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June 24, 2002

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Review of Regulatory Requirements for Incumbent LEC Broadband Telecommunications Services,* CC Dkt. No. 01-337; *Review of Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers,* CC Dkt. No. 01-338; and *Appropriate Framework for Broadband Access to the Internet Over Wireline Facilities,* CC Dkt. No. 02-33

Ms. Dortch:

On Friday, June 21, 2002, S. Randolph, L. Hoewing, D. Young, C. Odom and the undersigned met with J. Miller, R. Tanner, B. Olson, T. Navin, A. Johns, C. Carpino, J. Veach, B. Koerner and G. Cohen of the Wireline Competition Bureau to discuss the attached presentation. Please let me know if you have any questions.

Sincerely,

Dee May/AA

Attachments

cc: J. Miller,
R. Tanner
B. Olson
T. Navin
A. Johns
C. Carpino
J. Veach
B. Koerner
G. Cohen

The Electronic Communications Market

New Realities, New Competition

June 21, 2002

verizon

Snapshot

- Competition in Traditional Telephony
- What a Difference a Decade Makes
- New Services, New Markets
- A Tale of Two Broadband Networks

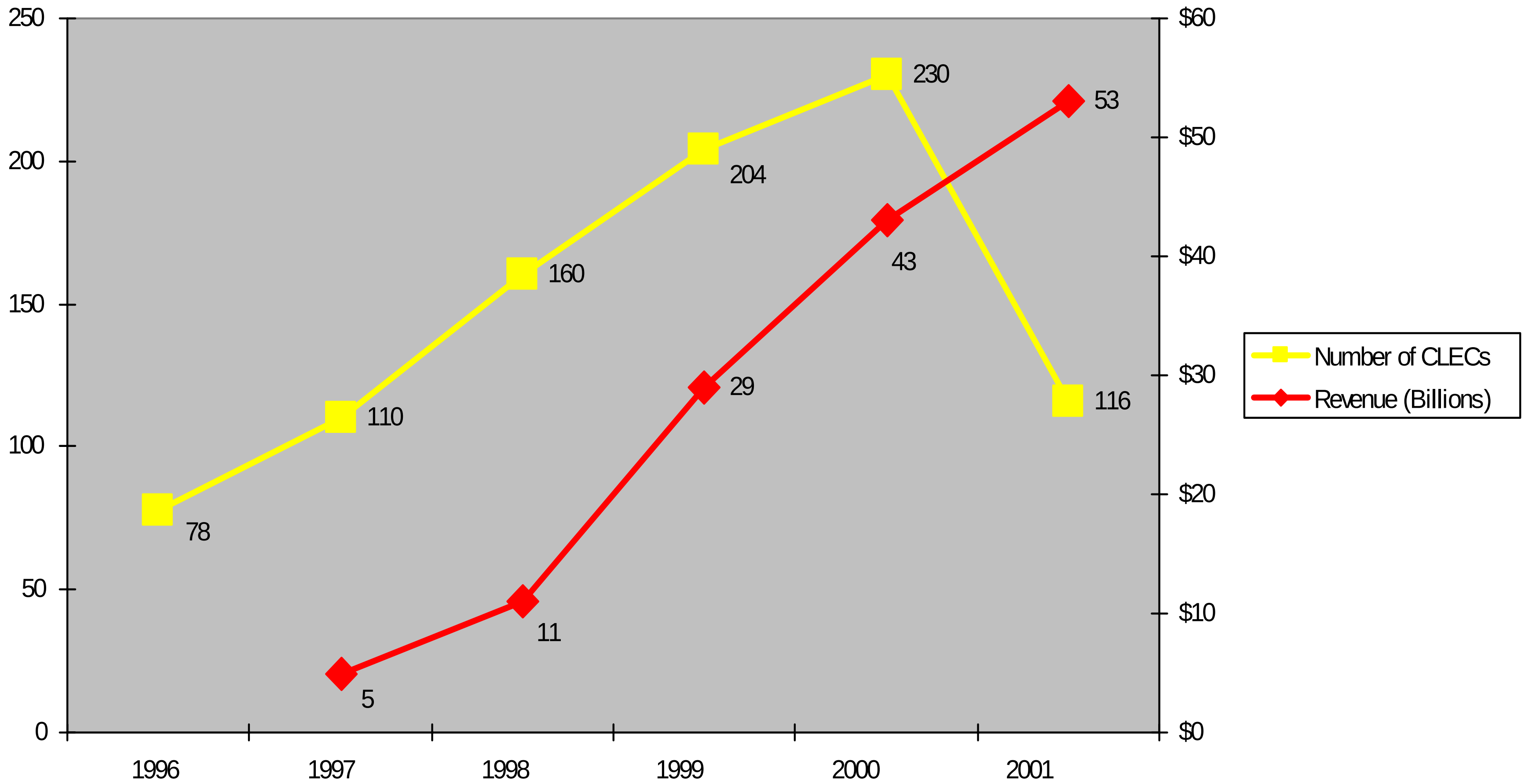
Competition in Traditional Telephony

Robust Competition From Wireline CLECs

	YE 1998	YE 2001
Cities with Competitive Voice Networks	540	930
CLEC Circuit Switches	700	1,300
CLEC Packet Switches	860	1,700
Buildings Served by CLEC	106k	330k
Homes with cable telephony available	<2 M	> 10 M

Source: UNE Fact Report

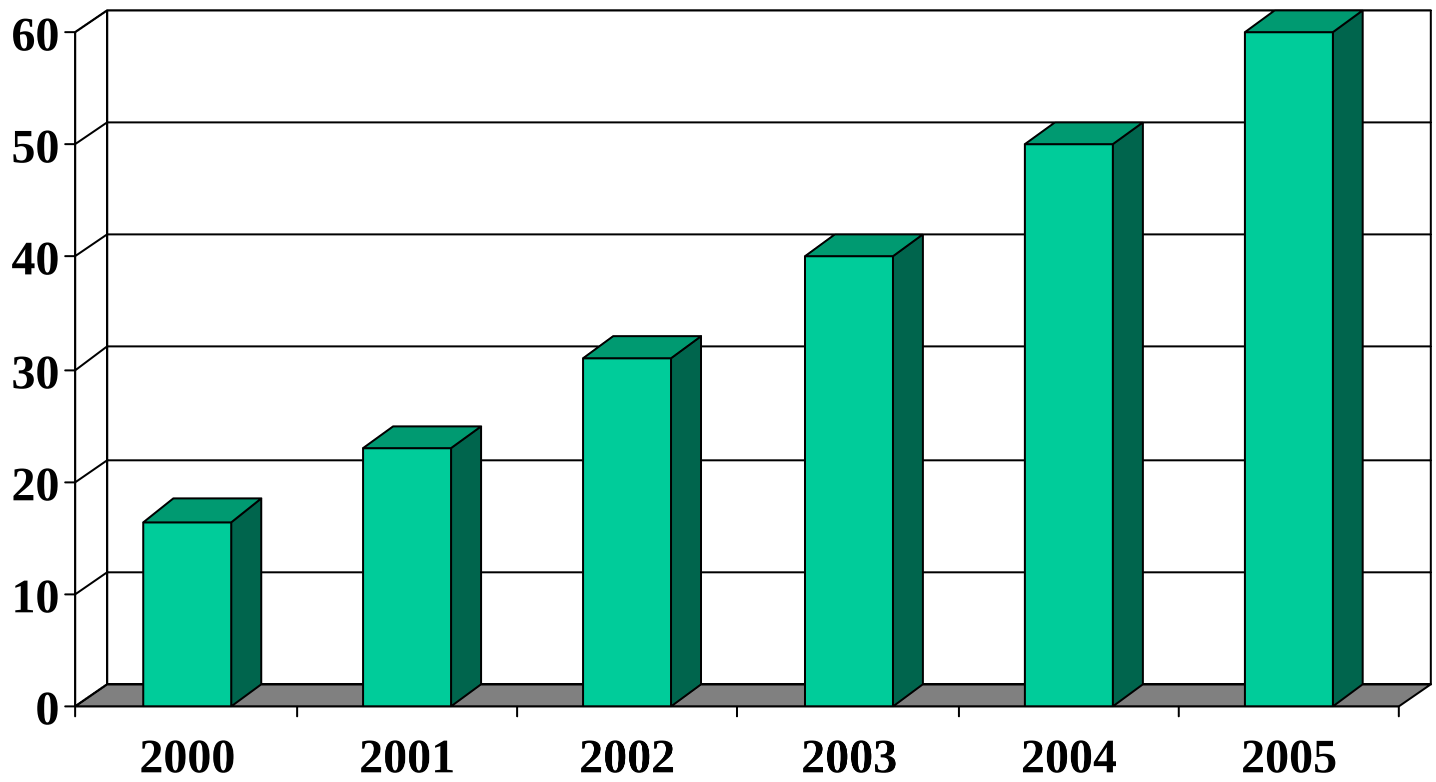
CLEC Revenue Grows Even As the Industry Restructures



Source: Eastern Management Group, Competition in the Telecom Sector, April 1, 2002, New Paradigm Resources Group CLEC Report, 15th Edition, 2002

CLEC Access Lines Growth Forecast

(millions of lines)

