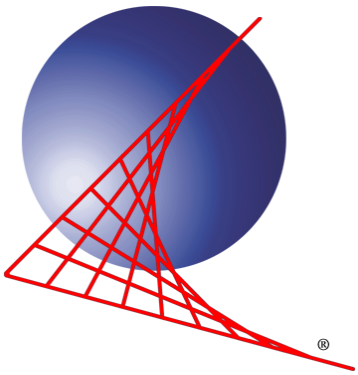

Fiber Network Solutions, Inc.

www.fnsi.net

CONFIDENTIAL MEMORANDUM

April 2002

McDonald Investments

A KeyCorp Company

IMPORTANT NOTICE

This Confidential Memorandum (the "Memorandum") is released subject to a Confidentiality Agreement entered into by its recipient. The Memorandum has been prepared by McDonald Investments Inc., a KeyCorp Company ("McDonald"), from information supplied to it by Fiber Network Solutions, Inc. ("FNSI" or the "Company"), and is being furnished through McDonald as FNSI's exclusive agent.

This confidential information memorandum has been prepared for and is being presented only to highly sophisticated, institutional "accredited" investors who have expressed an interest in investing in or acquiring the Company and: (i) appreciate the high degree of risk associated with investing in or acquiring a technology company; (ii) can rely on their own examination of the Company to determine the merits and both identify and evaluate risks involved in making an investment in the Company; and (iii) can bear the economic risk of any investment in or acquisition of the Company for an indefinite period and be able to withstand a total loss of their investment.

This Memorandum does not purport to be all-inclusive or contain all information that a prospective investor may desire in investing in the Company. For example, this memorandum does not include a discussion of the potential risks and uncertainties associated with investing in the Company. The contents of this Memorandum should not be construed by prospective investors as investment, tax or legal advice.

This Memorandum contains numerous forward-looking statements and projections concerning the Company's business, its plans for the future, its financial performance, its services, the markets in which it sells its services, its ability to penetrate those markets, and certain other matters, which are based solely upon the assumptions and the good faith opinion of the management of the Company. These statements and projections are not guarantees of future performance and are subject to risks and uncertainties that are difficult to predict and may be beyond the Company's control. No representations are made as to the accuracy of such statements or projections.

In all cases, interested parties should conduct their own investigation and analysis of FNSI and the data set forth in this Memorandum. McDonald has not independently verified any of the information, including the projections, contained herein; neither McDonald nor FNSI has made any representation or warranty as to the accuracy or completeness of this Memorandum and shall have no liability for any representations (expressed or implied) contained in, or for any omissions from, this Memorandum or any other written or oral communications transmitted to the recipient in the course of its evaluation of FNSI. The only information that will have any legal effect will be that specifically represented in a stock purchase agreement.

FNSI reserves the right to negotiate with one or more interested parties at any time without prior notice to you or other interested parties. FNSI also reserves the right to terminate, at any time, further participation in the investigation and proposal process by any party and to modify other procedures without assigning any reasons therefor.

By accepting the Memorandum, you acknowledge that: (i) the information will be used by you solely for the purpose of evaluating an investment in or acquisition of the Company; (ii) you will not reproduce the Memorandum in whole or in part and will not distribute all or any portion of the Memorandum to any person other than a limited number of your employees or representatives who have a need to know such information for the purpose set forth in (i) above and who are informed by you of the confidential nature of such information and agree to be bound by the Confidentiality Agreement; and (iii) if you do not wish to pursue the investment or acquisition, you will return the Memorandum to McDonald together with any copies of the Memorandum or other material relating to the Company which you may have received from McDonald or the Company.

All inquiries regarding FNSI should be made through McDonald; FNSI should not be approached directly. For further information, please contact:

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I. EXECUTIVE SUMMARY

A. Company Overview

Fiber Network Solutions, Inc. ("FNSI" or the "Company") is a Tier 1 Internet backbone provider that offers high-capacity commercial Internet access, wide area and virtual private network services, network security solutions, managed services and data center colocation to high-bandwidth and web-centric users, including service providers, content providers, and corporations. The Company operates a 100% transit free national IP (Internet protocol) network that is consistently ranked for performance among the top networks in North America, according to *Boardwatch* Magazine's "Directory of Internet Service Providers". This state-of-the-art network has established FNSI as a premier network service provider and helped drive its net revenue[1] from $2.6 million in 1998 to $8.0 million in 2001, a compound annual growth rate of 45%.

FNSI has generated considerable market awareness and name recognition in its initial Midwest geographic area, largely due to its advanced network and premier customer support. As of January 15, 2002, FNSI had over 400 commercial customers, including blue chip clients such as Akamai Technologies, AT&T Broadband, Borden Chemical, Carhartt, Catholic Diocese of Columbus, Executive Jet Aviation, and Sun Microsystems. The Company's revenue base, which is 92% recurring, generates a solid foundation for future growth. FNSI's average contract length of 28 months ensures the predictability of its growth and the stability of its operations.

Tier 1 providers such as FNSI provide the primary infrastructure over which data is carried and delivered on the Internet. The Internet backbone is composed of the infrastructure of the approximately 45 companies (of which only 15 are 100% transit free, including FNSI) that maintain Tier 1 networks. Internet traffic, i.e., data, voice, and video, is exchanged between Tier 1 providers via network interconnections. These interconnections are primarily facilitated at the national network access points ("NAPs") and, increasingly, at private locations common to both participating networks. Such exchanges of data, voice, and video are called "peering sessions" and are governed by peering agreements or relationships, both formal and informal, that allow the IP networks to deliver and receive traffic destined for each other's network and its customers without monetary settlement between the peering networks. These relationships are established over a period of several years and would be difficult to replicate by a new player entering this space. In fact, no new Tier 1 backbones have entered the market in at least four years.

FNSI's backbone interconnects to other major Internet backbones via 250+ active direct peering sessions that are facilitated across public exchange points and through private peering arrangements. The Company is "transit free" and pays no other carriers to transit its data to other Tier 1 networks. Through its relationship with the American Registry for Internet Numbers ("ARIN"), the governing authority for administering IP numbers, the Company administers IP addresses for its clients. FNSI markets its services exclusively to business customers, including Internet service providers ("ISPs") with several million end users.

FNSI's state-of-the-art network spans the United States through 13 points of presence and, through its relationships with other carriers, reaches over 50 countries. The network,

[1] Defined as gross revenue less sales discounts; in 2001 gross revenue was $9.3 million.

which is both carrier neutral and carrier redundant, is based upon asynchronous transfer mode ("ATM") technology. FNSI delivers ATM, Frame Relay, point-to-point protocol, and multicasting services to its customers and can deliver these network services to its customers at speeds ranging from 64Kbps through OC-3[2]. The network utilizes high-capacity Cisco routers for its IP core, FORE Systems ATM switches for its ATM core, high-speed Lucent 9000 multi-protocol switches for customer aggregation, and an advanced architecture to provide enhanced reliability, redundancy, flexibility, and scalability, and to maintain a low operating cost level.

FNSI expects to realize additional economies of scale over its entire customer base as it expands its network backbone capacity. As FNSI increases its network backbone capacity, its backbone infrastructure cost will decrease as the per-megabit capacity cost is substantially reduced. The increase in backbone capacity provides the Company with additional saleable "inventory" at a substantially decreased cost and, therefore, increases the profitability of its existing customer contracts.

The Company's successful initial deployment is in the Midwest region of the United States, spanning from Pennsylvania to Michigan. FNSI operates four data/colocation centers where the full range of services is available: Columbus and Toledo, Ohio; Detroit, Michigan; and Pittsburgh, Pennsylvania. The Company expects to open its fifth data center during first quarter 2002. The Company's Network Operations Center and its corporate headquarters are located in Columbus, Ohio. The Company believes its regional model is easily replicated in other regions of the U.S. or internationally.

FNSI is led by an experienced, senior management team that founded the Company and has overseen its substantial growth with minimal outside funding. Management has developed a sound business strategy to expand the Company's base of data centers to 46 markets. The management team has received such performance recognition as 40 under 40, Entrepreneur of the Year (2000 Finalist), and Number 68 on the 2001 *Inc 500* List of America's Fastest Growing Private Companies. The Company is seeking growth capital or a strategic partnership to realize these objectives and has engaged McDonald Investments as its exclusive advisor in this process.

[2] The network is capable of scaling up to speeds of OC-48.

B. Investment Considerations

Leading Status as Tier 1 Provider

The Company is one of approximately 45 Tier 1 providers in the U.S. that form the critical infrastructure of the Internet. Management estimates that a new competitor would require two to three years to replicate the physical network infrastructure and peering arrangements of a Tier 1 provider such as FNSI, and at a substantial cost. The Company maintains over 250 active peering sessions with other Tier 1 networks, which allow FNSI to deliver digital traffic to the entire worldwide Internet community. FNSI connects at four major public Network Access Points: MAE-West FDDI and MAE-West ATM in San Jose; MAE-East ATM in Vienna, Virginia; AADS in Chicago; with a pending connection to PAIX in Palo Alto. As a Tier 1 provider, the Company does not have to pay to transit traffic through any of its direct peering sessions to third party networks, which carry all of the Company's network traffic.

Full-Service Provider of Advanced Broadband Services

FNSI provides a wide range of access, network infrastructure, and colocation services, including IP network services, ATM transport, network security solutions, managed services and wide area and virtual private network services. The Company's services are marketed to corporations as well as network and Internet service providers and content providers.

Exceptionally High Performing Infrastructure

FNSI's primary IP backbone is based on ATM technology and ranges from DS-3 to OC*x* speeds, depending upon customer requirements. The Company has consistently ranked among the top providers as reported by *Boardwatch*, the trade publication for the Internet services market. FNSI engineered its network architecture based on scalable ATM infrastructure and has carefully provisioned its bandwidth needs to scale with demand, thereby avoiding costly overcapacity. The Company continues to maintain a carrier-redundant and carrier- and circuit-neutral strategy that enables maximum reliability for its customers.

Established Recognition in its Core Geographical Market

FNSI is a leading network services provider in the Midwest region (Ohio, Pennsylvania, Michigan) where it initially deployed and established its state-of-the-art network and successful business model and presence. The Company operates four data centers located in or near major business centers with its fifth data center expected to come on line during first quarter 2002. FNSI's marketing efforts are based around a carefully developed prospect list of over 100,000 potential customers in its core Midwest markets.

Substantial Commercial Customer Base

As of January 15, 2002, the Company serviced 509 dedicated circuits and 75 colocation circuits to 408 commercial customers. The Company's blue chip customers include Akamai Technologies, AT&T Broadband, BankOne Capital Corp., Borden Chemical, Carhartt, Catholic Diocese of Columbus, Executive Jet Aviation and Sun Microsystems.

Strong Financial Performance

FNSI continues to expand its revenue base significantly after growing its revenues by a compound annual rate of 45% over the last three years. The Company also benefits from a consistent revenue base generated by the high proportion (92%) of recurring revenue. In addition, management has achieved this impressive track record entirely through organic growth and with limited outside capital. KPMG LLP has audited FNSI's financial results for fiscal years ending 1998, 1999, and 2000.

Advantageous Cost Structure

FNSI's low overhead structure allows the Company to offer its access services at a level 30-40% below other providers of comparative network services while maintaining excellent gross profit margins. This ability to price competitively allows FNSI to compete successfully against "brand name" providers and attain market share, especially when entering new markets.

FNSI expects to realize additional economies of scale over its entire customer base as it expands its network backbone capacity. As FNSI increases its network backbone capacity, its backbone infrastructure cost will decrease as the per-megabit capacity cost is substantially reduced. The increase in backbone capacity provides the Company with additional saleable "inventory" at a substantially decreased cost and, therefore, immediately improves the margins of its entire customer base.

C. Summary Historical and Projected Financial Statements

Exhibit 1 sets forth selected income, balance sheet, and operating data extracted from audited financial statements for fiscal 1998, 1999, 2000, and 2001 and management's projections for fiscal 2001 through 2005. The Company's growth to date has been entirely organic and funded by minimum outside capital.

Exhibit 1: Selected Financial and Operating Performance

(Dollars in Thousands)

	Actual				Projected			
	For the years ended Dec. 31,			Unaudited	For the years ending December 31,			
	1998 (1)	1999	2000	2001	2002	2003	2004	2005
INCOME STATEMENT								
Revenue	$ 2,586	$ 5,560	$ 7,491	$ 7,929	$ 8,321	$ 13,941	$ 29,694	$ 52,257
Revenue growth (%)	*170.0%*	*115.0%*	*34.7%*	*5.8%*	*4.9%*	*67.5%*	*113.0%*	*76.0%*
Gross profit	$ 1,347	$ 3,262	$ 4,410	$ 4,894	$ 5,654	$ 7,956	$ 16,484	$ 30,596
Gross margin (%)	*52.1%*	*58.7%*	*58.9%*	*61.7%*	*67.9%*	*57.1%*	*55.5%*	*58.5%*
EBITDA	$ (301)	$ 308	$ 24	$ 704	$ 1,028	$ (3,251)	$ (2,580)	$ 4,979
EBITDA margin (%)	*n/a*	*5.5%*	*0.3%*	*8.9%*	*12.4%*	*n/a*	*n/a*	*9.5%*
EBIT	$ (555)	$ (59)	$ (556)	$ 67	$ 482	$ (4,314)	$ (4,393)	$ 2,421
EBIT margin (%)	*n/a*	*n/a*	*n/a*	*0.8%*	*5.8%*	*n/a*	*n/a*	*4.6%*
Pre-tax income	$ (645)	$ (182)	$ (886)	$ (211)	$ 278	$ (4,658)	$ (5,004)	$ 1,622
Pre-tax profit margin	*n/a*	*n/a*	*n/a*	*n/a*	*3.3%*	*n/a*	*n/a*	*3.1%*
CASH FLOW								
Depreciation and amort.	$ 254	$ 366	$ 581	$ 637	$ 546	$ 1,062	$ 1,813	$ 2,557
Capital expenditures	410	1,105	1,502	370	750	3,428	5,043	5,153

(1) 1998 has been restated to reflect deferred income having been booked one month in advance rather than booked as billed.

D. The Transaction

FNSI is seeking growth capital or a strategic partner to help it realize its objectives. The Company has retained McDonald Investments to assist it in locating this strategic partner or investor. All communications, inquiries, and requests for information should be addressed directly to McDonald Investments. Under no circumstances should the management or employees of FNSI be contacted directly.

II. THE BUSINESS

A. Background & History

FNSI is a privately held Ohio C-corporation with facilities in Columbus, Cleveland, Cincinnati, Akron/Canton, Dayton, and Toledo, Ohio; Pittsburgh, Pennsylvania; Detroit, Michigan; Chicago, Illinois; Vienna, Virginia; and San Jose, California. The Company provides high bandwidth Internet protocol network services for corporate and wholesale users (i.e., Internet service and high-content providers). FNSI operates four data centers located in urban areas in the Midwestern U.S. and offers server colocation services to content-heavy users. The Company expects to open its fifth data center during first quarter 2002. The Company also provides a variety of network design, server management, analysis, security, and integration services.

The Company's predecessor, Your Connection, was formed in 1994 and provided Web design services to corporations and other organizations. The Company changed its strategy in 1997 to focus on Internet backbone services, and raised approximately $840,000 of outside capital in 1997 and early 1998. The Company completed the initial deployment of its national backbone in March 1997. Exhibit 2 lists some of the Company's major achievements.

Exhibit 2: Major Achievements

1996	➢ Fiber Network Solutions, Inc. incorporated under the laws of the State of Ohio
1997	➢ Completed an initial Private Placement for $650,000 ➢ Deployed the national backbone designed with a hybrid network of routers and high capacity / high speed Cascade 9000 multi-protocol switches ➢ Established over 270 active peering sessions ➢ Deployed equipment and infrastructure to Cleveland, OH
1998	➢ Became the exclusive Internet provider to members of The Industry & Technology Council of Central Ohio ➢ Recognized by Boardwatch in its second quarter 1998 publication as a national backbone provider and as one of the largest providers in North America ➢ Deployed a redundant and carrier-neutral backbone infrastructure
1999	➢ Launched colocation services in Detroit, MI and Columbus, OH ➢ Moved into new corporate headquarters and Network Operations Center ("NOC")
2000	➢ Designed and engineered an upgraded backbone (DS-3 to OC-3) ➢ David J. Koch and Kyle C. Bacon received the 2000 Ernst & Young Entrepreneur of the Year finalist's award for Central Ohio ➢ Implemented new OC-3 backbone with redundant and carrier-neutral topology ➢ Launched colocation services in Toledo, OH
2001	➢ Signed Akamai Technologies, Inc., a leading content delivery service provider, to a long-term colocation contract ➢ Completed engineering and connectivity to the MAE East ATM NAP located in Reston, VA ➢ Recognized as Number 68 on the 2001 *Inc 500* List of America's Fastest Growing Private Enterprises
2002	➢ Opened its fifth data center (pending)

B. Market Overview and Trends

THE INTERNET BACKBONE

Simply put, the Internet is the sum of the cumulative interconnections of many separate networks. These separate networks are owned and/or operated by over 5,000 Internet service providers ("ISPs"), nearly 45 backbone Tier 1 providers, and phone, cable, and other communications companies.[3] ISPs focus on connecting residential and other end users to the Internet backbone. Tier 1 or backbone providers provide broadband Internet access to these ISPs and to other users of high amounts of bandwidth such as large corporations and Internet content providers. Phone and cable carriers provide the physical cables, which connect the end users to ISPs and the ISPs to the backbone.

FNSI is a national Tier 1 backbone provider. The Internet backbone is comprised of a number of high-speed fiber optic cables (the physical layer), which share data at specified points called Network Access Points ("NAPs"). From 1986 to 1995, the National Science Foundation's NSFnet backbone served as the core of the Internet. It was decommissioned in April 1995, and the private sector took over the operation of the cables and the NAPs. Today, approximately 45 public and private companies operate independent and interconnected networks that combine to form the U.S. Internet backbone.

Boardwatch, the leading trade publication for the Internet infrastructure industry, defines a national backbone in North America as a network containing the following properties:

- Points of presence (POPs) in at least five states.
- Four national peering agreements at access points, either public or private.
- A marketing focus on selling wholesale, high bandwidth, dedicated connections to ISPs.
- A network which stretches coast to coast.

Note that ownership of the physical layer of a network is *not* necessary to be considered a Tier 1 backbone. It is also important to note that all Internet backbone providers, including the major companies, lease at least some portion of the physical layer of their networks.

Points of Presence

A point of presence is a physical location where a network provider maintains its equipment or has a virtual point of presence. This equipment consists of switches and routers connected to cables, which direct data to a final destination. FNSI maintains 13 POPs in six states including four colocation centers.

[3] See http://www.ispworld.com/isp/Architecture.htm, "*The Internet - What is it?",* for an in-depth, technical description of the Internet.

National Peering Agreements

Peering is the orderly exchange of digital traffic between two networks without the exchange of money. The sharing of data, or interconnection of the Internet, takes place directly between each Tier 1 network either at one or more of the public exchange points (i.e., NAPs) or privately where two Tier 1's have equipment. There are six primary public exchange points:

- MAE-EAST, Vienna, Virginia
- MAE-WEST, San Jose, California
- AADS, Chicago, Illinois
- PACBELL, San Francisco, California
- Sprint NAP, Pennsauken, New Jersey
- PAIX, Palo Alto, California

FNSI peers with other Tier 1 networks at MAE-EAST, MAE-WEST-FDDI, MAE-WEST-ATM, AADS – and has a pending connection to PAIX. The Company also privately peers with AboveNet in Vienna, VA and Chicago, IL, with America Online in Vienna, VA, and with PSINet in Chicago, IL.

Peering without monetary settlement is the fundamental component necessary for an organization to operate as a Tier 1 network provider. If data cannot travel from one network to another, the user does not have access to the "entire" Internet. The alternative to peering is purchasing fixed amounts of bandwidth from a Tier 1 network provider.

