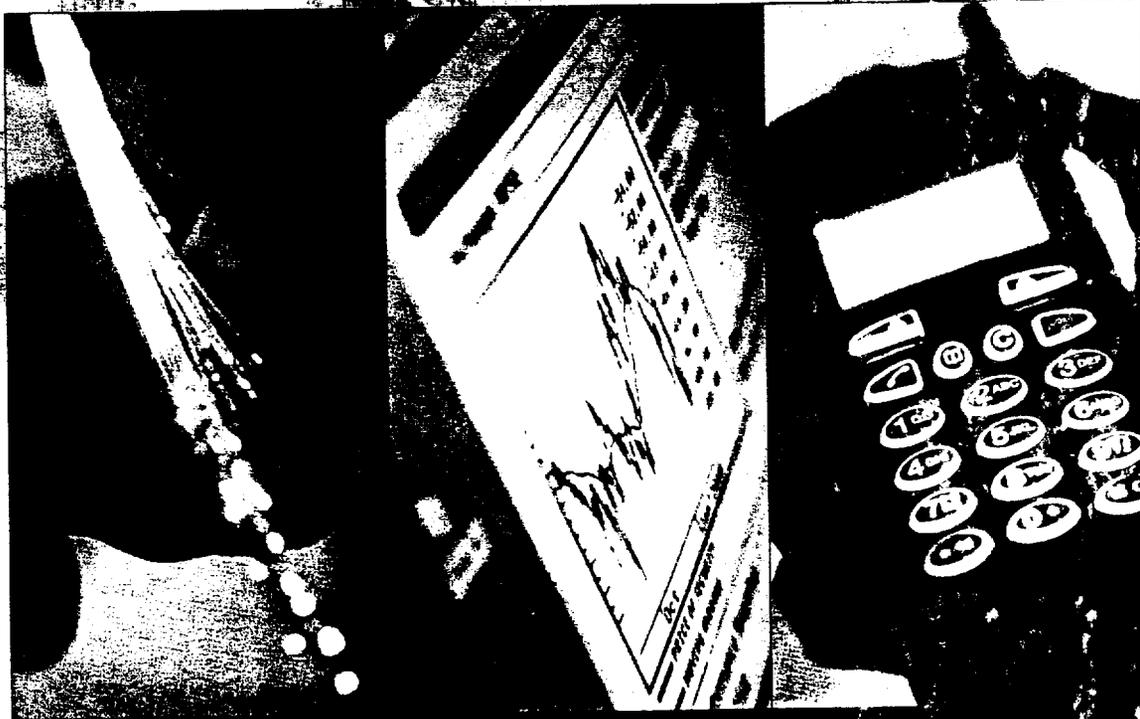


**Goldman  
Sachs**

# HIGH YIELD RESEARCH

## EMERGING TELECOM & INTERNET INFRASTRUCTURE CONFERENCE



**JUNE 27-28, 2000  
THE ST. REGIS HOTEL  
NEW YORK, NY**

## Index of Company Credit Profiles (by Sector)\*

**Telecom**

360networks Inc.	1
Advanced Radio Telecom	5
Allegiance Telecom, Inc.	7
Allied Riser Communications	11
CAIS Internet	13
CapRock Communications Corp.	15
Cogent Communications	19
CompleTel	21
ConnectSouth	25
CoreComm Inc.	27
Cypress Communications	29
Darwin Networks	31
Digital Island Inc.	33
Exodus Communications, Inc.	35
FirstWorld Communications	39
Focal Communications Corporation	41
Global Crossing, Ltd.	45
Globix	49
GT Group Telecom Inc.	51
iBeam	55
ICG Communications, Inc.	57
ImOn Hospitality Inc.	61
Infonet Services Corporation	63
KMC Telecom Inc.	65
Level 3 Communications	69
Logictier, Inc.	73
Madison River Telephone Company	75
McLeodUSA	77
Mpower Communications	81
Net2000 Communications	85
NetRail, Inc.	89
Network Access Solutions	91
Network Plus	93
New Edge Networks	95
Nextlink Communications	97
NorthPoint Communications Group Inc.	101
NTL Incorporated	103
PSINet	107
RateXchange	111
Rhythms NetConnections	113
Telseon Inc.	115
Terabeam	117
The Global TeleExchange (The GTX)	119
TriVergent Corporation, Inc.	121
VIA Net.works, Inc.	123
VoiceStream Wireless Coporation	125

\* The company credit profiles are presented in alphabetical order in this publication for ease of use. This index is arranged by sector for your convenience to assist investors interested in locating and identifying credits and presentations by industry or otherwise of particular interest.

## Index of Company Credit Profiles (by Sector)\*

### **Telecom**

Williams Communications	127
WinStar Communications Inc.	131
WorkNet	135
Yipes Communications	137

---

\* The company credit profiles are presented in alphabetical order in this publication for ease of use. This index is arranged by sector for your convenience to assist investors interested in locating and identifying credits and presentations by industry or otherwise of particular interest.



Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$500mm	12.000%	SrNotes	08/01/09	B3/B+	106.00	8 /04	94.00	13.14	705	NR
\$175mm	12.500%	SrNotes	12/15/05	B3/B+	100.00	12/03	102.00	11.78	535	NR
\$600mm	13.000%	SrNotes	05/01/08	B3/B+	NC	NC	101.00	12.78	652	NR
EUR200mm	13.000%	SrNotes	05/01/08	B3/B+	NC	NC	99.00	12.90	670	NR

Balance Sheet

(US\$ Millions)	FY99A	1Q00PF
Cash	521	1,720
Total Debt	675	2,080
Gross PP&E	377	545
Equity Market Capitalization	NA	14,107

Income Statement

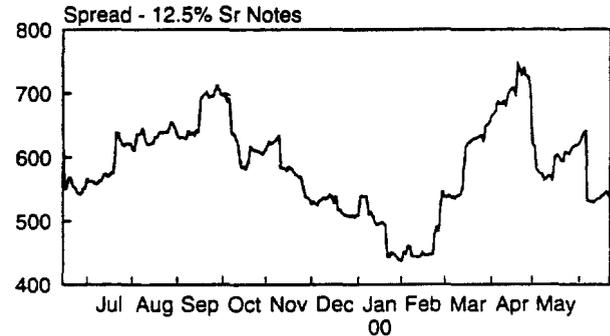
(US\$ Millions)	1Q00A	FY99A
Revenue	75.5	359.7
Gross Margin	38%	30%
EBITDA	16.7	87.3
Capital Expenditures	168.0	502.8

Company Description

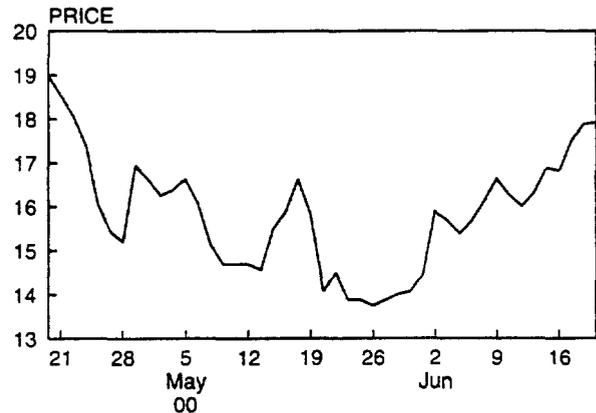
360networks is a facilities-based, global provider of fiber optic communications network products and services. The company is building a fiber optic network that will span 56,300 route miles by the end of 2001, including extensive coverage of North America and Europe, as well as undersea links between North America and Europe and North America and South America. 360networks has also acquired collocation facilities and site rights to build additional facilities totalling 2.9 million square feet. Collocation facilities are the large buildings 360networks is acquiring where the company will offer its customers secure space to locate their servers and other network equipment.

Targeted customers include telecommunications service providers, Internet service providers, applications service providers, data storage service providers, and large enterprises and governmental agencies with high speed, high capacity networking needs. The combination of a global network with collocation space allows 360networks to offer its customers network services such as private lines, IP and ATM data services, and virtual voice trunking, as well as network infrastructure products such as dark fiber and conduit, Web hosting, applications hosting, and e-commerce service and support. 360networks is led by CEO Greg Maffei, the former CFO of Microsoft.

Spread History



Equity Closing Price



360networks business strategy is as follows:

- Provide High-Bandwidth Connectivity Between Major Global Population Centers
- Develop and Operate a Technologically Advanced, High Capacity, Low-Cost Network
- Extend the Reach of 360networks' Network Through Development and Swaps of Fiber and Capacity
- Expand Marketing Capabilities
- Increase Number of Products and Services Offered



— Capitalize on Management Experience and Relationships and Pursue Additional Strategic Alliances

### Recent Developments

- 360networks, via an underwriter's syndicate which includes Goldman, Sachs & Co., is currently in the process of syndicating a \$1.2 billion bank loan. Proceeds from the loan will be used for the buildout of 360network's global network. In April 2000, 360networks completed a series of financings, which included the sale of \$800 million in Senior Notes, as well as a \$625 million IPO.
- On May 31, 360networks and Carrier1 International announced a \$175 million agreement to swap fiber optic network infrastructure throughout Europe, as well as broadband capacity on their European, transatlantic, and North American networks. Carrier1 will provide 360networks with 3,000 km of dark fiber throughout Germany, as well as dark fiber on city rings in Paris and Amsterdam. Carrier1 will also purchase lit broadband capacity on 360networks' transatlantic and North American Networks. 360networks will provide Carrier1 with dark fiber in the U.K., and it will purchase broadband capacity on Carrier1's pan-European network.
- 360networks announced on May 15 that it had agreed to purchase 1 million sq. ft. of collocation facilities in Los Angeles, Atlanta, and Dallas from Telecom Real Estate for \$118 million in cash and \$26 million in TSIX stock. The deal also gives 360networks site options to acquire 900,000 sq. ft. of additional facilities in Denver, Austin, San Antonio, Los Angeles and Houston. In a separate transaction, 360networks announced that it had acquired 450,000 sq. ft. of facilities in Toronto and Calgary.
- In March 2000, the company agreed to acquire Globenet Communications for \$1 billion, including \$600 million in 360networks stock and \$400 million of assumed debt. Globenet provides 360networks with an undersea fiber optic cable connecting North America and South America.

### Credit Strengths

- Low Cost Network- Through a combination of its construction experience and various fiber swap agreements, 360networks has been able to build one of the industry's lowest cost networks. The company has also entered into joint build agreements with Telia AB, Carrier1, KPNQwest, and Telewest.
- State of the Art Network- 360networks is building its network to be one of the most technologically advanced networks in the world. Dense Wave Division Multiplexing ("DWDM") allows for increased network capacity through the transmission of multiple waves of light over a single fiber optic strand. Optical technology allows for flexibility to upgrade installed equipment or to add new equipment to any segment of the network; network will be expandable to from 2.5 gbps and 32 wavelengths to 10 gbps and 160 wavelengths. The network's ATM ("Asynchronous Transfer Mode") architecture allows 360networks' packet based

network to carry voice, data and video more efficiently and at lower cost than traditional networks.

- Management, Strategic Advisory Committee and Sponsorship- 360networks is led by CEO Greg Maffei, former CFO of Microsoft. Since coming to 360networks, Maffei has been able to form a strategic advisory committee to advise the company on network technology directions and help develop new products and services. The Committee includes Michael Dell, CEO of Dell Computer, Terence Matthews, CEO of Newbridge Networks, Rupert Murdoch, CEO of News Corporation, and Dr. Nathan Myhrvold, CTO of Microsoft, as well as other telecom and Internet executives. Additionally, since joining the company, Maffei has been able to attract strategic investments from Comcast, Liberty Media, News Corporation and Shaw Communications.

### Credit Challenges

- Unproven middle management and salesforce - though 360networks has a strong senior management team and strategic advisory committee, the company's mid-level employees and salesforce are largely untested in executing a global telecom strategy. The company is currently focused on deepening its management bench.
- Competition, Fiber Glut - 360networks operates in an extremely competitive market for fiber and broadband capacity sales. The company is subject to potential price competition which could effect both revenues and margins. Additionally, a fiber glut in the telecom industry could leave 360networks with assets of decreasing value.

### Industry Trends

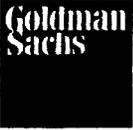
The fiber builders segment of the industry has seen an influx of new competitors in recent years, as the fiber excess that existed in the early 1990s has been more than absorbed by growing Internet and data traffic. Advances in fiber technology allow for greater capacity at lower prices, supported by more broadly spaced (and thus less expensive) electronics and increases in bandwidth capabilities. In addition, developments in optical switches, routers, and cross connects have reduced cost and increased fiber capacity for carriers. This, in turn, has led to concerns about the possibility of future overcapacity. We believe such fears are unfounded, because we think the lower cost of bandwidth delivery is driving significant growth in the demand for Internet and data usage. The elasticity is greater than 1. Furthermore, because fiber is more readily available and optical equipment advancements have driven down the cost to light a network, the barriers to entry have been lowered for "smart build" communications providers, which purchase dark fiber and bandwidth on a wholesale basis.