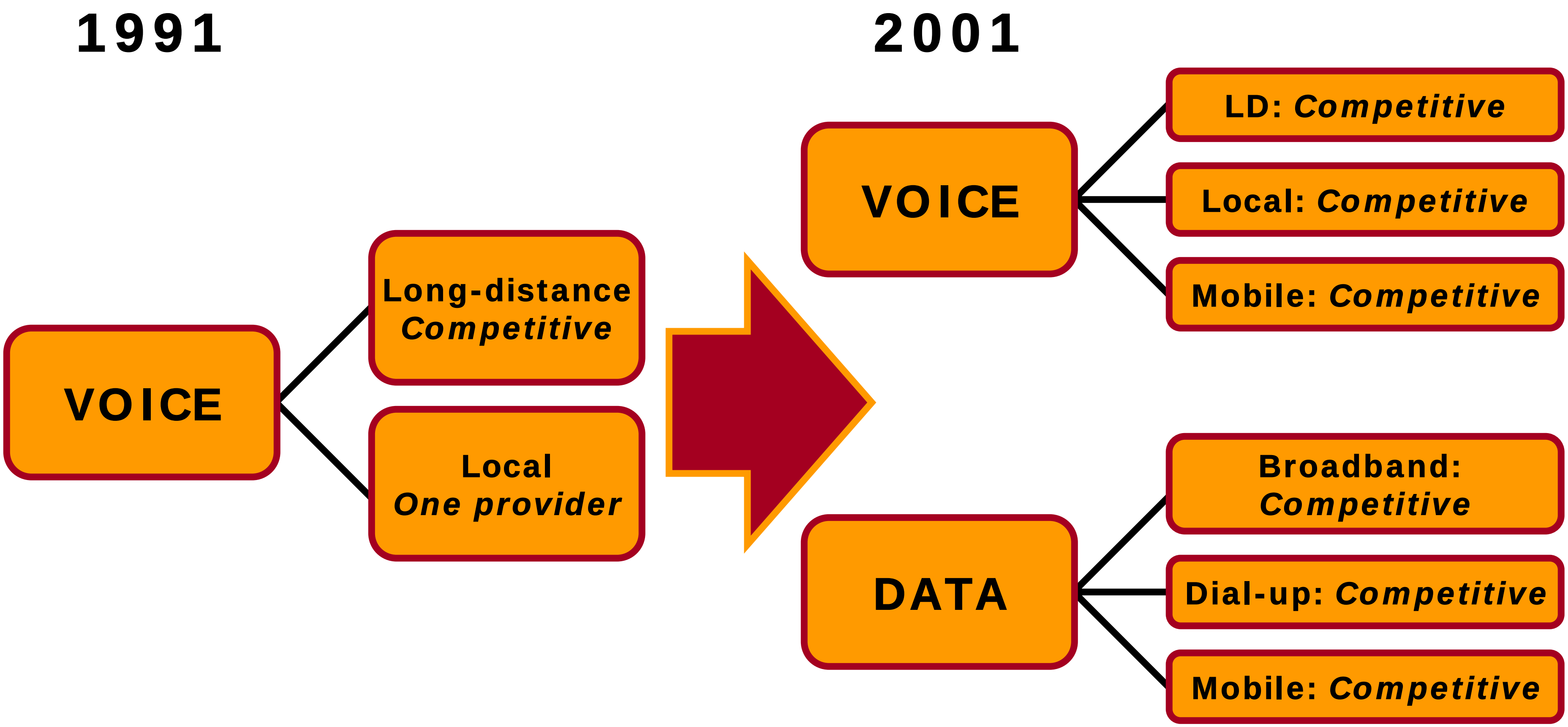


Source: Raymond James and Associates, SBC Communications, February 11, 2002, and IDC Corporation projections

What a Difference a Decade Makes

What a Difference a Decade Makes

New Markets, New Choices

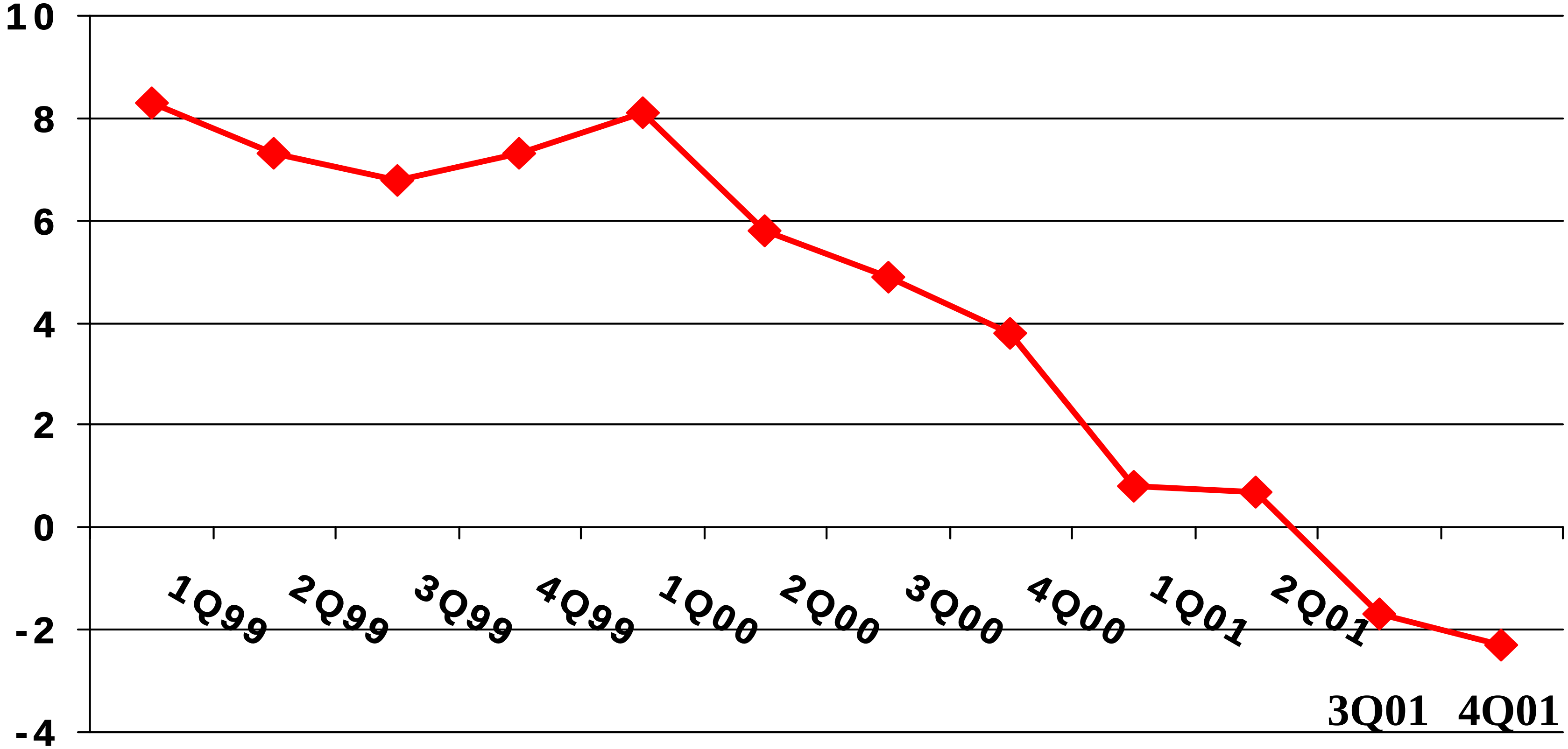


Competition has picked up considerably in the existing voice market and in the new data market.

Source: Forrester Research

MOUs Continue to Decline

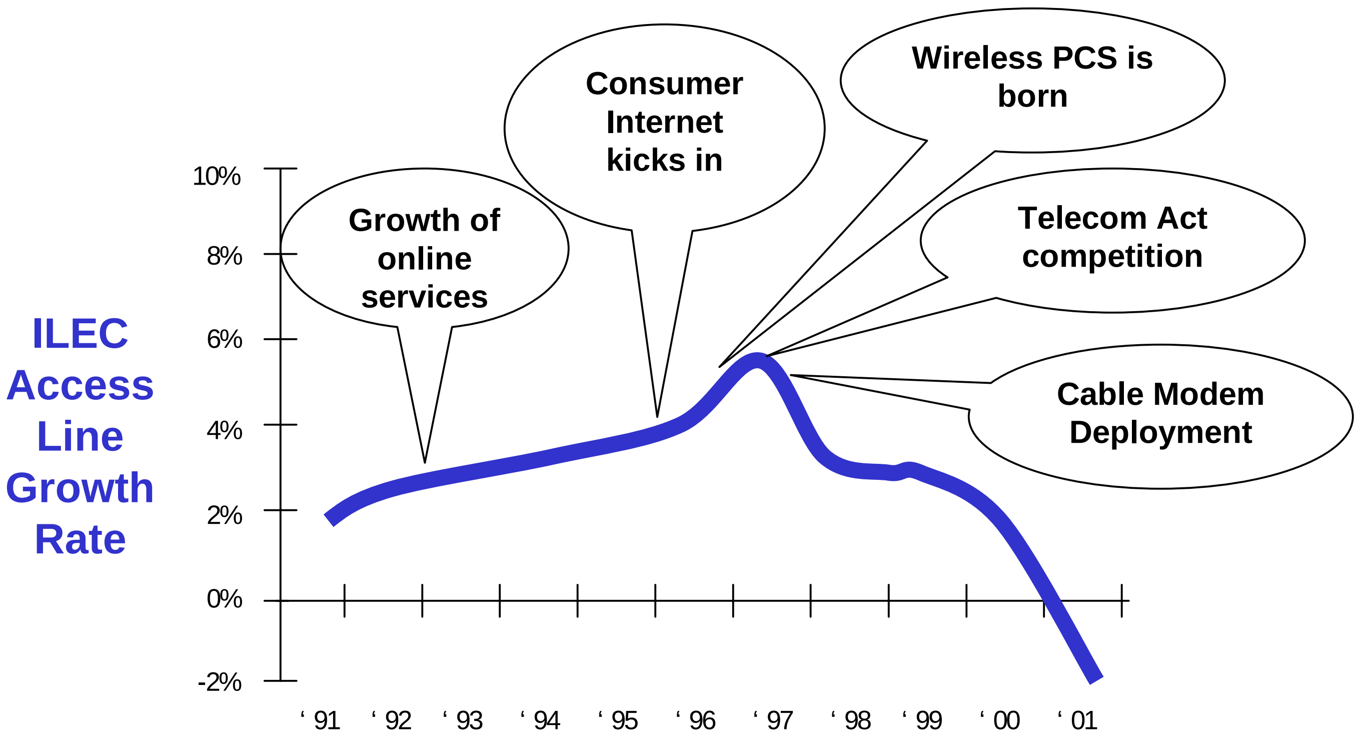
(percent change per quarter)



Source: UBS Warburg, Global Equity Research, <u>The Bells: Slow Growth Ahead</u>, March 14, 2002

