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pioneer in long- distance competition, is now a takeover target by SBC (SBC: news, msgs, alerts) , the biggest of the regional Bells. Speculation persists that Bell South (BLS: news, msgs, alerts) wants to acquire Sprint at its current bargain price. Of the hundreds of smaller companies now competing in long distance, it's clear that only a handful will survive.

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Many new companies launched to compete in local services are in financial collapse as they try to compete with the Bells while still depending on them for local network support. Furthermore, at least eight high-speed Internet access providers went out of business or declared bankruptcy in late 2000 and early this year. We are not making progress!

What went wrong? It's too easy to blame the greed of the Bells. They are acting as any company with almost 100 percent market share would act, using their power to protect their turf while taking a chunk of the turf next door. Congress, regulators and the Act itself have to share responsibility.

The SEC, the Department of Justice and the FCC gave the regional Bells free rein to merge from seven companies into four, swallowing up GTE in the process. But these same regulators turned thumbs down on a merger between Sprint and WorldCom/MCI, a deal the Yankee Group strongly advocated.

The Act's assumption that the competitive business model for long distance could be easily imposed on the local service business was naïve, at best.

Consumers have traditionally paid too little for local service and businesses too much. It's a market held together by complicated subsidies for years and shunned by most companies. It's also a business where new entrants have to depend on the incumbent local provider to lease them capacity on the incumbent's network at reasonable wholesale rates, and provide other forms of technical cooperation.

Understandably, the Bell companies are in no hurry to accommodate potential competitors, as the Act requires. And the regulatory community, especially in the states, is generally more interested in accommodating the Bells than forcing their compliance.

While I am not a fan of increased regulation, I would urge new FCC Chairman Michael Powell not to wash the FCC's hands of responsibility for enforcing the Telecom Act. Specifically, the FCC should temporarily halt consideration of all applications from Bell companies to enter long distance in individual states until their residential local service markets

show some signs of viable competition. And future long-distance applications should be considered separately for business and consumer markets.

Finally, state regulatory commissions should follow the lead of Pennsylvania and require the Bells to set up separate wholesale subsidiaries that would be required to sell network capacity to competitors under the same conditions that they sell it to their own parent Bell company.

The alternative is to do nothing and simply watch while the country is carved up into four Bell System style monopolies. That would bring competition to a halt and slow innovation to a crawl, while sending prices up and employment down. America literally cannot afford to let that happen.

Brian Adamik is president and COO of Yankee Group, based in Boston.

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Deutsche Banc Alex. Brown

US
Telecommunication Services

Deutsche Bank

June 14, 2001

Verizon Communications

One of the Giants

Rating Remains
Buy

Price (6/14/01)
US$53.35

Exchange: Ticker
NYSE: VZ
Target Price:
US$60.00

FY: (Dec.)	1Q	2Q	3Q	4Q	FY EPS	CY EPS	CY P/E	Rev MM
EPS (US$):								
2000A	$0.69	$0.72	$0.73	$0.77	$2.91	$2.91	18.6x	$63,423
2001E	0.72	0.75	0.80	0.84	3.11	3.11	17.4	68,647
2002E	0.82	0.83	0.87	0.92	3.44	3.44	15.7	74,466

Source: Deutsche Banc Alex. Brown estimates and company information

52-Week Range:	$59-$39	ROE:	26.1%
Shares Outstanding: (MM)	2,725	LT Debt: (MM)	$42,491
Market Cap: (MM)	$147,88	LT Debt/Total Cap:	22.4%
Float: (MM)	2704	Div./Yield:	$1.54/2.9%
Avg. Daily Volume:	5,407	3- to 5-Year Growth Rate:	9.7%
S&P 500:	1,278	CY01E P/E-to-Growth:	1.8x

Verizon sits at the top of the heap of the world of telecom. It obtained this position by virtue of its steadieness and by watching many of the other telecom companies self-destruct. However, staying atop in both the wireline and wireless arenas will be challenging, in our opinion.

- The most competitive landscape in the world confronts Verizon every morning in its own NYC backyard, with companies ranging from IXCs like AT&T and WCOM; to cable providers like Time Warner, Cablevision; and RCN and CLECs like Focal and XOXO. Verizon faces more local competition than any other ILEC.
- Verizon is the nation's largest wireless carrier with a leading market share of 27.1 million subscribers. But even here it cannot rest on its laurels. $8 billion of recently acquired spectrum, an aggressive partner in Vodafone and an uncertain future for the 3G platform and services keep the future as being anything but certain.
- On the regulatory front, it seems that barely a week goes by without another state indicating that it is going to look at structurally breaking up the RBOC operating in that state, thereby adding regulatory costs and pressures to the normal business mix.
- With arguably the most demanding mix of communications-sensitive customers, Verizon has both the most opportunities and the most pressures of any telecom firm.
- Easy and reasonable access to the capital markets is a key competitive advantage for Verizon, in our opinion, and the recently completed trend-setting convertible bond transaction highlighted this key advantage.
- Entry into LD, DSL initiatives and the factors cited above all contribute to our Buy recommendation and $60.00 target price.

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Financial Review and Discussion

Normally, we begin with a review and discussion of financial results, but because of the importance and visibility of the recently completed convertible bond transaction, we want to review the dynamics of the bond. Given the success with which the bond was received (although it has subsequently traded down), we believe that we are likely to see further convertible bond offerings from other companies in the sector.

The bond as issued is a '0' coupon 20-year bond with a 3% yield and $3 billion in proceeds. The bond was priced at $551.26 and if held to maturity, will accrete in value to be worth $1,000 in 20 years and the bond can be called at par in 5 years by the company or put back to the company at par at 3, 5, 10, and 15 years. If the bond had been issued at rates closer to market (i.e., 6%-7%), then it would have been priced at $306.56 (or $252.57). At market prices, this implies an option cost of $244-$298 per bond. Since each bond can buy 14.39 shares per bond, this implies an option cost per share of $17.01-20.76.

Figure 1: Cost of the Option

Yield	3.0%	6.0%	7.0%	7.5%	8.0%
Price	551.26	306.56	252.57	229.34	208.29
Options cost	N/A	244.71	298.69	321.92	342.97
Total cost of bond	551.26	551.26	551.26	551.26	551.26
Option cost per share		$17.01	$20.76	$22.37	$23.84

Source: Deutsche Banc Alex. Brown estimates and company information

Given that Verizon issued the bonds at such favorable rates, we estimate in the table below, the true or total cost to Verizon if the bonds are converted to equity. For example, if the bonds are converted at the end of the third year, the bondholder would be buying the stock at $75.99. Since we estimated the cost of the option at $20.76 per share given a fair market rate of interest, the net cost per share to exercise the option is $96.75, including the cost of the option.

Figure 2: Conversion Comparisons

	Yield	3.0%	6.0%	7.0%	7.5%	8.0%
Year	Minimum Trigger Price	Conversion Price	Net cost per share to VZ			
0	$ 83.40	$ 69.50	$ 52.49	$ 48.74	$ 47.13	$ 45.66
1	$ 85.56	$ 71.60	$ 54.59	$ 50.84	$ 49.23	$ 47.76
2	$ 87.78	$ 73.76	$ 56.75	$ 53.00	$ 51.39	$ 49.92
3	$ 90.05	$ 75.99	$ 58.98	$ 55.23	$ 53.62	$ 52.15
4	$ 92.38	$ 78.29	$ 61.28	$ 57.53	$ 55.92	$ 54.45
5	$ 94.77	$ 80.66	$ 63.65	$ 59.90	$ 58.29	$ 56.82

Source: Deutsche Banc Alex. Brown estimates and company information

To exercise the option in May 2004, the stock would have to have traded above $90.05 per share for at least 20 of the previous 30 trading days. Given these terms and conditions, we estimate that the stock would have to hit approximately $107 per share by May 2006 for the bond holder to have earned approximately 7% on his or her investment over the 5-year period.