The consummation and maintenance of peering agreements in the operation of the Internet is an enormous barrier to entry into the Tier 1 space. Peering agreements are sometimes formalized contracts, but often are informal agreements. Due to the bureaucracy of the large Tier 1 companies, a single peering agreement can require 6-12 months to secure. Furthermore, current Tier 1 providers have no incentive to peer with new market entrants when the alternative is simply to sell access. Historically, many of the new entrants do not possess the technical ability to facilitate and maintain a well-coordinated peering relationship, which requires a significant expenditure of time and resources.

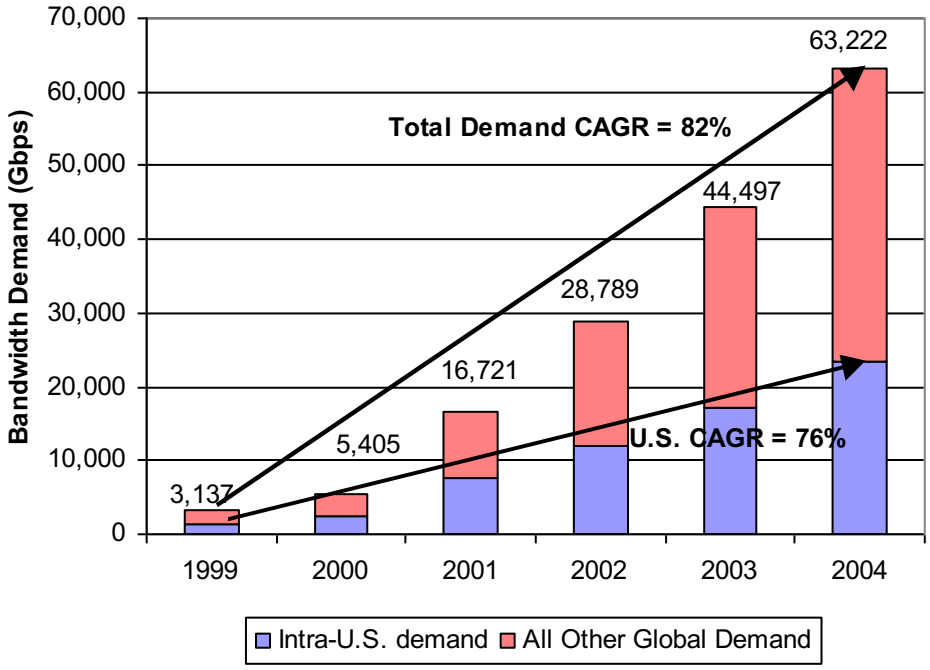
Focus on Wholesale High-Speed Bandwidth

Tier 1 providers typically do not sell to residential customers. Internet Service Providers (ISPs, or Tier 2s) buy bandwidth from Tier 1s and resell the bandwidth to residential customers and small businesses. Backbone providers provide high-speed dedicated lines and sell bandwidth to ISPs, Internet content providers (Yahoo, Amazon.com, etc.), and large and small corporations. FNSI currently has over 400 customers. FNSI generates approximately 20% of its revenues from ISPs and 20% from Internet content providers. Other FNSI revenues are generated by corporate clients; the Company has no residential customers.

DEMAND FOR BANDWIDTH

As of 2000, there were an estimated 85 million Internet users in the U.S., and approximately as many users in the rest of the world including Europe and Asia. Revenue from data communications is expected to grow to $450 billion in 2005, representing a 50% compounded annual rate. Data will account for 50% of all communications revenue within five years. Within the U.S., Internet traffic is expected to grow rapidly from 1,402 Gbps in 1999 to 23,485 Gbps by 2004. Global Internet traffic is expected to grow from 3,137 Gbps in 1999 to 63,222 Gbps by 2004.[4] Exhibit 3 depicts intra-U.S. and global Internet bandwidth demand.

Exhibit 3: Intra-U.S. and Global Bandwidth Demand



Source: Morgan Stanley Dean Witter Research.

Bandwidth demand will continue to be driven by the increasing use of and dependency on the Internet and the price elasticity of demand for bandwidth. Moore's law, which says that the complexity and speed of integrated circuits doubles every 18 months, drove the life-cycle model for the PC industry. As processors became faster, programmers created more complex applications, which required even more processing speed. This concept is analogous to broadband technologies as the performance of signal processing equipment continuously improves the speed and capacity of the Internet. The availability of more bandwidth drives new, larger applications, which drives demand for more bandwidth. This suggests that the growth rate of the broadband services industry is only limited by the speed at which service providers can provision additional bandwidth and build faster networks.

[4] Morgan Stanley Dean Witter *Level 3 Communications, Inc.* July 18, 2000

C. Products and Services

The Company's core business is the provision of high-capacity Internet access, wide area and private network services, and data center colocation services to high-bandwidth and web-centric corporate customers. FNSI's key service categories are described below.

DEDICATED INTERNET ACCESS

Through its provisioned on-net bandwidth with speeds ranging from 64Kbps to OC-3 (155 Mbps), FNSI provides customers with high capacity Internet backbone access and wide area network services (including virtual private networks). The Company tailors its services based on its clients' bandwidth requirements, usage and needs, and offers the following connections:

- 64Kbps – for small companies that need more than dial-up and ISDN
- 128Kbps or 256Kbps – fractional services with more speed and data for medium companies
- T-1 or multiple T-1 (1.544 - 6Mbps) – megabit and multi-megabit for medium to large companies
- Fractional DS-3, full DS-3, full OC-3 (up to 155Mbps) – super speed service for larger (i.e., Fortune 500), Web-centric companies (i.e., hosting, Application Services Providers ("ASPs")) and large Tier 2 ISPs.

In order to ensure that each customer is using the best product for its needs, the Company makes real-time and historical performance statistics available to all customers. These statistics are updated every five minutes and available on a password-protected web site accessible only by the customer and FNSI employees.

DATA CENTER COLOCATION

As an extension to FNSI's dedicated commercial Internet connectivity solutions, the Company operates data centers in several cities where customers colocate equipment and obtain direct access to the Internet. Customers such as ISPs, Web hosters, and ASPs colocate high-capacity servers at FNSI's data centers to facilitate their scalable and irregular bandwidth requirements as part of mission-critical applications such as e-commerce, data warehousing, and ASP. Colocation allows the companies to connect directly to the FNSI backbone at speeds of 10, 100, and 1000 Mbps, and eliminates the cost of local loop services through a local exchange carrier. Colocation also allows the customer to upgrade services quickly and efficiently.

All colocation facilities incorporate redundant power, security, and refrigerated air. Through secure access IDs controlled from FNSI's Network Operations Center, customers have 24-hour access to their equipment. Services are priced based on rental space for the colocated servers, and customers are charged only for the bandwidth they use.

The following charts describe relevant pricing terms.

Colocation Packages		Monthly Charge
Colo – Intro Package:	150K and ¼ rack	$495
Colo – Mid Package:	500K and ½ rack	$695
Colo – ISP Package:	1 Meg and full cabinet	$1,295
Colo – Flat Rate:	10Meg and ¼ rack	$3,995
Colo – Flat Rate:	10Meg and full cabinet	$4,695
Colo – Flat Rate:	45Meg and full cabinet	$15,750

FRAME RELAY/ATM TRANSPORT

FNSI maintains a frame-relay network. By providing frame relay to ATM inter-networking, the Company is able to utilize its high-speed ATM core to transport aggregated frame relay traffic. Using this homogenized network, FNSI provides customers with the ability to create true virtual private networks that connect numerous offices and locations directly. This allows for fast, secure data transfers without the security concerns of transmitting data over the Internet's open architecture. Through its relationships with numerous long-haul carriers, FNSI delivers frame-relay services throughout the U.S. and to 50 foreign countries.

OTHER PRODUCTS AND SERVICES

The Company also provides a variety of related products and services that support the sale of its core services, including:

- Extranet infrastructure engineering
- Extranet hardware and software solutions
- Wide area network engineering, design, and infrastructure
- Virtual private network engineering, design, and implementation
- Network security consultation and turnkey solutions
- Managed server webhosting product (currently rolling out)

D. Sales and Marketing

SALES

FNSI currently has a sales staff of six account managers and one sales manager. All sales personnel are located in Columbus and serve the Columbus, Cleveland, Akron/Canton, Pittsburgh, Detroit, Dayton, Toledo, Cincinnati and Chicago markets. FNSI continues to grow its sales staff by adding new account managers.

Each account manager is assigned an engineer or technician to whom he can go with technical and other questions and who will accompany the account manager on sales calls. The "Adopt an Account Manager" program encourages open communication between sales and engineering, and supports the Company's overall culture of mentoring. FNSI also supports communication between engineering and sales through a commission pool for its engineers. Fifteen percent of all account manager commissions go to the engineer commission pool. Commissions are paid when a customer is installed and billable. This gives the provisioning and installation staff an added incentive to install customers as quickly as possible. Currently, senior NOC personnel, provisioners, and installers participate in the commission pool. Criteria for participation in the commission pool include one year of full-time continuous service and the unanimous approval of all current participants in the pool.

FNSI's sales and marketing team targets the installed base of current Internet users (competitors' current customers) as well as customers not yet directly connected to the Internet. The sales process often requires educating the prospect about the material differences between the various network services and providers; i.e. Tier 1 versus Tier 2; variable versus set bandwidth; metered service versus non-metered services, etc. FNSI has a strong track record of winning contracts. Once given the opportunity to present to a potential client, FNSI believes it wins the majority of the time. FNSI account managers are paid a base salary plus commissions.

Authorized Business Partner and Agent Programs

Through its Authorized Business Partner ("ABP") Program FNSI contracts with other businesses to offer FNSI's network services to their clients. FNSI targets companies doing business in specific vertical markets that will benefit by incorporating FNSI's services into their business solutions as ABP Partners.