What a Difference a Decade Makes

Landline Growth has Stalled and Turned Negative

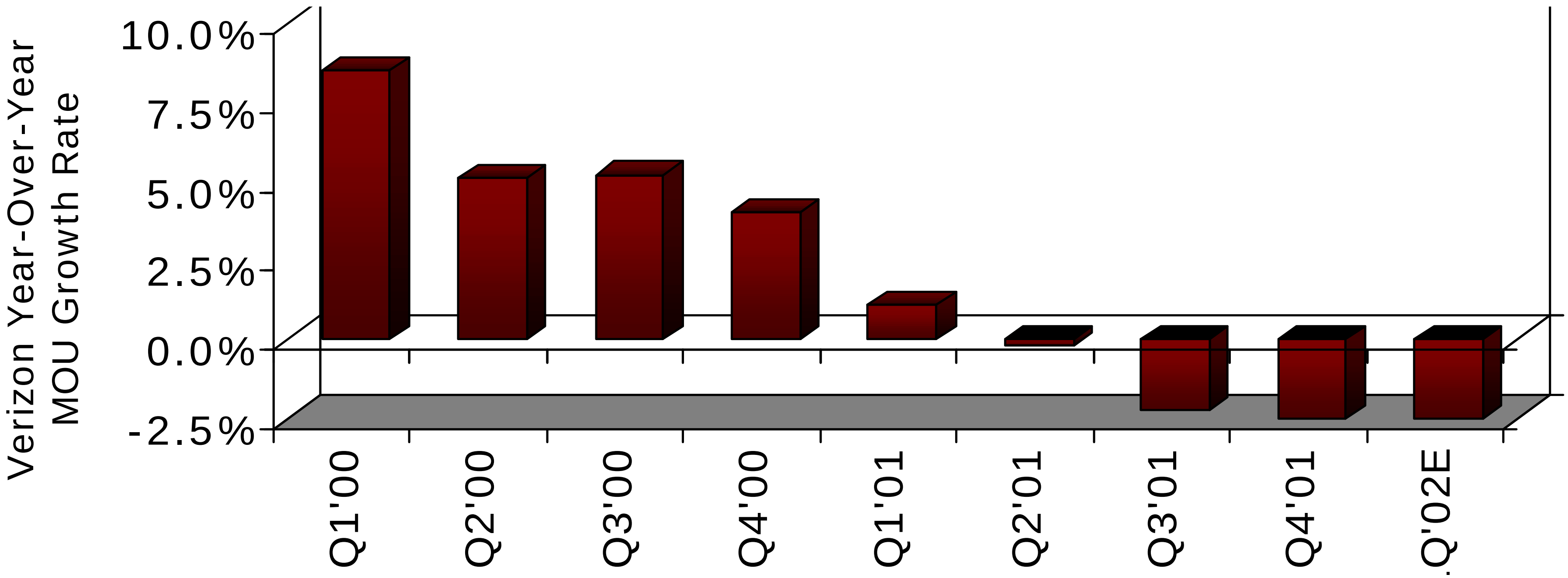


First, landline growth was slowing; now, it's negative.

Source: Jefferies & Co.

What a Difference a Decade Makes

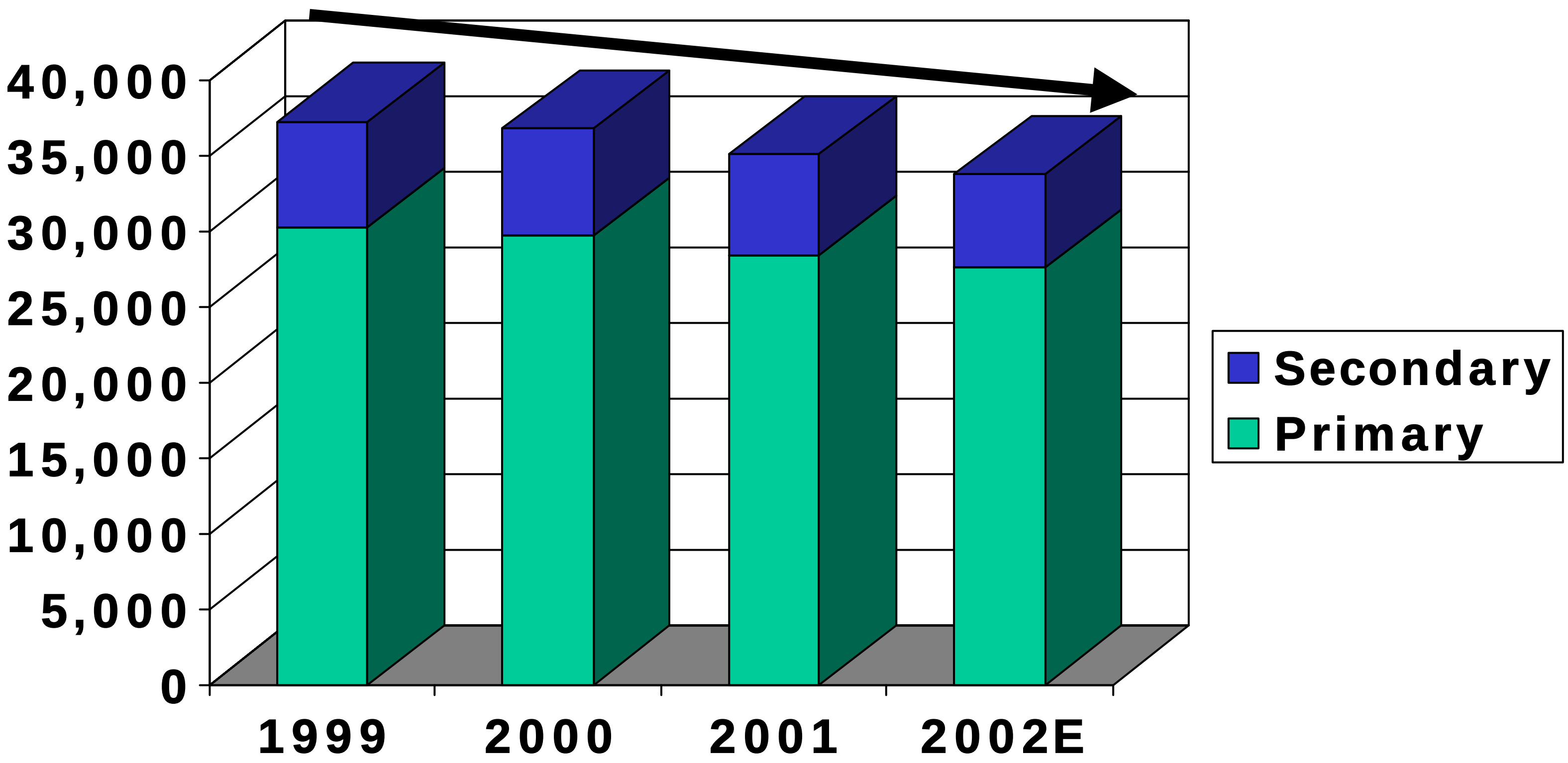
Usage Rates Following Access Line Trends Downward



Verizon customers are using fewer landlines less frequently.

Source: Morgan Stanley

Residential Access Line Sales in Verizon (in millions)

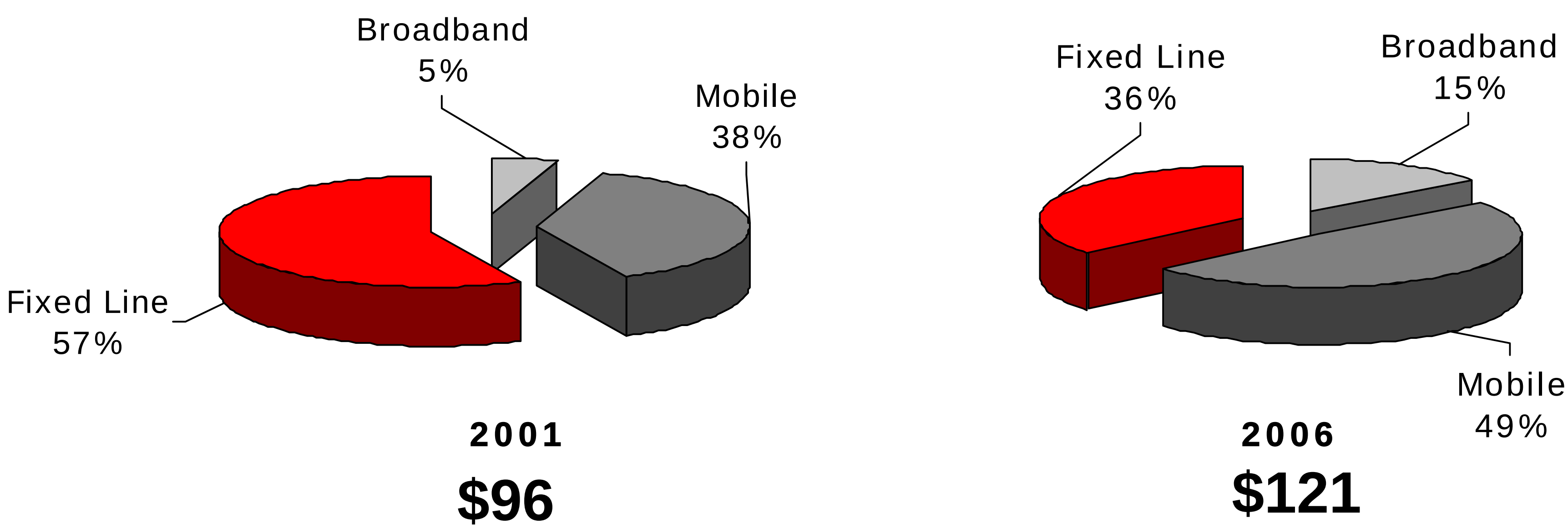


Source: Merrill Lynch, Comment: Verizon Communications, Adam Quinton et al, April 24, 2002

