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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

September 13, 2002

Memorandum of Ex Parte Presentation

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

Re: CC Docket No. 01-338, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers;
CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; and
CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability

Dear Ms. Dortch:

On September 12, 2002, James C. Smith, Senior Vice President, Don Cain, Vice President –Federal Regulatory and Gary Phillips, General Attorney and Asst. General Counsel representing SBC Communications, Inc. (SBC), met with Robert Pepper, Chief; Simon Wilkie, Chief Economist and William Sharkey, Senior Economist of the Office of Planning and Policy.

The purpose of the meeting was to discuss issues associated with the financial and investment impacts of the UNE Platform. The attached material was discussed during the course of the meeting.

Please contact the undersigned at (202) 326-8875 should you have any questions.

Sincerely,

Donald E. Cain

Attachment

No. of Copies rec'd 0+2
List ABCDE

CC: Robert Pepper (w/o attachment)
Simon Wilkie (w/o attachment)
William Sharkey (w/o attachment)

Key Analyst Reports on UNE-P

August 2002

SBC

Global Equity Research

UBS Warburg

August 20, 2002 | Telecommunications--Wireline | United States

SBC Communications, Inc. (SBC)[2,37,80] — Hold

Key Statistics

Price	$29.87
52-Wk Range	$47-23
Price Target	$30.00
Return Pot'l.	4.0%
Mkt. Cap(MM)	$99,321
Sh. Out.(MM)	3,325.1
Float	100%
Inst. Hldgs.	47.0%
Avg. Volume(K)	8,803
Curr.Div./Yield	$1.08/3.6%
Sec.Grwth.Rate	3%
Convertible?	No

Quarterly Earnings Per Share (fiscal year ends December)

	2001A	2002E	*Prev*	2003E	*Prev*
1Q	$0.51	$0.51A			
2Q	0.61	0.61A			
3Q	0.59	0.58			
4Q	0.64	0.61			
Year	**$2.35**	**$2.31**		**$2.25**	***$2.36***
FC Cons.:	$2.35	$2.30		$2.36	
P/E:	12.7x	12.9x		13.3x	
Revs.(MM):	$46,908	$43,325		$42,308	

SBC Communications through its brands—Southwestern Bell, Ameritech, Pacific Bell, SBC Telecom, Nevada Bell, SNET, and Cingular—provides local and long distance wireline service, wireless and data communications, high-speed Internet access and messaging services, as well as directory advertising and publishing. SBC is the second-largest U.S. local service provider. Cingular Wireless, its 60:40 joint venture with BellSouth (SBC has 60%), is the second-largest U.S. wireless provider, with more than 22 million subs.

Source: UBS Warburg LLC and First Call consensus estimates

Revenues do not include proportionate share from Cingular.

SBC: Downgrading to Hold from Buy Based on Competitive Fears from UNE-P

Summary

DETAILED UNE-P STUDY. We have completed an analysis of UNE-P based economics from a Bell perspective and found 1) economics per line lost is worse than expected, with the average wholesale line producing negative EBITDA in SBC's region, 2) line loss is expected to grow rapidly as we estimate the company will lose 1M to UNE-P in the third quarter alone and 3) the long distance opportunity is only a partial offset as the EBITDA effects of UNE-P are hard to counter with low margin LD.

Action

DOWNGRADE TO HOLD. We are downgrading shares of SBC to Hold from Buy based on our UNE-P analysis. We anticipate that the growth of UNE-P will have a significant impact on SBC's 2003 earnings and that it will be difficult for the company to hit the Street's growth expectations for the year.

Valuation

LOWER PRICE TARGET TO $30. Our new price target of $30 per share (prev. $36) is based on our discounted cash flow analysis. This lowered target incorporates changes to our models to reflect the effects of UNE-P based competition.

Additional Information

We will be holding a conference call to discuss our analysis of UNE-P economics for the Bells on August 20th at 11:00am. Dial-in information is 800-665-0430 in the U.S. or 913-981-5591 international.

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Companies mentioned and disclosures at end of note

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SBC – In the UNE-P Wheelhouse

SBC has lost more retail lines to UNE-P than any other Bell at 3.45 million, including 692,000 in the second quarter alone. The 692,000 UNE-P lines equate to 1.27% of SBC's 54.8 million total retail access lines at the end of the first quarter while the imbedded base equates to 5.9% of the company's total switched lines (including wholesale). In the second quarter, SBC added 494,000 residential UNE-P lines, representing more than 51% of the loss in the retail residential line base. Second line losses accounted for another 26% of retail residential line losses while management suggested seasonality contributed the bulk of the remainder.

Table 1: Access Lines Statistics for SBC (000s)

	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02
Total access lines	61,254	60,578	60,230	59,532	59,036	58,255
% growth	-2.5%	-3.7%	-4.0%	-4.7%	-5.0%	-4.7%
Net Adds	-16	-676	-348	-698	-496	-781
UNE-P	1,373	1,760	2,159	2,403	2,761	3,453
Net Adds	361	387	399	244	358	692
% of total lines	2.2%	2.9%	3.6%	4.0%	4.7%	5.9%
Retail residential lines	35,878	35,255	34,946	34,518	34,129	33,168
% growth	-2.6%	-3.7%	-3.8%	-4.3%	-4.9%	-5.9%
Net Adds	-200	-623	-309	-428	-389	-961
Residential UNE-P	70	94	89	92	162	656
Net Adds	-6	24	-5	3	70	494
% of res lines lost	-3.0%	3.9%	-1.6%	0.6%	17.9%	51.4%

Source: UBS Warburg LLC estimates

We believe SBC has the most attractive region for UNE-P providers. The average monthly bill for local service is among the highest while its UNE-P rates are the lowest, making it relatively easy for competitors to earn decent margins. This is especially true in the Ameritech region. Ameritech and California also have a large number of dense urban areas with very low loop rates that provide ample feeding ground for resellers.

Based on our analysis, SBC also takes the hardest hit for each retail line lost to UNE-P competitors. We estimate that the company loses approximately $19.76 in net revenue per line per month for each retail line lost to competitors. This compares to $17.89 for Verizon, $18.29 for BellSouth and $14.73 for Qwest. In the Ameritech region, where the company is under full-scale attack, the company loses approximately $21.73 per line per month in net revenue. The EBITDA impact is also most severe at SBC. We believe the company generates over $13.53 in EBITDA per retail residential line per month but *loses* roughly $3.51 in EBITDA per month on lines converted to wholesale via UNE-P. SBC is the only Bell to generate more than $1.00 of negative EBITDA per month on its wholesale line base. Thus the negative EBITDA swing from retail to wholesale is more than $17.00 per line per month, also the largest for the Bells with the other three in the -$12 to -$16 range. In the Ameritech region, this figure is approximately -$19.00 per line.

Line losses to UNE-P have shifted from the business to the residential market. In the second quarter, UNE-P took 494,000 residential lines and just 117,000 business lines, down from 393,000 business lines in the first quarter. Michigan was hit hardest with 184,000 lines converted from retail to wholesale in the state during the second quarter. **AT&T, which began marketing in January 2002, claims to have garnered 6% residential market share in Michigan six months.** Texas has seen the largest total line loss to date from UNE-P with over 1.57 million wholesale lines (both UNE-P and TSR) in the state. Wholesale net adds have slowed dramatically in Texas, however, as AT&T has pulled back on its marketing efforts due to relatively low discounts available.

We expect line loss to continue to ramp up in SBC territory in the second half of 2002 and believe the company will lose approximately 1 million retail lines to UNE-P in the third quarter. We believe that roughly half of the line loss in the second quarter occurred in the month of June. Considering the steep growth within the second quarter and AT&T's entry into the Ohio and Illinois markets in mid-June and the California market in early August, our numbers could prove conservative. With another 1.2 million UNE-P line projected for the fourth quarter, we now expect residential line loss of 9.1% and 12.6% in the third and fourth quarter, respectively. This also suggests that by year end, 10% of total switched access lines will be UNE-P. Again, we note that our analysis suggests that wholesale lines generate negative EBITDA on a weighted average basis. In 2003, we expect the company to lose 3.41 million lines, up from 3.25 million for all of 2002.

