arrangements in order to expand our network into target markets.

Any disagreements with our co-development partners or companies with which we have a strategic alliance could impair or adversely effect our ability to conduct our business. In addition, the bankruptcy or insolvency of a co-development partner could result in the termination of its agreement with us and any related right of way agreements. The effect of those terminations or the failure of a co-development partner to make required capital contributions would have a material adverse effect on us.

We may be unable to obtain access to and interconnection with the facilities of existing local telephone companies on favorable terms which could delay, increase the cost of or prevent us from providing local access service in our target markets.

Our ability to provide local access services depends upon our securing access to existing local telephone companies' networks, including the physical or virtual collocation of our equipment in the existing local telephone companies' central offices in our target markets.

Challenges we may face in obtaining central office space from the existing local telephone companies include:

- limitations on the availability of central office space in high demand target markets where other competitive telecommunications companies are seeking or have obtained central office space to offer services;
- delays when existing local telephone companies fail to promptly address our requests for central office space; and
- expenditure of time and money to pursue negotiations, regulatory disputes, and legal actions for resolution of disputes regarding lack of sufficient central office space.

We expect that these challenges may delay our attempts to obtain central office space, which would slow down our deployment of our network and our ability to increase the number of our customers.

If existing local telephone companies on whom we depend for interconnection and other network elements refuse to cooperate or fail to perform their agreements with us, we may be delayed in or even prevented from completing our network and offering competitive services to our customers.

We will interconnect with and use existing local telephone companies' networks to provide local access services to our customers. This strategy presents a number of challenges because we depend on existing local telephone companies to:

- allow us to use their technology and capabilities of their networks to service our customers;
- cooperate with us to provide and repair facilities; and
- provide the services and network components that we order, for which they depend significantly on unionized labor. Labor issues have in the past and may in the future hurt the existing local telephone companies' performance.

Our dependence on existing local telephone companies may cause us to encounter delays in establishing our network and rolling out our products and services. We must also establish satisfactory billing and payment arrangements with existing local telephone companies. We may not be able to do these things in a manner that will allow us to retain and grow our customer base.

If the quality, availability and maintenance of existing local telephone companies' networks is unsatisfactory, our network may not be sufficiently available or reliable to meet our business plan or customer expectations.

We may not be able to obtain the facilities and the services we need from existing local telephone companies at satisfactory quality levels, rates, terms and conditions. Our inability to do so could delay the expansion of our network and degrade the quality of our services to our customers.

Wireless path failures or cable cuts on our network could interfere with our network operations, damage our relationships with our customers or expose us to liability.

We do not have route diversity on our digital network to maintain services if a wireless path failure or fiber cable cut occurs. If we were to suffer a deterioration in the perceived quality or reliability of our service as a result of a path failure, cable cut, or other network outage, our customer relations would be materially adversely affected and we could be exposed to liability claims.

Risks Relating to Our Industry

Our business and industry are very competitive and increased competition could require us to lower our prices or provide more expensive service that would adversely affect our financial performance.

The telecommunications industry is extremely competitive, particularly with regard to price and service. Many of our existing and potential competitors have significantly greater financial, personnel, marketing and other resources than we do. For example, some of our competitors have already made substantial long-term investments in the construction of wireless and fiber optic networks and the acquisition of bandwidth. Many of our competitors also have the added competitive advantage of an established network and existing customer base. For example, some communications carriers and local cable companies have extensive networks in place that could be upgraded to fiber optic cable. Those companies also have more employees and more substantial capital resources to begin those upgrades. If communications carriers and local cable companies decide to equip their existing networks with fiber optic cable, they could become significant competitors of ours in a short period of time.

If we encounter increased competition from existing and future telecommunications systems on routes where we plan to provide infrastructure services and wholesale transport services, we may be unable to compete effectively for those services or we may need to reduce our prices in a manner that adversely affects our financial performance.

Other companies may choose to compete with us in our current or planned markets by selling or leasing network assets or wholesale transport services to our targeted customers. This competition could have a material adverse effect on our business. Our competitors for these products and services include:

- long distance companies, such as AT&T Corp., MCI WorldCom, Inc. and Sprint Corporation;
- wholesale providers, such as Qwest Communications International Inc., Williams Communications Group, Inc., IXC Communications, Inc., DTI Holdings, Inc., Global Crossing Ltd. and Level 3 Communications, Inc.;

- existing local telephone companies, such as US West, BellSouth, Bell Atlantic, SBC and GTE Corporation, which currently dominate their local telecommunications markets and have sought or may soon seek or obtain authority to provide long distance services in their local markets;
- competitive telecommunications companies often referred to as such as GST Telecommunications, Inc., ITC/Deltacom, Inc. and Metromedia Fiber Network, Inc.; and
- potential competitors capable of offering services similar to those we offer, such as communications service providers, cable television companies, electric utilities, microwave carriers, satellite carriers, wireless telephone operators and large end users with private networks.

Additional competition from local telephone companies or other telecommunications service providers as they begin to provide or expand their local access services in the markets that we have targeted, may prevent us from achieving our sales goals.

Our principal competitor in the provision of local access services in each of our markets is the existing local telephone company. Although recent federal legislation and rule-making proceedings afford us increased opportunities to compete in providing these services, some aspects of these proceedings also benefit existing local telephone companies. Potential changes in the regulation of telecommunications services could deprive us of some competitive advantages that we now enjoy, which could harm our business.

In addition to the existing local telephone companies, other telecommunications service providers, such as Covad Communications Group, Inc., NorthPoint Communications Group, Inc. and Rhythms Netconnections, Inc., have recently begun providing some local services. Other competitors and potential entrants in the market for the provision of these services include long distance companies, cable television companies, electric utilities, microwave carriers, wireless telephone system operators, data service companies and operators of private networks. Significant new competitors also could enter the local market through consolidation and strategic alliances in the industry, foreign carriers being allowed to compete in the U.S. market, technological advances, and further deregulation and other regulatory initiatives. The introduction of any of these new competitors into our markets for local services could materially and adversely affect our business. See *"BUSINESS — Competition."*

We do not plan to offer a broad range of products or services in the immediate future, and this limitation could increase our vulnerability to changing trends in our industry or increased competition. At the same time, our future success will depend on growth in the demand for local access services we plan to continue to offer.

We have planned to undertake only a narrow scope of activities in the immediate future, which could limit potential revenues and result in lower revenues than competitors who now provide a wide range of services. Although we have recently commenced marketing local access services to telecommunications service providers, we cannot assure you that we will be successful in entering this business. If the markets for these services fail to develop, grow more slowly than anticipated or become saturated with competitors, our business prospects, operating results and financial condition could be materially adversely affected.

Our product and service offerings are subject to risks of industry over-capacity and resulting downward pricing pressures.

Since shortly after the AT&T divestiture in 1984, the long distance transmission industry generally has experienced over-capacity and declining prices. These trends have exerted downward pricing pressures on a number of telecommunications services, including our wholesale transport services, and we anticipate that prices for these services will continue to decline over the next several years because:

- existing long distance carriers and potential new carriers are constructing new fiber optic and other long distance transmission networks;
- regulatory changes may permit the existing local telephone companies to provide long-distance services out-of-region;
- expansion and new construction of transmission networks, particularly fiber optic cable networks, are likely to create substantial excess capacity relative to demand in the short or medium term; and
- recent technological advances may greatly expand the capacity of existing and new fiber optic cable.

Dramatic and substantial price reductions in the long distance industry could require us to reduce our prices significantly or to revise the mix of products and services we plan to offer. Either of these results could adversely affect our business. Also, an increase in the capacity of any of our competitors to provide transport services could adversely affect our business even if we are also able to increase our capacity.

Increased supply of fiber optic cable in the industry may lead to lower prices.

The supply of fiber optic cable that is already buried in conduits but has none of the associated transmission electronics installed has increased, resulting in downward pricing pressure on sales of fiber optic strands. The FCC recently issued an order requiring existing local telephone companies to make inactive fiber optic strands and other transport facilities available to other telecommunications carriers at cost-based nondiscriminatory prices. This requirement could further increase the supply of and decrease demand for fiber optic strands that we sell, adversely affecting our business, financial condition and results of operations.

If we fail to recognize or make the investments necessary to keep pace with rapid technological changes, our services may become less desirable or obsolete and we may face higher costs or be unable to compete effectively.

The telecommunications industry is characterized by rapid and significant changes in technology. We cannot predict the effect of technological changes on our business. The introduction of new products or technologies may reduce the cost or increase the supply of services similar to those that we plan to provide, or could render those services and our network assets less desirable or even obsolete. As a result, new entrants in the communications services industry may become our most significant competitors in the future. These new entrants may not be burdened by an installed base of outdated equipment and the resulting competition they may provide could have a material adverse effect on our ability to meet our sales targets.

Risks Relating to Regulation

Regulatory changes could require us to postpone or modify our business plans or deprive us of the means to establish our network in our target markets.

Communications services are subject to significant regulation at the federal, state and local levels.

Our business plans require us to exploit new opportunities afforded by recent regulatory changes. However, the regulatory environment could adversely affect us in a number of ways, including:

- delays in receiving required regulatory approvals or the imposition of onerous conditions for these approvals;
- difficulties in completing and obtaining regulatory approval of interconnection agreements with existing local telephone companies; and
- enactment of new and adverse legislation or regulatory requirements or changes in the interpretation of existing laws or regulations.

Many regulatory proceedings regarding issues that are important to our business are currently underway or are being contemplated by federal and state authorities. Changes in regulations or future regulations adopted by federal, state or local regulators, or other legislative or judicial initiatives relating to the telecommunications industry could cause our pricing and business models to fluctuate dramatically or otherwise or otherwise have a material adverse effect on us.

The FCC may implement the provisions of the Telecommunications Act of 1996 in a manner that is adverse to our business plan and strategies.

The Telecommunications Act of 1996 was intended, among other things, to foster competition in the local telephone market. However, the FCC and the states are still implementing many of its rules and policies and it remains uncertain how successfully the Telecommunications Act will promote competition. Moreover, the Telecommunications Act and other recent federal laws regarding the U.S. telecommunications industry remain subject to judicial review and additional FCC rule-making proceedings. Our business strategy involves taking advantage of some of the competitive opportunities advanced by the Telecommunications Act, and the FCC may promulgate regulations implementing the Telecommunications Act that are adverse to our business.

Our ability to offer long distance companies local access service at competitive rates may be limited by new regulations and legislative initiatives.

Like most companies in the communications industry, we must comply with many regulatory requirements. However, unlike some of our competitors, particularly the existing local telephone companies, we are not currently subject to some of the burdensome regulations federal law imposes on the telecommunications industry. Our ability to compete in the provision of local access services will depend upon a continued favorable, pro-competitive regulatory environment. New regulations or legislation affording greater flexibility and regulatory relief to our competitors could adversely affect us by increasing competition in the provision of local services.

The FCC is currently considering an industry proposal to restructure the fees that existing local telephone companies charge long distance companies to use their local networks. These fees are referred to as access charges. Changes in the access charge structure could fundamentally affect the economic environment in which we and our customers operate. If the FCC reduces the access charges imposed by existing local telephone companies, it would significantly reduce our price advantage in the market for local access services used by long distance companies to access the existing local telephone companies' local networks.

The FCC is also considering whether to impose limits on certain uses of selected portions of the local telecommunications networks, sometimes called "unbundled network elements", we purchase from the existing local telephone companies. If the FCC limits our ability to offer long distance companies a package of unbundled network elements that can be used to reach end users, our ability to offer our local access services at competitive rates may be harmed.

Pending regulatory initiatives may make it easier for existing local telephone companies and their affiliates to offer Digital Subscriber Line services to customers in our target markets increasing the competition that we face for customers seeking these services.

In August 1998, the FCC proposed new rules that would allow existing local telephone companies to provide Digital Subscriber Line services through separate affiliates not subject to existing local telephone company regulation. The FCC recently decided some of the other issues raised in that proceeding, but the question of whether existing local telephone companies can provide unregulated Digital Subscriber Line services through a separate affiliate remains unresolved. Any decision that would permit an existing local telephone company affiliate to offer Digital Subscriber Line services without being subject to regulation imposed on existing local telephone companies could have a material adverse effect on us by, for example, increasing the competition we face in the provision of Digital Subscriber Line services.

If we are unable to obtain and maintain the necessary FCC licenses, we may be unable to operate the wireless portions of our network.

Portions of our network are wireless, meaning that we provide access services via over-the-air microwave transmissions instead of through fiber optic cables. Our arrangements with certain of our wireless co-development partners contemplate that the wireless portion of our digital network will largely provide "common carrier fixed point-to-point microwave" telecommunications services under Part 101 of the FCC's rules. These services are subject to regulation by federal, state and local governmental agencies. Changes in existing laws and regulations governing our provision of these services could have a material adverse effect on our business, financial condition, and results of operations.

If we do not accurately predict the cost of complying with Federal and state and other surcharges on our services we may not accurately anticipate the cost of providing our services to customers, and our earnings and customer relationships could be adversely affected.

As a telecommunications provider, we must pay a variety of surcharges and fees on our gross revenues from interstate services and intrastate services. Interstate surcharges include fees for Federal Universal Service and common carrier obligations, number administration, the provision of telecommunications services to the disabled and other miscellaneous FCC requirements. State regulators impose similar surcharges and fees on intrastate services. The division of our services between interstate services and intrastate services is a matter of interpretation, and FCC or relevant state commission authorities may in the future contest how we allocate our charges. If this allocation is changed, our payment obligations for the relevant surcharges could increase. Periodic revisions by state and federal regulators of the applicable surcharges may also increase the surcharges and fees we currently pay.

For more information on these and other risks posed by regulatory initiatives, see *"**BUSINESS — Government Regulation.**"*

We may be required to register as an investment company, which would subject us to significant additional regulatory burdens and interfere with our ability to hold investments or raise financing for our business.

We have, and after the consummation of the contribution and reorganization transaction PTI will have, substantial cash balances and short-term investments on a consolidated basis. As a result, we may be considered an "investment company" under the Investment Company Act of 1940. The Investment Company Act requires companies that are engaged primarily in the business of investing, reinvesting, owning, holding or trading in securities, or that fail numerical tests regarding composition of assets and sources of income and that are not primarily engaged in a business other than investing, reinvesting, owning, holding or trading in securities, to register as "investment companies." Various substantive restrictions are imposed on investment companies by the Investment Company Act.

We are primarily engaged in a business other than investing, reinvesting, owning, holding or trading securities. However, we could be deemed an investment company within the meaning of the Investment Company Act. If we are required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation of our capital structure, management, operations, transactions with "affiliated persons," as defined in the Investment Company Act, and other matters. To avoid having to register as an investment company, we may have to hold a portion of our liquid assets as cash or government securities instead of as investment securities. Having to register as an investment company or holding a material portion of our liquid assets as cash or government securities to avoid registration could have a material adverse effect on us.

This Annual Report on Form 10-K contains "forward-looking statements" and information relating to our business and us that are not historical facts.

We make statements in this Annual Report on Form 10-K that are not historical facts. You can identify these forward-looking statements by our use of terminology such as "believes," "expects," "may," "will," "should" or "anticipates" or comparable words. These forward-looking statements include, among others, statements concerning:

- Our business strategy and competitive advantages;
- Our anticipated potential revenues from designated markets;
- The growth of the telecommunications industry and our business;
- The markets for our services and products;
- Forecasts of when we will enter particular markets or begin offering particular services;
- Our anticipated capital expenditures and future funding requirements, including the role of vendor and other sources of financing for equipment and related asset purchases; and
- Anticipated regulatory developments.

