

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-1

General form of registration statement for all companies including face-amount certificate companies

Filing Date: **1999-09-10**  
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### FILER

#### COMSTAR NET INC

CIK: **1093519** | IRS No.: **582235514** | State of Incorpor.: **GA** | Fiscal Year End: **1231**  
Type: **S-1** | Act: **33** | File No.: **333-86877** | Film No.: **99709348**

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 10, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

COMSTAR.NET, INC.  
(Exact Name of Registrant as Specified in its Charter)

<TABLE>			
<S>	GEORGIA	7379	58-2235514
	(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)
</TABLE>			

2812 SPRING ROAD  
SUITE 210  
ATLANTA, GEORGIA 30339  
(770) 485-6000  
(770) 485-6100 (FACSIMILE)

(Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Registrant's Principal Executive Offices)

CHRISTOPHER K. MARTIN, C.P.A.  
CHIEF FINANCIAL OFFICER  
COMSTAR.NET, INC.  
2812 SPRING ROAD  
SUITE 210  
ATLANTA, GEORGIA 30339  
(770) 485-6000  
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(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Agent for Service)

-----  
Copies to:

<TABLE>		
<S>	CHARLES D. VAUGHN, ESQ. JENNIFER A. MCCOID, ESQ. NELSON MULLINS RILEY & SCARBOROUGH, L.L.P. FIRST UNION PLAZA, SUITE 1400 999 PEACHTREE STREET, N.E. ATLANTA, GEORGIA 30309 (404) 817-6000 (404) 817-6050 (FACSIMILE)	M. HILL JEFFRIES, ESQ. MARC L. HARRISON, ESQ. ALSTON & BIRD LLP ONE ATLANTIC CENTER 1201 WEST PEACHTREE STREET ATLANTA, GEORGIA 30309-3424 (404) 881-7000 (404) 881-4777 (FACSIMILE)
</TABLE>		

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [ ]

If this form is filed to register additional securities for any offering pursuant to Rule 462(b) 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 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 this form is a post-effective amendment filed pursuant to Rule 462(d) 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, check the following box. [ ] \_\_\_\_\_

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CALCULATION OF REGISTRATION FEE

<TABLE>  
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TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
<S> Common Stock, no par value.....	<C> \$54,475,000	<C> \$15,150

</TABLE>

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.  
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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.  
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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 10, 1999

(COMSTAR.NET, INC. LOGO)

SHARES

COMMON STOCK

comstar.net, inc. is offering \_\_\_\_\_ shares of its common stock, and the selling shareholders are offering an additional \_\_\_\_\_ shares. This is our initial public offering, and no public market currently exists for our shares.

We have applied to list the shares on the Nasdaq National Market under the symbol "CSTX." We anticipate that the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

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INVESTING IN THE COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A

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<TABLE>  
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	PER SHARE	TOTAL
	-----	-----
<S>	<C>	<C>
Public offering price.....	\$	\$
Underwriting discounts.....	\$	\$
Proceeds to comstar.net.....	\$	\$
Proceeds to the selling shareholders.....	\$	\$

comstar.net has granted the underwriters a 30-day option to purchase up to an additional \_\_\_\_\_ shares of common stock to cover any over-allotments.

The underwriters expect to deliver the shares of common stock to purchasers on \_\_\_\_\_, 1999.

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SCOTT & STRINGFELLOW, INC. SUNTRUST EQUITABLE SECURITIES

The date of this prospectus is \_\_\_\_\_, 1999.

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INSIDE COVER GRAPHICS

A map of the United States and the comstar.net logo appears at the top of the inside front cover page. The map shows comstar.net's (1) current data center in Atlanta, GA; and (2) current points of presence in Athens, Columbus and Atlanta, GA; Miami, FL, Raleigh, NC; and Birmingham, AL. It also shows (1) data centers comstar.net plans to build or acquire using a portion of the net proceeds from the offering in Chicago, IL; Washington, D.C.; Boston, MA; Phoenix, AZ; Miami, FL; Dallas, TX; and San Francisco, CA; and (2) points of presence comstar.net plans to build or acquire using a portion of the net proceeds from the offering in New York, NY; Los Angeles, CA; Houston, TX; Pittsburgh, PA; New Orleans, LA; Seattle, WA; Columbia, SC; Hartford, CT; Columbus and Cincinnati, OH; and Charlotte, NC.

The following text appears in a key below the map of the United States:

- Existing Data Center.
- Existing Points of Presence.
- Planned Data Centers.
- Planned Points of Presence.

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

In this prospectus, "comstar.net," "we," "us" and "our" refer to comstar.net, inc. and its subsidiaries unless the context otherwise requires.

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#### SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all the information that you should consider before buying shares in this offering. We urge you to read the entire prospectus carefully, including the information provided under "Risk Factors," before deciding to invest in our common stock. Unless otherwise stated, all information in this prospectus assumes that the price of our common stock to the public will be \$ per share, that the underwriters will not exercise their over-allotment option and that all outstanding shares of common stock series A and common stock series B will convert into shares of common stock immediately on the closing of this offering.

#### COMSTAR.NET, INC.

#### OUR BUSINESS

We are a rapidly growing Internet service provider, or ISP, that targets middle market businesses, educational institutions and governmental organizations. Our services provide high quality, cost-effective business solutions that allow our customers to take advantage of the Internet while outsourcing a significant portion of their Internet technology and staff.

Our primary services, which we tailor to meet each customer's needs, include:

- dedicated Internet access through our highly reliable network, which provides our customers with Internet access that is "always on,"
- co-location services, in which we provide secure space to house customer-owned Internet equipment, and
- managed application hosting, in which we provide and maintain a server for the customer's exclusive use to install any software application the customer chooses.

Data center services include, among others, our co-location services and our managed application hosting services. These are similar to the services offered by computer service providers, or CSPs, which house, maintain and supply power to their customers' Internet equipment.

We can deliver our services to customers throughout the world from our Atlanta, Georgia data center. We also have various other points of presence, or

POPs, located in the southeastern United States that aggregate our customers' Internet traffic and transport the traffic to our data center. We connect the traffic to very large ISPs, including UUNET, GTE Internetworking, Sprint and Intermedia Internet, who provide access to central Internet exchanges. Through our network, most of our customers' Internet traffic bypasses congested points on the Internet and avoids breakdowns at the central Internet exchanges and network access points. We believe our innovative network infrastructure and superior customer support by our network experts give us a significant competitive advantage over many other Internet access and Internet-based solutions providers.

Our senior management team has more than sixty years of combined experience in designing, implementing and managing telecommunications networks.

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#### OUR INDUSTRY

The number of businesses, educational institutions and governmental organizations using the Internet as a means of conducting business is growing rapidly. According to International Data Corporation, corporate Internet access and value-added services, such as Web hosting and co-location, are the fastest growing services offered by ISPs. Corporate access revenue and value-added services revenue were \$5.9 billion in 1998 and are expected to grow to approximately \$25.0 billion by 2003.

Many of the enterprises using the Internet lack the expertise to cost-effectively develop and maintain their Web sites while also managing their core operations. In addition, these organizations often do not have the resources needed to keep up with rapidly changing technologies and to support a network infrastructure that must be both reliable and expandable. As a result, we believe enterprises of all sizes are seeking collaborative outsourcing arrangements to:

- acquire reliable Internet access,
- help them establish effective, secure and reliable Web sites,
- provide required monitoring and maintenance of their Internet-related facilities, and
- control their Internet service costs.

Recent changes in the regulations affecting the telecommunications industry in the United States and abroad have made it easier and more cost-effective for new companies to compete with existing carriers in providing local voice and data communication services. These communication services can often be offered via the same communication lines over which companies currently offer Internet access. This increase in competition, combined with customer demand to acquire all communications services from a single source, is driving the convergence of voice and data communications technologies toward providers capable of delivering a broad range of communications services.

#### OUR BUSINESS STRATEGY

We intend to become a leader in providing businesses, educational institutions and governmental organizations with high quality, cost-effective Internet services. To accomplish this objective, we intend to continue to rely on the following core elements of our business strategy:

- delivering highly reliable Internet access that enables our customers' traffic to avoid congestion and breakdowns at major Internet exchanges,
- increasing the percentage of our revenues from value-added data center services, which typically provide higher margins than our Internet access services,
- targeting middle market business, educational and governmental customers rather than individual consumers to take advantage of the outsourcing needs of these enterprises, and
- providing superior customer support by our network experts.

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We intend to further develop our business by focusing on the core elements of our business strategy discussed above and pursuing the following key growth strategies

- expanding our network nationally and internationally,
- broadening our marketing activities,
- pursuing strategic sales and distribution alliances,
- engaging in strategic acquisitions, and
- eventually becoming an integrated communications provider offering both voice and data services.

#### OUR CUSTOMERS

Since our inception in 1996, we have grown rapidly and now provide Internet services to more than 500 customers across the United States and in Cuba. In addition to middle market enterprises, we currently provide service to other ISPs and larger customers like BellSouth Wireless, Net.B@nk, AGL Resources, Mohawk Industries, Hartsfield Atlanta International Airport and Guantanamo Bay Naval Air Station, Cuba under a contract with Local Communications Network.

Our revenues for the year ended December 31, 1998 were \$2,142,345, an increase of 217% from our revenues of \$675,569 for the year ended December 31, 1997. Our revenues for the six months ended June 30, 1999 were \$1,485,544, an increase of 73.2% from our revenues of \$857,786 for the six months ended June 30, 1998. For the six months ended June 30, 1999, we derived 61.3% of our revenues from providing Internet access and 38.7% of our revenues from all our other services. For the six months ended June 30, 1999, our average monthly revenue per customer was approximately \$517.

#### OUR CORPORATE PROFILE

comstar.net, inc. was formed in March 1996 as ComStar Communications, Inc., a Georgia corporation. We changed our name to comstar.net, inc. in July 1999. We began operating on June 10, 1996, and by December 31, 1996, we had 27 customers. Our customer base increased to 244 customers at the end of 1997, and to 472 customers at the end of 1998. We had 510 customers at September 1, 1999.

Our principal executive offices are located at 2812 Spring Road, Suite 210, Atlanta, Georgia 30339, and our main telephone number is (770) 485-6000. We operate our business primarily from our data center located at our offices in Atlanta, Georgia. We also have POPs in Raleigh, North Carolina; Birmingham, Alabama; Athens, Columbus and Gainesville, Georgia; and Miami, Florida. We are establishing a POP in Houston, Texas.

Our Web site is located at <http://www.comstar.net>. Information on our Web site is not, however, part of this prospectus, and you should rely only on the information contained in this prospectus before deciding to invest in our common stock.

#### THE OFFERING

<TABLE>

<S>	<C>
Common stock offered by comstar.net.....	shares
Common stock offered by the selling shareholders.....	shares
Over-allotment option.....	Up to shares to be issued by comstar.net. If the over-allotment option is exercised in full by the underwriters at a public offering price per share of \$ , the total offering proceeds will be \$ , underwriting discounts will be \$ and proceeds to comstar.net will be

Common stock to be outstanding immediately after the offering..... shares

Use of proceeds..... Repay debt; develop and deploy new data centers and services; expand sales, marketing and advertising efforts; and fund working capital and general corporate purposes, including acquisitions.

Proposed Nasdaq National Market symbol..... CSTX

</TABLE>

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Comstar Internet & Wireless(TM), Comstar Internet Service, Inc. (with logo design)(TM), comstar.net, inc.(TM) and Switch Hotel(TM) are trademarks of comstar.net. We have applied for federal registration of the Comstar Internet & Wireless (with logo design)(TM), Comstar Internet Service, Inc. (with logo design)(TM) and comstar.net, inc. (with logo design)(TM) trademarks.

This prospectus includes statistical data regarding the Internet industry. This data is taken or derived from information published by International Data Corporation, a provider of market and strategic information for the technology industry. We believe that this data is generally indicative of the matters reflected in this source. This data is inherently imprecise, however, and we caution you not to place undue reliance on it.

SUMMARY FINANCIAL DATA

You should read the following summary financial data of comstar.net along with "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus. For an explanation of the determination of the number of shares used to compute basic and diluted net loss per share and weighted average shares outstanding, see note 2 of the notes to our financial statements. The data "as adjusted for the offering" reflect the sale by us of shares of common stock at an assumed initial offering price of \$ per share and our receipt and application of the estimated net proceeds as described in "Use of Proceeds."

<TABLE>  
<CAPTION>

	PERIOD FROM INCEPTION (MARCH 5, 1996) TO DECEMBER 31, 1996	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
		1997	1998	1998	1999
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues.....	\$ 65,398	\$ 675,569	\$ 2,142,345	\$ 857,786	\$ 1,485,544
Operating loss.....	(267,686)	(487,585)	(445,138)	(25,834)	(536,897)
Net loss.....	(278,120)	(547,244)	(597,730)	(96,387)	(703,721)
Net loss per share (basic and diluted).....	\$ (.03)	\$ (.06)	\$ (.06)	\$ (.01)	\$ (.07)
Weighted average shares outstanding.....	10,000,000	10,000,000	10,005,731	10,000,000	10,165,825

</TABLE>

<TABLE>  
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AS OF JUNE 30, 1999

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AS ADJUSTED FOR THE OFFERING

ACTUAL



<code>&lt;S&gt;</code>	----- <code>&lt;C&gt;</code>	----- <code>&lt;C&gt;</code>
<code>BALANCE SHEET DATA:</code>		
<code>Cash and cash equivalents.....</code>	<code>\$ 1,045,071</code>	<code>\$</code>
<code>Working capital (deficit).....</code>	<code>(1,038,135)</code>	
<code>Total assets.....</code>	<code>2,567,834</code>	
<code>Total debt, including current maturities.....</code>	<code>2,048,917</code>	
<code>Total shareholders' deficit.....</code>	<code>(4,071)</code>	
<code>&lt;/TABLE&gt;</code>		

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#### RISK FACTORS

An investment in our common stock involves a high degree of risk. Before you invest in our common stock, you should carefully consider the risks described below, along with all of the other information included in this prospectus. Any of the following risks could seriously harm our business and results of operations. As a result, the trading price of our common stock could decline, and you could lose part or all of your investment.

Some of the information in this prospectus contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "plan," "will," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations,
- contain projections of our future results of operations or financial condition, or
- state other "forward-looking" information.

We believe that it is important to communicate our future expectations to our investors. Events may occur in the future, however, that we have not accurately predicted or over which we have no control. These events may affect our future operating results, our ability to implement our business plan, our efforts to address year 2000 issues and potential competition, among other things. The risk factors listed in this section, as well as other cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of any of the events described in these risk factors and elsewhere in this prospectus could have a material adverse effect on our business, financial condition and results of operations and on the price of our common stock.

#### RISKS RELATED TO COMSTAR.NET

WE ARE AN EARLY STAGE COMPANY IN A RAPIDLY EVOLVING INDUSTRY, WHICH MAKES IT DIFFICULT TO EVALUATE OUR BUSINESS AND PROSPECTS.

We began operations in June 1996, and our limited operating history makes an evaluation of us and our prospects difficult. You should consider our business and our prospects in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development, particularly companies in the new and rapidly evolving market for Internet services and technologies. Some of the risks we may face as an early stage company include our ability to:

- implement our business model and strategy and adapt it as needed,
- continue to attract Internet access and data center services customers,
- develop strategic relationships with other Internet-based service providers that can refer customers to us, and
- continue to develop and upgrade our network systems and infrastructure.

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If we fail to manage these early stage risks successfully or the Internet services industry does not evolve as we expect, current evaluations of our business and prospects may prove to be inaccurate.

WE EXPECT TO CONTINUE TO SUFFER LOSSES AND EXPERIENCE NEGATIVE CASH FLOW.

We have incurred substantial losses since inception and expect to continue to suffer substantial losses in the future. Our business has not generated sufficient cash flow to fund our operations without acquiring capital from other sources. We have incurred net losses and negative cash flows from operations as follows:

<u>&lt;TABLE&gt;</u> <CAPTION>	NET LOSS	NET CASH USED IN OPERATING ACTIVITIES
	-----	-----
<u>&lt;S&gt;</u>	<C>	<C>
Period from inception (March 5, 1996) to December 31, 1996.....	\$(278,120)	\$(202,080)
Year ended December 31, 1997.....	(547,244)	(402,451)
Year ended December 31, 1998.....	(597,730)	(210,355)
Six months ended June 30, 1999.....	(703,721)	(645,268)
<u>&lt;/TABLE&gt;</u>		

As of June 30, 1999, we had an accumulated deficit of approximately \$2.1 million. We expect to incur additional capital costs and other expenses in developing and expanding our network and business. As a result, we expect to incur significant additional losses and negative operating cash flow for the foreseeable future, and we may not ever be able to achieve profitability. Even if we do achieve profitability and positive cash flow, we may not be able to sustain or increase profitability and positive cash flow on a quarterly or annual basis. If our revenues grow more slowly than we anticipate, or if our operating expenses exceed our expectations and cannot be adjusted accordingly, our business will suffer and the market price of our common stock could decline substantially.

OUR OPERATING RESULTS AND LIQUIDITY ARE UNPREDICTABLE AND MAY FLUCTUATE, WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE.

Our results of operations are difficult to predict. We have experienced significant fluctuations on a quarterly and annual basis in our results of operations, which has affected our liquidity. We expect our operating results and liquidity to fluctuate significantly from quarter to quarter in the future. If our future results of operations fall below the expectations of investors or public market analysts, the price of our common stock could fall substantially. Our results of operations and liquidity may fluctuate significantly in response to the risk factors described in this section, as well as the following factors, some of which are beyond our control:

- how quickly we are able to acquire new customers,
- how expensive it is to acquire new customers,
- how much money we have to spend to improve our business and expand our operations,
- how quickly we are able to develop new services that our customers require,
- how much our operating expenses increase,
- the mix of services we sell,

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- the timing and size of our capital expenditures and changes in our working capital,
- pricing decisions by us or our competitors,

- whether we experience business disruptions resulting from year 2000 computer problems,
- changes in laws and regulations which affect our business,
- the extent to which we experience increased competition in our markets, and
- general economic factors that might cause our existing and potential customers to decrease what they spend on their Internet operations.

WE MAY BE UNABLE TO EFFECTIVELY MANAGE OUR RAPID GROWTH, WHICH IS PLACING AND MAY CONTINUE TO PLACE A STRAIN ON OUR RESOURCES AND MAY CONTRIBUTE TO FUTURE LOSSES.

We have rapidly expanded our operations and customer base and anticipate further growth in the future. Our rapid growth has placed significant demands on our financial resources, management, personnel, systems, procedures and controls, which may be inadequate to support our existing and future operations. If we are unable to manage our growth, we may not be able to implement our business plan and strategy, and our financial results may suffer. To manage our growth effectively, we must:

- accurately predict growth in the demand for our Internet access and data center services and our capacity to meet that demand,
- continue to expand and improve our operating and financial systems, procedures and controls,
- attract, train, motivate, manage and retain key employees, particularly our network experts,
- continue to provide high quality Internet access, data center services and customer support, while dealing with the distractions and strain of rapid growth,
- acquire and install new equipment and facilities,
- successfully integrate the operations and personnel of any ISPs or other businesses we acquire, and
- respond quickly and effectively to unanticipated changes in the industry.

IF WE ARE UNABLE TO MANAGE AND EXECUTE OUR PLANNED GEOGRAPHIC EXPANSION, WE MAY INCUR SUBSTANTIAL COSTS BUT NOT RECEIVE THE REVENUES WE ANTICIPATE.

A key element of our growth strategy is the planned domestic and international expansion of our network by opening additional data centers. We cannot guarantee that we will successfully manage this geographic expansion. To do so we must perform the following tasks successfully:

- efficiently assess potential markets,
- identify data center sites,
- acquire and make necessary improvements to facilities,

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- install equipment,
- expand our employee base to staff new data centers adequately,
- adjust our operational and financial systems to accommodate the new data centers, and
- integrate the completed data centers into our network.

We may not accurately anticipate the customer demand for the services these additional data centers will provide, and we may be unable to attract a sufficient number of customers to our new facilities to justify the expense of establishing the facility. If we are unable to attract customers for these new data centers as we expect, our costs of establishing these facilities may exceed

the revenues we derive from them, which would adversely affect our financial results.

Part of our geographic expansion strategy includes opening POPs throughout the United States and at various international sites to supplement our data centers. Although the cost to establish a POP is typically much less than to establish a data center, we also face some of the above risks in establishing additional POPs.

WE MAY BE UNABLE TO FUND OUR PLANNED BUSINESS EXPANSION AND OTHER CAPITAL REQUIREMENTS, WHICH MAY LIMIT OUR OPERATIONS AND GROWTH POTENTIAL.

We expect our planned business expansion to require significant cash expenditures, including increased sales and marketing expenses and expenditures to establish new data centers and POPs. Although we believe that the net proceeds of this offering and our cash reserves will be adequate to fund our operations and the development of additional data centers and POPs until the end of the year 2000, we may need additional funds either during or after that period. We may not be able to obtain additional financing or, if additional financing is available, we may not be able to obtain it on terms favorable to us. If we raise additional funds by issuing equity securities, your ownership interest could be significantly diluted, and any additional equity securities we issue may have rights, preferences or privileges senior to your rights. In addition, the terms of any additional financing we obtain may significantly limit our future financing and operating activities. If we cannot obtain adequate funds to satisfy our capital requirements, we may be forced to limit our operations and expansion plans significantly, sell assets, or seek to refinance outstanding obligations. Any of these events could significantly harm our business and financial condition and limit our growth.

WE MAY MAKE ACQUISITIONS OR INVESTMENTS THAT ARE NOT SUCCESSFUL AND THAT ADVERSELY AFFECT OUR ONGOING OPERATIONS.

To execute our growth strategy, we may make acquisitions and investments to complement and strengthen our business. We could acquire or invest in: businesses, including other ISPs; customer lists and related customer accounts; products; services; or technologies. We have very limited experience in these activities. In making acquisitions or investments, we face numerous risks, including:

- the difficulty of identifying and hiring one or more senior executives with acquisition experience,

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- the difficulty of identifying suitable acquisition or investment candidates and negotiating acceptable terms for acquisitions and investments,
- our need for additional debt or equity financings to complete any acquisitions,
- the terms of any additional financing used to fund an acquisition may significantly limit our future financing and operating activities,
- the potential disruption of our ongoing business,
- the potential distraction of our management and diversion of our resources,
- our inability to maintain uniform standards, controls and procedures,
- the difficulty of successfully integrating the services, products and personnel of any acquired business or assets into our operations,
- our retention and motivation of key employees of the acquired businesses,
- our entry into geographic markets in which we have little or no prior experience,
- competition for acquisition opportunities with competitors that are larger than us or have greater financial and other resources than we have; and

- our inability to maintain good relations with the customers and suppliers of the acquired businesses.

OUR MANAGEMENT TEAM HAS WORKED TOGETHER FOR ONLY A SHORT TIME AND MAY EXPERIENCE INTEGRATION DIFFICULTIES THAT COULD CAUSE OUR BUSINESS TO SUFFER.

We have recently hired several key employees and officers, including our Chief Operating Officer, Cynthia A. St. Ores; our Chief Financial Officer, Christopher K. Martin; and our Executive Vice President of Sales and Marketing, Steven J. Edwards. As a result, our complete management team has worked together for only a brief time. Our ability to execute our growth strategies effectively will depend in part on our ability to integrate these and future executives into our operations. If we are unsuccessful in integrating the new members of our management team quickly and effectively, our business could suffer significantly.

IF WE ARE UNABLE TO ATTRACT AND RETAIN KEY PERSONNEL, WE MAY HAVE TO EMPLOY LESS QUALIFIED PERSONNEL AND WE MAY EXPERIENCE HIGH PERSONNEL TURNOVER COSTS.

The loss of the services of one or more of our key employees or our failure to attract and retain additional qualified personnel could cause us to employ less qualified personnel, increase our personnel costs or otherwise have a significant adverse effect on our business. Our success depends in significant part upon the continued services of our key management, technical and sales personnel, including our Chief Executive Officer, J. Cary Howell, and our Chief Technology Officer, Edward N. Landa. None of our officers or employees is a party to an employment agreement. Any officer or employee can terminate his or her relationship with us at any time.

To execute our strategy successfully, we must attract, train, retain and motivate highly qualified management, technical, marketing and sales personnel. Competition for personnel with the technological and other attributes we require is intense, and turnover of technical

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personnel is particularly high in our industry. We may not be able to attract or retain qualified key personnel, and we may not recoup the cost of training employees if they leave after a short time.

IF WE CANNOT IMPLEMENT OUR SALES AND MARKETING PLAN, WE WILL NOT ACHIEVE OUR PROJECTED GROWTH.

Our projected growth depends on our ability to successfully execute our sales and marketing plan. Our marketing efforts have been limited in the past, and we have only recently hired our Executive Vice President of Sales and Marketing, Steven J. Edwards. To improve our sales and marketing results, we must recruit and retain a competent and sufficient sales force and marketing group. If we are unable to develop our sales and marketing expertise, our business will not grow and our financial results will suffer. If we have insufficient funds to launch the necessary marketing programs, we may lose customers or fail to attract additional customers, which would prevent us from achieving our sales goals and could slow or eliminate our growth.

OUR ABILITY TO SUSTAIN OR GROW OUR BUSINESS MAY BE HARMED IF WE ARE UNABLE TO PROVIDE ADEQUATE CUSTOMER SUPPORT.

Our ability to continue to grow our business and to retain current and future customers depends in part on our ability to provide responsive and knowledgeable customer support through our network experts. A failure to offer adequate customer support could materially and adversely affect our reputation, cause us to lose customers or cause demand for our services to decline significantly.

WE MAY BE UNABLE TO RETAIN OUR CUSTOMERS AFTER THEIR CONTRACTS WITH US EXPIRE, WHICH WOULD REDUCE OUR REVENUES.

Our success substantially depends not only on adding new customers but on retaining the ones we have. We face the risk that our current and future customers may not renew their initial contracts after they expire. Therefore, to grow as we intend, we must add to our customer base to offset any customer cancellations. If we fail to retain our existing customer base, we may not only

fail to meet our growth projections but may experience declining revenues.

DISRUPTIONS OF OUR SERVICES AT OUR DATA CENTER COULD RESULT IN CUSTOMER CANCELLATIONS, SIGNIFICANT CREDITS FOR FREE SERVICE TO AFFECTED CUSTOMERS AND LIABILITY FOR DAMAGES THAT EXCEED OUR LIABILITY INSURANCE.

The bulk of our computer and telecommunications equipment, including critical equipment dedicated to our Internet access services, is presently located at one data center in Atlanta, Georgia. Despite precautions we take, we may experience system failures or shut downs at our data center, particularly due to natural disasters, vandalism, severed telecommunications lines resulting from utility construction or repairs near our data center or other unanticipated problems. If disruptions occur, we may have no means of replacing these network services on a timely basis or at all. Extensive or multiple interruptions in providing customers with Internet access and other services are primary reasons for customer decisions to switch to another ISP or cancel their use of Internet access and related services. Accordingly, any disruption of our services at our data center could cause us to lose existing customers and damage our ability to gain new customers.

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Our customer contracts currently provide a limited service level warranty related to the continuous availability of service on a 24 hours per day, seven days per week basis, except for scheduled maintenance periods. This warranty provides a credit for free service for disruptions in our Internet access services. If we incur significant free service obligations because of these disruptions, we will likely suffer financial losses for the periods in which we provide the free service. In addition, although our service contracts limit our liability to our customers for actual damages, we may be found liable for damages that exceed our liability insurance.

BREACHES IN THE SECURITY OF OUR NETWORK COULD REQUIRE US TO PAY MONEY DAMAGES TO OUR CUSTOMERS FOR LOSS OF INFORMATION AND COULD RESULT IN LOSS OF CUSTOMERS AND NEGATIVE PUBLICITY.

To conduct electronic commerce and communications effectively, we must ensure our customers that the information they transmit over our network will be safe. We provide security for our customers' information by licensing encryption and authentication technology from others. Despite our design and implementation of a variety of network security measures, our network, our data center or our POPs may be the victim of unauthorized access, computer viruses, accidental or intentional acts and other disruptions of our business. We may be held responsible and required to pay damages for the loss of any confidential information stored in our computers or the equipment of our customers arising from the inappropriate use of our network by others. We may also lose customers if any of these disruptions occur.

Although we provide industry-standard security measures, these measures have been defeated in the past, and we cannot guarantee that they will not be defeated on our network or at our data center or POPs. Any security breach could result in expensive litigation and harmful publicity. In addition, if many enterprises choose not to use the Internet because of security concerns, the growth of the Internet would be inhibited, which would have a material adverse effect on our business.

IF WE CANNOT EXPAND OUR TELECOMMUNICATIONS NETWORK RAPIDLY OR BROADLY ENOUGH TO MEET CUSTOMER DEMAND, THE QUALITY OF OUR SERVICE MAY SUFFER.

We must continue to expand and adapt our network infrastructure as the number of customers and the amount of information they wish to transport increases and their requirements evolve. A rapid and significant expansion of our network will place additional stress upon our network hardware and traffic management systems. The ability of our network to connect and manage a substantially larger number of customers at high transmission speeds has not been tested. Consequently, we face the risk that we cannot expand our network as we intend. Even if we are able to do so, we face the risk that an expanded network will not maintain the levels of performance our network currently provides.

From time to time we must upgrade our infrastructure to increase bandwidth capacity. This allows us to handle increases in information flow while maintaining the speeds of data transfer our customers require. We believe that

further expansion and improvement of our network infrastructure will require substantial financial, operational and management resources that may not be available when we need them. We may not be able to acquire additional network capacity from our suppliers when we need it, on reasonable terms or at all. In addition, as we upgrade our infrastructure, we may need to use equipment or

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software that is incompatible with our current network. As a result, we may experience delays in installing the needed equipment or software. Without additions to our infrastructure, we may not be able to install or maintain sufficient bandwidth capacity to provide transportation speeds that are acceptable to our customers, especially if they significantly increase their usage. If we are unable to maintain acceptable speeds or if we encounter delays in upgrading our network, we may lose customers and our revenues could decline significantly.

A DISRUPTION OR REDUCTION IN THE INTERNET CAPACITY OF ANY OF THE ISPS THAT PROVIDE OUR INTERNET CONNECTION COULD LOWER THE QUALITY OF OUR SERVICE AND CAUSE US TO LOSE CUSTOMERS.

Our success depends upon the size, ease of expansion, reliability and security of our network infrastructure, including the transmission capabilities we lease from the ISPs that connect us to the Internet. In particular, we depend on UUNET, GTE Internetworking, Sprint and Intermedia Internet for our Internet connection. Although we lease Internet access capacity from multiple suppliers, a disruption or reduction in Internet capacity by any of them could prevent us from maintaining the high quality of our service and cause us to lose customers. If our business relationship with any of these providers were to be terminated, we would need to identify and acquire alternative sources for the service, which may not be available at all or on prices and terms acceptable to us.

IF PROVIDERS OF LOCAL AND LONG DISTANCE TELECOMMUNICATIONS LINES EXPERIENCE DISRUPTIONS OR CAPACITY CONSTRAINTS, OUR ABILITY TO PROVIDE SERVICE TO OUR AFFECTED CUSTOMERS MAY BE ELIMINATED OR SUBSTANTIALLY CONSTRAINED.

We presently rely on BellSouth and other regional and local companies to provide data communications capacity via local telecommunications lines and leased long-distance lines to connect us to our customers. We may experience disruptions or capacity constraints in these telecommunications services. If disruptions or capacity constraints occur, we may have no means of replacing these services on a timely basis or at all. In particular, local telephone service is sometimes available only from BellSouth or another incumbent local exchange carrier in the markets we serve. Although we believe that the federal Telecommunications Act of 1996 will generally lead to increased competition in the local telephone service market, we cannot predict when or to what extent this will occur or the effect of increased competition on pricing or supply. In addition, our telecommunications carriers also sell or lease services to our competitors and either are, or in the future may become, competitors themselves. As a result, when capacity constraints and disruptions occur, our carriers may allocate any remaining capacity to themselves or to our competitors.

IF OUR SUPPLIERS ARE UNABLE TO SUPPLY THE EQUIPMENT WE NEED TO MAINTAIN AND IMPROVE OUR NETWORK AND DATA CENTER SERVICES, OUR SERVICE QUALITY MAY SUFFER AND WE MAY LOSE CUSTOMERS.

We depend on a few suppliers of hardware components for which alternative sources are not readily available. We purchase some of our parts from Cisco Systems, Inc. and Lucent Technologies, Inc. under purchase orders we place from time to time. We do not have a long-term contract or guaranteed supply arrangement with these providers, and we do not carry significant inventories of these parts. If we are unable to obtain these parts on a timely basis and at an acceptable cost, we could be unable to upgrade or repair our

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network as required to remain competitive. As a result, we could lose customers and our business could be significantly harmed.

OUR SALES CYCLE FOR SOME OF OUR CUSTOMERS IS LONG, AND WE MAY INCUR SUBSTANTIAL SALES-RELATED EXPENSES BEFORE WE RECEIVE REVENUES, IF ANY, FROM THESE CUSTOMERS.

The period from our initial contact with a potential customer to the commencement of services for that customer generally varies in relation to the level of services we provide. For example, services that are more comprehensive have a four-to-six month sales cycle. Our customers' decisions regarding Internet service are often critical to their business, and they frequently require extensive information and education regarding the benefits of our Internet access and data center services. We expect that most of our sales-related expenses will occur before our customers commit to use our services. This places demands on our working capital and exposes us to the risk that we may expend significant marketing resources to pursue customers who ultimately choose not to use our services. Although we intend to significantly increase our sales and marketing expenditures to attract new customers, we expect that the sales cycle for new customers who desire more than basic Internet access will continue to be lengthy.

ANY FAILURE BY US TO PROTECT OUR PROPRIETARY TECHNOLOGY AND OTHER PROPRIETARY RIGHTS COULD RESULT IN THE LOSS OF OUR RIGHTS, LOSS OF BUSINESS OR INCREASED COSTS.

One important element of our success and competitive ability is our technology and our technological expertise. We rely on a combination of copyright, trademark and trade secret laws and contractual restrictions to establish and protect proprietary rights in our services. We have no patented technology that would preclude or inhibit competitors from entering our market. To limit access to and disclosure of our proprietary information, we enter into confidentiality agreements with our employees and consultants, and, if possible, nondisclosure agreements with appropriate suppliers and customers. These contractual arrangements and any other steps we take to protect our intellectual property may not prevent misappropriation of our technology or deter others from developing similar technologies. In addition, the laws of some foreign countries may not protect our services or intellectual property rights to the same extent as do the laws of the United States.

To date, we have not been notified that our services infringe the proprietary rights of others, but others may claim that we infringe their proprietary rights in current or future products or services. We expect that participants in our markets will be increasingly subject to infringement claims as the number of competitors in our industry grows. An infringement claim against us could result in a loss of our proprietary rights and, whether meritorious or not, could be time-consuming, result in costly litigation, or require us to enter into royalty or licensing agreements on terms that are unfavorable to us. Acceptable royalty or licensing agreements might not be available to us. As a result, any infringement claim could seriously harm our business.

IF WE FAIL TO PROTECT OUR COMSTAR SERVICE MARKS, WE COULD LOSE THE RIGHT TO USE THOSE MARKS AND WOULD HAVE TO INCUR SUBSTANTIAL COSTS TO BUILD A NEW NAME.

We believe we have begun to build awareness of the comstar.net brand in our markets, and we intend to use part of the net proceeds from this offering to further increase market awareness of the comstar.net name. However, several other companies use the mark "Comstar" and similar terms for their company names and various products,

services, and brands. Some of these companies have obtained trademark registrations from the United States Patent and Trademark Office to protect their use of the mark "Comstar" and similar terms. We have recently filed applications with the United States Patent and Trademark Office to obtain federal trademark registration of the following marks: comstar.net, inc., together with our design logo; Comstar Internet Services, Inc., and the related design; and Comstar Internet & Wireless, Inc., and the related design. If the Patent and Trademark Office finds that the marks in these registration applications are likely to be confused with the marks of another company, they will not grant our applications to register the marks. If the Patent and Trademark Office does not grant our registrations, we will likely experience greater expense and difficulty in protecting our trademarks. We may also be unable to stop others from using similar marks in connection with competing goods or services. If that happens, our customers, suppliers and others in our industry could confuse us and our products and services for another person or company and its products and services. This could weaken the value of the



comstar.net name and result in our losing business to competitors.

In addition, other companies that use or have registrations for the mark "Comstar" or terms similar to "Comstar" for various products and services, or for their company or brand name, could claim that we are infringing their federal or state trademark rights by our use of the mark "comstar.net" or its derivations. An infringement claim of that nature, whether meritorious or not, could be time consuming and result in costly litigation. In addition, it could result in our loss of the right to use the mark "comstar.net" and its derivations, including losing the right to use them

- in our corporate name,
- as part of the services we offer, and
- as part of our URL, or our address on the World Wide Web, which is currently www.comstar.net.

Litigation or settlement of an infringement claim could also require us to enter into royalty or licensing agreements on terms that are unfavorable to us. If we are unable to use the mark "comstar.net" and its derivations, we will be required to adopt a new company and brand name, and market our services under a new name. To do so, we will be required to incur significant costs. Any of these events could materially and adversely affect our business or financial condition.

POTENTIAL YEAR 2000 PROBLEMS MAY CAUSE US TO LOSE CUSTOMERS AND SUBJECT US TO SIGNIFICANT LIABILITIES AND COSTS.

The risks posed by year 2000 issues could adversely affect our business in a number of significant ways. We note in particular that the information technology systems we depend on may not be year 2000 compliant by the end of 1999. These systems include:

- our own critical information technology and non-information technology systems,
- the systems of suppliers on which we rely, including the ISPs that provide our link to the Internet, and
- the systems of our customers, particularly those who maintain their Internet operations on UNIX-based servers that may be particularly affected by year 2000 complications.

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Further, our costs and liabilities related to year 2000 issues may be significant, and we may become involved in litigation related to year 2000 issues.

If year 2000 problems cause the failure of any of our systems, the systems of our suppliers on which we rely, or the servers or other internal systems of our customers, we could lose customers, incur significant disruption in our business, lose revenues, and incur substantial liabilities and expenses. In addition, the Internet could face serious disruptions arising from year 2000 issues, which generally may have an adverse impact on traffic and commerce on the Internet.

Even if year 2000 problems do not cause any of these failures or disruptions, if our suppliers, current or prospective customers or others expect that these failures or disruptions will occur, during the fourth quarter of 1999 it could:

- cause potential customers to delay purchases from us until the year 2000,
- reduce the growth of the Internet and electronic commerce,
- hamper existing Internet activity and electronic commerce, and
- reduce the demand for our services.

If this happens, it could materially and adversely affect our business, particularly our results of operations. For more information about how year 2000

issues affect us, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Compliance."

IF WE SUCCEED IN OUR GOAL OF BECOMING A COMPETITIVE LOCAL EXCHANGE CARRIER, WE COULD BE SUBJECT TO NUMEROUS ADDITIONAL RISKS.

One of our goals is to become licensed as a competitive local exchange carrier, or CLEC, within the state of Georgia and in other states in which we operate. A CLEC provides local access lines as well as long-distance or other telecommunications services. The approval process for becoming a CLEC can be costly and lengthy, and obtaining this approval will divert important management and capital resources from our business. We may be unable to obtain approval as a CLEC in some or all of the states in which we operate.

None of our current management team has any experience in managing a CLEC, and we may have to retain senior management with that experience to successfully capitalize on being authorized as a CLEC. We cannot assure you that we will be able to locate and hire appropriate management personnel on terms we find to be reasonable or at all.

Even if we do obtain approval to operate as a CLEC, we cannot assure you that we will be a successful competitor in the industry. Numerous companies, some of which are our competitors in our current business, already have obtained this approval and have invested significant resources to build their access lines, hire and train personnel, develop their services and obtain customers. We may not be able to fund the substantial capital and other costs that may be required to operate as a CLEC. In addition, to operate successfully as a CLEC, we will need to enter into interconnection agreements with incumbent local exchange carriers, such as BellSouth. These agreements permit carriers to exchange telecommunications traffic. We may experience difficulties in entering into these agreements on terms that are acceptable to us and in enforcing these agreements.

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If we attain CLEC status and conduct business as a CLEC, the telecommunications services that we provide will be subject to significant regulation at the federal, state and local levels. We may experience delays in receiving required regulatory approvals or onerous conditions imposed on these approvals.

Recent federal laws and regulation governing the United States telecommunications industry remains subject to judicial review and rule-making by the Federal Communications Commission. As a result, we cannot predict the effect these laws and regulations will have on our future operations or results. Federal, state and local authorities have initiated many regulatory actions regarding important items that impact CLECs. Changes in current or future regulations adopted by federal, state or local regulators, or other legislative or judicial initiatives relating to the telecommunications industry, could have a material adverse effect on us if we become a CLEC.

If we attain CLEC status, we will be required to publicly file our tariffs with governmental authorities. These tariffs describe the prices we will charge our customers for telecommunications services and the terms and conditions for some intrastate, interstate and international telecommunications services. If governmental regulators or others challenge these tariffs, we could incur substantial legal and administrative expenses.

We also may be subject to requirements in some states to obtain prior approval for, or notify the state commission of, any transfers of our voting securities, sales of our assets, corporate reorganizations involving us, issuances of our stock or debt instruments and similar transactions involving us.

OUR PLANNED EXPANSION INTO INTERNATIONAL MARKETS MAY BE DIFFICULT, COSTLY AND UNSUCCESSFUL.

One of our longer-term goals is to expand into international markets, and we currently plan to open a data center in the London metropolitan area in 2001. As we have experience operating in only a limited number of markets and no experience operating internationally, we may not be able to adapt our services to the needs of customers in different markets. In addition, we may not be able to obtain the required permits and licenses to hire and train employees and to

market, sell and successfully deliver our services outside the United States. We intend to outsource the initial operation of our London data center. As a result, we will depend, at least initially, on others to operate and manage our London data center. If we enter into international markets, we will face these and other risks of international operations, any of which could materially and adversely affect our business and financial performance.

MEMBERS OF MANAGEMENT HAVE CONFLICTS OF INTEREST INVOLVING OTHER COMPANIES WITH WHICH WE DO BUSINESS OR IN WHICH WE OWN A SUBSTANTIAL MINORITY INTEREST.

Dr. Samuel F. Dayton, our Chairman of the Board, and James L. Bruce, Jr., one of our directors, are substantial shareholders of both comstar.net and db Telecom Technologies, Inc. Dr. Dayton and Mr. Bruce are also officers and directors of db Telecom Technologies. Because db Telecom Technologies has in the past and is expected in the future to perform services for us and engage in other transactions with us, conflicts of interest may arise in connection with those transactions. For example, we expect that from time to time we will retain db Telecom Technologies to perform work for us as a subcontractor on communications projects.

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In addition, we own 25% of the outstanding common stock of nschool Communication Systems, Inc., a company involved in developing and licensing software to link educators, parents and students. We also have a bilateral license agreement with nschool governing our rights and the rights of nschool relating to software we developed for nschool. Dr. Samuel F. Dayton, our Chairman of the Board, is the chairman of the board of directors of nschool. As a result, conflicts of interest may arise in connection with any transaction between nschool and us.

We have a policy that requires any material transaction with our officers, directors, or principal shareholders, or their affiliates, to be on terms no less favorable to us than we reasonably could have obtained in arm's-length transactions with independent parties. We believe that all current relationships between either db Telecom Technologies or nschool on one hand and comstar.net on the other hand comply with this policy. Nevertheless, transactions between us and db Telecom Technologies or nschool could result in substantial benefits to Dr. Dayton and/or Mr. Bruce at our expense.

OUR EXISTING SHAREHOLDERS WILL CONTROL SHAREHOLDER ACTIONS AFTER THIS OFFERING, AND THEY MAY VOTE THEIR SHARES IN WAYS WITH WHICH YOU DISAGREE.

When this offering is closed and all shares of our common stock series A and common stock series B are converted into shares of our common stock, our present executive officers, directors and current holders of more than 5% of the common stock will, in the aggregate, beneficially own approximately % of our outstanding common stock. As a result, these shareholders, voting together, will have the ability to control all matters submitted to our shareholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership may have the effect of delaying or preventing a change in control of comstar.net or of impeding or discouraging a merger, consolidation, takeover or other business combination involving comstar.net.

RISKS RELATED TO OUR INDUSTRY

IF OUR TARGET MARKET DOES NOT INCREASE ITS USE OF THE INTERNET, WE WILL BE UNABLE TO CONTINUE OUR GROWTH.

The increased use of the Internet for retrieving, sharing and transferring information among businesses, consumers, suppliers and partners has only recently begun to develop, and our success depends upon the continued growth of the Internet. The Internet will grow only if those enterprises that have relied upon more traditional means of commerce and communications accept the Internet as a new medium of communicating, conducting business and exchanging information. Despite growing interest in the commercial uses of the Internet, many businesses have not purchased Internet services for a number of reasons, including:

- inadequate protection of confidential information moving across the Internet,

- inconsistent quality of service,
- inability to integrate business applications on the Internet,
- incompatibility between the products of multiple vendors, and
- lack of availability of cost-effective, high-speed services.

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Future demand and market acceptance of the Internet may not develop. If the Internet as a commercial or business medium fails to develop or develops more slowly than expected, we will be unable to continue our growth or may grow more slowly than anticipated.

OUR SUCCESS DEPENDS ON THE CONTINUED DEVELOPMENT AND RELIABILITY OF THE INTERNET INFRASTRUCTURE.

The recent growth of the Internet has caused periods of diminished performance, requiring entities with links to the Internet to periodically upgrade the links and components that form the infrastructure of the Internet to alleviate congestion. Because the Internet access we provide is limited by the speed and reliability of the networks of others, including the ISPs that provide our connection to the Internet, the public perception of our services could be undermined by any publicized or perceived downturn in the performance of the Internet as a whole. Consequently, the emergence and growth of the market for our services depends on improvements being made to the entire Internet infrastructure to alleviate congestion.

THE TECHNOLOGY USED IN OUR INDUSTRY IS RAPIDLY CHANGING, AND OUR BUSINESS MAY SUFFER IF WE DO NOT ADAPT TO THE CHANGING STANDARDS.

Our future success will depend, in part, on our ability to offer services that:

- incorporate leading technology,
- address the increasingly sophisticated and varied needs of our current and prospective customers, and
- respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

We may not be able to incorporate future technological advances into our business on a cost-effective and timely basis or at all. Moreover, technological advances may encourage our current or future customers to rely on in-house personnel and equipment to provide the services we currently provide, which would reduce those customers' need for our services. In addition, we may require substantial expenditures and lead-time to keep pace and ensure compatibility with technological advances in our industry.

We believe that our future success also depends upon the continued ability of our services to work with the products, services and other technologies offered by various vendors. New products may not be compatible with our network and services or adequately address the changing needs of our customers. In addition, industry standards may not be established, or we may not be able to conform to new standards in a timely fashion to remain competitive. Our failure to conform to prevailing technology standards, or the failure of common technology standards to emerge, could limit our ability to compete and adversely affect our business. In addition, the products, services or technologies developed by others may make our services less competitive or obsolete.

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OUR INDUSTRY IS VERY COMPETITIVE, AND MANY OF OUR COMPETITORS HAVE GREATER RESOURCES THAN WE DO.

The Internet services and technologies industries are highly competitive. The tremendous growth and potential size of the market for Internet services has attracted many new start-ups as well as existing businesses. It is relatively easy for new entities to enter the industry, and we expect that competition will

continue to grow as use of the Internet increases. We may not have the resources or expertise to compete successfully with existing or new competitors, which include:

- national, regional and local ISPs, including the ISPs that provide our connection to the Internet,
- national and regional long distance and local exchange telecommunications carriers,
- cable operators and their affiliates,
- providers of co-location and other data center services, and
- wireless and satellite ISPs.

When compared to us, many of our competitors have substantially greater financial, technical, marketing and personnel resources; a broader range of services; larger customer bases; more extensive networks and facilities; longer operating histories; greater name recognition and market presence; and more established business relationships in the industry. As a result, some of our competitors may be better able than we are to:

- develop and expand their network infrastructures and service offerings,
- adapt to new or emerging technologies and changes in customer requirements,
- take advantage of acquisitions and other opportunities,
- devote resources to the marketing and sale of their services, and
- adopt aggressive pricing policies.

Advances in technology, as well as changes in the marketplace and the regulatory environment, are constantly occurring, and we cannot predict the effect that ongoing or future developments may have on us or on the pricing of our services. We may not be able to remain competitive with the prices of our competitors or with their mix of services. In particular, intense price competition could significantly reduce our operating margins and adversely affect our operating results. Any failure by us to compete effectively could significantly harm our business.

We also potentially face competition from companies that provide broadband connections to businesses and other organizations, including local and long distance telecommunications carriers, cable television operators and their affiliates, and satellite and wireless communications companies. Broadband technologies enable subscribers to transmit and receive print, video, voice and data in digital form at significantly faster access speeds than existing dial-up modems. Although we do not believe that we face competition in the near future from broadband providers in the business-to-business ISP market, we could face competition of that type in the future. In particular, the companies that own these broadband networks could prevent us from delivering Internet access through the wire and cable connections that they own. Cable television operators are not currently required to

allow ISPs to access their broadband facilities, and the availability and terms of ISP access to broadband local telephone company networks are under regulatory review. Our ability to gain access to these facilities and networks is uncertain and depends in large part on future regulatory developments. If high-speed, broadband facilities increasingly become the preferred mode by which businesses access the Internet and we are unable to gain access to these facilities on reasonable terms, our business could be materially and adversely affected.

If we expand our operations outside the United States, we will face new competitors and competitive environments. In some cases, we will be forced to compete with and buy services from government-owned or subsidized telecommunications providers. Some of these providers may enjoy a monopoly on telecommunications services essential to our business. We may not be able to purchase those services at a reasonable price or at all. In addition to the risks associated with our domestic competitors, foreign competitors may pose an

even greater risk, as they may possess a better understanding of their local markets and better working relationships with local infrastructure providers and others. We may not be able to obtain similar levels of local knowledge in foreign markets, which could place us at a significant competitive disadvantage.

THE MARKET FOR OUTSOURCED INTERNET SOLUTIONS IS UNCERTAIN, AND THE FAILURE OF THIS MARKET TO DEVELOP AS WE ANTICIPATE COULD PREVENT OUR GROWTH.

Although we believe that the desire of middle market businesses to outsource their Internet systems and technologies is still growing, future growth is uncertain. We cannot guarantee that the outsourced Internet solutions market will ultimately prove to be viable or, if it becomes viable, that it will grow. The market for our services may not develop as we anticipate, and our potential customers may not continue to use the Internet for commerce and communication. To succeed, we must differentiate ourselves from our competition through service offerings. If we incur increased costs or experience delays in the development and introduction of new services or enhancements of our existing services, we may not achieve market acceptance of our services. If our market develops more slowly than we expect, or if our services do not achieve market acceptance, we may not achieve our growth plans or develop our business.

OUR INDUSTRY MAY BECOME SUBJECT TO GOVERNMENTAL REGULATION AND OTHER LEGAL UNCERTAINTIES THAT COULD INCREASE OUR COSTS, RESULT IN DELAYS AND DECREASE THE DEMAND FOR OUR SERVICES.

We are not currently subject to direct federal, state or local government regulation as a result of the Internet services we provide, other than regulations applicable to businesses generally. Currently, only a small body of laws and regulations directly apply to access to or commerce on the Internet. Due to the increasing popularity and use of the Internet, however, laws and regulations may be adopted at the federal, state and local levels. We cannot predict what regulations may be adopted in the future or to what extent existing laws and regulations may be altered in response to use of the Internet and the convergence of traditional telecommunications services with Internet communications. The adoption of new laws or regulations governing the Internet or changes made to existing laws might decrease the growth of the Internet. This would likely decrease the demand for our services or increase the cost of doing business. Any new laws or regulations or changes to existing laws or regulations could also subject us and/or our customers to potential liability, which in turn could have a material adverse effect on our business.

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In addition, any one of the numerous states where we provide Internet services or where we facilitate sales by our customers to end users may require us to qualify to do business as a foreign corporation in the state. We are qualified to do business in only a limited number of states, and our failure to qualify as a foreign corporation in a jurisdiction where we are required to qualify could subject us to taxes and penalties for failing to qualify, including the inability to enforce contracts in the jurisdictions. The application of the laws or regulations of jurisdictions whose laws do not currently apply to our business could adversely affect our business.

WE MAY BE LIABLE FOR THE MATERIAL OUR CUSTOMERS DISTRIBUTE OVER THE INTERNET.

The law relating to the liability of ISPs for information carried on or disseminated through their networks is currently unsettled. We may become subject to legal claims relating to the content in the Web sites we host. For example, lawsuits may be brought against us claiming that material inappropriate for viewing by young children can be accessed from Web sites we host. Other potential claims include defamation, invasion of privacy and copyright infringement. Providers of Internet services have been sued in the past, sometimes successfully, based on the content of material available on their networks or through their services. Our business could suffer if we have to take costly measures to reduce our exposure to these risks or if we incur liability for, or are required to defend ourselves against, those types of claims.

RISKS RELATED TO THE OFFERING

THIS IS OUR INITIAL PUBLIC OFFERING, AND A LIQUID MARKET FOR OUR SHARES MAY NOT DEVELOP.

Before this offering, you could not buy or sell our common stock publicly.

The initial public offering price for the shares will be determined by negotiation among us, the representatives of the underwriters and the selling shareholders based on several factors, and it may not indicate future market prices. You may not be able to sell your stock for a price equal to or greater than the initial offering price. As this is our initial public offering, the number of shares available for public sale will be relatively small, and we cannot predict how liquid the market for our shares will be. An active public market for our common stock may not develop or be sustained after the offering.

OUR COMMON STOCK PRICE MAY BE VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INDIVIDUAL SHAREHOLDERS.

If our revenues or results of operations fall below the expectations of investors or public market analysts, the price of our common stock could fall substantially. The market price of the common stock may fluctuate significantly in response to the following and other factors, some of which are beyond our control:

- variations in quarterly operating results,
- announcements of significant contracts, technological innovations or new services by us or our competitors,
- changes in financial estimates by securities analysts,
- the operating and stock price performance of other companies in our industry, and

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- fluctuations in stock market price and volume, which are particularly common among securities of Internet companies.

Further, the stock markets, and in particular the Nasdaq National Market on which we intend to list our common stock, have experienced extreme price and volume fluctuations that have affected the market prices of equity securities of many technology companies. These fluctuations often have been unrelated or disproportionate to the operating performance of the companies. Because our business is Internet-related, the price of our common stock could fluctuate widely if the market price of equity securities of other Internet-related companies becomes volatile. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. Litigation of that nature is expensive and could divert our management's attention and our other resources.

THE FUTURE SALE OF SHARES OF OUR COMMON STOCK COULD ADVERSELY AFFECT THE MARKET PRICE OF OUR COMMON STOCK.

Substantial sales of our common stock in the public market following this offering, or the perception by the market that those sales could occur, could lower the market price of our common stock or make it difficult for us to raise additional funds through the sale of equity in the future. Those sales also could make it harder for us to sell stock or equity-related securities in the future at a time or price that we believe is fair. The shares of common stock being sold in this offering will generally be freely tradable without restriction. The remaining \_\_\_\_\_ shares of common stock outstanding will be "restricted securities" as defined in Rule 144 under the Securities Act. Except as described in the following paragraph, the holders of these securities may sell them in the future without registration under the Securities Act, subject to compliance with Rule 144, Rule 701 or any other applicable exemption under the Securities Act.

We and our directors and executive officers have agreed with the underwriters not to sell any common stock or securities convertible into or exchangeable for common stock for 180 days after the date of this prospectus, subject to some exceptions. When these lock-up agreements expire, shares of common stock will be eligible for resale in the future without registration under the Securities Act, subject to compliance with Rule 144, Rule 701 or any other applicable exemption under the Securities Act. In addition, within approximately 90 days after the date of this prospectus, we expect to register under the Securities Act a total of 2,900,000 shares of common stock issuable on exercise of stock options, of which approximately \_\_\_\_\_ shares will then be issuable and freely tradable upon the exercise of vested options.



You should read "Shares Eligible for Future Sale" for a more detailed description of these risks.

OUR MANAGEMENT HAS BROAD DISCRETION OVER THE USE OF PROCEEDS FROM THIS OFFERING AND MAY FAIL TO USE THEM EFFECTIVELY TO GROW OUR BUSINESS.

The net proceeds of this offering are estimated to be approximately \$ million. We have allocated approximately \$2.1 million of this amount for the repayment of debt, including accrued interest, to various lenders. Our board of directors and management will have significant flexibility in applying the remaining net proceeds of this offering, and they may use these funds for purposes you may think are unwise. Our failure to apply these funds effectively could impede our ability to grow our business.

YOU WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION AND PAY A HIGHER PRICE FOR OUR COMMON STOCK THAN EXISTING SHAREHOLDERS.

The initial public offering price will be substantially higher than the book value per share of our outstanding common stock and the price per share paid by existing shareholders. If you buy our common stock in this offering, the shares you buy will experience an immediate dilution in tangible book value per share. The shares of common stock owned by our existing shareholders will receive a material increase in the tangible book value per share. The dilution to investors in this offering will be approximately \$ per share. For more information about this dilution, see "Dilution."

OUR ARTICLES OF INCORPORATION AND BYLAWS MAY DISCOURAGE CHANGE IN CONTROL TRANSACTIONS.

Our articles of incorporation and bylaws contain provisions that may make it more difficult for others to acquire control of comstar.net, even if the change in control would be beneficial to our shareholders. If these provisions discourage any proposed change in control that could be beneficial to shareholders, our stock price could decline significantly.

USE OF PROCEEDS

The net proceeds to us from the sale of the shares of common stock offered by us are estimated to be \$ , assuming an initial public offering price of \$ per share and after deducting the estimated underwriting discounts and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling shareholders. For more information regarding the selling shareholders, see "Principal and Selling Shareholders."

We intend to use the net proceeds from this offering to:

- repay outstanding debt and accrued interest of approximately \$2.1 million for the following obligations:

<TABLE>  
<CAPTION>

LENDER	PRINCIPAL AMOUNT	MATURITY DATE	ANNUAL INTEREST RATE
<S>	<C>	<C>	<C>
db Telecom Technologies, Inc.....	\$270,188	1/1/00	10%
Premier Bank.....	100,100	11/1/99	prime + 1%
Premier Bank.....	700,000	11/1/99	prime + 1%
Dr. Samuel F. Dayton and James L. Bruce, Jr.....	618,549	1/1/00	10%
Dr. Samuel F. Dayton and James L. Bruce, Jr.....	283,985	12/27/99	8.75%

</TABLE>

- purchase or lease up to seven new data centers and eleven POPs in targeted major metropolitan areas throughout the United States,
- expand our sales and marketing staffs and our overall marketing and



advertising efforts to increase our access to and visibility in the marketplace, and

- fund research and development of new and enhanced services.

We will use any remaining net proceeds from this offering for general corporate purposes, including acquisitions and increased working capital requirements resulting from our growth.

We will pay the \$283,985 we currently owe to Dr. Dayton and Mr. Bruce directly to The First National Bank of Commerce, their lender. This payment will satisfy the remaining balance of the \$383,985 that Dr. Dayton and Mr. Bruce borrowed from First National on our behalf, which they loaned us to fund our purchase of Athens' ISP, Inc. in July 1998 and to provide working capital.

The amount of funds that we actually use for these purposes, other than debt repayment, will depend on many factors, including revisions to our business plan, material changes in our revenues or expenses, and other factors described under "Risk Factors." Accordingly, our management will have significant discretion over the use and investment of the net proceeds from the offering.

From time to time in the ordinary course of business, we evaluate the acquisition of customer lists and related customer accounts, businesses, products, services and technologies that may increase the size of our customer base or complement our business. We may use a portion of the net proceeds for any of these acquisitions. Currently, however, we do not have any understandings, commitments or agreements with respect to any acquisitions, and we may not be able to identify suitable acquisition candidates or complete any acquisition.

Pending application of the net proceeds described above, we intend to invest the net proceeds in investment-grade, interest-bearing securities.

CAPITALIZATION

The following table describes our capitalization at June 30, 1999 on a historical basis and as adjusted to give effect to our sale of shares of common stock offered in this offering and the application of the net proceeds from the offering. The information in the table does not include 577,250 shares of common stock that may be issued under outstanding options at June 30, 1999 at an exercise price of \$5.71 per share. You should read this table along with our financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial data appearing elsewhere in this prospectus.

<TABLE>  
<CAPTION>

	JUNE 30, 1999	
	ACTUAL	AS ADJUSTED
	-----	-----
<S>	<C>	<C>
Long-term debt, including current maturities.....	\$ 2,022,822	\$ --
Obligations under capital leases, including current portion.....	26,095	26,095
Shareholders' deficit:		
Preferred stock, no par value:		
Undesignated, 5,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock, no par value:		
Undesignated, 80,000,000 shares authorized, none issued and outstanding (actual), issued and outstanding (as adjusted).....	--	--
Series A voting, 10,000,000 shares authorized, 5,371,762 shares issued and outstanding (actual), none outstanding (as adjusted).....	2,122,744	--
Series B voting, 10,000,000 shares authorized, 5,000,000 shares issued and outstanding (actual), none outstanding (as adjusted).....	--	--
Accumulated deficit.....	(2,126,815)	(2,126,815)
	-----	-----

Total shareholders' deficit.....	(4,071)	(	)
	-----		-----
	\$ 2,044,846	\$	
	=====		=====

</TABLE>

DIVIDEND POLICY

We have never paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

DILUTION

Our pro forma net tangible book value as of June 30, 1999 was \$(312,813) or \$(0.03) per share of common stock. Pro forma net tangible book value per share is equal to total tangible assets less total liabilities, divided by the total pro forma number of shares of common stock outstanding, after giving effect to the conversion of all outstanding shares of common stock series A and common stock series B into common stock. After giving effect to our receipt of the net proceeds of our sale of \_\_\_\_\_ shares of common stock at an assumed initial public offering price of \$ \_\_\_\_\_ per share, our adjusted pro forma net tangible book value as of June 30, 1999 would have been \$ \_\_\_\_\_, or \$ \_\_\_\_\_ per share. This amount represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share to existing shareholders and an immediate dilution of \$ \_\_\_\_\_ per share to new investors. The following table illustrates this per share dilution:

<TABLE>		
<S>	<C>	<C>
Assumed initial public offering price.....		\$
Pro forma net tangible book value as of June 30, 1999.....	\$ (0.03)	
Increase in net tangible book value attributable to new investors.....		-----
Pro forma net tangible book value after the offering.....		-----
Dilution to new investors.....		=====

</TABLE>

The following table summarizes, on an as adjusted pro forma basis as of June 30, 1999, the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid by existing shareholders and to be paid by new investors at an assumed initial public offering price of \$ \_\_\_\_\_ per share, before deducting estimated underwriting discounts and offering expenses:

<TABLE>					
<CAPTION>					
	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE
	-----		-----		PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Existing shareholders.....	10,371,762	%	\$2,122,744	%	\$0.21
New investors.....					
	-----	-----	-----	-----	
Total.....		100.0%	\$	100.0%	
	=====	=====	=====	=====	

</TABLE>

Sales by the selling shareholders in this offering will reduce the number of shares held by existing shareholders to \_\_\_\_\_, or \_\_\_\_\_% of the total number of shares of common stock outstanding after the offering, and will increase the number of shares held by new investors to \_\_\_\_\_, or \_\_\_\_\_% of the total number of shares of common stock outstanding after the offering. For more information regarding these sales, see "Principal and Selling Shareholders."

The above computations exclude 1,672,250 shares of common stock issuable

under options outstanding as of September 1, 1999 at a weighted average exercise price of \$5.71 per share. To the extent any of these options are exercised, new investors will incur further dilution. We have reserved an additional 1,227,750 shares of common stock for issuance under our stock option plans. For more information regarding our stock option plans, see "Management -- Option Plans."

SELECTED FINANCIAL DATA

The following selected financial data of comstar.net for the period from inception, March 5, 1996, to December 31, 1996, and for the years ended December 31, 1997 and 1998 and as of December 31, 1997 and 1998 are derived from our audited financial statements. The selected statement of operations data for the six month periods ended June 30, 1998 and 1999 and the selected balance sheet data as of December 31, 1996 and June 30, 1999 are derived from our unaudited financial statements which, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the information provided in them. The results of operations for the six months ended June 30, 1999 are not necessarily indicative of the results for a full year. For an explanation of the determination of the number of shares used to compute basic and diluted net loss per share and weighted average shares outstanding, see note 2 of the notes to our financial statements. The balance sheet data "as adjusted" as of June 30, 1999 reflect our sale of shares of common stock at an assumed initial offering price of \$ per share and our receipt and application of the estimated net proceeds as described in "Use of Proceeds." You should read the following data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

<TABLE>  
<CAPTION>

	PERIOD FROM INCEPTION (MARCH 5, 1996)		YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	TO DECEMBER 31,		1997	1998	1998	1999
	1996					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:						
Revenues:						
Internet access.....	\$ 29,579	\$ 399,167	\$ 1,334,053	\$ 552,991	\$ 910,540	
Data center services.....	33,048	205,171	417,112	156,202	280,726	
Circuit rebill.....	276	44,459	255,230	90,881	244,830	
Other.....	2,495	26,772	135,950	57,712	49,448	
Total.....	65,398	675,569	2,142,345	857,786	1,485,544	
COSTS AND EXPENSES:						
Cost of network services.....	73,963	528,835	1,235,862	423,292	917,980	
Salaries and wages.....	150,448	370,145	521,570	222,923	508,568	
General and administrative.....	67,259	131,767	379,036	94,680	322,435	
Rent.....	21,792	33,152	106,417	42,931	61,339	
Management fees.....	8,000	42,000	60,000	30,000	30,000	
Depreciation and amortization.....	11,622	57,255	284,598	69,794	182,119	
Operating Loss.....	(267,686)	(487,585)	(445,138)	(25,834)	(536,897)	
OTHER (EXPENSE) INCOME:						
Interest expense.....	(10,434)	(66,201)	(150,605)	(60,752)	(102,593)	
Other income (loss).....	--	6,542	(1,987)	(9,801)	(18,513)	
Equity in net loss of investee.....	--	--	--	--	(82,744)	
NET LOSS.....	\$ (278,120)	\$ (547,244)	\$ (597,730)	\$ (96,387)	\$ (703,721)	

NET LOSS PER SHARE (BASIC AND DILUTED).....	(.03)	(.06)	(.06)	(.01)	(.07)
WEIGHTED AVERAGE SHARES OUTSTANDING.....	10,000,000	10,000,000	10,005,731	10,000,000	10,165,825

</TABLE>

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<TABLE>  
<CAPTION>

	AS OF DECEMBER 31,			AS OF JUNE 30, 1999	
	1996	1997	1998	ACTUAL	AS ADJUSTED
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 6,402	\$ 54,676	\$ 283,621	\$1,045,071	\$
Working capital (deficit).....	(379,483)	(883,047)	(2,174,370)	(1,038,135)	
Total assets.....	123,965	529,519	1,649,847	2,567,834	
Total debt, including current maturities.....	328,924	1,128,845	2,214,232	2,048,917	
Total shareholders' (deficit) equity.....	(278,120)	(825,364)	(1,058,272)	(4,071)	

</TABLE>

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. This discussion contains forward-looking statements relating to our future financial performance, business strategy, financing plans and other future events that involve risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of many known and unknown factors, including those factors described in "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a rapidly growing ISP that targets middle market businesses, educational institutions and governmental organizations. Our primary services include Internet access, co-location services and managed application hosting services.

We began operations in June 1996. From inception through December 31, 1996, we had total revenues of \$65,398, and at December 31, 1996 we had 27 customers. During the year ended December 31, 1997, we expanded operations from one to three POPs and purchased the business customers of one Atlanta-based ISP to end the year with revenues totaling \$675,569 and 244 customers, an approximate ten-fold growth in revenues. During the year ended December 31, 1998, we expanded our Atlanta data center, purchased the business customers of two Atlanta-based ISPs and purchased Athens' ISP, Inc., based in Athens, Georgia. For the year ended December 31, 1998, we had revenues totaling \$2,142,345, and at December 31, 1998, we had 472 customers. For the six months ended June 30, 1999, we had revenues totaling \$1,485,544, and at June 30, 1999, we had 487 customers. Since 1997, our rate of growth has declined due to the lack of capital needed to expand our network, market and sell our services and add technical and support staff. However, we believe that the capital we receive from this offering will provide us the means to grow our business. We expect our rate of growth to increase, due in part to our plan to use a portion of the net proceeds of this offering to expand our operations into new markets, roll out a new marketing campaign and increase our sales force.

Although we have experienced significant growth in customers and in revenues, we have experienced operating losses and negative cash flows from operations in each quarterly and annual period since our inception. We expect to continue to incur losses and negative cash flows for the foreseeable future. As

of June 30, 1999, we had an accumulated deficit of approximately \$2.1 million.

We derive most of our revenues from Internet access fees and data center services. Our data center services currently include co-location, Web hosting and managed application hosting. We expect revenues derived from our higher-priced, value-added services, such as co-location, managed application hosting and leased lines, to increase as a percentage of revenues in the future. For example, monthly leased line revenues increased by 53.0% during the six month period ended June 30, 1999. We also expect Web hosting revenues to decline as a percentage of revenues in the future.

We offer a variety of services to our customers. Depending on the complexity of their Internet strategies, our customers subscribe to as few as one service to over 20 services. For the six months ended June 30, 1999, the average customer subscribed to 2.9 services. Based on revenues during this period, our top three Internet access services were ISDN, T1 and frame relay, and our top two data center services were co-location and Web

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hosting. For the first six months of 1999, the average number of customers using each of these services was 380 for ISDN, 31 for T1, 26 for frame relay, 28 for co-location and 118 for Web hosting.

We generally provide our services under one-year, two-year or three-year contracts. Of the 122 contracts signed during the six months ended June 30, 1999, 83 were one-year contracts, 36 were two-year contracts and three were three-year contracts. We have experienced a low rate of customer turnover, averaging 1.3% for the year ended December 31, 1997, 2.4% for the year ended December 31, 1998 and 1.9% for the six months ended June 30, 1999.

We charge non-refundable fees for the initial installation of Internet access and monthly access fees based on a set amount of bandwidth, with additional incremental fees if the customer orders additional bandwidth. Bandwidth refers to the amount of data that can be moved in a given period. We charge non-refundable installation fees to recover our cost of installing and setting up each customer for data center services. We charge monthly fees for data center services according to the services we provide under our agreement with the customer, recognizing all installation fees in the period of installation. We recognize Internet access revenues and data center services revenues in the period in which the services are provided.

We also receive revenues from circuit rebill charges, which primarily result from the resale to our customers of distance-sensitive circuits that we purchase from local circuit providers such as BellSouth. Circuit rebill charges consist of both one-time fixed fees for circuit installations that connect the customer to the local provider and variable recurring circuit charges. Recurring circuit charges are billed on a monthly basis and vary based upon circuit type, the distance the circuit spans and/or the circuit usage, as well as the term of the contract. The local circuit provider charges us for the installation and recurring charges, and we then rebill those charges to the customer. Our bill to the customer includes an add-on charge to the recurring circuit charges for which the provider bills us.

We also receive other revenues, consisting primarily of transaction processing fees and miscellaneous hardware sales. Transaction processing fees are revenues generated from our e-commerce software and are recognized based on monthly usage. Hardware sales consist of the resale of some hardware components to our customers. Because hardware sales are one-time sales, the revenues we derive from them may vary significantly from period to period.

Our most significant expense item is our cost of network services, which consists of data communications costs for upstream access, or our connections to the Internet, and data communications charges for downstream access, or our connections to our customers. Upstream access costs consist primarily of payments to network providers such as UUNET, MCI Worldcom, Sprint, GTE Internetworking and other providers. Our downstream access costs consist primarily of payments to BellSouth and MediaOne. The next most significant expense item is salaries and wages paid to our employees.

Our other costs and expenses include:

- selling, general and administrative expenses, including advertising

costs, employee benefits, professional fees, insurance, general office expense, recruiting, utilities and equipment rentals incurred in the normal course of business,

- management fees, consisting of charges from db Telecom Technologies, Inc., an affiliated company that provided us with consulting and management services through June 30, 1999, after which no more management fees will accrue,
- depreciation and amortization, consisting primarily of the depreciation of our fixed assets, ordinarily over a three to ten-year period, and the amortization of our customer lists, on a customer-by-customer basis, over the lesser of three years or the period the customer uses our services, and
- interest incurred on our debt.

An important aspect of our strategy is to significantly increase our sales and marketing activities through the expansion of our sales force, increased emphasis on developing reseller and referral channels and increased marketing efforts to build the comstar.net brand. In June 1999, we hired Steven J. Edwards, our Executive Vice President of Sales and Marketing, to design and implement a comprehensive sales and marketing plan. Before his hiring, we had not undertaken significant marketing activities. As a result, we expect sales and marketing expenses to increase substantially in future periods.

RESULTS OF OPERATIONS

The following table provides a summary statement of operations, expressed as a percentage of revenues, for the period from inception (March 5, 1996) to December 31, 1996 and for the years ended December 31, 1997 and 1998, and for the six months ended June 30, 1998 and 1999. Operating results for any period are not necessarily indicative of results for any future period.

<TABLE>  
<CAPTION>

	PERIOD FROM INCEPTION (MARCH 5, 1996) TO DECEMBER 31,	YEAR ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	
	1996	1997	1998	1998	1999
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES:.....	\$65,398	\$675,569	\$2,142,345	\$857,786	\$1,485,544
Internet access.....	45.2%	59.1%	62.3%	64.5%	61.3%
Data center services....	50.5	30.4	19.5	18.2	18.9
Circuit rebill.....	0.5	6.5	11.9	10.6	16.5
Other.....	3.8	4.0	6.3	6.7	3.3
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%
COSTS AND EXPENSES:					
Cost of network services.....	113.1%	78.3%	57.7%	49.3%	61.8%
Salaries and wages.....	230.0	54.8	24.3	26.0	34.2
General and administrative.....	102.9	19.5	17.7	11.0	21.7
Rent.....	33.3	4.9	5.0	5.0	4.1
Management fees.....	12.2	6.2	2.8	3.5	2.0
Depreciation and amortization.....	17.8	8.5	13.3	8.1	12.3
OPERATING LOSS.....	(409.3)%	(72.2)%	(20.8)%	(3.0)%	(36.1)%
OTHER (EXPENSE) INCOME:					
Interest expense.....	(16.0)%	(9.8)%	(7.0)%	(7.1)%	(6.9)%
Other income (loss).....	0.0	1.0	(0.1)	(1.1)	(4.3)

NET LOSS.....	(425.3)%	(81.0)%	(27.9)%	(11.2)%	(47.4)%
	=====	=====	=====	=====	=====

</TABLE>

SIX MONTHS ENDED JUNE 30, 1999 COMPARED TO SIX MONTHS ENDED JUNE 30, 1998

REVENUES

Total revenues increased 73.2% to \$1,485,544 for the six months ended June 30, 1999 from \$857,786 for the six months ended June 30, 1998 due to substantial increases in Internet access revenues, data center services revenues, circuit rebill revenues and other revenues as described in the following paragraphs. The increase in total revenues is attributable primarily to a larger number of customers and a higher amount of sales per customer. We had 487 customers at June 30, 1999 with an average monthly billing of approximately \$517 per customer for the six months ended June 30, 1999 compared with 346 customers with an average monthly billing of approximately \$489 per customer for the six months ended June 30, 1998. The increase in customers at June 30, 1999 was due in part to our acquisition of Athens' ISP and our purchase of the business customer list of another ISP in July 1998. The average monthly billing per customer for the six months ended June 30, 1999 increased by approximately 5.7% over the average monthly billing per customer for the six months ended June 30, 1998 due to existing customers upgrading their level of service and new customers purchasing our higher-priced data center services.

Internet access. Internet access revenues increased 64.7% to \$910,540, or 61.3% of total revenues, for the six months ended June 30, 1999 from \$552,991, or 64.5% of total revenues, for the six months ended June 30, 1998 primarily due to the overall increases in the customer base and average billing per customer discussed above.

Data center services. Data center services revenues increased 79.7% to \$280,726, or 18.9% of total revenues, for the six months ended June 30, 1999 from \$156,202, or 18.2% of total revenues, for the six months ended June 30, 1998 primarily due to the overall increase in the customer base and average billing per customer discussed above. We completed our expansion of the Atlanta data center facilities in April 1998. This expanded facility, which allowed us to offer our data center services to a broader market, was available to us for the entire six months ended June 30, 1999, compared to only two of the six months ended June 30, 1998.

Circuit rebill. Circuit rebill revenues increased to \$244,830, or 16.5% of total revenues, for the six months ended June 30, 1999 from \$90,881, or 10.6% of total revenues, for the six months ended June 30, 1998. The increase is due to new and existing customers purchasing or upgrading to higher-end, more expensive services such as T1 and frame relay.

Other. Other revenues decreased to \$49,448, or 3.3% of total revenues, for the six months ended June 30, 1999 from \$57,712, or 6.7% of total revenues, for the six months ended June 30, 1998. The decrease is primarily attributable to a \$33,708 decrease in revenues from non-recurring hardware resales offset by a \$27,322 increase in revenues from transaction processing fees related to our e-commerce software. We began offering our e-commerce software for customer use in July 1998.

COSTS AND EXPENSES

Cost of network services. Cost of network services increased to \$917,980, or 61.8% of total revenues, for the six months ended June 30, 1999 from \$423,292, or 49.3% of total revenues, for the six months ended June 30, 1998. The increase in cost of network services is due primarily to the increase in the amount of upstream and downstream access we purchased to serve our growing customer base. As a percentage of revenues, the cost of

network services increased due to our purchase of excess upstream capacity to ensure the availability of bandwidth for network growth.

Salaries and wages. Salaries and wages increased to \$508,568, or 34.2% of total revenues, for the six months ended June 30, 1999 from \$222,923, or 26.0% of total revenues, for the six months ended June 30, 1998. We had 27 employees at June 30, 1999 compared to 15 employees at June 30, 1998.

General and administrative. General and administrative expenses increased to \$322,435, or 21.7% of total revenues, for the six months ended June 30, 1999 from \$94,680, or 11.0% of total revenues, for the six months ended June 30, 1998. The increase in general and administrative expenses is attributed primarily to an increase in advertising costs, employee benefits, professional fees, insurance, general office expenses, recruiting, utilities and equipment installation and rentals. These costs increased as we added senior management and other personnel to plan for future growth and to prepare for this offering.

Rent. As a percentage of total revenues, rent decreased to 4.1% for the six months ended June 30, 1999 from 5.0% for the six months ended June 30, 1998. Rent increased to \$61,339 for the six months ended June 30, 1999 from \$42,931 for the six months ended June 30, 1998. The increase in rent is primarily attributed to the addition of the offices in Athens, Georgia in July 1998, Raleigh, North Carolina in February 1999 and Miami, Florida in April 1999.

