

Bell Atlantic  
1300 I Street, NW  
Suite 400W  
Washington, DC 20005

Patricia E. Koch  
Assistant Vice President  
Federal Regulatory  
(202) 336-7823  
(202) 336-7866 (Fax)

ORIGINAL



**EX PARTE**

May 24, 2000

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, D.C. 20554

RECEIVED

MAY 24 2000

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**RE: Application of GTE Corporation and Bell Atlantic Corporation For Consent to Transfer Control of Certain Licenses and Authorizations, CC Docket No. 98-184**

Dear Ms. Salas:

This letter is to provide notice of an ex parte meeting that took place May 24<sup>th</sup> in the above-referenced matter. John Thorne for Bell Atlantic and Steve Bradbury for GTE met with Johanna Mikes of the FCC. The purpose of the meeting was to discuss the Genuity registration statement draft filed today at the SEC.

Two copies of this notice are being submitted to the Secretary of the FCC in accordance with section 1.1206 of the Commission's rules.

Please call me if you have any questions.

Very truly yours,

A handwritten signature in black ink, appearing to be "P. Koch".

Enclosure

cc: Ms. J. Mikes (without enclosure)

No. of Copies rec'd 0+1  
List A B C D E

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 2  
TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933****GENUITY INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)7370  
(Primary Standard Industrial  
Classification Code Number)74-2864824  
(I.R.S. Employer  
Identification No.)3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
(781) 262-4000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

PAUL R. GUDONIS  
Chairman and Chief Executive Officer  
3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
Telephone: (781) 262-4000  
Telecopy: (781) 262-3408

(Name, address, including zip code, and telephone number, including area code, of agent for service)

*Copies to:*KEITH F. HIGGINS, ESQ.  
PATRICK O'BRIEN, ESQ.  
Ropes & Gray  
One International Place  
Boston, Massachusetts 02110  
Telephone: (617) 951-7000  
Telecopy: (617) 951-7050IRA H. PARKER, ESQ.  
General Counsel  
Genuity Inc.  
3 Van de Graaff Drive  
Burlington, Massachusetts 01803  
Telephone: (781) 262-4000  
Telecopy: (781) 262-3408JOHN T. BOSTELMAN, ESQ.  
Sullivan & Cromwell  
125 Broad Street  
New York, New York 10004  
Telephone: (212) 558-4000  
Telecopy: (212) 558-3588*Approximate date of commencement of proposed sale to the public:* As soon as practicable after the effective date of this Registration Statement.If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.  \_\_\_\_\_If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.  \_\_\_\_\_If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.  \_\_\_\_\_**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Class A common stock, par value \$0.01 per share . . . . .	200,000,000 shares	\$15.00	\$3,000,000,000	\$792,000

(1) Includes 26,087,000 shares that the underwriters have an option to purchase from Genuity to cover over-allotments, if any.

(2) In accordance with Rule 457(a) under the Securities Act of 1933 we are only paying an additional \$787,000 as \$5,000 was previously paid on April 6, 2000.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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

Subject to Completion. Dated May 24, 2000.

**PROSPECTUS**

**173,913,000 Shares**

**GENUITY**  
**Class A Common Stock**

We are offering 173,913,000 shares of our Class A common stock. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price will be between \$12 and \$15 per share.

We intend to apply for quotation of our Class A common stock on the Nasdaq National Market under the symbol "GENU".

Investing in our Class A common stock involves risks. See "Risk Factors" beginning on page 10.

**PRICE \$ PER SHARE**

	<u>Price to Public</u>	<u>Underwriting Discount</u>	<u>Proceeds to Genuity</u>
Per Share .....	\$	\$	\$
Total .....	\$	\$	\$

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters the right to purchase up to an additional 26,087,000 shares to cover over-allotments. Morgan Stanley & Co. Incorporated and Salomon Smith Barney Inc. expect to deliver the shares to purchasers on \_\_\_\_\_, 2000.

*Joint Book-Running Managers*

**MORGAN STANLEY DEAN WITTER      SALOMON SMITH BARNEY**

, 2000

## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
Prospectus Summary .....	1	Management .....	63
Risk Factors .....	10	Related Party Transactions .....	73
Special Note Regarding Forward-Looking Statements .....	22	Sole Stockholder .....	79
Use of Proceeds .....	23	Description of Capital Stock .....	80
Dividend Policy .....	23	Important United States Tax Consequences to Non-U.S. Holders of Class A Common Stock .....	87
Capitalization .....	24	Shares Eligible for Future Sale .....	90
Dilution .....	25	Underwriting .....	91
Selected Combined Financial Data .....	27	Validity of Class A Common Stock .....	93
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	29	Experts .....	93
Business .....	39	Where You Can Find More Information .....	94
		Index To Combined Financial Statements .....	F-1

---

**Until \_\_\_\_\_, 2000, which is the 25th day after the date of this prospectus, all dealers that buy, sell or trade our Class A common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in this prospectus. We are offering to sell and seeking offers to buy these securities only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of the prospectus or of any sale of the Class A common stock.

For investors outside the United States, neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

Genuity is our registered trademark in the United States and the Genuity logo is subject to our pending application for registration as a trademark in the United States. All other trademarks or trade names appearing elsewhere in this prospectus are the property of their respective owners.

## PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed information about Genuity and the Class A common stock being offered in this offering and our combined financial statements and accompanying notes appearing elsewhere in this prospectus. In this prospectus, "GTE" refers to GTE Corporation and its subsidiaries other than Genuity, "Bell Atlantic" refers to Bell Atlantic Corporation and its subsidiaries prior to the merger with GTE and "Verizon" refers to Bell Atlantic doing business as Verizon Communications, the name under which Bell Atlantic will operate after the merger with GTE, and its subsidiaries, including GTE. "Genuity", "we", "us" and "our" each refers to Genuity Inc. and its subsidiaries and not to the underwriters, GTE, Bell Atlantic or Verizon. Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters' option to purchase additional shares of Class A common stock to cover over-allotments and also assumes that the merger between Bell Atlantic and GTE closes concurrently with, or immediately following, the completion of this offering.*

## GENUITY

We are a leading e-business network provider delivering managed Internet infrastructure services to enterprises and service providers. An e-business network provider is a facilities-based Internet infrastructure supplier offering a comprehensive set of managed Internet access, web hosting and value-added e-business services. The combination of these services allows customers to purchase integrated e-business solutions. Our comprehensive suite of managed Internet infrastructure services includes:

- Internet access through dial-up, dedicated and digital subscriber lines;
- web hosting and content delivery; and
- value-added e-business services, such as virtual private networks for secure data transmission and security services.

We operate a state-of-the-art global network that consists of:

- recently deployed broadband fiber optic cable in the United States;
- points of presence, which are locations where we provide Internet access to end users;
- secure data centers with redundant fiber connections to our network and backup power sources; and
- undersea and international fiber optic cable capacity.