What a Difference a Decade Makes

More People are Communicating in More Ways

Proportion of Typical Household Spending on Electronic Communications

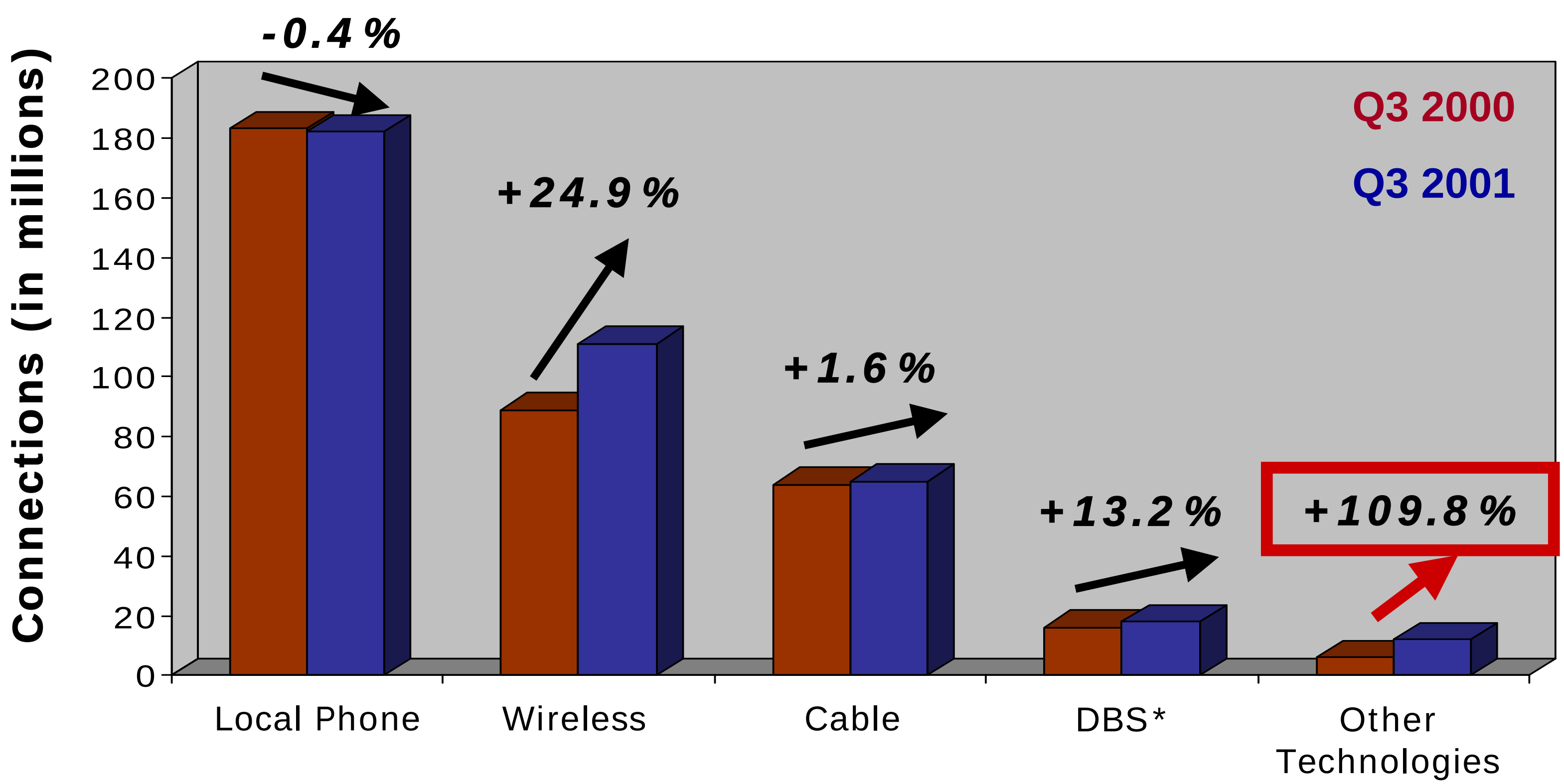


Traditional telephony is a shrinking slice of the communications pie.

Source: Forrester Research

What a Difference a Decade Makes

Multiple Connections to the Home



New connections into the home are increasingly being used to communicate.

Source: Morgan Stanley, Telecom-Wireline Analysis, "Telecom Trend Tracker: We Welcome the Big Chill", November 12, 2001; Simon Flannery, Margaret Berghausen, Natalie Hayden, Mark McKeown

** J.P. Morgan -- Figures are year-end 2001.*

What a Difference a Decade Makes

Headlines Tell the Story

verizon

The New York Times

Microsoft Is Ready to Supply a Phone in Every Computer

USA TODAY

Consumers Hang Up Residential Phone Lines

Spending cutbacks, multi-use Net links, cellphones cited

St. Petersburg Times

Time Warner Takes On Verizon for Share of Florida Phone-Service Market

The Boston G

Comcast, AT&T Set $72B Cable Merger

Giant Would Serve 2 Million in N.E.

The Washington Post

More Cell-Phone Users Cut Ties to Traditional Service

Competitors take dead aim at Verizon's local market.

What a Difference a Decade Makes

Verizon Faces Stiff Competition

	Telephony	Wireless	Cable	Internet / Data
verizon	✓	✓		✓
AT&T	✓	✓ *		✓
WORLDCOM	✓	✓		✓
Sprint	✓	✓		✓
AT&T Comcast	✓		✓	✓

CLEC

Verizon's competitors are industry giants.

**AT&T Wireless has been spun-off from AT&T Corp. and remains a fierce competitor for local and wireless customers*

What a Difference a Decade Makes

New Players Offer Choice and Innovative Options

	Telephony	Wireless	Cable	'Net/Data	Number of Customers	Market Cap *	Cash on Hand
verizon	✓	✓		✓	38.9M wireline / 29.4M wireless / 1.2M DSL	$128.6B	$1.6B
AOL Time Warner	✓		✓	✓	32M ISP / 12.7M cable	$142.2B	$1.5B
Microsoft	✓		✓	✓	250M Media Player 118M Hotmail 100M Browser (US) 45M Messenger **	$357.1B	$36B

* As of Dec. 31, 2001 ** Microsoft Windows Desktops

Sources: Market Guide, Company information

New Services, New Markets

Wireless is Becoming an Alternative Calling Option and Substitute

- **Almost one in five cell phone owners consider their cell phones their "number 1 phones"** *(USA Today, CNN, Gallup)*

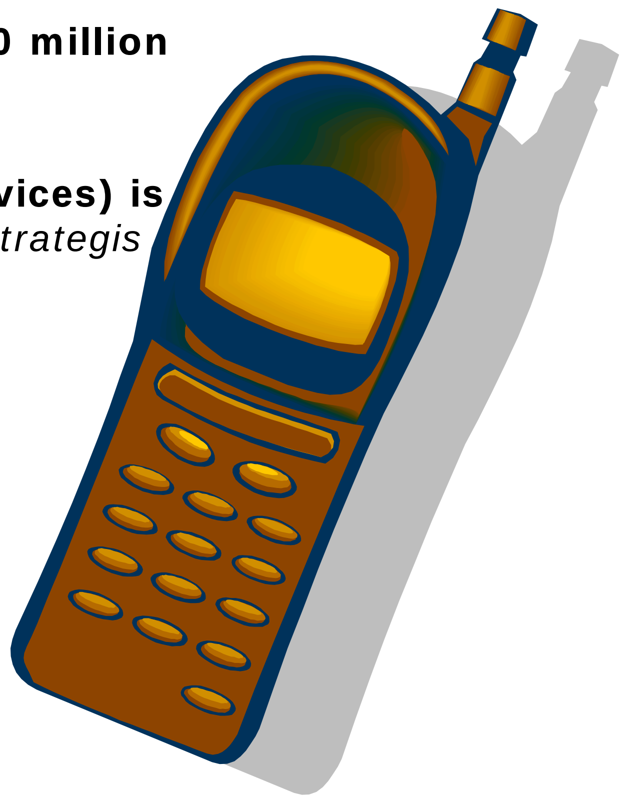
- **10 million access lines displaced by wireless to date, 10 million more to be displaced by 2005** *(IDC)*

- **"Billed rate" for landline service (LD, local, vertical services) is $55 today – comparable wireless service is only $39** *(Strategis Group)*

- **Already 40% of wireless users use cell phones for long distance at home** *(NMRC)*

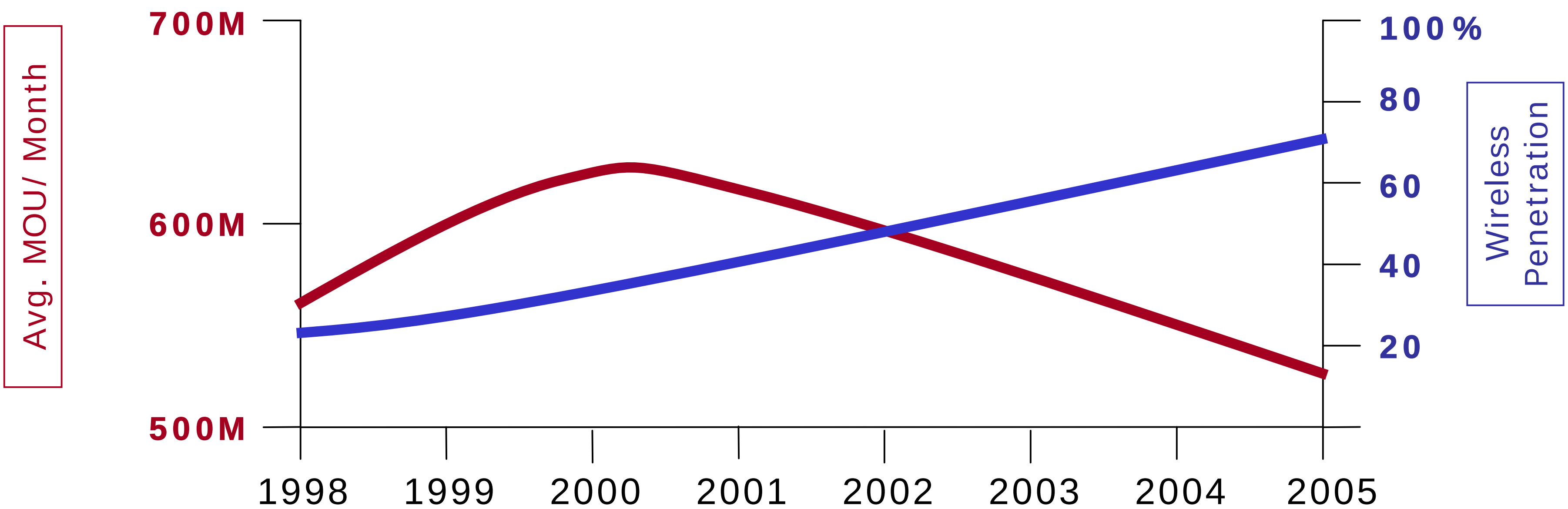
- **By 2006, more than 5 million homes will use mobile and high-speed Internet access as their primary connection** *(Forrester)*

- **By 2006, telecom carriers will lose $8.8 billion in revenues to wireless and broadband services** *(Forrester)*



Wireless is eating into wireline market share.

Wireline Minutes Decline, As Consumers Go Wireless



The Retail InterLATA Voice Minute Volume

Source: Bernstein Research Call, "Domestic Telecom," March 2001

Wireless Is An Increasingly Viable Alternative to Landline

Voice Stream Ad

Wireless providers are aggressively promoting alternatives to local phone service.

The Media Recognizes Wireless Alternative

USA TODAY

Consumers Hang Up Residential Phone Lines

Spending Cutbacks, Multi-Use Net Links, Cellphones Cited

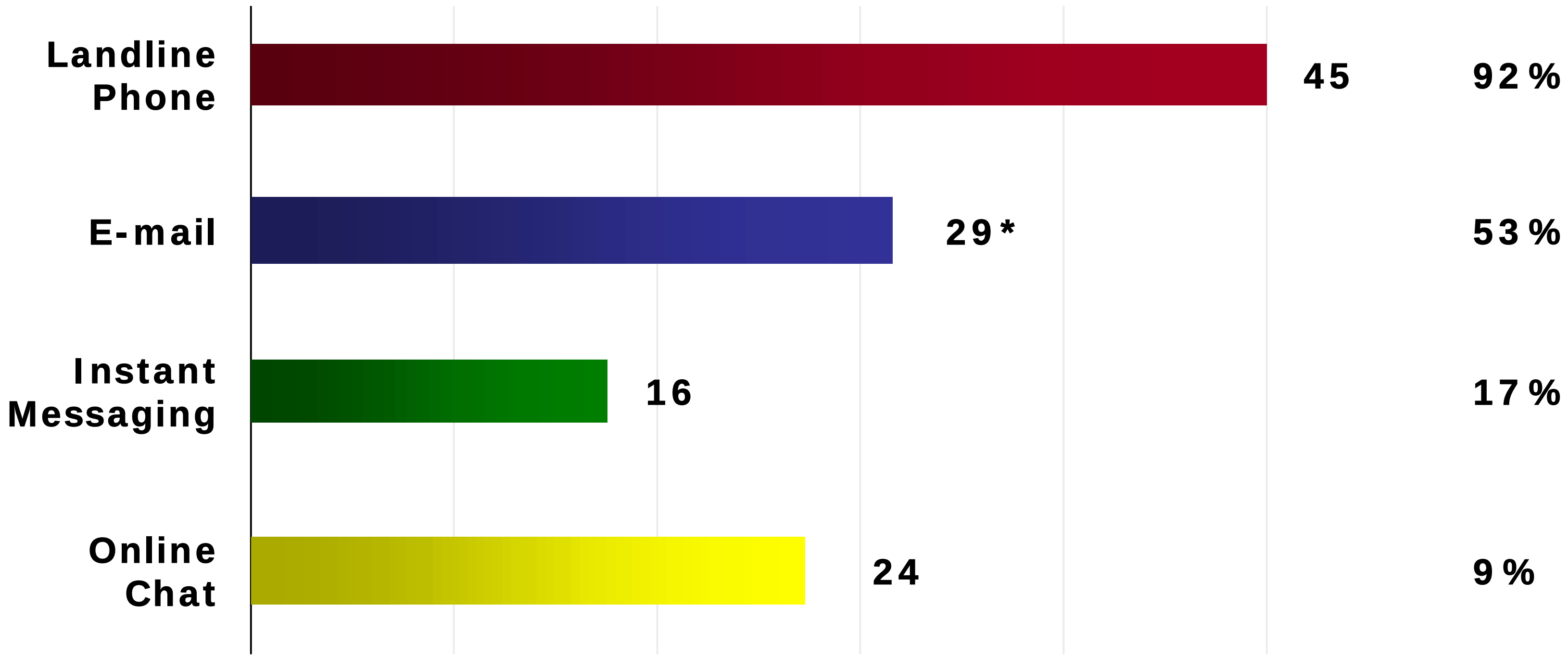
THE WALL STREET JOURNAL.

More Callers Cut Off Second Phone Lines for Cellphones, Cable Modems

The Washington Post

More Cell-Phone Users Cut Ties to Traditional Service

Broadband Connections and PCs Mean a New Communications Device



Average daily minutes of use among users

Percentage of consumers using each mode

***Note: 90% of those online – 135 million people - use e-mail everyday.**

Broadband is a bridge to new competitive communications applications.

Source: Forrester Research

Software and IP Based Platforms Compete on Many Levels

Windows XP heralds the future of Internet telephony.

Cable is a Major Competitor in the Near Term – Bundling is Key Competitive Factor

- 2.2 million cable telephony subscribers
  - 159.8% YOY growth *(Strategis, NCTA)*
- 6.9 million cable modem users in US
  - 72.5% YOY growth *(Forrester)*
- AT&T-Comcast and Cox control 70%+ of cable telephony market *(Morgan Stanley, Cox, NCTA)*
- $50 billion invested since 1996 to upgrade cable networks, enable delivery of telephony, other services *(NCTA)*
- Bundling is driving adoption

Analysts Recognize the Significant Impact of New Forms of Competition on the Market

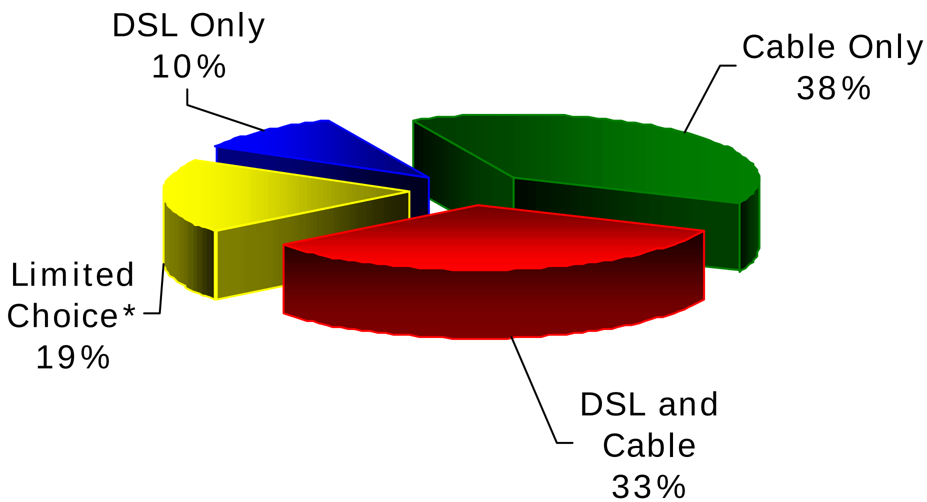
"All three of the RBOCs have sustained residential access line loss. The economy is no doubt a factor but we believe a greater impact is now due to subsitution from cable telephony, broadband and to a lesser degree wireless. . . We estimate that a large portion of the residential line loss for the ILECs is coming from second lines, as email and broadband (both cable modem and DSL) make second lines unnecessary."

Merrill Lynch, Telecom Services- Wireline Analysis, April 24, 2002

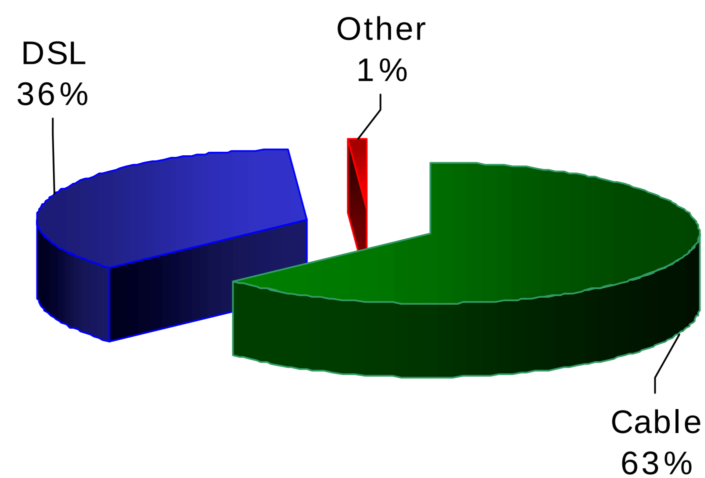
A Tale of Two Broadband Networks

A Tale of Two Broadband Networks

Broadband Access



Broadband Market Share

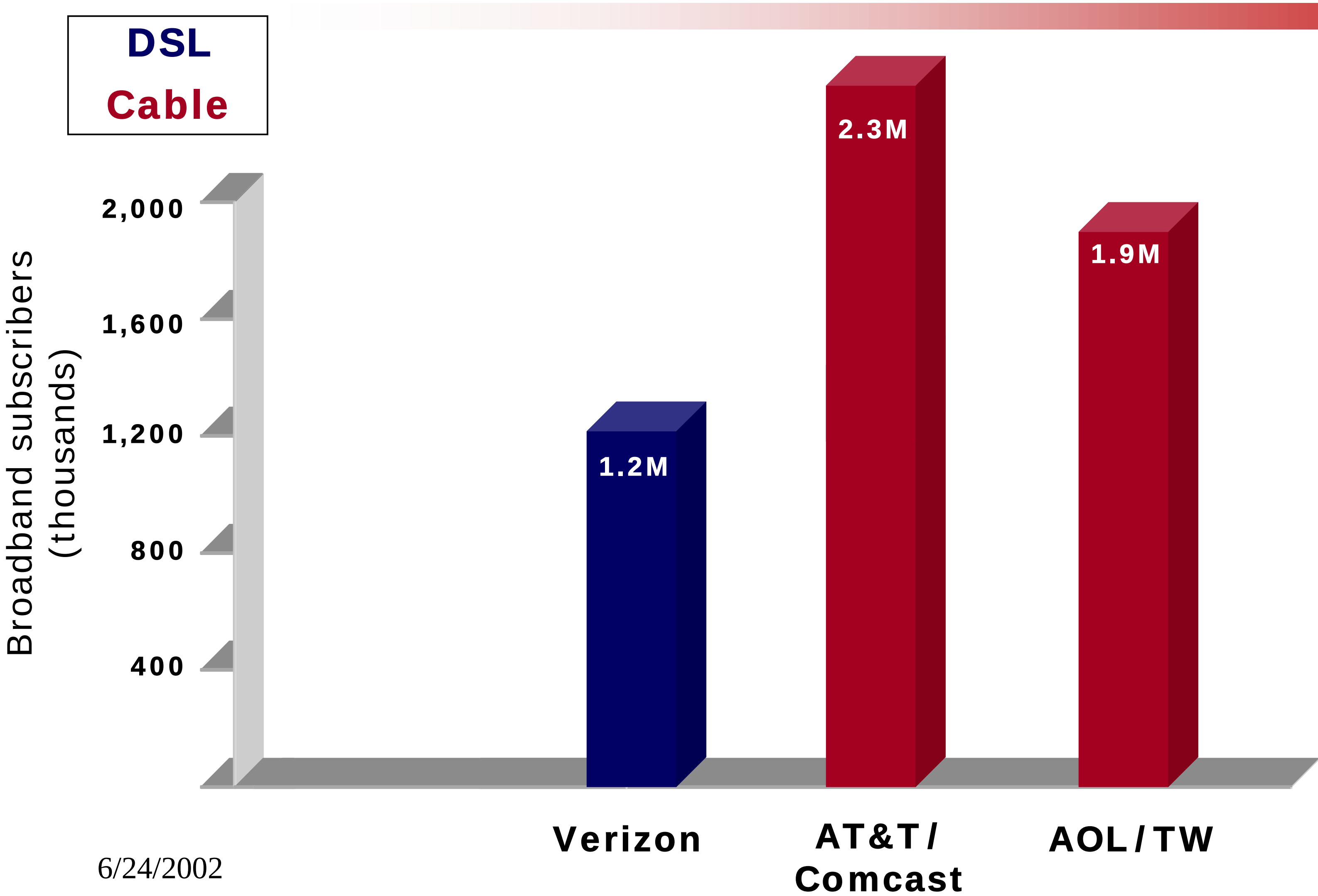


Cable's dominance of broadband limits choice.

