locations. Our ATM transport services provide logical permanent virtual connections, thereby supporting applications that send information at a constant or variable bit rate. We offer a wide range of speeds at one megabit per second increments and match the application needs to the desired amount of bandwidth.

- *Private Line Service.* Our private line service provides dedicated point-to-point transport services through non-switched, non-usage sensitive dedicated facilities. Our private line service is supported over our dedicated Synchronous Optical Network, or SONET, facilities, which results in a highly reliable network. These services are comprised of bandwidth delivered in units of: (1) DS-3, which is capable of transmitting data at 44.736 megabits per second; (2) OC-3, which is capable of transmitting data at 155.520 megabits per second; (3) OC-12, which is capable of transmitting data at 622.080 megabits per second; and (4) OC-48, which is capable of transmitting data at 2.488 gigabits per second.
- *Network Collocation Services.* Our collocation services provide our customers with a physical location to collocate communications equipment at our points of presence. This service allows our service provider customers to expand their market areas without extensive recurring real estate charges, build-out fees and overhead costs.

Our Network

We operate a state-of-the-art, facilities-based global fiber optic network designed specifically for IP technology. We own the core components of our network infrastructure in the United States through indefeasible rights of use, or IRUs, for the underlying fiber optic cable. Within the United States we also lease capacity from third parties to provide service to our customers. We estimate that a majority of our traffic is currently transmitted over this leased capacity. We are in the process of transitioning traffic from leased capacity to our network infrastructure and expect that over 80% of our traffic will travel over our owned network by the end of 2001. We also own undersea capacity through IRUs and lease capacity internationally. Our current network infrastructure consists of:

- over 17,500 route miles of owned inter-city fiber cable in the United States that passes through the largest 100 metropolitan service areas and substantial additional leased capacity;
- undersea capacity to Europe via Atlantic Crossing-1 and to Asia via TPC-5;
- over 70 dedicated points of presence in the United States through which high speed dedicated Internet access is provisioned;
- over 800 local points of presence for dial-up access in the United States and, through our reseller relationship with iPass, an additional 1,500 local access points of presence in more than 150 other countries;
- nine points of presence in international markets, including Amsterdam, Dublin, Frankfurt, London (2), Milan, Paris, Sydney and Tokyo, with the ability to provide service from over 300 additional points of presence in over 60 countries though leased facilities; and
- eight data centers located in the United States and one each in the United Kingdom and Japan.

We plan to substantially expand our network infrastructure, both domestically and internationally. Through the end of 2001, we plan to:

- extend our coverage by deploying an additional 4,500 route miles of fiber cable serving approximately 120 additional metropolitan service areas in the United States and build local fiber rings in major metropolitan service areas in the United States;
- utilize additional international undersea capacity to: (1) Europe via TAT-14 and FLAG Atlantic; (2) Latin America via Americas II; (3) the Caribbean via ARCOS-1; and (4) Asia via Japan-US cable network;

- expand our network capacity in the United States to the equivalent of 10 layers of 10 gigabit capacity each;
- add more than 200 additional dedicated points of presence for access in the United States;
- add an additional 11 points of presence in key international markets;
- add approximately 800,000 additional modems to our North American dial-up infrastructure and expand our coverage to an additional 300 local markets in North America;
- expand our broadband coverage to 80 metropolitan service areas and surrounding cities in the United States; and
- build seven additional data centers in key locations worldwide, which will increase our existing capacity by approximately 1.2 million square feet.

As we expand our network infrastructure, both domestically and internationally, we intend to primarily build and own our facilities rather than lease them from other facilities-based providers. In addition, we have taken the flexible approach of utilizing multiple fiber providers to ensure higher reliability, quicker deployment of new technology and faster provisioning for our customers. Our network infrastructure has the following characteristics:

High Performance, Reliability and Quality. The geographic reach and state-of-the-art nature of our network enhance our ability to provide a high quality user experience. We have incorporated a variety of technologies in our network to ensure high performance and reliable transmission. These technologies include OC-192, which is capable of transmitting data at 10 gigabits per second, and SONET transmission equipment employing self-healing protection switching. These technologies, combined with our ring-based architecture, increase network reliability and minimize the risk of service outages. In the event of a failure in any segment of our network infrastructure, traffic is automatically rerouted across different fiber strands with virtually no interruption in service. Additionally, our network infrastructure makes extensive use of railroad rights-of-way that typically offer greater protection for the fiber than fiber deployed over other rights-of-way such as highways, telephone poles or overhead power transmission.

Capacity on Demand. We currently have an indefeasible right to use over 17,500 route miles of fiber in the United States, with virtually all of these fiber route miles having 24 separate strands. These fiber route miles, which form the core of our network infrastructure in the United States, were operational at the end of 1999. The majority of the fiber deployed in our network infrastructure is state-of-the-art Lucent True Wave® fiber that supports multiple wavelengths, each running at 10 gigabits per second, thus allowing for more capacity on a single fiber strand. Our fiber network, combined with our network design, enables us to take advantage of the most recent advances in optical electronic transmission equipment. For example, we generally are using only four of our existing 24 strands of fiber, each of which supports up to eight wavelengths per fiber at 10 gigabits per second data transmission using current generation optical electronic transmission equipment. However, as optical electronic transmission equipment providing 16, 32, 50 or even higher numbers of wavelengths per fiber becomes commercially available, we plan to deploy this equipment as needed on unused fiber strands to expand the capacity of our network infrastructure. With the advanced nature of our fiber network and the advances in optical electronic transmission equipment, we believe we will have sufficient capacity on our existing fiber in the United States for the foreseeable future. In addition to our owned facilities, we supplement our existing route miles with leased capacity from other providers.

Advanced Network Architectures. We believe that owning our network allows us to implement new network architectures as they become technologically feasible. For example, IP over dense wave division multiplexing, which is an optical technology that increases the amount of data that can be transmitted over a single fiber by dividing that fiber into multiple lightpaths or wavelengths, will eliminate the need for the SONET network layer by relying on IP routers and the dense wave division multiplexing equipment to perform the re-routing that SONET currently performs. Furthermore, advanced optical networking transmission

equipment will enable traffic to be switched and routed without being converted to an electrical signal first. We believe our engineering and architectural expertise will enable us to quickly deploy these new architectures and technologies, thereby reducing the complexity of data systems, increasing flexibility and reducing costs.

Flexible Platform for Multiple Services. Our network has been specifically designed for IP and can carry any form of packet data, including voice, video and traditional data services. While many carriers and service providers use multiple networks and platforms to deliver these distinct services, our IP-optimized network provides a single platform that simplifies network management, customer support and service delivery. In addition, ownership of our facilities enables us to deploy new or enhanced services more quickly. For example, we designed and deployed one of the first architectures to transmit real-time voice and data packets with reliability and performance substantially equivalent to the public switched telephone network. Moreover, our architecture allows for rapid scalability of capacity, quick geographic expansion and cost-efficient implementation of new services and features.

Our Data Centers

We currently operate 10 data centers that have been specifically designed for managed web and application hosting services and high capacity connectivity to our network. We have eight data centers in the United States, located in Palo Alto, California; San Jose, California; Los Angeles, California; Phoenix, Arizona; Chicago, Illinois; Cambridge, Massachusetts; Washington, D.C.; and New York, New York. We also have one data center in each of Leeds, England, and Tokyo, Japan.

Our data centers are strategically located in the same building, or in close proximity to, network access points, and all are directly connected to our Internet backbone. Our data centers are technologically advanced facilities with:

- redundant, high speed connectivity to the Internet;
- uninterruptible power supplies;
- back-up generators;
- fire suppression;
- computer floors;
- separate cooling zones;
- seismically braced racks; and
- high levels of physical and network security.

Our highly trained staff monitors these systems 24 hours a day and seven days a week. By the end of 2001, we plan to add seven data centers, adding approximately 1.2 million square feet of additional capacity. Each of these new data centers will be directly connected to our network and will be designed specifically for mission-critical servers with complete redundancy of all support systems. We expect these seven new data centers will be located in: Los Angeles, California; Mountain View, California; Atlanta, Georgia; Cambridge, Massachusetts; Carteret, New Jersey; Dallas, Texas; and Chantilly, Virginia.

Our International Operations

We provide global coverage for our international customers. Today, we lease our network facilities in international markets, including back haul services from over 300 local points of presence in 60 countries and a SONET fiber ring connecting London, Paris, Frankfurt and Amsterdam, which is capable of transmitting data at 155.520 megabits per second. We are able to provide dedicated access services in more than 60 countries and enable global dial-up access service in more than 150 countries. We provide web hosting services out of our data centers in the United Kingdom and Japan and we have the capability to provide managed security and virtual private network services in over 39 countries. We have nine points of presence in international markets, including: Amsterdam; Dublin; Frankfurt; London (2); Milan; Paris; Sydney; and Tokyo. All of our international points of presence are capable of accepting voice-over-IP traffic for delivery in the United States.

By the end of 2000, we plan to add 11 additional points of presence in the following locations: Manchester; Madrid; Stockholm; Dusseldorf; Hamburg; Hong Kong; Buenos Aires; Sao Pãulo; Rio de Janeiro; San Juan; and Mexico City.