Figure 3: Sample Projected Returns

Example @ 7% Comparable Bond Yield Investment - Year 5 Conversion

VZ Price - 5/2006	94.77	100	105	110	115	120
Total cost (option value plus conversion price)	101.42	101.42	101.42	101.42	101.42	101.42
Gain	-6.65	-1.42	3.58	8.58	13.58	18.58
PV Gain @ 7% discount rate	-4.74	-1.01	2.55	6.12	9.68	13.25
5-year return	-22.8%	-4.9%	12.3%	29.5%	46.6%	63.8%
Compounded annual return	-5.1%	-1.0%	2.3%	5.3%	8.0%	10.4%
Bond return	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total annual return	-2.1%	2.0%	5.3%	8.3%	11.0%	13.4%

Source: Deutsche Banc Alex. Brown estimates and company information

Given that Verizon is currently trading at approximately $55.00 per share, the share price would have to approximately double by May 2006 for the bondholder to have earned above-market returns.

We think this was an excellent transaction for Verizon and emphasizes its capital market expertise and capabilities. Borrowing money at an effective rate of 3% is a compelling competitive advantage in the capital-intensive telecommunications industry. Because of the favorable returns provided by such an instrument, we would expect to see further convertible financings within the sector if market conditions hold.

Financial Review

Verizon is well positioned as one of the largest telecommunications companies in the world. With a market leading share of wireless subscribers (see *State of the Nation Report*), an emerging dominance in long distance, strong growth in high-speed access and a commanding share of the local market, Verizon is one of the best risk/reward adjusted opportunities for investors in the dynamic telecom sector.

Figure 4: Annual Income Results and Projections

Verizon Communications	1998	1999	2000	2001E	2002E
Operating Revenues					
Local services	$ 20,360	$ 20,600	$ 21,368	$ 22,435	$ 23,694
Network access services	12,942	12,827	13,142	13,175	13,270
Long distance services	3,380	3,183	3,153	3,117	3,328
Other services	4,837	5,113	5,680	6,263	7,215
Domestic Telecom	41,519	41,723	43,343	44,989	47,507
Domestic Wireless	6,652	11,936	14,236		
International	1,690	1,714	1,976		
Information Services	3,818	4,086	4,144		
Other	(159)	(278)	(276)	23,629	26,568
Total Operating Revenues	$ 53,520	$ 59,181	$ 63,423	$ 68,618	$ 74,075
Operating Expenses					
Operations and support	$ 30,740	$ 33,960	$ 36,849	$ 39,537	$ 42,564
EBITDA	22,780	25,221	26,574	29,080	31,511
Depreciation and amortization	9,253	11,224	12,127	13,088	14,198
Total Operating Expenses	$ 39,993	$ 45,184	$ 48,976	$ 52,625	$ 56,762
Operating Income	$ 13,527	$ 13,997	$ 14,447	$ 15,992	$ 17,313
Operating income impact of operations sold	-	822	530	-	-
Income from unconsolidated businesses	430	615	909	1,041	1,100
Other income and (expense), net	273	136	329	340	290
Interest expense	2,605	2,714	3,455	3,705	3,782
Minority interest	(195)	(538)	(420)	(482)	(410)
Income before income taxes	11,430	12,318	12,340	13,186	14,511
Provision for income taxes	4,072	4,423	4,378	4,771	5,297
Adjusted Net Income	$ 7,358	$ 7,895	$ 7,962	$ 8,415	$ 9,215
Diluted Adjusted Earnings per Share	$ 2.67	$ 2.84	$ 2.91	$ 3.10	$ 3.40

Source: Deutsche Banc Alex. Brown estimates and company information

Please note that segment data are not provided because of the pending registered SEC offering.

Our projections for the remainder of the year show a steady improvement, rather than a large backend loaded performance pattern. The key for Verizon will be its ability to control expenses. We are relatively confident of its ability to hit our revenue figure; the issue is can it do it within the current cost structure. Areas where it is likely to miss include DSL installations where the customer service positions are working overtime to meet the flood of customers demands and inquiries relating to installation questions.

Figure 5: Verizon Quarterly Income Projections

Verizon Communications	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01E	3Q01E	4Q01E
Operating Revenues								
Local services	$ 5,349	$ 5,346	$ 5,316	$ 5,357	$ 5,620	$ 5,600	$ 5,582	$ 5,633
Network access services	3,230	3,297	3,301	3,314	3,292	3,295	3,294	3,293
Long distance services	804	780	801	768	762	773	806	776
Other services	1,233	1,493	1,458	1,496	1,246	1,680	1,677	1,661
Domestic Telecom	10,616	10,916	10,876	10,935	10,920	11,348	11,359	11,362
Domestic Wireless	2,164							
International	457							
Information Services	779							
Other	(98)	5,347	5,516	5,915	5,346	5,756	5,960	6,566
Total Operating Revenues	$ 13,918	$ 16,263	$ 16,392	$ 16,850	$ 16,266	$ 17,104	$ 17,319	$ 17,928
Operating Expenses								
Operations and support	$ 8,106	$ 9,446	$ 9,396	$ 9,901	$ 9,135	$ 9,955	$ 9,924	$ 10,524
EBITDA	5,812	6,817	6,996	6,949	7,131	7,150	7,395	7,404
Depreciation and amortization	2,529	3,148	3,211	3,239	3,360	3,228	3,241	3,259
Total Operating Expenses	$ 10,635	$ 12,594	$ 12,607	$ 13,140	$ 12,495	$ 13,183	$ 13,165	$ 13,783
Operating Income	$ 3,283	$ 3,669	$ 3,785	$ 3,710	$ 3,771	$ 3,922	$ 4,154	$ 4,145
Operating income impact of operations sold	209	211	95	15				
Income from unconsolidated businesses	231	194	270	214	216	275	275	275
Other income and (expense), net	86	24	127	92	70	95	90	85
Interest expense	780	876	914	885	921	923	928	933
Minority interest	(26)	(105)	(202)	(87)	(122)	(70)	(200)	(90)
Income before income taxes	3,003	3,117	3,161	3,059	3,014	3,299	3,391	3,482
Provision for income taxes	1,099	1,151	1,177	951	1,058	1,204	1,238	1,271
Adjusted Net Income	$ 1,904	$ 1,966	$ 1,984	$ 2,108	$ 1,956	$ 2,095	$ 2,153	$ 2,211
Diluted Adjusted Earnings per Share	$ 0.69	$ 0.72	$ 0.73	$ 0.77	$ 0.72	$ 0.77	$ 0.80	$ 0.82

Source: Deutsche Banc Alex. Brown estimates and company information

Looking at the segment results for the company, network access revenues continue to decline in relative importance, due to price changes mandated by the government. The core telephone business also is gradually subsiding in importance, primarily due to growth in wireless and to a lesser extent in international and the directory business.

EBITDA margins are holding steady in the 40-41% range and we foresee little change here; however, as we mentioned earlier, controlling expenses will be critical to the success of Verizon. Since capex is holding relatively steady to slightly declining, we see little change in depreciation levels. The continued deployment of fiber will hopefully yield some operating expense improvement as network modernization enables the company to more efficiently deploy access lines and handle outside plant trouble reports. Interest expense declines slightly, with net income margins holding steady over the next several quarters.