Much depends on the company's ability to secure long distance approval in California in the near term, which should dampen (but by no means eliminate) line loss while helping to offset much of the revenue loss, similar to the results in 271-approved Southwestern Bell states. The Administrative Law Judge (ALJ) in California has approved the company's application and the full public utility commission to is expected to vote on September 19th, a short delay from the recently proposed date of August 22nd. A positive outcome for the Bell could enable SBC to begin marketing interLATA services in California in late December. Ameritech is a different story however, as we do not expect the company to receive approval for long distance in these states until the second half of 2003.

Estimates and valuation

Based on changes to our model resulting from this analysis, we are reducing our 2003 EPS estimate to $2.25 from our previous estimate of $2.36, while maintaining our 2002 EPS estimate at $2.31. This translates to a 2.3% decline in EPS in 2003 versus our previous estimate for 2.1% growth. It compares unfavorably with the 1.8% EPS decline we continue to expect for 2002. We now expect total proportionate revenues to decline by 1.3% in 2003 following the 3.9% decline in 2002. Our previous estimate was suggesting a 1.1% growth in revenues. We now expect EBITDA to decline by 1.9% versus our previous assumption for a 0.5% growth in 2003.

SBC is currently trading at roughly 13.3x our new estimates for 2003. Given that we do not expect the company to generate enough growth to reach its 2001 EPS of $2.35 until 2006, we believe it will be difficult for the company to outperform the market at these levels. In calculating our new 12-month price target of $30 per share, we conducted a discounted cash flow analysis, employing a 7% discount rate, a terminal value that assumes 2.5% perpetuity growth and a 20% private market discount.

Table 2: Changes to SBC Estimates ($MM)

	2002				2003				% growth	
	Old	New	$ change	% Change	Old	New	$ change	% Change	Old	New
Wireline Revenue	38,768	38,601	-167	-0.4%	38,884	37,482	-1,402	-3.6%	0.3%	-2.9%
Total Revenue	52,372	52,205	-167	-0.3%	52,937	51,535	-1,402	-2.6%	1.1%	-1.3%
EBITDA	21,377	21,357	-20	-0.1%	21,479	20,958	-521	-2.4%	0.5%	-1.9%
Net Income	7,728	7,715	-13	-0.2%	7,811	7,462	-349	-4.5%	1.1%	-3.3%
EPS	$2.31	$2.31	($0.00)	-0.2%	$2.36	$2.25	($0.11)	-4.5%	2.1%	-2.3%

Source: UBS Warburg LLC estimates

Statement of Risk

Risks include management's ability to execute, potential adverse changes in regulation, changes in technology, the effects of a weak economy, increasing competition and a large degree of operating leverage.

Global rating definitions and allocation

Rating	Definition	% of companies under coverage with this rating	% for which IB services have been provided
Strong Buy	Greater than 20% excess return potential; high degree of confidence	12%	53%
Buy	Positive excess return potential	39%	38%
Hold	Low excess return potential; low degree of confidence	44%	28%
Reduce	Negative excess return potential	4%	22%
Sell	Greater than 20% negative excess return potential; high degree of confidence	1%	11%

Excess return: Target price / current price – 1 + gross dividend yield – 12-month interest rate. The 12- month interest rate used is that of the company's country of incorporation, in the same currency as the predicted return.
*Investment banking services include, but are not restricted to, acting as manager/co-manager in the underwriting or placement of securities (within the past three years), acting as financial advisor, and/or providing corporate finance or capital-markets-related services to a company or one of its affiliates or subsidiaries (within the past 12 months).

Source: UBS AG, its subsidiaries and affiliates; as of 30 June 2002.
2. UBS AG, its affiliates or subsidiaries has acted as manager/co-manager in the underwriting or placement of securities of this company or one of its affiliates within the past three years.
37. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company.
80. UBS AG, its affiliates or subsidiaries expect to receive or intend to seek compensation for investment banking services from this company within the next three months.

Unless otherwise indicated, please refer to the Valuation and Risk sections contained within the body of this report.
For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Warburg LLC, 1285 Avenue of Americas, New York, New York, 10019, Attention: Publishing Administration.

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UBS Warburg

The Regional Bells: How Much Pain from UNE-P?

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Batya Levi 212-713-8824 (batya.levi@ubsw.com)
Robert Hopper, CPA 212-713-9266 (robert.hopper@ubsw.com)

UNE-P Economics: Downgrading the Bells

- **Downgrading BellSouth , SBC and Verizon to Hold from Buy**
  - Analysis of UNE-P economics suggests pressure on profitability for the Bells
  - We now expect earnings to decline 1.8% vs. prev. expectation for 2.6% growth (Street estimates are for 2-5% growth).
  - We expect long-term FCF growth of 2-3% vs prev. expectation for 3-4% growth
- **Lowering Price Targets**
  - New price targets based on our reduced FCF estimates in our DCF analyses:
    - BellSouth: $26 (previously $28);
    - SBC: $30 (previously $36);
    - Verizon: $34 (previously $50)
- **We Expect Market Performance Over the Next 12 Months**
  - Attractive dividend yields should limit downside

UBS Warburg

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UNE-P Economics : Changes to Estimates

BellSouth

	2002				2003				% growth	
	Old	New	$ change	% Change	Old	New	$ change	% Change	Old	New
Wireline Revenue	18,421	18,312	-109	-0.6%	18,731	17,993	-738	-3.9%	1.7%	-1.7%
Total Revenue	29,009	28,900	-109	-0.4%	29,582	28,842	-740	-2.5%	2.0%	-0.2%
EBITDA	12,837	12,784	-53	-0.4%	13,120	12,761	-359	-2.7%	2.2%	-0.2%
Net Income	4,035	3,924	-111	-2.7%	4,217	3,836	-380	-9.0%	4.5%	-2.2%
EPS	$2.14	$2.09	($0.05)	-2.3%	$2.18	$2.02	($0.16)	-7.3%	1.9%	-3.2%

SBC

	2002				2003				% growth	
	Old	New	$ change	% Change	Old	New	$ change	% Change	Old	New
Wireline Revenue	38,768	38,601	-167	-0.4%	38,884	37,482	-1,402	-3.6%	0.3%	-2.9%
Total Revenue	52,372	52,205	-167	-0.3%	52,937	51,535	-1,402	-2.6%	1.1%	-1.3%
EBITDA	21,377	21,357	-20	-0.1%	21,479	20,958	-521	-2.4%	0.5%	-1.9%
Net Income	7,728	7,715	-13	-0.2%	7,811	7,462	-349	-4.5%	1.1%	-3.3%
EPS	$2.31	$2.31	($0.00)	-0.2%	$2.36	$2.25	($0.11)	-4.5%	2.1%	-2.3%

Verizon

	2002				2003				% growth	
	Old	New	$ change	% Change	Old	New	$ change	% Change	Old	New
Wireline Revenue	40,912	40,897	-15	0.0%	39,655	39,136	-519	-1.3%	-3.1%	-4.3%
Total Revenue	66,737	66,722	-15	0.0%	67,092	66,575	-518	-0.8%	0.5%	-0.2%
EBITDA	29,049	28,772	-277	-1.0%	28,836	28,160	-676	-2.3%	-0.7%	-2.1%
Net Income	8,332	8,150	-182	-2.2%	8,587	8,130	-457	-5.3%	3.1%	-0.2%
EPS	$3.05	$2.98	($0.07)	-2.2%	$3.12	$2.96	($0.16)	-5.1%	2.3%	-0.7%

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UNE-P Economics: Glossary

- **Unbundled Network Elements (UNE)**
  - The individual parts of the local telephone network (7 elements including: local loop, switches, transport and OSS) that ILECs are required to "unbundle" and lease out to CLECs. Competitors can lease out one or all of the available UNEs to provide service.
- **Unbundled Network Element-Platform (UNE-P)**
  - Use of *ALL* the UNEs to provide service, requiring minimal capital outlays or asset deployment.
- **Retail Lines**
  - Access lines sold directly to the end user from the ILEC.
- **Wholesale Lines**
  - Access lines sold to competitors (AT&T and MCI), which resell the lines to end users.

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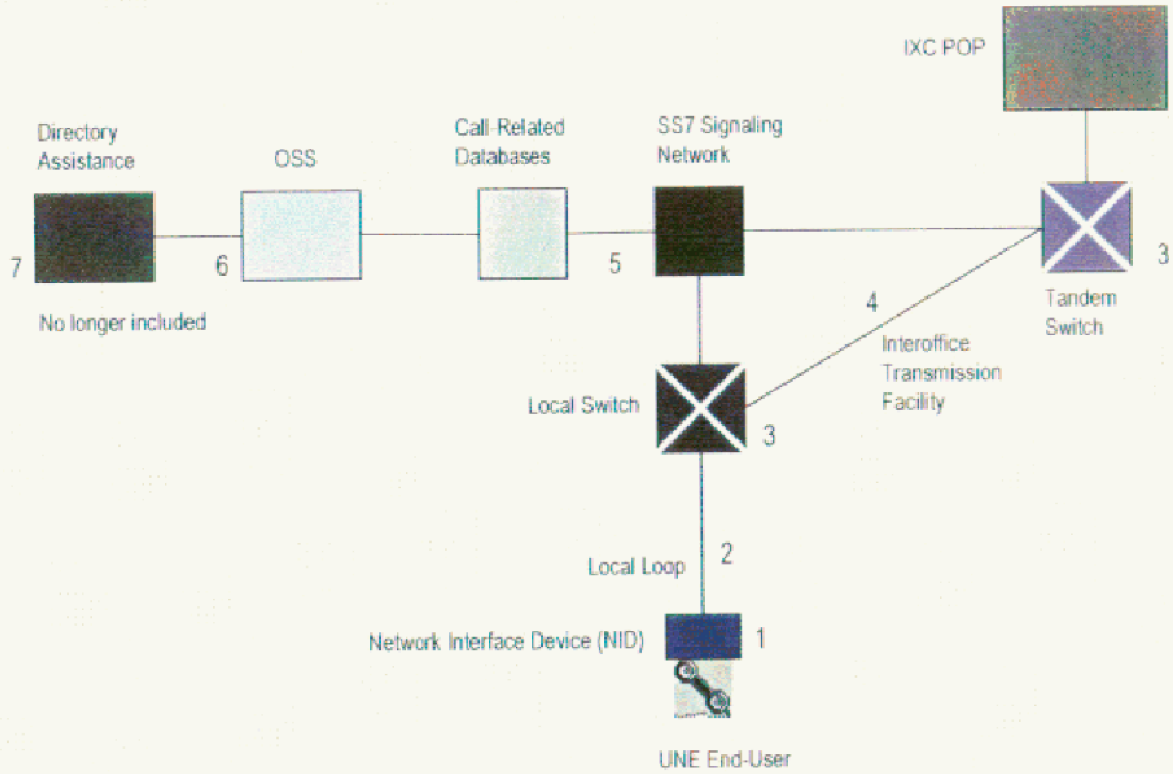
UNE-P Economics: UNE-P Diagram



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UNE-P Economics: What's the Big Deal?

- **UNE-P Competition Has Intensified in Recent Months...**
  - MCI's Neighborhood Plan (commenced in April '02; exited 2Q with 800K lines)
  - AT&T (recently entered 3 SBC states [24M residential lines]; plans to enter NJ [4.5M residential lines] in Sept 2002)
  - Other operators
    - Sprint is considering this strategy; others include Z-Tel, Talk America, and SupraTelecom (which added 120K UNE-P lines in FL in 2Q02)
- **Due to More Favorable Economics of UNE-P for Competitors**
  - Public Utility Commissions continue to set lower rates
    - Recent reductions in California, New York, New Jersey, Pennsylvania
- **Second Quarter Results Revealed the Bells' Exposure**
  - Over 1.1 million retail lines converted to wholesale through UNE-P in 2Q
    - SBC: 692K added vs. 358K in 1Q02;
    - BellSouth: 278K added, vs 239K in 1Q02;
    - Verizon: 110K added vs. 64K in 1Q02

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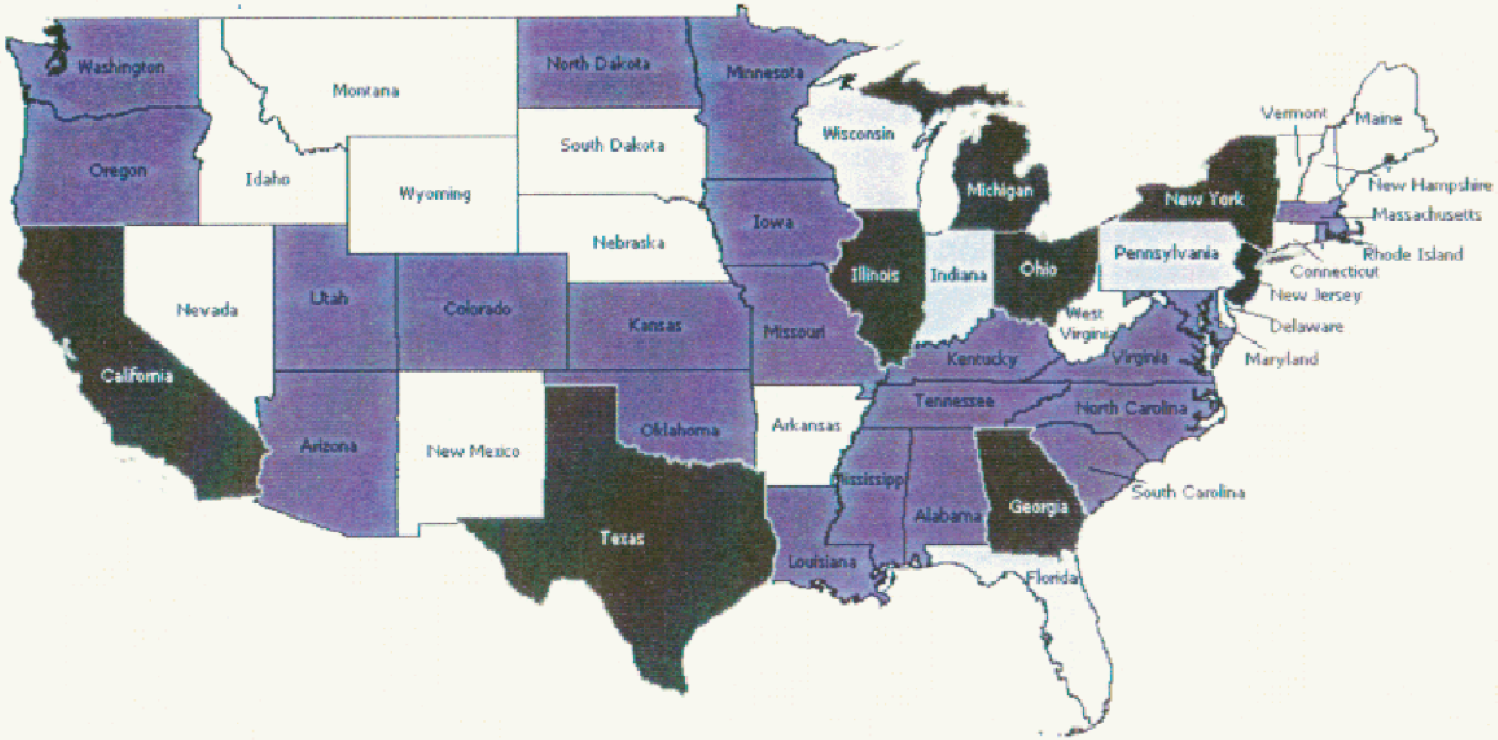
UNE-P Economics: The Rebundlers



- MCI and AT&T Operations
- MCI through Z-TEL and AT&T Operations
- MCI Operations through Z-TEL
- MCI Operations
- No Operations

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UNE-P Economics: Summary Findings

- **Economics of UNE-P are Worse than We Originally Expected**
  - **UNE-P lines generate negative EBITDA in 18 states for the Bells (60% of US residential lines)**
  - SBC's Ameritech region is the most attractive for UNE-P competitors
- **UNE-P Line Growth Will Be Greater than the Market Expects**
  - **UNE-P lines can be profitable in 33 states, suggesting further entry (82% of US residential access lines)**
  - AT&T presents the most significant threat.
    - Its 40% share of the consumer LD market presents an immediate target
    - AT&T sees opportunities in 14-17 states, but announced entry in 8 states.
  - The Bells exited 2Q02 with 7.5M UNE-P lines (5% penetration).

