FORM S-1 · REGISTRATION STATEMENT

Digex Inc

IPO priced 1996-10-17 · $10.12 a share · DIGX



From S1 Directory · www.s1directory.com/s1/digex-inc/ · Source: https://www.sec.gov/Archives/edgar/data/943756/000092838596000739/0000928385-96-000739.txt

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 12, 1996

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM SB-2 REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933

DIGEX, INCORPORATED (NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

MARYLAND 4813 52-1672337 (STATE OR OTHER (PRIMARY STANDARD (IRS EMPLOYER JURISDICTION OF INDUSTRIAL IDENTIFICATION NUMBER) INCORPORATION OR CLASSIFICATION CODE ORGANIZATION) NUMBER) 6800 VIRGINIA MANOR ROAD BELTSVILLE, MARYLAND 20705 (301) 847-5000 (ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES AND PRINCIPAL PLACE OF BUSINESS) CHRISTOPHER R. MCCLEARY, PRESIDENT 6800 VIRGINIA MANOR ROAD BELTSVILLE, MARYLAND 20705 (301) 847-5000 (NAME, ADDRESS, AND TELEPHONE NUMBER OF AGENT FOR SERVICE) COPIES TO: JOHN D. WATSON, JR., ESQ. JOHN W. WHITE, ESQ. LATHAM & WATKINS CRAVATH, SWAINE & MOORE 1001 PENNSYLVANIA AVENUE, N.W. WORLDWIDE PLAZA SUITE 1300 825 EIGHTH AVENUE WASHINGTON, D.C. 20004-2505 NEW YORK, NEW YORK 10019-7475 (202) 637-2200 (212) 474-1000 APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT. IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, PLEASE CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [_] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [_] CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, PAR VALUE $.01 PER SHARE.....	*	$ *	$55,000,000.00	$18,965.52

(1) INCLUDES SHARES ISSUABLE UPON EXERCISE OF AN OPTION TO BE GRANTED TO THE UNDERWRITERS SOLELY TO COVER OVER-ALLOTMENTS, IF ANY. (2) ESTIMATED SOLELY FOR THE PURPOSE OF CALCULATING THE REGISTRATION FEE PURSUANT TO RULE 457(O) PROMULGATED UNDER THE SECURITIES ACT ("RULE 457(O)"). * INFORMATION OMITTED PURSUANT TO RULE 457(O). THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

DIGEX, INCORPORATED

CROSS REFERENCE SHEET

SHOWING LOCATION IN PROSPECTUS OF INFORMATION REQUIRED BY PART I ITEMS OF FORM SB-2 LOCATION OR HEADING IN THE PROSPECTUS OR REGISTRATION FORM SB-2 ITEM NUMBER AND CAPTION STATEMENT 1. FRONT OF REGISTRATION STATEMENT AND OUTSIDE FRONT COVER OF PROSPECTUS..... OUTSIDE FRONT COVER PAGE; FRONT OF REGISTRATION STATEMENT 2. INSIDE FRONT AND OUTSIDE BACK COVER PAGES OF PROSPECTUS..... INSIDE FRONT AND OUTSIDE BACK COVER PAGE 3. SUMMARY INFORMATION AND RISK FACTORS... PROSPECTUS SUMMARY; THE COMPANY; RISK FACTORS 4. USE OF PROCEEDS..... PROSPECTUS SUMMARY; USE OF PROCEEDS; MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 5. DETERMINATION OF OFFERING PRICE..... OUTSIDE FRONT

COVER PAGE; UNDERWRITING 6. DILUTION..... RISK FACTORS; DILUTION 7. SELLING SECURITY-HOLDERS..... * 8. PLAN OF DISTRIBUTION..... OUTSIDE FRONT COVER PAGE; UNDERWRITING 9. LEGAL PROCEEDINGS..... BUSINESS--LEGAL PROCEEDINGS 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS..... MANAGEMENT 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT..... PRINCIPAL STOCKHOLDERS 12. DESCRIPTION OF SECURITIES..... CAPITAL STOCK OF THE COMPANY 13. INTERESTS OF NAMED EXPERTS AND COUNSEL. * 14. DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT CAPITAL STOCK OF THE COMPANY-- LIABILITIES..... LIMITATION ON DIRECTORS' AND OFFICERS' LIABILITY 15. ORGANIZATION WITHIN LAST FIVE YEARS.... CERTAIN TRANSACTIONS 16. DESCRIPTION OF BUSINESS..... PROSPECTUS SUMMARY; RISK FACTORS; MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS; BUSINESS 17. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION..... MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS LOCATION OR HEADING IN THE PROSPECTUS OR REGISTRATION FORM SB-2 ITEM NUMBER AND CAPTION STATEMENT

18. Description of Property.....	Business--Properties
19. Certain Relationships and Related Transactions.....	Certain Transactions; Principal Stockholders
20. Market for Common Equity and Related Stockholder Matters.....	Risk Factors--No Prior Market for Common Stock; Dividend Policy; Capital Stock of the Company; Shares Eligible for Future Sale
21. Executive Compensation.....	Management
22. Financial Statements.....	Financial Statements
23. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	*

* INAPPLICABLE

++
+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
+REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
+BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +
+THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
+SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
+UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
+ANY SUCH STATE. +
++

SUBJECT TO COMPLETION
JUNE 12, 1996

PROSPECTUS

SHARES [DIGEX BUSINESS INTERNET LOGO APPEARS HERE]

DIGEX, INCORPORATED

COMMON STOCK ($.01 PAR VALUE)

ALL OF THE SHARES OF COMMON STOCK, $.01 PAR VALUE PER SHARE (THE "COMMON STOCK"), OFFERED HEREBY (THE "SHARES") ARE BEING SOLD BY DIGEX, INCORPORATED ("DIGEX" OR THE "COMPANY"). PRIOR TO THIS OFFERING (THE "OFFERING"), THERE HAS BEEN NO PUBLIC MARKET FOR THE COMMON STOCK. IT IS CURRENTLY ANTICIPATED THAT THE INITIAL PUBLIC OFFERING PRICE WILL BE BETWEEN $ AND $ PER SHARE. SEE "UNDERWRITING" FOR A DISCUSSION OF THE FACTORS TO BE CONSIDERED IN DETERMINING THE INITIAL PUBLIC OFFERING PRICE.

THE COMPANY HAS APPLIED TO HAVE THE COMMON STOCK APPROVED FOR QUOTATION ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "DIGX."

SEE "RISK FACTORS" BEGINNING ON PAGE 8 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE SHARES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT	PROCEEDS TO COMPANY (1)
Per Share	$	$	$
Total (2)	$	$	$

(1) Before deducting expenses payable by the Company estimated at $.
(2) The Company has granted the Underwriters a 30-day option to purchase up to an aggregate of additional shares of Common Stock at the Price to Public, less the Underwriting Discount, solely to cover over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount and Proceeds to Company will be $, $, and $, respectively. See "Underwriting."

THE SHARES ARE OFFERED SUBJECT TO RECEIPT AND ACCEPTANCE BY THE UNDERWRITERS, TO PRIOR SALE AND TO THE UNDERWRITERS' RIGHT TO REJECT ANY ORDER IN WHOLE OR IN PART AND TO WITHDRAW, CANCEL OR MODIFY THE OFFER WITHOUT NOTICE. IT IS EXPECTED THAT DELIVERY OF THE SHARES WILL BE MADE AT THE OFFICE OF SALOMON BROTHERS INC, SEVEN WORLD TRADE CENTER, NEW YORK, NEW YORK, OR THROUGH THE FACILITIES OF THE DEPOSITORY TRUST COMPANY, ON OR ABOUT , 1996.

SALOMON BROTHERS INC MONTGOMERY SECURITIES

THE DATE OF THIS PROSPECTUS IS JULY , 1996.

[ARTWORK] [TO COME]

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET (INCLUDING THE NASDAQ NATIONAL MARKET) OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

ADDITIONAL INFORMATION

THE COMPANY HAS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") A REGISTRATION STATEMENT ON FORM SB-2 UNDER THE SECURITIES ACT WITH RESPECT TO THE COMMON STOCK OFFERED HEREBY (THE "REGISTRATION STATEMENT"). THIS PROSPECTUS, WHICH CONSTITUTES A PART OF THE REGISTRATION STATEMENT, DOES NOT CONTAIN ALL OF THE INFORMATION SET FORTH IN THE REGISTRATION STATEMENT AND THE EXHIBITS AND SCHEDULES THERETO. FOR FURTHER INFORMATION WITH RESPECT TO THE COMPANY AND THE SHARES OF COMMON STOCK OFFERED HEREBY, REFERENCE IS HEREBY MADE TO THE REGISTRATION STATEMENT, INCLUDING THE EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES THERETO. STATEMENTS CONTAINED IN THIS PROSPECTUS REGARDING THE CONTENTS OF ANY CONTRACT OR OTHER DOCUMENT ARE NOT NECESSARILY COMPLETE; WITH RESPECT TO EACH SUCH CONTRACT OR DOCUMENT FILED AS AN EXHIBIT TO THE REGISTRATION STATEMENT, REFERENCE IS MADE TO THE EXHIBIT FOR A MORE COMPLETE DESCRIPTION OF THE MATTER INVOLVED, AND EACH SUCH STATEMENT SHALL BE DEEMED QUALIFIED IN ITS ENTIRETY BY SUCH REFERENCE.

AS A RESULT OF THIS OFFERING, THE COMPANY WILL BE SUBJECT TO THE INFORMATIONAL REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (THE "EXCHANGE ACT"), AND, IN ACCORDANCE THEREWITH, WILL FILE REPORTS AND OTHER INFORMATION WITH THE COMMISSION. A COPY OF THE REGISTRATION STATEMENT, INCLUDING THE EXHIBITS, FINANCIAL STATEMENTS AND SCHEDULES THERETO, MAY BE INSPECTED WITHOUT CHARGE AT THE PRINCIPAL OFFICE OF THE COMMISSION AT JUDICIARY PLAZA, 450 FIFTH STREET, N.W., ROOM 1024,

WASHINGTON, D.C. 20549 AND AT ITS REGIONAL OFFICES LOCATED AT SEVEN WORLD TRADE CENTER, NEW YORK, NEW YORK 10048 AND CITICORP CENTER, 500 WEST MADISON STREET, CHICAGO, ILLINOIS 60661, AND COPIES OF SUCH MATERIAL MAY BE OBTAINED FROM THE PUBLIC REFERENCE SECTION OF THE COMMISSION AT JUDICIARY PLAZA, 450 FIFTH STREET, N.W., ROOM 1024, WASHINGTON, D.C. 20549 UPON PAYMENT OF THE FEES PRESCRIBED BY THE COMMISSION. THE COMMISSION ALSO MAINTAINS A WEB SITE THAT CONTAINS REPORTS, PROXY AND INFORMATION STATEMENTS AND OTHER MATERIALS THAT ARE FILED THROUGH THE COMMISSION'S ELECTRONIC DATA GATHERING, ANALYSIS, AND RETRIEVAL SYSTEM. THIS WEB SITE CAN BE ACCESSED AT HTTP://WWW.SEC.GOV.

REPORTS TO STOCKHOLDERS

THE COMPANY INTENDS TO FURNISH TO ITS STOCKHOLDERS ANNUAL REPORTS CONTAINING CONSOLIDATED FINANCIAL STATEMENTS AUDITED BY ITS INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS AND QUARTERLY REPORTS CONTAINING UNAUDITED SUMMARY FINANCIAL INFORMATION FOR THE FIRST THREE QUARTERS OF EACH FISCAL YEAR.

Prospectus Summary

The following summary is qualified in its entirety by the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Investors should carefully consider the information set forth under "Risk Factors." Unless otherwise indicated, all information in this Prospectus assumes (i) no exercise of the Underwriters' over-allotment option, (ii) the issuance of 6,700,839 shares of common stock, $.01 par value (the "Common Stock"), upon the conversion (the "Preferred Stock Conversion") of all outstanding shares of the Company's Series A and Series B convertible preferred stock, $1.00 par value (collectively, the "Preferred Stock"), upon consummation of the offering of Common Stock made hereby (the "Offering"), (iii) the exercise of warrants to purchase 4,671,020 shares of Common Stock at an aggregate exercise price of approximately $685,000 concurrently with the Preferred Stock Conversion (the "Warrant Exercise"), (iv) reincorporation of the Company as a Delaware corporation and (v) the establishment of the Company's nationwide network backbone, which the Company expects to occur prior to June 30, 1996. All share totals stated herein reflect the Company's 505.26:1 stock split of March 1995 and the 10:1 stock split of August 1995. See "Glossary" for the definitions of certain terms and acronyms used herein.

The Company

DIGEX, Incorporated ("DIGEX" or the "Company") is a leading independent national Internet service provider ("ISP") that focuses exclusively on businesses, government agencies and other institutional customers ("business customers"). The Company offers a comprehensive range of INDUSTRIAL STRENGTH Internet solutions, including business connectivity, Web server hosting, consulting and education services and security and other network products. After receiving its first major infusion of institutional equity capital in March 1995, the Company reoriented its strategy to focus exclusively on business customers, who generally require high bandwidth connectivity, and also began to develop its

Web server hosting business. Additionally, the Company brought in an experienced management team in the first quarter of 1996. As a result, the Company's leased line and server customers have grown from approximately 65 accounts at April 30, 1995 to approximately 750 accounts at May 31, 1996.

The Company believes that Internet solutions are increasingly achieving "mission critical" status for business customers as the role of the Internet and corporate intranets grows. International Data Corporation ("IDC") has estimated that the number of Internet users was approximately 56 million in 1995, approximately 71% of which (or 40 million) were business users, and that the aggregate number of users will grow to approximately 200 million by 1999. In addition, according to Netcraft, Ltd., the number of corporate Internet sites, defined as domain names ending in ".com," has increased from 4,912 in August 1995 to 171,738 in June 1996.

DIGEX's nationwide network infrastructure enables Internet connectivity to business customers in 24 U.S. cities through 30 points of presence ("POPs"). Leveraging off a strong and well-established presence in the eastern United States, the Company has embarked on a major expansion program which will result in a total of 61 POPs (serving 55 U.S. cities) by the end of 1996. The Company's network infrastructure is designed to provide business customers with a high degree of reliability, enhanced performance and scalable bandwidth. It uses Cisco Systems 7513 routers and a redundant clear channel DS-3 loop architecture which provides 90 Mbps of coast-to-coast capacity, monitored by a 24x7x365 network operations center ("NOC"). Unlike the network infrastructure of regional ISPs, which typically connect at only one peering point, the Company's network connects with the networks of other national ISPs at the three major peering points across the U.S.

The Company's objective is to be a single-source provider of reliable high- performance INDUSTRIAL STRENGTH Internet solutions that serve the needs of business customers. To achieve this objective, the Company will focus exclusively on business customers, expand and optimize its nationwide network, provide a comprehensive range of Internet solutions, implement multiple distribution channels for its solutions and focus on customer acquisition and retention.

As part of its distribution strategy, the Company is targeting telecommunications service providers who wish to provide private label Internet services to their customers without building their own facilities. The Company recently entered into its first such multi-year private network agreements with LCI International, Inc. and WinStar Communications, Inc. ("WinStar"). The Company expects that its ability to attract additional private network customers will be significantly enhanced by the announcement of these two agreements.

The Company was founded in 1990 by a group of Internet pioneers as a Maryland corporation under the name "Digital Express Group, Inc." The Company, which is now named "DIGEX, Incorporated," is reincorporating as a Delaware corporation in connection with the Offering. The Company's principal executive offices are located at 6800 Virginia Manor Road, Beltsville, Maryland 20705, and the Company's telephone number is (301) 847-5000. The Company's Web site is located at http://www.digex.net.

The Offering

Common Stock Offered..... shares (1) Common Stock Outstanding after the Offering.. shares (1)(2) Use of Proceeds..... The Company intends to use the net proceeds of the Offering to fund the expansion of its network infrastructure, to acquire business-focused regional ISPs or to purchase their subscriber bases, to fund anticipated operating losses and for general corporate purposes. See "Use of Proceeds." Proposed Nasdaq National Market Symbol..... DIGX (1) Excludes shares of Common Stock subject to the Underwriters' over-allotment option granted by the Company. (2) Based on the number of shares outstanding as of June 1, 1996 (assuming the Preferred Stock Conversion and the Warrant Exercise, both of which will occur upon consummation of the Offering). Does not include 4,315,950 shares issuable upon the exercise of options presently outstanding under the Company's Incentive Stock Option Plan (the "Stock Option Plan"), as well as 14,039 shares issuable upon the exercise of options authorized but not granted under the Stock Option Plan. See "Management--Incentive Stock Option Plan." Also does not include warrants to purchase 600,000 shares of Common Stock at an exercise price of $1.50 per share granted to WinStar in connection with the Company's private network agreement with WinStar.

The Company has applied for federal registration of the following servicemarks and trademarks: INDUSTRIAL STRENGTH Internet SM, WEBenefit Series(TM), IntroWeb(TM), WEBenefit(TM), WebPlus(TM), WebPreferred(TM) and WebPremier(TM). This Prospectus also includes product names and other trade names of the Company and of other organizations.

Summary Financial Data

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
STATEMENT OF OPERATIONS DATA: Revenue.....	$431,098	$1,577,609	$ 5,075,316	$ 739,671	$ 2,232,462
Costs and expenses: Cost of revenue.....	216,656	1,002,503	4,471,500	478,646	1,959,821
Sales and marketing....	18,326	263,075	1,710,234	116,342	673,800
General and administra- tive.....	135,238	366,392	2,715,752	278,852	903,887
Total expenses.....	370,220	1,631,970	8,897,486	873,840	3,537,508
Income (loss) from oper- ations.....	60,878	(54,361)	(3,822,170)	(134,169)	(1,305,046)
Other income (expense): Interest and other in- come.....	--	--	72,002	--	14,933
Interest expense.....	--	(23,693)	(226,745)	(688)	(540,927)
	--	(23,693)	(154,743)	(688)	(525,994)
Income (loss) before in- come taxes.....	60,878	(78,054)	(3,976,913)	(134,857)	(1,831,040)
Income taxes.....	(25,540)	(3,470)	--	--	--
Net income (loss).....	35,338	(81,524)	(3,976,913)	(134,857)	(1,831,040)
Accretion of Preferred Stock to redemption value.....	--	--	(338,698)	--	(123,306)
Net income (loss) at- tributable to common shareholders.....	$ 35,338	$ (81,524)	$(4,315,611)	$(134,857)	$(1,954,346)
Pro forma net income (loss) per common share(1).....		$ (0.20)		$ (0.07)	
Pro forma average common and common equivalent shares outstanding(1)..		19,245,015		20,334,716	

	MARCH 31, 1996	
	ACTUAL	PRO FORMA AS ADJUSTED(2)

BALANCE SHEET DATA:	
Cash and cash equivalents	$ 727,750
Working capital (deficit)	(4,190,967)
Total assets	6,325,475
Total indebtedness, less current portion	915,864
Mandatorily redeemable preferred stock	2,262,195
Total stockholders' equity (deficit)	(2,999,226)

(1) Pro forma net loss per common share adjusts historical earnings per share for the assumed conversion of convertible securities which are not included in the historical computations. These convertible securities will automatically convert into shares of Common Stock upon the consummation of the Offering. Historical net loss was reduced by $450,871 for the year ended December 31, 1995 and $623,074 for the three months ended March 31, 1996 to adjust for interest expense and preferred stock accretion related to the convertible securities. See Note 2 to Financial Statements.

(2) The pro forma as adjusted data give effect to (i) the 1996 Venture Financing (as defined); (ii) the Preferred Stock Conversion and the Warrant Exercise, both of which will occur upon consummation of the Offering; and (iii) the issuance and sale by the Company of the shares of Common Stock offered hereby (at an assumed offering price of $ per share, after deducting estimated underwriting discount and expenses of the Offering payable by the Company) and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

Risk Factors

Investment in the Common Stock offered hereby involves a high degree of risk. Prospective investors should carefully consider the factors set forth below together with the other information contained in this Prospectus before making a decision to purchase the Common Stock offered hereby.

Intense Competition

The market for Internet connectivity services is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future.

Currently, the Company's primary competitors are other ISPs focused on business customers, including UUNET Technologies, Inc. ("UUNET"), BBN Corporation ("BBN") and PSINet Inc. ("PSI"). UUNET, BBN and PSI, in particular, all have significantly greater market presence and financial, technological and personnel resources than the Company and have more extensive network infrastructures than the Company. To a lesser extent, the Company competes with other national and regional ISPs, of which there are currently more than 1500, including NETCOM On-Line Communications Services, Inc. ("NETCOM"). The Company also currently competes with AT&T Corp. ("AT&T"), MCI Communications Corporation ("MCI") and Sprint Corporation ("Sprint"). The Telecommunications Act of 1996 is removing a number of regulatory obstacles to the entry of other telecommunications companies into the Internet connectivity market. Accordingly, the Company expects all of the other major telecommunications service providers, including the Regional Bell Operating Companies (the

"RBOCs") to compete fully in the Internet connectivity market. Deregulation of the telecommunications industry has already led to significant horizontal integration through acquisitions and joint ventures, and the Company expects these trends to continue.

The telecommunications companies with which the Company competes have access to significantly greater financial, technological and personnel resources than the Company and also have large existing business customer bases. In addition, interexchange carriers ("IXCs"), including AT&T, MCI and Sprint, possess existing nationwide telecommunications networks and generally face lower infrastructure costs in providing Internet connectivity than the Company. Although its WorldNet offering targets the consumer market, AT&T is party to an agreement with BBN pursuant to which it can market BBN's business connectivity services to AT&T's business customer base or, in the alternative, provide its own Internet connectivity. In addition, MCI and British Telecommunications P.L.C. have announced that they intend to merge their international high-speed data networks and their Internet backbones thus offering their customers international Internet connectivity services.

Although local exchange carriers ("LECs"), such as the RBOCs, and competitive access providers ("CAPs"), such as MFS Communications Company, Inc. ("MFS"), do not currently possess nationwide networks, they generally have lower communications costs than the Company in providing leased lines to businesses in the areas in which they operate. Moreover, significant consolidation among RBOCs, including SBC Communications Inc.'s recently- announced proposal to acquire Pacific Telesis Group ("PacTel") and the proposed merger of NYNEX Corp. and Bell Atlantic Corporation ("Bell Atlantic"), could result in the expansion of networks which can compete for Internet connectivity customers. In addition, MFS has announced that it has agreed to acquire UUNET to offer its customers expanded Internet connectivity, and PacTel has already announced an offering of consumer connectivity to customers in California.

Certain companies are also exploring the possibility of providing high-speed data services using alternative delivery methods. For example, @Home, a joint venture between Tele-Communications, Inc. and Kleiner Perkins Caulfield & Byers, has stated its intent to provide high-speed data services over cable television plant, and Hughes Network Systems, Inc. has launched DirecPC, which will deliver high-speed data through direct broadcast satellite technology. The Company has announced a high-speed connectivity product for telecommuters using DirecPC. If these technologies gain commercial acceptance, operators of cable television and direct broadcast satellite systems could become competitors of the Company. CAI Wireless Systems, Inc., a wireless cable television service, also has announced that it has begun testing the first Internet connectivity product delivered by wireless cable.

The Company also competes, to a lesser extent, with certain on-line service providers which offer Internet connectivity in conjunction with their primary products or services. For example, Microsoft Corporation ("Microsoft") provides Internet connectivity through its Microsoft Network, which was built by UUNET (in which Microsoft holds a significant minority stake) and which is a standard integrated feature of its Windows 95 operating system, and International Business Machines Corporation ("IBM") offers its OS/2 WARP operating system preconfigured to provide Internet connectivity through the Advantis network, which is controlled by IBM. In addition, America Online,

Inc. ("AOL"), CompuServe, Inc. ("CompuServe") and Prodigy Services Company ("Prodigy"), currently provide Internet connectivity and have announced plans to offer expanded Internet connectivity capabilities.

The market for Web server hosting services is highly fragmented and extremely competitive. There are no substantial barriers to entry and the Company expects that competition will intensify in the future. Currently the Company's primary competitors are other ISPs, including BBN, UUNET and PSINet, and companies whose primary business is developing and operating "Server Farms," such as Internet Direct, Inc. ("Internet Direct"). In addition, many organizations currently host Web servers at their own facilities.