Figure 6: Income Statement Composition & Profile

Verizon Communications	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01E	3Q01E	4Q01E
Common size								
Local services	38.43%	32.87%	32.43%	31.79%	34.55%	32.74%	32.23%	31.42%
Network access services	23.21%	20.27%	20.14%	19.67%	20.24%	19.27%	19.02%	18.37%
Long distance services	5.78%	4.80%	4.89%	4.56%	4.68%	4.52%	4.65%	4.33%
Other services	8.86%	9.18%	8.89%	8.88%	7.66%	9.82%	9.68%	9.26%
Domestic Telecom	76.28%	67.12%	65.35%	64.90%	67.13%	66.35%	65.59%	63.37%
Domestic Wireless	15.55%	24.30%	24.62%	24.24%				
International	3.28%	2.90%	3.10%	3.20%				
Information Services	5.60%	6.49%	5.92%	7.95%				
Other	-0.70%	-0.81%	0.01%	-0.28%	32.87%	33.65%	34.41%	36.63%
Total Operating Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Operations and support	58.24%	58.08%	57.32%	58.76%	56.16%	58.20%	57.30%	58.70%
EBITDA	41.76%	41.92%	42.68%	41.24%	43.84%	41.80%	42.70%	41.30%
Depreciation and amortization	18.17%	19.36%	19.59%	19.22%	20.66%	18.87%	18.71%	18.18%
Total Operating Expenses	76.41%	77.44%	76.91%	77.98%	76.82%	77.07%	76.01%	76.88%
Operating Income	23.59%	22.56%	23.09%	22.02%	23.18%	22.93%	23.99%	23.12%
Income from unconsolidated businesses	1.56%	1.19%	1.65%	1.27%	1.33%	1.61%	1.59%	1.53%
Other income and (expense), net	0.62%	0.15%	0.77%	0.55%	0.43%	0.56%	0.52%	0.47%
Interest expense	5.60%	5.39%	5.58%	5.25%	5.66%	5.40%	5.36%	5.20%
Minority interest	-0.19%	-0.65%	-1.23%	-0.52%	-0.75%	-0.41%	-1.15%	-0.50%
Income before income taxes	21.58%	19.17%	19.28%	18.15%	18.53%	19.29%	19.58%	19.42%
Provision for income taxes	36.60%	36.93%	37.24%	31.09%	35.10%	36.50%	36.50%	36.50%
Adjusted Net Income	13.68%	12.09%	12.10%	12.51%	12.03%	12.25%	12.43%	12.33%

Source: Deutsche Banc Alex. Brown estimates and company information

We look for continued improvement in EPS, particularly in 2002, when we believe the company will have effectively entered many of its key LD markets, DSL installs become more routine (read, lower cost), their leading share of market in wireless will enable them to maintain prices and EBITDA margins. Key concerns for 2002 center less on the company and its ability to execute and more on the macro economy and the ability of key cities like NY, Boston, Philadelphia, and DC not to get caught in a significant economic downturn.

Figure 7: Sequential Growth

Verizon Communications	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01E	3Q01E	4Q01E
Growth Q/Q								
Local services	4.5%	-0.1%	-0.6%	0.8%	4.9%	-0.4%	-0.3%	0.9%
Network access services	0.6%	2.1%	0.1%	0.4%	-0.7%	0.1%	0.0%	0.0%
Long distance services	1.3%	-3.0%	2.7%	-4.1%	-0.8%	1.5%	4.2%	-3.7%
Other services	-15.7%	21.1%	-2.3%	2.6%	-16.7%	34.8%	-0.2%	-1.0%
Domestic Telecom	0.3%	2.8%	-0.4%	0.5%	-0.1%	3.9%	0.1%	0.0%
Domestic Wireless	-38.2%	82.6%	2.1%	1.2%	-0.9%			
International	0.9%	3.1%	7.9%	8.3%	-2.4%			
Information Services	-42.7%	35.6%	-8.1%	38.0%	-41.1%			
Other	-5.8%	34.7%	-101.5%	-2500.0%	-66.7%			
Total Operating Revenues	-11.9%	16.8%	0.8%	2.8%	-3.5%	5.2%	1.3%	3.5%
Operating Expenses								
Operations and support	-11.2%	16.5%	-0.5%	5.4%	-7.7%	9.0%	-0.3%	6.0%
EBITDA	-12.8%	17.3%	2.6%	-0.7%	2.6%	0.3%	3.4%	0.1%
Depreciation and amortization	-15.6%	24.5%	2.0%	0.9%	3.7%	-3.9%	0.4%	0.6%
Total Operating Expenses	-12.3%	18.4%	0.1%	4.2%	-4.9%	5.5%	-0.1%	4.7%
Operating Income	-10.5%	11.8%	3.2%	-2.0%	1.6%	4.0%	5.9%	-0.2%
Operating income impact of operations sold	-7.1%	1.0%	-55.0%	-84.2%	-100.0%	NA	NA	NA
Income from unconsolidated businesses	63.0%	-16.0%	39.2%	-20.7%	0.9%	27.3%	0.0%	0.0%
Other income and (expense), net	218.5%	-72.1%	429.2%	-27.6%	-23.9%	35.7%	-5.3%	-5.6%
Interest expense	7.1%	12.3%	4.3%	-3.2%	4.1%	0.2%	0.5%	0.5%
Minority interest	-70.8%	303.8%	92.4%	-56.9%	40.2%	-42.6%	185.7%	-66.0%
Income before income taxes	-7.5%	3.8%	1.4%	-3.2%	-1.5%	9.4%	2.8%	2.7%
Provision for income taxes	-5.7%	4.7%	2.3%	-19.2%	11.3%	13.8%	2.8%	2.7%
Adjusted Net Income	-8.5%	3.3%	0.9%	6.3%	-7.2%	7.1%	2.8%	2.7%

Source: Deutsche Banc Alex. Brown estimates and company information

Our operating revenue growth forecasts are quite conservative and do not, in our opinion, represent a stretch. The company's recent convertible bond deal (3%, '0' coupon) will help to keep interest expenses down and we are highly confident of the company's ability to deliver the above results and drive the resultant valuation.

Valuation Discussion

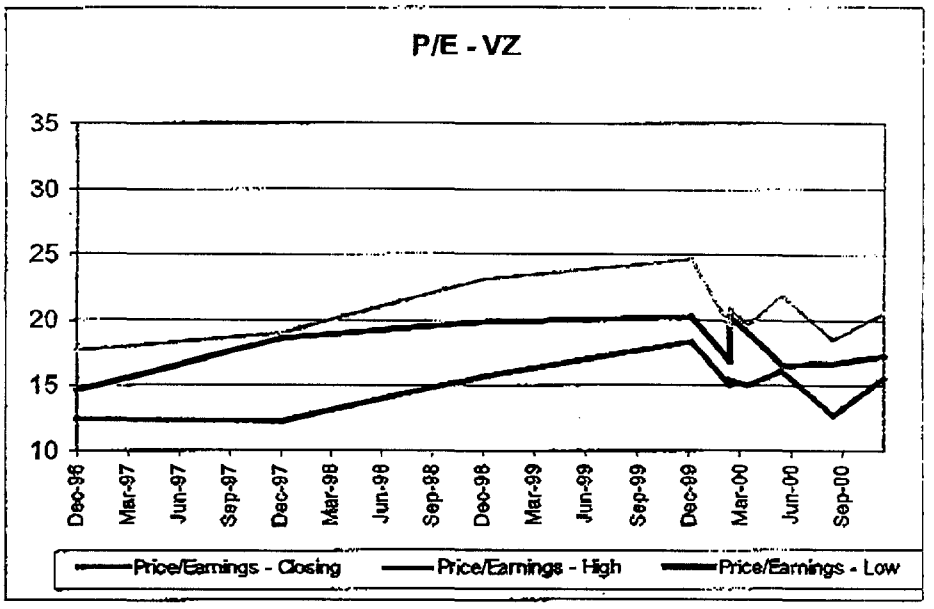
Verizon has typically traded at a discount to its peers on most valuation metrics. While the RBOCs already trade in a narrow range, we believe that they are likely to compress even tighter. We do not, however, foresee any event that is likely to change the current metrics in either direction.

Figure 8: Projected Valuation Metrics

	BellSouth	SBC	Verizon	Qwest
Valuation Multiples				
2000 EV/Rev	3.3x	3.1x	3.0x	4.2x
2001 EV/Rev	3.0x	2.9x	2.8x	3.7x
2002 EV/Rev	2.8x	2.7x	2.5x	3.2x
2000 EV/Ebitda	7.3x	7.6x	7.1x	10.8x
2001 EV/Ebitda	6.7x	7.4x	6.5x	9.3x
2002 EV/Ebitda	6.2x	6.9x	6.0x	7.9x
2000 P/E	19.0x	19.4x	18.6x	62.9x
2001 P/E	17.7x	18.9x	17.4x	68.5x
2002 P/E	16.3x	17.7x	15.7x	52.6x

Source: Deutsche Banc Alex. Brown estimates and company information

Figure 9: Historical Price/Earnings Ratio



Source: Deutsche Banc Alex. Brown estimates and Bloomberg

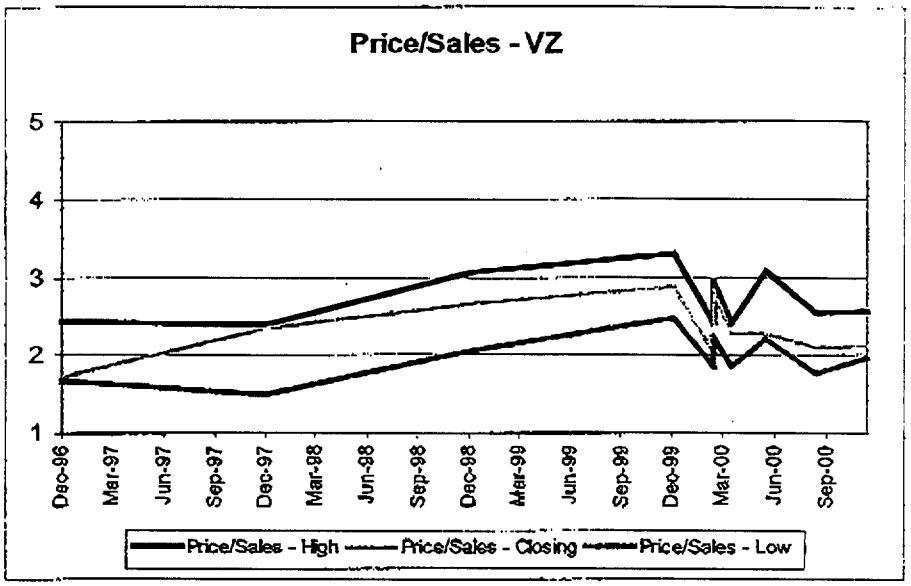
For Verizon there has been little movement in its historical P/E ratio as the company is a very stable growth and earnings story. Looking ahead, we believe Verizon will continue to trade at a high teens multiple, with little variability around that figure.

The stability of Verizon is also captured by the fact that there are not large swings from low to high values within any given time period. This lack of volatility is particularly evident in the price/sales chart shown below. Currently trading at slightly over 2x/sales, we look for Verizon to stay in the narrow 2-2.5x/sales for the 2001-2002 time period.

Of the three metrics that we reviewed, price/EBITDA showed the most volatility, possibly reflecting the fact that the company's operational earnings tend to be slightly more volatile due to the specific regulatory and competitive environment that it has in its home-region. Currently trading at

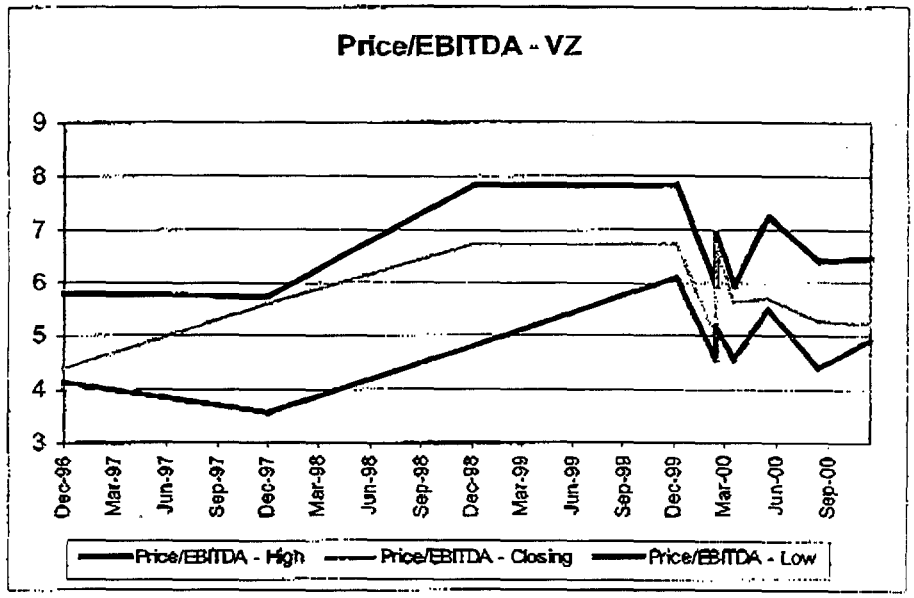
about 4.5x/EBITDA, we believe that of the three ratios, this would be the one in which Verizon could exhibit the largest improvement. To the extent that Verizon can manage costs while growing revenue, EBITDA should improve. Even more, several quarters of stable performance should enable Verizon to trade at a higher price/EBITDA multiple.

Figure 10: Historical Price/Sales Ratios



Source: Deutsche Banc Alex. Brown estimates and Bloomberg

Figure 11: Historical Price/EBITDA Ratios



Source: Deutsche Banc Alex. Brown and Bloomberg

Figure 12: Target Price

	Optimistic	Target	Conservative
P/E Valuation	$ 60.20	$ 56.76	$ 51.60
P/Sales Valuation	$ 68.83	$ 60.57	$ 52.31
P/EBITDA Valuation	$ 79.26	$ 64.58	$ 55.78
Average	**$ 69.43**	**$ 60.64**	**$ 53.23**

Source: Deutsche Banc Alex. Brown estimates and company information

We believe that the RBOCs will increasingly trade as a group, with investors making fewer distinctions between the companies. Historically, VZ has traded at a discount to its peers, a trend that we believe is likely to continue. Our reasons for this sentiment are as follows:

- Verizon operates in two of the most competitive cities, New York and Boston. By some estimates, VZ now has less than a 50% share of the dedicated access markets in NY. Providing more details on the competitive nature of the Verizon markets is our report entitled *The State of Competition*. A recent FCC report cited that CLECs in New York state now have approximately a 20% market share (the highest in the country). In Massachusetts, CLECs now have an approximate 11% share versus a nationwide average of approximately 8.5%.

- Verizon has recently committed to spend $8B to buy spectrum. The spectrum will be used to deploy 3G (packet) networks.

- Verizon operates in one of the highest cost arenas. It consistently exhibits the highest cost/access line. While it also exhibits excellent margins, any weakness in cost will have a direct impact on the company.

- On a more positive note and somewhat surprising note, the Pennsylvania PUC has recommended that Verizon be approved to provide long distance service in the state. The reason for our pleasant surprise is it was just several months ago that Pennsylvania was contemplating ordering a restructuring of Verizon. Now Verizon is within 90 days of entering this key market, awaiting FCC approval. Pennsylvania is by our estimate the second most valuable state in terms of LD potential in the Verizon footprint. We estimate that Pennsylvanians spend approximately $4.5 billion annually on voice grade long distance second only to NY where we estimate annual expenditures of $7.5 billion. Staying on long distance for another moment, Verizon has indicated that it is experiencing tremendous success in Massachusetts, where it is signing customers up at almost three times the rate experienced in NY. We estimate the Massachusetts market at approximately $2.8 billion in annual LD expenditures.