Source: JP Morgan, "The Cable Industry", Nov 2, 2001; Cahner's In-Stat

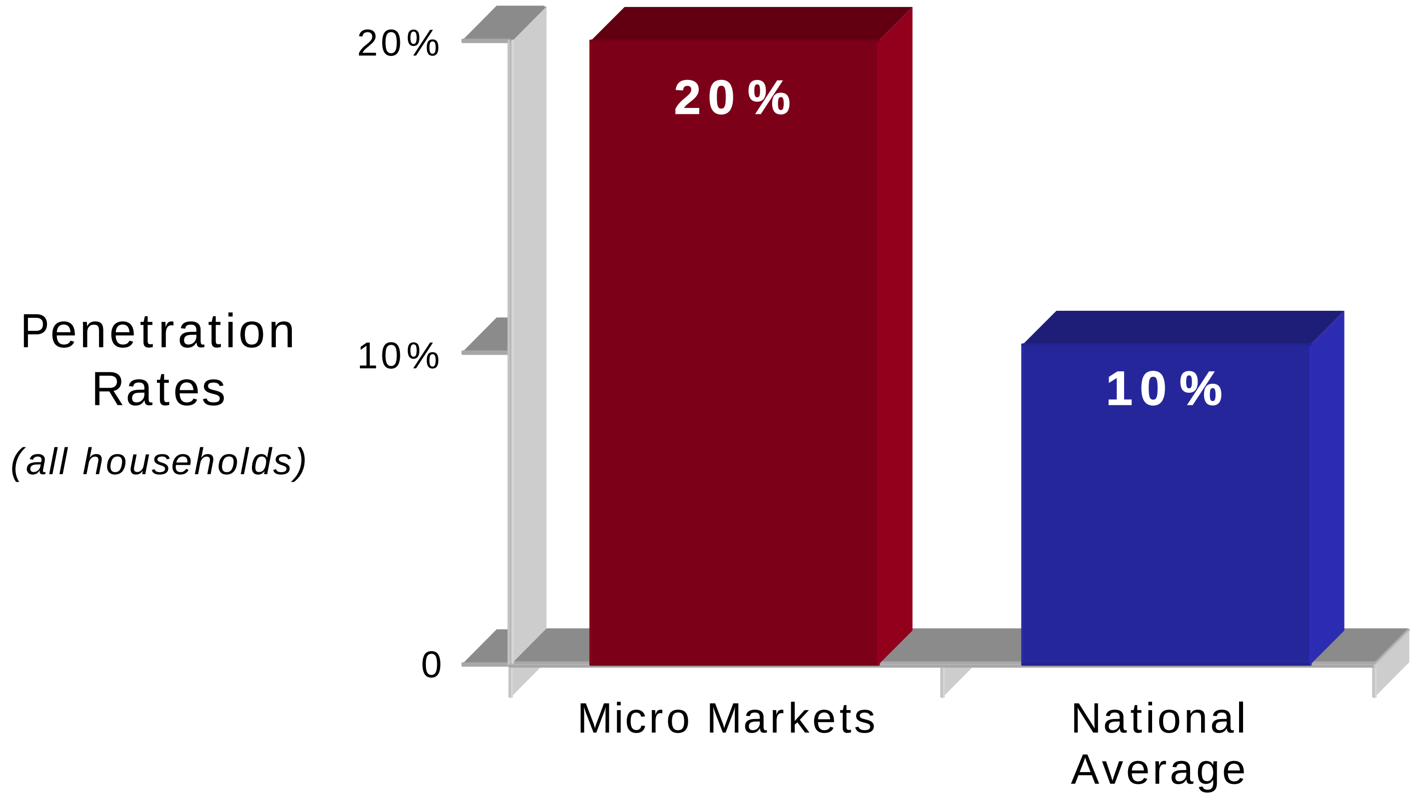
**Limited availability of satellite in most areas*

How Broadband Competition Stacks Up



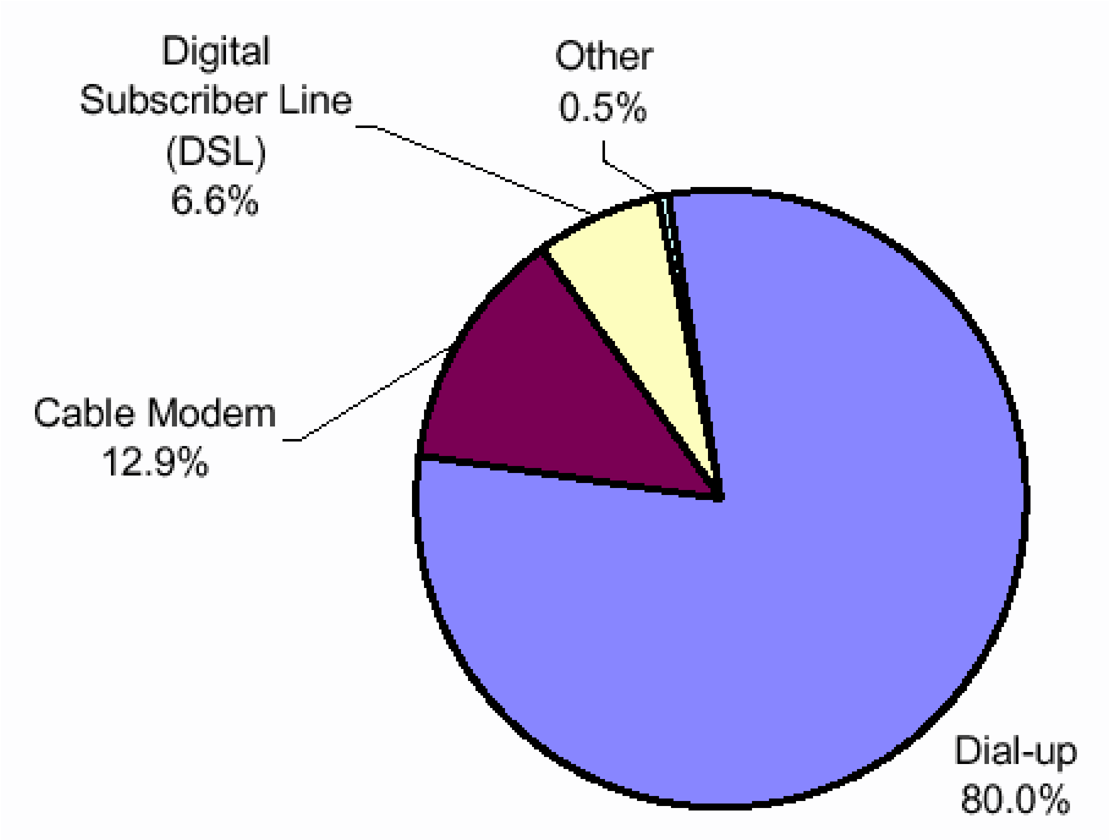
Source: Verizon (4Q01)

Mature Markets With Multiple Providers Competing and Nearly Ubiquitous Availability Result in Higher Take Rates