The most recent trend to emerge among fiber builders is the construction of data center/collocation facilities for housing the equipment of their end customers. Internet-centric dot-com customers place their Internet servers in these facilities and gain Web connectivity. Some emerging "smart build"



telecommunications providers place voice-switching equipment in these facilities as well. The build-out of data center facilities is consuming more and more capital from our traditional fiber builders, and puts them in competition with Internet infrastructure providers such as PSiNet and Exodus.

We follow seven public fiber builders for credit comparison analysis. The group has a combined equity value of \$125 billion — \$24 billion in total debt and \$22 billion in gross property plant and equipment. The fiber builders have constructed their networks with less leverage than the CLECs, as shown by a 1:1 ratio of debt to PP&E for the fiber builders and a 2:1 ratio of debt to PP&E for the CLECs. Many of the builders have financed their networks through presales of capacity and equity offerings. Because of their more conservative financing approach, the fiber builders tend to trade tighter to comparable Treasuries than CLECs do.



**360networks**

TSIX

**High Yield Research**

*Mark H. Rose (212) 902-9001*  
*David Corleto (212) 357-2723*  
*06/22/2000*



Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$135mm	14.000%	SrNotes	02/15/07	Caa2/CCC	107.00	2 /02	93.00	15.72	961	NR

Balance Sheet

(US\$, millions)	3/31/00
Cash & equivalents	156.7
Total debt	135.0
Equity Market Value (6/8/00)	958.0

Source: Goldman Sachs High Yield Research

Company Operating Data

(US\$, millions)	4Q99	1Q00
Revenue	0.4	0.4
Gross Margin	-1248.92%	-1077.39%
EBITDA	(15.2)	(10.2)
Capex	4.9	5.7

Company Description

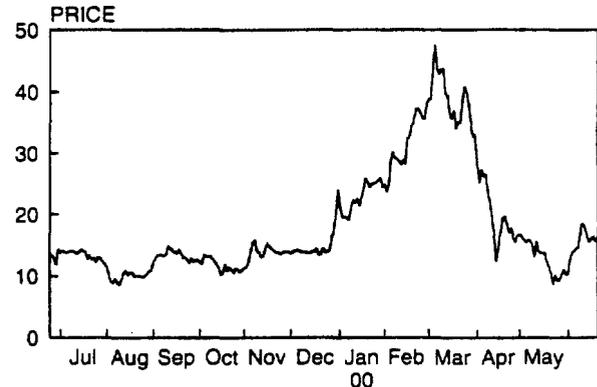
Advanced Radio Telecom (ART) is a provider of broadband Internet Protocol (IP) access services at speeds up to 155 Mbps. ART currently owns and operates broadband wireless metropolitan area networks in San Jose, Seattle, Portland, OR, and Phoenix and plans to expand to 40 Tier I markets over the next three years. The company announced that it intends to develop broadband IP networks in 55 tier II markets beginning in 2001. ART uses Cisco to power its network and has a strategic relationship with Qwest Communications. ART has a nationwide footprint of 39 GHz spectrum licenses in the US and owns 26 GHz and/or 39 GHz spectrum licenses in the UK and several Scandinavian countries. During the second quarter, ART expects to offer commercial services in Los Angeles, Houston and Washington DC. In total, ART plans to build 10 markets in 2000.

ART has taken steps to reach its goal by signing a wholesale services agreement with Qwest Communications, equipment supply contracts with Triton Networks for the rooftop radios. In addition, ART has building access agreements with several REITS to approximately 4,500 buildings.

Recent Developments

- On June 14, ART launched its metropolitan IP network in Washington DC. The advantage of ART's wireless strategy is highlighted by the D.C. launch because the mayor of Washington DC recently declared a temporary moratorium on trenching in an attempt to reduce traffic and business interruption throughout the city brought on by the installation

Equity Closing Price



of fiber optic cables.

- On June 8, 2000, ART Nordic and BaneTele, the Norwegian government sponsored backbone carrier, announced their intent to cooperate in building a next generation end-to-end IP network within Norway using ART Nordic broadband wireless IP metro networks with BaneTele high capacity fiber optic backbone network. The network will serve other carriers, including ISPs, ASPs, and global carriers. It was also provide a high bandwidth IP network to backhaul mobile data including the next generation 3G network traffic.
- On May 11, 2000, ART announced that it had won licenses that add coverage of 355 million new channel pops in the FCC's 39 GHz auction. The additional channel pops bring ART's total to 930 million channel pops. ART will pay approximately \$77 million for the licenses. The licenses add a new market, San Francisco, and increased ART's average spectrum coverage to 400 MHz in 40 tier I markets. The additional spectrum provides a foundation for ART to build OC-3 gigabit Ethernet and OC-12 broadband networks.
- In mid-April, ART agreed to buy 378 broadband spectrum licenses from BroadStream Communications for approximately \$143 million. ART will pay BroadStream as much as 10.1 million shares of its common stock.

Credit Strengths

- ART enjoys a time to market advantage by using fixed wireless technology to reach end-users. By simply installing radios on rooftops, ART does not need to secure rights of way or dig up streets, which saves both time and money for the company. ART has a nationwide footprint of 39 GHz spectrum licenses in the US and owns 26 GHz and/or 39



GHz spectrum licenses in the UK and several Scandinavian countries. The size of ART's footprint will enable it to reach a large target market.

- ART's agreement with Qwest is strategic, but not exclusive, so the company has the option to partner with numerous telecom companies. ART will partner with Qwest to provide a full suite of broadband capacity and access services to customers and premises that are physically beyond the reach of the Qwest network. ART benefits from Qwest's national network, while at the same time, has the ability to pursue other distribution channels.
- ART benefits from strong equity sponsorship, including Oak, Advent, Bessemer and Columbia Capital, in addition to the investment Qwest made in the company.

**Credit Challenges**

- Companies like ART that base their business plans on fixed wireless technology could face competition from new infrared technology companies such as TeraBeam. However, Terabeam's plans call for nationwide deployment over a four year time period and will more likely compete with high end services like fiber.
- ART is still at an early stage of development and the company needs to prove that its strategy is successful after a succession of management and strategy changes. In addition, ART has had delays in its attempt to fill the roles of CEO and CFO. However, Bob McCambridge is acting as president, COO, and interim CEO.



# Allegiance Telecom

ALGX

Market Outperformer

# High Yield Research

Mark H. Rose (212) 902-9001  
Courtney Rudnick 212-357-9810  
06/22/2000

## Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$444mm	0/11.750%	SrDisc	02/15/08	B3/B	105.88	2 /03	71.00	12.42	614	○
\$205mm	12.875%	SrNotes	05/15/08	B3/B	106.44	5 /03	108.00	10.99	466	○

## Balance Sheet

(US\$, millions)	3/31/00
Cash & equivalents	1,156.0
11.75% Notes due Feb. '08	317.0
12.875% Notes due July '08	205.0
Total debt	522.0
Equity market value (6/8/00)	6,857.3

## Credit Statistics

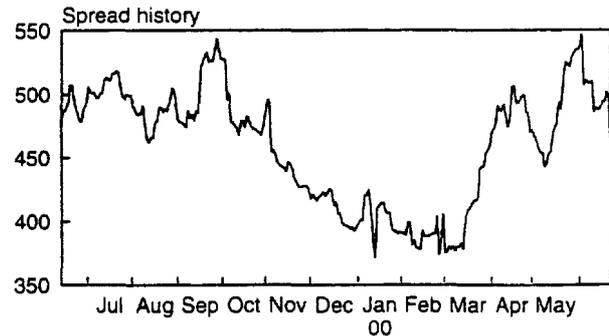
(US\$, millions)	1Q00	2000E	2002E
Lines in service	314,300	584,300	1,527,932
Revenue	47.2	300.4	961.2
EBITDA	(28.0)	(112.7)	12.9
Gross margin	42%	44%	51%
EBITDA margin	-59%	-38%	1%
EBITDA / cash interest			0.5x
EBITDA / total interest			0.2x
Total debt	522.0	550.0	639.0
Debt / EBITDA			49.4x

## Company Description

Allegiance Telecom, a tier 1 full-service competitive local exchange carrier founded in 1997, is a provider of fully bundled local, long distance, data, and Internet services. The company employs a "smart-build" strategy for market entry and expansion, installing switches but generally leasing fiber until customer volumes and/or transport costs better justify the cost of ownership. The company plans to target businesses, government, and other institutional users in 36 major metropolitan areas across the United States. Allegiance was the first company to successfully electronically bond with an ILEC. The process to reduce to 15 days or less the sales cycle from selling new customer service to actually installing and billing by the company.

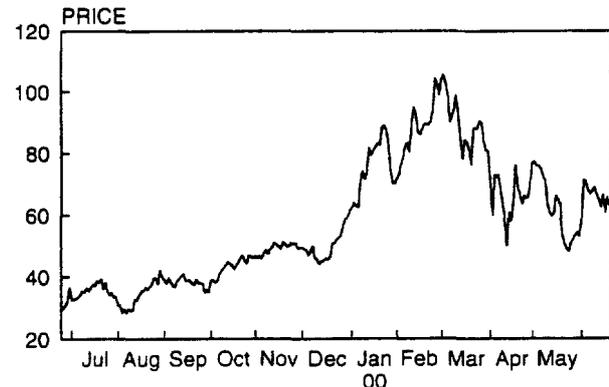
In early May, Allegiance announced the deployment of a Softswitch in Dallas. In Dallas, Allegiance began offering virtual private network (VPN) services to existing ISP customers from the Softswitch platform, saving switch capacity for voice customers on its traditional circuit-switched network. During the first quarter, Allegiance introduced the first phase of its "Allegiance Enterprise Portal," developed in partnership with Go2Net. The first stage of the portal

## Allegiance Telecom



Left Axis:  
— 12.875% of 08

## Equity Closing Price



deployment provides Allegiance's customers with an Internet start page that includes news, e-mail, instant messaging and financial information. Allegiance began rolling out the second phase of the portal in the second quarter of 2000. Phase two includes business-to-business on-line access to suppliers, and allows Allegiance's customers to do on-line transaction processing. The final phase, expected to be deployed in the third quarter of 2000, includes application hosting and virtual private networks.

During the quarter, we attended Allegiance's analyst meeting and learned that its original four markets, Dallas, New York, Atlanta, and Fort Worth, are operating with over \$90 million in annualized revenue and are producing positive EBITDA. Allegiance is currently operational in 23 markets: Atlanta, Baltimore, Boston, Chicago, Cleveland, Dallas, Denver,

Detroit, Fort Worth, Houston, Long Island, Los Angeles, New York, Northern New Jersey, Oakland, Orange County, Philadelphia, St. Louis, San Diego, San Francisco, San Jose, Seattle, and Washington D.C. The company expects to launch service in Miami by the end of June, completing its original 24 market buildout six months ahead of schedule. The company's chairman and chief executive officer, Royce Holland, was president, chief operating officer, and co-founder of MFS Communications.

### Recent Developments

- Allegiance announced that it has selected the DSET ezSubscribe solutions suite for automating sales operations and increasing sales force productivity. ezSubscribe solutions electronically retrieve customer services records (CSRs) from an ILEC, translate them into easy-to-understand service descriptions, and generate comparative sales quotes, demonstrating the savings customers can realize by switching their service to the CLEC. ezSubscribe also cuts the manual effort that CLEC personnel have to expend by automatically populating much of the information in service orders for customers migrating from the incumbents.
- For the first quarter of 2000, Allegiance reported revenue of \$47.2 million, slightly below our estimate of \$47.7 million, representing sequential growth of 20% over \$39.3 million in the fourth quarter. Of Allegiance's first quarter revenue mix, local service revenue was 80% of the total, with long distance and data/Internet contributing 7% and 13%, respectively. We are maintaining our year 2000 revenue estimate of approximately \$300 million.
- Allegiance reported a gross margin of 42.5%, up from 39% for the fourth quarter of 1999, and beating our estimate of 39% by 340 bp. Despite its expanded buildout plan, Allegiance was able to reduce its SG&A as a percentage of revenue from 107% in the fourth quarter to 102% in the first quarter of 2000. Allegiance reported an EBITDA loss of (\$28.0) million, wider than (\$26.8) million in the fourth quarter, but \$1.2 million less than our estimate of (\$29.2) million. We are maintaining our full year 2000 estimate for an EBITDA loss of (\$113) million.