By the end of 2000, we also plan to deploy one of the first OC-48 fiber rings in Europe employing IP over dense wave division multiplexing. We believe this fiber ring network connecting London, Amsterdam, Frankfurt and Paris will dramatically improve our ability to provide high-end data services and is required to meet our rapidly growing traffic in Europe.

In terms of trans-oceanic capacity, over the past two years we have entered into a number of agreements for indefeasible rights of use to cable systems that are either deployed or in the process of deployment. The following table details our current and planned international cable capacity. The expected dates of deployment represent approximate time frames in which we believe our capacity on this cable will become operational. These dates are, to a large extent, beyond our control and deployment may occur significantly later than we expect.

Cable System	Capacity	Terms	Expected Deployment
Americas II	U.S.-Brazil (One STM-1)(1) U.S.-Venezuela (One STM-1) U.S.-Puerto Rico (One DS-3)(2)	25 Years (IRU)	Q3 2000
Atlantic Crossing-1	U.S.-United Kingdom (Two STM-1s) U.S.-Germany (One STM-1) United Kingdom-Netherlands (One STM-1) United Kingdom-Germany (One STM-1)	25 Years (IRU) Lease Lease Lease	In Service
Japan-U.S. Cable Network	U.S.-Japan (Six STM-1s) U.S.-Hawaii (One STM-1) Upgrade Capability to 28.5 STM-1s	25 Years (IRU)	Q4 2000
TAT-14	U.S.-France-Netherlands-Germany-Denmark-U.S. (30 STM-1s)	25 Years (IRU)	Q1 2001
FLAG Atlantic-1	U.S.-United Kingdom-France-U.S. Portable Capacity Seven STM-1s Initially Upgrade Capability to over 50 STM-1s	25 Years (IRU)	Q2 2001
ARCOS-1	U.S.-Caribbean Portable Capacity, Two STM-1s Initially Upgrade Capability to 21 STM-1s	25 Years (IRU)	Q1 2001
TPC-5	U.S.-Japan (One DS-3)	Lease	In Service

(1) STM-1 is capable of transmitting data at 155.520 megabits per second.

(2) DS-3 is capable of transmitting data at 44.736 megabits per second.

Research and Development

We believe that the task of building an Internet infrastructure services business is primarily one of integrating third-party systems, technologies, communications equipment, software and services to provide reliable, highly scalable and cost-effective Internet infrastructure services. Therefore, we generally use commercially available equipment. Our 30 years of IP and networking experience and expertise not only enables us to assess the technology and quality of potential vendors and to assist them in making their products more responsive to the needs of our customers.

We continually monitor research developments in the various industries supporting our business. We work closely with the engineering groups of our existing vendors, technology partners, innovative start-up companies and complementary service providers to incorporate advanced technology, features and services. For example, we have worked closely with Cisco Systems, one of our primary suppliers, to develop new equipment and have been regular participants in its Technical Advisory Group. Through this and other cooperative programs, we strive to ensure that new hardware designs address the evolving requirements of our business and those of our customers.

In addition, we plan to work with innovative start-up companies to assist them in developing and implementing advanced technologies and converting these technologies into market-ready products and services. A key component of our strategy will be to develop strategic relationships with those start-ups that have technology or services that can help us expedite the execution of our business plan. The strategic nature of these relationships could take the form of acquisitions, technology transfers, equity investments or joint product development.

Our Customers

We primarily target enterprises and service providers. We have established a large and diversified base of enterprise customers in a wide range of industries, including financial services, manufacturing, media and publishing, consulting services and high technology. As of March 31, 2000, we had approximately 5,000 enterprise customers, the majority of which were located in the United States. The following is a representative list of our enterprise customers.

High Technology

Cabletron
Compaq
Microsoft
Sun Microsystems

Manufacturing

Carrier Corporation
FMC Corporation
Hasbro Interactive
Avid Technology

Media and Publishing

CNN
DoubleClick
Yahoo!
ZDNet

Consulting Services

Computer Sciences Corp.
ENTEX Information Systems
Hewitt Associates
Sapient

Other Services

Block Financial
e-Speed
Stanford University

Our customer base also includes many service providers, including application service providers, Internet service providers and telecommunications carriers. As of March 31, 2000, we had approximately 400 service provider customers, the majority of which were located in the United States. The following is a representative list of our service provider customers.

Consumer Internet Service Providers	Business Internet Service Providers
America Online	I.NET S.p.A.
Earthlink	Ipass
NetZero	Planet Online
WebTV	Shore.net
Telecommunications Carriers	**Internet-Centric Related Services**
Pacific Gateway Exchange	Akamai Technologies
Tiscali S.p.A.	Dialpad
TLD of Puerto Rico	Digital Island

Our Relationship With America Online

We have supplied managed, dial-up access services in the United States to America Online since 1995. During the year ended December 31, 1999, America Online accounted for approximately 52% of our total revenues. We entered into a new agreement with America Online effective as of December 31, 1999, pursuant to which America Online has agreed to purchase additional dial-up Internet access services from us for a seven-year term through December 31, 2006. Under the new agreement, America Online has also agreed to purchase managed digital subscriber line and other broadband network access services from us for a five-year term through December 31, 2004. The components and resources used to provide dial-up access and broadband connections to our network backbone for America Online are dedicated to them and may not be used by us to service other customers. In addition, our Columbia, Maryland network operations center is dedicated to servicing America Online.

Dial-Up Services. Under the new agreement, America Online has committed to purchase from us agreed upon minimum quantities of dial-up network access services as measured by the number of dial-up access ports, or modems, available for America Online customers. America Online has agreed to increase the number of dial-up access ports to be managed by us through June 2002, subject to the terms and conditions of the agreement. America Online pays us a fixed monthly fee for each activated dial-up access port managed by us for it. Under the agreement, the monthly per access port fee to which we are entitled will be reduced at specified intervals over the term of the agreement. In addition, we have agreed, subject to limitations, that if we offer a third party better pricing for comparable dial-up access services than that paid by America Online, America Online may gain the benefit of this better pricing.

At specified times during the course of the new agreement, America Online has the right to seek a reduction in the fees paid to us for access ports based on the then prevailing market prices for comparable dial-up access services in the manner described in the new agreement. If we do not agree to reduce the fees we charge to America Online for the applicable dial-up access ports to the market price, America Online may, subject to advance notice and other limitations, terminate future dial-up service commitments to us and decommission an equal number of its existing dial-up access ports with us. Similarly, America Online may reduce its dial-up service commitments in the event we fail to meet monthly or geographic delivery targets.

Beginning January 1, 2003, America Online may, subject to advance notice and other limitations, decommission dial-up access ports managed by us in proportion to their decommissioning of dial-up access ports provided by other vendors. We are required to maintain a dedicated network operations center to service the portions of our network dedicated to America Online.

Broadband Services. Under the agreement, we also provide broadband services to America Online in connection with their digital subscriber line service offerings. America Online also has agreed to purchase additional network services from us in connection with its other broadband service offerings, including cable modem, wireless and satellite, as they offer additional broadband access options to their customers. America Online has committed to purchase from us the network services necessary to serve specified percentages of

their digital subscriber line and other broadband customers. In connection with providing digital subscriber line service to an America Online customer, America Online is responsible for providing its customers with the local access circuit and we are responsible for the interconnection of that circuit to our backbone, transmission of the traffic to America Online and the monitoring, management and control of the network.

We receive a specified monthly fee for each America Online digital subscriber line and other broadband customer for whom we provide network services. Under the agreement, America Online pays us monthly fees based on the number of America Online broadband customers that are connected to our network, which fees are subject to agreed upon reductions as the number of America Online digital subscriber line and other broadband customers for whom we are providing services increases. In addition, we have also agreed to extend broadband network services. At specified times during the course of the new agreement, America Online has the right to seek a reduction in the fee paid to us for broadband backhaul services based on then prevailing market prices for comparable broadband backhaul services. If we do not agree to reduce our fees to America Online for broadband network services to the market price in the manner described in the new agreement, America Online may, subject to advance notice and other limitations, terminate future broadband service purchase commitments to us and terminate existing broadband service. America Online may also terminate future broadband service purchase commitments in the event we fail to deliver services to a new local access and transport area within a specified period.

General. In providing America Online services under the agreement, we are obligated to comply with specified minimum service levels. Either party may terminate the agreement in the event the other party commits a material breach which is not cured within 30 days after notice of the breach. In addition, America Online has the right to terminate the agreement in the event of:

- repeated material breaches by us even if cured;
- a violation of the most favored customer pricing provisions;
- a total or near total outage of any of the services provided by us that, even if lasting fewer than 30 days, is widespread and prolonged;
- our inability to meet our service level commitments or to expand service availability as required under the agreement; and
- a change in control of us other than changes in control resulting from or arising out of the closing of the proposed merger of GTE and Bell Atlantic.

We are also obligated to provide America Online assistance in the 12 months following any termination of the agreement to ensure a smooth transition of services. The agreement provides America Online with a right of first refusal with respect to the sale of our dial-up network access business.

Under a separate agreement, we have agreed to provide dial-up network access services to America Online in Japan. This agreement includes similar provisions to those described above regarding minimum purchase requirements on the part of America Online Japan, market pricing adjustments, service level requirements and termination provisions.