An example of an ABP Partner is The Murphy Company. The Murphy Company is a pressroom, pre-press, and graphic arts supplier to the printing industry. FNSI's network services were important to The Murphy Company as it worked to develop automated file transfer solutions for its customer base. Through this relationship with The Murphy Company, FNSI has access to businesses in the printing industry in Central Ohio.

The Company actively works with several ABP partners. Account managers are advised to spend approximately 15% of their time developing ABP relationships. FNSI has developed three levels of its Authorized Business Partner Program. The Independent Business Partner Program pays a negotiated recurring commission to the IBP for lead referrals. The Referral Business Partner Program pays a one-time commission equal to 20% of the first month's network port charge. The Authorized Business Partner Program is an extensive and contractual relationship, which includes the payment of both initial and recurring commissions, training for the Partner's staff, market exclusivity, and a covenant not to compete with FNSI.

MARKETING

FNSI employs advertising and target and automated marketing to reach customers in specified geographic regions. The Company designs and produces all advertising, graphics, news releases, television commercials, media kits, and public relations materials internally through its corporate communications department. When entering a new market, the Company utilizes a three-month media blitz which includes television, radio, telemarketing, and print ads. FNSI's direct marketing program includes an internally developed prospect list of over 100,000 companies with over 35,000 contacts targeting the chief information officer, MIS director, and/or top three decision makers. The list is continuously updated and purged to ensure that current information is maintained on each prospect.

FNSI was honored for having the best marketing campaign in the February 2001 issue of *Inside Business,* which highlighted the "Best of Northeast Ohio Business." FNSI was selected because of its direct-mail campaign which capitalized on the vice president's claim to have invented the Internet and the butterfly ballot issue in Florida. The postcards generated a 45 percent increase in web hits.

E. Customers

FNSI sells its services to business customers only. As of January 15, 2002, the Company had over 400 customers including Internet content providers, Tier 2 (ISPs), and businesses.

- Connecting to the Internet through a Tier 1 like FNSI is important for Internet content and e-commerce providers seeking to put their information as close as possible to end users. Management estimates that content providers and application service providers such as Complete Website Management, Freedom Hosting, and JTL Networks account for 20%-25% of the Company's total revenues and 42% of the Company's colocation revenues.
- Tier 2 service providers resell the bandwidth purchased from FNSI to dial-up users, corporate users, or other ISPs. Management estimates that Tier 2 providers represent about 20%-25% of Company revenues. Some of the Company's ISP customers include BigNet, Voyager.net, and National Business Network, Inc.
- Corporate customers represent the remaining 50%-60% of the Company's revenue base. FNSI's corporate customers are mostly located in Ohio, Michigan, and western Pennsylvania and are of all sizes and industries. Some of the Company's blue chip customers include Akamai, AT&T, Borden Chemical, Sun Microsystems, and Charter One Bank.

All of FNSI's customers are on 12, 24 or 36-month contracts. The average total contract length for a current FNSI customer is 30 months. As of January 15, 2002, the Company has a backlog of 12,163 total contract months, representing $10.8 million in revenues[5]. This backlog does not, however, include the renewable portion of FNSI contracts. All FNSI contracts renew automatically for terms of equal duration.

[5] Total contract months is the sum of remaining months for all FNSI contracts. Backlog revenues is the sum of the remaining months on each contract times revenue per month for that contract.

The Company's revenues are not highly concentrated. For the twelve months ended December 31, 2001, FNSI's top ten customers represented only 15.8% of its gross revenue, and no one customer represented more than 5% of gross revenue. For the year ended December 31, 2000 the top ten customers represented 18.0% of gross sales. Exhibit 4 lists the Company's top customers by revenue for the years ended December 31, 2001, 2000, and 1999.

Exhibit 4: Top Customers by Revenue [6]

(Dollars in Thousands)

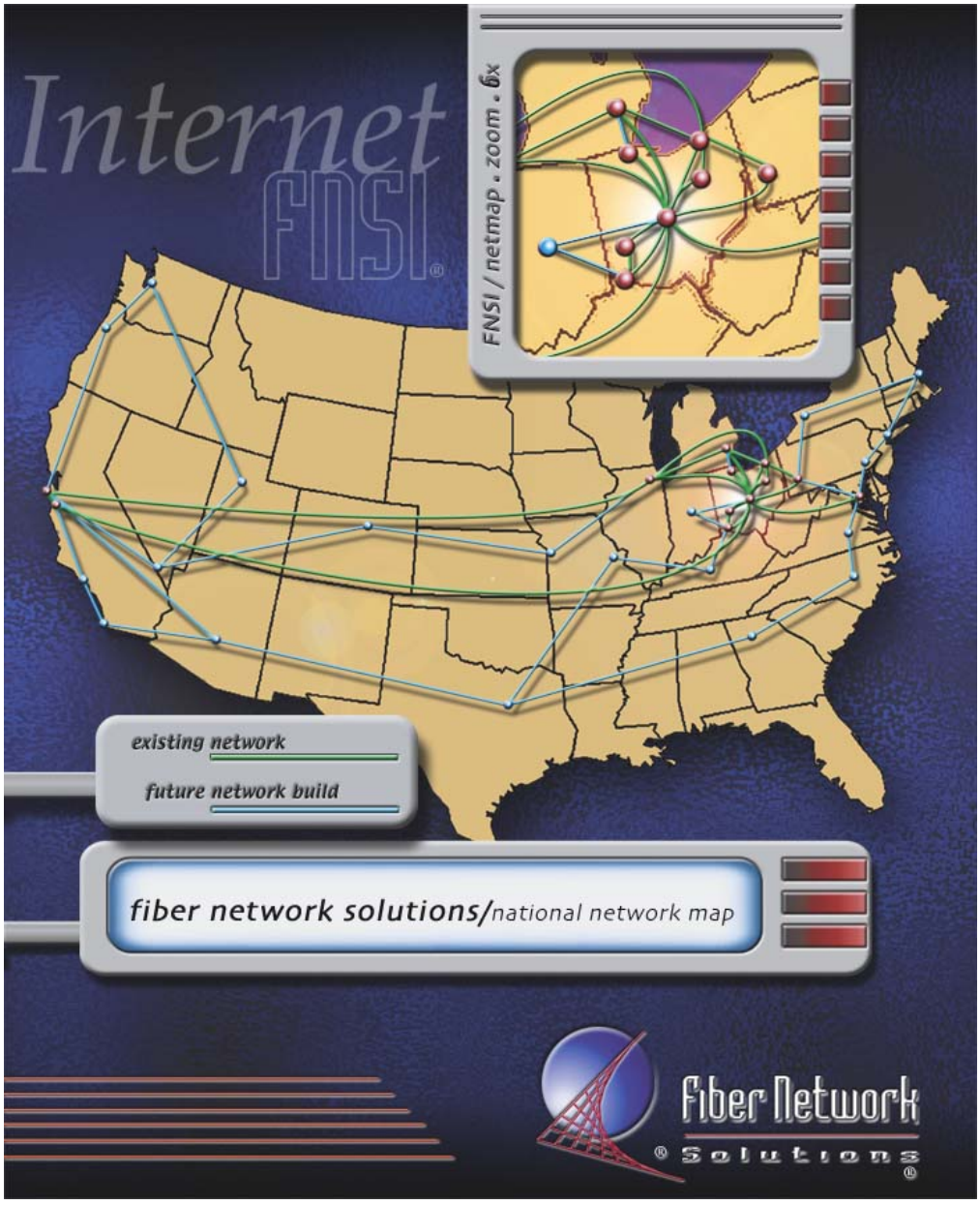
	Year Ended Dec 31, 2001		Year Ended Dec 31, 2000		Year Ended Dec 31, 1999		Type of
	Billings	%	Billings	%	Billings	%	Company
Complete Website Mgmt	$ 440.0	4.8%	$ 401.0	4.9%	$ 512.9	8.9%	Content
BigNet	168.1	1.8%	-	-	-	-	ISP
Motis, L.L.C.	160.0	1.7%	94.2	1.1%	91.3	1.6%	Content
Voyager	159.8	1.7%	116.8	1.4%	188.5	3.3%	ISP
Freedom Hosting	113.9	1.2%	-	0.0%	-	-	ISP
AT&T Labs	100.7	1.1%	94.3	1.1%	48.7	0.8%	Content
Continental Auto Rec.	83.7	0.9%	77.1	0.9%	48.4	0.8%	Corporate
DB Solutions	82.3	0.9%	-	0.0%	-	-	ISP
National Business Ntwk	78.7	0.9%	82.2	1.0%	60.4	1.0%	ISP
IC.net	76.6	0.8%	-	-	-	-	ISP
Community ISP	-	-	386.0	4.7%	-	-	ISP
Microman	-	-	-	0.0%	-	-	Corporate
N2Net, Inc.	-	-	108.3	1.3%	-	-	ISP
Massillon Cable Comm	-	-	66.7	0.8%	44.9	0.8%	ISP
Carr Supply	-	-	53.8	0.01	52.8	0.9%	Corporate
Dawson Personnel	-	-	-	-	57.9	1.0%	Corporate
Copper Net	-	-	-	-	46.8	0.8%	ISP
Total Top 10 Revenue	$ 1,463.8	15.9%	$ 1,480.4	18.1%	$ 1,152.6	20.0%	
Gross Revenue	$ 9,224.1		$ 8,200.1		$ 5,776.7		

[6] Amount shown only if customer was in the top ten for the respective period.

F. The FNSI Network

The FNSI backbone is a state-of-the-art network established using Asynchronous Transfer Mode ("ATM") technologies. These technologies allow FNSI to offer high network resilience and maximum data transfer speeds at all times. The ATM network has been designed around a non-blocking switch based architecture. This technology offers an extremely high redundancy factor where backbone trunks reroute around under-optimized areas within milliseconds. ATM connections to the Company's backbone are available from DS-3 to OC-12 (622 Mbps). See Exhibit 5 for a map of the FNSI network.

Exhibit 5: Network Map



Source: FNSI

Exhibit 6 lists and describes FNSI's 11 backbone POP locations.

Exhibit 6: Backbone POP Locations

Location	Colocated with	Equipment
1621 Euclid Ave Cleveland, OH	ICG, 60 month agreement for 1 cabinet	1 Cisco 7505 Router 1 Ascend/Lucent B-STDX 9000 1 Marconi TNX-1100 Switch
266 N. Fifth Street, 240 N. Fifth Street Columbus, OH	ICG, 60 month agreement for 2 cabinets, FNSI colocation facility	3 Ascend/Lucent B-STDX 9000s 2 Cisco 7507 Routers 1 Marconi TNX-1100 Switch 1 Marconi TNX-210 Switch (spare)
105 E. Fourth Street Cincinnati, OH	ICG, 60 month agreement for 1 cabinet	1 Ascend/Lucent B-STDX 9000
130 N. Main Dayton, OH	ICG, 60 month agreement for 1 cabinet	1 Cisco 3640 Router 1 Ascend/Lucent B-STDX 9000
143 Galleria Officentre Detroit / Southfield, MI	FNSI colocation facility	1 Cisco 7507 Router 1 Ascend/Lucent B-STDX 9000 1 Marconi TNX-1100 Switch
650 SmithField Street Pittsburgh, PA	FNSI colocation facility	1 Cisco 3640 Router 1 Ascend/Lucent B-STDX 9000
8100 Boone Blvd Vienna, VA	MFS/WorldCom, 60 month agreement for 1 cabinet	1 Cisco 7507 Router
600 S. Federal Chicago, IL	UAI, 60 month agreement for 1 cabinet	1 Cisco 7507 Router
55 S. Market San Jose, CA	MFS/WorldCom, 60 month agreement for 1 cabinet	1 Cisco 7507 Router
12369 Sunrise Valley Reston, VA	MFS/WorldCom, 60 month agreement for 1 cabinet	1 Cisco 7507 Router
701 Jefferson Ave Toledo, OH	FNSI colocation facility	1 Cisco 3640 Router 1 Ascend/Lucent B-STDX 9000
529 Bryant Street Palo Alto, CA	PENDING	1 Cisco 7206 VXR

FNSI's POPs are connected by high-speed fiber. These fiber connections are leased for 60 months from a facilities based provider such as Williams, BroadWing, Qwest, WorldCom, and AT&T. Exhibit 7 lists the cities that FNSI has connected with this high-speed fiber and the speed of the connection.

Exhibit 7: Leased Fiber Connections and Speed

DS3	Columbus to	Cleveland, OH Detroit, MI Vienna, VA Pittsburgh, PA Dayton, OH Cincinnati, OH
DS3	Cleveland to	Detroit, MI Pittsburgh, PA Akron, OH San Jose, CA
DS3	Detroit to	Chicago, IL
	Detroit to	Toledo, OH
DS1	Dayton to	Cincinnati, OH
OC3	Columbus to	Chicago, IL
OC3	Columbus to	Reston, VA

PERFORMANCE

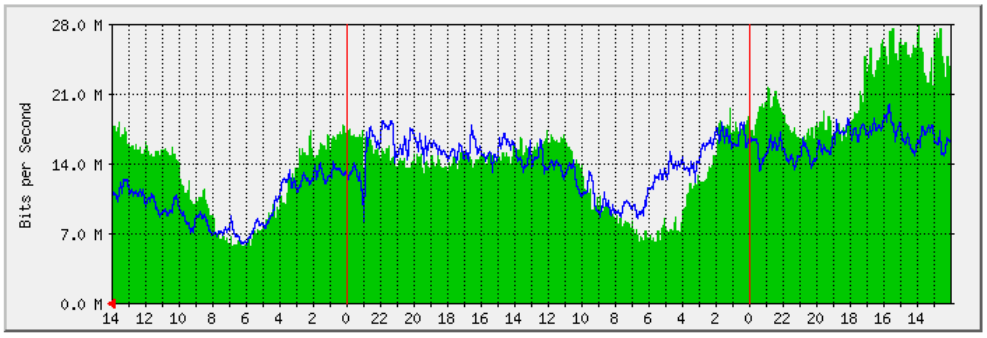
FNSI's backbone is efficient and reliable. *Boardwatch* annually measures the speed of Tier one networks and how these networks perform under stress. In the 2000 *Boardwatch* tests for speed and reliability, FNSI ranked eighth and fourteenth, respectively, out of 36 Tier 1s tested.

MONITORING

FNSI proactively monitors all backbone and customer circuits to detect outages as well as to monitor utilization levels of each circuit. If an outage is detected on its backbone, the 24-hour NOC staff will escalate immediately to the backbone engineering group. The backbone engineering group also watches historical utilization statistics to proactively order and provision additional bandwidth to meet the aggregate growing customer base and bandwidth requirements.

Exhibit 8 depicts a monitoring report utilized by the Company's NOC staff. Bits per second are on the Y-axis, and time is on the X-axis. The green area shows bits per second of inbound traffic utilization and the blue line shows bits per second of outbound traffic utilization.

Exhibit 8: Network Monitoring Report



Source: FNSI

G. Facilities

HEADQUARTERS

FNSI's headquarters and Network Operations Center are located in a 20,160 square foot leased facility at 6816 Lauffer Road in Columbus, Ohio. All employees and company operations, including accounting, legal, executive management, engineering, and network operations, are at this location. The Network Operations Center is located in a bunker-like environment more than 24 feet below the corporate offices (See Photo Below.) The 8,000 sq. ft. NOC has seating for 50 operations center, provisioning and installation personnel. A video wall displays the instant status of critical network elements including traffic levels, temperature levels, and logs of facilities access, providing engineers with real-time information. Additionally, web cameras monitor people moving in and out of the colocation sites.

COLOCATION AND OTHER FACILITIES

Exhibit 9 describes the Company's colocation and other facilities. All facilities are leased.

Exhibit 9: Company Facilities

Location	Sq. Ft.	Lease Term	Function
240 N. Fifth Street Columbus, OH	7,303	Aug-99 to Aug-04	Data center / colocation facility
143 Galleria Officentre Detroit, MI	1,254	Dec-98 to Dec-03	Data center / colocation facility
650 Smithfield St. Pittsburgh, PA	1,378	Dec-98 to Dec-03	Data center / colocation facility
701 Jefferson Ave Toledo, OH	4,000	Sep-00 to Sep-05	Data center / colocation facility

FNSI estimates the up-front costs to deploy a new 5,000 square foot data center and POP are approximately $350,000. The up-front cost to open a data center include costs for added electrical capacity and wiring, a backup generator, and supplemental air conditioning. Once a 5,000 square foot data center is deployed, it can be fully customer populated within six to nine months.

With the collapse of many over zealous dot-com companies over the past year, FNSI has discovered opportunity in leasing pre-built and abandoned collocation space. Space currently under consideration includes over $1.5 million in tenant improvements. FNSI can move into this space with only the first and last month rent.

H. Ownership and Organizational Structure

OWNERSHIP

Exhibit 10 depicts the Company's ownership structure.

Exhibit 10: Ownership

(Shares in Thousands)

Name	Shares	Ownership Basic	Vested Options	Fully-Diluted Shares	Ownership Fully-Diluted
Kyle C. Bacon	1,200.0	37.0%	200.0	1,400.0	37.1%
David J. Koch	1,200.0	37.0%	200.0	1,400.0	37.1%
James B. Bacon, Sr.	300.0	9.3%	30.0	330.0	8.7%
Vincent S. Bacon	300.0	9.3%	-	300.0	7.9%
Carol A. Bacon	180.0	5.6%	-	180.0	4.8%
Steven V. Bacon	30.0	0.9%	-	30.0	0.8%
James G. Bacon	30.0	0.9%	-	30.0	0.8%
Chris R. Myers	-	-	38.0	38.0	1.0%
Brian M. Shearrow	-	-	38.0	38.0	1.0%
Diana Anderson	-	-	19.7	19.7	0.5%
Craig Seipel	-	-	20.0	20.0	0.5%
Craig Housley	-	-	4.9	4.9	0.1%
Total	3,240.0	100.0%	537.9	3,777.9	100.0%

I. Management and Employees

MANAGEMENT

Exhibit 11 provides summary information on key management personnel.

Exhibit 11: Key Management Personnel

Name	Title	Age
David J. Koch	President and Chief Executive Officer	45
Kyle C. Bacon	Executive Vice President and Chief Operating Officer	29
Diana Anderson	Chief Financial Officer and Treasurer	44
Brian M. Shearrow	Director of Network Operations	24
Paul Christian	Regional Sales Director	34

David J. Koch *President and Chief Executive Officer*

David J. Koch co-founded FNSI in March 1996 and provides the Company with its strategic direction and leadership. Mr. Koch oversees the Company's accounting, administrative, human resource, legal, and sales functions. He has over 15 years of technical sales and marketing experience, and has experience in designing relational database software applications.

Kyle C. Bacon *Executive Vice President and Chief Operating Officer*

Kyle C. Bacon, a co-founder of FNSI, is the principal architect of the Company's backbone. His current responsibilities include negotiating peering agreements, equipment evaluation and troubleshooting, technical training of the NOC staff, backbone capacity management, and product development and pricing. Mr. Bacon's extensive experience includes designing and deploying Ohio Northern University's fiber backbone and research through a National Science Foundation grant. He is proficient in router and DNS server management, seven programming languages, installation of all high bandwidth circuits, and network security and firewall solutions. He graduated from Ohio Northern University with a degree in electrical engineering and computer science.

Diana Anderson, CPA *Chief Financial Officer*

Diana Anderson joined FNSI in 1996 and has 23 years of accounting experience. Before joining Fiber Net, Ms. Anderson was an audit manager with KPMG Peat, Marwick, and a financial analyst with Hewlett Packard. She is a board member of three local corporations. Ms. Anderson graduated from The Ohio State University with a Bachelor of Science in business administration and is a certified public accountant.

Brian M. Shearrow *Director of Network Operations*

Brian M. Shearrow joined FNSI in December 1996 and manages the Network Operations Center. His responsibilities include management of the NOC staff, routing issues and configurations, peering coordination, LAN and WAN infrastructure, development and deployment of new network facilities, and development of NOC procedures. Mr. Shearrow has extensive knowledge of backbone, WAN, and VPN routing and design and is proficient in ATM, frame-relay, PPP, HDLC, and Ethernet (IEEE 802.3) protocols.