### Relative Value

Allegiance scored fourth in our First Quarter 2000 CLEC analysis behind McLeodUSA, Focal, and Mpower. The company continues to maintain an aggressive growth rate in contrast to SG&A spending and a very conservative capital structure with a net debt to annualized revenue ratio of (3.4x) versus the group average of 1.5x.

Looking forward, we think that the company's strategy will enable it to enter markets, build revenue, and generate cash flow relatively quickly and capital-efficiently. Importantly, Allegiance has adopted a modular approach; this, coupled with good liquidity (cash of \$1.2 billion at the end of the first quarter plus an undrawn \$500 million revolver), gives the company the funding it needs to initiate service and build

presence in a range of major markets. In addition, the company benefits from strong and committed sponsors.

### Credit Strengths

- Allegiance benefits from very strong management and sponsorship. The strength of the management team is shown in its ability to meet expectations, maintain a consistent strategy, and gain solid outside sponsorship (Vulcan Ventures).
- Allegiance is fully funded for its 36 market buildout plan, with over \$1.2 billion in cash at the end of the first quarter plus an undrawn \$500 million credit facility. Liquidity and access to capital are critical for CLECs, especially given the current high yield market environment, and Allegiance is one of the few carriers that has had no issues with raising capital.
- We think Allegiance runs one of the best back office systems in the industry. The company installed 72,600 access lines in the first quarter via an unbundled network element (UNE) architecture. Over 35 different CLECs have sent employees to Allegiance's back office facilities in Dallas to review how the company is so successful in managing its line growth.
- Because Allegiance developed its business plan after the initial regulations of competition were established, it has embarked on a "Smart Build" strategy. With the increasing availability of dark fiber, Allegiance's "Smart Build" strategy has allowed it to reach customers with high margin on-switch/network services with fewer capital spending requirements than other CLECs that have built fiber networks. Because of the careful deployment of capital, Allegiance has been able to grow its business with minimal capital spending and EBITDA losses in comparison to its peers.
- Allegiance has grown at one of the most aggressive paces of any CLEC in the past two years. We think that Allegiance's full attention to careful development of the back office and support systems has allowed it to post these excellent results. Furthermore, the company has accomplished its growth with minimal SG&A spending relative to other CLECs.

### Credit Challenges

- Allegiance operates in an ever more competitive telecommunications environment. In addition, many of the company's competitors own a greater portion of their networks, and thus might have lower operating costs and better margins.
- Although the company has been successful thus far in its network rollout of 21 cities, the planned expansion to 36 cities bears some execution risk, especially as other CLECs also initiate service in those markets.
- The company's strategy is quite ambitious, as it plans to achieve a major nationwide presence in roughly two years. This will require not only capital, as explained above, but also close attention to operational issues, including line



provisioning, customer retention, back office, billing, customer service, and other areas. In addition, as with other CLECs, Allegiance's ability to gain market share is partly dependent on the cooperation of the ILEC. These aspects represent a management and operational challenge.

### Company Outlook

In the coming quarters, Allegiance will continue to initiate service in new cities. This, plus ongoing ramp-up in existing markets, should generate accelerating access line and revenue growth. We forecast Allegiance to have 584,300 installed lines by the end of 2000 and total revenue of \$300 million for the year. However, the expenses associated with such growth will cause EBITDA to remain in the negative \$28 million range per quarter for the next three quarters. We expect Allegiance to generate positive EBITDA for the full year 2002 and reach free cash flow positive in 2004.

### Industry Trends

The competitive local exchange carrier (CLEC) opportunity is a significant one. With less than a 5% total market penetration, CLECs are targeting under-served customers of the incumbent local exchange carriers (ILECs), which are former monopolies. The growing demand for affordable bandwidth should give CLECs an opportunity to acquire customers as long as they adhere to attractive pricing, high quality customer service, and differentiated offerings. In our view, a CLEC needs four key elements to succeed:

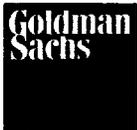
- 1) Management and sponsorship
- 2) Access to capital
- 3) Successful execution of the stated business plan
- 4) The maintenance of a consistent strategy with investors

We follow 13 CLECs in the high yield market. Because most of these companies are still in the build-out mode and currently operating with negative cash flow (EBITDA), we carefully track the trends in revenue growth and margin improvement. In 2000, we expect most of the CLECs we rate Market Outperformer to achieve double-digit sequential revenue growth each quarter — especially in local telecommunications and data services. We also look for several carriers to improve their gross margins and SG&A expense controls. Most of the carriers that we rate Market Performer have fallen behind in hitting their revenue growth targets and/or failed to improve their margins. Because the high yield market is currently difficult for most CLECs to access, we are concerned with the liquidity outlook for some of the carriers that have fallen behind.

In the first quarter, the CLECs in our comparison group increased revenues sequentially by over 12%, collectively reaching \$1.3 billion. EBITDA losses for the group were \$(162.5) million, including five companies generating positive EBITDA. Gross property, plant, and equipment for the group totaled \$13.26 billion, and the group has \$18.7 billion in total

debt and \$5.2 billion in redeemable preferred. The group's enterprise value is now \$66.8 billion, which is a 60% increase over its total when we published our book for the 1999 Goldman Sachs Leverage Finance Conference in October of 1999. The total installed lines of the group grew 20% sequentially to 4,809,115 lines. All of the CLEC lines pale in comparison to the five Regional Bell Operating Companies (RBOCs) and GTE, which have over 160,000,000 installed lines. There is plenty of market opportunity. The CLECs also continue to make significant progress in moving lines onto their networks or switches via unbundled network elements (UNEs), which should contribute to improving gross margins in the future.

The group remains reasonably funded, with total cash at the end of the first quarter of \$10.7 billion. We are concerned about the liquidity of a few CLECs in our group, such as Adelphia Business Solutions, CapRock Communications, and KMC Telecom. Over the past 18 months, more than \$9.5 billion in private equity has funded various CLECs through their capital shortfalls, and some carriers have turned to the bank market. Given the current state of the high yield market, we think CLECs will continue to look to those sources for capital.



# Allegiance Telecom

ALGX

*Market Outperformer*

## High Yield Research

*Mark H. Rose (212) 902-9001  
Courtney Rudnick 212-357-9810  
06/22/2000*



**Balance Sheet**

(US\$, Millions)	3/31/00
Cash	272.1
Net PP&E	72.2
Equity Market Cap	881.4

**Company Operating Data**

(US\$, Millions)	1Q00
Revenue	1.35
Gross Margin %	-321%
EBITDA	(31.4)
Capital Expenditures	18.6

**Company Description**

Allied Riser Communications (ARC) is a rapidly growing broadband data service provider to businesses located in large office buildings. The company provides extremely fast access to the Internet and value-added services including Wide-Area-Network, network security services, and virtual private networks. ARC's 'LightSpeed' service transmits data at 10 megabits per second (Mbps), 6-10 times faster than Digital Subscriber Lines (DSL). Since ARC's infrastructure consists of fiber-optics, we anticipate the company will be able to increase service speeds to 100 Mbps, or more, at an ever decreasing marginal cost, thereby maintaining a basic speed advantage over competitors. For their enterprise customers, ARC provides a scaleable, turnkey, data communications solution that maintains throughput through installation of additional dedicated ports as needed.

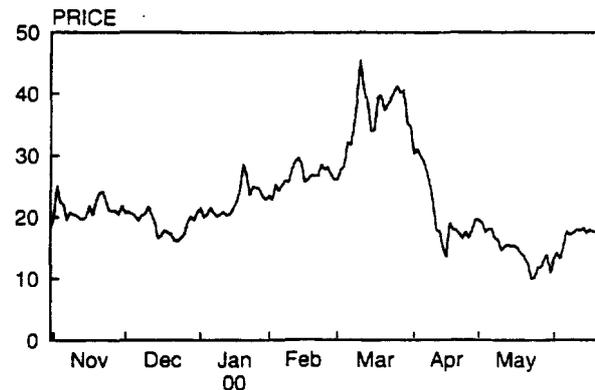
ARC installs its own fiber-optic infrastructure in the core, or riser, of commercial office buildings, driving a future-proofed, broadband network to the customers' premises. Prior to the October 1999 IPO, ARC had agreements with 12 leading real estate managers to construct networks and deliver services in more than 1,000 large office buildings in 50 of the top markets. This represents more than 320 million square feet of commercial office space and 1.3 million potential end-users. Today, ARC has access agreements in place covering more than 360 million square feet.

ARC uses flexible 'desktop' pricing to offer a very attractive value proposition. ARC prices its basic 'LightSpeed' Internet access so that the customer's monthly cost for ARC's services is roughly equal to the competition on price. However, for the same price as competitors, ARC delivers 6-10 times the bandwidth and speed.

**Recent Developments**

On May 9, Allied Riser Communications Corporation (ARCC) announced the expansion of two new services — ARC Remote LAN Access (ARC RLA), ARC Internet Dial Access (ARC IDA), and the launch of a third, ARC Watch.

**Equity Closing Price**



These products are designed to enable business professionals to obtain fast and secure access to the Internet, and to their company's intranet, at any given time. All three services (ARC RLA, ARC IDA, and ARC Watch) offer several key customer benefits. ARC RLA enables the customer's employee to receive important online information to close deals without costly remote access systems. ARC IDA reduces the cost incurred by businesses when their telecommuters travel who need access to the Internet. ARC Watch offers three networks of security, allowing customers to select the level that best meets the needs of their corporate enterprise, at cost-effective rates.

- On May 25, ARC announced it had begun construction of its broadband fiber optic communications network in 16 new markets across the United States. The addition of these new markets will give the company access to new customers occupying more than 13 million square feet of prime commercial real estate. These new markets are located in states within the Deep South, Mid-West, and Mid-Atlantic regions. The completed construction of its network in buildings with more than 160 million square feet of office space, has enabled ARC to double the size of its original network from the first few months of the year.
- On June 14, ARC and AirFiber, unveiled a strategic technology initiative aimed at eliminating local-access barriers to high-bandwidth connectivity for ARC customers. ARC announced it would begin trials of a wireless optical network developed by AirFiber, one of the nation's leading wireless optical telecommunications equipment providers. After two years of development, AirFiber's OptiMesh network equipment provides high-bandwidth (622Mbps) communications designed to allow ARC to obtain access to customers at a fraction of the cost. AirFiber designed the system to be a reliable and cost-effective system to enable ARC the ability to extend fiber-like access to customers without the cost and time constraints.



**Outlook**

Explosive demand for data communications is the fastest growing segment of the telecom industry. Small and medium sized businesses need faster transmission to take advantage of band-width intensive data networking applications. Secondly, these businesses lack buying power, scale and the sophistication required to gain economical broadband access, as well as, complete data solutions from fiber-based national carriers.

However, Allied Riser Communications (ARC) offers fiber-optic based broadband to the desktop with bundled, value-added services to ensure that businesses can use the bandwidth to improve productivity. Fiber-based in-building networks provide broadband connectivity of 10 megabits of data per second, easily scalable up to 100 megabits. ARC's broadband-enabled applications helps businesses get the most value out of broadband connectivity. This creates a high demand for bandwidth.

ARC has a significant first-mover advantage in a business with real barriers to entry. ARC has over 1,000 buildings in 50 key metropolitan markets under contract. The current 'inventory' of buildings in the different markets represent up to 40% of addressable Square Feet. of commercial office space per market. Revenue sharing and equity participation ensure that the real estate owners' interest are aligned with ARC.

Attractive economic model with relatively low penetration required to generate substantial EBITDA focuses on large buildings (>100,000 SF and >25 tenants or more) and allows the company to leverage the local sales force presence and produce incremental sales with little increase to overhead. Goldman Sachs (GS) estimates that ARC will achieve approximately \$0.90 per square foot of revenue five years after entering a building, or approximately 16% of the communications spent in the building. GS estimates ARC needs \$0.20 of revenue per square foot to reach EBITDA breakeven on a building basis, or \$0.30 per square foot on a corporate basis.

An added attraction is that GS estimates that the DCF value of the company's full distributed equity, is a substantial premium to the price range. ARC's principal asset will be fairly unique and difficult to replicate, giving them a certain level of scarcity value, unlike some other telecom and communication assets.

Strong partnerships with 12 leading real estate owners provide a first mover advantage and a strong barrier to entry. Here, lies a strong equity sponsorship with over 100 million in paid capital provided by Telecom Partners, GS.

**Company Description**

CAIS Internet is a leading provider of broadband Internet services to hotels and multi-family units (MFUs).