Operations and Customer Support

We believe that a high level of operational and customer support is critical to our success in attracting and retaining enterprise and service provider customers. We provide superior customer support by understanding the evolving and often complex technical requirements and business objectives of our customers. We assist our customers by initially assembling design teams comprised of product specialists from all relevant areas of our organization, including Internet access, web hosting and security. These design teams work closely with our customers from the very beginning of the relationship to properly identify their Internet infrastructure requirements and design appropriate solutions. We also assign a project manager to this team when a customer is prepared to implement its solution. Our design teams can range from a small group for single service

solutions to a dedicated multi-discipline team for complex solutions. We also assign an implementation engineer to coordinate all of our activities with a customer. Our implementation engineers assist customers in developing operational processes and databases for use within their internal support environment after installation.

We provide toll-free phone access, as well as e-mail or facsimile access, to our customer support centers. In addition, our web-enabled customer service tools allow our customers to track order and service status and request upgrades online. In addition, we have event management teams available 24 hours a day, seven days a week, to work with the appropriate organizations in the event of any major Internet-wide event that disrupts service. In these circumstances, we also utilize our automated emergency broadcast capability to quickly reach our customer by e-mail, telephone, facsimile or pager.

We provide operational support for all services 24 hours a day, seven days a week. We also have network engineers and operational support agreements with our vendors to provide us with support 24 hours a day, seven days a week. Currently our primary Network Operations Center is located in our Burlington, Massachusetts headquarters facility. This Network Operations Center is supported by redundant power served from separate sources, extensive failover battery backup and dual, on premises power generation stations. We plan to relocate our primary Network Operations Center from Burlington, Massachusetts to our new Woburn, Massachusetts campus that is currently under construction. In addition, we have a Network Operations Center in Columbia, Maryland and are finalizing plans for a new Network Operations Center in the Dallas, Texas area to replace a facility we currently share with GTE. Our Columbia, Maryland Network Operations Center is dedicated to servicing America Online. We also have Operations Support Centers in Cambridge, Massachusetts and Chantilly, Virginia. Our centers can perform disaster back-up for other centers. Our data centers are designed with these same commitments to availability, and we guarantee these capabilities with service level guarantees.

Sales and Marketing

Within the United States, we rely primarily on a direct sales force. This direct sales force focuses on U.S.-based enterprises and service providers with domestic and international service requirements. Our sales force within the United States generally works with the managers of the marketing, sales or finance departments, as well as with information technology officers within the enterprise. In addition, through our eP@rtners program, we have formed alliances with leading web integrators, e-business consultants, interactive agencies and other technology providers, which increases our access to potential service provider and enterprise customers. Our current partners in this program include:

- Agency.com
- Cambridge Technology Partners
- Cisco Systems
- Ernst & Young
- Hewlett-Packard
- IBM
- Lante
- Microsoft
- Nortel Networks
- Sapient

These alliances enable us to provide comprehensive e-business solutions and also serve as a valuable, cost-effective channel for marketing our services. We also plan to expand our existing reseller relationships to significantly enhance our distribution capabilities.

Internationally, we have both a direct sales force and a channel partner program, which we call our Net.Alliance program. Our international direct sales force focuses primarily on the international service provider segment, while our Net.Alliance partners are our primary channel to multinational companies based outside of the United States. Many of our Net.Alliance partners are both customers and resellers of our services. This channel gives us distribution capabilities in over 14 countries globally. Our current partners in this program include Energis in the United Kingdom and Tiscali and I.NET in Italy.

All of our sales representatives participate in extensive technical and consultative sales training programs that we believe enable them to better comprehend, respond to and resolve the complex networking problems of our customers. As of March 31, 2000, we had a direct sales force of over 350 people.

We only recently changed our name to Genuity. To be successful, we must establish and strengthen our brand recognition. We intend to incur significant expenses to promote our brand. Our marketing organization is responsible for developing the strength and awareness of the Genuity brand on a local, national and international basis. We intend to build brand awareness through a variety of methods, including radio, print advertising in trade journals and special-interest publications and our web site. In addition, we also employ public relations personnel in-house and work with an outside public relations agency to provide broad coverage in the Internet and computer networking fields. To a limited extent, we also directly market our services at seminars and trade shows such as Internet World, ISPCon, COMnet, CeBit and various Gartner Group information technology conferences.

Competition

The market for Internet infrastructure services is extremely competitive and subject to rapid technological change. We expect to encounter increased competition in the future as a result of increased consolidation and development of strategic alliances in the industry. In addition, we will compete with foreign service providers as we expand internationally and as these service providers increasingly compete in the United States market. Our principal competitors in the Internet infrastructure services market may be divided into Internet infrastructure service providers and niche players offering services competitive with one or more of our services.

Internet Infrastructure Service Providers. We were recently recognized by Giga Information Group as one of a limited number of Tier 1 Internet backbone providers that offer managed Internet infrastructure services. Accordingly, we believe our primary competitors are those Internet infrastructure service providers that offer a similar breadth of services and possess the on-network users and content to offer their customers connectivity to virtually all addresses on the Internet, either through their Internet backbone or through high speed private peering relationships that permit them to have direct, cost-free exchange of traffic with a significant number of carriers and other Internet service providers. These competitors include UUNET Technologies, a subsidiary of MCI WorldCom, AT&T, Cable & Wireless and Sprint. UUNET has substantially greater market share than we do, and some of the others also have greater market share than we do. UUNET is a competitor for America Online's access requirements and is reported to provide a substantial portion of those requirements. 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 to the merger. Some of these competitors also are able to bundle their Internet service offerings with non-Internet data services, such as frame relay, and traditional voice services, such as local and long distance, thereby reducing the price of their services relative to ours. We may not be able to offset the effects of any price reductions because we only offer IP-based services. We also compete with an increasing number of 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 than the infrastructure service providers listed above. These competitors include, among others, Level 3 Communications, Qwest Communications, KPNQwest, Deutsche Telekom, PSINet, Verio Communications and Williams Communications Group. As a result of the increase in the number of competitors and the vertical and horizontal integration that is occurring in this industry, we currently encounter and expect to continue to encounter significant competition, which could force us to, among other things, reduce our rates and invest more heavily in infrastructure.

We believe we compete with these competitors primarily on the basis of quality and quantity of on-network users and content, breadth of service offerings, geographic reach and quality of network infrastructure, capacity, quality of service and price. While we believe that our network infrastructure, comprehensive suite of services and expertise in designing, developing and implementing managed Internet infrastructure solutions distinguish us

from our competitors, many of our existing and potential competitors 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 acquisition and other opportunities more readily and adopt more aggressive pricing policies.

Niche Players. There are numerous competitors that service generally one or a small number of the specific Internet infrastructure requirements of enterprise customers. These competitors include, among others:

- web-hosting companies, such as Digex and Exodus Communications;
- broadband Internet access providers such as Covad Communications and Rhythms NetConnections, both of which focus on digital subscriber line services;
- 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.

We believe that there are relatively few barriers to entry in these markets. We compete with these niche players on the basis of technical expertise, quality of service, reliability and price.

There are numerous other companies from a variety of industries that 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 through 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 believe that direct broadcast satellite and wireless communications providers have also entered the Internet access market.

As we continue to expand our operations in markets outside the United States, we will also encounter new competitors and competitive environments. Our foreign competitors may enjoy a government-sponsored monopoly on telecommunications services essential to our business, and will generally have a better understanding of their local industry and longer working relationships with local infrastructure providers.

Employees

As of March 31, 2000, we had a total of 3,557 employees, of which 1,263 were in customer service and support, 866 were in engineering, 761 were in sales and marketing, 345 were in information technology and 322 were in finance and administration. Our employees are not represented by any collective bargaining agreement, and we believe that relations with our employees are good.

Real Estate Facilities

We currently occupy our headquarters and primary Network Operations Center in Burlington, Massachusetts under a lease that expires in 2009. This lease includes renewal options for two three-year periods. We are constructing a two-building campus in Woburn, Massachusetts that is scheduled for completion in the next 12 months. We plan to move our corporate headquarters operations, including executive staff, finance, human resources and information technology organizations, to our Woburn, Massachusetts campus. We anticipate that our network operations organization, including our primary Network Operations Center, also will relocate from Burlington, Massachusetts to Woburn, Massachusetts. We intend to retain our Burlington, Massachusetts facility to house our engineering, sales and marketing and service line organizations. We lease space for our other Network Operating Center in Columbia, Maryland and are finalizing plans for a new Network Operations Center in the Dallas, Texas area to replace a facility we currently share with GTE.

Proprietary Rights

We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions to establish and protect our technology. We own, either exclusively or jointly, an interest in nearly 200 inventions that are the subject of patents, patent applications or patent disclosures. These legal protections provide only limited protection. Further, the market for Internet infrastructure services is subject to rapid technological change. Accordingly, while we intend to continue to protect our proprietary rights where appropriate, we believe that our success in maintaining a technology leadership position is more dependent on the technical expertise and innovative abilities of our personnel than on these legal protections.

Despite our efforts to protect our proprietary technology, we cannot assure you that the steps taken by us will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. The laws of many countries do not protect our proprietary technology to as great an extent as do the laws of the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of invalidity. We are also subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. Any resulting litigation could result in substantial costs and diversion of management and other resources and could have a material adverse effect on our business and financial condition.