	2000a	2001a	2002e	2003e	2004e	2005e
UNE-P Lines	2,923	5,652	11,152	18,146	22,367	25,136
UNE-P Penetration	1.7%	3.4%	7.2%	12.2%	15.2%	17.3%

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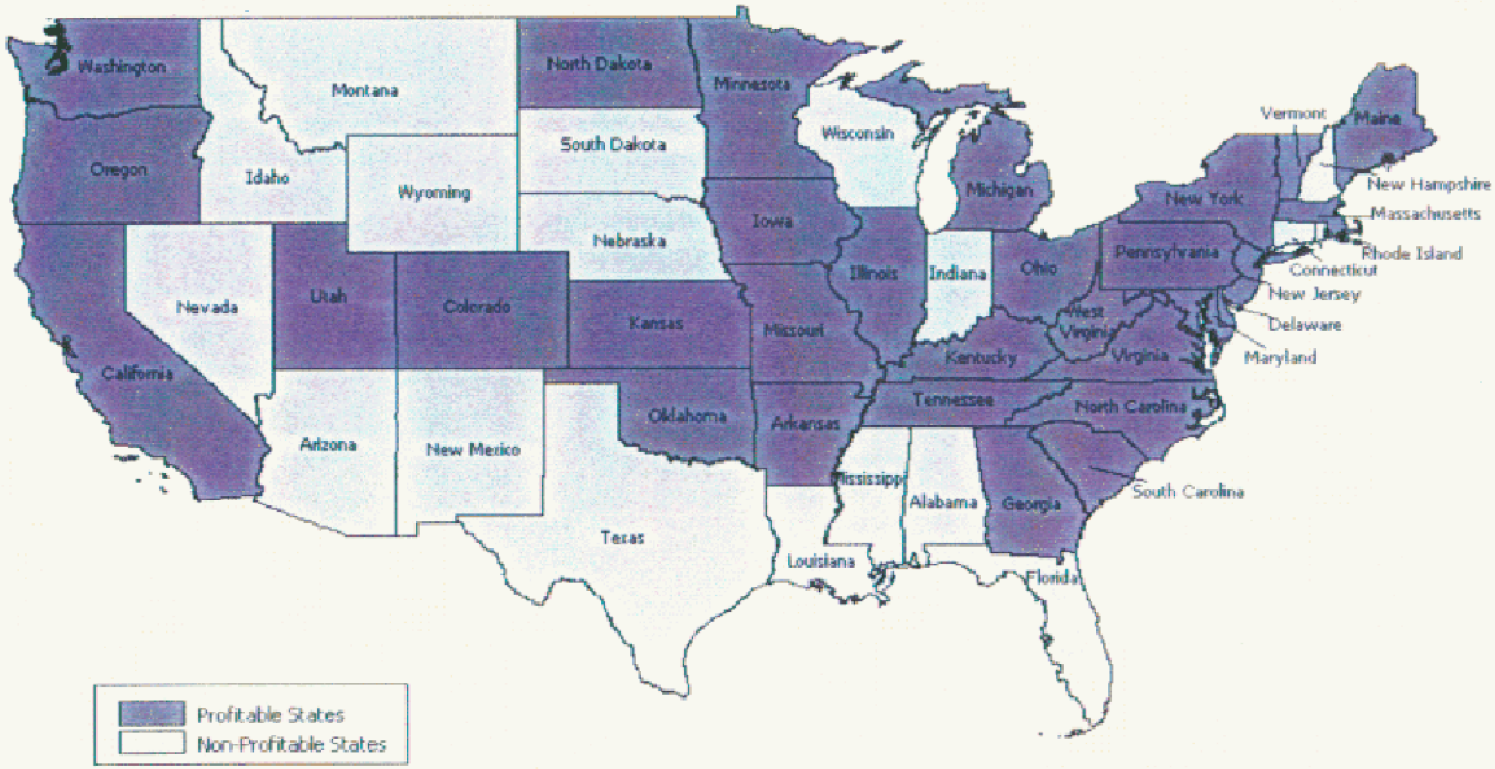
UNE-P Economics: Summary Findings



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UNE-P Economics: Summary Findings

- **Long Distance Opportunity is Only a Partial Offset**
  - Bells only need to add *1.3* long distance customers for each UNE-P line added to breakeven at *revenue* line
  - However, the Bells need to add *5.4* long distance customers for each UNE-P line added to breakeven at *EBITDA* line
  - **UNE-P IS AN EBITDA STORY, NOT A REVENUE STORY**

	2002e	2003e	2004e	2005e
LD subs	19,905	34,524	41,460	45,223
UNE-P subs	11,152	18,146	22,367	25,136
LD subs / UNE-P subs	**1.8**	**1.9**	**1.9**	**1.8**

- **We Do Not Expect Near-Term Regulatory Relief**

UBS Warburg

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UNE-P Economics: Summary Findings

- **Anticipate that EPS Will Decline in 2003 for the Bells**
  - EPS highly sensitive to growth in UNE-P

	Revenue lost	EBITDA lost	EPS Impact assuming local line loss of				Free Cash flow Impact			
	per line / mo	per line / mo	1M	2M	3M	5M	1M	2M	3M	5M
SBC	$19.76	$17.04	$0.04	$0.08	$0.12	$0.20	$137	$274	$411	$685
VZ	17.89	15.26	0.04	0.09	0.13	0.22	123	245	368	614
BLS	18.29	15.65	0.06	0.13	0.19	0.32	126	252	377	629
Q	14.73	11.98	0.05	0.09	0.14	0.24	96	193	289	481

  - We estimate that 8M lines lost translates into $1B OpFCF loss

- **Summary**

Poor Economics of UNE-P + Higher UNE-P Line Loss
= Lower Profit and EPS for the Bells

UBS Warburg

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UNE-P Economics: Calculating the Impact

1) **Calculate Revenue Impact Per Line Lost**

2) **Estimate Average *Retail* COGS and SG&A per Line Based on Existing Wireline EBITDA Margins**

3) **Calculate Wholesale EBITDA Contribution**

4) **Estimate Future Line Loss in Each State**

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UNE-P Economics: Calculating the Impact

1) Calculated Revenue Impact Per Line Lost

Local service revenue =	+ Basic local	Retail Revenue
	+ Vertical Features	
	+ Access/IntraLATA toll	
	+ SLC	
	+ LNP, 911 and other surcharges	
UNE-P revenue =	+Loop	Wholesale Revenue
	+Local switching (fixed & variable)	
	+Tandem switching	
	+Transport	
Difference =	Total revenue lost	

Source: UBS Warburg LLC and company reports

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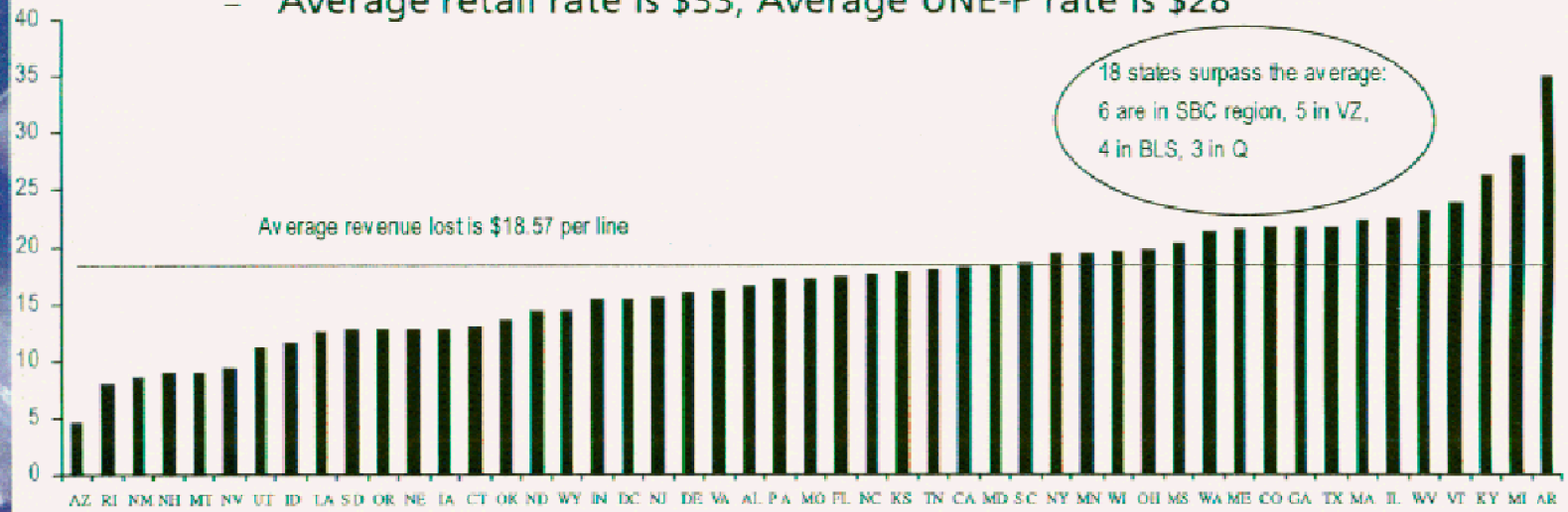
UNE-P Economics: Calculating the Impact

- **Revenue Lost Per UNE-P Line**
  - Arkansas (SBC) - $35
    - Average retail rate (including vertical services and subscriber line charges) is $51; Average UNE-P rate is $16
  - Arizona (Qwest) - $5
    - Average retail rate is $33; Average UNE-P rate is $28



Source: UBS Warburg LLC and company reports

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UNE-P Economics: Revenue Impact - SBC

	Basic Local Service	Plus: SLC	Plus: Vertical serv.	Plus: Access/IntraLATA toll	Plus: USF	Total Retail Revenue	Less: UNE-P	= Total Revenue Lost
Illinois	12.50	4.49	9.00	5.00	0.37	31.36	8.92	22.44
Indiana	12.50	5.49	9.00	5.00	0.42	32.41	17.07	15.34
Michigan	21.00	5.31	9.00	5.00	0.43	40.74	12.74	28.00
Ohio	14.25	5.35	9.00	5.00	0.42	34.02	14.41	19.61
Wisconsin	19.95	5.03	9.00	5.00	0.23	39.21	19.68	19.53
California	10.97	4.40	9.00	5.00	0.44	29.81	11.68	18.13
Connecticut	12.54	5.69	9.00	5.00	0.62	32.85	20.81	12.04
Nevada	10.75	5.26	9.00	5.00	0.54	30.55	21.17	9.38
Arkansas	31.95	5.20	9.00	5.00	0.48	51.63	16.57	35.06
Kansas	14.45	5.20	9.00	5.00	0.48	34.13	16.39	17.74
Missouri	16.90	5.20	9.00	5.00	0.48	36.58	19.37	17.21
Oklahoma	12.28	5.20	9.00	5.00	0.48	31.96	18.45	13.51
Texas	19.95	5.20	9.00	5.00	0.48	39.63	17.91	21.72
Average/Total	**14.88**	**4.93**	**9.00**	**5.00**	**0.44**	**34.25**	**14.50**	**19.76**
Avg. Ameritech	15.65	5.09	9.00	5.00	0.39	35.13	13.40	21.73

	Loop			Local Switching		Tandem switching	Shared transport	
	Urban	Suburban	Rural	per port	per MOU	per MOU	per MOU	Avg. UNE-P
Illinois	2.59	7.07	11.40	5.01	unlimited	0.0002	0.0008	8.92
Indiana	8.03	8.15	8.99	5.34	0.0034	0.0003	0.0007	17.07
Michigan	8.47	8.73	12.54	2.53	0.0012	0.0011	0.0004	12.74
Ohio	5.93	7.97	9.52	4.63	0.0032	0.0007	na	14.41
Wisconsin	10.90	10.90	10.90	4.98	0.0035	0.0007	0.0011	19.68
California	8.83	11.27	19.63	0.88	0.0008	0.0001	0.0013	11.68
Connecticut	8.95	12.03	19.69	3.31	0.0072	0.0020	na	20.81
Nevada	11.75	22.66	66.31	1.63	0.0016	0.0018	0.0073	21.17
Arkansas	11.86	13.64	23.34	1.61	0.0018	0.0017	0.0004	16.57
Kansas	11.86	13.64	23.34	1.61	0.0018	0.0008	0.0004	16.39
Missouri	12.71	20.71	33.29	2.06	0.0021	0.0008	0.0004	19.37
Oklahoma	12.14	13.65	26.25	2.32	0.0029	0.0010	na	18.45
Texas	12.14	13.65	18.98	2.90	0.0021	0.0008	0.0001	17.91
Average	**8.85**	**11.32**	**18.01**	**2.73**	**0.0018**	**0.0006**	**0.0008**	**14.50**
Avg. Ameritech	6.37	8.21	10.79	4.39	0.0019	0.0006	0.0005	13.40

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UNE-P Economics: Revenue Impact - BellSouth

	Basic Local Service	Plus: SLC	Plus: Vertical serv.	Plus: Access/IntraLATA toll	Plus: USF	Total Retail Revenue	Less: UNE-P	= Total Revenue Lost
Alabama	16.30	6.00	11.50	5.00	0.49	39.29	22.82	16.47
Florida	11.00	6.00	11.50	5.00	0.49	33.99	16.69	17.30
Georgia	17.45	6.00	11.50	5.00	0.49	40.44	18.79	21.65
Kentucky	18.40	6.00	11.50	5.00	0.49	41.39	15.12	26.27
Louisiana	12.64	6.00	11.50	5.00	0.49	35.63	23.08	12.55
Mississippi	19.01	6.00	11.50	5.00	0.49	42.00	21.77	20.23
North Carolina	13.19	6.00	11.50	5.00	0.49	36.18	18.69	17.49
South Carolina	15.03	6.00	11.50	5.00	0.49	38.02	19.43	18.59
Tennessee	12.15	6.00	11.50	5.00	0.49	35.14	17.18	17.96
Average/Total	**13.73**	**6.00**	**11.50**	**5.00**	**0.49**	**36.72**	**18.43**	**18.29**

	Loop			Local Switching		Tandem switching	Shared transport	
	Urban	Suburban	Rural	per port	per MOU	per MOU	per MOU	Avg. UNE-P
Alabama	15.24	24.75	44.85	2.07	0.0020	0.0015	0.0015	22.82
Florida	12.79	17.27	33.36	1.40	0.0008	0.0002	0.0000	16.69
Georgia	14.21	16.41	26.08	1.85	0.0016	0.0007	0.0002	18.79
Kentucky	10.56	15.34	31.11	1.49	0.0012	0.0002	0.0004	15.12
Louisiana	14.05	24.14	49.30	2.55	0.0021	0.0008	0.0047	23.08
Mississippi	15.58	20.65	29.51	2.11	0.0024	0.0008	0.0004	21.77
North Carolina	12.11	21.24	33.65	2.19	0.0017	0.0009	0.0003	18.69
South Carolina	14.94	21.39	26.72	1.65	0.0011	0.0007	0.0005	19.43
Tennessee	13.19	17.23	22.53	1.89	0.0008	0.0010	0.0001	17.18
Average	**13.26**	**18.96**	**32.77**	**1.79**	**0.0013**	**0.0006**	**0.0006**	**18.43**

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UNE-P Economics: Revenue Impact - Verizon

		Basic Local Service	Plus: SLC	Plus: Vertical serv.	Plus: Access/IntraLATA toll	Plus: USF	Total Retail Revenue	Less: UNE-P	= Total Revenue Lost
VZ	Connecticut	13.43	5.69	9.00	5.00	0.62	33.74	20.81	12.93
	DC	12.78	3.87	9.00	5.00	0.57	31.22	15.87	15.35
	Delaware	11.29	6.00	9.00	5.00	0.57	31.86	16.03	15.83
	Maryland	16.81	5.69	9.00	5.00	0.57	37.07	18.82	18.25
	New Jersey	7.47	6.00	9.00	5.00	0.57	28.04	12.61	15.43
	West Virginia	29.00	6.00	9.00	5.00	0.57	49.57	26.50	23.07
	Pennsylvania	11.61	6.00	9.00	5.00	0.57	32.18	15.11	17.07
	Virginia	12.64	6.00	9.00	5.00	0.57	33.21	17.07	16.14
	Maine	16.35	6.00	9.00	5.00	0.57	36.92	15.34	21.57
	Massachusetts	16.85	6.00	9.00	5.00	0.57	37.42	15.09	22.33
	New Hampshire	13.86	6.00	9.00	5.00	0.57	34.43	25.54	8.89
	New York	11.05	6.00	9.00	5.00	0.57	31.62	12.33	19.28
	Rhode Island	14.78	6.00	9.00	5.00	0.57	35.35	27.46	7.89
	Vermont	17.20	6.00	9.00	5.00	0.57	37.77	13.85	23.92
	Average/Total	**12.47**	**5.95**	**9.00**	**5.00**	**0.57**	**32.99**	**15.10**	**17.89**