Our large base of on-network users and content, combined with our extensive network, positions us as one of the leading Internet backbone providers in the world, a status commonly referred to as a Tier 1 Internet backbone provider. An Internet backbone is an Internet Protocol-based network that connects users and web content. We believe that service providers are increasingly connecting to networks with substantial on-network content to improve the quality of their customers' experience, which in turn drives demand by enterprises seeking to connect to networks with large numbers of users. We believe that by taking advantage of this demand cycle, which we call the "network effect", we will continue to drive significant demand for our services from both enterprises and service providers and differentiate ourselves from non-Tier 1 Internet backbone providers. As of March 31, 2000, we provided services to approximately 5,000 enterprises, such as Carrier Corporation, Computer Sciences, CNN, Microsoft, Sun Microsystems and ZDNet, and to approximately 400 service providers, such as Akamai Technologies, America Online, Earthlink, NetZero and WebTV in the United States and I.NET and Tiscali in Italy. Our revenues were approximately \$706 million in 1999 and \$248 million for the first quarter of 2000, and we incurred net losses of approximately \$647 million in 1999 and \$210 million in the first quarter of 2000.

Unlike many recent entrants into the Internet industry, we have more than three decades of experience in designing and implementing the architecture of the Internet and with solving computer networking problems. In 1969, our predecessor, BBN Corporation, designed and helped to implement ARPANet, which is widely recognized as the basis for the Internet today. Our network is recognized as the first Internet backbone and, accordingly, was designated AS-1. We also developed the first Internet router, delivered the world's first e-mail message and pioneered the use of the "@" symbol as a universal addressing standard for electronic mail. More recently, we were one of the first to offer commercial installation, maintenance and support of web sites, which is referred to as managed web hosting services, and managed security services through outsourced firewall monitoring.

### **THE OPPORTUNITY**

The Internet has experienced tremendous growth in the past decade and has emerged as an important global medium for communications and commerce. As the Internet and data traffic have grown, the cost and complexity for enterprises and service providers to manage their own network infrastructure demands in-house has increased. As a result, enterprises and service providers seek to outsource their infrastructure needs to Internet infrastructure service providers that can:

- speed their time-to-market;
- improve performance, security and the ability to rapidly increase the capacity needed to deliver services, which is referred to as scalability;
- provide continuous operation of their web sites; and
- reduce the costs and risks associated with developing an in-house solution.

As enterprises and service providers continue to outsource these requirements, they demand that Internet infrastructure service providers deliver a high quality Internet experience for their users. We believe leading Internet infrastructure service providers must offer a comprehensive suite of managed Internet infrastructure services, a large base of on-network users and content, reliable and scalable network facilities, Tier 1 Internet connectivity and the experience and expertise necessary to provide a complete Internet infrastructure solution.

### **OUR SOLUTION**

Our e-business network solution enables our customers to outsource their Internet infrastructure requirements to a single provider and to scale their Internet operations in a cost-effective and reliable manner. The key elements of our solution include:

- *Comprehensive Suite of Managed Internet Infrastructure Services.* We offer a broad range of managed Internet infrastructure services, including: Internet access; web hosting and content delivery; and value-added e-business services.
- *Large Base of On-Network Users and Content.* We carry a significant amount of traffic over our Tier 1 Internet backbone, allowing enterprises and service providers to directly route traffic to, or receive content from, a significant number of other customers without the need to pass through other Internet backbones.
- *State-of-the-Art Network.* We operate a state-of-the-art, high capacity global fiber optic network that is highly reliable and scalable and has been equipped with advanced optical electronic equipment. Our network includes over 17,500 route miles of fiber optic cable in the United States, undersea and international fiber optic cable capacity and 10 data centers for web hosting services.

- *High Performance, Tier 1 Internet Connectivity.* We provide high performance connectivity to the Internet through our Tier 1 Internet backbone and extensive high speed private connections with other major Internet backbone providers.
- *Significant Internet Protocol Engineering and Architectural Expertise.* Drawing upon the breadth and depth of our IP and networking experience and expertise, including over 750 engineers and over 1,100 technicians, we are able to quickly and cost-effectively identify the Internet infrastructure requirements of our customers and design and implement appropriate solutions.

### **OUR STRATEGY**

Our objective is to be the leading e-business network provider by architecting, building and operating the infrastructure for the Internet economy. The principal elements of our strategy for pursuing this objective include:

- leveraging the network effect;
- expanding our capacity and state-of-the-art network;
- continuing to build and own our network facilities;
- expanding our distribution capabilities;
- pursuing strategic transactions and alliances;
- using our extensive IP and networking expertise to develop new services; and
- establishing Genuity as a leading brand for managed Internet infrastructure services.

### **OUR CORPORATE INFORMATION**

We have recently changed our name from GTE Internetworking Incorporated to Genuity Inc. Our principal executive offices are located at 3 Van de Graaff Drive, Burlington, Massachusetts 01803 and our telephone number is (781) 262-4000.

## OUR RELATIONSHIP WITH VERIZON

We are currently a wholly owned subsidiary of GTE. In July 1998, Bell Atlantic and GTE agreed to enter into a merger of equals transaction. We anticipate that the merger between Bell Atlantic and GTE will close concurrently with, or immediately following, the completion of this offering. In April 2000, Bell Atlantic and GTE announced that following their merger they will operate under the name Verizon Communications.

Under the Telecommunications Act of 1996, the Regional Bell Operating Companies, including the Bell Atlantic local telephone operating companies and their respective affiliates, are generally prohibited from providing long distance services that originate in any state in which the Regional Bell Operating Companies operate an incumbent local telephone company. These restrictions, which are referred to in this prospectus as Section 271 restrictions, prohibit these companies from offering long distance services originating in a particular state until the relevant local telephone operating company operating in that state has satisfied a 14-point competitive checklist under Section 271 of the Telecommunications Act and obtained authority from the Federal Communications Commission to provide long distance services in those states.

Bell Atlantic operates incumbent local telephone companies in 13 states, from Maine to Virginia, and the District of Columbia. The total billable access telephone lines owned by Bell Atlantic in these states in 1999 are referred to in this prospectus as "Bell Atlantic in-region lines". Bell Atlantic has obtained the necessary authorization to provide long distance service originating in New York. Because we provide services in Bell Atlantic's region that could be characterized as long distance services, Bell Atlantic and GTE cannot complete their merger until they either:

- receive relief from the Section 271 restrictions for the remaining states in which Bell Atlantic provides local telephone services; or
- implement a structure that complies with the requirements of the Telecommunications Act.

To ensure compliance with the requirements of the Telecommunications Act and to receive FCC approval of their merger, Bell Atlantic and GTE made a proposal to the FCC under which GTE would exchange all of the outstanding shares of our common stock for shares of our Class B common stock and we would make this offering of our Class A common stock. As a result, immediately after completion of this offering, the investors purchasing shares in this offering will own shares of our Class A common stock possessing 90.5% of the total voting power of our common stock and Verizon will own shares of our Class B common stock possessing 9.5% of the total voting power of our common stock.

