per Call
$0.30

12 - RATES & CHARGES (Cont'd)

12.5 ACCESS SERVICES (Cont'd)

12.5.5 Toll Free Data Base Access Service

	Tandem	Direct Connect
Customer Identification Charge Per Query	$ICB	$ICB
POTS Translation Charge Per Query	$0.008553	$0.008553

12.5.6 Miscellaneous Services

(A) Presubscription

Authorized PIC Change -Per Telephone Exchange Service Line or Trunk	$5.00
Unauthorized PIC Change -Per Telephone Exchange Service Line or Trunk	$5.00

12 - RATES & CHARGES (Cont'd)

12.5 ACCESS SERVICES (Cont'd)

12.5.6 Miscellaneous Services

(B) Calling Card Services

Per Minute Rate:	
Day	$.192
Evening	$.192
Night/Weekend	$.192
Per Call Surcharge:	$0.80

(C) Prepaid Debit Card Services

Per Minute Rate:	
Day	$.192
Evening	$.192
Night/Weekend	$.192
Per Call Surcharge:	$0.80

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.6 SUPPLEMENTAL SERVICES

12.6.1 Custom Calling Service

Rates and Charges

A. Monthly Charges

Rates for this service are located in the Rate Schedules for Section 12.7.1.1, Residential Network Switched Service and Section 12.8.1.1, Business Network Switched Service.

B. Nonrecurring Connection Charges

Connection charges for this service are located in the Rate Schedules for Section 12.7.1.1(A), Residential Network Switched Service and Section 12.8.1.1(A), Business Network Switched Service.

12.6.2 CLASS Services

Rates and Charges

A. Monthly Charges

Rates for these services are located in the Rate Schedules for Section 12.7.1.1, Residential Network Switched Service, and Section 12.8.1.1, Business Network Switched Service.

B. Nonrecurring Connection Charges

Connection charges for this service are located in the Rate Schedules for Section 12.7.1.1, Residential Network Switched Service and Section 12.8.1.1, Business Network Switched Service.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.6 SUPPLEMENTAL SERVICES (Cont'd)

12.6.3 Busy Line Verification and Interrupt Service

Busy Line Verification Charge, each request	$2.10
Verification and Interruption Charge, each request	$3.15

12.6.4 Directory Assistance Service

The directory assistance charge applies after the call allowance of ten calls per line.

Directory Assistance	$0.31
Directory Assistance Call Completion	$0.66

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.6 SUPPLEMENTAL SERVICES (Cont'd)

12.6.5 Local Operator Service

Customer Dialed	$0.50
Person to Person Collect	$3.00
Third Party Billed	$1.65
Station to Station	$1.80

12.6.6 Blocking Service

	Nonrecurring Charges*
500, 700, 900 Blocking	
- Residential	$10.00
- Business	$10.00

A $10 non-recurring charge applies after initial conversion only when adding blocking to an access line. This charge applies on a per line, per order basis.

12 - RATES & CHARGES (Cont'd)

12.6 SUPPLEMENTAL SERVICES (Cont'd)

12.6.6 Blocking Service (Cont'd)

	Monthly Charges Recurring	Non-Recurring
Third Number Billed and Collect Call Restriction		
- Residential	$0.00	$10.00
- Business	$0.00	$10.00
Toll Restriction		
- Residential	$19.00	$10.00
- Business	$19.00	$10.00
Toll Restriction Plus Directory Assistance		
- Residential	$19.00	$10.00
- Business	$19.00	$10.00

A $10 non-recurring charge applies when adding blocking services post conversion. This charge applies on a per line, per order basis.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.6 SUPPLEMENTAL SERVICES (Cont'd)

12.6.7 Vanity Number Service

	Monthly Charges	
	Recurring	Non-Recurring
Set-up Charges		
Residential Customer	$0.00	$10.00
Business Customer	$0.00	$10.00

A $10 non-recurring charge applies when adding vanity number services post conversion. This charge applies on a per line, per order basis.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd.)

12.7 RESIDENTIAL NETWORK SWITCHED SERVICES

12.7.1 Measured Rate Service

Nonrecurring Connection Charge, New Install:	$45.00
Monthly recurring Charges:	
-Each Base Service Line	$24.00

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.7 RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

12.7.1 Measured Rate Service (Cont'd)

12.7.1.1 Custom Calling Features:

A. Standard Features - Per Line:

	First*	Additional*
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Charges:

Three-Way Conference, Consultation	$6.50
Call Forwarding Variable	$6.50
Call Forwarding Busy Line	$2.50
Call Forwarding Don't Answer	$2.50
Call Forwarding BL/DA	$4.00
Call Waiting Terminating	$6.50
Call Waiting Originating	$6.50
Speed Calling One Digit (8)	$5.50
Speed Calling Two Digit (30)	$5.50
Call Forward Remote Access	$2.00
Call Transfer	$6.75
Direct Connect Line	$0.75

* These charges apply per feature, per service order. If more than one feature is ordered on the same service order the following percentage discounts apply.

Any 2 features, 10% off**
Any 3 features, 15 % off**
Any 4 features, 20 % off**

** The percentage discount on custom calling features applies specifically to those features and not to any other service the customer is using.

12 - RATES & CHARGES (Cont'd)

12.7 RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

12.7.1 Measured Rate Service (Cont'd)

12.7.1.1 Custom Calling Features: (Cont'd)

B. Hunt Group Charge:

	First*	Additional*
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Recurring Charges:		
Sequential Hunting	$0.00	
Circular Hunting	$0.00	

C. Hunting Line Charge:

	First*	Additional*
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Recurring Charges:		
Sequential Hunting	$0.00	
Circular Hunting	$0.00	

* These charges apply per feature, per service order.

12 - RATES & CHARGES (Cont'd)

12.7 RESIDENTIAL NETWORK SWITCHED SERVICES (Cont'd)

12.7.1 Measured Rate Service (Cont'd)

12.7.1.1 Custom Calling Features: (Cont'd)

D. CLASS Features Line Charge:

	First*	Additional*
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Recurring Charges	Per Line, Per Month
Caller ID	$5.25
Block Caller ID	$0.00
Call Return	$3.50
Repeat Dialing	$3.50

E. CLASS Features Usage Charge:

	Per Use
Call Return	$0.50
Repeat Dialing	$0.50
Call Trace	$3.25

* These charges apply per feature, per service order.

12 - RATES & CHARGES (Cont'd.)

12.8 BUSINESS NETWORK SWITCHED SERVICES

12.8.1 Measured Rate Service

Nonrecurring Connection Charge, New Install:	$45.00
Monthly recurring Charges:	
-Each Base Service Line	$24.00
-Voice Mail Option, per line	See Section 12.6.6

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.8 BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

12.8.1 Measured Rate Service (Cont'd)

12.8.1.1 Custom Calling Features:

A. Standard Features - Per Line:

	First	Additional
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Charges:

Three-Way Conference, Consultation		$6.50
Call Forwarding Variable		$6.50
Call Forwarding Busy Line		$2.50
Call Forwarding Don't Answer		$2.50
Call Forwarding BL/DA		$4.00
Call Waiting Terminating		$6.50
Call Waiting Originating		$6.50
Speed Calling One Digit	(8)	$5.50
Speed Calling Two Digit	(30)	$5.50
Call Forward Remote Access		$2.00
Call Transfer		$6.75
Direct Connect Line		$0.75

Any 2 features, 10% off
Any 3 features, 15 % off
Any 4 features, 20 % off

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.8 BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

12.8.1 Measured Rate Service (Cont'd)

12.8.1.1 Custom Calling Features: (Cont'd)

B. Hunt Group Charge:

	First	Additional
Nonrecurring Connection Charge:	$10.00	$10.00
Monthly Recurring Charges:		
Sequential Hunting	$0.00	
Circular Hunting	$0.00	

C. Hunting Line Charge:

	First	Additional
Nonrecurring Connection Charge:	$10.00	$10.00
Monthly Recurring Charges:		
Sequential Hunting	$0.00	
Circular Hunting	$0.00	

12 - RATES & CHARGES (Cont'd)

12.8 BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

12.8.1 Measured Rate Service (Cont'd)

12.8.1.1 Custom Calling Features: (Cont'd)

D. CLASS Features Line Charge:

	First	Additional
Nonrecurring Connection Charge:	$10.00	$10.00

Monthly Recurring Charges	Per Line, Per Month
Caller ID	$5.25
Block Caller ID	$0.00
Call Return	$3.50
Repeat Dialing	$3.50

E. CLASS Features Usage Charge:

	Per Use
Call Return	$0.50
Repeat Dialing	$0.50
Call Trace	$3.25

12 - RATES & CHARGES (Cont'd)

12.8 BUSINESS NETWORK SWITCHED SERVICES (Cont'd)

12.8.2 PBX Trunk Service

A. DS1 PBX Trunk Service

Where appropriate facilities do not exist, Special Construction charges will also apply.

Measured Usage Charges:

Measured Usage Charges for DS1 Trunks are the same as those indicated for a basic business line.

	Monthly Recurring	Non-Recurring
T1 Service - MTM*	$725.00	$500.00
T1 Service - 1 year term*	$675.00	$500.00
T1 Service - 2 year term*	$625.00	$500.00
T1 Service - 3 year term*	$475.00	$500.00

	Monthly Recurring	Non-Recurring
Per Channel (DSO),		
-10 Channel	$40.00	$50.00
DID 100 Numbers Block	$30.00	$10.00

Measured Usage Charges for DS1 Trunks are the same as those indicated for a basic business line.

* Includes group of 24 ports and transport facility.

Issued By: Peter Bergeron
Concentric Carrier Services, Inc.
1400 Parkmoor Avenue
San Jose, CA 95126

12 - RATES & CHARGES (Cont'd)

12.9 Alternate Telephone Number Listings

		Nonrecurring	
	Monthly	First	Add'l.
Non-Published			
Business	$2.91	$10.00	$10.00
Residence	$2.91	$10.00	$10.00
Non-Listed			
Business	$1.84	$10.00	$10.00
Residence	$1.84	$10.00	$10.00
Additional Listing			
Business	$2.91	$10.00	$10.00
Residence	$2.91	$10.00	$10.00
Cross Reference Listing			
Business	$2.91	$10.00	$10.00
Residence	$2.91	$10.00	$10.00
Extra Line Listing			
Business	$2.91	$10.00	$10.00
Residence	$2.91	$10.00	$10.00
Foreign Listing			
Business	$2.91	$10.00	$10.00
Residence	$2.91	$10.00	$10.00