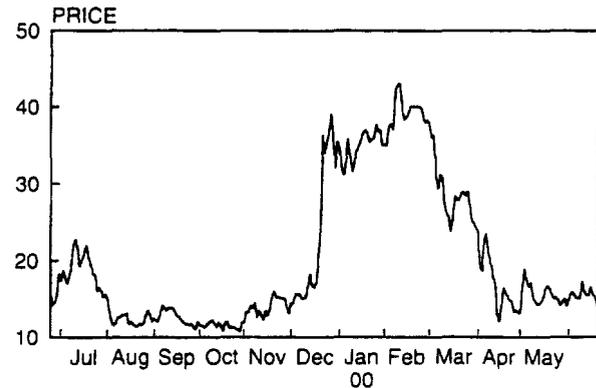
Using its patented OverVoice technology, CAIS can quickly, cost-effectively, and non-intrusively provision broadband Internet access in large buildings. CAIS brings a single high-capacity, high-speed line to a building and spreads the expense by sharing the line's capacity with guests and tenants of the building. Once in the building premises, CAIS leverages its OverVoice technology to bring broadband access to individual users without installing new lines or knocking down walls. As a result, users experience broadband speeds of up to 10 Mbps for roughly \$8-10 per night in hotel rooms or \$20-45 per month for residential MFU subscribers.

CAIS has partnerships with Covad, Bell Atlantic, GTE, and Rhythms to offer DSL service to residential and commercial markets. In addition, CAIS provides basic Internet access, including DSL, dialup, and Web hosting services.

While the majority of the company's revenue is currently generated from its basic Internet access services, CAIS has aggressively signed exclusive contracts with major hotel chains and MFU property owners to gain preferential, volume access to their guests and residents. Through these relationships, CAIS has access to 1.1 million hotel rooms and almost 200,000 residential units.

**Recent Developments**

- On June 19, 2000, CAIS Internet announced that it will deploy 3Com Corporation's new 3Com fi Visitor and Community Network System as a component of the CAIS Corporate Business Traveler program in participating hotels throughout North America this year.
- On June 15th, 2000, CAIS announced the closing of 3Com Corporation's \$20 million investment of convertible preferred stock in the Company. This investment was made in the form of convertible preferred stock with a conversion price of \$36.00 per share, which came as a result of the alliance announced by CAIS Internet and 3Com on March 20, 2000. The 3Com system is working in conjunction with CAIS's advanced IPORT server, which provisions Internet services for guests at the networked hotels.
- On May 8, 2000, CAIS reported its financial results for the first quarter ended March 31, 2000. The strong results reflect successful execution of the CAIS business strategy to provide broadband Internet access and visitor-based network solutions to hotels, public areas, apartment communities and small businesses.
- Net revenues for the first quarter of 2000 were \$6.9 million, which represents an increase of 327 percent over first quarter 1999 revenues of \$1.6 million, and a 47 percent increase over fourth quarter 1999 revenues of \$4.7 million. The Company reported a first quarter 2000 loss from continuing operations, excluding amortization of acquisition

**Equity Closing Price**

related costs, of \$21.0 million, or \$(0.91) per share.





# Caprock Communications

CPRK

# High Yield Research

Mark H. Rose (212) 902-9001

Courtney Rudnick 212-357-9810

06/22/2000

## Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$210mm	11.500%	SrNotes	05/01/09	B3/B	105.75	5 /04	90.00	13.46	728	NR
\$150mm	12.000%	SrNotes	07/15/08	B3/B	104.00	7 /04	100.00	12.00	586	NR

## Balance Sheet

(US\$, millions)	4Q99	1Q00
Cash and Equivalents	188.3	110.2
Gross PP&E	250.0	325.3
Total Debt	360.0	360.0
Equity Market Value (6/8/00)	1,749.0	877.6

## Income Statement

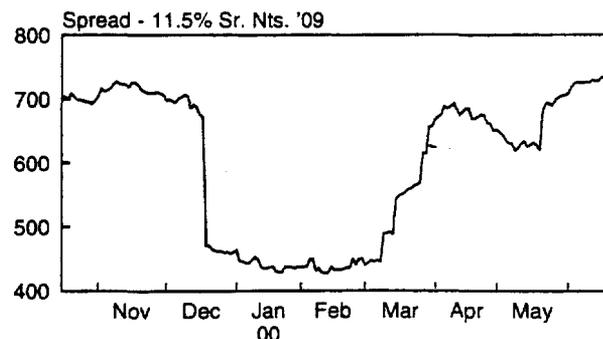
(US\$, Millions)	4Q99	1Q00	2000E
Revenue	69.0	70.7	287.7
Gross margin	39.2%	39.5%	37.7%
EBITDA	9.1	8.8	30.8
EBITDA/Interest	0.9x	0.7x	0.6x
Total Debt/EBITDA	9.9x	10.2x	14.9x

## Company Description

CapRock Communications provides wholesale and commercial communications products and services to small and medium-sized business customers throughout Texas and the Southwest. The company is building a fiber optic network that should be completed by the end of 2000. By owning its own network, CapRock is able to serve both the carrier's carrier market and the small and medium-sized business market. For carrier's carriers, CapRock sells and/or leases dark fiber and bandwidth capacity. Currently, CapRock's carrier customers include AT&T, MCI WorldCom, Sprint, and Qwest, as well as many regional independent companies such as Broadwing and Adelphia Business Solutions. For retail customers, CapRock offers bundled packages that include local and long-distance voice, Internet access, data transmission, and private line services. The company also offers voice and data systems to the offshore oil and gas industry in the Gulf of Mexico as part of its Systems Services business line.

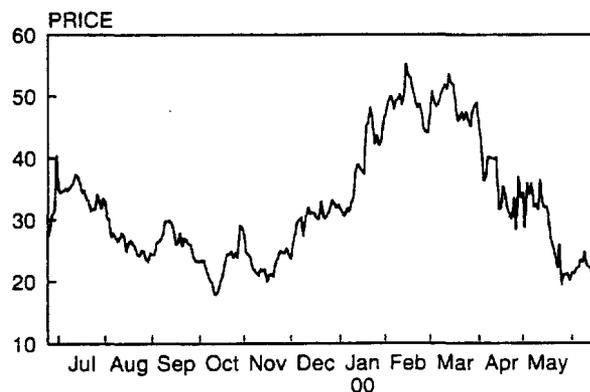
CapRock offers local service by using its own switches to provision unbundled loops from SBC. Currently, the company has 12 switches and 51 collocations with SBC. As of March 31, 2000, 85,500 lines had been sold, a 749% increase over the 11,403 lines sold at the end of the first quarter of 1999. At March 31, 2000, CapRock had 57,040 access lines

## Spread History



Left Axis:  
— 11.500% of 09

## Equity Closing Price



installed, a 141% increase over the lines installed at the end of 1999.

The CapRock network plan calls for 7,500 route miles to be completed throughout the Southwest by the end of 2000. At the end of the first quarter, 3,700 miles had been completed. Included within the 7,500 route mile network are 1,050 route miles that are part of a joint venture with Enron in Texas, 350 route miles that are part of a joint venture with Pathnet in New Mexico and Texas, 1,300 miles in a joint build with 360Networks, and 1,500 route miles that are part of a joint build with AT&T in Texas, Louisiana, Arkansas, and Oklahoma. The Enron JV calls for the construction of 96 dark fibers along four conduits; Enron and CapRock will each keep one-quarter or 24 fibers for their own use, and the remaining 48 strands will be sold, with the proceeds divided equally.



### Recent Developments

- On June 16, CapRock priced an offering of 4.5 million shares of common stock at \$19.50, for gross proceeds of \$87.75 million. The company had previously postponed a \$125 million convertible preferred stock offering.
- On June 6, CapRock announced that it had launched service in Oklahoma City, Lafayette, LA, and Tyler and McAllen, TX.
- On May 31, CapRock chose Alcatel to supply fiber for 2,000 of its 7,500 mile network construction. CapRock will use Alcatel's TeraLight and Standard Single Mode Optical Fiber Cables. TeraLight has compatibility with dense wave division multiplexing (DWDM) and high speed transmission rates of future networks. The fiber offers flexibility in meeting future long-haul growth requirements.
- CapRock beefed up its management team in late May by hiring Renee Devine as vice president of product development to direct the strategic rollout, packaging, and bundling of CapRock's voice and data services. Ms. Devine spent 13 years with US West and three years at Crystal Communications. CapRock also named Phil Malone vice president of information technology (IT). Mr. Malone was previously vice president of IT operations for PageNet.
- On April 4, CapRock chose MetaSolv Software to enhance its OSS. MetaSolv is expected to reduce the time needed to provision new services, manage network inventory, track service orders, and ensure accuracy of information.

### Relative Value

CapRock scored eighth out of 12 in our First Quarter CLEC report. The company had strong SG&A efficiency and leverage to revenue. CapRock was weighted down by its low revenue growth asset coverage. The company had the highest DSO count, at 144.5 versus the 12-CLEC group average of 89.4. The high DSO highlights the fact that CapRock does not collect its accounts receivable in a timely manner relative to its competitors; however, some of the delay may be due to its dark fiber sales and recognition of the revenue.

### Credit Strengths

- CapRock is creating a valuable asset in the form of a wholly owned fiber optic network financed by equity, pre-sales, and debt. CapRock has entered into joint build agreements with well-known partners; 62% of its 7,500 mile is joint-build.
- By targeting secondary and tertiary markets in the Southwest United States, CapRock has chosen an area with a large and expanding customer base and little competition other than the incumbents.
- Revenue diversification strategy augments CapRock's overall value. By generating revenue from its integrated services, dark fiber sales, carrier's carrier business, and systems services, CapRock can hedge against downturns in any of the other sectors. During the first quarter of 2000,

integrated services represented 14% of total revenue, dark fiber was 53% of the total, carrier's carrier was 25% of the total, and systems services was 8% of the total revenue.

- Strategic Partners, including Cisco, Nortel, and Lucent provide the company with lucrative contracts and high quality of service associations and visibility. Relationships with other fiber players, including Enron and Williams provide CapRock with the means to leverage its network through swaps and sales.

### Credit Challenges

- The combination of constructing a fiber optic network and attracting new customers is extremely capital-intensive. We anticipate that CapRock will use \$487 million in capital expenditures for 2000, and \$320 million in 2001. Our models forecast a funding shortfall in early-2001, pro forma for using a \$100 million credit facility, \$87.8 million from a completed secondary offering, and \$175 million from a convertible offering that has been postponed. Based on its current business plan, CapRock will require approximately \$236 million in additional capital by the end of 2001.
- CapRock may encounter increased competition as additional players with significantly greater resources build fiber optic networks. Williams Communications is in the process of raising capital for its network, and a number of other concerns are in preliminary planning stages. We maintain that any company with leverageable assets such as gas pipelines or railroad rights of way poses a potential competitive threat to fiber builders.

### Company Outlook

Looking ahead, we anticipate that CapRock will steadily grow revenues while maintaining costs. For the full year 2000, we expect CapRock to generate \$288 million in revenue and EBITDA of \$30.8 million. By the end of the year, we project CapRock to have an interest coverage ratio of 0.7x, improving to 1.8x in 2001 and 3.4x in 2002.

Revenue growth should continue to be led by integrated services, which should post \$83.7 million of revenue, increasing its share of the revenue mix from 9% in the fourth quarter of 1999 to 44% in the fourth quarter of 2000.

At December 31, 2000, we forecast CapRock to have sold 277,500 access lines and have 161,618 access lines installed. Furthermore, we expect CapRock to end the year with 200 collocations in service, up from 51 at the end of the first quarter of 2000.

### Industry Trends

The competitive local exchange carrier (CLEC) opportunity is a significant one. With less than a 5% total market penetration, CLECs are targeting under-served customers of the incumbent local exchange carriers (ILECs), which are former monopolies. The growing demand for affordable bandwidth should give CLECs an opportunity to acquire



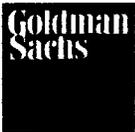
customers as long as they adhere to attractive pricing, high quality customer service, and differentiated offerings. In our view, a CLEC needs four key elements to succeed:

- 1) Management and sponsorship
- 2) Access to capital
- 3) Successful execution of the stated business plan
- 4) The maintenance of a consistent strategy with investors

We follow 13 CLECs in the high yield market. Because most of these companies are still in the build-out mode and currently operating with negative cash flow (EBITDA), we carefully track the trends in revenue growth and margin improvement. In 2000, we expect most of the CLECs we rate Market Outperformer to achieve double-digit sequential revenue growth each quarter — especially in local telecommunications and data services. We also look for several carriers to improve their gross margins and SG&A expense controls. Most of the carriers that we rate Market Performer have fallen behind in hitting their revenue growth targets and/or failed to improve their margins. Because the high yield market is currently difficult for most CLECs to access, we are concerned with the liquidity outlook for some of the carriers that have fallen behind.