Our Class B common stock is convertible into Class A common stock or, if held by Verizon and at its election, Class C common stock. Our Class A common stock and our Class B common stock have one vote per share and our Class C common stock has five votes per share. Under the proposal to the FCC, our Class B common stock cannot be converted into more than 10% of our outstanding common stock until Verizon has eliminated, as to at least 50% of Bell Atlantic in-region lines, Section 271 restrictions applicable to its operation of our business. At such time as Verizon has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, our outstanding shares of Class B common stock can be converted by a holder other than Verizon into 800 million shares of our Class A common stock. This amount represents approximately 82% of our common stock outstanding after this offering, or approximately 80% if the underwriters fully exercise their over-allotment option. At such time as Verizon has eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines, it could convert its Class B common stock into 800 million shares of Class C common stock, which, in addition to representing approximately 82% of our common stock outstanding after this offering, would also possess approximately 96% of the total voting power of the common stock.

For more information about the conversion of the Class B common stock, you should refer to the section in "Description of Capital Stock" entitled "Conversion of Class B Common Stock".

**THE OFFERING**

Class A Common Stock Offered . . . . 173,913,000 shares

Common Stock to be Outstanding

After this Offering . . . . . We have authorized Class A common stock, Class B common stock and Class C common stock. The number of shares outstanding and the equity ownership and voting percentages associated with these shares immediately following the offering will be as follows:

	Shares	Total Equity Percentage	Total Voting Percentage
Class A common stock . . . .	173,913,000	90.5%	90.5%
Class B common stock . . . .	18,256,000	9.5%	9.5%
Class C common stock . . . .	—	—	—

If Verizon does not eliminate the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, the Class B common stock is convertible into shares of Class A common stock representing only 10% of our total common stock outstanding.

If Verizon eliminates the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, it would be able to transfer its shares of Class B common stock to one or more third parties that would be able to convert the Class B common stock into an aggregate of 800 million shares of Class A common stock, which immediately after this offering would represent approximately 82% of our total equity and voting power.

If Verizon eliminates the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines, it would be able to convert the Class B common stock into 800 million shares of Class C common stock, which immediately after this offering would represent approximately 82% of our total equity and approximately 96% of our total voting power. The following table reflects this conversion:

	Shares	Total Equity Percentage	Total Voting Percentage
Class A common stock . . . .	173,913,000	17.9%	4.2%
Class B common stock . . . .	—	—	—
Class C common stock . . . .	800,000,000	82.1%	95.8%

The information in the above tables is before giving effect to options outstanding under our long-term incentive plans and additional issuances of shares of our common stock and assumes no exercise of the underwriters' over-allotment option.

Voting Rights . . . . . Except as required by law or as described below, the holders of our Class A common stock, Class B common stock and Class C common stock vote together as a single class on all matters submitted to a vote of our stockholders.

Each share of Class A common stock entitles the holder to one vote per share. So long as 50% or more of the shares of Class B common stock outstanding at the completion of this offering remain outstanding, no holder or group of holders of Class A common stock may vote any of their shares in excess of 20% of the aggregate number of the then outstanding number of shares of Class A common stock.

Each share of Class B common stock entitles the holder to one vote per share. The holders of the Class B common stock, voting separately as a class, are entitled to elect one of our directors. We are also required to obtain the consent of the holders of Class B common stock before taking specific actions, including making significant acquisitions or dispositions, entering into major business combinations and incurring indebtedness or issuing additional equity securities in excess of specified limits. You should refer to the section in "Related Party Transactions" entitled "Recapitalization Agreement" and the section in "Description of Capital Stock" entitled "Common Stock" for a more detailed description of these consent requirements, including the circumstances under which these consent requirements may be transferred and when they terminate.

Each share of Class C common stock entitles the holder to five votes per share.

Conversion of Class B Common  
Stock .....

Immediately after the completion of this offering, Verizon will own all of the outstanding shares of our Class B common stock. Although the ability of Verizon to convert its shares of our Class B common stock is limited by the proposal to the FCC, these shares by their terms are convertible at any time into either:

- shares of Class A common stock equal to 10% of our total common stock immediately after the conversion; or
- 800 million shares of Class A common stock or, for Verizon or any of its affiliates and at their election, Class C common stock, which represent approximately 82%, or approximately 80% if the underwriters exercise in full the over-allotment option, of our shares of common stock outstanding immediately following this offering.

Under the proposal to the FCC:

- if Verizon has not eliminated Section 271 restrictions applicable to its operation of our business as to at least 50% of Bell Atlantic in-region lines, Verizon can only convert its outstanding shares of our Class B common stock into shares of our Class A common stock that after the conversion will represent 10% of our total common stock then outstanding. If Verizon transfers the Class B common stock before meeting this 50% threshold, the transferee's conversion rights would be similarly limited;

- if Verizon has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, it could transfer its shares of Class B common stock to one or more third parties who would then be able to convert them in the aggregate into 800 million shares of Class A common stock; and
- if Verizon has eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines, Verizon or its affiliates could convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock.

Under the proposal to the FCC, if Verizon has not eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before \_\_\_\_\_, 2005, which date may be extended under conditions that we describe in the section in “Description of Capital Stock” entitled “Conversion of Class B Common Stock”, Verizon’s ability to convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock will expire. Verizon will continue to retain its right to convert its shares of our Class B common stock into shares of Class A common stock representing 10% of our total common stock then outstanding. If Verizon has satisfied the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before that date, its ability to convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock will not expire. The Class B common stock transferred by Verizon to a third party will not be subject to the expiration limitation.

Conversion of Class C

Common Stock . . . . .

Our Class C common stock is convertible into Class A common stock at any time. Each share of Class C common stock will automatically convert into one share of Class A common stock if at any time the aggregate number of outstanding shares of Class C common stock, together with any shares of Class C common stock issuable upon conversion of Class B common stock, constitute less than 10% of our then outstanding common stock.

Transfer of Class C

Common Stock . . . . .

Verizon can transfer shares of our Class C common stock at any time. Any shares of our Class C common stock so transferred will automatically convert into shares of our Class A common stock on the earlier to occur of (1) any subsequent transfer of ownership of such shares or (2) the first anniversary of the transfer of such shares by Verizon. Accordingly, persons other than Verizon could own shares of our Class C common stock.

Verizon's Right to Acquire

Additional Shares . . . . . If Verizon holds shares of Class A common stock and Class C common stock that in the aggregate exceed 70% of the total number of shares of our common stock, Verizon may acquire from us a number of shares of Class A common stock so that it will own shares of common stock equal to 80% of the total number of our shares of common stock.

Use of Proceeds . . . . . For capital expenditures in connection with the expansion of our network infrastructure and general corporate purposes, including working capital and possible acquisitions of and investments in other businesses and technologies.

Proposed Nasdaq Stock Symbol . . . . . GENU

## SUMMARY COMBINED FINANCIAL DATA

The following tables present our summary combined financial data. The financial data presented in these tables are from "Selected Combined Financial Data" and our combined financial statements and accompanying notes included elsewhere in this prospectus. You should read those sections for a further explanation of the financial data summarized here.

Our combined financial statements have been carved out from the consolidated financial statements of GTE using the historical results of operations and historical bases of the assets and liabilities of Genuity. Accordingly, the historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented.

	<u>Year Ended December 31,</u>		<u>Three Months Ended</u>	
	<u>1998</u>	<u>1999</u>	<u>March 31,</u>	<u>2000</u>
	(in thousands, except per share data)			
<b>Results of Operations Data:</b>				
Revenues . . . . .	\$ 446,002	\$ 706,466	\$ 157,283	\$ 247,852
Cost of goods sold . . . . .	492,794	767,498	160,540	283,928
Selling, general and administrative . . . . .	312,916	396,522	93,123	108,336
Operating loss . . . . .	(464,152)	(645,182)	(137,472)	(198,198)
Net loss . . . . .	(468,559)	(647,046)	(138,580)	(209,826)
Basic and diluted loss per common share . . . . .	(25.67)	(35.44)	(7.59)	(11.49)
Basic and diluted weighted-average common shares outstanding . . . . .	18,256	18,256	18,256	18,256
Pro forma as adjusted basic and diluted net loss per common share (unaudited) . . . . .		\$ (3.37)		\$ (1.09)
Pro forma as adjusted basic and diluted weighted- average common shares outstanding . . . . .		192,169		192,169

The pro forma as adjusted column in the combined balance sheet data below reflects the capital contribution of \$178 million by GTE and the sale of shares of Class A common stock in this offering at an assumed initial public offering price of \$13.50 per share, after deducting estimated underwriting discounts and offering expenses payable by us.

	<u>As of March 31, 2000</u>	
	<u>Actual</u>	<u>Pro Forma</u>
	(in thousands)	
<b>Balance Sheet Data:</b>		
Cash and cash equivalents . . . . .	\$ 17,118	\$2,400,763
Working capital . . . . .	(180,484)	2,245,325
Property, plant and equipment, net . . . . .	1,629,391	1,629,391
Total assets . . . . .	2,461,854	4,843,663
Total long-term liabilities . . . . .	70,584	68,584
Total liabilities . . . . .	516,087	470,087
Stockholders' equity . . . . .	1,945,767	4,373,576

## RISK FACTORS

*Investing in our Class A common stock involves a high degree of risk. You should carefully consider the following factors, as well as other information contained in this prospectus, before deciding to invest in shares of our Class A common stock. If any of the following risks actually occurs, our business, financial condition and results of operations could suffer, in which case the trading price of our Class A common stock could decline and you may lose all or part of your investment.*

### Risks Related to Our Business

**We have a history of significant operating losses and expect these losses to continue for at least the next several years.**

We have experienced operating losses in each quarterly and annual period since 1996. Given the level of our planned operating and capital expenditures, we expect to continue to incur significant operating losses for at least the next several years. We incurred operating losses of approximately \$464 million in 1998, approximately \$645 million in 1999 and \$198 million in the first quarter of 2000. As of March 31, 2000, we had an accumulated deficit of approximately \$1.5 billion.

We plan to continue to make significant investments to expand our capacity and network infrastructure, develop brand recognition, broaden the range of our service offerings and expand our sales, marketing, technical and customer support personnel. Our capital expenditures program, as currently contemplated, will require between \$11 billion and \$13 billion during the five-year period ending December 31, 2004, the majority of which will be for the expansion of our network infrastructure. A substantial portion of these expenditures will be made long before any significant revenue related to these expenditures may be realized.

In addition, our operating expenses are based largely on anticipated revenue trends and a significant portion of our expenses, such as personnel, the leased portion of our network and our real estate facilities and depreciation of our network infrastructure, is fixed. If our revenues fall below our expectations, we would probably not be able to reduce our fixed or variable expenses in sufficient time to respond to the shortfall. If we fail to achieve significant increases in our revenues as a result of our investments, the size of our operating losses may be larger than expected. We may never achieve profitability or generate positive cash flows from operations, and if we do achieve profitability or positive cash flows from operations in any period, we may not be able to sustain or increase profitability or positive cash flows on a quarterly or annual basis.

**If we do not maintain or increase our market share and therefore are no longer considered a Tier 1 Internet backbone provider, we may lose customers and our free peering relationships with other Tier 1 Internet backbone providers. If this occurs, our revenues and operating results may decline significantly.**

We rely significantly on our status as a Tier 1 Internet backbone provider to maintain and grow our market share and compete with other Tier 1 Internet backbone providers, several of which have a larger market share than we do. Any significant loss of market share for our services could cause the loss of our status as a Tier 1 Internet backbone provider, which would make our services significantly less attractive to existing and potential customers and would likely result in a significant loss of revenues. In addition, the loss of market share or our status as a Tier 1 Internet backbone provider would adversely affect our ability to maintain our free private peering relationships with other Tier 1 Internet backbone providers. Currently, these relationships permit us to have direct, cost-free exchange of traffic with other Tier 1 Internet backbone providers and allow us to avoid the congestion of public peering points when directing traffic to users connected to those other Internet backbones. If we are unable to maintain these free peering relationships, our operating costs will increase and our results of operations will suffer.

To increase or at least maintain our market share and maintain our status as a Tier 1 Internet backbone provider, it is critical that a significant amount of worldwide Internet traffic be carried on our Internet backbone. To generate significant Internet traffic, we must:

- continue to increase the amount of content available on our network infrastructure by successfully marketing our web hosting and high speed dedicated Internet access services to enterprises, particularly enterprises that operate high traffic web sites; and
- continue to increase the number of users that access the Internet through our Internet backbone by successfully marketing our Internet access services to service providers.

We may not be successful in marketing our services to enterprises and service providers if we fail to expand our capacity and network infrastructure to meet increasing demand or to competitively price or expand our services or if we experience network performance and reliability problems.

**If we were to lose a significant portion of our revenues from America Online, we would not be able to replace those revenues in the short term and our operating losses would increase significantly.**

The termination of, or a significant adverse change in, our relationship with America Online would have a material adverse effect on our revenues. America Online accounted for approximately 53% of our revenues in 1998, 52% of our revenues in 1999 and 46% of our revenues in the first quarter of 2000. We expect that revenues from America Online will continue to represent a significant portion of our revenues for the next several years. America Online has the right to terminate its agreement with us on 30 days notice if we materially breach the agreement, including our failure to meet specific performance targets, and fail to cure the breach within that notice period. America Online also has the right to terminate its agreement with us immediately without notice if we commit repeated material breaches of the agreement or if we violate the terms of a few specific material provisions under the agreement. America Online also has the right to reduce its purchase commitments if we, among other things, fail to meet specific delivery and performance targets or fail to meet our obligation to provide most favored customer pricing. In addition, upon a change in control of Genuity, America Online has the right to terminate the agreement. A transfer of Verizon's interest in Genuity to an unrelated party may constitute a change in control of us. You should refer to the section in "Business" entitled "Our Relationship With America Online" for additional information about our relationship with America Online.

**If we cannot obtain the additional capital we will require to fund our operations and finance the expansion of our capacity and network infrastructure, we will have to delay or abandon our development and expansion plans.**

We will need significant additional capital to fund our business plan and achieve profitability. We currently intend to spend \$11 billion to \$13 billion over the five-year period ending December 31, 2004, of which approximately \$1.8 billion to \$2.0 billion is expected to be spent during 2000, on the continued expansion of our network infrastructure and other capital expenditures. During the past three years, our capital needs have been satisfied with permanent capital contributions from GTE or financing from its affiliates. However, following this offering, Verizon is not obligated to provide funds to finance our capital expenditures, working capital or other cash requirements. Under the proposal to the FCC, Verizon is not permitted, before the conversion of its shares of our Class B common stock, to provide more than 25% of the debt financing that we are permitted to incur under the Recapitalization Agreement. We may be unsuccessful in raising sufficient capital on terms that we consider acceptable, when needed or at all. If this happens, we would have to delay or abandon our development and expansion plans, which would adversely affect our competitive position.

We currently intend to obtain additional capital through public offerings or private placements of debt or equity securities or through borrowings under future credit facilities. However, we are required to obtain the consent of the holders of our Class B common stock before issuing any shares of our capital stock in excess of specified amounts and our agreement with Verizon limits our ability to incur debt in excess of specified

amounts without its consent. You should refer to the risks described below under “Risks Related to Our Relationship with Verizon”, the section in “Related Party Transactions” entitled “Recapitalization Agreement” and the section entitled “Description of Capital Stock” for more detailed discussions of the rights of our Class B common stock.

**If we do not compete effectively, particularly against established participants with greater financial and other resources than ours, we will lose market share, which will make our services less attractive to our existing and prospective customers.**

The market for managed Internet infrastructure services is extremely competitive and subject to rapid change. We expect to encounter increased competition in the future as a result of increased consolidation and strategic alliances in the industry. In addition, we will increasingly compete with foreign service providers as we expand internationally and as these service providers increasingly compete in the United States. If we are unable to compete successfully, we would experience a loss in customers and the revenues that accompany that business.

Our principal competitors in the managed Internet infrastructure services market include:

- Internet infrastructure service providers such as UUNET Technologies, a subsidiary of MCI WorldCom, AT&T, Sprint and Cable & Wireless, each of which offers similar services and possesses the network scale and on-network users and content to offer their customers connectivity to virtually all addresses on the Internet, either directly through their Internet backbone or through cost-free, high speed private peering relationships;
- Internet service providers that have a significant regional, national or international presence but do not offer as broad a range of services or possess fewer users and less on-network content, such as Level 3 Communications, Qwest Communications, KPNQwest, Deutsche Telekom, PSINet and Verio Communications; and
- companies that service generally only one or a few specific Internet infrastructure needs of enterprise customers, including web hosting companies such as Digex and Exodus Communications; broadband access providers, such as Covad Communications and Rhythms NetConnections; providers of security and virtual private networks, such as Pilot Network Services; and transport service providers, such as Level 3 Communications, Qwest Communications and Williams Communications Group.

Numerous other companies from a variety of industries have also focused on our target market. For example, many of the major cable companies have begun offering, or are exploring the possibility of offering, Internet access by engineering their current networks to include Internet access capabilities. Direct broadcast satellite and wireless communications providers have also entered the Internet access market with various wireless and satellite-based service technologies. We have no patented technology that would preclude or inhibit competitors from entering our market.

Many of these existing competitors have and potential competitors may have greater financial and other resources, more customers, a larger installed network infrastructure, greater market recognition and more established relationships and alliances in the industry. As a result, these competitors may be able to develop and expand their network infrastructure and service offerings more quickly, adapt more swiftly to new or emerging technologies and changes in customer demands, devote greater resources to the marketing and sale of their offerings, pursue acquisitions and other opportunities more readily and adopt more aggressive pricing policies. UUNET has substantially greater market share and resources than we do. In addition, MCI WorldCom and Sprint have announced a proposed merger. We believe this proposed merger would substantially increase the market share and competitive position of UUNET, even if it were required to divest itself of portions of its Internet backbone as a condition of the merger. Some of our competitors are able to bundle their Internet service offerings with other complementary services, such as local and long distance voice, data transmission and video services, thereby reducing the overall cost of their services compared with ours. We may not be able to offset the effects of any of these actions.

**We expect that the rates we charge for our services will decline over time, and we may not be successful in reducing our operating expenses or introducing new services that will compensate for these lost revenues.**

We expect to continue to experience decreasing prices for our services as we and our competitors increase transmission capacity on existing and new networks, as a result of our current agreements with customers, through technological advances or otherwise, and as volume-based pricing becomes more prevalent. For example, at specified times during the course of our agreement with America Online, America Online has the right to seek a reduction in the fees paid to us for access ports and digital subscriber line and other broadband services. Accordingly, our historical revenues are not indicative of future revenues based on comparable traffic volumes. If the prices for our services decrease for whatever reason and we are unable to offer additional services from which we can derive additional revenues or otherwise reduce our operating expenses, our operating results will decline and our business and financial results will suffer.

**Our strategy contemplates future international expansion but there are significant operational and financial risks associated with international operations.**

Although we have not derived significant revenues from our international operations in the past, an important component of our strategy is to expand significantly our presence in international markets. As we expand, we will substantially increase our exposure to the risks inherent in international operations, including, among others, the following:

- general economic, social and political conditions;
- unexpected changes in legal or regulatory requirements resulting in unanticipated costs and delays;
- differences in technology standards;
- tariffs, export and exchange controls and other trade barriers;
- fluctuations in foreign currency exchange rates;
- difficulty of enforcing agreements and collecting accounts receivables;
- adverse tax consequences;
- changes in United States laws and regulations relating to foreign trade and investment; and
- inability to offer some services in some countries due to regulatory and other barriers.

You should refer to the section in “Business” entitled “Our International Operations” for additional information about our existing and planned operations in international markets.

Further, to expand our international operations, we may enter into joint ventures or outsourcing agreements with third parties, acquire rights to high bandwidth transmission capability, acquire complementary businesses or operations or establish and maintain new operations outside the United States. We may be heavily dependent on third parties to be successful in our international operations. We may not be able to successfully sell our services or adequately establish or maintain operations outside the United States.

**If we are unable to manage our planned expansion effectively, we may incur increased costs, experience capacity constraints and place too many demands upon our management team.**

We are currently experiencing a period of rapid expansion and, if our business plan is successfully implemented, we expect our expansion to continue for the foreseeable future. This expansion will increase our operating complexity significantly and require significant time commitments from our management team and severely restrict their ability to manage our existing business. Our failure to manage our expansion effectively could increase our costs, adversely affect our relations with customers and suppliers, result in insufficient capacity over extended periods of time and adversely affect our revenues and operating margins. Accordingly,

our success depends on our ability to effectively manage this expansion and the demands it will impose on our management. In addition to training and managing an increasing number of highly skilled employees, we will need to successfully expand our capacity and network infrastructure and continually enhance our information, management and operational and financial systems.