Management fees. The dollar amount of management fees remained constant at \$30,000 but decreased as a percentage of sales to 2.0% for the six months ended June 30, 1999 from 3.5% for the six months ended June 30, 1998. As of July 1, 1999, we assumed the management functions provided by db Telecom Technologies, and we will no longer pay management fees to db Telecom Technologies. We expect no material effects on our results of operations as a result of the cancellation of this arrangement. For more information about our relationship with db Telecom Technologies, see "Management -- Compensation Committee Interlocks and Insider Participation."

Depreciation and amortization expense. Depreciation and amortization increased to \$182,119, or 12.3% of total revenues, for the six months ended June 30, 1999 from \$69,794, or 8.1% of total revenues, for the six months ended June 30, 1998 as we purchased more network equipment to serve our growing customer base and office equipment to serve our growing employee base. Property and equipment totaled \$1,035,717 at June 30, 1999 and \$640,750 at June 30, 1998. The cost basis of customer lists and related customer accounts totaled \$547,974 at June 30, 1999 and \$116,146 at June 30, 1998. Customer lists increased due to our acquisition of Athens' ISP in July 1998 and our purchase of the business customer list of another ISP in July 1998.

Interest expense. As a percentage of total revenues, interest expense decreased to 6.9% for the six months ended June 30, 1999 from 7.1% for the six months ended June 30, 1998. Interest expense increased to \$102,593 for the six months ended June 30, 1999 from \$60,752 for the six months ended June 30, 1998 due to the additional debt we incurred to fund our capital purchases, the Athens' ISP acquisition, the business customer list purchase and working capital needs. Total debt and obligations under capital leases at June 30, 1999 was \$2,048,917 compared to \$1,407,627 at June 30, 1998.

Other loss. Other loss increased to \$64,231, or 4.3% of total revenues, for the six months ended June 30, 1999 from \$9,801, or 1.1% of total revenues, for the six months ended June 30, 1998. Other loss increased primarily due to our equity in the net losses of

our investment in nschool Communication Systems, Inc. For more information about our relationship with nschool, see "Management -- Compensation Committee Interlocks and Insider Participation."

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

#### REVENUES

Total revenues increased 217.1% to \$2,142,345 for the year ended December 31, 1998 from \$675,569 for the year ended December 31, 1997 due to substantial increases in Internet access revenues, data center services revenues, circuit rebill revenues and other revenues as described in the following paragraphs. The increase in total revenues is attributable primarily to a larger number of customers, partially offset by a lower amount of sales per customer. We had 472 customers at December 31, 1998 and an average monthly billing of approximately



\$493 per customer for the year ended December 31, 1998, as compared to 244 customers at December 31, 1997 and an average monthly billing of approximately \$537 per customer for the year ended December 31, 1997. The increase in customers at December 31, 1998 was due in part to our purchase of the business customer lists of two ISPs in April 1998 and July 1998 and our purchase of Athens' ISP in July 1998. The average monthly billing per customer for the year ended December 31, 1998 decreased by approximately 8.2% over the average monthly billing for the year ended December 31, 1997 because revenues from lower-priced Internet access services increased at a higher rate than revenues from higher-priced data center services.

Internet access. Internet access revenues increased to \$1,334,053, or 62.3% of total revenues, for the year ended December 31, 1998 from \$399,167, or 59.1% of total revenues, for the year ended December 31, 1997 primarily due to the overall increase in the customer base, partially offset by a decrease in the average monthly billing per customer. Internet access revenues increased 234.2% for the year ended December 31, 1998 over the year ended December 31, 1997.

Data center services. Data center services revenues increased to \$417,112, or 19.5% of total revenues, for the year ended December 31, 1998 from \$205,171, or 30.4% of total revenues, for the year ended December 31, 1997 primarily due to the overall increase in the customer base, partially offset by a decrease in the average monthly billing per customer. We completed our expansion of the Atlanta data center facilities in April 1998. This expanded facility allowed us to offer our data center services to a broader market. Data center services revenues increased 103.3% for the year ended December 31, 1998 over the year ended December 31, 1997.

Circuit rebill. Circuit rebill revenues increased to \$255,230, or 11.9% of total revenues, for the year ended December 31, 1998 from \$44,459, or 6.5% of total revenues, for the year ended December 31, 1997. The increase is due to new and existing customers purchasing or upgrading to higher-end, more expensive services such as T1 and frame relay.

Other. Other revenues increased to \$135,950, or 6.3% of total revenues, for the year ended December 31, 1998 from \$26,772, or 4.0% of total revenues, for the year ended December 31, 1997. The increase is primarily due to a \$42,846 increase in non-recurring hardware resales and \$37,533 in transaction processing fees associated with our e-commerce software. We began offering our e-commerce software for customer use in July 1998.

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#### COSTS AND EXPENSES

Cost of network services. As a percentage of total revenues, cost of network services decreased to 57.7% for the year ended December 31, 1998 from 78.3% for the year ended December 31, 1997. Cost of network services increased to \$1,235,862 for the year ended December 31, 1998 from \$528,835 for the year ended December 31, 1997. This increase in cost of network services is due primarily to the increase in the amount of upstream and downstream access we purchased to serve our growing customer base. The decrease as a percentage of revenues is due to increased use of excess upstream capacity resulting from the increase in our customer base.

Salaries and wages. As a percentage of total revenues, salaries and wages decreased to 24.3% for the year ended December 31, 1998 from 54.8% for the year ended December 31, 1997. Salaries and wages increased to \$521,570 for the year ended December 31, 1998 from \$370,145 for the year ended December 31, 1997. The increase in salaries and wages is primarily due to the increased workforce needed to serve the expanding customer base. We had 18 employees at December 31, 1998 compared to nine employees at December 31, 1997.

General and administrative. As a percentage of total revenues, general and administrative expenses decreased to 17.7% for the year ended December 31, 1998 from 19.5% for the year ended December 31, 1997. General and administrative expenses increased to \$379,036 for the year ended December 31, 1998 from \$131,767 for the year ended December 31, 1997. The increase in general and administrative expenses is primarily attributable to increases in advertising expenditures, additional insurance policies, professional fees, general office equipment and computer supply costs as well as dues for our membership in various industry trade organizations.

Rent. Rent increased to \$106,417, or 5.0% of total revenues, for the year ended December 31, 1998 from \$33,152, or 4.9% of total revenues, for the year ended December 31, 1997. This increase in rent is due primarily to additional rent incurred with the expansion of our data center and our assumption of a lease in our acquisition of Athens' ISP.

Management fees. As a percentage of total revenues, management fees decreased to 2.8% for the year ended December 31, 1998 from 6.2% for the year ended December 31, 1997. Management fees increased to \$60,000 for the year ended December 31, 1998 from \$42,000 for the year ended December 31, 1997. The increase is directly attributable to an increase in monthly management fees from \$2,000 to \$5,000 that became effective on July 1, 1997.

Depreciation and amortization expense. Depreciation and amortization increased to \$284,598, or 13.3% of total revenues, for the year ended December 31, 1998 from \$57,255, or 8.5% of total revenues, for the year ended December 31, 1997. The increase in depreciation expense is primarily due to an increase in the capitalized costs of property and equipment acquired during the year. The cost basis of property and equipment increased to \$849,828 at December 31, 1998 from \$384,300 at December 31, 1997. The increase in amortization expense is directly attributed to the amortization of the customer lists and related customer accounts purchased from two other ISPs in April and July 1998 and the amortization of the customer list and related customer accounts acquired with Athens' ISP in 1998. The cost basis of customer lists increased to \$547,974 at December 31, 1998 from \$85,338 at December 31, 1997.

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Interest expense. As a percentage of total revenues, interest expense decreased to 7.0% for the year ended December 31, 1998 from 9.8% for the year ended December 31, 1997. Interest expense increased to \$150,605 for the year ended December 31, 1998 from \$66,201 for the year ended December 31, 1997 due to the additional debt we incurred to fund our capital purchases, customer list purchases, the Athens' ISP acquisition, and working capital needs. Total debt and obligations under capital leases at December 31, 1998 was \$2,214,232 compared to \$1,128,845 at December 31, 1997.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO THE PERIOD FROM INCEPTION (MARCH 5, 1996) TO DECEMBER 31, 1996

#### REVENUES

Total revenues increased 933.0% to \$675,569 for the year ended December 31, 1997 from \$65,398 for the period from inception to December 31, 1996 due to substantial increases in Internet access revenues, data center services revenues, circuit rebill revenues and other revenues as described in the following paragraphs. The increase in total revenues is primarily attributable to a full twelve months of operations for the year ended December 31, 1997 compared to only seven months of operations for the period from inception to December 31, 1996, as well as a significant increase in the number of customers due to the opening of POPs in Miami, Florida and Raleigh, North Carolina in August 1997 and another POP in Athens, Georgia in September 1997 and the purchase of a customer list in July 1997. Overall, our customer base increased from 19 at December 31, 1996 to 244 at December 31, 1997.

Internet access. Internet access revenues increased to \$399,167, or 59.1% of total revenues, for the year ended December 31, 1997 from \$29,579, or 45.2% of total revenues, for the period from inception to December 31, 1996. This increase in access revenues resulted primarily from internal growth, from the opening of the additional POPs and from the acquisition of a customer list referred to above.

Data center services. Data center services revenues increased to \$205,171, or 30.4% of total revenues, for the year ended December 31, 1997 from \$33,048, or 50.5% of total revenues, for the period from inception to December 31, 1996. The increase in data center services revenues was attributable to the increase in the customer base for the reasons described above as well as expanded data center service offerings.

Circuit rebill. Circuit rebill revenues increased to \$44,459, or 6.5% of total revenues, for the year ended December 31, 1997 from \$276, or 0.5% of total revenues, for the period from inception to December 31, 1996. During the year ended December 31, 1997, we began offering our customers the option of a total

access package and consolidated billing to include the local circuit fees, which we previously required our customers to pay directly to the telecommunications carriers.

Other. Other revenues increased to \$26,772, or 4.0% of total revenues, for the year ended December 31, 1997 from \$2,495, or 3.8% of total revenues, for the period from inception to December 31, 1996. The increase is due primarily to the increase in revenues from non-recurring hardware resales.

#### COSTS AND EXPENSES

Cost of network services. As a percentage of total revenues, cost of network services decreased to 78.3% for the year ended December 31, 1997 from 113.1% for the period

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from inception to December 31, 1996. Cost of network services increased to \$528,835 for the year ended December 31, 1997 from \$73,963 for the period from inception to December 31, 1996. This increase in cost of network services is due primarily to the increase in the amount of upstream and downstream access we purchased to serve our growing customer base. The decrease as a percentage of total revenues is due to our increased use of excess upstream capacity resulting from the increase in our customer base.

Salaries and wages. As a percentage of total revenues, salaries and wages decreased to 54.8% for the year ended December 31, 1997 from 230.0% for the period from inception to December 31, 1996. Salaries and wages increased to \$370,145 for the year ended December 31, 1997 from \$150,448 for the period from inception to December 31, 1996. We had nine employees at December 31, 1997 compared to seven employees at December 31, 1996.

General and administrative. As a percentage of total revenues, general and administrative expenses decreased to 19.5% for the year ended December 31, 1997 from 102.9% for the period from inception to December 31, 1996. General and administrative expenses increased to \$131,767 for the year ended December 31, 1997 from \$67,259 for the period from inception to December 31, 1996. The increase in general and administrative expenses is attributed primarily to an increase in advertising costs, travel and entertainment expenses relating to potential customers and the new POPs in Miami, Raleigh and Athens; equipment and software purchases and installation costs related to the expansion of the data center facilities; and equipment rentals. The decrease as a percentage of revenues is due to the economies of scale realized, as general and administrative costs generally do not fluctuate with increases and decreases in total revenues.

Rent. As a percentage of total revenues, rent decreased to 4.9% for the year ended December 31, 1997 from 33.3% for the period from inception to December 31, 1996. Rent increased to \$33,152 for the year ended December 31, 1997 from \$21,792 for the period from inception to December 31, 1996. This increase in rent expense is due primarily to a full twelve months of rent in the year ended December 31, 1997 compared to only seven months for the period from inception to December 31, 1996.

Management fees. As a percentage of total revenues, management fees decreased to 6.2% for the year ended December 31, 1997 from 12.2% for the period from inception to December 31, 1996. Management fees increased to \$42,000 for the year ended December 31, 1997 from \$8,000 for the period from inception to December 31, 1996. We paid db Telecom Technologies \$2,000 per month from January 1, 1997 through June 30, 1997 and \$5,000 per month from July 1, 1997 through December 31, 1997 compared to \$1,000 per month for the period from inception to December 31, 1996.

Depreciation and amortization. As a percentage of total revenues, depreciation and amortization decreased to 8.5% for the year ended December 31, 1997 from 17.8% for the period from inception to December 31, 1996. Depreciation and amortization increased to \$57,255 for the year ended December 31, 1997 from \$11,622 for the period from inception to December 31, 1996. The increase is due primarily to an increase in capitalized costs of property and equipment acquired during the year ended December 31, 1997. The cost basis of property and equipment increased to \$384,300 at December 31, 1997 from \$120,442 at December 31, 1996. The increase in amortization expense is directly attributed to the amortization of the customer list and related customer accounts purchased in

July 1997. The cost basis of this customer list and related customer accounts was \$85,338.

Interest expense. As a percentage of total revenues, interest expense decreased to 9.8% for the year ended December 31, 1997 from 16.0% for the period from inception to December 31, 1996. Interest expense increased to \$66,201 for the year ended December 31, 1997, from \$10,434 for the period from inception to December 31, 1996 due to the additional debt we incurred to fund our capital purchases, the purchase of a customer list in July 1997 and working capital needs. Total debt at December 31, 1997 was \$1,128,845 compared to \$328,925 at December 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our operations and capital expenditures primarily through cash flow from operations; borrowings from banks, shareholders and db Telecom Technologies; capital leases; and sales of common stock. At December 31, 1998, we had outstanding debt and accrued interest of \$2,349,733. At June 30, 1999, we had outstanding debt and accrued interest of \$2,126,344, as follows:

<TABLE>  
<CAPTION>

LENDER	PRINCIPAL AMOUNT	MATURITY DATE	ANNUAL INTEREST RATE
-----	-----	-----	-----
<S>	<C>	<C>	<C>
db Telecom Technologies, Inc.....	\$270,188	1/1/00	10%
Premier Bank.....	150,100	11/1/99	prime + 1%
Premier Bank.....	700,000	11/1/99	prime + 1%
Dr. Samuel F. Dayton and James L. Bruce, Jr.....	618,549	1/1/00	10%
Dr. Samuel F. Dayton and James L. Bruce, Jr.....	283,985	12/27/99	8.75%

</TABLE>

We used the proceeds of this debt for equipment purchases and working capital. We expect to repay all outstanding debt with the net proceeds of this offering. We will pay the \$283,985 we currently owe to Dr. Dayton and Mr. Bruce directly to The First National Bank of Commerce. This payment will satisfy the remaining balance of the \$383,985 borrowed from First National by Dr. Dayton and Mr. Bruce on our behalf, which they loaned us to fund our purchase of Athens' ISP in July 1998 and to provide working capital. In addition to the debt described above, we have approximately \$26,000 of capital leases that we intend to continue to pay in the ordinary course of business.

From November 23, 1998 through June 30, 1999, we sold 371,762 shares of our common stock in a private placement at a price of \$5.71 per share. We are using the \$2,122,744 proceeds of this private placement for working capital.

Net cash used by operating activities was \$645,268 for the six months ended June 30, 1999, \$210,355 for the year ended December 31, 1998, \$402,451 for the year ended December 31, 1997 and \$202,080 for the year ended December 31, 1996. Net cash used in investing activities was \$185,889 for the six months ended June 30, 1999, \$1,010,909 for the year ended December 31, 1998, \$349,196 for the year ended December 31, 1997 and \$120,442 for the year ended December 31, 1996. Cash used in investing activities was primarily for the purchase of Athens' ISP in 1998, the purchase of customer lists and related customer accounts from other ISPs in 1998 and 1997, the investment in nschool in 1998 and the purchase of property and equipment in all three years. Financing activities provided cash in the amounts of \$1,592,607 for the six months ended June 30, 1999, \$1,450,209 for the year ended December 31, 1998, \$799,921 for the year ended December 31, 1997 and \$328,924 for the year ended December 31, 1996. The primary source of this cash was proceeds from the issuance of long-term debt in each of those three years and the issuance of common stock in the year ended December 31, 1998 and the six months ended June 30, 1999.

During the 14 months following completion of this offering, we expect to purchase or lease up to seven new data centers and eleven additional POPs. We

anticipate that the net proceeds of the offering will be used in part to pay for these additional data centers and POPs.

We believe that the net proceeds of this offering, funds currently on hand and funds to be provided by operations will be sufficient to meet our anticipated capital expenditures and liquidity requirements through at least the end of 2000, excluding the funding of our long term plan to become an integrated communications provider, for which we will need to find other sources of capital. However, numerous factors, including those described in "Risk Factors," could accelerate our need for additional funding. For example, we intend to grow, in part, through strategic acquisitions, some of which may require significant cash expenditures, but we cannot predict the timing and amount of any acquisitions and expenditures that may occur.

Our ability to grow will depend not only on acquisitions but also on our ability to expand and improve our Internet operations, the effectiveness of our marketing efforts and our customer support capabilities. If we expand more rapidly than we currently expect or if our working capital needs exceed our current expectations, we will need to raise additional capital from equity or debt sources. If we raise additional funds by issuing equity or convertible debt securities, shareholders may experience dilution, and those securities may have rights, preferences or privileges senior to those of our common stock.

We cannot be sure that we will be able to obtain the additional financing to satisfy our cash requirements or to implement our growth strategy on acceptable terms or at all. If we cannot obtain that financing on terms acceptable to us, we may be forced to curtail our planned business expansion and may be unable to fund our ongoing operations.

#### YEAR 2000 COMPLIANCE

##### OVERVIEW

We rely on computer software programs, internal operating systems and telephone and other network communications connections to conduct our business. If any of these programs, systems or network connections are not programmed to recognize and properly process dates after December 31, 1999, significant system failures or errors may result. These matters are commonly referred to as year 2000 issues, and they could have a material adverse effect on both our affected customers and us. Our potential areas of exposure include:

- information technology, including computers, software and systems that we have developed internally or purchased or licensed from others, such as our billing system and accounts receivable system,
- non-information technology, including telephone systems and other equipment that we use internally, and
- external systems, particularly the systems that comprise the Internet and those services that allow us access to the Internet and our customers to access our network.

If our operational systems are not year 2000 ready on December 31, 1999, we may be unable to provide our services.

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##### STATE OF READINESS

Our overall plan to achieve year 2000 readiness includes the following phases with respect to our information technology and non-information technology systems:

- assessment of repair requirements, which includes assessing all systems, significant business processes and connections with others on whom we depend,
- remediation, which includes updating or modifying systems identified as critical to our efforts to become year 2000 ready,
- testing of systems which have been altered or replaced as part of our efforts to become year 2000 ready, and

- contingency planning.

We have completed our assessment phase, including the determination of whether the system we were reviewing was internally developed, an external system critical to our operations, or a non-critical system or piece of software or hardware. We believe that we have completed all necessary modifications with respect to both our critical and our non-critical systems. We consider any information technology systems to be "critical" if the failure of that system would result in our being unable to provide Internet access or data center services or would prevent us from billing customers. We also have successfully completed the testing phase of our year 2000 plan.

During the course of our year 2000 plan, we reviewed publicly available disclosures from the other companies who provide hardware and software that comprise our critical information technology systems or who operate external systems on which we rely. Almost all of our outside vendors and providers have indicated that their hardware, software or systems are, or will be, year 2000 ready. Nevertheless, we remain vulnerable to a significant vendor's or provider's inability to remedy its own year 2000 issues. We cannot assure you that the components of our information technology systems provided by others, or the external systems on which we rely, will be year 2000 ready in a timely manner. We have not entered into any material contracts with external contractors to complete our year 2000 plan.

#### COSTS

Our costs for assessment, remediation and testing have been minimal to date, and we do not expect to incur any additional costs that are material.

#### RISKS

Our failure to correct a material year 2000 problem could result in an interruption in, or a failure of, normal business activities or operations. Presently, however, we believe that our most reasonably likely worst case scenario related to the year 2000 is associated with potential failures of third party services or products we use in our operations or with the other services and products our customers use in their operations.

We supply Internet related services to our customers and have not tested any other products or systems used in our customers' businesses. If our customers do not successfully address year 2000 issues in their operations, and as a result they experience temporary or permanent interruptions in their businesses, we may lose revenues from these customers.

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We believe that many businesses, including our customers, are still in the preliminary stages of analyzing their systems for year 2000 issues. We cannot estimate the potential expenses involved or delays that may result from the failure of these customers and third parties to resolve their year 2000 issues in a timely manner. If these expenses, failures or delays do in fact occur, they may have a material adverse effect on our business, financial condition or results of operations.

In providing Internet access to our customers, we depend upon providers of telecommunications and data services, government agencies, utility companies and other service providers over which we have little or no control. If any of these entities fails to correct its year 2000 issues, our customers may be unable to use the Internet, and our operations would suffer. See "Risk Factors -- Potential year 2000 problems may cause us to lose customers and subject us to significant liabilities and costs."

#### CONTINGENCY PLANS

We have no specific contingency plans for year 2000 failures other than the redundancies already built into our system. For example, we have a back-up generator powered by diesel fuel that will provide power for approximately 36-48 hours, and we have multiple connections to ISPs, allowing us to route traffic away from any particular provider that may experience problems.

The estimates and conclusions included in this discussion contain forward-looking statements and are based on our management's best estimates of future events. Our expectations about risks, future costs and timely completion

of our year 2000 testing may turn out to be incorrect, and any variance from these expectations could cause actual results to differ from this discussion. Factors that could influence risks, amount of future costs and the timing of remediation efforts include our success in identifying and correcting potential year 2000 issues and the ability of others to address their year 2000 issues.

The statements above related to the ability of our services to operate properly before, on and after January 1, 2000 are "Year 2000 Readiness Disclosures" under the Year 2000 Information and Readiness Disclosure Act of 1998. Those statements are not a guaranty, contract or warranty, and our compliance with that act does not preclude any claims against us based on the federal securities laws.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and presentation of comprehensive income and its components in a full set of general-purpose financial statements. This statement was effective for periods beginning after December 15, 1997. The adoption of SFAS No. 130 did not have an impact on our financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about services, geographic areas and major customers. This statement was effective for financial statements for periods beginning after December 15,

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1997. The adoption of SFAS No. 131 did not have a material impact on our financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is, the type of hedge transaction. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." This statement defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. We believe that the adoption of SFAS No. 133 and SFAS No. 137 will not have a material impact on our financial statements.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our interest income and expense is sensitive to changes in the general level of United States interest rates. Changes in United States interest rates affect the interest that we earn on our cash investments as well as the interest that we incur on our debt. Based on our cash equivalents balance and level of debt at June 30, 1999, our exposure to interest rate risk is not material.

We believe our exposure to market risks is immaterial. We hold no market risk sensitive instruments for trading purposes. At present, we do not employ any derivative financial instruments, other financial instruments or derivative commodity instruments to hedge any market risks, and we do not currently plan to employ them in the future.

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#### BUSINESS

##### OVERVIEW

We are a rapidly growing ISP that targets middle market businesses,



educational institutions and government organizations. Our primary services include:

- dedicated Internet access through our highly reliable network, which provides our customers with Internet access that is "always on,"
- co-location services, in which we provide secure space to house customer-owned Internet equipment, and
- managed application hosting, in which we provide a server for the customer's exclusive use to install any software application the customer chooses.

Data center services include, among others, our co-location services and our managed application hosting services. These are similar to the services offered by computer service providers, or CSPs, which house, maintain and supply power to their customers' Internet equipment.

We believe our growth and success in serving our target customer base is the direct result of our competitive strengths, including:

- a network that permits our customers to bypass congested Internet exchanges and access points and avoid Internet exchange breakdowns, increasing the speed and reliability of our customers' Internet connection,
- Internet access that we can tailor to meet each customer's needs,
- knowledgeable and responsive customer support by our network experts,
- business Internet solutions that allow our customers to outsource a significant portion of their Internet technology and staff, and
- a senior management team with more than sixty years of combined experience in designing, implementing and managing telecommunications networks.

#### INDUSTRY BACKGROUND AND OPPORTUNITY

The Internet was originally conceived as a communications tool to be used by a limited number of researchers and academics. Today, it has escalated into a web of approximately 70 million interconnected users. The Internet has evolved from a static, text-based medium to a graphically rich communications infrastructure. The creation and rapid development of the desktop computer simplified access to the Internet, encouraging consumers to seek information through this new medium. As the breadth of the information expanded, the Internet's applications and users grew as well. Businesses began investigating the potential of the Internet to reach the growing volume of customers on the Internet. To capture this emerging customer base, businesses needed a presence on the Internet and applications to facilitate electronic commerce.

#### THE INTERNET INFRASTRUCTURE

The Internet has emerged as a significant global business communications medium, enabling millions of people to communicate, publish and retrieve information, and conduct

business electronically. A multi-tiered system of local, regional and national ISPs has evolved to provide access to the Internet, transport data and, more recently, to provide value-added Internet services. ISPs exchange data in packets generated by their customers through direct or indirect connections with other ISPs. To meet the needs of ISPs to exchange data at centralized points, large ISPs have established a series of central Internet exchanges, which facilitate the transmission of data.

Despite the relatively centralized nature of these exchange points, data traveling across the Internet often makes multiple connections or "hops" through a variety of local, regional and national ISPs, as it moves from the originating site, through a central exchange point, and to its final destination. While these centralized points have the advantage of having dozens of ISPs interconnected and exchanging Internet data, they increasingly face congestion



problems that cause significantly longer response times for a user. In addition, because data traveling across the Internet must often make connections through multiple ISPs, the failure of a single ISP's Internet connection can interrupt a user's Internet transmission. Many ISPs have sought to improve data transmission reliability and speed by establishing private "peering connections" and network access points. This permits the ISPs to directly exchange Internet traffic while reducing the number of hops in their Internet connection and avoiding the often congested major Internet exchanges.

#### THE GROWTH OF THE INTERNET

The Internet has experienced tremendous growth and has become a global medium for communications and commerce. According to International Data Corporation, or IDC, the ISP market in the United States reached \$10.7 billion in 1998, representing a 43.0% increase over 1997 revenues. Business-related Internet operations generated approximately \$2.9 billion of the \$10.7 billion aggregate 1998 ISP revenue. Moreover, IDC predicts revenues generated by business-related ISPs will increase by 75.9% to \$5.1 billion in 1999 and reach \$12.0 billion by 2003, growing at a compound annual growth rate of 32.5% from 1998 to 2003. In addition, IDC estimates that the total value of goods and services purchased over the Internet will increase from \$50.5 billion in 1998 to approximately \$734.0 billion by the end of 2002.

Trends contributing to the growth of the business-related Internet market include:

- the increasing availability of high bandwidth capacity,
- the proliferation of Internet access and ancillary Internet services,
- the competitive need of small and mid-sized businesses to automate key business processes,
- the convenience and speed of conducting business over the Internet,
- the availability of Internet-enabled packaged software applications,
- an increase in the amount and diversity of business and educational information available on the Internet and the Web, and
- recent enhancements in the Internet's security and reliability.

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The demand generated by these new dynamics, combined with business customers' high quality service requirements, has fueled the growth of dedicated access connections and other Internet-related products and services for businesses.

#### WEB HOSTING AND CO-LOCATION

To realize the opportunities of the Internet, companies must develop an attractive Internet presence using a "Web site" that is easily accessible to potential customers. However, rapid Internet and technology growth have outpaced the ability of many businesses to develop the necessary internal information technology knowledge and tools. A variety of companies, including Web hosting companies and ISPs, have begun to focus on providing Internet co-location and other Web-related services to their customers. Typically, companies offering these services build networks of numerous geographically dispersed data centers to be physically close to their customers. This reduces the cost of the services and the risk of transmission delay and data loss as data travels through multiple network connections. According to IDC, corporate Internet access and value-added services, such as Web hosting and co-location, are the fastest growing services offered by ISPs. Corporate access revenue and value-added services revenue were \$5.9 billion in 1998 and are expected to grow to approximately \$25.0 billion by 2003.

#### THE TREND TOWARD OUTSOURCING OF INTERNET OPERATIONS

Many businesses lack the resources and expertise to cost-effectively develop, maintain and continually upgrade their network facilities and systems. Also, individuals with the expertise to establish and maintain sophisticated Internet technology are in great demand and their services are costly.

Furthermore, businesses often find it difficult to keep up with new technologies and to integrate them into their infrastructure. Even if enterprises possess the necessary resources to accomplish these tasks, we believe that they often determine that this ongoing and significant investment in their own Internet technology and personnel is an inefficient use of their overall resources. Consequently, many enterprises are seeking outsourcing arrangements for their Internet needs. These arrangements allow enterprises to focus on their core operations, enhance the reliability and performance of their Web sites and reduce their Internet-related operating expenses.

#### THE CONVERGENCE OF SERVICES IN THE COMMUNICATIONS INDUSTRY

The traditional divisions within the communications industry are disappearing due to new regulations, customer demand, and technology evolution. Regulatory changes in the United States and around the world have opened the communications industry to increased competition. In particular, the Telecommunications Act of 1996 provides for comprehensive reform of telecommunications laws in the United States and is designed to foster competition in the local telecommunications marketplace.

With greater competition in the communications industry, customers have increasingly demanded that communications providers offer multiple services at lower prices. These services may include local and long distance calling, wireless, Internet access, and high-speed dedicated lines. Also included are ancillary services such as single bill presentment, call forwarding, caller identification, voicemail and similar services.

We believe that these integrated providers will increase efficiency in the deployment of communications services by selling multiple services in bundles over a single connection.

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Enhancements in switching technologies are beginning to permit the delivery of numerous services over a single network, offering cost savings over traditional networks which were designed to deliver a limited number of services. We believe that as competition increases, providers who offer a range of services in a cost-effective manner will be best positioned to capitalize on the convergence of services within the communications industry. These providers will offer a well-designed package of services they can tailor to satisfy each customer's needs.

#### THE COMSTAR.NET STRATEGY

##### CURRENT BUSINESS STRATEGIES

We intend to become a leader in providing businesses, educational institutions and governmental organizations with high quality, cost-effective business solutions that will allow our customers to take advantage of the Internet without having to develop and maintain their own Internet technology and hire and retain an extensive Internet staff. To achieve this objective, we intend to continue to rely on the following core elements of our business strategy:

**Providing Highly Reliable Internet Access.** We intend to continue increasing the capacity, fault-tolerance and geographic reach of our network to support customer growth. Our network is designed to respond quickly, be secure and provide continuous availability to our clients. We can deliver our services to customers throughout the world from our Atlanta data center. We connect our customers' Internet traffic to four very large ISPs who provide access to the central Internet exchanges. Our innovative network architecture often permits our customers' Internet traffic to bypass congested points on the Internet and avoid breakdowns at the Internet exchanges, which increases the speed and reliability of their Internet connection. We proactively manage and monitor traffic on the Internet and reroute traffic to provide high quality access.

**Increasing the Percentage of our Revenues from Value-Added Data Center Services.** We intend to generate a higher percentage of our revenues from our value-added data center services, which typically provide higher margins than our Internet access services. We believe that value-added services are among the fastest growing segments of the Internet marketplace. Our data center services provide a variety of options to our customers, and we work with their management and information technology teams to analyze their varied Internet service needs

and choose the option that best addresses those needs. We have offered our co-location services since June 1996, and as of September 1, 1999 we had 23 co-location customers. We have offered our managed application hosting services since June 1999, and, as of September 1, 1999, had six managed application hosting customers. We intend to emphasize our managed application hosting business in our marketing, and we have allocated greater resources to developing these services.

**Targeting Middle Market Business, Educational and Governmental Customers.** The Internet service needs of middle market businesses, educational institutions and governmental organizations differ significantly from those of the typical individual consumer because Internet access and related services are often critical to enterprise customers' businesses. They demand dedicated, high speed Internet access and knowledgeable, prompt and responsive customer support. When marketing our services, we focus on creating the best solution to meet our customers' needs and not simply promoting our technology. Compared to individual consumers, enterprise customers are usually less price sensitive and more willing to pay a premium for custom solutions that meet their

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needs. As a result, we believe that providing services to enterprise customers generates greater revenues and higher margins per customer than servicing individual consumers.

**Providing Superior Customer Support by Network Experts.** Enterprise customers seeking broader access to the Internet increasingly face significant technological challenges, in part because the Internet is an evolving and rapidly growing medium. In addition, as new and more complex applications for the Internet are developed, we believe that even sophisticated users will increasingly encounter problems. Unlike many other ISPs who outsource their technical support to independent call centers, the comstar.net professionals who implemented our network are among those who respond to and resolve customer inquiries and problems. We intend to continue providing superior customer support by hiring only customer support personnel who can demonstrate the ability to understand and manage our network. We believe that our strong emphasis on the superior customer support provided by our network experts has resulted in a high level of customer satisfaction and significant subscriber growth from customer referrals.

#### GROWTH STRATEGIES

We intend to further develop our business by focusing on the core elements of our business strategy discussed above and pursuing the following key growth strategies:

**Expanding Our Network Nationally and Internationally.** We intend to build more data centers and POPs in the United States and pursue international opportunities. We believe that having a number of widely distributed and networked data centers and POPs improves network performance and reliability. We intend to add data centers in the following metropolitan areas by the end of 2000: Washington, D.C., Chicago, Boston, Phoenix, Miami, Dallas and San Francisco. We intend to establish data centers in Denver and London by the end of the first quarter of 2001. Before purchasing or leasing a new data center, we will evaluate the market opportunity in the proposed location by analyzing Internet usage statistics and specific economic criteria as well as pre-selling our services in that market. For any given location we expect to require at least six months to select the appropriate site, construct or acquire the necessary facilities, install equipment and hire the operations and sales personnel needed to conduct business at the site. We have already identified suitable sites for some of our proposed data center locations. We also intend to supplement the data center expansion by establishing POPs throughout the United States and at various international sites to aggregate and transport traffic to and from our planned data centers.

**Broadening Our Marketing Activities.** We intend to expand our marketing efforts to increase our customer base. We also intend to increase market awareness of our name and our commitment to reliable service and superior customer support. Therefore, while continuing to encourage referrals from existing customers, we are increasing print publication, radio, outdoor, and direct mail advertising and telemarketing in targeted metropolitan areas.

**Pursuing Strategic Sales and Distribution Alliances.** We are pursuing

strategic sales and distribution alliances in markets where there are substantial opportunities to attract new customers. We believe that establishing relationships with businesses that provide products and services which complement our service offerings will permit us to use their expertise and market access, while lowering our costs of entering new markets. These relationships will also give us additional customer referrals and new solutions to offer existing customers. For example, we currently obtain customer referrals through our

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Valued Internet Partner, or VIP program, in which we pay our partners a fee for referring new customers who ultimately purchase our services. We will also pursue strategic alliances with value-added resellers or other authorized partners through our comstar.net Affiliate Partner, or CAP program, which permits others to resell our services directly to customers in specified markets. We intend to further expand our customer base by establishing additional distribution relationships with network integrators, value-added resellers, system vendors, consulting companies and other ISPs.

Engaging in Strategic Acquisitions. We will continue to consider acquisitions of strategically located operations and customer lists and associated customer accounts. In addition, we may consider acquisitions of businesses, including other ISPs, with complementary products, services or technologies. We may also consider acquisitions that can provide personnel who augment our team of network experts.

Eventually Becoming an Integrated Communications Provider, Offering Both Voice and Data Services. We plan to pursue a long-term strategy of providing a complete portfolio of voice and data communications services. To achieve our goal, we plan to become a competitive local exchange carrier, or CLEC, which would permit us to provide voice and other data services to complement our current services. We believe that technology advancements and customer preferences are driving the convergence of communications services toward service providers who can offer multiple communication services through a single network. We also believe that to remain competitive in the face of these changes, we must eventually become a single-source provider of voice and data communications services.

#### NETWORK DESIGN

To increase Internet access speed for our customers, we designed our network to avoid congested areas on the Internet. Most Internet traffic moves through central Internet exchanges. To avoid transporting all of our customers' traffic through these central exchanges and the related network access points, we have established direct links to very large ISPs, including UUNET, GTE Internetworking, Sprint and Intermedia Internet. Through this network, we can dynamically reroute traffic quickly and efficiently. Our network experts monitor traffic patterns and congestion points throughout the network and reroute our customers' traffic to a different Internet link when there is excessive congestion. As a result, we can deliver most of our customers' Internet traffic while bypassing congested points on the Internet.

Another important characteristic of our network is its high level of reliability. We maintain multiple links with very large ISPs to protect against a service outage should one or more links fail. Our equipment automatically monitors Internet traffic and reroutes it to avoid breakdowns at Internet exchanges and access points so that our customers' upstream transmissions are not affected by failures in other systems. In addition, each data center and POP we operate has multiple fiber or copper telecommunications lines into the facility so that downstream transmissions operate reliably.

Our network provides optimal service to our customers who are geographically located relatively close to either a data center or a POP. Close proximity allows the transportation of our customers' traffic from their server to its destination and back in a shorter period of time. Close proximity also allows us to provide a greater range of services at lower costs to our customers.

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The following diagram describes how our network is linked to very large ISPs and how we can distribute our customers' traffic:

A chart appears here, illustrating the manner in which comstar.net is connected to major Internet access providers and its customers, showing various ways in which comstar.net is able to distribute its customers' traffic over the Internet.

The chart has 3 columns. The first column has five circles, containing the following text: (1) UUNET, (2) GTE/BBN, (3) Sprint, (4) Intermedia and (5) Others. The second column has two circles, containing the following text: (1) comstar.net and (2) other ISP. The third column contains five circles, each of which contains the following text: business customer.

#### SERVICES

We create tailored solutions for our customers based on their business and technical requirements, modifying these solutions as our customers' needs evolve. Unlike many other ISPs that outsource their technical support to independent call centers, our highly reliable services are supported by our knowledgeable and responsive network experts, some of whom are the same professionals that implemented our network. Our primary services include dedicated Internet access, co-location services and managed application hosting. We also offer Web hosting, email services and domain name services.

Our customer contracts require us to provide our services for a one-year, two-year or three-year term, and contain, among other things, a limited service level warranty related to the continuous availability of service on a 24 hours per day, seven days per week basis, except for scheduled maintenance periods. This warranty provides a credit for free service for disruptions in our Internet access services. At the end of the term of a contract, a customer may elect to extend the contract's term on a month-to-month basis. Any change or upgrade in service, however, typically requires a new contract for a new term.

Internet Access. Our Internet access services are designed to deliver the ease of expansion, high availability and performance required by moderate to high volume Internet operations that are central to a customer's business. Revenues from our Internet access services represented approximately 62.3% of our revenues for the year ended December 31, 1998 and 61.3% of our revenues for the six months ended June 30, 1999.

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Our Internet access options include:

<TABLE>  
<CAPTION>

SERVICE -----	DESCRIPTION -----	BENEFITS -----
<S> Leased Lines	<C> Leased lines are a dedicated service that delivers access speeds from 56Kbps to 44Mbps.	<C> Leased lines, which are priced on a per-mile basis, provide a customer with a truly private network where no other entity's data flows over the same network. Leased lines are very cost-effective when reasonably close to one of our POPs or our data center.
Frame Relay	Frame relay is a dedicated service that delivers access speeds from 56Kbps to 44Mbps.	Gives customers connecting geographically dispersed offices an affordable alternative with pricing that is not based on mileage.
Symmetrical Digital Subscriber Line, or SDSL	SDSL is a dedicated service using digital technology to deliver access speeds from 160Kbps to 1.54Mbps.	Provides inexpensive Internet access for customers with high bandwidth requirements.
Integrated Services Digital Network, or ISDN	ISDN is a dial-up service utilizing digital signaling technology to deliver access speeds of either	Provides inexpensive Internet access for customers with low bandwidth requirements.

&lt;/TABLE&gt;

Co-location. Through our co-location services, we provide secure space to house customer-owned Internet equipment. Based upon their business and technical requirements, customers may select from shared cabinet facilities, exclusive cabinets or custom-built rooms with additional security features. All co-location facilities include dedicated electrical power circuits to ensure that we meet each customer's power requirements. Because the Internet operations of our co-location customers frequently require hardware and software upgrades, we give customers unlimited but secure access to their leased co-location space. Additional space, electrical power and Internet services can be tailored to meet our customers' needs. Our co-location services represented approximately 10.0% of our revenues for the year ended December 31, 1998 and approximately 11.6% of our revenues for the six months ended June 30, 1999.

Our Atlanta data center houses the computers that operate the core functions of our business, including communications equipment, data storage and retrieval systems, security software and hardware and related customer support. Our data center provides customers with a secure, climate-controlled facility that they cannot readily or inexpensively create at their own place of business. The data center contains:

- a power supply with a back-up generator,
- fire suppression and containment capabilities,
- raised floors,
- fully redundant HVAC, and

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- high levels of physical security.

We offer the following co-location services:

- SWITCH HOTEL(TM) -- A dedicated, enclosed custom-built room with separate dedicated power circuits, providing additional security via key-card entry, access barriers, motion camera and tiles bolted to the floor.
- CABINET CO-LOCATION -- Mid-level service providing an exclusive cabinet for the customer. This is an economical solution for customers co-locating multiple servers.
- SERVER CO-LOCATION -- Entry-level service providing an economical solution for customers co-locating a single server. The customer's server shares space in a cabinet with the servers of other customers.

We intend to open new data centers in Washington, D.C., Chicago, Boston, Phoenix, Miami, Dallas and San Francisco before the end of 2000. We believe our data centers will be an important factor in attracting customers and marketing our data center services.

Managed Application Hosting. Our managed application hosting service, which we first introduced in June 1999, provides a server for the customer's exclusive use to install any software application the customer chooses. In addition, we will provide all required maintenance on the server hardware. This service, which is similar to the services being offered by computer service providers, or CSPs, is targeted to businesses with high volumes of Internet traffic and with Internet-based applications and Web services that are extremely important to their daily operations. Unlike typical Web hosting operations that host multiple customers' Web sites on a single server, we provide our managed application hosting services with only one customer per server. As a result, a customer need not be concerned about how its actions or applications might impact other customers' applications housed on the same server, or how its server might be affected by other customers' actions or applications.

Our managed application hosting services offer a suite of applications from leading software vendors that is designed to meet the Internet operations needs of middle market companies. We also offer proprietary e-commerce and Web development software as additional options for our managed application customers. We presently offer these software products only in conjunction with

our managed application hosting services. We implement the applications selected by the customer in our data center, configure them to meet the needs of the customer, and package them with a server, security, Internet access, back-up and operational support. A customer may also use software applications it obtains from others on the server we provide to the customer in our data center.

Our managed application hosting services are compatible with the products of many leading hardware and software system vendors, including Cobalt Networks, VA Linux Systems, Hewlett-Packard Company, Sun Microsystems, Silicon Graphics, Microsoft Corporation and Allaire Corporation. This multi-vendor flexibility enables our customers to select their own technical solutions and to integrate their Internet operations with their existing information technology. We offer our customers four different levels of managed application hosting service that range from simple to comprehensive solutions, each of which can be tailored to meet the specific needs of a given customer. In addition, our customers can augment their services with hardware or software that we provide or software that they purchase directly from others.

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## CUSTOMERS

Most of our customers are middle market businesses, educational institutions or governmental organizations, but our customer base also includes other ISPs and several larger companies. The Internet service needs of our target customers differ significantly from those of typical individual consumers. Enterprises often view their Internet access and related services as critical to their business. They demand dedicated, high speed Internet access and knowledgeable, prompt and often highly technical customer support. When marketing our services, we focus on creating the best solutions to meet our customers' needs and not simply promoting our technology. We work with our customers' management and information technology teams to analyze their Internet needs and create solutions to specifically address those needs. Compared to individual consumers, enterprise customers are usually less price sensitive and more willing to pay a premium for creative solutions crafted to meet their needs. As a result, we believe that providing Internet services to enterprise customers generates greater revenues and higher margins per customer than servicing individual consumers. As of September 1, 1999, we had 510 customers. We provide service to a number of enterprises, including:

- Atlanta Convention and Visitors Bureau
- AGL Resources
- Atlanta Historical Society
- BellSouth Wireless Services
- Elastic Networks, Inc. (formerly a division of Northern Telecom)
- Georgia Professional Standards Commission
- Georgia Society of Certified Public Accountants
- Guantanamo Bay Naval Air Station, Cuba, through a contract with Local Communications Network
- Hartsfield Atlanta International Airport
- Mohawk Industries
- National Service Industries
- nBank
- Net.B@nk
- nFront
- America Online, through a contract with TeleHouse
- Tom's Foods



Our customer nBank, a division of The First National Bank of Commerce, provided 9.1% of our revenues for the year ended December 31, 1998 and 10.7% of our revenues for the six months ended June 30, 1999. No other customer accounted for more than 10% of our revenues during either period.

#### SALES AND MARKETING

We sell our services through a consultative approach developed by our management team based on their cumulative business experience. We use local technology-oriented sales personnel to understand individual customer needs and make the proper recommendations regarding tailored Internet-based solutions. The local field sales staff is supported by our in-house tele-sales staff based at our corporate headquarters in Atlanta. We refer to our employees who use the telephone to directly market and sell our services as our tele-sales staff. We use our tele-sales staff or our CAP partners, discussed below, to complete sales to smaller customers and to target customers in markets where we do not have field sales staff. In addition, we hire independent telemarketing firms to generate business leads. To support our sales efforts, we have also begun a new advertising and media campaign to build awareness of our name and quality of service. We intend to expand our field sales force, further develop our indirect distribution channels and use telemarketing firms to increase sales leads and grow our customer base.

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**Field Sales.** Our field sales force consists of technically competent, locally based and experienced Internet sales representatives. These individuals have strong Internet technical backgrounds and understand the local telecommunications tariffs as well as the needs of their local business communities. In general, members of our field sales staff pursue leads generated by our telemarketing campaign and our outdoor advertising efforts. Our field sales personnel also make "cold calls" on potential customers. Most larger sales are closed by a field salesperson who visits the customer. We believe that this localized approach allows us to provide better solutions for our customers' needs.

**Tele-sales.** Our tele-sales staff contacts smaller potential customers in the geographic areas we serve as well as potential customers in new markets. We expect our tele-sales staff to develop the interest of large customers and close sales to small customers without requiring a face-to-face meeting between the customer and a member of our field sales force.

**Indirect Sales.** We are developing relationships with partners, including value-added resellers, network integrators and Web design companies, to use the expertise of their established sales organizations to help increase our sales.

For example, our Valued Internet Partner, or VIP program, is an agency relationship that offers referral fees to VIP partners who bring us sales opportunities that ultimately result in sales of our services. We intend to expand the VIP program into each new market area we enter. We believe our VIP program generated a significant number of our new customer installations for the years ended December 31, 1996, 1997 and 1998. As of September 1, 1999, we had signed more than 80 VIP partners to the program.

Also, our comstar.net Affiliate Program, or CAP program, allows our authorized partners to resell our services and maintain a direct relationship with customers in their local markets. In markets we have not identified as a high priority for our network expansion, we forward leads directly to our CAP partners so they can arrange a visit to the customer. We provide service and technical support 24 hours a day, every day of the year and invoice the partners at a reduced rate, allowing them to profit from the resale of our services.

**Internet Sales.** We use the Internet as another source to generate sales. Our tele-sales staff handles many inquiries regarding our services received via e-mail, either closing the sale or passing the leads to our field sales force. We are internally developing systems and applications that will allow us to receive, accept and implement sales electronically via the Internet.

**Telemarketing.** We began a telemarketing campaign in May 1999 using an outside telemarketing firm that we pay on an hourly basis. We also compensate the firm with performance-based bonuses. We create a sales script used by the



telemarketers and train all telemarketing personnel. Our telemarketing program seeks to generate leads from small to medium sized businesses that are pre-qualified for our services in our market areas. We may establish an internal telemarketing department to ensure the quality of our sales efforts.

Strategic Marketing and Reseller Alliances. We enter into strategic marketing and reseller alliances with partners to bundle and sell our services with those of the partners. For example, our agreement with NorthPoint Communications, Inc. allows us to resell NorthPoint's SDSL service, bundled with our Internet access service. In addition, NorthPoint jointly funds our marketing efforts for SDSL services in geographic areas

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where this service can be offered. NorthPoint also promotes our services as one of a dedicated number of its Internet access referral partners.

Branding. As a component of our marketing efforts, we plan to invest aggressively in building the comstar.net brand. We have already begun outdoor and radio advertising in the markets we currently serve. We intend to increase customer awareness of us and our services through an integrated marketing plan, which combines online and traditional advertising in business and trade publications, trade show participation, direct mail and public relations campaigns.

#### COMPETITION

The market for Internet access, co-location, and managed application hosting services is very competitive. The tremendous growth and potential size of the market for Internet services has attracted many new start-ups as well as existing businesses. In addition to other national, regional and local ISPs, our current and prospective competitors include long distance and local exchange telecommunications carriers, cable television operators and their affiliates, satellite and wireless communications companies and providers of co-location and other data center services. We also anticipate that if we offer services as a CLEC, we will face new competitors that already have established a market presence for local telecommunications access. When compared to us, many of our competitors have substantially greater financial, technical, marketing and personnel resources; larger customer bases; a broader range of services; more extensive networks and facilities; longer operating histories; greater name recognition and market presence; and more established business relationships in the industry. In addition, many of our current competitors have already developed the capacity to provide, and are providing, local telecommunications access. Further, intense price competition could significantly reduce our operating margins and adversely affect our operating results.

The principal competitive factors in our market include:

- Internet system engineering expertise and advanced technical functions,
- price of services,
- availability and quality of customer service and support,
- timing of introductions of new services,
- network capability,
- network security,
- reliability of services,
- financial resources,
- variety and quality of services,
- ease of expansion,
- ability to maintain, expand and add new distribution channels,
- broad geographic presence,
- brand name, and

- conformity with industry standards.

ISPs. Our primary competitors include other ISPs with a significant national presence that focus on business customers, such as UUNET, GTE Internetworking, PSINet, Concentric Network, MindSpring Enterprises, Verio and Intermedia Internet. We also compete with smaller regional and local ISPs in our targeted geographic regions such as Net Depot and Lyceum. Our customer base includes smaller ISPs, which may also compete with us for customers in their markets.

Value-Added Services Providers. As we increasingly generate revenues from our value-added data center services, competition from other value-added service providers will become more intense. Our competitors in this market include co-location providers like Exodus Communications, Frontier GlobalCenter, Digex and USInternetworking. They also include application service providers such as NaviSite and Digital Nation, which was recently acquired by Verio.

Telecommunications Carriers. All of the major long distance companies, including AT&T, MCI Worldcom and Sprint, offer Internet access services and compete with us. The relatively recent sweeping reforms in the federal regulation of the telecommunications industry brought about by the Telecommunications Act of 1996 have created greater opportunities for local exchange carriers, including the regional Bell operating companies, to enter the Internet access market. We believe that many long distance and local telecommunications carriers will seek to acquire ISPs, enter into joint ventures with them and purchase Internet access wholesale from ISPs to address the Internet access requirements of those carriers' current enterprise customers. Worldcom's acquisition of UUNET, GTE's acquisition of BBN and Cable & Wireless's acquisition of internetMCI are indicative of this trend. Accordingly, we expect to experience increased competition from the traditional large telecommunications carriers.

Cable Operators, Direct Broadcast Satellite and Wireless Communications Companies. Many of the major cable television operators, such as MediaOne, have begun to offer or have announced an intention to offer Internet access through their existing cable infrastructure. Seeking to take advantage of this installed cable infrastructure and the Internet access opportunities it affords, many telecommunications providers have acquired cable companies, such as AT&T's acquisition of TCI and @Home. While many cable companies are faced with large-scale upgrades of their existing plant equipment and infrastructure to support connections to the Internet and become competitive, we believe that some smaller enterprise customers may be attracted by the combined services already being offered by cable operators. Other alternative service communications companies have also announced plans to enter the Internet access market with various wireless and satellite services and technologies.

#### GOVERNMENT REGULATION

##### INTERNET REGULATION

Currently, only a small body of laws and regulations directly apply to access to or commerce on the Internet. Due to the increasing popularity and use of the Internet, however, laws and regulations may be adopted at the international, federal, state and local levels with respect to the Internet, covering issues such as user privacy, freedom of expression, pricing, characteristics and quality of products and services, taxation, advertising, intellectual property rights, information security and the convergence of traditional telecommunications services with Internet communications. Moreover,

number of laws and regulations have been proposed and are currently being considered by federal, state and foreign legislatures with respect to these issues. We cannot predict the impact on our business of any new laws and regulations or the manner in which existing and new laws and regulations may be interpreted and enforced. For example, recently, Congress passed and the President signed into law:

- The Communications Decency Act, which protects ISPs from defamatory statements made on or accessible through the provider's service.
- The Digital Millennium Copyright Act, which provides stronger copyright protection for software, music and other works on the Internet. Under this law, ISPs and Web site operators must register with the United States Copyright Office to avoid liability for infringement by their subscribers.
- The Child Online Protection Act, which makes it illegal to communicate material that is harmful to minors on the Internet for commercial purposes in a manner assessable by minors. This law also requires Web sites to obtain parental consent before collecting information from children who are age 12 and younger.
- The Child Protection and Sexual Predator Punishment Act, which imposes criminal penalties for using the Internet to solicit minors for sexual purposes, and for sending obscene material to persons under the age of 16.
- The Internet Tax Freedom Act, which imposes a three-year moratorium on taxes which are multiple or discriminatory, to give state and federal lawmakers time to develop a more comprehensive approach to Internet taxation.

In addition, there is substantial uncertainty as to the applicability to the Internet of existing laws governing issues such as property ownership, copyrights and other intellectual property issues, taxation, libel, obscenity and personal privacy. The vast majority of these laws were adopted before the advent of the Internet and, as a result, did not contemplate the unique issues of the Internet. Future developments in the law might decrease the growth of the Internet, impose taxes or other costly requirements, create uncertainty in the market or in some other manner have an adverse effect on Internet commerce. These developments could, in turn, have a material adverse effect on our business.

While no one has ever filed a claim against us relating to information carried on, stored on, or disseminated through our network, someone may file a claim of that type in the future and may be successful in imposing liability on us. If that happens, we may have to spend significant amounts of money to defend ourselves against these claims and, if we are not successful in our defense, the amount of damages that we will have to pay may be significant. Any costs that we incur as a result of defending these claims or the amount of liability that we may suffer if our defense is not successful could materially adversely affect our business. If, as the law in this area develops, we become liable for information carried on, stored on, or disseminated through our network, we may decide to take actions to reduce our exposure to this type of liability. This may require us to spend significant amounts for new equipment and discontinue offering some of our services.

The United Kingdom and the European Union have adopted legislation and directives that have a direct impact on business conducted over the Internet and on the use of the Internet. For example, the United Kingdom Defamation Act of 1996 protects ISPs, under some circumstances, from liability for defamatory materials stored on its servers. The European Directives on the Protection of Consumers, Data Protection, and Distance

Selling are expected to have direct effects on the use of the Internet for commercial transactions and will create additional layers of consumer protection legislation with respect to electronic commerce. In addition, governmental authorities throughout the world are contemplating numerous other regulatory schemes. As in the United States, there is uncertainty as to the enactment and impact of foreign regulatory and legal developments. These developments may have an adverse effect on our business.

Our Internet access service transmits some data over public telephone lines. Regulations and policies establishing charges, terms and conditions for communications govern these transmissions. As an ISP, we are not currently regulated directly by the Federal Communications Commission, or the FCC, or any other agency, other than regulations applicable to businesses generally. We could, however, become subject in the future to regulation by the FCC and/or

other regulatory agencies if we become classified as a provider of basic telecommunications services. As a result, compliance with these FCC regulations could affect the charges that we pay to connect to the local telephone network because ISPs, unlike long distance telephone companies, are not currently required to pay carrier access charges. Access charges are assessed by local telephone companies on long-distance companies for the use of the local telephone network when the local telephone companies originate and terminate long-distance calls, generally on a per-minute basis. The payment of access charges has been a matter of continuing dispute, with long-distance companies arguing that the charges are substantially in excess of actual costs and local telephone companies arguing that access charges are justified to subsidize lower local rates for end users. In May 1997, the FCC reaffirmed its decision that ISPs will not be required to pay these access charges. Subsequent statements issued by the FCC have not altered this conclusion. The FCC also has concluded that, unlike providers of basic telecommunications services, ISPs are not currently required to contribute a percentage of their revenues to the federal universal service fund and are not expected to contribute to similar funds established at the state level.

Both the access charge issue and the universal service fund treatment of ISPs are the subjects of further FCC proceedings and may change. Telephone companies have requested the FCC to reconsider or reverse its decisions in these areas, and their arguments are gaining support as Internet-based telecommunications services begin to compete with conventional telecommunications services. We cannot predict how these matters will be resolved but it may adversely affect us if, in the future, ISPs are required to pay access charges or contribute to the universal service fund.

#### TELECOMMUNICATIONS REGULATION

We are in the beginning stages of obtaining the regulatory and contractual approvals we need to provide local and long distance telecommunications services to our customers. If we are successful in entering this marketplace, then our services will be subject to varying degrees of federal, state and local regulation. The FCC regulates the facilities and services of telecommunications common carriers if those facilities are used to originate or terminate interstate or international communications. The state regulatory commissions regulate the same facilities and services if they are used to originate or terminate intrastate communications. Local governments sometimes impose fees and other requirements on competitive local exchange carriers, or CLECs. Many of these regulations are currently the subject of lawsuits, legislative hearings and administrative proposals that may change the manner in which the telecommunications industry operates. We cannot predict the outcome of these proceedings or their impact on our business.

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Federal Telecommunications Regulations. If we become a CLEC, we will be regulated at the federal level under the Communications Act of 1934. The Communications Act of 1934 was substantially amended by the Telecommunications Act of 1996. Before the passage of the Telecommunications Act, states typically granted an exclusive franchise in each local service area to a single dominant carrier. These were often former subsidiaries of AT&T known as regional Bell operating companies, or RBOCs. An RBOC generally owned and operated the entire local exchange network in the local service area it served. The Telecommunications Act provides for comprehensive reform of the telecommunications laws in the United States and is designed to foster competition in the local telecommunications marketplace by:

- prohibiting state and local governments from granting exclusive telecommunications franchises,
- requiring incumbent local exchange carriers to grant CLECs the right to interconnect their CLEC facilities to the incumbent carrier's facilities,
- making it easier for customers to switch service from incumbent local exchange carriers to CLECs,
- requiring incumbent local exchange carriers and CLECs to permit resale of their communications services without unreasonable conditions or restrictions,
- requiring incumbent local exchange carriers and CLECs to provide

reciprocal compensation arrangements for transmitting telephone calls,  
and

- requiring incumbent local exchange carriers and CLECs to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

The Telecommunications Act also provided for the removal of most of the restrictions imposed on RBOCs by the 1982 consent decree which provided for divestiture of the RBOCs from AT&T in 1984. For example, the Telecommunications Act establishes procedures under which an RBOC can offer "in-region" long distance services, which are provided to customers in the area where the RBOC provides local exchange service. However, before an RBOC can provide in-region long distance services in a state, it must obtain FCC approval by showing that:

- competitors exist in the state that use their own communications facilities,
- the RBOC has entered into interconnection agreements with competitors in the state where it seeks authority,
- the interconnection agreements satisfy a 14-point "checklist" of competitive requirements, and
- the entry of the RBOC into the market for long distance services in the state is in the public interest.

The FCC has not yet granted this authority to any RBOCs, but requests by RBOCs are the subject of pending appeals at the FCC. When the FCC permits RBOCs to provide "in region" long distance services, they will begin to compete with existing long distance carriers. Because RBOCs provide their own local access services, we expect they will not need the services of CLECs to the same extent as these existing long distance carriers. If these existing long distance carriers experience a decline in their businesses as a result of

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this competition, it may have an adverse effect on the ability of CLECs to generate access revenues from providing services to long distance carriers.

FCC Rules Implementing the Local Competition Provisions of the Telecommunications Act. In August 1996, the FCC adopted rules and policies implementing the local competition provisions of the Telecommunications Act and adopted national guidelines regarding:

- the unbundling of incumbent local exchange carriers' network elements,
- the resale of incumbent local exchange carrier services,
- the pricing of interconnection services and unbundled elements, and
- other local competition issues.

Numerous parties appealed the FCC's orders to the United States Eighth Circuit Court of Appeals, and in 1997, the Eighth Circuit upheld some of the FCC's rules but reversed many of the FCC's rules on other issues, including the rules regarding the pricing of unbundled elements.

In January 1999, the United States Supreme Court largely reversed the Eighth Circuit's decision and upheld many of the FCC's interconnection rules, including the FCC's jurisdiction to adopt pricing guidelines under the Telecommunications Act. The Supreme Court also upheld the FCC's "pick and choose" rules, which allow CLECs to adopt rates, terms and conditions from agreements that an incumbent local exchange carrier has with any other carriers. The Supreme Court did not, however, evaluate the specific pricing method adopted by the FCC, and we expect the Eighth Circuit to further consider that method. Additionally, the Supreme Court vacated the FCC rules defining what network elements must be unbundled and made available to the CLECs by the incumbent local exchange carriers. The Supreme Court held that the FCC must provide a stronger rationale to support the degree of unbundling ordered by the FCC. As a result, the FCC will likely seek to revise its rules on unbundled network elements. We view the Supreme Court decision as a favorable development for the CLEC industry, although we cannot predict the ultimate outcome of further FCC

and court proceedings resulting from the decision.

Other Federal Regulation. In general, the FCC has a policy of encouraging new competitors, like comstar.net, to enter the telecommunications industry and preventing anti-competitive practices. Therefore, the FCC has established different levels of regulation for dominant carriers and nondominant carriers. Large incumbent local exchange carriers such as the RBOCs and GTE Corporation are currently considered dominant carriers, while CLECs are considered nondominant carriers. As a nondominant carrier, we will be subject to relatively limited FCC regulation. At the federal level, unlike incumbent local exchange carriers, we will not be subject to price cap or rate of return regulations, which will give us more freedom to set our own pricing policies.

As nondominant carriers, CLECs may install and operate facilities for transmitting domestic interstate communications without prior FCC authorization. The services of nondominant carriers have been subject to relatively limited regulation by the FCC, primarily consisting of the filing of tariffs and periodic reports concerning the carrier's interstate network facilities. However, nondominant carriers must offer interstate services on a nondiscriminatory basis, at just and reasonable rates, and remain subject to FCC compliance procedures. The FCC has sought to eliminate the requirement that

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nondominant interstate carriers file tariffs, but has been prevented from doing so by a federal Court of Appeals. However, the court may permit the FCC to take this action in the future.

The FCC has granted incumbent local exchange carriers significant flexibility in pricing their interstate switched access and dedicated services. In May 1997, the FCC adopted an order which makes various reforms to the existing rate structure for interstate access that are designed to move access charges, over time, to more cost based rate levels and structures. We expect that these changes will reduce access charges and shift charges currently based on minutes to flat-rate, monthly per line charges. As a result, the aggregate amount of access charges paid by long distance carriers to local exchange carriers in the United States may decrease. In August 1999, the FCC implemented a market-based approach to further access charge reform. This approach will give incumbent local exchange carriers progressively greater flexibility in setting rates as competition develops, gradually replacing regulation with competition as the primary means of setting prices. This series of access charge reforms will likely have a significant impact on our telecommunications services.

In May 1997, the FCC issued an order to implement the provisions of the Telecommunications Act which seek to advance universal telephone service. Universal telephone service includes:

- broad access to advanced telecommunications services in rural and high cost areas, schools, health care facilities and libraries,
- equitable, nondiscriminatory and predictable funding obligations under the federal universal service fund, and
- affordable rates for telecommunications services.

All telecommunications carriers providing interstate telecommunications services, which will include us if we provide interstate services, must contribute to the federal universal service fund. The FCC may decide in the future to increase the size of subsidy payments by CLECs or the scope of the subsidy program. This would increase our costs of operating as a CLEC.

State Regulation. We believe that most, if not all, states in which we propose to operate will require a certification or other authorization to offer intrastate telecommunications services. These certifications generally require a showing that the carrier has adequate financial, managerial, and technical resources to offer the proposed services in a manner consistent with the public interest.

We intend to file applications to obtain intrastate authority for the provision of dedicated telecommunications services and a full range of local switched services and long distance services. In most states, we will be required to file tariffs describing the terms, conditions and prices for services that are classified as intrastate. Additionally, some states may impose

reporting, customer service, quality requirements and universal service requirements. There are many regulatory proceedings before the states, the outcome of which may affect our competitive and economic position in the telecommunications services markets.

In addition to obtaining state certifications, we must negotiate terms of interconnection with the incumbent local exchange carrier before we can begin providing telecommunication services. Our executed agreements will be subject to the approval of

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the state commissions. If we are unable to voluntarily negotiate an interconnection agreement with the incumbent local exchange carrier, we may petition the state public service commission to arbitrate any open issues. We may experience difficulties in entering into these agreements on terms acceptable to us and in enforcing these agreements.

We also may be subject to requirements in some states to obtain prior approval for, or notify the state commission of, any transfers of our voting securities, sales of our assets, corporate reorganizations involving us, issuances of our stock or debt instruments and similar transactions involving us.

Local Government Authorizations. Under the Telecommunications Act, local authorities retain jurisdiction to control our access to municipally owned or controlled easements and other rights of way. In addition, if a telecommunications provider constructs a fiber optic network, it is often required to obtain construction permits from local governments. In doing so, however, municipalities may not prohibit or effectively prohibit any company from providing any telecommunications services. In addition, the Telecommunications Act requires that local governmental authorities treat telecommunications carriers in a non-discriminatory and competitively neutral manner. Many municipalities will require us to obtain franchises from them and pay fees to them, often based on a percentage of gross revenues we receive from providing telecommunications services.

#### PROPRIETARY RIGHTS

General. Although we believe that our success is more a function of our technical expertise and customer service than our proprietary rights, our success and ability to compete depend in part upon our technology. We rely on a combination of contractual restrictions and copyright, trademark and trade secret laws to establish and protect our technology. Our policy is to require employees and consultants and, when possible, suppliers to execute confidentiality agreements upon the commencement of their relationships with us. The steps we have taken may not be adequate to prevent misappropriation of our technology, or our competitors may independently develop technologies that are substantially equivalent or superior to our technology.

Licenses. We developed some software for nschool Communication Systems, Inc. and received rights to use the software in exchange for the development of the software. Specifically, we have the right to use the separable components of the software for any purpose and to use the combined software product for limited purposes. We are specifically prohibited from using the software to provide electronic communications, Internet applications and services to organized, group-based educational entities.

Trademarks. We own three federal trademark registration applications, which are currently pending in the United States Patent and Trademark Office. We filed two applications in May 1999 and one application in August 1999. In May 1999 we filed applications for the marks ComStar Internet Services, Inc., with design, and ComStar Internet & Wireless, Inc., with design, and in August 1999 we filed an application for the mark comstar.net, inc., with logo. The applications are based on our intent to use these marks in commerce in connection with Internet access, web hosting and co-location services for businesses. The Patent and Trademark Office has not yet acted on these applications. In addition, we own the Switch Hotel(TM) trademark but have not filed a federal trademark application for it.

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## EMPLOYEES

As of September 1, 1999, we employed 28 people, including full-time and part-time employees. We consider our employee relations to be good. All employees have entered into non-disclosure, non-compete, and non-solicitation agreements with us. None of our employees is covered by a collective bargaining agreement.

## FACILITIES

We lease our headquarters facilities in Atlanta, Georgia under a lease that expires on September 30, 1999. The lease covers approximately 3,250 square feet and the annual rent is approximately \$44,000. The lease relating to the data center at our Atlanta facility expires March 15, 2001 and has an annual rent of approximately \$75,000. The data center comprises approximately 3,500 square feet, including external space for a generator. We intend to expand our Atlanta facilities by leasing an additional building to house a new data center and to serve as corporate headquarters. The facility will comprise approximately 40,000 total square feet, including two data centers of 5,800 and 6,200 square feet.

We lease approximately 660 square feet of office space in Athens, Georgia, which contains our POP for that area, as well as several full-time and part-time employees. We lease this space under an agreement that expires on June 30, 2001. The annual rent for the Athens facility is approximately \$7,600. Our office space in Miami, Florida and Raleigh, North Carolina each comprises less than 200 square feet and averages approximately \$13,000 in annual rent. We also house servers in additional offices in Miami, Florida; Durham, North Carolina; Birmingham, Alabama; Columbus, Georgia; and Houston, Texas under co-location agreements with various customers and telecommunications providers.

## LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

## MANAGEMENT

## EXECUTIVE OFFICERS, DIRECTORS, AND KEY EMPLOYEES

The executive officers, directors and key employees of comstar.net, and their ages as of September 1, 1999 are listed in the following table. Upon the closing of this offering, our articles of incorporation will provide that our board of directors will be divided into three classes, as nearly equal in number as possible. Class I directors' terms expire at the annual meeting of shareholders in 2000, Class II directors' terms expire at the annual meeting of shareholders in 2001, and Class III directors' terms expire at the annual meeting of shareholders in 2002.

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME	AGE	CLASS	POSITION
----	---	-----	-----
<S>	<C>	<C>	<C>
Samuel F. Dayton, Ph.D.....	63	I	Chairman of the Board and President
J. Cary Howell.....	39	III	Chief Executive Officer and Director
Edward N. Landa.....	29	I	Chief Technology Officer, Secretary and Director
Christopher K. Martin, C.P.A.....	33	--	Chief Financial Officer and Treasurer
Cynthia A. St. Ores.....	39	--	Chief Operating Officer
Steven J. Edwards.....	49	--	Executive Vice President of Sales and Marketing
Michael A. Dayton.....	37	--	Vice President of Network Operations
James L. Bruce, Jr.....	55	II	Director
Glenn W. Sturm.....	45	III	Director
Stephen R. Gross.....	51	II	Director

&lt;/TABLE&gt;



Samuel F. Dayton, Ph.D., a co-founder of comstar.net, has served as Chairman of the Board and President since we were incorporated in March 1996, but he will resign from his position as President effective on the closing of this offering. Since 1994, Dr. Dayton has also served as Chairman and Chief Executive Officer of db Telecom Technologies, Inc., which helps telecommunications companies develop and install their transmission sites, test their equipment for quality and strength of signal, and maintain their equipment after installation. Dr. Dayton is the father of Michael A. Dayton.

J. Cary Howell, a co-founder of comstar.net, has served as Chief Executive Officer and as a director since March 1996. From February 1995 to April 1996, Mr. Howell was Manager of Network Operations for MindSpring Enterprises, Inc., an ISP. From February 1993 to February 1995, Mr. Howell was a communications consultant with OmniTech Consulting Group, a consulting group for telecommunications providers such as BellSouth and served as a consultant for various other companies. From April 1991 to April 1993, Mr. Howell was a Senior Engineer for Memotec Corporation, a voice and data service provider. In June 1996, Mr. Howell co-founded the Association of Internet Professionals. He is a life member and served as its first Chairman from June 1996 to May 1998.

Edward N. Landa, a co-founder of comstar.net, has served as Chief Technology Officer since January 1999, as Vice President of Engineering from March 1996 to January 1999, and as Secretary and a director since March 1996. From February 1996 to May 1996, Mr. Landa was an engineer with MindSpring Enterprises, Inc. From February 1994

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to February 1996, Mr. Landa served as Network Systems Administrator for Lida Stretch Fabrics, a textile manufacturer. From March 1990 to February 1994, Mr. Landa worked for the Electric Power Research Institute, a company that researches technological solutions for the electricity industry, as an employee of J.A. Jones Applied Research, a research company. Mr. Landa served in various positions at American Communications Company and its parent American Systems Corporation, both of which are communications companies, from 1986 to 1988.

Christopher K. Martin, C.P.A., has served as Chief Financial Officer since March 1999 and as Treasurer since August 1999. From April 1998 to March 1999, Mr. Martin served as Experienced Manager of the Business Audit Development Team for Arthur Andersen Performance and Learning in Chicago, Illinois and assisted in developing the Business Audit methodology being implemented globally by Arthur Andersen LLP. From September 1990 to February 1998, Mr. Martin served as an auditor/consultant with the Assurance and Business Advisory Division of Arthur Andersen in the telecommunications, distribution and logistics, manufacturing and service industries. From June 1995 to February 1999, Mr. Martin served as an Experienced Manager within this division. Mr. Martin has also been a certified public accountant since May 1991.

Cynthia A. St. Ores has served as Chief Operating Officer since July 1999. From January 1995 to July 1999, Ms. St. Ores served as firmwide technology implementation specialist with Arthur Andersen. From July 1998 until she joined comstar.net in July 1999, she was a member of the Knowledge Services Business Solutions Team at Arthur Andersen, sharing best practices with worldwide firm personnel and global clients regarding strategies for technology implementation for knowledge sharing and distance learning environments. From September 1992 to June 1994, Ms. St. Ores was a research assistant at the University of Illinois.

Steven J. Edwards has served as Executive Vice President of Sales and Marketing since June 1999. From July 1997 to May 1999, Mr. Edwards served as Director, Global Business Programs, EMEA (Europe, Middle East, Africa) for Bay Networks, a hardware provider of networking equipment that was acquired by Nortel Networks in September 1998. Mr. Edwards served as Director, Customer Development, EMEA for Bay Networks from May 1996 to June 1997. From June 1993 to May 1996, Mr. Edwards held various sales positions at SynOptics Communications, Inc., a hardware provider of networking equipment which merged with another company and was renamed Bay Networks in October 1994. Mr. Edwards began his career in 1970 with International Business Machines Corporation and worked in many sales and marketing functions until his departure in 1989.

Michael A. Dayton has served as Vice President of Network Operations since August 1999 and served from June 1999 to August 1999 as Vice President of Finance and Mergers and Acquisitions. Mr. Dayton coordinated our engineering and

accounting functions from June 1997 to June 1999. From September 1994 to May 1997, Mr. Dayton attended the Whiting School of Engineering at Johns Hopkins University as a graduate student and was also a research scientist at the Center for Nondestructive Evaluation at Johns Hopkins University. Mr. Dayton is the son of Dr. Samuel F. Dayton.

James L. Bruce, Jr., a co-founder of comstar.net, has served as a director since 1996. He has also served as the President and a director of db Telecom Technologies since 1994. Since 1970, Mr. Bruce has served as an executive with a variety of businesses in the textile and manufacturing industries.

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Glenn W. Sturm has served as a director since July 1999. Mr. Sturm has been a partner in the law firm of Nelson Mullins Riley & Scarborough, L.L.P. since 1992, and he presently serves as its Corporate Chairman and as a member of its Executive Committee. He is a director of Phoenix International Ltd., Inc., The Intercept Group, Inc. and Towne Services, Inc. Mr. Sturm is a principal of Capital Appreciation Partners II, the chief executive officer of Netzee, Inc., and a director of WebMD, Inc.

Stephen R. Gross has served as a director since July 1999. In 1979, Mr. Gross co-founded HLB Gross Collins, P.C., a full-service accounting firm in Atlanta, Georgia. Mr. Gross also serves as a director of the Concert Investment Series Funds, ebank.com, Inc., Ikon Ventures, Inc. and SuperCorp, Inc.

COMMITTEES OF OUR BOARD OF DIRECTORS

<TABLE> <CAPTION> COMMITTEES AND MEMBERS -----	FUNCTION OF COMMITTEES -----
<S> Executive committee James L. Bruce, Jr. Samuel F. Dayton Stephen R. Gross J. Cary Howell	<C> - exercises the power of the board of directors between board meetings, with some limitations
Audit committee Glenn W. Sturm Stephen R. Gross	- reviews our audit functions, including our accounting and financial reporting practices - reviews the adequacy of our system of internal accounting controls and the quality and integrity of our financial statements - maintains relations with our independent auditors
Compensation committee Glenn W. Sturm Stephen R. Gross	- establishes the compensation of our executive officers, including salaries, bonuses, commissions, and benefit plans - administers our option and incentive plans

</TABLE>

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of our executive officers currently serves as a member of the compensation committee or as a director of any entity of which any of our directors serves as an executive officer. Before establishing the compensation committee in August 1999, our board of directors, acting as a whole, determined executive compensation. Dr. Samuel F. Dayton, our Chairman of the Board, and James L. Bruce, Jr., one of our directors, are also directors, executive officers and the sole shareholders of db Telecom Technologies, and Dr. Dayton is also the chairman of the board of nschool Communication Systems, Inc.

From the date of our inception in March 1996 and through September 1997, Dr. Dayton and Mr. Bruce loaned us an aggregate of \$618,549. These loans bear simple interest at a rate of 10% per year and become due on the earlier of January 1, 2000 or the closing of this offering. We intend to repay these loans and all accrued interest with a portion of the net proceeds from this offering.

From the date of our inception through June 30, 1999, we have paid monthly management fees to db Telecom Technologies in exchange for various administrative, accounting, consulting and other management services. For the year ended December 31,

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1998, we paid db Telecom Technologies an aggregate amount of \$60,000 for management fees and \$4,305 for other services.

In December 1996, db Telecom Technologies agreed to provide additional periodic loans to us on an "as needed" basis. Under this agreement, db Telecom Technologies has loaned us an aggregate of \$270,188. All amounts extended under this loan bear simple interest at a rate of 10% per year and become due on the earlier of January 1, 2000 or the closing of this offering. The repayment of this debt is personally guaranteed by each of Dr. Dayton, Mr. Bruce, J. Cary Howell, our Chief Executive Officer and a director, and Edward N. Landa, our Chief Technology Officer and a director. We intend to repay this loan and the accrued interest with a portion of the net proceeds from this offering.

In May 1998, we established a line of credit with Premier Bank to borrow up to an aggregate of \$700,000 from time to time, at an annual interest rate of prime plus 1%. Each of Dr. Dayton, Mr. Howell, Mr. Landa and Mr. Bruce gave personal guarantees to Premier Bank that the amounts due under the credit line would be repaid. We intend to repay this loan and the accrued interest with a portion of the net proceeds from this offering.

In July 1998, Dr. Dayton and Mr. Bruce personally borrowed \$383,985 from The First National Bank of Commerce on our behalf, and then loaned us the money to fund our purchase of Athens' ISP and to provide working capital. We repaid approximately \$100,000 of this loan in February 1999, when Dr. Dayton and Mr. Bruce obtained an extension of the loan's maturity date to August 27, 1999. The loan, which was subsequently extended in August 1999, currently accrues interest at the rate of 8.75% per year, and is due on December 27, 1999. We are obligated to repay the remaining principal amount of \$283,985 and accrued interest with a portion of the net proceeds of this offering.

In September 1998, we borrowed \$200,100 from Premier Bank under a promissory note bearing interest at an annual rate of prime plus 1%. Dr. Dayton personally guaranteed the repayment of this note. We made a principal payment of \$50,000 in each of March 1999 and July 1999. The current amount outstanding is \$100,100, and the loan is due in November 1999. We intend to repay this loan and the accrued interest with a portion of the net proceeds from this offering.

In December 1998, we entered into an agreement with nschool Communication Systems, Inc., a developer and licensor of software that links educators, parents and students. Under the agreement, we developed software applications for nschool in exchange for 25% of the outstanding common stock of nschool. In addition, we promised not to compete with nschool by utilizing the developed technology, and nschool granted us the right to match any contract for Internet access presented to nschool by any other ISP. We granted to nschool a license to use both the combined software product and the separable components for limited purposes, and nschool granted to us a license to use the components of the software for any purpose and to use the combined software product for limited purposes.

In September 1999, we granted options to purchase an aggregate of 520,000 shares of our common stock to key employees of db Telecom Technologies at an exercise price of \$5.71 per share in connection with consulting services these employees performed for us. All of these options were granted pursuant to our 1999 Option Plan and are currently exercisable.

In September 1999, the board granted each of Mr. Dayton and Mr. Bruce an option to purchase 137,500 shares of common stock at an exercise price of \$5.71 per share in

consideration for their financial and management support of us since our inception. These options were granted under our 1999 Option Plan and are immediately exercisable.

Since our inception, a substantial portion of our business has resulted from our relationship with db Telecom Technologies. We expect to continue to benefit from this relationship in the future, particularly with respect to educational and governmental contracts we may jointly pursue.

#### DIRECTOR COMPENSATION

Our bylaws allow our board of directors to determine from time to time the compensation that directors may receive for their service as directors. Since inception, however, our directors have served without cash compensation, except for reimbursement for out-of-pocket expenses for each meeting attended.

We granted to each of Mr. Gross and Mr. Sturm options to purchase 100,000 shares of common stock at an exercise price of \$5.71 in September 1999. These options were vested with respect to one-third of the shares as of the date of grant and will vest with respect to the remaining shares in two equal installments on each of the next two anniversaries of the date they commenced service on the board. For additional information regarding options and awards directors are eligible to receive under the comstar.net Director Stock Option Plan, see "-- comstar.net, inc. Director Stock Option Plan" below.

EXECUTIVE COMPENSATION

The following table describes all compensation earned by or paid or awarded to our chief executive officer for services rendered to us in all capacities during the year ended December 31, 1998. No other officer received compensation in excess of \$100,000 for the year ended December 31, 1998.

<TABLE>  
<CAPTION>

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	ALL OTHER COMPENSATION
J. Cary Howell, Chief Executive Officer	1998	\$69,030	-0-	-0-

EMPLOYMENT AGREEMENTS

As a general matter, we do not enter into employment agreements, and we have not entered into employment agreements with any of our executive officers. Rather, the employment relationships with each executive officer are "at will." However, in connection with the initial employment of each executive officer, comstar.net and the executive executed an offer letter which outlines the general compensation and benefits provided to the executive, including base salary, targeted annual bonus, option grants and employee benefits. We granted each of Christopher K. Martin, our Chief Financial Officer, Cynthia A. St. Ores, our Chief Operating Officer and Steven J. Edwards, our Executive Vice President of Sales and Marketing, an option to purchase 100,000 shares of common stock at an exercise price of \$5.71 per share concurrently with the commencement of their employment. These options, which were granted under the comstar.net, inc. 1999 Stock Option and Incentive Plan, vest in three equal installments on the first three anniversaries of the commencement of their employment. In addition, in March 1999 we granted

Michael A. Dayton, our Vice President of Network Operations, an option under the 1999 Stock Option and Incentive Plan to purchase 100,000 shares of common stock at an exercise price of \$5.71 per share. As of the date of this prospectus, 66,666 shares subject to the option are vested and the remaining shares vest in June 2000.

COMSTAR.NET, INC. 1999 STOCK OPTION AND INCENTIVE PLAN

In March 1999, the board of directors adopted the 1999 Stock Option and Incentive Plan under which a maximum of 1,700,000 shares of our common stock were available to be granted to employees, consultants and others rendering services to us. In September 1999, we increased the number of shares available for grant under this plan to 2,300,000 shares. The number of shares that may be granted under the 1999 Option Plan automatically increases on January 1 of each calendar year to an amount equal to 15% of our common stock outstanding on December 31 of the previous year, calculated on a fully diluted basis, if that amount is greater than the maximum amount previously available for grant under the 1999 Option Plan. Options may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code, which permits the deferral of taxable income related to the exercise of the option, or nonqualified options

not entitled to the tax deferral. Incentive stock options may only be granted to employees, and the exercise price must be at least equal to the fair market value of the common stock on the date the options are granted. In addition, the 1999 Option Plan allows for awards of restricted stock and stock appreciation rights.

The board of directors and the compensation committee administer the 1999 Option Plan. Under the 1999 Option Plan, the number of shares for which options may be granted and the number of shares that may be issued under unexercised options are adjusted to take into account some of the events affecting the common stock, including stock splits, dividends payable in common stock and business combinations. Within the limits specified in the 1999 Option Plan, the board of directors and the compensation committee, in their discretion, select the recipients of awards and the number of options granted under the 1999 Option Plan and determine other matters such as:

- vesting and exercisability schedules,
- the exercise price of options, which cannot be less than 100% of the fair market value of the common stock on the date of grant for all stock options, and
- the duration of awards.

Our general practice has been to make all options granted under the 1999 Option Plan vest in three equal installments on the first three anniversaries of the date the optionee commences employment. As of September 1, 1999, we had granted options to purchase 1,472,250 shares of common stock under the 1999 Option Plan at an exercise price of \$5.71 per share.

#### COMSTAR.NET, INC. DIRECTOR STOCK OPTION PLAN

Our board of directors approved the Director Stock Option Plan in September 1999, subject to shareholder approval. The Director Option Plan provides for the grant of non-qualified stock options to our non-employee directors. The Director Option Plan authorizes the issuance of up to 600,000 shares of common stock under options having an exercise price equal to the fair market value of the common stock on the date the options are

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granted. Under the Director Option Plan, the number of shares for which options may be granted and the number of shares that may be issued under unexercised options are adjusted to take into account some of the events affecting the common stock, including stock splits, dividends payable in common stock and business combinations. The board of directors administers the Director Option Plan.

The Director Option Plan provides for grants of options to acquire shares of common stock to each non-employee director who is initially elected to the board of directors after the date of approval of the Director Option Plan. The board of directors will establish the number of shares in each grant, the exercise terms and vesting schedules of each option on the grant date. Each option will expire five years after the date of grant, unless cancelled sooner as a result of termination of service or death, or unless the option is fully exercised before the end of the option period. As of September 1, 1999, options to acquire 200,000 shares of common stock were outstanding under the Director Option Plan at an exercise price of \$5.71 per share.

#### DIRECTOR AND OFFICER LIABILITY AND INDEMNIFICATION

Our articles of incorporation provide that no director will be personally liable to us or any of our shareholders for any breach of the duties of office, except that the elimination of liability does not apply to:

- appropriations of business opportunities in violation of the director's duties,
- knowing or intentional misconduct or violation of law,
- liability for assenting to distributions which are illegal or improper under Georgia law or our articles of incorporation, and

- liability for any transaction in which the director derived an improper personal benefit.

In addition, our articles of incorporation state that if Georgia law is ever amended to allow for greater exculpation of directors than presently permitted, the directors will be relieved from liabilities to the fullest extent provided by Georgia law, as so amended. No further action by the board of directors or our shareholders is required, unless Georgia law provides otherwise. No modification or repeal of our articles of incorporation will adversely affect the elimination or reduction in liability provided by it with respect to any alleged act occurring before the effective date of that modification or repeal.

We have entered into indemnification agreements with each of our directors and executive officers that give these individuals similar rights to indemnification and contribution.

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#### RELATED PARTY TRANSACTIONS

We believe that all of the following transactions, as well as all of the transactions described in "Management -- Compensation Committee Interlocks and Insider Participation," were made on terms no less favorable to us than could have been obtained from other unaffiliated parties. All future transactions, including loans, between us and our officers, directors, principal shareholders and their affiliates will be approved by a majority, but not fewer than two, of our disinterested directors, and will continue to be on terms no less favorable to us than could be obtained from other unaffiliated parties.

In June 1999, we sold 8,757 shares of common stock series A at \$5.71 per share to each of Christopher K. Martin, our Chief Financial Officer, and Steven J. Edwards, our Executive Vice President of Sales and Marketing, each of whom was an officer at the time of sale.

Our director Glenn W. Sturm is a partner in the law firm of Nelson Mullins Riley & Scarborough, L.L.P., where he serves as Corporate Chairman and a member of the executive committee. Nelson Mullins has advised us regarding securities and corporate law matters since August 1998.

In addition to the transactions described above, other transactions involving Dr. Samuel F. Dayton, our Chairman of the Board, James L. Bruce, Jr., one of our directors and principal shareholders, their affiliates, J. Cary Howell, our Chief Executive Officer and a director, and Edward N. Landa, our Chief Technology Officer and a director, are described in "Management -- Compensation Committee Interlocks and Insider Participation."

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#### PRINCIPAL AND SELLING SHAREHOLDERS

The following table provides information with respect to the beneficial ownership of our common stock as of September , 1999, and as adjusted to reflect the sale of the common stock offered by this prospectus, by:

- each person known by us to beneficially own more than 5% of the outstanding shares of common stock,
- each of our directors and executive officers named in the summary compensation table,
- all of our directors and executive officers as a group, and
- each selling shareholder.

Unless otherwise indicated, the address of each of the beneficial owners identified is c/o comstar.net, inc., 2812 Spring Road, Suite 210, Atlanta, Georgia 30339. Except as otherwise indicated, the beneficial owners have sole voting and investment power with respect to all shares of common stock owned by them. Percentage of ownership is based on shares of common stock outstanding as of September , 1999 and shares outstanding after this

offering, assuming no exercise of the underwriters' over-allotment option. Shares of common stock issuable under options held by the respective person or group which may be exercised within 60 days after September , 1999 are referred to in this prospectus as "presently exercisable stock options." Under SEC rules, presently exercisable stock options are deemed to be outstanding and to be beneficially owned by the person or group holding those options for the purpose of computing the percentage ownership of the person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

<TABLE>  
<CAPTION>

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED BEFORE THE OFFERING		NUMBER OF SHARES OFFERED	SHARES BENEFICIALLY OWNED AFTER THE OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>
Samuel F. Dayton(1).....	2,646,257	25.2%		2,646,257	%
J. Cary Howell.....	2,482,490	23.9			
Edward N. Landa(2).....	2,502,757	24.1			
James L. Bruce, Jr.(3).....	2,637,500	25.1		2,637,500	
Glenn W. Sturm(4).....	33,333	*		33,333	*
Stephen R. Gross (4).....	33,333	*		33,333	*
All directors and executive officers as a group (9 persons)(5).....	10,353,184	96.6			

</TABLE>

\* Less than 1% of the outstanding common stock.

- (1) Includes 137,500 shares of common stock that may be issued on the exercise of presently exercisable stock options. Also includes 8,757 shares of common stock held by the Mauney Family Limited Partnership, all of which may be deemed to be beneficially owned by Dr. Dayton. Dr. Dayton disclaims beneficial ownership of these 8,757 shares, except to the extent of his pecuniary interest in the shares.
- (2) Includes 10,000 shares of common stock owned by Mr. Landa's wife and 12,257 shares of common stock held by seven trusts of which Mr. Landa is the sole trustee, all of which may be deemed to be beneficially owned by Mr. Landa. Mr. Landa

disclaims beneficial ownership of all of these 22,257 shares, except to the extent of his pecuniary interest in the shares.

- (3) Includes 137,500 shares of common stock that may be issued on the exercise of presently exercisable stock options. Mr. Bruce's address is c/o Yonah Manufacturing Company, P.O. Box 280, Cornelia, Georgia 30531.
- (4) Consists of 33,333 shares of common stock that may be issued on the exercise of presently exercisable stock options.
- (5) Includes 66,666 shares of common stock that may be issued on the exercise of presently exercisable stock options granted to our directors, 18,757 shares of common stock held by affiliates of certain members of the group and 12,257 shares of common stock held by trusts for which members of the group serve as trustee, which may be deemed to be beneficially owned by those members.

DESCRIPTION OF CAPITAL STOCK

The following summary is qualified in its entirety by the provisions of our articles of incorporation and our bylaws, and by the applicable provisions of Georgia law. We will amend and restate our articles of incorporation and our bylaws on the closing date of this offering, and the discussion below assumes that the amendment and restatement have occurred.

AUTHORIZED AND OUTSTANDING CAPITAL STOCK



Our authorized capital stock currently consists of the following:

- 80,000,000 shares of common stock, without par value and without designation as to series,
- 10,000,000 shares, without par value, designated as common stock series A,
- 10,000,000 shares, without par value, designated as common stock series B, and
- 5,000,000 shares of preferred stock, without par value, with the rights and preferences the board of directors determines.

All shares designated as common stock series A and common stock series B currently issued and outstanding will be converted automatically by their terms on a one-for-one basis into shares of common stock without designation on the closing date of this offering. The authorized shares of common stock series A and common stock series B will be eliminated. Accordingly, no further information regarding the currently outstanding shares of common stock series A and common stock series B is given below. As of September 1, 1999, 5,371,762 shares of common stock series A were outstanding and held of record by 44 shareholders; 5,000,000 shares of common stock series B were outstanding and held of record by two shareholders, and no shares of preferred stock were outstanding.

#### COMMON STOCK

The holders of common stock are entitled to one vote for each share they hold of record for matters on which they are entitled to vote. There are no sinking fund provisions or any cumulative voting, preemptive, redemption or conversion rights applicable to the common stock.

The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of holders of any shares of any series of preferred stock that our board of directors may designate from time to time in the future. Subject to the preference rights of the holders of any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably any dividends and other distributions that the board of directors may declare out of funds legally available for that purpose. On the liquidation, dissolution or winding up of comstar.net, holders of common stock are entitled to share ratably in all assets remaining after the payment of our debts and other liabilities, and, if applicable, dividends on our preferred stock. The outstanding shares of common stock are fully paid and non-assessable.

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#### PREFERRED STOCK

Under our articles of incorporation, our board of directors has the authority, without shareholder approval or action, to issue up to 5,000,000 shares of preferred stock in the series and with the preferences, limitations and relative rights as the board of directors may determine from time to time. The terms of the voting, conversion, dividend, liquidation, preemptive, redemption and other rights, privileges and preferences conferred on the holders of any preferred stock may be more favorable than those granted to holders of common stock. The designation of any preferred stock with greater rights, privileges and preferences than those applicable to the common stock may adversely affect the voting power, market price and other rights and privileges of the common stock, and may hinder or delay the removal of directors, attempted tender offers, proxy contests or takeovers, or other attempts to change control of comstar.net, some or all of which the holders of common stock may desire.

#### RELEVANT PROVISIONS OF THE ARTICLES, BYLAWS AND GEORGIA LAW

Some of the provisions of our articles of incorporation and bylaws and of Georgia law, summarized in the following paragraphs, may be considered to have anti-takeover effects. These provisions may hinder, delay, deter or prevent a tender offer, proxy contest or other attempted takeover that a shareholder may deem to be in that shareholder's best interest, including an attempted transaction that might result in payment of a premium over the market price for shares the shareholder holds.



Classified Board of Directors; Number, Term and Removal of Directors. Our board of directors is divided into three classes of directors, each serving for staggered three-year terms. As a result, approximately one-third of our board of directors will be elected each year. Our articles of incorporation provide that we may not have more than 15 directors, and that the number of directors will be set by resolution of the board of directors under our bylaws. Currently, we have six directors. Directors may only be removed from the board of directors with cause upon the affirmative vote of at least a majority of the shareholders entitled to vote for directors at a duly held shareholders' meeting for which notice of the removal action was properly given. Upon a vacancy created in the board of directors by a removal action or for any other reason, including an increase in the size of the board of directors, a successor or new director may be appointed only by the affirmative vote of a majority of the directors then in office. The classification of directors, together with the limitation on the removal of directors, and the ability of the remaining directors to fill any vacancies on the board of directors, has the effect of making it more difficult for shareholders to change the composition of the board of directors.

Shareholder Meetings; Actions by Written Consent of Shareholders. Our bylaws provide that special meetings of shareholders or a class or series of shareholders may be called at any time by the board of directors, the Chairman of the Board or the Chief Executive Officer, and must be called on the written request of the holders of shares representing at least 25% of the votes entitled to be cast on each issue presented at the meeting, or a majority of the votes entitled to be cast if we have more than 100 beneficial owners. The bylaws also provide that shareholders seeking to bring business before an annual shareholders' meeting or to nominate candidates for election as directors must provide notice of their proposed action not less than 45 nor more than 90 days before the first anniversary of the previous year's annual shareholder meeting, and, in that notice, provide to us information concerning the proposal or nominee. This provision may prevent

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shareholders from bringing matters before the shareholders at an annual meeting or from making nominations for directors at an annual meeting. All actions by the shareholders either must be taken at a meeting with prior notice under the bylaws or without a meeting if a written consent describing the action to be taken is signed by all shareholders entitled to vote on the action.

Constituency Provisions. Our articles of incorporation permit the board of directors, its committees and individual directors to consider the interests of various constituencies, including our employees, customers, suppliers, and creditors, communities in which we maintain offices or operations and other factors which directors deem pertinent in carrying out and discharging the duties and responsibilities of their positions and in determining what they believe to be in our best interests.

Georgia Anti-Takeover Statutes. Some provisions of Georgia law that may apply to us if we so choose may be considered to have anti-takeover effects and may hinder, delay, deter or prevent a tender offer, proxy contest or other attempted takeover that a shareholder may deem to be in his or her best interest.

Georgia law generally restricts a company from entering into business combinations with an interested shareholder or an affiliate of an interested shareholder for a period of five years after the date the shareholder became an interested shareholder, unless one of the conditions summarized below is met. An "interested shareholder" is any person or entity that is the beneficial owner of at least 10% of the company's voting stock. The conditions are:

- before the shareholder became an interested shareholder, the company's board of directors approved either the business combination or transaction which resulted in the shareholder becoming an interested shareholder,
- the interested shareholder acquires 90% of the company's voting stock in the same transaction in which it exceeds 10%, or
- after becoming an interested shareholder, the shareholder acquires 90% of the company's voting stock and the holders of a majority of the remaining voting stock, not including voting stock held by the interested

shareholder, directors or officers of comstar.net or their affiliates, approve the business combination.

Georgia law states that the above restrictions will not apply unless the company's bylaws specifically provide that these restrictions are applicable to the company. We have not elected to be covered by this statute, but we could do so by action of the board of directors at any time.

Georgia law also imposes fair price and other procedural requirements on some business combinations with any person who owns 10% or more of the common stock. These statutory requirements restrict business combinations with, and accumulations of shares of voting stock of, some Georgia corporations. The statute will apply to a company only if it elects to be covered by the restrictions imposed by these statutes. We have not elected to be covered by this statute, but we could do so by action of our board of directors at any time.

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DIRECTOR EXCULPATION AND INDEMNIFICATION

Our articles of incorporation and bylaws limit the liability of our directors to us and our shareholders as described above in "Management - Director and Officer Liability and Indemnification." We have also entered into indemnification agreements with each of our directors and our executive officers that give them similar rights to indemnification and contribution.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is SunTrust Bank, Atlanta.

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SHARES ELIGIBLE FOR FUTURE SALE

When we complete this offering, we will have \_\_\_\_\_ shares of common stock outstanding, or \_\_\_\_\_ shares if the underwriters exercise their over-allotment option, assuming no exercise of options after \_\_\_\_\_, 1999. Of this amount, the shares sold in the offering will be freely tradeable by persons other than our "affiliates," as that term is defined by the SEC.

We sold the remaining 10,371,762 shares in private transactions. Unless registered under the Securities Act, these shares, which we refer to as "restricted shares," as well as shares held by our affiliates must be sold in accordance with the holding period requirements, volume limits and other conditions of an applicable exemption from registration, such as Rule 144 or Rule 701 of the SEC discussed below. Additionally, we and our directors, executive officers and some other shareholders have agreed not to sell any common stock or securities convertible into or exchangeable for common stock for 180 days after the date of this prospectus without the prior approval of Scott & Stringfellow, Inc., subject to some exceptions.

Based on the above, the following table indicates when the shares that will be outstanding upon completion of this offering will be eligible for sale in the public market:

<TABLE>  
<CAPTION>

DAYS AFTER THE DATE OF THIS PROSPECTUS	APPROXIMATE SHARES ELIGIBLE FOR FUTURE SALE	COMMENT
<S> Upon effectiveness.....	<C>	<C> Freely tradeable shares sold in offering and shares salable under Rule 144(k) that are not subject to 180-day lockup.
90 days.....	(1)	Shares salable under Rule 144, 144(k) or 701 that are not

180 days.....	subject to 180-day lockup.
Over 180 days.....	Lockup released; shares salable under Rule 144, 144(k) or 701.
	Restricted shares held for one year or less.

</TABLE>

-----

(1) If Scott & Stringfellow, Inc. waives the 180-day lockup agreements within the first 90 days after the date of the prospectus, an additional shares will be available for sale in the public market 90 days following the date of this prospectus, subject in some cases to compliance with the volume and other limitations of Rule 144.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned shares for at least one year is entitled to sell within any three-month period commencing 90 days after the date of this prospectus a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock (approximately shares immediately after the offering), or

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- the average weekly trading volume of the common stock during the four calendar weeks preceding the sale, subject to the filing of a Form 144 with respect to the sale.

Persons selling under Rule 144 must also comply with the rule's requirements concerning the availability of public information about us, the manner of sale and filing of notice of sale. However, a person, or persons whose shares are aggregated, who is not deemed to have been an affiliate of comstar.net at any time during the 90 days immediately preceding the sale and who has beneficially owned his or her shares for at least two years is entitled to sell such shares under Rule 144(k) without regard to the limitations described above. Persons deemed to be affiliates must always sell under Rule 144 even after the one year holding period has been satisfied.

Any of our employees or consultants who purchased his or her shares under a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permits nonaffiliates to sell their Rule 701 shares without having to comply with the public information, holding period, volume limitation or notice provisions of Rule 144 and permits affiliates to sell their Rule 701 shares without having to comply with the Rule 144 holding period restrictions, in each case commencing 90 days after the date of this prospectus. As of \_\_\_\_\_, 1999, the holders of options to purchase approximately \_\_\_\_\_ shares of common stock will be eligible to sell their shares under Rule 701 upon the expiration of the 180-day lockup period, subject in some cases to vesting of such options.

We intend to file a registration statement on Form S-8 under the Securities Act within 90 days after the date of this prospectus to register shares of common stock under outstanding stock options or reserved for issuance under our 1999 Option Plan and our Director Stock Option Plan. This will permit nonaffiliates to immediately sell those shares in the public market without limitation and will permit affiliates to immediately sell without compliance with any holding period requirement but subject to the other conditions of Rule 144.

We cannot estimate the number of shares that will be sold under Rule 144, Rule 701 or our Form S-8 registration statement, because this will depend on the market price of our common stock, the personal circumstances of the sellers and other factors. Before the offering, no public market for our common stock has existed, and a significant public market for the common stock may not develop or be sustained after the offering. Any future sale of substantial amounts of the common stock in the open market may adversely affect the market price of the common stock offered by this prospectus.

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## UNDERWRITING

Scott & Stringfellow, Inc. and SunTrust Equitable Securities Corporation are acting as representatives of the underwriters named below. Subject to the terms and conditions in the underwriting agreement among the representatives of the underwriters, the selling shareholders and us, the underwriters have severally agreed to purchase from comstar.net and the selling shareholders the number of shares of common stock indicated opposite their respective names below, at the public offering price less the underwriting discount shown on the cover page of this prospectus.

<TABLE> <CAPTION> UNDERWRITER -----	NUMBER OF SHARES -----
<S>	<C>
Scott & Stringfellow, Inc.....	
SunTrust Equitable Securities Corporation.....	
 Total.....	 =====

</TABLE>

The underwriting agreement provides that the obligations of the several underwriters to purchase and accept delivery of the shares of common stock offered by this prospectus are subject to approval by their counsel of certain legal matters and to certain other conditions. The underwriters are committed to purchase and accept delivery of all the shares of common stock offered by this prospectus, other than the shares covered by the over-allotment option described below, if they purchase any. If an underwriter fails to keep its purchase commitment, the underwriting agreement provides that, in some circumstances, the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated. The underwriters reserve the right to withdraw, cancel or modify this offering and to reject orders in whole or in part.

The underwriters propose initially to offer the common stock to the public at the public offering price shown on the cover page of this prospectus, and to specified dealers at that price less a concession of not more than \$ \_\_\_\_\_ per share. The underwriters may allow, and the dealers may reallow, a discount of not more than \$ \_\_\_\_\_ per share to other specified dealers. After the initial public offering, the representatives may change the public offering price and the other selling terms at any time without notice.

We have granted an option to the underwriters, exercisable during the 30-day period after the date of this prospectus, to purchase up to a maximum of \_\_\_\_\_ additional shares of common stock to cover over-allotments, if any, at the same per share price as the initial shares to be purchased by the underwriters. To the extent the underwriters exercise that option, each underwriter will be committed, subject to certain conditions, to purchase additional shares in approximately the same proportion as the number of shares to be purchased initially by that underwriter bears to the total number of shares to be purchased initially by all the underwriters.

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The following table shows the underwriting fees that we and the selling shareholders will pay to the underwriters in connection with the offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option to purchase additional shares of our common stock.

<TABLE> <CAPTION>	TO BE PAID BY COMSTAR.NET		TO BE PAID BY SELLING SHAREHOLDERS	
	NO EXERCISE -----	FULL EXERCISE -----	NO EXERCISE -----	FULL EXERCISE -----
<S>	<C>	<C>	<C>	<C>
Per share.....	\$	\$	\$	\$

Total.....  
</TABLE>

We estimate our expenses of this offering, exclusive of the underwriting discount, will be \$ . We and the selling shareholders have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of these liabilities.

Upon purchase by the underwriters of the shares of common stock being offered by this prospectus, we will issue to Scott & Stringfellow, Inc. warrants to purchase up to shares of our common stock at an exercise price equal to 110% of the initial public offering price. The warrant exercise price has been determined by negotiation between us and Scott & Stringfellow, Inc. These warrants may not be exercised until after the first anniversary of the date of issuance and expire, if not exercised sooner, on the fifth anniversary of the date of issuance. If these warrants are issued, Scott & Stringfellow, Inc. will have, at nominal cost, the opportunity to profit from an increase in the market price of the common stock. To the extent these warrants are exercised, the value of the common stock may be diluted.

We and each of our directors, executive officers and some of our shareholders, who upon the completion of this offering will beneficially own approximately shares ( %) of our common stock, have agreed during the 180-day period following the date of this prospectus not to, without the prior written consent of Scott & Stringfellow, Inc.:

- directly or indirectly make, agree to or cause any offer, sale (including short sale), loan, pledge or other disposition of, or grant any options, rights or warrants to purchase with respect to, or otherwise transfer or reduce any risk of ownership of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable or exercisable for our common stock,
- enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of the common stock, or
- in the case of our directors, executive officers and shareholders, make any demand for or exercise any right with respect to the registration of shares of our common stock or any securities convertible into or exchangeable or exercisable for our common stock.

This restriction is subject to some exceptions. In addition, during the 180-day period, we have also agreed not to file any registration statement with respect to the registration of any shares of our common stock or any securities convertible into or exercisable for our common stock, except that we intend to file a registration statement on Form S-8 under the Securities Act within 90 days after the completion of the offering to register

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shares of common stock issuable under outstanding stock options or reserved for issuance under our 1999 Stock Option Plan and our Director Option Plan. This will permit the holders of those shares to sell them in the public market without compliance with any holding period requirement.

The representatives have informed us that the underwriters do not expect to make sales of common stock offered by this prospectus to accounts over which they exercise discretionary authority in excess of 5% of the number of shares of common stock offered by this prospectus.

The underwriters have reserved for sale, at the initial public offering price, up to shares of common stock for our employees, directors and other persons we have designated, who have expressed an interest in purchasing shares of our common stock. The number of shares available for sale to the general public in this offering will be reduced to the extent those persons purchase the reserved shares. Any reserved shares not so purchased will be offered to the general public on the same basis as other shares offered by this prospectus.

Before this offering, no public trading market for the common stock has existed. Consequently, the initial public offering price of the common stock has

been determined by negotiations among comstar.net, the representatives of the selling shareholders and the representatives of the underwriters. The factors considered in determining the initial public offering price included the following:

- the history and future prospects of comstar.net and our industry,
- the present state of our development,
- an assessment of our management,
- the general condition of the economy and the securities markets at the time of this offering, and
- the market prices of and demand for publicly traded common stock of comparable companies at the time of the offering.

We have applied to have the common stock approved for quotation on the Nasdaq National Market under the symbol "CSTX."

Until the distribution of the common stock is completed, rules of the SEC may limit the ability of the underwriters and specified selling group members to bid for and purchase the common stock. As an exception to these rules, the representatives of the underwriters are permitted to engage in specified transactions that stabilize the price of the common stock. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock. If the underwriters create a short position in the common stock in connection with this offering (that is, if they sell more shares of common stock than are set forth on the cover page of this prospectus), the representatives may reduce that short position by purchasing common stock in the open market. The representatives of the underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option described above. The representatives of the underwriters may also impose a penalty bid on underwriters and selling group members in some cases. This means that if the representatives purchase shares of common stock in the open market to reduce the underwriters' short position or to stabilize the price of the

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common stock, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares as part of this offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases. The imposition of a penalty bid might also have an effect on the price of a security if it discourages resales of the security. None of comstar.net, the selling shareholders or any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, the underwriters are not required to engage in these activities and may end any of these activities at any time. Some of the underwriters intend to make a market in the common stock upon the completion of the offering.

There are restrictions on the offer and sale of the common stock in the United Kingdom. All applicable provisions of the Financial Services Act 1986 and the Public Offers of Securities Regulations 1995 with respect to anything done by any person in relation to the common stock in, from or otherwise involving the United Kingdom must be complied with.

Each underwriter has also agreed that it has:

- not offered or sold and, prior to the date six months after the date of issue of the shares of common stock, will not offer or sell any shares of common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, as principal or agent, for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995,
- complied, and will comply with, all applicable provisions of the

Financial Services Act 1986 of Great Britain with respect to anything done by it in relation to the shares of common stock in, from or otherwise involving the United Kingdom, and

- only issued or passed on, and will only issue or pass on, in the United Kingdom any document received by it in connection with the issuance of the shares of common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) of Great Britain or is a person to whom the document may otherwise lawfully be issued or passed on.

#### LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Nelson Mullins Riley & Scarborough, L.L.P., Atlanta, Georgia. Glenn W. Sturm, a partner of Nelson Mullins, is one of our directors and owns options to purchase 100,000 shares of our common stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by Alston & Bird LLP, Atlanta, Georgia.

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#### EXPERTS

The audited financial statements as of December 31, 1997 and 1998, and from the period of inception, March 5, 1996, to December 31, 1996 and for each of the two years ended December 31, 1997 and 1998, included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

#### WHERE YOU CAN FIND MORE INFORMATION

comstar.net has filed with the SEC, through the Electronic Data Gathering and Retrieval, or EDGAR, system, a registration statement on Form S-1 under the Securities Act for the common stock offered by this prospectus. This prospectus does not contain all of the information provided in the registration statement, because we have omitted parts of the registration statement as permitted by SEC rules. For further information about us and our common stock, you should refer to the registration statement, including its exhibits and schedule. Statements in this prospectus about any contract or other document may only be a summary of that document, and in each instance we refer you to the copy of that contract or other document filed as an exhibit to the registration statement.

You may read the registration statement at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, and you may obtain copies of the registration statement from the Public Reference Room at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally, the SEC maintains an Internet site at <http://www.sec.gov> through which you may review the registration statement. You may also review the registration statement at the offices of the Nasdaq National Market, 1735 K Street, N.W., Washington, D.C. 20006.

We are not presently a reporting company and do not file reports or other information with the SEC. On the effective date of the registration statement, however, we will become a reporting company, and we will register our securities under the Securities Exchange Act of 1934. Accordingly, the additional reporting requirements of the Exchange Act will apply to us, and we will file reports, proxy statements and other information with the SEC. In addition, after the completion of this offering, we intend to furnish our shareholders with annual reports containing audited financial statements and with quarterly reports containing unaudited summary financial information for each of the first three quarters of each fiscal year.

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COMSTAR.NET, INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To comstar.net, inc.:

We have audited the accompanying balance sheets of COMSTAR.NET, INC. (a Georgia corporation) as of December 31, 1997 and 1998 and the related statements of operations, shareholders' deficit, and cash flows for the period from inception (March 5, 1996) to December 31, 1996 and for each of the two years ended December 31, 1997 and 1998. 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 comstar.net, inc. as of December 31, 1997 and 1998 and the results of its operations and its cash flows for the period from inception (March 5, 1996) to December 31, 1996 and for each of the two years ended December 31, 1997 and 1998 in conformity with generally accepted accounting principles.

Atlanta, Georgia  
June 30, 1999  
(except with respect to Note 10,  
as to which the date is  
September 1, 1999)

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## BALANCE SHEETS

<TABLE>  
<CAPTION>

	DECEMBER 31,		JUNE 30,
	1997	1998	1999
			(UNAUDITED)
<S>	<C>	<C>	<C>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents.....	\$ 54,676	\$ 283,621	\$1,045,071
Accounts receivable, net of allowance for doubtful accounts of \$19,426, \$25,447, and \$66,845 in 1997, 1998, and 1999, respectively.....	74,082	234,390	312,052
Prepaid and other current assets.....	0	4,764	51,633
Deferred transaction costs.....	0	0	110,980
<b>Total current assets.....</b>	<b>128,758</b>	<b>522,775</b>	<b>1,519,736</b>
<b>PROPERTY AND EQUIPMENT:</b>			
Computers and telecommunications equipment.....	376,597	689,350	865,782
Furniture and fixtures.....	3,628	11,613	21,070
Property under capital leases (Note 8).....	0	46,886	46,886
Leasehold improvements.....	4,075	101,979	101,979
<b>Total property and equipment.....</b>	<b>384,300</b>	<b>849,828</b>	<b>1,035,717</b>
Less accumulated depreciation.....	(61,765)	(195,999)	(296,361)
<b>Property and equipment, net.....</b>	<b>322,535</b>	<b>653,829</b>	<b>739,356</b>
<b>OTHER ASSETS:</b>			
Investment in nschool (Note 4).....	0	82,744	0
Acquired customer base, net of accumulated amortization of \$7,112, \$157,475, and \$239,232 in 1997, 1998, and 1999, respectively (Note 2).....	78,226	390,499	308,742
<b>Total other assets.....</b>	<b>78,226</b>	<b>473,243</b>	<b>308,742</b>
<b>Total assets.....</b>	<b>\$ 529,519</b>	<b>\$1,649,847</b>	<b>\$2,567,834</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
<b>CURRENT LIABILITIES:</b>			
Current maturities of long-term debt (Note 5).....	\$ 110,094	\$ 902,469	\$ 850,100
Note payable to related party (Note 5).....	57,124	270,188	270,188
Notes payable to shareholders (Note 5).....	618,549	1,002,534	902,534
Current portion of obligations under capital leases (Note 8).....	0	28,067	12,061
Accounts payable.....	111,565	113,604	237,293
Accrued liabilities.....	34,986	169,729	113,034
Accrued interest.....	60,940	135,501	77,427
Advance billings.....	18,547	75,053	95,234
<b>Total current liabilities.....</b>	<b>1,011,805</b>	<b>2,697,145</b>	<b>2,557,871</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt, less current maturities (Note 5).....	343,078	0	0
Obligations under capital leases (Note 8).....	0	10,974	14,034
<b>Total long-term liabilities.....</b>	<b>343,078</b>	<b>10,974</b>	<b>14,034</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 8)</b>			
<b>SHAREHOLDERS' DEFICIT (NOTE 6):</b>			
Preferred stock, \$0 par value; undesignated, 5,000,000 shares authorized, 0 shares issued and outstanding in 1997, 1998, and 1999.....	0	0	0
Common stock, \$0 par value:			
Undesignated, 80,000,000 shares authorized, 1,000 shares authorized, issued, and outstanding in 1997 and 0 shares issued and outstanding in 1998 and 1999.....	0	0	0
Series A voting, 10,000,000 shares authorized, 0 shares authorized, issued, and outstanding in 1997 and			

5,063,892 and 5,371,762 shares issued and outstanding in 1998 and 1999, respectively.....	0	364,822	2,122,744
Series B voting, 10,000,000 shares authorized, 0 shares authorized, issued, and outstanding in 1997 and 5,000,000 shares issued and outstanding in 1998 and 1999.....	0	0	0
Accumulated deficit.....	(825,364)	(1,423,094)	(2,126,815)
Total shareholders' deficit.....	(825,364)	(1,058,272)	(4,071)
Total liabilities and shareholders' deficit.....	\$ 529,519	\$1,649,847	\$2,567,834

</TABLE>

The accompanying notes are an integral part of these balance sheets.

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COMSTAR.NET, INC.

STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

	PERIOD FROM INCEPTION (MARCH 5, 1996) TO DECEMBER 31,	YEARS ENDED DECEMBER 31,		PERIODS ENDED JUNE 30,	
	1996	1997	1998	1998	1999
				(UNAUDITED)	
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES:					
Internet access.....	\$ 29,579	\$ 399,167	\$ 1,334,053	\$ 552,991	\$ 910,540
Data center services.....	33,048	205,171	417,112	156,202	280,726
Circuit rebills.....	276	44,459	255,230	90,881	244,830
Other.....	2,495	26,772	135,950	57,712	49,448
Total revenues.....	65,398	675,569	2,142,345	857,786	1,485,544
COSTS AND EXPENSES:					
Cost of network services.....	73,963	528,835	1,235,862	423,292	917,980
Salaries and wages....	150,448	370,145	521,570	222,923	508,568
General and administrative.....	67,259	131,767	379,036	94,680	322,435
Rent.....	21,792	33,152	106,417	42,931	61,339
Management fees (Note 9).....	8,000	42,000	60,000	30,000	30,000
Depreciation and amortization.....	11,622	57,255	284,598	69,794	182,119
Total costs and expenses.....	333,084	1,163,154	2,587,483	883,620	2,022,441
OPERATING LOSS.....	(267,686)	(487,585)	(445,138)	(25,834)	(536,897)
OTHER (EXPENSE) INCOME:					
Interest expense.....	(10,434)	(66,201)	(150,605)	(60,752)	(102,593)
Other income (loss)...	0	6,542	(1,987)	(9,801)	18,513
Equity in net loss of investee.....	0	0	0	0	(82,744)
Total other expenses.....	(10,434)	(59,659)	(152,592)	(70,553)	(166,824)
LOSS BEFORE INCOME TAXES.....	(278,120)	(547,244)	(597,730)	(96,387)	(703,721)
INCOME TAX BENEFIT.....	0	0	0	0	0
NET LOSS.....	\$ (278,120)	\$ (547,244)	\$ (597,730)	\$ (96,387)	\$ (703,721)

NET LOSS PER SHARE:					
Basic and diluted.....	\$ (0.03)	\$ (0.06)	\$ (0.06)	\$ (0.01)	\$ (0.07)
	=====	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING....	10,000,000	10,000,000	10,005,731	10,000,000	10,165,825
	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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COMSTAR.NET, INC.

STATEMENTS OF SHAREHOLDERS' DEFICIT

<TABLE>  
<CAPTION>

	COMMON STOCK						ACCUMULATED DEFICIT	TOTAL
	UNDESIGNATED		SERIES A		SERIES B			
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
Balance at inception, March 5, 1996.....	0	\$ 0	0	\$ 0	0	\$ 0	\$ 0	\$ 0
Net loss.....	0	0	0	0	0	0	(278,120)	(278,120)
Issuance of common stock.....	1,000	0	0	0	0	0	0	0
Balance, December 31, 1996.....	1,000	0	0	0	0	0	(278,120)	(278,120)
Net loss.....	0	0	0	0	0	0	(547,244)	(547,244)
Balance, December 31, 1997.....	1,000	0	0	0	0	0	(825,364)	(825,364)
Net loss.....	0	0	0	0	0	0	(597,730)	(597,730)
Exchange of common stock.....	(1,000)	0	5,000,000	0	5,000,000	0	0	0
Issuance of common stock.....	0	0	63,892	364,822	0	0	0	364,822
Balance, December 31, 1998.....	0	0	5,063,892	364,822	5,000,000	0	(1,423,094)	(1,058,272)
Net loss (unaudited).....	0	0	0	0	0	0	(703,721)	(703,721)
Issuance of common stock (unaudited)...	0	0	307,870	1,757,922	0	0	0	1,757,922
Balance, June 30, 1999 (unaudited).....	0	\$ 0	5,371,762	\$2,122,744	5,000,000	\$ 0	\$ (2,126,815)	\$ (4,071)

</TABLE>

The accompanying notes are an integral part of these statements.

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COMSTAR.NET, INC.

STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

PERIOD FROM  
INCEPTION  
(MARCH 5, 1996)  
TO YEARS ENDED PERIODS ENDED

	DECEMBER 31,		DECEMBER 31,		JUNE 30,	
	1996	1997	1998	1998	1999	
						(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net loss.....	\$ (278,120)	\$ (547,244)	\$ (597,730)	\$ (96,387)	\$ (703,721)	
Adjustments to reconcile net loss to net cash used in operating activities:						
Depreciation and amortization.....	11,622	57,255	284,598	69,794	182,119	
Equity in net loss of investee.....	0	0	0	0	82,744	
Changes in operating assets and liabilities:						
Accounts receivable, net...	(8,743)	(65,339)	(160,308)	(66,465)	(77,662)	
Prepaid and other current assets.....	0	0	(4,764)	(9,288)	(46,869)	
Deferred transaction costs.....	0	0	0	0	(110,980)	
Accounts payable.....	0	111,565	2,039	(27,557)	123,689	
Accrued liabilities.....	63,114	(28,128)	134,743	7,127	(56,695)	
Accrued interest.....	10,047	50,893	74,561	34,874	(58,074)	
Advance billings.....	0	18,547	56,506	41,704	20,181	
Total adjustments.....	76,040	144,793	387,375	50,189	58,453	
Net cash used in operating activities...	(202,080)	(402,451)	(210,355)	(46,198)	(645,268)	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchase of businesses and customer base.....	0	(85,338)	(513,836)	(30,808)	0	
Purchases of property and equipment, net.....	(120,442)	(263,858)	(414,329)	(256,452)	(185,889)	
Investment in nschool.....	0	0	(82,744)	0	0	
Net cash used in investing activities...	(120,442)	(349,196)	(1,010,909)	(287,260)	(185,889)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Proceeds from issuance of long-term debt.....	15,312	455,355	469,731	205,359	0	
Proceeds from note payable to related party.....	8,000	55,124	233,080	84,518	0	
Proceeds from notes payable to shareholders.....	306,643	313,250	409,095	0	0	
Principal payments on long-term debt.....	(1,031)	(16,464)	(20,434)	(11,095)	(52,369)	
Repayments of note payable to related party.....	0	(6,000)	(20,016)	0	0	
Repayments of notes payable to shareholders.....	0	(1,344)	(25,110)	0	(100,000)	
Obligations under capital leases.....	0	0	39,041	0	(12,946)	
Proceeds from issuance of common stock.....	0	0	364,822	0	1,757,922	
Net cash provided by financing activities...	328,924	799,921	1,450,209	278,782	1,592,607	
NET INCREASE (DECREASE) IN CASH.....	6,402	48,274	228,945	(54,676)	761,450	
CASH AT BEGINNING OF PERIOD.....	0	6,402	54,676	54,676	283,621	
CASH AT END OF PERIOD.....	\$ 6,402	\$ 54,676	\$ 283,621	\$ 0	\$1,045,071	

CASH PAID FOR INTEREST.....	\$ 387	\$ 15,308	\$ 76,044	\$ 25,878	\$ 160,667
	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1996, 1997, AND 1998  
AND JUNE 30, 1998 AND 1999 (UNAUDITED)

1. ORGANIZATION AND BUSINESS OPERATIONS

comstar.net, inc. (formerly Comstar Communications, Inc.) (the "Company") (a Georgia corporation) is a local, regional, and national provider of Internet access and other enhanced Internet services to businesses, educational institutions, and governmental organizations. The Company was incorporated on March 5, 1996 and commenced operations on June 10, 1996.

The Company has incurred significant net operating losses in each year since its formation. As of December 31, 1998, the Company had an accumulated deficit of approximately \$1.4 million. The Company expects that it will continue to incur net losses as it continues to expend substantial resources on sales and marketing initiatives and expansion efforts. There can be no assurance that the Company will achieve or sustain profitability or positive cash flow from its operations.

In addition, any increase in the Company's growth rate, shortfalls in anticipated revenues, increases in anticipated expenses, increases in the number of customers acquired, or significant acquisition opportunities could have a material adverse effect on the Company's liquidity and capital resources and would require the Company to raise additional capital from public or private equity or debt sources in order to finance operating losses, anticipated growth, and contemplated capital expenditures. If such sources of financing are insufficient or unavailable, the Company will be required to modify its growth and operating plans in accordance with the extent of available funding and attempt to attain profitability in its existing markets. The Company may need to raise additional funds in order to take advantage of unanticipated opportunities, such as the acquisition of a complementary business or the development of new services, or otherwise respond to unanticipated competitive pressures. There can be no assurance that the Company will be able to raise any such capital on terms acceptable to the Company or at all.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTERIM UNAUDITED FINANCIAL INFORMATION

The accompanying financial statements for the six months ended June 30, 1999 and 1998 are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the unaudited financial statements have been included. The results for the six months ended June 30, 1999 are not necessarily indicative of the results to be obtained for a full year.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

SOURCES OF SUPPLIES

The Company relies on third-party networks, local and long distance telephone companies, and other companies to provide data communications capacity. Although management feels that alternative telecommunications facilities could be found in a timely manner, any disruption of these services could have an adverse effect on operating results.

SIGNIFICANT CUSTOMERS

During the year ended December 31, 1997, sales to one of the Company's customers were approximately \$128,000, representing approximately 19% of the Company's total revenues. There were no amounts due from this customer as of December 31, 1997. There were no sales to customers representing 10% or more of the Company's revenues during the years ended December 31, 1996 or December 31, 1998.

During the six months ended June 30, 1999, sales to a different customer were approximately \$160,000, representing approximately 10.7% of the Company's total revenues. Accounts receivable due from this customer as of June 30, 1999 totaled approximately \$29,000. The loss of this customer could have a material adverse effect on the Company's future operations.

LONG-LIVED ASSETS

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and cost in excess of net assets acquired related to those assets to be held and used and for long-lived assets and certain identifiable intangible assets to be disposed of.

The Company periodically reviews the values assigned to long-lived assets, such as property and equipment and acquired customer base to determine whether any impairment exists. If circumstances suggest that the asset values may be impaired, an assessment of the assets' estimated fair values is performed based on the estimated undiscounted cash flows expected to be generated from such assets over the remaining lives of the long-lived assets, and an impairment loss is recognized in the statement of operations equal to the difference between the estimated fair values and the assets' carrying values. Management believes that the long-lived assets in the accompanying balance sheets are appropriately valued.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Expenditures for improvements are capitalized, and replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is provided on a straight-line basis over the remaining estimated useful lives, as follows:

<TABLE>	
<S>	<C>
Computers and telecommunications equipment.....	Five years
Furniture and fixtures.....	Ten years
Leasehold improvements.....	Three years
</TABLE>	

PROPERTY UNDER CAPITAL LEASES

The Company leases certain of its data communication and other equipment under lease agreements accounted for as capital leases. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Property under capital leases is depreciated over their estimated useful lives of five years, which is longer than the terms of the leases.

ADVERTISING COSTS

The Company expenses all advertising costs as incurred.

ACCRUED LIABILITIES

Accrued liabilities as of December 31, 1997 and 1998 consisted of the following:

<TABLE>  
<CAPTION>

	1997	1998
<S>	<C>	<C>
Accrued telecommunication expenses.....	\$17,839	\$ 69,958
Accrued professional fees.....	5,000	59,517
Other accrued liabilities.....	12,147	40,254
	-----	-----
	\$34,986	\$ 169,729
	=====	=====

</TABLE>

REVENUE RECOGNITION

The Company's revenues consist primarily of (i) Internet access, (ii) data center services, (iii) circuit rebills, and (iv) other revenues. Internet access revenues consist primarily of recurring revenues received for Internet access services. Data center services revenues consist primarily of recurring revenues received for co-location, managed application hosting, E-mail, domain name, and Web hosting services. Circuit rebills consists primarily of the resale of distance-sensitive circuits from local loop providers to the Company's customers. Other revenues consist primarily of transaction processing fees and miscellaneous hardware sales.

Revenues are recognized as services are provided. Installation and customer set-up fees are recognized upon completion of services and historically comprise 3% to 8% of total

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NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

monthly revenues. Fees billed to customers related to installation and customer set-up are charged in order to recover the Company's cost of installing and setting up each customer. Transaction processing fees are generated from the use of the Company's e-commerce software and are recognized based upon monthly usage. Hardware sales are recognized upon the delivery of the hardware to the customer.

ADVANCE BILLINGS

Advance billings represent the liability for billings made to customers in advance of services being provided. Such amounts are recognized as revenue when the related services are performed.

LIMITED SERVICE WARRANTIES

The Company's customer contracts provided a limited service level warranty related to the continuous availability of service. This warranty provides a credit for free service for disruption in Internet access services. The Company accrues for such costs as estimated at the time of the sale. Credits issued for disruption in service were approximately \$1,400, \$5,200, and \$2,800 for the years ended December 31, 1997 and 1998 and for the six months ended June 30, 1999, respectively. There were no credits issued during the year ended December 31, 1996.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, debt, and other short-term assets and liabilities. Based on the short-term nature or variable interest rates of these financial instruments, the estimated fair values of the

Company's financial instruments approximate their carrying values as of December 31, 1996, 1997, and 1998.

#### CREDIT RISK

The Company's accounts receivable potentially subject the Company to credit risk, as collateral is generally not required. The Company's risk of loss is limited due to the ability to terminate access on delinquent accounts. The concentration of credit risk is mitigated by the large number of customers comprising the customer base. The carrying amounts of the Company's receivables approximate their fair values as of December 31, 1997 and 1998.

#### NET LOSS PER SHARE

Basic and diluted net loss per share was computed in accordance with SFAS No. 128, "Earnings per Share," using the weighted average number of common shares outstanding. Basic loss per share is based on the weighted average number of shares outstanding. Diluted loss per share is based on the weighted average number of shares outstanding, and the dilutive effect of common stock equivalent shares issuable upon the exercise of stock options (using the treasury stock method). Net loss for basic and diluted earnings per share is the same for basic and diluted earnings per share; therefore, no reconciliation of the numerator is presented.

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COMSTAR.NET, INC.

#### NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

On February 4, 1998, the Securities and Exchange Commission released Staff Accounting Bulletin ("SAB") No. 98, "Computation of Earnings Per Share." SAB No. 98 requires the retroactive inclusion of nominal issuances of common stock and common stock equivalents on earnings per share calculations for all periods presented and precludes the use of the treasury stock method for these issuances. Management believes that all issuances of common stock and stock options have been made at the current market value at the time of issuance and that there have been no nominal issuances.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and presentation of comprehensive income and its components in a full set of general-purpose financial statements. This statement was effective for periods beginning after December 15, 1997. The adoption of SFAS No. 130 did not have an impact on the Company's financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This statement was effective for financial statements for periods beginning after December 15, 1997. The adoption of SFAS No. 131 did not have an impact on the Company's financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of a hedge transaction and, if it is the type of hedge transaction. In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133". This statement defers the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company believes that the adoption of SFAS No. 133 and SFAS No. 137 will not have a material impact on the Company's financial statements.

#### 3. ACQUISITIONS



On July 1, 1998, Comstar acquired certain assets of Athens' ISP, Inc. under the terms of an asset purchase agreement. The acquisition consisted primarily of Internet access business subscribers and related computer and telecommunications equipment. The purchase price was \$326,678, of which \$275,478 was allocated to the customer list and related accounts and \$51,200 was allocated to the equipment acquired. The customer list

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

and related accounts acquired is being amortized on a straight-line basis over three years. No goodwill was recorded.

This acquisition was accounted for under the purchase method in accordance with Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations." Accordingly, the purchase price has been allocated to the net assets acquired based on their estimated fair values.

The following unaudited pro forma information has been prepared assuming that the purchase acquisition occurred at the beginning of the year of acquisition and the year immediately preceding. The unaudited pro forma information is presented for informational purposes only and may not be indicative of the actual results of operations which would have occurred had the purchase acquisitions been consummated at the beginning of the respective periods, nor is the information necessarily indicative of the results of operations which may occur in the future operations of the combined entities.

<TABLE>  
<CAPTION>

	1997	1998
	-----	-----
<S>	<C>	<C>
Pro forma revenues.....	\$ 801,349	\$2,232,367
Pro forma loss from operations.....	(604,841)	(501,630)
Pro forma loss per share.....	\$ (.06)	\$ (.05)

</TABLE>

ACQUIRED CUSTOMER BASE

The Company capitalizes specific costs incurred related to the purchase of customer lists and related accounts from other Internet service providers. These costs include the actual fees paid as well as other expenses specifically related to the transactions. The following less significant purchases of customer lists and related accounts occurred during fiscal years 1997 and 1998:

SYSTEMS ATLANTA COMMUNICATIONS SYSTEMS, INC.

On July 25, 1997, the Company acquired the business customer list and related accounts of Systems Atlanta Communications Systems, Inc. and certain related generic computer and telecommunications equipment under the terms of a purchase agreement. The purchase price was \$148,343, of which \$85,338 was allocated to the customer list and related accounts and \$63,005 was allocated to the equipment acquired.

HOLLANDER, DOWS AND REINHARDT

On April 3, 1998, Comstar acquired the business customer list and related accounts of Hollander, Dows and Reinhardt under the terms of a purchase agreement. The purchase price was \$30,808, all of which was allocated to the customer list and related accounts.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

On July 31, 1998, the Company acquired the business customer list and related accounts and certain related computer and telecommunications equipment from Watch Me Now, Inc. under the terms of a purchase agreement. The purchase price was \$179,350, of which \$156,350 was allocated to the customer list and related accounts and \$23,000 was allocated to the equipment acquired.

The Company amortizes customer lists and related accounts over the lesser of three years or their calculated customer churn. Subsequent to an acquisition that results in the recording of customer lists or other intangible assets, the Company continually evaluates whether later events and circumstances have occurred that indicate that the remaining estimated useful lives of intangible assets may warrant revision or that the remaining balance of intangible assets may not be recoverable. When factors indicate that intangible assets should be evaluated for possible impairment, the Company uses a calculation of customer churn or an estimate of the related business segment's undiscounted net income or cash flows, as appropriate, over the remaining life of the assets in measuring whether such assets are recoverable in accordance with SFAS No. 121.

#### 4. INVESTMENT IN NSCHOOL COMMUNICATIONS SYSTEMS, INC.

On December 18, 1998, the Company entered into an agreement with nschool Communications Systems, Inc. ("nschool"), an internet communications company servicing educational institutions. The agreement required the Company to develop specialized software applications and provide related services to nschool in exchange for a 25% ownership interest in nschool. In accordance with APB Opinion No. 17, "Intangible Assets," the ownership interest in nschool was valued at the cost incurred to develop the software provided. The Company accounts for the investment in nschool under the equity method of accounting. The activity between December 18, 1998 and December 31, 1998 was immaterial to the Company's investment balance.

During the period ending June 30, 1999, the Company recorded its percentage of the net loss of nschool bringing its investment balance to zero as of June 30, 1999. nschool sustained operating losses during the period ending June 30, 1999, exceeding the Company's investment balance. Therefore, the Company will track those losses in excess separately, and any subsequent realization of income from nschool will first go to reduce the excess losses.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

#### 5. LONG-TERM DEBT

Long-term debt at December 31, 1997 and 1998 consisted of the following:

<TABLE>  
<CAPTION>

	1997	1998
	-----	-----
<S>	<C>	<C>
Note payable to related party, interest at 10%, principal and interest payable at maturity, January 1, 2000 or upon closing of an initial public offering, whichever is sooner; secured by certain assets of the Company and personal guarantees by four of the Company's principal shareholders.....	\$ 57,124	\$ 270,188
Note payable to shareholders, interest at 9%, principal and interest payments payable at maturity, January 31, 1999 (subsequently extended, Note 10).....	0	383,985
Note payable to shareholders, interest at 10%, principal and interest payable at maturity, January 1, 2000 or upon closing of an initial public offering, whichever is sooner; secured by certain assets of the Company...	618,549	618,549
\$200,100 note payable to bank, interest at prime plus 1% (8.25% at December 31, 1998), principal and interest payments payable monthly through July 1, 1999; secured by certain assets of the Company and personal guarantees by one of the Company's principal		

shareholders (subsequently extended, Note 10).....	0	200,100
\$700,000 revolving credit facility, interest at prime plus 1% (8.25% at December 31, 1997 and 1998), principal and accrued interest due at maturity, May 25, 1999 secured by certain assets of the Company and personal guarantees by four of the Company's principal shareholders (subsequently extended, Note 10).....	430,369	700,000
\$25,085 note payable to bank, interest at prime plus 1% (8.25% at December 31, 1997 and 1998), principal and interest payments payable monthly through February 15, 1999; secured by certain assets of the Company.....	15,345	2,369
\$15,412 note payable to bank, interest at prime plus 1% (8.25% at December 31, 1996 and 1997), principal and interest payments payable monthly through November 5, 1998; secured by certain assets of the Company.....	7,458	0
	-----	-----
	1,128,845	2,175,191
Less current portion.....	785,767	(2,175,191)
	-----	-----
	\$ 343,078	\$ 0
	=====	=====

</TABLE>

In April 1997, the Company entered into a one-year revolving credit facility (the "Revolving Credit Facility") with a local commercial lending institution to provide up to

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

\$500,000 of financing for the Company's operations. In May 1998, the Company extended the Revolving Credit Facility an additional year and increased the available credit to \$700,000. At December 31, 1997 and 1998, \$69,631 and \$0, respectively, were available to the Company under the Revolving Credit Facility. On June 22, 1999, the Company extended the Revolving Credit Facility to October 1, 1999.

In July 1998, two of the Company's principal shareholders entered into a lending arrangement with a bank on behalf of the Company. In connection with this lending arrangement, the shareholders then loaned the funds obtained to the Company with terms that mirrored the terms of the shareholders' note payable to the bank. The Company has been making principal and interest payments directly to the bank on behalf of the shareholders since the inception of the obligation. On February 28, 1999, the shareholders extended the maturity of the obligation to August 27, 1999, and the interest rate was lowered from 9% to 8.5%.

The principal shareholders of the Company have agreed not to require repayment of the notes payable to them before June 30, 2000 or upon closing of an initial public offering, whichever is sooner.

6. SHAREHOLDERS' DEFICIT

COMMON STOCK

In April 1996, the Company's board of directors authorized the creation of 1,000 shares of zero par value common stock. Each of the Company's four founders received 250 shares of the common stock.

On November 19, 1998, the Company's board of directors authorized the creation of 105,000,000 shares of stock of all series. The authorization included 10,000,000 shares of common stock designated as Series A, 10,000,000 shares of common stock designated as Series B, 80,000,000 shares of undesignated common stock, and 5,000,000 shares designated as preferred stock. The two classes of common stock are identical except that shares of common stock Series A are entitled to one vote per share and shares of common stock Series B are entitled to ten votes per share. All of the series of stock have zero par values. Two of the original shareholders exchanged 250 shares each of the previously issued common stock for 2,500,000 shares each of the Series A common stock. The two remaining shareholders exchanged their previously issued shares for 2,500,000 shares each of the newly issued Series B common stock. All per share and share amounts (except for shareholders' deficit) have been restated

for the exchanges.

SALE OF COMMON STOCK

In November and December 1998, the Company sold 63,892 shares of Series A common stock for \$5.71 per share to several private investors resulting in total proceeds of \$364,822, all of which was recorded as additional paid-in capital.

From January 1, 1999 to June 30, 1999, the Company sold 307,870 shares of Series A common stock to several private investors for total proceeds of \$1,757,922, all of which was recorded as additional paid-in capital. All shares were sold at \$5.71 per share.

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

EMPLOYEE STOCK OPTION PLAN

On March 1, 1999, the Company's board of directors approved the 1999 Stock Option and Incentive Plan ("the Plan") to grant incentive stock options to purchase the Company's common stock. The Plan provided for the issuance of options to purchase up to 1,700,000 shares of the Company's common stock; 405,250, 25,000, and 32,000 options were granted to employees of the Company under the Plan on March 10, 1999, March 12, 1999, and March 30, 1999, respectively, at \$5.71 per share. On May 17, 1999 and June 1, 1999, 15,000 and 100,000 additional option grants were made to two additional employees at \$5.71 per share, respectively. In the opinion of management, the fair value of the Company's common stock on the dates of grant was equal to the exercise price; therefore, no compensation expense was recorded at the dates of grant. The Plan provides that the options vest at the rate of one-third per year from the date of original hire and expire ten years from the date of grant. At June 30, 1999, 577,250 options had been granted, 187,667 of which were fully vested. No options had been forfeited and none had expired; 1,122,750 shares of stock were available for future grants under the Plan as of June 30, 1999. A summary of the status of the Company's stock options at June 30, 1999 (unaudited) and changes during the period then ended is presented in the following table:

<TABLE>  
<CAPTION>

	SHARES	WEIGHTED AVERAGE PRICE PER SHARE
	-----	-----
<S>	<C>	<C>
Outstanding at December 31, 1998.....	0	\$0.00
Granted.....	577,250	5.71
	-----	----
Outstanding at June 30, 1999.....	577,250	\$5.71
	=====	=====
Exercisable at June 30, 1999.....	187,667	\$5.71
	=====	=====

</TABLE>

The Company accounts for its stock-based compensation plan under APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, "Accounting for Stock-Based Compensation," defines a fair value-based method of accounting for an employee stock option plan or similar equity instrument and allows an entity to continue to measure compensation cost for those plans using the method of accounting prescribed by APB Opinion No. 25. Entities electing to remain with the accounting in APB Opinion No. 25 must make pro forma disclosures of net income and, if presented, earnings per share, as if the fair value-based method of accounting defined in the statement had been applied.

The Company has computed for pro forma disclosure purposes the value of all options granted during the period ended June 30, 1999 using the minimum value method as prescribed by SFAS No. 123 using the following assumptions:

<TABLE>  
<S>

<C>

Risk free interest rate.....	5.6% to 5.9%
Expected dividend yield.....	0
Expected lives.....	Five years
Expected volatility.....	84%

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

If the Company had accounted for these grants in accordance with SFAS No. 123, the Company's reported pro forma net loss for the period ended June 30, 1999 would have increased to the following pro forma amount:

<TABLE>	
<S>	<C>
Net loss:	
As reported.....	\$ (703,721)
Pro forma.....	(1,628,927)
Net loss per share:	
Basic and diluted:	
As reported.....	\$ (0.07)
Pro forma.....	(0.16)
</TABLE>	

7. INCOME TAXES

Prior to January 1, 1999, the Company was an S corporation and was generally not subject to corporate level taxes on its net income because such income was attributed to the Company's stockholders, and taxes on such income were directly payable by them.

On January 1, 1999, the Company became a C corporation for income tax purposes. Accordingly, the Company adopted SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method in accounting for income taxes. Under SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income taxes also reflect the value of net operating losses and offsetting valuation allowances provided against assets which are not likely to be realized.

Upon conversion to C corporation status, the Company recorded deferred taxes for which it will be responsible resulting from the termination of S corporation status. The components of the pro forma total deferred tax assets as of December 31, 1998 are as follows:

<TABLE>	
<S>	<C>
Deferred tax assets:	
Allowance for doubtful accounts.....	\$ 9,670
Amortization of customer lists.....	50,458
Accrued interest.....	51,509
	-----
Total deferred tax assets.....	111,637
Deferred tax liabilities:	
Depreciation of property and equipment.....	36,953
	-----
Net deferred tax assets before valuation allowance.....	74,684
Less valuation allowance.....	(74,684)
	-----
Net deferred tax assets.....	\$ 0
	=====
</TABLE>	

At December 31, 1998, the Company provided a valuation allowance against the entire net deferred tax asset balance because it is uncertain that the net deferred tax assets resulting from these deferred tax items will not be realized through future taxable income.

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## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

The following summarizes the components of the pro forma income tax benefit for the years ended December 31, 1996, 1997, and 1998:

	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 0	\$ 0	\$ 0
State.....	0	0	0
Deferred:			
Federal.....	(94,540)	(184,231)	(202,185)
State.....	(11,122)	(21,675)	(23,787)
Valuation allowance.....	105,662	205,906	225,972
	-----	-----	-----
	\$ 0	\$ 0	\$ 0
	=====	=====	=====

&lt;/TABLE&gt;

A reconciliation from the federal statutory rate to the pro forma tax benefit for the years ended December 31, 1996, 1997, and 1998 is as follows:

	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Statutory federal tax rate.....	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal tax benefits.....	(4.0)	(4.0)	(4.0)
Permanent differences -- meals and entertainment.....	0.0	0.4	0.2
Valuation allowance.....	38.0	37.6	37.8
	-----	-----	-----
	0.0%	0.0%	0.0%
	=====	=====	=====

&lt;/TABLE&gt;

## 8. COMMITMENTS AND CONTINGENCIES

## LEASE OBLIGATIONS

The Company leases office space under noncancelable operating leases expiring on various dates through 2001. The Company recorded rent expense of approximately \$33,152 and \$106,417 for the years ended December 31, 1997 and 1998, respectively, related to these operating leases.

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## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

Minimum future payments under noncancelable capital and operating leases as of December 31, 1998 for each of the next five years ended December 31 are as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
<S>	<C>	<C>
1999.....	\$ 28,067	\$ 68,914
2000.....	22,904	68,914
2001.....	11,005	21,675
2002.....	0	0
2003.....	0	0
	-----	-----
Total minimum lease payments.....	61,976	\$159,503

Less imputed interest.....	(22,935)	=====
	-----	
Present value of minimum capitalized lease payments.....	39,041	
Less current portion of capital lease obligations.....	(28,067)	
	-----	
Long-term portion of capital lease obligation.....	\$ 10,974	=====

</TABLE>

LEGAL PROCEEDINGS

The Company is subject to lawsuits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of any pending legal proceedings will not have a material adverse effect on the Company's business or financial condition.

DEPENDENCE ON OTHER INTERNET ACCESS AND TELECOMMUNICATIONS PROVIDERS

The Company depends on other corporations such as UUNET Technologies, Inc. ("UUNET"), GTE Internetworking ("GTE"), Sprint Communications Company, L.P. ("Sprint"), Intermedia Communications, Inc., and other facilities-based and nonfacilities-based carriers for the Company's subscribers' access to internet. The Company has entered into supply agreements with Sprint, GTE, UUNET, and other carriers to provide access to the Internet. The contracts are generally for a term of one to three years but are subject to early termination in certain instances. Some of the contracts also contain minimum purchase requirements. In addition, the Company depends on local carriers such as BellSouth and MediaOne for their subscribers' transmission to the Company's network. The Company's ability to maintain and expand business depends in part on its ability to enter into favorable contracts with the aforementioned access providers and carriers. The Company's success also depends on the cooperation of interexchange and local exchange carriers originating and terminating service in a timely manner. The partial or total loss of ability to initiate or terminate access to the internet would result in a loss of revenues and could lead to a loss of subscribers.

9. RELATED-PARTY TRANSACTIONS

DBTELECOM TECHNOLOGIES, INC.

dbTelecom Technologies, Inc. ("Teletech") is a communications company that builds, maintains and installs technology upgrades on cellular and PCS networks. Teletech

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

is co-owned by two of the shareholders of the Company. In December 1996, Teletech agreed to pay certain operating expenditures on the Company's behalf and began to charge the Company a management fee for the use of certain employees of Teletech. All expenditures paid by Teletech are included in the Company's note payable to Teletech. During 1997 and 1998, Teletech paid \$7,124 and \$153,065, respectively, in operating expenses on the Company's behalf. Additionally, Teletech charged the Company management fees of \$42,000 and \$60,000 during 1997 and 1998, respectively. As of December 31, 1997 and 1998, the Company's note payable balance to Teletech was \$57,124 and \$270,188, respectively. The Company also reimbursed Teletech directly in cash for various expenses totaling \$4,305 during 1998.

The Company paid Teletech approximately \$30,000 in management fees during the six-month period ended June 30, 1999. On July 1, 1999, the Company assumed the management functions previously provided by Teletech and therefore will no longer pay management fees in the future.

NSCHOOL

The Company owns 25% of the outstanding common stock of nschool (Note 4). In addition to the development of the software, The Company performed services related to the design of nschool's corporate logo for which it charged a total of \$1,462. One of the Company's principal shareholders and its Chairman of the board of directors is also the Chairman of the board of directors of nschool.

## SALE OF COMMON STOCK TO EXECUTIVES

In connection with the sale of the Company's shares to several private investors from November 23, 1998 through June 30, 1999 (Note 6), the Company sold 8,757 shares each of common stock at \$5.71 per share to two executives of the Company.

## 10. SUBSEQUENT EVENTS

### DEBT EXTENSIONS

On July 21, 1999, the Company extended both the Revolving Credit Facility and the note payable with a local commercial lending institution to November 1, 1999. The Company made two payments of \$50,000 each in March and July of 1999 on its note payable to the lending institution.

On August 27, 1999, the two principal shareholders who had previously entered into a lending arrangement with a bank and then loaned the monies to the Company, extended the maturity of that obligation from August 27, 1999 to December 27, 1999. The interest rate was raised from 8.5% to 8.75%.

### DIRECTOR APPOINTMENT

On July 29, 1999, a partner in a law firm which is providing services to the Company with respect to general corporate matters as well as in connection with the Company's

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COMSTAR.NET, INC.

### NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

proposed initial public offering, was one of two directors appointed to the board of directors of the Company. As of June 30, 1999, approximately \$75,000 was due to this law firm for previously provided services. No professional fees were paid to this law firm during the year ended December 31, 1998.

### COMPANY NAME CHANGE

On July 29, 1999, the Company's board of directors unanimously voted to change the name of the Company to comstar.net, inc. from Comstar Communications Corporation, Inc. The name change became legally effective on August 2, 1999. The accompanying financial statements have been modified to reflect that change.

### STOCK OPTION GRANTS

On July 16, 1999, 100,000 option grants were made to an employee of the Company under the Plan at \$5.71 per share. In the opinion of management, these options were granted at management's best estimate of fair market value at the date of grant and thus no compensation expense was recorded.

On September 1, 1999, the Company's board of directors amended the Plan. The Amended and Restated 1999 Stock Option and Incentive Plan (the "Amended Plan") provides for an additional 600,000 shares of the Company's common stock to be available for grant, bringing the total amount of shares available from 1,700,000 (the original amount provided by the Plan) to 2,300,000.

On September 1, 1999, two of the Company's principal shareholders were granted 137,500 options each under the Amended Plan at \$5.71 per share. These options vest immediately upon the date of grant and expire ten years from the date of grant. Compensation expense of approximately \$162,000 was recorded in connection with this grant.

On September 1, 1999, 520,000 option grants were made to certain employees of Teletech under the Amended Plan. These options vest immediately upon the date of grant and expire ten years from the date of grant. Compensation expense of approximately \$3,204,000 was recorded in connection with these grants using the fair value method of accounting as prescribed by SFAS No. 123.

### DIRECTOR STOCK OPTION PLAN

On September 1, 1999, the Company's board of directors approved the



Director Stock Option Plan (the "Director Plan"). This Director Plan provides for the issuance of options to purchase up to 600,000 shares of the Company's common stock. On September 1, 1999, the Company granted 100,000 options each to two of the Company's directors. These options vest one-third immediately upon the date of grant, and then at a rate of one-third per year for the next two years from the date they commenced services as directors. The options expire five years from the date of grant. Compensation expense of approximately \$39,000 was recorded in connection with this grant. The Company's board of directors will

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COMSTAR.NET, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

establish the number of shares, exercise terms, and vesting schedules for all future grants made under the Director Plan.

PROPOSED INITIAL PUBLIC OFFERING OF COMMON STOCK

The Company is in the process of registering with the Securities and Exchange Commission shares of its common stock. There can be no assurance that this offering will be completed.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Athens' ISP, Inc.:

We have audited the accompanying balance sheets of ATHENS' ISP, INC. (a Georgia corporation) as of December 31, 1996 and 1997 and the related statements of operations and shareholders' deficit, and cash flows for each of the two years in the period ended December 31, 1997. 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 Athens' ISP, Inc. as of December 31, 1996 and 1997 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Atlanta, Georgia  
May 28, 1999

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ATHENS' ISP, INC.

BALANCE SHEETS

<TABLE>  
<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ 1,334	\$ 4,603

Accounts receivable, net of allowance for doubtful accounts of \$292 and \$497 in 1996 and 1997, respectively.....	1,653	2,983
Unbilled revenues.....	9,145	28,925
Loan receivable.....	505	0
Prepaid expenses.....	898	5,793
	-----	-----
Total current assets.....	13,535	42,304
	-----	-----
PROPERTY AND EQUIPMENT:		
Computer and telecommunications equipment.....	83,404	95,068
Furniture and fixtures.....	5,594	6,837
Property under capital leases (Note 2).....	47,055	47,055
Software.....	17,633	18,398
	-----	-----
	153,686	167,358
Less accumulated depreciation.....	(23,287)	(53,046)
	-----	-----
Property and equipment, net.....	130,399	114,312
	-----	-----
OTHER ASSETS:		
Organization costs, net of accumulated amortization of \$111 and \$206 in 1996 and 1997, respectively.....	364	269
Acquired Customer Base, net of accumulated amortization of \$0 and \$1,025 in 1996 and 1997, respectively (Note 2).....	0	9,940
	-----	-----
Total other assets.....	364	10,209
	-----	-----
Total assets.....	\$ 144,298	\$ 166,825
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current portion of obligations under capital leases (Note 3).....	\$ 8,268	\$ 9,344
Accounts payable.....	10,296	12,050
Accrued liabilities.....	1,676	5,091
Accrued interest.....	10,010	27,518
Notes payable (Note 4).....	218,308	240,401
	-----	-----
Total current liabilities.....	248,558	294,404
	-----	-----
LONG-TERM LIABILITIES:		
Obligations under capital lease (Note 3).....	13,588	4,244
	-----	-----
SHAREHOLDERS' DEFICIT (NOTE 5):		
Common stock, \$1 par value.....	500	500
Accumulated deficit.....	(118,348)	(132,323)
	-----	-----
Total shareholders' deficit.....	(117,848)	(131,823)
	-----	-----
Total liabilities and shareholders' deficit.....	\$ 144,298	\$ 166,825
	=====	=====

</TABLE>

The accompanying notes are an integral part of these balance sheets.

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ATHENS' ISP, INC.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

<TABLE>

<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
REVENUES:		
Access.....	\$ 109,652	\$ 292,511
	-----	-----
OPERATING EXPENSES:		

Cost of service.....	61,578	96,280
Payroll.....	63,471	106,810
General and administrative.....	27,240	25,200
Rent.....	7,500	14,289
Professional fees.....	3,654	2,241
Insurance.....	4,882	7,576
Depreciation and amortization.....	21,966	30,879
	-----	-----
Total operating expenses.....	190,291	283,275
	-----	-----
OPERATING (LOSS) INCOME.....	(80,639)	9,236
	-----	-----
OTHER (EXPENSES) INCOME:		
Interest expense.....	(9,874)	(23,145)
Other.....	(6,760)	(66)
	-----	-----
Total other (expenses) income.....	(16,634)	(23,211)
	-----	-----
NET LOSS.....	(97,273)	(13,975)
ACCUMULATED DEFICIT, BEGINNING OF YEAR.....	(20,575)	(117,848)
	-----	-----
ACCUMULATED DEFICIT, END OF YEAR.....	\$ (117,848)	\$ (131,823)
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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ATHENS' ISP, INC.

STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (97,273)	\$ (13,975)
	-----	-----
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization.....	21,966	30,879
Gain on sale of equipment.....	0	196
Changes in operating assets and liabilities:		
Accounts receivable, net.....	(1,653)	(1,330)
Unbilled revenues.....	(9,145)	(19,780)
Prepaid expenses.....	(898)	(4,895)
Accounts payable.....	9,620	1,754
Accrued liabilities.....	1,114	3,415
Accrued interest.....	9,643	17,508
	-----	-----
Total adjustments.....	30,647	27,747
	-----	-----
Net cash (used in) provided by operating activities.....	(66,626)	13,772
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net.....	(117,189)	(13,868)
Purchase of customer base.....	0	(10,965)
Loan receivable.....	(505)	505
	-----	-----
Net cash used in investing activities.....	(117,694)	(24,328)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt.....	170,010	39,563
Repayment of debt.....	(6,546)	(17,470)
Obligations under capital lease.....	21,856	(8,268)
	-----	-----
Net cash provided by financing activities.....	185,320	13,825
	-----	-----
NET INCREASE.....	1,000	3,269

CASH AT BEGINNING OF YEAR.....	334	1,334
	-----	-----
CASH AT END OF YEAR.....	\$ 1,334	\$ 4,603
	=====	=====
CASH PAID FOR INTEREST.....	\$ 224	\$ 2,232
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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ATHENS' ISP, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1996 AND 1997

1. ORGANIZATION AND BUSINESS OPERATIONS

Athens' ISP, Inc. (the "Company") (a Georgia corporation) is a local and regional provider of Internet access services to individuals and small businesses. The Company has provided Internet access services since September 1995.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LONG-LIVED ASSETS

The Company carries long-lived assets, as defined, at cost less accumulated depreciation and amortization. Long-lived assets are evaluated periodically for other than temporary impairment. If circumstances suggest that their value may be impaired and the write-down would be material, an assessment of recoverability is performed prior to any write-down of the asset. Impairment, if any, is recognized through a valuation allowance with a corresponding charge recorded in the income statement. Management believes that the long-lived assets in the accompanying balance sheets are appropriately valued.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Expenditures for improvements are capitalized, and replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Depreciation is provided on a straight-line basis over the remaining estimated useful lives, as follows:

<TABLE>		<C>
<S>		
Computers and telecommunications equipment.....		Five years
Furniture and fixtures.....		Seven years
Software.....		Three years
</TABLE>		

PROPERTY UNDER CAPITAL LEASES

The Company leases certain data communication and other equipment under lease agreements accounted for as capital leases. The assets and liabilities under capital leases are recorded at the lesser of the present value of aggregate future minimum lease payments, including estimated bargain purchase options, or the fair value of the assets under lease. Property under capital leases is depreciated over their estimated useful lives of five years, which is longer than the terms of the leases.

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## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## ACQUIRED CUSTOMER BASE

On August 21, 1997, the Company acquired the customer list and related accounts of Interlinks Online, Inc. ("Interlinks") and some related computer and telecommunications equipment under the terms of a purchase agreement. The purchase price was approximately \$18,465, of which \$10,965 was allocated to the customer list and related accounts and \$7,500 was allocated to the equipment acquired. The Company capitalized the cost of the customer list and related accounts and amortizes them over a period of three years.

## INCOME TAXES

The Company is an S corporation and is not subject to corporate level taxes on its net income because such income is attributed to the Company's stockholders and taxes on such income is directly payable by them.

## REVENUE RECOGNITION

The Company's revenues consist primarily of access revenues. Access revenues are recurring revenues received for Internet access and web domain hosting services. Revenue related to access services is recognized as the service is provided. Installation and customer set-up fees are recognized upon completion of the services. Unbilled revenues as of December 31, 1996 and 1997 consist of revenues associated with services provided in advance of billings.

## CREDIT RISK

The Company's accounts receivable potentially subjects the Company to credit risk, as collateral is generally not required. The Company's risk of loss is limited due to the ability to terminate access on delinquent accounts. The carrying amounts of the Company's receivables approximate their fair values as of December 31, 1997 and 1996.

## MAJOR CUSTOMERS

Sales to Kali, Inc. ("Kali"), a computer developer, during 1997 were approximately 35% of the Company's total sales during 1997. No other customer accounted for more than 10% of the Company's sales during 1996 and 1997. As of years ended December 31, 1996 and 1997, respectively, there were no accounts receivable balances due from Kali.

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## NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

## 3. LEASES

## OPERATING LEASES

Beginning in 1997, the Company entered into various noncancelable operating lease agreements for certain telecommunications equipment. The obligations extend through 2000. The following is a schedule of future minimum rent payments required under the leases at December 31, 1997:

<S>	<C>
1998.....	\$21,834
1999.....	18,749
2000.....	4,193
2001.....	0
2002.....	0
Thereafter.....	0
	-----
Total.....	\$44,776
	=====

&lt;/TABLE&gt;

Rent expense for the equipment was \$6,789 for the year ended December 31, 1997 and is included in rent in the accompanying statement of operations and shareholders' deficit. The Company rents office space on a month to month basis. Office rent expense was \$7,500 for the years ended December 31, 1996 and 1997, respectively.

CAPITAL LEASE

The Company leases telecommunications equipment through a noncancelable capital lease agreement. The capital lease obligation totaled \$21,856 and \$13,588 for the years ended December 31, 1996 and 1997, respectively. The capital lease obligation is secured by the telecommunications equipment. The following is a schedule of future minimum payments required under the capital lease at December 31, 1997:

<TABLE>		
<S>		<C>
1998.....	\$10,500	
1999.....	4,375	
	-----	
	14,875	
Less imputed interest.....	(1,287)	
	-----	
Net obligations under capital lease.....	\$13,588	
	=====	

</TABLE>

ATHENS' ISP, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

4. DEBT

Debt at December 31, 1996 and 1997 consisted of the following:

<TABLE>			
<CAPTION>			
		1996	1997
		-----	-----
<S>		<C>	<C>
Note payable to shareholder, interest at 8.27%% and 8.44% for 1996 and 1997, respectively, principal and interest payable on demand.....	\$199,945	\$214,945	
Note payable to Interlinks, payable monthly through September 5, 1998, non-interest bearing.....	0	15,219	
Note payable to shareholder for credit card purchases, non-interest bearing, payable on demand.....	18,363	10,237	
	-----	-----	
Total debt.....	\$218,308	\$240,401	
	=====	=====	

</TABLE>

Following are maturities of the debt as of December 31, 1997 for each of the next five years ending on December 31:

<TABLE>		
<S>		<C>
1999.....	\$240,401	
2000.....	0	
2001.....	0	
2002.....	0	
2003.....	0	
Thereafter.....	0	
	-----	
Total.....	\$240,401	
	=====	

</TABLE>

There were payments of approximately \$65,000, \$75,000, and \$100,000 made July 1998, January 1999, and April 1999, respectively, against the outstanding debt balances.

5. SHAREHOLDERS' DEFICIT

In July 1995, the Company authorized for issuance 10,000 shares of common stock with a \$1 par value. There were 500 shares outstanding at December 31, 1996 and 1997, respectively.

6. COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

The Company is subject to lawsuits arising in the ordinary course of business. In the opinion of management, the ultimate resolution for these pending legal proceedings will not have a material adverse effect on the Company's business or financial condition.

DEPENDENCE ON OTHER INTERNET ACCESS AND TELECOMMUNICATIONS PROVIDERS

The Company depends on other corporations such as Sprint, BellSouth, AT&T, and other facilities-based and nonfacilities-based carriers for the Company's subscribers' access to the Internet. The Company's success depends on the cooperation of interexchange and

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ATHENS' ISP, INC.

NOTES TO FINANCIAL STATEMENTS -- (CONTINUED)

local exchange carriers originating and terminating service in a timely manner. The partial or total loss of the ability to initiate or terminate access to the Internet would result in a loss of revenues and could lead to a loss of subscribers.

7. SUBSEQUENT EVENT

On July 1, 1998, comstar.net,inc. acquired certain assets of Athen's ISP, Inc. under the terms of an asset purchase agreement. The acquisition consisted primarily of Internet access business subscribers and related computer and telecommunications equipment. The purchase price was approximately \$327,000. On the same date, an unrelated party also acquired certain assets of Athens' ISP, Inc. under a separate asset purchase agreement. The acquisition consisted primarily of Internet access individual dial-up subscribers, accounts receivable, and related computer and telecommunications equipment. The purchase price was approximately \$186,000.

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SHARES

(COMSTAR.NET, INC. LOGO)

COMMON STOCK

-----

PROSPECTUS

-----

SCOTT & STRINGFELLOW, INC.  
SUNTRUST EQUITABLE SECURITIES

-----

, 1999

-----

We have not authorized any dealer, salesperson or other person to give you written information other than this prospectus or to make representations as to matters not stated in this prospectus. You must not rely on unauthorized information. This prospectus is not an offer to sell these securities or our solicitation of your offer to buy the securities in any jurisdiction where that would not be permitted or legal. Neither the delivery of this prospectus nor any sales made pursuant to this prospectus after the date of this prospectus shall create an implication that the information contained in this prospectus or the

affairs of comstar.net, inc. have not changed since the date of this prospectus.

Until (25 days after the date of this prospectus), all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

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PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table describes our expenses in connection with the offering described in the registration statement. All amounts are estimates and may be subject to future contingencies except the SEC registration fee and the NASD fees:

<TABLE>	
<S>	<C>
SEC registration fee.....	\$15,150
NASD fees.....	5,948
Nasdaq fees.....	
Blue Sky fees and expenses.....	
Printing and engraving.....	
Legal fees and expenses.....	
Accounting fees and expenses.....	
Transfer agent fees.....	
Miscellaneous expenses.....	
	-----
Total.....	\$
	=====

</TABLE>

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Georgia Business Corporation Code, as amended, permits a corporation to eliminate or limit the personal liability of a director to the corporation or its shareholders for monetary damages for breach of duty of care or other duty as a director, except a corporation cannot eliminate or limit the liability of a director for:

- an appropriation, in violation of his duties, of any business opportunity of the corporation,
- acts or omissions which involve intentional misconduct or a knowing violation of law,
- unlawful corporate distributions, or
- any transaction from which the director received an improper personal benefit.

This provision relates only to breaches of duty by directors in their capacity as directors, and not in any other corporate capacity, such as officers. It limits liability only for breaches of fiduciary duties under the Georgia Code, and not for violation of other laws, such as the federal securities laws. Our articles of incorporation exonerate our directors from monetary liability to the extent described above.

In addition to the rights provided by law that are described above, our bylaws provide broad indemnification rights to our directors and the officers, employees and agents as the directors may select, with respect to various civil and criminal liabilities and losses that may be incurred by the director, officer, agent or employee in any pending or threatened litigation or other proceedings. This indemnification does not apply in the same situations described above with respect to the exculpation from liability of our directors. We are also obligated to reimburse directors and other parties for expenses, including legal fees, court costs and expert witness fees, incurred by those persons in defending against any of these liabilities and losses, as long as the person in good faith believes that he or she complied with the applicable standard of conduct with respect to the underlying accusations giving



rise to the liabilities or losses and agrees to repay to us any advances made under the bylaws if it is ultimately determined that the person is not entitled to indemnification by us. Any amendment or other modification to the bylaws which limits or otherwise adversely affects the rights to indemnification currently provided in the bylaws shall apply only to proceedings based upon actions and events occurring after the amendment and delivery of notice of it to the indemnified parties. In addition, if the Georgia Code is ever amended to permit greater elimination of liability, our articles provide that such greater protection shall be given automatically to our directors without further board or shareholder action unless required by law.

We have entered into separate indemnification agreements with each of our directors and some of our officers. We have agreed, among other things, to provide for indemnification and advancement of expenses in a manner and under terms and conditions similar to those stated in the bylaws. Our shareholders cannot void these agreements. In addition, we hold an insurance policy covering directors and officers under which the insurer agrees to pay, subject to certain exclusions, for any claim made against our directors and officers for a wrongful act that they may become legally obligated to pay or for which we are required to indemnify the directors or officers.

We believe that the above protections are necessary to attract and retain qualified persons as directors and officers.

The underwriting agreement, which is filed as Exhibit 1.1 hereto, also contains the underwriters' agreement to indemnify our directors and officers and some other persons against civil liabilities specified in the agreement.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons under the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. If a claim for indemnification against these liabilities (other than our payment of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by the director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether that indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of that issue.

#### ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

##### (a) Issuances of Capital Stock

In May 1996, we issued and sold 1,000 shares of our common stock to 4 investors in exchange for services and other consideration equal to \$1.00.

In November 1998, we recapitalized comstar.net by converting the 1,000 shares of common stock previously outstanding to 5,000,000 shares of common stock series A and 5,000,000 shares of common stock series B.

Between November 23, 1998 and June 30, 1999, we sold 371,762 shares of common stock series A at a price per share of \$5.71 to 25 investors in a private financing for a total of \$2,122,754 in cash.

##### (b) Certain Grants of Options

As of September 1, 1999, we had issued options to purchase 1,472,250 shares of common stock pursuant to the Amended and Restated 1999 Stock Option and Incentive Plan and options to purchase 200,000 shares of common stock pursuant to the Director Stock Option Plan.

No underwriters were involved in the foregoing sales of securities. Each

issuance of securities described above was made in reliance on one or more of the exemptions from registration provided by Sections 3(a)(11), 3(b), 4(2) and 4(6) of the Securities Act, Regulation D and Rule 701, as promulgated by the SEC under the Securities Act. All recipients of securities in these transactions were either (a) eligible participants in a compensatory plan or (b) accredited investors who represented their intention to acquire the securities for investment purposes only and not with a view to or for the sale in connection with any distribution of those shares. We affixed appropriate legends to the share certificates we issued in those transactions. All recipients of these securities had adequate access, through their relationships with comstar.net, to information about us. All of these securities are deemed restricted securities for purposes of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
1.1*	Form of Underwriting Agreement.
2.1+	Asset Purchase Agreement dated as of June 30, 1998 between Athens' ISP, Inc. and the registrant.
3.1	Amended and Restated Articles of Incorporation dated November 20, 1998 and Articles of Amendment to the Amended and Restated Articles of Incorporation dated July 29, 1999.
3.2*	Form of Amended and Restated Articles of Incorporation to be filed upon the completion of this offering.
3.3	Bylaws.
3.4*	Form of Amended and Restated Bylaws to be effective upon the completion of this offering.
4.1	See Exhibits 3.1 through 3.4 for provisions defining the rights of comstar.net shareholders.
4.2*	Specimen common stock certificate.
4.3	Amended and Restated Shareholder Agreement dated December 1, 1998, and Amendment No. 1 to Amended and Restated Shareholder Agreement dated August 31, 1999.
5.1*	Opinion of Nelson Mullins Riley & Scarborough, L.L.P.
10.1	Amended and Restated 1999 Stock Option and Incentive Plan, including form of Stock Option Agreement attached thereto.
10.2	Director Stock Option Plan, including form of Director Stock Option Agreement attached thereto.
10.3	Form of Indemnification Agreement between comstar.net, inc. and each of its directors and executive officers.
10.4	Lease of office space from Emerson Center Company dated May 2, 1996, and First Amendment to lease dated August 26, 1996.

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EXHIBIT NUMBER	DESCRIPTION
10.5	Lease of office space from Emerson Center Company dated February 5, 1998, First Amendment to Lease dated September 17, 1998 and Second Amendment to lease dated January 7, 1999.
10.6	Form of Agreement between comstar.net and its customers for network services.
10.7	Form of Internet Access Service Addendum to the Network Services Agreement.
10.8	Form of Colocation Service Addendum to the Network Services Agreement.
10.9	Form of Corporate Acceptable Use Policy Addendum to the Network Services Agreement.
10.10	Form of Agreement between comstar.net and its customers for special access services.

10.11 -- Form of Non-Solicitation, Confidentiality and Assignment Agreement between comstar.net, inc. and each of its employees.  
10.12 -- Loan agreement dated July 21, 1999 between Premier Bank and the registrant.  
10.13 -- Modification Note dated July 21, 1999 and loan agreement dated June 22, 1999 between Premier Bank and the registrant.  
10.14 -- Letter Agreement dated July 1, 1998 between Samuel F. Dayton and the registrant relating to repayment of loans to First National Bank of Commerce.  
23.1\* -- Consent of Nelson Mullins Riley & Scarborough, L.L.P. (included in legal opinion to be filed as Exhibit 5.1)  
23.2 -- Consent of Arthur Andersen LLP.  
24.1 -- Power of Attorney (included on signature pages hereto).  
27.1 -- Financial Data Schedule (for SEC use only).  
</TABLE>

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\* To be filed by amendment.

+ We agree to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request, as provided in Item 601(b)(2) of Regulation S-K.

(b) Financial Statement Schedules

Schedule II -- Valuation and Qualifying Accounts

ITEM 17. UNDERTAKINGS.

We hereby undertake to 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 underwriter to permit prompt delivery to each purchaser.

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

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We hereby undertake that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus we file pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on this 10th day of September, 1999.

comstar.net, inc.

By: /s/ SAMUEL F. DAYTON

-----  
 Samuel F. Dayton  
 President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned officers and directors of comstar.net, inc., a Georgia corporation, for himself and not for one another, does hereby constitute and appoint Samuel F. Dayton and Christopher K. Martin, and each of them, his true and lawful attorney-in-fact and agent with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign his name to any and all amendments, including post-effective amendments, to this registration statement, and to sign any registration statement for the same offering covered by this registration statement that is to be effective upon filing pursuant to Section 462(b) of the Securities Act of 1933, and all post-effective amendments thereto, and to cause the same (together with all Exhibits thereto and all documents in connection therewith) to be filed with the SEC, granting unto said attorneys and each of them full power and authority to do and perform each and every act and thing necessary and proper to be done in and about the premises, as fully to all intents and purposes as the undersigned could do if personally present, and each of the undersigned for himself hereby ratifies and confirms all that said attorneys-in-fact and agents or any one of them, or his or their substitute or substitutes, shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities listed and on the dates indicated.

<TABLE>  
 <CAPTION>

SIGNATURES -----	TITLE -----	DATE ----
<C>	<S>	<C>
/s/ J. CARY HOWELL ----- J. Cary Howell	Chief Executive Officer and Director (Principal Executive Officer)	September 10, 1999
/s/ CHRISTOPHER K. MARTIN ----- Christopher K. Martin	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	September 10, 1999

</TABLE>

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<TABLE>  
 <CAPTION>

SIGNATURES -----	TITLE -----	DATE ----
<C>	<S>	<C>
/s/ SAMUEL F. DAYTON ----- Samuel F. Dayton	Chairman of the Board and President	September 10, 1999
/s/ EDWARD N. LANDA ----- Edward N. Landa	Chief Technology Officer, Secretary and Director	September 10, 1999
/s/ JAMES L. BRUCE, JR. ----- James L. Bruce, Jr.	Director	September 10, 1999
/s/ GLENN W. STURM -----	Director	September 10, 1999

-----  
 Stephen R. Gross

</TABLE>

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON  
 FINANCIAL STATEMENT SCHEDULE

To comstar.net, inc.:

We have audited, in accordance with generally auditing standards, the financial statements of COMSTAR.NET, INC. (a Georgia corporation) included in this registration statement and have issued our report thereon dated June 30, 1999 (except with respect to Note 10, as to which the date is September 1, 1999). Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. Item 16(b) of the registration statement is the responsibility of comstar.net's management and presented for purposes of complying with the Securities and Exchange Commission rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

/s/ Arthur Andersen LLP

Atlanta, Georgia  
 June 30, 1999

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SCHEDULE II  
 COMSTAR.NET, INC.

VALUATION AND QUALIFYING ACCOUNTS

<TABLE>  
 <CAPTION>

	BALANCE AT BEGINNING OF YEAR	CHARGED TO COSTS AND EXPENSES	DEDUCTIONS*	BALANCE AT END OF YEAR
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
For the period from:				
March 5, 1996 to December 31, 1996:				
Allowance for doubtful accounts.....	\$ 0	\$ 0	\$ 0	\$ 0
	-----	-----	-----	-----
For the fiscal year ended:				
December 31, 1997: Allowance for				
doubtful accounts.....	\$ 0	\$19,426	\$ 0	\$19,426
	-----	-----	-----	-----
December 31, 1998: Allowance for				
doubtful accounts.....	\$19,426	\$24,039	\$18,018	\$25,447
	-----	-----	-----	-----

</TABLE>

\* Principally charges for which reserves were provided, net of recoveries.

STATE OF GEORGIA

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement is entered into this 30th day of June, 1998, by and between Athens' ISP, Inc., a corporation chartered by the State of Georgia with its principal office in Clarke County, Georgia (hereinafter "Seller") and ComStar Communications, Inc., a corporation chartered by the State of Georgia with its principal office in Cobb County, Georgia (hereinafter "Buyer").

WITNESSETH:

Whereas, Seller owns certain property and leases certain equipment involved in the Internet service provider business; and

Whereas, Buyer desires to purchase said property and to assume said equipment leases as more particularly described herein under the terms and conditions set forth in this document;

Now, therefore, for and in consideration of the premises and the mutual promises, agreements, representations, warranties, and covenants hereinafter set forth, the parties hereto agree as follows:

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1.

The property to be sold consists of the equipment listed in Exhibit "A", attached hereto and made a part hereof, the E-Commerce account with Kali, Inc., the "Real-time Software Sales System", and all of Sellers "Dedicated Business Accounts" (as more specifically described in the next sentence) that are actively in use and service as of 6:00 p.m. on June 30, 1998, including the customer lists, contracts, licenses, rights, title, and interest in the accounts, and the ability to transfer said accounts from Seller to Buyer. The types of Dedicated Business Accounts to be sold include ISDN 128K dedicated, ISDN 64K dedicated, dedicated telephone modem, collocation, and webhosting. All of this will be referred to in this Agreement as "Property".

2.

The closing on the matters set out in this Asset Purchase Agreement will take place at 10:30 a.m. on July 1, 1998, at the law offices of Blasingame, Burch, Garrard, Bryant & Ashley, P.C., 440 College Avenue North, Athens-Clarke County, Georgia.

3.

At the closing, Seller will sell, assign, transfer, convey, and deliver the Property to Buyer free and clear of all liens and encumbrances whatsoever, and Seller will warrant that the sale is made free and clear of all liabilities, obligations, security interests, and encumbrances. Seller will warrant and forever defend the right and title of the above described Property unto the said Buyer, its successors and assigns, against the lawful claims of all persons whomsoever, and Seller will indemnify Buyer fully from any and all said claims of others. Buyer shall assume liability, if any, which arises from or as a result

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of the transferring of accounts billed by credit cards resulting from the existing account holders' credit cards numbers and information being divulged to and transferred to Buyer.

4.

At the closing, Seller agrees to transfer unto Buyer all customer records, lists, profiles, other written or recorded information, contracts, and licenses having to do with the subject Property.

5.

Seller agrees to be responsible for and to pay any tax or similar charge or assessment on the sale or transfer of the Property. Any personal property taxes on the subject Property will be pro-rated between Seller and Buyer as of July 1, 1998. Buyer will take possession of the subject Property as of July 1, 1998.

6.

The purchase price to be paid by Buyer to Seller at closing for the aforesaid Dedicated Business Accounts is set out as follows;

The purchase price is 8.5 times the monetary amount of those accounts for which service is provided as of 6:00 p.m. on June 30, 1998, billed in June, 1998, for a full month's service for accounts billed on a monthly basis; and 8.5 times the monthly pro-rata monetary amount for those accounts for which service is provided as of 6:00 p.m. on June 30, 1998, but for which accounts the customer has paid on a quarterly, semi-annual or annual basis. Accounts

activated after June 1, 1998, and accounts activated after May 1, 1998, billed on a pro-rated bill in June, which are active as of June 30, 1998, will be paid at 8.5 times the minimum charge for such accounts. The accounts will be listed as an exhibit to the Bill of

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Sale to be presented by Seller to Buyer at the closing. Buyer will pay cash at the closing.

An "active" account is defined as an account which has two or fewer open invoices and no unpaid invoices older than 60 days from the invoice date.

An amount subtracted from the above-stated purchase price for the accounts is an amount representing the "prepays", being those customers who have paid in advance for service, and the "prepays" having been received by Seller before July 1, 1998.

All current payments on the accounts invoiced by Seller before July 1, 1998, will belong to Seller. All current payments invoiced by the Buyer on and after July 1, 1998, on the accounts will belong to Buyer.

Buyer will pay to Seller, in cash at closing, the amount of \$33,100.00 for the equipment set out in Exhibit "A".

Buyer will pay to Seller, in cash at closing, the amount of \$245,490.00 in consideration for Seller's giving up its contract with Kali, Inc., for the Kali program and assigning its rights to Buyer. Buyer will enter into a separate contract with Kali, Inc., effective July 1, 1998. This amount of \$245,490.00 will include the consideration paid by Buyer to Seller for the aforementioned Real-time Software Sales System.

7.

The transition period is that period of time between the date of signing this Agreement and the closing on July 1, 1998. During said transition period, Seller will perform all normal billing for the accounts being sold; Seller will use its best efforts to preserve intact the business, organization, and management of Seller's business; Seller will keep available the services of its present officers and employees and conduct business

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in a normal and ordinary manner; Seller will not incur any indebtedness or enter into any material contracts or make any capital expenditure or other commitments which would encumber the Property which is the subject of this Asset Purchase Agreement; Buyer and its auditors will have immediate access to the books and records of Seller.

8.

At the closing, Seller will assign and Buyer will assume the leases on the equipment more fully described in Exhibit "B" attached hereto and made a part hereof, with the terms and conditions of the leases set out, and the two leases for the space in the Butler Building located at 337 South Milledge Avenue, Athens, Georgia, with the Butler Corporation of Athens, Inc., as the Lessor, copies of said leases shown as Exhibit "C", attached hereto and made a part hereof. Seller represents and warrants to Buyer that it has the authority to assign the leases and has the approval of the lessors to so assign these leases. Buyer shall indemnify and hold Seller harmless from any and all claims, costs, liabilities or damages arising from or related to the assumed leases after July 1, 1998, which result from any act, or failure to act by Buyer under the terms and conditions of the assumed leases.

9.

Buyer will assume, for no monetary consideration, all of Seller's accounts receivable for the Dedicated Business Accounts being purchased by Buyer as of July 1, 1998. Seller will have no interest in or responsibility for the accounts receivable after July 1, 1998. Buyer is responsible for all legal actions resulting from future efforts at collecting the

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accounts receivable. Buyer Will keep all amounts received after July 1, 1998, from the accounts receivable. This accounts receivable provision becomes effective at the closing.

10.

Buyer agrees to freeze all pricing on all purchased accounts for a period of three months beginning on July 1, 1998.

11.

Seller and Buyer represent and warrant, each to the other, that they have the capacity and authority to execute and deliver this Agreement, to perform hereunder and to consummate the transactions contemplated hereby without the necessity of any act or consent of any other person whomsoever. This

Agreement constitutes the valid and legally binding obligations of Seller and Buyer, enforceable against them in accordance with their respective terms.

Seller has good title to the Property, assets, and rights transferred herein, and represents and warrants to Buyer that it will have good title at the closing.

Seller agrees to obtain approval of its shareholders and its board of directors of this Agreement and all transactions set out herein, and Seller will present to Buyer evidence of such approval at the closing.

12.

At the closing, Seller and James M. Freeman II will sign a Covenant Not to Compete, with Buyer as the beneficiary of said Covenant, in which Covenant Seller and Freeman will agree that neither will for a period of three years, beginning July 1, 1998, directly or indirectly deal with or be engaged with the sale, servicing, or handling of

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Dedicated Business Accounts, commercial accounts, or E-Commerce accounts in any Internet service provider business within the geographical areas of the State of Georgia serviced by and covered by the telephone area codes of 706, 770, 404, and 678. Seller and Buyer agree and understand that Freeman will become an employee of Buyer beginning on July 1, 1998, and an exception will be made to this provision during the time that Freeman is such an employee of Buyer. Should Freeman end his employment with Buyer for a reason other than being terminated for cause or for a voluntary resignation, Freeman can be involved in the Internet service provider business within the aforementioned geographical areas but cannot be involved as a principal in any business in the capacity as a shareholder, officer, or otherwise, and Freeman will not be involved with a customer or prospective customer of Buyer existing at the time of Freeman's departure from Buyer's employment. Under no circumstance will Freeman use any trade secrets, business methods, or proprietary information gained from Buyer while being an employee of Buyer. Seller and Freeman will agree that they shall not be involved with or provide E-Commerce services for Kali, Inc., in any geographical location.

13.

All notices, requests, demands, and other communications hereunder shall be in writing and shall be delivered by hand during regular business hours or mailed by

registered or certified mail, return receipt requested, first class postage prepaid, addressed as follows:

To Seller: Athens' ISP, Inc.  
c/o Mr. James M. Freeman II  
337 South Milledge Avenue  
Athens, Georgia 30605

To Buyer: ComStar Communications, Inc.  
c/o Mr. Michael A. Dayton  
419 Bradford Street  
Suite A-2  
Gainesville, Georgia 30501

14.

Any failure on the part of Seller, on one hand, and Buyer, on the other hand, to comply with any of their or its obligations, agreements, or conditions hereunder may be waived by the other party to whom such compliance is owed. No waiver of any provision of this Agreement shall be deemed, or shall constitute, a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver.

15.

All expenses incurred by the parties hereto in connection with or related to the authorization, preparation, and execution of this Agreement and the closing of the transactions contemplated hereby, including, without limitation of the generality of the foregoing, all fees and expenses of agents, representatives, counsel and accountants employed by any such party, shall be borne solely and entirely by the party that has incurred the same.

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16.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors, and assigns.

17.

This Agreement constitutes the entire agreement among the parties hereto and supersedes and cancels any prior agreements, representations, warranties, or communications, whether oral or written among the parties hereto relating to the transactions contemplated hereby or the subject matter herein. Neither this Agreement nor any provision hereof may be changed, waived, discharged, or terminated orally, but only by an agreement in writing signed by the party against whom or which the enforcement of such change, waiver, discharge, or termination is sought.

18.

The terms of this Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

19.

This Agreement will be executed in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

20.

Buyer will take possession of the subject property and assume the aforesaid leases effective at the closing set out herein.

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21.

Buyer agrees to waive Seller's compliance with the applicable bulk sale provisions of the Bulk Sales Law of the Uniform Commercial Code as enacted and enforced in the State of Georgia.

22.

All representations, warranties, agreements, covenants, and obligations made or undertaken by Seller in this Agreement or in any document or instrument executed and delivered pursuant hereto are material, have been relied upon by Buyer, shall survive the closing hereunder, and shall not merge in the performance of any obligation by any party hereto. Seller agrees to indemnify and hold Buyer harmless from and against all liability, loss, damages, or injury and all reasonable costs and expenses, including reasonable attorney fees and cost of any suit related thereto, suffered or incurred by Buyer arising from any misrepresentation by or breach of any covenant or warranty of Seller contained in this Agreement.

23.

All of the obligations of Buyer to consummate the transactions contemplated by this Agreement shall be contingent upon and subject to the satisfaction, on or before the closing date, of each and every one of the following conditions:

The representations and warranties made by Seller to Buyer in this Agreement shall be true and correct in all material respects on the closing date with the same force and effect as though such representations and warranties had been made on and as of such time.

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Seller shall have duly performed all of the covenants, acts, and undertakings to be performed by it on or prior to the closing date in all material respects.

At the closing, Seller shall have effected the deliveries required of it pursuant to paragraph 24 below.

No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened, or proposed before any court, governmental agency or legislative body to enjoin, restrain, prohibit, or obtain substantial damages in respect of, or that is related to, or arises out of, this Agreement or the consummation of the transactions contemplated hereby, or that is related to or arises out of the assets or the business of Seller, if such action, proceeding, investigation, regulation or legislation would have a material adverse effect on the Seller's business.

The equipment listed in Exhibits "A" and "B" shall be in the same condition as on the date of the signing of this Agreement, ordinary wear and tear excepted.

Seller's account with Buyer shall have a zero dollar account balance. Seller will expect to be released from all obligations under the present existing agreements between Seller and Buyer. In the event there is an account balance after this release from future performance, at closing, the same should be paid at closing to zero the account.

The cancellation of the Agreement between Seller and Kali, Inc., and the transfer of all of Seller's rights with Kali, Inc. to Buyer.

That Buyer and Kali, Inc. shall have entered into an Agreement effective July 1, 1998.

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24.

At the closing on July 1, 1998, Seller shall deliver to Buyer the following:

- (a) Certificate of good standing of Seller, as of the most recent practicable date, from the Secretary of State of Georgia;
- (b) Certified resolutions of Seller's shareholders and board of directors approving this Agreement and all matters set out herein;
- (c) Bills of sale for the Property set out herein;
- (d) Assignments of the leases set out herein and evidence of approval of said assignments of the leases by the lessors thereto;
- (e) Covenant Not to Compete executed by Seller and James M. Freeman II;
- (f) All documents, books, and records concerning the accounts and equipment being sold;
- (g) Evidence of the cancellation of the Agreement between Seller and Kali, Inc., effective July 1, 1998, so that Buyer may effect its own agreement with Kali, Inc., as hereinbefore set out.

25.

Seller agrees to transfer to Buyer and Buyer agrees to assume all obligations and liabilities thereunder, Seller's contracts with Sprint and BellSouth.

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26.

As has been set out in paragraph 1 of this Agreement, at the closing Seller will transfer to Buyer all of its rights and title in and to its software program designed and written by Seller known as "Real-time Software Sales System", along with all rights, copyrights, and ownership of the software. The

software will include the code, code comments, working notes, documentation, test versions, and compiled software. After the transfer of the software on July 1, 1998, Buyer will have the right to use, change, or sell said software. Seller will make no warranty about the software's properties, abilities, or future performance, and will have no liability for any problems resulting from use of the software. Buyer will agree, if the software is ever made available for public sale in the future, that the creative efforts of Seller would be recognized in the "credits" for the software; however, this recognition will not imply any ownership or right to the software by Seller.

IN WITNESS WHEREOF, each party hereto has executed or caused this Agreement to be executed on its behalf, all on the day and year first above written.

ATHENS' ISP, INC.

By: /s/ James M. Freeman

-----  
President

Attest: /s/ A. Fetahagic-Freeman

-----  
Secretary

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COMSTAR COMMUNICATIONS, INC.

By: /s/ Michael A. Dayton

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Executive Vice President

Attest: /s/ Naen Lawson

-----  
BUYER

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EXHIBIT "A"

SGI R5000 Indy 96MB RAM, 2GB harddrive, CDROM,

w/Maya 1.0 and PowerAnimator 8.1

SGI R5000 Indy 96MB RAM, 6GB harddrive, DAT,  
w/ MIPSpro compiler 7.2

SGI 4xR4400 Challenge L, 256MB RAM, 7GB harddrive, CDROM, DAT,  
w/ IRIX IDO, Wyse terminal

APC Smart-UPS 2200XLNET  
w/SGI IRIX Powerchute Pro and cables

(2) Adtran TSU routers, 1 new, 1 used

Ether switch, (2) Ethernet hubs, (1) rack, (7) desks, (2) bookshelves, (6)  
chairs

Informix Dynamic Online Server, version 7.24.UCI-1 IRIX 6.2, 10 user lic.

Informix Dynamic Server OpenLine (priority support), 10 user lic, ends May 11/99

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EXHIBIT "B"

Cisco 3600 4-slot Modular Router-AC, w/Cisco 3640 IP feature set, network  
module, cards and cables, and maintenance agreement. Balboa Capital  
Corporation Lease #003-12212-01, monthly payment of \$303.99 (29% of  
total monthly amount \$1048.26)

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EXHIBIT C

[Copy of lease dated August 8, 1995 between The Butler Corporation of Athens,  
Inc. and Athens ISP, Inc./James M. Freeman II.]



AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
COMSTAR COMMUNICATIONS, INC.

ARTICLE 1

The name of the Corporation is ComStar Communications, Inc.

ARTICLE 2

The total number of shares of all classes which the Corporation has the authority to issue is 105,000,000, of which: (i) 80,000,000 shares of stock are designated as Common Stock (without designation as to series), without par value per share; (ii) 10,000,000 shares of stock are designated as Common Stock Series A, without par value per share; (iii) 10,000,000 shares are designated as Common Stock Series B, without par value per value; and (iv) 5,000,000 shares are designated as Preferred Stock, without par value per share. The designations, voting powers, preferences, relative rights, qualifications, limitations and restrictions of or on each class and series of stock are as follows:

A. COMMON STOCK

The Corporation's authorized and issued shares of common class stock are hereby renamed "Common Stock," without designation as to series. The Corporation is authorized to issue 80,000,000 shares of Common Stock, without par value per share. Each share of Common Stock shall be entitled to one vote.

The Corporation is authorized to issue 10,000,000 shares of Common Stock Series A, without par value per share. The Common Stock Series A shall have rights that are identical to that of the Common Stock.

The Corporation is authorized to issue 10,000,000 shares of Common Stock Series B, without par value per share. The Common Stock Series B shall have rights that are identical to that of the Common Stock Series A, except that each share of Common Stock Series B shall be entitled to ten (10) votes.

Holder of Common Stock shall be entitled to receive the net assets of the Corporation upon dissolution, except as may be provided in one or more Preferred Stock Designations (as such term is defined below).

Immediately prior to the closing of an Initial Public Offering (as such term is defined below), each issued and outstanding share of Common Stock

Series A and Common Stock Series B will become and be, without further act by the holders of any Common Stock of the Corporation, automatically converted into one share of Common Stock, without designation as to series, and the Board of Directors of the Corporation may thereafter at its election file Articles of Amendment to the Articles of Incorporation without further vote or action by the holders of any Common Stock of the Corporation, whether with or without designation as to series, confirming the elimination of the series designations of Common Stock, which amendment shall amend and restate the first sentence of Article 2 of the

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Corporation's Amended and Restated Articles of Incorporation to read in full as follows:

"The total number of shares of stock of all classes which the Corporation has the authority to issue is 105,000,00, of which 100,000,000 shares are designated as Common Stock and of which 5,000,00 shares are designated as Preferred Stock."

and shall amend and restate Section A of Article 2 of the Corporation's Articles of Incorporation to read in full as follows:

"The Corporation is authorized to issue 100,000,000 shares of Common Stock without par value per share. Each share of Common Stock shall be entitled to one vote. Holders of Common Stock shall be entitled to receive the net assets of the Corporation upon dissolution, except as may be provided in one or more Preferred Stock Designations (as such term is defined below)."

The term "Initial Public Offering" means the offer and sale by the Corporation of its equity securities in a transaction underwritten by an investment banking firm following the completion of which (i) such equity securities will be listed for trading on any national securities exchange or (ii) there will be at least two market makers who are making a market in such equity securities through the Nasdaq National Market System.

#### B. PREFERRED STOCK

In addition to the Common Stock, the Corporation shall have the authority, exercisable by its Board of Directors, to issue up to 5,000,000 shares of Preferred Stock, any part or all of which shares of Preferred Stock may be established and designated from time to time by the Board of Directors by filing an amendment to these Amended and Restated Articles of Incorporation, which shall be effective without shareholder action, in accordance with the appropriate provisions of the Georgia Business Corporation Code (the "GBCC"), and any amendment or supplement thereto (a "Preferred Stock Designation"), in such series and with such preferences, limitations and relative rights as may be determined by the Board of Directors. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of a majority of the votes of the Common Stock, without a vote of the holders of the shares of Preferred Stock, or of any series thereof, unless a vote of any such holders is

required by law or pursuant to the Preferred Stock Designation or Preferred Stock Designations establishing the series of Preferred Stock.

### ARTICLE 3

The corporation shall have not more than 15 directors, and the number of directors shall be fixed by the Board of Directors.

### ARTICLE 4

No director of the Corporation shall be personally liable for monetary damages to the Corporation or its shareholders for breach of the duty of care or any other duty as a director, except that such liability shall not be eliminated for:

(i) any appropriation, in violation of the director's duties, of any business opportunity of the corporation;

(ii) acts or omissions which involve intentional misconduct or a knowing

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violation of law;

(iii) liability under Section 14-2-832 (or any successor provision or redesignation thereof) of the GNCC; and

(iv) any transaction from which the director received an improper personal benefit.

If at any time the GBCC shall have been amended to authorize the further elimination or limitation of the liability of a director, then the liability of each director of the Corporation shall be eliminated or limited to the fullest extent permitted by the GBCC, as so amended, without further action by the shareholders, unless the provisions of the GBCC, as amended, require further action by the shareholders. Any repeal or modification of the foregoing provisions of this Article 4 shall not adversely affect the elimination or limitation of liability or alleged liability pursuant hereto of any director of the Corporation for or with respect to any alleged act or omission of the director occurring prior to such repeal or modification.

### ARTICLE 5

In discharging the duties of their respective positions and in determining what is believed to be in the best interests of the Corporation, the Board of Directors, committees of the Board of Directors and individual directors, in addition to considering the effects of any action on the Corporation or its shareholders, may consider the interests of the employees, customers, suppliers

and creditors of the Corporation and its subsidiaries, the communities in which offices or other establishments of the Corporation and its subsidiaries are located and all other factors such directors consider pertinent; provided, however, that any such provision shall be deemed solely to grant discretionary authority to directors and shall not be deemed to provide to any constituency any right to be considered.

ARTICLE 6

The recapitalization contemplated herein shall be implemented as described in this Article 6. The Corporation presently has outstanding a total of 1,000 shares of its authorized and issued shares of common class stock held by four shareholders, each of whom holds 250 shares. Two of those four shareholders shall exchange a total of 500 shares (250 shares each) of such common capital stock for a total of 5,000,000 shares of Common Stock Series A (or 10,000 shares of Common Stock Series A for each such share of common capital stock). The remaining two shareholders shall exchange a total of 500 shares (250 shares each) of such common capital stock for a total of 5,000,000 shares of Common Stock Series B (or 10,000 shares of Common Stock Series B for each such share of common capital stock). The names of such exchanging shareholders and the series of Common Stock to be issued to them shall be as specified in the resolutions of the Corporation's Board of Directors and shareholders adopting and approving these Amended and Restated Articles of Incorporation.

ARTICLE 7

The mailing address of the principal office of the Corporation is 419 Bradford Street, Suite A-2, Gainesville, Georgia 30501.

All amendments contained herein were duly adopted and approved by the Board of Directors of the Corporation and were duly approved by the shareholders of the Corporation in accordance with the

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4 provisions of Section 14-2-1003 of the GBCC on November 19, 1998.

IN WITNESS WHEREOF, the Corporation has caused these Amended and Restated Articles of Incorporation to be executed by its duly authorized officer as of the 19th day of November, 1998.

COMSTAR COMMUNICATIONS, INC.

By: /s/ Sam F. Dayton

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Sam F. Dayton, President

ARTICLES OF AMENDMENT  
TO THE  
AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
COMSTAR COMMUNICATIONS, INC.

I.

The name of the corporation is ComStar Communications, Inc.

II.

Effective the date hereof, Article One of the Amended and Restated Articles of Incorporation of ComStar Communications, Inc. is amended to read as follows:

"ARTICLE ONE"

"The name of the Corporation is comstar.net, inc."

All other Articles and provisions of the Amended and Restated Articles of Incorporation shall remain in full force and effect.

III.

This amendment was duly approved by the Board of Directors without shareholder action, which was not required, in accordance with Section 14-2-1002 of the Georgia Business Corporation Code on 29th day of July, 1999.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be executed by its duly authorized officer as of the 29th day of July, 1999.

COMSTAR COMMUNICATIONS, INC.

/s/ Sam F. Dayton  
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By: Sam F. Dayton  
Title: President

By-laws of ComStar Communications, Inc.  
Incorporated Under the Laws of the State of Georgia

Registered Agent: Dr. Sam F. Dayton  
Registered Office Address: 419 Bradford ST NW A-2  
Gainesville, Georgia 30501

ARTICLE I - REGISTERED AGENT AND REGISTERED OFFICE. The name and address of the registered agent, which is the same address as the registered office, is stated at the beginning of these by-laws. The corporation may have other offices or branches as determined by the board of directors.

ARTICLE II - FISCAL YEAR. The fiscal year of the corporation may be established by the board of directors and changed from time to time as business needs dictate. The initial fiscal year of the corporation shall run from 12:01 a.m. on the first day of January each year until midnight on the last day of December.

ARTICLE III - MEETINGS OF SHAREHOLDERS.

1. PLACE - Shareholders' meetings shall be held at the registered office of the corporation or at another location determined by the board of directors and stated in the notice of the meeting.
2. DATE - The date of the annual meeting of shareholders shall be on the first Tuesday after April 15th of each year, unless changed by a vote of the board of directors.
3. PURPOSE - The purpose of the annual meeting shall be to elect a board of directors and transact other business as may come before the meeting.
4. SPECIAL MEETINGS - Special meetings of the shareholders may be called by the president, two directors or by the holders of at least 25% of the shares entitled to vote at a meeting. A special meeting may be called anytime for any business reason, unless otherwise prohibited by statute. Such meetings shall be held at the registered office of the corporation.
5. NOTICE - Written notice stating the place, day and time of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than 10 nor more than 50 days before the date of the meeting. If mailed, such notice shall be considered to be delivered when deposited in the United States Postal Service, addressed to the shareholder at his/her address as it appears on the stock transfer books of

the corporation, with the correct amount of first class postage on it.

6. FIXING RECORD DATE - For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or for the purpose of any other action, the board of directors shall fix in advance a date as a record date. The date shall not be more than 50 nor less than 10 days before the meeting, nor more than 50 days prior to any other action.

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Page 2. Bylaws of ComStar Communications, Inc. Article III continued.

7. QUORUM - At any meeting of shareholders a majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum. The shareholders present in person or by proxy at such meeting may continue to do business until adjournment even if this means the withdrawal of enough shareholders to leave less than a quorum. If a quorum is not present, the shareholders present in person or by proxy may adjourn to a date they agree upon,

8. PROXIES - At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or his/her duly authorized attorney in fact. A proxy is not valid after the expiration of 11 months from its date unless otherwise provided in the proxy. A proxy is not invalidated by the death or incompetency of the shareholder, unless, before the authority is exercised, written notice of such an adjudication is received by the corporate office responsible for maintaining the list of shareholders.

9. VOTING - Each outstanding share is entitled to one vote on each matter submitted to a vote. A vote may be cast either orally or in writing in person or by proxy. All elections for directors shall be decided by plurality vote; all other matters shall be decided by majority vote.

10. WAIVER OF NOTICE - Notice of meeting need not be given to any shareholder who signs a waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or in proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by the shareholder.

11. WRITTEN CONSENT OF SHAREHOLDERS - Any action may be taken without a meeting, without prior notice and without a vote if a consent in writing, setting forth the action taken, is signed by the holders of all the outstanding shares entitled to vote on the matter.

12. PARTICIPATION BY TELECOMMUNICATIONS - Participation in a shareholders' meeting may be by means of conference telephone, or similar communications equipment. All persons participating in the meeting must be able to hear each other, be advised of the use of such equipment, and be provided with the names

of individuals using such equipment.

13. ORDER OF BUSINESS - The order of business at all meetings of the shareholders, shall be as follows: a) Roll call; (b) Proof of notice of meeting or waiver of notice; (c) Reading minutes of the preceding meeting; (d) Reports of officers; (e) Report of committees; (f) Election of directors; (g) Unfinished business; (h) New business; (i) Adjournment.

#### ARTICLE IV - DIRECTORS.

1. GENERAL POWERS - The corporation shall be managed by the board of directors.

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Page 3. Bylaws of ComStar Communications, Inc. Article IV continued.

2. NUMBER AND TENURE OF DIRECTORS - The number of directors shall be at least one. Each director shall hold office until the next annual meeting of shareholders and until his/her successor shall have been elected and qualified.

3. NEWLY CREATED DIRECTORSHIPS AND VACANCIES. A vacancy occurring on the board of directors may be filled by the affirmative vote of a majority of the board of directors even if there is less than a quorum of the board of directors. The board of directors so chosen shall hold office until the next annual election of the board of directors by shareholders.

4. REGULAR AND SPECIAL MEETINGS. (a) Regular meetings may be held without notice as determined by the board of directors and must be held at least annually. (b) Special meetings may be called by the president or at least 2 directors on 2 day's notice by mail or 24 hours notice by a telephone or facsimile communication. A brief indication of the nature of the business to be transacted shall be made part of the notice. If mailed, the notice shall be considered delivered when deposited in the United States mail. The notice must be properly addressed and have the correct amount of postage on it. If the notice is by telephone or facsimile, it shall be considered delivered when placed. Records of such notice shall be maintained until the subsequent meeting of the board of directors. (c) Participation in a regular or special meeting may be by means of conference telephone or similar electronic communications equipment. All persons participating in the meeting must be able to hear each other, be advised of the use of such equipment, and be provided with the names of individuals using the equipment.

5. QUORUM. A quorum shall consist of a majority of the board of directors.

6. ACTION BY BOARD WITHOUT A MEETING. Any action required or permitted to be taken pursuant to authorization voted at a meeting of the board of directors or a committee of the board, may be taken without a meeting if before or after the action all member of the board of directors or committee consent to it in



writing. The written consents shall be filed with the minutes of the proceedings of the board of directors or committee.

7. WAIVER OF NOTICE. Attendance of a director at a meeting constitutes a waiver of notice of the meeting except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

8. REMOVAL. Any director may be removed with or without cause by a majority vote of the shareholders.

9. EXECUTIVE AND OTHER COMMITTEES. The board of directors, by resolution, may designate from among its members, to the extent allowable by statute, an executive committee and other committees, each consisting of one or more directors. Each committee shall serve at the pleasure of the board of directors.

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Page 4. Bylaws of ComStar Communications, Inc.

#### ARTICLE V - OFFICERS.

1. NUMBER. The officers of the corporation shall be a president, a chief executive officer, vice presidents in any number determined by the board including an executive vice president, a secretary and a treasurer. From time to time, the board of directors may elect or appoint other officers as needed for the efficient operation of the company.

2. SALARIES. Consistent with applicable laws, the salaries and benefits of the officers shall be established by the board of directors.

3. REMOVAL. (a) Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever, in its judgment, the best interests of the corporation will be served. (b) An officer or agent elected by the shareholders may be removed only by vote of the shareholders, unless the shareholders shall have authorized the board of directors to remove such officer or agent, but the authority of such officer or agent to act for the corporation may be suspended by the board for cause.

4. PRESIDENT. The president shall be the principal officer of the company and shall be charged with the overall management of company affairs of all types. Subject to the control of the board of directors, the president shall supervise and control all of the business of the corporation. The president shall, when present, preside at all meetings of the shareholders and of the board of directors. The president shall have authority to institute or defend legal proceedings when the directors are deadlocked. All agreements, bank accounts, and contracts must have the approval of and bear the signature of the

president in order to be valid.

5. CHIEF EXECUTIVE OFFICER. The chief executive officer shall manage the operational affairs of the company to include sales, engineering, network operations, and other areas directly related to the development and delivery of the technical products and services of the company.

6. VICE-PRESIDENT. In the absence of the president or in the event of the president's death, inability, or refusal to act, the vice-president shall have all the powers and functions of the president and shall perform such other duties as the board of directors shall determine. If there is more than one vice-president, then the executive vice-president, in the event of the above listed disabilities, shall have all the powers and functions of the president and shall perform, under the guidance of the board of directors, such other duties as the board of directors shall determine.

7. SECRETARY. The secretary shall: (a) Attend all meetings of the board of directors and of the shareholders; (b) Record all votes and minutes of all proceedings in a book to be kept for that purpose; (c) Give notice of all meetings of shareholders and of special meetings of the board of directors; (d) Keep in safe custody the seal of the corporation and affix it to any instrument when authorized by the board of directors; (e) When required, prepare and make available at each meeting of shareholders a certified list in alphabetical order of the names of shareholders entitled to vote, indicating the number of shares of each respective class held by each; (f) Keep all the documents and records of the corporation as required by law or otherwise in a proper and safe manner; and (g)

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Page 5. Bylaws of ComStar Communications, Inc. Article V, Item 6. continued.

Perform such other duties as may be assigned by the board of directors or president.

7. TREASURER. The treasurer shall: (a) Have the custody of the corporate funds and securities; (b) Keep full and accurate accounts of receipts and disbursements in the corporate books; (c) Deposit all money and other valuables in the name and to the credit of the corporation in such depositories as may be designated by the board of directors; (d) Disburse the funds of the corporation as may be ordered or authorized by the board of directors and keep vouchers for such disbursements', (e) Give to the president and board of directors at the regular meetings of the board of directors, or whenever they require it, an account of all his/her transactions as treasurer and of the financial condition of the company; (f) Give a full financial report at the annual meeting of the shareholders, if so requested; (g) Perform other duties assigned by the board of directors or president; and (h) If required by the board of directors, give a bond for the faithful discharge of his/her duties in an amount and with such surety or sureties as the board of directors shall determine.

ARTICLE VI - CERTIFICATES FOR SHARES.

1. CERTIFICATES FOR SHARES. Certificates representing shares of the company shall be in the form determined by the board of directors. Such certificates shall be signed by the president and by the secretary or by such other officers authorized by law and by the board of directors. All certificates for shares and date of issue shall be entered on the stock transfer books of the company. All certificates surrendered to the company for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares is surrendered and canceled, except that in the case of a lost, destroyed or mutilated certificate, a new one may be issued upon such terms and indemnity to the corporation as the board of directors may determine.

2. TRANSFER OF SHARES. (a) Upon surrender to the company or the transfer agent of the company of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the company to issue a new certificate to the person entitled to it, and cancel the old certificate; every transfer shall be entered on the transfer books of the company which shall be kept at its principal office. (b) The company shall be entitled to treat the holder of record of any share as the holder in fact of it, shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any person whether or not it shall have express or other notice thereof, except as expressly provided by the laws of this state.

ARTICLE VII - INDEMNIFICATION.

The company shall indemnify to the extent allowed by the corporation statutes of the State of Georgia any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that the person is or was a director, officer, employee or agent of the company or served any other enterprise at the request of the company. The person to be indemnified must have acted in good faith and in a manner he/she reasonably believed to be in or not

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Page 6. Article VII - Indemnification continued.

opposed to the best interests of the company or its shareholders, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his/her conduct was unlawful.

ARTICLE VII - DIVIDENDS.

The board of directors may declare and pay dividends or make other

distributions in cash, its bonds or its property, including the shares or bonds of other companies, on its outstanding shares.

ARTICLE IX - AMENDMENTS.

These by-laws may be altered, amended or repealed and new by-laws may be adopted by a vote of the shareholders representing a majority of all the shares issued and outstanding at any annual shareholders' meeting or at any special shareholders' meeting when the proposed amendment has been stated in the notice of such meeting.

STATE OF GEORGIA  
COUNTY OF HALL

AMENDED AND RESTATED  
SHAREHOLDER AGREEMENT

THIS AMENDED AND RESTATED AGREEMENT, effective as of the first day of December 1998, is made by and among Sam F. Dayton, James Cary Howell, Edward N. Landa, and James L. Bruce, Jr., (hereinafter referred to as the "Shareholders"), and ComStar Communications, Inc., a Georgia corporation (the "Corporation"). The Shareholders hold all of the issued and outstanding shares of Common Stock (including all outstanding shares of both series of Common Stock; the "Shares"). The Shareholders wish to further their mutual interests in the Corporation, as well as the interests of the Corporation, by imposing certain restrictions and obligations on the transfer of their Shares, and on other aspects of their mutual agreements.

NOW, THEREFORE, in consideration of the mutual promises contained herein and the sum of One Dollar (\$1.00) paid by each party to the other, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I. RESTRICTIONS ON TRANSFERS

No Shareholder may sell, transfer, assign, hypothecate, or otherwise alienate any of his Shares, now or hereafter owned by him, without the written consent of all other Shareholders, except by giving notice to all other Shareholders at least thirty (30) days prior to the date of the proposed transfer. Such notice must be made by certified mail, return receipt requested and shall set forth the exact provisions of the proposed transfer. The receipt by the Shareholders of such notice will create an option in each of the other Shareholders to purchase the Shares proposed to be transferred by such Shareholder. The Secretary, or any other officer, shall, within five (5) days of receipt of such notice, give notice of such proposed transfer to all of the other Shareholders, and they shall have the opportunity to exercise their options in the manner provided herein. Any sale or transfer or purported sale or transfer of such Shares shall be null and void unless the terms, conditions, and provisions of this agreement are strictly observed and followed.

ARTICLE II. DEATH; INVOLUNTARY TRANSFER

Each Shareholder agrees that upon his death or upon an involuntary transfer by operation of law, of all or a portion of his Shares, the other Shareholders shall have an option to purchase all of the Shares transferred,

whether by his death or otherwise. Upon the death of a Shareholder, the executor or administrator, or upon a transfer, the person acquiring such Shares (in any such case, the "Transferor") shall promptly notify the Secretary of the Corporation of such death or transfer. The Secretary shall, within five (5) days of receipt of such notification, give notice of such death or transfer to all of the other Shareholders, and they shall have the opportunity to exercise their options in the manner provided herein. In the event that Shareholders elect to purchase such Shares, the Transferor shall sell such Shares to those Shareholders purchasing same.

#### ARTICLE III. TERMINATION OF OPTION

The option to purchase Shares pursuant to Article I hereof shall terminate on the date set for the proposed transfer; provided, however, that if notice of the proposed transfer is delivered to the Shareholders and the Corporation less than thirty (30) days from the date of such delivery, the option to purchase Shares pursuant to Article II above shall terminate thirty (30) days after the delivery of notice to the Corporation of the death of a Shareholder or of a transfer of Shares. If options to purchase shares are not exercised in accordance with the procedure outlined in the agreement, the Shares (a) may be transferred to the proposed transferee as provided in Article I, or (b) transferred in due course in either case described in Article II without further restriction on such transfer (but only in the same manner and on the same terms and conditions as set forth in the notice of proposed transfer), and said transfer shall be valid and binding; provided, however, that the transferee, in any case, executes, and agrees to become subject to, this agreement; and provided, further, that such stock cannot be further transferred except in accordance with the terms and conditions of this agreement.

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#### ARTICLE IV. EXERCISE OF OPTION

Each Shareholder may exercise his option to purchase all or any portion of the Shares transferred or proposed to be transferred by delivering written notice, by certified mail, return receipt requested, or by hand delivery, to the Secretary of the Corporation of his election to purchase, not less than five (5) days prior to the expiration of the option period, indicating the number of Shares he elects to purchase. If the total number of Shares which such Shareholder elects to purchase exceeds the number of Shares available for purchase, the number of available shares shall be allocated by the Corporation among the electing Shareholders on the basis of the number of Shares held by each such electing Shareholder; provided, however, that the options may be partially exercised by the other Shareholders with the remainder available for sale by the Shareholder electing to sell his shares. If the Shareholders elect to purchase any Shares, the Corporation shall immediately deliver written notice of such election, by certified mail, return receipt requested, to the

Shareholder proposing such transfer or the Transferor, setting forth the names of each of the Shareholders who have elected to purchase Shares and the number of Shares purchased by each of such Shareholders. Upon such notification, the Shareholder proposing the transfer of such Shares or the Transferor shall sell such Shares to the Shareholders electing to purchase such Shares, on the terms and conditions provided herein.

#### ARTICLE V. PURCHASE PRICE

A. If there is a bonafide offer for the purchase of the Shares proposed to be transferred, the purchase price per Share shall be the total purchase price offered by the prospective purchaser divided by the number of Shares proposed to be transferred.

B. If there is no such bona fide offer or if the Shares have been transferred involuntarily or by operation of law, or by the death of the Shareholder, the purchase price per Share shall be the fair market value of such Shares as determined by agreement of the Transferor, or the Shareholder proposing to transfer such Shares, and those Shareholders electing to purchase such Shares.

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C. If the parties are unable to agree upon a value as provided in subsection B the provisions of this subsection shall control the valuation of the Shares rather than the preceding subsection. The electing Shareholders, as a group, shall nominate an appraiser, and either the Transferor or the Shareholder proposing such transfer, as applicable, shall nominate an appraiser to determine the value of such Shares. If the two appraisers are unable to agree upon the value of such Shares, both appraisers shall agree upon and appoint a third appraiser to value such Shares. The opinion of the majority of the three appraisers shall be conclusively binding on all of the parties concerned.

#### ARTICLE VI. METHOD OF PAYMENT

The purchase price of the Shares purchased shall be paid in cash. The certificates for the shares shall be endorsed by the Shareholder proposing the transfer, or by the Transferor, and delivered to the purchasing Shareholder(s) or surrendered directly to the Corporation for issuance of a new certificate to the purchasing Shareholder(s).

#### ARTICLE VII. DELIVERY OF SHARES

The Shareholder proposing the transfer or the Transferor shall endorse and deliver the certificates evidencing the transferred Shares to the Shareholder(s) or the Corporation at the time the payment of the purchase price is made as set forth herein. From the time of such transfer, the persons

purchasing such Shares shall be treated as the full owners of such Shares and will be so registered on the books of the Corporation, and will have full rights otherwise incident to such Shares.

#### ARTICLE VIII. INSURANCE

[Intentionally omitted.]

#### ARTICLE IX. LEGAL REMEDIES ON DEFAULT

In the event a default by a Shareholder (a "defaulting Shareholder") in any payment on the purchase of Shares hereunder continues for a period of more than 60 days after notice to the defaulting Shareholder(s), the person required to sell such Shares hereunder ("Seller") may, at his option, elect to sell such Shares elsewhere. The Seller may also

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agree with the defaulting Shareholder(s) to alter the terms for the payment of the purchase price; provided, however, that the Seller may only rescind the sale if all other Shareholders agree to the rescission.

#### ARTICLE X. SPECIFIC PERFORMANCE

The Shareholders agree that the Shares of the Corporation cannot be readily purchased, sold, or evaluated in the open market, that they have a unique and special value, and the Shareholders would be irreparably damaged if the terms of this agreement were not capable of being specifically enforced, and for this reason the Shareholders agree that the purchase of the Shares in accordance with terms of this agreement shall be specifically enforceable. The Shareholders further agree that any sale or disposition which does not strictly comply with the terms and conditions of this agreement may be specifically restrained, and that such equitable relief provided herein shall not in any way limit or deny any other remedy at law which a Shareholder might otherwise have.

#### ARTICLE XI. RESTRICTIONS ON CERTIFICATES

The Shareholders agree that all Share certificates now or hereafter held by them will be stamped with the following legend prominently on the front of the certificate, reading as follows:

"THIS SHARE CERTIFICATE IS SUBJECT TO RESTRICTIONS ON TRANSFER. SEE BACK."

The back side of the certificate is to carry the following endorsement:

"THE SHARES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS AND OPTIONS IN REGARD TO ITS PURCHASE AND TRANSFER BY THE PROVISIONS OF A



ARTICLE XII. NOTICE

All notices under this agreement shall be mailed to the parties at the addresses provided under their signatures, provided that any party may change his mailing address by delivering written notice of such new address to the Corporation.

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ARTICLE XIII. TERM

A. This agreement shall terminate and the certificates representing the shares subject to this Agreement shall be released from the terms of this Agreement on the occurrence of the earliest to occur of the following events:

(i) the consummation of a Qualified Initial Public Offering (as defined below) of the Common Stock of the Company.

(ii) written agreement of the Company and the parties whose vote is sufficient to amend this agreement as provided below; or

(iii) dissolution of the Company.

"Qualified Initial Public Offering" shall mean the offer and sale by the Corporation of its equity securities in a transaction underwritten by an investment banking firm following the completion of which (i) such equity securities will be listed for trading on any national securities exchange or (ii) there will be at least two market makers who are making a market in such equity securities through the Nasdaq National Market System.

B. Notwithstanding anything to the contrary contained in this agreement, it shall terminate 20 years from the effective date unless it is renewed within the 20-year period provided in O.C.G.A. Section 14-2-731. Amendments to this agreement shall be deemed renewals of this Agreement unless the amendment states to the contrary. If not sooner terminated, this agreement shall terminate 21 years after the death of the last to die of any individual Shareholder of the Company living at the date of this Agreement.

C. Upon the termination of this agreement as provided above, the share certificates held by each Shareholder shall be surrendered to the Company and the Company shall issue new certificates for the same number of shares but without the legend required by this agreement.

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## ARTICLE XIV. INUREMENT

Subject to the restrictions against the transfer or assignment as herein contained, the provisions of this agreement shall inure to the benefit of and shall be binding upon the assigns, successors in interest, personal representatives, estates, heirs, and legatees of each of the parties hereto. Each of the Shareholders agrees that he will not hypothecate or otherwise create or suffer to exist any lien, claim, or encumbrance upon any of his shares at any time subject hereto, other than the encumbrance created by this agreement.

## ARTICLE XV. AMENDMENT

Neither this agreement nor any provision hereof may be waived, modified, terminated or amended except by a written agreement signed by the Company and the Shareholders holding at least two thirds (2/3) of the Common Stock (including shares of all series of Common Stock then outstanding, voting as one voting group) issued and outstanding and entitled to vote then held by all Shareholders. Any waiver by any party of a breach of any provision of this agreement shall not operate or be construed as a waiver of any subsequent breach of that provision or of any other provision hereof. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as any other party may reasonably require in order to effectuate the terms and purposes of this agreement.

## ARTICLE XVI. MISCELLANEOUS PROVISIONS

A. This agreement may be executed in any number of counterparts and each such counterpart shall be deemed to be an original instrument.

B. The parties acknowledge that they are entering into this agreement freely and voluntarily; that they have ascertained and weighed all the facts and circumstances likely to influence their judgment herein; that they have sought and obtained legal advice independently of each other; that they have been duly apprised of their respective legal rights; that all the provisions hereof, as well as all questions pertaining thereto, have been fully and satisfactorily explained to them; that they have given due consideration to such

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provisions and questions and that they clearly understand and assent to all the provisions hereof.

C. Each party shall, at the other party's request at any time hereafter, take any and all steps and execute, acknowledge and deliver any and

all further instruments and assurances that the other party may reasonably require for the purpose of carrying out the provisions of this agreement.

D. This agreement is and shall be deemed to be a Georgia agreement, and shall be governed and construed in all respects by and in accordance with the laws of the State of Georgia.

E. Time is of the essence of this agreement and all of its terms, conditions and provisions.

F. This agreement supersedes any and all other agreements, whether oral or in writing, between the parties with respect to this agreement, and this agreement contains all of the covenants and agreements between the parties with respect to the subject matter of this agreement in any manner whatsoever. Each party to this agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any party, or anyone acting on behalf of any party, that are not embodied in this agreement, and that no other agreement, statement, or promise not contained in this agreement shall be valid or binding.

G. If any paragraph, subparagraph, sentence, clause, phrase, or any portion of this agreement be declared invalid or unconstitutional by any Court of competent jurisdiction, or if the provisions of any part of this agreement as applied to any particular situation or set of circumstances shall be declared invalid or unconstitutional, such invalidity shall not be construed to affect the portions of this agreement not so held to be invalid, or the application of this agreement to other circumstances not so held to be invalid. It is hereby declared to be the intent of the parties to this agreement to provide for separable and divisible parts, and to hereby adopt any and all parts hereof as may not be held invalid for any reason.

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H. In the event of a breach or threatened breach by either party of the obligations under this agreement, the parties acknowledge that the non-breaching party will not have an adequate remedy at law and shall be entitled to such equitable and injunctive relief as may be available to restrain the breaching party from the violation of the provisions of this agreement. Nothing in this paragraph shall be construed as prohibiting the other party from pursuing any other remedies available for breach or threatened breach of this agreement, including the recovery of damages from the breaching party.

I. If any action at law or in equity is necessary to enforce or interpret the terms of this agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs, and necessary disbursements in addition to any other relief to which that party may be entitled.

J. The duties and obligations imposed by this agreement and the rights and remedies available hereunder shall be in addition to, and not in limitation of, any duties, obligations, rights and remedies otherwise imposed or available at law.

K. No action or failure to act or to insist in any one or more instances upon the strict performance of any one or more of the provisions of this agreement, or to exercise any right herein contained or provided by law by any party hereto, shall constitute a waiver of any right or duty afforded him under this agreement, nor shall any such action or failure to act constitute an approval of or acquiescence in any breach hereunder, nor shall it be construed as a waiver of the right to subsequently demand strict performance or exercise such rights, and the rights shall continue unchanged and remain in full force and effect, except as may be specifically agreed in writing.

L. Additional holders of Shares may join into this Agreement by executing an agreement to be bound by all of the terms and conditions hereof, which may be evidenced by the signing of a signature page in the form attached hereto. Such additional shareholders shall be bound by all of the terms and shall receive all of the benefits of this agreement on par with the original signatory shareholders.

IN WITNESS WHEREOF, the parties hereto have executed this agreement under seal on the dates indicated by their signatures, to be effective as of the first day of December, 1998.

[Signatures begin on following page.]

SHAREHOLDERS

Date: -----

/s/ Sam F. Dayton

----- (SEAL)

Sam F. Dayton

Address:

-----

-----

Date:

-----

/s/ James C. Howell

----- (SEAL)

James Cary Howell

Address:

-----

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Date:

-----

/s/ Edward N. Landa

----- (SEAL)

Edward N. Landa

Address:

-----

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Date:

-----

/s/ James L. Bruce

----- (SEAL)

James L. Bruce, Jr.

Address:

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COMSTAR COMMUNICATIONS, INC.

BY: /s/ Sam F. Dayton  
-----

Dr. Sam F Dayton, President

(Corporate Seal)

/s/ Edward N. Landa  
-----

ATTEST:

Secretary

COMSTAR COMMUNICATIONS, INC. SHAREHOLDER AGREEMENT

SIGNATURE PAGE FOR ADDITIONAL SHAREHOLDERS

Date:

-----

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Signature

-----

Please print name

Address:

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AMENDMENT NO. 1 TO

AMENDMENT NO. 1 dated this 31st day of August, 1999 by and among comstar.net, inc. (the "Corporation") and the Shareholders that are parties to the Amended and Restated Shareholder Agreement, dated as of December 1, 1998, by and among the Corporation and the Shareholders (the "Original Agreement").

WHEREAS, the Shareholders wish to further their mutual interests in the Corporation, as well as the interests of the Corporation, by amending the Original Agreement to permit certain transfers of stock, and

WHEREAS, Article XV of the Original Agreement permits amendment of the Original Agreement by written agreement signed by certain of the Shareholders,

NOW THEREFORE, in consideration of the mutual premises contained herein, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. Article I of the Original Agreement is hereby amended and restated in its entirety to read as follows:

"(a) No Shareholder may sell, transfer, assign, hypothecate, or otherwise alienate any of his Shares, now or hereafter owned by him, without the written consent of all other Shareholders, except by giving notice to all other Shareholders at least thirty (30) days prior to the date of the proposed transfer. Such notice must be made by certified mail, return receipt requested and shall set forth the exact provisions of the proposed transfer. The receipt by the Shareholders of such notice will create an option in each of the other Shareholders to purchase the Shares proposed to be transferred by such Shareholder. The Secretary, or any other officer, shall, within five (5) days of receipt of such notice, give notice of such proposed transfer to all of the other Shareholders, and they shall have the opportunity to exercise their options in the manner provided herein. Any sale or transfer or purported sale or transfer of such Shares shall be null and void unless the terms, conditions, and provisions of this agreement are strictly observed and followed.

(b) Notwithstanding the foregoing, a Shareholder may freely transfer any of his Shares at any time to Family Members whether or not for adequate consideration, by gift, assignment, sale, will, joint tenancy with right of survivorship, bequest, devise, intestacy or otherwise. Such transfers may be made outright or in trust, in fee or lesser estate, or held under a guardianship, conservatorship, or custodian arrangement. The Shareholders hereby consent to any such transfer without compliance with the prior notice and approval

Shareholders the option to purchase the transferred Shares described in paragraph (a) above. Solely for purposes of this Article I, "Family Member" shall mean the spouse, issue (including, step-children and their issue), siblings, parents, siblings-in-law and parents-in-law of the Shareholder; any trust created for the exclusive benefit of one or more of such persons; and any entity owned entirely by the Shareholder and/or one or more of the Shareholder's Family Members."

2. All other provisions and agreements of the Original Agreement shall remain unchanged.

[Signatures appear on the following page.]

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IN WITNESS WHEREOF, the undersigned have executed this Amendment No. 1 under seal, to be effective as of the date on which holders of two thirds of the outstanding Common Stock have signed this Amendment No. 1.

CORPORATION:

comstar.net, inc.

By: /s/ Sam F. Dayton  
-----

Name: Sam F. Dayton  
Title: Chairman/President

SHAREHOLDERS:

date: 08-31-99  
-----

/s/ Sam F. Dayton  
-----

Samuel F. Dayton

date: 27-Aug-99  
-----

/s/ James Cary Howell  
-----

James Cary Howell

date: 8/27/1999

/s/ Edward N. Landa



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date: 8/28/99  
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Edward N. Landa

-----  
/s/ James L. Bruce  
-----

James L. Bruce, Jr.

date:  
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Alan Crumley

date:  
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Frank Wiegend

date:  
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T. Graham Hood

date:  
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David Thompson

date:  
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Donald Thompson

date:  
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E. Davison Burch

date:  
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Don Waldrip

date:  
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L.G. Hardman, III

date:  
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Jesse A. Carter

date:  
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Pierpont F. Brown

date:  
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Steve Wadley

date:  
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Charles W. Blair Jr.

date:  
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Edward Klein, III

date:  
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John David Boonstra

date:  
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Richard Hoving, Jr.

date:  
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Vince Dooley

date:  
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Barbara Dooley

Mauney Family Trust

date:  
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By: \_\_\_\_\_

date:  
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George D. Jones

date:  
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James M. Intoccio

date:

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date:

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James Atherton

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date:

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Kay S. Swanson

-----  
date:

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Steven J. Edwards

-----  
date: 8/27/99

-----  
Samuel D. Holmes

/s/ Chris K. Martin

-----  
Christopher K. Martin

-----  
date:

-----  
Arie A. Buurman

COMSTAR.NET, INC.

AMENDED AND RESTATED 1999 STOCK OPTION AND INCENTIVE PLAN

COMSTAR.NET, INC.

AMENDED AND RESTATED 1999 STOCK OPTION AND INCENTIVE PLAN

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comstar.net, inc.  
 AMENDED AND RESTATED 1999 STOCK OPTION AND INCENTIVE PLAN

ARTICLE 1  
 DEFINITIONS

As used in this Plan, the following terms have the following meanings unless the context clearly indicates to the contrary:

"Award" means a grant of Restricted Stock or an SAR.

"Board" means the Board of Directors of the Company.

"Cause" means (i) the commission of an act of fraud, embezzlement, theft or proven dishonesty, or any other illegal act or practice (whether or not resulting in criminal prosecution or conviction), including theft or destruction of property of the Company, a Parent, or a Subsidiary, or any other act or practice which the Committee shall, in good faith, deem to have resulted in the recipient's becoming unbondable under the Company's, a Parent's or any Subsidiary's fidelity bond; (ii) the willful engaging in misconduct which is deemed by the Committee, in good faith, to be materially injurious to the Company, a Parent or any Subsidiary, monetarily or otherwise, including, but not limited, improperly disclosing trade secrets or other confidential or sensitive business information and data about the Company, a Parent or any Subsidiaries and competing with the Company, a Parent or any Subsidiaries, or soliciting employees, consultants or customers of the Company, a Parent or any Subsidiaries in violation of law or any employment or other agreement to which the recipient is a party; (iii) the willful and continued failure or habitual neglect by a person who is an Employee to perform his or her duties with the Company, a Parent or any Subsidiary substantially in accordance with the operating and personnel policies and procedures of the Company, Parent or the Subsidiary generally applicable to all their employees; or (iv) other disregard of rules or policies of the Company, a Parent or any Subsidiary, or conduct evincing willful or wanton disregard of the interests of the Company, a Parent or any Subsidiary. For purposes of this Plan, no act or failure to act by the recipient shall be deemed be "willful" unless done or omitted to be done by recipient not in good faith and without reasonable belief that the recipient's action or omission was in the best interest of the Company and/or the subsidiary. Notwithstanding the foregoing, if the recipient has entered into an employment agreement that is binding as of the date of employment termination,

and if such employment agreement defines "Cause," then the definition of "Cause" in such agreement shall apply to the recipient in this Plan. "Cause" shall be determined by the Committee based upon information presented by the Company and the Employee and shall be final and binding on all parties hereto.

"Code" means the United States Internal Revenue Code of 1986, including effective date and transition rules (whether or not codified). Any reference herein to a specific section of the Code shall be deemed to include a reference to any corresponding provision of future law.

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"Committee" means a committee of at least two Directors appointed from time to time by the Board, having the duties and authority set forth herein in addition to any other authority granted by the Board; provided, however, that with respect to any Options or Awards granted to an individual who is also a Section 16 Insider, the Committee shall consist of either the entire Board of Directors or a committee of at least two Directors (who need not be members of the Committee with respect to Options or Awards granted to any other individuals) who are Non-Employee Directors, and all authority and discretion shall be exercised by such Non-Employee Directors, and references herein to the "Committee" means such Non-Employee Directors insofar as any actions or determinations of the Committee shall relate to or affect Options or Awards made to or held by any Section 16 Insider. In selecting the Committee, the Board shall also consider the benefits under Section 162(m) of the Code of having a Committee composed of "outside directors" (as that term is defined in the Code) for certain grants of Options to highly compensated executives. At any time that the Board shall not have appointed a committee as described above, any reference herein to the Committee means a reference to the Board.

"Company" means comstar.net, inc., a Georgia corporation.

"Corporate Transaction" means any of the following transactions to which the Company is a party:

- (i) a merger, consolidation, share exchange, combination or other transaction or series of transactions (other than a public offering by the Company for cash of the Company's capital stock, debt or other securities) in which securities possessing more than 50% of the total combined voting power of the Company's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction;
- (ii) the sale, transfer or other disposition of all or substantially all of the Company's assets;
- (iii) the liquidation or dissolution of the Company; or
- (iv) A change in the composition of the Board as a result of which fewer than one-half of the incumbent directors are directors who either:
  - (a) Had been directors of the Company 24 months prior to such change; or
  - (b) Were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors who had been directors of the Company 24 months prior to such change and who were still in office at the time of the election or nomination.

"Director" means a member of the Board and any person who is an advisory or honorary director of the Company if such person is considered a director for the purposes of Section 16 of

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the Exchange Act, as determined by reference to such Section 16 and to the rules, regulations, judicial decisions, and interpretative or "no-action" positions with respect thereto of the SEC, as the same may be in effect or set forth from time to time.

"Employee" means an employee of the Employer.

"Employer" means the corporation that employs a Grantee.

"Exchange Act" means the Securities Exchange Act of 1934. Any reference herein to a specific section of the Exchange Act shall be deemed to include a reference to any corresponding provision of future law.

"Exercise Price" means the price at which an Optionee may purchase a share of Stock under a Stock Option Agreement.

"Fair Market Value" on any date means (i) the closing sales price of the Stock, regular way, on such date on the national securities exchange having the greatest volume of trading in the Stock during the thirty-day period preceding the day the value is to be determined or, if such exchange was not open for trading on such date, the next preceding date on which it was open; (ii) if the Stock is not traded on any national securities exchange, the average of the closing high bid and low asked prices of the Stock on the over-the-counter market on the day such value is to be determined, or in the absence of closing bids on such day, the closing bids on the next preceding day on which there were bids; or (iii) if the Stock also is not traded on the over-the-counter market, the fair market value as determined in good faith by the Board or the Committee based on such relevant facts as may be available to the Board, which may include opinions of independent experts, the price at which recent sales have been made, the book value of the Stock, and the Company's current and anticipated future earnings.

"Grantee" means a person who is an Optionee or a person who has received an Award of Restricted Stock or an SAR.

"Incentive Stock Option" means an option to purchase any stock of the Company, which complies with and is subject to the terms, limitations and conditions of Section 422 of the Code and any regulations promulgated with respect thereto.

"Non-Employee Director" shall have the meaning set forth in Rule 16b-3 under the Exchange Act, as the same may be in effect from time to time, or in any successor rule thereto, and shall be determined for all purposes under the Plan according to interpretative or "no-action" positions with respect thereto issued by the SEC.

"Officer" means a person who constitutes an officer of the Company for the purposes of Section 16 of the Exchange Act, as determined by reference to such Section 16 and to the rules, regulations, judicial decisions, and interpretative or "no-action" positions with respect to such rule of the SEC, as the same may be in effect or set forth from time to time.

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"Option" means an option, whether or not an Incentive Stock Option, to purchase Stock granted pursuant to the provisions of Article 6 of this Plan.

"Optionee" means a person to whom an Option has been granted under this Plan.

"Parent" means any corporation (other than the Employer) in an unbroken chain of corporations ending with the Employer if, at the time of the grant (or modification) of the Option, each of the corporations other than the Employer owns stock possessing 50 percent or more of the total combined voting power of the classes of stock in one of the other corporations in such chain.

"Permanent and Total Disability" has the same meaning as given to that term by Code Section 22(e)(3) and any regulations or rulings promulgated thereunder.

"Plan" means the comstar.net, inc. Amended and Restated 1999 Stock Option and Incentive Plan, the terms of which are set forth herein.

"Purchasable" refers to Stock which may be purchased by an Optionee under the terms of this Plan on or after a certain date specified in the applicable Stock Option Agreement.

"Qualified Domestic Relations Order" has the meaning set forth in the Code or in the Employee Retirement Income Security Act of 1974, or the rules and regulations promulgated under the Code or such Act.

"Reload Option" has the meaning set forth in Section 6.8 of the Plan.

"Restricted Stock" means Stock issued, subject to restrictions, to a Grantee pursuant to Article 6 of this Plan.

"Restriction Agreement" means the agreement setting forth the terms of an Award, and executed by a Grantee as provided in Section 7.1 of this Plan.

"SAR" means a stock appreciation right, which is the right to receive an amount equal to the appreciation, if any, in the Fair Market Value of a share of Stock from the date of the grant of the right to the date of its payment, all as provided in Article 8 of this Plan.

"SAR Price" means the base value established by the Committee for a SAR on the date the SAR is granted and which is used in determining the amount of benefit, if any, paid to a Grantee.

"SEC" means the United States Securities and Exchange Commission.

"Section 16 Insider" means any person who is subject to the provisions of Section 16 of the Exchange Act, as provided in Rule 16a-2 promulgated pursuant to the Exchange Act.

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"Stock" means the Common Stock, no par value per share, of the Company or, in the event that the outstanding shares of Stock are hereafter changed into or exchanged for shares of a different stock or securities of the Company or some other entity, such other stock or securities.

"Stock Option Agreement" means an agreement between the Company and an Optionee under which the Optionee may purchase Stock under this Plan, a sample form of which is attached hereto as Exhibit A (which form may be varied by the Committee in granting an Option).

"Subsidiary" means any corporation (other than the Employer) in an unbroken chain of corporations beginning with the Employer if, at the time of the grant (or modification) of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

## ARTICLE 2 THE PLAN

2.1 Name. This Plan shall be known as the "comstar.net, inc. Amended and Restated 1999 Stock Option and Incentive Plan."

2.2 Purpose. The purpose of the Plan is to advance the interests of the Company, its Subsidiaries and its shareholders by affording certain employees and Directors of the Company and its Subsidiaries, as well as key consultants and advisors to the Company or any Subsidiary, an opportunity to acquire or increase their proprietary interests in the Company. The objective of the issuance of the Options and Awards is to promote the growth and profitability of the Company and its Subsidiaries because the Grantees will be provided with an additional incentive to achieve the Company's objectives through participation in its success and growth and by encouraging their continued association with or service to the Company.

2.3 Effective Date. The Plan was adopted by the Board on March 1, 1999 and was amended by the Board on September 1, 1999. If the Company's shareholders have not approved the Plan on or prior to the first anniversary of such effective date, then all options granted under the Plan shall be



ARTICLE 3  
PARTICIPANTS

The class of persons eligible to participate in the Plan shall consist of all persons whose participation in the Plan the Committee determines to be in the best interests of the Company, which shall include, but not be limited to, all Directors and employees of the Company or any Subsidiary, as well as key consultants and advisors to the Company or any Subsidiary.

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ARTICLE 4  
ADMINISTRATION

4.1 Duties and Powers of the Committee. The Plan shall be administered by the Committee. The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it may determine. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it may deem necessary. The Committee shall have the power to act by unanimous written consent in lieu of a meeting, and to meet telephonically. In administering the Plan, the Committee's actions and determinations shall be binding on all interested parties. The Committee shall have the power to grant Options or Awards in accordance with the provisions of the Plan and may grant Options and Awards singly, in combination, or in tandem. Subject to the provisions of the Plan, the Committee shall have the discretion and authority to determine those individuals to whom Options or Awards will be granted and whether such Options shall be accompanied by the right to receive Reload Options, the number of shares of Stock subject to each Option or Award, such other matters as are specified herein, and any other terms and conditions of a Stock Option Agreement or Restriction Agreement. The Committee shall also have the discretion and authority to delegate to any Officer its powers to grant Options or Awards under the Plan to any person who is an employee of the Company but not an Officer or Director. To the extent not inconsistent with the provisions of the Plan, the Committee may give a Grantee an election to surrender an Option or Award in exchange for the grant of a new Option or Award, and shall have the authority to amend or modify an outstanding Stock Option Agreement or Restriction Agreement, or to waive any provision thereof, provided that the Grantee consents to such action.

4.2 Interpretation; Rules. Subject to the express provisions of the Plan, the Committee also shall have complete authority to interpret the Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the details and provisions of each Stock Option Agreement, and to make all other determinations necessary or advisable for the administration of the Plan, including, without limitation, the amending or altering of the Plan and any Options or Awards granted under the Plan as may be required to comply with or to conform to any federal, state, or local laws or regulations.

4.3 No Liability. Neither any member of the Board nor any member of the Committee shall be liable to any person for any act or determination made in good faith with respect to the Plan or any Option or Award granted hereunder.

4.4 Majority Rule. A majority of the members of the Committee shall constitute a quorum, and any action taken by a majority at a meeting at which a quorum is present, or any action taken without a meeting evidenced by a writing executed by all the members of the Committee, shall constitute the action of the Committee.

4.5 Company Assistance. The Company shall supply full and timely information to the Committee on all matters relating to eligible persons, their employment, death, retirement, disability, or other termination of employment, and such other pertinent facts as the Committee

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may require. The Company shall furnish the Committee with such clerical and other assistance as is necessary in the performance of its duties.

ARTICLE 5  
SHARES OF STOCK SUBJECT TO PLAN

5.1 Limitations. Subject to any antidilution adjustment pursuant to the provisions of Section 5.2 of this Plan, the maximum number of shares of Stock that may be issued hereunder shall be 2,300,000. The number of shares of Stock available for issuance hereunder shall automatically increase on January 1 of each year beginning January 1, 2000, to an amount equal to equal to fifteen percent (15%) (the "Fifteen Percent Amount") of the fully-diluted shares of Stock (assuming the conversion of all outstanding options and warrants) outstanding on December 31 of the previous year (subject to adjustment under Section 5.2), provided that the foregoing automatic increase shall apply only if the Fifteen Percent Amount is greater than the maximum number theretofore in effect. Any or all shares of Stock subject to the Plan may be issued in any combination of Incentive Stock Options, non-Incentive Stock Options, Restricted Stock, or SARs, and the amount of Stock subject to the Plan may be increased from time to time in accordance with Article 10, provided that the total number of shares of Stock issuable pursuant to Incentive Stock Options may not be increased to more than 2,300,000 (other than pursuant to anti-dilution adjustments and the annual increase provided above) without shareholder approval. Shares subject to an Option or issued as an Award may be either authorized and unissued shares or shares issued and later acquired by the Company. The shares covered by any unexercised portion of an Option that has terminated for any reason (except as set forth in the following paragraph), or any forfeited portion of an Award, may again be optioned or awarded under the Plan, and such shares shall not be considered as having been optioned or issued in computing the number of shares of Stock remaining available for option or award hereunder.

If Options are issued in respect of options to acquire stock of any entity acquired, by merger or otherwise, by the Company (or any Subsidiary of the Company), to the extent that such issuance shall not be inconsistent with the terms, limitations and conditions of Code section 422 or Rule 16b-3 under the Exchange Act, the aggregate number of shares of Stock for which Options may be granted hereunder shall automatically be increased by the number of shares subject to the Options so issued; provided, however, that the aggregate number of shares of Stock for which Options may be granted hereunder shall automatically be decreased by the number of shares covered by any unexercised portion of an Option so issued that has terminated for any reason, and the shares subject to any such unexercised portion may not be optioned to any other person.

5.2 Antidilution.

a. If (x) the outstanding shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of merger, consolidation, reorganization, recapitalization, reclassification, combination or exchange of shares, or stock split or stock dividend, (y) any spin-off, spin-out or other distribution of assets materially affects the price of the Company's stock, or (z) there is

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any assumption and conversion to the Plan by the Company of an acquired company's outstanding option grants, then:

- (i) the aggregate number and kind of shares of Stock for which Options or Awards may be granted hereunder shall be adjusted proportionately by the Committee; and
- (ii) the rights of Optionees (concerning the number of shares subject to Options and the Exercise Price) under outstanding Options and the rights of the holders of Awards (concerning the terms and conditions of the lapse of any then-remaining restrictions), shall be adjusted proportionately by the Committee.

b. If the Company shall be a party to any reorganization in which it does not survive, involving merger, consolidation, or acquisition of the stock or substantially all the assets of the Company, the Committee, in its discretion, may:

- (i) notwithstanding other provisions of this Plan, declare that all Options granted under the Plan shall become exercisable immediately notwithstanding the provisions of the respective Stock Option Agreements regarding exercisability, that all such Options shall terminate 30 days after the Committee gives written notice of the immediate right to exercise all such Options and of the decision to terminate all Options not exercised within such 30-day period, and that all then-remaining restrictions pertaining to Awards under the Plan shall immediately lapse; and/or
- (ii) notify all Grantees that all Options or Awards granted under the Plan shall be assumed by the successor corporation or substituted on an equitable basis with options or restricted stock issued by such successor corporation.

c. If the Company is to be liquidated or dissolved in connection with a reorganization described in Section 5.2(b), the provisions of such Section shall apply. In all other instances, the adoption of a plan of dissolution or liquidation of the Company shall, notwithstanding other provisions hereof, cause all then-remaining restrictions pertaining to Awards under the Plan to lapse, and shall cause every Option outstanding under the Plan to terminate to the extent not exercised prior to the adoption of the plan of dissolution or liquidation by the shareholders, provided that, notwithstanding other provisions hereof, the Committee may declare all Options granted under the Plan to be exercisable at any time on or before the fifth business day following such adoption notwithstanding the provisions of the respective Stock Option Agreements regarding exercisability.

d. The adjustments described in paragraphs (a) through (c) of this Section 5.2, and the manner of their application, shall be determined solely by the Committee, and any such adjustment may provide for the elimination of fractional share interests; provided, however, that any adjustment made by the Board or the Committee shall be made in a

manner that will not cause an Incentive Stock Option to be other than an Incentive Stock Option under applicable statutory and regulatory provisions. The adjustments required under this Article V shall apply to any successors of the Company and shall be made regardless of the number or type of successive events requiring such adjustments.

#### ARTICLE 6 OPTIONS

6.1 Types of Options Granted. The Committee may, under this Plan, grant either Incentive Stock Options or Options which do not qualify as Incentive Stock Options. Within the limitations provided in this Plan, both types of Options may be granted to the same person at the same time, or at different times, under different terms and conditions, as long as the terms and conditions of each Option are consistent with the provisions of the Plan. Without limitation of the foregoing, Options may be granted subject to conditions based on the financial performance of the Company or any other factor the Committee deems relevant.

6.2 Option Grant and Agreement. Each Option granted hereunder shall be evidenced by minutes of a meeting or the written consent of the Committee and by a written Stock Option Agreement executed by the Company and the Optionee. The terms of the Option, including the Option's duration, time or times of exercise, exercise price, whether the Option is intended to be an

Incentive Stock Option, and whether the Option is to be accompanied by the right to receive a Reload Option, shall be stated in the Stock Option Agreement. No Incentive Stock Option may be granted more than ten years after the earlier to occur of the effective date of the Plan or the date the Plan is approved by the Company's shareholders.

Separate Stock Option Agreements may be used for Options intended to be Incentive Stock Options and those not so intended, but any failure to use such separate agreements shall not invalidate, or otherwise adversely affect the Optionee's interest in, the Options evidenced thereby.

6.3 Optionee Limitations. The Committee shall not grant an Incentive Stock Option to any person who, at the time the Incentive Stock Option is granted:

a. is not an Employee of the Company or any of its Subsidiaries; or

b. owns or is considered to own stock possessing at least 10% of the total combined voting power of all classes of stock of the Company or any of its Parent or Subsidiary corporations; provided, however, that this limitation shall not apply if at the time an Incentive Stock Option is granted the Exercise Price is at least 110% of the Fair Market Value of the Stock subject to such Option and such Option by its terms would not be exercisable after five years from the date on which the Option is granted. For the purpose of this subsection (b), a person shall be considered to own: (i) the stock owned, directly or indirectly, by or for his or her brothers and sisters (whether by whole or half blood), spouse, ancestors and lineal descendants; (ii) the stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust in proportion to such person's stock interest, partnership interest or beneficial interest therein; and (iii) the stock

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which such person may purchase under any outstanding options of the Employer or of any Parent or Subsidiary of the Employer.

6.4 \$100,000 and Section 162(m) Limitations. Except as provided below, the Committee shall not grant an Incentive Stock Option to, or modify the exercise provisions of outstanding Incentive Stock Options held by any person who, at the time the Incentive Stock Option is granted (or modified), would thereby receive or hold any Incentive Stock Options of the Employer and any Parent or Subsidiary of the Employer, such that the aggregate Fair Market Value (determined as of the respective dates of grant or modification of each option) of the stock with respect to which such Incentive Stock Options are exercisable for the first time during any calendar year is in excess of \$100,000 (or such other limit as may be prescribed by the Code from time to time); provided that the foregoing restriction on modification of outstanding Incentive Stock Options shall not preclude the Committee from modifying an outstanding Incentive Stock Option if, as a result of such modification and with the consent of the Optionee, such Option no longer constitutes an Incentive Stock Option; and provided that, if the \$100,000 limitation (or such other limitation prescribed by the Code) described in this Section 6.4 is exceeded, the Incentive Stock Option, the granting or modification of which resulted in the exceeding of such limit, shall be treated as an Incentive Stock Option up to the limitation and the excess shall be treated as an Option not qualifying as an Incentive Stock Option. Furthermore, not more than 425,000 shares of Stock may be made subject to Options to any individual in the aggregate in any one fiscal year of the Company, such limitation to be applied in a manner consistent with the requirements of, and only to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code.

6.5 Exercise Price. The Exercise Price of the Stock subject to each Option shall be determined by the Committee. Subject to the provisions of Section 6.3(b) hereof, the Exercise Price of an Incentive Stock Option shall not be less than the Fair Market Value of the Stock as of the date the Option is granted (or in the case of an Incentive Stock Option that is subsequently modified, on the date of such modification).

6.6 Exercise Period. The period for the exercise of each Option granted hereunder shall be determined by the Committee, but the Stock Option Agreement with respect to each Option intended to be an Incentive Stock Option shall provide that such Option shall not be exercisable after the expiration of ten years from the date of grant (or modification) of the Option.

6.7 Option Exercise.

a. Unless otherwise provided in the Stock Option Agreement or Section 6.6 of this Plan, an Option may be exercised at any time or from time to time during the term of the Option as to any or all full shares which have become Purchasable under the provisions of the Option, but not at any time as to fewer than 100 shares unless the remaining shares that have become so Purchasable are fewer than 100 shares. The Committee shall have the authority to prescribe in any Stock Option Agreement that the Option may be exercised only in accordance with a vesting schedule during the term of the Option.

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b. An Option shall be exercised by (i) delivery to the Company at its principal office a written notice of exercise with respect to a specified number of shares of Stock and (ii) payment to the Company at that office of the full amount of the Exercise Price for such number of shares in accordance with Section 6.7(c). If requested by an Optionee, an Option may be exercised with the involvement of a stockbroker in accordance with the federal margin rules set forth in Regulation T (in which case the certificates representing the underlying shares will be delivered by the Company directly to the stockbroker).

c. The Exercise Price is to be paid in full in cash upon the exercise of the Option, and the Company shall not be required to deliver certificates for the shares purchased until such payment has been made; provided, however, that in lieu of cash, in the Company's discretion all or any portion of the Exercise Price may be paid by tendering to the Company shares of Stock duly endorsed for transfer and owned by the Optionee, or by authorization to the Company to withhold shares of Stock otherwise issuable upon exercise of the Option, in each case to be credited against the Exercise Price at the Fair Market Value of such shares on the date of exercise (however, no fractional shares may be so transferred, and the Company shall not be obligated to make any cash payments in consideration of any excess of the aggregate Fair Market Value of shares transferred over the aggregate Exercise Price); provided further, that the Board may provide in a Stock Option Agreement (or may otherwise determine in its sole discretion at the time of exercise) that, in lieu of cash or shares, all or a portion of the Exercise Price may be paid by the Optionee's execution of a recourse note equal to the Exercise Price or relevant portion thereof, subject to compliance with applicable state and federal laws, rules and regulations. Notwithstanding the above, the Company shall not be obligated to accept tender of shares of Stock as payment of the Exercise Price if doing so would result in a charge to the Company's earnings for financial reporting purposes.

d. In addition to and at the time of payment of the Exercise Price, the Optionee shall pay to the Company in cash the full amount of any federal, state, and local income, employment, or other withholding taxes applicable to the taxable income of such Optionee resulting from such exercise; provided, however, that in the discretion of the Committee any Stock Option Agreement may provide that all or any portion of such tax obligations, together with additional taxes not exceeding the actual additional taxes to be owed by the Optionee as a result of such exercise, may, upon the irrevocable election of the Optionee, be paid by tendering to the Company whole shares of Stock duly endorsed for transfer and owned by the Optionee, or by authorization to the Company to withhold shares of Stock otherwise issuable upon exercise of the Option, in either case in that number of shares having a Fair Market Value on the date of exercise equal to the amount of such taxes thereby being paid, and subject to such restrictions as to the approval and timing of any such election as the Committee may from time to time determine to be

necessary or appropriate to satisfy the conditions of the exemption set forth in Rule 16b-3 under the Exchange Act, if such rule is applicable.

e. The holder of an Option shall not have any of the rights of a shareholder with respect to the shares of Stock subject to the Option until such shares have been issued and transferred to the Optionee upon the exercise of the Option.

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#### 6.8 Reload Options.

a. The Committee may specify in a Stock Option Agreement (or may otherwise determine in its sole discretion) that a Reload Option shall be granted, without further action of the Committee, (i) to an Optionee who exercises an Option (including a Reload Option) by surrendering shares of Stock in payment of amounts specified in Sections 6.7(c) or 6.7(d) of this Plan; (ii) for the same number of shares as are surrendered to pay such amounts; (iii) as of the date of such payment and at an Exercise Price equal to the Fair Market Value of the Stock on such date; and (iv) otherwise on the same terms and conditions as the Option whose exercise has occasioned such payment, except as provided below and subject to such other contingencies, conditions, or other terms as the Committee shall specify at the time such exercised Option is granted; provided, however, that the Committee may require that the shares surrendered in payment as provided above must have been held by the Optionee for at least six months prior to such surrender.

b. Unless provided otherwise in the Stock Option Agreement, a Reload Option may not be exercised by an Optionee (i) prior to the end of a one-year period from the date that the Reload Option is granted, and (ii) unless the Optionee retains beneficial ownership of the shares of Stock issued to such Optionee upon exercise of the Option referred to above in Section 6.8(a)(i) for a period of one year from the date of such exercise.

6.9 Nontransferability of Option. Other than as provided below, no Option shall be transferable by an Optionee other than by will or the laws of descent and distribution or, in the case of non-Incentive Stock Options, pursuant to a Qualified Domestic Relations Order, and, during the lifetime of an Optionee, Options shall be exercisable only by such Optionee (or by such Optionee's guardian or legal representative, should one be appointed). However, a Non-Incentive Stock Option may, in connection with the Optionee's estate plan, be assigned in whole or in part during Optionee's lifetime to one or more members of the Optionee's immediate family or to a trust established for the exclusive benefit of one or more such family members. The assigned portion shall be exercisable only by the person or persons who acquire a proprietary interest in the Option pursuant to such assignment. The terms applicable to the assigned portion shall be the same as those in effect for this Option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Committee may deem appropriate.

6.10 Termination of Employment or Service. The Committee shall have the power to specify, with respect to the Options granted to a particular Optionee, the effect upon such Optionee's right to exercise an Option of termination of such Optionee's employment or service under various circumstances, which effect may include immediate or deferred termination of such Optionee's rights under an Option, or acceleration of the date at which an Option may be exercised in full; provided, however, that in no event may an Incentive Stock Option be exercised after the expiration of ten years from the date of its grant.

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6.11 Employment Rights. Nothing in the Plan or in any Stock Option Agreement shall confer on any person any right to continue in the employ of the Company or any of its Subsidiaries, or shall interfere in any way with the

right of the Company or any of its Subsidiaries to terminate such person's employment at any time.

6.12 Certain Successor Options. To the extent not inconsistent with the terms, limitations and conditions of Code section 422 and any regulations promulgated with respect thereto, an Option issued in respect of an option held by an employee to acquire stock of any entity acquired, by merger or otherwise, by the Company (or any Subsidiary of the Company) may contain terms that differ from those stated in this Article 6, but solely to the extent necessary to preserve for any such employee the rights and benefits contained in such predecessor option, or to satisfy the requirements of Code section 424(a).

6.13 Effect of a Corporate Transaction. Unless otherwise decided by the Board or the Committee at least 10 days prior to the effective time of a Corporate Transaction, all Options, to the extent outstanding at the time of a Corporate Transaction but not otherwise fully exercisable, shall automatically accelerate so that the Options shall, immediately prior to the effective date of the Corporate Transaction, become exercisable for all shares at the time subject to such Options and may be exercised for any or all of those shares as fully vested shares of Stock.

## ARTICLE 7 RESTRICTED STOCK

7.1 Awards of Restricted Stock. The Committee may grant Awards of Restricted Stock, which shall be governed by a Restriction Agreement between the Company and the Grantee. Each Restriction Agreement shall contain such restrictions, terms, and conditions as the Committee may, in its discretion, determine, and may require that an appropriate legend be placed on the certificates evidencing the subject Restricted Stock. Shares of Restricted Stock granted pursuant to an Award hereunder shall be issued in the name of the Grantee as soon as reasonably practicable after the Award is granted, provided that the Grantee has executed the Restriction Agreement governing the Award, the appropriate blank stock powers and, in the discretion of the Committee, an escrow agreement and any other documents which the Committee may require as a condition to the issuance of such Shares. If a Grantee shall fail to execute the foregoing documents within any time period prescribed by the Committee, the Award shall be void. At the discretion of the Committee, Shares issued in connection with an Award shall be deposited together with the stock powers with an escrow agent designated by the Committee. Unless the Committee determines otherwise and as set forth in the Restriction Agreement, upon delivery of the Shares to the escrow agent, the Grantee shall have all of the rights of a shareholder with respect to such Shares, including the right to vote the Shares and to receive all dividends or other distributions paid or made with respect to the Shares.

7.2 Non-Transferability. Until any restrictions upon Restricted Stock awarded to a Grantee shall have lapsed in a manner set forth in Section 7.3, such shares of Restricted Stock shall not be transferable other than by will or the laws of descent and distribution, or pursuant to a Qualified Domestic Relations Order, nor shall they be delivered to the Grantee.

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7.3 Lapse of Restrictions. Restrictions upon Restricted Stock awarded hereunder shall lapse at such time or times (but, with respect to any award to a Grantee who is also a Section 16 Insider, not less than six months after the date of the Award) and on such terms and conditions as the Committee may, in its discretion, determine at the time the Award is granted or thereafter.

7.4 Termination of Employment. The Committee shall have the power to specify, with respect to each Award granted to any particular Grantee, the effect upon such Grantee's rights with respect to such Restricted Stock of the termination of such Grantee's employment under various circumstances, which effect may include immediate or deferred forfeiture of such Restricted Stock or acceleration of the date at which any then-remaining restrictions shall lapse.

7.5 Treatment of Dividends. At the time an Award of Restricted Stock is made, the Committee may, in its discretion, determine that the payment to the Grantee of any dividends, or a specified portion thereof, declared or



paid on such Restricted Stock shall be (i) deferred until the lapsing of the relevant restrictions and (ii) held by the Company for the account of the Grantee until such lapsing. In the event of such deferral, there shall be credited at the end of each year (or portion thereof) interest on the amount of the account at the beginning of the year at a rate per annum determined by the Committee. Payment of deferred dividends, together with interest thereon, shall be made upon the lapsing of restrictions imposed on such Restricted Stock, and any dividends deferred (together with any interest thereon) in respect of Restricted Stock shall be forfeited upon any forfeiture of such Restricted Stock.

7.6 Delivery of Shares. Except as provided otherwise in Article 9 below, within a reasonable period of time following the lapse of the restrictions on shares of Restricted Stock, the Committee shall cause a stock certificate to be delivered to the Grantee with respect to such shares and such shares shall be free of all restrictions hereunder.

ARTICLE 8  
STOCK APPRECIATION RIGHTS

8.1 SAR Grants. The Committee, in its sole discretion, may grant to any Grantee a SAR. The Committee may impose such conditions or restrictions on the exercise of any SAR as it may deem appropriate, including, without limitation, restricting the time of exercise of the SAR to specified periods as may be necessary to satisfy the requirements of Rule 16b-3.

8.2 Determination of Price. The SAR Price shall be established by the Committee in its sole discretion. The SAR Price shall not be less than 100% of Fair Market Value of the Stock on the date the SAR is granted for a SAR issued in tandem with an Incentive Stock Option.

8.3 Exercise of a SAR. Upon exercise of a SAR, the Grantee shall be entitled, subject to the terms and conditions of this Plan and the Agreement, to receive the excess for each share of Stock being exercised under the SAR of (i) the Fair Market Value of such share of Stock on the date of exercise over (ii) the SAR Price for such share of Stock.

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8.4 Payment for a SAR. At the sole discretion of the Committee, the payment of such excess shall be made in (i) cash, (ii) shares of Stock, or (iii) a combination of both. Shares of Stock used for this payment shall be valued at their Fair Market Value on the date of exercise of the applicable SAR.

8.5 Status of a SAR under the Plan. Shares of Stock subject to an Award of a SAR shall be considered shares of Stock which may be issued under the Plan for purposes of Section 5.1 of this Plan, unless the Agreement making the Award of the SAR provides that the exercise of such SAR results in the termination of an unexercised Option for the same number of shares of Stock.

8.6 Termination of SARs. A SAR may be terminated as follows:

a. During the period of continuous employment with the Company, Parent or Subsidiary, a SAR will be terminated only if it has been fully exercised or it has expired by its terms.

b. Upon termination of employment, the SAR will terminate upon the earliest of (i) the full exercise of the SAR; (ii) the expiration of the SAR by its terms; and (iii) not more than three months following the date of employment termination; provided, however, should termination of employment (A) result from the death or Permanent and Total Disability of the Grantee, the period referenced in clause (iii) hereof shall be one year or (B) be for Cause, the SAR will terminate on the date of employment termination. For purposes of the Plan, a leave of absence approved by the Company shall not be deemed to be termination of employment unless otherwise provided in the Agreement or by the Company on the date of the leave of absence.

c. Subject to the terms of the Agreement with the Grantee, if a Grantee shall die or become subject to a Permanent and Total Disability prior to the termination of employment with the Company,



Parent or Subsidiary and prior to the termination of a SAR, such SAR may be exercised to the extent that the Grantee shall have been entitled to exercise it at the time of death or disability, as the case may be, by the Grantee, the estate of the Grantee or the person or persons to whom the SAR may have been transferred by will or by the laws of descent and distribution.

d. Except as otherwise expressly provided in the Agreement with the Grantee, in no event will the continuation of the term of a SAR beyond the date of termination of employment allow the Employee, or the Employee's beneficiaries or heirs, to accrue additional rights under the Plan, have additional SARs available for exercise, or receive a higher benefit than the benefit payable as if the SAR had been exercised on the date of employment termination.

8.7 No Shareholder Rights. The Grantee shall have no rights as a shareholder with respect to a SAR. In addition, no adjustment shall be made for dividends (ordinary or

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extraordinary, whether in cash, securities or other property) or distributions or rights except as provided in Section 5.2 of this Plan.

#### ARTICLE 9 STOCK CERTIFICATES

The Company shall not be required to issue or deliver any certificate for shares of Stock purchased upon the exercise of any Option granted hereunder or any portion thereof, or deliver any certificate for shares of Restricted Stock granted hereunder, prior to fulfillment of all of the following conditions:

a. The admission of such shares to listing on all stock exchanges on which the Stock is then listed;

b. The completion of any registration or other qualification of such shares which the Committee shall deem necessary or advisable under any federal or state law or under the rulings or regulations of the SEC or any other governmental regulatory body;

c. The obtaining of any approval or other clearance from any federal or state governmental agency or body which the Committee shall determine to be necessary or advisable; and

d. The lapse of such reasonable period of time following the exercise of the Option as the Board from time to time may establish for reasons of administrative convenience.

Stock certificates issued and delivered to Grantees shall bear such restrictive legends as the Company shall deem necessary or advisable pursuant to applicable federal and state securities laws. The inability of the Company to obtain approval from any regulatory body having authority deemed by the Company to be necessary to the lawful issuance and sale of any Stock pursuant to Options shall relieve the Company of any liability with respect to the non-issuance or sale of the Stock as to which such approval shall not have been obtained. The Company shall, however, use its best efforts to obtain all such approvals.

#### ARTICLE 10 TERMINATION AND AMENDMENT

10.1 Termination and Amendment. The Board may at any time terminate the Plan; provided, however, that the Board (unless its actions are approved or ratified by the shareholders of the Company within twelve months of the date that the Board amends the Plan) may not amend the Plan to:

a. Increase the total number of shares of Stock issuable pursuant to Incentive Stock Options under the Plan, except as contemplated in Section 5.2; or

b. Change the class of employees eligible to receive Incentive Stock Options that may participate in the Plan.

10.2 Effect on Grantee's Rights. No termination, amendment, or modification of the Plan shall affect adversely a Grantee's rights under a Stock Option Agreement or Restriction Agreement without the consent of the Grantee or his legal representative.

ARTICLE 11  
RELATIONSHIP TO OTHER COMPENSATION PLANS

The adoption of the Plan shall not affect any other stock option, incentive, or other compensation plans in effect for the Company or any of its Subsidiaries; nor shall the adoption of the Plan preclude the Company or any of its Subsidiaries from establishing any other form of incentive or other compensation plan for employees or Directors of the Company or any of its Subsidiaries.

ARTICLE 12  
MISCELLANEOUS

12.1 Replacement or Amended Grants. At the sole discretion of the Committee, and subject to the terms of the Plan, the Committee may modify outstanding Options or Awards or accept the surrender of outstanding Options or Awards and grant new Options or Awards in substitution for them, provided that no modification of an Option or Award shall adversely affect a Grantee's rights under a Stock Option Agreement or Restriction Agreement without the consent of the Grantee or his legal representative.

12.2 Forfeiture for Competition. If a Grantee provides services to a competitor of the Company, a Parent or any Subsidiaries, whether as an employee, officer, director, independent contractor, consultant, agent, or otherwise, such services being of a nature that can reasonably be expected to involve the skills and experience used or developed by the Grantee while an Employee, then that Grantee's rights under any Options outstanding hereunder shall be forfeited and terminated, and any shares of Restricted Stock held by such Grantee subject to remaining restrictions shall be forfeited, subject in each case to a determination to the contrary by the Committee.

12.3 Leave of Absence. Unless provided otherwise in a particular Stock Option Agreement, the following provisions shall apply upon an Optionee's commencement of an authorized leave of absence:

a. The exercise schedule in effect for such Option shall be frozen as of the first day of the authorized leave, and the Option shall not become exercisable for any additional installments of shares of Stock during the period Optionee remains on such leave.

b. Should Optionee resume active Employee status within 60 days after the start date of the authorized leave, Optionee shall, for purposes of the applicable exercise schedule, receive service credit for the entire period of such leave. If Optionee does not resume active Employee status within such 60-day period, then no credit shall be given for the entire period of such leave.

c. If the Option is an Incentive Stock Option, then the following shall also apply:

If the leave of absence continues for more than three months, then the Option shall automatically convert to a Non-Incentive Stock Option under the Federal tax laws upon the expiration of such three-month period, unless the Optionee's reemployment rights are guaranteed by statute or written agreement. Following any such conversion of the Option, all subsequent exercises of the Option, whether effected before or after Optionee's return to active Employee

status, shall result in an immediate taxable event, and the Company shall be required to collect from Optionee the Federal, state and local income and employment withholding taxes applicable to such exercise.

d. In no event shall the Option become exercisable for any additional shares or otherwise remain outstanding if the Optionee does not resume Employee status prior to the Expiration Date of the option term.

12.4 Plan Binding on Successors. The Plan shall be binding upon the successors and assigns of the Company.

12.5 Singular, Plural; Gender. Whenever used in this Plan, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender.

12.6 Headings, etc., No Part of Plan. Headings of Articles and Sections of this Plan are inserted for convenience and reference; they do not constitute part of the Plan.

12.7 Section 16 Compliance. With respect to Section 16 Insiders and "highly-compensated" persons under Section 162(m) of the Code, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act and with Section 162(m) of the Code. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed void to the extent permitted by law and deemed advisable by the Committee. In addition, if necessary to comply with Rule 16b-3 with respect to any grant of an Option hereunder, and in addition to any other vesting or holding period specified hereunder or in an applicable Stock Option Agreement, any Section 16 Insider acquiring an Option shall be required to hold either the Option or the underlying shares of Stock obtained upon exercise of the Option for a minimum of six months.

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[COMSTAR LOGO]

STOCK OPTION AGREEMENT

This STOCK OPTION AGREEMENT (this "Agreement"), entered into as of this the \_\_\_ day of \_\_\_, 1999, by and between comstar.net, inc., a Georgia corporation (the "Company"), and \_\_\_ (the "Optionee").

WHEREAS, effective as of March 1, 1999, the Board of Directors of the Company adopted a stock option plan that was subsequently amended by the Board on September 1, 1999, known as the "comstar.net, inc. Amended and Restated 1999 Stock Option and Incentive Plan" (the "Plan"), and recommended that the Plan be approved by the Company's shareholders; and

WHEREAS, the Committee has granted the Optionee the right and option (the "Option") to purchase the number of shares of the Company's common stock (the "Stock") as set forth below, and in consideration of the granting of that Option the Optionee intends to continue to perform services as a director, consultant, advisor, officer or employee of the Company; and

WHEREAS, the Company and the Optionee desire to enter into a written agreement with respect to the Option in accordance with the Plan.

NOW, THEREFORE, in consideration of the above and the covenants contained herein, the parties hereto agree as follows.

1. Incorporation of Plan. This Option is granted pursuant to the provisions of the Plan and the terms and definitions of the Plan are incorporated herein by reference and made a part hereof. A copy of the Plan has been delivered to, and receipt is hereby acknowledged by, the Optionee.
2. Grant of Option. Subject to the terms, restrictions, limitations and conditions stated herein, the Company hereby evidences its grant to the Optionee of the Option to purchase all or any part of the number of shares of Stock, set forth on Schedule A attached hereto and incorporated herein by reference. The Option shall be exercisable in the amounts and at the time specified on Schedule A. The Option shall expire and shall not be exercisable on the date specified on Schedule A or on such earlier date as

determined pursuant to Section 8, 9, or 10 hereof. Schedule A states whether the Option is intended to be an Incentive Stock Option.

3. Purchase Price. The price per share to be paid by the Optionee for the shares subject to this Option (the "Exercise Price") shall be as specified on Schedule A, which price shall be an amount not less than the Fair Market Value of a share of Stock as of the Date of Grant (as defined in Section 11 below) if the Option is an Incentive Stock Option.
4. Exercise Terms. The Optionee must exercise the Option for at least the lesser of 100 shares or the number of shares of Stock that the Optionee is eligible to purchase in accordance with the terms hereof and the Plan as to which the Option remains unexercised (such shares being called "Purchasable" herein). In the event this Option is not exercised with respect to all or any part of the shares subject to this Option prior to its expiration, the shares of Stock with respect to which this Option was not exercised shall no longer be subject to this Option.
5. Option Non-Transferable. No portion of this Option shall be transferable by any Optionee other than by will or the laws of descent and distribution or, in the case of non-Incentive Stock Options, pursuant to a Qualified Domestic Relations Order, and no Option shall be transferable by an Optionee who is an officer, director or holder of 10% or more of any class of the Company's securities who is or would be required to file reports pursuant to Section 16 of the Securities Exchange Act of 1934 (a "Section 16 Insider") prior to shareholder approval of the Plan. During the lifetime of an Optionee, Options shall be exercisable only by such Optionee (or by such Optionee's guardian or legal representative, should one be appointed).
6. Notice of Exercise of Option. This Option may be exercised by the Optionee, or by the Optionee's administrators, executors or personal representatives, by a written notice (in substantially the form of the Notice of Exercise attached hereto as Schedule B) signed by the Optionee, or by the such administrators, executors or personal representatives, and delivered or mailed to the Company as specified in Section 14 hereof to the attention of the President or such other officer as the Company may designate. Any such notice shall (a) specify the number of shares of Stock which the Optionee or the Optionee's administrators, executors or personal representatives, as the case may be, then elects to purchase hereunder; (b) contain such information as may be reasonably required pursuant to Section 12 hereof; and (c) be accompanied by (i) a certified or cashier's check payable to the Company in payment of the total Exercise Price (as defined on Schedule A hereto) applicable to such shares as provided herein; (ii) shares of Stock owned by the Optionee and duly endorsed or accompanied by stock transfer powers having a Fair Market Value equal to the total Exercise Price applicable to such shares purchased hereunder; or (iii) a certified or cashier's check accompanied by the number of shares of

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Stock whose Fair Market Value when added to the amount of the check equals the total Exercise Price applicable to such shares purchased hereunder. Upon receipt of any such notice and accompanying payment, and subject to the terms hereof, the Company agrees to issue to the Optionee or the Optionee's administrators, executors or personal representatives, as the case may be, stock certificates for the number of shares specified in such notice registered in the name of the person exercising this Option.

7. Adjustment in Option. The number of shares subject to this Option, the Exercise Price and other matters are subject to adjustment during the term of this Option in accordance with the Plan.
8. Termination of Employment or Other Relationship.
  - (a) Except as otherwise specified in Schedule A hereto, in the event of the termination of the Optionee's employment or other relationship with the Company or any of its subsidiaries, other than a termination that is either (i) for cause; (ii) voluntary on the part of the Optionee and without written consent of the Company; or (iii) for reasons of death or disability or retirement, the Optionee may exercise this Option at any time within 90 days after such termination to the extent of the number of shares which are Purchasable hereunder at the date of such termination.

- (b) Except as specified in Schedule A attached hereto, in the event of a termination of the Optionee's employment or other relationship with the Company that is either (i) for cause or (ii) voluntary on the part of the Optionee and without the written consent of the Company, this Option, to the extent not previously exercised, shall terminate immediately and shall not thereafter be or become exercisable.
- (c) Unless and to the extent otherwise provided in Schedule A hereto, in the event of the retirement of the Optionee at the normal retirement date as prescribed from time to time by the Company or any subsidiary, the Optionee shall continue to have the right to exercise any Options for shares which were Purchasable at the date of the Optionee's retirement (provided that, on the date which is three months after the date of retirement, the Options will become void and unexercisable). This Option does not represent an employment contract and does not confer upon the Optionee any right with respect to the status or continuance of employment or other relationship by the Company or by any of its subsidiaries either during or after the term hereof. This Option shall not be affected by any change of employment so long as the Optionee continues to be an employee of the Company or one of its subsidiaries.
9. Disabled Optionee. In the event of termination of employment or other relationship with the Company because of the Optionee's becoming subject to a Permanent or Total Disability, the Optionee (or his or her personal representative) may exercise this Option, within a period ending on the earlier of (a) the last day of the one year period following the Optionee's death or (b) the expiration date of this Option, to the extent of the number of shares which were Purchasable hereunder at the date of such termination.
10. Death of Optionee. Except as otherwise set forth in Schedule A with respect to the rights of the Optionee upon termination of employment or other relationship with the Company under Section 8(a) above, in the event of the Optionee's death while employed by or performing services for the Company or any of its subsidiaries or within three months after a termination of such employment or relationship (if such termination was neither (i) for cause or (ii) voluntary on the part of the Optionee and without the written consent of the Company), the appropriate portion of this Option is transferred in accordance with Section 5 hereof many exercise this Option at any time within a period ending on the earlier of (a) the last day of the one year period following the Optionee's death or (b) the expiration date of this Option. If the Optionee was an employee of or was providing services to the Company at the time of death, this Option may be so exercised to the extent of the number of shares that were Purchasable hereunder at the date of death. If the Optionee's employment or other relationship with the Company terminated prior to his or her death, this Option may be exercised only to the extent of the number of shares covered by this Option which were Purchasable hereunder at the date of such termination.
11. Date of Grant. This Option was granted by the Board of Directors of the Company on the date set forth in Schedule A (the "Date of Grant").
12. Compliance with Regulatory Matters. The Optionee acknowledges that the issuance of capital stock of the Company is subject to limitations imposed by federal and state law and the Optionee hereby agrees that the Company shall not be obligated to issue any shares of Stock upon exercise of this Option that would cause the Company to violate the law or any rule, regulation, order

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or consent decree of any regulatory authority (including without limitation to the Securities and Exchange Commission) having jurisdiction over the affairs of the Company. The Optionee agrees that he or she will provide the Company with such information as is reasonably requested by the Company or its counsel to determine whether the issuance of Stock complies with the provisions described by this Section 12.

13. Restriction on Disposition of Shares. The shares purchased pursuant to the exercise of an Incentive Stock Option shall not be transferred by the Optionee except pursuant to the Optionee's will, or the laws of descent and distribution, until such date which is the later of two years after

the grant of such Incentive Stock Option or one year after the transfer of the shares to the Optionee pursuant to the exercise of such Incentive Stock Option. The shares of Stock purchased pursuant to the exercise of this Option shall not be sold, conveyed or otherwise transferred except pursuant to and in compliance with an effective registration statement applicable to such shares or a valid exemption from registration (with proof of such registration or exemption being delivered to and satisfactory to the Company, in its sole discretion).

14. Miscellaneous.

- (a) This Agreement shall be binding upon the parties hereto and their representatives (including in bankruptcy), heirs, successors and assigns.
- (b) This Agreement is executed and delivered in, and shall be governed by the laws of the State of Georgia.
- (c) Any requests or notices to be given hereunder shall be deemed given, and any elections or exercises to be made or accomplished shall be deemed made or accomplished, upon actual delivery thereof to the designated recipient, or three days after deposit thereof in the United States mail, registered, return receipt requested and postage prepaid, addressed, if to the Optionee, at the address set forth below and, if to the Company, to the executive offices of the Company at 2812 Spring Street, Suite 210, Atlanta, GA 30339.
- (d) This Agreement may not be modified except in writing executed by each of the parties hereto.

IN WITNESS WHEREOF, the Board of Directors of the Company has caused this Stock Option Agreement to be executed on behalf of the Company and the Company's seal to be affixed hereto and attested by the Secretary or an Assistant Secretary of the Company, and the Optionee has executed this Stock Option Agreement under seal, all as of the day and year first above written.

comstar.net, inc.

Accepted By:

-----  
Signature  
James C. Howell  
-----  
Name  
CEO  
-----  
Title

OPTIONEE

Accepted By:

-----  
Signature  
-----  
Name  
-----  
Address  
-----  
City, State Zip

ATTEST:

-----  
Secretary or Assistant Secretary

Edward N. Landa

-----  
Name

[SEAL]

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[COMSTAR LOGO]

SCHEDULE A TO THE  
STOCK OPTION AGREEMENT

This Schedule A to the Stock Option Agreement (this "Agreement") is entered into as of this \_\_\_\_ day of \_\_\_\_\_, 1999, by and between comstar.net, inc., and \_\_\_\_\_.

1. Number of Shares Subject to Option: \_\_\_\_ shares.
2. This Option (check one)  is  is not an Incentive Stock Option.
3. Option Exercise Price: \$\_\_\_\_ per share.
4. Date of Grant: \_\_\_\_\_.
5. Option Vesting Schedule:

Check One:

Options are exercisable with respect to all shares on or after the date hereof

Options are exercisable with respect to the number of shares indicated below on or after the date indicated next to the number of shares.

Number of Shares	Vesting Date
------------------	--------------

6. Option Exercise Period:

Check One:

All options expire and are void unless exercised on or before \_\_\_\_.

Options expire and are void unless exercised on or before the date indicated next to the number of shares:

Number of Shares	Expiration Date
------------------	-----------------

7. Effect of Termination of Employment on Optionee (if different from that set forth in Sections 8, 9 and 10 of the Stock Option Agreement).

Not Applicable.

NOTICE OF EXERCISE

The undersigned hereby notifies comstar.net, inc., (the "Company") of this election to exercise the undersigned's stock option to purchase \_\_\_\_ shares of the Company's common stock (the "Common Stock"), pursuant to the Stock Option Agreement (the "Agreement") between the undersigned and the Company dated \_\_\_\_ . Accompanying this Notice is (1) certified or cashier's check in the amount of \$ \_\_\_\_ payable to the Company, and/or (2) \_\_\_\_ shares of the Company's Common Stock presently owned by the undersigned and duly endorsed or accompanied by stock transfer powers, having an aggregate Fair Market Value (as defined in the Plan referenced in the Agreement) as of the date hereof of \$ , such amounts being equal, in the aggregate, to the purchase price per share set forth in Section 3 of the Agreement multiplied by the number of shares being purchased hereby (in each instance subject to appropriate adjustment pursuant to the Plan).

IN WITNESS WHEREOF, the undersigned has set his hand and seal, this \_\_\_\_ day of \_\_\_\_, \_\_\_\_.

OPTIONEE [OR OPTIONEE'S ADMINISTRATOR,  
EXECUTOR OR PERSONAL REPRESENTATIVE]

-----  
Signature

-----  
Name

-----  
Position (if other than Optionee)



DIRECTOR STOCK OPTION PLAN

OF

COMSTAR.NET, INC.

ADOPTED: September 1, 1999

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DIRECTOR STOCK OPTION PLAN

OF

COMSTAR.NET, INC.

1. PURPOSE. The Director Stock Option Plan of comstar.net, inc. (the "Company") is intended as an incentive to retain, as directors of the

Company, persons of training, experience and ability, to encourage the sense of proprietorship of such persons and to stimulate the active interest of such persons in the development and financial success of the Company.

2. DEFINITIONS. As used herein, the following terms shall have the meanings indicated:

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company, without par value per share, for so long as such Series of Common Stock remains outstanding or, if all Common Stock of the Company has been converted into or exchanged for another class or series of securities, "Common Stock" shall mean such class or series of securities.

(d) "Date of Grant" shall mean the date on which an Option is granted to an Eligible Person pursuant to Section 6(c) hereof.

(e) "Director" shall mean a member of the Board.

(f) "Eligible Person(s)" shall mean those persons who are, as of a specified date, non-employee Directors of the Company.

(g) "ERISA" shall mean the Employee Retirement Income Security Act, as amended.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(i) "Fair Market Value" of a Share on any date of reference shall be the Closing Price on the business day preceding such date. For this purpose, the "Closing Price" of the Shares on any business day shall be: (i) if the Shares are listed or admitted for trading on any United States national securities exchange, the last reported sale price of Shares on such exchange, as reported in any newspaper of general circulation; (ii) if Shares are quoted on Nasdaq, or any similar system of automated dissemination of quotations of securities prices in common use, the average of the closing high bid and low asked quotations for such day of Shares on such system; (iii) if neither clause (i) nor (ii) is applicable, the average of the high

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bid and low asked quotations for Shares as reported by the National Quotation Bureau, Incorporated if at least two securities dealers have inserted both bid and asked quotations for Shares on at least five of the ten preceding days; (iv) in lieu of the above, if actual transactions in the Shares are reported on a consolidated transaction reporting system, the last sale price of the Shares for such day and on such system; or (v) prior to an Initial Public Offering, the fair market value of such Shares as determined by the Board which, in making such determination, shall consider and rely upon the prices at which securities of the Company have previously been sold in transactions between: (x) the Company and parties who were not, at the time of such sale, affiliated with the Company; and (y) parties who are were not, at the time of such sale, affiliated with the Company.

(j) "Initial Grant Date" shall mean the date upon which this Plan is approved by the Board.

(k) "Initial Public Offering" shall mean the offer and sale by the Company of its equity securities in a transaction underwritten by an investment banking firm following the completion of which (i) such equity securities are listed for trading on any national securities exchange or (ii) there are at least two market makers who are making a market in such equity securities through the Nasdaq National Market System.

(l) "Nonqualified Stock Option" shall mean a stock option that is not an incentive stock option, as defined in Section 422 of the Code.

(m) "Option" shall mean any option granted under this Plan.

(n) "Option Agreement" shall mean an option agreement between

the Company and an Optionee.

(o) "Optionee" shall mean a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan by reason of the death or disability of such person.

(p) "Plan" shall mean this Director Stock Option Plan of comstar.net, inc.

(q) "Share(s)" shall mean a share or shares of the Common Stock.

(r) "Subsidiary" shall mean any corporation (other than the Company) in any unbroken chain of corporations beginning with the Company if, at the time of the granting of the Option, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chains.

3. TOTAL AGGREGATE SHARES. Subject to the adjustments set forth in Section 11 hereof, a total of 600,000 Shares shall be subject to the Plan. The Shares subject to the Plan shall consist of unissued Shares or previously issued Shares reacquired and held by the

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Company, or any Subsidiary, and such number of Shares shall be and hereby is reserved for sale for such purpose. Any of such Shares that may remain unsold and that are not subject to outstanding Options at the termination of the Plan shall cease to be reserved for the purpose of the Plan, but until termination of the Plan, the Company shall at all times reserve a sufficient number of Shares to meet the requirements of the Plan. Should any Option expire or be canceled prior to its exercise in full, the Shares theretofore subject to such Option may again be the subject of any Option under the Plan.

4. RULE 16B-3 PLAN AND SHAREHOLDER APPROVAL. The Company intends for this Plan to comply with the requirements of Rule 16b-3 promulgated by the Securities and Exchange Commission pursuant to the Exchange Act. Accordingly, this Plan will be subject to approval by shareholders of the Company owning a majority of the issued and outstanding shares of Common Stock present or represented and entitled to vote at a meeting duly held in accordance with applicable law.

5. TYPE OF OPTIONS. An Option granted hereunder shall be a Nonqualified Stock Option.

6. GRANTS OF OPTIONS.

(a) Options shall be granted only to Eligible Persons. Each Option shall be evidenced by an Option Agreement, which shall contain terms that are not inconsistent with this Plan or applicable laws.

(b) The Options granted to Directors under this Plan shall be in addition to regular director's fees, if any, or other benefits, if any, with respect to the Director's position with the Company or its Subsidiaries. Neither the Plan nor any Options granted under the Plan shall confer upon any person any right to continue to serve as a Director.

(c) Each Eligible Person who becomes an Eligible Person by reason of being elected as a Director after the Initial Grant Date shall be granted on the date of his initial election an Option to acquire the number of shares of Common Stock determined in the discretion of the Board for his service as a Director.

(d) No Options shall otherwise be granted hereunder, and the Board shall not have any discretion with respect to the grant of Options within the meaning of Rule 16b-3 promulgated under the Exchange Act, or any successor rule.

7. EXERCISE PRICE, VESTING SCHEDULE AND TERM OF OPTION.

(a) The exercise price of each Share placed under an Option

pursuant to this Plan shall be the Fair Market Value of such Share on the Date of Grant.

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(b) Vesting of each Option shall be at the discretion of the Board and shall be based on the date the Director commences service to the Company. Options shall vest only if the Optionee is serving as a Director of the Company on the vesting date.

(c) Each Option granted under this Plan shall have a term of five years from the Date of Grant of such Option.

#### 8. EXERCISE OF OPTION.

(a) After the six-month anniversary of the Date of Grant of an Option, such Option may be exercised at any time and from time to time during the term of such Option, in whole or in part.

(b) Options may be exercised: (i) during the Optionee's lifetime, solely by the Optionee; (ii) if an Option has been assigned pursuant to Section 10 hereof, by the successor Optionee; or (iii) after Optionee's death, by the personal representative of the Optionee's estate or the person or persons entitled thereto under his will or under the laws of descent and distribution.

(c) An Option shall be deemed exercised when: (i) the Company has received written notice of such exercise delivered to the Company in accordance with the notice provisions of the applicable Option Agreement; (ii) full payment of the aggregate exercise price of the Shares as to which the Option is exercised has been tendered to the Company; and (iii) arrangements that are satisfactory to the Board in its sole discretion have been made for the Optionee's payment to the Company of the amount, if any, that the Company determines to be necessary for the Company to withhold in accordance with the applicable federal or state income tax withholding requirements.

(d) The exercise price of any Shares purchased shall be paid, at the option of the Optionee (i) solely in cash by certified check, cashier's check, money order or personal check (if approved by the Board); (ii) in Common Stock of any series theretofore owned by such Optionee; or (iii) without the exchange of any funds, by the Optionee electing to receive the full number of Shares purchasable under the Option then being exercised less that number of Shares that have a value (i.e., the Fair Market Value of the Shares less the Exercise Price with respect to such Shares) being equal to the Exercise Price (or by a combination of the above); provided, however, that, in the case of the preceding clause (ii), if the Optionee acquired such stock to be surrendered directly or indirectly from the Company, he shall have owned such stock for six months prior to using such stock to exercise an Option; provided, further, however, that such exercise transaction shall not result in a violation of Section 16 of the Exchange Act. For purposes of determining the amount, if any, of the exercise price satisfied by payment in Common Stock, such Common Stock shall be valued at its Fair Market Value on the date of exercise. Any Common Stock delivered in satisfaction of all or a portion of the exercise price shall be appropriately endorsed for transfer and assignment to the Company.

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(e) The Optionee shall not be, nor have any of the rights or privileges of, a shareholder of the Company with respect to any Shares purchasable upon the exercise of any part of an Option unless and until certificates representing such Shares shall have been issued by the Company to the Optionee.

9. TERMINATION OF OPTION PERIOD. The unexercised portion of an Option shall automatically and without notice terminate and become null and void and be forfeited upon the earliest to occur of the following:

(a) other than by reason of such Optionee's death or disability

180 days after the date that the Optionee's position as a Director of the Company terminates;

(b) one year after the death of Optionee;

(c) one year after the date on which the Optionee's position as Director is terminated by reason of a mental or physical disability determined by a medical doctor satisfactory to the Company; or

(d) five years after the Date of Grant of such Option.

10. ASSIGNABILITY OF OPTIONS. No Option shall be assignable or otherwise transferable, except to members of the Optionee's immediate family or by will, or the laws of descent and distribution, and no Option shall be transferrable by an Optionee in violation of Section 16 of the Exchange Act.

11. ADJUSTMENTS.

(a) If at any time there shall be an increase or decrease in the number of issued and outstanding Shares, through the declaration of a stock dividend or through any recapitalization resulting in a stock split, combination or exchange of Shares, then appropriate proportional adjustment shall be made in the number of Shares (and, with respect to Options, the exercise price per Share): (i) subject to outstanding Options; (ii) reserved under the Plan; and (iii) granted as subsequent Options.

(b) In the event of a merger, consolidation or other reorganization of the Company under the terms of which the Company is not the surviving corporation, but the surviving corporation elects to assume an Option, each Optionee shall be entitled to receive, upon the exercise of such Option, with respect to each Share: (i) the number of shares of stock of the surviving corporation (or equity interest in any other entity); and (ii) any other notes, evidences of indebtedness or other property, that the Optionee would have received in connection with such merger, consolidation or other reorganization had he exercised the Option with respect to such Shares immediately prior to such merger, consolidation or other reorganization.

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(c) Except as otherwise expressly provided herein, the issuance by the Company of shares of its capital stock of any class or securities convertible into shares of capital stock of any class, either in connection with direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect and no adjustment by reason thereof shall be made with respect to, the number of or exercise price of Shares then subject to outstanding Options granted under the Plan.

(d) Without limiting the generality of the foregoing, the existence of outstanding Options granted under the Plan shall not affect in any manner the right or power of the Company to make, authorize or consummate: (i) any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business; (ii) any merger or consolidation of the Company; (iii) any issuance by the Company of debt securities or preferred stock that would rank above the Shares subject to outstanding Options; (iv) the dissolution or liquidation of the Company; (v) any sale, transfer or assignment of all or any part of the assets or business of the Company; or (vi) any other corporate act or proceeding, whether of a similar character or otherwise.

12. PURCHASE FOR INVESTMENT. As a condition of any issuance of a stock certificate for Shares, the Board may obtain such agreements or undertakings, if any, as it may deem necessary or advisable to assure compliance with any provision of this Plan or any law or regulation, including, but not limited to, the following:

(a) a representation and warranty by the Optionee to the Company, at the time his Option is exercised, that he is acquiring the Shares to be issued to him for investment and not with a view to, or for sale in connection with, the distribution of any such Shares; and

(b) a representation, warranty or agreement to be bound by any legends that are, in the opinion of the Board, necessary or appropriate to comply with the provisions of any securities law deemed by the Board to be applicable to the issuance of the Shares and are endorsed upon the certificates representing the Shares.

13. AMENDMENTS, MODIFICATIONS, SUSPENSION OR DISCONTINUANCE OF THIS PLAN. For the purpose of complying with changes in the Code or ERISA, the Board may amend, modify, suspend or terminate the Plan at any time. For the purpose of meeting or addressing any other changes in legal requirements or any other purpose, the Board may amend, modify, suspend or terminate the Plan only once every six months.

14. GOVERNMENTAL REGULATION. This Plan and the granting of Options and the exercise of Options hereunder, and the obligation of the Company to sell and deliver shares under such Options, shall be subject to all applicable laws, rules, and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

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15. MISCELLANEOUS.

(a) If any provision of this Plan is held invalid for any reason, such holding shall not affect the remaining provisions hereof, but instead this Plan shall be construed and enforced as if such provision had never been included in this Plan.

(b) This Plan shall be governed by the laws of the State of Georgia.

(c) Headings contained in this Plan are for convenience only and shall in no manner be construed as part of this Plan.

(d) Any reference to the masculine, feminine or neuter gender shall be a reference to such other gender as is appropriate.

16. EFFECTIVE DATE AND TERMINATION DATE. The effective date of this Plan is September 1, 1999, the date on which the Board adopted this Plan, but is subject to the approval of the holders of a majority of the common stock, without series designation, present either in person or by proxy and entitled to vote at a duly held meeting of the shareholders of the Company at which a quorum is present representing a majority of all outstanding voting common stock, without series designation. In the event that such shareholder approval is not obtained, all options granted pursuant to the Plan shall be null and void. This Plan shall terminate on the tenth anniversary of the effective date.

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[COMSTAR LOGO]

STOCK OPTION AGREEMENT

THIS DIRECTOR STOCK OPTION AGREEMENT (this "Agreement"), entered into as of this the \_\_\_ day of \_\_, 1999, by and between comstar.net, inc., a Georgia corporation (the "Company"), and \_\_\_ (the "Optionee").

WHEREAS, effective as of September 1, 1999, the Board of Directors of the Company adopted a stock option plan known as the "Director Stock Option Plan of comstar.net, inc." (the "Plan"), and recommended that the Plan be approved by the Company's shareholders; and

WHEREAS, the Committee has granted the Optionee the right and option (the "Option") to purchase the number of shares of the Company's common stock (the "Stock") as set forth below, and in consideration of the granting of that Option the Optionee intends to continue to perform services as a director of the Company; and

WHEREAS, the Company and the Optionee desire to enter into a written

agreement with respect to the Option in accordance with the Plan.

NOW, THEREFORE, in consideration of the above and the covenants contained herein, the parties hereto agree as follows.

1. Incorporation of Plan. This Option is granted pursuant to the provisions of the Plan and the terms and definitions of the Plan are incorporated herein by reference and made a part hereof. A copy of the Plan has been delivered to, and receipt is hereby acknowledged by, the Optionee.
2. Grant of Option. Subject to the terms, restrictions, limitations and conditions stated herein, the Company hereby evidences its grant to the Optionee of the Option to purchase all or any part of the number of shares of Stock, set forth on Schedule A attached hereto and incorporated herein by reference. The Option shall be exercisable in the amounts and at the time specified on Schedule A. The Option shall expire and shall not be exercisable on the date specified on Schedule A or on such earlier date as determined pursuant to Section 8, 9, or 10 hereof. This Option is not an Incentive Stock Option.
3. Purchase Price. The price per share to be paid by the Optionee for the shares subject to this Option (the "Exercise Price") shall be as specified on Schedule A, which price shall be an amount not less than the Fair Market Value of a share of Stock as of the Date of Grant (as defined in Section 11 below).
4. Exercise Terms. The Optionee must exercise the Option for at least the lesser of 100 shares or the number of shares of Stock that the Optionee is eligible to purchase in accordance with the terms hereof and the Plan as to which the Option remains unexercised (such shares being called "Purchasable" herein). In the event this Option is not exercised with respect to all or any part of the shares subject to this Option prior to its expiration, the shares of Stock with respect to which this Option was not exercised shall no longer be subject to this Option.
5. Option Non-Transferable. No portion of this Option shall be transferable by an Optionee other than by will or the laws of descent and distribution or, pursuant to a Qualified Domestic Relations Order, and no Option shall be transferable by an Optionee who is an officer, director or holder of 10% or more of any class of the Company's securities who is or would be required to file reports pursuant to Section 16 of the Securities Exchange Act of 1934 (a "Section 16 Insider") prior to shareholder approval of the Plan. During the lifetime of an Optionee, Options shall be exercisable only by such Optionee (or by such Optionee's guardian or legal representative, should one be appointed).
6. Notice of Exercise of Option. This Option may be exercised by the Optionee, or by the Optionee's administrators, executors or personal representatives, by a written notice (in substantially the form of the Notice of Exercise attached hereto as Schedule B) signed by the Optionee, or by such administrators, executors or personal representatives, and delivered or mailed to the Company as specified in Section 14 hereof to the attention of the Chief Financial Officer or such other officer as the Company may designate. Any such notice shall (a) specify the number of shares of Stock which the Optionee or the Optionee's administrators, executors or personal representatives, as the case may be, then elects to purchase hereunder; (b) contain such information as may be reasonably required pursuant to Section 12 hereof; and (c) be accompanied by (i) a certified or cashier's check payable to the Company in payment of the total Exercise Price (as defined on Schedule A hereto) applicable to such shares as provided herein; (ii) shares of Stock owned by the Optionee and duly endorsed or accompanied by stock transfer powers having a Fair Market Value equal to the total Exercise Price applicable to such shares purchased hereunder; or (iii) a certified or cashier's check accompanied by the number of shares of Stock whose Fair Market Value when added to the amount of the check equals the total Exercise Price applicable to such shares purchased hereunder. Upon receipt of any such notice and accompanying payment,

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and subject to the terms hereof, the Company agrees to issue to the Optionee or the Optionee's administrators, executors or personal representatives, as the case may be, stock certificates for the number of

shares specified in such notice registered in the name of the person exercising this Option.

7. Adjustment in Option. The number of shares subject to this Option, the Exercise Price and other matters are subject to adjustment during the term of this Option in accordance with the Plan.
8. Termination of Directorship.
  - (a) Except as otherwise specified in Schedule A hereto, in the event of the termination of the Optionee's directorship with the Company or any of its subsidiaries, other than a termination that is either (i) for Cause; (ii) voluntary on the part of the Optionee and without written consent of the Company; or (iii) for reasons of death or disability or retirement, the Optionee may exercise this Option at any time within 90 days after such termination to the extent of the number of shares which were Purchasable hereunder at the date of such termination.
  - (b) Except as specified in Schedule A attached hereto, in the event of a termination of the Optionee's directorship with the Company that is either (i) for Cause or (ii) voluntary on the part of the Optionee and without the written consent of the Company, this Option, to the extent not previously exercised, shall terminate immediately and shall not thereafter be or become exercisable.
  - (c) Unless and to the extent otherwise provided in Schedule A hereto, in the event that the Optionee is not elected to the board for another term as prescribed by the Company or any subsidiary, the Optionee shall continue to have the right to exercise any Options for shares which were Purchasable at the date of expiration of the Optionee's term (provided that, on the date which is three months after the date of expiration of the Optionee's term, where the Optionee is not reelected, the Options will become void and unexercisable). This Option does not represent an employment contract and does not confer upon the Optionee any right with respect to the status or continuance of a directorship or other relationship by the Company or by any of its subsidiaries either during or after the term hereof.
9. Disabled Optionee. In the event of termination of a directorship with the Company because of the Optionee's becoming subject to a Permanent and Total Disability, the Optionee (or his or her personal representative) may exercise this Option, within a period ending on the earlier of (a) the last day of the one year period following the Optionee's death or (b) the expiration date of this Option, to the extent of the number of shares which were Purchasable hereunder at the date of such termination.
10. Death of Optionee. Except as otherwise set forth in Schedule A with respect to the rights of the Optionee upon termination of directorship with the Company under Section 8(a) above, in the event of the Optionee's death while a director of the Company or any of its subsidiaries or within three months after a termination of directorship (if such termination was neither (i) for cause nor (ii) voluntary on the part of the Optionee and without the written consent of the Company), the appropriate persons described in Section 6 hereof or persons to whom all or a portion of this Option is transferred in accordance with Section 5 hereof may exercise this Option at any time within a period ending on the earlier of (a) the last day of the one year period following the Optionee's death or (b) the expiration date of this Option. If the Optionee was a director of the Company at the time of death, this Option may be so exercised to the extent of the number of shares that were Purchasable hereunder at the date of death. If the Optionee's directorship with the Company terminated prior to his or her death, this Option may be exercised only to the extent of the number of shares covered by this Option which were Purchasable hereunder at the date of such termination.
11. Date of Grant. This Option was granted by the Board of Directors of the Company on the date set forth in Schedule A (the "Date of Grant").
12. Compliance with Regulatory Matters. The Optionee acknowledges that the issuance of capital stock of the Company is subject to limitations imposed by federal and state law and the Optionee hereby agrees that the Company shall not be obligated to issue any shares of Stock upon exercise of this Option that would cause the Company to violate the law or any rule,



regulation, order or consent decree of any regulatory authority (including without limitation the Securities and Exchange Commission) having jurisdiction over the affairs of the Company. The Optionee agrees that he or she will provide the Company with such information as is reasonably requested by the Company or its counsel to determine whether the issuance of Stock complies with the provisions described by this Section 12.

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13. Restriction on Disposition of Shares. The shares purchased pursuant to the exercise of a Stock Option shall not be transferred by the Optionee except pursuant to the Optionee's will, or the laws of descent and distribution, until such date which is the later of two years after the grant of such Stock Option or one year after the transfer of the shares to the Optionee pursuant to the exercise of such Stock Option. The shares of Stock purchased pursuant to the exercise of this Option shall not be sold, conveyed or otherwise transferred except pursuant to and in compliance with an effective registration statement applicable to such shares or a valid exemption from registration (with proof of such registration or exemption being delivered to and satisfactory to the Company, in its sole discretion).

14. Miscellaneous.

- (a) This Agreement shall be binding upon the parties hereto and their representatives (including in bankruptcy), heirs, successors and assigns.
- (b) This Agreement is executed and delivered in, and shall be governed by the laws of, the State of Georgia.
- (c) Any requests or notices to be given hereunder shall be deemed given, and any elections or exercises to be made or accomplished shall be deemed made or accomplished, upon actual delivery thereof to the designated recipient, or three days after deposit thereof in the United States mail, registered, return receipt requested and postage prepaid, addressed, if to the Optionee, at the address set forth below and, if to the Company, to the executive offices of the Company at 2812 Spring Street, Suite 210, Atlanta, Georgia 30339.
- (d) This Agreement may not be modified except in writing executed by each of the parties hereto.

IN WITNESS WHEREOF, the Board of Directors of the Company has caused this Director Stock Option Agreement to be executed on behalf of the Company and the Company's seal to be affixed hereto and attested by the Secretary or an Assistant Secretary of the Company, and the Optionee has executed this Director Stock Option Agreement under seal, all as of the day and year first above written.

comstar.net, inc.

Accepted By:

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Signature

James C. Howell

-----

Name

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CEO

-----

Title

OPTIONEE

Accepted By:

-----

Signature

-----  
Name

-----  
Address

-----  
City, State Zip

ATTEST:

-----  
Secretary or Assistant Secretary

Edward N. Landa

-----  
Name

[SEAL]

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[COMSTAR LOGO]

SCHEDULE A TO THE  
STOCK OPTION AGREEMENT

This Schedule A to the Stock Option Agreement (this "Agreement") is entered into as of this \_\_\_ day of \_\_\_, 1999, by and between comstar.net. inc., and \_\_\_.

1. Number of Shares Subject to Option: \_\_\_ shares.
2. Option Exercise Price: \$\_\_\_ per share.
3. Date of Grant: \_\_\_\_\_.
4. Option Vesting Schedule:

Check One:

- Options are exercisable with respect to all shares on or after the date hereof
- Options are exercisable with respect to the number of shares indicated below on or after the date indicated next to the number of shares.

Number of Shares

Vesting Date

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5. Option Exercise Period:

Check One:

- All options expire and are void unless exercised on or before \_\_\_.
- Options expire and are void unless exercised on or before the date indicated next to the number of shares:

Number of Shares

Expiration Date

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6. Effect of Termination of Employment on Optionee (if different from

that set forth in Sections 8, 9 and 10 of the Stock Option Agreement).

Not Applicable.

[COMSTAR LOGO]

SCHEDULE B TO THE STOCK OPTION AGREEMENT

NOTICE OF EXERCISE

The undersigned hereby notifies comstar.net, inc. (the "Company") of this election to exercise the undersigned's stock option to purchase \_\_\_\_\_ shares of the Company's common stock (the "Common Stock"), pursuant to the Director Stock Option Agreement (the "Agreement") between the undersigned and the Company dated \_\_\_\_\_. Accompanying this Notice is (1) a certified or a cashier's check in the amount of \$\_\_\_\_\_ payable to the Company, and/or (2) \_\_\_\_\_ shares of the Company's Common Stock presently owned by the undersigned and duly endorsed or accompanied by stock transfer powers, having an aggregate Fair Market Value (as defined in the Plan referenced in the Agreement) as of the date hereof of \$ \_\_\_\_\_, such amounts being equal, in the aggregate, to the purchase price per share set forth in Section 3 of the Agreement multiplied by the number of shares being purchased hereby (in each instance subject to appropriate adjustment pursuant to the Plan).

IN WITNESS WHEREOF, the undersigned has set his hand and seal, this \_\_\_\_\_ day of \_\_\_\_\_.

OPTIONEE [OR OPTIONEE'S ADMINISTRATOR, EXECUTOR OR PERSONAL REPRESENTATIVE]

-----  
Signature

-----  
Name

-----  
Position (if other than Optionee)

COMSTAR.NET, INC.

DIRECTOR'S AND OFFICER'S  
INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made as of \_\_\_\_\_ 1999, between comstar.net, inc., a Georgia corporation (the "Corporation"), and the member of the Board of Directors and/or the officer of the Corporation named on the signature page hereof (the "Executive").

WHEREAS, the Executive is a member of the Board of Directors and/or an officer of the Corporation and in such capacity is performing a valuable service to the Corporation; and

WHEREAS, the Corporation's Bylaws (the "Bylaws") and Sections 14-2-850 through 14-2-859 of the Georgia Business Corporation Code, as amended to date (the "State Statute") provide for the indemnification of the directors and officers of the Corporation; and

WHEREAS, the Bylaws and State Statute specifically contemplate that contracts may be entered into between the Corporation and the members of its Board of Directors and officers with respect to indemnification of such directors and officers; and

WHEREAS, in order to provide to the Executive assurances with respect to the protection provided against liabilities that he may incur in the performance of his duties to the Corporation, and to thereby induce the Executive to serve as a member of its Board of Directors and/or as an officer of the Corporation, the Corporation has determined and agreed to enter into this contract with the Executive.

NOW, THEREFORE, in consideration of the premises and the Executive's continued service as a director and/or an officer after the date hereof, the parties agree as follows:

1. INDEMNIFICATION. Subject only to the exclusions set forth in Section 2 hereof, and in addition to any other indemnity to which the Executive may be entitled under the State Statute or any bylaw, resolution or agreement (but without duplication of payments with respect to indemnified amounts), the Corporation hereby further agrees to hold harmless and indemnify the Executive, to the fullest extent permitted by law, including, but not limited to, holding harmless and indemnifying the Executive against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal,

administrative, or investigative (including an action by or in the right of the Corporation), to which the Executive is, was, or at any time becomes a party, or is threatened to be made a party, by reason of the fact that the Executive is, was, or at any time becomes a director, officer, employee or agent of the Corporation, or a predecessor corporation, or is or was serving or at any time serves at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another corporation, partnership, employee benefit plan, joint

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venture, trust, or other enterprise.

2. LIMITATIONS ON INDEMNITY. No indemnity pursuant to Section 1 hereof shall be paid by the Corporation:

(a) with respect to any proceeding in which the Executive is adjudged, by final judgment not subject to further appeal, liable to the Corporation or is subjected to injunctive relief in favor of the Corporation:

(i) for any appropriation, in violation of his duties, of any business opportunity of the Corporation;

(ii) for acts or omissions which involve intentional misconduct or a knowing violation of law;

(iii) for the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code; or

(iv) for any transaction from which the Executive received an improper personal benefit;

(b) with respect to any suit in which final judgment is rendered against the Executive for an accounting of profits, made from the purchase or sale by the Executive of securities of the Corporation, pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 or similar provisions of any federal, state, or local statutory law, or on account of any payment by the Executive to the Corporation in respect of any claim for such an accounting; or

(c) if a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

3. CONTRIBUTION. If the indemnification provided in Section 1 is unavailable, then in respect of any threatened, pending, or completed action, suit, or proceeding in which the Corporation is jointly liable with the Executive (or would be if joined in such action, suit or proceeding), the Corporation shall contribute, to the extent it is not lawfully prevented from

doing so, to the amount of expenses, judgments, fines, and settlements paid or payable by the Executive in such proportion as is appropriate to reflect (i) the relative benefits received by the Corporation on the one hand and the Executive on the other hand from the transaction from which such action, suit, or proceeding arose, and (ii) the relative fault of the Corporation on the one hand and of the Executive on the other in connection with the events which resulted in such expenses, judgments, fines, or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Corporation on the one hand and of the Executive on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines, or settlement amounts. The Corporation agrees that it would not be just and equitable if

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contribution pursuant to this Section 3 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

4. CONTINUATION OF OBLIGATIONS. All agreements and obligations of the Corporation contained herein shall continue during the period the Executive is a director, officer, employee, or agent of the Corporation (or is serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise) and shall continue thereafter for so long as the Executive shall be subject to any possible claim or threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, or investigative, by reason of the fact that the Executive was a director of the Corporation or serving in any other capacity referred to herein.

5. NOTIFICATION AND DEFENSE OF CLAIM. Promptly after receipt by the Executive of notice of the commencement of any action, suit, or proceeding, the Executive will, if a claim in respect thereof is to be made against the Corporation under this Agreement, notify the Corporation in writing of the commencement thereof, but the omission to so notify the Corporation will not relieve the Corporation from any liability which it may have to the Executive otherwise than under this Agreement. With respect to any such action, suit, or proceeding as to which the Executive so notifies the Corporation:

(a) the Corporation will be entitled to participate therein at its own expense; and

(b) subject to Section 6 hereof, and if the Executive shall have provided his written affirmation of his good faith belief that his conduct did not constitute behavior of the kind described in paragraph 2(a) hereof and that he is entitled to indemnification hereunder, the Corporation may assume the defense thereof.

After notice from the Corporation to the Executive of its election so

to assume such defense, the Corporation will not be liable to the Executive under this Agreement for any legal or other expenses subsequently incurred by the Executive in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. The Executive shall have the right to employ his separate counsel in such action, suit, or proceeding, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of the Executive unless (i) the employment of counsel by the Executive has been authorized by the Corporation, (ii) counsel designated by the Corporation to conduct such defense shall not be reasonably satisfactory to the Executive, or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of such counsel shall be at the expense of the Corporation. For the purposes of clause (ii) above, the Executive shall be entitled to determine that counsel designated by the Corporation is not reasonably satisfactory if, among other reasons, the Executive shall have been advised by qualified counsel that, because of actual or potential conflicts of interest in the matter between the Executive, other officers or directors similarly indemnified by the Corporation, and/or the Corporation, representation of the Executive by counsel designated by the Corporation is likely to materially and adversely affect the Executive's

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interest or would not be permissible under applicable canons of legal ethics.

The Corporation shall not be liable to indemnify the Executive under this Agreement for any amounts paid in settlement of any action or claim effected without the Corporation's written consent. The Corporation shall not settle any action or claim in any manner which would impose any penalty or limitation on the Executive without the Executive's written consent. Neither the Corporation nor the Executive will unreasonably withhold consent to any proposed settlement.

6. ADVANCEMENT AND REPAYMENT OF EXPENSES. Upon request therefor accompanied by reasonably itemized evidence of expenses incurred, and by the Executive's written affirmation of his good faith belief that his conduct met the standard applicable to indemnification pursuant to Section 1 hereof and did not constitute behavior of the kind described in Section 2(a) hereof and that he is entitled to indemnification hereunder, the Corporation shall advance to the Executive the reasonable expenses (including attorneys' fees and costs of investigation and defense (including the fees of expert witnesses, other professional advisors, and private investigators)) incurred by him in defending any civil or criminal suit, action, or proceeding for which the Executive is entitled (assuming an applicable standard of conduct is met) to indemnification pursuant to this Agreement. The Executive agrees to reimburse the Corporation for all reasonable expenses paid by the Corporation, whether pursuant to this Section or Section 5 hereof, in defending any action, suit, or proceeding against the Executive in the event and to the extent that it shall ultimately be determined that the Executive is not entitled to be indemnified by the Corporation for such expenses under this Agreement. Any advances and the

Executive's agreement to repay shall be unsecured and interest-free.

7. ENFORCEMENT.

(a) The Corporation expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce the Executive to serve as a director and/or officer of the Corporation and acknowledges that the Executive will in the future be relying upon this Agreement in continuing to serve in such capacity.

(b) In the event the Executive is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Corporation shall reimburse the Executive for all of the Executive's reasonable fees and expenses in bringing and pursuing such action.

8. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable in whole or in part for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.

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9. GOVERNING LAW; SUCCESSORS; AMENDMENT AND TERMINATION.

(a) This Agreement shall be interpreted and enforced in accordance with the laws of the State of Georgia, without regard to its conflict of law principles.

(b) This Agreement shall be binding upon the Executive and the Corporation and its successors and assigns (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of the Executive, his heirs, personal representatives, and assigns and to the benefit of the Corporation and its successors and assigns.

(c) No amendment, modification, termination, or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

(d) References to the male gender shall include the female gender, and vice versa.

[Signatures appear on following page.]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in counterparts or otherwise, as of the day and year first above written.

EXECUTIVE

COMSTAR.NET, INC.

-----  
Name: \_\_\_\_\_  
-----

By: \_\_\_\_\_  
Name (Print): \_\_\_\_\_  
Title: \_\_\_\_\_

OFFICE LEASE

BUILDING: EMERSON CENTER

LANDLORD: THE EMERSON CENTER COMPANY  
 NATIONAL INCOME REALTY TRUST  
 MANAGING GENERAL PARTNER

TENANT: COMSTAR COMMUNICATIONS, INC.

DBA: SAME

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EXHIBITS

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- Exhibit B - Premises Site Plan
- Exhibit C - Parking Addendum
- Exhibit D - Rules and Regulations
- Exhibit E - Guaranty
- Exhibit F - Storage Space Addendum
- Exhibit G - Generator Site Map

OFFICE LEASE

This Lease, dated for reference purposes only MAY 2, 1996, is made by and between THE EMERSON CENTER COMPANY, (the "Landlord"), and COMSTAR COMMUNICATIONS, INC. (the "Tenant").

1. CERTAIN LEASE PROVISIONS

The descriptions and amounts set forth below are qualified by their usage elsewhere in this Lease, including those Sections referred to in parentheses following such descriptions:

- 1.1 Tenant's address and telephone number (Section 19):  
 Tenant Name: COMSTAR COMMUNICATIONS, INC.  
 Doing Business As (DBA): COMSTAR COMMUNICATIONS, INC.  
 Address: 419 BRADFORD STREET, NW, SUITE A-2, GAINESVILLE, GEORGIA  
 30501

Telephone: (770) 718-9600

- 1.2 Premises: (Section 2.1):  
Building Name: EMERSON CENTER Suite No: 210  
Address: 2812 NEW SPRING ROAD, ATLANTA, GEORGIA 30339
- 1.3 Lease Area. (Section 2.1): 1,264 rentable sq. ft.
- 1.4 Total Building Area. (Section 2.1): 126,979 rentable sq. ft.
- 1.5 Tenant's Pro-Rata Share of Building Area. (Section 2.1): .0099%
- 1.6 Lease Term. (Section 3.1): THREE (3) YEARS
- 1.7 Commencement Date: (Section 3.1): JUNE 1, 1996
- 1.8 Expiration Date. (Section 3.1, 3.2): MAY 31, 1999
- 1.9 Base Rent for Lease Term. (Section 4.1): Total FORTY-SEVEN THOUSAND  
THREE HUNDRED FORTY-  
NINE AND 48/100  
DOLLARS (\$47,349.48)
- 1.10 Base Rent, Monthly Installments. (Section 4.1, 5.2): ONE THOUSAND TWO  
HUNDRED SIXTY-  
FOUR AND NO/100  
DOLLARS  
(\$1,264.00)
- 1.11 (a) Address of Landlord for rent payments (Section 4.1, 4.2):  
THE EMERSON CENTER COMPANY  
C/O THE FRANK M. DARBY COMPANY, INC.  
2814 NEW SPRING ROAD, SUITE 110  
ATLANTA, GEORGIA 30339
- (b) Address of Landlord for notices. (Sections 6.3, 19):  
c/o TARRAGON REALTY ADVISORS, INC.  
3878 OAK LAWN, SUITE 300  
DALLAS, TEXAS 75219  
ATTN: CHRIS W. CLINTON
- (c) Address of Tenant for notices (Sections 6.3, 19):  
2812 NEW SPRING ROAD, SUITE 210  
ATLANTA, GEORGIA 30339
- 1.12 Geographic Area for CPI Calculation. (Section 5.2): N/A
- 1.13 Base Month for CPI Calculation. (Section 5.2): N/A
- 1.14 Landlord's Share of Operating Expenses. (Section 6.2): \$4.45 PSFY per  
rentable square foot

- 1.15 Landlord's Share of Real Estate Taxes. (Section 6.2): \$0.59 per rentable square foot
- 1.16 Security Deposit (Section 7): TWO THOUSAND FIVE HUNDRED DOLLARS (\$2,500.00)
- 1.17 Use. (Section 8.1): GENERAL OFFICE
- 1.18 Brokers (Section 25.20): THE FRANK M. DARBY COMPANY  
3384 PEACHTREE ROAD, SUITE 400  
ATLANTA, GEORGIA 30326
- 1.19 Addendum(s). (Sections 3.2, 4.3, 9.2, 22): The following addendum(s) are attached to this Lease: A & B

This Lease consists of 25 articles on 28 pages, plus Exhibits A, B, C, D, E and -2- additional page(s) of Addendum(s).

LANDLORD: THE EMERSON CENTER COMPANY  
-----  
NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER

TENANT: -----  
COMSTAR COMMUNICATIONS, INC.

By: /s/ Chris Clinton, VP  
-----

By: /s/ Sam F. Dayton, President  
-----  
Sam. F. Dayton, Ph.D.

Date: 5/8/96  
-----

Date: 05-03-96  
-----

5

2.1 Definition. Landlord hereby leases to Tenant and Tenant leases from Landlord for the term, at the rental, and upon all of the conditions set forth herein, that certain real property known by suite number and address specified in Section 1.2 hereof, consisting of the approximate amount of rentable square feet specified in Section 1.3 hereof, and which is referred to herein as the Premises. The Premises are located in an office building presently consisting of the total number of rentable square feet specified in Section 1.4 hereof, which office building, the real property on which it is situated (the legal description of which is attached hereto as Exhibit A), and any parking facilities or structures appurtenant thereto are hereinafter collectively referred to as the "Building". The Premises are depicted in Exhibit B attached hereto and incorporated herein by this reference, but the depiction of possible uses, tenants or locations on Exhibit B shall not be construed to be a warranty or representation by Landlord that any such uses, tenants or locations presently exist or will continue to exist. Tenant's share of the total amount of square

feet of the Building is equal to the pro-rata share specified in Section 1.5 hereof, and said percentage shall hereinafter be referred to as the Tenant's "Pro-Rata Share".

2.2 Public Areas. As long as this Lease remains in effect and Tenant is not in default hereunder, Tenant shall have the nonexclusive right, in common with the Landlord, other tenants, subtenants and invitees, to use the public areas of the Building which consist of the entrance foyer and lobby of the Building, the common corridors on the floor of the Building on which the Premises are situated and other areas appurtenant to or servicing the elevators, shipping and receiving areas and lavatories in the Building, provided that Landlord shall have the right at any time and from time to time to exclude therefrom such areas as Landlord may determine so long as access to the Premises is not unreasonably denied.

### 3. TERM

3.1 Term. The term of this Lease shall be the term specified in Section 1.6 hereof, commencing on the Commencement Date specified in Section 1.7 hereof and ending on the Expiration Date specified in Section 1.8 hereof unless sooner terminated pursuant to any provision of this Lease.

3.2 Delay in Commencement. Notwithstanding said Commencement Date, if for any reason Landlord cannot deliver possession of the Premises to Tenant on said date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder. However, in such case Tenant shall not be obligated to pay rent until possession of the Premises is tendered to Tenant, which date shall be the new commencement Date, and the Expiration Date shall remain unchanged. Upon Landlord's request, the parties agree to execute in writing an Addendum to certify the Commencement Date and Expiration Date hereof, but this Lease shall not be affected in any manner if either party fails or refuses to execute such Addendum.

3.3 Early Possession. In the event that Landlord shall permit Tenant to occupy the Premises prior to the Commencement Date, such occupancy shall be subject to all of the provisions of this Lease and Tenant shall be obligated to pay rental and all other charges incurred under this Lease in addition to any obligations which commence on the Commencement Date. Said early possession shall not advance the Expiration Date of this Lease.

3.4 Delivery of Possession. Tenant shall be deemed to have taken possession of the Premises when the earliest of any of the following occur: (a) five business days after Landlord or Landlord's agent, architect or contractor notifies Tenant that the Premises are ready for occupancy; or (b) Tenant commences to occupy or otherwise make use of the Premises. If Tenant is notified pursuant to Section 3.4(a), Tenant agrees to occupy the Premises within twenty business days thereafter. As used in this Lease, "business days" shall mean Mondays through Fridays. Tenant agrees that, upon the request of Landlord, Tenant will execute a document certifying the date on which Tenant took possession of the premises.



3.5 Holding Over. If Tenant remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month at a monthly rental equal to 150% of the Base Rent and Additional Rent payable hereunder. The foregoing provisions of this Section 3.5 shall neither be construed to give the Tenant any right to remain in possession of the Premises or any part thereof after the expiration of the term hereof nor to waive any of the Landlord's rights under this Lease to collect any damages to which it may be entitled, whether direct or consequential.

4. RENT.

4.1 Base Rent. The Base Rent for the Premises for the entire term of this Lease shall be as specified in Section 1.9, subject to adjustment pursuant to the application of Section 3.2 relative to postponement of the installments specified in Section 1.10, in advance, on the first day of each month of the term hereof. Tenant shall pay Landlord upon the execution of this Lease the sum specified in Section 1.10 as the installment of Base Rent for the first full calendar month of the term of the Lease. Provided, however, that if the Commencement Date does not occur on the first day of a month, the aforesaid payment shall be for the initial thirty days of the Lease and the next monthly installment of Base Rent shall be due on the first day of the first full calendar month of the term but shall be prorated to cover only those days of said calendar month not previously paid by the Tenant by its initial payment. Base Rent for any period during the term hereof which is less than one calendar month shall be a pro-rata portion of the monthly installment based upon the actual number of days the Lease is in effect during said calendar month. All rents shall be payable in lawful money of the United States of America without notice or demand and without any deduction, offset or abatement, and shall be payable to Landlord at the address stated in Section 1.11(a) or to such other persons or at such other places as Landlord may designate in writing. The payment of Base Rent hereunder shall be an independent covenant.

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Tenant / Landlord

4.2 Additional Rent. Both Tenant and Landlord expressly understand and agree that all other sums, excepting Base Rent as described in Sections 4.1 and 5, which may from time to time become due under this Lease shall be deemed Additional Rent. Additional Rent shall include, but not be limited to, late charges, interest, Shared Expenses as described in Section 6, attorneys' fees, security deposits and any cash bonds which may by circumstance be required to be posted hereunder. Both Tenant and Landlord expressly understand and agree that all monies paid by Tenant hereunder shall be first credited to Additional Rent (and allocated among different items of Additional Rent as Landlord may determine), and only then to Base Rent. All payments of Additional Rent shall

be in lawful money of the United States of America, shall be paid without any deduction, offset or abatement, and shall be payable to Landlord at the address stated in Section 1.11(a) or to such other persons or at such other places as Landlord may designate in writing. The obligation to make payments of Additional Rent hereunder shall be an independent covenant.

4.3 Parking and Storage. Tenant agrees to pay to Landlord the amount of Additional Rent for parking as set forth in any Parking Addendum incorporated in this Lease, and the amount of Additional Rent for storage as set forth in any Storage Space Addendum incorporated in this Lease, in advance for each month on the first day of each month of the term hereof. Unless Tenant executes a Parking Addendum or Storage Space Addendum, Tenant shall have no right to use any parking facilities or storage facilities of the Building, respectively.

4.4 Acceptance of Rental Payments. No acceptance by Landlord of a lesser sum than the Base Rent and/or Additional Rent then due shall be deemed to be other than on account of the earliest amount of such rental due (unless Landlord elects otherwise), nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction or compromise and settlement, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such payments due or to pursue any other remedy as provided in this Lease.

5. ESCALATIONS OF RENT.

5.1 Determination. The monthly obligations for rental payments described in Sections 4.1 and 4.3 shall be increased annually in accordance with the provisions of. See Addendum A.

5.2 [Intentionally omitted]

6. SHARED EXPENSES

6.1 Determination. The monthly obligations for Additional Rent as described in Section 4.2 shall be annually adjusted in accordance with the provisions of Section 6.2 below.

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Tenant / Landlord

6.2 ESCALATIONS: (a) Landlord agrees to expand as its share of Operating Expenses paid for and sustained by the Landlord during any calendar year an amount not greater than that specified in Section 1.14. Said sum shall constitute the maximum payable by Landlord as its contribution toward Operating Expenses. The term "Operating Expense" means the total amounts paid or payable, whether by the Landlord or otherwise on behalf of the Landlord, in connection

with the ownership, leasing, management, maintenance, repair and operation of the Building, other than those expenses described in Section 6.2(b). Operating Expense shall include, without limiting the generality of the foregoing, the aggregate of the amount paid for heating, air conditioning, and providing electricity and water and sewer charges to the Building, other than that paid by individual tenants, the amount paid to any persons or entities for all labor and/or wages (including the cost to Landlord of workmen's compensation and disability insurance, payroll taxes, welfare and fringe benefits), for services rendered, and materials provided to the Building; administrative expenses related to the Building; any costs incurred for any capital improvements or structural repairs to the Building to effect labor savings or otherwise reduce Operating Expenses, or required by law or by any governmental or quasi-governmental authority having jurisdiction over the Building, which costs shall be amortized over the useful life of the applicable capital improvements or structural repairs; the cost of accounting services necessary to compute the rent and charges payable by tenants of the Building; fees for management, legal, accounting, inspection and consulting services pertaining to the Building; the cost of guards and other protection services; and the amount paid for premiums for all insurance procured by Landlord to insure the Building as may be required or permitted under this Lease (including, without limitation, business interruption insurance, and if there is a mortgage or deed of trust on the Building, such insurance as may be required by the holder of such mortgage or deed of trust). Notwithstanding the foregoing, Operating Expenses shall not include the costs of special services rendered to tenants (including Tenant) for which a special or separate charge is made, any costs of preparation of space for new tenants in the Building, any costs borne directly by Tenant under this Lease, leasing commissions, depreciation or interest payments, or debt service payments made to a mortgagee.

(b) Landlord agrees to expend as its share of Real Estate Taxes paid for and sustained by the Landlord during any calendar year an amount not greater than that specified in section 1.15. Said sum shall constitute the maximum payable by Landlord as its contribution toward Real Estate Taxes. Real Estate Taxes shall include general and special taxes, assessments, duties and levies, charged and levied upon or assessed against the Building and/or any improvement situated on the real property on which the Building stands, any leasehold improvement, fixtures, installations, additions and equipment used in the maintenance or operation of the Building, whether owned by Landlord or Tenant, not paid directly by the Tenant. Further, if at any time during the term of this Lease, the method of taxation of real estate prevailing at the time of execution hereof shall be or has been altered so as to cause the whole or any part of the taxes now or hereafter levied, assessed or imposed on real estate to be levied, assessed or imposed upon Landlord, wholly or partially, as a capital levy or otherwise, or on, or measured by the rents received from the Building, then such new or altered taxes attributable to the Premises shall be deemed to be included within the term "Real Estate Taxes" for purposes of this paragraph. The reference to "Building" in this subparagraph shall include, as allocated by the Landlord, improvements or facilities utilized in common by the Building and other buildings upon or adjacent to the real property on which the Building stands.

(c) Commencing on the first day of the first January after the Commencement Date, and continuing thereafter during the term of this Lease, Tenant shall pay to Landlord monthly in advance on the first day of each month, without notice or demand and without any deduction, offset or abatement, in lawful money of the United States of America, 1/12 of the amount of the Tenant's Pro-Rata Share of the Shared Expenses as estimated by Landlord to be incurred for the calendar year in which the monthly payments are to be made. If the Expiration Date is not December 31, the monthly payments owing hereunder during the last partial calendar year of the Lease shall be appropriately adjusted. For the period from the Commencement Date to December 31 in the same calendar year, Tenant shall not pay estimated Shared Expenses but shall be obligated for its actual Pro-Rata Share of Shared Expenses for said period upon receipt of Landlord's Statement described below. The term "Shared Expenses" shall mean the amount by which Operating Expenses and Real Estate Taxes incurred in any period exceed the amount of Landlord's obligation for the same as specified in Section 1.14 and 1.15.

(d) In each calendar year after the year in which the Commencement Date occurs, Landlord shall send to Tenant a Landlord's Statement which shall set forth the actual amount of Shared Expenses, with the exception of those States in which real estate taxes are billed on other than a calendar year basis, in that event Landlord's statement of Real Estate Taxes will be based on the Real Estate Tax Fiscal Year and sent within a reasonable time after receipt of Real Estate Tax Statements, and Tenant's Pro-Rata Share thereof for the preceding calendar year or portion thereof and the estimated amount of Shared Expenses and Tenants' Pro-Rata Share thereof for the calendar year in which the Landlord's Statement is given. Landlord's failure to render a Landlord's Statement with respect to any period shall not eliminate or reduce Tenant's obligation to pay Shared Expenses and shall not prejudice Landlord's right to render a Landlord's Statement with respect to any subsequent period. The obligations of Tenant under the provisions of this paragraph with respect to any increase in rent shall survive the expiration or any sooner termination of the term of the Lease. Within 15 days next following the notification by Landlord of the contents of its Landlord's Statement, Tenant shall pay to Landlord the entire amount of Tenant's Pro-Rata Share of actual Shared Expenses for the prior period covered by the Landlord's Statement less the amount of Shared Expenses actually paid by Tenant for said period, plus Tenant shall also then pay to Landlord such amount as is necessary to assure that, through the calendar month in which the Landlord's Statement is given, the Tenant has paid to Landlord the full amount of estimated Shared Expenses for the calendar year in which Landlord's Statement is given as if the Landlord's Statement were given on January 1 of said calendar year. For each month following for the remainder of said calendar year, Tenant shall pay the monthly estimated Shared Expenses set forth in the Landlord's Statement. In the event that the estimated payments made by the Tenant in the calendar year preceding the date on which the Tenant is given notice of the Landlord's Statement exceed the Tenant's Pro-Rata Share of actual Shared Expenses for such calendar year, then should the Tenant not be otherwise in default hereunder, the amount of such excess shall be applied by the Landlord to the next succeeding installments of monthly estimated payments of Share Expenses.

6.3 Statements. Nothing in this Lease shall be construed to require Landlord to render the statements described in Sections 5.2 and 6.2 simultaneously or in any particular order. All reasonable determinations by Landlord pursuant to Section 6 shall be presumed to be correct. Until Tenant is advised of the adjustment in its obligation to pay Shared Expenses, if any, pursuant to the provisions of Section 6.2, Tenant's monthly rental shall continue to be paid at the then current rent (including all prior adjustments thereto pursuant to this Lease). Upon written notice to Landlord of not less than fifteen business days, Tenant shall have the right to review the documentation relied upon by Landlord relating to the computation of Shared Expenses, which review shall occur at the location specified in Section 1.11(b). All Shared Expenses shall be computed on the actual basis. In computing Shared Expenses, no cost or expense may be accounted more than once, any expenses which are paid by the proceeds of insurance shall be excluded. Tenant shall have the right to cause an audit to be made of Landlord's computation of Shared Expenses, at the location of the Corporate Office in Dallas, Texas, at Tenant's sole expense, not more frequently than once per calendar year. Tenant shall not be entitled to withhold or deduct any portion of Base Rent, or Additional Rent during the pendency of any such audit. Any errors disclosed by such audit shall be promptly corrected, provided that Landlord shall have the right to cause another independent audit to be made of such computations, and in the event of a disagreement between the auditors, the audit disclosing the least amount of deviation from Landlord's original computations shall be conclusively deemed to be correct.

#### 7. SECURITY DEPOSIT.

Tenant shall deposit with Landlord upon execution hereof the sum specified in Section 1.16 as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provisions of this Lease, Landlord may without notice to Tenant use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Landlord may become obligated by reason of Tenant's default or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within five (5) days after written demand therefor deposit cash with Landlord in an amount sufficient to restore said deposit to the full amount hereinabove stated. Landlord shall not be required to keep said deposit separate from its general accounts and Tenant shall not be entitled to interest on such deposit. If Tenant performs all of Tenant's obligations hereunder, said deposit or so much thereof as had not theretofore

been applied by Landlord, shall be returned, without payment of interest or other increment for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of the Tenant's interest hereunder) within sixty (60) days after either the expiration of the term hereof or after Tenant has vacated the Premises, whichever is later. Landlord shall deliver the funds deposited herein by Tenant to the Purchaser of the Building in the event the Building is sold (or give such Purchaser a credit against the purchase price in the amount of such deposit), and thereupon Landlord shall be discharged from all further liability with respect to such deposit. If Tenant shall default under this Lease more than two (2) times in any twelve (12) month period, irrespective of whether or not such default is cured, then the security deposit shall, within ten (10) days after demand by Landlord, be increased by Tenant to an amount equal to the greater of: (i) three (3) times the amount specified in Article 1.16; (ii) three (3) months' fixed rent; or (iii) as may be otherwise required by Landlord.

## 8. USE.

8.1 Use. The Premises shall be used and occupied only for the uses specified in Section 1.17 hereof, provided that the foregoing shall not be construed as a representation or guarantee by the Landlord that such business may lawfully be conducted on the Premises.

8.2 Compliance With Law. In the event it is determined by the applicable governmental unit that the Premises violates any building code, regulation or ordinance, then it shall be the obligation of the Landlord, after written notice from Tenant which includes a copy of the governmental unit's determination, to promptly, at Landlord's sole cost and expense, rectify any such violation. In the event Tenant does not give to Landlord written notice of any such violation within thirty (30) days from the date on which Tenant takes possession of the Premises, it shall be conclusively deemed that such violation, whether the same is patent or latent, did not exist and the correction of the same shall be the obligation and expense of the Tenant at the direction of the Landlord, provided, however, that nothing in this Section shall be construed to require or permit the Tenant to make any structural changes to the Building not caused by Tenant's improvements or the nature of Tenant's occupancy of the Premises.

8.3 Waste and Nuisance. Tenant shall not commit, suffer or permit any waste, damage, disfiguration or injury to the Premises, the common areas in the Building, or the fixtures and equipment located therein or thereon. Tenant shall not permit or suffer any overloading of the floors thereof, and shall not place therein any heavy business machinery, safes, computers, data processing machines, or other items heavier than customarily used for general office purposes without first obtaining the written consent of Landlord. Tenant shall not use or permit to be used any part of the Building for any dangerous, noxious or offensive trade or business, and shall not cause or permit any nuisance, noise, action, or disturbance of other tenants, in, at or on the Premises.

8.4 Conditions of Premises. Except as provided in Section 8.2, Tenant hereby accepts the Premises in their condition existing as of the date of the



commencement hereof, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and accepts this Lease subject thereto and all matters disclosed thereby and by any exhibits attached hereto. In addition, except as provided in Section 8.2, Tenant shall at Tenant's expense, comply promptly with all applicable laws, statutes, ordinances, rules, regulations, orders, restrictions of record, and requirements in effect during the term or any part of the term hereof regulating the use by Tenant of the Premises.

8.5 Insurance Cancellation. Notwithstanding the provisions of Section 8.2 hereinabove, no use shall be made or permitted to be made of the premises, nor acts done which will cause the cancellation of any insurance policy covering said Premises or the Building, and if Tenant's use of the Premises causes an increase in said insurance rates, Tenant shall pay any such increase as Additional Rent, which, together with interest on any amount paid therefor by Landlord, shall be payable by Tenant on the next succeeding date on which a Base Rental payment is due.

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Tenant / Landlord

8.6 Landlord's Rules and Regulations. Tenant shall faithfully observe and comply with the reasonable rules and regulations that Landlord shall from time to time promulgate, including without limitation any rules and regulations attached to this Lease, which are hereby incorporated wherein by this reference. Landlord reserves the right from time to time to make all reasonable modifications to said rules and regulations. The additions and modification to those rules and regulations shall be binding upon Tenant upon Landlord giving notice of them to Tenant. Landlord shall not be responsible to Tenant for the nonperformance of any of said rules and regulations by any other tenants or occupants.

9. LANDLORD'S SERVICES.

9.1 Basic Services. Subject to any law, rule or governmental order or regulation, and further subject to any circumstance beyond the control of the Landlord, Landlord shall furnish the following services:

(a) Air conditioning and heat, whichever be required, from 8 a.m. to 6 p.m., Monday through Friday and 8 a.m. through 1 p.m. on Saturday, excluding legal holidays;

(b) Hot and cold water for lavatory purposes and electric current for lighting the Premises and for ordinary office appliances and office machines only, provided that Tenant shall not use any electrical equipment which in Landlord's opinion will overload the wiring insulations or interfere

with the use thereof by Landlord or any other tenant in the Building. If a further supply of water is required by Tenant, then at Tenant's expense, Landlord shall have the option to install and maintain a water meter to register such consumption, and Tenant shall pay as Additional Rent for water consumed, at the cost to Landlord, and for sewer rents and all other rents and charges based upon such consumption of water;

(c) General day-to-day janitorial service (excluding carpet shampooing and hard surface floor waxing) five days a week, and elevator service during the same hours for which air conditioning and heat services are provided as set forth above, provided, however, that in the event Tenant is delinquent in making any installment payment of rent under this Lease for a period of 15 days or more after it shall become due, Landlord may discontinue furnishing any or all of the services described in this Section 9 until all arrears of rental payments, plus interest and late charges and any other sums due under this Lease, shall have been paid in full. Whenever heat generating machines or equipment are used by Tenant in the Premises which affect the temperature otherwise maintained by the air conditioning systems, as determined by Landlord, Landlord reserves the right to install supplementary air conditioning units in the Premises, and the costs therefor, including the cost of installation, operating and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord. If Tenant, as determined by Landlord, requires electric current in excess of that usually furnished or supplied to the Premises, Landlord may, at its selection, either cause an electric current meter to be installed in the Premises so as to measure the electric current consumed for such excess use or determine the value of such excess use by causing an independent electrical engineer or consulting firm, selected by Landlord, to conduct a survey of Tenant's use of electric current and to certify such determination in writing to Landlord and Tenant. The cost of any such meter or survey, as the case may be, and of the installation, maintenance or survey, as the case may be indicates such excess use by Tenant of electric current, Tenant agrees to pay to Landlord, as Additional Rent, promptly upon demand therefor by Landlord, the amount determined to be due for the electric current consumed by Tenant, as shown by said meter or as indicated in said survey, as the case may be, at the rate charged for such service by the local public authority or the local public utility, as the case may be, furnishing the same, plus any additional expenses incurred by Landlord in keeping account of the electric current consumed.

(d) Notwithstanding anything in this Lease to the contrary, Tenant will not without the prior written consent of Landlord use any apparatus or device in the Premises which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises as general office space. Tenant shall not connect with any electric current except through existing electrical outlets in the Premises, or to any water pipes, any apparatus or device for the purposes of using electric current or water. If Tenant shall require water or electric current in excess of that usually furnished or supplied for use of the Premises, Tenant must first procure the written consent of Landlord to the use thereof. With the prior written consent of Landlord, Tenant may maintain and operate data processing equipment on the Premises, but all additional costs in connection therewith (including, but not



limited to, additional support flooring, insulation, electrical outlets and temperature maintenance facilities) shall be borne solely by Tenant and the utility services utilized by or for such equipment shall be separately metered and the cost of such utility services with metering shall be borne solely by Tenant. At Tenant's request and with Landlord's prior approval, Landlord shall furnish the services described in this Section at times other than specified in Section 9.1(a), provided that Tenant shall pay the entire cost thereof as reasonably determined by Landlord as Additional Rent, notwithstanding the fact that such services may also benefit portions of the Building other than the Premises (in which event Landlord shall not receive collectively from all tenants paying for any portion of such additional services more than the actual cost to Landlord of providing the same).

9.2 Initial Construction. Landlord agrees to perform the work and make such installations in the Premises as set forth in the Work Letter Addendum which, if attached hereto as indicated in Section 1.19, constitutes additional provisions of this Lease which are hereby incorporated by reference. Tenant acknowledges that it will examine the Premises before taking possession hereunder and agrees that unless Tenant furnishes Landlord with a notice in writing specifying any apparent defect in the construction within twenty business days after such taking of possession pursuant to Section 3.4, it shall be conclusively deemed that Tenant has examined the Premises and that the same were in good order and that Landlord had satisfactorily completed the work it agreed to perform. Tenant agrees that there is no promise, representation, or undertaking by or binding upon Landlord with respect to any construction, alteration, remodeling or redecorating in or to the Premises except as expressly set forth in the Work Letter Addendum.

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9.3 Interruption of Services. Landlord reserves the right from time to time to install, use, maintain, repair, replace and relocate for service to the Premises and other parts of the Building, and to alter or relocate any other facility in the Building. Interruption or curtailment of any service maintained in the Building, if caused by strikes, mechanical difficulties, actions of the Landlord under the first sentence of this Section 9.3, or for any other reason beyond Landlord's control, shall not entitle Tenant to any claim against Landlord or to any abatement in rent, nor shall the same constitute constructive or partial eviction. Unless due to the gross negligence of Landlord, Landlord shall not be liable to Tenant for any injury or damage resulting from defects in the plumbing, heating, or electrical systems in the Building or for any damage resulting from water seepage into the Building or for any act or failure to act by any other Tenants at the Building or for any damage resulting from wind storm, hurricane or rainstorm.

10. MAINTENANCE, REPAIRS AND ALTERATIONS.

10.1 Landlord's Obligations. Subject to the provisions of Sections 8.2 and 14, and except for damage caused by any negligent or intentional act or omission of Tenant, Tenant's agents, employees, representatives, customers or invitees, in which event Tenant shall repair the damage, at its sole expense, Landlord shall keep in good order, condition and repair the structural portions of the Building and those portions of the Building which are not occupied or leased by any tenant, and all costs incurred by Landlord in making any such repairs or performing such maintenance shall be Operating Expenses as defined in Section 6.2, provided that Landlord shall have no obligation to perform any act which is the obligation of Tenant or any other tenant in the Building. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair. Other than as specifically provided in this Section 10.1, Landlord shall not be obligated to make any repairs or improvements of any kind, in, upon, about, or to the Premises or the Building.

10.2 Tenant's Obligations. Subject to the provisions of Sections 8.2 and 14, Tenant, at Tenant's expense, shall keep in good order, condition and repair the demised Premises and every part thereof including, without limiting the generality of the foregoing, all plumbing, electrical and lighting facilities and equipment within the demised Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass and skylights located within the demised Premises. All repairs made by the Tenant shall be at least of the same quality, design and class as that of the original work. Tenant agrees that it will abide by, keep and observe all reasonable rules and regulations which Landlord may make from time to time for the management, safety, care and cleanliness of the Building and grounds, the parking of vehicles and the preservation of good order therein as well as for the convenience of other occupants and tenants of the Building. All damage or injury to the Building or to the demised Premises, fixtures, appurtenances and/or equipment caused by the Tenant moving property in or out of the Building or the Premises or by Tenant's installation or removal of furniture, fixtures, or other property, or from any other cause of any kind or nature whatsoever due to carelessness, omission, neglect, improper conduct, or other cause of the Tenant, its agents, employees, invitees, contractors or subcontractors shall be repaired, restored, or replaced promptly by the Tenant at its sole cost and expense to the satisfaction of the Landlord. In the event that the Tenant fails to keep the demised Premises in good order, condition and repair while this Lease remains in effect, then as soon as possible after written demand (which written demand shall not be required in the case of an emergency), Landlord may restore the demised Premises to such good order and condition and make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's property or business by reason thereof, and upon completion thereof Tenant shall pay to Landlord upon demand and as Additional Rent the cost of restoring the demised Premises to such good order and condition, together with interest thereon from the date paid.

10.3 Surrender. On the last day of the term hereof or on any sooner termination or date on which Tenant ceases to possess the Premises, Tenant

shall surrender the Premises to Landlord in good and clean condition, ordinary wear and tear excepted. Prior to such surrender Tenant shall repair any damage to the Premises occasioned by its removal of trade fixtures, furnishings, and equipment, which repair shall include the patching and filling of holes and repair of structural damage. Tenant agrees to indemnify Landlord and hold Landlord harmless from and against any liability (including reasonable attorneys' fees) of Landlord to third parties resulting from Tenant's failure to timely comply with the provisions of this Section 10.3.

10.4 Alterations and Additions. (a) Tenant shall not, without Landlord's prior written consent, make any alterations, improvements or additions (referred to collectively herein as "Alterations") in, on or about the Premises. Landlord may require that Tenant remove any or all of said Alterations at the expiration of the term or such other time at which Tenant ceases to possess the Premises, and restore the Premises to their prior condition. Should tenant make any Alterations without the prior approval of the Landlord, Landlord may require that Tenant immediately remove any or all of such items and/or Landlord may declare a default by Tenant under this Lease. Except in connection with normal interior decorating of the Premises, Tenant shall not place any holes in any part of the Premises, and in no event shall Tenant place any exterior or interior signs or interior drapes, blinds, or similar items visible from the outside of the Premises without the prior written approval of Landlord.

(b) Any Alterations in, on or about the Premises that Tenant shall desire to make shall be presented to Landlord in written form with proposed detailed plans. If Landlord shall give its consent, the consent shall be deemed conditioned upon Tenant acquiring a permit to do the work from appropriate governmental agencies, the furnishing of a copy thereof to Landlord prior to the commencement of the work and the compliance by Tenant with all conditions of said permit and with all specifications in the plans in a prompt and expeditious manner. Tenant shall not permit any of the work to be performed by persons not currently licensed under any applicable licensing laws or regulations pertaining to the types of work to be performed. Landlord shall not be deemed unreasonable in the exercise of its discretion for withholding approval of any Alterations which involve or might affect any structural or exterior element of the Building, any area or element outside of the Premises, or any facility serving any area of the Building outside of the Premises, or which will require unusual expense to re-adapt the Premises to normal office use on the termination or expiration of the Lease, unless in the latter case Tenant either desires to or is required to make repairs or Alterations in accordance with this Lease, Landlord may require Tenant, at Tenant's sole cost and expense, to obtain and provide to Landlord a lien and completion bond (or such other applicable bond as determined by Landlord) in an amount equal to one and one-half (1 1/2) times the estimated cost of such improvements, to insure Landlord against liability including but not limited to liability for mechanic's and materialmen's liens and to insure completion of the work.

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(c) Tenant shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Tenant at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or the Building Tenant shall give Landlord not less than ten (10) days notice prior to the commencement of any work in, on or about the Premises, and Landlord shall have the right to post notices of non-responsibility in, on or about the Premises as provided by law. Tenant shall have no power or authority to do any act or make any contract which may create or be the basis for any lien upon the interest of the Landlord, the Premises or the building, or any portion thereof. If any mechanics or other lien or any notice of intention to file a lien shall be filed or delivered with respect to the Premises or the Building, based upon any act of the Tenant or of anyone claiming through the Tenant, or based upon work performed or materials supplied allegedly for the Tenant, Tenant shall cause the same to be canceled and discharged of record within fifteen (15) days after the filing or delivery thereof. If Tenant has not so canceled the lien within fifteen (15) days as required herein, Landlord may pay such amount, and the amount so paid together with interest thereon from the date of payment and all legal costs and charges, including attorneys fees, incurred by Landlord in connection with said payment and cancellation of the lien or notice of intent shall be Additional Rent and shall be payable on the next succeeding date on which a Base Rental installment is due. Landlord may, at its option and without waiving and of its rights set forth in the immediately preceding sentence, permit Tenant to contest the validity of any such lien or claim, provided that in such circumstances the Tenant shall at its expense defend itself and Landlord against the same and shall pay and satisfy any such adverse judgment that may be rendered thereinbefore the enforcement thereof against the Landlord, the Premises or the Building, provided further that Landlord may at any time require the Tenant to deposit with the court exercising jurisdiction over such claim, such amount as may be necessary under applicable statutes to cause the release and discharge of the lien, and if Tenant shall not immediately make such payment upon the request of Landlord, Landlord may make said payment and the amount so paid, together with interest thereon from the date of payment and all legal costs and charges, including attorneys fees, incurred by Landlord in connection with said payment shall be deemed Additional Rent and shall be payable on the next succeeding date on which a Base Rent installment is due. In addition, Landlord may require Tenant to pay Landlord's attorney fees and costs in participating in such action if Landlord shall decide it is in its best interest to do so. Nothing herein contained shall be construed as a consent on the part of Landlord to subject the interest and estate of Landlord to liability under any lien law of the state in which the Premises are situated, for any reason or purpose whatsoever, it being expressly understood that Landlord's interest and estate shall not be subject to such

liability and that no person shall have any right to assert any such lien.

(d) Unless Landlord requires their removal, as set forth in Section 10.4(a), all Alterations which may be made on the Premises shall, at the expiration of the term or such other time at which Tenant ceases to possess the Premises, become the property of Landlord and remain upon and be surrendered with the Premises. Notwithstanding the provisions of this Section 10.4(d), Tenant's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, shall remain the property of Tenant and may be removed by Tenant subject to the provisions of Section 10.3 hereof and provided further that Tenant is not in default under this Lease at the time Tenant ceases to possess the Premises.

#### 11. TENANT'S USE OF PUBLIC AREAS.

Tenant's non-exclusive use of the public areas described in Section 2.2 shall be subject to such Reasonable Rules and Regulations promulgated by Landlord pursuant to Section 8.6. Tenant agrees to repair at its cost all deteriorations or damages to the public areas occasioned by its negligence or intentional misconduct or that of its officers, agents, representatives, customers, employees or invitees.

#### 12. TAXES AND TELEPHONE.

12.1 Personal Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon leasehold improvements, fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. If Tenant shall cause said leasehold improvements, trade fixtures, furnishings, equipment and all other personal property to be assessed with Landlord's real property, Tenant shall pay Landlord the taxes attributable to Tenant within (10) days after receipt of a written notice from Landlord setting forth the taxes applicable to Tenant's property, and if Tenant fails to do so, Landlord may make such payment and the amount so paid, together with interest thereon from the date paid, shall be Additional Rent and shall be due and payable to Landlord on the next succeeding date on which a Base Rental installment is due.

12.2 Evidence of Payment. Tenant shall promptly deliver to Landlord, upon Landlord's written request, receipts for payments of all taxes, charges, rates, dues, assessments and licenses in respect of all improvements, equipment and facilities of the Tenant on or in the Premises which were due and payable within a period up to one year prior to Landlord's making such request.

12.3 Telephone. Tenant shall separately arrange and pay for the furnishing of and use of all telephone services as Tenant may deem necessary for its use of the Premises, and Landlord shall have no liability in connection therewith.

#### 13. INSURANCE AND INDEMNITY.

13.1 Liability Insurance. Tenant shall, at Tenant's expense, obtain and keep in force during the term of this Lease a policy of bodily injury and property damage insurance, insuring Landlord and Tenant against and liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be in an amount not less than \$500,000 per person, \$500,000 per occurrence for bodily injury, and \$500,000 for property damage, or \$1,500,000 combined single limit for said items. The limits of said insurance shall not, however, limit the liability of Tenant hereunder. Tenant shall also obtain and keep in force during the term of this Lease, at Tenant's expense, "all risk" or "special coverage form" insurance upon the property of every description and kind owned by the Tenant and located in the Building or for which Tenant is legally liable or installed by or on behalf of the Tenant, including without limitation, furniture, fittings, installations, alterations, additions, partitions, fixtures and anything in the nature of leasehold improvements in an amount not less than 80% of the full replacement cost thereof. Such insurance shall insure the Tenant and Landlord, and in the event that there shall be a dispute as to the amount which comprises the full replacement cost, the decision of the Landlord shall be conclusive.

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If Tenant shall fail to procure and maintain the insurance required hereunder, Landlord may but shall not be required to procure and maintain the same, and any amount so paid by Landlord for such insurance shall be Additional Rent which, together with interest thereon from the date paid, shall be due and payable by Tenant on the next succeeding date on which a Base Rental installment is due. If in the opinion of Landlord the amount of liability insurance required hereunder is not adequate, then not more frequently than once during each option, extension or renewal term of this Lease, if any, Tenant shall increase said insurance coverage as required by Landlord. Provided, however, that in no event shall the amount of the liability insurance increase by more than fifty percent of the amount of the insurance during the preceding term of this Lease. However, the failure of Landlord to require any additional insurance coverage shall not be deemed to relieve Tenant from any obligations under this Lease.

13.2 Property Insurance. Landlord shall obtain and keep in force during the term of this Lease fire and extended coverage on the Building (including Building standard leasehold improvements). Landlord may also, but shall not be required to, procure any other insurance policies respecting the Premises or Building which Landlord deems necessary.

13.3 Insurance Policies. Insurance required by Tenant hereunder shall be in companies rated A+, AAA or better in "Best's Insurance Guide". Tenant shall deliver to Landlord prior to taking possession of the Premises copies of policies of such insurance or certificates evidencing the existence and amounts



of such insurance with loss payable clauses reasonable satisfactory to Landlord. No such policy shall be cancelable or subject to reduction of coverage or other modification except after ten (10) days' prior written notice to Landlord. Tenant shall, within ten (10) days prior to the expiration of such policies, furnish Landlord with renewals thereof, or Landlord may order such insurance and charge the cost thereof to Tenant, which amount, together with interest thereon, shall be Additional Rent and shall be payable by Tenant on the next succeeding date on which a Base Rental payment is due. Tenant shall not do or permit to be done anything which shall invalidate the insurance policies referred to in Section 13.1. Tenant shall forthwith, upon Landlord's demand, reimburse Landlord for any additional premiums attributable to any act or omission or operation of Tenant causing an increase in the cost of insurance.

13.4 Waiver of Subrogation. As long as their respective insurers so permit, Tenant and Landlord each waives any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other for loss or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Tenant and Landlord shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carriers that the foregoing mutual waiver of subrogation is contained in this Lease and obtain policies of insurance, if obtainable, which shall include a waiver by the insurer of all right of subrogation against Landlord or Tenant in connection with any loss or damage thereby insured against.

13.5 Hold Harmless. Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, liabilities, damages and costs, including attorneys fees, incurred by Landlord which arise from Tenant's use of the Premises or the Building or from the conduct of its business or from any activity, work or things which may be permitted or suffered by Tenant in, on or about the Premises or the Building, and shall further indemnify, defend and hold Landlord harmless from and against any and all claims, liabilities, damages and costs, including attorneys fees, incurred by Landlord which arise from any breach or default in the performance of any obligation on Tenant's part to be performed under any provision of this Lease or which arise from any negligence of Tenant or any of its agents, representatives, customers, employees or invitees.

13.6 Exemption of Landlord from Liability. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom, including without limitation from any relocation by Landlord of Tenant within the Building (except as expressly provided otherwise in Section 20), or for damage to the goods, wares, merchandise or other property of Tenant, Tenant's employees, representatives, agents, invitees, customers or any other person in, on or about the Premises or Building, nor shall Landlord be liable for injury to the person of Tenant, Tenant's employees, representatives, agents, customers, or invites, whether any such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes,

sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, and whether the said damage or injury results from conditions arising upon the Premises or any other cause, and whether the said damage or injury results from conditions arising upon the Premises or Building, or from other sources or places, and regardless of whether the cause of such injury or the means of repairing the same is inaccessible to Landlord or Tenant, unless such injury, loss of income or damage is caused by the Landlord's gross negligence. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the Building. Tenant hereby assumes all risk of damage to property or injury to persons in, on or about the Premises or the Building from any cause and Tenant hereby waives all claims in respect thereof against Landlord, excepting where said damage arises out of the gross negligence of Landlord.

14. DAMAGE OR DESTRUCTION.

14.1 Option to Terminate Lease. If the Premises or any part thereof shall be damaged or destroyed by fire or other casualty, the Landlord may, at its option and subject to Section 14.2 hereinbelow, elect to terminate this Lease by giving notice to the Tenant within ninety (90) days after Landlord receives actual notice of the fire or other casualty, and thereupon the term of this Lease shall expire by lapse of time upon the tenth day after such notice is given. Instead of exercising said option, Landlord may elect to repair or restore the Premises to the same condition as existed before such damage or destruction. Upon electing to repair or restore, Landlord may proceed with reasonable dispatch to perform the necessary work, and the Base Rent to be paid until such work is completed shall be abated in proportion of the Premises being unusable for a period equal to one day or less, but Landlord shall not be liable to Tenant for any delay which arises by reason of labor strikes, adjustments of insurance or any other cause beyond Landlord's control, and in no event shall Landlord be liable for any loss of profits or income. Notwithstanding the foregoing, there shall be no abatement, apportionment or reduction in the rental obligations of Tenant if the damage or destruction is caused by the Tenant or Tenant's agents, representatives, employees, customers or invitees.

14.2 Obligation to Repair or Restore. If any only if all of the following circumstances exist with respect to damage or destruction to the Premises, Landlord may not elect to terminate the Lease as provided in Section 14.1 hereof but rather must elect to repair or restore the Premises:

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(a) There is no fault or neglect on the part of the Tenant, Tenant's



agents, representatives, employees, customers or invitees which contributed to the damage or destruction;

(b) The damage or destruction to the Premises is less than fifty percent (50%) of the replacement cost thereof as determined by Landlord;

(c) The Landlord is fully insured for the casualty which causes the damage or destruction and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Premises;

(d) The date of the damage or destruction is greater than one year prior to the Expiration Date of this Lease or any renewal, modification or extension thereof; and

(e) Less than sixty percent (60%) of the rentable square feet of the Building is so damaged or destroyed, as determined by Landlord, regardless of the percentage of rentable square feet of the Premises which may be damaged or destroyed.

14.3 Fault of Tenant. Landlord may exercise its option to repair or restore as described in Section 14.1 even if such damage or destruction is due to the fault or neglect of Tenant, Tenant's agents, representatives, employees, customers or invitees, but in such event Landlord's election to repair or restore shall be without prejudice to any other rights and remedies of Landlord under this Lease, and there shall be no apportionment or abatement of any rent of any kind and Landlord shall not be liable for any other loss to Tenant of any nature whatsoever.

14.4 Obligations of Tenant. Except as provided in this Section 14, none of Tenant's obligations under this Lease shall be affected by any damage or destruction of the Premises by any cause whatsoever. Tenant hereby expressly waives any and all right it might otherwise have under any law, regulation or statute which would act to modify the provisions of the immediately preceding sentence.

14.5 Termination by Tenant. In the event that more than sixty percent (60%) of rentable square feet of the Premises shall be damaged or destroyed by fire or other casualty not caused by the Tenant or Tenant's agents, representatives, employees, customers or invitees, either party may terminate this Lease by giving notice to the other within thirty (30) business days after the date of the fire or other casualty, and upon such termination the rental obligations of the Tenant shall be duly apportioned as of the date of such fire and other casualty, provided, however, that Tenant shall have no right to terminate the Lease under this Section 14.5 if Tenant is in default of any of its obligations under the Lease as of the date of the fire or other casualty.

## 15. CONDEMNATION.

If the Premises are taken under any public or private power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all

of which is herein referred to as "condemnation"), or if any portion of the Building is so condemned so that it would not be practical, in Landlord's judgment, to continue to maintain the Building, this Lease shall terminate as of the date the condemning authority takes title or possession, whichever occurs first. If only a portion of the Premises are so condemned, Landlord shall have the right, if more than sixty percent (60%) of rentable square feet of the Premises are so condemned, to terminate this Lease as of the date the condemning authority takes title or possession, whichever occurs first, by Landlord's giving written notice of such termination to Tenant no later than thirty (30) days after said date, but should Landlord elect not to so terminate this Lease, the Lease shall remain in full force and effect as to the portion of the Premises not so taken, and Tenant's rental obligations shall be reduced proportionately to reflect the number of rentable square feet remaining in the Premises, and such rental reduction, if any, shall take effect as of the date which is thirty (30) days after the date of which the condemning authority takes title or possession, whichever first occurs. If repairs or restorations to that portion of the Premises not so taken are deemed necessary by Landlord to render such portion reasonably suitable for the purposes for which it was leased, as determined by Landlord, Landlord shall perform such work at its own cost and expense but in no event shall Landlord be required to expend any amount greater than the amount received by Landlord as compensation for the portion of the Premises taken by the condemnator. All awards for the taking of any part of the Premises or any payment made under the threat of the exercise of power of eminent domain shall be the property of Landlord, whether made as compensation for diminution of value of the leasehold or for the taking of the fee or as severance damages. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof, except that any award or other compensation made for any taking is subject to the rights of the first mortgage up to the amount of its lien and of any junior mortgagee, as may be permitted by the first mortgagee, up to the full amount of such junior lien; provided, however, that Tenant shall be entitled to any award for loss of or damage to Tenant's trade fixtures and removable personal property and/or for the interruption of or damage to Tenant's business.

## 16. ASSIGNMENT AND SUBLETTING.

16.1 Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or in the Premises without Landlord's prior written consent. Any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void and shall constitute a breach of the Lease. Any transfer of Tenant's interest in this Lease or in the Premises from Tenant by merger, consolidation or liquidation, or by any subsequent change in the ownership of fifty percent (50%) or more of the capital stock of Tenant shall be deemed a prohibited assignment within the meaning of this Section 16. As a condition of obtaining Landlord's consent, Tenant shall submit to Landlord, together with its request for consent, the name of the proposed assignee and subtenant, the terms and provisions of the proposed transaction, and such information as to the nature

of the proposed assignee's or subtenant's business and its financial responsibility and standing as Landlord may reasonably require, together with the effective date of the proposed transfer which shall be at least sixty (60) days after the date of submission of such information to Landlord. Landlord's failure to consent to any proposed transfer under this Section shall not be deemed unreasonably withheld if (a) the occupancy resulting from such transfer will not be consistent with the general character of the business carried on by the tenants of the Building or violates any rights or options held by any other tenant of the building, or (b) the proposed occupant pursuant

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to the transfer does not have the financial strength and stability to perform its rental obligations or Landlord is unable to obtain guaranties from one or more affiliates of the proposed occupant in order to secure such financial obligations; or (c) any proposed sublease does not incorporate this Lease in its entirety so as to be subject to this Lease's terms, or any such sublease does not require the sublessee to attorn to Landlord at Landlord's option in the event of a default by Tenant under this Lease; or (d) if Tenant does not execute an agreement with Landlord requiring Tenant to pay to Landlord, as Additional Rent, one hundred percent (100%) of all moneys or other consideration received by Tenant from its transferee (whether paid to Tenant as consideration for Tenant's transfer of property or other assets to the transferee or as consideration for the transferee occupancy of the Premises) in excess of the amounts owed by Tenant to Landlord under this Lease, which Additional Rent shall be paid to Landlord as and when received by Tenant.

16.2 No Release of Tenant. Regardless of Landlord's consent, no subletting or assignment or other transfer described in Section 16.1 shall release Tenant to Tenant's obligation or alter the primary liability of Tenant to pay the rent and to perform all other obligations to be performed by Tenant hereunder. Consent to one assignment, subletting or other transfer shall not be deemed consent to any subsequent act. In the event of default by any assignee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against said assignee or successor. Landlord may consent to subsequent assignments, subletting, or transfers of this Lease or amendments or modifications to this Lease with assignees or successors of Tenant without notifying Tenant and without obtaining its consent thereto and such action shall not relieve Tenant of liability under this Lease. In the event Landlord allows assignment or subletting hereunder, neither Tenant, the assignee of Tenant, or the sublessee of Tenant shall have any option to extend the term of this Lease even if such option is otherwise granted to Tenant herein and notwithstanding the provisions of any such option granted to Tenant herein, and all rights and options to extend this Lease otherwise granted to Tenant shall be deemed terminated and canceled as of the date of such assignment, subletting or other

transfer. Notwithstanding anything in this Lease to the contrary, Landlord shall have no obligation to grant consent to any transfer as defined in Section 16.1 if Tenant is in default under this Lease at the time the request for consent is made or at any time thereafter through the effective date of the transfer. In addition, Tenant acknowledges that its intent in executing this Lease is to occupy the Premises and not to make speculative usage of the Premises, and therefore Landlord shall have no obligation whatsoever to consent to any proposed transfer if the rentals payable by the proposed occupant to the Tenant are less than the rentals sought to be received by the Landlord for vacant space in the Building as of the date on which the Tenant is requesting the Landlord's consent to the transfer. In the event that Tenant proposes to assign this Lease or to sublet all of the Premises, Landlord shall have the right, exercisable by notice in writing after receipt of the request by Tenant, to terminate this Lease upon execution of an agreement between Landlord and the proposed assignee or subtenant, provided that Landlord shall not have any such termination right if Tenant withdraws such request within ten (10) days of being notified by Landlord that it has elected to exercise said termination right.

16.3 Attorneys Fees and Administrative Fees. In the event Tenant shall request the consent of Landlord to any assignment, subletting or transfer or if Tenant shall request the consent of Landlord for any other act which Tenant proposes to do under any other provision of this Lease, then Tenant shall pay Landlord's attorney fees incurred in connection with the consideration or evaluation of such request. In addition thereto, in the event that Landlord shall consent to a sublease, assignment or transfer under Section 16.1, Tenant shall pay Landlord administrative fees of Two Hundred Dollars (\$200) incurred in connection with giving such consent.

16.4 Right to Collect Rent. The acceptance of rent by Landlord from any person other than Tenant shall not be deemed to be a waiver by Landlord of any provision of this Lease. If the Premises are sublet or occupied by anyone other than Tenant and Tenant is in default hereunder, or this Lease is assigned by Tenant, then, in any such event, Landlord may collect rent from the assignee, subtenant or occupant and apply the net amount collected to the rent reserved in this Lease, but no such collection shall be deemed a waiver of the covenant in this Lease against assignment and subletting or the acceptance of such assignee, subtenant or occupant as Tenant, or a release of Tenant from further performance of the covenants contained in this Lease.

## 17. DEFAULTS; REMEDIES

17.1 Defaults. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

- (a) The vacating or abandonment of the Premises by Tenant; or
- (b) The failure by Tenant to make any payment of Base Rent, Additional Rent or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of three (3) days; or
- (c) The failure by Tenant to observe or perform any of the covenants,

conditions or provisions of this Lease to be observed or performed by Tenant, other than described on paragraph (b) above, where such failure shall continue for a period of five (5) business days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default as determined by Landlord is such that more than five (5) business days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure as soon as possible within said five (5) business day period and thereafter diligently prosecutes such cure to completion, and in any case completes said cure within twenty (20) business days after the aforesaid written notice or

(d) (i) The insolvency of the Tenant or the execution by the Tenant of an assignment for the benefit of creditors, or the convening by Tenant of a meeting of its creditors, or any class thereof, for the purposes of effecting a moratorium upon or extension or composition of its debts; or the failure of the Tenant to generally pay its debts as they mature; or (ii) the filing by or for reorganization or arrangement under any law relating to bankruptcy (unless in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); or (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

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Tenant/Landlord

17.2 Remedies in Default. (a) In the event of any such default or breach by Tenant, Landlord shall have the right at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may otherwise have by reason of such default or breach, to terminate this Lease at its option or to re-enter and at its option to attempt to re-let without terminating this Lease and remove all persons and property from the Premises, using any force as may reasonably be necessary to accomplish said purposes, all without service of notice or resort to legal process and without being deemed guilty of trespass or forcible entry or becoming liable for any loss or damage which may be occasioned thereby.

(b) If Tenant shall fail to remove any effects which it is entitled to remove from the Premises upon the termination of this Lease, or any extension or renewal hereof, or upon a re-entry by Landlord for any cause

whatsoever, or upon Tenant's ceasing to possess the Premises for any reason, the Landlord, at its option, may remove the same and store or dispose of the said effects without liability for loss or damage thereto, and Tenant agrees to pay to Landlord on demand any and all expenses incurred in such removal, including Court costs, attorneys fees, storage and insurance charges on such effects for any length of time the same shall be in Landlord's possession; or the Landlord, at its option, without notice, may sell such effects, or any of them, at private or public sale and without legal process, for such price or consideration as the Landlord may obtain, and apply the proceeds of such sale upon any amounts due under this Lease from the Tenant to the Landlord, and upon the expenses incidental to the removing, cleaning the Premises, selling said effects and any other expense, rendering the surplus, if any, to the Tenant; provided, however, in the event the proceeds of such sale or sales are insufficient to reimburse the Landlord, Tenant shall pay such deficiency upon demand. Tenant acknowledges and agrees that any such disposition of Tenant's property in the above described manner by the Landlord shall be deemed to be commercially reasonable and that no bailment shall be created by Landlord's exercise of any of its rights under this subparagraph(b).

(c) Should Landlord elect to re-enter, as herein provided, or should it take possession pursuant to legal proceedings, or pursuant to any notice provided for by law, it may make such alterations, additions, improvements and repairs as may be necessary in order to re-let the Premises, and may but need not re-let the Premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord may determine to be advisable; upon each such re-letting, all rentals received by the Landlord shall be applied: i) first to the payment of any costs and expenses of such re-letting, including brokerage fees and attorney's fees and the cost of such alterations, additions, improvements and repairs; ii) second, to the payment of Base Rent due and unpaid hereunder, and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder provided that Tenant shall have no right to claim any interest in all or any portion of said residue and if the rent and other charges paid or to be paid to Landlord by any new tenant pursuant to any re-letting exceed the monetary obligations of Tenant, Tenant shall have no right to claim any interest in all or any portion of said excess. If such rental received from such re-letting during any month be less than that to be paid during the month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord, and such deficiency shall be calculated and paid monthly on the date on which the rent should have been payable hereunder if possession had not been retaken. If, during the existing term of this Lease, the premises covered thereby include other premises not part of the Premises, a fair apportionment of the rent received from such re-letting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such re-letting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such re-letting, and any rent concessions will be equally apportioned over the term of the new lease. Landlord shall in no event be liable in any way whatsoever for failure to re-let the Premises for any reason, or in the event the Premises are re-let, for failure to collect the rent thereof under such re-letting. No



such reentry or taking possession of the Premises by Landlord, nor any acts pursuant thereto, shall be construed as an election on its part to terminate this Lease unless a written notice of such termination be given to Tenant by Landlord. No notice from Landlord under this Lease or under any applicable forcible entry and detainer or eviction statute or similar law shall constitute an election by Landlord to terminate this Lease unless such notice specifically so states. Notwithstanding any such re-letting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

(d) Should Landlord at any time terminate this Lease for any default or breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such default or breach, including the cost of recovering the Premises, reasonable attorney fees, and including the worth at the time of such termination of the excess, if any, of the amount of rent and such other charges as are required to be paid by Tenant under the terms of this Lease for the remainder of the stated term over the then reasonable rental value of the Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord; provided, however, that if the then reasonable rental value of the Premises exceeds the value of the rent and other charges required to be paid by Tenant under this Lease as aforesaid, Tenant shall have no right to claim any interest in all or any portion of such excess. In determining the rent which would be payable by Tenant hereunder, subsequent to default, the annual rent for each year of the unexpired term shall be equal to the average annual Base Rent and Additional Rent paid or payable by Tenant from the Commencement Date of this Lease to the time of default, or during the preceding three (3) full calendar years, whichever is shorter; and

(e) Each of the remedies set forth hereinabove in this Section 17 shall not be exclusive, but rather shall be considered cumulative with any other legal or equitable remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Premises are located. To the extent such waiver is permitted by law, the parties waive trial by jury in any action or proceeding brought in connection with this Lease. Suit or suits for the recovery of the amount of damages set forth hereinabove may be brought by Landlord, from time to time, at Landlord's election, and nothing herein shall be deemed to require Landlord to await the date whereon this Lease or the term hereof would have expired had there been no event of default. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove and obtain as liquidated damages in any bankruptcy, insolvency, receivership, organization or dissolution proceeding an amount equal to the maximum allowed by any statute or rule of law governing such proceeding and in effect at the time when such damages are to be proved, whether or not such amount be greater, equal to or less than the amounts recoverable, either as damages or rent, referred to in any of the preceding provisions of this Section.

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17.3 Default by Landlord. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises, specifying the manner in which Landlord has failed to perform such obligation; provided however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance as determined by Landlord, then Landlord shall not be in default if Landlord commences performance within such thirty day period and thereafter diligently prosecutes the same to completion; provided further that Landlord's obligation to perform any act under this Lease shall be excused for any period of time during which Landlord is prevented from performing because of any circumstance beyond Landlord's control. Tenant's remedies upon Landlord's default are further limited by Section 18.3 and 25.2 below.

17.4 Late Charges. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of Base Rent, Additional Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after paid amount is due, then Tenant shall immediately pay to Landlord a late charge equal to ten percent (10%) of such over due amount or the sum of One Hundred Dollars (\$100.00), whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the cost Landlord will incur by reason of late payment by Tenant and is in addition to interest due under Section 25.4. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, or prevent Landlord from exercising any of the other rights and remedies granted hereunder.

## 18. RIGHTS OF MORTGAGEES.

18.1 Subordination. As used throughout this Section 18, the term "mortgagee" shall refer to the holder of a Mortgage or deed of trust or ground lease affecting the Premises. This Lease and the rights of Tenant hereunder shall be and are hereby made subject and subordinate to the provisions of any ground lease, mortgage or deed of trust affecting the Premises, and to each advance made or hereafter to be made under the same, and to all renewals, modifications, consolidations and extensions thereof and all substitutions therefor. This Section 18 shall be self-operative and no further instrument of subordination shall be required. However, in confirmation of the provisions of this Section 18, Tenant shall execute and deliver promptly any certification or instrument that Landlord or any mortgagee may request, and failing to do so within ten (10) days after written demand, Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and Tenant's



name, place and stead, to do so, and/or Landlord may declare this Lease to be in default. If any mortgagee or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deeded prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof. Tenant shall and does hereby agree to attorn to any mortgagee or successor in title and to recognize such mortgagee or successor as its Landlord in the event any such person or entity succeeds to the interest of Landlord. Notwithstanding any other provision of this Lease, in the event that any mortgagee or its respective successor in title shall succeed to the interest or Landlord hereunder, the liability of such mortgagee or successor shall exist only so long as it is the owner of the Building, or any interest therein, or is the Tenant under said ground lease.

18.2 Mortgagee's Consent to Amendments. No assignment of this Lease and no agreement to make or accept any surrender, termination or cancellation of this Lease and no agreement to modify so as to reduce the rent, change the term, or otherwise materially change the rights of Landlord under this Lease, or to relieve Tenant of any obligation or liability under this Lease, shall be valid unless consented to by Landlord's mortgagees of record, if such is required by the mortgagees, in writing. No Base Rent, Additional Rent, or any other charge (with the exception of the security deposit described in this Lease) shall be paid more than ten (10) days prior to the due date thereof and payments made in violation of this provision (except to the extent that such payments are actually received by a mortgagee) shall be a nullity as against any such mortgagees of record, and Tenant shall be liable for the amount of such payments to such mortgagees.

18.3 Mortgagee's Right to Cure. No act or failure to act on the part of Landlord which would entitle Tenant under the terms of this Lease, or by law, to be relieved of Tenant's obligations hereunder or to terminate this Lease, shall result in a release or termination of such obligations or termination of this Lease unless (a) Tenant shall have first given written notice of Landlord's act or failure to act to Landlord's mortgagees of record, if any, specifying the act or failure to act on the part of Landlord which could or would give basis to Tenant's rights, and (b) such mortgagees, after receipt of such notice, have failed or refused to correct or cure the condition complained of within a reasonable time thereafter, provided that nothing contained in this Section shall be deemed to impose any obligation on any such mortgagees to correct or cure any condition. As used herein, a "reasonable time" includes a reasonable time to obtain title to the mortgaged premises if the mortgagee elects to do so and a reasonable time to correct or cure the condition if such condition is determined to exist, but in no event less than 120 days from the date of the mortgagees' receipt of the above described notice.

## 19. NOTICES.

Except as provided in Section 17.1(b) and 22, whenever under this lease provision demand is made for any notice or declaration of any kind, or where it is deemed desirable or necessary by either party to give or serve any such

notice, demand or declaration to the other party, it shall be in writing and served wither personally or sent by certified United States mail, return receipt requested, postage prepaid, addressed either to the address set forth in Section 1.1 or 1.11(b), or to such other address as may be given by a party to the other by proper notice hereunder, or, in the case of notices to the Tenant, to the Premises. The date of personal delivery (as evidenced by such evidence of service as provided for in said rules) of the date on which the certified mail is deposited with the United States Postal Service shall be the date on which any proper notice hereunder shall be deemed given.

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Tenant / Landlord

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20. RELOCATION.

Tenant agrees that Landlord may relocate Tenant to other space in the Building containing substantially the same amount of rentable square feet as is contained in the Premises, provided that the actual cost of physically relocating Tenant (excluding any and all consequential or other costs to Tenant) and the cost of altering the new space to make it comparable to the Premises is borne by the Landlord; provided, however, that Landlord may not exercise said right to relocate Tenant if the Premises consist of more than ten percent (10%) of the rentable square feet in the Building. In addition, Landlord shall pay costs incurred by Tenant as a result of the relocation, including without limitation costs incurred in changing addresses in stationery, business cards, directories, advertising and other such items, but in no event shall Landlord's obligation to pay cost imposed in this sentence exceed the sum of \$500. In the event that the new Premises in which the Tenant is relocated does not consist of the identical number of rentable square feet as specified in Section 1.3, the parties shall execute an instrument specifying the new number of square feet in the Premises and the change in the number of square feet contained in the Premises shall be deemed effective as of the date on which the Tenant occupies the new premises in which it is relocated.

21. QUIET POSSESSION.

Upon Tenant's paying the sums due hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

22. OPTIONS.

In the event that the Tenant, by addendum attached to this Lease, is expressly given an option to renew or extend the term of this Lease, or any

option to purchase the Premises or Building or any right of first refusal to purchase the Premises or other property of Landlord, then each of such options and rights are personal to Tenant and may not be exercised by or assigned, voluntarily or involuntarily, by or to anyone other than Tenant. No such option described hereinabove may be exercised by the Tenant except in strict accordance with the terms and provisions of the option and provided that Tenant is not in default under this Lease either at the time Tenant gives notice of its intent to exercise the option or at the time at which the option is to be exercised. Notwithstanding the provisions of Section 19, notice of exercise of any option shall be deemed given only when actually received by Landlord.

### 23. LANDLORD'S LIEN.

Tenant hereby grants to Landlord a lien upon and security interest in all furniture, fixtures, equipment, inventory, merchandise and other personal property belonging to the Tenant and located in, on or about the Premises or Building at any time while this Lease is in effect, whether such items are presently owned by Tenant or are after acquired, to secure the payment of all Base Rent, Additional Rent and other charges due and to become due under this Lease and to further secure the faithful performance of all of the other obligations of this Lease required to be performed by Tenant, said lien to be prior to any other lien on such property except a lien in favor of the seller or lessor of such property to secure the unpaid purchase price or lease payments thereof. All exemption laws are hereby expressly waived by Tenant. This lien and security interest may be foreclosed in the same manner as a Financing Statement under the version of the Uniform Commercial Code enacted in the state in which the Premises are situated, or pursuant to any similar law so enacted if a version of the Uniform Commercial Code is not in effect, and the filing of this Lease in accordance with said law shall constitute full lawful notice of this lien. In lieu of filing this Lease or in addition thereto, Landlord may require Tenant at any time to execute a Financing Statement, Security Agreement or any other similar documents required by the laws of the state in which the Premises are situated to perfect this lien and security interest, and Tenant shall immediately execute the same upon the demand of Landlord. In the event Tenant fails or refuses to do so within ten (10) days after written demand, Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact in Tenant's name, place and stead, to do so, and/or Landlord may declare this Lease to be in default.

### 24. HAZARDOUS MATERIALS.

Tenant covenants not to introduce any hazardous or toxic material onto the Building, the Premises, or the grounds surrounding the Building, without (a) first obtaining Landlord's written consent and (b) complying with all applicable federal, state and local laws or ordinances pertaining to the transportation, storage, use or disposal of such materials, including but not limited to obtaining proper permits.

If Tenant's transportation, storage, use or disposal of hazardous or toxic materials on the Building, the Premises, or the grounds surrounding the Building results in (1) contamination of the soil or the surface or ground water or (2)

loss or damage to person(s) or property, then Tenant agrees to respond in accordance with the following paragraph:

Tenant agrees (i) to notify Landlord immediately of any contamination, claim of contamination, loss or damage, (ii) after consultation and approval by Landlord, to clean up and (iii) to indemnify, defend and hold Landlord harmless from and against any claims, suits, causes of action, costs and fees, including attorney's fees, arising from or connected with any such contamination, claim of contamination, loss or damage. This provision shall survive the termination of this Lease.

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Tenant / Landlord

25. GENERAL PROVISIONS

25.1 Estoppel Certificate. (a) Tenant shall at any time upon not less than ten (10) days prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing: (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification, identifying the instruments of modification and certifying that this Lease, as so modified, is in full force and effect), and the date to which the Base Rent, security deposit, Additional Rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of the Landlord hereunder, or specifying such defaults, if any, which are claimed. Any such statement may conclusively relied upon by any prospective purchaser, encumbrancer or other transferee of the Premises.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant: (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that no rent has been paid in advance; and

(c) If Landlord desires to finance or refinance the Premises or the Building, or any part thereof, Tenant hereby agrees to deliver to Landlord and/or to any lender designated by Landlord such financial records of Tenant as may be reasonably required by such lender. Such statements may include but not be limited to the past three (3) years' financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

25.2 Landlord's Interest and Liability. The term "Landlord" as used herein shall mean only the owner or owners at the time in question of the fee title or a tenant's interest in a ground lease of the real property on which the improvements comprising the Building are situated. In the event of any

transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers the then grantor), shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord or the then grantor at the time of such transfer in which Tenant has an interest shall be delivered to the grantee. The obligations contained in this Lease to be performed by Landlord shall, except as aforesaid, be binding on Landlord's successors and assigns only during their respective periods of ownership. Anything to the contrary elsewhere in this Lease notwithstanding, Tenant shall look solely to the estate and property of the Landlord in the Building for the satisfaction of the Tenant's remedies for the collection of a judgement (or other judicial process) requiring the payment of money by the Landlord in the event of any default or breach by the Landlord with respect to any of the terms, covenants and conditions of the Lease to be observed and/or performed by the Landlord, and no other property or assets of the Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Tenant's remedies.

25.3 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

25.4 Interest on Past Due Obligations; Certified Funds. Except as may expressly be provided in this Lease to the contrary, any amount due to Landlord not paid when due shall bear interest at the rate of four percent (4%) per annum greater than the prime rate of the First City Bank of Dallas, Texas as the same may fluctuate from and after the date on which the payment was first due through date on which the payment is paid in full, provided, however, that the payment of such interest shall in no event exceed the highest rate allowed under applicable law. Payment of such interest shall not excuse or cure any default by Tenant under this Lease. In the event that either Tenant is more than ten (10) days late in making any payment due under the Lease, or any payment from Tenant to Landlord does not clear the bank or is returned for insufficient funds, and either such condition occurs on two or more occasions, or each occurs once, Landlord shall have the right at any time thereafter to require that all succeeding monthly installments of Base Rent and all succeeding payments of Additional Rent be paid to the Landlord in certified funds drawn on a bank located in the metropolitan area in which the Premises are located. Said right may be exercised by Landlord by giving notice of such requirements to Tenant, but the giving of such notice and the exercise of this right by Landlord shall not be construed to be a waiver of any default or any other right which Landlord may exercise under this Lease.

25.5 Time of The Essence. Time is of the essence in the performance by Tenant of its obligations hereunder.

25.6 Captions. Any captions contained in this Lease are not part hereof, are for convenience only, and are not to be given any substantive meaning in construing this Lease.

25.7 Entire Agreement. This Lease contains the entire agreement and

understanding between the parties hereto. There are no oral understandings, terms, or conditions, and neither party has relied upon any representations, express or implied, not contained in this Lease. All prior understandings, terms, or conditions are deemed merged in this Lease. No modification of this Lease shall be binding unless such modifications shall be in writing and signed by the parties hereto. Tenant acknowledges that it has not been induced to enter into this Lease by any promises or representatives not expressly set forth in this Lease, and if such representations were made prior to the execution of this Lease, Tenant acknowledges that it has not relied on the same, and that Landlord shall have no liability with respect to any such representations.

25.8 Waivers. No failure by either party to insist upon the strict performance of any agreement, term, covenant or condition hereof or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent or the continuance of any such breach, shall constitute a waiver of any such breach of such agreement, term, covenant or condition or a relinquishment of the right to exercise such right or remedy. No agreement, term, covenant or condition hereof to be performed or complied with by either party, and no breach thereof, shall be waived, altered or modified except by a written instrument executed by the other party. No waiver of any breach shall affect or alter this Lease, but each and every agreement, term, covenant or condition hereof shall continue in full force and effect with respect to any other then existing or subsequent breach thereof. Notwithstanding any termination of this Lease, the same shall continue in force and effect as to any provisions of the Lease, including remedies, which require or permit observance or performance of Landlord or Tenant subsequent to termination.

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Tenant/Landlord

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25.9 Recording. Tenant shall not record this Lease. Any such recordation by Tenant shall be a breach of this Lease.

25.10 Determinations by Landlord. Whenever in this Lease the Landlord is to make any determination or decision, the Landlord shall make its determination or decision in the exercise of its reasonable discretion and judgment; however, any such determination or decision shall not bind the Landlord if it has not been confirmed in writing.

25.11 Cumulative Remedies. No remedy or election by Landlord hereunder shall be deemed exclusive, but shall wherever possible be cumulative with all other remedies at law or in equity to which Landlord may be entitled.

25.12 Covenants and Conditions. Each provision of this Lease performable

by Tenant shall be deemed both a covenant and a condition.

25.13 Binding Effect; Choice of Law. Subject to any provisions hereof restricting assignment, subletting or transfer by Tenant and subject to the provisions of Section 25.2, this Lease shall bind the parties, their personal representatives, heirs, successors and assigns. This Lease shall be governed by the laws of the state where the Premises are located.

25.14 Attorneys Fees. In the event of litigation relating to this Lease, the prevailing party shall be entitled to recover from the losing party any costs or reasonable attorneys fees incurred by the prevailing party in connection with such litigation. If Landlord utilizes the services of an attorney to enforce any of its rights hereunder but which does not result in the bringing of an action, Tenant shall immediately pay to Landlord upon demand therefor the amount of such attorneys fees incurred.

25.15 Landlord's Access. Landlord and Landlord's agents, representatives and designees shall have the right to enter the Premises as reasonably necessary or desirable to Landlord for the purpose of inspecting the same, showing the same to prospective purchasers, tenants, lenders or other transferees, making such alterations, repairs, improvements or additions to the Premises or to the Building as Landlord may deem necessary or desirable, or for any other reasonable purpose as Landlord may determine. Landlord may at any time place in, on or about the Premises any "For Sale", or "For Lease" or similar signs, all without rebate of rent or liability to Tenant.

25.16 Auctions. Tenant shall not conduct any auction, liquidation sale, or going out of business sale in, on or about the Premises.

25.17 Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

25.18 Corporate Authority. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the Bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.

25.19 Signs. Landlord may prescribe a uniform pattern of identification signs for tenants to be placed on the outside of the doors leading to their respective premises, and other than such identification signs, Tenant shall not install, paint, display, inscribe, place or affix, or otherwise attach, any sign, fixture, advertisement, notice, lettering or direction on any part of the outside of the Building or in the interior or other portion of the Building without obtaining the prior written consent of the Landlord.



25.20 Brokers. The parties hereto acknowledge that the brokers named in Section 1.18 were the sole real estate brokers that represented the Landlord herein, and that no commissions are owed by Landlord to any other brokers whatsoever, and Tenant agrees to indemnify Landlord from claims for commission from any other brokers arising out of the execution of this Lease.

25.21 Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Tenant under this Lease.

25.22 Governing Law. This lease shall be governed by and construed in accordance with the laws of the state in which the Building is located.

25.23 Joint and Several Liability. If two or more individuals, corporations, partnerships or other business associates (or any combination of the two or more thereof) shall sign this Lease as Tenant, the liability of each such individual, corporation, partnership or other business association to pay rent and perform all other obligations hereunder shall be deemed to be joint and several, and all notices, payments and agreements given or made by, with or to any one of such individuals, corporations, partnerships or other business associations shall be deemed to have been given or made by, with or to all of them. In like manner, if Tenant shall be a partnership or other business association, the members of which are, by virtue of statute or federal law, subject to personal liability, the liability of each such member be joint and several.

25.24 No Joint Venture. Any intention to create a joint venture or partnership relation between the parties hereto is hereby expressly disclaimed.

The parties hereto have executed this Lease on the first page hereof on the dates specified immediately below their respective signatures.

-----/-----  
Tenant / Landlord



## ADDENDUM B

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER

LANDLORD,

AND COMSTAR COMMUNICATIONS, INC. TENANT

TO LEASE DATED MAY 2, 1996

THIS ADDENDUM is made this 14th day of JUNE 1996 by and BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING GENERAL PARTNER, LANDLORD AND COMSTAR COMMUNICATIONS, INC., TENANT

WHEREAS, Landlord and Tenant are the parties to the above-described Lease for the Premises; and

WHEREAS, the parties desire to amend said Lease.

NOW THEREFORE, in consideration of the mutual promises and obligations contained herein, the adequacy and sufficiency of which is here acknowledged, Landlord and tenant contract and agree as follows:

- 1) Tenant will install a overhead 1 1/2 ton A/C unit above the leased space. The condenser unit will be mounted on the roof, but all other equipment will be located inside the suite. The tenant will use a landlord approved contractor and be responsible for the cost of the unit and installation. The unit must be sub-metered and the landlord will read the meter each month and bill the tenant for additional usage.

Tenant will be responsible for the unit, its' maintenance, and all cost incurred. Landlord will have the option of requesting the removal of the unit and full restoration of the property upon expiration/termination of the lease.

EXCEPT AS HEREBY AMENDED, all other provisions of said Lease are hereby confirmed and ratified.

IN WITNESS WHEREOF, the parties hereto have executed this addendum on the date first above written.

LANDLORD: THE EMERSON CENTER COMPANY  
National Income Realty Trust, Managing

TENANT: COMSTAR COMMUNICATIONS, INC.

By: /s/ Chris Clinton

By: /s/ Sam F. Dayton, Pres.

Sam F. Dayton, Ph.d.

Date: 7/15/96

Date: 06/26/96

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EXHIBIT "A" LEGAL DESCRIPTION

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING GENERAL PARTNER, LANDLORD, And COMSTAR COMMUNICATIONS, INC., TENANT

All that tract or parcel of land lying and being in Land Lots 880 and 881 of the 17th District, Second, Cobb County, Georgia and being more particularly described as follows:

Commence at a point located on the southeastern right-of-way line of Spring Road (a 100 foot right-of-way at said point), said point being 299.6 feet easterly from the eastern right-of-way line of the Hargrove Road Extension (an 80 foot right-of-way) thence continuing along said southeastern right-of-way line of Spring Road North 53 degrees 02' 30" East 64.75 feet to a point (at this point, the width of the southeastern right-of-way line as measured from the centerline of Spring Road changes from a distance of 50 feet to a distance of 100 feet); thence South 36 degrees 57' 30" east 50.00 feet to a point; thence South 30 degrees 35' 18" East 68.94 feet to a point; thence South 49 degrees 01' 13" East 117.35 feet to a point; thence South 49 degrees 43' 19" East 15.38 feet to an iron pin; thence North 53 degrees 02' 30" East 576.13 feet to an iron pin; thence along the southwestern line of property now or formerly owned by Steak & Ale of Atlanta South 36 degrees 57' 34" East 445.08 feet to an iron pin; thence along the eastern line of Interstate 285 South 28 degrees 02' 44" West 527.2 feet to an iron pin; thence leaving said western line of the Interstate 285 North 68 degrees 22' 42" West 118.47 feet to a point; thence North 20 degrees 26' 02" East 208.75 feet to a point; thence North 69 degrees 33' 57" West 218.39 feet to an iron pin; thence North 20 degrees 26' 02" East 20.00 feet to a point; thence North 69 degrees 39' 21" West 25.50 feet to a point; thence North 62 degrees 37' 44" West 116.15 feet to a point; thence North 43 degrees 06' 18" West 48.39 feet to a point; thence North 26 degrees 25' 37" West 100.09 feet to a point and the point of beginning, containing 7.14 acres.

The above-described courses, distances and acreage are taken from that certain survey for Phoenix Mutual Life Insurance Company, dated September 4, 1979 and

prepared by Donald W. Harkeroad, Registered Land Surveyor No. 1578, said survey having been revised on October 15, 1979 and being recorded in Plat Book 74, Page 167, records of the Clerk of Superior Court of Cobb County, Georgia.

TOGETHER with the following easements:

1. Easement from Humble Oil and Refining Company to Fletcher Emerson, Trustee, dated June 26, 1972, recorded in Deed Book 1338, Page 538, aforesaid records.

2. Easement from Rujan Investments, Inc. to Fletcher Emerson, Trustee, dated June 23, 1972 recorded in Deed Book 1338, Page 540, aforesaid records.

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EXHIBIT B, PREMISES SITE PLAN

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD  
AND COMSTAR COMMUNICATION, INC. TENANT

[MAP]

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EXHIBIT C, PARKING ADDENDUM

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

So long as this Lease remains in effect and Tenant is not in default hereunder, Tenant shall have a nonexclusive license to use up to parking spaces which

service the Building in consideration for Tenant's payment of \$            per month which shall be due and payable as Additional Rent at the same time as are Tenant's monthly installments of Base Rent. This nonexclusive license shall commence on the date on which Tenant's rental obligation under the Lease commences, and shall terminate on            . Provided, however, that upon no less than 30 days notice from Landlord to Tenant, Landlord shall have the right to increase the monthly payment hereunder to the prevailing rate for parking as then determined by Landlord, but upon the giving of any such notice, Tenant shall have the right to terminate this parking agreement commencing on the date on which the increase in payment is to occur. If Tenant does not give notice to Landlord at least 15 days prior to the date on which the increase in the amount of the payment hereunder is to occur, then it shall be conclusively presumed that Tenant agrees to such increase and Tenant shall have waived its right to terminate this parking agreement as a result of such increase in the payment.

Upon not less than 30 days notice from Landlord to Tenant, Landlord may alter the number of parking spaces which Tenant shall have the right to use, provided that the number of spaces provide to Tenant shall not be diminished below that number of parking spaces set forth above. Landlord reserves the right to specifically assign and reassign from time to time any or all of said parking spaces among the tenants of the Building in any manner in which Landlord determines in its sole discretion and Tenant shall, upon not less than 10 days notice from Landlord, furnish Landlord with the state automobile license number assigned to its automobile or automobiles and the automobiles of all of its employees and representatives employed or working in the premises, and Tenant agrees to comply with such requests as Landlord may make in Landlord's enforcement of any parking control program. Notwithstanding the existence of any such control, Landlord shall not be responsible to Tenant, its employees, agents, representatives, customers, or invitees for any violation of any parking control program implemented by the Landlord.

The provisions of this Addendum supplement and are specifically subject to all provisions of the Lease.

-----/-----  
Tenant / Landlord

EXHIBIT D, RULES AND REGULATIONS

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

It is agreed that the following rules and regulations shall be and are hereby made a part of this Lease, and the Tenant agrees that its employees and agents or any other persons permitted by the Tenant to occupy or enter the Demised Premises will at all times abide by these rules and regulations. It is further agreed that a default in the performance and observation of these rules and regulations shall operate the same as any other default under this Lease.

1. The sidewalks, entries, passages, and stairways shall not be obstructed by the Tenant or its agents, or used by them for any purpose other than ingress and egress to and from their offices.

2. a. Furniture, equipment, or supplies shall be moved in or out of the Building only during such hours and in such manner as may be prescribed by the Landlord.

b. No safe or article, the weight may constitute a hazard or danger to the Building or its equipment, shall be moved into the Premises. Safes and other equipment, the weight of which is not excessive, shall be moved into, from or about the Building during such hours and in such manner as shall be prescribed by the Landlord, and the Landlord shall have the right to designate the location of such articles in the space hereby demised.

3. The name of the Tenant and/or signs of the Tenant shall not be placed upon any part of the Premises except as provided by the Landlord.

4. Water closets and other water fixtures shall not be used for any purpose other than that for which the same are intended, and any damage resulting to the same from misuse on the part of the Tenant, its agents or employees, shall be paid for by the Tenant. No person shall waste water by tying back or wedging the faucets or in any other manner.

5. No animals shall be allowed in the office, halls, or corridors of the Building.

6. Bicycles or other vehicles shall not be permitted in the offices, halls, or corridors of the Buildings, nor shall any obstruction of sidewalks of entrances of the Building by such be permitted.

7. No person shall disturb the occupants of the Building or adjoining buildings or premises by the use of any television, radio, or musical instrument or equipment, or by the making of loud or improper noises.

8. No additional lock or locks shall be placed by the Tenant on any door in the Building unless written consent of the Landlord shall first be obtained.

9. The use of oil, gas or inflammable liquids for heating, lighting, or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Building.

10. The Tenant shall exercise due care and within reasonable limits shall not mark upon, paint or affix upon, cut, drill into, drive nails or screws into, or

in any way deface the walls, ceiling, partitions, or floors of the Premises or of the Building, and any defacement, damage, or injury caused by the Tenant.

11. The Landlord shall at all times have the right by its officers or agents to enter the Demised Premises to inspect and examine the same and to show the same to persons wishing to lease, purchase, or mortgage them.

12. The Tenant agrees to use chair pads to be furnished by the Tenant under all rolling and ordinary desk chairs in the carpeted areas of the Demised Premises throughout the term of this Lease.

13. The Landlord reserves the right to make such other and further reasonable rules and regulations as in its judgment may from time to time be necessary and desirable for the safety, care, and cleanliness of the Demised Premises and for the preservation of good order therein. Such rules and regulations shall be effective upon receipt of changes and/or additions as provided by the provision of Notice, Section 19 of said Lease.

14. Tenant acknowledges that the building has been declared a non-smoking facility and agrees to restrict smoking to smoking designated areas outside of the Premises.

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EXHIBIT E, GUARANTY

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

FOR VALUE RECEIVED, and in consideration for and as an inducement to Landlord entering into this Lease with Tenant, the undersigned (jointly and severally, if more than one) personally and unconditionally guarantees to Landlord, its successors and assigns, the full performance and observance of all the covenants, terms and conditions here above contained to be performed and observed by Tenant, without requiring any notice of non-payment, non-performance or non-observance, or proof, notice or demand whereby to charge the undersigned therefor, all of which the undersigned hereby expressly waives, and expressly agrees that the validity of this continuing and unconditional guaranty agreement and the obligations of the guarantor hereunder shall in no way be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of this Lease, or by Landlord granting any indulgence or waiver or giving of additional time to Tenant for the performance of any of the obligations of this Lease. This Guaranty shall remain in full force and effect as to any renewal, modification, extension or holdover term of this Lease. Landlord need not pursue any remedies against Tenant before enforcing this Guaranty.

WITNESS

GUARANTOR

-----  
-----

-----  
Social Security Number

ADDRESS

ADDRESS

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-----  
-----

BY:

BY:

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DATE:

DATE:

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WITNESS

GUARANTOR

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Social Security Number

ADDRESS

ADDRESS

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-----

BY:

BY:

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DATE:

DATE:

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THIS AMENDMENT made and entered in this 26th day of August, 1996, by and between THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST MANAGING GENERAL PARTNER, (hereinafter referred to as "Landlord") and COMSTAR COMMUNICATIONS, INC., (hereinafter referred to as "Tenant");

W I T N E S S E T H:

WHEREAS, Landlord and Tenant entered into a Lease Agreement dated May 2, 1996 for certain premises located at 2812 NEW SPRING ROAD, SUITE 210, ATLANTA, GEORGIA 30339 AT THE EMERSON CENTER OFFICE PARK (hereinafter referred to as "Lease"); and

WHEREAS, Landlord and Tenant desire to further amend the Lease in certain respects to ratify and confirm all of the provisions of the Lease Agreement;

NOW THEREFORE, in consideration of the premises, the sum of TEN DOLLARS (\$10.00) in hand paid by Tenant to Landlord, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. Tenant shall expand into the adjacent 1,979 rentable square foot space, currently identified as Suite 214. Total lease area shall now equal 3,243 rentable square feet.
2. Tenant's pro-rata share of building area shall be .025%.
3. Commencement date for the expansion space shall be October 1, 1996.
4. Expiration date shall be extended to September 30, 1999.
5. Base rent, monthly installments shall escalate according to the following schedule of rent:

<TABLE>  
<CAPTION>

Date ----	Per Sq. Ft. -----	Monthly -----	Year -----
<S>	<C>	<C>	<C>
10/01/96 - 05/31/97	\$12.00	\$3,243.00	\$25,944.00
06/01/97 - 05/31/98	12.48	3,372.72	40,472.64
06/01/98 - 05/31/99	12.98	3,507.84	42,094.14
06/01/99 - 09/30/99	13.49	3,645.67	14,582.69

</TABLE>

6. Tenant improvements to the premises are described in Exhibit A, Work Letter Addendum, which is attached hereto and incorporated herein by reference. All improvements to the space shall be completed prior to



the commencement date for the expansion space.

- 7. Address of Tenant for notices shall be changed to: Sam F. Dayton, P.O. Box 267, Gainesville, Georgia 30503-0267.
- 8. First Right of Refusal - Tenant shall have the First Right of Refusal on the 1,089 rentable square feet located immediately adjacent to the expansion space. Upon notice from Landlord, Tenant shall have five (5) business days to notify Landlord of its desire to lease the space. Tenant agrees to lease space at the then going market rate to be determined by Landlord.
- 9. Except as amended hereby, the Lease shall remain in full force and effect and same is hereby ratified and confirmed.

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- 10. This Amendment shall be binding upon and inure to the benefit of Landlord, Tenant and their respective transfer, successors and assigns.
- 11. This Amendment shall be governed in all respects by the laws of the State of Georgia.
- 12. The Frank M. Darby Company represented the Landlord in the negotiations for this Lease Amendment, not the Tenant, and shall be compensated for its services by Landlord as evidenced by separate agreement.

IN WITNESS WHEREOF, the parties hereto have set their bonds and seals the day and year first above written.

LANDLORD: THE EMERSON CENTER COMPANY  
NATIONAL INCOME REALTY TRUST  
MANAGING GENERAL PARTNER

BY: /s/ Chris Clinton  
-----  
ITS: SR VP  
-----

DATE: 9/23/96  
-----

TENANT: COMSTAR COMMUNICATIONS, INC.

BY: /s/ Sam F. Dayton  
-----  
ITS: President  
-----

DATE: 9/13/96  
-----

OFFICE LEASE

BUILDING: EMERSON CENTER

LANDLORD: THE EMERSON CENTER COMPANY  
 NATIONAL INCOME REALTY TRUST  
 MANAGING GENERAL PARTNER

TENANT: COMSTAR COMMUNICATIONS, INC.

DBA: SAME

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EXHIBITS

- Exhibit A - Legal Description
- Exhibit B - Premises Site Plan
- Exhibit C - Parking Addendum
- Exhibit D - Rules and Regulations
- Exhibit E - Guaranty
- Exhibit F - Storage Space Addendum
- Exhibit G - Generator Site Map

OFFICE LEASE

This Lease, dated for reference purposes only February 5, 1998, is made by and between THE EMERSON CENTER COMPANY, (the "Landlord"), and COMSTAR COMMUNICATIONS, INC. (the "Tenant").

1. CERTAIN LEASE PROVISIONS

The descriptions and amounts set forth below are qualified by their usage elsewhere in this Lease including those Sections referred to in parentheses following such descriptions:

- 1.1 Tenant's address and telephone number (Section 1.9):  
 Tenant Name: COMSTAR COMMUNICATIONS, INC.  
 Doing Business As (DBA): COMSTAR COMMUNICATIONS, INC.  
 Address: 2812 Spring Road, Suite 210, Atlanta, GA 30339  
 Telephone: (770) 333-8779

- 1.2 Premises: (Section 2.1):

Building Name: EMERSON CENTER Suite No.: 240  
Address: 2812 Spring Road, Atlanta, GA 30339

- 1.3 Lease Area. (Section 2.1): 3,500 rentable sq. ft.
- 1.4 Total Building Area. (Section 2.1): 126,979 rentable sq. ft.
- 1.5 Tenant's Pro-Rata Share of Building Area. (Section 2.1): 2.75%
- 1.6 Lease Term. (Section 3.1): THREE (3) years, ZERO (0) months.
- 1.7 Commencement Date. (Section 3.1): MARCH 15, 1998
- 1.8 Expiration Date. (Section 3.1, 3.2): MARCH 14, 2001
- 1.9 Base Rent for Lease Term. (Section 4.1): Total One Hundred Forty Seven  
Thousand, Eight Hundred  
Seventy-Five and no/100  
Dollars. (\$147,875.00)
- 1.10 Base Rent, Monthly Installments. (Section 4.1, 5.2): Three Thousand,  
Nine Hundred  
Thirty-Seven and  
50/100 Dollars  
(\$3,937.50)
- 1.11 (a) Address of Landlord for rent payments (Section 4.1, 4.2):  
The Emerson Center Company, c/o The Frank M. Darby  
Company, Inc., 2814 Spring Road, Suite 110, Atlanta,  
Georgia 30339
- (b) Address of Landlord for notices. (Sections 6.3, 19):  
c/o Tarragon Realty Advisors, Inc., 3100 Monticello  
Avenue, Suite 200, Dallas, Texas 75205,  
ATTN: Chris W. Clinton
- (c) Address of Tenant for notices (Sections 6.3, 19):  
P.O. BOX 267,  
GAINESVILLE, GA 30503-0267  
ATTN: Sam F. Dayton
- 1.12 Geographic Area for CPI Calculation. (Section 5.2): N/A
- 1.13 Base Month for CPI Calculation. (Section 5.2): N/A
- 1.14 Landlord's Share of Operating Expenses. (Section 6.2): BASE YEAR 1998  
per rentable  
square foot
- 1.15 Landlord's Share of Real Estate Taxes. (Section 6.2): BASE YEAR 1998  
per rentable

1.16 Security Deposit (Section 7): THREE THOUSAND, NINE HUNDRED THIRTY-SEVEN AND 50/100 DOLLARS (\$3,937.50)

1.17 Use. (Section 8.1): GENERAL OFFICE

1.18 Brokers (Section 25.20): THE FRANK M. DARBY COMPANY

1.19 Addendum(s). (Sections 3.2, 4.3, 9.2, 22): The following addendum(s) are attached to this Lease: A & B

This Lease consists of 25 articles on 19 pages, plus Exhibits A, B, C, D, E, F, G and 2 additional page(s) of Addendum(s).

LANDLORD: THE EMERSON CENTER COMPANY  
National Income Realty Trust, Managing  
General Partner

TENANT: COMSTAR COMMUNICATIONS, INC.

By: /s/ CHRIS W. CLINTON, VP  
-----

By: /s/ SAM F. DAYTON  
-----

Date: 3/11/98  
-----

Date: 2/18/98  
-----

SFD CC  
-----/  
Tenant / Landlord

2. PREMISES

2.1 Definition. Landlord hereby leases to Tenant and Tenant leases from Landlord for the term, at the rental, and upon all of the conditions set forth herein, that certain real property known by suite number and address specified in Section 1.2 hereof, consisting of the approximate amount of rentable square feet specified in Section 1.3 hereof, and which is referred to herein as the Premises. The Premises are located in an office building presently consisting of the total number of rentable square feet specified in Section 1.4 hereof, which office building, the real property on which it is situated (the legal description of which is attached hereto as Exhibit A), and any parking facilities or structures appurtenant thereto are hereinafter collectively referred to as the "Building". The Premises are depicted in Exhibit B attached hereto and incorporated herein by this reference, but the depiction of possible uses, tenants or locations on Exhibit B shall not be construed to be a warranty or representation by Landlord that any such uses, tenants or locations presently exist or will continue to exist. Tenant's share of the total amount

of square feet of the Building is equal to the pro-rata share specified in Section 1.5 hereof, and said percentage shall hereinafter be referred to as the Tenant's "Pro-Rata Share".

2.2 Public Areas. As long as this Lease remains in effect and Tenant is not in default hereunder, Tenant shall have the nonexclusive right, in common with the Landlord, other tenants, subtenants and invitees, to use the public areas of the Building which consist of the entrance foyer and lobby of the Building, the common corridors on the floor of the Building on which the Premises are situated and other areas appurtenant to or servicing the elevators, shipping and receiving areas and lavatories in the Building, provided that Landlord shall have the right at any time and from time to time to exclude therefrom such areas as Landlord may determine so long as access to the Premises is not unreasonably denied.

### 3. TERM

3.1 Term. The term of this Lease shall be the term specified in Section 1.6 hereof, commencing on the Commencement Date specified in Section 1.7 hereof and ending on the Expiration Date specified in Section 1.8 hereof unless sooner terminated pursuant to any provision of this Lease.

3.2 Delay in Commencement. Notwithstanding said Commencement Date, if for any reason Landlord cannot deliver possession of the Premises to Tenant on said date, Landlord shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Tenant hereunder. However, in such case Tenant shall not be obligated to pay rent until possession of the Premises is tendered to Tenant, which date shall be the new commencement Date, and the Expiration Date shall remain unchanged. Upon Landlord's request, the parties agree to execute in writing an Addendum to certify the Commencement Date and Expiration Date hereof, but this Lease shall not be affected in any manner if either party fails or refuses to execute such Addendum.

3.3 Early Possession. In the event that Landlord shall permit Tenant to occupy the Premises prior to the Commencement Date, such occupancy shall be subject to all of the provisions of this Lease and Tenant shall be obligated to pay rental and all other charges incurred under this Lease in addition to any obligations which commence on the Commencement Date. Said early possession shall not advance the Expiration Date of this Lease.

3.4 Delivery of Possession. Tenant shall be deemed to have taken possession of the Premises when the earliest of any of the following occur: (a) five business days after Landlord or Landlord's agent, architect or contractor notifies Tenant that the Premises are ready for occupancy; or (b) Tenant commences to occupy or otherwise make use of the Premises. If Tenant is notified pursuant to Section 3.4(a), Tenant agrees to occupy the Premises within twenty business days thereafter. As used in this Lease, "business days" shall mean Mondays through Fridays. Tenant agrees that, upon the request of Landlord, Tenant will execute a document certifying the date on which Tenant took possession of the premises.







by individual tenants, the amount paid to any persons or entities for all labor and/or wages (including the cost to Landlord of workmen's compensation and disability insurance, payroll taxes, welfare and fringe benefits), for services rendered, and materials provided to the Building; administrative expenses related to the Building; any costs incurred for any capital improvements or structural repairs to the Building to effect labor savings or otherwise reduce Operating Expenses, or required by law or by any governmental or quasi-governmental authority having jurisdiction over the Building, which costs shall be amortized over the useful life of the applicable capital improvements or structural repairs; the cost of accounting services necessary to compute the rent and charges payable by tenants of the Building; fees for management, legal, accounting, inspection and consulting services pertaining to the Building; the cost of guards and other protection services; and the amount paid for premiums for all insurance procured by Landlord to insure the Building as may be required or permitted under this Lease (including, without limitation, business interruption insurance, and if there is a mortgage or deed of trust on the Building, such insurance as may be required by the holder of such mortgage or deed of trust). Notwithstanding the foregoing, Operating Expenses shall not include the costs of special services rendered to tenants (including Tenant) for which a special or separate charge is made, any costs of preparation of space for new tenants in the Building, any costs borne directly by Tenant under this Lease, leasing commissions, depreciation or interest payments, or debt service payments made to a mortgagee.

(b) Landlord agrees to expend as its share of Real Estate Taxes paid for and sustained by the Landlord during any calendar year an amount not greater than that specified in Section 1.15. Said sum shall constitute the maximum payable by Landlord as its contribution toward Real Estate Taxes. Real Estate Taxes shall include general and special taxes, assessments, duties and levies, charged and levied upon or assessed against the Building and/or any improvement situated on the real property on which the Building stands, any leasehold improvement, fixtures, installations, additions and equipment used in the maintenance or operation of the Building, whether owned by Landlord or Tenant, not paid directly by the Tenant. Further, if at any time during the term of this Lease, the method of taxation of real estate prevailing at the time of execution hereof shall be or has been altered so as to cause the whole or any part of the taxes now or hereafter levied, assessed or imposed on real estate to be levied, assessed or imposed upon Landlord, wholly or partially, as a capital levy or otherwise, or on, or measured by the rents received from the Building, then such new or altered taxes attributable to the Premises shall be deemed to be included within the term "Real Estate Taxes" for purposes of this paragraph. The reference to "Building" in this subparagraph shall include, as allocated by the Landlord, improvements or facilities utilized in common by the Building and other buildings upon or adjacent to the real property on which the Building stands.

(c) Commencing on the first day of the first January after the Commencement Date, and continuing thereafter during the term of this Lease, Tenant shall pay to Landlord monthly in advance on the first day of each month, without notice or demand and without any deduction, offset or abatement, in lawful money of the United States of America, 1/12 of the amount of the



6.3 Statements. Nothing in this Lease shall be construed to require Landlord to render the statements described in Sections 5.2 and 6.2 simultaneously or in any particular order. All reasonable determinations by Landlord pursuant to Section 6 shall be presumed to be correct. Until Tenant is advised of the adjustment in its obligation to pay Shared Expenses, if any, pursuant to the provisions of Section 6.2, Tenant's monthly rental shall continue to be paid at the then current rent (including all prior adjustments thereto pursuant to this Lease). Upon written notice to Landlord of not less than fifteen business days, Tenant shall have the right to review the documentation relied upon by landlord relating to the computation of Shared Expenses, which review shall occur at the location specified in Section 1.11(b). All Shared Expenses shall be computed on the actual basis. In computing Shared Expenses, no cost or expense may be accounted more than once, any expenses which are paid by the proceeds of insurance shall be excluded. Tenant shall have the right to cause an audit to be made of Landlord's computation of Shared Expenses, at the location of the Corporate Office in Dallas, Texas, at Tenant's sole expense, not more frequently than once per calendar year. Tenant shall not be entitled to withhold or deduct any portion of Base Rent, or Additional Rent during the pendency of any such audit. Any errors disclosed by such audit shall be promptly corrected, provided that Landlord shall have the right to cause another independent audit to be made of such computations, and in the event of a disagreement between the auditors, the audit disclosing the least amount of deviation from Landlord's original computations shall be conclusively deemed to be correct.

#### 7. SECURITY DEPOSIT.

Tenant shall deposit with Landlord upon execution hereof the sum specified in Section 1.16 as security for Tenant's faithful performance of Tenant's obligations hereunder. If Tenant fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provisions of this Lease, Landlord may without notice to Tenant use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Landlord may become obligated by reason of Tenant's default or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of said deposit, Tenant shall within five (5) days after written demand therefor deposit cash with Landlord in an amount sufficient to restore said deposit to the full amount hereinabove stated. Landlord shall not be required to keep said deposit separate from its general accounts and Tenant shall not be entitled to interest on such deposit. If Tenant performs all of Tenant's obligations hereunder, said deposit or so much thereof as had not theretofore been applied by Landlord, shall be returned, without payment of interest or other increment for its use, to Tenant (or, at Landlord's option, to the last assignee, if any, of the Tenant's interest hereunder) within sixty (60) days after either the expiration of the term hereof or after Tenant has vacated the Premises, whichever is later. Landlord shall deliver the funds deposited herein by Tenant to the Purchaser of the building in the event the building is sold (or give such Purchaser a credit against the purchase price in the amount of such deposit), and thereupon Landlord shall be discharged from all further

liability with respect to such deposit. If Tenant shall default under this Lease more than two (2) times in any twelve (12) month period, irrespective of whether or not such default is cured, then the security deposit shall, within ten (10) days after demand by Landlord, be increased by Tenant to an amount equal to the greater of: (i) three (3) times the amount specified in Article 1.16; (ii) three (3) months' fixed rent; or (iii) as may be otherwise required by Landlord.

## 8. USE.

8.1 Use. The Premises shall be used and occupied only for the uses specified in Section 1.17 hereof, provided that the foregoing shall not be construed as a representation or guarantee by the Landlord that such business may lawfully be conducted on the Premises.

8.2 Compliance With Law. In the event it is determined by the applicable governmental unit that the Premises violates any building code, regulation or ordinance, then it shall be the obligation of the Landlord, after written notice from Tenant which includes a copy of the governmental unit's determination, to promptly, at Landlord's sole cost and expense, rectify any such violation. In the event Tenant does not give to Landlord written notice of any such violation within thirty (30) days from the date on which Tenant takes possession of the Premises, it shall be conclusively deemed that such violation, whether the same is patent or latent, did not exist and the correction of the same shall be the obligation and expense of the Tenant at the direction of the Landlord, provided, however, that nothing in this Section shall be construed to require or permit the Tenant to make any structural changes to the Building not caused by Tenant's improvements or the nature of Tenant's occupancy of the Premises.

8.3 Waste and Nuisance. Tenant shall not commit, suffer or permit any waste, damage, disfiguration or injury to the Premises, the common areas in the Building, or the fixtures and equipment located therein or thereon. Tenant shall not permit or suffer any overloading of the floors thereof, and shall not place therein any heavy business machinery, safes, computers, data processing machines, or other items heavier than customarily used for general office purposes without first obtaining the written consent of Landlord. Tenant shall not use or permit to be used any part of the Building for any dangerous, noxious or offensive trade or business, and shall not cause or permit any nuisance, noise, action, or disturbance of other tenants, in, at or on the Premises.

8.4 Conditions of Premises. Except as provided in Section 8.2, Tenant hereby accepts the Premises in their condition existing as of the date of the commencement hereof, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and accepts this Lease subject thereto and all matters disclosed thereby and by any exhibits attached hereto. In addition, except as provided in Section 8.2, Tenant shall at Tenant's expense, comply promptly with all applicable laws, statutes, ordinances, rules, regulations, orders, restrictions of record, and requirements in effect during the term or any part of the term





(c) General day-to-day janitorial service (excluding carpet shampooing and hard surface floor waxing) five days a week, and elevator service during the same hours for which air conditioning and heat services are provided as set forth above, provided, however, that in the event Tenant is delinquent in making any installment payment of rent under this Lease for a period of 15 days or more after it shall become due, Landlord may discontinue furnishing any or all of the services described in this Section 9 until all arrears of rental payments, plus interest and late charges and any other sums due under this Lease, shall have been paid in full. Whenever heat generating machines or equipment are used by Tenant in the Premises which affect the temperature otherwise maintained by the air conditioning systems, as determined by Landlord, Landlord reserves the right to install supplementary air conditioning units in the Premises, and the costs therefor, including the cost of installation, operating and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord. If Tenant, as determined by Landlord, requires electric current in excess of that usually furnished or supplied to the Premises, Landlord may, at its selection, either cause an electric current meter to be installed in the Premises so as to measure the electric current consumed for such excess use or determine the value of such excess use by causing an independent electrical engineer or consulting firm, selected by Landlord, to conduct a survey of Tenant's use of electric current and to certify such determination in writing to Landlord and Tenant. The cost of any such meter or survey, as the case may be, and of the installation, maintenance or survey, as the case may be indicates such excess use by Tenant of electric current, Tenant agrees to pay to Landlord, as Additional Rent, promptly upon demand therefor by Landlord, the amount determined to be due for the electric current consumed by Tenant, as shown by said meter or as indicated in said survey, as the case may be, at the rate charged for such service by the local public authority or the local public utility, as the case may be, furnishing the same, plus any additional expenses incurred by Landlord in keeping account of the electric current consumed.

(d) Notwithstanding anything in this Lease to the contrary, Tenant will not without the prior written consent of Landlord use any apparatus or device in the Premises which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises as general office space. Tenant shall not connect with any electric current except through existing electrical outlets in the Premises, or to any water pipes, any apparatus or device for the purposes of using electric current or water. If Tenant shall require water or electric current in excess of that usually furnished or supplied for use of the Premises, Tenant must first procure the written consent of Landlord to the use thereof. With the prior written consent of Landlord, Tenant may maintain and operate data processing equipment on the Premises, but all additional costs in connection therewith (including, but not limited to, additional support flooring, insulation, electrical outlets and temperature maintenance facilities) shall be borne solely by Tenant and the utility services utilized by or for such equipment shall be separately metered and the cost of such utility services with metering shall be borne solely by Tenant. At Tenant's request and with Landlord's prior approval, Landlord shall furnish the services described in this Section at times other than specified in section 9.1(a), provided that Tenant shall pay the entire cost thereof as





performing such maintenance shall be Operating Expenses as defined in Section 6.2, provided that Landlord shall have no obligation to perform any act which is the obligation of Tenant or any other tenant in the Building. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair. Other than as specifically provided in this Section 10.1, Landlord shall not be obligated to make any repairs or improvements of any kind, in, upon, about, or to the Premises or the Building.

10.2 Tenant's Obligations. Subject to the provisions of Section 8.2 and 14, Tenant, at Tenant's expense, shall keep in good order, condition and repair the demised Premises and every part thereof including, without limiting the generality of the foregoing, all plumbing, electrical and lighting facilities and equipment within the demised Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass and skylights located within the demised Premises. All repairs made by the Tenant shall be at least of the same quality, design and class as that of the original work. Tenant agrees that it will abide by, keep and observe all reasonable rules and regulations which Landlord may make from time to time for the management, safety, care and cleanliness of the Building and grounds, the parking of vehicles and the preservation of good order therein as well as for the convenience of other occupants and tenants of the Building. All damage or injury to the Building or to the demised Premises, fixtures, appurtenances and/or equipment caused by the Tenant moving property in or out of the Building or the Premises or by Tenant's installation or removal of furniture, fixtures, or other property, or from any other cause of any kind or nature whatsoever due to carelessness, omission, neglect, improper conduct, or other cause of the Tenant, its agents, employees, invitees, contractors or subcontractors shall be repaired, restored, or replaced promptly by the Tenant at its sole cost and expense to the satisfaction of the Landlord. In the event that the Tenant fails to keep the demised Premises in good order, condition and repair while this Lease remains in effect, then as soon as possible after written demand (which written demand shall not be required in the case of an emergency), Landlord may restore the demised Premises to such good order and condition and make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's property or business by reason thereof, and upon completion thereof Tenant shall pay to Landlord upon demand and as Additional Rent the cost of restoring the demised Premises to such good order and condition, together with interest thereon from the date paid.

10.3 Surrender. On the last day of the term hereof or on any sooner termination or date on which Tenant ceases to possess the Premises, Tenant shall surrender the Premises to Landlord in good and clean condition, ordinary wear and tear excepted. Prior to such surrender Tenant shall repair any damage to the Premises occasioned by its removal of trade fixtures, furnishings and equipment, which repair shall include the patching and filling of holes and repair of structural damage. Tenant agrees to indemnify Landlord and hold Landlord harmless from and against any liability (including reasonable attorneys' fees) of Landlord to third parties resulting from Tenant's failure to timely comply with the provisions of this Section 10.3.



notices of non-responsibility in, on or about the Premises as provided by law. Tenant shall have no power or authority to do any act or make any contract which may create or be the basis for any lien upon the interest of the Landlord, the Premises or the Building, or any portion thereof. If any mechanics or other lien or any notice of intention to file a lien shall be filed or delivered with respect to the Premises or the Building, based upon any act of the Tenant or of anyone claiming through the Tenant, or based upon work performed or materials supplied allegedly for the Tenant, Tenant shall cause the same to be canceled and discharged of record within fifteen (15) days after the filing or delivery thereof. If Tenant has not so canceled the lien within fifteen (15) days as required herein, Landlord may pay such amount, and the amount so paid together with interest thereon from the date of payment and all legal costs and charges, including attorneys fees, incurred by Landlord in connection with said payment and cancellation of the lien or notice of intent shall be Additional Rent and shall be payable on the next succeeding date on which a Base Rent installment is due. Landlord may, at its option and without waiving any of its rights set forth in the immediately preceding sentence, permit Tenant to contest the validity of any such lien or claim, provided that in such circumstances the Tenant shall at its expense defend itself and Landlord against the same and shall pay and satisfy any such adverse judgment that may be rendered thereinbefore the enforcement thereof against the Landlord, the Premises or the Building, provided further that Landlord may at any time require the Tenant to deposit with the court exercising jurisdiction over such claim, such amount as may be necessary under applicable statutes to cause the release and discharge of the lien, and if Tenant shall not immediately make such payment upon the request of Landlord, Landlord may make said payment and the amount so paid, together with interest thereon from the date of payment and all legal costs and charges, including attorneys fees, incurred by Landlord in connection with said payment shall be deemed Additional Rent and shall be payable on the next succeeding date on which a Base Rent installment is due. In addition, Landlord may require Tenant to pay Landlord's attorney fees and costs in participating in such action if Landlord shall decide it is in its best interest to do so. Nothing herein contained shall be construed as a consent on the part of Landlord to subject the interest and estate of Landlord to liability under any lien law of the state in which the Premises are situated, for any reason or purpose whatsoever, it being expressly understood that Landlord's interest and estate shall not be subject to such liability and that no person shall have any right to assert any such lien.

(d) Unless Landlord requires their removal, as set forth in Section 10.4(a), all Alterations which may be made on the Premises shall, at the expiration of the term or such other time at which Tenant ceases to possess the Premises, become the property of Landlord and remain upon and be surrendered with the Premises. Notwithstanding the provisions of this Section 10.4(d), Tenant's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, shall remain the property of Tenant and may be removed by Tenant subject to the provisions of Section 10.3 hereof and provided further that Tenant is not in default under this Lease at the time Tenant ceases to possess the Premises.

## 11. TENANT'S USE OF PUBLIC AREAS.

Tenant's non-exclusive use of the public areas described in Section 2.2 shall be subject to such Reasonable Rules and Regulations promulgated by Landlord pursuant to Section 8.6. Tenant agrees to repair at its cost all deteriorations or damages to the public areas occasioned by its negligence or intentional misconduct or that of its officers, agents, representatives, customers, employees or invitees.

## 12. TAXES AND TELEPHONE.

12.1 Personal Property Taxes. Tenant shall pay prior to delinquency all taxes assessed against and levied upon leasehold improvements, fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises or elsewhere. If Tenant shall cause said leasehold improvements, trade fixtures, furnishings, equipment and all other personal property to be assessed with Landlord's real property, Tenant shall pay Landlord the taxes attributable to Tenant within ten (10) days after receipt of a written notice from Landlord setting forth the taxes applicable to Tenant's property, and if Tenant fails to do so, Landlord may make such payment and the amount so paid, together with interest thereon from the date paid, shall be Additional Rent and shall be due and payable to Landlord on the next succeeding date on which a Base Rent installment is due.

12.2 Evidence of Payment. Tenant shall promptly deliver to Landlord, upon Landlord's written request, receipts for payments of all taxes, charges, rates, dues, assessments and licenses in respect to all improvements, equipment and facilities of the Tenant on or in the Premises which were due and payable within a period up to one year prior to the Landlord's making such request.

12.3 Telephone. Tenant shall separately arrange and pay for the furnishing of and use of all telephone services as Tenant may deem necessary for its use of the Premises, and Landlord shall have no liability in connection therewith.

## 13. INSURANCE AND INDEMNITY

13.1 Liability Insurance. Tenant shall, at Tenant's expense, obtain and keep in force during the term of this Lease a policy of bodily injury and property damage insurance, insuring Landlord and Tenant against any liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be in an amount not less than \$500,000 per person, \$500,000 per occurrence for bodily injury, and \$500,000 for property damage, or \$1,500,000 combined single limit for said items. The limits of said insurance shall not, however, limit the liability of Tenant hereunder. Tenant shall also obtain and keep in force during the term of this Lease, at Tenant's expense, "all risk" or "special coverage form" insurance upon the property of every description and kind owned by the Tenant and located in the Building or for which Tenant is legally liable or installed by or on behalf of the Tenant, including without limitation, furniture, fittings, installations, alterations, additions, partitions, fixtures and anything in the nature of leasehold improvements in an amount not less than 80% of the full replacement cost thereof. Such insurance shall insure the Tenant and Landlord,





the other, or against the officers, employees, agents and representatives of the other for loss or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Tenant and Landlord shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carriers that the foregoing mutual waiver of subrogation is contained in this Lease and obtain policies of insurance, if obtainable, which shall include a waiver by the insurer of all right of subrogation against Landlord or Tenant in connection with any loss or damage thereby insured against.

13.5 Hold Harmless. Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, liabilities, damages and costs, including attorneys fees, incurred by Landlord which arise from Tenant's use of the Premises or the Building or from the conduct of its business or from any activity, work or things which may be permitted or suffered by Tenant in, on or about the Premises or the Building, and shall further indemnify, defend and hold Landlord harmless from and against any and all claims, liabilities, damages and costs, including attorneys fees, incurred by Landlord which arise from any breach or default in the performance of any obligation on Tenant's part to be performed under any provision of this Lease or which arise from any negligence of Tenant or any of its agents, representatives, customers, employees or invitees.

13.6 Exemption of Landlord from Liability. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom, including without limitation from any relocation by Landlord of Tenant within the Building (except as expressly provided otherwise in Section 20), or for damage to the goods, wares, merchandise or other property of Tenant, Tenant's employees, representatives, agents, invitees, customers or any other person in, on or about the Premises or Building, nor shall Landlord be liable for injury to the person of Tenant, Tenant's employees, representatives, agents, customers, or invitees, whether any such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, and whether the said damage or injury results from conditions arising upon the Premises or any other cause, and whether the said damage or injury results from conditions arising upon the Premises or Building, or from other sources or places, and regardless of whether the cause of such injury or the means of repairing the same is inaccessible to Landlord or Tenant unless such injury, loss of income or damage is caused by the Landlord's gross negligence. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the Building. Tenant hereby assumes all risk of damage to property or injury to persons in, on or about the Premises or the Building from any cause and Tenant hereby waives all claims in respect thereof against Landlord, excepting where said damage arises out of the gross negligence of Landlord.

#### 14. DAMAGE OR DESTRUCTION





the percentage of rentable square feet of the Premises which may be damaged or destroyed.

14.3 Fault of Tenant. Landlord may exercise its option to repair or restore as described in Section 14.1 even if such damage or destruction is due to the fault or neglect of Tenant, Tenant's agents, representatives, employees, customers or invitees, but in such event Landlord's election to repair or restore shall be without prejudice to any other rights and remedies of Landlord under this Lease, and there shall be no apportionment or abatement of any rent of any kind and Landlord shall not be liable for any other loss to Tenant of any nature whatsoever.

14.4 Obligations of Tenant. Except as provided in this Section 14, none of Tenant's obligations under this Lease shall be affected by any damage or destruction of the Premises by any cause whatsoever. Tenant hereby expressly waives any and all rights it might otherwise have under any law, regulation or statute which would act to modify the provisions of the immediately preceding sentence.

14.5 Termination by Tenant. In the event that more than sixty percent (60%) of rentable square feet of the Premises shall be damaged or destroyed by fire or other casualty not caused by the Tenant or Tenant's agents, representatives, employees, customers or invitees, either party may terminate this Lease by giving notice to the other within thirty (30) business days after the date of the fire or other casualty, and upon such termination the rental obligations of the Tenant shall be duly apportioned as of the date of such fire and other casualty, provided, however, that Tenant shall have no right to terminate the Lease under this Section 14.5 if Tenant is in default of any of its obligations under the Lease as of the date of the fire or other casualty.

## 15. CONDEMNATION.

If the Premises are taken under any public or private power of eminent domain, or sold by Landlord under the threat of the exercise of said power (all of which is herein referred to as "condemnation"), or if any portion of the Building is so condemned so that it would not be practical, in Landlord's judgment, to continue to maintain the Building, this Lease shall terminate as of the date the condemning authority takes title or possession, whichever occurs first. If only a portion of the Premises are so condemned, Landlord shall have the right, if more than sixty percent (60%) of rentable square feet of the Premises are so condemned, to terminate this Lease as of the date the condemning authority takes title or possession, whichever occurs first, by Landlord's giving written notice of such termination to Tenant not later than thirty (30) days after said date, but should Landlord elect not to so terminate this Lease, the Lease shall remain in full force and effect as to the portion of the Premises not so taken, and Tenant's rental obligations shall be reduced proportionately to reflect the number of rentable square feet remaining in the Premises, and such rental reduction, if any, shall take effect as of the date which is thirty (30) days after the date of which the condemning authority takes title or possession, whichever first occurs. If repairs or restorations to that portion of the Premises not so taken are deemed necessary by Landlord

to render such portion reasonably suitable for the purposes for which it was leased, as determined by Landlord, Landlord shall perform such work at its own cost and expense but in no event shall Landlord be required to expend any amount greater than the amount received by Landlord as compensation for the portion of the Premises taken by the condemnator. All awards for the taking of any part of the Premises or any payment made under the threat of the exercise of power of eminent domain shall be the property of Landlord, whether made as compensation for diminution of value of the leasehold or for the taking of the fee or as severance damages. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof, except that any award or other compensation made for any taking is subject to the rights of the first mortgage up to the amount of its lien and of any junior mortgagee, as may be permitted by the first mortgagee, up to the full amount of such junior lien; provided, however, that Tenant shall be entitled to any award for loss of or damage to Tenant's trade fixtures and removable personal property and/or for the interruption of or damage to Tenant's business.

16. ASSIGNMENT AND SUBLETTING.

16.1 Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet or otherwise transfer or encumber all or any part of Tenant's interest in this Lease or in the Premises without Landlord's prior written consent. Any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void and shall constitute a breach of the Lease. Any transfer of Tenant's interest in this Lease or in the Premises from Tenant by merger, consolidation or liquidation, or by any subsequent change in the ownership of fifty percent (50%) or more of the capital stock of Tenant shall be deemed a prohibited assignment within the meaning of this Section 16. As a condition of obtaining Landlord's consent, Tenant shall submit to Landlord, together with its request for consent, the name of the proposed assignee or subtenant, the terms and provisions of the proposed transaction, and such information as to the nature of the proposed assignee's or subtenant's business and its financial responsibility and standing as Landlord may reasonably require, together with the effective date of the proposed transfer which shall be at least sixty (60) days after the date of submission of such information to Landlord. Landlord's failure to consent to any proposed transfer under this Section shall not be deemed unreasonably withheld if (a) the occupancy resulting from such transfer will not be consistent with the general character of the business carried on by the tenants of the Building or violates any rights or options held by any other tenant of the building; or (b) the proposed occupant pursuant

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Tenant / Landlord

to the transfer does not have the financial strength and stability to perform its rental obligations or Landlord is unable to obtain guaranties from one or more affiliates of the proposed occupant in order to secure such financial obligations; or (c) any proposed sublease does not incorporate this Lease in its entirety so as to be subject to this Lease's terms, or any such sublease does not require the sublessee to attorn to Landlord at Landlord's option in the event of a default by Tenant under this Lease; or (d) if Tenant does not execute an agreement with Landlord requiring Tenant to pay to Landlord, as Additional Rent, one hundred percent (100%) of all moneys or other consideration received by Tenant from its transferee (whether paid to Tenant as consideration for Tenant's transfer of property or other assets to the transferee or as consideration for the transferee occupancy of the Premises) in excess of the amounts owed by Tenant to Landlord under this Lease, which Additional Rent shall be paid to Landlord as and when received by Tenant.

16.2 No Release of Tenant. Regardless of Landlord's consent, no subletting or assignment or other transfer described in Section 16.1 shall release Tenant to Tenant's obligation or alter the primary liability of Tenant to pay the rent and to perform all other obligations to be performed by Tenant hereunder. Consent to one assignment, subletting or other transfer shall not be deemed consent to any subsequent act. In the event of default by an assignee of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against said assignee or successor. Landlord may consent to subsequent assignments, subletting, or transfers of this Lease or amendments or modifications to this Lease with assignees or successors of Tenant without notifying Tenant and without obtaining its consent thereto and such action shall not relieve Tenant of liability under this Lease. In the event Landlord allows assignment or subletting hereunder, neither Tenant, the assignee of Tenant, or the sublessee of Tenant shall have any option to extend the term of this Lease even if such option is otherwise granted to Tenant herein and notwithstanding the provisions of any such option granted to Tenant herein, and all rights and options to extend this Lease otherwise granted to Tenant shall be deemed terminated and canceled as of the date of such assignment, subletting or other transfer. Notwithstanding anything in this Lease to the contrary, Landlord shall have no obligation to grant consent to any transfer as defined in Section 16.1 if Tenant is in default under this Lease at the time the request for consent is made or at any time thereafter through the effective date of the transfer. In addition, Tenant acknowledges that its intent in executing this Lease is to occupy the Premises and not to make speculative usage of the Premises, and therefore Landlord shall have no obligation whatsoever to consent to any proposed transfer if the rentals payable by the proposed occupant to the Tenant are less than the rentals sought to be received by the Landlord for vacant space in the Building as of the date on which the Tenant is requesting the Landlord's consent to the transfer. In the event that Tenant proposes to assign this Lease or to sublet all of the Premises, Landlord shall have the right, exercisable by notice in writing after receipt of the request by Tenant, to terminate this Lease upon execution of an agreement between Landlord and the proposed assignee or subtenant, provided that Landlord shall not have any such termination right if Tenant withdraws such request within ten (10) days of being notified by

Landlord that it has elected to exercise said termination right.

16.3 Attorneys Fees and Administrative Fees. In the event Tenant shall request the consent of Landlord to any assignment, subletting or transfer or if Tenant shall request the consent of Landlord for any other act which Tenant proposes to do under any other provision of this Lease, then Tenant shall pay Landlord's attorney fees incurred in connection with the consideration or evaluation of such request. In addition thereto, in the event that Landlord shall consent to a sublease, assignment or transfer under Section 16.1, Tenant shall pay Landlord administrative fees of Two Hundred Dollars (\$200) incurred in connection with giving such consent.

16.4 Right to Collect Rent. The acceptance of rent by Landlord from any person other than Tenant shall not be deemed to be a waiver by Landlord of any provision of this Lease. If the Premises are sublet or occupied by anyone other than Tenant and Tenant is in default hereunder, or this Lease is assigned by Tenant, then, in any such event, Landlord may collect rent from the assignee, subtenant or occupant and apply the net amount collected to the rent reserved in this Lease, but no such collection shall be deemed a waiver of the covenant in this Lease against assignment and subletting or the acceptance of such assignee, subtenant or occupant as Tenant, or a release of Tenant from further performance of the covenants contained in this Lease.

## 17. DEFAULTS; REMEDIES

17.1 Defaults. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

(a) The vacating or abandonment of the Premises by Tenant; or

(b) The failure by Tenant to make any payment of Base Rent, Additional Rent or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of three (3) days; or

(c) The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Tenant, other than described on paragraph (b) above, where such failure shall continue for a period of five (5) business days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default as determined by Landlord is such that more than five (5) business days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure as soon as possible within said five (5) business day period and thereafter diligently prosecutes such cure to completion, and in any case completes said cure within twenty (20) business days after the aforesaid written notice or

(d) (i) The insolvency of the Tenant or the execution by the Tenant of an assignment for the benefit of creditors, or the convening by Tenant of a meeting of its creditors, or any class thereof, for the purposes of effecting a moratorium upon or extension or composition of its debts; or the failure of the



(c) Should Landlord elect to re-enter, as herein provided, or should it take possession pursuant to legal proceedings, or pursuant to any notice provided for by law, it may make such alterations, additions, improvements and repairs as may be necessary in order to re-let the Premises, and may but need not re-let the Premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord may determine to be advisable; upon each such re-letting, all rentals received by the Landlord shall be applied: i) first to the payment of any costs and expenses of such re-letting, including brokerage fees and attorney's fees and the cost of such alterations, additions, improvements and repairs; ii) second, to the payment of Base Rent due and unpaid hereunder, and the residue, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder provided that Tenant shall have no right to claim any interest in all or any portion of said residue and if the rent and other charges paid or to be paid to Landlord by any new tenant pursuant to any re-letting exceed the monetary obligations of Tenant, Tenant shall have no right to claim any interest in all or any portion of said excess. If such rental received from such re-letting during any month be less than that to be paid during the month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord, and such deficiency shall be calculated and paid monthly on the date on which the rent should have been payable hereunder if possession had not been retaken. If, during the existing term of this Lease, the premises covered thereby include other premises not part of the Premises, a fair apportionment of the rent received from such re-letting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such re-letting and the expenses incurred in connection therewith as provided aforesaid will be made in determining the net proceeds from such re-letting, and any rent concessions will be equally apportioned over the term of the new lease. Landlord shall in no event be liable in any way whatsoever for failure to re-let the Premises for any reason, or in the event the Premises are re-let, for failure to collect the rent thereof under such re-letting. No such reentry or taking possession of the Premises by Landlord, nor any acts pursuant thereto, shall be construed as an election on its part to terminate this Lease unless a written notice of such termination be given to Tenant by Landlord. No notice from Landlord under this Lease or under any applicable forcible entry and detainer or eviction statute or similar law shall constitute an election by Landlord to terminate this Lease unless such notice specifically so states. Notwithstanding any such re-letting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

(d) Should Landlord at any time terminate this Lease for any default or breach, in addition to any other remedies it may have, it may recover from Tenant all damages it may incur by reason of such default or breach, including the cost of recovering the Premises, reasonable attorneys fees, and including the worth at the time of such termination of the excess, if any, of the amount of rent and such other charges as are required to be paid by Tenant under the terms of this Lease for the remainder of this stated term over the then reasonable rental value of the Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord; provided, however, that if the then reasonable rental value of the





costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of Base Rent, Additional Rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after paid amount is due, then Tenant shall immediately pay to Landlord a late charge equal to ten percent (10%) of such over due amount or the sum of One Hundred Dollars (\$100.00), whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the cost Landlord will incur by reason of late payment by Tenant and is in addition to interest due under Section 25.4. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount, or prevent Landlord from exercising any of the other rights and remedies granted hereunder.

## 18. RIGHTS OF MORTGAGEES.

18.1 Subordination. As used throughout this Section 18, the term "mortgagee" shall refer to the holder of a Mortgage or deed of trust or ground lease affecting the Premises. This Lease and the rights of Tenant hereunder shall be and are hereby made subject and subordinate to the provisions of any ground lease, mortgage or deed of trust affecting the Premises, and to each advance made or hereafter to be made under the same, and to all renewals, modifications, consolidations and extensions thereof and all substitutions therefor. This Section 18 shall be self-operative and no further instrument of subordination shall be required. However, in confirmation of the provisions of this Section 18, Tenant shall execute and deliver promptly any certification or instrument that Landlord or any mortgagee may request, and failing to do so within ten (10) days after written demand, Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact and Tenant's name, place and stead, to do so, and/or Landlord may declare this Lease to be in default. If any mortgagee or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deeded prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof. Tenant shall and does hereby agree to attorn to any mortgagee or successor in title and to recognize such mortgagee or successor as its Landlord in the event any such person or entity succeeds to the interest of Landlord. Notwithstanding any other provision of this Lease, in the event that any mortgagee or its respective successor in title shall succeed to the interest or Landlord hereunder, the liability of such mortgage or successor shall exist only so long as it is the owner of the Building, or any interest therein, or is the Tenant under said ground lease.

18.2 Mortgagee's Consent to Amendments. No assignment of this Lease and no agreement to make or accept any surrender, termination or cancellation of this Lease and no agreement to modify so as to reduce the rent, change the term, or otherwise materially change the rights of Landlord under this Lease, or to relieve Tenant of any obligation or liability under this Lease, shall be valid



unless consented to by Landlord's mortgagees of record, if such is required by the mortgagees, in writing. No Base Rent, Additional Rent, or any other charge (with the exception of the security deposit described in this Lease) shall be paid more than ten (10) days prior to the due date thereof and payments made in violation of this provision (except to the extent that such payments are actually received by a mortgagee) shall be a nullity as against any such mortgagees of record, and Tenant shall be liable for the amount of such payments to such mortgagees.

18.3 Mortgagee's Right to Cure. No act or failure to act on the part of Landlord which would entitle Tenant under the terms of this Lease, or by law, to be relieved of Tenant's obligations hereunder or to terminate this Lease, shall result in a release or termination of such obligations or termination of this Lease unless (a) Tenant shall have first given written notice of Landlord's act or failure to act to Landlord's mortgagees of record, if any, specifying the act or failure to act on the part of Landlord which could or would give basis to Tenant's rights; and (b) such mortgagees, after receipt of such notice, have failed or refused to correct or cure the condition complained of within a reasonable time thereafter, provided that nothing contained in this Section shall be deemed to impose any obligation on any such mortgagees to correct or cure any condition. As used herein, a "reasonable time" includes a reasonable time to obtain title to the mortgaged premises if the mortgagee elects to do so and a reasonable time to correct or cure the condition if such condition is determined to exist, but in no event less than 120 days from the date of the mortgagees' receipt of the above described notice.

19. NOTICES.

Except as provided in Section 17.1(b) and 22, whenever under this lease provision demand is made for any notice or declaration of any kind, or where it is deemed desirable or necessary by either party to give or serve any such notice, demand or declaration to the other party, it shall be in writing and served either personally or sent by certified United States mail, return receipt requested, postage prepaid, addressed either to the address set forth in Section 1.1 or 1.11(b), or to such other address as may be given by a party to the other by proper notice hereunder, or, in the case of notices to the Tenant, to the Premises. The date of personal delivery (as evidenced by such evidence of service as provided for in said rules) of the date on which the certified mail is deposited with the United States Postal Service shall be the date on which any proper notice hereunder shall be deemed given.

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Tenant / Landlord

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20. RELOCATION.

Tenant agrees that Landlord may relocate Tenant to other space in the

Building containing substantially the same amount of rentable square feet as is contained in the Premises, provided that the actual cost of physically relocating Tenant (excluding any and all consequential or other costs to Tenant) and the cost of altering the new space to make it comparable to the Premises is borne by the Landlord; provided however, that Landlord may not exercise said right to relocate Tenant if the Premises consist of more than ten percent (10%) of the rentable square feet in the Building. In addition, Landlord shall pay costs incurred by Tenant as a result of the relocation, including without limitation costs incurred in changing addresses in stationery, business cards, directories, advertising and other such items, but in no event shall Landlord's obligation to pay cost imposed in this sentence exceed the sum of \$500. In the event that the new Premises in which the Tenant is relocated does not consist of the identical number of rentable square feet as specified in Section 1.3, the parties shall execute an instrument specifying the new number of square feet in the Premises and the change in the number of square feet contained in the Premises shall be deemed effective as of the date on which the Tenant occupies the new premises in which it is relocated.

#### 21. QUIET POSSESSION.

Upon Tenant's paying the sums due hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

#### 22. OPTIONS.

In the event that the Tenant, by addendum attached to this Lease, is expressly given an option to renew or extend the term of this Lease, or any option to purchase the Premises or Building or any right of first refusal to purchase the Premises or other property of Landlord, then each of such options and rights are personal to Tenant and may not be exercised by or assigned, voluntarily or involuntarily, by or to anyone other than Tenant. No such option described hereinabove may be exercised by the Tenant except in strict accordance with the terms and provisions of the option and provided that Tenant is not in default under this Lease either at the time Tenant gives notice of its intent to exercise the option or at the time at which the option is to be exercised. Notwithstanding the provisions of Section 19, notice of exercise of any option shall be deemed given only when actually received by Landlord.

#### 23. LANDLORD'S LIEN.

Tenant hereby grants to Landlord a lien upon and security interest in all furniture, fixtures, equipment, inventory, merchandise and other personal property belonging to the Tenant and located in, on or about the Premises or Building at any time while this Lease is in effect, whether such items are presently owned by Tenant or are after acquired, to secure the payment of all Base Rent, Additional Rent and other charges due and to become due under this Lease and to further secure that faithful performance of all of the other obligations of this Lease required to be performed by Tenant, said lien to be prior to any other lien on such property except a lien in favor of the seller

or lessor of such property to secure the unpaid purchase price or lease payments thereof. All exemption laws are hereby expressly waived by Tenant. This lien and security interest may be foreclosed in the same manner as a Financing Statement under the version of the Uniform Commercial Code enacted in the state in which the Premises are situated, or pursuant to any similar law so enacted if a version of the Uniform Commercial Code is not in effect, and the filing of this Lease in accordance with said law shall constitute full lawful notice of this lien. In lieu of filing this Lease or in addition thereto, Landlord may require Tenant at any time to execute a Financing Statement, Security Agreement or any other similar documents required by the laws of the state in which the Premises are situated to perfect this lien and security interest, and Tenant shall immediately execute the same upon the demand of Landlord. In the event Tenant fails or refuses to do so within ten (10) days after written demand, Tenant does hereby make, constitute and irrevocably appoint Landlord as Tenant's attorney-in-fact in Tenant's name, place and stead, to do so, and/or Landlord may declare this Lease to be in default.

24. HAZARDOUS MATERIALS.

Tenant covenants not to introduce any hazardous or toxic materials onto the Building, the Premises, or the grounds surrounding the Building, without (a) first obtaining Landlord's written consent and (b) complying with all applicable federal, state and local laws or ordinances pertaining to the transportation, storage, use or disposal of such materials, including but not limited to obtaining proper permits.

If Tenant's transportation, storage, use or disposal of hazardous or toxic materials on the Building, the Premises, or the grounds surrounding the Building results in (1) contamination of the soil or the surface or ground water (2) loss or damage to person(s) or property, then Tenant agrees to respond in accordance with the following paragraph:

Tenant agrees (i) to notify Landlord immediately of any contamination, loss or damage, (ii) after consultation and approval by Landlord, to clean up and (iii) to indemnify, defend and hold Landlord harmless from and against any claims, suits, causes of action, costs and fees, including attorney's fees, arising from or connected with any such contamination, loss or damage. This provision shall survive the termination of this Lease.

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25. GENERAL PROVISIONS.

25.1 Estoppel Certificate. (a) Tenant shall at any time upon not less

than ten (10) days prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing: (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification, identifying the instruments of modification and certifying that this Lease, as so modified, is in full force and effect), and the date to which the Base Rent, security deposit, Additional Rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults, if any, which are claimed. Any such statement may be conclusively relied upon by any prospective purchaser, encumbrancer or other transferee of the Premises.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant: (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that no rent has been paid in advance; and

(c) If Landlord desires to finance or refinance the Premises or the Building, or any part thereof, Tenant hereby agrees to deliver to Landlord and/or to any lender designated by Landlord such financial records of Tenant as may be reasonably required by such lender. Such statements may include but not be limited to the past three (3) years' financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

25.2 Landlord's Interest and Liability. The term "Landlord" as used herein shall mean only the owner or owners at the time in question of the fee title or a tenant's interest in a ground lease of the real property on which the improvements comprising the Building are situated. In the event of any transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers the then grantor), shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord or the then grantor at the time of such transfer in which Tenant has an interest shall be delivered to the grantee. The obligations contained in this Lease to be performed by Landlord shall, except as aforesaid, be binding on Landlord's successors and assigns only during their respective periods of ownership. Anything to the contrary elsewhere in this Lease notwithstanding, Tenant shall look solely to the estate and property of the Landlord in the Building for the satisfaction of the Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money by the Landlord in the event of any default or breach by the Landlord with respect to any of the terms, covenants and conditions of the Lease to be observed and/or performed by the Landlord, and no other property or assets of the Landlord shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Tenant's remedies.

25.3 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

25.4 Interest on Past Due Obligations; Certified Funds. Except as may expressly be provided in this Lease to the contrary, any amount due to Landlord not paid when due shall bear interest at the rate of four percent (4%) per annum greater than the prime rate of the First City Bank of Dallas, Texas as the same may fluctuate from and after the date on which the payment was first due through the date on which the payment is paid in full, provided, however, that the payment of such interest shall in no event exceed the highest rate allowed under applicable law. Payment of such interest shall not excuse or cure any default by Tenant under this Lease. In the event that either Tenant is more than ten (10) days late in making any payment due under the Lease, or any payment from Tenant to Landlord does not clear the bank or is returned for insufficient funds, and either such condition occurs on two or more occasions, or each occurs once, Landlord shall have the right at any time thereafter to require that all succeeding monthly installments of Base Rent and all succeeding payments of Additional Rent be paid to the Landlord in certified funds drawn on a bank located in the metropolitan area in which the Premises are located. Said right may be exercised by landlord by giving notice of such requirements to Tenant, but the giving of such notice and the exercise of this right by Landlord shall not be construed to be a waiver of any default by Tenant or any other right which Landlord may exercise under this Lease.

25.5 Time of The Essence. Time is of the essence in the performance by Tenant of its obligations hereunder.

25.6 Captions. Any captions contained in this Lease are not a part hereof, are for convenience only, and are not be given any substantive meaning in construing this Lease.

25.7 Entire Agreement. This Lease contains the entire agreement and understanding between the parties hereto. There are no oral understandings, terms, or conditions, and neither party has relied upon any representations, express or implied, not contained in this Lease. All prior understandings, terms, or conditions are deemed merged in this Lease. No modification of this Lease shall be binding unless such modifications shall be in writing and signed by the parties hereto. Tenant acknowledges that it has not been induced to enter into this Lease by any promises or representatives not expressly set forth in this Lease, and if any such representations were made prior to the execution of this Lease, Tenant acknowledges that it has not relied on the same, and that Landlord shall have no liability with respect to any such representations.

25.8 Waivers. No failure by either party to insist upon the strict performance of any agreement, term, covenant or condition hereof or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of full or partial rent or the continuance of any such breach, shall constitute a waiver of any such breach of such agreement, term, covenant or condition or a relinquishment of the right to exercise such right or remedy. No agreement, term, covenant or condition hereof to be performed or complied with by either party, and no breach thereof, shall be waived, altered or modified except by a written instrument executed by the other party. No waiver of any breach shall





Premises or to the Building as Landlord may deem necessary or desirable, or for any other reasonable purpose as Landlord may determine. Landlord may at any time place in, on or about the Premises any "For Sale", or "For Lease" or similar signs, all without rebate of rent or liability to Tenant.

25.16 Auctions. Tenant shall not conduct any auction, liquidation sale, or going out of business sale in, on or about the Premises.

25.17 Merger. The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Landlord, terminate all or any existing subtenancies or may, at the option of Landlord, operate as an assignment to Landlord of any or all of such subtenancies.

25.18 Corporate Authority. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the Bylaws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.

25.19 Signs. Landlord may prescribe a uniform pattern of identification signs for tenants to be placed on the outside of the doors leading to their respective premises, and other than such identification signs, Tenant shall not install, paint, display, inscribe, place or affix, or otherwise attach, any sign, fixture, advertisement, notice, lettering or direction on any part of the outside of the Building or in the interior or other portion of the Building without obtaining the prior written consent of the Landlord.

25.20 Brokers. The parties hereto acknowledge that the brokers named in Section 1.18 were the sole real estate brokers that represented the Landlord herein, and that no commissions are owed by Landlord to any other brokers whatsoever, and Tenant agrees to indemnify Landlord from claims for commission from any other brokers arising out of the execution of this Lease.

25.21 Guarantor. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Tenant under this Lease.

25.22 Governing Law. This lease shall be governed by and construed in accordance with the laws of the state in which the Building is located.

25.23 Joint and Several Liability. If two or more individuals, corporations, partnerships or other business associates (or any combination of the two or more thereof) shall sign this Lease as Tenant, the liability of each such individual, corporation, partnership or other business association to pay rent and perform all other obligations hereunder shall be deemed to be joint and several, and all notices, payments and agreements given or made by, with or to any one of such individuals, corporations, partnerships or other business associations shall be deemed to have been given or made by, with or to all of them. In like manner, if Tenant shall be a partnership or other business

association, the members of which are, by virtue of statute or federal law, subject to personal liability, the liability of each such member be joint and several.

25.24 No Joint Venture. Any intention to create a joint venture or partnership relation between the parties hereto is hereby expressly disclaimed.

The parties hereto have executed this Lease on the first page hereof on the dates specified immediately below their respective signatures.

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ADDENDUM A

TO OFFICE BUILDING LEASE  
BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT  
TO LEASE DATED FEBRUARY 5, 1998

THIS ADDENDUM is made this 5TH day of FEBRUARY, 1998 by and BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING GENERAL PARTNER, LANDLORD AND COMSTAR COMMUNICATIONS, INC., TENANT

WHEREAS, Landlord and Tenant are the parties to the above-described Lease for the Premises; and

WHEREAS, the parties desire to amend said Lease.

NOW THEREFORE, in consideration of the mutual promises and obligations contained herein, the adequacy and sufficiency of which is hereby acknowledged, Landlord and Tenant contract and agree as follows:

1) BASE RENT SHALL ESCALATE ACCORDING TO THE FOLLOWING SCHEDULE OF RENT:

TERM	PER S.F.	MONTHLY	YEARLY
-----	-----	-----	-----
01-12	13.50	\$3,937.50	\$47,250.00
13-24	14.00	\$4,083.33	\$49,000.00
25-36	14.75	\$4,302.08	\$51,625.00

2) TENANT IMPROVEMENTS:

Tenant has inspected the Demises Premises and accepts the space "as is" except that LANDLORD shall patch holes in the drywall, if any, and touch up the paint as may be required in Landlord's sole discretion.



3) CONDITION PRECEDENT:

This Lease is specifically conditioned upon Landlord's possession and availability for lease of Suite 240 located in Building 2812 at Emerson Center.

4) OPTION TO INCORPORATE EXISTING SPACE INTO THIS LEASE:

Tenant shall have a one time option to expand its Demised Premises as defined in this Lease by incorporating the total rentable area contained in Suite 210 located in Building 2812 at Emerson Center, consisting of approximately 3,243 square feet, by providing Landlord with written notice of Tenant's desire to exercise such option on or before March 30, 1999. If exercised, such expansion shall become effective October 1, 1999 and, at that time, the entire Demised Premises, including the expansion space, shall be governed according to the terms and conditions of this Lease except that the total square footage shall become 6,743 square feet.

5) TERMINATION OF FIRST RIGHT OF REFUSAL:

Tenant hereby acknowledges and agrees that, upon execution of this Lease, Tenant has exercised its First Right of Refusal according to the First Amendment to Lease, Paragraph 8, dated August 26, 1996 (refer to Lease for Suite 210 in building 2812 at Emerson Center) and that Tenant shall have no additional first rights of refusal.

6) BROKER DISCLOSURE:

The Frank M. Darby Company has represented the Landlord in this transaction. In the event a lease is consummated, The Frank M. Darby Company will be paid a commission by the Landlord.

7) RESTORATION OF PREMISES:

No later than the last day of the Term, TENANT shall, at TENANT's sole cost and expense, remove all Tenant's personal property and, if requested to do so by Landlord, remove any fixtures, cables and wires and repair all injury done by or in connection with the installation and/or removal of said property within the Demised Premises, on or above the roof, and within the parking lot and surrender the Demised Premises, and any areas of the roof and parking lot used exclusively by Tenant in as good a condition as they were at the beginning of the Term, reasonable wear and tear excepted.

8) SPECIAL EQUIPMENT:

- a) TENANT may place a fenced in generator in the rear parking lot of Emerson Center to be located near the dumpsters behind Building 2812 as shown in EXHIBIT "G", which is attached to this Lease and incorporated herein by reference. Such area shall not encompass more than three parking spaces and shall be the sole responsibility of TENANT. LANDLORD'S review of detailed

specifications and written consent shall be required PRIOR to the placement of this generator.

b) While LANDLORD agrees that Tenant may install a satellite dish or other antenna on the roof, such shall be subject to the additional rent and other stipulation as contained in the License Agreement attached as Exhibit "H."

EXCEPT AS HEREBY AMENDED, all other provisions of said Lease are hereby confirmed and ratified.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum on the date first above written.

LANDLORD: THE EMERSON CENTER COMPANY  
-----  
NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER  
-----

TENANT: COMSTAR COMMUNICATIONS, INC.  
-----

By: /s/ CHRIS CLINTON  
-----  
CHRIS CLINTON  
Date: 3/11/98  
-----

By: /s/ SAM F DAYTON, Ph.D.  
-----  
SAM F. DAYTON, Ph.D.  
Date: 2/27/98  
-----

SFD CC  
-----/-----

Tenant / Landlord

ADDENDUM B TO LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

Trust Exculpation - The Landlord under this Lease is The Emerson Center Company, National Income Realty Trust, Managing General Partner ("Trust"). The Declaration(s) of Trust provide that (a) the Trustee shall conduct the Trust's activities in the name of the Trust, (b) the name of the Trust refers to the Trustees collectively as trustees, but not individually or personally, (c) no trustee, shareholder, officer, employee, or agent shall have any personal liability, jointly or severally, for any obligation of or claim against the Trust, and (d) all persons dealing with the Trust, in any way, must look solely to the assets of the Trust for the payment of any claims against the Trust. Accordingly, Tenant agrees to look solely to the respective assets of the Trust

for the enforcement of any claims against Landlord.

Americans With Disabilities Act of 1990 - Tenant shall be responsible for, and shall bear all costs and expenses associated with, any and all alterations to the Leased Premises which may be required by the Americans With Disabilities Act of 1990 (the "ADA"), for the accommodation of disable individuals who may be employed from time to time by Tenant, or any disabled customers, clients, guests, or invitees or sublessees. Tenant shall indemnify and hold Landlord harmless from and against any and all liability incurred arising from the failure of the Leased Premises to conform with the ADA, including the cost of making any alterations, renovations or accommodations required by the ADA, or any government enforcement agency, or any courts, any and all fines, civil penalties, and damages awarded against Landlord (or those awarded against Tenant which could become a lien upon the property upon which the Leased Premises are located) resulting from a violation or violations of the ADA, and all reasonable legal expenses and court costs incurred in defending claims made under the ADA, including without limitation reasonable consultants', attorneys' and paralegals' fees, expenses and court costs.

Hazardous Waste - The term "Hazardous Waste", as used in this Lease, shall mean pollutants, contaminants, toxic or hazardous wastes, or any other substances, the use and/or the removal of which is required or the use of which is restricted, prohibited or penalized by an "Environmental Law", which term shall mean any federal, state or local law, ordinance or other statute of a governmental or quasi-governmental authority relating to pollution or protection of the environment. Tenant hereby agrees that (i) no activity will be conducted on the premises that will produce any Hazardous Materials, except for such activities that are part of the ordinary course for Tenant's business activities (the "Permitted Activities") provided said Permitted Activities are conducted in accordance with all Environmental Laws and have been approved in advance in writing by Landlord; Tenant shall be responsible for obtaining any required permits and paying any fees and providing any testing required by any governmental agency; (ii) the premises will not be used in any manner for the storage of any Hazardous Materials except for the storage of such materials that are used in the ordinary course of Tenant's business ("Permitted Materials") provided such Permitted Materials are properly stored in a manner and location meeting all Environmental Laws and approved in advance in writing by Landlord; Tenant shall be responsible for obtaining any required permits and paying any fees and providing any testing required by any governmental agency; (iii) no portion of the premises will be used as a landfill or a dump; (iv) Tenant will not install any underground tanks of any type; (v) Tenant will not allow any surface or subsurface conditions to exist or come into existence as a result of Tenant's actions or the conduct of Tenant's business on the Leased Premises that constitute or with the passage of time may constitute a public or private nuisance; (vi) Tenant will not permit any Hazardous Materials to be brought onto the premises, except for the Permitted Materials described below, or hereafter approved in writing by Landlord and if so brought or found located thereon, the same shall be immediately removed, with proper disposal, and all required cleanup procedures shall be diligently undertaken pursuant to all Environmental Laws. Landlord or Landlord's representative shall have the right but not the obligation to enter the premises for the purposes of inspecting the

storage, use and disposal of Permitted Materials to ensure compliance with all Environmental Laws. Should it be determined, in Landlord's sole opinion, that said Permitted Materials are being improperly stored, used or disposed of, then Tenant shall immediately take corrective action within 24 hours, Landlord shall have the right to perform such work and Tenant shall promptly reimburse Landlord for any and all costs associated with said work. If any time during or after the term of the Lease, the Leased Premises are found to be so contaminated or subject to said conditions, Tenant shall diligently institute proper and thorough cleanup procedures at Tenant's sole cost, and Tenant agrees to indemnify, save and hold Landlord harmless from all and against claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from or as a result of the use of the premises by Tenant, and regardless of whether or not Landlord is found to be solely, concurrently, or jointly negligent with Tenant. The foregoing indemnification and the responsibilities of Tenant shall survive the termination or expiration of this Lease. Anything contained herein to the contrary notwithstanding, Landlord shall not unreasonably withhold its consent with respect to the use, storage, generation or manufacturing of Hazardous Materials on or about the Leased Premises provided same is done in the ordinary course of Tenant's business, and in compliance with all environmental laws.

PERMITTED MATERIALS:

- 1. NONE
- 2. NONE
- 3. NONE

LANDLORD: The Emerson Center Company  
-----  
National Income Realty Trust,  
-----  
Managing General Partner  
-----

TENANT:COMSTAR COMMUNICATIONS, INC.  
-----

By: /s/ CHRIS CLINTON, V.P.  
-----  
CHRIS CLINTON

By: /s/ SAM F. DAYTON, Ph.D.  
-----  
SAM F. DAYTON, Ph.D.

Date: 3/11/98  
-----

Date: 02-18-98  
-----

This instrument is executed and made on behalf of the Trust by a Trustee or officer of the Trust, not individually but solely as a Trustee under the Declaration of Trust or as an officer, and the obligations under this Agreement are not binding upon, nor shall resort

be had to the private property of, any of the Trustees, Shareholders, officers, employees, or agents for the Trust personally, but bind only the Trust property.

SFD CC  
-----/-----  
Tenant / Landlord

EXHIBIT "A" LEGAL DESCRIPTION

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL  
INCOME REALTY TRUST, MANAGING GENERAL  
PARTNER, LANDLORD,  
And COMSTAR COMMUNICATIONS, INC., TENANT

All that tract or parcel of land lying and being in Land Lots 880 and 881 of the 17th District, Second, Cobb County, Georgia and being more particularly described as follows:

Commence at a point located on the southeastern right-of-way line of Spring Road (a 100 foot right-of-way at said point), said point being 299.6 feet easterly from the eastern right-of-way line of the Hargrove Road Extension (an 80 foot right-of-way) thence continuing along said southeastern right-of-way of Spring Road North 53 degrees 02'30" East 64.75 feet to a point (at this point, the width of the southeastern right-of-way line as measured from the centerline of Spring Road changes from a distance of 50 feet to a distance of 100 feet); thence South 36 degrees 57'30" east 50.00 feet to a point; thence South 30 degrees 35'18" East 68.94 feet to a point; thence South 49 degrees 01'13" East 117.35 feet to a point; thence South 49 degrees 43'19" East 15.38 feet to an iron pin; thence North 53 degrees 02'30" East 576.13 feet to an iron pin; thence along the southwestern line of property now or formerly owned by Steak & Ale of Atlanta South 36 degrees 57'34" East 445.08 feet to an iron pin; thence along the eastern line of Interstate 285 South 28 degrees 02'44" West 527.2 feet to an iron pin; thence leaving said western line of the Interstate 285 North 68 degrees 22'42" West 118.47 feet to a point; thence North 20 degrees 26'02" East 208.75 feet to a point; thence North 69 degrees 33'57" West 218.39 feet to an iron pin; thence North 20 degrees 26'02" East 20.00 feet to a point; thence North 69 degrees 39'21" West 25.50 feet to a point, thence North 62 degrees 37'44" West 116.15 feet to a point; thence North 43 degrees 06'18" West 48.39 feet to a point, thence North 26 degrees 25'37" West 100.09 feet to a point and the point of beginning, containing 7.14

acres.

The above-described courses, distances and acreage are taken from that certain survey for Phoenix Mutual Life Insurance Company, dated September 4, 1979 and prepared by Donald W. Harkeroad, Registered Land Surveyor No. 1578, said survey having been revised on October 15, 1979 and being recorded in Plat Book 74, Page 167, records of the Clerk of Superior Court of Cobb County, Georgia.

TOGETHER with the following easements:

1. Easement from Humble Oil and Refining Company to Fletcher Emerson, Trustee, dated June 26, 1972, recorded in Deed Book 1338, Page 538, aforesaid records.

2. Easement from Rujan Investments, Inc. to Fletcher Emerson, Trustee, dated June 23, 1972 recorded in Deed Book 1338, Page 540, aforesaid records.

SFD      CC  
-----/  
Tenant / Landlord

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EXHIBIT B, PREMISES SITE PLAN

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATION, INC. TENANT

[CHART]

SFD      CC  
-----/  
Tenant / Landlord

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## EXHIBIT C, PARKING ADDENDUM

## TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

So long as this Lease remains in effect and Tenant is not in default hereunder, Tenant shall have a nonexclusive license to use up to 11 parking spaces which service the Building in consideration for Tenant's payment of \$N/A per month which shall be due and payable as Additional Rent at the same time as are Tenant's monthly installments of Base Rent. This nonexclusive license shall commence on the date on which Tenant's rental obligation under the Lease commences, and shall terminate on MARCH 14, 2001. Provided, however, that upon no less than 30 days notice from Landlord to Tenant, Landlord shall have the right to increase the monthly payment hereunder to the prevailing rate for parking as then determined by Landlord, but upon the giving of any such notice, Tenant shall have the right to terminate this parking agreement commencing on the date on which the increase in payment is to occur. If Tenant does not give notice to Landlord at least 15 days prior to the date on which the increase in the amount of the payment hereunder is to occur, then it shall be conclusively presumed that Tenant agrees to such increase and Tenant shall have waived its right to terminate this parking agreement as a result of such increase in the payment.

Upon not less than 30 days notice from Landlord to Tenant, Landlord may alter the number of parking spaces which Tenant shall have the right to use, provided that the number of spaces provided to Tenant shall not be diminished below that number of parking spaces set forth above. Landlord reserves the right to specifically assign and reassign from time to time any or all of said parking spaces among the tenants of the Building in any manner in which Landlord determines in its sole discretion and Tenant shall, upon not less than 10 days notice from Landlord, furnish Landlord with the state automobile license number assigned to its automobile or automobiles and the automobiles of all of its employees and representatives employed or working in the premises, and Tenant agrees to comply with such requests as Landlord may make in Landlord's enforcement of any parking control program. Notwithstanding the existence of any such control, Landlord shall not be responsible to Tenant, its employees, agents, representatives, customers, or invitees for any violation of any parking control program implemented by the Landlord.

The provisions of this Addendum supplement and are specifically subject to all provisions of the Lease.

SFD CC

-----/-----

## EXHIBIT D, RULES AND REGULATIONS

## TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

It is agreed that the following rules and regulations shall be and are hereby made a part of this Lease, and the Tenant agrees that its employees and agents or any other persons permitted by the Tenant to occupy or enter the Demised Premises will at all times abide by these rules and regulations. It is further agreed that a default in the performance and observation of these rules and regulations shall operate the same as any other default under this Lease.

1. The sidewalks, entries, passages, and stairways shall not be obstructed by the Tenant or its agents, or used by them for any purpose other than ingress and egress to and from their offices.

2. a. Furniture, equipment, or supplies shall be moved in or out of the Building only during such hours and in such manner as may be prescribed by the Landlord.

b. No safe or article, the weight of which may constitute a hazard or danger to the Building or its equipment, shall be moved into the Premises. Safes and other equipment, the weight of which is not excessive, shall be moved into, from or about the Building during such hours and in such manner as shall be prescribed by the Landlord, and the Landlord shall have the right to designate the location of such articles in the space hereby demised.

3. The name of the Tenant and/or signs of the Tenant shall not be placed upon any part of the Premises except as provided by the Landlord.

4. Water closets and other water fixtures shall not be used for any purpose other than that for which the same are intended, and any damage resulting to the same from misuse on the part of the Tenant, its agents or employees, shall be paid for by the Tenant. No person shall waste water by tying back or wedging the faucets or in any other manner.

5. No animals shall be allowed in the office, halls, or corridors of the Building.

6. Bicycles or other vehicles shall not be permitted in the offices, halls, or corridors of the Buildings, nor shall any obstruction of sidewalks or entrances of the Building by such be permitted.



7. No person shall disturb the occupants of the Building or adjoining buildings or premises by the use of any television, radio, or musical instrument or equipment, or by the making of loud or improper noises.

8. No additional lock or locks shall be placed by the Tenant on any door in the Building unless written consent of the Landlord shall first be obtained.

9. The use of oil, gas or inflammable liquids for heating, lighting, or any other purpose is expressly prohibited. Explosives or other articles deemed extra hazardous shall not be brought into the Building.

10. The Tenant shall exercise due care and within reasonable limits shall not mark upon, paint or affix upon, cut, drill into, drive nails or screws into, or in any way deface the walls, ceiling, partitions, or floors of the Premises or of the Building, and any defacement, damage, or injury caused by the Tenant, its agents or employees, shall be paid for by the Tenant.

11. The Landlord shall at all times have the right by its officers or agents to enter the Demised Premises to inspect and examine the same and to show the same to persons wishing to lease, purchase, or mortgage them.

12. The Tenant agrees to use chair pads to be furnished by the Tenant under all rolling and ordinary desk chairs in the carpeted areas of the Demised Premises throughout the term of this Lease.

13. The Landlord reserves the right to make such other and further reasonable rules and regulations as in its judgment may from time to time be necessary and desirable for the safety, care, and cleanliness of the Demised Premises and for the preservation of good order therein. Such rules and regulations shall be effective upon receipt of changes and/or additions as provided by the provision of Notice, Section 19 of said Lease.

14. Tenant acknowledges that the building has been declared a non-smoking facility and agrees to restrict smoking to smoking designated areas outside of the Premises.

SFD      CC  
-----/-----  
Tenant / Landlord

EXHIBIT E, GUARANTY

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST,  
MANAGING GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

FOR VALUE RECEIVED, and in consideration for and as an inducement to Landlord entering into this Lease with Tenant, the undersigned (jointly and severally, if more than one) personally and unconditionally guarantees to Landlord, its successors and assigns, the full performance and observance of all the covenants, terms and conditions here above contained to be performed and observed by Tenant, without requiring any notice of non-payment, non-performance or non-observance, or proof, notice or demand whereby to charge the undersigned therefor, all of which the undersigned hereby expressly waives, and expressly agrees that the validity of this continuing and unconditional guaranty agreement and the obligations of the guarantor hereunder shall in no way be terminated, affected or impaired by reason of the assertion by Landlord against Tenant of any of the rights or remedies reserved to Landlord pursuant to the provisions of this Lease, or by Landlord granting any indulgence or waiver or giving of additional time to Tenant for the performance of any of the obligations of this Lease. This Guaranty shall remain in full force and effect as to any renewal, modification, extension or holdover term of this Lease. Landlord need not pursue any remedies against Tenant before enforcing this Guaranty.

WITNESS

/s/ Michael A. Dayton  
-----  
-----

ADDRESS

P.O. Box 267  
-----  
-----

Gainesville, GA 30503  
-----  
-----

By: Michael A. Dayton  
-----  
-----

Date: 02-18-98  
-----  
-----

WITNESS

/s/ Elizabeth Ferregton  
-----  
-----

ADDRESS

GUARANTOR

/s/ SAM F. DAYTON, PH.D  
-----  
-----

Sam F. Dayton ###-##-####  
-----  
-----

Social Security Number

ADDRESS

P.O. Box 1099  
-----  
-----

Gainesville, GA 30503 1099  
-----  
-----

By: Sam F. Dayton  
-----  
-----

Date: 02-18-98  
-----  
-----

GUARANTOR

/s/ JAMES C. HOWELL  
-----  
-----

James C. Howell ###-##-####  
-----  
-----

Social Security Number

ADDRESS

2812 Spring Rd.

-----  
Suite 210, Atlanta, GA 30339  
-----

-----  
By:  
-----

By: James C. Howell  
-----

Date:  
-----

Date: 02-19-98  
-----

SFD CC  
----- / -----  
Tenant / Landlord

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EXHIBIT F, STORAGE SPACE ADDENDUM

TO OFFICE BUILDING LEASE

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC., TENANT

SFD CC  
----- / -----  
Tenant / Landlord

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EXHIBIT "G"

BETWEEN THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST, MANAGING  
GENERAL PARTNER, LANDLORD,  
AND COMSTAR COMMUNICATIONS, INC. TENANT

SFD CC  
-----/-----  
Tenant / Landlord

EMERSON CENTER

FIRST AMENDMENT TO LEASE

STATE OF GEORGIA

COUNTY OF COBB

THIS AMENDMENT made and entered in this 17TH day of SEPTEMBER, 1998, by and between THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST MANAGING GENERAL PARTNER, (hereinafter referred to as "Landlord") and COMSTAR COMMUNICATIONS, INC., (hereinafter referred to as "Tenant");

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a Lease Agreement dated FEBRUARY 5, 1998 for certain premises located at 2812 SPRING ROAD, SUITE 240, ATLANTA, GEORGIA, 30339, (hereinafter referred to as "Lease").

WHEREAS, Landlord and Tenant desire to further amend the Lease in certain respects to ratify and confirm all of the provisions of the Lease Agreement;

NOW THEREFORE, in consideration of the premises, the sum of TEN DOLLARS (\$10.00) in hand paid by Tenant to Landlord, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

- 1. Effective Date: Effective date of this First Amendment is hereby dated as October 01, 1998.
- 2. Section 1.3 Leased Area: Is hereby amended to be 4,558 square feet of leased premises. An addition of 1,058 square feet to the current 3,500 square feet.
- 3. Section 1.5 Tenant's Shall be changed from 2.75% to 3.59% of

Pro-Rata Share: building area.

4. Section 1.10 Base Rent, Monthly Installments: Rent for the additional space only shall be paid according to the following schedule:

<TABLE>

<CAPTION>

DATE	PER S.F.	MONTHLY	ANNUALLY
----	-----	-----	-----
<S>	<C>	<C>	<C>
10/01/98 - 03/31/99	12.75	1,124.13	7,868.91
04/01/99 - 03/31/00	13.25	1,168.21	14,018.52
04/01/00 - 03/14/01	13.75	1,212.29	14,547.50

</TABLE>

- 5. Tenant shall accept the "Premises" on an "AS IS" basis.
- 6. Except as amended hereby, the Lease shall remain in full force and effect and same is hereby ratified and confirmed.

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Page 2

FIRST AMENDMENT TO LEASE

COMSTAR COMMUNICATIONS, INC.

- 7. This amendment shall be binding upon and inure to the benefit of Landlord, Tenant and their respected transfer, successors and assigns.
- 8. This Amendment shall be governed in all respects by the laws of the State of Georgia.
- 9. The Frank M. Darby Company represented the Landlord in the negotiations for this Lease Amendment, not the Tenant, and shall be compensated for its services by Landlord as evidenced by separate agreement which is incorporated herein and made a part hereof by reference. The Tenant was not represented by any broker or agency in its negotiations of this Amendment.

IN WITNESS WHEREOF, the parties hereto have set their bonds and seals the day and year first above written.

LANDLORD: THE EMERSON CENTER COMPANY

NATIONAL INCOME REALTY TRUST  
MANAGING GENERAL PARTNER

BY: /s/ CHRIS CLINTON

DATE: 10/13/98

ITS: Senior V.P.

TENANT: COMSTAR COMMUNICATIONS, INC.

BY: /s/ James C. Howell

DATE: 09/18/98

ITS: CEO

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EMERSON CENTER

SECOND AMENDMENT TO LEASE

STATE OF GEORGIA

COUNTY OF COBB

THIS AMENDMENT made and entered in this 7TH day of JANUARY, 1999, by and between THE EMERSON CENTER COMPANY, NATIONAL INCOME REALTY TRUST MANAGING GENERAL PARTNER, (hereinafter referred to as "Landlord") and COMSTAR COMMUNICATIONS, INC., (hereinafter referred to as "Tenant");

WITNESSETH:

WHEREAS, Landlord and Tenant entered into a Lease Agreement dated FEBRUARY 5, 1998 for certain premises located at 2812 SPRING ROAD, SUITE 240, ATLANTA, GEORGIA, 30339, (hereinafter referred to as "Lease"), which was amended by the FIRST AMENDMENT to LEASE dated SEPTEMBER 17, 1998, and

WHEREAS, Landlord and Tenant desire to further amend the Lease in certain respects to ratify and confirm all of the provisions of the Lease Agreement;

NOW THEREFORE, in consideration of the premises, the sum of TEN DOLLARS (\$10.00) in hand paid by Tenant to Landlord, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. EFFECTIVE DATE: Effective date of this Second Amendment is hereby dated as February 01, 1999.
2. SECTION 1.3 LEASE AREA: Is hereby amended to be 5,534 rentable sq. ft. of leased premises. An addition of 976 r.s.f. to the current 4,558 r.s.f.  
(Section 2.1)
3. SECTION 1.5 TENANT'S PRO-RATA SHARE OF BUILDING AREA. Shall hereby be amended from 3.59% to 4.358%.  
(Section 2.1)
4. SECTION 1.10 BASE RENT, MONTHLY INSTALLMENTS: Rent for the additional space only shall be paid according to the following schedule:  
(Section 4.1, 5.2)

<TABLE>

<CAPTION>

DATE	PER S.F.	MONTHLY	ANNUALLY
----	-----	-----	-----
<S>	<C>	<C>	<C>
02/01/99 - 03/31/99	13.50	1,098.00	
04/01/99 - 03/31/00	14.00	1,138.66	13,664.00
04/01/00 - 03/31/01	14.75	1,199.67	14,396.00

</TABLE>

5. Tenant shall accept the "Premises" on an "AS IS" basis.

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PAGE 2

SECOND AMENDMENT TO LEASE

COMSTAR COMMUNICATIONS, INC.

6. Except as amended hereby, the Lease shall remain in full force and effect and same is hereby ratified and confirmed.
7. This amendment shall be binding upon and inure to the benefit of Landlord, Tenant and their respected transfer, successors and assigns.
8. This Amendment shall be governed in all respects by the laws of the State of Georgia.
9. The Frank M. Darby Company represented the Landlord in the negotiations for this Lease Amendment, not the Tenant, and shall be compensated for its services by Landlord as evidenced by separate agreement which is incorporated herein and made a part hereof by reference.

IN WITNESS WHEREOF, the parties hereto have set their bonds and seals the day and year first above written.

LANDLORD: THE EMERSON CENTER COMPANY  
NATIONAL INCOME REALTY TRUST  
MANAGING GENERAL PARTNER

BY: \_\_\_\_\_

DATE: \_\_\_\_\_

ITS: \_\_\_\_\_

TENANT: COMSTAR COMMUNICATIONS, INC.

BY: /s/ SAM F. DAYTON  
\_\_\_\_\_

DATE: 01/07/99  
\_\_\_\_\_

ITS: President  
\_\_\_\_\_



NETWORK SERVICES

COMSTAR-----  
AGREEMENT

Thank you for doing business with Comstar Communications, Inc. (us or we). We are committed to providing you with the highest quality Network Services (Services). If, at any time, you have questions or problems, or are not completely satisfied, please let us know. Our goal is to do our very best for you.

This Comstar Network Services Agreement (Agreement) covers the following major Service we may provide to you:

- (a) Internet Access;
- (b) Connectivity Services;
- (c) Equipment Rental;
- (d) Standard Colocation; and
- (e) Dedicated Server Colocation.

ACCEPTANCE

By signing below, you acknowledge your review and acceptance of the terms and conditions contained in this document or any applicable Service Addenda. This Agreement can only be modified in a written document executed by both parties. Any attempts to make modifications to these terms and conditions are void, and will not be enforceable. Our entire agreement consists of this Agreement, an accepted Service Quote, our corporate Acceptable Use Policy, and any applicable Service Addenda. In the event of a conflict between any of these documents, the terms and conditions of the applicable Addendum shall prevail.

Accepted By:

-----  
Customer Signature

-----  
Date

-----  
Customer Name

-----  
Title

-----  
Company

#### RATES

The rates that we charge for Services are as specified in the accepted Sales Quote. That document also specifies the length of the term of the Agreement between us.

If you terminate a contract before the end of the agreed upon term, you will be required to pay seventy-five percent (75%) of the remaining value of this Agreement. In addition, if we provide Services via a third-party, you will be charged all costs we incur for such early termination with our service provider.

#### UPGRADES

If you upgrade your current Services before the end of the agreed upon term, no early termination penalty will be charged. You will be required to purchase the upgrade under a new term commitment with a minimum of twelve (12) months and early termination penalties apply to the upgraded Services as stated in the Rates section of this Agreement.

#### PAYMENT

You will be billed on a cycle billing period. Your first bill will include all non-recurring charges, charges for the first full month of Service, and the pro-rated amount for Services provided during the month of installation. You agree to pay all charges within thirty (30) days of the date of our invoice to you. You shall pay us interest on overdue payments at the rate of one and one-half percent (1-1/2%) or the maximum-rate allowable by law, whichever is greater. If you do not pay an invoice within thirty (30) days, we reserve the right to disconnect Services. If your check is returned by your bank, you will be billed a twenty-five dollar (\$25) return check fee.

We reserve the right to bill you retroactively for any Services for which we previously had not billed, provided such retroactive billing occurs within one year after the Service is provided.

You also agree to pay all applicable taxes resulting from any transaction under this Agreement. This does not include taxes based on our net income.

#### USE OF FACILITIES AND EQUIPMENT

Along with the Services, we may rent to you Standard Comstar-provided Customer Premise Equipment (Standard CPE). The Standard CPE will either be located at our facility or directly on your premises.

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Standard CPE only includes equipment manufactured by Comstar-approved vendors. All equipment that you rent from us will be our property, and will be made available for your use only for the term of this Agreement. You have no property rights in the rented equipment. We reserve the right to replace any rented equipment at our expense and with minimal interruption to Services.

If you purchase Colocation services from us, such Services will be provided to you under the terms and conditions of the Colocation Addendum which is hereby incorporated herein.

You agree to: (1) refrain from modifying rented equipment, or authorizing others to do the same; (2) obtain authorization from your landlord, as we may request, in order to protect our rights in the rented equipment; and (3) provide us with sufficient, free, and safe access to your facilities for us to fulfill our obligations including retrieval of rented equipment upon termination or expiration of this Agreement.

#### USE OF SERVICES

You agree to fully comply with our corporate Acceptable Use Policy ("AUP"), which is attached hereto and hereby made a part of this Agreement. Violation of our corporate AUP by you or any of your customers may result in immediate termination of Services. You agree to independently assess your need for the Services. You also agree to indemnify us and to hold us harmless for any and all claims resulting from any use of the Services that cause damage to us, our other customers, or any third party. This indemnification also extends to any utility company that we may use to provide Services.

#### LETTERS OF AGENCY

In cases in which you ask us to act as your authorized agent for ordering and coordinating local and long distance access circuits for services outside of this Agreement, you will execute a Letter of Agency.

#### BANDWIDTH

We do not guarantee bandwidth or port speed for circuits and connections outside of our network.

## PATENTS & COPYRIGHT

If a third party claims that equipment we provide to you infringes that party's patent or copyright, we will defend you against that claim at our expense and pay all costs, damages, and attorney's fees that a court finally awards, provided that you: (1) promptly notify us in writing of the claim; and (2) allow us to control, and cooperate with us in, the defense and any related settlement negotiations.

If such a claim is made or appears likely to be made, you agree to permit us to enable you to continue to use the equipment, or to modify it, or replace it with equipment that is at least functionally equivalent.

This is our entire obligation to you regarding any claim of intellectual property right infringement.

## TERM RENEWAL

At the end of the Term of this Agreement, this Agreement will automatically continue on a month-to-month basis, at the then current Comstar Service List Price, until the Agreement is terminated by either party giving the other at least 30 days prior written notice of its intent to terminate.

## LIMITS ON LIABILITY

Your sole remedy for any failure or non-performance of the Services shall be outlined in the Comstar Service Level Agreement, attached and made part of this Agreement. For any other claim for damages concerning our performance, we are liable only for: (1) payments referred to in our patent and copyright terms described herein; (2) bodily injury, including death, and damage to real property and tangible personal property; and (3) the amount of any other actual loss or damage, up to the lesser of \$100,000 or the actual charges (if monthly recurring, 12 months' charges apply) for the Service that is the subject of the claim.

This limit also applies to any of our subcontractors. It is the maximum for which we are collectively responsible.

Under no circumstances are we, the utility companies we use to provide Service, or our subcontractors, liable for any of the following: (1) the content of the information passing over our network; (2) unauthorized access to your transmission facilities or to equipment you own; (3) unauthorized access or damage to, alteration, theft, destruction or loss of, your records or data; (4) economic consequential damages (including lost profits or savings) or incidental damages, even if we are informed of their possibility; (5) claims for damages caused by you, through fault, negligence or failure to perform your responsibilities; (6) claims against you by any other party; or (7) any act or

omission of any other party furnishing services and/or products, or the installation and/or removal of any and all equipment supplies by any other service provider.

## WARRANTIES

For each Service, we warrant that we perform it in a competent manner.

WE DO NOT WARRANT UNINTERRUPTED OPERATION OF THE SERVICE AND SPECIFICALLY DISCLAIM ANY OTHER WARRANTIES, EITHER EXPRESSED OR IMPLIED, INCLUDING THE WARRANTIES OF TITLE, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

WE WILL NOT BE LIABLE TO EACH OTHER FOR ANY CONSEQUENTIAL, INDIRECT OR SPECIAL DAMAGES WITH RESPECT TO ANY CLAIMS REGARDING THE SERVICES TO BE PROVIDED HEREUNDER.

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## CREDIT

Your execution of this Agreement signifies your acceptance of our initial and continuing credit approval procedures and policies. We reserve the right to withhold initiation or full implementation of Service until we are satisfied with our initial credit review and approval. We may require a security deposit before Services are provided.

If there is a material adverse change in your creditworthiness we may: (1) interrupt Service; (2) deny requests for additional Services; or (3) require a deposit.

## TRANSFER AND ASSIGNMENT

You may not sell, assign or transfer any of your rights or obligations under this Agreement without our prior written consent. We reserve the right to transfer Services we provide to you via a third-party network to Comstar-based facilities at any time during the term of this Agreement.

## FORCE MAJEURE

We are not responsible for performing our obligations when they are delayed or hindered by war, riots, embargoes, strikes or Acts of God.

## GOVERNING LAW

This Agreement shall be governed by the laws of the State of Georgia.

SEVERABILITY

If any terms of this Agreement are held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining terms will not be in any way affected.

NOTICES

Notice to either party shall be delivered by first-class, pre-paid US mail to the respective address.

For Comstar:

Comstar Communications, Inc.

2812 Spring Road

Suite 200

Atlanta, GA 30339

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Attention

For Customer:

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Company Name

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Address  
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City, State, Zip

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Attention

[COMSTAR LOGO]

INTERNET ACCESS SERVICE ADDENDUM TO THE  
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NETWORK SERVICES AGREEMENT

This document, when executed by you, is incorporated into the Comstar Network Services Agreement. In the event of any conflict between the terms of this Addendum, and the terms of the Comstar Network Services Agreement, the terms of this Addendum shall control. This Addendum, the Comstar Network Services Agreement, an accepted Sales Quote, and our corporate Acceptable Use Policy represent the entire agreement between us for the Services described in this Addendum.

Accepted By:

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Customer Signature

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Date

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Customer Name

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Title

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Company

SERVICE DESCRIPTION

Our Internet Access Service (Service) provides high-speed dedicated Internet connectivity. There are five (5) Internet Access service types: Leased Line, Digital Subscriber Line (DSL), Integrated Services Digital Network (ISDN), Dedicated Server Colocation and Standard Colocation.

Colocation service allows you to collocate your Customer Premise Equipment (CPE)



in our facility.

Due to the overhead requirements associated with the Ethernet protocol, if you purchase a 10Mbps Ethernet connection to the Internet you will receive effective throughput limited to 4-6Mbps.

If you purchase Frame Relay Internet Access service you understand that we will provision as a minimal requirement, a Committed Information Rate (CIR) equal to twenty-five percent (25%) of the purchased Internet Access port speed. We will guarantee the provisioned CIR at all times under normal network conditions, from the CPE to our Internet backbone. You may have additional bandwidth available above the CIR, which is not guaranteed by us, but is available based on the network utilization at the time of data transmission.

#### SERVICE DEMARCATION

We will be responsible for the on-going management, and troubleshooting of all components up to the demarcation point. The demarcation point of Internet Access Services is determined by the purchased service type.

The demarcation point for Leased Line service is the established demarcation point at your site for the telecommunications access circuit.

The demarcation point for ISDN is the established demarcation point at your site for the telecommunications access circuit.

The demarcation point for DSL is the established demarcation point at your site for the telecommunications access circuit.

There is no demarcation point for the Dedicated Server Colocation. Comstar is responsible for maintaining network connectivity to the server under this service.

The demarcation point for Standard Colocation service is at the cable, and including the connecting cable, that interconnects the CPE and our backbone equipment.

#### OUR RESPONSIBILITIES

Access Circuit - We will provision a telecommunications circuit for Leased Line Internet Access service, from your premise to our nearest Internet Point of Presence (POP). We will order the circuit to be terminated at the established telecommunications demarcation point at your site unless otherwise instructed. You will be responsible for any fees charged by the LEC for the extension of the circuit to another location. We will be responsible for the on-going management and troubleshooting of the telecommunications circuit up to the demarcation point.

Customer Premise Equipment - If you rent CPE from us, the initial configuration

of the equipment will be performed by our Engineering during the activation process. The initial setup will be a standard configuration, establishing routing between the CPE and our Internet Backbone. The installation of the CPE will be done via a tele-install between one of our Engineers and a contact at your site. Our Engineers on a time and materials basis will provide additional configuration. We will provide monitoring of CPE and the access circuit.

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All Standard CPE will come with one of the following maintenance features:

- Registered access to the manufacturers on-line support services, 24 hours a day, 7 days a week.
- Software updates via the on-line support service.
- Next business-day delivery of advance replacement parts, provided the request is received by our Network Operations Center (NOC) prior to 3:00pm Eastern Time.

IP Address Allocation - We adhere to the American Registry of Internet Numbers (ARIN) recommended guidelines for allocation of Internet IP address space to its customers. Under ARIN recommendations, we do not permit the portability of our IP address space. We allocate address space to you for the duration of this Agreement. Upon Service termination, you will be required to forfeit any allocated address space to us. We will allocate address space during the installation process. It is required that documented justification be submitted to us prior to the allocation of address space. You may request up to a /20 CIDR allocation (equivalent to 16 Class C size networks) from us. You agree to accept Service regardless of the number of IP addresses justified according to ARIN guidelines. If you require larger blocks of address space you must petition ARIN directly. We will assist you in preparing your petition to ARIN on a time and materials basis.

We will route IP address networks attained directly from ARIN, however, we will not route IP address networks that you were assigned from another Internet Service Provider (ISP), except when you are dually homed between that ISP and us.

Domain Name Service (DNS) - Secondary DNS is provided standard with the Service. You may also elect to have us provide primary DNS for an additional monthly fee. In this instance, we will be responsible for the administration of your DNS tables on our Domain Name Server.

Primary DNS includes the initial set up of your DNS records, as well as the ongoing management and support of the tables.

If you wish to make modifications to DNS records you will need to engage us to

administer the change. You will be permitted two requests per week.

If you provide access and/or hosting services to your customers, we will provide secondary DNS for your domains only. We will not provide DNS services for your end-users.

Newsfeed - We offer you a newsfeed for an additional monthly fee.

We provision newsfeeds in a server-to-server architecture. We will allow your end-users to direct their newsreaders to our servers for news service for a fee.

We offer full newsfeeds only. You will not have the ability to restrict specific newsgroups or hierarchies from being fed to your server.

Activation Services - Following the installation of the access circuit and CPE, one of our Engineers will activate the Service. Once routing is established between the CPE and our Internet Backbone, the Engineer will run a series of tests from the CPE to points on the Global Internet.

Service implementation will be complete and billing will begin when the following criteria have been met:

- 1 any Comstar-supplied CPE is installed and operational;
- 2 IP connectivity to the Internet (including routing outside our network) exists;
- 3 In cases when the CPE configuration supports it, our Network Operations will verify IP routing through a traceroute test;
- 4 Comstar-supplied Primary and/or Secondary DNS services are operational for your domain;
- 5 Comstar-supplied Newsfeed is established; and
- 6 Your order is turned over to our Network Operations Center for management.

Billing will not be delayed nor any credits issued if any of the above criteria is not met due to any of the following circumstances.

- A News server on your LAN is not operational;
- You fail to provide hostname and IP address allocations to enable us to set up Primary DNS service;
- Delays in the availability of CPE you provide; or
- Delays in the configuration of your LAN components or applications.

Management - Our Network Operations Center will manage all components up to the Service demarcation point, 24 hours a day, 7 days a week.

#### YOUR RESPONSIBILITIES

- Initiate maintenance calls for the Comstar-rented CPE and the access lines by contacting us;
- Ongoing configuration of all rented CPE following the initial configuration by us;
- Additional wiring and cabling required for CPE; and
- Managing the LAN environment, defined as equipment located on the LAN side of the router. If we isolate a problem beyond the demarcation point, you are responsible for fault resolution and we assume no responsibility. You have no remedy or claim for service credit for Service outages or Service degradations caused by problems beyond the demarcation point

[COMSTAR LOGO]

COLOCATION SERVICE ADDENDUM TO THE

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NETWORK SERVICES AGREEMENT

This document, when executed by you, is incorporated into the Comstar Network Services Agreement. In the event of any conflict between the terms of this Addendum, and the terms of the Comstar Network Services Agreement, the terms of this Addendum shall control. This Addendum, the Comstar Network Services Agreement, an accepted Sales Quote, and our corporate Acceptable Use Policy represent the entire agreement between us for the Services described in this Addendum.

Accepted By:

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Customer Signature

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Date

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Customer Name

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Title

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Company

LICENSE TO OCCUPY

We grant to you a license to occupy the portion of the Premises depicted in each Colocation Schedule (the "Space"). The Space is accepted "As-Is" by you. You may use the Space only for the purposes of installing, maintaining and

operating certain computing, cabling and telecommunications equipment.

You may not use the Space to interconnect with telecommunications services provided to you by third parties, without the express written consent of us. If you should interconnect the Equipment with equipment or services of any entity other than us, without our written consent, you shall be in breach of this Agreement.

This grant of License to you shall in no way limit our right to maintain and operate our facilities in such a manner as will best enable us to fulfill our service requirements.

#### CHARGES

All fees associated with this Agreement are specified in the attached Colocation Schedule ("Exhibit 1").

#### MAINTENANCE AND INSPECTIONS.

You shall provide us with 24-hour notification prior to any maintenance, repair, or installation of the Equipment. Routine maintenance by you shall be scheduled during normal business hours of the facility in which you are Colocated unless prior approval is received from the facility manager.

Your employees, agents or contractor(s) shall be permitted to enter or work in the Space only when accompanied by an authorized Comstar employee or agent. Comstar's authorized employee or agent shall have the authority, without subjecting us to any liability, to suspend your work operations in and around the Space, if in the discretion of the said employee or agent, any hazardous conditions arise. The presence of our personnel shall not relieve you of your responsibility to conduct your work operations in a safe and workmanlike manner.

You shall pay a fee of \$125.00 per hour, or portion thereof, with a minimum charge of three (3) hours, for each Comstar employee or contractor that is dispatched during non-business hours. This fee shall be subject to change upon thirty (30) days advance written notification to you.

In the event of an emergency, our work shall take precedence over any and all of your operations, and we may rearrange the Equipment without any liability. If you experience an emergency, you shall immediately notify us prior to performing any repair or maintenance necessary to correct the emergency situation.

#### REMOVAL AND RELOCATION

We shall not arbitrarily or capriciously require you to relocate the Equipment; however, upon ninety (90) days' prior written notice or, in the event of an

emergency, such time as may be reasonable, we may require you to relocate the Equipment; provided, however, the site of relocation shall afford comparable environmental conditions for the Equipment, shall be no further than ten (10) air-miles from the original location and comparable accessibility to the Equipment.

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If Equipment causes unacceptable interference to existing or future Comstar circuits or equipment, you may be required to remove or relocate the offending Equipment. The cost of relocating the Equipment and cabling will be your responsibility.

If you cease to use services purchased from us, you shall immediately remove the Equipment in the Space unless agreed upon by both parties as an addendum to this Agreement. If you fail to remove said Equipment following ten-(10) days notice from us, we may, at our option, terminate the License or remove said Equipment. You shall be responsible for all costs and expenses associated with removal and storage of the Equipment.

#### INSURANCE

You shall obtain and keep in full force and effect at all times for the duration of this Agreement, with a carrier or carriers satisfactory to us, insurance policies of the following kinds and in the following amounts:

- (i) Worker's Compensation complying with the law of the State or States of operation, whether or not such coverage is required by law; and Employer's Liability insurance with limits of \$500,000 per incident, \$500,000 disease policy limit and \$500,000 per employee.
- (ii) Commercial General Liability insurance with a combined single limit for bodily injury and property damage of \$1,000,000 each occurrence and General and Products Liability aggregates of \$2,000,000, each covering all your obligations or your operations.

The policy shall include no modifications that reduce the standard coverage provided under a Commercial General Liability Insurance policy form.

You shall furnish us with certificates of such insurance upon request by us. Each policy shall provide that no change or cancellation shall become effective except upon thirty (30) days prior written notice to us of such change or cancellation. In the event of any change or cancellation not acceptable to us, we may demand that you obtain replacement coverage. If you fail to obtain replacement coverage within ten (10) days after such demand by us, you will be in default of this Agreement.

You waive your right, and your underwriters right, of subrogation against us, our officers, directors, agents, and employees thereof, and corporate shareholders and their officers, directors, agents and employees thereof, providing that such waiver in writing, prior to loss does not void or alter coverage.

We, and our affiliates, shall not insure or be responsible for any loss or damage to property of any kind owned or leased by you or your employees, servants and agents. Any policy of insurance covering the property owned or leased by you against loss by physical damage shall provide that the underwriters have given their permission to waive their rights of subrogation against us, our affiliates and their directors, officers and employees, as well as their subsidiaries, including the directors, officers and employees thereof.

If you utilize contractor(s) per this Agreement, then you shall require such contractor(s) to comply with these insurance requirements and supply certificates of insurance upon our request.

#### INDEMNIFICATION AND LIABILITY.

You shall defend, hold harmless, and indemnify us from all claims, demands, actions, damages, judgements, expenses and costs (including attorney's fees), and liabilities for injury, death on the premises or property damage arising out of your access to or use of the Premises.

We shall not be liable for any damages to the Equipment colocated on our Premises, except to the extent that such damage is caused by gross negligence or intentional acts by us, our agents or employees.



[COMSTAR LOGO]

CORPORATE ACCEPTABLE USE POLICY ADDENDUM TO THE

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NETWORK SERVICES  
AGREEMENT

This document, when executed by you, is incorporated into the Comstar Network Services Agreement. In the event of any conflict between the terms of this Addendum, and the terms of the Comstar Network Services Agreement, the terms of this Addendum shall control. This Addendum, the Comstar Network Services Agreement, an accepted Sales Quote represent the entire agreement between us for the Services described in the Service Addendum(s).

Accepted By:

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Customer Signature

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Date

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Customer Name

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Title

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Company

INTRODUCTION

Our Internet Access Service (Service) provides high-speed dedicated Internet connectivity. We have certain legal and ethical responsibilities regarding the use of its computer network and equipment involved in these services.

System abuse is strictly prohibited. We may terminate your Service immediately and may bill you for any resulting charges if you, your employees or contractor(s) engage in system abuse.

This Acceptable Use Policy Addendum was created to help you understand our definition of system abuse. The examples listed here is not exclusive of all possible actions that may be deemed as abuse. You are asked only to use your best judgement.

## ABUSE OF SERVICE

Actions which constitute system abuse include, but are not limited to:

Utilizing any service in the commission of a crime;

Attempting to circumvent user authentication of any host, network, or account on our systems or the Internet at large ("cracking");

Attempting in any way to interfere with or deny service to any user or any host on the Internet;

Forging Email or USENET header information to conceal your identity as the author, conceal the origination address of the Email, or conceal the host from which the Email was originated;

Sending of unsolicited mail messages, either commercial or non-commercial ("junk mail");

Forwarding or multiple posting of chain letters of any type;

Posting of inappropriate messages to USENET newsgroups e.g., posting large numbers of unsolicited Email indiscriminately ("spamming");

Attempt to cancel, supersede, or otherwise interfere with Email or USENET posts other than one's own; and

Engaging in harassment whether through language, frequency, or size of messages.

This Acceptable Use Policy is subject to revision at anytime that we determine a change is necessary. We will inform you of those changes by whatever means we deem most effective. It is your responsibility to ensure that the use of our network conforms to the policies currently in effect.

## COOPERATION WITH LAW ENFORCEMENT

We will cooperate with Law Enforcement officials by providing whatever information they require, so long as they present authorization from a United States Court that has jurisdiction over the territory and subject matter that they are seeking.

[COMSTAR LOGO]

SPECIAL ACCESS SERVICES

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AGREEMENT

Thank you for doing business with Comstar Communications, Inc. We are committed to providing you with the highest quality of telecommunications services. If, at any time, you have questions or problems, or are not completely satisfied, please let us know. Our goal is to do our best for you.

ACCEPTANCE By signing below, you acknowledge your review and acceptance of the terms and conditions contained in this Agreement. This Agreement can only be modified in a written document executed by both parties. Any attempts to make modifications to these terms and conditions are void, and will not be enforceable.

We provide the Special Access Services to you under the terms of our, or third party, applicable state and federal tariffs (Tariffs). Our entire agreement consists of this Agreement and its Attachments, and the applicable Tariffs. This Agreement supersedes any prior or contemporaneous proposals, discussions or agreements, written or oral, concerning Comstar services.

With the exception of any special pricing and term commitments contained herein, in the event of any conflict between the terms of this Agreement and its Attachments, and the terms of our, or third party, Tariffs.

Accepted By:

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Company

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Customer Name

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Title

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Customer Signature

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Date

SPECIAL ACCESS SERVICES (Services) are defined as digital or analog transmission channels connecting two locations that either originate or terminate on Comstar-owned or leased telecommunications facilities. You will be charged for all of the following service elements: channel termination, channel mileage, multiplexing, and any special line conditioning required to prepare the channels to transmit signals.

TERM COMMITMENT You agree to purchase the Services for the Term specified in Attachment A. Based on this Term, you will receive the Services at the rates specified in Attachment A. This Agreement will automatically renew for an additional Term of equal length with the initial Term unless Comstar receives advance written notice from you at least thirty (30) days prior to the end of the initial Term of your desire not to renew the Agreement.

EARLY TERMINATION PENALTY If you decide to terminate the Services prior to the end of the Term, you will be subject to early termination charges equal to one hundred percent (100%) of the number of months remaining in the Term multiplied by the monthly rate for the Services. You shall be obligated to pay such charges within thirty (30) days of termination. If we provide the Services via a third party, you will be charged all costs we incur for such early termination with our service provider.

PAYMENT You will be billed at the beginning of each month. Your first bill will include all non-recurring charges, charges for the first full month of Service, and the pro-rated amount for Services provided during the month of installation. You agree to pay all charges within thirty (30) days of the date of our invoice to you ("Due Date"). You shall pay us interest on overdue payments at the rate of one and a half percent (1.5%) or the maximum rate allowable by law. If you do not pay all undisputed amounts by the Due Date we reserve the right to disconnect Services. You will have up to ninety (90) days (commencing five (5) days after remittance of the bill) to initiate a dispute over charges or to receive credits, if applicable. We reserve the right to bill you retroactively for any Services for which we previously had not billed. If your check is returned by your bank, you will be billed a twenty-five dollar (\$25) return check fee. You also agree to pay all applicable taxes resulting from any transaction under this Agreement. This does not include taxes based on our net income.

LETTERS OF AUTHORIZATION In cases in which you and Comstar agree to have Comstar act as your authorized agent for ordering and coordinating local and long distance access circuits for services outside of this Agreement, you will execute a Letter of Authorization.

CREDIT Your execution of this Agreement signifies your acceptance of our initial and continuing credit approval procedures and policies. We reserve the right to withhold initiation or full implementation of the Services until we are satisfied with our initial credit review and approval. We may require a

security deposit before Services are provided.

If there is a material adverse change in your creditworthiness we may: (1) interrupt Service; (2) deny requests for additional Services or (3) require a deposit.

TRANSFER AND ASSIGNMENT You may not sell, assign or transfer any of your rights or obligations under this Agreement without our prior written consent. We reserve the right to transfer Services we provide to you via a third-party network to Comstar-based facilities at any time during the term of this Agreement.

FORCE MAJEURE We are not responsible for performing our obligations when they are delayed or hindered by war, riots, embargoes, strikes, or other Acts of God.

## NON-SOLICITATION, CONFIDENTIALITY AND ASSIGNMENT AGREEMENT

EMPLOYEE: \_\_\_\_\_

DATE: \_\_\_\_\_

THIS AGREEMENT ("Agreement") is made and entered into on the date set forth below, by and between comstar.net, inc. ("Company") and the undersigned employee ("Employee").

In the course of Employee's employment by Company, Employee may have access to Company's most sensitive and most valuable trade secrets and confidential information, the use, application or disclosure of which may cause substantial and possible irreparable damage to the business and asset value of Company. Accordingly, Employee accepts and agrees to be bound by the following provisions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, of the employment or continued employment of Employee by Company, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. For purposes of this Agreement, the following definitions shall apply:

(a) "TRADE SECRETS" shall mean any information of Company, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, or a list of actual or potential customers or suppliers, which is not commonly known by or available to the public and which information (i) derives economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Trade Secrets also include any information described in this paragraph (a) which Company obtains from another party which Company treats as proprietary or designates as trade secrets, whether or not owned or developed by Company.

(b) "CONFIDENTIAL INFORMATION" shall mean any data or information, other than Trade Secrets, that is of value to Company and is not generally known to competitors of Company. To the extent consistent with the foregoing, Confidential Information includes, but is not limited to, lists of any information about Company's executives and employees, marketing techniques, price lists, pricing policies, Company's business methods, and contracts and

contractual relations with Company's customers and suppliers. Confidential Information also includes any information described in this paragraph (b) which Company obtains from another party which Company treats as proprietary or designates as confidential information, whether or not owned or developed by Company.

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(c) "EMPLOYEE WORKS" shall mean any and all works of authorship, code, inventions, discoveries, and work product, whether or not patentable or eligible for copyright, and in whatever form, which are, have been or will be created, made, or developed by Employee in the course of employment with Company, during Employee's regular business hours with Company, on the Company's premises, or using the Company's resources or equipment.

(d) The terms "TRADE SECRETS" and "CONFIDENTIAL INFORMATION" shall not include any materials or information of the types specified above to the extent that such materials or information (i) are or become publicly known or generally utilized by others engaged in the same business or activities in which Company utilized, developed, or otherwise acquired such information; or (ii) are known to Employee prior to employment, having been lawfully received from parties other than Company; or (iii) are furnished to others by Company with no restriction on disclosure. Failure to mark any of the Trade Secrets or Confidential Information as confidential shall not affect their status as Trade Secrets or Confidential Information under this Agreement.

2. Employee recognizes and acknowledges that Company is engaged in activities which involve, and continue to involve, the use of skilled experts and the expenditure of substantial amounts of time and money. As a result of such investments of skill, time, and money, Company has developed certain Trade Secrets and Confidential Information which give Company significant advantages over its competitors. Due to the nature of Employee's employment by Company, Employee may have frequent direct and indirect contact with various customers of Company and may be presented with, have access to, and/or participate in the development of proprietary software, Trade Secrets, and Confidential Information. These constitute valuable, special and unique assets of Company, and any use or disclosure thereof contrary to the terms of this Agreement may cause substantial loss of competitive advantage and other serious injury to Company.

3. For the reasons recited above, Employee covenants and agrees to all of the following:

(a) During the term of employment by Company and after the termination thereof, whether such termination is at the instance of Employee or Company, Employee will not, except as expressly authorized or directed by Company, use, copy, duplicate, transfer, transmit, disclose, or permit any unauthorized person access to, any Trade Secrets belonging to Company, any of Company's customers, any of Customer's business partners or subcontractors, or any related third party so long as they remain Trade Secrets. Employee will abide by Company's policies and regulations, as established from time to time,

for the protection of its Confidential Information.

(b) During the term of employment by Company and for a period of two (2) years after termination, whether such termination is at the instance of Employee or Company, Employee will not, except as expressly authorized or directed by Company, use, copy, duplicate, transfer, transmit, disclose, or permit any unauthorized person access to, any Confidential

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Information belonging to Company, any of Company's customers, any of Customer's business partners or subcontractors, or any related third party.

(c) Upon request of Company and in any event upon the termination of employment with Company, Employee will deliver to Company all memoranda, notes, records, tapes, documentation, disks, manuals, files or other documents, and all copies thereof in any form, concerning or containing Trade Secrets, Confidential Information, or Employee Works that are in Employee's possession, whether made or compiled by Employee, furnished to Employee or otherwise obtained by Employee.

(d) All Employee Works shall be the property of Company. Employee will promptly disclose to Company any such Employee Works and shall execute and deliver such confirmatory assignments, instruments, or documents as Company deems necessary or desirable without requiring Company to provide any further consideration therefor. Employee agrees to and hereby does assign to Company all right, title, and interest in and to any and all Employee Works, including all worldwide copyrights, patent rights, and all trade secret and all confidential information embodied therein. Employee waives any and all moral rights Employee may have in any Employee Works, including but not limited to the right to acknowledgement as author.

(e) During the term of employment by Company and for a period of one (1) year after termination, whether such termination is at the instance of Employee or Company, Employee shall not directly or indirectly, through one or more intermediaries or otherwise, solicit or attempt to solicit Customers, to induce or encourage them to acquire or obtain from anyone other than Company, service competitive with or substitute for any Company Service. For purposes of this Section, a "Customer" refers to any person or group of persons with whom Employee has or had direct material contact with regard to selling, delivery or support of Company Services, including servicing such person's or group's account, during the period of two (2) years preceding the date hereof; and "Company Services" refers to the services that Company offered or sold within six (6) months prior to the date hereof.

(f) During the term of employment by Company and for a period of one (1) year after termination, whether such termination is at the instance of Employee or Company, Employee shall not, directly or indirectly, through one



or more intermediaries or otherwise, employ, induce, solicit for employment, or assist others in employing, inducing or soliciting for employment any individual who is at any time during such period an employee of Company for the purpose of providing services that are the same or similar to the Company Services.

4. Employee is not subject to any employment, non-disclosure, confidentiality, non-compete, or other agreement with any third party which would prevent or prohibit Employee from fulfilling his duties for Company. If Employee is the subject of any such agreement, and has any doubt as to its applicability to Employee's position with Company, Employee will provide a copy of such agreement to Company so that Company can make a determination as to its effect on Employee's ability to work for Company.

3

4

5. Employee agrees not to use or include in Employee Works any copyrighted, restricted or protected code, specifications, concepts, trade secrets, or confidential information of any third party or any other information which Employee would be prohibited from using by any confidentiality, non-disclosure or other agreement with any third party.

6. The restrictions contained in this Agreement are considered by the parties hereto to be fair and reasonable and necessary for the protection of the legitimate business interests of Company. It is recognized that damages in the event of breach of the provisions of this Agreement by Employee would be difficult, if not impossible, to ascertain, and it is therefore agreed that Company, in addition to and without limiting any other remedy or right it may have, shall have the right to an injunction or other equitable relief in any court of competent jurisdiction, enjoining any such breach. The existence of this right shall not preclude any other rights and remedies at law or in equity which Company may have.

7. If any provision or any part of any provision of this Agreement shall not be valid for any reason, such provision shall be entirely severable from, and shall have no effect upon, the remainder of this Agreement. Any such invalid provision shall be subject to partial enforcement to the extent necessary to protect the interests of the Company.

8. This Agreement shall be binding upon the parties to this Agreement and their respective heirs, administrators, executors, successors and assigns.

9. This Agreement and the rights and liabilities of the parties to the Agreement will be determined in accordance with the laws of the State of Georgia, excluding choice of law principles. Company and Employee irrevocably consent to the exclusive jurisdiction and venue of the courts of any county in the State of Georgia and the district courts of Georgia, in any judicial

proceeding brought to enforce this Agreement. The parties agree that any forum other than the State of Georgia is an inconvenient forum and that a lawsuit (or non-compulsory counterclaim) brought by one party against another party, in a court of any jurisdiction other than the State of Georgia should be forthwith dismissed or transferred to a court located in the State of Georgia.

10. The intent of this Agreement is to provide Company with all remedies afforded to it under applicable law, including but not limited to those remedies under the Georgia Trade Secrets Act, O.C.G.A. 10-1-760 et seq., as amended.

11. This Agreement shall be deemed effective at the earlier to occur of the commencement of the employment relationship between Company and Employee or Employee's initial possession, knowledge or acquisition of Company's Trade Secrets or Confidential Information. The protection afforded hereunder is in addition to and does not replace any prior confidentiality or non-disclosure obligation of Employee to Company.

12. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in a writing signed by Company and Employee.

13. This Agreement may be executed in one or more counterparts, each of which will constitute an original but all of which together constitute a single document.

IN WITNESS WHEREOF, the parties have executed this Agreement.

COMPANY:  
comstar.net, inc.

EMPLOYEE:

By: \_\_\_\_\_

Signature: \_\_\_\_\_

Name (Print): \_\_\_\_\_

Name (Print): \_\_\_\_\_

Title: \_\_\_\_\_

<TABLE>

<S> COMSTAR COMMUNICATIONS INC P O BOX 267 GAINESVILLE, GA 30503	<C> PREMIER BANK GAINESVILLE OFFICE 311 GREEN STREET GAINESVILLE, GA 30501	<C> ACCOUNT #: TX582235514 Loan Number 60051710 Date JULY 21, 1999 Maturity Date NOV. 1, 1999 Loan Amount \$100,100.00 Renewal Of 3 SOC SEC #: GDH/JCS/15
BORROWER'S NAME AND ADDRESS "I" includes each borrower above, joint and severally	LENDER'S NAME AND ADDRESS "You" means the lender, its successors and assigns.	

</TABLE>

For value received, I promise to pay to you, or your order, at your address listed above the PRINCIPAL sum of ONE HUNDRED THOUSAND ONE HUNDRED AND NO/100 \*\*\*\*\* Dollars \$100,100.00

SINGLE ADVANCE: I will receive all of this principal sum on \_\_\_\_\_ . No additional advances are contemplated under this note.

MULTIPLE ADVANCE: The principal sum shown above is the maximum amount of principal I can borrow under this note. On \_\_\_\_\_ I will receive the amount of \$\_\_\_\_\_ and future principal advances are contemplated.

CONDITIONS: The conditions for future advances are \_\_\_\_\_

OPEN END CREDIT: You and I agree that I may borrow up to the maximum amount of principal more than one time. This feature is subject to all other conditions and expires on \_\_\_\_\_ .

CLOSED END CREDIT: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

INTEREST: I agree to pay interest on the outstanding principal balance from JULY 21, 1999 at the rate of 9.000% per year until FIRST CHANGE DATE.

VARIABLE RATE: This rate may then change as stated below.

INDEX RATE: The future rate will be 1.000% OVER the following index rate: PREMIER BANK'S PRIME RATE.

NO INDEX: The future rate will not be subject to any internal or external index. It will be entirely in your control.

FREQUENCY AND TIMING: The rate on this note may change as often as DAILY. A change in the interest rate will take effect ON THE SAME DAY.

LIMITATIONS: During the term of this loan, the applicable annual interest rate will not be more than 99.990% or less than 1.000%. The rate may not change more than \_\_\_\_\_ % each \_\_\_\_\_ .

EFFECT OF VARIABLE RATE: A change in the interest rate will have the following effect on the payments.

The amount of each scheduled payment will change.

The amount of the final payment will change.

\_\_\_\_\_

ACCRUAL METHOD: Interest will be calculated on a ACTUAL/360 basis.

POST MATURITY RATE: I agree to pay interest on the unpaid balance of this note owing after maturity, and until paid in full, as stated below:

on the same fixed or variable rate basis in effect before maturity

(as indicated above).  
[ ] at a rate equal to \_\_\_\_\_.

[XX] LATE CHARGE: If a payment is made more than 10 days after it is due, I agree to pay a late charge of 5.000% OF THE LATE PAYMENT WITH A MINIMUM OF \$25.00 AND A MAXIMUM OF \$100.00.

[XX] ADDITIONAL CHARGES: In addition to interest, I agree to pay the following charges which [XX] are [ ] are not included in the principal amount above : \$100.00 LOAN FEE.

PAYMENTS: I agree to pay this note as follows:

[XX] INTEREST: I agree to pay accrued interest ON THE 1ST DAY OF EACH MONTH BEGINNING SEPTEMBER 1, 1999.

[XX] PRINCIPAL: I agree to pay the principal NOVEMBER 1, 1999.

[ ] INSTALLMENTS: I agree to pay this note in \_\_\_\_\_ payments. The first payment will be in the amount of \$ \_\_\_\_\_ and will be due \_\_\_\_\_. A payment of \$ \_\_\_\_\_ will be due \_\_\_\_\_ thereafter. The final payment of the entire unpaid balance of principal and interest will be due \_\_\_\_\_.

[ ] If checked, and this loan is secured by a first lien on real estate, then any accrued interest not paid when due (whether due by reason of a schedule of payments or due because of lenders demand) will become part of the principal thereafter, and will bear interest at the interest rate in effect from time to time as provided for in this agreement.

ADDITIONAL TERMS:

ALL COLLATERAL IS ALSO SECURING LOAN OF EVEN NAME BEING LOAN NUMBER 60046455

<TABLE>

<S> [XX] SECURITY: This note is separately secured by (describe separate document by type and date): SECURITY AGREEMENT OF EVEN NAME AND DATE

(This section is for your internal use. Failure to list a separate security document does not mean the agreement will not secure this note.)

<C> PURPOSE: The purpose of this loan is BUSINESS: RENEWAL 60051710 SIGNATURES AND SEALS: IN WITNESS WHEREOF, I HAVE SIGNED MY NAME AND AFFIXED MY SEAL ON THIS 21ST DAY OF JULY, 1999. BY DOING SO, I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON PAGE 2). I HAVE RECEIVED A COPY ON TODAY'S DATE.

Signature for Lender

COMSTAR COMMUNICATIONS INC \_\_\_\_\_ (Seal)

X \_\_\_\_\_ GEORGE D HENDERSON

BY: \_\_\_\_\_ (Seal) DR SAM F DAYTON, PRESIDENT

\_\_\_\_\_ (Seal)

\_\_\_\_\_ (Seal)

(page 1 of 2)

</TABLE>

2 DEFINITIONS: As used on page 1, "[X]" means the terms that apply to this loan. "I," "me" or "my" means each Borrower who signs this note and each other person or legal entity (including guarantors, endorsers, and sureties) who agrees to pay this note (together referred to as "us"). "You" or "your" means the Lender and its successors and assigns.

APPLICABLE LAW: The law of the state of Georgia will govern this note. Any term of this note which is contrary to applicable law will not be effective, unless the law permits you and me to agree to such variation. If any provision of this agreement cannot be enforced according to its terms, this fact will not affect the enforceability of the remainder of this agreement. No modification of this agreement may be made without your express written consent. Time is of the essence in this agreement.

PAYMENTS: Each payment I make on this note will first reduce the amount I owe you for charges which are neither interest nor principal. The remainder of each payment will then reduce accrued unpaid interest, and then unpaid principal. If

you and I agree to different application of payments, we will describe our agreement on this note. I may prepay a part of, or the entire balance of this loan without penalty, unless we specify to the contrary on this note. Any partial prepayment will not excuse or reduce any later scheduled payment until this note is paid in full (unless, when I make the prepayment, you and I agree in writing to the contrary).

**INTEREST:** Interest accrues on the principal remaining unpaid from time to time, until paid in full. If I receive the principal in more than one advance, each advance will start to earn interest only when I receive the advance. The interest rate in effect on this note at any given time will apply to the entire principal advanced at that time. You and I may provide in this agreement for accrued interest not paid when due to be added to principal. Notwithstanding anything to the contrary, I do not agree to pay and you do not intend to charge any rate of interest that is higher than the maximum rate of interest you could charge under applicable law for the extension of credit that is agreed to here (either before or after maturity). If any notice of interest accrual is sent and is in error, we mutually agree to correct it, and if you actually collect more interest than allowed by law and this agreement, you agree to refund it to me.

**INDEX RATE:** The index will serve only as a device for setting the rate on this note. You do not guarantee by selecting this index, or the margin, that the rate on this note will be the same rate you charge on any other loans or class of loans to me or other borrowers.

**ACCRUAL METHOD:** The amount of interest that I will pay on this loan will be calculated using the interest rate and accrual method stated on page 1 of this note. For the purpose of interest calculation, the accrual method will determine the number of days in a "year." If no accrual method is stated, then you may use any reasonable accrual method for calculating interest.

**POST MATURITY RATE:** For purposes of deciding when the "Post Maturity Rate" (shown on page 1) applies, the term "maturity" means the date of the last scheduled payment indicated on page 1 of this note or the date you accelerate payment on the note, whichever is earlier.

**SINGLE ADVANCE LOANS:** If this is a single advance loan, you and I expect that you will make only one advance of principal. However, you may add other amounts to the principal if you make any payments described in the "PAYMENTS BY LENDER" paragraph below, or if we have agreed that accrued interest not paid when due may be added to principal.

**MULTIPLE ADVANCE LOANS:** If this is a multiple advance loan, you and I expect that you will make more than one advance of principal. If this is closed end credit, repaying a part of the principal will not entitle me to additional credit.

**PAYMENTS BY LENDER:** If you are authorized to pay, on my behalf, charges I am obligated to pay (such as property insurance premiums), then you may treat those payments made by you as advances and add them to the unpaid principal under this note, or you may demand immediate payment of the charges.

**SET-OFF:** I agree that you may set off any amount due and payable under this note against any right I have to receive money from you.

"Right to receive money from you" means:

- (1) any deposit account balance I have with you;
- (2) any money owed to me on an item presented to you or in your possession for collection or exchange; and
- (3) any repurchase agreement or other nondeposit obligation.

"Any amount due and payable under this note" means the total amount of which you are entitled to demand payment under the terms of this note at the time you set off. This total includes any balance the due date for which you properly accelerate under this note.

If my right to receive money from you is also owned by someone who has not agreed to pay this note, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement. Your right of set-off does not apply to an account or other obligation where my rights are only as a representative. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account.

You will not be liable for the dishonor of any check when the dishonor occurs because you set off this debt against any of my accounts. I agree to hold

you harmless from any such claims arising as a result of your exercise of your right of set-off.

REAL ESTATE OR RESIDENCE SECURITY: If this note is secured by real estate or a residence that is personal property, the existence of a default and your remedies for such a default will be determined by applicable law, by the terms of any separate instrument creating the security interest and, to the extent not prohibited by law and not contrary to the term of the separate security instrument, by the "Default" and "Remedies" paragraphs herein.

DEFAULT: I will be in default if any one or more of the following occur: (1) I fail to make a payment on time or in the amount due; (2) I fail to keep the property insured, if required; (3) I fail to pay, or keep any promise, on any debt or agreement I have with you; (4) any other creditor of mine attempts to collect any debt I owe him through court proceedings; (5) I die, am declared incompetent, make an assignment for the benefit of creditors, or become insolvent (either because my liabilities exceed my assets or I am unable to pay my debts as they become due); (6) I make any written statement or provide any financial information that is untrue or inaccurate at the time it was provided; (7) I do or fail to do something which causes you to believe that you will have difficulty collecting the amount I owe you; (8) any collateral securing this note is used in a manner or for a purpose which threatens confiscation by a legal authority; (9) I change my name or assume an additional name without first notifying you before making such a change; (10) I fail to plant, cultivate and harvest crops in due season; (11) any loan proceeds are used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further explained in 7 C.F.R. Part 1940, Subpart G, Exhibit M.

REMEDIES: If I am in default on this note you have, but are not limited to, the following remedies:

- (1) You may demand immediate payment of all I owe you under this note (principal, accrued unpaid interest and other accrued charges).
- (2) You may set off this debt against any right I have to the payment of money from you, subject to the terms of the "Set-Off" paragraph herein.
- (3) You may demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy.
- (4) You may refuse to make advances to me or allow purchases on credit by me.
- (5) You may use any remedy you have under state or federal law.

By selecting any one or more of these remedies you do not give up your right to later use any other remedy. By waiving your right to declare an event to be a default, you do not waive your right to later consider the event as a default if it continues or happens again.

COLLECTION COSTS AND ATTORNEY'S FEES: I agree to pay all costs of collection, replevin or any other or similar type of cost if I am in default. In addition, if you hire an attorney to collect this note, I also agree to pay any fee, not to exceed 15 percent of the principal and interest then owed, you incur with such attorney plus court costs (except where prohibited by law). To the extent permitted by the United States Bankruptcy Code, I also agree to pay the reasonable attorney's fees and costs you incur to collect this debt as awarded by any court exercising jurisdiction under the Bankruptcy Code.

WAIVER: I give up my rights to require you to do certain things. I will not require you to:

- (1) demand payment of amounts due (presentment);
- (2) obtain official certification of nonpayment (protest);
- (3) give notice that amounts due have not been paid (notice of dishonor);  
or
- (4) give me notice prior to seizure of my personal property when you are seeking to foreclose a secured interest in any of my personal property used to secure a commercial transaction.

I waive any defenses I have based on suretyship or impairment of collateral.

OBLIGATIONS INDEPENDENT: I understand that I must pay this note even if someone else has also agreed to pay it (by, for example, signing this form or a separate guarantee or endorsement). You may sue me alone, or anyone else who is obligated on this note, or any number of us together, to collect this note. You may do so without any notice that it has not been paid (notice of dishonor). You may without notice release any party to this agreement without releasing any other party. If you give up any of your rights, with or without notice, it will not affect my duty to pay this note. Any extension of new credit to any of us, or renewal of this note by all or less than all of us will not release me from my duty to pay it. (Of course, you are entitled to only one payment in full.) I agree that you may at your option extend this note or the debt represented by this note, or any portion of the note or debt, from time to time without limit or notice and for any term without affecting my liability for payment of the note. I will not assign my obligation under this agreement without your prior written approval.

CREDIT INFORMATION: I agree and authorize you to obtain credit information about me from time to time (for example, by requesting a credit report) and to report to others your credit experience with me (such as a credit reporting agency). I agree to provide you, upon request, any financial statement or information you may deem necessary. I warrant that the financial statements and information I provide to you are or will be accurate, correct and complete.

NOTICE: Unless otherwise required by law, any notice to me shall be given by delivering it or by mailing it by first class mail addressed to me at my last known address. My current address is on page 1. I agree to inform you in writing of any change in my address. I will give any notice to you by mailing it first class to your address stated on page 1 of this agreement, or to any other address that you have designated.

<TABLE>  
<CAPTION>

DATE OF TRANSACTION	PRINCIPAL ADVANCE	BORROWER'S INITIALS (not required)	PRINCIPAL PAYMENTS	PRINCIPAL BALANCE	INTEREST RATE	INTEREST PAYMENTS	INTEREST PAID THROUGH:
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /

</TABLE>

MODIFICATION NOTE

NOTE: 60046455  
COMSTAR COMMUNICATIONS, INC.

WHEREAS, the undersigned "Borrower" heretofore became indebted to Premier Bank (hereinafter "Holder") under the terms of a certain Note attached hereto, including all prior modifications applicable thereto and attached hereto, and

WHEREAS, Borrower, pursuant to the prior written consent of Holder, as evidenced by a written authorization of commitment from Holder, desires to modify certain terms of said Note as set forth hereinbelow, and

WHEREAS, Holder is willing to accept such modification terms:

NOW, THEREFORE, the Note, including all prior modifications thereto, is hereby modified as follows:

EXTEND MATURITY DATE FROM OCTOBER 1, 1999 TO NOVEMBER 1, 1999.

-----  
-----  
-----

Borrower affirms all terms and conditions of the Note, and all prior modifications, except as otherwise modified herein.

Witness the hand and seal of the undersigned this 21st day of July, 1999.

ComStar Communications, Inc.

/s/ H. Cooper Elsy  
-----

Witness

/s/ Sam F. Dayton  
-----

Dr. Sam F. Dayton, President

/s/ Joy Irwin  
-----

Notary

Officer: GDH/jcs  
-----

<TABLE>

<S>  
COMSTAR COMMUNICATIONS INC  
P O BOX 267  
GAINESVILLE, GA 30503

<C>  
PREMIER BANK GAINESVILLE OFFICE  
311 GREEN STREET  
GAINESVILLE, GA 30501

<C>  
ACCOUNT #: GDH/JCS/15  
Loan Number 60046455  
Date JUNE 22, 1999  
Maturity Date OCTOBER 1, 1999  
Loan Amount \$700,100.00  
Renewal Of 1  
SOC SEC #: 582235514

BORROWER'S NAME AND ADDRESS  
"I" includes each borrower above,  
joint and severally.

LENDER'S NAME AND ADDRESS  
"You" means the lender, its successors  
and assigns.

</TABLE>

For value received, I promise to pay to you, or your order, at your address listed above the PRINCIPAL sum of SEVEN HUNDRED THOUSAND ONE HUNDRED AND NO/100 \*\*\*\*\* Dollars \$700,100.00

[ ] SINGLE ADVANCE: I will receive all of this principal sum on \_\_\_\_\_ . No additional advances are contemplated under this note.

[XX] MULTIPLE ADVANCE: The principal sum shown above is the maximum amount of



principal I can borrow under this note. On JUNE 22, 1999 I will receive the amount of \$700,000.00 and future principal advances are contemplated.

CONDITIONS: The conditions for future advances are AT THE LENDERS DISCRETION

[XX] OPEN END CREDIT: You and I agree that I may borrow up to the maximum amount of principal more than one time. This feature is subject to all other conditions and expires on OCTOBER 1, 1999.

[ ] CLOSED END CREDIT: You and I agree that I may borrow up to the maximum only one time (and subject to all other conditions).

INTEREST: I agree to pay interest on the outstanding principal balance from JUNE 22, 1999 at the rate of 8.750% per year until FIRST CHANGE DATE.

[XX] VARIABLE RATE: This rate may then change as stated below.

[XX] INDEX RATE: The future rate will be 1.000% OVER the following index rate: PREMIER BANK'S PRIME RATE.

[ ] NO INDEX: The future rate will not be subject to any internal or external index. It will be entirely in your control.

[XX] FREQUENCY AND TIMING: The rate on this note may change as often as DAILY. A change in the interest rate will take effect ON THE SAME DAY.

[XX] LIMITATIONS: During the term of this loan, the applicable annual interest rate will not be more than 99.990% or less than 1.000%. The rate may not change more than \_\_\_\_\_% each \_\_\_\_\_.

EFFECT OF VARIABLE RATE: A change in the interest rate will have the following effect on the payments.

[XX] The amount of each scheduled payment will change. [XX] The amount of the final payment will change.

[ ] \_\_\_\_\_

ACCRUAL METHOD: Interest will be calculated on a ACTUAL/360 basis.

POST MATURITY RATE: I agree to pay interest on the unpaid balance of this note owing after maturity, and until paid in full, as stated below:

[XX] on the same fixed or variable rate basis in effect before maturity (as indicated above). [ ] at the rate equal to \_\_\_\_\_.

[XX] LATE CHARGE: If a payment is made more than 10 days after it is due, I agree to pay a late charge of 5.000% OF THE LATE PAYMENT WITH A MINIMUM OF \$25.00 AND A MAXIMUM OF \$100.00.

[XX] ADDITIONAL CHARGES: In addition to interest, I agree to pay the following charges which [XX] are [ ] are not included in the principal amount above: LOAN FEE \$100.00.

PAYMENTS: I agree to pay this note as follows:

[XX] INTEREST: I agree to pay accrued interest ON THE 1ST DAY OF EACH MONTH BEGINNING AUGUST 1, 1999 \_\_\_\_\_.

[XX] PRINCIPAL: I agree to pay the principal OCTOBER 1, 1999 \_\_\_\_\_.

[ ] INSTALLMENTS: I agree to pay this note in \_\_\_\_\_ payments. The first payment will be in the amount of \$ \_\_\_\_\_ and will be due \_\_\_\_\_. A payment of \$ \_\_\_\_\_ will be due \_\_\_\_\_ thereafter. The final payment of the entire unpaid balance of principal and interest will be due \_\_\_\_\_.

[ ] If checked, and this loan is secured by a first lien on real estate, then any accrued interest not paid when due (whether due by reason of a schedule of payments or due because of lenders demand) will become part of the principal

thereafter, and will bear interest at the interest rate in effect from time to time as provided for in this agreement.

ADDITIONAL TERMS:

FOR COMPLETE DESCRIPTION OF COLLATERAL REFER TO SECURITY AGREEMENT OF EVEN NAME DATED 6-22-99

<TABLE>  
<CAPTION>

<S>  
[XX] SECURITY: This note is separately secured by (describe separate document by type and date): SECURITY AGREEMENT DATED 6-22-99; VARIOUS RECORDED UCC-1'S

(This section is for your internal use. Failure to list a separate security document does not mean the agreement will not secure this note.)

Signature for Lender

/S/ GEORGE HENDERSON

GEORGE HENDERSON

<C>

PURPOSE: The purpose of this loan is BUSINESS: RENEWAL  
SIGNATURES AND SEALS: IN WITNESS WHEREOF, I HAVE SIGNED MY NAME AND AFFIXED MY SEAL ON THIS 22ND DAY OF JUNE, 1999. BY DOING SO, I AGREE TO THE TERMS OF THIS NOTE (INCLUDING THOSE ON PAGE 2). I HAVE RECEIVED A COPY ON TODAY'S DATE.

COMSTAR COMMUNICATIONS INC (Seal)

BY: /S/ SAM F. DAYTON (Seal)

DR. SAM F. DAYTON, PRESIDENT (Seal)

(Seal)  
(page 1 of 2)

</TABLE>

3

DEFINITIONS: As used on page 1, "[X]" means the terms that apply to this loan. "I," "me" or "my" means each Borrower who signs this note and each other person or legal entity (including guarantors, endorsers, and sureties) who agrees to pay this note (together referred to as "us"). "You" or "your" means the Lender and its successors and assigns.

APPLICABLE LAW: The law of the state of Georgia will govern this note. Any term of this note which is contrary to applicable law will not be effective, unless the law permits you and me to agree to such variation. If any provision of this agreement cannot be enforced according to its terms, this fact will not affect the enforceability of the remainder of this agreement. No modification of this agreement may be made without your express written consent. Time is of the essence in this agreement.

PAYMENTS: Each payment I make on this note will first reduce the amount I owe you for charges which are neither interest nor principal. The remainder of each payment will then reduce accrued unpaid interest, and then unpaid principal. If you and I agree to different application of payments, we will describe our agreement on this note. I may prepay a part of, or the entire balance of this loan without penalty, unless we specify to the contrary on this note. Any partial prepayment will not excuse or reduce any later scheduled payment until this note is paid in full (unless, when I make the prepayment, you and I agree in writing to the contrary).

INTEREST: Interest accrues on the principal remaining unpaid from time to time, until paid in full. If I receive the principal in more than one advance, each advance will start to earn interest only when I receive the advance. The interest rate in effect on this note at any given time will apply to the entire principal advanced at that time. You and I may provide in this agreement for accrued interest not paid when due to be added to principal. Notwithstanding anything to the contrary, I do not agree to pay and you do not intend to charge any rate of interest that is higher than the maximum rate of interest you could charge under applicable law for the extension of credit that is agreed to here (either before or after maturity). If any notice of interest accrual is sent and is in error, we mutually agree to correct it, and if you actually collect more interest than allowed by law and this agreement, you agree to refund it to me.

INDEX RATE: The index will serve only as a device for setting the rate on this note. You do not guarantee by selecting this index, or the margin, that the rate on this note will be the same rate you charge on any other loans or class of loans to me or other borrowers.

ACCRUAL METHOD: The amount of interest that I will pay on this loan will be

calculated using the interest rate and accrual method stated on page 1 of this note. For the purpose of interest calculation, the accrual method will determine the number of days in a "year." If no accrual method is stated, then you may use any reasonable accrual method for calculating interest.

**POST MATURITY RATE:** For purposes of deciding when the "Post Maturity Rate" (shown on page 1) applies, the term "maturity" means the date of the last scheduled payment indicated on page 1 of this note or the date you accelerate payment on the note, whichever is earlier.

**SINGLE ADVANCE LOANS:** If this is a single advance loan, you and I expect that you will make only one advance of principal. However, you may add other amounts to the principal if you make any payments described in the "PAYMENTS BY LENDER" paragraph below, or if we have agreed that accrued interest not paid when due may be added to principal.

**MULTIPLE ADVANCE LOANS:** If this is a multiple advance loan, you and I expect that you will make more than one advance of principal. If this is closed end credit, repaying a part of the principal will not entitle me to additional credit.

**PAYMENTS BY LENDER:** If you are authorized to pay, on my behalf, charges I am obligated to pay (such as property insurance premiums), then you may treat those payments made by you as advances and add them to the unpaid principal under this note, or you may demand immediate payment of the charges.

**SET-OFF:** I agree that you may set off any amount due and payable under this note against any right I have to receive money from you.

"Right to receive money from you" means:

- (1) any deposit account balance I have with you;
- (2) any money owed to me on an item presented to you or in your possession for collection or exchange; and
- (3) any repurchase agreement or other nondeposit obligation.

"Any amount due and payable under this note" means the total amount of which you are entitled to demand payment under the terms of this note at the time you set off. This total includes any balance the due date for which you properly accelerate under this note.

If my right to receive money from you is also owned by someone who has not agreed to pay this note, your right of set-off will apply to my interest in the obligation and to any other amounts I could withdraw on my sole request or endorsement. Your right of set-off does not apply to any account or other obligation where my rights are only as a representative. It also does not apply to any Individual Retirement Account or other tax-deferred retirement account.

You will not be liable for the dishonor of any check when the dishonor occurs because you set off this debt against any of my accounts. I agree to hold you harmless from any such claims arising as a result of your exercise of your right of set-off.

**REAL ESTATE OR RESIDENCE SECURITY:** If this note is secured by real estate or a residence that is personal property, the existence of a default and your remedies for such a default will be determined by applicable law, by the terms of any separate instrument creating the security interest and, to the extent not prohibited by law and not contrary to the terms of the separate security instrument, by the "Default" and "Remedies" paragraphs herein.

**DEFAULT:** I will be in default if any one or more of the following occur: (1) I fail to make a payment on time or in the amount due; (2) I fail to keep the property insured, if required; (3) I fail to pay, or keep any promise, on any debt or agreement I have with you; (4) any other creditor of mine attempts to collect any debt I owe him through court proceedings; (5) I die, am declared incompetent, make an assignment for the benefit of creditors, or become insolvent (either because my liabilities exceed my assets or I am unable to pay my debts as they become due); (6) I make any written statement or provide any financial information that is untrue or inaccurate at the time it was provided; (7) I do or fail to do something which causes you to believe that you will have difficulty collecting the amount I owe you; (8) any collateral securing this note is used in a manner or for a purpose which threatens confiscation by a legal authority; (9) I change my name or assume an additional name without first notifying you before making such a change; (10) I fail to plant, cultivate and harvest crops in due season; (11) any loan proceeds are used for the purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce an agricultural commodity, as further

explained in 7 C.F.R. Part 1940, subpart G, Exhibit M.

REMEDIES: If I am in default on this note you have, but are not limited to, the following remedies:

- (1) You may demand immediate payment of all I owe you under this note (principal, accrued unpaid interest and other accrued charges).
- (2) You may set off this debt against any right I have to the payment of money from you, subject to the terms of the "Set-Off" paragraph herein.
- (3) You may demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy.
- (4) You may refuse to make advances to me or allow purchases on credit by me.
- (5) You may use any remedy you have under state or federal law.

By selecting any one or more of these remedies you do not give up your right to later use any other remedy. By waiving your right to declare an event to be a default, you do not waive your right to later consider the event as a default if it continues or happens again.

COLLECTION COSTS AND ATTORNEY'S FEES: I agree to pay all cost of collection, replevin or any other or similar type of cost if I am in default. In addition, if you hire an attorney to collect this note, I also agree to pay any fee, not to exceed 15 percent of the principal and interest then owed, you incur with such attorney plus court costs (except where prohibited by law). To the extent permitted by the United States Bankruptcy Code, I also agree to pay the reasonable attorney's fees and costs you incur to collect this debt as awarded by any court exercising jurisdiction under the Bankruptcy Code.

WAIVER: I give up my rights to require you to do certain things. I will not require you to:

- (1) demand payment of amount due (presentment);
- (2) obtain official certification of nonpayment (protest);
- (3) give notice that amounts due have not been paid (notice of dishonor);  
or
- (4) give me notice prior to seizure of my personal property when you are seeking to foreclose a secured interest in any of my personal property used to secure a commercial transaction.

I waive any defenses I have based on suretyship or impairment of collateral.

OBLIGATIONS INDEPENDENT: I understand that I must pay this note even if someone else has also agreed to pay it (by, for example, signing this form or a separate guarantee or endorsement). You may sue me alone, or anyone else who is obligated on this note, or any number of us together, to collect this note. You may do so without any notice that it has not been paid (notice or dishonor). You may without notice release any party to this agreement without releasing any other party. If you give up any of your rights, with or without notice, it will not affect my duty to pay this note. Any extension of new credit to any of us, or renewal of this note by all or less than all of us will not release me from my duty to pay it. (Of course, you are entitled to only one payment in full.) I agree that you may at your option extend this note or the debt represented by this note, or any portion of the note or debt, from time to time without limit or notice and for any term without affecting my liability for payment of the note. I will not assign my obligation under this agreement without your prior written approval.

CREDIT INFORMATION: I agree and authorize you to obtain credit information about me from time to time (for example, by requesting a credit report) and to report to others your credit experience with me (such as a credit reporting agency). I agree to provide you, upon request, any financial statement or information you may deem necessary. I warrant that the financial statements and information I provide to you are or will be accurate, correct and complete.

NOTICE: Unless otherwise required by law, any notice to me shall be given by delivering it or by mailing it by first class mail addressed to me at my last known address. My current address is on page 1. I agree to inform you in writing of any change in my address. I will give any notice to you by mailing

it first class to your address stated on page 1 of this agreement, or to any other address that you have designated.

<TABLE>  
<CAPTION>

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DATE OF TRANSACTION	PRINCIPAL ADVANCE	BORROWER'S INITIALS (not required)	PRINCIPAL PAYMENTS	PRINCIPAL BALANCE	INTEREST RATE	INTEREST PAYMENTS	INTEREST PAID THROUGH:
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/ /	\$		\$	\$	%	\$	/ /
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/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /
/ /	\$		\$	\$	%	\$	/ /

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(page 2 of 2)

</TABLE>

[ComStar Logo]

July 1, 1998

James Cary Howell  
Edward N. Landa  
ComStar Communications, Inc.  
2812 Spring Road, Suite 210  
Atlanta, GA 30339

Re: Letter Agreement

Dear Cary and Ed:

As we have discussed, banking officials at the First National Bank of Commerce ("First National") have refused to grant a loan to ComStar Communications, Inc. ("ComStar") which would permit it to purchase the assets of Athens, Georgia ISP. It was explained to us that the bank does not provide loans to "Start-up", that is, new businesses that are still losing money.

It was further suggested to us that First National would make a loan to myself and James L. Bruce, Jr. personally with the understanding that the proceeds of the loan would be for the purpose of purchasing the assets of the Athens, Georgia ISP. Since such a loan would still be linked to ComStar, Jim Bruce and I will still have to provide substantial collateral to guarantee the loan.

You two have verbally approved such a plan, and the purpose of this Letter Agreement is to provide a written record of the transaction. Jim Bruce and I will borrow the sum of Three Hundred Eighty-three thousand nine hundred ten dollars (\$383,910.00) from First National and provide the necessary personal guarantees of repayment as well as substantial collateral to secure the loan. The money will be placed in ComStar's bank account for the purpose of issuing appropriate checks to the owners of the Athens, Georgia ISP.

By this Letter Agreement, all stockholders of ComStar agree that the amount of \$383,910.00 will be placed on the books of account of ComStar as a loan made to the corporation by Sam F. Dayton, James L. Bruce, Jr., and dB Telecom Technologies, Inc. (the latter if suggested by the financial advisors of Sam F. Dayton, James L. Bruce, Jr. and dB Telecom Technologies, Inc.).

By this Letter Agreement, all stockholders further ratify previous loans made to ComStar by Sam F. Dayton, James L. Bruce, Jr. and dB Telecom Technologies, Inc. and direct that the current amount of \$383,910.00 be added to the overall debts which are payable to Sam F. Dayton, James L. Bruce, Jr., and dB Telecom Technologies, Inc. Debts owned by ComStar to Sam F. Dayton and James L., Bruce, Jr. shall, in the aggregate be equal. All provisions of previous loan agreements which have been agreed to by the stockholders are incorporated into this Letter Agreement by reference and shall be construed as being integral to its construction.

<TABLE>  
<S> <C> <C> <C> <C>  
2812 Spring Road \* Suite 210 \* Atlanta, Georgia 30339 USA \* Phone: 770.333.8779 \* Fax: 770.333.8578  
</TABLE>

Technologies.

It is further agreed among the parties to this Letter Agreement that debt service including principal, interest, fees and taxes on this loan shall be paid promptly by ComStar to First National and that Sam F. Dayton, James L. Bruce, Jr., and dB Telecom Technologies, Inc. shall be indemnified and held harmless, including the provision by ComStar of any legal expenses incurred by Sam F. Dayton, James L. Bruce, Jr. and dB Telecom Technologies, Inc., as a result of any adverse consequences should the loan not be serviced in a timely manner. It is understood by all parties to this Letter Agreement that the actions of Sam F. Dayton, James L. Bruce, Jr., and dB Telecom Technologies, Inc. are gratuitous in nature, and are not required by any ComStar policy or Bylaw.

Sincerely,

/s/ Sam F. Dayton

For Sam F. Dayton and James L. Bruce, Jr.  
Same F. Dayton, Ph.D.  
President and Stockholder  
ComStar Communications, Inc.

Agreed to and accepted this 1st day of July, 1998.

/s/ James C. Howell

/s/ Edward N. Landa

-----  
James Cary Howell, CEO/Stockholder Edward N. Landa, VP and Secretary/Stockholder

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our firm) included in or made part of this Registration Statement.

Arthur Andersen LLP

/s/ Arthur Andersen LLP

Atlanta, Georgia  
September 9, 1999



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<CURRENCY> U.S. DOLLARS

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<SALES>	675,569	2,142,345	1,485,544
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<CGS>	528,835	1,235,862	917,980
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<LOSS-PROVISION>	19,426	24,039	41,928
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