These statements are only predictions. You should be aware that these forward-looking statements are subject to risks and uncertainties, including financial and regulatory developments, industry trends, and projections that could cause actual events or results to differ materially from those expressed or implied by the statements. Should one or more of these risks or uncertainties materialize, or should our underlying assumptions about them prove incorrect, our actual results, our performance or our proposed activities may vary materially from those expressed or implied by these forward-looking statements. We disclose factors that could cause our actual results to differ materially from our descriptions in this *"RISK FACTORS"* section and elsewhere in this annual Report on Form 10-K including the sections under the *"MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,"* and *"BUSINESS"* captions. Please read the entire Annual Report on Form 10-K for a description of some of these risks, including competitive, financial, developmental, operational, technical, regulatory and other risks associated with our business. You should not place undue reliance on the forward-looking statements in this annual Report on Form 10-K, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation, and do not intend, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to minimal market risks. We manage sensitivity of our results of operations to these risks by maintaining a conservative investment portfolio, (which primarily consists of debt securities, that typically mature within one year), and entering into long-term debt obligations with appropriate pricing and terms. We do not hold or issue derivative, derivative commodity or other financial instruments for trading purposes. Financial instruments held for other than trading purposes do not impose a material market risk on us.

We are exposed to interest rate risk. We periodically need additional debt financing due to our large operating losses, and capital expenditures associated with establishing and expanding our network coverage increase our financing needs. The interest rate that we will be able to obtain on debt financing will depend on market conditions at that time, and may differ from the rates we have obtained on our current debt.

Although all of our long-term debt bears fixed interest rates, the fair market value of our fixed rate long-term debt is sensitive to changes in interest rates. We have no cash flow or earnings exposure due to market interest rate changes for our fixed long-term debt obligations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company's financial statements and supplementary data, together with the report of the independent accountants, are included or incorporated by reference elsewhere herein. Reference is made to the "Index to Financial Statements" following the signature pages hereto.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors and Executive Officers

The table below sets forth certain information concerning the directors and executive officers of the Company. Directors of the Company are elected at the annual meeting of stockholders. Executive officers of the Company generally are appointed at the Board of Directors' first meeting after each annual meeting of stockholders.

Name	Age	Position(s) with Company
Richard A. Jalkut	55	President, Chief Executive Officer and Director
Robert A. Rouse	50	Executive Vice President, Chief Operating Officer and President, Network Services
James M. Craig	43	Executive Vice President, Chief Financial Officer and Treasurer
William R. Smedberg, V	38	Executive Vice President, Corporate Development
Michael A. Lubin	50	Vice President, General Counsel and Secretary
Shawn F. O'Donnell	34	Senior Vice President of Engineering and Construction
Peter J. Barris	47	Director
Kevin J. Maroni	37	Director
Patrick J. Kerins	44	Director
Stephen A. Reinstadtler	33	Director

Richard A. Jalkut has served as President, CEO and director of the Company since August 1997. Mr. Jalkut has over 30 years of telecommunications experience. From 1995 to August 1997, he served as President and Group Executive of NYNEX Telecommunications Group, where he was responsible for all activities of the NYNEX Telecommunications Group, an organization with over 60,000 employees. From 1991 until 1995, Mr. Jalkut served as President and CEO of New York Telephone Co. Inc., the predecessor company to NYNEX Telecommunications Group. Mr. Jalkut currently serves as a member of the board of directors of HSBC Bank USA, a commercial bank; Ikon Office Solutions, Inc., a company engaged in wholesale and retail office equipment; Digex Incorporated; and Home Wireless Networks, a start-up company developing a wireless product for home and business premises.

Robert A. Rouse has served as the Company's Executive Vice President, President of Network Services since April 1999 and, since September 1999, as The Company's Chief Operating Officer. Mr. Rouse joined the Company with over 30 years experience in the telecommunications industry. Before joining the Company, from October 1996 to November 1998, Mr. Rouse was Executive Vice President, Engineering, Systems and Operations of Intermedia, responsible for network services, engineering and systems. Before that, from October 1986 to October 1996, he served in several positions at MCI beginning as the Director of New York City Operations and spending the last three as Senior Vice President of Network Services for MCI/Concert.As Senior Vice President of Network Services, he was responsible for integrating the network and product functionality between MCI and British Telecom as well as building global networks. From March 1986 until September 1986, Mr. Rouse served as the

Regional Vice President for Eastern Operations for US West. In addition, Mr. Rouse spent 17 years, from June 1969 until March 1986, with Frontier Communications, Inc. where he was involved in a series of unregulated start-up business ventures, and he played a key role in developing Frontier's long distance company.

James M. Craig has served as Executive Vice President, Chief Financial Officer and Treasurer of the Company since April 1999. Mr. Craig has 22 years of accounting and finance experience, including 15 years specifically in the communications industry. From February 1997 to April 1999, Mr. Craig served as the Senior Director Treasury Management for Omnipoint Communications, where he was was responsible for corporate planning and forecasting. In this position, he also served as a point of contact for investment banks, sell-side analysts and rating agencies. Before that, Mr. Craig assisted in the launch of two start-up telecommunications companies, from February 1996 to February 1997 at UniSite and from September 1995 to February 1997 at National Telecom PCS, Inc. While with UniSite, he established regional and national alliances between UniSite and telecommunications tower owners. Mr. Craig also spent a total of 11 years, from 1983 to 1995, with MCI, holding positions such as Director of Wireless Communications, Director of Corporate Development, Director of Telecommunications Group Planning and Director of Corporate Treasury Group. From 1982 through 1983 and from 1977 through 1980, Mr. Craig served a s a Senior Accountant at the Cowper Group and from 1980 to 1982 he practiced as a certified public accountant with Touche Ross and Co.

William R. Smedberg, V joined the Company initially as a consultant in 1996, served as Vice President, Finance and Corporate Development of the Company from January 1997 to February 1999 and assumed the position of Executive Vice President, Corporate Development of the Company in March 1999. Before joining the Company, Mr. Smedberg served as Director, Strategic Planning and Corporate Development for Jamont, a European consumer products joint venture among Nokia Oy, Montedison S.p.A. and James River Corporation of Virginia, Inc., from 1991 to 1996, where he was responsible for Jamont's corporate finance, strategic planning and corporate development.

Michael A. Lubin has served as Vice President, General Counsel and Secretary of the Company since its inception in August 1995. Before joining the Company, Mr. Lubin was an attorney-at-law at Michael A. Lubin, P.C., a law firm he founded in 1985. Mr. Lubin has experience in telecommunications, copyright and intellectual property matters, corporate and commercial law, construction claims adjudication and trial work. From 1976 until 1981, he served as a Federal prosecutor with the Fraud Section, Criminal Division, United States Department of Justice.

Shawn O'Donnell has served as Senior Vice President of Engineering and Construction of the Company since August 1999. Mr. O'Donnell has more than 14 years of engineering experience in the telecommunications industry. Before joining the Company, Mr. O'Donnell served as Director of Transmissions and Facility Standards and Engineering with MCI WorldCom from November 1996 to August 1999. In that position, he was in charge of a 340+ person team that was responsible for overall transmission and facility engineering for local, long distance and Internet networks. From April 1988 to November 1996, he also held a variety of other positions at MCI WorldCom, including Senior Manger of Transmission Engineering Implementation and Senior Manager of Switched Network Planning. Before joining MCI WorldCom, from June 1986 to April 1988, Mr. O'Donnell was a Control Engineer with Potomac Edison. While there, he was responsible for the management of communications networks associated with high voltage control systems.

Peter J. Barris has been a director of the Company since August 1995. Since 1992, Mr. Barris has been a partner; in 1994, was appointed a General Partner; and, in 1999, was appointed Managing General Partner of New Enterprise Associates, a firm that manages venture capital investments. Mr. Barris is also a member of the board of directors of Mobius Management Systems, Inc., PcOrder.com, Inc. and Careerbuilder, Inc., each of which is quoted on the NASDAQ National Market.

Kevin J. Maroni has been a director of the Company since August 1995. Since 1994, Mr. Maroni has been a principal, and, in 1995, was appointed a General Partner of Spectrum Equity Investors, which manages private equity funds focused on growth capital for Telecommunications companies. Prior to Spectrum, Mr. Maroni worked at Time Warner and Harvard Management Company. Mr. Maroni is currently on the board of directors of several private companies and CTC Communications Corp (which is quoted on the NASDAQ National Market).

Patrick J. Kerins has been a director of the Company since July 1997. Since March 1997, Mr. Kerins has served as Managing Director of Grotech Capital Group, which is engaged in venture capital and other private equity investments. From 1987 to March 1997, he worked in the investment banking division of Alex Brown & Sons, Incorporated, including serving as Managing Director beginning in January 1994. Mr. Kerins is a member of the board of directors of CD Now, Inc., an online retailer of compact discs and other music related projects which is quoted on the NASDAQ National Market.

Stephen A. Reinstadtler has been a director of the Company since October 1997. Since August 1995, Mr. Reinstadtler has served as Vice President and Director at Toronto Dominion Capital (U.S.A) Inc., where he has been involved in private equity and mezzanine debt investments. From April 1994 to July 1995, he was Manager at The Toronto-Dominion Bank, where he was involved in commercial lending activities to the telecommunications industry. From August 1992 to April 1994, Mr. Reinstadtler also served as Associate at Kansallis-Osake-Pankki, where he was involved in commercial lending activities to the telecommunications industry.

Compensation Committee Interlocks and Insider Participation

We have a compensation committee of our board of directors, which currently consists of two of our directors, Messrs. Maroni and Barris. Prior to the resignation of Richard Prins from our board of directors in 1999, we had a three member compensation committee, consisting of Messrs. Maroni, Barris and Prins. Our compensation committee was established to, among other things, administer our stock incentive plans, review and make recommendations to the board of directors concerning the compensation of executive officers, and consider existing and proposed employment agreements between us and our executive officers.

During the fiscal year ended December 31, 1999, none of our executive officers served as a member of our compensation committee or as a director of any entity of which any of directors served as an executive officer. No member of our compensation committee is currently our employee.

Director Compensation

Currently, our directors do not receive directors' fees or other compensation and they are not compensated or reimbursed for their out-of-pocket expenses incurred in serving as directors or for attending meetings of the board of directors or its committees.

Limitation of Liability and Indemnification

We are incorporated under the laws of the State of Delaware.

Section 102(b)(7) of the Delaware General Corporation Law permits a provision in the certificate of incorporation of each corporation organized thereunder, eliminating or limiting, with certain exceptions, the personal liability of a director to the corporation or its stockholders for monetary damages for certain breaches of fiduciary duty as a director.

Our certificate of incorporation limits, to the fullest extent permitted by law, the liability of our directors to us and our stockholders for monetary damages for breach of their fiduciary duty. This provision is intended to afford our directors the benefit of the Delaware General Corporation Law. This limitation on liability does not extend to:

- Any breach of a director's duty of loyalty to us or our stockholders;
- Acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- Violations of the Delaware General Corporation Law regarding the improper payment of dividends; or
- Any transaction from which the director derived any improper personal benefit.

Section 145 of the Delaware General Corporation Law, in summary, empowers a Delaware corporation, within certain limitations, to indemnify its officers, directors, employees and agents against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, actually and reasonably incurred by them in connection with any suit or proceeding other than by or on behalf of the corporation, if they acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to a criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful.

With respect to actions by or on behalf of the corporation, Section 145 of the Delaware General Corporation Law permits a corporation to indemnify its officers, directors, employees and agents against expenses (including attorneys' fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit, provided such person meets the standard of conduct described in the preceding paragraph, except that no indemnification is permitted in respect of any claim where such person has been found liable to the corporation, unless the Court of Chancery or the court in which such action or suit was brought approves such indemnification and determines that such person is fairly and reasonably entitled to be indemnified.

Our certificate of incorporation requires us to indemnify our directors and officers to the extent not prohibited by law for actions or proceedings arising because of their positions as directors or officers.

Our stockholders agreement provides for indemnification of us, our directors and officers, and persons who control us within the meaning of Section 15 of the Securities Act or Section 20 of the

Exchange Act for certain liabilities, including liabilities under the Securities Act.

In addition, Pathnet maintains, and we will maintain, standard directors' and officers' insurance policies.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the cash and non-cash compensation earned by or awarded to the Chief Executive Officer and each of the six other Named Executive Officers of the company for services rendered in all capacities in each of the last three fiscal years. The officers listed in the table below are referred to as the Named Executive Officers:

		Annual Compensation *			Long - Term Compensation
Name And Principal Position	Year	Salary	Bonus	Other Annual Compensation *	Securities Underlying Options Granted **
Richard A. Jalkut	1999	$ 400,000	$300,000	$40,733 (1)	--
President and Chief Executive	1998	400,000	--	40,289(2)	--
Officer	1997	166,154 (3)	--	9,857(4)	858,754
Michael A. Lubin	1999	135,019	47,120	--	--
Vice President, General Counsel	1998	136,840	5,000	--	15,000
and Secretary	1997	136,115	--	--	--
William R. Smedberg V	1999	182,886	139,000	--	50,000
Executive Vice President,	1998	111,250	28,267	--	78,656
Corporate Development	1997	100,384	--	--	--
James M. Craig	1999	122,206 (5)	78,750	--	125,000
Executive Vice President, Chief Financial Officer and Treasurer					
Shawn F. O'Donnell	1999	58,739 (6)	52,500	--	50,000
Senior Vice President of Engineering and Construction					
Robert A. Rouse	1999	239,276 (7)	133,751	36,943 (8)	350,000
Executive Vice President, Chief Operating Officer and President, Network Services					
Kevin J. Bennis	1999	207,138 (9)	27,500	--	--
Executive Vice President and President Communications Services	1998	246,353 (10)	--	185,602(6)	382,500

* Except as stated herein, none of the above Named Executive Officers received perquisites or other personal benefits in excess of the lesser of $50,000 or 10% of such individual's salary plus annual bonus.

** We have not issued any stock appreciation rights or long-term incentive plans.

(1) Consists of $7,227 for club dues; $13,368 for lodging; $15,090 for airfare; and $5,048 for other transportation.

(2) Consists of $16,277 for club dues; $7,756 for lodging; $11,685 for airfare; and $4,571 for other transportation.

(3) Mr. Jalkut commenced employment with the Company in August 1997, and was compensated at a rate of $400,000 per annum in 1997.

(4) Reimbursement for travel expenses.

(5) Mt Craig began his employment with Pathnet on April 19, 1999, and his salary was $175,000 per annum in 1999.

(6) Mr. O'Donnell began his employment with Pathnet on August 9, 1999, and his salary was $150,000 per annum in 1999.

(7) Mr. Rouse began his employment with Pathnet on April 26, 1999, and his salary was $325,000 per annum in 1999.
(8) Reimbursement for moving expenses.
(9) Mr. Bennis' employment with Pathnet was terminated on September 17, 1999.
(10) Mr. Bennis began his employement with the Company on February 9, 1998 and his salary was $275,000 per annum.
(11) Consists of $48,093 in residence settlement charges in Georgia; $99,319 in residence settlement charges in Virginia; $22,780 in other moving expenses; and $15,410 in rent.

Stock Option Grants and Exercises

The following table sets forth the aggregate number of stock options granted to each of the Named Executive Officers during the fiscal year ended December 31, 1999. Stock options are exercisable to purchase Common Stock of the Company.

