

DSL Market Overview

Claudia Bacco
Executive Vice President
TeleChoice, Inc.
cbacco@telechoice.com
www.telechoice.com
www.xdsl.com

Supercomm 2001

Agenda

- The US Market Today
- The European Market
- Current Trends
- Succeeding in an Evolving Market

The top left of the slide features a decorative header with a green and yellow grid pattern, a small white box containing the letter 'v', and several overlapping white squares. A solid red horizontal bar spans the width of the slide below these elements.

The US Market Today

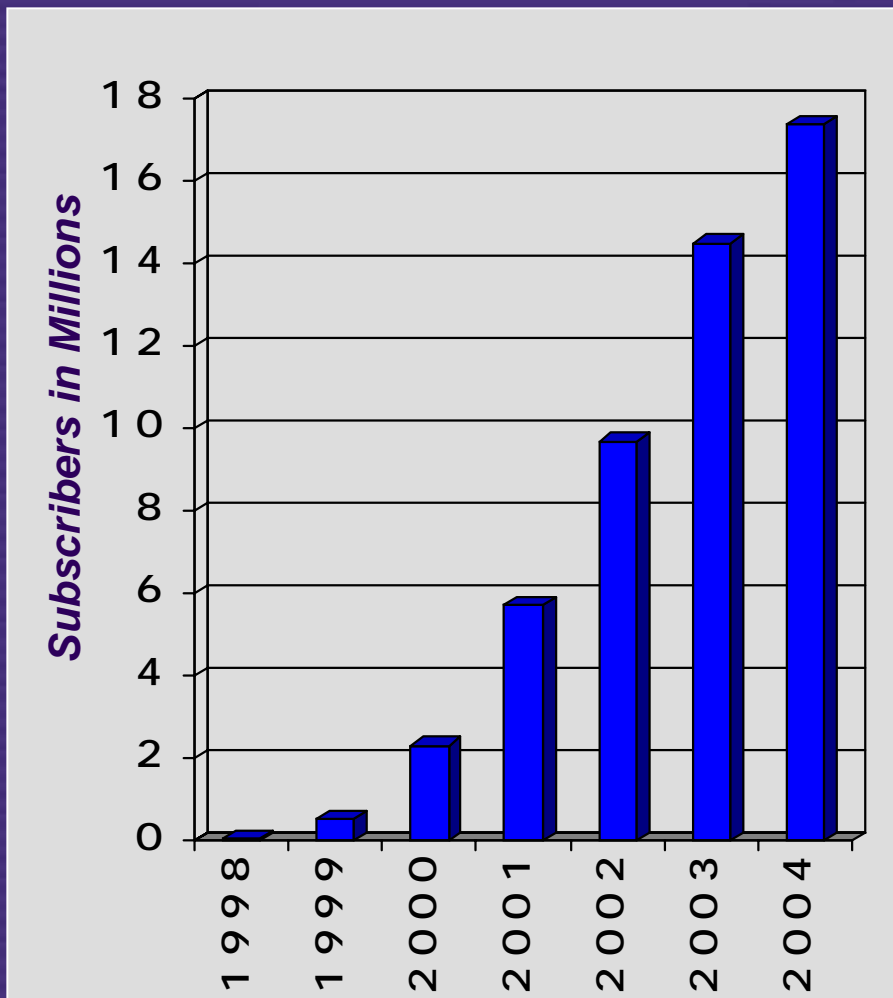
A large, stylized atom graphic is positioned on the right side of the slide. It consists of three dark grey spheres (representing electrons) orbiting a central point, connected by dark grey elliptical paths. The background of the slide is a solid dark blue.

Overview Of The US Market

- Strong historical growth
 - YE 1998 - 39,000
 - YE 1999 - 504,000 / 1192% growth
 - YE 2000 - 2,430,000 / 382% growth
- Growth rate in 2001 will be 135%

Type of Provider	1Q 01 Lines In Service	% Lines Residential	% Lines Business
ILECs-USA	2,419,285	80%	20%
CLECs-USA	470,718	43%	57%
IXCs-USA	24,000	15%	85%
TOTAL	2,914,003	73%	27%

Overview Of The US Market



- TeleChoice predicts the market will continue to grow at a very rapid rate
 - YE 2001 - 5.7 million
 - YE 2002 - 9.7 million
 - YE 2003 - 14.5 million
 - YE 2004 - 17.4 million
- Main driver is still data
- VoDSL rollout still in its infancy
- Cable with 4.4 million subscribers at the end of February 2001 (Kinetic Strategies)