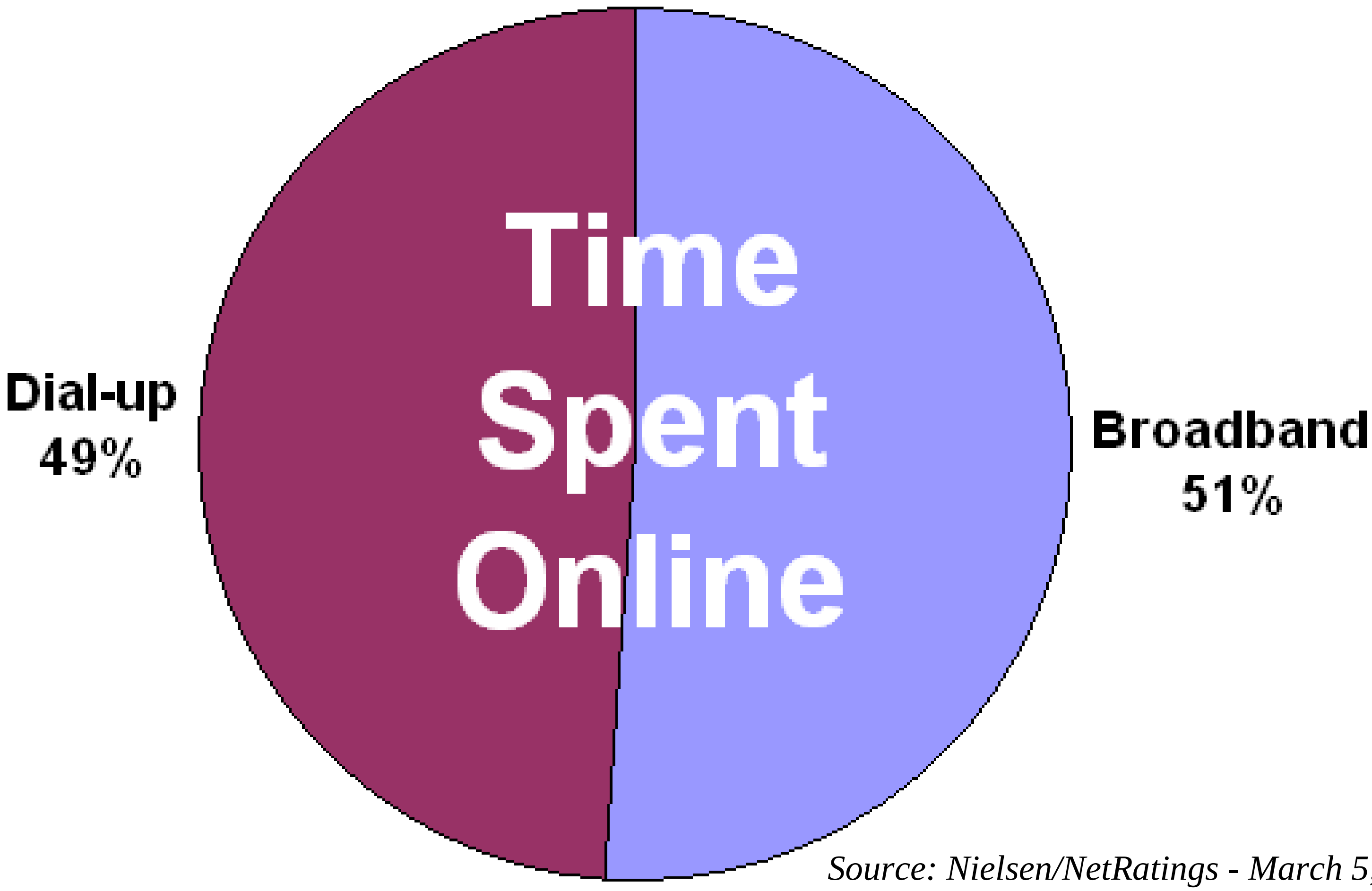
Source: J.P. Morgan, Nov. 2001

Broadband Remains a Small Segment of the Residential Market



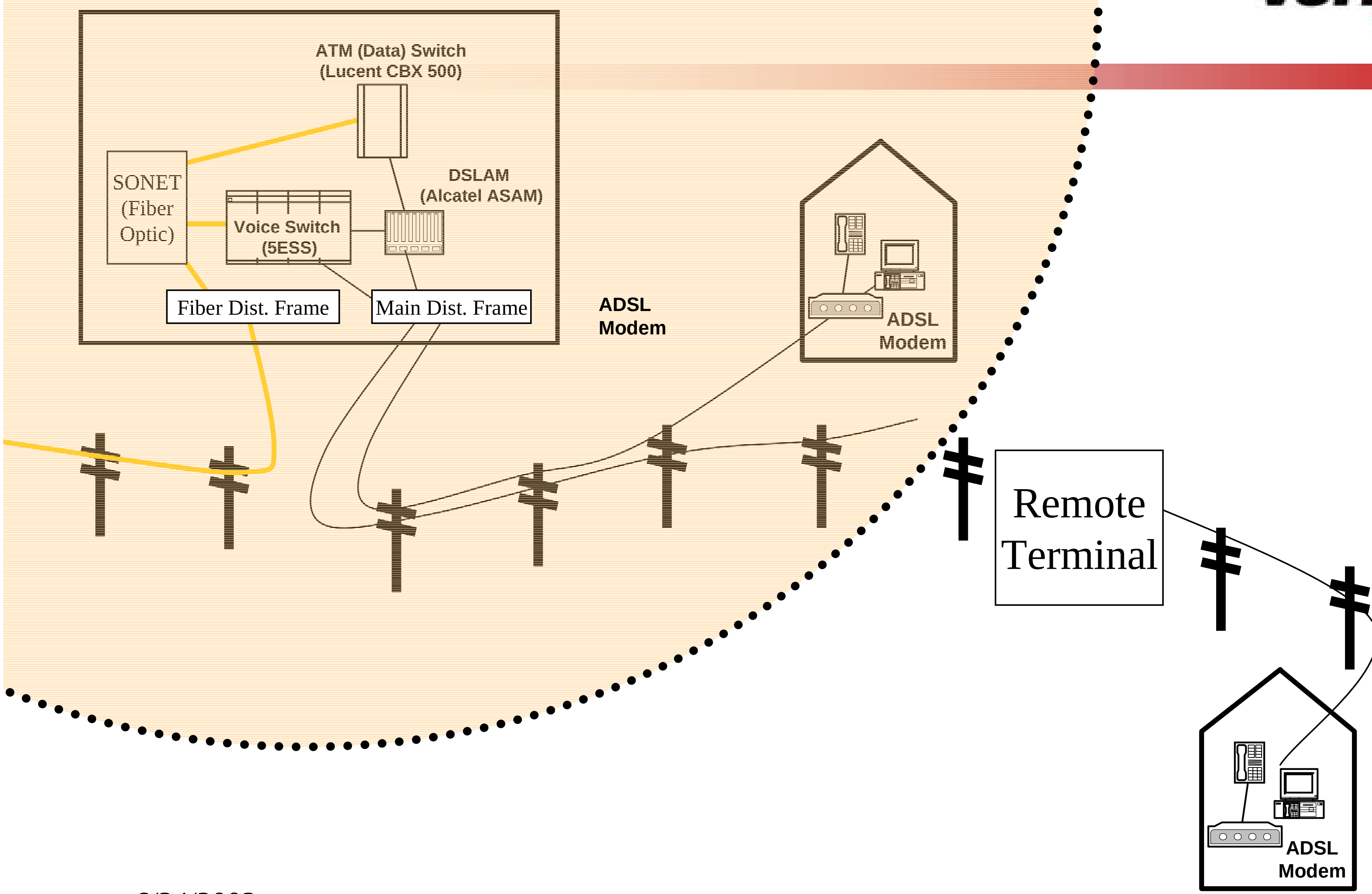
 Source: NTIA, "A Nation Online", February 2002

But Represents More Than Half of Time Spent Online

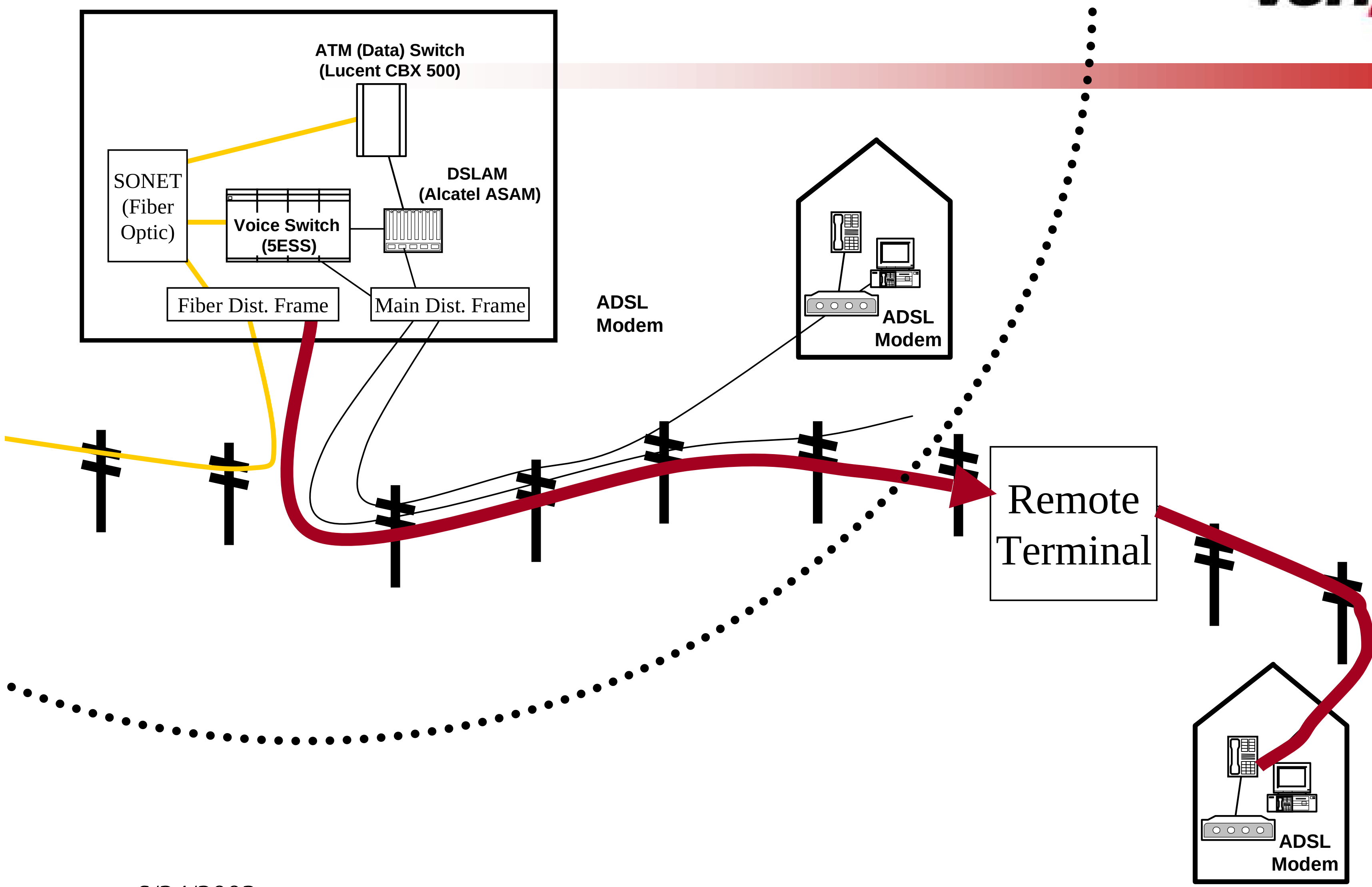


Source: Nielsen/NetRatings - March 5, 2002

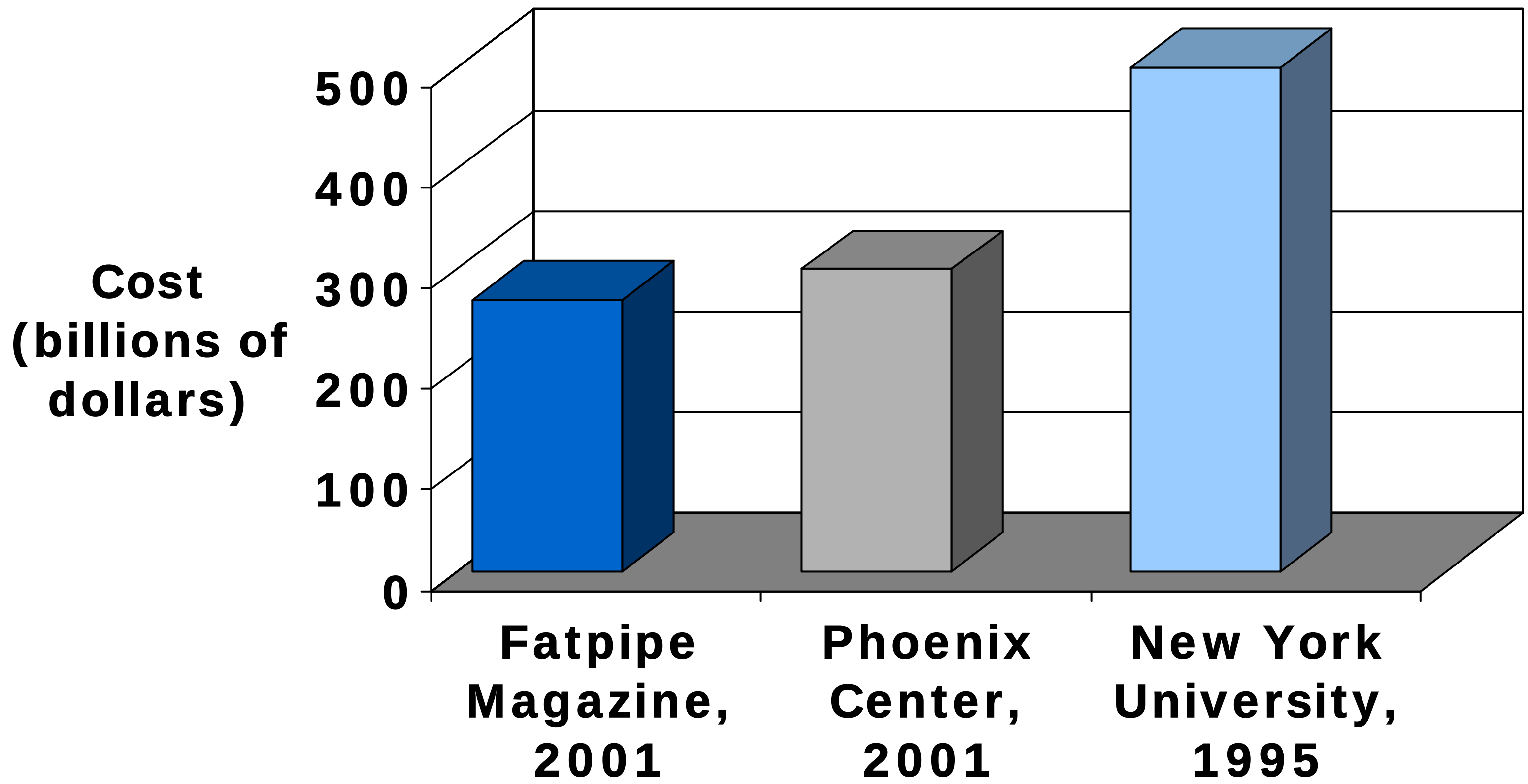
Fiber to the Remotes: the Beginning of the Next Generation Internet