In the first quarter, the CLECs in our comparison group increased revenues sequentially by over 12%, collectively reaching \$1.3 billion. EBITDA losses for the group were \$(162.5) million, including five companies generating positive EBITDA. Gross property, plant, and equipment for the group totaled \$13.26 billion, and the group has \$18.7 billion in total debt and \$5.2 billion in redeemable preferred. The group's enterprise value is now \$66.8 billion, which is a 60% increase over its total when we published our book for the 1999 Goldman Sachs Leverage Finance Conference in October of 1999. The total installed lines of the group grew 20% sequentially to 4,809,115 lines. All of the CLEC lines pale in comparison to the five Regional Bell Operating Companies (RBOCs) and GTE, which have over 160,000,000 installed lines. There is plenty of market opportunity. The CLECs also continue to make significant progress in moving lines onto their networks or switches via unbundled network elements (UNEs), which should contribute to improving gross margins in the future.

The group remains reasonably funded, with total cash at the end of the first quarter of \$10.7 billion. We are concerned about the liquidity of a few CLECs in our group, such as Adelphia Business Solutions, CapRock Communications, and KMC Telecom. Over the past 18 months, more than \$9.5 billion in private equity has funded various CLECs through their capital shortfalls, and some carriers have turned to the bank market. Given the current state of the high yield market, we think CLECs will continue to look to those sources for capital.



**Caprock Communications**

CPRK

**High Yield Research**

*Mark H. Rose (212) 902-9007  
Courtney Rudnick 212-357-9810  
06/22/2000*

### Company Description

Cogent Communications is a next generation Internet Service Provider, connecting retail customers in multi-tenant buildings to the Internet at a rate of 100 mbps. The company's line of business is to connect our customers via a high speed optical network to the Internet with a throughput at 100x the speed of a typical T-1 connection - something that is only available in today's market through Cogent.

Cogent offers its customers a single service at a single price. One hundred megabits per second Internet access for \$1000 per month. The company can connect a customer to the Internet over 100 times faster than a T-1 connection at a lower cost than a T-1. Cogent chose to sell 100 mbps connections for a very specific reason. The typical corporate local area network (LAN) operates at 100 mbps. Therefore, when a customer connects to the Internet, it will be connecting at the same speed, making the Internet appear to be a server on its LAN. Cogent also offers wholesale services to BLECs, ASPs, CLECs, and Tier 2/3/4 ISPs. Cogent provides transport services at dramatically reduced pricing in comparison to existing Internet backbone providers.

Cogent sells its service on a nonoversubscribed basis all the way to the last mile. The company guarantees 100 mbps always-on service that the customer will not share with any other customer. The company's nonoversubscription differentiates it from other ISPs, CLECs, and in-building service providers. Other providers typically oversubscribe their networks at multiple points, resulting in a lower quality of service, reducing a 1.544 mbps Internet connection into 800 kbps, or half the rated speed.

Cogent will initially serve 13 major metropolitan areas for its retail offering including New York, Philadelphia, Boston, Washington DC, Atlanta, Chicago, Houston, Dallas, Miami, Seattle, San Francisco, Los Angeles, and San Jose. New York is targeted to be operational in November 2000.

Cisco Systems and Cogent Communications have established a business partnership based on a common vision of leveraging optical technology to deliver cost effective services to customers. In a \$280 million contract, Cogent is utilizing Cisco optical equipment to build an all-optical, Cisco Powered Network which will offer the highest degree of reliability, performance and interoperability for customers. Cogent Communications dedicated Internet access service is recognized as a Cisco Powered Network Service, which translates to industry-leading network services that are high-performance, scalable, reliable and secure. Cogent is also purchasing equipment from Chromatis, a metropolitan WDM equipment vendor. Cogent is acquiring its fiber facilities from Williams Communications and Metromedia Fiber Network (MFN). Cogent has signed 20-year IRU agreements with both Williams and MFN for fiber in the metro and long haul portions of its network.

Cogent is a privately held company with funding from venture capitalists including Oak Investment Partners, Worldview Technology Partners, Jerusalem Venture Partners, Boulder

Ventures, Texas Pacific Group, Comdisco, Capital Research, Barnard & Co., Nassau Capital Partners, and C.Blair Asset Management.

### Recent Developments

- In April 2000, Williams Communications, an international provider of telecommunications services and products for the carrier marketplace leased more than 12,400 network miles to Cogent for a reported \$215 million. The two companies also have entered into a long-term relationship where Williams will serve as the preferred provider of all network services Cogent requires to support its business. Also in April, Cogent chose Cisco Info Center (CIC) to provide real-time end-to-end monitoring of its network infrastructure and service-level agreement management. In March 2000 Cogent selected Cisco Systems to supply a \$280 million all-optical nationwide ISP backbone.
- In March 2000 Metropolitan transport-services provider, Chromatis Networks Inc., unveiled a five-year, up to \$25 million purchase deal with Cogent Communications for nationwide deployment of Chromatis' Metropolis metro transport products. Also in March, Cogent announced \$100 million deal to lease dark fiber from Metromedia Fiber Network in several major markets.



06/22/2000

---



# CompeTel Europe

CLTL

Market Outperformer

## High Yield Research

Parisa Vakili 44 20 7774 8433

Jan Lernout 44-171-774-1455

06/22/2000

### Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$147mm	14.000%	SrDisc	02/15/09	Caa1/CCC+	107.00	02/04	50.00	16.95	1080	O
EUR200mm	14.000%	SrNotes	04/15/10	Caa1/CCC+	107.00	4 /05	99.00	14.18	899	O

### Balance Sheet

(Euro in millions)	FY1999	1Q2000
Gross PP&E	50.9	74.0
Cumulative Depreciation	4.1	7.0
Net PP&E in service	46.7	67.0
Network construction in progress	45.2	56.9
Net PP&E	91.946	123.9
Debt	79.6	86.1
Shareholder's Equity	43.1	531.5
Cash and equivalents	57.1	521.6

### Income Statement

(Euro in millions)	FY1999	1Q2000
<b>TOTAL REVENUE</b>	<b>3.0</b>	<b>3.0</b>
Cost of Services	2.4	3.0
Gross profit	0.6	(0.0)
Gross Profit Margin (%)	19.4%	-1.3%
<b>EBITDA</b>	<b>(38.2)</b>	<b>(15.3)</b>
Interest Expense	9.6	1.9
Interest Income	2.6	0.4
Net Interest Expense	7.0	1.4
Capex	94.0	33.3

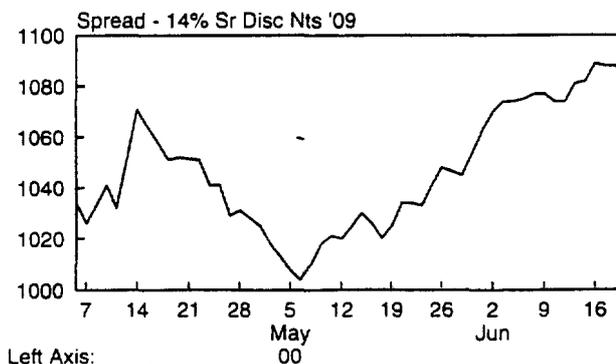
### Company Operating Data

	FY1999	1Q2000
Direct sales force	108	118
Direct fiber customers signed up	124	286
Direct fiber customers connected	45	117
Local access route km	370	528

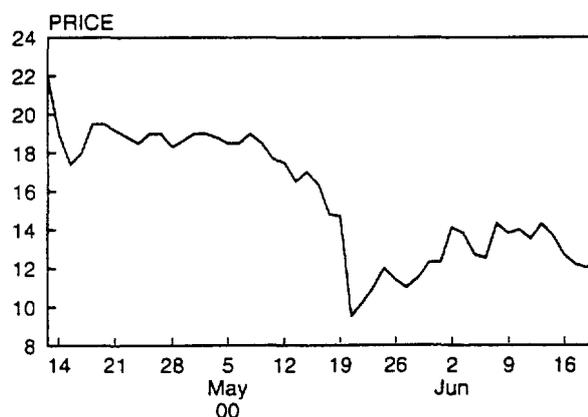
### Company Description

CompeTel was founded in January 1998. It has been developing a pan-European competitive local exchange carrier (CLEC) strategy since April 1998. The company's initial focus is on France and Germany. Though competition in indirect national and international long-distance services has increased in both markets, competition has been limited in broadband local access services. This is exactly where CompeTel will focus its efforts. The company plans to build fiber networks in 17 metropolitan areas in France and Germany. In addition to its CLEC business, CompeTel is planning to invest in 18 Internet Data Centers (IDCs) in all markets where it has fiber networks, as well as in London. During 1998, CompeTel received private equity funding from Madison Dearborn Partners, Inc., and LPL Investment Group, as well as from other investors. In December 1998, it obtained a telecommunications license for selected regions in

### Spread History



### Equity Closing Price

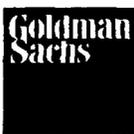


France. During the first half of 1999, CompeTel raised \$75 million through a Discount Notes offering and obtained a telecommunications license for selected regions in Germany. In July 1999, the company launched services in Paris and Lyon, followed by the German launch in November 1999. CompeTel successfully completed its IPO in March 2000 and raised additional funds through a EUR200 million Senior Notes offering in April. After the completion of the IPO, CompeTel's ownership structure on a fully diluted basis is as follows: Madison Dearborn Partners (39.1%), LPL Investments (16.3%), Meritage CP (3.7%), management (15.7%) and others (25.2%).



## Credit Strengths

- **Attractive Targeted Markets.** The German and French fixed-line markets are the two largest telecom markets in Europe in terms of telephone access lines, and were valued at EUR28.2 billion and EUR18.0 billion, respectively, at the end of 1999 (Source: IDC). According to IDC, the two countries together account for 37% of the total European fixed-line business market. Similar to the other newly liberalized European telecoms markets, we believe competition will stimulate growth in the French and German markets, which are expected to grow at a CAGR of 4.7% from 1999 to 2003. In line with EU policy, both France and Germany opened their telecommunications markets to infrastructure-based competition on 1 January 1998. There are a number of differences in the way regulation and competition in both markets have evolved. However, both France and Germany are particularly attractive for broadband access providers, because competition at the local level has been relatively slow to develop. According to an October 1999 report of the European Commission, Deutsche Telekom and France Telecom still control 98% of the local access market in their countries.
- **Strong on-net focus and rapid deployment of extensive MAN infrastructure.** CompeTel is focusing on rapidly developing a local fiber-optic network, directly connecting medium-sized customers. In a first phase, CompeTel has already built fiber rings and launched services in seven French cities (Paris, Lyon, Lille, Marseilles, Toulouse, Grenoble, and Nice), as well as four German cities (Berlin, Munich, Nuremberg, and Essen). It has already constructed more than 635 km of MAN fiber. So far, all cities were launched on or ahead of schedule. In a second phase, CompeTel will build local networks in six additional cities (Amiens, Nantes, and Rouen in France; Stuttgart, Mannheim, and Hamburg in Germany).
- **Early-mover advantage in the market for local broadband access.** CompeTel is initially focusing on developing a CLEC strategy in major metropolitan cities in France and Germany. Despite increasing competition in national and international long-distance services in both France and Germany, CompeTel has the opportunity to be the second or third facilities-based alternative local access provider in the largest metropolitan areas, and the first provider in smaller metropolitan areas. Even in those markets where there are alternative providers of local fiber connectivity, the company will initially focus on areas where there is little or no competition. We believe that facilities-based early entrants with an aggressive sales and marketing team behind them will be at an advantage, since they will develop broadband end-to-end networks ahead of competitors. This first mover's advantage allows emerging telecom operators such as CompeTel to leverage their reliable high-speed networks by offering new bandwidth-hungry services and applications. In this way, they can establish a strong brand and lock up the best customers in each market by providing a bundle of high quality services and first-class customer support at a reasonable price. This first mover's advantage increases the barrier for subsequent entrants, diminishing their returns on capital. In addition, local authorities often impose restrictions on timing and the number of times network operators can dig up the roads and lay ducts. These restrictions could result in relatively long delays for later entrants in the market.
- **Integrated Internet Strategy.** CompeTel is supplementing its traditional CLEC offering with a range of "complex Web-hosting" services through its Internet data center (IDC) strategy under a single brand. CompeTel is planning to invest in 18 Internet Data Centers (IDCs) in all markets where it has fiber networks, as well as in London. Internet peering will take place in London, Frankfurt, and Paris. As of today, CompeTel has IDCs operational in four of the 18 planned cities: Berlin, Paris, Lyons, and Munich. CompeTel's strategy is to offer both basic and value-added Internet services. Functional services include Internet connectivity and bandwidth, as well as collocation and Web hosting. Value-added services allow CompeTel to provide more complex hosting services to its customer base, including server provisioning, monitoring and maintenance, content management, traffic analysis, data vaulting, load monitoring and balancing, and application support for generic software packages. This means CompeTel's customer base can potentially outsource its requirements to go "on line" in terms of interfacing with its suppliers over the Web ("B2B" business-to-business e-commerce) and with its customers over the Web ("B2C" business to consumer e-commerce). This strategy allows CompeTel to become a one-stop shop for business customers that are looking to outsource this function. This makes customers more reliant on CompeTel, increasing revenue per customer while reducing churn.
- **Strong Operating Track Record.** Although CompeTel was founded in 1998 and launched operations in July 1999, the company has already made significant progress in implementing its extensive direct access strategy. As of today, CompeTel has launched services in the 11 markets that were targeted under the original business plan. All markets were launched on or ahead of schedule. By May 20, 2000, CompeTel already had 635 route km of local access network completed, up from 370 km at year-end 1999. At the same time, the company had signed up 450 customers for its direct fiber service. This compares with 124 signed customers at year-end 1999. By May 20, 2000, CompeTel also had 800 proposals in the pipeline. CompeTel's past experience is that it can turn over 50% of these proposals into customer orders. CompeTel is experiencing massive demand for its direct fiber services and the constraint lies only in the speed at which service can be provisioned. By the end of April 2000, CompeTel had connected 160 customers to its own fiber, up from 45 customers at the end of 1999. Even though CompeTel is largely focused on SMEs and local governmental accounts, it has already signed up larger organizations such as Aventis, Cap Gemini, and Deloitte & Touche.
- **Fully funded business plan.** At the end of the first quarter of 2000, CompeTel had 524 million in cash and equivalents on its balance sheet, after the successful completion of its IPO in March, which raised EUR511 million in net proceeds. In April, CompeTel completed a EUR200 million Senior



Notes offering. We believe that the proceeds from the IPO and the notes offering will fully fund the current 17-city business plan, as well as the expansion in Internet-related services, and fund the company until it becomes free cash flow breakeven in 2004.