	Loop			Local Switching		Tandem switching	Shared transport	
	Urban	Suburban	Rural	per port	per MOU	per MOU	per MOU	Avg. UNE-P
Connecticut	8.95	12.03	19.69	3.31	0.0072	0.0020	na	20.81
DC	10.81	10.81	10.81	1.55	0.0030	0.0010	0.0015	15.87
Delaware	10.07	13.13	16.67	2.23	0.0028	0.0007	0.0001	16.03
Maryland	12.11	12.85	25.96	1.90	0.0038	0.0007	0.0004	18.82
New Jersey	8.12	9.59	10.92	0.73	0.0026	0.0013	0.0025	12.61
West Virginia	14.99	22.04	43.44	1.60	0.0072	0.0002	0.0007	26.50
Pennsylvania	10.25	11.00	14.00	2.67	0.0017	0.0008	0.0001	15.11
Virginia	10.74	16.45	29.40	1.30	0.0031	0.0006	0.0001	17.07
Maine	11.44	13.47	18.75	0.94	0.0017	0.0022	0.0009	15.34
Massachussetts	7.54	14.11	20.04	2.00	0.0033	0.0012	0.0022	15.09
New Hampshire	14.01	15.87	24.09	2.31	0.0079	0.0016	0.0010	25.54
New York	7.70	11.31	15.51	2.57	0.0011	na	na	12.33
Rhode Island	11.19	15.44	19.13	1.86	0.0127	0.0012	0.0022	27.46
Vermont	7.72	8.35	21.63	1.03	0.0040	0.0009	0.0006	13.85
Average	**9.34**	**12.33**	**18.16**	**1.98**	**0.0026**	**0.0007**	**0.0008**	**15.10**

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UNE-P Economics: Revenue Impact - Qwest

	Basic Local Service	Plus: SLC	Plus: Vertical serv.	Plus: Access/IntraLATA toll	Plus: USF	Total Retail Revenue	Less: UNE-P	= Total Revenue Lost
Arizona	13.18	6.00	8.00	5.00	0.56	32.74	28.10	4.64
Colorado	14.92	6.00	8.00	5.00	0.56	34.48	12.88	21.60
Idaho	14.48	6.00	8.00	5.00	0.56	34.04	22.44	11.59
Iowa	11.68	4.72	8.00	5.00	0.56	29.96	17.15	12.81
Minnesota	14.36	4.89	8.00	5.00	0.56	32.81	13.45	19.36
Montana	16.73	6.00	8.00	5.00	0.56	36.29	27.34	8.95
Nebraska	19.23	5.16	8.00	5.00	0.56	37.95	25.19	12.75
New Mexico	10.66	6.00	8.00	5.00	0.56	30.22	21.74	8.48
North Dakota	17.69	6.00	8.00	5.00	0.56	37.25	22.90	14.35
Oregon	13.80	6.00	8.00	5.00	0.56	33.36	20.66	12.70
South Dakota	16.65	6.00	8.00	5.00	0.56	36.21	23.54	12.67
Utah	11.03	6.00	8.00	5.00	0.56	30.59	19.45	11.14
Washington	12.50	5.92	8.00	5.00	0.56	31.98	10.72	21.26
Wyoming	23.10	6.00	8.00	5.00	0.56	42.66	28.26	14.40
Average/Total	**13.75**	**5.75**	**8.00**	**5.00**	**0.56**	**33.06**	**18.33**	**14.73**

	Loop			Local Switching		Tandem switching	Shared transport	
	Urban	Suburban	Rural	per port	per MOU	per MOU	per MOU	Avg. UNE-P
Arizona	18.96	34.94	56.53	1.61	0.0028	0.0014	0.0009	28.10
Colorado	5.91	12.31	32.79	1.86	0.0020	0.0020	0.0020	12.88
Idaho	15.81	24.01	40.92	1.34	0.0017	0.0032	0.0022	22.44
Iowa	13.11	15.64	27.27	1.15	0.0007	0.0042	0.0013	17.15
Minnesota	8.81	12.33	21.91	1.08	0.0018	0.0013	0.0015	13.45
Montana	23.10	23.90	27.13	1.58	0.0007	0.0068	0.0015	27.34
Nebraska	15.14	35.05	77.92	2.47	0.0007	0.0026	0.0012	25.19
New Mexico	17.75	20.30	26.23	1.38	0.0011	0.0016	0.0019	21.74
North Dakota	14.78	24.92	56.44	1.27	0.0007	0.0084	0.0044	22.90
Oregon	13.95	25.20	56.21	1.26	0.0013	0.0016	0.0000	20.66
South Dakota	17.01	18.54	24.37	1.84	0.0035	0.0017	0.0014	23.54
Utah	14.77	17.76	20.29	0.94	0.0026	0.0011	0.0009	19.45
Washington	6.41	11.35	12.76	1.34	0.0012	0.0014	0.0022	10.72
Wyoming	19.91	26.94	30.13	2.64	0.0038	0.0016	0.0003	28.26
Average	**12.17**	**19.86**	**34.72**	**1.46**	**0.0017**	**0.0020**	**0.0014**	**18.33**

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UNE-P Economics: Calculating the Impact

2) Estimated Average *Retail* COGS and SG&A per Line Based on Existing Wireline EBITDA Margins

- Assumes residential wireline margins are equivalent to total wireline margins

3) Calculated Wholesale EBITDA Contribution

- a) Estimated average wholesale COGS and SG&A per line
  - Assume 5% avoided cost in COGS; 20% avoided cost in SG&A
- b) Compared this cost structure to revenue from wholesale UNE-P rates

	COGS (% of sales)	S,G&A (% of sales)	EBITDA margins	% of COGS avoided	% of S,G&A avoided	Calculated EBITDA margins
SBC	35%	25%	40%	5%	20%	-24%
VZ	31%	24%	45%	5%	20%	-4%
BLS	27%	23%	50%	5%	20%	13%

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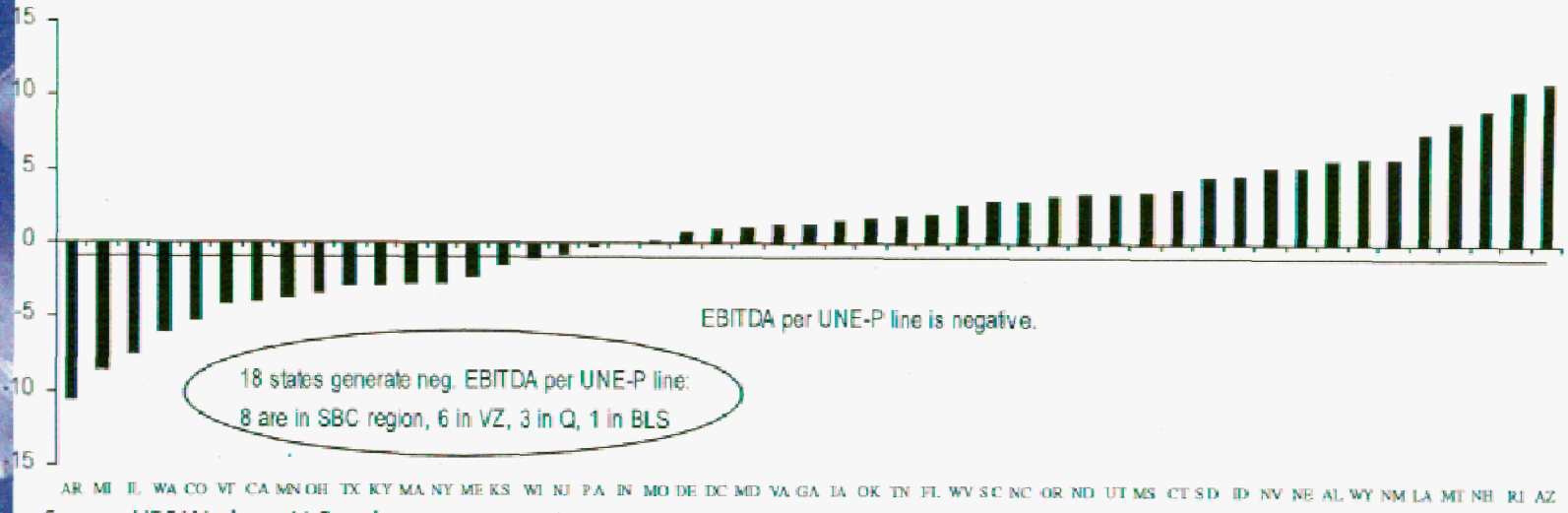
UNE-P Economics: Calculating the Impact