GTE has granted the exclusive right to our existing trademarks and proprietary technology to TELUS Corporation for use solely in Canada for the provision of telecommunications services, including Internet services. We rely on TELUS to provide, in conjunction with us, some Internet services in Canada.

Regulatory Matters

The following summarizes regulatory developments and legislation that we believe are currently material to us. It does not describe all present and proposed federal, state, local and foreign regulation and legislation affecting the telecommunications industry.

Our existing and planned Internet operations are not actively regulated by the Federal Communications Commission or any other government agency of the United States at the present time, other than regulations that apply to businesses generally. However, one of our wholly owned subsidiaries is classified as an "interexchange carrier" and provides primarily private-line data services. As a result, this subsidiary is regulated as a telecommunications carrier and is subject to the requirements described below under "Telecommunications Services". Furthermore, the regulations governing the telecommunications industry generally are often subject to regulatory, judicial, or legislative modification and are in a state of flux at the present time. Some private parties and regulators have called the current regulatory status of various Internet service offerings into question.

We cannot predict the actions of the regulatory authorities that have jurisdiction in this area or whether any of these authorities will attempt to impose new regulations on Internet services or expand their interpretations of existing regulations to make them apply directly to Internet services. Accordingly, we do not know whether current or future regulations could have a material adverse effect on us. If any regulatory authority imposes new regulations or expands their interpretations of existing regulations to make them applicable to Internet operations, some or all of the following rules may be applied to those operations. However, if new regulations are imposed on our industry, or existing regulations are expanded to cover our industry, these regulations will almost certainly also apply to all similarly situated parties offering comparable services, including our competitors.

Federal Telecommunications Regulation

Federal regulations have undergone major changes in the last four years as the result of the enactment of the Telecommunications Act of 1996. The Telecommunications Act is the most comprehensive reform of the telecommunications law in the United States since the Communications Act was enacted in 1934. For example,

the Telecommunications Act imposes interconnection and access requirements on telecommunications carriers and on all local exchange carriers, including incumbent local exchange carriers and competitive local exchange carriers.

Under the current regulatory regime, communications related services are generally classified into one of the following three definitional categories:

- information services;
- private carrier services; and
- telecommunications services or common carriage.

Because the boundaries between these categories are neither precise nor well-fixed, and the industry is so dynamic, we cannot predict where particular services will be classified, now or in the future. The regulations associated with each type of classification are described below.

Information Services. Except for the provision of underlying basic transmission capability, Internet services have generally been considered to be "information services". Under current law, operators of information services are exempt from regulation by the FCC, but operators of telecommunications services are not similarly exempt. However, the FCC continues to review its regulatory position on the usage of the basic network and communications facilities used by Internet service providers. Whether it will assert regulatory authority over the Internet, and the level of any asserted authority, is a pending issue. While the FCC has determined in an April 1998 report to Congress that Internet access providers should not be treated as telecommunications carriers and therefore should not be regulated, it is expected that the status of various types of Internet service providers will continue to be uncertain.

In the same report, the FCC also concluded that some of the services currently offered over the Internet, such as phone-to-phone IP telephone services, may be functionally indistinguishable from traditional telecommunications service offerings, and that their non-regulated status may have to be reexamined. The report also indicated that the FCC would determine on a case-by-case basis whether to subject IP telephone service providers to regulation, including whether to require them to contribute financially to universal service support mechanisms, which could also subject these services to other forms of regulation. The FCC has also stated that it may require Internet service providers that use their own transmission facilities to provide Internet access services to contribute to universal service mechanisms, and has previously considered and rejected the possibility of regulating Internet backbone peering arrangements, although that issue remains subject to further review.

Private Carrier Services. The offering of private carrier services typically entails the offering of telecommunications to a limited class of users on the basis of individually negotiated terms and conditions. As a result, they do not meet the definition of a telecommunications service under the Telecommunications Act. These private carriers are generally unregulated by the FCC, but are subject to regulation for intrastate offerings in some states and incur universal service payment obligations, discussed below, based on their gross revenues from end users. These private carriers may also be subject to access charges if interconnected to local exchange facilities.

Telecommunications Services. A significant amount of regulation applies to providers of telecommunications services. The Communications Act defines telecommunications carriers as entities offering telecommunications services, which are in turn defined as the offering of telecommunications for a fee, directly to the public or to classes of users so as to be effectively available directly to the public. The law does not distinguish on the basis of the facilities used to provide these services. "Telecommunications" is defined as the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received. The FCC has found that the definition of "telecommunications carrier" is essentially the same as the definition of "common carrier". Telecommunications carriers are subject to regulatory requirements that may impose substantial administrative and other burdens on their operations.

The FCC imposes regulations on some common carriers that have been found by the FCC to have some degree of market power, otherwise known as dominant carriers. The FCC imposes less regulation on other common carriers, which have been found not to have market power, otherwise known as "non-dominant carriers". A subsidiary of GTE is classified as a non-dominant carrier. These non-dominant carriers do not need express prior authorization to provide domestic services and can file tariffs on one day's notice. The FCC requires common carriers to obtain a formal authorization to construct and operate telecommunications facilities and to provide or resell telecommunications services between the United States and international points. The FCC also regulates carrier exits from markets.

General Obligations. All telecommunications carriers are subject to the complaint process and rules and regulations of the FCC, as well as various other requirements set out in Title II of the Communications Act of 1934, as amended. In addition, telecommunications carriers have general obligations, including the following:

- not to charge unreasonable rates or engage in unreasonable practices;
- to provide service on reasonable request;
- not to unreasonably discriminate in their service offerings;
- to comply with reporting requirements;
- to offer customer premises equipment for sale on an unbundled basis to the extent that it is offered;
- to allow resale of their services in some circumstances; and
- to restrict their use of customer information.

In addition, telecommunications carriers are subject to further regulatory requirements, some of which are discussed in greater detail below. Telecommunications carriers must also pay regulatory fees associated with filing license applications and other documents with the FCC.

Interconnection Obligations. All telecommunications carriers have the basic duty to interconnect and interoperate, either directly or indirectly, with the facilities of other telecommunications carriers.

Section 214 Authorizations. Common carriers are obligated to obtain, under Section 214 of the Communications Act, authorization from the FCC to provide services between the United States and other countries, and to disclose, among other things, the extent to which they are owned or controlled by foreign entities. The compliance with these regulatory requirements imposes administrative and other burdens on these carriers.

Tariffs and Pricing Requirements. The FCC has eliminated the requirements that non-dominant interstate interexchange carriers maintain tariffs on file with the FCC for domestic interstate services. One of our wholly owned subsidiaries is a non-dominant interstate interexchange carrier. Under the rules of the FCC, after a transition period currently scheduled to expire on January 31, 2001, relationships between interstate carriers and their customers would be set by contract. At that point, the FCC would no longer permit the use of tariffs for interstate, domestic interexchange services. Competitive local exchange carriers do not have to file tariffs for their exchange access services, but may if they choose to do so. The FCC is considering whether to impose mandatory detariffing on them as well. There has been no proposal to detariff international services.

Customer Proprietary Network Information. The use by a telecommunications carrier of customer proprietary network information, which generally includes any information regarding a subscriber's use of a telecommunications service obtained by a carrier solely by virtue of the carrier-customer relationship, is subject to statutory restrictions. This customer proprietary network information does not include a subscriber's name, telephone number and address, if that information is published or accepted for publication in any directory format. A telecommunications carrier may use a customer's proprietary network information only to market a service that is "necessary to, or used in" the provision of a service that the carrier already provides to the

customer, unless it receives the customer's prior oral or written consent to use that information to market other services. The initial rules of the FCC regarding customer proprietary network information have been struck down in the courts and other rules adopted for reconsideration have not gone into effect, leaving the current state of the customer proprietary network information requirements uncertain. The FCC is expected to initiate further proceedings to address this issue. These rules, either as adopted or as modified, may impede the ability of a telecommunications carrier to effectively market integrated packages of services and to expand existing customers' use of its services.

Universal Service. The FCC has recently expanded aid to schools and libraries and extensively revamped the support structure for high cost-of-service areas. These providers of interstate telecommunications services, as well as some other entities, such as private carriers offering excess capacity to end user customers, must contribute to a fund to pay for these programs. The schools and libraries and rural health care support mechanisms are assessed against interstate and international end-user revenues. The contribution level and overall size of federal support may change. Several petitions for administrative reconsideration of various FCC universal service orders are pending, and there are a number of other proceedings relating to universal service at the FCC and federal courts of appeals that are still ongoing. The rules of the FCC also require that telecommunications carriers contribute to the Number Portability Fund, the Telecommunications Relay Services Fund and the North American Numbering Plan Administrator Fund.

Communications Assistance for Law Enforcement Act. Telecommunications carriers may incur significant expenses to assure that their networks comply with the requirements of the Communications Assistance for Law Enforcement Act. Under this statute, telecommunications carriers are required to:

- provide law enforcement officials with call content and call identifying information pursuant to a valid electronic surveillance warrant; and
- provide sufficient capacity for use by law enforcement officials in executing authorized electronic surveillance.

While the telecommunications industry is attempting to negotiate legislative and administrative provisions that would compensate carriers for some of the costs associated with complying with this statute, as it stands today those issues have not been definitively resolved.