Paul Christian *Regional Sales Director*

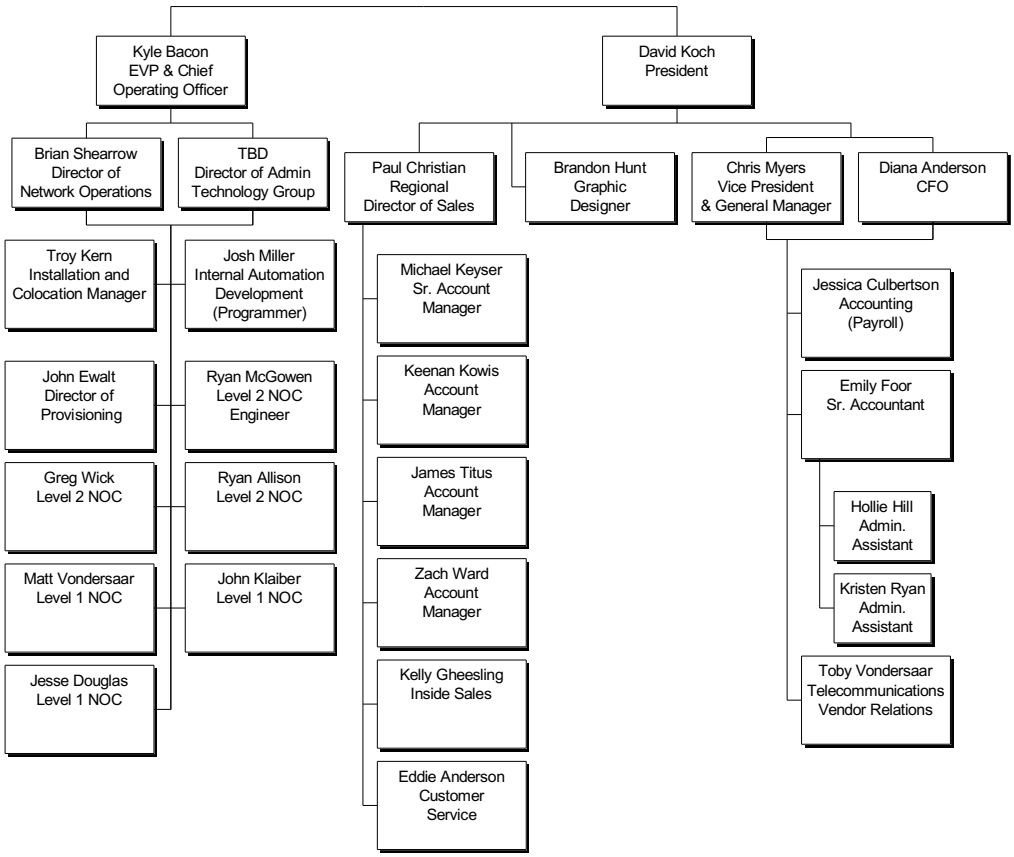
A 10-year Army and Desert Storm veteran, Paul Christian began his association with Fiber Network Solutions November of 1997 as FNSI's first sales representative. Paul has pioneered the FNSI sales efforts in each of the Company's eight current markets and has built a professional sales organization that currently supports a staff of six with recruiting efforts to expand to 10.

Before coming to FNSI, Paul has consistently proven over quota sales performance in the Merchant Services, Software, Industrial Fire and Security and Telecommunications Industries. His key strength is his ability to train and motivate sales professionals and business partners alike to consistently raise the bar of sales performance and personal achievement.

EMPLOYEES

As of January 15, 2002, the Company employed 21 full-time exempt employees: nine in engineering, eight in sales and marketing, three in finance and accounting, and three in executive and administrative. FNSI employees are not represented by any collective bargaining agreement. Exhibit 12 presents FNSI's organizational structure.

Exhibit 12: Organizational Chart



J. Competition

The market for high-bandwidth IP network services is competitive and subject to rapid technological change. Management expects consolidation and the formation of strategic alliances to continue to change the competitive landscape. The Company's principal competitors in the Internet infrastructure services market may be divided into IP infrastructure service providers and Tier 2 providers reselling bandwidth.

The Company competes successfully against other Internet infrastructure service providers through its aggressive pricing structure and high level of service. FNSI is able to offer low prices and maintain high gross margins due to the efficiency of its network. FNSI provides superior customer service by monitoring each customer circuit to insure that it is always operating at optimum performance. FNSI's Network Operations personnel contact a customer at the first sign of any service disturbances before the customer is aware of any potential problems, and FNSI frequently resolves the issue before the customer is affected.

The Company relies on its high level of service and consultative sales process to win contracts when competing against Tier 2 providers. Tier 2s, which tend to "oversell" to multiple customers bandwidth purchased from Tier 1s, often offer lower prices. However, because the bandwidth is over-committed, those end users cannot rely on a set amount of bandwidth. Through the educational sales process, customers learn the value of using Tier 1 services for Internet connectivity.

Many of FNSI's competitors have encountered financial challenges that have resulted in their seeking bankruptcy protection. FNSI has always managed its business to the EBITDA level, allowing the Company to maintain a steady and controlled growth. The decline of public equity has proven beneficial to FNSI. As the Company's competitors flounder, FNSI is well positioned to provide service to those customers seeking a stable provider.

K. Legal

The Company is not currently involved in any material lawsuits. Any current legal proceedings are a part of the normal course of business.

TRADEMARKS/SERVICE MARKS

Exhibit 13 lists the trademarks and service marks registered by FNSI.

Exhibit 13: Trademarks and Service Marks

Service Mark	Serial Number	Filing Date	Registration Number	Registration Date	Expiration Date
FNSI	75/486780	5/18/98	2,334,461	3/28/00	3/28/10
Fiber Network Solutions	75/486781	5/18/98	2,334,462	3/28/00	3/28/10
Corporate Internet Connectivity for the Next Century	75/501211	6/12/98	2,294,210	11/23/98	11/23/09
Internet FNSI	75/490026	5/26/96	2,292,330	11/16/99	11/16/09
Reliability through Innovation	75/486486	5/18/98	2,308627	1/18/00	1/18/10

III. HISTORICAL AND PROJECTED FINANCIAL STATEMENTS

The financial projections presented in this section were prepared by management and are based on the assumptions outlined herein. Projections, by their nature, are based on estimates and assumptions that may be subject to significant economic and competitive factors beyond the Company's control. While FNSI believes the assumptions to be reasonable, actual results of operations may vary from the projections. Such variances may be material and thus no representations or warranties as to their accuracy or attainability are made by the Company, its management, or McDonald.

Neither the projected balance sheets nor income statements, nor any of the assumptions used in preparing the projected balance sheets and income statements, reflect any strategic acquisitions or alliances that FNSI may or may not pursue. All assumptions are based solely on internal Company growth.

A. Historical Income Statements

Exhibit 14 summarizes FNSI's audited historical income statements for the fiscal years ended December 31, 1998, 1999, and 2000, as well as unaudited results for the year ended December 31, 2001. Audited financial statements are available upon request.

Exhibit 14: Historical Income Statements

(Dollars in Thousands)

	Historical Years Ended Dec. 31,			Unaudited
	1998 (1)	1999	2000	2001
Revenue				
Network port charges	$ 1,342	$ 3,445	$ 5,685	$ 6,974
Local loop charges	683	1,519	2,058	1,951
Installation and configuration	220	327	125	112
Hardware	288	372	217	115
Other	90	114	114	72
Gross revenue	$ 2,622	$ 5,777	$ 8,200	$ 9,224
Less discounts	(36)	(216)	(709)	(1,295)
Total net revenue	$ 2,586	$ 5,560	$ 7,491	$ 7,929
Revenue growth	*170.0%*	*115.0%*	*34.7%*	*5.8%*
Cost of goods sold				
Sales wage expense and referrals	$ 300	$ 386	$ 480	$ 346
Local loop and exchange carrier	509	1,271	1,929	2,191
Cost of installation and config.	5	13	45	51
Cost of connectivity hardware	196	283	177	97
DS3 and DS1 hubs	144	201	229	309
Other	84	143	221	41
Total cost of goods sold	$ 1,238	$ 2,298	$ 3,081	$ 3,035
Gross profit	$ 1,347	$ 3,262	$ 4,410	$ 4,894
Gross margin	*52.1%*	*58.7%*	*58.9%*	*61.7%*
General and administrative expenses				
Network infrastructure - long haul	$ 323	$ 616	$ 776	$ 771
Network infrastructure - local loop	174	266	249	428
Network infrastructure - collocation	56	94	185	291
NAP connections	181	216	218	318
Virtual transit expense	52	52	148	123
Advertising and promotion	110	124	390	23
Rent - regional offices	46	136	262	199
Wages and benefits	380	639	1,037	1,022
Other	326	810	1,120	1,016
Total general and admin expenses	$ 1,648	$ 2,955	$ 4,385	$ 4,190
EBITDA	$ (301)	$ 308	$ 24	$ 704
EBITDA margin	*n/a*	*5.5%*	*0.3%*	*8.9%*
Depreciation & amortization	254	366	581	637
EBIT	$ (555)	$ (59)	$ (556)	$ 67
Interest expense, net	95	144	374	356
Other expense (income)	(5)	(20)	(45)	(78)
Pre-tax income	$ (645)	$ (182)	$ (886)	$ (211)
Income taxes	-	-	6	3
Net income	$ (645)	$ (182)	$ (892)	$ (214)

(1) 1998 has been restated to reflect deferred income having been booked one month in advance rather than booked as billed.

B. Management Discussion and Analysis of Historical Results

REVENUE

Fiscal 2000 to Fiscal 2001

From 2000 to 2001, the Company grew net revenues 6% from $7.5 million to $8.0 million. Network port charges, which represent payments for access to the Company's Internet backbone, reached $7.0 million, an increase of 23%. This growth was due in part to a significant increase in collocation revenue. Local loop charges decreased slightly in 2001 to $2.0 million. Because local loop charges result from FNSI connecting a customer location to the Company's port at its POP, local loop charges do not apply to colocation customers. Local loop charges accounted for 21% of gross revenues in 2001.