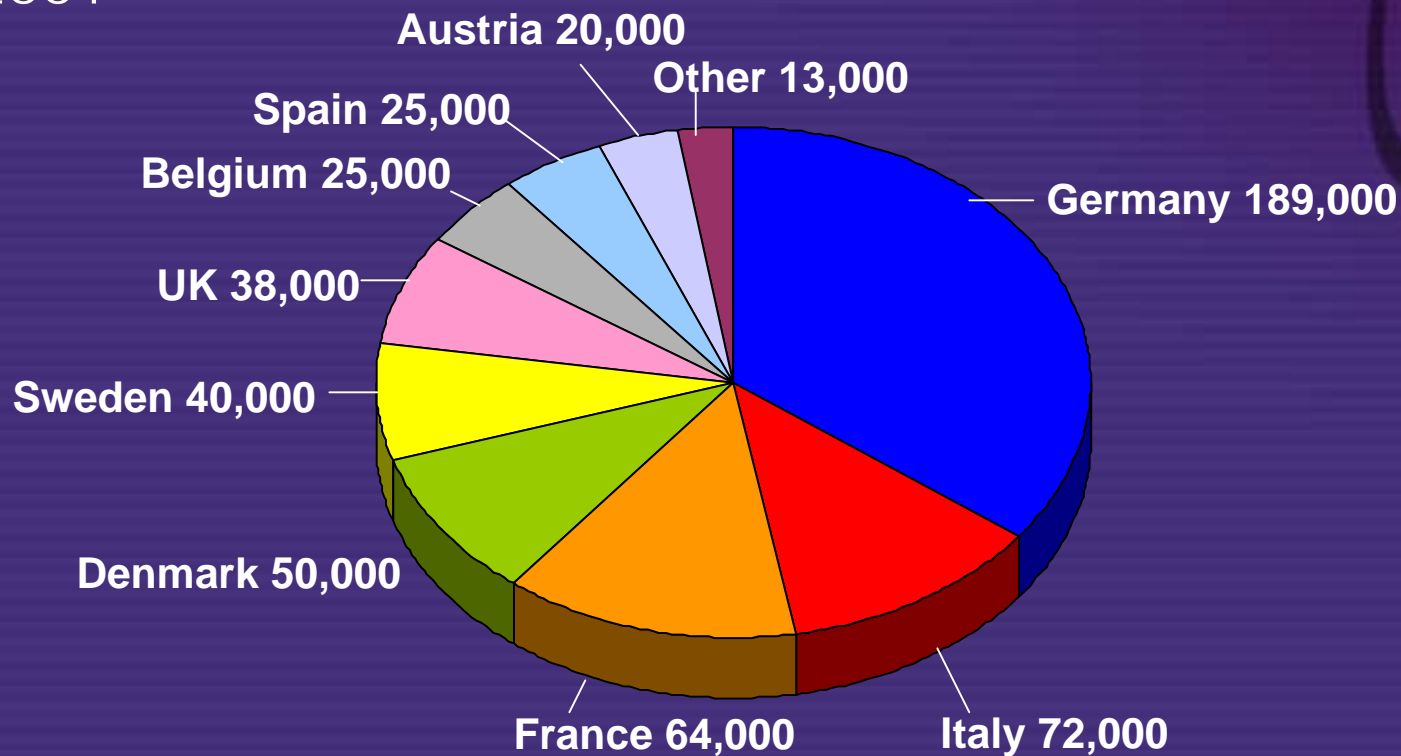
The top left of the slide features a decorative header with a green and yellow grid pattern, a small white box containing the letter 'v', and several overlapping white squares. A solid red horizontal bar runs across the top of the slide.

The European Market

A large, faint graphic of an atom is positioned on the right side of the slide. It consists of three dark grey spheres (representing electrons) orbiting a central point, connected by dark grey elliptical paths.

European Market

- Total subscribers at EOY 2000 = 538,000
- Projecting substantial increase to around 1.5 million by end of 2001



Source: Point Topic

The Bad News First

The Bad News

■ Shakeout to continue

- The wholesale model hasn't proved successful to date
- Accountability issues between ILEC, DLEC, ISP caused customer turmoil
 - NorthPoint
 - Poor financials
 - Declining stock
 - Bankruptcy
 - Sale of assets to AT&T
 - Customers out of service
 - Rhythms
 - Poor financials
 - Declining stock
 - CEO resignation
 - Up for sale?? Is there a buyer or a bankruptcy in its future?