We continue to encourage investors to overweight the RBOCs as we believe that local infrastructure is the key to being successful. However, within the sector, we are becoming more cautious on VZ. After outperforming the other 3 RBOCs over the last 6-, 12- and 24-month periods, we believe that Verizon is more likely to fall into a median range, as compared to outperforming its peers. With that said, we are reducing our target price on VZ stock to $60.00 per share.

First Call Notes Recap

5/29/2001 - Continued Frenzy in the Wireline Telecom Space

AT&T released this morning the preliminary results of the wireless exchange offer. About 372.6 million shares were tendered, a number that fell short of the maximum of 428 million shares that AT&T had allocated. We see three primary reasons for the under subscription:

- The moderate premium did not provide enough incentive to tender, particularly for institutional investors. As of the close on Friday, the expiration date, the premium had shrunk to 1%, down from 7% at the announcement.
- We believe that the wireless story was not compelling enough to motivate the retail base, estimated to hold 56% of the company's share, to go through the administrative procedure.
- Finally, while AT&T's acquisitions in the past have proved questionable, it has a track record at creating value through the divestitures (seven RBOCs in 1984, Lucent in 1996). Since investors who didn't tender will receive shares of all units, including wireless, we believe a large number of shareholders have elected to stick with AT&T and at least for the moment, own a portfolio of telecommunications investments.

The final results should be available on June 4. Based on the current data, we estimate that AT&T will own 52.6% of the wireless group, indicating a 0.346 distribution ratio for the wireless split off.

Last week continued the frenzy of transactions and alliances that can potentially occur in the industry. The Wall Street Journal reported this morning that SBC, BellSouth and other large telecommunications companies may partner with EchoStar Communications in its bid to acquire Hughes Electronics. The ability to bundle entertainment with telecommunications serves several purposes. The offering provides the Bells/DTH providers a better way to compete with and gain an edge over the cable alternative thanks to the one-stop shopping formula with integrated billing and adjusted pricing. It also potentially enables them to better gain/retain phone and video market share and tap into new markets. Remember that all RBOCs have experimented at some point with video services. Verizon exited the wireline video services in 1998, deciding to partner with Hughes' DirecTV instead. SBC inherited Ameritech's Americast cable video operations and is in the process of selling/discontinuing them. BellSouth is also terminating its satellite video business while Qwest is testing a Video DSL technology. Hence, we would not be surprised if some of the RBOCs were to take a minor interest in the rumored EchoStar bid. As we keep reminding investors, the real battle that looms for the RBOCs is not with the IXCs or the CLECs or the DLECs, but with the cable companies. A stake in a DTH provider gives them leverage against the cable companies.

We would like to mention that Verizon obtained Department of Justice (DOJ) approval this morning to provide long distance services in Connecticut. This is a first for the DOJ, which has consistently recommended that the FCC deny

RBOC applications in other states. Verizon is the incumbent operator for only 60,000 lines in the state, boding well for a speedy FCC approval. Obviously, this clearing does not have financial implications, though it moves ahead the company's ambition to secure full footprint approval expeditiously. We are looking for five to six additional states this year, including Pennsylvania, the remaining New England states and possibly New Jersey.

Lastly, two of the larger CLECs to file bankruptcy gained Debtor in Possession (DIP) financing this week. Winstar (WCII) and e.spire (ESPI) each respectively received $75M and $85M. We bring these to your attention because we believe that these companies are likely to reorganize, rather than liquidate. This would enable them to compete on a lower cost basis with an improved capital structure. The ongoing presence of new, lower cost telecom firms will likely keep the dynamic and somewhat unpredictable pricing environment for telecom services in a fluid situation.

05/23/2001 - Recent Capital Market Activity Buttresses the Large Cap Telecom Companies

Recent events in the telecom capital markets, have reinforced our belief that the large cap telecom carriers are the place to be and that the capital markets are still skewed in favor of the large companies at the expense of the small companies. While strong balance sheets do not remove price pressure or share erosion, it does give the companies the wherewithal to survive uncertain capital markets and dynamic competitive and technological initiatives. The recent activity highlights the fact that investors are continuing to support the telecom industry and in particular the safest, largest names in the sector. As we mentioned earlier in the year, there is no liquidity crunch in this sector. Witness:

Convertible Market Activity

- Verizon raises $3B in the convertible market at a 3% '0 Coupon' yield and the issue holds up very well, dropping only about a $1.00 from a little over $55.125 to $54.125. .
- Nextel announces a $1B, 6% convertible deal yesterday with a 25% conversion premium.

Fixed Income Market Activity

- WorldCom raises $12B in the debt market and the issue also trades up, tightening 10-20 basis points.
- Telus a telephone operating company in British Columbia, that currently has a market cap of about $6B and debt of about $8B is poised to tap the market for another $3b in debt.
- AT&T bonds which were as wide as 245 earlier in the year are now trading at around 185 off the curve.

Secondary Offerings

- Sprint accesses the market to sell 150M shares currently owned by Deutsche Telecom and France Telecom

- British Telecom is currently looking to raise approximately $8-9B in a rights offering.
- In early May, Vodafone raised approximately $5B in a secondary offering.

Investment Thesis:

The large cap telecom companies have the liquidity to survive. They can change their business through expansion, acquisition, new initiatives, etc. They also have the asset strength to survive a mistake, a failed initiative or temporary weakness in the capital markets.

The large cap companies are using their financing capability as a competitive weapon. Not only can they acquire more funds, they can acquire them cheaper and closer to when they actually require them, all of which are competitive advantages.

The small cap companies lack this access making their long-term viability questionable and reducing their ability not only to grow, but also to survive temporary or interim setbacks.

Summary: We believe that the large cap telecom companies have probably bottomed out at this point. They have shored up their balance sheets and are well positioned to move forward. Further helping the large cap telecom companies and the RBOCs in particular is an increasingly favorable regulatory environment. Highlighting this is today's article in the Financial Times where FCC Commissioner Powell indicated support for the Internet Freedom Bill currently in Congress. The bill if approved would immediately allow the RBOCs to enter the long distance data transport business. Powell indicated in his statements that if the bill is not approved, the result would be more FCC involvement and regulation, a situation that he is not in favor of.

05/17/2001 – Verizon files for $100M rate increase in New York

Capping a busy week of events, Verizon filed for a rate increase in New York. As we have been advising investors all along, we believe the RBOCs are the safest place to be in these turbulent times. At their core, the RBOCs have a large regulated business, which is entitled to a reasonable rate of return. This aspect of the business provides a degree of safety and stability, which does not exist anywhere in this industry.

Filing for an approximately 3% rate increase (approximately $1.25/month/residence line) in New York. Verizon looks to boost revenues by approximately $100M annually. The increase is justified by the significant investment that Verizon has made in local infrastructure in NY and by the fact that there has not been any rate increase over the last six years, when the current pricing policies were put into place.

We continue to recommend that investors overweight the RBOCs as the safest most stable environment in the industry. With growth opportunities in wireless, data and long distance, the RBOCs continue to dominate the industry, a trend that not only will continue, but will likely increase, as

evidenced by Verizon's press release which was headlined "Another Day, Another Frivolous AT&T filing".