- **EBITDA Per Line**
  - SBC - UNE-P Average ($3.51) vs. Retail Average $13.53
  - BellSouth - UNE-P Average $2.47 vs. Retail Average $18.12
  - Verizon - UNE-P Average ($0.68) vs. Retail Average $14.59
  - Qwest - UNE-P Average $1.03 vs. Retail Average $14.69



Source: UBS Warburg LLC and company reports

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UNE-P Economics: Profitability Impact - SBC

	Retail Profitability				Wholesale Profitability							
	COGS	Gross Profit	S,G&A exp.	EBITDA	COGS 95% of ret. COGS	Gross Profit	S,G&A exp. 80% of ret. S,G&A	EBITDA	EBITDA lost	EBITDA Lost/ Revenue Lost	FCF lost	FCF Lost/ Revenue Lost
Illinois	10.85	20.14	7.75	12.40	10.30	-1.39	6.20	-7.58	19.98	89.0%	13.39	60%
Indiana	11.20	20.79	8.00	12.80	10.64	6.44	6.40	0.04	12.76	83.2%	8.55	56%
Michigan	14.11	26.20	10.08	16.12	13.40	-0.67	8.06	-8.73	24.85	88.7%	16.65	59%
Ohio	11.76	21.84	8.40	13.44	11.17	3.24	6.72	-3.48	16.92	86.3%	11.34	58%
Wisconsin	13.64	25.34	9.75	15.59	12.96	6.72	7.80	-1.08	16.67	85.3%	11.17	57%
California	10.28	19.09	7.34	11.75	9.77	1.91	5.87	-3.96	15.71	86.6%	10.52	58%
Connecticut	11.28	20.95	8.06	12.89	10.72	10.09	6.45	3.64	9.25	76.8%	6.20	51%
Nevada	10.50	19.51	7.50	12.00	9.98	11.19	6.00	5.19	6.82	72.7%	4.57	49%
Arkansas	17.90	33.25	12.79	20.46	17.01	-0.44	10.23	-10.67	31.13	88.8%	20.86	59%
Kansas	11.78	21.87	8.41	13.46	11.19	5.20	6.73	-1.53	14.99	84.5%	10.04	57%
Missouri	12.64	23.47	9.03	14.44	12.00	7.36	7.22	0.14	14.30	83.1%	9.58	56%
Oklahoma	11.02	20.46	7.87	12.59	10.47	7.98	6.30	1.68	10.91	80.7%	7.31	54%
Texas	13.70	25.45	9.79	15.66	13.02	4.89	7.83	-2.94	18.60	85.6%	12.46	57%
Average/Total	**11.83**	**21.98**	**8.45**	**13.53**	**11.24**	**3.25**	**6.76**	**-3.51**	**17.04**	**85.7%**	**11.41**	**58%**
Avg. Ameritech	**12.16**	**22.58**	**8.69**	**13.90**	**11.55**	**1.85**	**6.95**	**-5.10**	**18.99**	**87.4%**	**12.73**	**59%**

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UNE-P Economics: Profitability Impact - BellSouth

	Retail Profitability				Wholesale Profitability							
	COGS	Gross Profit	S,G&A exp.	EBITDA	COGS 95% of ret. COGS	Gross Profit	S,G&A exp. 80% of ret. S,G&A	EBITDA	EBITDA lost	EBITDA Lost/ Revenue Lost	FCF lost	FCF Lost/ Revenue Lost
Alabama	10.48	28.32	8.92	19.40	9.95	12.86	7.14	5.73	13.67	83.0%	9.04	55%
Florida	9.05	24.46	7.71	16.75	8.59	8.10	6.16	1.93	14.82	85.6%	9.79	57%
Georgia	10.79	29.16	9.19	19.98	10.25	8.55	7.35	1.20	18.78	86.8%	12.41	57%
Kentucky	11.04	29.86	9.41	20.45	10.49	4.63	7.53	-2.89	23.34	88.9%	15.43	59%
Louisiana	9.49	25.65	8.08	17.57	9.01	14.06	6.47	7.60	9.97	79.4%	6.59	52%
Mississippi	11.21	30.30	9.55	20.76	10.65	11.12	7.64	3.48	17.27	85.4%	11.41	56%
North Carolina	9.64	26.05	8.21	17.85	9.15	9.54	6.57	2.97	14.87	85.1%	9.83	56%
South Carolina	10.13	27.40	8.63	18.77	9.63	9.80	6.91	2.89	15.87	85.4%	10.49	56%
Tennessee	9.36	25.29	7.97	17.33	8.89	8.29	6.38	1.91	15.41	85.8%	10.18	57%
Average/Total	**9.78**	**26.45**	**8.33**	**18.12**	**9.29**	**9.13**	**6.67**	**2.47**	**15.65**	**85.3%**	**10.34**	**57%**

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UNE-P Economics: Profitability Impact - Verizon

	Retail Profitability				Wholesale Profitability							
	COGS	Gross Profit	S,G&A exp.	EBITDA	COGS 95% of ret. COGS	Gross Profit	S,G&A exp. 80% of ret. S,G&A	EBITDA	EBITDA lost	EBITDA Lost/ Revenue Lost	FCF lost	FCF Lost/ Revenue Lost
Connecticut	10.27	22.85	7.95	14.90	9.75	11.05	6.36	4.69	10.21	78.9%	6.75	52%
DC	9.50	21.15	7.36	13.79	9.03	6.84	5.88	0.96	12.84	83.6%	8.48	55%
Delaware	9.70	21.59	7.51	14.08	9.21	6.81	6.01	0.80	13.28	83.9%	8.77	55%
Maryland	11.32	25.19	8.76	16.43	10.75	8.07	7.01	1.06	15.37	84.2%	10.15	56%
New Jersey	8.52	18.95	6.59	12.36	8.09	4.52	5.27	-0.75	13.11	85.0%	8.67	56%
West Virginia	15.19	33.81	11.76	22.05	14.43	12.07	9.41	2.66	19.39	84.0%	12.81	56%
Pennsylvania	9.80	21.81	7.59	14.22	9.31	5.81	6.07	-0.26	14.49	84.9%	9.57	56%
Virginia	10.12	22.52	7.83	14.69	9.61	7.45	6.27	1.19	13.50	83.6%	8.92	55%
Maine	11.27	25.08	8.72	16.36	10.70	4.64	6.98	-2.34	18.69	86.7%	12.35	57%
Massachusetts	11.42	25.43	8.84	16.58	10.85	4.24	7.08	-2.84	19.42	87.0%	12.83	57%
New Hampshire	10.50	23.36	8.13	15.23	9.97	15.57	6.50	9.07	6.17	69.4%	4.08	46%
New York	9.62	21.42	7.45	13.97	9.14	3.19	5.96	-2.77	16.74	86.8%	11.06	57%
Rhode Island	10.78	24.00	8.35	15.65	10.24	17.22	6.68	10.54	5.11	64.8%	3.38	43%
Vermont	11.53	25.67	8.93	16.74	10.96	2.89	7.14	-4.25	20.99	87.7%	13.87	58%
Average/Total	**10.05**	**22.37**	**7.78**	**14.59**	**9.55**	**5.55**	**6.22**	**-0.68**	**15.26**	**85.3%**	**10.09**	**56%**

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UNE-P Economics: Profitability Impact - Qwest