Local Exchange Carriers

Telecommunications carriers that are classified as local exchange carriers are subject to special regulatory provisions, in addition to those described above. A local exchange carrier is defined as a provider of telephone exchange service or exchange access. Telephone exchange service is defined as service within a telephone exchange or connected system of exchanges operated to provide inter-communicating service of the character ordinarily furnished by a single exchange, covered by the local exchange charge, or comparable service provided through a system of switches, transmission equipment or other facilities, or combination thereof, by which a subscriber can originate and terminate a telecommunications service. The universe of carriers that are classified as local exchange carriers has never been fully defined by the FCC. If an entity is found to be a local exchange carrier, it will have the following obligations:

Reciprocal Compensation. This requires all local exchange carriers to establish compensation arrangements with other carriers for the transport and termination of telecommunications.

Resale. This requires all local exchange carriers to permit resale of their telecommunications services without unreasonable restrictions or conditions.

Number Portability. This requires all local exchange carriers to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching to another service provider at the same location.

Non-discriminatory Access and Dialing Parity. This requires all local exchange carriers to provide nondiscriminatory access to telephone numbers, operator services, directory assistance and directory listing with no unreasonable dialing delays and to give customers access to their selected carrier without having to dial extra digits.

Access to Rights-of-Way. This requires all local exchange carriers to permit competing carriers access to poles, ducts, conduits and rights of way at reasonable and nondiscriminatory rates, terms and conditions.

In addition, incumbent local exchange carriers also face additional pricing, network unbundling, and other obligations.

State Telecommunications Regulation

States also regulate telecommunications services, including through certification of providers of intrastate services, regulation of intrastate rates and service offerings, and other regulations. The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any person from providing any interstate or intrastate telecommunications service. In addition, under current policies of the FCC, any dedicated transmission service or facility that is used more than 10% of the time for the purpose of interstate or foreign communication is subject to the jurisdiction of the FCC to the exclusion of any state regulation. Under the Telecommunications Act, states retain jurisdiction to adopt regulations necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of communications services and safeguard the rights of consumers. Accordingly, the degree of state involvement in local telecommunications services may be substantial. Furthermore, states generally give municipal authorities responsibility over the access to rights-of-way, franchises, zoning, and other matters of local concern, which means that localities may also have involvement in the regulation of the telecommunications industry.

Other Potential Regulation

The laws and regulations relating to the liability of Internet access providers for information carried on or disseminated through their networks are currently unsettled both in the United States and abroad. In the United States, the Children's Online Protection Act of 1998 imposes criminal penalties and civil liability on anyone engaged in the business of selling or transferring material that is harmful to minors by means of the Internet without restricting access to this type of material by underage persons. In addition, similar legislation has been passed or is being considered in many states and foreign jurisdictions. Several private lawsuits seeking to impose this type of liability on online service companies and Internet access providers are pending. The imposition of potential liability on us and other Internet access providers for information carried on or disseminated through our systems could require us to implement measures to reduce our exposure to this liability, which may require the expenditure of substantial resources or the discontinuance of various service offerings. While we carry professional liability insurance, it may not cover this type of liability and otherwise may not be adequate to compensate us for any damages or costs incurred in defending against these claims. The costs of defending against any claims and potential adverse outcomes of these claims could have a material adverse effect on our business.

Due to the increase in Internet use and publicity, it is possible that other laws and regulations that apply to commerce and communication over the Internet will be adopted. The United States Congress has recently considered enacting Internet laws regarding children's privacy, copyrights, the transmission of sexually explicit material, the taxation of Internet services and transactions and universal service contribution requirements for Internet accesss providers. The European Union also recently enacted its own privacy regulations. The laws governing the Internet, however, remain largely unsettled, even in areas where there has been some legislative action. It may take years to determine whether and how existing laws such as those governing intellectual property, telecommunications, privacy, libel, taxation and other issues apply to the Internet. In addition, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws, both in the United States and abroad, which may impose additional burdens on companies conducting business over the Internet.

Other companies in our industry are not generally subject to direct regulation by the FCC or any other governmental agency of the United States, other than regulations that apply to all business organizations. However, in connection with the merger between Bell Atlantic and GTE, the FCC has reviewed our relationship with Verizon. In addition, the FCC continues to review its regulatory position on the usage of the basic network and communications facilities by Internet companies. To the extent that future regulatory licenses or permissions are necessary or useful for us to provide IP-based services, we will seek to obtain those licenses and permissions.

Recently, the FCC adopted rules that direct incumbent local exchange carriers to share their telephone lines with providers of high speed Internet access and other data services. This ruling enables competitive carriers to provide digital subscriber line-based services over the same telephone lines simultaneously used by incumbent local exchange carriers to provide basic telephone service. These changes may increase competitive pressures on incumbent local exchange carriers in the offering of advanced telecommunications services, including digital subscriber line services.

International Regulatory Matters

The laws relating to the provision of Internet and telecommunications services in other countries vary substantially from country to country and are undergoing a rapid process of development and change. There are a variety of regulations in different jurisdictions regarding authorizations to provide services and the manner in which services are to be provided. In addition, some countries impose liability for providing access to prohibited content and restrict the transfer of personal information. As we continue to expand into international markets, these laws will have an increasing impact on our operations. We do not know whether new or existing laws or regulations could have a material adverse effect on us or our ability to offer some or all of our services in any country.

The ability for us to provide some or all of our Internet and other services, including the ownership and operation of the necessary assets and facilities in any particular country, will depend upon the extent to which applicable laws and regulations permit us to provide our services. We believe that the provision of some services, such as our voice-over-IP services, is more likely to be subject to local country regulation than other Internet services provided by us. Foreign countries treat voice-over IP differently. Some countries impose no regulation on the service, while others allow voice-over-IP but grant only a limited number of licenses to providers. In some instances, the country requires licenses, but will grant an unlimited number of licenses to providers. Finally, there are some countries that prohibit the service altogether. Whether a carrier can provide voice-over-IP services in any given country thus heavily depends on local regulations and the actions of local governments.

We currently have the ability to provide Internet services in many countries without obtaining regulatory authorizations, approvals, or licenses. In eight countries where we currently have or are in the process of commencing operations, we have either obtained or have applied for regulatory approvals, authorizations, or licenses for at least some of these services. These eight countries include Brazil, Germany, Ireland, Italy, Japan, Mexico, The Netherlands and Spain. In addition, as we enter new markets, we anticipate obtaining similar approvals, authorizations and licenses as required by applicable local rules and regulations in order to acquire, own and operate the necessary assets and facilities, and to provide services, in these countries. We do not know if we will obtain the necessary local regulatory approvals to own and operate the assets and facilities necessary to provide service, or to provide the services themselves, in any country, or that local country laws or regulations will not change. Any failure to obtain approvals, or loss of authorization, to provide services in any country could have a material adverse effect on us.

Legal Proceedings

We are not involved in any legal proceedings which we believe would, if adversely determined, have a material adverse effect upon our business, financial condition or results of operations.

MANAGEMENT

The following table sets forth information concerning our executive officers and directors.

Name	Age	Position
Paul R. Gudonis	46	Chairman of the Board and Chief Executive Officer
Joseph C. Farina	50	President and Chief Operating Officer
Daniel P. O'Brien	45	Executive Vice President, Chief Financial Officer and Treasurer
Ira H. Parker	43	Senior Vice President, General Counsel and Secretary
Steven H. Blumenthal	46	Senior Vice President, Network Planning, Design and Engineering
Susan H. Bowman	46	Senior Vice President, Human Resources
James L. Freeze	39	Senior Vice President, Chief Strategy Officer and Director (1)
Charles J. Gibney	54	Senior Vice President, Enterprise Solutions and Director (1)
Michael J. Kalagher	54	Senior Vice President, Network Operations
Paul A. O'Brien	47	Senior Vice President, Sales and Marketing
Richard Stuntz	46	Senior Vice President, Network Services
Philippe P. Dauman	46	Director Nominee (2)
Duncan M. Davidson	47	Director Nominee (2)
John W. Gerdelman	47	Director Nominee (2)
Debra L. Lee	45	Director Nominee (2)
Michael T. Masin	55	Director Nominee (2)(3)

(1) These individuals will resign as directors immediately upon the completion of this offering.
(2) These individuals will become directors immediately upon the completion of this offering.
(3) This individual was elected by our Class B common stock.

Paul R. Gudonis has served as our Chairman and Chief Executive Officer since April 2000. He has led the growth of Genuity since 1994, becoming President of Genuity in 1998, one year after GTE acquired BBN. From 1990 to 1994, he served as Vice President/General Manager-International of the Communications Industry Group of EDS Corporation. Prior to 1990, Mr. Gudonis served as a senior executive at several venture-backed start-up companies in the Boston, Massachusetts area specializing in software and telecommunications services. He started his career at AT&T, launching the first cellular phone operation in the United States as Vice President-Marketing for Ameritech Mobile Communications. Mr. Gudonis serves as a director of Boston Communications Group, Inc., a provider of information technology services to the wireless industry. In addition, he is Vice Chairman of the Massachusetts High Tech Council, a director of the Massachusetts Software and Internet Council and a director of the Massachusetts Telecommunications Council. He is a founding member of the Global Internet Project, a group of Internet chief executive officers who engage in public policy advocacy in support of Internet growth and expansion. Mr. Gudonis holds a B.S. in Electrical Engineering from Northwestern University and an M.B.A. from Harvard Business School.

