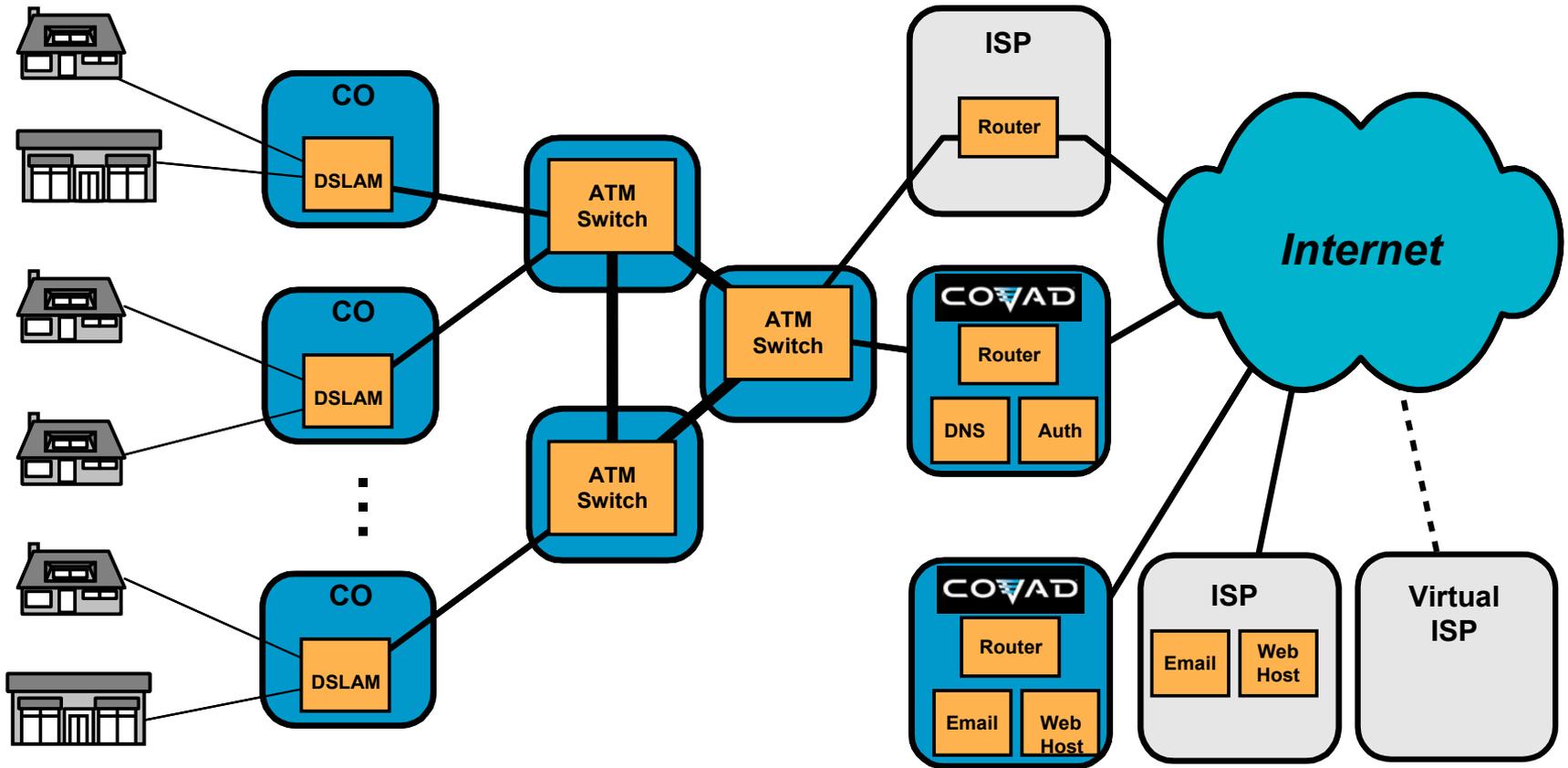




July 14, 2004

Business Update

- Covad has invested **hundreds of millions of dollars** in its facilities-based network. Covad continues to invest:
 - \$48 million purchase of VoIP provider GoBeam in 1Q '04
 - \$125 million raised in 1Q '04 to help fund VoIP rollout
 - Expansion into 200 additional central offices in 2004
- **Layer 2 Network Architecture**
 - Over 120 ATM switches and over 1900 DSLAMs
 - 45 million homes and businesses passed in 35 states
- **Layer 3 Network Architecture**
 - DSL+IP Point-of-Presence (POP) equipment
 - 16 POPs nationwide collocated with Level 3
- **Voice Service Architecture**
 - VoIP services combine Covad facilities-based broadband network with GoBeam VoIP assets.
 - Additional incremental investments expected (softswitches, media gateways, BRAS upgrades, ATM backbone expansion, DSLAM upgrades, network monitoring equipment).