As a result of an increase in the number of competitors, and vertical and horizontal integration in the industry, the Company currently encounters and expects to encounter significant pricing pressure and other competition in the future. Advances in technology as well as changes in the marketplace and the regulatory environment are constantly occurring, and the Company cannot predict the effect that ongoing or future developments may have on the Internet connectivity and Web server hosting markets generally or on the Company specifically. See "Risk Factors--Dependence Upon Product Development; Risks of Changing Technology and Industry Standards" and "--Potential Liability for Information Disseminated Over Network; Regulation."

Difficulties in Managing Growth; New Management; Need to Hire Additional Personnel

The rapid growth of the Company's business and its product and service offerings has placed, and is expected to continue to place, a significant strain on the Company's managerial, operational and accounting resources.

Demands on the Company's operational and accounting information systems and controls, including its billing, accounts receivable and payable tracking and other accounting systems, have grown rapidly with the Company's expanding customer base and its new focus on business customers. In the past, the Company has experienced difficulties in billing its customers, pursuing delinquent accounts receivable balances, recording payables in the proper period, performing timely reconciliations of financial statement data on a monthly basis and maintaining adequate accounting controls. These difficulties were considered by the Company's independent auditors to be evidence of material weaknesses in the internal control structure, as communicated to management and the Board of Directors at the completion of the audit of the Company's financial statements for the year ended December 31, 1995. Although the Company has taken actions to upgrade and improve its accounting systems and controls and to increase the number of qualified accounting personnel, additional actions may be required, particularly if the Company should experience significant additional growth.

Increasing demands for the Company's Internet solutions and related customer support services have also created additional demands on the Company's network infrastructure and technical support and customer services personnel. The Company has in the past experienced difficulties making installations

on a timely basis and providing adequate customer support. Although the Company has hired additional support and customer service personnel and has established a 24x7x365 NOC, it is possible that such difficulties will continue in the future.

The Company has a new management team and a substantial number of new employees. At December 31, 1994, the Company had 32 employees, and at May 31, 1996, the Company had 143 employees. In addition, key members of the Company's current management team, including Christopher R. McCleary, the Company's Chairman, President and Chief Executive Officer; Thomas M. Brandt, Jr., the Company's Senior Vice President, Finance and Administration, and Chief Financial Officer; Brian M. Deobald, the Company's Vice President, Telecommute Products Group; Earl P. Galleher, the Company's Vice President, Internet Server Products Group; and Nicholas J. Magliato, the Company's Vice President, Private Networks Group, have joined the Company since February 1996.

To manage its growth, the Company must continue to improve its operational and accounting information systems and controls and must attract and retain additional highly qualified management, financial, technical, sales and marketing and customer service personnel. Any failure of the Company to manage its growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Accumulated Deficit; Net Losses; Limited Operating History

At March 31, 1996, the Company had an accumulated deficit of approximately $6.4 million. The Company experienced net losses of approximately $4.0 million and $1.8 million in the year ended December 31, 1995 and in the three months ended March 31, 1996, respectively. The Company is currently making significant capital expenditures intended to expand the Company's network and organizational infrastructure, expects to incur operating and net losses in 1996 and may continue to incur operating and net losses thereafter. There can be no assurance that the Company will achieve or sustain profitability in the future.

Although the Company has been in existence since 1990, it reoriented its strategy in March 1995 to focus exclusively on business customers. As a result, prospective investors have limited relevant operating and financial data upon which to base an evaluation of the Company and an investment in the Common Stock offered hereby.

FUTURE CAPITAL NEEDS; UNCERTAINTY OF ADDITIONAL FINANCING; RISKS ASSOCIATED WITH CURRENT FINANCING ARRANGEMENTS The Company currently anticipates that funds which WinStar has agreed to advance under the terms of its private network agreement and the net proceeds of the 1996 Venture Financing (as defined) and the Offering, together with existing financing arrangements and funds from operations, will be sufficient to meet the Company's presently anticipated working capital and capital expenditure requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." However, the Company may need to raise additional funds through public or private debt or equity financing in the event that the Company's estimates of operating losses and capital requirements change or prove

inaccurate or in order for the Company to respond to unanticipated competitive pressures or to take advantage of unanticipated opportunities. Such opportunities could include the acquisition of business-focused regional ISPs or the purchase of their subscriber bases, international expansion, acquisitions of complementary businesses or technologies and the development of new products. There can be no assurance that additional financing will be available on terms favorable to the Company, or at all. If adequate funds are not available or are not available on acceptable terms, the Company may not be able to continue its network expansion, to take advantage of market opportunities, to develop new products or otherwise to respond to competitive pressures. Such inability could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the Company's financing arrangements are secured by substantially all of the Company's assets, require the Company to satisfy certain financial covenants and restrict the payment of dividends. Such collateral security arrangements entitle the Company's secured lenders to foreclose upon the Company's assets in the event of a default under the Company's financing arrangements and may adversely affect the Company's ability to obtain additional financing.

Dependence on Network Infrastructure; Maintenance of Peering Relationships

The Company's success will depend upon the geographic reach, capacity, reliability and security of its network infrastructure. The Internet is comprised of many ISPs who operate their own networks and interconnect with other ISPs at various peering points. The establishment and maintenance of peering relationships with other ISPs is necessary in order to exchange traffic with other ISPs without having to pay retail rates. The Company expects the industry's current practice regarding peering to evolve by the end of 1996 to require an ISP to have (i) a coast-to-coast DS-3 backbone, (ii) 45 Mbps connections to three U.S. peering points and (iii) a 24x7x365 NOC in order to qualify for peering with the major national ISPs. Although the Company currently meets these requirements, there is no assurance that other national ISPs will maintain peering relationships with the Company. In addition, there may develop increasing requirements associated with maintaining peering with the major national ISPs with which the Company may have to comply. The Company also expects to be required to expand and adapt its network infrastructure in order to respond to its growing number of customers, demands to transmit increasing amounts of data and changes to its customers' product and service requirements. The expansion and adaptation of the Company's network infrastructure will require substantial financial, operational and managerial resources. There can be no assurance that the Company will be able to expand or adapt its network infrastructure to meet the industry's evolving standards or its customers' growing demand and changing requirements on a timely basis, at a commercially reasonable cost, or at all, or that the Company will be able to deploy successfully any expanded and adapted network infrastructure.

Risks to Physical Network; Risks to Integrity of Data on Network

The Company's operations are dependent upon its ability to protect its network infrastructure against damage from fire, earthquakes, severe flooding, mudslides, power loss, telecommunications failures or similar events or to construct networks which are not vulnerable to the effects of these events. A significant portion of the Company's computer equipment, including components critical to the operation of its Internet backbone, is located at the Company's facilities in Beltsville, Maryland. The Company has in the past experienced service interruptions due to severe flooding in the midwest United States in 1994 and in Pennsylvania in 1996. The occurrence of a natural disaster or other unanticipated problems at the Company's NOC, its hubs (sites at which the Company has located routers, switches and other computer equipment which make up the backbone of the Company's network infrastructure) or at a number of the Company's POPs in the future could cause additional major interruptions in the services provided by the Company.

In addition, some ISPs have in the past experienced interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others, and the Company has experienced interruptions in service as a result of accidental or intentional actions of Internet users. Further interruptions of service may occur in the future. In the past, there have been break-ins to computers connected to the Internet at General Electric Company, Sprint and IBM, as well as the computer systems of NETCOM and the San Diego Supercomputer Center, and there have also been incidents involving hackers bypassing firewalls and stealing sensitive information. Unauthorized use of the Company's network could jeopardize the security of confidential information stored in the computer systems of the Company and its customers, which may result in liability of the Company to its customers or deter potential subscribers. The Company's industry-standard network security measures have been circumvented in the past, and there can be no assurance that such measures will not be circumvented in the future.

The failure of the Company to adequately manage service disruptions resulting from physical damage to its network or breaches of its integrity, could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence Upon Suppliers; Limited Sources of Supply

The Company relies on other companies to supply certain key components of its network infrastructure, including telecommunications services and networking equipment which, in the quantities and quality demanded by the Company, are available only from limited sources. MCI, which is a competitor of the Company, and Cable & Wireless, Inc. ("Cable & Wireless") are the Company's primary providers of data communications facilities and network capacity and lease physical space to the Company for routers, modems and other equipment. The Company is also dependent upon LECs and CAPs to provide telecommunications services to the Company and its customers. The Company expects these telecommunications companies to become competitors of the Company as well. The

Company has from time to time experienced delays in receiving telecommunications services, and there can be no assurance that the Company will be able to obtain such services on the scale and within the time frames required by the Company at a commercially reasonable cost, or at all.

Certain of the Company's suppliers, including the RBOCs and certain other LECs, are currently subject to tariff controls and other price constraints which in the future could be changed. In addition, due to the passage of the Telecommunications Act of 1996, regulatory proposals are pending that will affect the prices charged to the Company by the RBOCs and certain other LECs. Any such regulatory changes could result in increased prices of services and products to the Company. See "--Potential Liability for Information Disseminated Over Network; Regulation."

Dependence Upon Key Personnel

The Company's success will depend upon the continued service of its senior management team and its technical, marketing and sales personnel. The Company's employees, including members of its management team, may voluntarily terminate their employment with the Company at any time, and competition for qualified employees in the Internet industry is intense. Six senior executives do, however, have employment agreements with the Company which run through March or May 1997 (or, in the case of Christopher McCleary, the Company's Chairman, President and Chief Executive Officer, through December 1999). Although most of these employment agreements contain non-competition and non- disclosure agreements, there can be no assurance that these provisions will be enforceable in whole or in part. The loss of the services of key personnel could have a material adverse effect upon the Company's business, financial condition, and results of operations.

Dependence Upon Continued Development of Business Market

A substantial portion of the Company's revenues to date have been, and substantially all of the Company's revenues for the foreseeable future will be, derived from the sale of its Internet solutions to business customers. The Company's success will depend upon the continued development and expansion of the business market for Internet solutions and the networks which comprise the Internet, as well as the extent to which Internet connectivity becomes critical to achievement of the objectives of the Company's business customers. Certain key issues concerning the extensive use of the Internet by business customers, including data security, network reliability, ease and cost of access and quality of service remain unresolved and may impact the growth of Internet use by business customers. In particular, numerous published reports have indicated that a perceived lack of security of commercial data, such as credit card numbers, has significantly impeded commercial exploitation of the Internet to date, and there can be no assurance that encryption or other technologies will be developed that satisfactorily addresses these security concerns. The failure of the market for business-related Internet solutions to continue to develop would adversely impact the Company's business, financial condition and results of operations.

Dependence Upon Product Development; Risks of Changing Technology and Industry Standards

The Company's success will depend upon its ability to respond to the rapidly changing requirements of its business customers for Internet solutions. The Internet industry is characterized by rapidly changing technology and evolving industry standards, emerging competition and frequent new product and service introductions. There can be no assurance that the Company can successfully identify new product opportunities or develop and bring new products and services to market in a timely manner. The Company is also at risk from fundamental technological changes in the way Internet solutions are marketed and delivered. Integrating technological advances may require substantial time and expense, and there can be no assurance that the Company will succeed in adapting its network infrastructure.

In addition, new technologies or industry standards have the potential to replace or provide lower cost alternatives to the Company's existing products and services. The adoption of such new technologies or industry standards could render the Company's existing products and services obsolete and unmarketable. For example, the Company's services rely on the continued widespread commercial use of Transmission Control Protocol/Internet Protocol ("TCP/IP"). Alternative open and proprietary protocol standards that compete with TCP/IP, including proprietary protocols developed by IBM and Novell, Inc., have been or are being developed.

Failure of the Company to adapt to changes in technology and industry standards would have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Liability for Information Disseminated Over Network; Regulation

The law relating to the liability of on-line service providers and ISPs for information carried on or disseminated through the facilities of their networks is currently unsettled. Several lawsuits seeking a judgment of such liability are currently pending. In one case brought against an ISP, Religious Technology Center v. Netcom On-Line Communication Services, Inc., the United States District Court for the Northern District of California ruled in a preliminary phase that under certain circumstances ISPs could be held liable for copyright infringement. The case has not reached final judgment. The Telecommunications Act of 1996 prohibits and imposes criminal penalties and civil liability for using an interactive computer service for transmitting certain types of information and content, such as indecent or obscene communications. This provision has been stayed pending a determination of its constitutionality. In addition, numerous states have adopted or are currently considering similar types of legislation. The imposition upon ISPs or Web server hosts of potential liability for materials carried on or disseminated through their systems could require the Company to implement measures to reduce its exposure to such liability, which may require the expenditure of substantial resources or the

discontinuation of certain product or service offerings. The Company believes that it is currently unsettled whether the Telecommunications Act of 1996 prohibits and imposes liability for any services provided by the Company should the content of information transmitted be subject to the statute.

Although the Company is not currently subject to direct regulation by the Federal Communications Commission (the "FCC") or any other federal or state agency, changes in the regulatory environment relating to the Internet connectivity market, including regulatory changes which directly or indirectly affect telecommunications costs or increase the likelihood or scope of competition from the RBOCs or other telecommunications companies, could affect the prices at which the Company may sell its services. For instance, proposed regulations at the FCC would require discounted Internet connectivity rates for schools and libraries. The Company cannot predict the impact, if any, that future regulation or regulatory changes may have on its business.

Potential Fluctuations in Quarterly Operating Results

The Company's quarterly operating results have in the past and may in the future vary significantly depending upon a number of factors, such as the pricing and mix of services and products sold by the Company, terminations of service, new product introductions by the Company and its competitors, the timing of the expansion of the Company's network infrastructure, market acceptance of new and enhanced versions of the Company's products and services, changes in pricing policies by its competitors, the Company's ability to obtain sufficient supplies of limited source components and the lengthening of the Company's sales cycle. Many of these factors are beyond the Company's control. In addition, the timing of the installation of significant orders by the Company's suppliers in the past has been, and in the future may be, delayed by lags in the installations of lines and equipment by the Company's telecommunications subcontractors. For example, the severe winter weather which struck the eastern United States in January 1996 resulted in significant installation delays for new customers and consequent delays in the recognition of revenue from these new customers. In addition, in response to competitive pressures, the Company could be forced to take certain pricing or marketing actions that would have a material effect on the amount of revenues in the short term. The Company's expense levels are relatively fixed in the short term; as a result, variations in the timing and amounts of revenues recognized could have a material adverse effect on the Company's quarterly operating results.

Shares Eligible for Future Sale

Future sales of substantial amounts of the Company's Common Stock could adversely affect the market price of the Common Stock. Several of the Company's principal stockholders hold a significant portion of the Company's outstanding Common Stock, and a decision by one or more of these stockholders to sell their shares could adversely affect the market price of the Common Stock. The Shares offered hereby (plus any shares issued upon exercise of the Underwriters' over-allotment option) will be freely tradeable without restriction, except to the extent that such shares are purchased by "affiliates" of the Company. The holders of Common Stock, and warrants to purchase Common Stock, of the Company,

including officers and directors of the Company, have entered into contractual agreements with the Underwriters (the "Lock-Up Agreements") providing that they will not offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Common Stock of the Company beneficially owned by them or any securities convertible into, or exchangeable for, the Company's Common Stock for a period of 180 days after the date of the Underwriting Agreement without the prior written consent of the representatives of the Underwriters, other than shares of stock disposed of as bona fide gifts. As a result, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144 and 144(k) under the Securities Act of 1933, as amended (the "Act"), shares subject to the Lock-Up Agreements will not be saleable until the Lock- Up Agreements expire or their terms are waived by the Underwriters' representatives. Assuming the Underwriters' representatives do not release stockholders from the Lock-Up Agreements, the following shares will be eligible for sale in the public market at the following times: beginning on the effective date of the Registration Statement (the "Effective Date"), only the shares sold in the Offering to non-affiliates will be immediately available for sale in the public market; and beginning 180 days after the date of the Underwriting Agreement, 4,044,768 shares will be eligible for sale pursuant to Rule 144, all of which are held by affiliates of the Company. An additional 11,371,859 shares will become eligible for sale pursuant to Rule 144 at various times during the two-year period following the Effective Date (although such shares will continue to be subject to the Lock-Up Agreements until the expiration of the terms thereof). The holders of approximately 10,666,650 shares of the Common Stock are entitled to certain rights with respect to the registration of such shares under the Act beginning six months after the Effective Date. In addition, the Company may register certain shares of Common Stock issuable under the Stock Option Plan, and such registration shall be effective upon filing with the Commission.

As of May 31, 1996, there were outstanding options under the Stock Option Plan to purchase 4,315,950 shares, of which options for 598,081 shares were fully vested and exercisable. No shares have been issued to date under the Stock Option Plan. See "Shares Eligible for Future Sale."

Control by Certain Stockholders; Anti-takeover Measures

Following the Offering, the Company's executive officers, directors and principal stockholders will beneficially own or control approximately % of the outstanding shares of Common Stock, assuming exercise of vested options, the Preferred Stock Conversion and the Warrant Exercise. As a result, these stockholders will have the ability to control the election of the Company's Board of Directors and the outcome of corporate actions requiring stockholder approval. See "Principal Stockholders."

Certain provisions of the Company's Restated Certificate of Incorporation and Bylaws could make it more difficult for a third party to acquire, and could discourage a third party from attempting to acquire, control of the Company. Certain of these provisions allow the Company to issue Preferred Stock with rights senior to those of the Common Stock without any further vote or action by the stockholders, eliminate the right of stockholders to act by written consent, provide for a classified board of directors and impose various procedural and other requirements which could make it more difficult for stockholders to effect certain corporate actions. Such charter provisions could limit the

price that certain investors might be willing to pay in the future for shares of the Company's Common Stock and may have the effect of delaying or preventing a change in control of the Company. The issuance of Preferred Stock also could decrease the amount of earnings and assets available for distribution to the holders of Common Stock or could adversely affect the rights and powers, including voting rights, of the holders of the Common Stock. See "Description of Capital Stock--Common Stock" "--Preferred Stock," and "-- Delaware Law and Certain Charter Provisions."

ABSENCE OF PUBLIC MARKET; DETERMINATION OF PUBLIC OFFERING PRICE; POSSIBLE VOLATILITY OF STOCK PRICE Prior to the Offering, there has been no public market for the Company's Common Stock, and there can be no assurance that an active public market will develop or be sustained after the Offering. The initial public offering price will be determined by negotiations among the Company and the representatives of the Underwriters. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. The stock market has from time to time experienced significant price and volume fluctuations which have particularly affected the market prices of the stocks of ISPs and other technology companies and which may be unrelated to the operating performance of particular companies. Factors such as quarterly variations in actual or anticipated operating results, changes in earnings estimated by analysts, market conditions in the industry, announcements by competitors, regulatory actions and general economic conditions may have a significant effect on the market price of the Common Stock.

Dilution

Purchasers of the Common Stock offered hereby will suffer an immediate and substantial dilution, in the amount of $ per share, in the pro forma net tangible book value per share of the Common Stock as of March 31, 1996, from the initial public offering price. See "Dilution."

Use of Proceeds

The net proceeds to the Company of the Offering, at an assumed offering price of $ per share, after deducting estimated underwriting discount and expenses of the Offering payable by the Company, will be approximately $ million (approximately $ million if the Underwriters' over-allotment option is exercised in full). Approximately $25.0 million of the net proceeds will be used to fund a portion of the costs of the expansion of the Company's network infrastructure. The Company will use the balance of the net proceeds to fund anticipated operating losses, to acquire business-focused regional ISPs or purchase their subscriber bases and for general corporate purposes. However, the Company has no commitments or agreements with respect to any such acquisitions. Pending such uses, the net proceeds to the Company will be invested in U.S. government securities and other short term, investment grade, interest-bearing securities.

Dilution

The net tangible book value of the Company at March 31, 1996 (after giving effect to the 1996 Venture Financing, the Warrant Exercise and the Preferred Stock Conversion) was $7,436,337, or approximately $0.48 per share of Common Stock. Net tangible book value per share is determined by dividing the Company's tangible net worth (tangible assets less total liabilities) by the number of shares of Common Stock outstanding. After giving effect to the sale of shares of Common Stock offered hereby and the receipt of the estimated net proceeds therefrom (at the assumed public offering price of $ per share and after deducting estimated underwriting discount and expenses of the Offering payable by the Company), the pro forma net tangible book value of the Company at March 31, 1996 would have been $ million, or $ per share. This represents an immediate dilution of $ per share to purchasers of Common Stock in the Offering. Dilution is determined by subtracting the pro forma net tangible book value per share after the Offering from the initial offering price per share. The following table illustrates this per share dilution:

Initial offering price per share..... $ Pro forma net tangible book value per share before the Offering.... $0.48 Increase in net tangible book value per share attributable to new investors ..... Pro forma net tangible book value per share after the Offering..... Dilution per share to new investors..... $ The following table summarizes, as of March 31, 1996, after giving effect to the Offering, the number of shares of Common Stock purchased from the Company, the total consideration paid to the Company and the average price per share paid by the existing stockholders and by new investors purchasing Common Stock in the Offering. In the Offering, based on an assumed initial public offering price of $ per share before deducting estimated underwriting discount and expenses of the Offering payable by the Company, the number of shares of Common Stock purchased from the Company is , the total consideration paid to the Company is $, the average price per share paid by the existing stockholders is $ and the price per share paid by new investors is $.

	SHARED PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders...		%	$	%	$
New investors.....					
Total.....		100%	$	100%	

Capitalization

The following table sets forth, as of March 31, 1996, (i) the Company's actual capitalization, (ii) the pro forma capitalization after giving effect to the 1996 Venture Financing and (iii) the pro forma capitalization, as adjusted to give effect to the Preferred Stock Conversion, the Warrant Exercise and the issuance and sale by the Company of the shares of Common Stock offered hereby, after deducting estimated underwriting discount and expenses of the Offering payable by the Company (at the

assumed public offering price of per share), and the application of the estimated net proceeds thereof. This table should be read in conjunction with the Company's financial statements and the notes thereto included elsewhere in this Prospectus.

MARCH 31, 1996 PRO FORMA AS ACTUAL PRO FORMA ADJUSTED Current portion of capital lease obliga- tions..... $ 929,279 $ 929,279 $ 929,279 10% convertible debentures, net of dis- count..... 2,488,787 0 0 Total current indebtedness..... 3,418,066 929,279 929,279 Capital lease obligations, less current portion..... 915,864 915,864 915,864 Series A mandatorily redeemable preferred stock, $1.00 par value(1): Authorized shares--200,000 actual; 70,000 pro forma and pro forma as ad- justed Issued and outstanding shares--45,455 actual and pro forma; none pro forma as adjusted..... 2,262,195 2,262,195 0 Series B mandatorily redeemable preferred stock, $1.00 par value(1): Authorized shares--none actual; 130,000 pro forma and pro forma as adjusted Issued and outstanding shares--none ac- tual; 81,297 pro forma; none pro forma as adjusted..... 0 7,488,787 0 Shareholders' equity (deficit): Common stock, $.01 par value: Authorized shares--49,800,000 actual, pro forma and pro forma as adjusted Issued and outstanding shares-- 4,044,768 actual and pro forma; pro forma as adjusted(2)..... 40,448 40,448 Additional paid-in capital..... 3,319,034 3,319,034 Accumulated deficit..... (6,358,708) (6,358,708) (6,358,708) Total shareholders' equity (deficit).. (2,999,226) (2,999,226) Total capitalization..... $ 178,833 $7,667,620 $ (1) Preferred Stock is not presented in this table as a part of shareholders' equity of the Company because it is mandatorily redeemable at the option of the holders thereof. Each outstanding share of the Company's Preferred Stock will convert into shares of Common Stock upon the closing of this Offering and will be cancelled, retired and returned to the shares which the Company is authorized to issue. See "Description of Capital Stock" and Notes 7 and 15 of Notes to Financial Statements.

(2) Excludes 4,367,239 shares of Common Stock reserved for issuance to employees under the Stock Option Plan (of which options to purchase 4,315,950 shares are outstanding as of May 31, 1996). See "Management-- Incentive Stock Option Plan," "Shares Eligible for Future Sale" and Note 10 of Notes to the Company's Financial Statements. Also excludes 600,000 shares of Common Stock reserved for issuance to WinStar pursuant to warrants granted to WinStar in connection with the Company's private network agreement with WinStar.