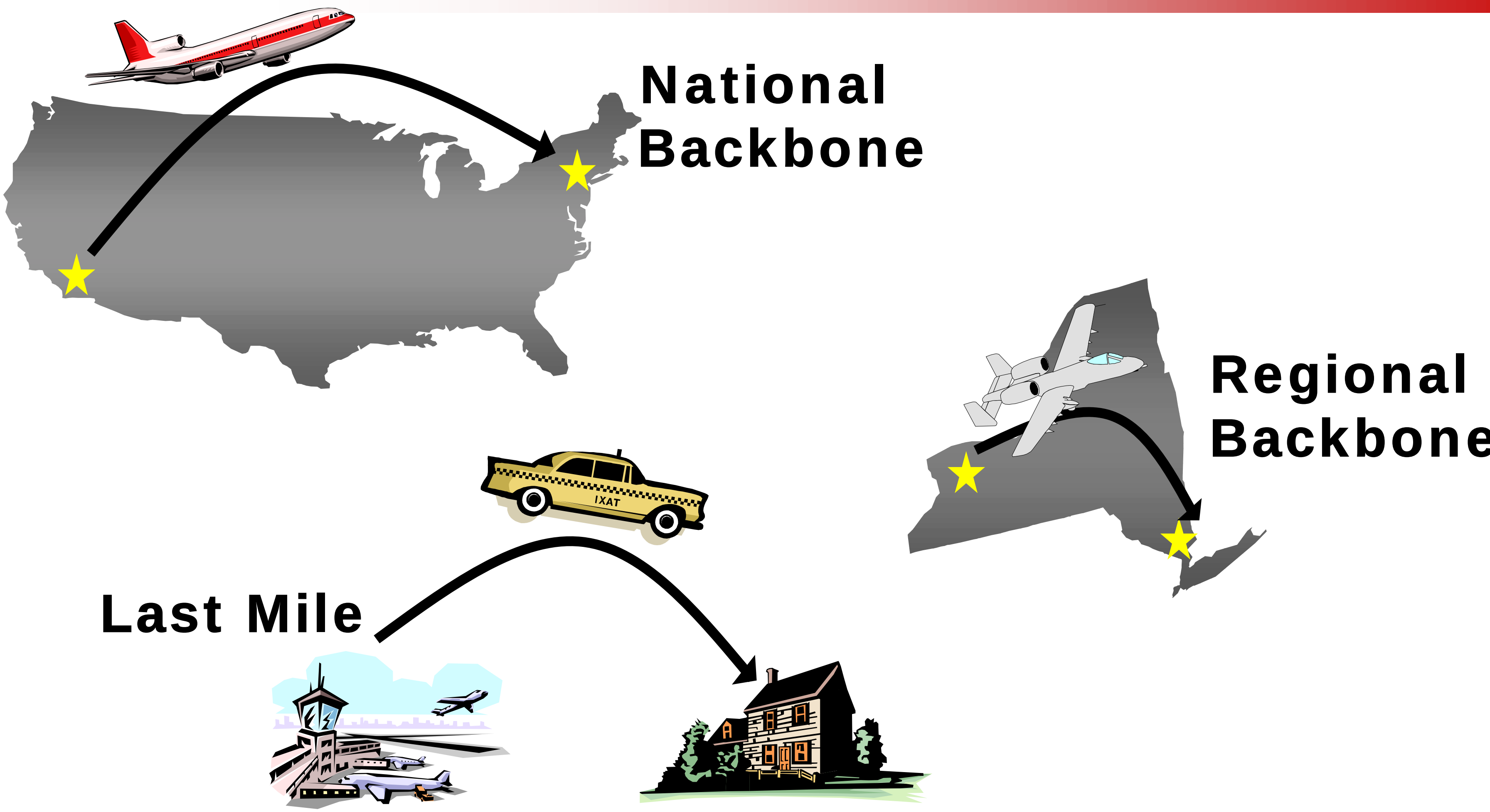
Fiber to the Remotes: the Beginning of the Next Generation Internet



Building Next Generation Internet Involves Risk and Cost

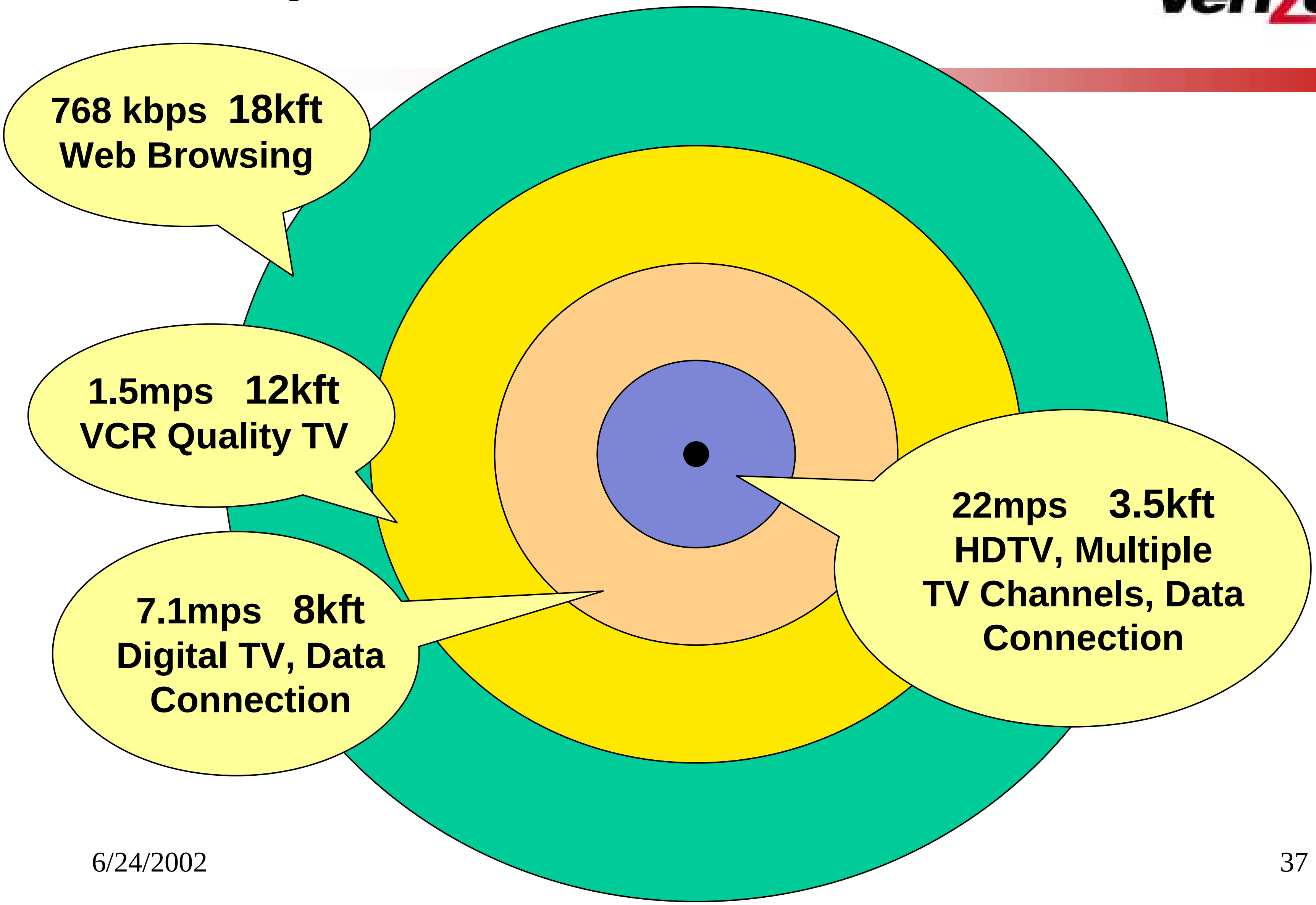


Creating a 21st Century Internet



We need more airports and taxis.

Shorter Copper Loops Means Faster Speeds, More Services



What Will Happen with a True Multimedia Internet Infrastructure?

TOMORROW

Home Office
- Transparent remote storage
- Multi-party full motion video conferencing
- Remote LAN Access
- E-mail
- Instant Messaging

Education
- Virtual classrooms
- Remote access to course material

Entertainment
- High-quality audio- and video-on-demand
- Broadcast TV
- Web surfing
- Music downloads
- Video clip downloads

Online Games
- Virtual reality gaming

Personal Media
- Network-based personal audio and video recordings

Healthcare
- Multi-physician video consulting
- Tele-robotics - remote surgical applications
- Home monitoring of patient's physical state and medical devices

Future Higher Bandwidth Technologies
- VDSL
- FTTH
- Gig E
- Fiber-less optic
- Next-gen. version of current tech

More broadband delivers advanced services.

Source: CSMG