Joseph C. Farina will serve as our President and Chief Operating Officer upon the completion of this offering. From 1998 to 2000, he served as President and Chief Executive Officer of Bell Atlantic's Data Solutions Group. He was Executive Vice President-Operations Assurance for Bell Atlantic from 1995 to 1998. From 1993 to 1995, Mr. Farina served as both Vice President-Corporate Business Development of NYNEX Corporation, a Regional Bell Operating Company that is now part of Bell Atlantic, and President of the NYNEX Network Systems Company, leading NYNEX's international expansion into Europe and Asia. Prior to that time, he served as President of NYNEX Properties and Vice President-Operations of NYNEX Mobile Communications, where he launched the inaugural wireless service in New York City and Boston. Mr. Farina holds a B.S. from Fordham University and an M.B.A. from St. John's University.

Daniel P. O'Brien will serve as our Executive Vice President and Chief Financial Officer upon the completion of this offering. Since June 1998, Mr. O'Brien served as the Executive Vice President—Finance and Chief Financial Officer of GTE. From July 1997 to June 1998, he served as Vice President and Treasurer of GTE, and from October 1995 to July 1997 he served as Assistant Treasurer-Capital Markets of GTE Service Corporation. Prior to 1993, when he joined the Treasury Department of GTE, Mr. O'Brien held several

positions with the Electrical Products Group of GTE, including Vice President-Controller of GTE European Lighting in Geneva, Switzerland from August 1991 to January 1993. Mr. O'Brien holds a B.S. in Chemistry from Boston College and an M.B.A. from University of Chicago.

Ira H. Parker will serve as our Senior Vice President, General Counsel and Secretary upon completion of this offering. From November 1997 to the completion of this offering, he served as Vice President and General Counsel with Genuity. In 1999, in addition to his General Counsel position at Genuity, Mr. Parker was appointed Vice President and Deputy General Counsel of GTE Service Corporation. From July 1993 to November 1997, Mr. Parker was a partner in the Washington, D.C. office of the law firm of Alston & Bird, where he founded and headed the Electronic Commerce Practice Area. Prior to 1993, Mr. Parker served in a number of positions with the United States Federal Deposit Insurance Corporation, including Assistant General Counsel for Litigation and Policy from August 1989 to May 1992 and Deputy General Counsel for Litigation for the Resolution Trust Corporation from May 1992 to June 1993. In 1978, Mr. Parker received his B.A. from Brooklyn College and he received his J.D. from Emory University in 1981.

Steven H. Blumenthal will serve as our Senior Vice President, Network Planning, Design and Engineering upon the completion of this offering. Since 1977, he has held several positions with Genuity, including Vice President for Network Engineering and Technology. Mr. Blumenthal has been responsible for the engineering of Genuity's network infrastructure and the development of Internet services. He also led the design and construction of our network infrastructure. Mr. Blumenthal holds a B.S.E.E. and M.S.E.E. from the Massachusetts Institute of Technology.

Susan H. Bowman will serve as our Senior Vice President, Human Resources upon the completion of this offering. From September 1997 to the completion of this offering, Ms. Bowman served as Vice President, Human Resources for Genuity and GTE Technology Service Corporation. Prior to that time, she held several positions with GTE, including serving as the Strategic Human Resources Business Partner for the Network Operations Group. Ms. Bowman holds a Ph.D. in industrial/organizational psychology from the University of South Florida.

James L. Freeze has served as a Director since April 2000 and will serve as our Senior Vice President and Chief Strategy Officer upon the completion of this offering. Mr. Freeze will resign as a Director immediately upon the completion of this offering. From August 1999 to the completion of this offering, he served as Vice President of Business Development for Genuity. From July 1998 to August 1999, he served as a senior telecommunications analyst at Forrester Research, Inc., an Internet research firm. From June 1997 to June 1998, Mr. Freeze served as Vice President of Sales and Marketing of Genuity, Inc., an Internet service provider and web hosting company that was acquired by us in June 1998. In April 2000, we changed our name from GTE Internetworking Incorporated to Genuity Inc. Prior to 1997, he held several positions with CompuServe Inc., a worldwide provider of network access hosting and Internet services to the business and consumer markets. Mr. Freeze holds a B.S. and M.A. from Ohio State University and a J.D. from Capital University.

Charles J. Gibney has served as a Director since April 2000 and will serve as our Senior Vice President, Enterprise Solutions upon the completion of this offering. Mr. Gibney will resign as a Director immediately upon the completion of this offering. From April 1998 to May 2000, he served as President and General Manager of Enterprise Services of Genuity. From January 1988 to March 1998, he served as Senior Vice President of International and Corporate Business of Cable & Wireless Inc., a global communications company. From 1962 to 1988, Mr. Gibney held various positions including the director of National Sales for Sprint, a telecommunications company, and from 1962 to 1974, he held several positions with Pacific Bell, a Regional Bell Operating Company.

Michael J. Kalagher will serve as our Senior Vice President, Network Operations upon the completion of this offering. From January 2000 to the completion of this offering, Mr. Kalagher served as Vice President of Operations and Customer Service for Genuity. From July 1995 to December 1999, Mr. Kalagher has held several positions, including Divisional VP of Operations and Customer Service and Vice President of

Operations for our DiaLinx remote access service. From 1969 to 1995, he held several positions with Digital Equipment Corp., a supplier of networked computer systems, software and services, including serving as Operations Manager for Worldwide Marketing and Field Service Manager in the Central European Region. Mr. Kalagher studied Electrical Engineering and Business at the undergraduate level, and is a 1982 P.mD. graduate of the Harvard Business School.

Paul A. O'Brien will serve as our Senior Vice President, Sales and Marketing upon the completion of this offering. From October 1999 to the completion of this offering, he served as our Vice President of Sales and Marketing. From April 1998 to October 1999, he was Vice President and General Manager of our IP Telecom Services business unit. From January 1995 to April 1998, Mr. O'Brien served as Vice President of the Communications Industry Business unit of National Cash Register, a provider of information technology business solutions. From May 1990 to December 1994, he served as Vice President of Marketing for Cincinnati Bell Telephone, a telecommunications company. Prior to 1990, Mr. O'Brien held several positions with AT&T and New England Telephone. Mr. O'Brien holds a B.S. from Westfield College and an M.B.A from Suffolk University.

Richard Stuntz will serve as our Senior Vice President, Network Services upon the completion of this offering. From April 1998 to the completion of this offering, he served as Vice President and General Manager of On-Line Services for Genuity. He was previously the Vice President for Business Planning and Management from March 1997 to April 1998. From 1992 to 1997, Mr. Stuntz was first Director, and then Vice President of Contracts for Genuity. Prior to joining Genuity in 1986, he held several positions with Westinghouse Electric Corporation, a public utilities, manufacturing and defense contracting company. Mr. Stuntz holds a B.A. from Duke University.

Philippe P. Dauman will serve as a Director upon the completion of this offering. Mr. Dauman has served as Deputy Chairman and Executive Vice President of Viacom, Inc., a diversified entertainment company, since January 1996. Prior to January 1996, Mr. Dauman served as Executive Vice President, General Counsel and Chief Administrative Officer of Viacom, Inc. In addition, he is a director of Viacom, Inc., Blockbuster, Inc. and Lafarge Corporation. Mr. Dauman received his B.A. from Yale University and received his J.D. from Columbia University School of Law.

Duncan M. Davidson will serve as a Director upon the completion of this offering. Mr. Davidson has served as Senior Vice President, business development of InterTrust since July 1997. Before joining InterTrust, Mr. Davidson was managing partner of Gemini McKenna, an alliance between Gemini Consulting and Regis-McKenna, Inc., and The McKenna Group, from August 1995 to July 1997. Mr. Davidson was also Vice President of Gemini Consulting, the management consulting arm of Cap Gemini, a systems integrator and its predecessor, The MAC Group, from April 1989 to August 1995. Mr. Davidson is a founder of Covad Communications, a telecommunications company providing DSL services, and serves on its board of advisors. Mr. Davidson received a Sc.B. in Physics-Mathematics from Brown University and a J.D. from the University of Michigan.

John W. Gerdelman will serve as a Director upon the completion of this offering. Mr. Gerdelman has served as a managing member of Morton Group, LLC, since September 1999. From April 1999 to September 1999, Mr. Gerdelman served as Chief Executive Officer of USA.Net, an electronic messaging services company and from September 1994 to April 1999, he served as President—Network Services of MCI Communications Corporation, a telecommunications company. In addition, he serves as a director of Sycamore Networks, Inc. Mr. Gerdelman received his B.S. in Chemistry from the College of William and Mary.

Debra L. Lee will serve as a Director upon the completion of this offering. Ms. Lee has served as President and Chief Operating Officer of BET Holdings, Inc., a media company, since March 1996. From 1986 to 1996, Ms. Lee served as Executive Vice President and General Counsel of BET Holdings, Inc. In addition, she is a director of Eastman Kodak Company. Ms. Lee holds an A.B. from Brown University, an M.P.P. from the John F. Kennedy School of Government and a J.D. from Harvard Law School.