Option Grants in Last Fiscal Year

	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price $/Share	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for the Option Term 0%	5%	10%
Richard A. Jalkut	--	-- %	$ --	--	$ --	$ --	$ --
Michael A. Lubin	--	--	--	--	--	--	--
William R. Smedberg	50,000	6.88	5.20	5/13/2009	0	163,513	414,373
James M. Craig..................	125,000	17.21	5.20	5/13/2009	0	408,782	1,035,933
Shawn F. O'Donnell	50,000	6.88	5.20	8/5/2009	0	163,513	414,373
Robert A. Rouse.................	350,000	48.18	5.20	5/13/2009	0	1,144,588	2,900,611
Kevin J. Bennis	--	--	--	--	--	--	--

(1) The information disclosed assumes, solely for purposes of demonstrating potential realizable value of the stock options, that the estimated fair market value per share of Common Stock was $5.20 per share as of December 31, 1999 and increases at the rate indicated during the option term.

(2) The options vest ratably over a four year period. The option may be transferred only by will or by the laws of descent and distribution. Upon a change of control of the Company and termination of optionee's employment without cause, the options that would otherwise become vested within one year will be deemed vested immediately before such optionee's termination.

Option Exercises and Fiscal Year-End Option Values

None of the Named Executive Officers exercised any options during the fiscal year ended December 31, 1999. The following table sets forth as of December 31, 1999, the aggregate number of options held by each of the Named Executive Officers.

Fiscal Year-End Option Values

Name	Shares Acquired on exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 1999		Value of Unexercised In-the-Money Options (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Richard A. Jalkut	--	--	572,502	286,252	$ 5,650,595	$ 2,825,307
Michael A. Lubin	--	--	145,215	11,250	1,573,621	65,250
William R. Smedberg	--	--	58,686	69,970	513,093	492,191
James M. Craig	--	--	0	125,000	0	725,000
Shawn F. O'Donnell	--	--	0	50,000	0	290,000
Robert A. Rouse	--	--	0	350,000	0	2,030,000
Kevin J. Bennis	90,625	$894,469	0	0	0	0

(1) Based on an assumed market price of the Common Stock of $11.00 per share as of December 31, 1999.

Schaeffer Board Resignation

In October 1997, Mr. Schaeffer was our employee and was granted an option to purchase 148,418 shares of common stock under our 1997 Plan; the number of shares and ther exercise price were subsequently adjusted in a stock split. Mr. Schaeffer is no longer an officer or director of the company. In a letter agreement dated November 4, 1999, in which Mr. Schaeffer resigned from his position as a director of Pathnet, we and Mr. Schaeffer agreed that Mr. Schaeffer holds options for a total of 107,389 shares of our common stock, which are fully vested at an exercise price of $3.67 per share. PI will assume these option grants and convert them to options for shares of its common stock at closing of the Transaction.

Jalkut Employment Agreement

We are currently a party to an employment agreement with Mr. Jalkut. Under this employment agreement, Mr. Jalkut will receive a minimum annual base salary of $400,000 (or any greater amount approved by a majority of the board of directors), bonuses and other benefits determined by the board of directors. Additionally, Mr. Jalkut is entitled to receive reimbursement of certain expenses, all of which expenses may not exceed $50,000 per year. In accordance with his employment agreement, on August 4, 1997, Mr. Jalkut received nonqualified stock options for 296,122 shares of common stock at an exercise price of $3.28 per share; the number of shares and the option price were subsequently adjusted in a stock split. These options vest ratably over three years. We have granted Mr. Jalkut registration rights for the shares he will receive upon exercise of his options. If we terminate Mr. Jalkut's employment he may elect, within 10 business days of his termination, to have us pay him, subject to the terms of the Indenture and the Supplemental Indenture, the aggregate fair value of his options then vested or held by him. We will be required to make any payments in accordance with his employment agreement.

During his employment and for two years after his termination, Mr. Jalkut's employment agreement requires him to refrain from investing in businesses or activities that compete with us, soliciting our employees or otherwise competing with us, by, for example, working with or for one of our competitors. Mr. Jalkut's employment agreement also prevents him from disclosing or using our confidential or proprietary information at any time.

Other than the restrictions on Mr. Jalkut described above and our obligation to pay severance for one year following the termination of Mr. Jalkut's employment (depending on the basis for his termination), Mr. Jalkut's employment agreement will terminate in the event of his death and may be terminated:

- By us:
  - (a) Without cause (as defined in his employment agreement), by giving 60 days' prior written notice; or
  - (b) For cause, generally subject to a 30-day written notice of the board's intention to terminate him for cause;
  - (c) Upon Mr. Jalkut's disability (as defined in his employment agreement); and
- By Mr. Jalkut:
  - (a) Without cause, by giving 180 days' prior written notice; and
  - (b) Immediately, upon a constructive termination (as defined in his employment agreement).

Unless we terminate Mr. Jalkut's employment for cause, or Mr. Jalkut terminates his employment without cause, Mr. Jalkut is entitled to continue to receive his salary for 12 months following the termination of his employment with us.

Other Agreements

Messrs. Schaeffer, Lubin, O'Donnell, Rouse, Craig and Smedberg each have entered into an agreement withus. which requires each of them to (1) assign to us all inventions developed by them during their employment, (2) maintain the confidentiality of Pathnetproprietary information, and (3) refrain from working with or for a competitor of ours for two years after his termination.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table below provides some information regarding beneficial ownership of our capital stock as of December 31, 1999 for:

- Each of the Named Executive Officers.
- Each of our directors.
- All of our executive officers and directors as a group.
- Each other person, entity or group who we know beneficially owns 5% or more of any class of our stock.

All share amounts in the table have been adjusted and are presented assuming that the Contribution and Reorganization Transaction was closed as of December 31, 1999. Unless otherwise noted, the address of each of our Named Executive Officers and directors is 1015 31st Street, N.W., Washington, D.C. 20007.

	Issued and outstanding Common Stock		Series A Preferred		Series B Preferred		Series C Preferred		Stock	Beneficial Ownership of Common Stock	
Stockholder (a)	Shares	Percentage of Class	Shares	Percentage of Class	Shares	Percentage of Class	Shares	Percentage of Class	Options (b)	Total Shares	Percentage (c)
Spectrum Equity Investors, L.P. (d)	—	—	1,372,668	47.3%	1,220,099	25.5%	1,363,406	16.7%	—	3,956,173	56.3%
Spectrum Equity Investors II, L.P. (d)	—	—	—	—	—	—	1,363,406	16.7%	—	1,363,406	30.8%
New Enterprise Associates VI, Limited Partnership (e)	—	—	522,000	18.0%	685,014	14.3%	1,374,051	16.8%	—	2,581,065	45.7%
Onset Enterprise Associates II, L.P. (f)	—	—	522,000	18.0%	463,976	9.7%	817,672	10.0%	—	1,803,648	37.0%
Onset Enterprise Associates III, L.P. (f)	—	—	—	—	—	—	272,553	3.3%	—	272,553	8.2%
Paul Capital Partner Funds (g)	—	—	245,989	8.5%	125,144	2.6%	136,275	1.7%	—	507,573	5.9%
Thomas Domencich (h)	—	—	145,000	5.0%	62,573	1.3%	—	—	—	207,573	6.3%
Toronto Dominion Capital (USA) Inc. (i)	—	—	—	—	884,146	18.5%	1,006,500	12.3%	—	1,890,646	38.1%
Grotech Partners IV, L.P. (j)	—	—	—	—	884,146	18.5%	1,006,500	12.3%	—	1,890,646	38.1%
Utech Climate Challenge Fund, L.P. (k)	—	—	—	—	442,076	9.2%	136,276	1.7%	—	578,352	15.9%
Utility Competitive Advantage Fund, LLC (l)	—	—	—	—	—	—	366,980	4.5%	—	366,980	10.7%
David Schaeffer(m)	2,900,000	94.5%	—	—	—	—	—	—	107,389	3,007,389	94.7%
Richard A. Jalkut (n)	—	—	—	—	—	—	—	—	572,502	572,502	15.7%
Michael A. Lubin (o)	—	—	—	—	—	—	—	—	145,215	145,215	4.5%
William R. Smedberg (p)	—	—	—	—	—	—	—	—	128,656	128,656	4.0%
Kevin J. Maroni (q)	—	—	1,372,668	47.3%	1,220,099	25.5%	2,726,812	33.4%	—	5,319,579	63.4%
Peter J. Barris (r)	—	—	522,000	18.0%	685,014	14.3%	1,374,051	16.8%	—	2,581,065	45.7%
Patrick J. Kerins (s)	—	—	—	—	884,146	18.5%	1,006,500	12.3%	—	1,890,646	38.1%
Stephen A. Reinstadtler (t)	—	—	—	—	884,146	18.5%	1,006,500	12.3%	—	1,890,646	38.1%
All Directors and Named Executive Officers as a Group (n) (o) (p) (q) (r) (s) (t)	—	—	1,894,668	65.3%	3,673,405	76.7%	6,113,863	74.8%	903,172	12,585,108	80.4%

(a) In accordance with the rules of the Securities and Exchange Commission, each beneficial owner's holding has been calculated assuming full exercise of outstanding warrants and options exercisable or convertible by the holder within 60 days after December 31, 1999.

(b) Only Options exercisable within 60 days after December 31, 1999 are listed.

(c) The pro forma percentages of beneficial ownership of common stock as to each beneficial owner assumes the exercise or conversion into common stock of all outstanding options, warrants and convertible securities held by such owner that are exercisable or convertible within 60 days of December 31, 1999, but not the exercise or conversion of options, warrants and convertible securities held by others shown in the table.

(d) Spectrum Equity Investors, L.P.'s and Spectrum Equity Investors II, L.P.'s address is One International Place, Boston, Massachusetts, 02110.

(e) New Enterprise Associates VI, Limited Partnership's address is 1119 Saint Paul Street, Baltimore, Maryland, 21202.

(f) Onset Enterprise Associates II, L.P.'s and Onset Enterprise Associates III, L.P.'s address is 8911 Capital of Texas Highway, Austin, Texas, 78759.

(g) The Paul Capital Partner Funds are five funds that constitute a "group" under Section 13(d) of the Exchange Act. Each fund's address is: c/o Paul Capital Partners, 50 California Street, Suite 3000, San Francisco, California, 94111. The five funds are Paul Capital Partners V L.P., Paul Capital Partners V (Domestic Annex Fund) L.P., Paul Capital Partners V International, L.P., Paul Capital Partners VI, L.P. and PCP Associates, L.P.

(h) Thomas Domencich's address is 104 Benevolent Street, Providence, Rhode Island, 02906.

(i) Toronto Dominion Capital (USA) Inc.'s address is 31 West 52nd Street, New York, New York, 10019.

(j) Grotech Partners IV, L.P.'s address is 9690 Deereco Road, Timonium, Maryland, 21093.

(k) Utech Climate Challenge Fund, L.P.'s and Utility Competitive Advantage Fund, L.L.C.'s address is c/o Aretê Ventures, Two Wisconsin Circle, Chevy Chase, Maryland 20815.

(l) Utility Competitive Advantage Fund L.L.C.'s address is c/o William T. Heflin, Managing Director, Kinetic Ventures, L.L.C., 2 Wisconsin Circle, Suite 620, Chevy Chase, Maryland 20815.

(m) Mr. Schaeffer is no longer an officer or director of Pathnet.

(q) Mr. Maroni, who is a limited partner of the general partner of Spectrum and a general partner of the general partner of Spectrum Equity Investors II, L.P., disclaims beneficial ownership of the shares owned by Spectrum Equity Investors, L.P. and Spectrum Equity Investors II, L.P.

(r) Mr. Barris, who is general partner of the general partner of New Enterprise Associates VI, Limited Partnership, disclaims beneficial ownership of the shares owned by New Enterprise Associates VI, Limited Partnership.

(s) Mr. Kerins, Managing Director of the general partner of Grotech Partners IV, LP, disclaims beneficial ownership of the shares owned by Grotech Partners IV, LP.

(t) Mr. Reinstadtler, Vice President and Director of Toronto Dominion Capital (USA) Inc., disclaims beneficial ownership of the shares owned by Toronto Dominion Capital (USA) Inc.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Existing Pathnet, Inc. Agreements

Series A Purchase Agreement

Pursuant to an Investment and Stockholders' Agreement, dated as of August 28, 1995 (the "Series A Purchase Agreement"), by and among the Company and Spectrum Equity Investors, L.P., New Enterprise Associates VI, Limited Partnership, Onset Enterprise Associates II, L.P., IAI Investment Funds VIII, Inc., Thomas Domencich, Dennis R. Patrick and the Corman Foundation Incorporated, (together, the "Series A Purchasers") and David Schaeffer, the Series A Purchasers made their initial investments in the Company. The Series A Purchasers (i) agreed, subject to the satisfaction of certain conditions, to purchase in the aggregate 1,000,000 shares of Series A Convertible Preferred Stock for an aggregate purchase price of $1.0 million, (ii) purchased 500,000 shares of such 1,000,000 shares of Series A Convertible Preferred Stock for an aggregate purchase price of $500,000 and (iii) agreed to make available to the Company, under certain circumstances, bridge loans in an aggregate principal amount of $500,000 (the "Bridge Loan Commitment"). Pursuant to Amendment No. 1 to the Investment and Stockholders' Agreement, dated as of February 8, 1996, the Series A Purchasers purchased the remaining 500,000 shares of Series A Convertible Preferred Stock for an aggregate purchase price of $500,000. Pursuant to Amendment No. 2 to the Investment and Stockholders' Agreement dated as of August 2, 1996, the Series A Purchasers, among other things, increased the amount of the Bridge Loan Commitment to an aggregate principal amount of $700,000 and advanced such amount to the Company, such loans being evidenced by bridge loan notes (collectively, the "Bridge Loan Notes"). The Bridge Loan Notes carried an interest rate of 12% per annum and were due and payable in full on the earlier to occur of the first anniversary of the issuance of the Bridge Loan Notes or the closing date of the Company's next equity financing. The Bridge Loan Notes were to be convertible into any future equity security issued by the Company at 73% of the price to be paid for such security by other investors. In addition, the Series A Purchasers agreed to make available to the Company, upon the occurrence of certain events, additional bridge loans in an aggregate principal amount of $300,000 (the "Additional Bridge Loan Commitment").

Series B Purchase Agreement

The Company, each of the Series A Purchasers and several additional purchasers (together, the "Series B Purchasers") and Mr. Schaeffer entered into an Investment and Stockholders' Agreement, dated as of December 23, 1996 (the "Series B Purchase Agreement"), pursuant to which, among other things, the Series B Purchasers agreed to acquire in the aggregate 1,651,046 shares of Series B Convertible Preferred Stock for an aggregate purchase price of $5.0 million. Of these amounts, 609,756 shares of Series B Convertible Preferred Stock were purchased on December 23, 1996, for an aggregate purchase price of $2.0 million. In addition, the $700,000 principal amount of Bridge Loan Notes, plus $33,367 of accrued interest, were converted into 306,242 shares of Series B Convertible Preferred Stock. At the same time, the Series A Purchasers paid $300,000 representing the committed but undrawn portion of the Additional Bridge Loan Commitment to the Company for the sale of 125,292 shares of Series B Convertible Preferred Stock. The Series B Purchasers purchased the remaining 609,756 shares of Series B Convertible Preferred Stock subject to the Series B Purchase Agreement for $2.0 million on June 18, 1997. See Note 9 to the financial statements included elsewhere in this Report.