05/09/2001 - Verizon Issues $3B in Convertible Notes

Verizon raised $3B in the convertible market yesterday with a 20 year, 5 year call, '0' coupon note yielding 3%. This was a very favorable rate, given that VZ 5-year bonds are currently trading to yield 5.9%. Other key terms of the deal include a conversion price of 25% over yesterday's closing price, which works out to an immediate conversion price of $69.50. The conversion price increases at a rate of 3%/ year resulting in a price of $75.99 at the end of three years and $80.66 at the end of five years. In addition to the conversion option, noteholders have the right to put the notes back to VZ at the end of 3, 5, 10 & 15 years at accreted or par value.

Equity investors have reacted negatively to the offering, reflecting their concern regarding potential dilution, as well as what management is projecting will be fair value of VZ stock in five years, when the bonds are callable at par. Five years ago, VZ stock was priced at about $32.00/share. At yesterday's closing price of $55.67, the stock has gained approximately 70% over the previous five-year period. If VZ exhibits a similar gain over the next five years, its stock would be priced at approximately $94.00. Under this scenario, bondholders who exercise their conversion would be able to buy the stock at $80.66 in five years and sell it for the then current price of $94.00. Taking this gain, and adding it to the 3% coupon, would provide an annual return of approximately 7%, only slightly above the current yield of about 6% that VZ bonds are yielding with a five year maturity. However, to exercise the option, the stock has to trade at a premium that slides from 120% to 110% over the life of the bond, before the convert option can be exercised. During this five-year period, bondholders would have received no cash payments in the form of either dividends or coupons, with the total earnings only being realized on the conversion date, five years hence. In the interim, Verizon has effectively borrowed money at 3% with no cash payment.

We are not recommending purchase of the convertibles, which traded down slightly on Wednesday. Investors would be better off owning the stock, in our opinion, which currently pays a cash dividend of approximately 2.9%. In addition to receiving a cash payment, stockholders would be able to sell at anytime, without having to wait for the stock to appreciate 25% before they would be in a position to earn a profit. Given that the bonds can be put back to the company at par, after three years, there is admittedly slightly less risk in owning the notes versus the stock. But if you believe there is downside risk at VZ (a concern that we do not share), then you would not want to own either. At current prices, we believe investors would be well advised to buy the stock, not the convertible bonds.

04/24/2001 – Verizon's Strong First Quarter Performance

Verizon performed better than expected in the first quarter with EPS of $0.72 versus $0.69. The company recorded strong growth in its wireless, data and international operations with strong operating results from DSL, LD and data growth on the domestic wireline front. The telco announced that it will cut its

non-revenue generating accounts from its wireless customer base. VZ reiterated its $3.13-$3.17 2001 EPS target. We remain bullish on Verizon with a Buy rating and a target price of $80.

Revenues increased 16.9% to $16.3 billion. Normalizing the 1Q00 data for the formation of the Verizon Wireless venture, total revenue grew a strong 7%. Adjusting our model to the same basis, we were looking for revenue of $16.6 billion, slightly above actual. We will shortly revise our model to account for the newly released first-quarter 2000 numbers, the newly published industry trends and individual company results. Besides this wireless adjustment, we find that the numbers came in pretty much in line with our model and presented no surprise. Adding to our positive impression of overall results, is that the company did not revise downward its guidance for the remainder of the year.

Among the notable metrics:

- VZ signed up 180k new DSL customer, reaching 720k total DSL customers.
- 900,000 prepaid analog wireless accounts were deactivated, and 518,000 net additions were made, bringing the total to 27.1 million subscribers. Market penetration is at 13.3%. ARPU rose 3% to $46.
- Data revenue jumped 27.6% to $1.7 billion, carried by DS0 equivalents growth of 58.7%, driving VGEs to 112 million, from 93.5 million in the year ago quarter.
- Verizon now counts 5.2 million LD customers, including over 1.7 million in New York State. VZ just entered the $2 billion Massachusetts market, filed in Connecticut and intends to file in Pennsylvania this summer and 5 additional states later this year. VZ now has the third largest market share of LD customers in NY, with 15% of the small business market and approximately 25% of the consumer market.
- International revenue rose 15.3% to $527 million while EBITDA improved 10.9% to $143 million. The Bell serves 8.3 million proportionate international wireless customers, up 2.4 million or 41.1%.
- Information services grew a modest 1.3% to $789 million and generated an impressive 47.3% EBITDA margin.

In an upbeat conference call, the management team emphasized the international data and domestic long distance opportunities, along with the continuing wireless leading position. Overall, a good quarter for the RBOC, as VZ showed that it is beginning to reap the synergies from the GTE merger, flex its marketing muscle in the LD and wireless arenas, and growing its data, IP and DSL capabilities. We reiterate our 'Buy' rating on Verizon.

04/24/2001 - Another favorable Federal Court ruling aids the RBOCs

In a ruling that should further assist the RBOCs in their deployment of DSL, and in particular SBC in its ongoing discussion with the Illinois Commission, the DC Circuit Court of Appeals vacated and remanded an FCC order that

required ILECs to provide competitors with access to their DSL facilities. This ruling, if it stands, put further pressure on data oriented CLECs, who will need to obtain access to all RBOC facilities, not just the CO's to provision DSL. Absent this access, CLECs just become wholesalers of ILEC DSL service.

In another arena, Representative Tauzin introduced a bill in Congress that would immediately lift restrictions preventing RBOCs from entering the long distance market. While not commenting on the likelihood of passage, the RBOCs continue to aggressively work the political, judicial and regulatory fronts to attain policies that are favorable to their initiatives.

Net-Net, even though many of the RBOCs competitors continue to try and achieve competitive relief in arenas other than the marketplace, we believe that the RBOCs occupy a strategically advantageous position in the telecommunications marketplace and we continue to encourage investors to overweight the RBOCs in their portfolio.

04/16/2001 – Massachusetts LD Clearing

Verizon received FCC approval to offer long distance service in the State of Massachusetts, continuing the RBOC entry into the key long distance market. We estimate that the long distance market in Massachusetts is worth approximately $2B annually.

To give investors a better picture of Verizon's operations in the State, we list below the key operating metrics for access lines and network usage in the State of Massachusetts:

Table 1: MA Lines Detail

Year	Total Bus Lines	Total Res Lines	Switched Access Lines	Special Access Lines	Total Lines
1999	1,651,629	2,923,674	4,648,345	788,358	5,436,703
2000	1,705,762	2,880,721	4,636,622	1,575,019	6,211,641

Source: Deutsche Banc Alex. Brown estimates and company information

Table 2: MA Calls and Minutes Data

		Inter LATA Billed Access	
Year	Local Calls*	Minutes - Interstate*	Minutes - Intrastate*
1999	11,676,857	14,987,045	4,983,741
2000	10,308,303	15,831,887	6,424,235

* (000s)

Source: Deutsche Banc Alex. Brown estimates and company information

Massachusetts is a key state for Verizon for a number of reasons:

We believe that now that Verizon has obtained approval in 2 states, approval for subsequent states like MD, NJ & PA will be more easily obtained, as the template for approval is now even more firmly established.

Approval for voice grade services will open up the market for enterprise (data) services, a far more lucrative and fast growing market as evidenced by the far more rapid increase in special versus switched access lines.

Verizon should be better able to protect its local and intra-LATA toll calls by virtue of being able to offer a bundled suite of products.

Already the nation's fourth largest originator of long distance calls, this new market will only add to Verizon's traffic, thereby enabling it to achieve even greater economies of scale and scope further reducing its transport costs.

04/06/2001 - Favorable developments at the FCC for the RBOCs

In an interview conducted yesterday, that can only be seen as positive and bullish for the RBOCs, FCC commissioner, Michael Powell indicated that he does not believe that the FCC should do much to help the competitive state of the telecommunications industry. Stating that he is aware of the stock market downturn and it severe impact on the telecom industry, he indicated that Wall Street is making a big mistake and is over reacting to the fact that stock valuations for CLEC and DLEC stocks had become 'irrationally' high. He indicated that he believed that industry investors would return, because the industry fundamentals are still there.