	Retail Profitability				Wholesale Profitability							
	COGS	Gross Profit	S,G&A exp.	EBITDA	COGS 95% of ret. COGS	Gross Profit	S,G&A exp. 80% of ret. S,G&A	EBITDA	EBITDA lost	EBITDA Lost/ Revenue Lost	FCF lost	FCF Lost/ Revenue Lost
Arizona	11.26	20.92	8.05	12.87	10.70	17.40	6.44	10.97	1.91	41.1%	1.05	23%
Colorado	11.87	22.05	8.48	13.57	11.28	1.60	6.78	-5.19	18.75	86.8%	10.31	48%
Idaho	11.72	21.76	8.37	13.39	11.13	11.31	6.70	4.62	8.77	75.7%	4.83	42%
Iowa	10.29	19.11	7.35	11.76	9.78	7.38	5.88	1.50	10.26	80.1%	5.64	44%
Minnesota	11.29	20.96	8.06	12.90	10.72	2.72	6.45	-3.73	16.63	85.9%	9.14	47%
Montana	12.51	23.22	8.93	14.29	11.88	15.46	7.15	8.32	5.97	66.8%	3.29	37%
Nebraska	13.08	24.30	9.35	14.95	12.43	12.76	7.48	5.29	9.67	75.8%	5.32	42%
New Mexico	10.38	19.28	7.42	11.86	9.86	11.88	5.93	5.95	5.91	69.8%	3.25	38%
North Dakota	12.84	23.85	9.17	14.68	12.20	10.70	7.34	3.36	11.31	78.8%	6.22	43%
Oregon	11.48	21.32	8.20	13.12	10.91	9.75	6.56	3.19	9.93	78.2%	5.46	43%
South Dakota	12.48	23.17	8.91	14.26	11.85	11.69	7.13	4.56	9.70	76.6%	5.33	42%
Utah	10.51	19.52	7.51	12.01	9.98	9.46	6.01	3.46	8.56	76.8%	4.71	42%
Washington	11.00	20.42	7.86	12.57	10.45	0.28	6.28	-6.01	18.57	87.4%	10.22	48%
Wyoming	14.74	27.37	10.53	16.84	14.00	14.26	8.42	5.84	11.00	76.4%	6.05	42%
Average/Total	**11.38**	**21.13**	**8.13**	**13.00**	**10.81**	**7.53**	**6.50**	**1.03**	**11.98**	**81.3%**	**6.59**	**45%**

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UNE-P Economics: Calculating the Impact

- **4) Estimated Future Line Loss in Each State**
  - **SBC**: Lost 692K lines to UNE-P in 2Q, up from 358K in 1Q
    - We believe roughly half of these were in June alone
    - AT&T entered IL and OH in mid-June, CA in early August
    - We expect line loss of 1m in Q3 and 1.2m in Q4
  - **BellSouth**: Lost 278K lines to UNE-P in 2Q, up from 239K in 1Q
    - Losing 100-120/ quarter to reseller in Florida
    - AT&T in Georgia and is likely to enter Florida as well
    - We expect line loss of 300K in Q3 and 400K in Q4
  - **Verizon**: Lost 110K lines to UNE-P in 2Q, up from 64K in 1Q
    - AT&T increasing marketing expenditures in New York
    - Announced entry into New Jersey in September
    - Expect to enter Pennsylvania in 4Q
    - We expect line loss of 230K in Q3 and 500K in Q4

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UNE-P Economics: UNE-P Line Projections

	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02e	4Q02e	2000	2001	2002e	2003e	2004e	2005e
Total Switched Access Lines														
SBC	61,254	60,578	60,230	59,532	59,036	58,255	57,325	56,345	61,270	59,532	56,345	54,349	53,676	53,271
VZ	62,903	62,465	61,967	61,551	61,227	60,373	58,027	57,276	62,902	61,551	57,276	55,131	54,129	53,972
BLS	25,898	25,666	25,575	25,422	25,425	25,138	24,837	24,612	25,908	25,422	24,612	24,080	23,920	23,776
Q	17,929	17,808	17,687	17,454	17,250	16,955	16,730	16,531	18,089	17,454	16,531	15,686	15,072	14,611
Total	**167,984**	**166,517**	**165,459**	**163,959**	**162,938**	**160,721**	**156,920**	**154,764**	**168,169**	**163,959**	**154,764**	**149,246**	**146,797**	**145,630**
% growth														
SBC	0.2%	-1.1%	-1.7%	-2.8%	-3.6%	-3.8%	-4.8%	-5.4%	0.9%	-2.8%	-5.4%	-3.5%	-1.2%	-0.8%
VZ	0.6%	-0.4%	-1.4%	-2.1%	-2.7%	-3.3%	-6.4%	-6.9%	1.4%	-2.1%	-6.9%	-3.7%	-1.8%	-0.3%
BLS	0.1%	-0.8%	-1.4%	-1.9%	-1.8%	-2.1%	-2.9%	-3.2%	1.6%	-1.9%	-3.2%	-2.2%	-0.7%	-0.6%
Q	0.1%	-0.8%	-1.9%	-3.5%	-3.8%	-4.8%	-5.4%	-5.3%	1.9%	-3.5%	-5.3%	-5.1%	-3.9%	-3.1%
Total	**0.3%**	**-0.7%**	**-1.6%**	**-2.5%**	**-3.0%**	**-3.5%**	**-5.2%**	**-5.6%**	**1.3%**	**-2.5%**	**-5.6%**	**-3.6%**	**-1.6%**	**-0.8%**
Total UNE-P														
SBC	1,373	1,760	2,159	2,403	2,761	3,453	4,453	5,653	1,012	2,403	5,653	9,067	10,798	11,852
VZ	1,645	2,093	2,138	2,195	2,259	2,369	2,599	3,099	1,687	2,195	3,099	4,899	6,299	7,299
BLS	303	385	505	601	840	1,118	1,418	1,818	224	601	1,818	3,318	4,218	4,818
Q	431	451	459	453	491	512	547	582	na	453	582	862	1,052	1,167
Total	**3,752**	**4,689**	**5,261**	**5,652**	**6,351**	**7,452**	**9,017**	**11,152**	**2,923**	**5,652**	**11,152**	**18,146**	**22,367**	**25,136**
Net UNE-P Adds														
SBC	361	387	399	244	358	692	1,000	1,200	na	1,391	3,250	3,414	1,731	1,055
VZ	-42	448	45	57	64	110	230	500	na	508	904	1,800	1,400	1,000
BLS	79	82	120	96	239	278	300	400	na	377	1,217	1,500	900	600
Q	na	20	8	-6	38	21	35	35	na	na	129	280	190	115
Total	**398**	**937**	**572**	**391**	**699**	**1,101**	**1,565**	**2,135**	**na**	**2,276**	**5,500**	**6,994**	**4,221**	**2,770**
UNE-P Penetration														
SBC	2.2%	2.9%	3.6%	4.0%	4.7%	5.9%	7.8%	10.0%	1.7%	4.0%	10.0%	16.7%	20.1%	22.2%
VZ	2.6%	3.4%	3.5%	3.6%	3.7%	3.9%	4.5%	5.4%	2.7%	3.6%	5.4%	8.9%	11.6%	13.5%
BLS	1.2%	1.5%	2.0%	2.4%	3.3%	4.4%	5.7%	7.4%	0.9%	2.4%	7.4%	13.8%	17.6%	20.3%
Q	2.4%	2.5%	2.6%	2.6%	2.8%	3.0%	3.3%	3.5%	na	2.6%	3.5%	5.5%	7.0%	8.0%
Total	**2.2%**	**2.8%**	**3.2%**	**3.4%**	**3.9%**	**4.6%**	**5.7%**	**7.2%**	**1.7%**	**3.4%**	**7.2%**	**12.2%**	**15.2%**	**17.3%**

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UNE-P Economics: What's the Call?

- **Downgrading the Bells (BLS, SBC and VZ)**
  - Expect the group to perform inline with the market over the next 12 months
  - Dividend yields should provide a backstop on valuations
- **Economics of UNE-P worse than expected for the Bells**
  - Will put additional pressure on Bell margins and earnings
  - SBC and BellSouth are the most exposed
- **Line Losses Will Likely Accelerate in 2H02**
  - AT&T and MCI
  - No near-term regulatory relief expected
- **Long Distance is Only a Partial Offset**
  - Local revenue is much higher margin than long distance
  - To breakeven on the EBITDA line, Bells need to add 5.4 long distance customers for every UNE-P line added
- **2003 EPS Estimates are Too High**
  - We now expect 2003 EPS to decline 1.8%; the Street still forecasts growth

Additional information available upon request.

Prices of companies mentioned as of :

AT&T Corp	2	T	N/A
BellSouth Corp	2	BLS	N/A
Qwest Communications International		Q	N/A
SBC Communications, Inc.	2	SBC	N/A
Sprint FON Group	2	FON	N/A
Verizon Communications	2,57	VZ	N/A
WorldCom Group	1,2	WCOM	N/A

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