**If we are not successful in achieving brand recognition for the Genuity name, our competitive position will be weakened and we could lose market share.**

We believe that establishing, maintaining and continually strengthening our brand in domestic and international markets is a critical aspect of our efforts to expand our customer base, solidify business relationships and successfully implement our business strategy. The growing number of companies that offer competing Internet infrastructure services increases the importance of establishing and strengthening brand recognition. However, we only recently changed our name to Genuity. Because our brand is new, it currently has very limited recognition in the market. Our brand may not be viewed positively or be accepted by the market. We intend to incur significant expenses to promote our brand. The expenses we incur toward building our brand, however, may not result in immediate returns and it may be a long time before enterprises, service providers and business partners recognize and make positive connections with our brand. In addition, our brand may be diluted if customers do not perceive our services to be of high quality or if we fail to provide a satisfactory customer service experience. We may not be successful in achieving these goals.

**Our ability to develop, market and support our managed Internet infrastructure services depends on retaining our management team and attracting and retaining highly qualified individuals in the Internet industry.**

Our future success depends to a significant extent on the continued services of our management team. Our management team, which is described in the section entitled "Management", has significant experience with data communications, telecommunications and managed Internet infrastructure services, as well as relationships with many of the enterprises, service providers and business partners that we currently or may in the future rely on in implementing our business plan. The loss of the services of our management team or any significant portion of it could have a substantial detrimental effect on our ability to execute our business strategy.

Our future success also depends on our continuing ability to identify, hire, train, assimilate and retain large numbers of highly qualified technical, sales, marketing and managerial personnel. The demand for qualified personnel is high and competition for their services is intense. The competition for qualified employees in the Internet industry is particularly intense in the Boston, Massachusetts area where our principal operations are located. We have from time to time experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we do not succeed in attracting new personnel or retaining our current personnel, our business will suffer.

**Our historical financial information may not be representative of our results of operations as a separate entity.**

The historical financial information we have included in this prospectus does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented. GTE did not account for us, and we were not operated, as a separate, stand-alone entity for the periods presented. Our combined financial statements have been carved out from the consolidated financial statements of GTE using the historical results of operations and historical bases of the assets and liabilities of our business. Our costs and expenses include allocations from GTE for centralized corporate services and infrastructure costs, including legal, accounting, treasury, real estate, information technology, distribution, customer service, sales, marketing and engineering. These allocations have been determined on bases that we and GTE considered to be reasonable reflections of the utilization of services provided to or the benefit received by us. We have not made adjustments to our historical financial information to reflect many significant changes that will occur in our cost structure, funding and operations as a result of our operating as a stand-alone company, including increased costs associated with reduced economies of scale,

increased marketing expenses related to building brand identity separate from GTE and increased costs associated with being a publicly traded, stand-alone company. Any increase in our costs related to these or similar factors could adversely affect our operating results in future periods, which could cause the market price of our Class A common stock to decline.

**If we do not respond effectively and on a timely basis to rapid technological changes, our services may become obsolete and we would probably lose customers and be unable to attract new ones.**

The managed Internet infrastructure services industry is characterized by rapid technological developments and frequent new product and service introductions and enhancements. The introduction of new products or technologies could render our network or service offerings obsolete, thereby requiring us to spend more than we currently anticipate in future periods in order to remain competitive and retain our existing customers and attract new ones. Similarly, technological developments could reduce the cost or increase the supply of services similar to those that we provide or plan to provide, which could result in lower than expected revenues in future periods. We may not be able to:

- anticipate or adapt to these new products or technologies on a timely and cost-effective basis;
- obtain the necessary funds to develop or acquire new technologies or products needed to compete; or
- address the increasingly sophisticated and varied needs of our current and prospective customers.

**Our ability to compete could be jeopardized if our network and services do not properly operate with the existing or future equipment of our customers.**

We believe that our ability to compete successfully is dependent upon the continued compatibility of our network and service offerings with products, services and architectures offered by others, particularly our enterprise and service provider customers. Although we often work with vendors in testing newly developed products, these products may not be compatible with our infrastructure. In addition, although we currently intend to support emerging standards, there can be no assurance industry standards will be established or, if they become established, that we will be able to conform to these new standards in a timely fashion and maintain a competitive position in the market. Our competitive position would be adversely affected if we fail to conform to the prevailing standards, or if common standards fail to emerge.

**We may lose customers if we experience system failures that significantly disrupt the availability and quality of the services that we provide.**

Our operations depend on our ability to avoid and mitigate any damages, physical or otherwise, from natural disasters, power losses, capacity limitations, physical or electronic breaches of security, software defects, telecommunications failures and intentional acts of vandalism, including computer viruses. The failure of any equipment or facility on our network could result in interruptions in service or reduced capacity for our enterprise and service provider customers until we make the necessary repairs or install replacement equipment. In addition, our customers may experience interruptions in service if carriers or other service providers fail to provide the communications capacity that we have leased in order to provide service to our customers or if our peering arrangements suffer significant disruption. For example, in 1999 a third party provider from whom we lease capacity experienced a significant disruption. Further, a majority of our traffic is transmitted over capacity that we lease from third parties. The failure of any one of these connections also could result in reduced performance.

These interruptions in service or performance problems could undermine confidence in our services and cause us to lose customers or make it more difficult to attract new ones. For example, America Online has the right to reduce its purchase commitments and terminate its agreement with us if we fail to meet agreed upon performance levels. In addition, because many of our services are critical to the businesses of many of our customers, any significant interruption in our service could result in lost profits or other loss to our customers. Although we attempt to disclaim liability in our service agreements, a court might not enforce a limitation on

our liability, which could expose us to financial loss. In addition, we often provide our customers with guaranteed service level commitments. If we do not meet the required service levels as a result of service interruptions, we may be obligated to provide credits, generally in the form of free service for a short period of time, to our customers, which could significantly reduce our revenues.

**If we do not safeguard the security and privacy of our network infrastructure, our reputation could be damaged and we could lose existing and prospective customers and the potential revenues they represent.**

The secure transmission of confidential information over networks, including our network, is critical to the acceptance of the Internet. Internet usage could decline if any well-publicized compromise of security occurs. Our customers often maintain confidential information on our servers, such as credit card and bank account numbers. We provide managed security services that are intended to provide a high level of protection for our customers' networks. Our managed security services include monitoring the network perimeters of our enterprise customers and using firewall management, maintenance and proactive response techniques to help ensure the security of access points into our customers' computing infrastructure. We rely on encryption and authentication technology to provide secure transmission of confidential information.

Despite our efforts, we may not be successful in maintaining information as confidential or adequately safeguarding our customers' networks. Someone who is able to circumvent our security measures could misappropriate proprietary information or cause disruptions in our operations and those of our customers. Any compromise of security in our network could damage our reputation and cause us to lose existing and prospective customers. We may be required to expend significant capital and other resources to protect against, or to alleviate problems caused by, security breaches. In addition, a compromise of security may result in claims against us, which could be successful. These claims, regardless of their ultimate outcome, could result in costly litigation and adversely affect our ability to attract and retain customers.