Series C Purchase Agreement

The Company, the Series A Purchasers, the Series B Purchasers and one additional purchaser (together the "Series C Purchasers") and Mr. Schaeffer entered into the Investment and Stockholders' Agreement, dated October 31, 1997, as amended (the "Investment and Stockholders' Agreement"), pursuant to which, among other things, the Series C Purchasers agreed to acquire 2,819,549 shares of Series C Convertible Preferred Stock for an aggregate purchase price of $30.0 million. The Series C Purchasers purchased 939,850 shares of Series C Convertible Preferred Stock for an aggregate purchase price of $10.0 million on October 31, 1997, and purchased an additional 1,879,699 shares of Series C Convertible Preferred Stock for an aggregate purchase price of $20.0 million simultaneously with the closing of the Debt Offering. In connection with the Investment and Stockholders' Agreement, the Company, the holders of Preferred Stock (collectively, the "Investors") and Mr. Schaeffer agreed to amend and restate, in part, the Series A Purchase Agreement and the Series B Purchase Agreement. These amendments restated the provisions of such agreements relating to affirmative and negative covenants, transfer restrictions, rights to purchase and registration rights. These sections of each of the Series A Purchase Agreement, the amendments thereto, and the Series B Purchase Agreement were similar in all material respects. In order to remove any doubt as to this fact, to simplify matters and for convenience (to have in one agreement the material provisions that survive the purchase and sale of the Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock (collectively the "Series Preferred Stock") and the closing of an initial public offering), the aforementioned sections were amended and restated in the Investment and Stockholders' Agreement. See "--Investment and Stockholders' Agreement."

Terms of the Series Preferred Stock

Each share of Series Preferred Stock will automatically be converted into Common Stock immediately upon the closing of a qualified public offering of capital stock of the Company. A qualified public offering is defined as: (i) the Company is valued on a pre-money basis at greater than $50,000,000, (ii) the gross proceeds received by the Company exceed $20,000,000, and (iii) the Company uses a nationally recognized underwriter approved by holders of a majority interest of the Series Preferred Stock. As of December 31, 1998, the Series Preferred Stock was convertible into an aggregate of 15,864,715 shares of Common Stock.

Each share of Series Preferred Stock entitles its holder to a number of votes equal to the number of shares of Common Stock into which such share of Series Preferred Stock is convertible. With respect to the Board of Directors of the Company, prior to the completion of a qualified public offering (i) the holders of Series A Convertible Preferred Stock are entitled to vote separately as a class to elect two directors of the Company (the "Series A Investor Directors"), (ii) the holders of Series B Convertible Preferred Stock are entitled to vote separately as a class to elect one director (the "Series B Investor Director"), (iii) the holders of the Series C Convertible Preferred Stock are entitled to vote separately as a class to elect one director (to "Series C Investor Director"), (iv) the holders of the Common Stock are entitled to vote separately as a class to elect two directors (the "Common Stock Directors"), (v) the chief executive officer (the "CEO") of the Company is appointed by the affirmative vote of the Common Stock Directors and the Series A Investor Directors, Series B Investor Director and Series C Investor Director, voting together, and (vi) the CEO will be elected to the Board of Directors of the Company by the holders of Common Stock and Series Preferred Stock, voting together.

The holders of the Series Preferred Stock are entitled to receive dividends in preference to and at the same rate as dividends are paid with respect to the Common Stock. In the event of any liquidation, dissolution, winding up or deemed liquidation of the Company, whether voluntary or involuntary, each holder of a share of Series Preferred Stock outstanding is entitled to be paid before any payment may be made to the holders of any class of Common Stock or any stock ranking on liquidation junior to the Series Preferred Stock, an amount, in cash, equal to the original purchase price paid by such holder, appropriately adjusted for stock splits, stock dividends and the like, plus any declared but unpaid dividends.

The Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Convertible Preferred Stock A, Series B and Series C Preferred Stock were $1,000,000, $5,033,367, and $30,000,052, respectively, as of December 31, 1998. In the event the assets of the Company are insufficient to pay liquidation preference amounts, all of the assets available for distribution shall be distributed to each holder of Series Preferred Stock *pro rata* in proportion to the number of shares of Series Preferred Stock held by such holder.

Shares of the Series Preferred Stock may be converted at any time, at the option of the holder, into shares of Common Stock. The number of shares of voting Common Stock to be received upon conversion is subject to adjustment in the event of stock dividends and subdividends, certain combinations of Common Stock, and issuances of Common Stock and of securities convertible into Common Stock that have a dilutive effect. As of December 31, 1998, each share of Series Preferred Stock was convertible into 2.9 shares of Common Stock.

Investment and Stockholders' Agreement

Pursuant to the terms of the Investment and Stockholders' Agreement, the Investors and Mr. Jalkut are entitled to certain registration rights with respect to securities of the Company. On any three occasions at the option of the holders, the holders of a majority of the securities registrable under the terms of the Investment and Stockholders' Agreement ("Registrable Securities") may require the Company to effect a registration under the Securities Act of 1933 of their Registrable Securities, subject to the Company's right to defer such registration for a period of up to 60 days. In addition, if the Company proposes to register securities under the Securities Act of 1933 (other than a registration relating either to the sale of securities to employees pursuant to a stock option, stock purchase or similar plan or a transaction under Rule 145 of the Securities Act), then any of the holders of Registrable Securities have the right (subject to certain cut-back limitations) to request that the Company register such holder's Registrable Securities. All registration expenses of the Investors (exclusive of underwriting discount and commissions) up to $60,000 per offering will be borne by the Company. The Company has agreed to indemnify the Investors against certain liabilities in connection with any registration effected pursuant to the foregoing terms, including liabilities arising under the Securities Act.

Pathnet Telecommunications Inc. Stockholders Agreement

Following the closing of the Transaction, the Pathnet Inc. stockholders agreement will terminate, and a new Pathnet Telecommunications, Inc., stockholders agreement will go into effect. We summarize in this section selected materials of the new stockholders agreement. For a more complete description, we refer you to the copy of Pathnet Telecommunications, Inc's stockholders agreement filed as an exhibit to the Pathnet Telecommunications, Inc.'s Registration Statement on Form S-1 (Registration No. 333-

91469) filed by PTI with the Securities and Exchange Commission (the "Commission") on November 22, 1999

If there is an inconsistency between this summary and the stockholders agreement, the stockholders agreement will control.

Overview

Upon closing of the various contribution agreements comprising Transaction, PI will enter into a stockholders agreement with CSX, Colonial, BNSF, our other preferred stockholders and David Schaeffer. The stockholders agreement will put in place at the Pathnet Telecom level many of the provisions that currently apply under Pathnet's existing Investment and Stockholders Agreement. Pathnet's existing Investment and Stockholders Agreement will be terminated after the Transaction.

In accordance with the stockholders agreement, each stockholder will agree to vote in favor of the election of a board of directors consisting of 10 members:

- Two designees of the Series A Preferred Stockholders (initially, a designee of Spectrum Equity Investors L.P. and the other will initially be a designee of New Enterprise Associates VI Limited Partnership);
- One designee of the Series B Preferred Stockholders (initially, a designee of Grotech Partners IV, L.P.);
- One designee of the Series C Preferred Stockholders (initially, a designee of Toronto Dominion Capital (U.S.A.), Inc.) who may not be a partner or associate of Spectrum, New Enterprise Associates or Grotech for so long as they have designation rights under our stockholders agreement;
- Three designees of the Series D and E Preferred Stockholders (one designated by BNSF, one by CSX and one by Colonial);
- Pathnet Telecommunications, Inc.'s CEO;
- One independent "outside" director, who is neither a member of management nor an affiliate of any stockholder; and
- One director who will be elected by all voting stockholders voting together as a single class, as provided by our certificate of incorporation.

Under the stockholders agreement, PTI will be subject to covenants substantially similar to those in effect under Pathnet's Investment and Stockholders Agreement. For so long as at least 25% of the shares of preferred stock outstanding immediately after the closing of the Transaction remain outstanding, these covenants will require that PTI obtain the approval of the holders of two-thirds of the outstanding shares of preferred stock (all voting as a single class) before PTI undertake certain fundamental actions, including mergers, dispositions, acquisitions, amendments to our certificate of incorporation and bylaws, affiliated transactions, and certain issuances of securities. In addition, certain actions that would adversely affect the rights of a single series of preferred stock relative to any other series of preferred stock would require the majority vote of each adversely affected series.

Each party to the stockholders agreement will represent and warrant to the other stockholders that they, he or it (1) has no present intention or plan, formally or informally, on the closing date to transfer or dispose of any of the shares received by such party under their, his or its contribution agreement, and (2) intends for their, his or its contribution of Pathnet shares or other property to us in accordance with their, his or its contribution agreement to be treated as part of a single integrated transaction in which gain or loss will not be recognized for tax purposes. Each existing Pathnet stockholder who participates will represent and warrant to the other parties that it intends its contribution of Pathnet shares to us to qualify as a tax-free reorganization under Section 368(a)(1)(B) of the Internal Revenue Code, pursuant to which gain or loss will not be recognized.

Registration Rights

In the stockholders agreement, PTI. will grant registration rights to its preferred stockholders and to Mr. Jalkut and Mr. Schaeffer. These registration rights will be substantially similar to the registration rights granted to these same holders in the Pathnet Investment and Stockholders Agreement, except that Mr. Schaeffer will be granted registration rights. The holders of securities subject to registration rights will have both "demand" and "piggy back" registration rights.

Demand Rights

PTI will grant "demand" registration rights for two separate groups of our equity securities. The groups are broadly distinguished by the identity of the holders who can demand that PTI register their shares under the Securities Act. The first group consists of the holders of:

- Shares of common stock issued to PTI's preferred stockholders, or issuable to PTI's preferred stockholders upon the conversion of their shares of preferred stock; and
- Shares of common stock issued or issuable to Mr. Jalkut upon the exercise of his options.

PTI refer to these groups of shares as "registrable securities." On three separate occasions, by the vote of the holders of the applicable percentage of the registrable securities outstanding in this first group, the holders of the shares in this group may require PTI to use its best efforts to file a registration statement with the SEC in respect of their registrable securities. Before PTI make an initial "Qualified Public Offering" (which the stockholders agreement defines as a public offering of more than $75 million in value of our securities at a per share price that implies a valuation in excess of $600 million for all of the shares of our capital stock), the holders of at least 67% of the total number of outstanding registrable securities must affirmatively vote to exercise any of these demand rights. After PTI makes an initial Qualified Public Offering, the holders of 20% of the total number of outstanding registrable securities may make the demand. Although PTI does not include Mr. Schaeffer's shares in calculating the percentages for purposes of the demand by this group, he will be entitled to participate on a proportional basis in any registration demanded by this group of our stockholders.

Separately, PTI will grant Mr. Schaeffer a single right to demand that PTI register his shares of its common stock under the Securities Act. Mr. Schaeffer will have the right to exercise his demand registration right if: (1) PTI complete an initial Qualified Public Offering, and (2) its registration statement filed in respect of that initial offering either:

- Does not include Mr. Schaeffer's shares of its common stock that he proposes to register; or
- Has ceased to be effective within the thirty-day period following the expiration of a mandatory "lock-up" period applicable to all of the holders of our securities with registration rights. (The

lock-up provisions of our stockholders agreement will prohibit sales of our securities by the parties to our stockholders agreement for a period up to 180 days following the completion of an initial public offering.)

Although they may not initiate a "demand" under this provision, the holders of PTI's registrable securities identified above may participate on a proportional basis in any registration demanded by Mr. Schaeffer under this provision of the stockholders agreement.

In exercising these demand registration rights, the stockholders must in all cases have selected an underwriter reasonably acceptable to us who is prepared to underwrite the offering of the shares on a firm commitment basis. PTI will have additional obligations to assist in the registration and underwriting of any shares that these holders seek to sell pursuant to their registration rights. PTI will have a right to defer each of those demand registrations for up to 60 days, if our legal counsel has advised us that filing a registration statement relating to such a demand registration would require us either (1) to disclose a material impending transaction and PTI have determined in good faith that the disclosure would have a material adverse effect on us, or (2) to conduct a special audit.

Pathnet has separate "demand registration" obligations under a Warrant Registration Rights Agreement executed in conjunction with Pathnet 's Note and warrant offering in April 1998. Under that agreement, the holders of a majority of the Pathnet warrants may require Pathnet on one occasion after an initial public offering to register under the Securities Act their shares of common stock received upon the exercise of their warrants, subject to Pathnet's right to defer the registration of those shares for up to 60 days in similar circumstances. In connection with the transaction, PTI expects to propose to the holders of these rights that it assume Pathnet 's obligations under this Warrant Registration Rights Agreement. If the requisite holders of the Pathnet's warrants consent to the proposed amendments, PTI may be required by the terms of the Warrant Registration Rights Agreement to register additional shares of our common stock upon the exercise of these warrants.

Piggyback Rights

Pathnet Telecommunications, Inc will also grant to each of these groups of its stockholders (and, if it assumes Pathnet's obligations to the holders of its warrants, then also to those warrant holders) so-called "piggyback" registration rights, under which they can require PTI to register their shares of common stock whenever it registers any of its equity securities under the Securities Act. These piggyback registration rights will be subject to underwriter "cutbacks," which means that PTI's managing underwriter may decide to limit the number of shares added to a registration that it initiate because the underwriter has concluded that including the additional "piggyback" shares would have an adverse impact on the marketing of the securities to be sold in the underwritten offering. These piggyback registration rights will not apply to any registration relating to a public offering pursuant to demand registration rights granted to Pathnet warrantholders, to the registration of securities with our employee benefit plans, on any SEC form that does not permit secondary offerings, or to securities we issue in a merger, exchange offer or similar transaction.

PTI will be required to bear up to $60,000 of registration expenses for each demand registration under its stockholders agreement. In addition, it will agree to indemnify the registration rights holders against, and provide contribution for, liabilities under the Securities Act, the Securities Exchange Act of 1934 or other federal or state laws regarding the registration of our securities. However, it will not indemnify the registration rights holders against, or provide them contribution for, any untrue statements or omissions made by us in reliance on and in conformity with information furnished to us in writing by the registration rights holders.

Preemptive Rights

Under the stockholders agreement, each of PTI's preferred stockholders and Mr. Schaeffer will have the right to participate in certain of our sales of securities. Specifically, on each occasion between the closing of the Contribution and Reorganization Transaction and an initial "Qualified Public Offering" that it issues shares of its capital stock (or other securities convertible or exchangeable for our capital stock), PTI's preferred stockholders and Mr. Schaeffer will have the right to purchase their pro rata share of the newly issued securities. In addition, in the event that any of our preferred stockholders or Mr. Schaeffer elects not to purchase his or its pro rata share of the newly issued securities, the remaining preferred stockholders and Mr. Schaeffer will have the right to purchase those shares as well.