Dividend Policy

The Company does not currently pay dividends on its Common Stock and does not anticipate paying dividends in the foreseeable future. It is the present policy of the Company's Board of Directors to retain earnings, if any, to finance the expansion of the Company's business. The payment of dividends in the future will depend on the results of operations, financial condition, capital expenditure plans and other cash obligations of the Company and will be at the sole discretion of the Board of Directors. In addition, certain provisions of the Company's existing indebtedness prohibit or limit, and provisions of

future indebtedness of the Company may also prohibit or limit, the Company's ability to pay dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Selected Financial and Pro Forma Financial Data

The selected financial data for each of the three years in the period ended December 31, 1995 and the three-month period ended March 31, 1996 have been derived from the Company's financial statements which were audited and are included elsewhere in this Prospectus. The selected financial data for the three-month period ended March 31, 1995 have been derived from the Company's unaudited financial statements. The selected financial data should be read in conjunction with and is qualified in its entirety by reference to the financial statements of the Company and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
STATEMENT OF OPERATIONS DATA: Revenue.....	$431,098	$1,577,609	$ 5,075,316	$ 739,671	$ 2,232,462
Costs and expenses: Cost of revenue.....	216,656	1,002,503	4,471,500	478,646	1,959,821
Sales and marketing...	18,326	263,075	1,710,234	116,342	673,800
General and administrative.....	135,238	366,392	2,715,752	278,852	903,887
Total expenses.....	370,220	1,631,970	8,897,486	873,840	3,537,508
Income (loss) from oper- ations.....	60,878	(54,361)	(3,822,170)	(134,169)	(1,305,046)
Other income (expense): Interest and other in- come.....	--	--	72,002	--	14,933
Interest expense.....	--	(23,693)	(226,745)	(688)	(540,927)
	--	(23,693)	(154,743)	(688)	(525,994)
Income (loss) before income taxes.....	60,878	(78,054)	(3,976,913)	(134,857)	(1,831,040)
Income taxes.....	(25,540)	(3,470)	--	--	--
Net income (loss).....	35,338	(81,524)	(3,976,913)	(134,857)	(1,831,040)
Accretion of Preferred Stock to redemption value.....	--	--	(338,698)	--	(123,306)
Net income (loss) attributable to common shareholders.....	$ 35,338	$ (81,524)	$(4,315,611)	$ (134,857)	$(1,954,346)
Pro forma net income (loss) per common share(1).....			$ (0.20)		$ (0.07)
Pro forma average common and common equivalent shares outstanding(1)..			19,245,014		20,334,716

		MARCH 31, 1996	
	DECEMBER 31, 1995	ACTUAL	PRO FORMA AS ADJUSTED (2)
BALANCE SHEET DATA: Cash and cash equivalents.....	$ 832,582	$ 727,750	
Working capital (deficit).....	(1,820,464)	(4,190,967)	
Total assets.....	5,051,786	6,325,475	
Total indebtedness, less current por- tion.....	821,709	915,864	
Mandatorily redeemable preferred stock.....	2,138,889	2,262,195	--
Total stockholders' equity (deficit)..	(1,527,742)	(2,999,226)	

(1) Pro forma net loss per common share adjusts historical earnings per share for the assumed conversion of convertible securities which are not included in the historical computations. These convertible securities will automatically convert into shares of Common Stock upon the consummation of the Offering. Historical net loss was reduced by $450,871 for the year

ended December 31, 1995 and $623,074 for the three months ended March 31, 1996 to adjust for interest expense and preferred stock accretion related to the convertible securities. See Note 2 to Financial Statements.

(2) The pro forma as adjusted data give effect to (i) the 1996 Venture Financing; (ii) the Preferred Stock Conversion and the Warrant Exercise, both of which will occur upon consummation of the Offering; and (iii) the issuance and sale by the Company of the shares of Common Stock offered hereby (at the assumed public offering price of $ per share, after deducting estimated underwriting discount and expenses of the Offering payable by the Company) and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

DIGEX is a leading national ISP that focuses exclusively on business customers. The Company was founded in 1990 by a group of Internet pioneers as a local provider of dial-up Internet connectivity. After receiving its first major infusion of institutional equity capital in March 1995, the Company reoriented its strategy to focus exclusively on business customers, who generally require high bandwidth connectivity, and also began to develop its Web server hosting business. The Company brought in an experienced management team in the first quarter of 1996. In the second quarter of 1996, the Company expanded its network to the west coast, enabling the Company to provide its solutions to business customers nationwide.

The Company derives its revenue from providing a comprehensive range of INDUSTRIAL STRENGTH Internet solutions, including business connectivity, Web server hosting, consulting and education services and security and other network products. Business connectivity and Web server hosting customers are typically signed to contracts with minimum terms of one year. Revenues generated from these customers are typically in the form of recurring monthly fees, installation and start-up charges and sales of related equipment, applications and services.

The Company has made significant investments in developing and expanding its network infrastructure and its customer service and sales and marketing efforts. The substantial costs incurred in connection with this expansion contributed heavily to the Company's operating losses in 1995 and the three months ended March 31, 1996. In anticipation of future growth, the Company expects to continue to make significant investments in its network infrastructure and its corporate operations throughout the remainder of 1996 and in 1997. The Company's leased line and server customers have expanded from approximately 65 accounts at April 30, 1995 to approximately 750 accounts at May 31, 1996.

The Company's quarterly operating results have fluctuated and will continue to fluctuate from period to period depending upon factors such as the timing and installation of significant orders, the pricing and mix of services and products sold by the Company, terminations of service, new product introductions by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and services, changes in pricing policies by its competitors, the Company's ability to obtain sufficient supplies of limited source components, the lengthening of the Company's sales cycle and the timing of the expansion of the Company's network infrastructure.

In view of the significant growth of the Company's operations, the Company believes that period-to-period comparisons of its financial results should not be relied upon as an indication of future performance and that the Company may experience future period-to-period fluctuation in operating results. The Company's short-term focus is on building and increasing its customer base, which will require it to make significant investments in its network infrastructure, personnel, marketing and the development of new products and services, and may adversely impact short-term operating results. The Company expects to incur operating and net losses in 1996 and may continue to incur operating and net losses thereafter. There can be no assurance that the Company will achieve or sustain profitability in the future.

Results of Operations

The following table sets forth the percentage of the Company's revenue and total expenses represented by certain line items from the Company's statement of operations.

	YEARS ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
Revenue	100%	100%	100%	100%	100%
Costs and expenses:					
Cost of revenue	50	63	88	65	88
Sales and marketing	4	17	34	16	30
General and administrative	32	23	53	37	40
Total expenses	86	103	175	118	158
Income (loss) from operations	14	(3)	(75)	(18)	(58)
Interest expense	--	(2)	(3)	--	(24)
Income (loss) before income taxes	14	(5)	(78)	(18)	(82)
Income taxes	6	0	--	--	--
Net income (loss)	8%	(5)%	(78)%	(18)%	(82)%

Three Months Ended March 31, 1996 Compared with Three Months Ended March 31, 1995

Revenue

The Company derives its revenue from providing a comprehensive range of INDUSTRIAL STRENGTH Internet solutions, including business connectivity, Web server hosting, consulting and education services and security and other network products. Revenue grew 202% from $0.7 million in the three months ended March 31, 1995 to $2.2 million in the three months ended March 31, 1996, primarily due to the change in the Company's strategy to focus exclusively on business customers, who generally require high bandwidth connectivity, the development of its Web server hosting business and the Company's expansion of its sales and marketing efforts including the creation of a direct sales force. However, revenue in the three months ended March 31, 1996 was adversely affected by severe weather in the northeast U.S. in January 1996, which delayed installations and recurring revenue from such installations.

Cost of Revenue

Cost of revenue consists primarily of local access costs, network infrastructure, leased network backbone circuit costs and network operations and support costs. Network operations and support costs consist primarily of personnel expenses relating to the operation of the network infrastructure, including monitoring network traffic and quality, and costs of providing technical support to customers. Cost of revenue increased 309% from $0.5 million in the three months ended March 31, 1995 to $2.0 million in the same period in 1996. Cost of revenue increased as a percentage of revenues from 65% in the 1995 period to 88% in the 1996 period. The increase in cost of revenue was primarily due to costs associated with the Company's change in strategy to focus exclusively on business customers. These costs include the hiring of additional personnel to support the Company's expanding customer base and the higher support requirements of business customers as well as the expansion of the network backbone, the establishment of a 24x7x365 NOC, and the building of redundant facilities. For example, the Company's customer support and network operations personnel increased from 25 at March 31, 1995 to 51 at March 31, 1996. The Company plans to continue to expand its network through 1996 and 1997, thereby continuing to increase cost of revenue. As the costs associated with this expansion have been and will be incurred by the Company in anticipation of growth in its customer base, the Company believes that, over time, cost of revenue as a percentage of revenues will decline as its customer base expands.

Sales and Marketing

Sales and marketing costs consist primarily of salaries and expenses of sales and marketing personnel, advertising, promotion and marketing materials. Sales and marketing costs rose 479% from $0.1 million in the three months ended March 31, 1995 to $0.7 million in the same period in 1996. Sales and marketing costs increased as a percentage of revenues from 16% in the 1995 period to 30% in the 1996 period. The increase in sales and marketing costs was primarily due to the Company's change in strategy to focus exclusively on business customers. The Company's prior business strategy required minimal sales and marketing. The change in strategy required the hiring of additional sales and marketing personnel (from 9 at March 31, 1995 to 38 at March 31, 1996) and the expansion of advertising and promotional activities and product development efforts. The Company expects to continue to invest heavily in sales and marketing in 1996 and 1997.

General and Administrative

General and administrative costs consist primarily of expenses associated with the Company's management, accounting, finance and administrative functions. General and administrative costs increased 535% from $0.3 million in the three months ended March 31, 1995 to $0.9 million in the same period in 1996. These costs increased as a percentage of revenues from 37% in the three months ended March 31, 1995 to 40% in the same period in 1996. This increase in general and administrative expenses was due primarily to the hiring of additional senior management, finance, accounting and administrative personnel to support the Company's expanding operations. General and administrative costs were also affected by a $121,000 non-cash compensation charge in the three months ended March 31, 1996 related to the grant of stock options. The increase in these costs resulted principally from the increase in the Company's general and administrative staff from 6 at March 31, 1995 to 23 at March 31, 1996. The Company expects to hire additional personnel in anticipation of continued expansion of its operations.

Interest Expense

Interest expense increased from $688 in the three months ended March 31, 1995 to $541,000 in the same period in 1996. The increase in interest expense during the 1996 period was primarily due to the Company's issuance of subordinated debentures in November 1995 and February 1996 and increased equipment financing and capital lease obligations incurred to finance network expansion and to fund working capital requirements.

Year Ended December 31, 1995 Compared with Year Ended December 31, 1994

Revenue

Revenue grew 222% from $1.6 million in 1994 to $5.1 million in 1995, primarily due to the change in the Company's strategy to focus exclusively on business customers, who generally require high bandwidth connectivity, and the development of its Web server hosting business. In addition, the equity financing in March 1995 contributed to this increase by allowing the Company to greatly expand its customer acquisition effort by building a direct sales force. The Company's leased line and server customers expanded from approximately 16 accounts at December 31, 1994 to approximately 500 accounts at December 31, 1995.

Cost of Revenue

Cost of revenue increased 346% from $1.0 million in 1994 to $4.5 million in 1995. Cost of revenue increased as a percentage of revenues from 63% in 1994 to 88% in 1995. The increase in cost of revenue was primarily due to costs associated with the Company's change in strategy to focus exclusively on business customers. These costs included the hiring of additional personnel to support the Company's expanding customer base as well as the expansion of the network backbone, the establishment of a 24x7x365 NOC, and the building of redundant facilities. The Company's customer support and network operations personnel increased from 21 at December 31, 1994 to 53 at December 31, 1995. The increased use of the network and the increase in capital expenditures to expand the network infrastructure created an increase in depreciation and amortization expense during 1995.

Sales and Marketing

Sales and marketing costs rose 550% from $0.3 million in 1994 to $1.7 million in 1995. Sales and marketing costs increased as a percentage of revenues from 17% in 1994 to 34% in 1995. The increase in sales and marketing costs was primarily due to the Company's change in strategy to focus exclusively on business customers. The Company's prior business strategy required minimal sales and marketing. The Company's change in focus required the hiring of additional sales and marketing personnel (from 8 at December 31, 1994 to 36 at December 31, 1995), expanding advertising and promotional activities and product development efforts. The Company expects to continue to invest heavily in sales and marketing in 1996.

General and Administrative

General and administrative costs increased 650% from $0.4 million in 1994 to $2.7 million in 1995. These costs increased as a percentage of revenues from 23% in 1994 to 53% in 1995. This increase in general and administrative expenses was due primarily to the hiring of additional management, finance, accounting and administrative personnel to support the Company's expanding operations. General and administrative costs were also affected by a $475,000 non-cash compensation charge in 1995 related to the grant of stock options and a $310,000 write-off of accounts receivable in 1995 compared to a $15,000 write-off during 1994. The Company's general and administrative staff increased from 5 at December 31, 1994 to 17 at December 31, 1995. The Company expects to hire additional personnel in anticipation of continued expansion of its operation.

Interest Expense

Interest expense increased from $24,000 in 1994 to $227,000 in 1995. The increase in interest expense during 1995 was primarily due to interest of $124,000 on $2.0 million of subordinated debentures and an increase in equipment financing and capital lease obligations incurred to finance network expansion and to fund working capital requirements.

Year Ended December 31, 1994 Compared with Year Ended December 31, 1993.

Revenue

Revenue grew 266% from $0.4 million in 1993 to $1.6 million in 1994, primarily as a result of increases in the number of the Company's customers due to the commercialization of the Internet and significant growth in its usage. The customer base in 1993 and 1994 was comprised primarily of individual dial- up customers.

Cost of Revenue

Cost of revenue increased 363% from $0.2 million in 1993 to $1.0 million in 1994. Cost of revenue increased as a percentage of revenues from 50% in 1993 to 63% in 1994. The increase in cost of revenue was primarily due to an increase in the hiring of additional personnel to support the Company's expanding customer base, relocation of the Company's headquarters to larger facilities and the increase in capital expenditures to expand the network infrastructure, which created an increase in the depreciation and amortization expense during 1994.

Sales and Marketing

Sales and marketing costs rose from $18,000 in 1993 to $263,000 in 1994. Sales and marketing costs increased as a percentage of revenues from 4% in 1993 to 17% in 1994. The increase in sales and marketing costs was due to expansion of the advertising and promotional activities, and the hiring of dedicated sales representatives.

General and Administrative

General and administrative costs increased 171% from $0.1 million in 1993 to $0.4 million in 1994. These costs decreased as a percentage of revenues from 32% in 1993 to 23% in 1994. This increase in general and administrative costs was due primarily to the hiring of additional management, finance, accounting and administrative personnel to support the Company's expanding customer base.

Interest Expense

Interest expense was $24,000 in 1994. There was no interest expense in 1993. The interest expense incurred during 1994 was primarily due to equipment financing and capital lease obligations incurred to finance network expansion and to fund working capital requirements.

Income Taxes

Income tax expense decreased from $26,000 in 1993 to $3,000 in 1994 due to the operating loss.

Quarterly Results

The following table sets forth unaudited quarterly revenue for the five quarters ended March 31, 1996. In the opinion of management, the unaudited information set forth below has been prepared in accordance with generally accepted accounting principles for interim financial information and Item 310(b) of Regulation S-B.

	1995				1996
	THREE MONTHS ENDED				THREE MONTHS ENDED
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	MARCH 31
Revenue.....	$	$	$	$	$

The Company's quarterly results may in the future vary significantly depending on a variety of factors. See "Risk Factors--Potential Fluctuations in Quarterly Operating Results." In view of the significant historic growth of the Company's operations, the Company believes that period-to-period comparisons of revenue should not be relied upon to estimate future revenue.

Liquidity and Capital Resources

The Company satisfied its cash requirements in 1995 and in the first quarter of 1996 principally through a combination of sales of equity and debt securities to venture capital investors. The Company received $6.0 million in 1995 from the sale of equity and debt securities to venture capital investors. In February 1996, the Company sold additional debt securities to venture capital investors, together with warrants to purchase shares of Common Stock, for gross proceeds of $1.0 million. Proceeds from these financings were used to fund the rapid expansion of the Company's network infrastructure and internal operations, including purchases of capital equipment and the hiring of additional personnel. See "Certain Transactions."

In April 1996, to provide additional liquidity, the Company entered into a Loan and Security Agreement with Silicon Valley Bank that provides a revolving credit line secured by accounts receivable. The credit line allows the Company to borrow a maximum of $1.5 million, subject to restrictions based on the available collateral, at the rate announced from time to time by Silicon Valley Bank as its "prime rate" plus 1% per annum. Also in April 1996, the Company obtained a commitment for an equipment lease line under which the Company may lease equipment with a total cost of up to $2.0 million through December 31, 1996. The lease terms will range from 42 months to 50 months and will be accounted for as capital leases with annual effective interest rates approximating 14% per annum.

In May 1996, the Company entered into agreements with venture capital investors pursuant to which the Company issued shares of Series B Preferred Stock in exchange for total cash consideration of $5.0 million. Proceeds from this transaction are being used to finance the Company's network infrastructure expansion. See "Certain Transactions."

In June 1996, the Company entered into a multi-year private network agreement with WinStar. As part of the agreement, WinStar has agreed to advance $5.0 million in cash for connectivity services to be provided under such agreement and received warrants to purchase 600,000 shares of Common Stock. See "Certain Transactions."

The Company generated positive cash flow from operating activities of $124,000 in 1993 and $133,000 in 1994, compared to a negative cash flow from operating activities of $2.5 million in 1995. The change in operating cash flows from 1994 to 1995 was due primarily to increased costs relating to expansion of the Company's network and organizational infrastructure, including the hiring of additional management, marketing and sales, finance, accounting and administrative personnel. In addition, purchase of fixed assets increased from $98,000 in 1993, to $350,000 in 1994, and to $1.2 million in 1995, primarily to support the expansion of the Company's network infrastructure.

The Company currently anticipates that funds agreed to be advanced by WinStar under the terms of its private network agreement, and the net proceeds of the 1996 Venture Financing and the Offering, together with existing financing arrangements and funds from operations, will be sufficient to meet its presently anticipated working capital and capital expenditure requirements. The Company may need to raise additional funds through public or private debt or equity financings in order to take advantage

of unanticipated opportunities, including the acquisition of business-focused regional ISPs or the purchase of their subscriber bases, international expansion, acquisitions of complementary businesses or technologies, development of new products or otherwise responding to unanticipated competitive pressures. In addition, the Company may need to raise additional funds in the event that the Company's estimates of operating losses and capital requirements change or prove inaccurate. There can be no assurance that the Company will be able to raise such capital on favorable terms or at all. See "Risk Factors--Future Capital Needs; Uncertainty of Additional Financing and Risks Associated With Current Financing Relationships" and "Use of Proceeds."

Business

DIGEX is a leading independent national ISP that focuses exclusively on businesses, government agencies and other institutional customers ("business customers"). The Company offers a comprehensive range of INDUSTRIAL STRENGTH Internet solutions, including business connectivity, Web server hosting, consulting and education services and security and other network products. After receiving its first major infusion of institutional equity capital in March 1995, the Company reoriented its strategy to focus exclusively on business customers, who generally require high bandwidth connectivity, and also began to develop its Web server hosting business. Additionally, the Company brought in an experienced management team in the first quarter of 1996. As a result, the Company's leased line and server customers have grown from approximately 65 accounts at April 30, 1995 to approximately 750 accounts at May 31, 1996.

The Company offers its INDUSTRIAL STRENGTH Internet solutions through four separate and highly focused business units. The Business Connectivity Group offers Internet connectivity solutions and other value-added solutions to business customers, while the Telecommute Products Group focuses on the home- office connectivity requirements of small businesses and high-end professionals employed by companies that are served by the Business Connectivity Group. The Internet Server Products Group provides Web server hosting solutions enabling customers to deploy highly reliable Web servers that are connected directly to the Internet backbone and are monitored on a 24x7x365 basis at the Company's network operations center ("NOC"). The Private Networks Group seeks to create customized solutions for businesses looking to provide private label Internet services without building their own facilities. The Company recently entered into its first multi-year private network agreements with LCI and WinStar. The Company expects that its ability to attract additional private network customers will be significantly enhanced by the announcement of these two agreements.

Industry Background

The Internet is a global collection of computer networks that enables businesses, government agencies, other institutional customers and individuals to communicate, access and share information and conduct business remotely. Use of the Internet has grown rapidly since the early 1990s, due in large part to increasing personal computer and modem penetration, the development of the World Wide

Web, the introduction of easy-to-use navigational tools and utilities for the Web and the availability of informational, entertainment and commercial applications. Technological advances relating to the Internet have occurred and continue to occur rapidly, resulting in a more robust, lower-cost infrastructure, improved security and increased value-added services and content. IDC has estimated that the number of Internet users will reach approximately 200 million in 1999, from approximately 56 million in 1995.

While there has been significant media interest in the use of the Internet by consumers, business customers currently account for a more significant percentage of Internet use. According to IDC, approximately 71%, or 40 million, of the approximately 56 million Internet users in 1995 were business- related users. Internet capabilities, including corporate Internet sites, are becoming an increasingly important part of doing business. According to Netcraft, Ltd., the number of corporate Internet sites, defined as domain names ending in ".com", has increased from 4,912 in August 1995 to 171,738 in June 1996.

Because Internet and corporate intranet solutions are increasingly achieving "mission critical" status, business customers are demanding advanced, highly reliable solutions designed specifically for the needs of business. Furthermore, as the use of the Internet expands, business customers are requiring that providers offer a comprehensive range of services, including connectivity, Web server hosting, consulting, education services and security and other networks products. Finally, business customers often require knowledgeable and highly responsive sales and customer service representatives in order to determine their optimal Internet strategy quickly and to resolve any problems with their current solutions.

The Digex Solution

The Company provides a comprehensive range of INDUSTRIAL STRENGTH Internet SM solutions that serves the needs of business customers, who often desire a responsive, single-source provider of reliable, high-performance Internet connectivity and Web server hosting products and services.

Connectivity. DIGEX offers a complete product line of Internet connectivity solutions to its business customers with a variety of service and pricing programs based on bandwidth requirements. To complement its connectivity offerings, the Company also sells customer-premise routers, firewall security options and other value-added services such as education and training as well as assigns and manages IP and E-mail addresses.

Web Server Hosting. The Company also offers a complete range of Web server hosting solutions. The Company's business customers are able to locate highly reliable Web sites on dedicated servers at the Company's "Server Farm," which enables users to gain high speed access to the Web server given the server's direct connection to the Internet backbone. In addition, the Company provides 24x7x365 monitoring of the server and Internet connection by the Company's highly experienced technical staff, as well as easy server upgradability as the customer's speed and capacity requirements grow.

The Company's Internet solutions are supported by its state-of-the-art network infrastructure, including the Company's NOC and Server Farm located in suburban Washington, D.C. The Company has built a redundant nationwide DS-3 backbone connecting to the three major Internet peering points at 45 Mbps and has established peering relationships with other national ISPs, allowing DIGEX to route its customers' traffic to the desired Internet address. The Company believes that its combination of a nationwide network and peering relationships significantly differentiates the Company from regional ISPs who, without peering relationships, must pay retail rates to national providers in order to exchange network traffic.

The Digex Strategy

After receiving its first major infusion of institutional equity capital in March 1995, the Company reoriented its strategy to focus on becoming the ISP of choice for business customers. DIGEX's strategy focuses on five key elements:

Focus on Businesses Customers. The Company believes that business customers offer the greatest potential market for the Company's solutions due to this market's low customer turnover and need for the higher value-added Internet solutions which the Company provides. By focusing on these customers, the Company believes it will be able to develop innovative, specialized products and services that address the constantly evolving needs of business customers at competitive prices. In addition, the Company believes that its less-focused competition will have difficulty fulfilling the demanding needs of these customers.

Provide Comprehensive Range of Internet Solutions. The Company provides a comprehensive range of Internet solutions, enabling it to satisfy the needs of business customers, who often seek a sole provider for all their Internet requirements. The Company's sales forces for each of its business units are incentivized to cross-market all of DIGEX's products and services.