More Bad News

- Covad
 - Poor financials
 - Declining stock
 - CEO Resignation
 - Possibly a turn-around in its future?
- Not only the DLECs are victims of the downturn
 - HarvardNet: Dropped DSL, remaining assets got acquired by Allegiance Telecom
 - Digital Broadband: Laid off of 85% of staff, Chapter 11, For sale
 - Flashcom: Chapter 11, disconnected or transferred customers
 - Zyan: Chapter 11, transferred customers to Covad SafetyNet
- Prices are going up
 - SBC, EarthLink, and Speakeasy price increases - how will this affect the customer take rate?

And More Bad News

- Provisioning time still not acceptable
 - Flow-through provisioning
 - Self-installs
- Majority of service offerings are still plain-vanilla
 - ILECs, DLECs currently only offering transit at varying speeds, no widely available value-added services
 - Look for ISP partners to offer needed value-added services
 - Speakeasy.net, Telocity
- Business market deployment still slow
 - Providers are still focused on basic transport
 - Quality of Service options are still lacking
 - Performance guarantee options are still lacking
 - G.shdsl might offer hope

The background is a dark blue gradient. In the top left, there is a collage of images including a circuit board, a globe, and abstract patterns. A red horizontal bar runs across the top. On the right side, there is a large, faint, stylized atomic model with three spheres and intersecting orbits.

Current Trends (a.k.a. Good News)

Current Trends

- Providers scrambling to pick up NorthPoint's 100,000 subscribers
 - Covad with SafetyNet Program - 25,000 lines
 - Verizon kept NorthPoint loops in service at no charge
 - BellSouth created a special toll-free number to assist business customers without service

- There is good news
 - Demand for broadband will continue to be strong
 - More self-install, especially with the RBOCs
 - More line sharing - DLEC line sharing around 90% of new residential customers

Current Trends

■ Value-adds slowly rolling out in 2001

- VoDSL - Regional CLECs with service in the market, RBOCs may be selecting vendors
- Firewall security, Virus/SPAM control to be offered by ISPs and providers alike
- Increased PC OEM partnerships
 - BellSouth with Compaq
 - Verizon with IBM
- Increased retail availability
 - Verizon with CompUSA and Staples
- Video on Demand stalled, but picking up
 - Broadwing and Intertainer.com - service to 40K subscribers
- VDSL
 - Qwest trialing service in Phoenix, expanding to Denver
 - Small regional players also exploring this option - Myrio

Current Trends

■ Business-focused examples

■ XO Communications

- Local voice
- Custom calling features
- DSL transport
- Internet Access, email, and hosting
- VPN functionality
- Packaged by business size

■ New Edge Networks

- DSL with VPN functionality in regional markets

■ Exario Networks

- Bandwidth choices: DSL through T3
- Performance: QoS, CoS
- Security: Firewall, encryption authentication
- Virtual Routing/VPN
- Voice

Current Trends

■ Consumer-focused examples

■ Speakeasy

- Targeting leading-edge residential consumer with high value-added services
 - Gaming, day trading, sys/admin packages
- Instant dial-up connection allows minimal customer service
 - Subscribers put at ease - can monitor provisioning
- Spending little on marketing - mostly word of mouth

■ Telocity

- Connect and Protect add-on package
 - Firewall support
 - Virus protection
 - Spam filtering
 - Multi-computer support

The background of the slide is a dark blue gradient. In the top left corner, there is a collage of images including a circuit board, a globe, and abstract patterns. A red horizontal bar runs across the top. On the right side, there is a large, faint, stylized atomic model with three spheres and intersecting orbits.

Succeeding In An Evolving Market

Two Words: Reliability, Differentiation

■ Providers must ensure reliability

- The rules of the game have changed
 - Profitability vs. lines at all cost
 - Focus on generating revenue rather than network build-out, subscriber generation
 - Pacify your investors

■ Services that offer reliability are essential

- Focus on hassle-free and fast provisioning
 - For CLECs: continue expanding line sharing and begin self-installation
 - Utilize other technologies that will reduce truck rolls
 - