



## **Covad Signs Agreement to Acquire NextWeb to Accelerate Entry into Wireless Broadband**

### ***Acquisition Will Help Reduce Cost of Access and Enhance Product Portfolio in Several Important Covad Markets***

**San Jose, Calif. (October 5, 2005)**—Covad Communications Group, Inc. (AMEX: DVW), a leading national provider of integrated voice and data communications, today announced it has signed an agreement to acquire NextWeb, Inc., a leading fixed-wireless Internet provider for business.

NextWeb, based in Fremont, California, utilizes licensed and unlicensed wireless technology to deliver cost-effective, business-class broadband service to small and medium business at speeds up to 100 megabits per second (Mbps). Covad will acquire NextWeb in a transaction valued at approximately \$24.7 million that is expected to close by the end of the year, subject to customary closing conditions, including the approval of NextWeb's stockholders. NextWeb stockholders will receive \$4 million in cash, \$19 million in Covad shares in exchange for their NextWeb shares and the assumption of \$1.7 million in net debt. A portion of Covad shares to be issued are restricted from sale in the open market for a period of time. The stock component of the deal is subject to a collar arrangement.

NextWeb currently provides service to nearly 3,000 business customers in the San Francisco Bay Area, Los Angeles, Orange County (CA), Santa Barbara and Las Vegas. NextWeb's service is available to more than 200,000 business locations in more than 175 cities throughout California and Nevada.

With wireless, Covad can:

- Reduce its direct recurring costs per customer for an equivalent wireline T1 by up to 60 percent
- Deliver an improved customer experience as a result of being able to control the service end-to-end and install it faster
- Reduce dependence on copper and the regulatory landscape
- Add new, high-bandwidth services targeted at the small- and medium-sized business market



"Our acquisition of NextWeb accelerates Covad's entry into the emerging wireless broadband market and addresses our key strategic initiative to take control of our destiny," said Charles Hoffman, Covad president and chief executive officer. "NextWeb expands our service area and offers us new, higher-speed broadband services than Covad can currently offer, and provides an alternative to the last-mile copper for delivering data and voice services to business customers.

"Wireless broadband is a perfect complement, not a replacement, to our nationwide DSL network and certainly helps enhance shareholder value. With this acquisition, Covad fulfills the meaning of its stock symbol, DVW, which stands for Data, Voice and Wireless," Hoffman added. "Our focus for 2006 will be on maximizing the revenue and profit contribution within NextWeb's existing markets and footprint. This will contribute to our commitment for Covad to be EBITDA positive by mid-year 2006."

Graham Barnes, NextWeb chief executive officer, said: "NextWeb has been a leading fixed-wireless player delivering highly reliable business-class Internet service using pre-WiMAX technology. Our profitable growth has come through a combination of operational excellence and strategic vision. Now, by combining with Covad, we are able to truly take our business, and the fixed-wireless broadband industry, to the next level."

NextWeb offers a full range of business broadband services, including scalable bandwidth from 384 Kbps to 10 Mbps, and higher, redundant access solutions, high-capacity licensed point-to-point links at speeds up to 100 Mbps and an array of managed solutions. Key business highlights include:

- Triple-digit revenue growth over the last four years finishing 2004 with revenues of approximately \$8 million.
- EBITDA and cash-flow positive since December 2003
- Loyal customer base, with 1.7% average monthly churn

Graham Barnes will continue to run NextWeb's wireless operations in the position of senior vice president and general manager.



Andrew Kreig, President of the Wireless Communications Association (WCA), the trade organization of the broadband wireless industry, said: "NextWeb has assumed a clear leadership position in the broadband wireless industry and has been an important player in WCA's pursuit of innovative, pro-competitive wireless policies. Covad's acquisition of NextWeb holds great promise for the industry."

Covad is a leading nationwide provider of broadband voice and data communications for small and medium businesses, and a key supplier of high-speed Internet access for competitive voice and Internet services providers. Covad owns and operates the only nationwide facilities-based DSL broadband network in the United States covering more than 50 percent of homes and businesses.

In addition to the proposed acquisition of NextWeb, Covad is currently conducting pre-WiMAX technical trials focused on the small business/enterprise market in the San Francisco Bay Area. Covad is achieving pre-WiMAX links up to five miles from the wireless base station at symmetrical speeds as high as 5.0 Mbps. A five-mile service radius from the base station for wireless is nearly six times the service area of DSL and three times the service area of a T1.

Blue Beacon Capital, LLC acted as advisor to NextWeb in connection with the transaction.

### **About Covad**

Covad is a leading nationwide provider of integrated voice and data communications. The company offers DSL, Voice Over IP, T1, Web hosting, managed security, IP and dial-up, and bundled voice and data services directly through Covad's network and through Internet Service Providers, value-added resellers, telecommunications carriers and affinity groups to small and medium-sized businesses and home users. Covad broadband services are currently available across the nation in 44 states and 235 Metropolitan Statistical Areas (MSAs) and can be purchased by more than 57 million homes and businesses, which represent over 50 percent of all US homes and businesses. Corporate headquarters is located at 110 Rio Robles San Jose, CA 95134. Telephone: 1-888-GO-COVAD. Web Site: [www.covad.com](http://www.covad.com).



### **About NextWeb**

NextWeb, Inc. is California's largest fixed-wireless Internet service provider for business, providing high-speed service over its carrier-class pre-WiMAX network to nearly 3,000 enterprise customers. The company has pioneered the largest VoIP over Wireless deployment of its kind. In 2005, NextWeb was named the fifth fastest growing company in the East Bay area by the East Bay Business Times, and was a finalist for the Ernst & Young Entrepreneur of the Year award. NextWeb's service is available to over 200,000 business locations in more than 175 cities throughout California and Nevada. Typically installed in just three to seven days, NextWeb's Super-T service is up to four times faster than a T1 at 70% of the price, easily scaling to six times the speed of a T1. The company is active in the formation of industry standards, and is a member of the WiMAX Forum and the Wireless Communications Association International (WCA). NextWeb is profitable and is backed by strategic investors including Asset Management Partners, Cedar Grove Investments, Kaiser Permanente, Monet Capital, Saints Capital, Sage Venture Partners, and Sunsino Venture Group. Additional company information is available at [www.nextweb.net](http://www.nextweb.net).

### **Safe Harbor Statement under the Private Securities Litigation**

#### **Reform Act of 1995:**

The foregoing contains "forward-looking statements" which are based on management's current information and beliefs as well as on a number of assumptions concerning future events made by management. Examples of forward-looking statements include expectations regarding the closing of the NextWeb acquisition, the expected performance of NextWeb's products and services after they are integrated with Covad and the future financial performance of Covad. Readers are cautioned not to put undue reliance on such forward-looking statements, which are not a guarantee of performance and are subject to a number of uncertainties and other factors, many of which are outside Covad's control that could cause actual results to differ materially from such statements. These risk factors include the ability of Covad and NextWeb to satisfy the closing conditions to the NextWeb acquisition, future changes in telecommunications regulations and litigation concerning current regulations, our ability to effectively integrate NextWeb and offer wireless services, and our ability to increase the revenue that we obtain from our other services and maintain an efficient cost structure, among other risks. For a more detailed description of the risk factors that could cause such a difference, please see Covad's 10-K, 10-Q, 8-K and other filings with the Securities and Exchange Commission. Covad disclaims any intention or obligation to update or revise



any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to further understand the results of Covad.

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