- Complementary access methods provide additional upside at low incremental cost. In addition to fiber connectivity, CompeTel is considering the use of Wireless Local Loop (WiLL) technology and Digital Subscriber Line (DSL) technology to expand its addressable market to small and medium-sized businesses, where fiber buildout is not economical. This, in turn — with limited incremental investment — is expected to provide further upside to the company's fiber optic network. The French regulator, the ART, has proposed awarding two national WiLL licenses and two regional licenses in 22 regions, all of which are expected to be awarded in July 2000. CompeTel has applied for 18 of the regional licenses. On June 29, 1999, CompeTel obtained an experimental point-to-multipoint license for Marseilles, where it is conducting trials with the technology. At present, the French government has still not decided on a timeline for local loop unbundling. However, we believe that EU regulatory requirements will enforce the provision of unbundled local loop (ULL) before the end of 2001, and potentially by the end of 2000 (as discussed in detail in the regulatory section). In Germany, a first round of WiLL licenses has already been awarded, and CompeTel expects to apply in a new license round. However, we expect CompeTel to focus, at least initially, on the DSL opportunity in Germany as it is available today.
- Highly experienced management. CEO James Dovey served as CEO of Telewest. President Bill Pearson and CTO Rick Clevenger, who both have extensive experience in the U.K. cable and U.S. telecom industries, manage the company at the senior level. CompeTel's senior management is supported by local managers with a thorough knowledge of the local telecom market and experience gained at companies such as Alcatel, Cegetel, COLT, Belgacom, and Viag Interkom. After the completion of the IPO, management still holds 15.7% of the company.
- Strong sponsorship. Madison Dearborn Partners, LPL Investments, and Meritage are equity investors in CompeTel. These companies have invested in other start-up companies such as Nextel Communications, Focal Communications, and Allegiance Telecom. Allegiance is a successful recent CLEC start-up in the United States and, like CompeTel, targets second-tier cities. CompeTel's board of directors includes Royce Holland, CEO of Allegiance Telecom, and Jim Allen, ex-CEO and vice-chairman of Brooks Fiber Properties. CompeTel's sponsors are highly committed to support the company, as evidenced by their additional investment of EUR34 million at the time of the IPO. After the completion of the IPO, these private equity investors own 59.1% of CompeTel.
- Significant Strategic Value. CompeTel is a facilities-based local operator focused on the two largest continental European markets, with EUR60 billion of revenues as of 1998. Entry into these markets is of significant strategic importance to large multinational telecom operators. As such, we believe that, as CompeTel continues to leverage

and develop its early mover position, the company will be of significant strategic value.

### Credit Challenges

- Competition likely to increase. CompeTel will compete mainly with the incumbent operators in the different countries. In addition, the company will face competition from Cegetel and Mannesmann Arcor (the second-largest operators in France and Germany, respectively), as well as other alternative operators. However, very few competitors have actually built out local fiber loops similar to those of CompeTel. Companies like COLT and MCI WorldCom do have local infrastructure in both Germany and France, but are focusing on large corporations and multinationals in the largest cities. In addition, CompeTel is focusing on cities and areas within cities where other operators do not have local access networks. It's true that WiLL and ULL are also expected to bring more competition into the local loop; but these alternative access methods should also give CompeTel the opportunity to benefit from its early-mover advantage and rapidly expand its addressable markets to small and medium-sized businesses at relatively low incremental cost.
- Management of growth could pose a challenge. CompeTel is leveraging its early-mover advantage, in terms of both target countries and target regions within those countries. However, managing the fast growth could pose a challenge, both in finding and retaining skilled sales and technical people and in setting up scalable systems for billing, customer support, etc. The company has only a short operational history and a limited number of billing cycles with a limited number of customers. Nevertheless, management's extensive experience, the series of successful launches in France and Germany, as well as the very rapid growth in network rollout and on-net customer base, are giving us comfort that the company can continue to execute its business plan in the future.
- Additional funding may be required for expansion beyond the current business plan. As mentioned before, we believe that the IPO and Senior Notes offering fully fund CompeTel's current business plan. Nevertheless, additional funding could be required if CompeTel expands its current business plan. The existing business plan does not currently allow for DSL or WiLL deployment in France or Germany. The EUR265 million bank facility could provide extra liquidity in case of slower than expected growth or a more aggressive business plan. In addition, we believe that CompeTel's first-mover advantage in two attractive telecom markets will continue to be supported by the capital markets and that CompeTel will continue to have access to additional funding.



## CompleTel Europe

CLTL

*Market Outperformer*

## High Yield Research

*Parisa Vakili 44 20 7774 8433*

*Jan Lemout 44-171-774-1455*

*06/22/2000*

### Company Description

ConnectSouth is an Austin, Texas-based Data CLEC that offers high-speed DSL connectivity and web-based applications to small and medium-sized businesses in Tier II and III markets throughout the Southeast. ConnectSouth considers itself to be a "new Breed" of Internet company that uses its superior broadband network to deliver Internet solutions to its customers. ConnectSouth is focused on traditionally underserved markets where advanced telecommunications services and Internet technology have been slow to emerge. Also, the company knows that this is an area of the country where a significant percent of the overall industry growth is expected to take place within the next two to three years.

ConnectSouth initiated service on May 1, 2000 with the announcement of its first eight markets: Austin, Waco, Oklahoma City, Tulsa, New Orleans, Birmingham, Mobile and Biloxi/Gulfport. By the end of 2000, ConnectSouth plans to service more than 200,000 businesses, and will reach 41 markets, as the company expands its services to cities in all five states of the Southwestern Bell territory and in 9 of the 12 states in Bell South territory.

ConnectSouth's mission to revolutionize business in their service areas is centered around three core principals:

**Building on a Solid Foundation** ConnectSouth has secured total capitalization of some \$225 million in initial equity and senior debt funding. Its financial partners include Morgan Stanley Dean Witter Private Equity, Fleet Equity Partners, Waller-Sutton Media Partners, Bank of America, First Union, Morgan Stanley Dean Witter, and CIT. This record-setting funding level has allowed the company to hire a very experienced management team with strong start-up experience from CLEC, Internet and Software Industries. It is ConnectSouth's intention to have the broadest service footprint in the southern region with service in some 41 markets and 338 central offices.

**"Turnkey" Internet Solutions** ConnectSouth offers its customers multi-flavors of high-speed Internet connectivity including SDSL, IDSL, ADSL, T-1 Access, VPNs and managed data services. In addition, the company is creating a "one-stop-shop" for a variety of Internet business tools including virtual email hosting, web hosting, web site builder, secure firewalls and other new web-based business applications.

**Customer Driven** ConnectSouth is completely customer-focused with an experienced staff of sales and field technicians located within each of its markets. The company is actively involved in local markets and with vertical business segments. ConnectSouth operates a 24 X7 tech support service and Network Operating Center (NOCC), and is web-enabled for all bill presentations, ordering, trouble report status, network utilization and account administration.

ConnectSouth began operation as one of the best-funded companies of its kind by securing a first round of financing of

\$100 million from Morgan Stanley Dean Witter Private Equity, Fleet Equity Partners and Waller-Sutton Media Partners. On June 13, 2000, ConnectSouth announced that it had raised another \$125 million in Senior Debt Funding from Morgan Stanley Dean Witter, First Union, Bank of America and CIT. The additional financing will allow ConnectSouth to fully fund the completion of its aggressive network deployment and provision of application services to some 41 markets by the end of this year.

Key strategic partners include: Paradyne Networks, Inc., is a leading innovator, developer, and manufacturer of high-speed network access solutions over copper wire. Paradyne has shipped more than 4,000 Hotwire DSL Access Multiplexers (DSLAMs) for a total capacity of more than 1.3 million lines. Turnstone Systems provides products that enable local exchange carriers to rapidly deploy and sufficiently maintain DSL services. The company's products enable the automations and remote control of installation, qualification, and maintenance of copper telephone lines. Nortel Networks is a global leader in telephony data wireless and wire line solutions for the Internet. Today, Nortel Networks is creating a high-performance Internet that is more reliable and faster than ever before. It is redefining the economics and quality of networking and the Internet through Unified Networks that promise a new era of collaboration, communications and commerce. Cisco systems is a worldwide leader in networking for the Internet

### Recent Developments

- On June 13, 2000, the company announced that it had raised an additional \$125 million in Senior Debt Financing from Morgan Stanley Dean Witter, First Union, Bank of America, and CIT. The financing will allow the company to fully fund the completion of its aggressive network deployment and provision of application services to 31 markets by the end of the year.
- On May 31, 2000, ConnectSouth selected the Nortel Networks "Shasta" 5000 Broadband Service Node (BSN). ConnectSouth will be able to give its customers industry-leading network-based Virtual Private Networks (VPN) services which bring quality, corporate-level intranet of secure network services to small and medium sized businesses.
- On January 14, 2000, ConnectSouth has announced plans to launch service in 80 cities across the Sunbelt.
- ConnectSouth obtained a \$100 million equity commitment from an investment group that includes Morgan Stanley Dean Witter Private Equity, Fleet Equity Partner and Waller-Sutton Media Partners.

### Credit Strengths

- ConnectSouth obtained a \$100 million equity commitment from an investment group that includes Morgan Stanley Dean Witter Private Equity, Fleet Equity Partners and Waller-Sutton Media Partners. This investment commitment



*06/22/2000*

---

positions ConnectSouth as one of the best funded regional DSL players in the country and will allow ConnectSouth to build a broadband, high-speed DSL network in 80 cities, serving an estimated 5 million businesses throughout the region. In addition to the significant financial commitment, the investment group brings industry insight from their existing or past involvement in such companies as Exodus, USinternetworking, Verio, Brooks Fiber, Allegiance Telecom, Internap and Equant.



**Balance Sheet**

9US\$ Millions)	3/31/00
Cash	71.6
Total Debt	208.6
Net PP&E	18.2
Equity Market Capitalization	806

**Income Statement**

(US\$ Millions)	1Q00A
Revenue	19.0
Gross Margin	(128%)
EBITDA	8.4
Capital Expenditures	120.1

**Company Description**

CoreComm is a facilities-based communications company that provides telephone, Internet, and data services to business and residential customers in targeted markets in the United States. The company is principally located in Ohio, Illinois, Michigan, New York, and Massachusetts. It is executing a CLEC smart build strategy to build its "Smart LEC" network, and plans to offer bundled packages of telecommunications and data services.

CoreComm's management team has extensive experience in the telecommunications industry and includes Barclay Knapp as CEO and George Blumenthal as chairman. Management founded and operates NTL Incorporated, a large telecommunications and cable provider in the United Kingdom, and Cellular Communications, Inc (CCI), a cellular operator in Ohio and Michigan that was sold to AirTouch.