Transfer Restrictions

Mr. Schaeffer's ability to transfer his shares of our capital stock will be subject to restrictions under our stockholders agreement. He is prohibited from making any transfers other than specifically enumerated "Permitted Transfers." Those Permitted Transfers include:

- Transfers made in accordance with specified provisions of our stockholders agreement which, among other things, grant a right of first refusal to our preferred stockholders with respect to the shares Mr. Schaeffer proposes to transfer.
- Transfers by Mr. Schaeffer to his spouse or his children, to a trust he establishes for his spouse or children, upon his death, to a trust established under his will and other similar transfers, provided that the transferee enters into an enforceable written agreement that is satisfactory to us and to a majority of our preferred stockholders, providing that the shares transferred by Mr. Schaeffer remain subject to our stockholders agreement.
- Transfers that constitute a bona fide pledge or other granting of a security interest in Mr. Schaeffer's shares of our stock to secure a loan for borrowed money, subject to specified restrictions, including limitations on the purpose of any such loan, the minimum net assets of the lending institution, and a review of the applicable loan documents by our outside counsel for compliance with the terms of our stockholders agreement.

PART IV

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

(a) The following documents are filed as part of this report:

(1) Financial Statements

Consolidated Balance Sheets as of December 31, 1999 and 1998

Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997, and for the period August 25, 1995 (date of inception) to December 31, 1999

Consolidated Statements of Comprehensive Loss for the years ended December 31, 1999, 1998 and 1997, and for the period August 25, 1995 (date of inception) to December 31, 1999

Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998 and 1997, and for the period August 25, 1995 (date of inception) to December 31, 1999

Consolidated Statement of Stockholders' Equity (Deficit) for the years ended December 31, 1999, 1998, 1997 and 1996, and for the period August 25, 1995 (date of inception) to December 31, 1999

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

All schedules are omitted because they are not applicable or not required or because the required information is incorporated herein by reference or included in the financial statements or notes thereto included elsewhere in this report.

(b) Reports on Form 8-K.

On November 9, 1999, the company announced that it had entered into agreements providing for strategic investments from Colonial Pipeline Company, Burlington Northern and Sante Fe Corporation (BNSF) and CSX Corporation.

(c) Exhibits.

The following exhibits are filed as a part of this Annual Report on Form 10-K:

Exhibit Number	Description of Document
Item 14	**Exhibits**
3.1 (ii)	Amended and Restated Certificate of Incorporation of Pathnet, Inc. and Certificate of Amendment to such Certificate of Incorporation.
3.2 (ii)	Amended and Restated Bylaws of Pathnet Telecommunications, Inc.
4.1 (i)	Indenture, dated as of April 8, 1998, between Pathnet, Inc. and The Bank of New York, Inc. as Trustee
4.4 (i)	Form of Note
4.5 (i)	Pledge Agreement, dated as of April 8, 1998, among Pathnet,

	Inc., The Bank of New York as Trustee and The Bank of New York as the Securities Intermediary
10.1 (i) (2)	Pathnet, Inc. 1995 Stock Option Plan
10.2 (i) (2)	Pathnet, Inc. 1997 Stock Incentive Plan as amended by Amendment No. 1 to 1997 Stock Incentive Plan.
10.3 (v)	Contribution Agreement, dated as of November 2, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and The Burlington Northern Santa Fe Railway Company
10.4 (v)	Contribution Agreement, dated as of November 2, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and Colonial Pipeline Company
10.5 (v)	Contribution Agreement, dated as of November 2, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and CSX Transportation, Inc.
10.6 (v)	Contribution Agreement, dated as of November 2, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and The Preferred Stockholders of Pathnet, Inc.
10.7 (v)	Contribution Agreement, dated as of November 2, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and Common Stockholders of Pathnet, Inc.
10.8 (v)	Contribution Agreement, dated November 4, 1999, by and among Pathnet Telecommunications, Inc., Pathnet, Inc. and David Schaeffer
10.9 (i)	Warrant Agreement, dated as of April 8, 1998, between Pathnet, Inc. and The Bank of New York, as warrant agent
10.10 (i)	Warrant Registration Rights Agreement, dated as of April 8, 1998, among Pathnet, Inc., Spectrum Equity Investors, L.P., New Enterprise Associates VI, Limited Partnership, Onset Enterprise Associates II, L.P., FBR Technology Venture Partners, L.P., Toronto Dominion Capital (U.S.A.) Inc., Grotech Partners IV, L.P., Richard A. Jalkut, David Schaeffer and the Initial Purchasers
10.11 (i)	Lease Agreement, dated August 9, 1997, by and between Pathnet, Inc. and 6715 Kenilworth Avenue General Partnership relating to Pathnet Inc.'s offices in Georgetown, including Amendment to Lease Agreement dated March 5, 1998, and Second Amendment to Lease dated June 1, 1998
10.12 (iii)	Amendment No. 3 to Lease Agreement, dated September 1, 1998, by and between Pathnet, Inc. and 6715 Kenilworth Avenue General Partnership
10.13 (i)	Notes Registration Rights Agreement, dated April 8, 1998, by and among Pathnet, Inc. and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear Stearns & Co. Inc., TD Securities (USA) Inc. and Salomon Brothers
10.14 (i) (2)	Employment Agreement, dated August 4, 1997, by and between Pathnet, Inc. and Richard A. Jalkut, as amended by Amendment to Employment Agreement, dated April 6, 1998
10.15 (vi) (2)	Letter Agreement, dated April 7, 1999, between Pathnet, Inc. and Robert Rouse, relating to Mr. Rouse's employment with

	Pathnet, Inc.
10.16 (i) (2)	Non-Disclosure, Assignment of Inventions and Non Competition Agreement, dated February 2, 1998, by and between Pathnet, Inc. and Kevin Bennis.
10.17 (viii)	Assignment and Acceptance, by and between Pathnet, Inc. and Pathnet Telecommunications, Inc.
10.18 (i) (2)	Non-Qualified Stock Option Agreement, dated August 4, 1997, by and between Pathnet, Inc. and Richard A. Jalkut
10.19 (i) (2)	Non-Qualified Stock Option Agreement, dated October 31, 1997, by and between Pathnet, Inc. and David Schaeffer
10.20 (viii) (3)	IXC Master Services Agreement, dated June 17, 1999, by and between IXC Communications Services, Inc. and Pathnet, Inc., as amended by Amendment No. 1 dated August 26, 1999 and Amendment No. 2, dated October 13, 1999
10.21 (viii) (3)	Capacity Agreement, dated August 10, 1999, between Frontier Communications of the West, Inc. and Pathnet, Inc.
	Collocation and Interconnection Agreements:
10.22 (viii)	Collocation Agreement, dated July 29, 1999, by and between BellSouth Telecommunications, Inc. and Pathnet, Inc.
10.23 (viii)	Interim Collocation Agreement, dated August 12, 1999, between U S West Communications, Inc. and Pathnet, Inc.
	Equipment Supply Contracts:
10.24 (i)	Master Agreement, dated August 8, 1997, between Pathnet, Inc. and NEC America, Inc. as amended by Amendment No. 1 to Master Agreement, dated November 9, 1997, Amendment No. 2 to Master Agreement, dated April 2, 1998, Amendment No. 3 to Master Agreement, dated May 4, 1998, and Amendment No. 4 to Master Agreement, dated July 10, 1998
10.25 (iii)	Amendment No. 5 to Master Agreement, dated November 20, 1998, by and between Pathnet, Inc. and NEC America, Inc.
10.26 (i)	Purchase Agreement, dated July 1, 1995, between Andrew Corporation and Path Tel, Inc., as amended by Amendment One, dated September 16, 1996 and Amendment Two, dated July 1, 1997
10.27 (v)	Agreement, dated March 31, 1999, between Pacific Fiber Link, LLC and Pathnet, Inc.
10.28 (v)	Marketing Agreement, dated March 31, 1999, between Pacific Fiber Link, LLC and Pathnet, Inc.
10.29 (v)	Dark Fiber Network Agreement, dated August 5, 1999, by and among Pathnet, Inc., Tri-State Generation and Transmission Association, Inc., Empire Electric Association, Inc., La Plata Electric Association, Inc., Delta-Montrose Electric Association, Inc. and San Miguel Power Association, Inc.
10.30 (viii)	Form of Letter agreement, dated November 4, 1999, by and among Pathnet, Inc., David Schaeffer, Spectrum Equity Investors, L.P., Spectrum Equity Investors II, L.P., New Enterprise Associates VI, Limited Partnership and Grotech Partners IV, L.P.
10.31 (viii)	Licence of Marks, dated November 10, 1999, by and between

	Pathnet, Inc. and Pathnet Telecommunications, Inc.
10.32.1 (vii)	Investment and Stockholders Agreement, dated as of October 31, 1997 (the "Investment and Stockholders Agreement") by and among Pathnet, Inc. and certain stockholders of Pathnet, Inc.
10.32.2 (vii)	Consent Waiver and Amendment, dated as of March 19, 1998, relating to the Investment and Stockholders Agreement
10.32.3 (vii)	Amendment No. 1 to the Investment and Stockholders Agreement dated as of April 1, 1998.
21.1 (1)	List of Subsidiaries of Pathnet Telecommunications, Inc.
27.1 (1)	Financial Data Schedule
99.1 (viii)	Consent of the Yankee Group

(i) Incorporated by reference to the corresponding exhibit to Pathnet, Inc.'s Registration Statement on Form S-1 (Registration No. 333-52247) filed by Pathnet, Inc. with the Securities and Exchange Commission (the "Commission") on May 8, 1998, as amended by Amendment No. 1 to such Registration Statement filed with the Commission on July 16, 1998, and as further amended by Amendment No. 2 to such Registration Statement filed with the Commission on July 27, 1998, and as further amended by Amendment No. 3 to such Registration Statement filed with the Commission on August 10, 1998.

(ii) Incorporated by reference to Pathnet, Inc.'s Form 10-K (File No. 000-24745) filed by Pathnet, Inc. with the Commission on March 18, 1999.

(iii) Incorporated by reference to Pathnet, Inc.'s Form 10-Q (File No. 000-24745) filed by Pathnet, Inc. with the Commission on May 17, 1999.

(iv) Incorporated by reference to Pathnet, Inc.'s Form 10-Q (File No. 000-24745) filed by Pathnet, Inc. with the Commission on August 9, 1999.

(v) Incorporated by reference to Pathnet, Inc.'s Form 10-Q (File No. 000-24745) filed by Pathnet, Inc. with the Commission on November 15, 1999.

(vi) Incorporated by reference to Pathnet, Inc.'s Form 8-K (File No. 000-24745) filed by Pathnet, Inc. with the Commission on April 29, 1999.

(vii) Incorporated by reference to the corresponding exhibit to Pathnet, Inc.'s Registration Statement on Form S-4 (Registration No. 333-53467) filed by Pathnet, Inc. with the Commission on May 22, 1998, as amended by Amendment No. 1 to such Registration Statement filed with the Commission on August 12, 1998, and as further amended by Amendment No. 2 to such Registration Statement filed with the Commission on August 21, 1998, and as further amended by Amendment No. 3 to such Registration Statement filed with the Commission on August 31, 1998.

(viii) Incorporated by reference to the corresponding exhibit to Pathnet Telecommunications, Inc.'s Registration Statement on Form S-1 (Registration No. 333-91469) filed by Pathnet Telecommunications, Inc. with the Securities and Exchange Commission (the "Commission") on November 22, 1999, as amended by Amendment No. 1 to such Registration Statement filed with the Commission on December 16, 1999, and as further amended by Amendment No. 2 to such Registration Statement filed with the Commission on February 22, 2000.

(1) Filed herewith.

(2) Constitutes management contract or compensatory arrangement.

(3) Certain portions of this exhibit have been omitted based on a request for confidential treatment filed separately with the Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the District of Columbia on this 22nd day of February 2000.

PATHNET, INC.

By: /s/ Michael A. Lubin

Name: Michael A. Lubin
Title: Vice President, General Counsel And Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard A. Jalkut Richard A. Jalkut	Chief Executive Officer and Director	February 22, 2000
/s/ James M. Craig James M. Craig	Executive Vice-President Chief Financial Officer and Treasurer (Principal Financial Officer and Controller	February 22, 2000
/s/ Peter J. Barris Peter J. Barris	Director	February 22, 2000
/s/ Kevin J. Marconi Kevin J. Maroni	Director	February 22, 2000
/s/ Patrick J. Kerins Patrick J. Kerins	Director	February 22, 2000
/s/ Stephen A. Reinstadtler Stephen A. Reinstadtler	Director	February 22, 2000

PATHNET, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS

Report of Independent Accountants

To the Board of Directors and Stockholders
Pathnet, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Pathnet, Inc. and its subsidiaries (a development stage enterprise) (the Company) at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 and for the period August 25, 1995 (date of inception) to December 31, 1999, in conformity accounting principles with generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

McLean, VA
February 22, 2000

PATHNET, INC. AND SUBSIDIARIES
A Development Stage Enterprise
CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 1998
ASSETS		
Cash and cash equivalents	$ 90,661,837	$ 57,321,887
Note receivable	-	3,206,841
Interest receivable	1,048,417	3,848,753
Marketable securities available for sale, at market	42,651,836	97,895,773
Prepaid expenses and other current assets	1,437,464	205,505
Total current assets	135,799,554	162,478,759
Property and equipment, net	131,928,365	47,971,336
Deferred financing costs, net	9,649,680	10,508,251
Restricted cash	16,452,916	10,731,353
Marketable securities available for sale, at market	5,088,458	71,899,757
Pledged marketable securities held to maturity	21,265,206	61,824,673
Other assets	351,808	-
Total assets	$ 320,535,987	$ 365,414,129
LIABILITIES, MANDATORILY REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)		
Accounts payable	$ 18,543,195	$ 10,708,263
Accrued interest	8,932,293	8,932,294
Accrued expenses and other current liabilities	3,113,181	639,688
Total current liabilities	30,588,669	20,280,245
Commitments and contingences		
12 1/4% Senior Notes, net of unamortized bond discount of $3,378,375 and $3,787,875 respectively	346,621,625	346,212,125
Other noncurrent liabilities	3,092,779	-
Total liabilities	380,303,073	366,492,370
Series A convertible preferred stock, $0.01 par value, 1,000,000 shares authorized, issued and outstanding at December 31, 1999 and 1998, respectively (liquidation preference $1,000,000)	1,000,000	1,000,000
Series B convertible preferred stock, $0.01 par value, 1,651,046 shares authorized, issued and outstanding at December 31, 1999 and 1998, respectively (liquidation preference $5,033,367)	5,008,367	5,008,367
Series C convertible preferred stock, $0.01 par value, 2,819,549 shares authorized, issued and outstanding at December 31, 1999 and 1998, respectively (liquidation preference $30,000,052)	29,961,272	29,961,272
Total mandatorily redeemable preferred stock	35,969,639	35,969,639
Common stock, $0.01 par value, 60,000,000 shares authorized, 3,068,218 and 2,902,358 shares issued and outstanding	30,682	29,024
Deferred compensation	(441,760)	(978,064)
Additional paid-in capital	6,264,362	6,156,406
Accumulated other comprehensive (loss) income	(90,240)	208,211
Deficit accumulated during the development stage	(101,499,769)	(42,463,457)
Total stockholders' equity (deficit)	(95,736,725)	(37,047,880)
Total liabilities, mandatorily redeemable preferred stock and stockholders' equity (deficit)	$ 320,535,987	$ 365,414,129