Expand and Optimize Its Nationwide Network. The Company aims to expand its highly reliable, nationwide DS-3 network, which the Company has designed to specifically address the growing reliability and bandwidth requirements of business customers, so as to offer a comprehensive range of connectivity solutions to such customers across the United States. The Company believes that as it expands its network to more cities, it can offer its solutions to additional business customers more cost-effectively than its consumer-focused competitors, because fewer POPs are required to reach business customers, who are largely concentrated in urban centers. In addition, the Company attempts to optimize its network efficiency by counterbalancing business connectivity, which makes greater use of the Company's network during business hours, with Web server hosting, which makes greater use of the network during non-business hours.

Implement Multiple Distribution Channels. The Company aims to reach its customers through the Company's own direct sales force as well as through other innovative methods of distribution. These methods currently include agent relationships with advertising agencies and Web site developers who

resell the Company's Web server hosting solutions and the efforts of the Company's Private Networks Group, which enters into long-term agreements with telecommunications service providers to resell the Company's connectivity solutions under their own brand names.

Focus on Customer Acquisition and Retention. In addition to acquiring customers through its existing distribution channels, the Company believes that as consolidation of the industry continues and it becomes more difficult for regional ISPs to compete, it will be able to acquire opportunistically business-focused regional ISPs or purchase their subscriber bases. The Company also believes that customer responsiveness is becoming a key ingredient of success for ISPs and has formed four focused business units to better serve and retain customers. To aid in this effort, the Company has developed a highly trained direct sales force with extensive Internet expertise which, based on customer feedback, the Company believes significantly differentiates the Company from its competitors.

Network Infrastructure

DIGEX's current network infrastructure is based upon a DS-3 ring around the continental United States which provides two 45 Mbps paths between the east and west coasts, allowing for a combined bandwidth of 90 Mbps when fully operational. In the event of single points of failure, traffic will be routed around the loop, providing for a minimum of 45 Mbps even in the event of such a failure. The network backbone uses state-of-the-art routing platforms, including Cisco Systems, Inc. ("Cisco") 7513 routers, with customer circuits and other backbone circuits to non-"ring" cities being connected either to the core Cisco 7513 routers or to other Cisco routers located at a POP.

DIGEX customers are connected via high-speed leased lines, frame relay, SMDS or other technologies to the local DIGEX POP, where data enters the DIGEX backbone. If the destination of the data is on the DIGEX network, then the data is delivered without ever leaving DIGEX's facilities. If the data is destined for an Internet customer connected via another national ISP which has a peering relationship with DIGEX, then the data is routed to the nearest peering location where the data is passed from the DIGEX router to the router of the other ISP, who then carries that traffic to the final destination. If the destination is an ISP which does not have a peering relationship, then the data is delivered to the national ISP from whom such ISP purchases its Internet connectivity.

Currently, DIGEX's comprehensive range of connectivity solutions are available in 24 U.S. cities through 30 POPs, and the Company expects to make its connectivity solutions available in a total of 55 U.S. cities through 61 POPs by the end of 1996. MCI and Cable & Wireless provide the majority of DIGEX's intercity backbone DS-3 circuits, as well as collocation space at their facilities for DIGEX equipment. Other DIGEX backbone network segments and customer connections are provided through LECs and CAPs.

[Map of United States showing DIGEX's Internet backbone and POPs as of June 30, 1996 and POPs as of the end of 1996] DIGEX's network is monitored on a 24x7x365 basis by its NOC. Trouble calls are serviced by the technical staff of either the Business Connectivity Group, in the case of backbone or customer leased line difficulties, or the Internet Server Products Group, in the case of problems with

customer servers. MCI and Cable & Wireless provide "remote hands" service to assist DIGEX at all locations where the Company collocates equipment. For equipment for its remote POPs, DIGEX purchases routers from Cisco, CSU/DSUs from Digital Link Corporation, IDSUs and DSUs from Kentrox Industries Inc. and modems and ISDN from Ascend Communications Inc. Protected AC or DC power is used at all sites to protect against power outages affecting the network.

In addition to these backbone facilities, DIGEX presently operates a Server Farm at its suburban Washington, D.C. headquarters and intends to construct an additional Server Farm and a back-up NOC on the west coast by the end of 1996. The Company may decide to build additional Server Farms in the future to better serve customer needs. Multiple Server Farms allow Internet users to access the server closest to them and thus provide a better level of service, and would allow DIGEX to minimize the amount of server-related traffic which it must carry long distances over its network. Geographic distribution of customer data also provides for redundancy in case of hardware, software or network failure, contributing to increased uptime and service reliability.

Products and Services

The Company offers its INDUSTRIAL STRENGTH Internet solutions through four separate and highly focused business units.

Business Connectivity Group DIGEX provides complete connectivity solutions to its business customers, including frame relay, leased lines and SMDS, with availability limited only by the capabilities of the in-market LECs. See""--Network Infrastructure." The Company offers several configurations and monthly pricing plans, each based on the bandwidth supplied and thus on the speed and capacity of the facility. The retail pricing of Business Connectivity products ranges from $400 per month to $34,000 per month, and customers are strongly encouraged to enter into long- term contracts. The Company's products are highly scalable and are designed to facilitate ease of upgrade as the customer's needs evolve. The following chart describes the Company's Business Connectivity options:

Service Type Summary Description

Frame Relay Flat rate, scalable 32 Kbps to 1.54 Mbps connectivity solutions based on frame relay technology for small to medium size business customers, running all standard Internet applications. Leased Line A complete range (56 Kbps to 45 Mbps) of dedicated, clear channel circuits for local-area/wide-area networks and enterprises running all standard and high-bandwidth Internet applications. Ethernet Plus 2 Mbps to 16 Mbps connectivity solutions for small to large business customers; provides an easy "plug and play" solution for Ethernet-based networks running all Internet applications. Switched Multimegabit Data Service (SMDS) A wide range of scalable solutions (1.17 Mbps to 34 Mbps); designed for metropolitan-central business customers seeking a cost-effective way to support all Internet applications.

In addition to basic connectivity service, DIGEX sells and configures customer-premise routers, firewall security options and other value-added services. In addition, the Company helps customers with initial use of their particular DIGEX solution and offers training and education for its customers to become sophisticated Internet users. The Company plans to introduce new products on a controlled basis, to ensure that the quality of delivery, from both a sales and a support perspective, is in place, thus solidifying the Company's reputation and building on its promise for delivering INDUSTRIAL STRENGTH Internet solutions.

Internet Server Products Group The Company offers a complete range of Web server hosting solutions. The Company's business customers are able to locate highly reliable Web sites on dedicated servers at the Company's "Server Farm," which enables users to gain high speed access to the Web server given the server's direct connection to the Internet backbone. In addition, the Company provides 24x7x365 monitoring of the server and Internet connection by the Company's highly experienced technical staff as well as easy server upgradability as the customer's speed and capacity requirements grow. As Web server needs evolve, DIGEX's goal is to continue to meet the market with the most advanced server solutions available. DIGEX offers the following Web server products under the DIGEX WEBenefit Series brand:

IntroWeb. To serve entry-level business customers using their Web sites to display general information, the Company offers the IntroWeb product line. The IntroWeb product line includes a dedicated server running on either a UNIX or a Windows NT platform.

WebPlus. To serve business customers using their Web sites both to display general information and to establish a greater level of interactivity with their customers, the Company offers the WebPlus product line. The WebPlus product line includes dedicated-server products with greater processing power and memory than those included in the IntroWeb product line.

WebPreferred. To serve business customers using their Web sites to conduct more sophisticated marketing and customer service efforts, such as displaying company-specific information and interacting with customers as well as transacting sales with customers who are attracted to their Web sites by broader-based media advertising, the Company offers the WebPreferred product line. The WebPreferred product line includes Netscape's Web Commerce server software to help ensure that customers are able to effect business transactions securely.

WebPremier. To serve the most advanced business customers using their Web sites as a core sales, marketing or customer support tool or primary distribution vehicle for their products, the Company offers the WebPremier product line. Within the WebPremier product line, the Company also allows customers to collocate a specialized, customer-owned server at DIGEX's facilities.

Private Networks Group The Private Networks Group creates customized solutions for telecommunications service providers looking to offer highly reliable private label Internet connectivity solutions without incurring the lead time and costs associated with building their own facilities. In turn, these providers absorb customer-acquisition costs that would otherwise be borne by the Company. When an individual contract is secured, a customized implementation and service

organization will be created to provide a premium level of support for the private network customer. The Company expects that the operations of the private network customer and the DIGEX support team will be integrated to enhance customer support.

The Company recently entered into multi-year private network agreements with LCI and WinStar. The Company expects that its ability to attract additional private network customers will be significantly enhanced by the announcement of these two agreements.

Telecommute Products Group The Telecommute Products Group offers a variety of high-end, dial-up options to business professionals, telecommuters and small businesses. The group's products range from lower-cost, limited-access capability products to premium- priced, high-speed, low-latency products. This group focuses on two distinct customer groups: (i) professionals who require reliable at-home Internet connectivity and whose usage is frequently paid for as part of an integrated, total-solution connectivity package procured on a large scale by their employers and (ii) small businesses that are likely to broaden and upgrade their solutions, eventually becoming Business Connectivity Group and Internet Server Products Group customers. The Company believes that the Telecommute Products Group complements the Business Connectivity Group by providing high- end solutions to professionals employed by Business Connectivity customers.

Customers

The Company's leased line and server customers have expanded to approximately 750 accounts at May 31, 1996. In 1995, no customer accounted for more than five percent of the Company's total revenues. In addition to its leased line and server customers, the Company had approximately 5,000 dial-up customers at May 31, 1996. The following is a list of selected DIGEX customers to which DIGEX billed monthly service fees in excess of $500 for Business Connectivity solutions and in excess of $350 for Internet Server products in May 1996.

Business Connectivity Internet Servers

ALCOA
Credit Suisse
Disclosure, Inc.
Hunton & Williams
Merrill Lynch & Co., Inc.
National Basketball Association
Oracle Corporation
Pointcast, Inc.
PRC, Inc.
Securities and Exchange Commission
University of Maryland
Westinghouse Electric Corp.
The World Bank
AMTRAK Campmor, Inc.
CIGNA Corp.
Federal Reserve Bank of Richmond
Grand Heritage Hotel Company
Maryland Dept. of Agriculture
Graduate School
National Association of Investors
Orbit Questal Inc.
Philadelphia Federal Credit Union
Pointcast, Inc.
Roy F. Weston Inc.
TeeVee Toons, Inc. The World Bank

Sales and Marketing

As of May 31, 1996, the Company employed 43 people in sales and marketing. To date, the Company has sold its Internet solutions primarily through its direct telephone sales force. Call activity is generated both by "cold calling" and in response to customer referrals, E-mail correspondence through the Company's Web site and a variety of promotional programs, including advertising in general business and specialty periodicals, participation in industry trade shows and press relations. In addition, the Company engages in local promotional programs to support newly opened service locations. In order to better serve the needs of its customers, the Company has developed a specialized marketing approach for each business unit.

The sales force for the Company's Business Connectivity Group continues to grow to meet the demands of customers along DIGEX's growing nationwide network. The Company plans to add sales representatives who will focus on the cities where the Company is opening new POPs along the network and to support them with marketing programs to generate quality sales leads. In addition, the Company plans to purchase prequalified sales leads, to solicit customers through direct mail advertising, to conduct sales seminars, to advertise in national trade publications and to participate in industry trade shows. The Company believes that active marketing and lead generation efforts will allow the sales force to become even more productive and efficient.

In addition to using the Business Connectivity Group's sales force for marketing its products and services, the Internet Server Products Group is creating a network of agents around the country to sell its products. DIGEX is currently entering into agent agreements with organizations in select cities nationwide, such as advertising agencies, graphic design firms and development companies whose primary business is the creation of Web sites. In addition, DIGEX intends to deploy regional account executives to support these organizations and to develop and maintain relationships with targeted end users.

The Private Networks Group has a dedicated business development team which targets a number of types of potential customers, including IXCs, LECs, cable operators, large private network providers, and CAPs. The Company seeks to enter into long-term, non-exclusive arrangements with these potential resellers.

The Telecommute Products Group sells its services through the Company's direct sales force, through private network providers and through direct marketing to the group's target markets. The Company's targeted businesses include telecommuters who may purchase connectivity through a customer of the Business Connectivity Group and small or home office users who are likely to upgrade their services in the future.

Competition

The market for all types of Internet connectivity services is extremely competitive. There are no substantial barriers to entry, and the Company expects that competition will intensify in the future.

Connectivity

ISPs. Currently, the Company's primary competitors are other ISPs focused on business customers including UUNET, BBN and PSI. UUNET, BBN and PSI in particular have significantly greater market presence and financial, technological and personnel resources than the Company and have extensive coast-to-coast Internet backbones.

A number of these competitors, however, including UUNET and PSI, have chosen to pursue individual connectivity customers in an effort to balance the use of their networks, since business customers tend to use the Internet during business hours, while individual customers tend to use the Internet after business hours. As a result, these ISPs have been forced to build out their networks beyond what would be necessary to serve business customers. DIGEX, on the other hand, has found that it can maintain its focus on business customers and build a network infrastructure that can serve a substantial majority of the business marketplace with significantly fewer POPs than its competitors. In addition, the Company's Web server hosting business, while offering additional Internet solutions to its business customers, generates a substantial portion of its traffic after business hours, and thus balances the usage of the Company's network. Thus, given its more focused business strategy and more efficient use of capital, DIGEX can offer a comprehensive range of business Internet solutions on a cost-effective basis.

To a lesser extent, the Company competes with other national and regional ISPs, of which there are currently over 1500. Many of these competitors, however, including NETCOM, do not share DIGEX's business focus. In addition, due to the substantial increase in the amount of data traffic carried by the networks of certain national ISPs, the Company expects the industry's current practice regarding peering to evolve by the end of 1996 to require an ISP to possess (i) a coast-to-coast DS-3 backbone, (ii) 45 Mbps connections to three U.S. peering points and (iii) a 24x7x365 NOC in order to qualify for peering with the major national ISPs. The Company expects ISPs which do not satisfy these requirements by the end of 1996 either to be acquired by the large national ISPs or to be forced to become resellers of Internet connectivity services, purchasing their network bandwidth at retail rates from national ISPs.

Telecommunications Companies. The Company currently competes with AT&T, MCI and Sprint. In addition, a number of regulatory obstacles to the entry of other telecommunications companies into the Internet connectivity market are being removed. Accordingly, the Company expects competition to increase with other major telecommunications companies, including MFS and the RBOCs. In addition, deregulation of the telecommunications industry has already led to significant horizontal integration through acquisitions and joint ventures, and the Company expects these trends to continue.

The telecommunications companies the Company competes with have access to significantly greater financial, technological and personnel resources than the Company and large existing commercial customer bases. In addition, IXCs, including AT&T, MCI and Sprint, possess existing nationwide telecommunications networks and generally face lower network infrastructure costs in providing Internet connectivity than the Company. Although its WorldNet offering targets the consumer market, AT&T is party to an agreement with BBN pursuant to which it can market BBN's business connectivity

services to AT&T's commercial customer base or, in the alternative, provide its own Internet connectivity. While these telecommunications companies have little experience with TCP/IP networking in general, and Internet connectivity in particular, they now may employ their larger sales organizations to sell Internet connectivity to their existing telephony customers, both commercial and consumer. However, the Company believes that its sales and marketing personnel, which have backgrounds in data-oriented services, particularly TCP/IP will be able to sell Internet connectivity more effectively than the sales forces of most telecommunications companies, which possess backgrounds in only voice-oriented services.

LECs, such as the RBOCs, and CAPs, such as MFS, on the other hand, do not currently possess nationwide networks. In order to address the Internet connectivity requirements of their current business customer bases, these companies must either buy connectivity to an Internet network infrastructure or build such a network. For example, MFS has announced that it has agreed to acquire UUNET to offer expanded Internet connectivity along with its traditional telecommunications services. The Company seeks to capitalize on the market opportunity created by telecommunications companies that have chosen to buy, not build, Internet connectivity for resale through its Private Networks Group, which sells DIGEX's Internet connectivity services to telecommunications companies to be remarketed under their own brands.

Cable Television and Direct Broadcast Satellite. Certain companies are exploring the possibility of providing high-speed data services using alternative delivery methods. For example, @Home, a joint venture between Tele-Communications, Inc. and Kleiner Perkins Caulfield & Byers, has stated its intent to provide high-speed data services over cable television plant, and Hughes Network Systems, Inc. has lauched DirecPC, which will deliver high- speed data through direct broadcast satellite technology. CAI Wireless Systems, Inc., a wireless cable television service, also has announced that it has begun testing the first Internet connectivity product delivered by wireless cable. However, since they do not currently possess nationwide networks, these companies, in order to provide Internet access, must either buy access to an Internet network infrastructure or build such a network.

On-Line Service Providers. The Company also competes, to a lesser extent, with certain on-line service providers who offer Internet connectivity in conjunction with their primary products or services. For example, Microsoft provides connectivity to the Internet through the Microsoft Network, which was built by UUNET (of which Microsoft holds a significant minority stake), as a standard integrated feature of its Windows 95 operating system, and IBM's OS/2 WARP operating system is preconfigured to provide Internet connectivity through the Advantis network, which is controlled by IBM. In addition, AOL, CompuServe and Prodigy, currently provide connectivity to the Internet, and many have announced plans to offer expanded Internet connectivity capabilities. Currently, on-line service providers are primarily focused on the consumer marketplace.

Web Server Hosting

The market for Web server hosting is highly fragmented and extremely competitive. There are no substantial barriers to entry and the Company expects the competition will intensify in the future. Currently, the Company's primary competitors are other ISPs, including BBN, UUNET and PSINet,

and companies whose primary business is developing and operating "Server Farms" such as Internet Direct. In addition, many organizations currently host Web servers at their own facilities. The Company believes, however, that as bandwidth requirements increase, it will become more economical for these organizations to outsource their needs. The Company believes that it significantly differentiates itself from its competitors by offering flat-rate billing, dedicated servers, 24x7x365 monitoring, upgradability and other value-added services demanded by high-end business customers.

However, as a result of an increase in the number of competitors, and vertical and horizontal integration in the industry, the Company expects to encounter significant pricing pressure and other competition in the future. Advances in technology as well as changes in the marketplace and the regulatory environment are constantly occurring, and the Company cannot predict the effect that ongoing or future developments may have on the Internet industry generally or on the Company specifically. See "Risk Factors--Competition," "--Dependence Upon Product Development; Risks of Changing Technology and Industry Standards" and "--Potential Liability for Information Disseminated Over Network; Regulation."

Properties

The Company's administrative offices, as well as its NOC and Server Farm, are located in Beltsville, Maryland, where the Company currently leases approximately 54,000 square feet under a lease that expires in 2000. The Company believes that this facility will meet its needs through at least the remainder of 1996. The Company intends to lease space on the west coast of the United States to house its second Server Farm, which the Company expects to construct in 1996. The Company also leases space (typically less than 200 square feet) in various geographic locations to house the telecommunications equipment for each of its POPs. See "Network Infrastructure" for a description of the components of the Company's nationwide network, the Company's NOC and the current Server Farm.

Employees

As of May 31, 1996, the Company employed 143 persons full-time, including 43 in sales and marketing, 24 in network operations (including 8 in technical support) and 54 in general and administrative functions. None of the Company's employees is represented by a labor union, and the Company considers its employee relations to be good.

Legal Proceedings

The Company is not involved in any material legal proceedings.

Management

Executive Officers and Directors

The executive officers and directors of the Company, and their ages as of June 1, 1996, are as follows:

Name Age Position

Christopher R. McCleary	43	Chairman of the Board, President, Chief Executive Officer
Clyde A. Heintzelman	57	Senior Vice President, Chief Operating Officer, General Manager--Business Connectivity Group
Thomas M. Brandt, Jr.	44	Senior Vice President, Chief Financial Officer
Earl P. Galleher	36	Vice President, General Manager--Internet Server Products Group
Nicholas J. Magliato	30	Vice President, General Manager--Private Networks Group
Brian M. Deobald	34	Vice President, General Manager--Telecommute Products Group
William A. Pendley	32	Vice President, Assistant General Manager--Business Connectivity Group, Secretary
John C. Welling	31	Vice President, Controller
Douglas E. Humphrey	36	Senior Vice President, Chief Technology Officer, Director
Sheryl R. Richeson	40	Vice President, Customer Service--Business Connectivity Group
Edward J. Kern	27	Vice President, Network--Business Connectivity Group
William F. Webb, Jr.	30	Vice President, Internet Server Technical Operations
Michael T. Doughney	37	Vice President, Director
Frank A. Adams(1)(2)	50	Director
William F. Earthman III(1)(2)	44	Director
Ray A. Rothrock(1)(2)	41	Director
Robert M. Stewart	41	Director
John H. Wyant	50	Director

(1) Member of the Compensation Committee. (2) Member of the Audit Committee.

Christopher R. McCleary joined DIGEX as President and Chief Executive Officer in February 1996. Mr. McCleary has served as a director since joining the Company and was elected Chairman of the Board of Directors in June 1996, succeeding Frank A. Adams, who remains a director. Mr. McCleary was one of the founding management team members at American Mobile Satellite Corporation ("AMSC"), where he served as a Vice President and General Manager, Satellite Telephone Service. Prior to joining AMSC, Mr. McCleary was founder and President of the Satellite Network Antenna Division of Radiation Systems, Inc. Mr. McCleary received his Bachelor of Arts degree from the University of Kentucky.

Clyde A. Heintzelman has served as Senior Vice President and Chief Operating Officer since May 1995. Prior to May of 1995, Mr. Heintzelman was Vice President of Sales and Marketing for Connective Strategies, Inc. ("CSI"), an ISDN startup company. Mr. Heintzelman spent 28 years prior to CSI with Bell Atlantic, serving as General Manager of Marketing and Sales for Bell Atlantic Directory Services from 1990 until 1992 and as Vice President of Sales and Marketing for the Business Market at C&P Telephone from 1985 to 1990. Mr. Heintzelman was President and CEO of Bell Atlanticom from 1983 to 1985 and, prior to that, was the general manager who established Bell Atlantic's Federal Systems Division. Mr. Heintzelman is an alumnus of the University of Delaware and has also done graduate work at the Wharton School, the University of Pittsburgh, and the University of Michigan.

Thomas M. Brandt, Jr. joined DIGEX as Senior Vice President and Chief Financial Officer in June 1996. Mr. Brandt was a director at Price Waterhouse LLP from 1993 until he joined DIGEX. From 1987 through 1992, Mr. Brandt served as Vice President and Chief Financial Officer for U.S. Metalsource Corporation, a metals distribution business. Mr. Brandt received his M.B.A. degree from the Wharton School of the University of Pennsylvania and his Bachelor's degree from Duke University.

Earl P. Galleher joined DIGEX as Vice President and General Manager-- Internet Server Products in March 1996. Prior to joining DIGEX, Mr. Galleher was Director of Marketing at AMSC. Mr. Galleher led the development of AMSC's product positioning, branding strategy and subscriber acquisition investment plan. Prior to AMSC, Mr. Galleher was Manager of Market Development at Southwestern Bell Mobile Systems Washington-Baltimore system. Mr. Galleher received his Bachelor of Arts degree from Denison University.

Nicholas J. Magliato joined DIGEX as Vice President and General Manager-- Private Networks in March 1996. Prior to joining DIGEX, Mr. Magliato was the Director of Land Mobile Sales and Distribution at AMSC. His responsibilities at AMSC included creating product plans for wireless voice and data services and developing and implementing a nationwide sales and distribution strategy. Prior to AMSC, Mr. Magliato was a telecommunications consulting manager at Andersen Consulting LLP. Mr. Magliato received a Bachelor of Science degree, concentrating in Computer and Information Services, from Syracuse University.

Brian M. Deobald joined DIGEX as Vice President and General Manager-- Telecommute Products in March 1996. Prior to joining DIGEX, Mr. Deobald was the Director of Product Management at AMSC. At AMSC, Mr. Deobald created the company's business plan and developed and introduced services, subscriber hardware, and pricing. Mr. Deobald joined AMSC from AT&T International Communications Services where he managed strategic and business planning. Mr. Deobald received an M.B.A. from the Wharton School and holds a Master's degree from Johns Hopkins University and a Bachelor's degree from Georgetown University.