CoreComm obtained its telephone services customer base primarily by acquiring the wireline assets of USN when that company was in bankruptcy. With the USN assets, CoreComm has gained (1) customers that may churn over the next few quarters as it assesses the quality of the USN operations and (2) a proprietary provisioning system that interfaces with the ILECs for line orders. CoreComm acquired MegsNet, a national Internet Service Provider, to gain 30,000 Internet subscribers, a national ATM network, and local telecommunications facilities in Chicago.

The company's Smart LEC strategy includes the purchase and installation of voice and data switches and collocation equipment, including digital subscriber line (DSL) technology. CoreComm plans to lease transport capacity because of the amount of supply available in its targeted markets. The company also plans to finish constructing its Smart LEC

networks in Chicago, Cleveland, and Columbus by the end of 1999, and to complete networks in Detroit, New York, and Boston by the end of 2000. CoreComm currently operates an ATM network that reaches 80 cities using approximately 20,000 route miles of leased broadband circuits. The company is now in the process of establishing collocation facilities in 129 ILEC central offices in its six targeted markets.

**Recent Developments**

- 3/13/2000: CoreComm acquired Voyager.net in a stock and cash transaction. Voyager is the largest ISP in the Midwest, with 340,000 dial-up customers. The transaction is expected to accelerate rollout of CoreComm's data strategy.
- 3/10/2000: CoreComm acquired ATX in a stock and cash transaction. ATX offers local, LD, and data services to over 20,000 business customers in PA, NJ, and DC.
- 1/2000: DSL rollout to residential and business customers in selected markets. Called "Speed-e DSL," the service gives customers the ability to access the Internet at a variety of speeds.
- 1/2000: Opened state-of-the art technology management center, which allows the company to monitor its national Internet network and regional voice networks from one facility located in Cleveland.



**Company Description**

Cypress is a full-service broadband communications service provider that formed in 1995. Cypress provides tenants in commercial office buildings with a full line of communications services. Services offered include high-speed Internet access, digital desktop equipment, local and long distance phone service, voice mail, and digital satellite television.

The company provides its integrated services using voice and data equipment from different manufacturers, including Nortel Networks and Cisco. Cypress connects its facilities to major communications networks, including BellSouth, GTE, ICG Netcom, MCI Worldcom, Pacific Bell, Qwest, Southwestern Bell, Sprint, Verio, and others.

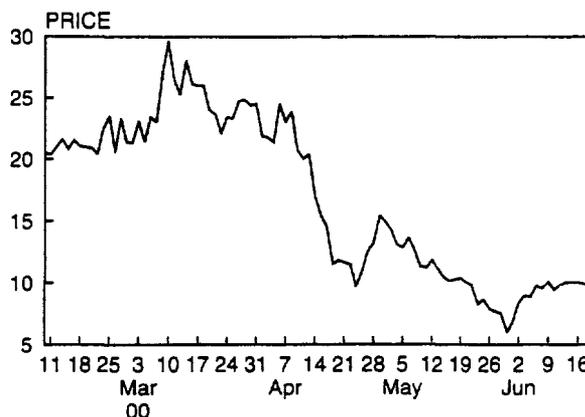
As of December 31, 1999, Cypress was operating its networks in 116 buildings representing approximately 30 million rentable square feet in 12 major metropolitan areas. The company has long-term license agreements with building owners and property managers, giving Cypress the right to install and operate its networks in more than 730 buildings representing more than 229 million rentable square feet in 50 major metropolitan areas.

Investors include: Centennial Holdings, Alta Communications, Beacon Capital Partners, and Nassau Capital.

**Recent Developments**

- On June 13, 2000, Cypress completed the installation of communications services in Embarcadero Center in San Francisco, Calif., with 3.7 million square feet of office space. The company has installed broadband communications networks in more than 260 buildings nationwide, and is in the process of constructing its facilities in at least 550 more, representing approximately 250 million square feet in more than 50 metropolitan areas.
- On June 7, 2000, the company announced a national deal with BGK Properties to provide communications services to more than 8.1 million square feet of commercial office space. This area represents 55 buildings located in 22 markets across the U.S.
- On May 3, 2000, Cypress announced its first quarter results. Revenues grew to \$2.5 million in the first quarter of 2000 from \$2.2 million in the fourth quarter of 1999 and \$1.6 million in first quarter of 1999. This increase was driven by the Company's continued excellent customer penetration in both existing and new buildings. The Company now operates in 16 markets, up from 12 at the end of 1999 and five in the year ago quarter.
- The Company reported a net loss of approximately \$11.4 million for the first quarter of 2000, compared with a net loss of \$6.2 million in the fourth quarter of 1999 and a net loss of \$1.7 million in the first quarter of 1999. EBITDA (earnings before interest, taxes, depreciation and amortization, and non-cash compensation charges) for the quarter was negative \$8.7 million, compared with negative \$5.3 million in the fourth quarter of 1999 and a negative

**Equity Closing Price**



- \$1.3 million in the first quarter of 1999.
- During the first quarter of 2000, Cypress announced it had signed agreements with 14 new landlords to provide its bundled broadband communication services to their tenants. These include the office portfolios of Pope & Land Enterprises and Taylor & Mathis.
- Significant operating achievements for first quarter 2000 included: Square feet in service almost doubled in the three months ended March 31, from 30 million at the end of the fourth quarter 1999 to 55 million at the end of the first quarter 2000. This compares with 15 million square feet in service at the end of the first quarter 1999. Business lines grew to 11,841 at the end of March, up from 10,691 at the end of 1999 and 6,622 at the end of the first quarter 1999. Data customers increased 37% during the quarter to 417, up from 305 at the end of 1999 and 108 at the end of the first quarter 1999. In order to support the Company's rapid expansion, the number of Cypress Communications employees increased to 333 at the end of the first quarter 2000, an increase of 142 people since year-end 1999.
- On April 12, 2000, Cypress announced that it had completed the acquisition of SiteConnect, a Seattle-based provider of broadband communications services. Cypress Communications had previously owned 18% of SiteConnect and had exercised its option to acquire the remaining 82% of the company.



### Company Description

Darwin Networks provides high-speed Internet access and data solutions to businesses, apartments, hotels, and college dormitories using wireless and DSL (Digital Subscriber Line) technologies. Darwin Networks was formerly the DSL operations of cable-based broadband provider High Speed Access Corporation (Nasdaq: HSAC) and was spun off in March 1999. The company today includes former regional broadband access providers Apartment and Commercial Technologies (ACT), InterQuest Communications, and ViperLink, which have been providing high speed access since 1997. These companies were acquired by Darwin Networks in August 1999.

Through agreements with AT&T, MCI WorldCom, Williams Communications, and others, as well as numerous private peering arrangements, Darwin has created a nationwide, private network infrastructure enabling its customers to generally bypass congested public network access points as they connect to their destinations and enjoy the benefits of a fully private, end-to-end, wide area network (WAN). This reflects the fact that traffic directly between different points on Darwin's network backbone allows customers to avoid the public Internet altogether.

Darwin guarantees that its network is available 100% of the time. A Network Operations Center checks the network's status every seven seconds to find problems and start fixes. Darwin's high-speed Internet connections are 10, 50, or even 100 times faster than a 56 kbps dial-up modem. Darwin is the nation's premier provider of public Internet access kiosks. To date, the company has installed hundreds of units throughout the country, in hotels, restaurants, tourist/travel centers, cafes, airports, and more. The company also installs, and operates multimedia kiosks designed for retail/eCommerce, interactive information distribution, communications, entertainment, advertising, and other uses.

Darwin Networks is partnered with several companies, including Cisco Systems, Nortel Networks, Tut Systems, Interspeed, Elastic Networks and AT&T.

Key investors include Broadband Solutions, LLC led by Chrysalis Ventures (Louisville, KY), Vulcan Ventures, Seattle, WA ; Paul Allen, Chairman), Richland Ventures (Nashville, TN),

River Cities Capital Fund (Cincinnati, OH), Associates of Moore Capital (New York, NY).

### Recent Developments

- On May 30, 2000, Darwin Networks was selected by Kampgrounds of America to equip over 100 of the company's campground sites, throughout the U.S., with public Internet access kiosks.
- On May 25, 2000, Darwin Networks was selected as the Internet service provider for a new hospitality technology service company, Stay Connect, Inc., which provides in-room PCs and high-speed Internet access for laptops to the lodging industry.
- On February 7, 2000, Darwin Networks announced the acquisition of iCom Network, a premier developer of public Internet kiosks and software that brings the Internet within reach of anyone, anywhere. This agreement expands Darwin's user base and potential markets by adding services that complement its current offerings.
- On December 22, 1999, Tut Systems Inc. announced that Darwin Networks, Inc., had entered into an agreement to purchase at least \$3 million worth of Tut's Espresso product line for the provisioning integrated communication services to the multi-tenant unit market. This agreement is expected to develop into a multi-year deal worth over \$10 million.
- On June 8, 2000, Cinema Internet Networks (d.b.a. CinemaWorks), a Canadian Internet service company, and GalaVu Entertainment, a leading provider of pay per view movies in hotels throughout Canada, announced a memo of understanding (MOU) for a joint venture to equip GalaVu-served hotels with high speed Internet services provided by Darwin Networks Inc.



06/22/2000

---



Balance Sheet

(US\$ millions)	3/31/00
Cash	714.9
Gross PP&E	91.2
Convertible Notes	345.0
Equity Market Cap	2,870.9

Company Operating Data

(US\$, millions)	1Q00
Revenue	11.3
Gross Margin %	-1.0%
EBITDA	(37.6)

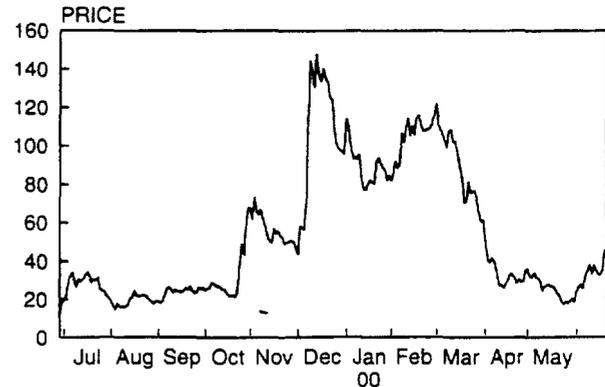
Company Description

Digital Island provides a global e-Business delivery network and suite of services for enterprises that use the Internet to deploy critical business applications and conduct e-commerce worldwide. ISLD's comprehensive solution integrates content delivery, hosting, intelligent networking and applications services, which provides customers several key benefits including: (1) a faster and more secure and consistent end-user experience, leading to increased sales, brand loyalty and customer satisfaction; (2) greater geographic reach and the ability to serve multiple geographies with content that is more relevant to their end users; and (3) a lower total cost of conducting e-Business.

ISLD enables organizations to effectively deploy and manage global applications by combining the reliability, performance, and broad range of functions available in private networks with the ubiquitous and easy access of the public Internet. Customers can choose between component solutions tailored to meet specific needs or a fully integrated comprehensive solution. ISLD has created an open platform that supports multiple data types including voice, text, graphics, file transfer, and streaming audio and video broadcast services as well as different access methods including dial-up, DSL, cable and wireless. Importantly, by hosting customers in its data centers, ISLD's network is the first solution capable of serving the 'two-way' nature of e-Business, enabling a full round trip of data from ISLD to the customer, and back. This provides an optimal solution for transactional business.

ISLD's Content Delivery Services intelligently manage content with sophisticated caching and mirroring technologies. Customers of content delivery services benefit from having content and applications served from the 1,200 local servers deployed at the edge of ISLD's network. Additionally, ISLD recently acquired Live On Line, Inc., a provider of live and on-demand streaming media services, which enables the company to provide ad integration into TV-quality streaming events as well as reduce time-to-market for e-Business streaming events. One of the users of ISLD's content delivery

Equity Closing Price



services is BlueMountain Arts, the leading electronic greetings cards company. BlueMountain incorporates a substantial amount of rich media, including large graphics, and experiences seasonal traffic demand. Using ISLD's content delivery allows BlueMountain to ensure fast response times for its end-users worldwide, and provides the scalability necessary to handle peak traffic demand that is often in excess of 10 times normal activity. Other customers include such notable companies as AOL, Cisco, and many others.

Recent Developments

- On June 20, 2000, Digital Island, Inc. (ISLD) announced a strategic and financial partnership with three leading technology providers: Compaq, Microsoft, and Intel. The partnerships seek to expand Digital Island's capabilities in the streaming market following its acquisition of LiveOnLine by greatly expanding the scope of network and end-user supported viewers while enhancing the quality of service provided over interactive broadcasts.
- On June 12, Digital Island announced a new significant customer, UBS Warburg, that is under contract for \$10 million per year for three years. In addition to the transaction, a UBS AG affiliate invested \$15 million in Digital Island.
- On May 2, Digital Island entered an agreement with Cidera to provide content to customers through the Cidera Internet satellite backbone. Cidera distributes broadband Internet content in North America and Europe and will provide satellite delivery to servers throughout Digital Island's network.