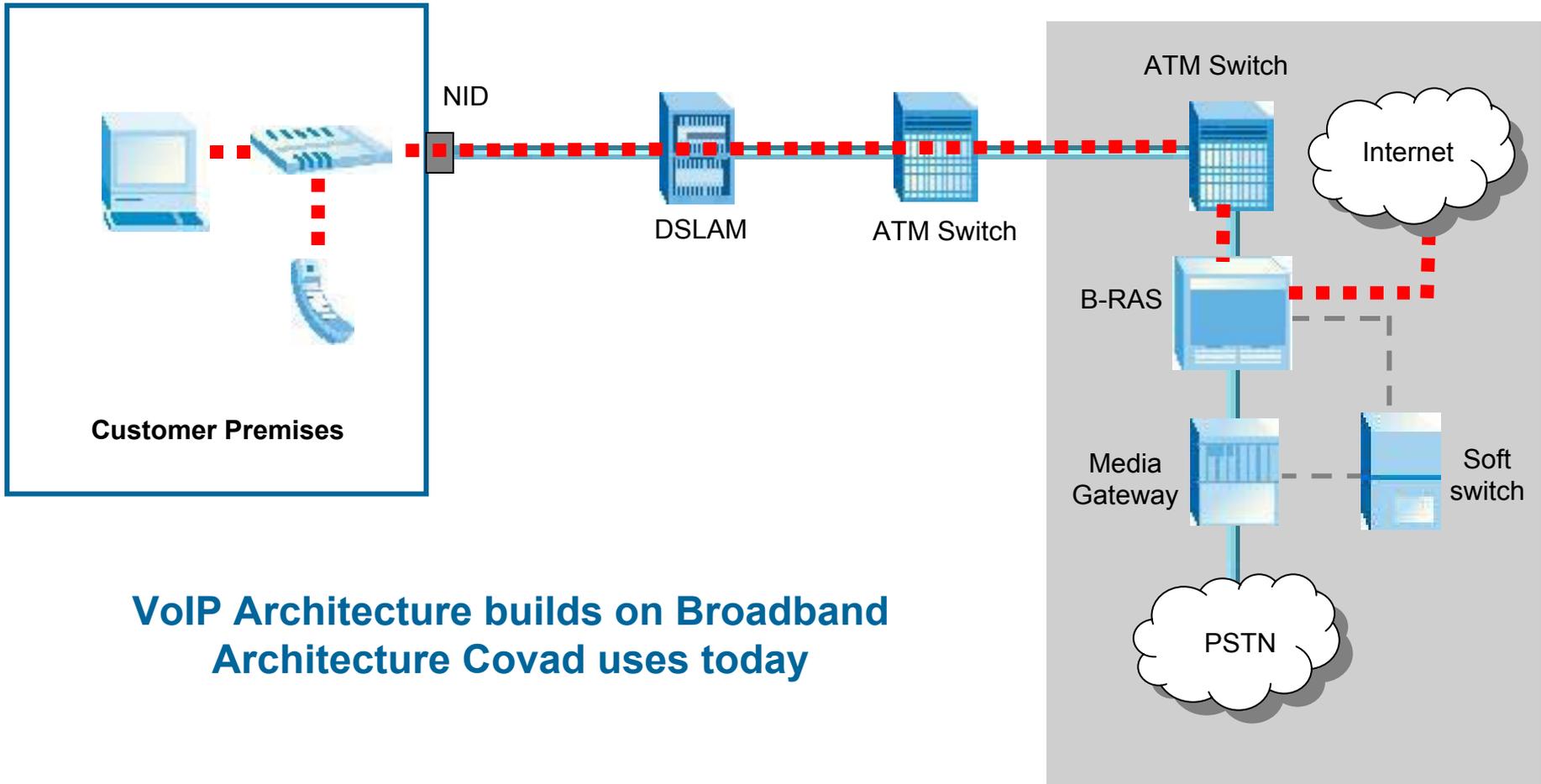
- **Voice Optimized Access**

- Modifies existing DSL services to provide an access line for VoIP delivery.
- Quality of Service guarantees and Service Level Agreements for voice enabled via management of last mile transmission facilities.