Michael T. Masin will serve as a Director upon the completion of this offering. Mr. Masin has served as Vice Chairman of GTE Corporation since January 2000. Upon completion of the merger between GTE and Bell Atlantic, he will serve as Vice Chairman and President of Verizon, with responsibility for international wireline and wireless operations, international connectivity, domestic and international directory and information services and internetworking. Mr. Masin was previously employed by GTE Corporation as Vice Chairman and President—International from June 1995 to January 2000, and as Vice Chairman from October 1993 to June 1995. He is also a director of Citigroup, Inc. and TELUS Corporation. Mr. Masin holds a B.A. from Dartmouth College and a J.D. from the University of California at Los Angeles.

Composition of Board of Directors

Upon completion of this offering, our bylaws will provide that our board of directors will consist of no less than three persons and no more than 21. Under the terms of the proposal to the FCC and under our bylaws, upon the completion of this offering our board of directors will consist of six persons, including four persons that have not previously been employees or directors of GTE, Bell Atlantic or any of their respective affiliates and one person that will be appointed by the holder of the Class B common stock. Within 90 days of the completion of this offering, our board of directors will be expanded to 13, and the four unaffiliated directors will appoint the seven additional directors to fill the vacancies caused by the increase in the size of the board of directors.

Under the terms of the proposal to the FCC, the director appointed by the holder of the Class B common stock will not exercise a vote until we have at least 10 directors.

Under the terms of the proposal to the FCC, we have agreed to hold an initial meeting of our stockholders not later than the date that is nine months after the completion of this offering. At that meeting, our stockholders will elect 13 directors as follows:

- four Class I directors, whose terms will expire at the annual meeting of stockholders in 2001;
- four Class II directors, whose terms will expire at the annual meeting of stockholders in 2002;
- four Class III directors, whose terms will expire at the annual meeting of stockholders in 2003; and
- one director elected annually by the holder or holders of the Class B common stock, voting separately as a class.

For our initial meeting of stockholders and each subsequent annual meeting of stockholders, our board of directors will determine the nominees for directors in the classes or class of directors to be elected at the meeting.

Committees of Board of Directors

We have an executive compensation committee comprised of and and an audit committee comprised of and . The executive compensation committee has the authority to approve salaries and bonuses and other compensation matters for our officers and consultants, to approve employee benefit plans and to administer our stock option plans. The audit committee, which is comprised of independent directors, has the authority to recommend the appointment of our independent auditors and to assist our board of directors in its review of the results and scope of audits, internal accounting controls and other accounting related matters.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or executive compensation committee of any entity which has one or more executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

We intend to pay cash compensation to non-employee members of our board of directors in the amount of $30,000 annually. We will reimburse each member of the board of directors for reasonable expenses incurred in connection with attending a meeting of the board of directors or any committee thereof. In addition,

pursuant to the Outside Directors' Compensation Plan, non-employee directors who have agreed to serve on our board of directors at the time of this offering will receive, effective upon the completion of this offering, options to purchase 30,000 shares of Class A common stock at an exercise price equal to the initial public offering price. In addition, non-employee directors who agree after the initial public offering to serve on the board of directors will receive, effective upon election to the board of directors, options to purchase 30,000 shares of Class A common stock at an exercise price equal to the fair market value at the time of the grant. Options issued to the directors will vest in three equal installments. The first installment will immediately vest on the date of grant, but will not become exercisable until the day immediately before the first annual meeting of the stockholders. The second installment will vest and become immediately exercisable on the day immediately before the second annual meeting of the stockholders. The third installment will vest and become immediately exercisable on the day immediately before the third annual meeting of the stockholders.

Executive Compensation

The following table shows the cash compensation paid or accrued for the fiscal year ended December 31, 1999 to our chief executive officer and each of our four most highly compensated executives other than the chief executive officer. GTE will not compensate our officers going forward and therefore this compensation is indicative only of the historical compensation paid by GTE to these officers and is not indicative of the compensation that Genuity will pay to these individuals in the future. The arrangements regarding the future compensation and other incentives of our executive officers are currently under study.

The options granted below represent options to acquire common stock of GTE. Under the existing terms of the GTE Corporation 1997 Long-Term Incentive Plan, the offering will not result in accelerated vesting of the remaining unvested portion of these options. Instead, these options will continue to vest according to their terms. These options were granted in recognition of past service to GTE. These officers will not receive future grants of GTE or Verizon options following the offering.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation			
Name and Principal Position	Salary ($)	Bonus ($)(1)	Other Annual Compensation	Restricted Stock Awards ($)(2)(3)	Shares of GTE Common Stock Underlying Options (#)	GTE LTIP Payments ($)(4)	All Other Compensation ($)(5)
Paul R. Gudonis ..... Chairman and Chief Executive Officer	349,308	305,300	—	80,642	43,400	1,027,500	5,000
Charles J. Gibney ..... Senior Vice President, Enterprise Solutions	289,808	126,200	—	27,018	15,700	319,300	14,911
Ira H. Parker ..... Senior Vice President, General Counsel and Secretary	214,404	137,100	—	21,535	20,900	216,400	7,200
David B. Monaghan ..... Vice President, Finance	221,708	109,700	—	26,855	12,200	333,800	12,372
Paul A. O'Brien ..... Senior Vice President, Sales and Marketing	208,962	88,100	—	5,506	35,700	—	13,533

(1) These amounts represent the annual bonus received by each executive under the GTE Corporation 1997 Executive Incentive Plan for the year ended December 31, 1999, of which a portion has been deferred into restricted stock units payable at maturity, generally a minimum of three years from the time of deferral, in common stock of GTE. GTE restricted stock units will not be granted to these officers in the future.

(2) The number of restricted stock units received was calculated by dividing the sum of deferrals under (a) the annual bonus and (b) the LTIP payments by the average closing price of the common stock of GTE on the New York Stock Exchange Composite Transactions Tape for the 20 consecutive trading days following the release to the public of the financial results of GTE for the fiscal year in which the bonus and LTIP payments were earned. Each executive received matching restricted stock units on the basis of one additional restricted stock unit for every four restricted stock units earned. The dollar value of the matching restricted stock units is based on the average closing price of the common stock of GTE on the date of grant for each related restricted stock unit as described above. Additional restricted stock units were received on each dividend payment date based upon the amount of the dividend paid and the closing price of the common stock of GTE on the New York Stock Exchange Composite Transactions Tape on the dividend declaration date.

(3) The aggregate amount of the restricted stock units as of the end of the year ended December 31, 1999 was 12,416, 1,981, 1,000 and 4,406 for Messrs. Gudonis, Gibney, Parker and Monaghan. The aggregate value of these restricted stock units was $876,104, $139,784, $70,562 and $310,898 for Messrs. Gudonis, Gibney, Parker and Monaghan based solely upon the closing price of the common stock of GTE on December 31, 1999.

(4) These amounts represent payments under the GTE Corporation 1997 Long-Term Incentive Plan, of which a portion has been deferred into restricted stock units payable at maturity, generally a minimum of three years from the time of deferral, in common stock of GTE. These awards became immediately non-forfeitable and payable when the GTE stockholders and Bell Atlantic stockholders approved the merger. Each payment equaled the average of the performance percentage for each individual for the three award cycles completed prior to the date the merger was approved. We also included in these amounts projected dividends through the end of the award cycle. GTE restricted stock units will not be granted to these officers in the future.

(5) These amounts consist of contributions under the BBN Corporation Retirement Trust Agreement of $5,000 for Mr. Gudonis and under the GTE Savings Plan of $7,200 for Messrs. Gibney, Parker, Monaghan, and O'Brien. This column also includes contributions by GTE to the GTE Executive Salary Deferral Plan of $7,711, $5,172 and $6,333 for Messrs. Gibney, Monaghan and O'Brien. These executives will not be eligible to contribute to the GTE Savings Plan or the GTE Executive Salary Deferral Plan following the offering.

Option Grants in Last Fiscal Year

The following table describes grants of stock options to purchase GTE common stock to those executive officers listed in the Summary Compensation Table for the year ended December 31, 1999. These options vest as to one-third of the aggregate number of shares each year, commencing one year after the date of grant. These stock option grants included a replacement stock option feature. This feature provides that, if an executive exercises a stock option by delivering previously owned shares that are sufficient to pay the exercise price plus applicable tax withholdings, the executive will receive an additional one-time stock option grant. The number of shares represented by that option will be equal to the number of previously owned shares surrendered in this transaction. This replacement stock option will be granted with an exercise price equal to the fair market value on the date of grant. No stock appreciation rights were granted for the year ended December 31, 1999. These options were granted in recognition of past service to GTE. These officers will not receive future grants of GTE or Verizon options following the offering.

The potential realizable value is calculated based on the term of the option at its date of grant. It is calculated assuming that the fair market value of the common stock of GTE on the date of grant appreciates at the indicated annual rates compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. These numbers are calculated based on the requirements of the Securities and Exchange Commission and do not reflect our estimate of future stock price growth.