**We rely on limited sources for supplying critical components of our network infrastructure. If we are unable to obtain sufficient quantities of critical equipment from these sources when needed, we may be forced to delay our development and expansion plans, which would negatively affect our competitive position.**

We depend on vendors to supply the critical components of our network infrastructure as we expand our network both domestically and internationally. If we are unable to obtain these critical components on a timely basis, we may have to abandon or delay our expansion plans, which would adversely affect our competitive position. Some of our networking equipment is available only from one or a small number of sources. For instance, we rely on Cisco Systems for our network routers and Nortel Networks for our optical electronic equipment. We typically purchase or lease all of our components under purchase orders placed from time to time. We do not carry significant inventories of components and have no guaranteed supply arrangements with vendors. Our vendors also sell products to our competitors and we cannot assure you that they will not enter into exclusive arrangements with our competitors.

**We need to obtain additional capacity for our network from other providers in order to serve our customers and keep our costs down.**

We lease telecommunications capacity and obtain rights to unused fiber optic strands from both long distance and local telecommunications carriers in order to extend the range of our network. Our inability to obtain this additional capacity on acceptable terms, or at all, could adversely affect our ability to quickly expand our network, attract new customers and serve our existing customers or could increase our costs of doing so.

**We must obtain permits and rights-of-way to develop our network infrastructure. If we do not obtain them in a timely fashion, we may have to delay our expansion plans.**

The expansion of our network infrastructure will require that we obtain licenses, permits and other rights, including rights-of-way and encroachment agreements and other permits to install conduit and related network

equipment, from private landowners, utilities, railroads, local exchange carriers, state highway authorities, local governments and transit authorities. The process of obtaining these licenses, permits and rights can be time consuming and burdensome. In addition, if we are unable to obtain these licenses and permits on acceptable terms and on a timely basis, our ability to expand and operate our network would be severely limited and our business will not grow as we have planned.

### **Risks Related to Our Relationship With Verizon**

**Verizon's interests as a minority investor and potential future majority stockholder of Genuity will be protected by the investor safeguards described below. Under these safeguards, we need the consent of Verizon before taking the actions described below. Verizon is not required to grant its consent and may have interests that are different from ours.**

We are contractually obligated to obtain the consent of Verizon before we take any of the following actions:

- making any acquisition or series of related acquisitions with a purchase price of more than 20% of our market capitalization at that time;
- making an acquisition in excess of \$100 million or entering into a joint venture in which our investment is more than \$100 million, in each case that is not closely related to our business;
- making any disposition or series of related dispositions for consideration, including any indebtedness assumed, of more than 20% of our market capitalization at the time;
- incurring indebtedness in any calendar year of more than \$3.85 billion, net of any repayments made during the year, or incurring any indebtedness that would cause our aggregate indebtedness to exceed \$11 billion;
- entering into any agreement with provisions that trigger a default or require a material payment when Verizon converts its Class B common stock or that purports to bind Verizon or any of its affiliates; and
- issuing any equity securities, although there are significant exceptions for issuances in connection with acquisitions, employee benefit plans and operating needs and capital expenditures.

You should refer to the section in "Related Party Transactions" entitled "Recapitalization Agreement" for a more detailed description of these contractual restrictions.

In addition, our certificate of incorporation requires us to obtain the approval of the holders of a majority of our Class B common stock before we:

- amend our certificate of incorporation, or amend our bylaws in a way that affects the rights of the holders of the Class B common stock;
- agree to enter into a merger, consolidation or sale, lease or other disposition of all or substantially all of our assets;
- file or declare bankruptcy or liquidation;
- authorize additional shares of our capital stock;
- materially change the nature or scope of our business; or
- take any action that would make it unlawful for a holder of Class B common stock to exercise its conversion rights.

Verizon could prevent us from taking the actions described above. Verizon's interests and objectives, which may diverge from ours, may influence whether Verizon is willing to grant us any consents we may request. We may not be able to resolve potential conflicts between Verizon and us to our satisfaction, and if we cannot, our business may be harmed. The ability of Verizon to prevent us from taking these actions will terminate under the circumstances described in "Related Party Transactions" in the section entitled "Recapitalization Agreement" and in "Description of Capital Stock" in the section entitled "Common Stock".

Verizon has the right to transfer some or all of its shares of Class B common stock to one or more persons. Verizon also may assign its contractual rights to transferees of the Class B common stock. In that event, these persons would be able to prevent us from taking the actions described above.

**If Verizon is able to convert its shares of our Class B common stock into shares of our Class C common stock, it will have the ability to exert significant control over our business.**

Although upon completion of this offering Verizon will hold shares of our Class B common stock that represent 9.5% of our outstanding common stock at that time, under the terms of the proposal to the FCC, if Verizon is permitted to own more than 10% of our outstanding shares of common stock, it could convert its shares into 800 million shares of Class C common stock. Based on the shares of common stock outstanding immediately after this offering, these shares would possess approximately 96% of the total voting power of our common stock. After conversion of its shares of our Class B common stock, if Verizon continues to beneficially own shares of capital stock representing more than 50% of the voting power of our outstanding capital stock, Verizon will be able to exercise a controlling influence over us, including with respect to the election of our directors and the outcome of any corporate transaction or other matter submitted to our stockholders for approval. The voting power of Verizon could have the effect of delaying or preventing a change in control. The interests of Verizon may differ from the interests of our other stockholders.

**Even if Verizon does not eliminate the applicable Section 271 restrictions on all of Bell Atlantic in-region lines, it could still transfer a controlling interest to someone who could exert significant control over our business.**

Verizon may transfer some or all of its shares of Class B common stock without our consent or the consent of the holders of our Class A common stock. If Verizon transfers all of the Class B common stock after it has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, the transferee would be able to convert those shares into 800 million shares of our Class A common stock and exercise significant control over our business. Even if Verizon transfers fewer than all of its shares of Class B common stock, the transferee might be able to exercise a controlling influence over us after converting its shares of Class B common stock. In addition, Verizon could convert its shares of our Class B common stock into Class C common stock and transfer those shares to one or more persons who could then exercise a controlling influence over us.

**We have contracted with Verizon to provide us with a variety of transitional services for a limited period of time. We may experience transitional problems if we are unable to replace these services in a timely manner or on similar terms.**

We have not been operating as a stand-alone company. Affiliates of Verizon are contractually obligated to provide us with office and operating facilities and specified transitional services upon completion of this offering. If Verizon does not perform its contractual obligations under these agreements, we may not receive these services at the same level or obtain the same benefits as when we were part of GTE. The agreements for those transitional services generally terminate one year after this offering. After the termination of these various arrangements, we may not be able to replace these transitional services or enter into appropriate leases in a timely manner or on terms and conditions, including cost, similar to those we will receive from Verizon or are otherwise acceptable to us. You should refer to the section entitled "Related Party Transactions" for more information about these arrangements.

## **Risks Related to Legal Uncertainty**

### **Our competitive position would be harmed if we are unable to protect our intellectual property rights.**

Despite the precautions we take to protect our intellectual property, it may be possible for a third party to copy or otherwise misappropriate and use our technology without authorization, particularly in foreign countries where the laws may not protect our proprietary rights to the same extent as do the laws of the United States, or for our competitors to develop substantially equivalent or superior technology independently. If competitors are able to use our proprietary technology or develop similar technology, our ability to compete effectively would be seriously harmed. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. This litigation could result in substantial costs and diversion of resources.