Installation and configuration and hardware revenues declined by 10% and 47%, respectively, from 2000 to 2001. Installation and configuration revenues have declined due to the market trend of waiving this fee for clients. Hardware decreased because clients increasingly own their equipment when signing up as a FNSI customer. The Company sells connectivity hardware, mostly Cisco routers, to new clients upgrading current equipment or to clients connecting to the Internet for the first time. As FNSI continues to capture customers from its competitors, the Company expects to sell less hardware.

Fiscal 1999 to Fiscal 2000

From 1999 to 2000, the Company grew net revenues 35% from $5.6 million to $7.5 million. Network port charges reached $5.7 million, an increase of 65%. Port charges increased due to a larger number of ports sold as well as an increase in the average port size sold. As of December 31, 2000, the Company was collecting monthly revenues for 815 ports. Colocation revenues, which are included in the port charges line, also drove the growth in port revenues. During 2000, the Company added 7,100 sq. ft. in colocation space. Local loop charges grew by 36% in 2000 to $2.1 million. Local loop charges grew at a slower pace than port charges as the Company has earned a higher percentage of port charges through its colocation centers. Local loop charges accounted for 25% of gross revenues in 2000. Installation and configuration and hardware revenues declined by 62% and 41%, respectively, from 1999 to 2000 for the same reasons mentioned above.

Fiscal 1998 to Fiscal 1999

From 1998 to 1999, the Company grew net revenues 115% from $2.6 million to $5.6 million. Network port charges were $3.4 million in 1999, up 157% from $1.3 million in 1998. Network port charges grew due to the addition of sales staff and the opening of colocation centers in Columbus, OH and Detroit, MI in the first quarter of 1999. The Company also added a colocation center in Pittsburgh, PA in the first quarter of 1999. Local loop charges grew from $0.7 million in 1998 to $1.5 million in 1999, a change of 122%. Local loop charges grew at a slower pace than did port charges because customers do not purchase a local loop from FNSI when colocating in a FNSI center. From 1998 to 1999, installation and configuration and hardware revenues grew by 49% and 29%, respectively. The majority of other revenues in 1999 included $73,000 in domain and IP address charges. The Company charges customers $1.00 per IP address per year. The average FNSI customer "leases" approximately 103 IP addresses per year.

GROSS MARGIN

Fiscal 2000 to Fiscal 2001

From 2000 to 2001, gross margin improved from 59% to 62%. Sales wage expense and referral fees were $0.3 million, or 4% of sales in 2001 versus $0.5 million, or 6% of sales in the previous year. Sales wage expense includes compensation paid to sales managers (salaries and commissions) and referral fees paid to FNSI Business Partners. Account managers are paid 34% of the first month's port charges and 3.4% of recurring port charges as long as the contract and account manager remain with the Company. If the account manager leaves FNSI, the contract becomes a house account, and no recurring sales commissions are paid. Account manager commissions also include 4.3% of hardware sold and 17% of installation and configuration fees charged. Account managers earn a base salary that averages approximately $25,000 per year.

Local loop expenses increased from $1.9 million, or 94% of local loop sales, to $2.2 million, an amount which slightly exceeded local loop sales due to early termination fees and the Company classifying frame relay charges in local loop expenses rather than in other cost of goods sold, as had been done in previous years. The Company generates margin on local loops by purchasing local loops from the local exchange carrier on 60-month contracts and selling the loops on three-year contracts. The 60 month lease agreements cost less on a monthly basis than do the 36 month contracts and FNSI negotiates the right to move or replace any local loop that is cancelled at the 36 month term thereby avoiding any short-rate charges from the provider.

Cost of installation and configuration is insignificant. These costs typically represent travel expenses for FNSI engineers and the configuration of routers. As a percentage of hardware revenue, hardware costs grew from 81% in 2000 to 84% in 2001, due to the market trend of declining hardware margins. The cost of hubs increased slightly, going from $229,000 in 2000 to $309,000 in 2001. Hubs are bundled T1 local loops that the Company purchases from the local exchange carrier. Other costs of goods sold have decreased, going from $221,000 in 2000 to $41,000 in 2001. Other costs of goods sold include frame relay charges and DSL interconnect charges. Frame relay is another type of local loop delivery mechanism to reach long distances or remote locations where the cost of a dedicated local loop circuit would be prohibitive.

Fiscal 1999 to Fiscal 2000

From 1999 to 2000, gross margin remained flat at 59%. Sales wage expense and referral fees were $0.5 million, or 6% of sales in 2000 versus $0.4 million, or 7% of sales, for the previous year. Local loop expenses increased from $1.3 million, or 84% of local loop sales, to $1.9 million, or 94% of local loop sales. As a percentage of hardware revenue, hardware costs grew from 76% in 1999 to 81% in 2000, due to the market trend of declining hardware margins. The cost of hubs remained relatively flat, going from $201,000 in 1999 to $229,000 in 2000. Other costs of goods sold have increased slightly, going from $143,000 in 1999 to $221,000 in 2000.

Fiscal 1998 to Fiscal 1999

From 1998 to 1999, gross margin improved from 52% to 59%. The improvement comes from a decline in sales wage expense as a percent of sales, which went from 12% in 1998 to 7% in 1999. The decrease was mostly due to achieving greater productivity per account manager and reflected a productivity identification process of those account managers that were underachieving. Local loop expenses increased as a percentage of local loop revenues from 75% in 1998 to 84% in 1999. The increase was due to market

trends forcing local loop margins lower. As a percentage of connectivity hardware sales, hardware costs increased from 68% to 76% due to market pressure on hardware margins.

OPERATING EXPENSES

Fiscal 2000 to Fiscal 2001

Total operating expenses decreased from $4.4 million, or 59% of net sales, to $4.2 million or 53% of net sales. Long haul network infrastructure charges, or the charges that FNSI pays to lease high-speed lines to connect its POPs, remained flat going from $776,000 in 2000 to $771,000 in 2001. The Company's benefited from the addition of leased lines and increased capacity among its several markets in the Midwest. Local loop network infrastructure charges represent amounts paid to LECs to connect FNSI POPs to the leased long haul lines. These charges increased from 2000 to 2001 consistent with market trends. Colocation expenses increased to $291,000 in 2001 from $185,000 in 2000. Colocation expenses consist of the fees FNSI pays to colocate its equipment at a third party center and the building rent expense FNSI pays on its own colocation centers.

NAP connection expenses are what FNSI pays the operators of the network access points to connect at the NAP. This expense increased from 2000 to 2001 due to the addition of capacity at certain NAPs. Virtual transit expense decreased by 17% in 2001. The decrease resulted from FNSI's transition to 100% transit free status. Virtual transit expense results from FNSI's transit agreement with Global Center to deliver FNSI's traffic to networks that the Company did not peer with.

Advertising and promotion expenses decreased to $23,000 in 2001 from $390,000 in 2000. Rent for office space decreased from $0.3 million to $0.2 million due to the closing of the Cincinnati sales office. Wages and benefits remained flat from 2000 to 2001.

Fiscal 1999 to Fiscal 2000

Total operating expenses increased from $3.0 million, or 53% of net sales, to $4.4 million or 59% of sales. Long haul network infrastructure charges increased from $0.6 million in 1999 to $0.8 million in 2000 due to the Company's addition of leased lines for redundancy and increased capacity among its several markets in the Midwest. Colocation expenses doubled from 1999 to 2000. During 2000, the Company expanded all three of its existing colocation centers and opened a fourth data center in Toledo, OH.

NAP connection expense was flat from 1999 to 2000 due to NAP operators billing errors in 1998 which required the Company to make double payments for services received in 1998 but not billed until 1999. Actual NAP connection expenses increased due to additional capacity added at AADS in Chicago. Virtual transit expense increased by 186% in 2000. The increase is due to the Company's larger subscriber base which has resulted in a substantial increase in overall network traffic. Virtual transit expense results from FNSI's transit agreement with Global Center to deliver FNSI's traffic to networks that the Company did not peer with.

Advertising and promotion expenses grew to $0.4 million in 2000 from $0.1 million in 1999. This increase is due to increased advertising spending in the fourth quarter of 2000, in line with the Company's specific marketing plans. Rent for office space increased from $0.1 million to $0.3 million due to the Company moving into its new headquarters facility at the beginning of 2000. Wages and benefits grew by 62% from 1999 to 2000 due to raises for current employees and staff additions in administration, sales, legal, clerical, accounting, and engineering and operations.

Fiscal 1998 to Fiscal 1999

From 1998 to 1999, operating expenses grew by 79% from $1.6 million to $3.0 million, although operating expenses decreased as a percentage of sales from 64% to 53%. Network infrastructure long haul and local loop charges increased by 91% and 54%, respectively. As a percentage of sales, however, these expenses fell to 11% and 5%, respectively. Long haul and local loop expenses were lower as a percentage of sales in 1999 than in 1998 due to higher utilization of the fix cost dedicated circuits deployed in 1998. Also, as the Company purchased more bandwidth to increase the capacity of its network, it was essentially able to "buy in bulk" and decrease the costs for the network as a whole. Network infrastructure colocation increased to $94,000 as the Company was operating three colocation centers by the end of 1999. NAP connection expense increased as the Company tripled capacity into the AADS NAP in 1999. In 1999, advertising remained relatively flat, going from $110,000 to $124,000. Wages and benefits increased to $639,000 as the Company implemented its “Raise a Month” program designed to scale its staff income levels up to industry standard during the 1999 calendar year. Additionally, the Company added employees to the following departments: administration, accounting, sales, and engineering and operations.