William A. Pendley joined DIGEX in December 1994 as Chief Financial Officer and currently serves as Vice President and Assistant General Manager--Business Connectivity. In 1995, Mr. Pendley was responsible for developing DIGEX's financial business plan and securing the first-level financing with venture capital investors. Prior to joining DIGEX, Mr. Pendley was Chief Financial Officer for Intrafed,

Inc., a software developer and system integrator, and, prior to that, served in a financial management position for IBM Federal Systems. Mr. Pendley holds an M.B.A. in finance from New York University and a Bachelor of Science of Business Administration degree from Georgetown University.

John C. Welling joined DIGEX as a Vice President and Controller in April 1996. Prior to joining DIGEX, Mr. Welling was a senior manager at KPMG Peat Marwick LLP, focusing on publicly-held companies. Mr. Welling received a Bachelor of Business Administration degree, with a concentration in accounting, from Loyola College in Baltimore, Maryland.

Douglas E. Humphrey is the Senior Vice President, Chief Technology Officer and co-founder of DIGEX. Mr. Humphrey has also served as a director of the Company since 1990 and served as the Chief Executive Officer from the Company's inception until Mr. McCleary joined DIGEX in February 1996. Prior to founding DIGEX, Mr. Humphrey was a senior TCP/IP networking and computer security specialist for Tandem Computers, Inc. from September 1987 to March 1993. From 1983 to 1987, Mr. Humphrey was President and CEO of Computer Time Share Corporation.

Sheryl R. Richeson is Vice President, Customer Service--Business Connectivity. Ms. Richeson joined DIGEX as Director of Customer Service in October 1995. Ms. Richeson is an experienced telecommunications executive with more than 14 years of management experience with Bell Atlantic. Ms. Richeson served as Director of Large Business Services and as regional manager for Field Sales Support for Bell Atlantic. Ms. Richeson holds a Masters of Administrative Science degree from Johns Hopkins University and a Bachelor of Science degree from the University of Colorado.

Edward J. Kern joined DIGEX in 1993 as Manager of Systems and was promoted to Vice President, Network--Business Connectivity in May 1996. Prior to joining DIGEX, Mr. Kern spent seven years building and managing TCP/IP networks as a consultant for various companies. Mr. Kern is an active member of the Internet Engineering Task Force.

William F. Webb, Jr. joined DIGEX as Vice President, Internet Server Technical Operations in May 1996. Prior to joining DIGEX, Mr. Webb was a manager at Andersen Consulting LLP. At Andersen Consulting, Mr. Webb worked in the Telecommunications Industry Market Unit, focusing on service activation systems for major telecommunications clients. Mr. Webb holds an M.B.A. degree from Virginia Polytechnic Institute and State University and a Bachelor of Science degree in Computer Science and Mathematics from Eastern Nazarene College.

Michael T. Doughney is a Vice President and co-founder of DIGEX and has served as a director of the Company since 1990. Mr. Doughney majored in computer science and electrical engineering at the University of Maryland.

Frank A. Adams has been a director of the Company since April 1995. Mr. Adams served as Chairman of the Board from April 1995 until June 1996, when Mr. McCleary was elected Chairman. Mr. Adams is currently President and CEO of Grotech Capital Group which he co-founded in 1984. Mr. Adams has held positions with public companies, including PHH Corporation, RLC/Matlack and

Westinghouse. Mr. Adams is also a director of several private companies. Mr. Adams holds B.S. and Juris Doctor degrees from the University of Baltimore and has completed advanced management programs at Stanford University and Harvard University.

William F. Earthman III has been a director of the Company since April 1995. Mr. Earthman is a general partner of Southern Venture Fund II, L.P. and a Partner of Massey Burch Capital Corporation. Before joining Massey Burch as Vice President in 1989, he served at the firms of J.C. Bradford & Co., Prudential-Bache Securities and, most recently, First Nashville Corporation. Mr. Earthman is also a director of Ensys Environmental Products Inc. Mr. Earthman received his Bachelor of Arts degree from the University of Virginia.

Ray A. Rothrock has been a director of the Company since April 1995. Mr. Rothrock is a general partner for Venrock Associates and has been with the firm since 1988. Mr. Rothrock was with Sun Microsystems Inc. for four years prior to joining Venrock Associates. Mr. Rothrock received his M.B.A. degree from Harvard Business School, an MS in Nuclear Engineering from Massachusetts Institute of Technology, and a Bachelor of Science in Nuclear Engineering from Texas A&M University. He also serves as a director of Spyglass, Inc. and several private companies, including Checkpoint Software Technologies of Tel Aviv, Israel. He is also a director and treasurer of the New York Venture Capital Forum.

Robert M. Stewart has been a director of the Company since December 1995. Mr. Stewart is a Managing Director of the Anchor Financial Group LLC, a private investment banking firm in Washington, D.C. Prior to joining Anchor Financial Group, Mr. Stewart was a Principal with Armata Partners L.P. and, previously to that, a Vice President of Legg Mason Wood Walker, Inc. Mr. Stewart holds an M.B.A. from the Babcock Graduate School of Management of Wake Forest University and a B.A. from Hampden-Sydney College.

John H. Wyant began serving as a director of the Company in June 1996. Mr. Wyant is the founder and president of Blue Chip Venture Company. Mr. Wyant is also a director of Zaring Homes Inc. and several private companies. Mr. Wyant received his B.A. degree from Denison University and his J.D. degree from Chase College of Law.

Each officer serves at the discretion of the Board of Directors. There are no family relationships among any of the Directors and executive officers of the Company.

Committees of the Board of Directors

The Audit Committee consists of Mr. Rothrock (Chairman), Mr. Adams and Mr. Earthman. The Audit Committee makes recommendations to the Board of Directors regarding the selection of independent auditors, reviews the results and scope of the audit and other services provided by the Company's independent auditors, and reviews and evaluates the Company's audit and control functions.

The Compensation Committee consists of Mr. Adams (Chairman), Mr. Earthman and Mr. Rothrock. The Compensation Committee administers the Company's Incentive Stock Plan and makes decisions concerning salaries and incentive compensation for employees and consultants of the Company.

Directors' Compensation

Non-employee directors are reimbursed for reasonable expenses incurred by them in attending Board meetings. Pursuant to the terms of the Securities Purchase Agreement by and among the Company, Mr. Humphrey, Mr. Doughney, Grotech Capital Partners IV, L.P. ("Grotech IV"), Venrock Associates ("Venrock"), and Southern Venture Fund II, L.P. ("Southern"), dated as of March 24, 1995 (the "Securities Purchase Agreement"), the Company pays to each of Grotech IV, Venrock and Southern an annual directors fee of $10,000 for the respective directors designated by such entities. Under that certain Purchase and Exchange Agreement (as defined), the Company also pays Blue Chip an annual directors fee of $10,000 for the director designated by such entity.

Board Composition

All directors hold office until their successors have been elected and qualified. Upon consummation of the Offering, the Company's Board of Directors is expected to be divided into three classes, with each class of directors to serve three-year staggered terms (after their initial terms).

Under the Securities Purchase, Conversion and Exchange Agreement, (the "Purchase and Exchange Agreement"), dated as of May 30, 1996, by and among the Company, Grotech IV, Grotech Partners III, L.P. ("Grotech Partners"), Grotech III Companion Fund, L.P. ("Grotech Companion"), Grotech III Pennsylvania Fund, L.P. ("Grotech Pennsylvania"), Venrock, Venrock Associates II, L.P. ("Venrock II"), Southern, Blue Chip Capital Fund Limited Partnership ("Blue Chip"), Crisler Capital Company, Limited Partnership ("Crisler," and together with Grotech IV, Grotech Partners, Grotech Companion, Grotech Pennsylvania, Venrock, Venrock II, Southern, and Blue Chip, the "1996 Venture Investors"), Mr. Humphrey and Mr. Doughney, the 1996 Venture Investors and Messrs. Humphrey and Doughney have agreed to vote their shares of voting stock of the Company for the election of: (i) four directors designated by Messrs. Humphrey and Doughney (Mr. Humphrey, Mr. Doughney, Mr. Stewart and Mr. McCleary), (ii) one director designated by Grotech IV (Mr. Adams), (iii) one director designated by Venrock (Mr. Rothrock), (iv) one director designated by Southern (Mr. Earthman), (v) one director designated by Blue Chip (Mr. Wyant) and (vi) one director to be jointly designated by the 1996 Venture Investors and Mr. Humphrey. This agreement superseded provisions of the Securities Purchase Agreement concerning the election of directors.

Executive Compensation

The following table summarizes all compensation earned by Douglas E. Humphrey (the "Named Executive Officer"), who served as the Company's Chief Executive Officer during the fiscal year ended December 31, 1995. No other executive officers of the Company earned in excess of $100,000 of salary and bonus during the fiscal year ended December 31, 1995.

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARD	
NAME AND PRINCIPAL POSITION	FISCAL YEAR	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)(2)

Douglas E. Humphrey(1).. 1995 $ 100,000 $ 20,000 0 $6,600 Chief Executive Officer (1) Mr. Humphrey was Chief Executive Officer of the Company until February 1996, when Mr. McCleary succeeded him. Mr. Humphrey is currently a Senior Vice President and Chief Technology Officer of the Company. (2) This amount represents a car allowance.

Option Grants in 1995

No options were granted for the fiscal year ended December 31, 1995 to the Named Executive Officer and no stock appreciation rights have been granted to date.

Incentive Stock Option Plan

The Board of Directors has adopted an Incentive Stock Option Plan (the "Stock Option Plan"). The Stock Option Plan is not qualified under Section 422 of the Internal Revenue Code of 1986. Under the Stock Option Plan, employees are entitled to purchase Common Stock of the Company by cash payment or by delivery of existing shares of Common Stock held by such employee, the fair value of which shall be determined in good faith by the Board of Directors. The purpose of the Stock Option Plan and of granting options to specified employees of the Company pursuant thereto is to further the growth, development and financial success of the Company by providing additional incentives to such persons by assisting them to acquire shares of Common Stock of the Company and to benefit directly from the Company's growth, development and financial success. Options granted under the Stock Option Plan vest in accordance with one of the following schedules or in accordance with an alternative schedule approved by the Board of Directors: (i) 25% of the aggregate amount of options granted to a particular employee upon the first anniversary of the date of hire of such employee and the remaining 75% of the aggregate amount of options on a quarterly basis, evenly spread out over the three-year period following the first anniversary of the date of hire or (ii) 33% of the aggregate amount of options granted to a particular employee upon the first anniversary of the date of hire of such employee and the remaining 67% of the aggregate amount of options on a quarterly basis, evenly spread out over the two-year period following the first anniversary of the date of hire. Options granted under the Stock Option Plan expire on the tenth anniversary of the date of grant. The Company has

reserved 4,367,239 shares of Common Stock for issuance under the Stock Option Plan, none of which have been issued to date. As of May 31, 1996, options for the purchase of 4,315,950 shares of Common Stock are outstanding. The exercise price for all of such outstanding options ranges from $0.10 to $1.49 per share.

Employment Contracts

In May 1995, the Company entered into an employment agreement with Mr. Heintzelman. Pursuant to the terms of the agreement, Mr. Heintzelman's base salary is $125,000 per year, plus a bonus, which was $20,000 in 1995. In addition, Mr. Heintzelman also receives a $12,000 per year auto allowance pursuant to the agreement. Mr. Heintzelman was granted options to purchase 500,000 shares of Common Stock of the Company at an exercise price of $0.10 per share at the time of entering into the agreement and additional options to purchase 27,000 shares of Common Stock of the Company at an exercise price of $0.10 per share in January 1996. Grants were made pursuant to the Stock Option Plan and vest as follows: 100,000 options vested 90 days after the date of the agreement, one-third of the remaining aggregate options vested on the first anniversary of the date of hire and the remainder will vest ratably on a quarterly basis during the two years following the first anniversary. In May 1996, options to purchase 373,000 shares of Common Stock of the Company at an exercise price of $1.49 per share were granted to Mr. Heintzelman pursuant to the Stock Option Plan. These options vest as follows: one-third of the options will vest on the first anniversary of the date of grant and the remaining two- thirds of the options will vest ratably on a quarterly basis during the two years following the first anniversary of the date of grant.

In February 1996, the Company entered into an employment agreement with Mr. McCleary. Pursuant to the terms of the agreement, Mr. McCleary's base salary is $175,000 per year ($25,000 of which is conditioned upon the completion of the Offering), plus a bonus to be awarded annually each December as part of the Company's bonus program for its management. Under the agreement, Mr. McCleary is also entitled to participate in any Company incentive compensation plans, savings plans, retirement plans, and other employee benefit plans as well as to receive an auto and expenses allowance. Mr. McCleary was also granted options to purchase 604,684 shares of Common Stock of the Company at an exercise price of $0.10 per share at the time of entering into the agreement. The grant was made pursuant to the Stock Option Plan and vests as follows: one-third of the options vest on the first anniversary of the date of hire and the remaining two-thirds of the options vest ratably on a quarterly basis during the two years following the first anniversary. In May 1996, options to purchase an additional 593,316 shares of Common Stock of the Company at an exercise price of $1.49 per share were granted to Mr. McCleary pursuant to the Stock Option Plan. These options vest as follows: one-third of the options vest on the first anniversary of the date of grant and the remaining two-thirds of the options vest ratably on a quarterly basis during the two years following the first anniversary of the date of grant. The initial term of the agreement expires on December 31, 1999, but the agreement is subject to automatic renewal terms of one year each.

In March 1996, the Company entered into employment agreements with Messrs. Deobald, Galleher, and Magliato. Pursuant to the terms of these agreements, these officers' base salaries are $85,000 per year, plus a bonus to be awarded annually as part of the Company's bonus program for management. These officers are also entitled to participate in any Company incentive compensation plans, retirement plans, and other employee benefit plans as well as to receive a $6,600 per year auto allowance. Messrs. Deobald, Galleher, and Magliato were each granted options to purchase 100,000 shares of Common Stock of the Company at an exercise price of $0.10 per share at the time of entering into their respective employment agreements and were each granted additional options to purchase 40,000 shares of Common Stock of the Company at an exercise price of $1.49 per share, effective as of May 30, 1996. Grants were made pursuant to the Stock Option Plan and vest in accordance with the four-year schedule contained therein. The initial terms of the agreements expire in March 1997, but the agreements are subject to automatic renewal terms of one year each.

In April 1996, the Company entered into an employment agreement with Mr. Pendley. Pursuant to the terms of the agreement, Mr. Pendley's base salary is $115,000 per year, plus a bonus to be awarded annually each December as part of the Company's bonus program for its management. Under the agreement, Mr. Pendley is also entitled to participate in any Company incentive compensation plans, savings plans, retirement plans, and other employee benefit plans as well as to receive an auto and expenses allowance. Mr. Pendley was also granted options to purchase 300,000 shares of Common Stock of the Company at an exercise price of $0.10 per share in September 1995 and options to purchase an additional 16,000 shares of Common Stock of the Company at an exercise price of $0.10 per share in January 1996. Grants were made pursuant to the Stock Option Plan and vest as follows: one-third of the aggregate options vested on December 15, 1995, the first anniversary of the date of hire, and the remaining two-thirds of the aggregate options vest ratably on a quarterly basis during the two years following the first anniversary, a portion of which have already vested. In May 1996, options to purchase an additional 224,000 shares of Common Stock of the Company at an exercise price of $1.49 per share were granted to Mr. Pendley pursuant to the Stock Option Plan. These options vest as follows: one-third of the options will vest on the first anniversary of the date of grant and the remaining two- thirds of the options will vest ratably on a quarterly basis during the two years following the first anniversary of the date of grant. The initial term of the agreement expires on March 31, 1997, but the agreement is subject to automatic renewal terms of one year each.

In June 1996, the Company entered into an employment agreement with Mr. Brandt. Pursuant to the terms of the agreement, Mr. Brandt's base salary is $125,000 per year, plus a bonus to be awarded annually each December as part of the Company's bonus program for its management. Under the agreement, Mr. Brandt is also entitled to participate in any Company incentive compensation plans, savings plans, retirement plans, and other employee benefit plans as well as to receive an auto and expenses allowance. Mr. Brandt was also granted options to purchase 100,000 shares of Common Stock of the Company, at an exercise price of $1.49 per share, effective as of May 30, 1996. The grant was made pursuant to the Stock Option Plan and the options vest in accordance with the four-year schedule contained therein. The initial term of the agreement expires on May 31, 1997, but the agreement is subject to automatic renewal terms of one year each.

Certain Transactions

The Company was incorporated on January 8, 1990 by Mr. Humphrey and Mr. Doughney (the "Founders"). Mr. Humphrey contributed certain computer hardware to the Company in exchange for 2,426,861 shares of Common Stock, and Mr. Doughney contributed certain computer software to the Company in exchange for 1,617,907 shares of Common Stock.

On July 1, 1994, the Company borrowed $300,000 from individuals generally affiliated or associated with Armata Partners L.P. These loans were evidenced by 8% promissory notes (the "Bridge Notes") secured by a pledge by the Founders of their shares of Common Stock. At the same time, the Company issued warrants to purchase 477,189 shares of Common Stock to seven of these individuals.

On March 24, 1995, the Company entered into the Securities Purchase Agreement with the Founders and Grotech, Venrock and Southern, pursuant to which the Company issued a total of 45,454.54 shares of convertible preferred stock (since redesignated Series A Convertible Preferred Stock), par value $1.00 per share ("Series A Preferred Stock"), together with warrants to purchase of 2,800,000 shares of Common Stock of the Company for an aggregate investment of $4,000,000. The Bridge Notes were repaid at their face amount with a portion of the proceeds of this investment. Grotech IV was issued 18,181.82 shares of Series A Preferred Stock and warrants to purchase 1,120,000 shares of Common Stock of the Company, Venrock was issued 15,909.09 shares of Series A Preferred Stock (4,925.83 shares of which were assigned to Venrock II and warrants to purchase 980,000 shares of Common Stock (303,382 of which were assigned to Venrock II) and Southern was issued 11,363.63 shares of Series A Preferred Stock and warrants to purchase 700,000 shares of Common Stock. Representatives of each of Grotech IV, Venrock and Southern were elected to the Company's Board of Directors pursuant to the Securities Purchase Agreement.

Pursuant to a Stockholders Agreement, dated March 24, 1995, by and among the Company, Grotech IV, Venrock, Southern, Mr. Humphrey and Mr. Doughney, the parties thereto agreed to grant rights of first refusal to the other parties to such agreement in the event of the death, disability or termination of employment of either Mr. Humphrey or Mr. Doughney or in the event that either Mr. Humphrey or Mr. Doughney wishes to transfer any of their shares of Common Stock of the Company.

As part of a fee for arranging the above investment, the Company made a cash payment of $200,000 and issued warrants to purchase 228,020 shares of Common Stock to nine individuals generally affiliated or associated with Armata Partners L.P.

On November 28, 1995, the Company issued 10% promissory notes in the principal amount of $2,000,000 (the "November 1995 Notes") and warrants to purchase 749,866 shares of Common Stock to Grotech IV, Venrock, Southern and Venrock Associates, II L.P. ("Venrock II" and, together with Venrock, Grotech and Southern, the "Investors") as follows: Grotech IV purchased promissory notes in the principal amount of $800,000 and warrants to purchase 299,946 shares of Common Stock; Venrock purchased promissory notes in the amount of $483,307 and warrants to purchase 181,213

shares of Common Stock; Venrock II purchased promissory notes in the principal amount of $216,693 and warrants to purchase 81,240 shares of Common Stock; and Southern purchased promissory notes in the principal amount of $500,000 and warrants to purchase 187,467 shares of Common Stock.

On February 23, 1996, the Company issued additional promissory notes in the principal amount of $1,000,000 (the "February 1996 Notes") on the same terms as the November 1995 Notes and additional warrants to purchase 415,945 shares of Common Stock to the Investors as follows:

Grotech IV purchased promissory notes in the principal amount of $400,000 and warrants to purchase 166,378 shares of Common Stock; Venrock purchased promissory notes in the principal amount of $217,000 and warrants to purchase 100,509 shares of Common Stock; Venrock II purchased promissory notes in the principal amount of $133,000 and warrants to purchase 45,072 shares of Common Stock; and Southern purchased promissory notes in the principal amount of $250,000 and warrants to purchase 103,986 shares of Common Stock.

On May 21, 1996, the Company issued additional promissory notes in the principal amount of $1,000,000 (the "Convertible Notes") convertible into shares of Series B Preferred Stock of the Company to the Investors as follows: Grotech IV purchased promissory notes in the principal amount of $400,000; Venrock purchased promissory notes in the principal amount of $217,000; Venrock II purchased promissory notes in the principal amount of $133,000; and Southern purchased promissory notes in the principal amount of $250,000.

On May 30, 1996, the Company, the Founders, the Investors, Grotech Partners, Grotech Companion, Grotech Pennsylvania, Blue Chip and Crisler Capital Company, Limited Partnership ("Crisler," and together with the Investors, Grotech Partners, Grotech Companion, Grotech Pennsylvania and Blue Chip, the "Purchasers") entered into the Purchase and Exchange Agreement, whereby the Investors exchanged the November 1995 Notes and the February 1996 Notes held by them for 31,263.89 shares of Series B Convertible Preferred Stock of the Company, par value $1.00 per share (the "Series B Preferred Stock") and converted the Convertible Notes into 10,000 shares of Series B Preferred Stock. In addition, the Purchasers paid $4,000,000 in cash in exchange for a further 40,000 shares of Series B Preferred Stock. The above-referenced exchange, conversion, and purchase resulted in the following acquisitions of Series B Preferred Stock: Grotech IV acquired 22,505.56 shares of Series B Preferred Stock; Grotech Partners acquired 8,537 shares of Series B Preferred Stock; Grotech Companion acquired 930 shares of Series B Preferred Stock; Grotech Pennsylvania acquired 533 shares of Series B Preferred Stock; Venrock acquired 10,914.77 shares of Series B Preferred Stock; Venrock II acquired 5,860.92 shares of Series B Preferred Stock. Southern acquired 11,982.64 shares of Series B Preferred Stock; Blue Chip acquired 16,000 shares of Series B Preferred Stock; and Crisler acquired 4,000 shares of Series B Preferred Stock.

The transactions of May 21 and May 30, 1996 are collectively referred to herein as the "1996 Venture Financing." A representative of Blue Chip holds a seat on the Company's Board of Directors pursuant to the terms of the Purchase and Exchange Agreement. The rights of representatives of each of Grotech IV, Venrock and Southern, as well as each of the Founders, to have seats on the Company's Board of Directors, granted pursuant to the Securities Purchase Agreement, were restated in the

Purchase and Exchange Agreement. In addition, pursuant to the Purchase and Exchange Agreement, Crisler obtained the right to designate a representative to act as an observer at meetings of the Company's Board of Directors. See "Management--Board Composition."

All outstanding shares of Series A Preferred Stock and Series B Preferred Stock will be converted into 6,700,839 shares of Common Stock upon consummation of the Offering (the "Preferred Stock Conversion"). In addition, all holders of warrants to purchase Common Stock (other than WinStar) will exercise such warrants to purchase 4,671,020 shares of Common Stock upon consummation of the Offering (the "Warrant Exercise").

Principal Stockholders

The following table sets forth, as of June 1, 1996 and as adjusted to reflect the Preferred Stock Conversion and the Warrant Exercise, certain information with respect to the beneficial ownership of the Company's Common Stock by: (i) each person (or group of affiliated persons) of the Company known by the Company to own beneficially more than five percent of the outstanding Common Stock; (ii) each director of the Company; (iii) the Named Executive Officer and (iv) all directors and executive officers as a group. Information is set forth on both a pre-Offering and a post-Offering basis. Except as indicated in the footnotes to this table, the persons named in the table, based on information provided by such persons, have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to the terms of the Securities Purchase Agreement and the Purchase and Exchange Agreement, pursuant to which the parties thereto have agreed to vote their shares of Common Stock for directors nominated by certain of the other parties thereto. See "Certain Transactions."

		PERCENTAGE OF TOTAL SHARES(1)	
NAME	SHARES OF STOCK BENEFICIALLY OWNED	BEFORE OFFERING	AFTER OFFERING
Grotech Investors(2)	4,266,659	27.7%	
Venrock Investors(3)	2,950,777	19.1	
Douglas E. Humphrey	2,426,861	15.7	
Southern Venture Fund II, L.P.(4)	2,107,698	13.7	
Michael T. Doughney	1,617,907	10.5	
Blue Chip Capital Fund Limited Partnership(5)	1,073,213	7.0	
Robert M. Stewart	98,679	*	
Frank A. Adams(2)	4,266,659	27.7	
Ray A. Rothrock(3)	2,950,777	19.1	
William F. Earthman III(4)	2,107,698	13.7	
John H. Wyant(5)	1,073,213	7.0	
Christopher R. McCleary(6)	--	--	
All directors and executive officers as a group (11 persons)(7)	15,082,752	94.5%	

*Less than one percent. (1) Assumes no exercise of the Underwriters' over-allotment option. The Company has granted the Underwriters an over-allotment option to purchase up to shares of Common Stock. (2) The Grotech Investors consist of Grotech IV, Grotech Partners, Grotech Companion, and

Grotech Pennsylvania. The address of the Grotech Investors is 9690 Deereco Road, Timonium, MD 21093. The shares represent 3,595,902, 572,626, 62,380, and 35,751 shares owned by Grotech, Grotech Partners, Grotech Companion, and Grotech Pennsylvania respectively. Mr. Adams, a director of the Company, is also the general partner of Grotech Partners, Grotech Capital Group IV, Inc. (the general partner of Grotech IV), and Grotech Capital Group, Inc. (the general partner of Grotech Companion and Grotech Pennsylvania). Mr. Adams disclaims beneficial ownership of the shares held by the Grotech Investors, except to the extent of his economic interest in the shares held by the Grotech Investors. (3) The Venrock Investors consist of Venrock and Venrock II. The address of the Venrock Investors is 30 Rockefeller Plaza, Suite 5508, New York, New York 10112. The shares represent 1,992,536 shares held by Venrock and 958,241 shares held by Venrock II. Mr. Rothrock, a director of the Company, is also a general partner of Venrock and Venrock II. Mr. Rothrock disclaims beneficial ownership of the shares held by the Venrock Investors, except to the extent of his economic interest in the shares held by the Venrock Investors. (4) The address of Southern Venture Fund II, L.P. is 310 25th Avenue, North, Suite 103, Nashville, TN 37203. Mr. Earthman, a director of the Company, is also the general partner of Southern. Mr. Earthman disclaims beneficial ownership of the shares held by Southern, except to the extent of his economic interest in the shares held by Southern.

(5) Blue Chip Capital Fund Limited Partnership's address is 2000 PNC Center, 201 East Fifth Street, Cincinnati, OH 45202. Mr. Wyant is the president of Blue Chip Venture Company, the general partner of Blue Chip. Mr. Wyant disclaims beneficial ownership of the shares held by Blue Chip, except to the extent of his economic interest in the shares held by Blue Chip. (6) Mr. McCleary, the Chairman, President and Chief Executive Officer of the Company holds options to purchase 1,198,000 shares of Common Stock, none of which are exercisable within 60 days of June 1, 1996. (7) Includes 540,958 options held by Messrs. Heintzelman, Kern, and Pendley that are presently exercisable or that will become exercisable within 60 days of June 1, 1996. See Notes 2, 3, 4, and 5 above.

Capital Stock of the Company

The following description of the Company's capital stock does not purport to be complete and is subject in all respects to applicable Delaware law and to the provisions of the Company's Certificate of Incorporation and Bylaws, copies of which have been filed as exhibits to the Registration Statement of which this Prospectus is a part.

The authorized capital stock of the Company consists of 49,800,000 shares of Common Stock, $0.01 par value, and 330,000 shares of Preferred Stock, $1.00 par value. As of June 1, 1996 there were 4,044,768 shares of Common Stock issued and outstanding, 45,454.54 shares of Series A Preferred Stock issued and outstanding, and 81,263.89 shares of Series B Preferred Stock issued and outstanding. Upon consummation of the Offering, the Preferred Stock Conversion and the Warrant Exercise and assuming no exercise of the Underwriters' over- allotment option, there will be shares of Common Stock issued and outstanding and no shares of Preferred Stock issued and outstanding. An

additional 4,315,950 shares of Common Stock will be issuable upon exercise of outstanding options granted under the Company's Stock Option Plan, and 600,000 shares of Common Stock will be issuable upon exercise of warrants held by WinStar.

Common Stock

Each holder of Common Stock is entitled to one vote per share of record on all matters to be voted upon by the shareholders. Holders will not have cumulative voting rights in connection with the election of directors (or any other matter). Subject to the preferential rights of any preferred stock that may at the time be outstanding, each share of Common Stock will have an equal and ratable right to receive dividends when, if and as declared from time to time by the Board of Directors out of funds legally available therefor. The Company has been, and may in the future be, subject to certain agreements which restrict the payment of dividends. The Company does not anticipate paying cash dividends in the foreseeable future. See "Dividend Policy."

In the event of liquidation, dissolution or winding up of the Company, holders of Common Stock are entitled to share ratably in all assets remaining after payments to creditors and after satisfaction of the liquidation preference, if any, of any preferred stock that may at the time be outstanding. Holders of Common Stock have no preemptive or redemption rights and are not subject to further calls or assessments by the Company. Immediately upon consummation of the Offering, all of the then outstanding shares of Common Stock will be validly issued, fully paid and nonassessable.

Preferred Stock

The holders of all outstanding shares of Preferred Stock have agreed to convert all of such shares into a total of 6,700,839 shares of Common Stock upon consummation of the Offering. Thereafter, the Board of Directors will have the authority to issue up to 200,000 shares of Preferred Stock in one or more series, to fix the rights, preferences, privileges and restrictions granted to or imposed upon any unissued shares of Preferred Stock and to fix the number of shares constituting any series and the designations of such series, without any further vote or action by the stockholders. The Board of Directors, without stockholder approval, will be able to issue Preferred Stock with voting and conversion rights which could adversely affect the voting power of the holders of Common Stock. The Company has no present plans to issue any Preferred Stock.

Warrants

The Company has issued warrants to purchase an aggregate of 5,271,020 shares of Common Stock. Upon consummation of the Offering and the Warrant Exercise, only the warrants held by WinStar to purchase 600,000 shares of Common Stock (the "WinStar Warrants") will remain outstanding. The exercise price of the WinStar Warrants is $1.50 per share, and the WinStar Warrants expire on June 10, 2001.

Delaware Law and Limitations on Changes in Control

Section 203 of the Delaware General Corporation Law (the "DGCL") prevents an "interested stockholder" (defined in Section 203, generally, as a person owning 15% or more of a corporation's outstanding voting stock) from engaging in a "business combination" (as defined in Section 203) with a publicly-held Delaware corporation for three years following the date such person became an interested stockholder unless (i) before such person became an interested stockholder, the board of directors of the corporation approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination; (ii) upon consummation of the transaction that resulted in the interested stockholder's becoming an interested stockholder, the interested stockholder owns at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding stock held by directors who are also officers of the corporation and by employee stock plans that do not provide employees with the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer); or (iii) following the transaction in which such person became an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of stockholders by the affirmative vote of the holders of 66 2/3 of the outstanding voting stock of the corporation not owned by the interested stockholder.

The Company's Bylaws generally require 50 days advance notice of any action to be proposed at any meeting of stockholders and set forth other specific procedures that a stockholder must follow. There are also specific procedures, including advance notice, for the nomination of a person to the Board of Directors when such person is nominated other than at the direction of the Board. In addition, the Certificate of Incorporation provides that a special meeting of the Company's stockholders may only be called by certain officers of the Company or by the Board of Directors; no such meeting may be called by the stockholders. Further, the Certificate of Incorporation eliminates the ability of stockholders to act by written consent and consequently stockholders may only act at meetings thereof. Any amendment of the Bylaws or certain provisions of the Certificate of Incorporation by stockholders will require the affirmative vote of the holders of at least 66 2/3 of the shares of the Common Stock then outstanding.

These Bylaws provisions, the provisions authorizing the Board of Directors to issue preferred stock without stockholder approval and the provisions of Section 203 of the DGCL could have the effect of delaying, deferring or preventing a change in control of the Company or the removal of existing management. See "Risk Factors--Control by Certain Stockholders; Anti-Takeover Measures."

Limitation on Directors' and Officers' Liability

The Certificate of Incorporation provides that a director of the Company will not be personally liable to the Company or its stockholders for monetary damages for any breach of fiduciary duty as a director, except in certain cases where liability is mandated by the DGCL. The provision has no effect on any non-monetary remedies that may be available to the Company or its stockholders, no does it relieve the

Company or its directors from compliance with federal or state securities laws. The Bylaws of the Company generally provide that the Company shall indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation, administrative hearing or any other proceeding (each, a "Proceeding") by reason of the fact that he is or was a director or officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another entity, against expenses (including attorneys' fees) and losses, claims, liabilities, judgments, fines and amounts paid in settlement actually incurred by him in connection with such Proceeding. The Company has entered into agreements to provide indemnification for the Company's directors and executive officers in addition to the indemnification provided for in the Bylaws. These agreements, among other things, will indemnify the Company's directors and executive officers for certain expenses (including attorney's fees), and all losses, claims, liabilities, judgments, fines and settlement amounts incurred by such person arising out of or in connection with such person's service as a director or executive officer of the Company to the fullest extent permitted by applicable law.

Certain Effects of Authorized But Unissued Stock

Upon consummation of the Offering, there will be shares of Common Stock available for future issuance without shareholder approval (assuming no exercise of the Underwriters' over-allotment option). These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital or to facilitate corporate acquisitions. The Company does not currently have plans to issue additional shares of capital stock, other than shares of Common Stock which may be issued upon the conversion of the Company's convertible securities or exercise of options or the warrants. See "Shares Eligible for Future Sale."

Transfer Agent and Registrar

The transfer agent and registrar for the Common Stock is .

Shares Eligible for Future Sale

General

Future sales of substantial amounts of the Company's Common Stock could adversely affect the market price of the Common Stock. Several of the Company's principal stockholders hold a significant portion of the Company's outstanding Common Stock, and a decision by one or more of these stockholders to sell their shares could adversely affect the market price of the Common Stock. The Shares offered hereby (plus any shares issued upon exercise of the Underwriters' over-allotment option) will be freely tradeable without restriction, except to the extent that such shares are purchased by "affiliates" of the Company. The holders of Common Stock, and warrants to purchase Common Stock, of the Company,

including officers and directors of the Company, have entered into contractual agreements with the Underwriters (the "Lock-Up Agreements") providing that they will not offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce an offering of, any shares of Common Stock of the Company beneficially owned by them or any securities convertible into, or exchangeable for, the Company's Common Stock for a period of 180 days after the date of the Underwriting Agreement without the prior written consent of the representatives of the Underwriters, other than shares of stock disposed of as bona fide gifts. As a result, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144 and 144(k) under the Securities Act of 1933, as amended (the "Act"), shares subject to the Lock-Up Agreements will not be saleable until the Lock-Up Agreements expire or their terms are waived by the Underwriters' representatives. Assuming the Underwriters' representatives do not release stockholders from the Lock-Up Agreements, the following shares will be eligible for sale in the public market at the following times: beginning on the Effective Date, only the shares sold in the Offering to non-affiliates will be immediately available for sale in the public market; beginning 180 days after the date of the Underwriting Agreement, 4,044,768 shares will be eligible for sale pursuant to Rule 144, all of which are held by affiliates of the Company. An additional 11,371,859 shares will become eligible for sale pursuant to Rule 144 at various times during the two-year period following the Effective Date (although such shares will continue to be subject to the Lock-Up Agreements until the expiration of the terms thereof). The holders of approximately 10,666,650 shares of the Common Stock are entitled to certain rights with respect to the registration of such shares under the Act beginning six months after the Effective Date. In addition, the Company may register certain shares of Common Stock issuable under the Stock Option Plan, and such registration shall be effective upon filing with the Commission. As of May 31, 1996, there were outstanding options under the Stock Option Plan to purchase 4,315,950 shares, of which options for 598,081 shares were fully vested and exercisable. No shares have been issued to date under the Stock Option Plan. See "Shares Eligible for Future Sale."

In general, under Rule 144 as currently in effect, a person (or person whose shares are aggregated), including an affiliate of the Company, who has beneficially owned shares for at least two years (including holding periods of prior owners other than affiliates) is entitled to sell, within any three-month period commencing 90 days after the closing of this Offering, a number of shares of that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (shares immediately after the Offering) or (ii) the average weekly trading volume in the Common Stock during the four calendar weeks preceding such sale, subject to the filing of a Form 144 with respect to such sale and certain other limitations and restrictions. In addition, a person who is not deemed to have been an affiliate of the Company at any time during 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least three years (including holding periods of prior owners other than affiliates), would have entitled to sell such shares under Rule 144(k) without regard to the requirements described above.

Registration Rights

Pursuant to the Securities Purchase Agreement, as amended by the Purchase and Exchange Agreement, Grotech IV, Grotech Partners, Grotech Companion, Grotech Pennsylvania, Venrock, Venrock II, Southern, Blue Chip and Crisler are entitled to certain rights with respect to the registration of Registrable Securities (as defined therein) under the Securities Act. Subject to certain limitations, if the Company registers any of its securities under the Securities Act, either for its own account or the account of other security holders, such holders are entitled to written notice of the registration and are entitled to include (at the Company's expense) such shares therein; provided, among other conditions, that the underwriters of any such offering have the right to limit the number of such shares included in the registration. Pursuant to the warrant certificate evidencing the WinStar Warrants, WinStar also holds these rights described above. In addition, holders of at least a majority of the shares of Registrable Securities can require the Company, at any time after six months after the effective date of the initial offering of shares of its Common Stock pursuant to a registration statement under the Securities Act, but on only one occasion, to file a registration statement under the Securities Act with respect to such shares, and the Company is required to use its best efforts to effect such registration, subject to certain conditions and limitations. All fees, costs and expenses of such registration of securities (other than underwriting discounts in the case of the first type of registrations described above, and other than legal and accounting expenses of such holders) will be borne by the Company.

Underwriting

Upon the terms and subject to the conditions set forth in the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below (the "Underwriters"), for whom Salomon Brothers Inc and Montgomery Securities are acting as representatives (the "Representatives"), and each of such Underwriters have severally agreed to purchase from the Company the respective number of shares of Common Stock set forth opposite its name below:

Underwriters Number of Shares

Salomon Brothers Inc..... Montgomery Securities.....
Total.....

In the Underwriting Agreement, the several Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all the shares of Common Stock offered hereby (other than those subject to the over-allotment option described below) if any such shares are purchased. In the event of a default by an Underwriter, the Underwriting Agreement provides that, in certain circumstances, the purchase commitments of the non-defaulting Underwriters may be increased or the Underwriting Agreement may be terminated.

The Representatives have advised the Company that the several Underwriters propose initially to offer the shares of Common Stock to the public at the price to public set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow and such dealers may reallow a concession not in excess of $ per share to certain other dealers. After the initial public offering, the price to public and such concessions may be changed.

The Company has granted the Underwriters an option, exercisable within 30 days of the date of this Prospectus, to purchase up to additional shares of Common Stock from the Company at the same price per share as the initial shares of Common Stock to be purchased by the Underwriters. The Underwriters may exercise such option only to cover over-allotments, if any, incurred in connection with the Offering. To the extent the Underwriters exercise such option, each Underwriter will have a firm commitment, subject to certain conditions, to purchase the same proportion of such additional shares of Common Stock as the number of shares of Common Stock to be purchased and offered by such Underwriter in the table above bears to the total number of shares of Common Stock initially offered by the Underwriters hereby.

The Underwriting Agreement provides that the Company will indemnify the several Underwriters against certain liabilities, including liabilities under the Act, or contribute to payments the Underwriters may be required to make in respect thereof.

The Company, its directors, officers and holders of its Common Stock, and warrants to purchase its Common Stock, have each agreed with the Underwriters not to offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, or file or cause to be filed any registration statements under the Act with respect to any shares of Common Stock or any securities or options convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 180 days from the date of the Underwriting Agreement without the prior written consent of the Representatives.

The Representatives do not intend to confirm sales to any account over which they exercise discretionary authority.

Prior to this Offering, there has been no public market for the Common Stock. Accordingly, the initial public offering price for the Common Stock was determined by negotiation among the Company and the Representatives. Among the factors considered in determining the initial public offering price were the services, the experience of management, the economic conditions of the Company's industry in general, the general condition of the equity securities market and the demand for similar securities of companies considered comparable to the Company and other relevant factors. There can be no assurance, however, that the prices at which the Common Stock will sell in the public market after this Offering will not be lower than the price at which the Shares are sold by the Underwriters.

Legal Matters

The legality of the Common Stock offered hereby will be passed upon for the Company by Latham & Watkins, Washington, D.C. Certain legal matters will be passed upon for the Underwriters by Cravath, Swaine & Moore, New York, New York.

Experts

The financial statements of the Company at December 31, 1994, December 31, 1995 and March 31, 1996, and for each of the three years in the period ended December 31, 1995 and the three-month period ended March 31, 1996, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein and in the Registration Statement, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Glossary

56 Kbps..... Equivalent to a single high-speed telephone service line; capable of transmitting one voice call or 56 Kbps of data. Currently in widespread use by medium and large businesses primarily for entry level high-speed data and very low-speed video applications. ATM..... Asynchronous Transfer Mode. An information transfer standard for routing traffic based on an address contained within the first five bytes of a fifty-three byte-long, fixed-length packet or cell. Backbone..... A centralized high-speed network that interconnects smaller, independent networks. Bandwidth..... The number of bits of information which can move through a communications medium in a given amount of time; the capacity of a telecommunications circuit/network to carry voice, data and video information. Typically measured in Kbps and Mbps. Bandwidth from public networks is typically available to business and residential end-users in increments from 56 Kbps to T-3. CAP..... Competitive Access Provider. A telecommunications company that provides an alternative to a LEC for local transport of private line and special access telecommunications services. CSU/DSU (also IDSU, SMDSU).... Channel Service Unit/Digital Service Unit. A device used to terminate telephone company equipment and prepare data for router interface. DS-1 or T-1..... A data communications circuit capable of transmitting data at 1.5 Mbps; can transmit compressed full motion video. Currently in widespread use by medium and large businesses for video, voice, and data applications. DS-3 or T-3..... A data communications circuit capable of transmitting data at 45 Mbps. Equivalent to 28 T-1's of data capacity. Can also transmit uncompressed, TV broadcast quality, full motion video. Currently used only by businesses/institutions and carriers for high end applications. Ethernet..... A common method of networking computers in a LAN. Ethernet will handle about 10 Mbps and can be used with almost any kind of computer.

FDDI..... Fiber Distributed Data Interface. A standard for transmitting data on optical-fiber cables at a rate of around 100 Mbps (10 times as fast as Ethernet, about twice as fast as T-3). Firewall..... A system placed between networks that filters data passing through it and prevents unauthorized traffic, thereby enhancing the security of the network. Frame Relay..... An information transfer standard for relaying traffic based on an address contained in the six byte header of a variable length packet that is up to 2,106 bytes long. Frame Relay has less overhead than ATM but may be difficult to implement at speeds greater than 45 Mbps. Internet..... A global collection of interconnected computer networks which use TCP/IP, a common communication protocol. ISDN..... Integrated Services Digital Network. An information transfer standard for transmitting digital voice and data over telephone lines at speeds up to 128 Kbps. IXC..... Interexchange Carrier. A telecommunications company that provides telecommunications services between local exchanges on an interstate or intrastate basis. Kbps..... Kilobits per second. A transmission rate. One kilobit equals 1,024 bits of information. LAN..... Local Area Network. A data communications network designed to interconnect personal computers, workstations, minicomputers, file servers and other communications and computing devices within a localized environment. Leased line..... Telecommunications line dedicated to a particular customer along a predetermined routes. LEC..... Local Exchange Carrier. A telecommunications Company that provides telecommunications services in a geographic area in which calls generally are transmitted without toll charges. MAE-East..... A major peering point (exchange point for traffic) among ISPs, located in Falls Church, Virginia. MAE-West..... A major peering point (exchange point for traffic) among ISPs, located in Santa Clara, California. Mbps..... Megabits per second. A transmission rate. One megabit equals 1,024 kilobits. Modem..... A device for transmitting digital information over an analog telephone line.

NAP..... Network Access Point. A location at which ISPs exchange each other's traffic. On-line service..... Commercial information services that offer a computer user access to a specified slate of information, entertainment, and communications menus on what appears to be a single system. Peering..... The commercial practice under which nationwide ISPs exchange each other's traffic without the payment of settlement charges. POP..... Point of Presence. Telecommunications facility through which the Company provides local connectivity to its customers. Router..... A system placed between networks that relays data to those networks based upon a destination address contained in the data packets being routed. SLIP..... Serial Line Internet Protocol. An information transfer standard for transmitting Internet Protocol packets over asynchronous data connections between two points. TCP/IP..... Transmission Control Protocol/Internet Protocol. A suite of network protocols that allow computers with different architectures and operating system software to communicate with other computers on the Internet. UNIX..... A computer operating system for workstations and PCs and noted for its portability and communications functionality. Web Site..... A server connected to the Internet from which Internet users can obtain information. World Wide Web or Web..... A collection of computer systems supporting a communications protocol that permits multi-media presentation of information over the Internet.

Index to Financial Statements

Page

Report of Ernst & Young LLP, Independent Auditors..... F-2 Balance Sheets at December 31, 1994 and 1995 and March 31, 1996..... F-3 Statements of Operations for each of the three years in the period ended December 31, 1995 and for the three months ended March 31, 1995 and 1996..... F-4 Statements of Shareholders Equity (Deficit) for each of the three years in the period ended December 31, 1995 and for the three months ended March 31, 1996..... F-5 Statements of Cash Flows for each of the three years in the period ended December 31, 1995 and for the three months ended March 31, 1995 and 1996..... F-6 Notes to Financial Statements..... F-7

Report of Independent Auditors

The Board of Directors and Shareholders DIGEX, Incorporated We have audited the accompanying balance sheets of DIGEX, Incorporated as of December 31, 1994, December 31, 1995 and March 31, 1996, and the related statements of operations, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 1995 and the three- month period ended March 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DIGEX, Incorporated at December 31, 1994, December 31, 1995 and March 31, 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995 and the three-month period ended March 31, 1996 in conformity with generally accepted accounting principles.

Ernst & Young LLP Baltimore, Maryland June 10, 1996

Digex, Incorporated

Balance Sheets

Assets

	DECEMBER 31,			
	1994	1995	MARCH 31, 1996	PRO FORMA MARCH 31, 1996 (UNAUDITED)
Current assets:				
Cash and cash equivalents..	$ 2,441	$ 832,582	$ 727,750	$ 6,412,331
Accounts receivable, less allowance of $0 in 1994, $50,000 in 1995 and $91,375 in 1996.....	141,488	908,572	1,110,617	1,110,617
Due from officers and employees.....	24,124	--	1,093	1,093
Inventory and prepaid expenses.....	41,926	49,631	108,534	108,534
Deferred income taxes.....	14,679	7,681	7,681	7,681
Total current assets....	224,658	1,798,466	1,955,675	7,640,256
Property and equipment:				
Computer equipment.....	431,415	3,439,014	4,851,099	4,851,099
Office furniture and equipment.....	20,630	152,805	158,538	158,538
Leasehold improvements.....	8,871	163,811	170,405	170,405
	460,916	3,755,630	5,180,042	5,180,042
Accumulated depreciation and amortization.....	109,789	764,966	1,111,798	1,111,798
	351,127	2,990,664	4,068,244	4,068,244
Deferred financing costs...	77,857	--	--	--
Other assets.....	1,500	262,656	301,556	301,556
Total assets.....	$655,142	$5,051,786	$ 6,325,475	$12,010,056

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT) Current liabilities: Accounts payable and ac- crued expenses..... $208,329 $ 959,528 $ 2,331,305 $ 2,331,305 Notes payable, net of discount of $13,734..... 286,266 -- -- -- Deferred revenue..... 153,049 389,472 397,271 397,271 Income taxes payable..... 20,910 -- -- -- Current portion of capital lease obligations..... -- 858,765 929,279 929,279 10% Convertible Debentures, net of discount of $588,835 in 1995 and $511,213 in 1996..... -- 1,411,165 2,488,787 -- Total current liabili- ties..... 668,554 3,618,930 6,146,642 3,657,855 Deferred income taxes..... 6,998 -- -- -- Capital lease obligations, less current portion..... -- 821,709 915,864 915,864 Series A Mandatorily Redeemable Convertible Preferred Stock, $1 par value; 200,000 shares authorized; 45,455 shares issued and outstanding (pro forma: none); redemption price and liquidation preference of $100 per share, aggregating $4,545,500.... -- 2,138,889 2,262,195 -- Commitments and contingen- cies..... -- -- -- -- Shareholders' equity (defi- cit): Common stock, $.01 par value: Authorized shares--1,000 shares in 1994 and 49,800,000 in 1995 and 1996..... Issued and outstanding shares--4,294,768 in 1994; 4,044,768 in 1995 and 1996 (pro forma: 15,416,627)..... 42,948 40,448 40,448 154,166 Additional paid-in capi- tal..... 25,393 2,836,172 3,319,034 13,640,879 Accumulated deficit..... (88,751) (4,404,362) (6,358,708)

(6,358,708) Total shareholders' equity (deficit)..... (20,410) (1,527,742) (2,999,226) 7,436,337 Total liabilities and shareholders' equity (def- icit)..... $655,142 $5,051,786 $ 6,325,475 $12,010,056 See notes to financial statements.