- **Full Suite of VoIP Services**

- GoBeam serves SME and Enterprise businesses.
 - PBXi product offers migration from legacy PBX to VoIP
 - vPBX product offers complete hosted-PBX VoIP solution
- Covad plans to expand VoIP service into consumer and SOHO segments across nationwide footprint.
- Enhanced Features – “Dashboard” Web interface, unified visual voice and fax mail, follow-me calling, Outlook integration, conferencing, Web collaboration
- POTS features – LNP, 911, directory assistance

Covad VoIP Service Architecture



VoIP Architecture builds on Broadband Architecture Covad uses today

- **VoIP makes revolutionary enhanced features possible in comparison to the relatively limited features available with legacy POTS services.**
- **Today, VoIP providers that do not own their own broadband transmission facilities have had some initial success.**
- **But VoIP service providers that have their own facilities will confer significant advantages to services providers offering integrated transmission and VOIP services such as the ability to control quality and provisioning of service, and leverage existing customer relationships, among other things.**

- **Covad is uniquely positioned to be a leader in VoIP deployment:**
 - **Nationwide, facilities based local broadband network and premiere back office and support systems**
 - **Management of last-mile broadband transmission facilities allows it to offer VoIP services that rival the legacy public switched telephone network in their reliability, quality of service, and public safety features, such as access to 911.**

Fostering Facilities-Based VoIP

- **Robust facilities-based competition from multiple players will speed VoIP roll-out, serve as competitive spur to incumbents**
- **Non-discriminatory access to unbundled local loops and local transport is critical for facilities-based VoIP competition to become a reality:**
 - These last-mile transmission facilities provide the critical link between end users and Covad's backhaul network facilities and cannot be duplicated.
 - Alternative last mile facilities will not be available for years
 - Cable does not serve many homes and covers very little of SMR market
- **VOIP requires broadband, and unbundling has supported more rapid broadband deployment in countries which are ahead of the U.S.**
 - South Korea ranks third in the world in terms of DSL lines and first in terms of total DSL penetration.
 - Japan leads U.S. in broadband competition and offers low prices for consumer DSL.
 - Both countries require incumbents to unbundle network facilities (loops, linesharing, collocation)

The Transition to Full Facilities-Based Competition

- **In response to the DC Circuit Decision, the FCC will be formulating new rules that will move competitors from UNE P to facilities utilizing UNE Loops.**
- **Covad stands ready to participate in the transition to facilities-based services, including VoIP, that do not rely on unbundled phone company switching:**
 - Covad's facilities-based broadband network and existing wholesale relationships offer a viable migration path for the 20 million consumers currently served using UNE-P.
 - Covad is working on new products to support this migration.

What is Needed to Ensure Transition to Facilities Based Competition

- **Transition will take time to migrate millions of consumers to new arrangements**
- **Pro-competitive policies and rules are required to foster facilities-based competition:**
 - Continued access to transport and loops, including linesharing
 - Stable, cost based pricing
 - Ensuring that hot cut processes facilitate an orderly transition from UNE-P to UNE-L
 - Existing processes must be upgraded substantially to be scalable and support vigorous mass market competition
 - Maintaining rate stability for necessary elements.
- **Competitive service providers with established customer bases are most likely to aggressively deploy alternative access technologies in the medium term, but need stable rules and pricing to continue to invest**
- **Historical precedent proves benefits: vigorous enforcement of equal access requirements for long distance carriers created tremendous competition, many billions in consumer savings for a very modest investment by incumbent carriers**

- **Covad's long-term prospects appear promising.**
 1. Line-splitting bundles with UNE-P voice for the interim
 2. Migration to voice/data bundles over UNE L using VoIP and line powered voice
 3. Participation in Wi-Max Forum, broadband wireless trials
- **Improving financial picture.**
 - \$6.3 million EBIDTA profit in 1Q '04.
 - \$57 million SBC debt paid off.
 - Cash-flow projected from -\$3 to +\$2 million for 2Q '04.
- **BUT significant short-term obstacles remain.**
 - **Line-sharing phased out in Oct. '04**, but line-splitting is not yet even fully operational.
 - Line-sharing is a migration path to consumer VoIP over UNE L.
 - **UNE T-1's and transport** are being addressed in the FCC's permanent rules:
 - These elements are critical to facilities-based VoIP
 - **Line losses.** Covad has announced first line losses in its history (1,200 lines in 1Q '04).