### **We may be subject to infringement claims that could subject us to significant liability or otherwise adversely affect our operating results.**

We expect that participants in our markets will be increasingly subject to infringement claims. Third parties may try to claim our services infringe their intellectual property. Any claim, whether meritorious or not, could be time consuming, result in costly litigation or require us to enter into royalty or licensing agreements. These royalty or licensing agreements might not be available on terms acceptable to us or at all, in which case we would have to cease selling, incorporating or using those services that incorporate the challenged intellectual property and expend substantial amounts of resources to redesign our services. If we are forced to enter into unacceptable royalty or licensing agreements or to redesign our services, our business and prospects would suffer.

### **Some of the services we provide may in the future be regulated by the FCC, states or foreign governments, which would significantly increase our operating complexity and expenses and adversely affect our ability to compete.**

Our existing and planned managed Internet infrastructure services are currently classified as “information services” and, therefore, are exempt from regulation by the FCC or any other government agency of the United States, except to the extent that any regulations apply to businesses generally. However, the regulatory characterization of Internet infrastructure services is currently unsettled, and some private parties and regulators have raised questions about the current regulatory status of Internet service offerings. As a result, the FCC may choose to impose a new set of regulations on Internet infrastructure services or reclassify them as either private carrier services or telecommunications services. If existing telecommunications regulations are extended to the Internet, or if new regulations are imposed, we may be restricted in the way we offer our services, our cost of doing business could increase and we could be required to exit some or all of our businesses. You should refer to the section in “Business” entitled “Regulatory Matters” for a more detailed description of the federal, state and international regulations that could apply to our business if any of our services were reclassified as either private carrier services or telecommunications services.

Although we believe that any regulation that applies to our business will likewise apply to our competitors offering similar services, some of our competitors are already regulated as telecommunications carriers due to their other service offerings. As a result, these companies may be better able to operate in a regulated environment than we are. Accordingly, regulatory changes of the type described above could adversely affect our ability to compete effectively against these competitors. There is no way to predict the future regulatory framework of our industry.

### **The regulation of the Internet is unsettled and future regulations could adversely affect our operating costs and business.**

In addition to potential regulation of the Internet and related services by the FCC and actual regulation of the operations of one of our subsidiaries, our business may be adversely affected by the adoption of other laws

and regulations in the United States or abroad that apply generally to commerce and communication over the Internet, including laws or regulations relating to intellectual property, telecommunications, privacy, consumer protection, taxation and dissemination of unlawful or otherwise disfavored content. The adoption or consideration of additional legislation or regulation affecting the Internet could inhibit the continued growth of the Internet or decrease its acceptance as a commercial medium, impose additional operating and other costs on us, expose us to greater potential liability from regulatory actions or private legal proceedings or otherwise adversely affect our business operations or performance. We cannot predict the impact, if any, that future laws and regulations relating to the Internet or legal or regulatory changes may have on our business. You should refer to the section in “Business” entitled “Regulatory Matters—Other Potential Regulation” for a more detailed discussion of existing and potential laws and regulations that could affect our business.

**We may be subject to regulation, taxation, enforcement or other liabilities in unexpected jurisdictions.**

We provide our managed Internet infrastructure services to customers located throughout the United States and internationally. As a result, we may be required to qualify to do business, or be subject to tax or other laws and regulations, in these jurisdictions even if we do not have a physical presence or employees or property in these jurisdictions. The application of these multiple sets of laws and regulations is uncertain, but we could become subject to regulation, taxation, enforcement or other liability in unexpected ways, which could materially adversely affect our business, financial condition and results of operations.

**If Verizon is unable to convert its Class B common stock to Class C common stock, we will not be able to realize the benefits of being a majority-owned subsidiary of Verizon.**

If Verizon is unable to convert its Class B common stock into Class C common stock, we may not realize the full benefits of our relationship with Verizon. These benefits include the ability to:

- offer combined packages of Internet infrastructure services and telephony services;
- obtain financing on more favorable terms than we otherwise could;
- integrate network infrastructure and reduce overhead costs; and
- take further advantage of the purchasing power of Verizon.

**Risks Related to the Securities Markets and this Offering**

**The trading price of the Class A common stock will anticipate the dilution that will result from future conversion of the Class B common stock.**

We expect that upon completion of this offering, the trading price of the Class A common stock will reflect the dilution that would result from the future conversion of Class B common stock. This will likely result in the shares of our Class A common stock trading at prices substantially lower than they otherwise would without this future dilution. After this offering, the Class A common stock will represent 90.5% of our outstanding common stock and the Class B common stock will represent 9.5% of our outstanding common stock. If Verizon is successful in satisfying the requirements of the proposal to the FCC and is able to convert into 800 million shares of our Class A common stock or Class C common stock, it or its transferees would be able to convert their shares into shares of common stock representing up to 82% of our outstanding common stock after this offering. Therefore, investors should recognize that the Class B common stock may well be converted into approximately 82% of our outstanding common stock, leaving the Class A common stock as representing approximately 18% of our outstanding common stock.

**The Class A common stock has limited voting rights in certain circumstances.**

Our charter provides that so long as 50% of the shares of Class B common stock outstanding at the completion of this offering remains outstanding, including additional shares of Class B common stock issued to Verizon in connection with the exercise of the underwriters’ over-allotment option, no person or group of persons acting together may vote more than 20% of our outstanding shares of Class A common stock.

**The market price of our Class A common stock may be materially adversely affected by market volatility.**

The price at which our Class A common stock will trade following this offering is likely to be highly volatile and may fluctuate substantially. The price of the Class A common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, including:

- our actual or anticipated quarterly results of operations, which may experience significant fluctuations;
- changes in financial estimates of our revenues and operating results by securities analysts;
- increased capital expenditures or delays in the expansion of our capacity and network infrastructure;
- actual or perceived difficulties in our ability to obtain sufficient financing on acceptable terms to fund our capital expenditures;
- announcements by us or our competitors of new services, significant acquisitions or strategic partnerships;
- a loss of or decrease in sales of services to major customers or a failure to complete significant transactions;
- additions or departures of key personnel;
- future sales of our common stock, particularly by our directors and officers; and
- commencement of, or involvement in, litigation.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies. As a result, investors in our Class A common stock may experience a decrease in the value of their Class A common stock regardless of our operating performance or prospects. The fluctuations in the price of our Class A common stock may affect our visibility and credibility in the Internet infrastructure services market and may affect our ability to secure additional financing on acceptable terms, if at all.

**You may suffer substantial dilution in the book value of your investment.**

Assuming the Class B common stock outstanding on the date of this offering converted into the maximum number of shares of common stock permitted under our certificate of incorporation, the initial public offering price per share will significantly exceed the net tangible book value per share. Accordingly, investors purchasing shares in this offering may suffer substantial dilution of \$9.55 per share in their investment, assuming the conversion of Class B common stock into Class A common stock and an initial public offering price of \$13.50 per share. You should refer to the information in the section entitled "Dilution" for more information.