Digex, Incorporated

Statements of Operations

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Net revenue: On-line services.....	$431,098	$1,577,609	$ 4,425,172	$ 739,671	$ 1,996,213
Equipment sales.....	--	--	650,144	--	236,249
	431,098	1,577,609	5,075,316	739,671	2,232,462
Costs and Expenses: Data communications and operations.....	216,656	1,002,503	4,013,377	478,646	1,771,095
Cost of equipment sales.....	--	--	458,123	--	188,726
Sales and marketing...	18,326	263,075	1,710,234	116,342	673,800
General and adminis- trative.....	135,238	366,392	2,715,752	278,852	903,887
Total expenses.....	370,220	1,631,970	8,897,486	873,840	3,537,508
Income (loss) from oper- ations.....	60,878	(54,361)	(3,822,170)	(134,169)	(1,305,046)
Other income (expense): Interest and other in- come.....	--	--	72,002	--	14,933
Interest expense.....	--	(23,693)	(226,745)	(688)	(540,927)
	--	(23,693)	(154,743)	(688)	(525,994)
Income (loss) before in- come taxes.....	60,878	(78,054)	(3,976,913)	(134,857)	(1,831,040)
Income taxes.....	(25,540)	(3,470)	--	--	--
Net income (loss).....	35,338	(81,524)	(3,976,913)	(134,857)	(1,831,040)
Accretion of Series A Mandatorily Redeemable Convertible Preferred Stock to redemption value.....	--	--	(338,698)	--	(123,306)
Net income (loss) attributable to common shareholders.....	$ 35,338	$ (81,524)	$(4,315,611)	$(134,857)	$(1,954,346)
Net income (loss) per common share attributable to common shareholders.....	$ --	$ (0.01)	$ (0.27)	$ (0.01)	$ (0.13)
Pro forma net loss per common share attributable to common shareholders.....		$ (0.20)		$ (0.07)	

See notes to financial statements.

Digex, Incorporated

Statements of Shareholders' Equity (Deficit)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
Balance at January 1, 1993.....	$42,948	$ --	$ (42,565)	$ 383
Net income for 1993.....	--	--	35,338	35,338
Balance at December 31, 1993.....	42,948	--	(7,227)	35,721
Issuance of 477,188 warrants to purchase common stock.....	--	25,393	--	25,393
Net loss for 1994.....	--	--	(81,524)	(81,524)
Balance at December 31, 1994.....	42,948	25,393	(88,751)	(20,410)

Issuance of warrants to purchase 2,800,000 shares of common stock, net of expenses of $262,756	--	1,650,459	--	1,650,459
Issuance of warrants to purchase 749,866 shares of common stock	--	682,378	--	682,378
Value of vested common stock options granted to employees	--	475,442	--	475,442
Accretion of Series A Mandatorily Redeemable Convertible Preferred Stock to redemption value	--	--	(338,698)	(338,698)
Retirement of 250,000 shares of common stock	(2,500)	2,500	--	--
Net loss for 1995	--	--	(3,976,913)	(3,976,913)
Balance at December 31, 1995	40,448	2,836,172	(4,404,362)	(1,527,742)
Issuance of warrants to purchase 415,945 shares of common stock	--	361,872	--	361,872
Value of vested common stock options granted to employees	--	120,990	--	120,990
Accretion of Series A Mandatorily Redeemable Convertible Preferred Stock to redemption value	--	--	(123,306)	(123,306)
Net loss for three months ended March 31, 1996	--	--	(1,831,040)	(1,831,040)
Balance at March 31, 1996	$40,448	$3,319,034	$(6,358,708)	$(2,999,226)

See notes to financial statements.

Digex, Incorporated

Statements of Cash Flows

	FOR THE YEAR ENDED DECEMBER 31,			FOR THE THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Operating activities: Net income (loss)	$ 35,338	$ (81,524)	$(3,976,913)	$(134,857)	$(1,831,040)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: Depreciation and amortization	22,158	83,948	655,177	37,373	346,832
Amortization of debt discount charged to interest expense	--	11,659	107,277	--	439,494
Non-cash compensation recorded for vested stock option grants	--	--	475,442	--	120,990
Deferred income taxes	17,859	(25,540)	--	--	--
Changes in operating assets and liabilities: Accounts receivable	(72,352)	(65,868)	(767,084)	(34,321)	(202,045)
Inventory and prepaid expenses	--	(41,926)	(7,705)	(60,280)	(58,903)
Cash overdraft	4,347	(4,347)	--	--	--
Accounts payable and accrued expenses	43,873	163,461	751,199	(82,277)	1,371,777
Deferred revenue	64,901	79,976	236,423	79,460	7,799
Income taxes payable	7,681	13,229	(20,910)	(20,910)	--
Net cash provided by (used in) operating activities	123,805	133,068	(2,547,094)	(215,812)	194,904
Investing activities: Due from officers and employees	(22,670)	(6,222)	24,124	(1,500)	(1,093)
Purchase of property and equipment	(98,273)	(350,132)	(1,199,160)	(174,550)	(1,109,240)
Decrease (increase) in other assets	(5,084)	3,584	(261,156)	--	(38,900)
Net cash used in investing activities	(126,027)				

(352,770) (1,436,192) (176,050) (1,149,233) Financing activities: Proceeds from issuance of (repayment of) notes payable and detachable stock warrants..... -- 300,000 (300,000) -- -- Repayment of capital leases..... -- -- (415,080) -- (150,503) Proceeds from issuance of 10% Convertible Debentures and detachable stock warrants..... -- -- 2,000,000 -- 1,000,000 Proceeds from issuance of Series A Mandatorily Redeemable Convertible Preferred Stock and detachable stock warrants, net of expenses of issuance... -- -- 3,528,507 831,775 -- Increase in deferred financing costs..... -- (77,857) -- (5,973) -- Net cash provided by financing activities... -- 222,143 4,813,427 825,802 849,497 Net increase (decrease) in cash and cash equivalents..... (2,222) 2,441 830,141 433,940 (104,832) Cash and cash equivalents at beginning of period.... 2,222 -- 2,441 2,441 832,582 Cash and cash equivalents at end of period..... $ -- $ 2,441 $ 832,582 $ 436,381 $ 727,750 See notes to financial statements.

Digex, Incorporated

Notes to Financial Statements

March 31, 1996 (Information for Three Months Ended March 31, 1995 Is Unaudited)

1. Significant Accounting Policies

Description of Business DIGEX, Incorporated (the "Company") is a national Internet Service Provider. The Company's principal customers are businesses, government agencies and other institutional customers. The services provided by the Company include business connectivity, Web server hosting, consulting and education services and security and other network products.

Use of Estimates

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

Cash Equivalents

The Company considers all short-term, highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Inventory

Inventory, consisting primarily of computer equipment, is stated at the lower of the first-in, first- out cost, or market.

Property and Equipment Property and equipment is stated at cost. Depreciation is computed for owned assets using the straight-line method over estimated useful lives of five years. Assets capitalized under capital leases are amortized using the straight-line method over the lesser of the lease term or the useful life of the asset.

Deferred Financing Costs Deferred financing costs consist of costs incurred in 1994 to obtain equity financing. These costs were capitalized in 1994 and accounted for as a reduction of Series A Mandatorily Redeemable Convertible Preferred Stock in 1995 upon the closing of the transaction (see Note 7).

Other Assets

Other assets consist primarily of security deposits on leased computer equipment and office furniture and equipment. The deposits will be applied against the final month's lease payments.

Deferred Revenue

Proceeds from annual subscriptions are recorded at the time of sale as deferred revenue and are included in revenues on a pro rata basis over the term of the service contract.

Revenue Recognition and Accounts Receivable On-line services revenue is recognized ratably over the period services are provided. Equipment sales are recognized upon shipment. Receivables generally are due within 30 days. The Company does not generally require collateral from its customers.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense totaled approximately $3,100, $24,600 and $488,900 in 1993, 1994 and 1995, respectively.

Stock Options Granted to Employees The Company records compensation expense for all stock-based compensation plans using the intrinsic value method prescribed by APB Opinion 25, Accounting for Stock Issued to Employees. In October 1995, the Financial Accounting Standards Board issued FASB Statement No. 123, Accounting for Stock-Based Compensation, which encourages companies to recognize expense for stock-based awards based on their estimated value on the date of grant. Statement 123, effective for 1996, does not require companies to change their existing accounting for stock-based awards, but if the new fair value method is not adopted, pro forma income and earnings per share data should be provided in the notes to the financial statements. The Company intends to continue to account for stock-based compensation plans using the intrinsic value method, and will supplementally disclose in its 1996 annual financial statements the required pro forma information as if the fair value method had been adopted.

Income Taxes

The Company uses the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Interim Financial Data The financial statements of the Company for the three months ended March 31, 1995 and 1996 have been prepared on the same basis as the annual financial statements and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the financial information set forth therein, in accordance with generally accepted accounting principles.

The results of operations for the three months ended March 31, 1996 are not necessarily indicative of results expected for the full fiscal year.

2. Earnings Per Share

The following table summarizes the computations of share amounts used in the computation of historical earnings (loss) per share presented in the accompanying statements of operations (in thousands of shares):

YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
1993	1994	1995	1995	1996
			(UNAUDITED)	

Weighted average number of shares of common stock outstanding during the period..... 4,295 4,295 4,270 4,045 4,045 Options and warrants to purchase common stock issued within one year of registration statement..... 6,082 6,082 6,082 6,082 6,082 Convertible debentures and preferred stock issued within one year of registration statement..... 5,453 5,453 5,453 5,453 5,453 Total common and common equivalent shares of stock considered outstanding during the year..... 15,829 15,829 15,805 15,580 15,580

Digex, Incorporated

Notes to Financial Statements (Continued)

Earnings (loss) per share is based upon the average number of shares of common stock outstanding during each period. As required by the Securities and Exchange Commission, all common stock warrants, options, convertible debentures, and convertible preferred stock issued by the Company at exercise prices or conversion rates below the expected public offering price during the twelve-month period prior to the anticipated offering date have been included in the computations as if they were outstanding for all periods presented. As the Company expects the initial public offering price to

exceed the exercise prices or conversion rates for all securities issued after May 1995, all of the securities issued between June 1, 1995 and the initial filing date have been included in the computation of historical net income (loss) per common share attributable to common shareholders.

The assumed conversion of all other potentially dilutive securities (issued prior to June 1995) is anti-dilutive for all years presented, and therefore is not considered in the computations.

Pro forma net loss per share is presented to disclose the additional effect on loss per share for the year ended December 31, 1995 and for the three months ended March 31, 1996 assuming that the convertible securities which are not included in the historical calculations and which converted into common stock after March 31, 1996 were converted into common stock on January 1, 1995, or their issuance date, whichever date is later. Historical net loss was reduced by $450,871 for the year ended December 31, 1995 and $623,074 for the quarter ended March 31, 1996 to adjust for interest expense and preferred stock accretion.

The following table summarizes the computations of share amounts used in the computation of pro forma earnings (loss) per share presented in the accompanying statements of operations (in thousands of shares):

	PRO FORMA DECEMBER 31, 1995	PRO FORMA MARCH 31, 1996
	(UNAUDITED)	
Weighted average number of shares of common stock outstanding during the period	4,270	4,045
Options and warrants to purchase common stock issued within one year of registration statement	6,082	6,082
Convertible debentures and preferred stock issued within one year of registration statement	5,453	5,453
Pro forma conversion of preferred stock and warrants	3,440	4,755
Total common and common equivalent shares of stock considered outstanding during the year	19,245	20,335

3. Supplemental Disclosure of Cash Flow Information

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	

Cash paid during the period for: Interest..... $ -- $ -- $ 105,100 $ 700 $ 41,200 Taxes..... $ 7,700 $ -- $ -- $ -- $ -- Non-cash investing and financ- ing activities: Equipment acquired under cap- ital lease..... $ -- $ -- $ 2,095,600 $60,800 $315,200

4. Notes Payable

In July 1994, the Company received $300,000 in connection with the issuance of notes with a face value of $300,000 and detachable stock warrants to purchase 477,189 shares of common stock for $0.63 per share. The portion of the proceeds allocable to the warrants of $25,393, as estimated by the Company, was accounted for as additional paid-in capital. The notes were repaid in conjunction with the issuance of the Series A Mandatorily Redeemable Convertible Preferred Stock in March 1995.

5. Capital Lease Obligations

The Company leases equipment under capital leases. Property and equipment includes the following amounts for leases that have been capitalized at March 31, 1996:

December 31, 1995	*March 31, 1996*
Computer equipment	$1,985,436	$2,300,608
Office furniture and equipment	110,118	110,118
	2,095,554	2,410,726
Less accumulated amortization	444,683	(678,782)
	$1,650,871	$1,731,944

Amortization of leased assets is included in depreciation and amortization expense.

Future minimum payments under capital lease obligations consist of the following at March 31, 1996:

Through December 31, 1996	$ 888,039
1997	839,206
1998	277,249
1999	19,686
2000	1,332
Total minimum lease payments	2,025,512
Amounts representing interest	180,369
Present value of net minimum lease payments (including current portion of $929,279)	$1,845,143

6. 10% Convertible Debentures and Detachable Stock Warrants

On November 28, 1995, the Company issued $2,000,000 of 10% Convertible Debentures with detachable stock warrants for cash proceeds of $2,000,000. The debentures were due on June 1, 1996. As discussed more fully in Note 15, in May 1996 the holders of the 10% Convertible Debentures

converted their debentures into shares of Series B Preferred Stock.

The detachable stock warrants entitle the holders to purchase 749,866 shares of common stock at an exercise price of $0.10 per share and expire in November 2001. The exercise price is payable either in cash or through the retirement of stock warrants. The warrants were valued at $682,378, or $0.91 per share, based on an independent valuation of the Company's common stock and the use of a generally accepted warrant valuation methodology. The estimated value of the warrants was recorded as additional paid-in capital and the 10% Convertible Debentures have been recorded net of a discount of $682,378. The Company recognized interest expense of $93,543 and $319,475 for the year ended December 31, 1995 and the three months ended March 31, 1996, respectively, related to the amortization of this discount.

On February 15, 1996, the Company issued $1,000,000 of 10% Convertible Debentures with detachable stock warrants for cash proceeds of $1,000,000. The debentures have terms identical to those issued in November 1995, and were also converted into Series B Preferred Stock in May 1996. The detachable stock warrants entitle the holders to purchase 415,945 shares of common stock at an exercise price of $0.10 per share and expire in February 2002. The exercise price is payable either in cash or through the retirement of stock warrants. The warrants were valued at $361,872, or $0.87 per share, based on an independent valuation of the Company's common stock and the use of a generally accepted warrant valuation methodology. The estimated value of the warrants was recorded as additional paid-in capital and the 10% Convertible Debentures have been recorded net of a discount of $361,872. The Company recognized interest expense of $120,019 the period from February 15, 1996 through March 31, 1996 related to the amortization of this discount.

7. SERIES A MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK AND DETACHABLE STOCK WARRANTS The Company has authorized the issuance of 200,000 shares of Series A Mandatorily Redeemable Convertible Preferred Stock ("Series A"). In March and April 1995, the Company issued 45,455 shares of Series A with detachable stock warrants for cash proceeds of $4,000,000. Dividends on the Series A are cumulative at an annual rate of $6 per share beginning March 15, 1997 and $10 per share beginning March 15, 1999.

The detachable stock warrants entitle the holders to purchase 2,800,000 shares of common stock for an aggregate exercise price of $100 and expire six years from the date of the final redemption of the Series A. The warrants were valued at $1,913,215, or $0.68 per share, based on an estimate at the date of the transaction of the relative values of the Series A and the warrants. The costs of the issuance of $549,350 have been deducted proportionately from the proceeds allocated to the warrants and the Series A.

The Series A was recorded at estimated fair value on the date of issuance, less issue costs. The excess of the redemption value over the carrying value is being accreted by periodic charges to retained earnings over the life of the issue using the interest method.

The Company must redeem the Series A in 24 equal monthly installments of 1,894 shares commencing January 1, 2000 at a redemption price of $100 per share plus any accrued and unpaid dividends. The Company may, at its option, redeem at any time all, but not less than all, of the Series A for $100 per share plus any accrued and unpaid dividends. If the Company redeems the Series A prior to March 15, 1997, the redemption price will be reduced, but in no event will the redemption price be less than $88 per share. The Series A is also convertible at any time into 1,250,000 shares of common stock based on a conversion rate defined in the Amended and Restated Articles of Incorporation. The Series A will automatically convert into 1,250,000 shares of common stock immediately prior to the closing of an initial public offering consummated on or before December 31, 1996 generating net proceeds to the Company of at least $25 million.

Each share of Series A has substantially the same voting rights as the number of shares of common stock into which it can be converted, as provided for in the Amended and Restated Articles of Incorporation. The holders of the Series A (in conjunction with the holders of the Series B Preferred Stock issued in May 1996 as discussed in Note 15) independently appoint three directors to the Board of Directors. In the event the Company fails to meet its obligations to the holders of the Series A under the aforementioned redemption provisions or upon certain other events, the holders of the preferred stock are entitled to elect a majority of the directors of the Board of Directors.

Digex, Incorporated

NOTES TO FINANCIAL STATEMENTS (CONTINUED) In connection with the issuance of the Series A, the Company also issued warrants to purchase 228,020 shares of common stock with an exercise price of $1.05 per share to investment bankers. These warrants expire in March 2002.

8. Common Stock

In March 1995, the Company amended and restated the Articles of Incorporation to authorize the issuance of 49,800,000 shares of $.01 par value common stock and 200,000 shares of $1 par value Series A Mandatorily Redeemable Convertible Preferred Stock with a redemption price and liquidation value of $100 per share. In conjunction with the amendment, the Board of Directors approved a 505.26-for-one stock split, effected in the form of a stock dividend. In August 1995, the Board of Directors approved a ten-for-one stock split, also effected in the form of a stock dividend. All share and per share amounts in the accompanying financial statements have been restated to retroactively reflect both splits.

9. Shares Reserved for Future Issuance

The Company as of March 31, 1996 has reserved 10,577,825 shares of common stock for future issuance upon the conversion of 10% Convertible Debentures and Series A Mandatorily Redeemable Convertible Preferred Stock, and the exercise of all outstanding stock purchase warrants and all outstanding stock options.

10. Stock Option Plan

In 1995, the Company approved and adopted its 1995 Stock Option Plan (the "Plan"). The Plan is administered by the Board of Directors. The Plan provides for the granting of either qualified or non-qualified options to purchase an aggregate of up to 4,367,239 shares of common stock to eligible employees, officers, directors and consultants of the Company. The options are exercisable for up to ten years following the date of grant.

The following table summarizes the stock option activity of the Company:

	SHARES OUTSTANDING	SHARES EXERCISABLE	EXERCISE PRICE PER SHARE
Balances at January 1, 1995	--	--	--
Granted	1,580,700		$0.10
Became exercisable		470,771	$0.10
Exercised/Surrendered	--	--	--
Cancelled	(5,125)	--	$0.10
Balances at December 31, 1995	1,575,575	470,771	$0.10
Granted	1,034,584		$0.10
Became exercisable		57,646	$0.10
Exercised/Surrendered		--	--
Cancelled	(18,875)	--	$0.10
Balances at March 31, 1996	2,591,284	528,417	$0.10

All of the options granted through March 31, 1996 are non-qualified stock options and vest over 3 or 4 years. At the dates of grant, the estimated fair value of a share of the Company's common stock ranged from $0.91 to $1.14. The Company will record compensation expense of $2,651,960 over the vesting period of the options. For the year ended December 31, 1995 and the three months ended March 31, 1996 the Company recorded $475,442 and $120,990 of compensation expense, respectively. The Company will record additional compensation expense related to option grants through March 31, 1996 as follows:

Nine months ended December 31, 1996	$ 630,227
Year ended December 31, 1997	694,172
1998	487,657
1999	211,967

2000	31,505
Total	$2,055,528

On May 31, 1996, the Board of Directors approved the grant of an additional 1,577,316 qualified options to purchase common stock for $1.49 per share, the fair market value of a share of common stock as determined by independent appraisal. These options vest over 3 or 4 years.

11. Fair Values of Financial Instruments

At March 31, 1996, the fair value of the 10% Convertible Debentures, issued in November 1995 and February 1996, approximates their carrying value at March 31, 1996. The debentures converted into Series B Preferred Stock in May 1996.

The Series A and Series B Mandatorily Redeemable Convertible Preferred Stock will automatically convert into common stock upon the expected closing of an initial public offering in August 1996. Upon conversion, the securities will not be considered financial instruments.

12. Income Taxes

The tax provisions for the three months ended March 31, 1995 and 1996 are based on the estimated annual effective tax rate applicable for the full years.

Significant components of the Company's deferred tax assets and liabilities are as follows:

December 31 1994 1995

Deferred tax liability:		
Tax over book depreciation	$ 6,998	$ 49,581
Deferred tax assets:		
Net operating loss carryforward	32,402	1,382,447
Allowance for doubtful accounts	--	19,310
Stock option compensation expense	--	183,615
Accrued bonuses	--	23,172
Total deferred tax assets	32,402	1,608,544
Net future income tax benefit	25,404	1,558,963
Valuation allowance for net deferred tax assets	(17,723)	(1,551,282)
Net deferred tax assets	$ 7,681	$ 7,681

As of December 31, 1995, the Company had net operating loss carryforwards of $3.6 million. These carryforwards expire in 2009 and 2010. The amount available to be used in any given year will be limited by operation of certain provisions of the Internal Revenue Code.

Digex, Incorporated

Notes to Financial Statements (Continued)

Income tax expense (benefit) consisted of the following:

Year Ended December 31 1993 1994 1995

Current:			
Federal	$ 5,237	$ 22,250	$ --
State	2,444	6,760	--
	7,681	29,010	--
Deferred (benefit):			
Federal	14,622	(20,911)	--
State	3,237	(4,629)	--
	17,859	(25,540)	--
	$ 25,540	$ 3,470	$ --

The Company's provision for income taxes resulted in effective tax rates that varied from the statutory federal income tax rate as follows:

1993 1994 1995

Expected federal income tax (benefit) at 34%	$20,699	$(26,538)	$(1,352,150)
State income taxes, net of federal benefit	2,813	(3,606)	(183,733)
Expenses not deductible for tax purposes	2,028	4,357	3,602
Effect of valuation allowance	--	17,723	1,533,559
Other	--	11,534	(1,278)
Total	$25,540	$ 3,470	$ --

13. Operating Leases

The Company leases certain office space and equipment under noncancelable operating leases that expire in various years through 2000. Future minimum payments under noncancelable operating leases with initial terms of one year or more consisted of the following at December 31, 1995:

1996	$ 531,665
1997	504,723
1998	485,930
1999	314,931
2000	205,184
Total minimum lease payments	$2,042,433

Rental expense consisted of the following:

1993 1994 1995

Office and storage..... $18,882 $19,200 $123,749 Furniture and equipment..... 4,037 28,915 133,889 $22,919 $48,115 $257,638

14. Employee Benefit Plan

The Company established a defined contribution benefit plan effective July 1, 1995. The plan covers substantially all employees who have three months of service with the Company or who were employed by the Company on July 1, 1995. Participants may contribute from 1% to 15% of their annual compensation to the plan. In addition, the Company may make discretionary profit-sharing contributions to the plan. No contributions were made by the Company during 1995.