Name	Individual Grants: Shares of GTE Common Stock Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term: 5%	10%
Paul R. Gudonis	43,400	*	$65.0313	2/15/2009	$1,774,355	$4,498,105
Charles J. Gibney	15,700	*	65.0313	2/15/2009	642,092	1,627,194
Ira H. Parker	400	*	63.0313	1/10/2009	16,013	40,580
	10,100	*	65.0313	2/15/2009	413,065	1,046,794
	5,600	*	68.7500	9/1/2009	242,123	613,589
	4,800	*	73.8400	11/03/2009	222,312	564,904
David B. Monaghan	12,200	*	65.0313	2/15/2009	498,950	1,264,444
Paul A. O'Brien	8,900	*	65.0313	2/15/2009	363,988	922,422
	20,000	*	66.7500	4/29/2009	839,569	2,127,642
	6,800	*	73.8400	11/03/2009	315,792	800,280

* Less Than One Percent.

Fiscal Year End Option Values

The following table provides information for the executive officers listed in the Summary Compensation Table regarding exercises of GTE options during the year ended December 31, 1999 and GTE options held as of December 31, 1999. The values in the table have been calculated on the basis of the fair market value of the shares of common stock of GTE on December 31, 1999 less the applicable exercise price. These options were granted in recognition of past service to GTE. These officers will not receive further grants of GTE or Verizon options following the offering.

Name	GTE Common Stock Acquired on Exercise (#)	Value Realized ($)	Shares of GTE Common Stock Underlying Unexercised Options at Fiscal Year End (#): Exercisable	Unexercisable	Value of Unexercised In-the-Money Options Fiscal Year End ($): Exercisable	Unexercisable
Paul R. Gudonis	0	0	229,075	79,400	5,426,247	923,380
Charles J. Gibney	0	0	29,700	15,700	271,947	85,371
Ira H. Parker	6,000	189,750	9,700	20,900	156,111	67,271
David B. Monaghan	6,500	282,750	38,500	12,200	839,048	66,339
Paul A. O'Brien	0	0	15,000	35,700	167,815	122,775

Awards Under Long Term Incentive Plans in Last Fiscal Year

The following table sets forth grants under the GTE Corporation 1997 Long-Term Incentive Plan to those executive officers listed in the Summary Compensation Table for the year ended December 31, 1999. These executives will receive no further awards under the GTE Corporation 1997 Long-Term Incentive Plan as of the date of the offering. In addition, any payouts to these executives will be reduced on a pro-rata basis as of the date of the offering.

Name	Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans: Threshold (Units)	Target (Units)	Maximum (Units)
Paul R. Gudonis	6,400	Three years	1,798	6,915	
Charles J. Gibney	1,800	Three years	506	1,945	
Ira H. Parker	2,070	Three years	575	2,211	
David B. Monaghan	1,200	Three years	337	1,297	
Paul A. O'Brien	1,350	Three years	374	1,438	

The estimated future payouts in the above table are calculated for illustrative purposes only and are based upon the dividend rate and price of the common stock of GTE at the close of business on December 31, 1999. The target award is the dollar amount derived by multiplying the number of units credited to the participant at the end of the award cycle by the average closing price of the common stock of GTE as reported on the New York Stock Exchange Composite Transactions Tape during the last 20 business days of the award cycle.

The maximum amount of the award has intentionally been left blank because it is not possible to determine the maximum number of units until the award cycle has been completed. The maximum amount of the award is determined by the extent to which the actual results of GTE for five key financial measures exceed the target levels.

Pension Plan

The following table illustrates the estimated annual benefits payable under the defined benefit pension plans of GTE. The information assumes normal retirement at age 65 and is calculated on a single life annuity basis, based upon final average earnings, integrated with social security as described below, and years of service.

	Years of Service				
Final Average Earnings	15	20	25	30	35
$ 300,000	$ 63,765	$ 85,020	$106,275	$127,530	$148,785
400,000	85,515	114,020	142,525	171,030	199,535
500,000	107,265	143,020	178,775	214,530	250,285
600,000	129,015	172,020	215,025	258,030	301,035
700,000	150,765	201,020	251,275	301,530	351,785
800,000	172,515	230,020	287,525	345,030	402,535
900,000	194,265	259,020	323,775	388,530	453,285
1,000,000	216,015	288,020	360,025	432,030	504,035

Messrs. Gibney, Parker, Monaghan and O'Brien participate in the GTE Service Corporation Plan for Employees' Pensions. The GTE Service Corporation Plan is a noncontributory pension plan for the benefit of all employees of GTE Service, a wholly owned subsidiary of GTE, and participating affiliates who are not covered by collective bargaining agreements. It provides a benefit based on a participant's years of service and earnings. Pension benefits provided by GTE Service and contributions to the GTE Service Corporation Plan are related to basic salary and incentive payments, exclusive of overtime, differentials, some types of incentive compensation and other similar types of payments. Under the GTE Service Corporation Plan, pensions are computed on a two-rate formula basis of 1.15% and 1.45% for each year of service, with the 1.15% service credit being applied to that portion of the average annual salary for the five highest consecutive years that does not exceed $33,000, which is the portion of salary subject to the Federal Social Security Act, and the 1.45% service credit being applied to that portion of the average annual salary for the five highest consecutive years that exceeds this level up to the statutory limit on compensation.

As of February 29, 2000, the credited years of service under the GTE Service Corporation Plan were 11, 2, 31 and 1 for Messrs. Gibney, Parker, Monaghan and O'Brien. Although these executives will no longer be employed by GTE Service and will no longer accrue a pension under the GTE Service Pension Plan as of the date of the offering, they along with other active employees of Genuity who participate in the GTE Service Corporation Plan will continue to be credited with additional years of age and service with Genuity for purposes of early retirement eligibility under the GTE Service Corporation Plan. In addition, they will have an assumed annual salary growth of 3.5% under the GTE Service Corporation Plan. These special provisions will expire upon the earliest to occur of the following:

- the date that is five years after the date of offering;
- an employee's termination of employment with Genuity; or

- the date that Genuity becomes a majority-owned subsidiary of Verizon.

Service credit for GTE retiree welfare benefits will be provided in a similar manner to the service recognition for pension purposes.

Under federal law, an employee's benefits under a qualified pension plan, such as the GTE Service Corporation Plan, are limited to set maximum amounts. GTE maintains the Excess Pension Plan, which supplements the benefits of any participant in the GTE Service Corporation Plan in an amount by which any participant's benefits under the GTE Service Corporation Plan are limited by law. In addition, the GTE Supplemental Executive Retirement Plan provides additional retirement benefits under management incentive plans or special arrangements as determined by GTE Service or one of its affiliates. The Supplemental Executive Retirement Plan and the Excess Pension Plan benefits are payable in a lump sum or an annuity.

Long-Term Stock Incentive Plan

Our employees have historically been among those granted options to purchase common stock of GTE. Our Long-Term Stock Incentive Plan has been adopted by our board of directors and our sole stockholder. The Long-Term Stock Incentive Plan provides for the following awards based on the Class A common stock: stock options, stock appreciation rights, performance bonuses and other stock-based awards. Awards may be granted to employees of Genuity or any entity in which it owns at least a 10% interest. The Long-Term Stock Incentive Plan will be administered by the executive compensation committee of our board of directors. The administrator has the authority to determine eligibility, grant awards and make all other determinations under the Long-Term Stock Incentive Plan. The period or periods during which an award will be exercisable or remain outstanding, including the manner of exercise and other details of awards will be determined by the administrator consistent with the Long-Term Stock Incentive Plan. Except in connection with promotions or significant increases in responsibility or to ensure appropriate comparability with awards granted to other participants, a person may receive only one award during the first four years of the Long-Term Stock Incentive Plan. Our board of directors has the power to amend or terminate the Long-Term Stock Incentive Plan. Unless terminated earlier, the Long-Term Stock Incentive Plan will terminate on the date of the annual meeting of stockholders in the year 2010.

Stock options granted under the Long-Term Stock Incentive Plan may have a term of up to 10 years and may be either incentive stock options, as defined in the Internal Revenue Code, or nonqualified stock options. Stock options granted under the Long-Term Stock Incentive Plan may not be assigned other than by will or by applicable laws of descent and distribution. The option exercise price of each stock option granted under the Long-Term Stock Incentive Plan in connection with the offering will be the offering price and in the case of other stock options will not be less than the fair market value of the Class A common stock as of the date of grant. In general, stock options and other awards may not be repriced after grant.

The aggregate number of shares of Class A common stock available for awards under the Long-Term Stock Incentive Plan will be 9% of the outstanding number of shares of Class A common stock at the time of the offering. Of this amount, 5% will be available for awards to employees who were employed on or before April 6, 2000; 1% will be available for awards to individuals who first became or become employees after April 6, 2000 and on or before January 6, 2001; and 3% will be available for awards in connection with promotion and to individuals who first become employed after January 6, 2001. Any shares attributable to the expiration of the awards without exercise and similar events will be available for awards to individuals regardless of their date of hire with the Company. In no event will more than 50,000,000 shares be issued in satisfaction of incentive stock options granted under the Long-Term Stock Incentive Plan. The maximum number of shares for which stock options or stock appreciation rights may be granted to any participant in any calendar year is 2,000,000. These limits, as well as the exercise price of outstanding awards and other award terms, are subject to appropriate adjustment to reflect stock splits, stock dividends, and similar events.