Commissioner Powell went on to question the wisdom of states looking to break-up or restructure the RBOC and indicated that he does not have a 'whole lot of sympathy for the idea'. He went onto warn other states against following Pennsylvania's lead in requiring the RBOC to split into wholesale and retail operations. He went onto say that he believes the states need to be very thorough in analyzing the costs and benefits and had better be sure that the benefits out weigh the costs.

In his interview, he went onto to discuss the role of the FCC in reviewing and approving mergers. He indicated that the previous FCC administrations had 'coerced' concessions from companies during the merger approval process and used the process to 'hang' inappropriate conditions on the parties. He indicated that he views the commission's role in approving mergers much differently than his predecessor.

In summary, we believe these statements to be very positive for the RBOCs. We believe that the FCC will take limited action to restructure the industry or impose new and more stringent conditions on the RBOCs. We believe that the CLECs will have to rely on traditional business fundamentals and capital markets to recover rather than rely on Washington for help. Lastly, we believe that the FCC will take a much more relaxed stance to large scale mergers and consolidation in the industry, and we believe that further consolidation amongst the largest telecom operators is likely to pick up steam in the coming months.

We continue to encourage investors to over weight the RBOCs, as we continue to believe that they have all of the right attributes to emerge as victors, including a very favorable regulatory environment.

03/26/2001 - NorthPoint acquisition highlights the rapid change of fortune that characterizes telecommunications

We believe that AT&T is getting a good price on the NorthPoint equipment and we applaud their decision to push their investment in local facilities. As we have pointed out in our discussions for the RBOCs, demand for DSL remains very strong and the RBOCs have to do little to stimulate demand: the challenge they have is meeting demand. We find it interesting that AT&T Consumer Division purchased NorthPoint, raising the question in our mind how will broadband be marketed to the consumer market in cities like Atlanta and Chicago where AT&T Broadband has a major presence.

However, as we look across the telecom landscape we want to take this opportunity to highlight to investors, how rapidly valuations for both debt and equity are changing.

Just 12 months ago, NorthPoint was worth approximately $3.3 billion. Just 6 months ago, its bonds were worth $400 million. At the end of September 2000 its PP&E was worth approximately $450 million. Today, NorthPoint's debt and equity are worthless and its PP&E is only worth $135 million. In August 2000, Verizon Corp. was willing to invest approximately $800 million in cash and contribute its own DSL operations for a 55% stake, valuing NorthPoint at approximately $1.5 billion. While bondholders were ecstatic seeing their bonds rise to par, equity holders were somewhat chagrinned, seeing nearly $2 billion in value erode in 6 months. Still both bond investors and equity investors took heart in Verizon's stake.

Today, slightly more than 6 months after Verizon's involvement with NorthPoint, bondholders and investors are looking at a complete loss of their investment. Central office collocations, networking equipment and computers are worth approximately 25% of their stated value from 6 months ago.

We look for the major telecommunications companies to be able to acquire assets very reasonably in the coming months and quarters as much of the emerging telecommunications industry undergoes a badly needed restructuring. We continue to emphasize the RBOCs, which have all of the attributes necessary to survive and prosper in this dynamic environment.

03/24/2001 - We Continue to Prefer the RBOCs - Regulatory, Operational and Financial Update

The RBOCs have under performed the IXC indices for the year to date, however they have started to significantly reduce the performance gap over the last month.

We believe that the RBOCs will outperform the long distance carriers over the coming month and quarter as several recent rulings and accomplishments propel the RBOCs ahead.

Table 3: Performance Table

	LECs				IXCs			Indices		
	BLS	SBC	VZ	Q	T	WCOM	FON	SP 500	Nasdaq	DJI
52-week	(18.0)	(11.3)	(21.7)	(29.6)	(60.0)	(61.8)	(65.1)	(24.9)	(61.2)	(13.0)
6-month	3.0	(14.1)	8.5	(25.8)	(25.9)	(37.1)	(19.0)	(15.0)	(25.9)	(12.1)
3-month	(6.0)	(10.6)	(5.5)	(8.7)	30.8	18.1	4.6	(12.0)	(21.8)	(9.5)
1-month	(8.1)	(15.5)	(5.9)	(8.7)	9.4	5.5	(1.6)	(10.6)	(19.3)	(9.9)

Note: Pricing information as of March 21, 2001

Source: Deutsche Banc Alex. Brown estimates, Factset and company information

The aggressiveness with which AT&T is pursuing the RBOCs in the judicial and regulatory arenas is indicative, in our opinion, of the losses that it will incur when the RBOCs gain '271' approval. Current battle against BellSouth in Florida and Qwest in Minnesota are likely to be fruitless, in our opinion, as evidenced by the recent ruling in Pennsylvania.

While not an outright victory for Verizon, on Thursday, the Pennsylvania Public Utility Commission rejected a structural separation of Verizon in the state by a 5-0 vote. The commission rightly recognized that the costs of breaking up the company far exceeded the benefits of such a move. The continued efforts by some in the industry to restructure the RBOCs is, in our opinion, a waste of resources and nothing more than a delaying action to postpone the RBOC entry into the long distance market.

BellSouth was the latest company to announce its progress in entering the long distance market, with its announcement that it has recently successfully completed the testing of its Operating Support Systems in Georgia. With the successful completion, BellSouth is now poised to apply for approval in the second quarter and hopefully obtain approval in the third quarter. If successful, we look for BellSouth to apply for Florida approval later this year.

Another reason we remain optimistic about the RBOCs is because of the tremendous upside for DSL. BellSouth at its analyst meeting on Thursday provided an update of its operating achievements in the data/DSL environment:

Table 4: Selected DSL Metrics

	1999	2000	2001E
Markets	30	46	63
% of Homes Passed	23%	45%	70%
COs equipped	329	508	1,000
Remote Terminals Deployed	825	4,881	9,000
DSL Lines capable	7M	10M	15.5M
Installs/Day	N/A	1,300/Day (Q4 2000)	1,500/Day

Source: Deutsche Banc Alex. Brown estimates and company information

BellSouth hopes to end the year with approximately 600,000 DSL subscribers. Data/DSL, along with international and wireless form the three core growth opportunities that exist at BLS and the other RBOCs.

With these growth opportunities, investors often forget some of the core assets and safety that make the RBOCs such a good risk/reward opportunity. One such asset that often escapes investors' attention is their pension fund. With many companies having pension liabilities due to the recently poorly performing equity markets, once again the RBOCs shine as bastions of safety and stability. The status of the RBOCs pension funds as of 12/99 and 12/00 is as follows:

As the following table highlights, surplus pension funds at the RBOCs range from $4.1B to $15.2B.

Table 5: RBOCs Pension Surplus

	BellSouth		SBC		Qwest		Verizon	
($ Billions)	Dec-00	Dec-99	Dec-00	Dec-99	Dec-00	Dec-99	Dec-00	Dec-99
Pension Obligations	$12.20	$12.90	$25.60	$25.70	$9.50	$8.90	N/A	N/A
Fair Value of Pension Assets	19.4	20.5	40.8	45.9	13.6	14.6		
Unrecognized Net Gain	7.2	7.6	15.2	20.2	4.1	5.7		

Source: Deutsche Banc Alex. Brown estimates and company information

We continue to believe that in these uncertain economic times, with access to capital markets increasingly limited, the tremendous financial capability and stability of the RBOCs and the risk reward paradigm that they offer to communications investors cannot be matched in the communications industry.

03/15/2001 - RBOC-IXC Merger Unlikely

A combination of regulatory events and competitive strength result in our complete refutation of an RBOC/IXC merger.