15. Pro Forma Balance Sheet and Subsequent Events

Amendment to Articles of Incorporation, Issuance of Series B Preferred Stock and Conversion of 10% Convertible Debentures In May 1996, the Company amended its Articles of Incorporation to authorize the issuance of 130,000 shares of Series B Preferred Stock ("Series B") with a par value of $1. Cumulative annual cash dividends on the Series B at the rate of $8 per share become payable monthly commencing on the first date outstanding through March 15, 1999, and after March 15, 1999, at the rate of $12 per share per annum. The Company must redeem the Series B in monthly installments of 3,387 shares beginning January 1, 2001 at $100 per share plus any unpaid dividends or, immediately, if certain events specified in the Articles of Incorporation occur and holders of 63% of the shares of Series B vote for redemption. In addition, at any time after the earlier of May 24, 1999 or the date on which all shares of Series A Preferred Stock have been redeemed, the holders of the Series B may require the Company to redeem their shares at the greater of $200 per share or fair market value, as determined by an independent investment banking firm. Each share of Series B is convertible at the option of the holder at any time after issuance into 67.08 shares of common stock. The Series B holders have the same voting rights as the holders of common stock, assuming conversion.

On May 30, 1996, the Company issued 50,000 shares of Series B for $5 million. The Series B will automatically convert into 3,353,789 shares of common stock immediately prior to the closing of an initial public offering consummated on or before December 31, 1996 generating net proceeds to the Company of at least $25 million.

In connection with the issuance of the Series B, the holders of the 10% Convertible Debentures (face value of $3 million, plus accrued interest of $130,000) agreed to convert the debentures into 31,264 shares of Series B. In addition, the holders of warrants to purchase 4,671,020 shares of common stock agreed to exercise their warrants immediately prior to the closing of an initial public offering consummated on or before December 31, 1996 that generates net proceeds to the Company of at least $25 million.

March 31, 1996 Pro Forma Balance Sheet The accompanying March 31, 1996 balance sheet assumes that the issuance of the Series B occurred on March 31, 1996. In addition, in June 1996 the Board of Directors approved the filing of a registration statement for the sale of common stock with the Securities and Exchange Commission that, upon closing, would meet the criteria for the automatic exercise of warrants to purchase 4,671,020 shares of common stock, and the conversion of the outstanding Series A Preferred Stock and Series B Preferred Stock, all into common stock.

Digex, Incorporated

Notes to Financial Statements (Continued)

The following table summarizes the components of the pro forma balance sheet (in thousands):

	HISTORICAL MARCH 31, 1996	ISSUANCE OF SERIES B	ASSUMED CONVERSION OF SECURITIES UPON IPO	TOTAL PRO FORMA
	ASSETS			
Current assets:				
Cash and cash equivalents...	$ 728	$ 5,000	$ 685	$ 6,413
Other current assets.....	1,228	--	--	1,228
Total current assets.....	1,956	5,000	685	7,641
Property and equipment, net..	4,068	--	--	4,068
Other noncurrent assets.....	301	--	--	301
Total assets.....	$ 6,325	$ 5,000	$ 685	$12,010
	LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:				
Accounts payable and accrued expenses.....	$ 2,331	$ --	$ --	$ 2,331
10% Convertible Debentures..	2,489	(2,489)	--	--
Other current liabilities...	1,327	--	--	1,327
Total current liabilities....	6,147	(2,489)	--	3,658
Capital lease obligations....	916	--	--	916
Series A Preferred Stock.....	2,262	--	(2,262)	--
Series B Preferred Stock.....	--	7,489	(7,489)	--
Shareholders' equity:				
Common stock.....	40	--	114	154
Additional paid-in capital..	3,319	--	10,322	13,641
Accumulated deficit.....	(6,359)	--	--	(6,359)
Total shareholders' equity...	(3,000)	--	10,436	7,436
Total liabilities and share-holders' equity.....	$ 6,325	$ 5,000	$ 685	$12,010

Other Subsequent Financing Arrangements In April 1996, the Company entered into a loan agreement with a bank that provides a revolving line of credit secured by accounts receivable. The credit line allows the Company to borrow a maximum of $1.5 million, subject to restrictions based on the available collateral, and expires on February 28, 1997. The credit line bears interest at a floating rate equal to the bank's prime rate plus 1% per annum. In connection with this credit line, the Company is required to comply with certain financial ratios and covenants.

In April 1996, the Company obtained a commitment for an equipment lease line under which the Company may lease equipment with a total cost of up to $2 million through December 31, 1996. The lease terms will range from 42 months to 50 months and will be accounted for as capital leases with annual effective interest rates approximating 14% per annum.

In June 1996, the Company entered into a multi-year private network agreement with WinStar. As part of the agreement, WinStar will purchase $10 million of connectivity services, of which $5 million will be paid in advance in June 1996. WinStar also received warrants to purchase 600,000 shares of common stock for $1.50 per share.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY IN- FORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. NEITHER THE DELIV- ERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUM- STANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATES AS OF WHICH INFORMATION IS GIVEN IN THIS PRO- SPECTUS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANY- ONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

Table of Contents

Page

Additional Information..... 3
Reports to Stockholders..... 3
Prospectus Summary..... 4
Risk Factors..... 8
Use of Proceeds..... 16
Dilution..... 16
Capitalization..... 17
Dividend Policy..... 18
Selected Financial and Pro Forma Financial Data..... 19
Management's Discussion and Analysis of Financial Condition and Results of Operations..... 20
Business..... 26
Management..... 36
Certain Transactions..... 43
Principal Stockholders..... 45
Capital Stock of the Company..... 46
Shares Eligible for Future Sale..... 48
Underwriting..... 50
Legal Matters..... 51
Experts..... 51

Glossary..... 52
Index to Financial Statements..... F-1

UNTIL , 1996 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

Shares

Digex, Incorporated

Common Stock ($.01 Par Value)

[Digex Business Internet Logo Appears Here]

Salomon Brothers Inc

Montgomery Securities

Prospectus

Dated , 1996

Part Ii

Information Not Required in Prospectus

Item 24. Indemnification of Directors and Officers.

The Amended and Restated Certificate of Incorporation of DIGEX, Incorporated (the "Company"), as amended (the "Amended and Restated Certificate of Incorporation"), provides that the Registrant shall indemnify to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware (the "Delaware Law") any person whom it may indemnify thereunder. The By-laws of the Registrant provide that indemnification shall be made by the Registrant only upon a determination that indemnification is proper in the circumstances because the individual met the applicable standard of conduct. Advances for such indemnification may be made pending such determination upon receipt of an undertaking by the director or officer to repay all amounts so advanced in the event that it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Registrant. In addition, the Amended and Restated Certificate of Incorporation provides for the

limitation to the extent permitted by the Delaware Law of personal liability of directors to the Registrant and its stockholders for monetary damages for breach of fiduciary duty as directors of the Registrant.

The Company is obtaining a directors' and officers' insurance and company reimbursement policy in the amount of $. The policy insures directors and officers against unindemnified loss arising from certain wrongful acts in their capacities and reimburses the Registrant for such loss for which the Registrant has lawfully indemnified its directors and officers. The policy contains various exclusions, none of which will relate to the offering hereunder.

Item 25. Other Expenses of Issuances and Distribution.

The following table sets forth the fees and expenses in connection with the issuance and distribution of the securities being registered hereunder. Except for the SEC registration fee and the NASD fee, all amounts are estimates.

SEC Registration Fee	$18,965.52
NASD Filing Fee	6,000.00
Printing and Engraving Expenses	*
Legal Fees and Expenses	*
Accounting Fees and Expenses	*
Blue Sky Fees and Expenses	4,125.00
Miscellaneous Expenses	*
Total	$ *

* To be supplied by amendment

Item 26. Recent Sales of Unregistered Securities

The Company was incorporated on January 8, 1990 by Mr. Humphrey and Mr. Doughney (the "Founders"). Mr. Humphrey contributed certain computer hardware to the Company in exchange for 2,426,861 shares of Common Stock, and Mr. Doughney contributed certain computer software to the Company in exchange for 1,617,907 shares of Common Stock.

On July 1, 1994, the Company borrowed $300,000 from individuals generally affiliated or associated with Armata Partners L.P. These loans were evidenced by 8% promissory notes (the "Bridge Notes") secured by a pledge by the Founders of their shares of Common Stock. At the same time, the Company issued warrants to purchase 477,189 shares of Common Stock to seven of these individuals.

On March 25, 1995, the Company entered into the Securities Purchase Agreement with the Founders and Grotech, Venrock and Southern, pursuant to which the Company issued a total of 45,454.54 shares of convertible preferred stock (since redesignated Series A Convertible Preferred Stock), par value $1.00 per share ("Series A Preferred Stock"), together with warrants to purchase of 2,800,000 shares of Common Stock of the Company for an aggregate investment of $4,000,000. The Bridge Notes were repaid at their face amount with a portion of the proceeds of this investment. Grotech IV was issued 18,181.82 shares of Series A Preferred Stock and warrants to purchase 1,120,000 shares of

Common Stock of the Company, Venrock was issued 15,909.09 shares of Series A Preferred Stock (4,924.85 shares of which were assigned to Venrock II and warrants to purchase 980,000 shares of Common Stock (303,371 of which were assigned to Venrock II) and Southern was issued 11,363.63 shares of Series A Preferred Stock and warrants to purchase 700,000 shares of Common Stock.

As part of a fee for arranging the above investment, the Company made a cash payment of $200,000 and issued warrants to purchase 228,020 shares of Common Stock to nine individuals generally affiliated or associated with Armata Partners L.P.

On November 28, 1995, the Company issued 10% promissory notes in the principal amount of $2,000,000 (the "November 1995 Notes") and warrants to purchase 749,866 shares of Common Stock to Grotech IV, Venrock, Southern and Venrock Associates, II L.P. ("Venrock II" and, together with Venrock, Grotech and Southern, the "Investors") as follows: Grotech IV purchased promissory notes in the principal amount of $800,000 and warrants to purchase 299,946 shares of Common Stock; Venrock purchased promissory notes in the amount of $483,307 and warrants to purchase 181,198 shares of Common Stock; Venrock II purchased promissory notes in the principal amount of $216,693 and warrants to purchase 81,225 shares of Common Stock; and Southern purchased promissory notes in the principal amount of $500,000 and warrants to purchase 187,467 shares of Common Stock.

On February 23, 1996, the Company issued additional promissory notes in the principal amount of $1,000,000 (the "February 1996 Notes") on the same terms as the November 1995 Notes and additional warrants to purchase 415,975 shares of Common Stock to the Investors as follows: Grotech IV purchased promissory notes in the principal amount of $400,000 and warrants to purchase 166,378 shares of Common Stock; Venrock purchased promissory notes in the principal amount of $217,000 and warrants to purchase 100,524 shares of Common Stock; Venrock II purchased promissory notes in the principal amount of $133,000 and warrants to purchase 45,087 shares of Common Stock; and Southern purchased promissory notes in the principal amount of $250,000 and warrants to purchase 103,986 shares of Common Stock.

On May 21, 1996, the Company issued additional promissory notes in the principal amount of $1,000,000 (the "Convertible Notes") convertible into shares of Series B Preferred Stock of the Company to the Investors as follows: Grotech IV purchased promissory notes in the principal amount of $400,000; Venrock purchased promissory notes in the principal amount of $217,000; Venrock II purchased promissory notes in the principal amount of $133,000; and Southern purchased promissory notes in the principal amount of $250,000.

On May 30, 1996, the Company, the Founders, the Investors, Grotech Partners, Grotech Companion, Grotech Pennsylvania, Blue Chip and Crisler Capital Company, Limited Partnership ("Crisler," and together with the Investors, Grotech Partners, Grotech Companion, Grotech Pennsylvania and Blue Chip, the "Purchasers") entered into the Purchase and Exchange Agreement, whereby the Investors exchanged the November 1995 Notes and the February 1996 Notes held by them for 31,263.89 shares of Series B Convertible Preferred Stock of the Company, par value $1.00 per share (the "Series B Preferred Stock") and converted the Convertible Notes into 10,000 shares of Series B Preferred Stock. In addition, the Purchasers paid $4,000,000 in cash in exchange for a further 40,000 shares of Series B

Preferred Stock. The above-referenced exchange, conversion, and purchase resulted in the following acquisitions of Series B Preferred Stock: Grotech IV acquired 22,505.56 shares of Series B Preferred Stock; Grotech Partners acquired 8,537 shares of Series B Preferred Stock; Grotech Companion acquired 930 shares of Series B Preferred Stock; Grotech Pennsylvania acquired 533 shares of Series B Preferred Stock; Venrock acquired 10,914.77 shares of Series B Preferred Stock; Venrock II acquired 5,860.92 shares of Series B Preferred Stock. Southern acquired 11,982.64 shares of Series B Preferred Stock; Blue Chip acquired 16,000 shares of Series B Preferred Stock; and Crisler acquired 4,000 shares of Series B Preferred Stock.

In June 1996, the Company entered into a multi-year private network agreement with WinStar. As part of the agreement, WinStar agreed to pay $5,000,000 to the Company for connectivity services and received warrants to purchase 600,000 shares of Common Stock.

No underwriters were involved in any of the foregoing transactions. The sales of all such securities were deemed to be exempt from registration under the Act, in reliance on Section 4(2) thereunder, as transactions by an issuer not involving any public offering.

Since September 18, 1995, the Company at various times has granted options to purchase shares of Common Stock of the Company to certain Company employees. As of May 31, 1996 options to purchase 4,288,200 shares of Common Stock have been granted in the aggregate, at exercise prices ranging from $.10 to $1.49 per share. These grants were exempt from registration pursuant to Section 4(2) of the Act, Rule 701 thereunder or other applicable exemptions.

Item 27. Exhibits

Exhibit No. Description of Exhibit

1.1* Form of Underwriting Agreement. 3.1* Amended and Restated Certificate of Incorporation of the Registrant. 3.2* Restated By-Laws of the Registrant. 4.1* Form of Common Stock certificate. 5.1* Opinion of Latham & Watkins with respect to the legality of the securities being registered. 10.1* MCI Special Customer Arrangement between MCI Telecommunications Corporation and Digital Express Group, Inc. dated March 28, 1996. 10.2* Customer contract with LCI International, Inc. dated May 29, 1996. 10.3* Customer contract with WinStar Communications, Inc. dated June 6, 1996. 10.4* Warrant agreement with WinStar Communications, Inc. dated June 6, 1996. 10.5 Peering agreements *(a) Agreement for T1 Gateway Attachment Services, as amended, with ANS CO+RE Systems Inc. dated February 1, 1994. *(b) Bilateral Interconnection Agreement with PSINet Inc. dated February 7, 1996. *(c) Peering Agreement with MCI Telecommunications Corporation dated April 21, 1995. 10.6* Agreement with Hughes Network Systems, Inc. dated June 7, 1996. 10.7* Lease agreement with Banbury Associates Limited Partnership dated November 17, 1994. 10.8* Lease Agreement with George Christancos, dated December 4, 1995. 10.9 Lease Agreement with Executive Office Network, Ltd. 10.10* Sublease Agreement with A.S. McGaughaan. 10.11 Employment and consulting agreements (a) Clyde A. Heintzelman, dated March 19, 1995. (b) Christopher R. McCleary, dated

February 1, 1996. (c) Brian M. Deobald, dated March 25, 1996. (d) Earl P. Galleher, dated March 25, 1996. (e) Nicholas J. Magliato, dated March 25, 1996. (f) William A. Pendley, dated April 1, 1996. (g) Thomas M. Brandt, Jr., dated June 1, 1996. 10.12* Incentive Stock Option Plan. 10.13 Securities Purchase Agreement with Grotech Partners IV, L.P., Venrock Associates, Southern Venture Fund II, L.P., Douglas E. Humphery and Michael T. Doughney dated March 24, 1995. 10.14 Stockholders Agreement with Grotech Partners IV, L.P., Venrock Associates, Southern Ventures II, L.P. Douglas E. Humphery and Michael T. Doughney dated March 24, 1995. 10.15 (a) Warrant Agreement with Grotech Partners IV, L.P. dated March 24, 1995. (b) Warrant Agreement with Venrock Associates dated March 24, 1995. (c) Warrant Agreement with Southern Venture Fund II, L.P. dated March 24, 1995. 10.16 Loan and Security Agreement with Silicon Valley Bank dated April 11, 1996. 10.17 First Amendment to Loan and Security Agreement with Silicon Valley Bank dated May , 1996. 10.18 Revolving Promissory Note with Silicon Valley Bank dated April 11, 1996. 10.19 Securities Purchase, Conversion and Exchange Agreement with Grotech Partners IV, L.P., Grotech Partners III, L.P., Grotech III Companion Fund, L.P., Grotech III Pennsylvania Fund, L.P., Venrock Associates, Venrock Associates II, L.P., Southern Venture Fund II, L.P., Blue Chip Capital Fund Limited Partnership, Crisler Capital Company, Limited Partnership dated May 30, 1996. 23.1 Consent of Ernst & Young LLP. 23.2* Consent of Latham & Watkins (to be included in Exhibit 5.1).

* To be filed by amendment

Item 28. Undertakings

The undersigned Registrant hereby undertakes that:

(1) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(2) For determining any liability under the Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the small business issuer under Rule 424(b)(1), or (4), or 497(h) under the Act as part of this registration statement as of the time the Commission declared it effective.

(3) For determining any liability under the Act, treat each post- effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

(4) It will provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Signatures

IN ACCORDANCE WITH THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM SB-2 AND AUTHORIZED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, IN THE CITY OF BELTSVILLE, STATE OF MARYLAND, ON JUNE 12, 1996.

DIGEX, Incorporated

/s/ Christopher R. McCleary By: _____ Christopher R. McCleary Chief Executive Officer, President and Chairman of the Board

Power of Attorney

EACH PERSON WHOSE SIGNATURE APPEARS BELOW HEREBY CONSTITUTES AND APPOINTS CHRISTOPHER R. MCCLEARY AND THOMAS M. BRANDT, JR. AS HIS ATTORNEYS-IN-FACT AND AGENTS, WITH FULL POWER OF SUBSTITUTION AND RESUBSTITUTION FOR HIM IN ANY AND ALL CAPACITIES, TO SIGN ANY OR ALL AMENDMENTS OR POST-EFFECTIVE AMENDMENTS TO THIS REGISTRATION STATEMENT, OR ANY REGISTRATION STATEMENT FOR THE SAME OFFERING THAT IS TO BE EFFECTIVE UPON FILING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT OF 1933, AND TO FILE THE SAME, WITH EXHIBITS THERETO AND OTHER DOCUMENTS IN CONNECTION THEREWITH OR IN CONNECTION WITH THE REGISTRATION OF THE COMMON STOCK UNDER THE SECURITIES ACT OF 1934, AS AMENDED, WITH THE SECURITIES AND EXCHANGE COMMISSION, GRANTING UNTO EACH OF SUCH ATTORNEYS-IN- FACT AND AGENTS FULL POWER AND AUTHORITY TO DO AND PERFORM EACH AND EVERY ACT AND THING REQUISITE AND NECESSARY IN CONNECTION WITH SUCH MATTERS AND HEREBY RATIFYING AND CONFIRMING ALL THAT EACH OF SUCH ATTORNEYS-IN-FACT AND AGENTS OR HIS SUBSTITUTES MAY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

Signature Title Date

/s/ Frank A. Adams Director June 12, 1996 FRANK A. ADAMS

/s/ Christopher R. McCleary - ---------- CHRISTOPHER R. MCCLEARY	Chief Executive Officer, President and Chairman of the Board (principal executive officer)	June 12, 1996
/s/ Thomas M. Brandt, Jr. - ---------- THOMAS M. BRANDT, JR.	Senior Vice President, Chief Financial Officer (principal financial officer)	June 12, 1996
/s/ John C. Welling - ---------- JOHN C. WELLING	Vice President, Controller (principal accounting officer)	June 12, 1996

Signature Title Date

/s/ Douglas E. Humphrey - ---------- DOUGLAS E. HUMPHREY	Senior Vice President, Director	June 12, 1996
/s/ Michael T. Doughney - ---------- MICHAEL T. DOUGHNEY	Vice President, Director	June 12, 1996

/s/ William F. Earthman, III Director June 12, 1996 WILLIAM F. EARTHMAN, III /s/ Ray A. Rothrock Director June 12, 1996 RAY A. ROTHROCK /s/ Robert M. Stewart Director June 12, 1996 ROBERT M. STEWART /s/ John H. Wyant Director June 12, 1996 JOHN H. WYANT

Exhibits

SEQUENTIAL PAGE EXHIBIT NO. DESCRIPTION OF EXHIBIT NUMBER 1.1* Form of Underwriting Agreement. 3.1* Amended and Restated Certificate of Incorporation of the Registrant. 3.2* Restated By-Laws of the Registrant. 4.1* Form of Common Stock certificate. 5.1* Opinion of Latham & Watkins with respect to the legality of the securities being registered. 10.1* MCI Special Customer Arrangement between MCI Telecommunications Corporation and Digital Express Group, Inc. dated March 28, 1996. 10.2* Customer contract with LCI International, Inc. dated May 29, 1996. 10.3* Customer contract with WinStar Communications, Inc. dated June 6, 1996. 10.4* Warrant agreement with WinStar Communications, Inc. dated June 6, 1996. 10.5 Peering Agreements *(a) Agreement for T1 Gateway Attachment Services, as amended, with ANS CO+RE Systems Inc. dated February 1, 1994. *(b) Bilateral Interconnection Agreement with PSINet Inc. dated February 7, 1996. *(c) Peering Agreement with MCI Telecommunications Corporation dated April 21, 1995. 10.6* Agreement with Hughes Network Systems, Inc. dated June 7, 1996. 10.7* Lease agreement with Banbury Associates Limited Partnership dated November 17, 1994. 10.8* Lease Agreement with

George Christancos, dated December 4, 1995. 10.9 Lease Agreement with Executive Office Network, Ltd. 10.10* Sublease Agreement with A.S. McGaughaan. 10.11 Employment and consulting agreements (a) Clyde A. Heintzelman, dated March 19, 1995. (b) Christopher R. McCleary, dated February 1, 1996. (c) Brian M. Deobald, dated March 25, 1996. (d) Earl P. Galleher, dated March 25, 1996. (e) Nicholas J. Magliato, dated March 25, 1996. (f) William A. Pendley, dated April 1, 1996. (g) Thomas M. Brandt, Jr., dated June 1, 1996. 10.12* Incentive Stock Option Plan. 10.13 Securities Purchase Agreement with Grotech Partners IV, L.P., Venrock Associates, Southern Venture Fund II, L.P., Douglas E. Humphery and Michael T. Doughney dated March 24, 1995. 10.14 Stockholders Agreement with Grotech Partners IV, L.P., Venrock Associates, Southern Ventures II, L.P. Douglas E. Humphery and Michael T. Doughney dated March 24, 1995.

SEQUENTIAL PAGE EXHIBIT NO. DESCRIPTION OF EXHIBIT NUMBER 10.15 (a) Warrant Agreement with Grotech Partners IV, L.P. dated March 24, 1995. (b) Warrant Agreement with Venrock Associates dated March 24, 1995. (c) Warrant Agreement with Southern Venture Fund II, L.P. dated March 24, 1995. 10.16 Loan and Security Agreement with Silicon Valley Bank dated April 11, 1996. 10.17 First Amendment to Loan and Security Agreement with Silicon Valley Bank dated May , 1996. 10.18 Revolving Promissory Note with Silicon Valley Bank dated April 11, 1996. 10.19 Securities Purchase, Conversion and Exchange Agreement with Grotech Partners IV, L.P., Grotech Partners III, L.P., Grotech III Companion Fund, L.P., Grotech III Pennsylvania Fund, L.P., Venrock Associates, Venrock Associates II, L.P., Southern Venture Fund II, L.P., Blue Chip Capital Fund Limited Partnership, Crisler Capital Company, Limited Partnership dated May 30, 1996. 23.1 Consent of Ernst & Young LLP. 23.2* Consent of Latham & Watkins (to be included in Exhibit 5.1).

* To be filed by amendment </TEXT>