Financial Performance

On April 17, 2000, the Company announced financial results for its second fiscal quarter ended March 31, 2000. Revenues for the quarter grew to \$11.3 million, a 49% increase over revenues of \$7.6 million for the quarter ended December 31, 1999, and a 370% increase over revenues of



06/22/2000

\$2.4 million in the same quarter of the prior year.

The loss for the quarter ended March 31, 2000 was \$40.9 million before amortization of goodwill and other intangible assets related to the merger with Sandpiper Networks, Inc. and acquisition of Live On Line, Inc., or \$0.66 per share. The net loss for the three months ended March 31, 2000 was \$92.7 million including amortization of goodwill and other intangible assets, or \$1.49 per share, compared with a net loss including amortization of goodwill and other intangible assets for the quarter ended December 31, 1999 of \$24.0 million, of \$0.65 per share.

The EBITDA loss (loss before interest, taxes, depreciation, amortization and other non-cash charges) in the quarter was \$35.9 million, compared with an EBITDA loss of \$20.1 million for the quarter ended December 31, 1999, and with an EBITDA loss of \$7.9 million in the same quarter of the prior year.

### Outlook

As Internet usage and commerce continue to experience rapid growth and as new, higher bandwidth, mission critical data and traffic gain further prevalence, businesses are increasingly demanding global 'e-Business delivery networks' that operate with the functionality, security, and performance levels previously available only on private corporate networks. Goldman, Sachs Investment Research estimates that the aggregate size of the e-Business delivery market, which includes web hosting, content delivery, network services, and application services, will be greater than \$100 billion in 2000.

### Industry Trends

Internet usage is growing rapidly worldwide, and we think the companies providing Internet infrastructure services are well positioned to take advantage of this opportunity. According to Forrester Research and the Yankee Group, the U.S. Web hosting market is projected to grow from \$1.9 billion in 1999 to \$14.6 billion in 2003 — a 66% CAGR. While the U.S. was the site of most of the expansion in earlier years, international markets have now surpassed it and continue to grow more rapidly. Forrester and Yankee estimate that the European Web hosting market will grow from \$0.5 billion in 1999 to \$5.3 billion in 2003, a 80% CAGR. As a result, a number of Internet infrastructure companies are expanding their presence abroad, looking to take advantage of the high growth potential. In addition, customers are demanding that Internet Infrastructure companies provide them with a presence that is truly global.

Meanwhile, increased usage has driven similar growth for a number of other services, many of which are growing even more rapidly. These include e-commerce and other content services, managed access ("Intranets"), Web hosting, security services, and other products such as IP-based voice, fax, and video services. In our opinion, other factors are also driving (and benefiting from) Internet growth, including telecommunications deregulation and technological advances, both of which have made high-speed access more affordable

to a broader range of businesses and consumers. This, in turn, is increasingly making Internet access and applications a requirement, rather than a luxury — even for smaller businesses.



# Exodus

EXDS

Market Outperformer

## High Yield Research

Mark H. Rose (212) 902-9001

David Corleto (212) 357-2723

06/22/2000

### Bond Price Data

Amount	Coupon	Priority	Maturity	Ratings	Next Call		Bid Price	YTW	STW	Opinion
					Price	Date				
\$375mm	10.750%	SrNotes	12/15/09	NR/B-	105.98	12/04	98.00	11.10	497	O
EUR125mm	10.750%	SrNotes	12/15/09	NR/B-	105.98	12/04	101.00	10.55	536	O
\$275mm	11.250%	SrNotes	07/01/08	NR/B-	101.88	7/05	100.00	11.25	492	O

### Balance Sheet

(US\$ millions)	YE99A	1Q00A
Cash	1,051	905
Total Debt	1,598	1,350
Gross PP&E	423	586
Equity Market Capitalization	20,352	25,714

### Income Statement

(US\$ millions)	4Q99A	1Q00A	FY00E
Revenue	101.4	134.1	778.6
Gross Margin	22.7%	29.4%	28.4%
EBITDA	(12.6)	1.7	57.1
Capital Expenditures	142	163	613

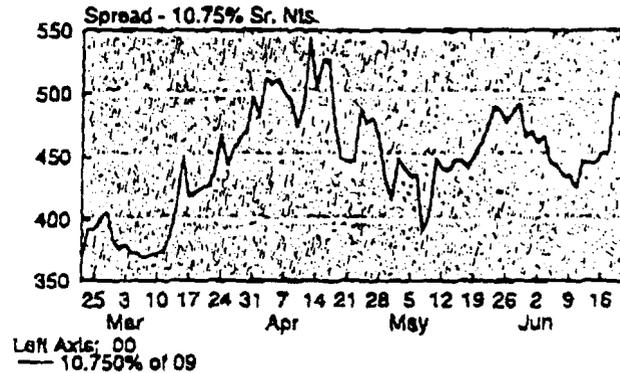
### Company Description

Exodus is the world's leading provider of Internet Web-hosting services to the largest users of the Internet. Its core competencies are the physical design, installation, and management of Web sites. The company has built 19 IDCs or over 1.7 million square feet of secure, controlled environment data center space with redundant fiber connections to the Internet and redundant power supply similar to a telecommunications central office. Within its data centers, Exodus leases server (collocation) space and bandwidth connectivity to the Internet. Exodus provides its space and connectivity to high-end dot-com and large enterprise customers. Because these large customers have multiple server Web sites that are very complex, Exodus also offers installation service, security consulting, data backup, mirroring, caching, Web site metrics tracking, and other professional services that are valued added for the customer and leverage Exodus's core competency of Web site hosting and management.

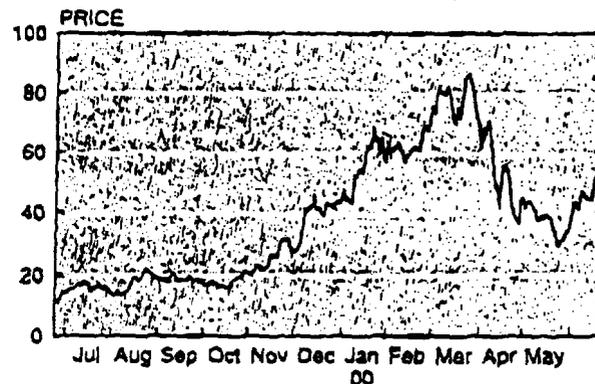
### Recent Developments

On June 7, Exodus announced that it named CEO Ellen Hancock as chairman, and appointed Don Casey as the new president and COO. Casey comes to Exodus from Wang Global, where he served as president until the company was acquired last year by Getronics NV. He

### Spread History



### Equity Closing Price



previously worked at Apple Computer, Lotus Development Corp., and IBM.

- Exodus unveiled its Exodus Alliance Exchange on May 23, which allows Exodus's 700 alliance partners to share customer referrals and to work more closely together within the Exodus Internet Data Center Network. The exchange uses a secure Web-based system to allow participants to promote products and services to each other within the Exodus partner community, thereby serving their own customers better while at the same time strengthening their relationship with Exodus.
- In April 2000, Exodus completed its strategic investment in Mirror Image Internet, a subsidiary of Xcetera.com Inc. Under the terms of the investment, Exodus received 15% of



Mirror Image in exchange for \$75 million cash and 3.75 million shares of Exodus stock, which at the time of the agreement totaled approximately \$563 million. Exodus will offer Mirror Image's patented Internet content distribution technology and services throughout Exodus's Internet Data Center network. Mirror Image's technology allows users to deliver and receive requested content at maximum speeds, regardless of location or volume demand.

- During the first quarter of 2000, Exodus reported its first quarter of positive EBITDA, added 545 new customers to bring its customer total to 2,830, and raised its average annualized revenue per customer to \$220,000 from \$196,000. In addition, Exodus announced on its first quarter conference call that it plans to increase its IDC buildout from 34 to 36 facilities in order to better meet swelling demand. The 36 IDCs should contain 3.9 million gross sq. ft. of space, an average of 108,000 sq. ft. per facility.

**Credit Strengths**

- Exodus is a leading player in an industry experiencing rapid growth. The explosion of the Internet and e-commerce is forcing virtually every company in every industry to establish some type of Web presence. Forrester Research predicts the Internet hosting services market will increase from \$2.0 billion in 1999 to \$14.6 billion in 2003, while the overall U.S. business Internet services market should increase from \$7.7 billion in 1999 to \$56.6 billion in 2003. Clearly, the Internet is no longer optional for businesses. Most of the large providers of Web site hosting and outsourcing that we follow have data centers that are over 70% full.
- Exodus is scaling to meet the demand. Exodus currently has 1.7 million square feet of operational data center space, and while the company does not release the amount of space that is unoccupied, it has filled some of its data centers in as short as a few months after completion. In 2000, the company has plans to construct an additional 1.8 million square feet of data center space, which could drive nearly \$2 billion in annualized revenues when filled out.
- First mover advantage has established Exodus as "the" Web-hosting company. Exodus recognized the Web-hosting opportunity early on, and moved quickly to gain a first mover advantage in server hosting. Because Exodus was one of the earliest providers of Web server hosting, it has captured a client list that includes a who's who of the Internet and established itself as the top Internet infrastructure provider to enterprises and "dot-com" companies. Exodus's new business win rate of 75-85% is evidence of its dominant position in Web site management, and the company's fourth quarter churn rate of less than 2% implies Exodus is keeping its customers satisfied. We think a typical CIO or IT manager deciding to outsource Web-hosting would look at Exodus's client list and take comfort that his company would share the same facilities as Yahoo! and Merrill Lynch.
- Because Web site management is rapidly increasing in technical complexity, we think demand for Exodus-type services will continue to increase. Web site management/professional services, such as security,

performance monitoring, and backup services, are becoming increasingly important and complex. Based on recent events of computer hacker attacks, we think that this trend is likely to continue. Exodus is focused on expanding its offerings in Web site management and professional services. In 1999, revenue per customer grew as incremental managed/professional services were added to Exodus's existing offerings. The additional services have also contributed to Exodus's low customer churn rate.

- Exodus simply outperforms its competition. Exodus competes with customer service, rapid delivery, and the most complete suite of Web-hosting and professional services capabilities. It competes on value proposition, not price. On the few occasions that Exodus has lost competitive bids, the most frequent reason was price. Most of Exodus's competition comes from Frontier (Global Crossing) Global Center, GTE/BBN, AT&T CorpNet, Qwest, and WorldCom. Exodus's most strategic asset is its current satisfied and successful customer base. Clients include Yahoo!, ebay, GeoCities, Hotmail, Lycos and MindSpring, Merrill Lynch, Nike, Nordstrom, the Sharper Image, and over 2,300 other dot-coms and enterprises.

**Credit Challenges**

- In recent months, the Web-hosting space has expanded substantially, as a number of new entrants have begun construction on new Internet Data Centers. Many of these new competitors have deep pockets and strong financial backing; others are network providers seeking to add value to their existing network infrastructures. Over the next year, at least 10 million sq. ft. of new data center space will become operational. Increased competition and a glut of data center space could impede Exodus's future growth and development.
- Nearly half of Exodus's customers are dot-com, Internet-centric companies who enjoy high equity market valuations. A prolonged economic slump could affect Exodus's customers and their ability to stay in business, which could have adverse effects for Exodus.

**Industry Trends**

Internet usage is growing rapidly worldwide, and we think the companies providing Internet infrastructure services are well positioned to take advantage of this opportunity. According to Forrester Research and the Yankee Group, the U.S. Web hosting market is projected to grow from \$1.9 billion in 1999 to \$14.6 billion in 2003 — a 66% CAGR. While the U.S. was the site of most of the expansion in earlier years, international markets have now surpassed it and continue to grow more rapidly. Forrester and Yankee estimate that the European Web hosting market will grow from \$0.5 million in 1999 to \$5.3 billion in 2003, a 80% CAGR. As a result, a number of Internet infrastructure companies are expanding their presence abroad, looking to take advantage of the high growth potential. In addition, customers are demanding that Internet infrastructure companies provide them with a presence that is truly global.



EXDS

**Market Outperformer**

Mark H. Hoss (212) 902-9001  
David Corleto (212) 357-2723  
06/22/2000

Meanwhile, increased usage has driven similar growth for a number of other services, many of which are growing even more rapidly. These include e-commerce and other content services, managed access ("intranets"), Web hosting, security services, and other products such as IP-based voice, fax, and video services. In our opinion, other factors are also driving (and benefiting from) Internet growth, including telecommunications deregulation and technological advances, both of which have made high-speed access more affordable to a broader range of businesses and consumers. This, in turn, is increasingly making Internet access and applications a requirement, rather than a luxury — even for smaller businesses.