C. Projected Income Statements

Exhibit 15 summarizes projected income statements for the years ending December 31, 2002 through 2005

Exhibit 15: Projected Income Statements

(Dollars in Thousands)

	Projected Years Ending December 31,			
	2002	2003	2004	2005
Revenue				
Network port charges	$ 7,708	$ 12,285	$ 25,965	$ 46,878
Local loop charges	1,752	3,368	7,684	12,989
Installation and configuration	120	207	359	386
Hardware	115	198	424	572
Other	336	231	310	413
Gross revenue	$ 10,031	$ 16,289	$ 34,741	$ 61,237
Less discounts	(1,710)	(2,348)	(5,047)	(8,980)
Total revenue	$ 8,321	$ 13,941	$ 29,694	$ 52,257
Revenue growth	*4.9%*	*67.5%*	*113.0%*	*76.0%*
Cost of goods sold				
Sales wage expense and referrals	$ 455	$ 1,702	$ 3,562	$ 5,205
Local loop and exchange carrier	1,670	3,166	7,223	12,210
Cost of installation and config.	6	114	198	212
Cost of connectivity hardware	95	172	369	497
DS3 and DS1 hubs	415	734	1,662	3,205
Other	25	97	197	332
Total cost of goods sold	$ 2,667	$ 5,984	$ 13,210	$ 21,661
Gross profit	$ 5,654	$ 7,956	$ 16,484	$ 30,596
Gross margin	*67.9%*	*57.1%*	*55.5%*	*58.5%*
General and administrative expenses				
Network infrastructure - long haul	$ 876	$ 1,569	$ 2,286	$ 3,019
Network infrastructure - local loop	490	1,071	1,674	2,131
Network infrastructure - collocation	526	897	2,258	3,142
NAP connections	300	412	410	478
Virtual transit expense	-	-	-	-
Advertising and promotion	138	2,486	4,686	6,121
Rent - regional offices	205	303	363	415
Wages and benefits	971	2,499	3,737	5,104
Other	1,120	1,970	3,650	5,208
Total general and administrative expenses	$ 4,626	$ 11,208	$ 19,064	$ 25,617
EBITDA	$ 1,028	$ (3,251)	$ (2,580)	$ 4,979
EBITDA margin	*12.4%*	*n/a*	*n/a*	*9.5%*
Depreciation	546	1,062	1,813	2,557
EBIT	$ 482	$ (4,314)	$ (4,393)	$ 2,421
Interest expense, net	249	351	623	822
Other expense (income)	(44)	(6)	(12)	(22)
Pre-tax income	$ 278	$ (4,658)	$ (5,004)	$ 1,622
Income taxes	13	-	-	-
Net income	$ 265	$ (4,658)	$ (5,004)	$ 1,622

D. Management Discussion and Analysis of Projected Results

REVENUE

Fiscal 2000 through Fiscal 2005

The Company's accelerated growth strategy, corresponding with an injection of capital expected in the third quarter of 2002, calls for expansion into 46 markets across the United States. The Company will grow its sales presence in new regions by hiring classes of new account managers with training periods of six months, similar to the system currently used in Columbus. Through this growth strategy, the Company expects to grow net revenue from $8.2 million in 2002 to $52.3 million in 2005, a compound annual growth rate of 83%. The Company expects port charges to grow most rapidly, growing to $46.9 million in 2005. Port charges have been projected assuming a certain number of ports sold by each sales representative per month, and are based on the Company's historical experience. Pricing for port charges is assumed to decrease over time, consistent with market expectations. Local loop charges are expected to grow slower than port charges as more customers colocate their equipment with FNSI. Colocation customers do not need to lease a local loop line from FNSI. Local loop revenue assumptions are also generated from a declining pricing schedule.

Installation and configuration charges are expected to grow from $120,000 in 2002 to $386,000 in 2005. Hardware sales are expected to grow 71% a year from $115,000 in 2002 to $572,000 in 2005. As a percentage of total gross revenue, hardware sales are expected to remain flat at 1.0% from 2002 to 2005.

GROSS MARGINS

Fiscal 2002 through Fiscal 2005

Gross margins are expected to increase from current levels to 68% in 2002. In 2003, however, gross margins are expected to decrease to 57% and remain relatively flat through 2005. The decline in gross margin from 2002 to 2003 comes as the Company executes its expansion strategy and hires and trains new sales representatives. Sales wage expense is expected to grow at a compound annual growth rate of 125% and reach $5.2 million in 2005. Local loop margin is expected to remain flat as a percent of local loop revenue. Installation and configuration expenses are expected to grow at a compound annual rate of 228% per year to $212,000 in 2005. The cost of connectivity hardware as a percentage of hardware sales is expected to increase slightly from 83% in 2002 to 87% in 2003 and is expected to remain flat at 87% from 2003 through 2005. The Company expects to increase spending on DS3 and DS1 hubs from $0.4 million in 2002 to $3.2 million in 2005 as it adds new customers needing dedicated connectivity to the FNSI network backbone. Other cost of goods are expected to remain flat around 1% of sales from 2002 through 2005.

OPERATING EXPENSES

Fiscal 2002 through Fiscal 2005

Operating expenses as a percentage of net sales is expected to increase slightly from current levels to 56% in 2002. In 2003, however, the increase is far greater as the percentage of operating expenses to net sales increases to 80% as the Company begins its aggressive network roll out and expands to additional markets. Expenses as a percentage of net sales are expected to decline in 2004 and 2005, from 64% to 49%, as the Company continues to drive sales from investments made in earlier years.

The spike in operating expenses in 2003 is driven mostly by increases in advertising and promotion and wages and benefits. Advertising and promotion spending is expected to grow to 18% of sales in 2002. The Company's strategy calls for ads run in select national industry publications (e.g. *Boardwatch*) as well as advertising programs in the Company's new markets. After three months of advertising including radio, print and direct mail in each market, FNSI expects to continue to do "maintenance advertising" to keep up name recognition. As a result, advertising and promotion expenses decline from 16% in 2004 to 12% in 2005.

The 2003 projections contemplate increases in wages for existing non-sales employees as well as the addition of 15 engineering personnel, 8 professional communications personnel, and 18 administrative personnel throughout the year. FNSI expects to continue to add engineering and administrative staff as needed to support the projected growth in sales. However, as a percentage of sales, wages and benefit expenses are expected to decrease to 10% of sales in 2005 from 18% in 2002, as the Company is able to leverage its overhead over a larger sales base.

Network infrastructure long haul is expected to decrease from 11% of sales in 2002 to 6% of sales in 2005. This improvement reflects the Company's ability to buy bandwidth "in bulk" and leverage the higher capacity network over the base of existing and new customers. With the exception of network infrastructure colocation, which will remain flat from 2002 to 2005 at 6% of sales, all expenses as a percentage of sales are expected to decrease as the Company constructs new centers in more cities. As the Company grows, these expenses will be absorbed by a larger revenue base, and therefore decrease as a percentage of sales. In 2003, network infrastructure local loop and NAP connection expense as a percentage of sales are expected to be 8% and 3%, respectively, and then decline to 4% and 1%, respectively, in 2005.

E. Balance Sheets

Exhibit 16 below provides a summary of FNSI's audited historical balance sheets as of December 31, 1998, 1999, and 2000, as well as an unaudited balance sheet as of December 31, 2001.

Exhibit 16: Historical Balance Sheets

(Dollars in Thousands)

	Historical as of Dec. 31,			Unaudited
	1998 (1)	1999	2000	2001
ASSETS				
Current Assets				
Cash	$ -	$ 4	$ 57	$ -
Accounts receivable	218	401	753	499
Accounts receivable - other	-	32	20	-
Inventory	13	8	8	8
Prepaid expenses	-	10	40	31
Other current assets	2	6	4	49
Total current assets	$ 233	$ 462	$ 883	$ 587
Fixed Assets				
Gross fixed assets	1,596	2,702	4,203	4,573
Less accumulated depreciation	(379)	(745)	(1,324)	(1,960)
Total fixed assets	$ 1,218	$ 1,956	$ 2,879	$ 2,613
Other Assets	10	27	31	1
Total Assets	$ 1,460	$ 2,446	$ 3,792	$ 3,201
LIABILITIES AND OWNERS EQUITY				
Current Liabilities				
Accounts payable	206	$ 292	$ 598	$ 1,008
Accrued expenses	11	27	125	179
Deferred revenue - current	319	506	705	572
Other payables	54	41	45	26
Current portion capital lease	298	332	898	981
Line of credit	-	-	212	312
Total current liabilities	$ 889	$ 1,198	$ 2,583	$ 3,078
Long-Term Liabilities				
Long-term debt	-	12	250	262
Long-term portion capital lease	614	1,265	1,667	850
Deferred revenue - long-term	278	450	663	597
Total long-term liabilities	$ 892	$ 1,727	$ 2,581	$ 1,709
Total Liabilities	$ 1,781	$ 2,925	$ 5,163	$ 4,786
Shareholders' Equity				
Common stock	$ 841	$ 841	$ 841	$ 841
Additional paid in capital	20	44	44	44
Retained earnings (deficit)	(1,181)	(1,364)	(2,255)	(2,470)
Total equity	(321)	(479)	(1,371)	(1,585)
Total Liabilites & Equity	$ 1,460	$ 2,446	$ 3,792	$ 3,201

(1) 1998 has been restated to reflect deferred income having been booked one month in advance rather than booked as billed.

F. Capital Expenditures

Exhibit 17 shows the Company's capital expenditures from 1998 through projected 2005. Capital expenditures will be used to purchase office equipment and furniture for new regional offices, computers for new employees, channelized DS3 and DS1 cards, backbone switches, backbone routers, and access control systems for colocation centers and regional offices.

Exhibit 17: Capital Expenditures

(Dollars in Thousands)

	Actual				Projected			
	For the years ended Dec. 31,			Unaudited	For the years ending December 31,			
	1998	1999	2000	2001	2002	2003	2004	2005
Capital Expenditures	$ 410	$ 1,105	$ 1,502	$ 370	$ 750	$ 3,428	$ 5,043	$ 5,153

IV. APPENDICES

A. Audited Financial Statements

KPMG has prepared audited financial statements on Fiber Network Solutions, Inc. for the years ended December 31, 1998, 1999, and 2000. A copy of the audit is available upon request.

B. Company Brochure

C. Articles on the Company