In a major FCC ruling this morning, the FCC relaxed pricing rules and regulations on dedicated circuits that form the backbone of the network offerings of companies like WCOM. By easing price restrictions in cities and markets as small as Burlington, VT (the 248th largest market in the US), the FCC significantly improves the RBOCs' ability to go after the medium and large enterprise data customer. The ruling gives companies like SBC and Verizon the ability to set prices based on market demand rather than regulatory tariffs. In terms of magnitude, the ruling removes approximately $1 billion in access revenues from price regulations in certain markets and gives the company flexibility on approximately another $400 million in access revenues in certain markets.

Given this new found flexibility and given our belief that the RBOCs have inherent cost advantages due to their strong local network infrastructure, we believe this is one more reason why the RBOCs are not likely to merge with the IXCs. The RBOCs have effectively proven their ability to quickly and easily take consumer LD market share, this ruling should enable the RBOCs to duplicate the success they have experienced in the consumer market in the even more profitable enterprise market.

We continue to refute any likelihood of an RBOC/IXC merger, as we just do not believe that the established LDs offers inherent value to an RBOC. We

believe that their network assets are older and not fully competitive with the new fiber being deployed. We believe that their customer base is easily siphoned off by an RBOC and hence offers little 'speed to market' advantage and little incentive to 'buy versus build'.

We believe that many of these rumors are being fueled by the IXCs, in order to raise their stock prices, which have significantly under performed the RBOCs over the last 12 months.

Table 6: Multiples and Price Performance Table

			LECs			IXCs	
	BLS	SBC	VZ	Q	T	WCOM	FON
Price	$40.65	$42.11	$46.90	$35.44	$22.42	$16.44	$20.56
Valuation Multiples							
2000 EV/Rev	3.2x	3.0x	2.7x	4.0x	1.8x	1.8x	1.1x
2001 EV/Rev	3.0x	2.8x	2.5x	3.5x	1.8x	1.6x	1.1x
2000 EV/Ebitda	7.1x	7.4x	6.4x	10.2x	5.3x	9.0x	3.9x
2001 EV/Ebitda	6.5x	6.9x	6.0x	8.7x	6.6x	10.4x	5.3x
2000 P/E	18.5x	18.7x	16.1x	60.1x	13.8x	13.7x	13.1x
2001 P/E	17.3x	17.2x	15.1x	57.7x	71.9x	15.2x	12.9x
Price Performance (%)							
52-week	(10.1)	2.6	(14.0)	(30.4)	(55.6)	(66.8)	(64.3)
6-month	7.6	(1.0)	12.1	(27.0)	(26.8)	(50.0)	(27.6)
3-month	(4.3)	(15.9)	(14.6)	(19.0)	4.6	(16.5)	(16.1)
1-month	(2.4)	(7.3)	(9.3)	(16.6)	3.8	(18.2)	(10.6)

Source: Deutsche Banc Alex. Brown estimates and company information

WCOM has in particular lagged both its IXC peers as well as the RBOCs. With the recent FCC ruling, the pending '271' approval in a number of key states and the continued pricing pressure from the new long distance carriers, the potential of being acquired is the only bright spot on the horizon for WCOM. We continue to strongly discount the likelihood of any RBOC/IXC merger in 2001 and we continue to encourage investors to focus on the RBOCs whom we believe offer the best risk/reward paradigm in telecommunications.

03/06/2001 - Forecasts And Operational Details On RBOCs' Push Into LD, DSL and Wireless

The RBOCs are pushing aggressively to enter or rapidly expand into three new areas, Long Distance, DSL and wireless. Entry into these areas has been met with notable success regarding subscriber acquisition and revenue growth, but this has been tempered by higher-than-expected expenses, pushing down earnings.

For each of the RBOCs, the subscriber count results and forecasts, are as follows:

Table 7. Subscriber Base Data

Long Distance (m)	VZ*	SBC	BLS	Q**
Dec-99	3.4	0	0	0
Dec-00	4.9	1.41	0	0
3/1	5.1	1.76	0	0
12/1	6.5	3.4	0.65	0.2

* includes former GTE operations

** in-region only, adjusted for divestiture

DSL (000)	VZ	SBC	BLS	Q
Dec-99	0	115	30	110
Dec-00	540	767	215	255
3/1	700	1,000	300	290
12/1	1,250	1,800	600	500

Wireless (m)	VZ	SBC/BLS	Q
Dec-99	23.8	16.6	0.47
Dec-00	27.5	19.7	0.8
3/1	28.5	20.45	0.95
12/1	31.7	22.9	1.6

Source: Deutsche Banc Alex. Brown estimates and company information.

To achieve this type of growth, network infrastructure needs to be deployed, sales and marketing costs need to incurred, and customer equipment (i.e., handsets, line cards, etc.) need to be procured.

For DSL, DSLAMs need to be deployed in every central office (18 in Manhattan alone) at a cost of $250,000. Each central office needs to be connected to a backbone network ($500/month). After these expenses, then customers can be added at a cost of $500-$600/customer for equipment alone (reflecting both CO based equipment and Customer Premise Equipment (CPE)). Add on marketing, administrative and general overhead costs and it becomes apparent that adding customers is expensive. Even though these customers will generate an average revenue of over $70.00/month and EBITDA margins of greater than 60%.

Wireless networks face similar economic constraints. The need to continually deploy more towers to provide more service (1G, 2G, 3G) to more people (capacity issues) in more places (to improve coverage and reduce roaming) all drive capital and operating expenses higher. Add in handset subsidies, marketing costs and price pressures, and wireless consumes tremendous operating and capital dollars.

Long distance, while not having the same infrastructure requirements as wireless and DSL still requires some backbone network capacity to carry the traffic that migrates off of the AT&T and WCOM networks onto the Verizon networks. Additionally, there are marketing and administrative costs to set up billing records, etc.

In closing, we believe that the RBOCs are doing the right thing, building and investing for the long term, but short term expenses will probably be higher than anticipated.

03/05/2001 - We Are Fine-tuning Our Forecasts On Verizon And Remain Bullish

We have reduced our earnings forecast on Verizon Communications. We believe Verizon will be exposed to the same trends as its siblings going forward, meaning strong revenue growth, particularly in data, long distance, wireless, international, and DSL. And just like SBC or BellSouth, it also will have to deal with operating costs that are creeping up due to the roll out of these new services and higher capital investments.

Coupling a very competitive footprint with our expectations of high operating costs, due to the marketing and implementation of new services in new geographic areas, we have determined earnings that are below the company's guidance. As a result, we have computed EPS of $3.10 for 2001 and $3.45 for 2002, compared with a company indicated range of $3.13-$3.17 for this year and $3.49-$3.54 for the next one. Our prior estimates were $3.13 and $3.49.

Regarding the first quarter 2001, we are calling for unchanged earnings per share, at $0.69, a penny below the low end of management's guidance, once again. EPS should grow at 7.9%, 8.2% and 8.9% in the following quarters, year-over-year.

Yesterday, after the market's close, Verizon reiterated its earnings targets. It also indicated that it expects to have 5.1 million long distance customers at the end of the quarter and 6.5 million at the end of the year. We believe that Verizon can beat each of these numbers by 50k to 150k. For DSL, the carrier is looking for 700,000 subscribers in 1Q and 1.2-1.3 million in 4Q. Our model indicates 735k and 1,371k, respectively, corresponding to a year-end installation rate of 3,750 per day.

We reiterate our Buy rating and $80 target price, based on the company's growth opportunities. The telco is investing for the future, and we believe that this is the right strategy. In our view, the RBOCs are still the best place to be in the sector.

Additional Information Available upon Request

Disclosure Checklist

Company	Ticker	Price	Disclosure
Verizon Communications	VZ	$54.53	%, ++, O
Bellsouth	BLS	$40.19	O
SBC	SBL	$24.78	O
Qwest	Q	$29.82	O,&

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