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

PATHNET, INC. AND SUBSIDIARIES
A Development Stage Enterprise
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the year ended December 31, 1999	1998	1997	For the period August 25, 1995 (date of inception) to December 31, 1999
Revenue	$ 3,311,096	$ 1,583,539	$ 162,500	$ 5,058,135
Operating expenses:				
Cost of revenue	12,694,909	7,547,620	-	20,242,529
Selling, general and administrative	14,669,747	9,615,867	4,247,101	30,295,096
Contribution and reorganization expenses	1,022,998	-	-	1,022,998
Depreciation expense	6,204,381	732,813	46,642	6,993,212
Total operating expenses	34,592,035	17,896,300	4,293,743	58,553,835
Net operating loss	(31,280,939)	(16,312,761)	(4,131,243)	(53,495,700)
Interest expense	(41,010,069)	(32,572,454)	-	(73,997,880)
Interest income	13,111,953	13,940,240	159,343	27,227,189
Write-off of initial public offering costs	-	(1,354,534)	-	(1,354,534)
Other income (expense), net	142,743	2,913	(5,500)	140,156
Net loss	$ (59,036,312)	$ (36,296,596)	$ (3,977,400)	$ (101,480,769)
Basic and diluted loss per common share	$ (20.14)	$ (12.51)	$ (1.37)	
Weighted average number of common shares outstanding	2,931,644	2,902,029	2,900,000	

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

PATHNET, INC. AND SUBSIDIARIES
A Development Stage Enterprise
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the year ended December 31, 1999	For the year ended December 31, 1998	For the year ended December 31, 1997	For the period August 25, 1995 (date of inception) to December 31, 1999
Net loss	$ (59,036,312)	$ (36,296,596)	$ (3,977,400)	$ (101,480,769)
Other comprehensive (loss) income:				
Net unrealized (loss) gain on marketable securities available for sale	(298,451)	208,211	-	(90,240)
Comprehensive loss	$ (59,334,763)	$ (36,088,385)	$ (3,977,400)	$ (101,571,009)

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

PATHNET, INC. AND SUBSIDIARIES
A Development Stage Enterprise
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31, 1999	1998	1997	For the period August 25, 1995 (date of inception) to December 31, 1999
Cash flows from operating activities:				
Net loss	$ (59,036,312)	$ (36,296,596)	$ (3,977,400)	$ (101,480,769)
Adjustment to reconcile net loss to net cash used in operating activities:				
Depreciation expense	6,204,381	732,813	46,642	6,993,212
Amortization of deferred financing costs	1,138,722	842,790	-	1,981,512
Loss on sale of equipment	17,370	-	5,500	22,870
Gain on sale of marketable securities	(157,983)	-	-	(157,983)
Write-off of deferred financing costs	-	581,334	-	581,334
Interest expense resulting from amortization of discount on the bonds payable	409,500	307,125	-	716,625
Amortization of premium on pledged securities	537,251	-	-	537,251
Amortization of deferred compensation	536,304	701,295	-	1,237,599
Interest expense for beneficial conversion feature of bridge loan	-	-	-	381,990
Accrued interest satisfied by conversion of bridge loan to Series B convertible preferred stock	-	-	-	33,367
Changes in assets and liabilities:				
Interest receivable	3,370,552	(4,846,952)	-	(1,476,400)
Prepaid expenses and other assets	(1,583,767)	(156,935)	(46,876)	(1,789,272)
Accounts payable	689,533	6,709	386,106	1,197,147
Accrued interest	-	8,932,294	-	8,932,294
Accrued expenses and other liabilities	2,816,674	339,688	269,783	3,456,361
Net cash used in operating activities	(45,057,775)	(28,856,435)	(3,316,245)	(78,832,862)
Cash flows from investing activities:				
Expenditures for network in progress	(79,378,740)	(33,619,342)	(1,739,782)	(114,737,864)
Expenditures for property and equipment	(910,668)	(2,769,076)	(381,261)	(4,116,561)
Proceeds on sale of equipment	5,624	-	-	5,624
Sale and maturity of marketable securites available for sale	170,446,259	51,542,384	-	221,988,643
Purchase of marketable securities available for sale	(48,531,491)	(221,129,703)	-	(269,661,194)
Purchase of marketable securities pledged as collateral	-	(83,097,655)	-	(83,097,655)
Sale of pledged marketable securities held to maturity	39,452,000	22,271,181	-	61,723,181
Restricted cash	(5,721,563)	(9,971,142)	(760,211)	(16,452,916)
Issuance of note receivable	-	(3,206,841)	-	(3,206,841)
Repayment of note receivable	3,206,841	9,000	-	3,215,841
Net cash provided by (used in) investing activities	78,568,262	(279,971,194)	(2,881,254)	(204,339,742)
Cash flows from financing activities:				
Issuance of voting and non-voting common stock	-	-	-	1,000
Proceeds from sale of preferred stock	-	19,999,998	12,000,054	35,000,052
Proceeds from sale of Series B convertible preferred stock representing the conversion of committed but undrawn portion of bridge loan to Series B convertible preferred stock	-	-	-	300,000
Proceeds from bond offering	-	350,000,000	-	350,000,000
Proceeds from bridge loan	-	-	-	700,000
Exercise of employee common stock options	109,614	81	-	109,695
Payment of issuance costs for preferred stock offerings	-	-	(38,780)	(63,780)
Payment of deferred financing costs	(280,151)	(11,681,947)	(250,428)	(12,212,526)
Net cash provided by (used in) financing activities	(170,537)	358,318,132	11,710,846	373,834,441
Net increase in cash and cash equivalents	33,339,950	49,490,503	5,513,347	90,661,837
Cash and cash equivalents at the beginning of period	57,321,887	7,831,384	2,318,037	-
Cash and cash equivalents at the end of period	$ 90,661,837	$ 57,321,887	$ 7,831,384	$ 90,661,837
Supplemental disclosure:				
Cash paid for interest	$ 43,081,220	$ 22,271,234	$ -	$ 65,352,454
Noncash investing & financing transactions:				
Conversion of bridge loan plus accrued interest to Series B preferred stock	$ -	$ -	$ -	$ 733,367
Conversion of non-voting common stock to voting common stock	$ -	$ -	$ -	$ 500
Issuance of voting and non-voting common stock	$ -	$ -	$ -	$ 9,000
Acquisition of network equipment financed by accounts payable	$ 20,095,646	$ 10,200,650	$ 5,092,013	$ 20,095,646

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

PATHNET INC. AND SUBSIDIARIES
A Development Stage Enterprise
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Shares	Common Stock Amount	Note Receivable From Stockholder	Deferred Compensation	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Deficit Accumulated During Development Stage	Total
Balance at August 25, 1995 (date of inception)	-	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	1,450,000	14,500	(4,500)	-		-	(9,500)	500
Issuance of Non-voting common stock	1,450,000	14,500	(4,500)	-		-	(9,500)	500
Net loss	-	-	-	-	-	-	(426,826)	(426,826)
Balance at December 31, 1995	2,900,000	29,000	(9,000)	-	-	-	(445,826)	(425,826)
Cancellation of Non-voting common stock	(1,450,000)	(14,500)	-	-	-	-	-	(14,500)
Issuance of Voting common stock	1,450,000	14,500	-	-	-	-	-	14,500
Interest expense for beneficial conversion feature of bridge loan	-	-	-	-	381,990	-	-	381,990
Net loss	-	-	-	-	-	-	(1,743,635)	(1,743,635)
Balance at December 31, 1996	2,900,000	29,000	(9,000)	-	381,990	-	(2,189,461)	(1,787,471)
Net loss	-	-	-	-	-	-	(3,977,400)	(3,977,400)
Balance at December 31, 1997	2,900,000	29,000	(9,000)	-	381,990	-	(6,166,861)	(5,764,871)
Exercise of stock options	2,358	24	-	-	57	-	-	81
Repayment of note receivable	-	-	9,000	-	-	-	-	9,000
Deferred compensation expense related to issuance of employee common stock options	-	-	-	(1,679,359)	1,679,359	-	-	-
Amortization of compensation expense related to issuance of employee common stock options	-	-	-	701,295	-	-	-	701,295
Fair value of warrants to purchase common stock	-	-	-	-	4,095,000	-	-	4,095,000
Net unrealized gain on marketable securities available for sale	-	-	-	-	-	208,211	-	208,211
Net loss	-	-	-	-	-	-	(36,296,596)	(36,296,596)
Balance at December 31, 1998	2,902,358	$ 29,024	$ -	$ (978,064)	$ 6,156,406	$ 208,211	$ (42,463,457)	$ (37,047,880)
Exercise of stock options	165,860	1,658	-	-	107,956	-	-	109,614
Amortization of compensation expense related to issuance of employee common stock options	-	-	-	536,304	-	-	-	536,304
Net unrealized gain on marketable securities available for sale	-	-	-	-	-	(298,451)	-	(298,451)
Net loss	-	-	-	-	-	-	(59,036,312)	(59,036,312)
Balance at December 31, 1999	3,068,218	$ 30,682	$ -	$ (441,760)	$ 6,264,362	$ (90,240)	$ (101,499,769)	$ (95,736,725)

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

1. THE COMPANY

Pathnet, Inc. (Company) is wholesale telecommunications provider building a nationwide network designed to provide other wholesale and retail telecommunications service providers with access to underserved and second and third tier markets throughout the United States. The Company's network will enable its customers including existing local telephone companies, long distance companies, Internet service providers, competitive telecommunications companies,, cellular operators and resellers to offer additional services to new and existing customers in these markets without having to expend their own resources to build, expand, or upgrade their own networks.

During 1999, Pathnet continued to construct and deploy digital networks utilizing both wireless and fiber-optic technologies. Pursuant to its agreement with Worldwide Fiber USA (WFI), the Company began to construct and market a multi-conduit fiber-optic network between Chicago, Illinois and Denver, Colorado during the second quarter. In August 1999, the Company announced it will co-develop a 400 mile fiber network connecting Grand Junction, Colorado to Albequerque, New Mexico with Tri State Generation and Transmission Association, Inc. (Tri-State). In November 1999, Pathnet signed an agreement with CapRock Communications (Capock) to construct a 350-mile multi-conduit, fiber network between Albuquerque, New Mexico and El Paso, Texas

As of December 31, 1999, the Company's network consisted of over 6,300 wireless route miles providing wholesale transport services to 30 cities and 500 miles of installed fiber. The Company is constructing an additional 600 route miles of fiber network, which is scheduled for completion in the first half of 2000.

Since inception, the Company's business has been funded primarily through equity investments by the Company's stockholders and $350.0 million aggregate principal amount of 12 ¼% Senior Notes due 2008 (Senior Notes) which have been registered under the Securities Act of 1933, as amended.

A substantial portion of the Company's initial activities involved developing strategic relationships with co-developers such as railroads, pipelines and utilities and building its network. Accordingly, most of its earlier revenues reflected only project management and advisory services in connection with the design, development and construction of its network. Revenues derived from the sale of telecommunication services along the Company's digital network are approximately 51% to date. The Company has experienced significant operating and net losses and negative operating cash flow to date and expects to continue to experience operating and net losses and negative operating cash flow until such time as it is able to generate revenue sufficient to cover its operating expenses

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company recently commenced providing telecommunication services to customers and recognizing the revenue from the sale of such telecommunication services. The Company's principal activities to date have been securing contractual alliances with its co-development partners, designing and constructing network path segments, obtaining capital and planning its proposed service. Accordingly, the Company's consolidated financial statements are presented as a development stage enterprise, as prescribed by Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises." As a development stage enterprise, the Company has been relying on the issuance of equity and debt securities, rather than recurring revenues, for its primary sources of cash since inception.

Consolidation

The consolidated financial statements include the accounts of Pathnet, Inc. and its wholly owned subsidiaries, Pathnet/Idaho Power License, LLC, Pathnet Fiber Optics, LLC and Pathnet/Idaho Power Equipment, LLC. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Loss Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of Common Stock outstanding during the applicable period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average common and potentially dilutive common equivalent shares outstanding during the applicable period. For each of the periods presented, basic and diluted loss per share are the same. The exercise of 2,675,597 employee Common Stock options, the exercise of warrants to purchase 1,116,500 shares of Common Stock, and the conversion of 5,470,595 shares of Series A, B and C convertible preferred stock into 15,864,715 shares of Common Stock as of December 31, 1999, which could potentially dilute basic earnings per share in the future, were not included in the computation of diluted loss per share for the periods presented because to do so would have been antidilutive in each case.

Fair Value of Financial Instruments

The Company believes that the carrying amount of certain of its financial instruments, which include cash equivalents and accounts payable, approximate fair value due to the relatively short maturity of these instruments. As of December 31, 1999, the fair value of the Company's 12 ¼% Senior Notes was approximately $220.5 million.

Cash Equivalents

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

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, marketable securities and associated interest receivable, note receivable, and restricted cash. Marketable securities and associated interest receivable include U.S. Treasury securities and debt securities of U.S. Government agencies, certificates of deposit and money market funds, and corporate debt securities. The Company has invested its excess cash in a money market fund with a commercial bank. The money market fund is collateralized by the underlying assets of the fund. The Company's restricted cash is maintained in an escrow account (see note 7) at a major bank. The Company has not experienced any losses on its cash and cash equivalents and restricted cash.

Marketable Securities

Management determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. The Company has classified certain securities as held to maturity pursuant to a pledge agreement. Held to maturity securities are stated at amortized cost. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale, along with any investments in equity securities. Securities are classified as current or noncurrent based on the maturity date. Securities available for sale are carried at fair value based on quoted market prices at the balance sheet date, with unrealized gains and losses reported as part of accumulated other comprehensive income (loss).

The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest are included in interest income or expense. Realized gains and losses are included in other income (expense), net in the consolidated statements of operations. The cost of securities sold is based on the specific identification method. The Company's investments in debt and equity securities are diversified among high credit quality securities in accordance with the Company's investment policy.

Property and Equipment

Property and equipment, consisting of network in progress, communications network, office and computer equipment, furniture and fixtures and leasehold improvements, is stated at cost. Network in progress costs incurred during development, including interest, are capitalized. Depreciation of the completed communications network commences when the network equipment is ready for its intended use and is computed using the straight-line method with estimated useful lives of network assets ranging between three to twenty years. Depreciation of the office and computer equipment and furniture and fixtures is computed using the straight-line method, generally over three to five years, based upon estimated useful lives, commencing when the assets are available for service. Leasehold improvements are amortized over the lesser of the useful lives of the assets or the lease term. Expenditures for maintenance and repairs are expensed as incurred. When assets are retired or disposed, the cost and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations for the period.

Impairment of Long-Lived Assets

The Company periodically evaluates the recoverability of its long-lived assets. This evaluation consists of a comparison of the carrying value of the assets with the assets' expected future cash flows, undiscounted and without interest costs. Estimates of expected future cash flows represent management's best estimate based on reasonable and supportable assumptions and projections. If the expected future cash flow, undiscounted and without interest charges, exceeds the carrying value of the asset, no impairment is recognized. Impairment losses are measured as the difference between the carrying value of long-lived assets and their fair value.

Deferred Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred income taxes result from temporary differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce net deferred tax assets to the amount expected to be realized. The provision for income taxes consists of the Company's current provision for federal and state income taxes and the change in the Company's net deferred tax assets and liabilities during the period.

Revenue Recognition

The Company earns revenue from the sale of telecommunications capacity and for project management and consulting services. Revenue from the sale of telecommunications capacity is earned when the service is provided. Revenue for project management and consulting services is recognized over the related project period as milestones are achieved. The Company defers revenue when contractual payments are received in advance of the performance of services.

Revenue from the sale of telecommunications capacity includes revenue earned under indefeasible right to use agreements. The Company recognizes revenue earned under such agreements on a straight-line basis over their term.

Deferred Financing Costs

The Company has incurred costs related to the Debt Offering together with costs associated with obtaining future debt financing arrangements. Such costs are amortized over the term of the debt or financing arrangement other than when financing has not been obtained, in which case, the costs are expensed immediately.

Segment Reporting

In June 1997, the Financial Accounting Standards Board issued SFAS No.131, "Disclosures About Segments of an Enterprise and Related Information"(SFAS No. 131). SFAS No. 131 changes the way public companies report segment information in annual financial statements and also requires those companies to report selected segment information in interim financial reports to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Management believes the Company's current operations comprise only one segment, the sale of telecommunications capacity, and as such, adoption of SFAS No. 131 does not impact the disclosures made in the Company's financial statements.

3. MARKETABLE SECURITIES

The Company's marketable securities are considered "available for sale," and, as such, are stated at market value. The net unrealized gains and losses on marketable securities are reported as part of accumulated other comprehensive income (loss). Realized gains or losses from the sale of marketable securities are based on the specific identification method.

The following is a summary of the investments in marketable securities at December 31, 1999:

		Gross Unrealized		
	Cost	Gains	Losses	Market Value
Available for sale securities:				
U.S. Treasury securities and debt securities				
of U.S. Government agencies	$ 19,363,417	$ --	$ 59,490	$ 19,303,927
Corporate debt securities	26,959,695	8,800	30,088	26,938,407
Debt Securities issued by foreign				
governments	1,507,422	--	9,462	1,497,960
	$ 47,830,534	$ 8,800	$ 99,040	$ 47,740,294

Gross realized gains on sales of available for sale securities were approximately $158,000 during the year ended December 31, 1999. Gross realized gains and gross realized losses on sales of available for sale securities were immaterial during the year ended December 31, 1998.

The amortized cost and market value of available for sale securities by contractual maturity at December 31, 1999 is as follows:

	Cost	Market Value
Due in one year or less	$ 42,688,416	$ 42,651,835
Due after one year through two years	5,142,118	5,088,459
	$ 47,830,534	$ 47,740,294

Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

In addition to marketable securities, the Company has investments in pledged marketable securities that are pledged as collateral for repayment of interest on the Company's Senior Notes through April 2000 (see note 8) and are classified as non-current assets on the consolidated balance sheet. As of December 31, 1999, pledged marketable securities consisted of U.S. Treasury securities classified as held to maturity with an amortized cost of approximately $20.8 million, interest receivable on pledged marketable securities of approximately $356,000 and cash and cash equivalents of approximately $112,000. All of the investments contractually mature by March 31, 2000.

4. NOTE RECEIVABLE

In 1998, under the terms of a promissory note with an incumbent, the Company agreed to advance up to $10.0 million principal for the purpose of funding the incumbent's equipment expenditures under a Fixed Point Microwave Services agreement. Equipment expenditures initially incurred by the Company were recharged at cost to the incumbent as principal under the promissory note. The principal amount of the promissory note was paid during 1999.

5. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost, is comprised of the following at December 31, 1999 and 1998:

	1999	1998
Network in progress	$ 63,123,322	$ 38,669,088
Communications network	71,604,029	6,890,686
Office and computer equipment	2,262,934	2,267,647
Furniture and fixtures	1,555,771	766,013
Leasehold improvements	337,181	166,733
	138,883,237	48,760,167
Less: accumulated depreciation	(6,954,872)	(788,831)
Property and equipment, net	$ 131,928,365	$ 47,971,336

Network in progress includes (i) all direct material and labor costs together with related allocable interest costs, necessary to construct components of a high capacity digital wireless and fiber optic network, and (ii) network related inventory parts and equipment. The network in progress balance as of December 31, 1999 includes approximately $36.8 million for costs incurred under the Company's agreement with WFI to construct a digital fiber optic network and $2.7 million for a right of use under an agreement with Northern Border Pipeline for microwave access. When a portion of the network has been completed and made available for use by the Company, the accumulated costs are transferred from network in progress to communications network and depreciated

6. DEFERRED FINANCING COSTS

During 1998, the Company incurred total issuance costs of approximately $11.3 million in connection with the Debt Offering. For the year ended December 31, 1999 and 1998, amortization of the costs of approximately $1.1 million and $843,000 was charged to interest expense, respectively.

7. RESTRICTED CASH

Restricted cash comprises amounts held in escrow to collateralize the Company's obligations under certain of its development agreements. The funds in each escrow account are available only to fund the projects to which the escrow is related. Generally, funds are released from escrow to pay project costs as incurred. During the year ended December 31, 1999, the Company deposited approximately $13.4 million in escrow and $7.7 million was released from escrow. During the year ended December

31, 1998, the Company deposited approximately $10.3 million in escrow and no funds were released from escrow.

8. LONG-TERM DEBT

During 1998, the Company completed the Debt Offering for total gross proceeds of $350.0 million less total issuance costs of approximately $11.3 million. Upon issuance, approximately $345.9 million of the gross proceeds was allocated to the Senior Notes and approximately $4.1 million was allocated to the Warrants based upon estimated fair values. The Warrants expire on April 15, 2008. The estimated value attributed to the Warrants has been recorded as a discount on the face value of the Senior Notes and as additional paid-in capital. This discount is amortized as an increase to interest expense and the carrying value of the debt over the related term using the interest method. The Company has recorded approximately $410,000 and $307,000 of expense for the years ended December 31, 1999 and 1998, respectively, related to the amortization of this discount. Interest on the Senior Notes accrues at an annual rate of 12¼ %, payable semiannually, in arrears, beginning October 15, 1998, with principal due in full on April 15, 2008. For the years ended December 31, 1999 and 1998, interest on the Senior Notes was approximately $42.9 million and $31.3 million, respectively, of which approximately $3.6 million and $362,000, respectively, was capitalized as network under development. The Company used approximately $81.1 million of the proceeds related to the Debt Offering to purchase U.S. Government debt securities, which are restricted and pledged as collateral for repayment of all interest due on the Senior Notes through April 15, 2000. The Senior Notes are redeemable, in whole or part, at any time on or after April 15, 2003 at the option of the Company, at the following redemption prices plus accrued and unpaid interest (i) on or after April 15, 2003; 106% of the principal amount, (ii) on or after April 15, 2004; 104% of the principal amount, (iii) on or after April 15, 2005; 102% of the principal amount and (iv) on or after April 15, 2006; 100% of the principal amount. In addition, at any time prior to April 15, 2001, the Company may redeem within sixty days, with the net cash proceeds of one or more public equity offerings, up to 35% of the aggregate principal amount of the Senior Notes at a redemption price equal to 112.25% of the principal amount plus accrued and unpaid interest provided that at least 65% of the original principal amount of the Senior Notes remain outstanding. Upon a change in control, as defined, each holder of the Senior Notes may require the Company to repurchase all or a portion of such holder's Senior Notes at a purchase price of cash equal to 101% of the principal amount plus accrued and unpaid interest and liquidated damages if any.

The Senior Notes contain certain covenants which restrict the activities of the Company including limitations of indebtedness, restricted payments, issuances and sales of capital stock, affiliate transactions, liens, guarantees, sale of assets and dividends.

9. CAPITAL STOCK TRANSACTIONS

Common Stock

The initial capitalization of the Company, on August 25, 1995, occurred through the issuance by the Company of 1,450,000 shares of voting common stock and 1,450,000 shares of non-voting common stock.

On May 8, 1998, the Company filed a Registration Statement with the Securities and Exchange Commission for an initial public offering of common stock (Initial Public Offering). The Company subsequently postponed the Initial Public Offering. In relation to the postponement of the Initial Public Offering, the Company wrote off approximately $1.4 million in expenses, consisting primarily of legal and accounting fees, printing costs, and Securities and Exchange Commission and Nasdaq Stock Market fees. On July 24, 1998, the Company's stockholders approved a 2.9-for-1 stock split which was effected on August 3, 1998, the record date. All share information has been adjusted for this stock split for all periods presented.

Preferred Stock

As part of its initial capitalization on August 25, 1995, the Company initiated a private offering of 1,000,000 shares of Series A convertible preferred stock for $1,000,000. Pursuant to the terms of the Investment and Stockholders' Agreement by and among the Company and certain stockholders of the Company (Investment and Stockholders' Agreement), the offering closed in two phases of $500,000 each. As of the signing of the Investment and Stockholders' Agreement, the Company received $500,000, representing the first closing on this offering in 1995. In addition, the offering provided for a convertible bridge loan in the amount of $1,000,000. The bridge loan carried an interest rate of 12% per annum and was due and payable in full on the earlier to occur of the anniversary date of the bridge loan issuance or the closing date of the Company's next equity financing. The bridge loan was converted into Series B preferred stock at 73% of the price of the Series B convertible preferred stock issued in the next equity financing.

In February 1996, the Company issued 500,000 shares of Series A convertible preferred stock to the original investors in exchange for $500,000, representing the second closing under the Investment and Stockholders' Agreement. In August 1996, the Company drew $700,000 on a bridge loan with the original investors.

On December 23, 1996, the Company consummated a private offering of 609,756 shares of Series B convertible preferred stock for $2,000,000 less issuance costs of $25,000 pursuant to the Investment and Stockholders' Agreement. In addition, simultaneously, the $700,000 bridge loan plus $33,367 of accrued interest was converted into 306,242 shares of Series B convertible preferred stock. The Company recognized $271,107 of interest expense to account for the beneficial conversion feature of the bridge loan. In addition, $300,000 representing the committed but undrawn portion of the bridge loan, was paid to the Company for the sale of 125,292 shares of Series B convertible preferred stock at a discounted rate. The Company recognized $110,883 of interest expense to account for the beneficial conversion feature of the committed but undrawn bridge loan. On June 18, 1997, pursuant to the Investment and Stockholders' Agreement, the Company received an additional $2,000,000 in a second closing in exchange for 609,756 shares of Series B convertible preferred stock. There were no issuance costs associated with the second closing.

On October 31, 1997, pursuant to the Investment and Stockholders' Agreement, the Company consummated a private offering of 939,850 shares of Series C convertible preferred stock for approximately $10 million, less issuance costs of $38,780. On April 8, 1998, pursuant to the Investment and Stockholders' Agreement, the Company consummated a second closing of 1,879,699 shares of Series C convertible preferred stock for an aggregate purchase price of approximately $20.0 million. There were no issuance costs associated with the second closing.

Each share of Series A, Series B and Series C convertible preferred stock entitles each holder to a number of votes per share equal to the number of shares of Common Stock into which each share of Series A, Series B and Series C convertible preferred stock is currently convertible.

The holders of the Series A, Series B and Series C convertible preferred stock are entitled to receive dividends in preference to and at the same rate as dividends are paid with respect to the common stock. In the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, holders of each share of Series A, Series B and Series C convertible preferred stock outstanding are entitled to be paid before any payment shall be made to the holders of any class of common stock or any stock ranking on liquidation junior to the convertible preferred stock, an amount, in cash, equal to the original purchase price paid by such holder plus any declared but unpaid dividends.

In the event the assets of the Company are insufficient to pay liquidation preference amounts, then all of the assets available for distribution shall be distributed pro rata so that each holder receives that portion of the assets available for distribution as the number of shares of convertible preferred stock held by such holder bears to the total number of shares of convertible preferred stock then outstanding.

Shares of the Series A, Series B, and Series C convertible preferred stock may be converted at any time, at the option of the holder, into voting common stock. The number of shares of voting common stock entitled upon conversion is the quotient obtained by dividing the face value of the Series A, Series B and Series C convertible preferred stock by the Applicable Conversion Rate, defined as the Applicable Conversion Value of $0.34, $1.13 or $3.67 per share, respectively.

Each share of convertible preferred stock shall automatically be converted into the number of shares of voting common stock which such shares are convertible upon application of the Applicable Conversion Rate immediately upon the closing of a qualified underwritten public offering covering the offer and sale of capital stock which is defined as: (i) the Company is valued on a pre-money basis at greater than $50,000,000, (ii) the gross proceeds received by the Company exceed $20,000,000, and (iii) the Company uses a nationally recognized underwriter approved by holders of a majority interest of the Series A, Series B and Series C convertible preferred stock voting together.

If the Company issues any additional shares of common stock of any class at a price less than the Applicable Conversion Value, in effect for the Series A, Series B or Series C convertible preferred stock immediately prior to such issuance or sale, then the Applicable Conversion Value shall be adjusted accordingly.

In the event a qualified public offering has not occurred prior to December 23, 2000, the holder of shares of Series A or Series B preferred stock can require the Company to redeem the shares of Series A and Series B convertible preferred stock. After receipt from any one holder of an election to have any shares redeemed, the Company is required to send a notice to the Series A and Series B preferred stockholders on December 24, 2000 of the redemption price. If after sending the redemption notice to Series A and Series B preferred stockholders, the Company receives requests for redemption on or prior to January 11, 2001, from the holders of at least 67% of the Series A and Series B convertible preferred stock taken together, the Company must redeem all shares of Series A and Series B convertible preferred stock. Payment of the redemption price is due on January 23, 2001, for a cash price equal to the original purchase price paid by such holders for each share of Series A and Series B convertible preferred stock as adjusted for any stock split, stock distribution or stock dividends with respect to such shares. The successful completion of a qualified public offering is not within the control of the Company. Therefore, the Company does not present the Series A and Series B preferred stock as a component of stockholders' equity.

In the event that a qualified public offering has not occurred prior to November 3, 2001, the holder of shares of Series C preferred stock can require the Company to redeem the shares of Series C convertible preferred stock. After receipt from any one holder of an election to have any shares redeemed, the Company is required to send a notice to the Series C preferred stockholders on November 4, 2001 of the redemption price. If after sending the redemption notice to Series C preferred stockholders, the Company receives requests for redemption on or prior to November 21, 2001, from the holders of at least 67% of the Series C convertible preferred stock, the Company must redeem all shares of Series C convertible preferred stock. Payment of the redemption price is due on December 3, 2001 for a cash price equal to the original purchase price paid by such holders for each share of Series C convertible preferred stock as adjusted for any stock split, stock distribution or stock dividends with respect to such shares. The successful completion of a qualified public offering is not within the control of the Company. Therefore, the Company does not present the Series C preferred stock as a component of stockholders' equity.

Notwithstanding the provisions for optional redemption described above, pursuant to a Consent Waiver and Amendment effective March 24, 1998 among the Company and certain stockholders of the Company, the holders of the Series A, Series B and Series C convertible preferred stock agreed that no optional redemption of the Series A, Series B or Series C convertible preferred stock may be made by the Company prior to 90 days after (i) the final maturity dated of the Senior Notes (ii) or such earlier date (after the redemption date specified for such preferred stock) as the Senior Notes shall be paid in full.

10. STOCK OPTIONS

On August 25, 1995, the Company adopted the 1995 Stock Option Plan (1995 Plan), under which incentive stock options and non-qualified stock options could be granted to the Company's employees and certain other persons and entities in accordance with law. The Compensation Committee, which administers the 1995 Plan, determined the number of options granted, the vesting period and the exercise price of each award made under the 1995 Plan. The 1995 Plan will terminate August 28, 2005 unless terminated earlier by the Board of Directors. During 1998, the Compensation Committee determined that no further awards would be granted under the 1995 Plan.

Options granted to date under the 1995 Plan generally vest over a three year period and expire either 30 days after termination of employment or 10 years after date of grant. As of December 31, 1999, a total of 70,731 non-qualified stock options and 353,662 incentive stock options were issued and outstanding at an exercise price of $0.03 per share, an amount estimated to equal or exceed the per share fair value of the common stock at the time of grant. As of December 31, 1999, the options issued at an exercise price of $0.03 had a weighted average contractual life of 5.7 years. As of December 31, 1999, 424,393 of the options issued at an exercise price of $0.03 were exercisable.

On August 1, 1997, the Company adopted the 1997 Stock Incentive Plan (1997 Plan), under which incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance awards and certain other types of awards may be granted to the Company's employees and certain other persons and entities in accordance with the law. To date, only non-qualified stock options have been granted under the 1997 Plan. The Compensation Committee, which administers the 1997 Plan, determines the number of options granted, the vesting period and the exercise price of each award granted under the 1997 Plan. The 1997 Plan will terminate July 31, 2007 unless earlier terminated by the Board of Directors.

Options granted under the 1997 Plan generally vest over a three to seven year period and expire: (1) ten years after the date of grant, (2) two years after the date of the participant's termination without cause, disability or death, (3) three months after the date of the participant's resignation, (4) on the date of the participant's termination with cause or (5) on the date of any material breach of any confidentiality or non-competition covenant or agreement entered into between the participant and the Company.

The options issued on October 31, 1997, at $3.67, vest on October 31, 2004 provided, however (i) if the Company has met 80% of its revenue and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) budget for the calendar year ended December 31, 1998, which budget is approved by the Board of Directors of the Company, 50% of the shares covered by the options shall vest and become exercisable on January 1, 1999, (ii) if the Company has met 80% of its revenue and EBITDA budget for the calendar year ended December 31, 1999, which budget is approved by the Board of Directors of the Company, the remaining 50% of the shares covered by the options shall vest and become exercisable on January 1, 2000, and (iii) in the event that the first 50% of the shares covered by the options did not vest on January 1, 1999 as set forth in (i) above and the Company not only meets 80% of its revenue and EBITDA budget for the year ended December 31, 1999 but exceeds 80% of its revenue and EBITDA budget for the year ended December 31, 1999, which budget is approved by the Board of Directors of the Company, in an amount at least equal to the deficiency that occurred in the year ended December 31, 1998, 100% of the shares covered by the options shall vest and become exercisable on January 1, 2000. Unvested and uncancelled options issued at $3.67 immediately become fully vested and exercisable upon a change of control or a qualified public offering, as defined in the option agreement. In an agreement dated November 4, 1999, 107,389 options became fully vested at $3.67 per share and the remaining options were cancelled.

The options issued at $1.13 vest ratably over three or four consecutive years subject to certain acceleration provisions set forth in an employment agreement such as the immediate vesting upon a change in control or a qualified initial public offering. Under certain circumstances and subject to the terms of the Senior Notes, upon the election of the employee upon termination of employment, the Company will be required to pay the employee the fair value of the vested options held on the date of such termination.

As of December 31, 1999, a total of 2,251,204 non-qualified options were issued and outstanding, 1,119,957 at an exercise price of $1.13 per share, 197,110 at an exercise price of $3.67 per share and 934,137 at an exercise price of $5.20 per share. As of December 31, 1999, a total of 976,785 non-qualified options were exercisable, 761,921 at an exercise price of $1.13 per share, 129,818 at an exercise price of $3.67 per share and 85,046 at an exercise price of $5.20 per share. As of December 31, 1999, the weighted average contractual life of the options issued at $1.13, $3.67 and $5.20 was 7.7, 8.1 and 9.2 years, respectively.

During the year ended December 31, 1998, 667,373, 89,721 and 350,000 options were issued at an exercise price of $1.13, $3.67 and $5.20 per share, respectively. The estimated fair value of the Company's underlying common stock in each case was determined to be $1.99, $16.00 and $5.20 per share, respectively. Accordingly, the Company calculated deferred compensation expense of approximately $1.7 million related to these options to be recognized as compensation expense over their vesting period. The compensation expense recognized during the years ended December 31, 1999 and 1998 was approximately $536,000 and $701,000, respectively.

During the year ended December 31, 1999, 726,450 options were issued at an exercise price of $5.20 per share representing the estimated fair value of the Company's underlying common stock.

Stock option activity was as follows:

	1995 Plan			1997 Plan		
	Incentive Stock Options	Non-Qualified Stock Options	Price	Non-Qualified Stock Options	Price	Weighted Average Exercise Price
Options outstanding, December 31, 1996	424,395	77,805	$ 0.034	--	--	$ 0.034
Granted	--	--	--	1,289,167	$1.13-$3.67	$ 1.980
Exercised	--	--	--	--	--	--
Canceled	--	--	--	--	--	--
Options outstanding, December 31, 1997	424,395	77,805	$0.034	1,289,167	$1.13-$3.67	$ 1.430
Options granted	--	--	--	1,107,094	$1.13-$5.20	$ 2.622
Options exercised	--	(2,358)	$0.034	--	--	--
Options cancelled	--	(4,716)	$0.034	(5,554)	$1.13-$5.20	$ 3.145
Options outstanding at December 31, 1998	424,395	70,731	$0.034	2,390,707	$1.13-$5.20	$ 1.888
Options granted	--	--	--	726,450	$5.20	$5.2000
Options exercised	(70,733)	--	$0.034	(95,127)	$0.03-$1.13	$0.6609
Options cancelled	--	--	--	(770,826)	$1.13-$5.20	$2.9313
Options outstanding at December 31, 1999	353,662	70,731	$0.034	2,251,204	$1.13-$5.20	$2.5636

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

	Year Ended December 31,		
	1999	1998	1997
Net loss as reported	$59,036,312	$36,296,596	$3,977,400
Pro forma net loss	$59,222,962	$36,859,594	$3,978,164
Basic and diluted net loss per share as reported.	$(20.14)	$(12.51)	$(1.37)
Pro forma basic and diluted net loss per share	$(20.20)	$(12.70)	$(1.37)

The fair value of each option is estimated on the date of grant using a type of Black-Scholes option pricing model with the following weighted-average assumptions used for grants during the years ended December 31, 1998 and 1997, respectively: dividend yield of 0%, expected volatility of 0%, risk-free interest rate of 5.18 % and 6.55% and expected terms of 5.5 and 5.0 years. The following weighted average assumptions were used for grants during the year ended December 31, 1999: dividend yield of 0%, expected volatility of 0%, risk-free interest rate of 5.16% and expected terms of 5.8 years.

As of December 31, 1999 and 1998, the weighted average remaining contractual life of the options is 7.9 years and 8.6 years, respectively.

11. VENDOR AGREEMENTS

Pursuant to a Master Agreement entered into by the Company and NEC on August 8, 1997, as amended, the Company has the option to acquire, by March 31, 2003, a total of $200 million worth of certain equipment, services and licensed software to be used by the Company in its network under pricing and payment terms that the Company believes are favorable. In addition, NEC has agreed, subject to certain conditions, to warranty equipment purchased by the Company from NEC for three years, if defective, to repair or replace certain equipment promptly and to maintain a stock of critical spare parts for up to 15 years. The Company's agreement with NEC provides for fixed prices during the first three years of its term. As of December 31, 1999, the Company had purchased $51.9 million of equipment under this agreement.

Pursuant to a supply agreement entered into by the Company and Lucent Technologies (Lucent) on December 18, 1998, the Company agreed that Lucent should be its exclusive supplier of fiber optic cable for its nationwide, voice and data network. Lucent may provide financing of up to approximately $400 million of fiber purchases for the construction of the Company's network and may provide or arrange financing for future phases of the fiber portion of the Company's network. The total amount of financing over the life of this seven-year agreement is not to exceed $1.8 billion. Certain material terms of the Company's transactions with Lucent are currently under review by Lucent and the Company. There can be no assurance that the financing contemplated by the supply agreement will be consummated or, if consummated, consummated on the terms and conditions described above. The supply agreement provides that Lucent will provide the Company with a broad level of support, including fiber optic equipment, network planning and design, technical and marketing support, and financing. As of December 31, 1999, no purchases were made by the Company under this agreement.

12. COMMITMENTS AND CONTINGENCIES

The Company maintains office space in Washington, D.C., Virginia, Kansas and Texas. The most significant leases relate to the Company's new headquarters facilities in Reston Virginia and in Washington, D.C.

On December 30, 1998, the Company entered into a lease agreement for the lease of tower site space, sufficient to perform its obligations under a fixed point microwave agreement (FPMA) with an incumbent. Under the terms of the lease, the Company is obligated to rent of $130,000 per month for a period expiring on the later of (i) the expiration of the FPMA as to that site, or (ii) ten years from the effective date of the agreement. The agreement provides for an increase in the rent payable commencing on December 1, 1999 and on each succeeding year thereafter to December 1, 2008, by an amount equal to 4 percent of the rent then in effect.

The Company's future minimum rental payments under noncancellable operating leases are as follows:

2000	$ 3,388,583
2001	3,216,376
2002	3,284,920
2003	3,205,368
2004 and thereafter	19,097,648
Total	$ 32,192,895

Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $821,000, $390,000 and $115,000, respectively.

The Company earns microwave telecommunication capacity revenue under an indefeasible right of use (IRU) agreement dated December 1, 1998, of $137,000 per month commencing December 1998 and expiring on the later of (i) the expiration of the FPMA as to that site, or (ii) ten years from the effective date of the agreement. The IRU agreement provides for an increase in the rent receivable commencing on December 1, 1999 and on each succeeding year thereafter to December 1, 2008, by an amount equal to 4 percent of the rent then in effect.

As of December 31, 1999, the Company had capital commitments of approximately $89.9 million relating to purchases of telecommunication and transmission equipment and its agreement with WFI, Tri-States and CapRock (see note 14).

From time to time, the Company is subject to claims arising in the ordinary course of business. In the opinion of management, no such matter individually or in aggregate, exists which is expected to have a material effect on the results of operations, cash flows or financial position of the Company.

13. INCOME TAXES

The tax effect of temporary differences that give rise to significant portions of the net deferred tax asset at December 31, 1999 and 1998, is as follows:

	December 31, 1999	December 31, 1998
Deferred revenue	$ 3,646	$ 949
Capitalized start-up costs	1,005,353	1,370,937
Capitalized research and development costs	48,482	66,111
Depreciation	(2,844,859)	--
Net operating loss carryforward	40,571,930	15,325,484
Other timing differences	110,078	--
	38,894,630	16,763,481
Less valuation allowance	(38,894,630)	(16,763,481)
Net deferred tax asset	$ --	$ --

Capitalized costs represent expenses incurred in the organization and start-up of the Company. For federal income tax purposes, these costs are being amortized over sixty months.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences are deductible. The Company has provided a valuation allowance against its deferred tax assets as they are long-term in nature and their ultimate realization cannot be determined.

14. FIBER AGREEMENTS

In March 1999, the Company entered into a co-development agreement with WFI for the design, engineering and construction by WFI of a multiple conduit fiber-optic system. One of the conduits will contain a fiber optic cable consisting of a specified number of fiber optic strands. The conduits and any installed strands will be equally divided between the parties, and the cost to construct the route will be shared equally by the Company and WFI. In addition, the Company will pay WFI a management fee equal to 10% of the Company's share of the development costs. The total shared projected costs for the project is in excess of $100 million. The system will be approximately 1,100 route miles long, between Aurora, Colorado (a suburb of Denver) and Chicago, Illinois. The first segment, Chicago, Illinois to Omaha, Nebraska, was completed in the fourth quarter 1999, and the second segment, Omaha to Aurora, is scheduled to be completed by the end of the second quarter of 2000. In connection with the co-development agreement, the Company entered into a joint marketing agreement with WFI under which both WFI and the Company will attempt to sell certain inactive fiber optic strands on the route, and will share the revenues from such sales. The joint marketing agreement also permits each party to retain fiber optic strands for its own use, subject to certain restrictions on resale, and to swap a certain number of the fiber optic strands to third parties.

In August 1999, the Company entered into a co-development agreement with Tri-States and four regional electric cooperatives for our design, engineering and construction of an aerial fiber system, approximately 420 route miles long, between Albuquerque, New Mexico and Grand Junction, Colorado. This system, constructed on power transmission lines, will contain a specified number of fiber optic strands. The cost to construct the system will be borne equally between the Company and the other parties. The total projected combined cost for this route is approximately $48 million. In connection with the co-development agreement, the Company entered into a joint marketing agreement under which each party will reserve a portion of the fiber strands for its own operations, a subset of which will be available for swaps with third parties, the remaining fiber strands will be jointly sold, with the Company as the exclusive marketing agent.

Any revenues derived from the sale of those fiber strands will be shared equally between the Company and Tri-states, after deduction of a Company marketing fee. We expect this system to be completed in the second half of 2000.

In December 1999, the Company announced a co-development agreement with Caprock to construct a multi-conduit, fiber network between Albuquerque, New Mexico and El Paso, Texas. The total projected cost for this 350 mile network segment is approximately $40 million with a scheduled completion date of year-end 2000.

15. CONTRIBUTION AND REORGANIZATION

On November 4, 1999, the Company, together with Pathnet Telecommunications Inc. (PTI) a Delaware company formed on November 1, 1999, entered into agreements providing for strategic investments from Colonial Pipeline Company, Burlington Northern and Santa Fe Corporation and CSX Corporation to PTI. Upon the closing of this transaction, PTI will receive the right to develop over 12,000 miles of the investors' rights of way with an estimated value of $187.0 million in return for 8,511,607 shares of PTI's Series D convertible preferred stock. In addition to providing a portion of the right of way access, Colonial Pipeline will pay $68.0 million of cash to PTI comprised of $38.0 million at the initial closing for 1,729,631 shares of PTI's Series E redeemable preferred stock, $25.0 million for 1,137,915 shares of PTI's Series E redeemable preferred stock (upon the completion of a fiber optic network segment build that the Company expects to complete during the second calendar quarter of 2000), $1.0 million for the issuance of an option to purchase 1,593,082 shares of PTI's Series E redeemable preferred stock for $21.97 per share and shares of PTI's common stock in connection with an initial public offering and $4.0 million for rights in 2,200 conduit miles of our future network. Further, upon the closing of this transaction, all of the Company's common stock will be exchanged for common stock of PTI resulting in the Company becoming a wholly-owned subsidiary of PTI. In addition, all of the Company's 5,470,595 shares of mandatorily redeemable preferred stock will be converted into 15,864,715 of PTI's convertible preferred stock. The new investors collectively will receive an approximate one-third equity stake in PTI, as well as proportionate representation on the PTI Board of Directors. As part of this transaction and the reconstitution of the Pathnet Board, Dave Schaeffer, former Chairman of Pathnet and an existing director, resigned from the Company's Board of Directors effective November 4, 1999.

The terms of the strategic investment transaction require that consents be obtained from the holders of a majority of the Company's existing Senior Notes in exchange for a proposed payment of approximately $8.8 million. As a result, on November 22, 1999, PTI filed a preliminary prospectus with the Securities and Exchange Commission, to offer all holders of the Senior Notes a guarantee of the obligations of the Company to make interest and principal payments. Concurrent with this offer, the Company is seeking consents from the holders of the Senior Notes to the waiver and the amendment of certain provisions of the Indenture. On February 22, 2000, the Company expects to file an amendment to its preliminary prospectus with the Securities and Exchange Commission. The Company expects to close this transaction immediately following receipt of the required consents and other required regulatory approvals. For the year ended December 31, 1999, the Company had expensed $1,022,998 of fees related to this transaction.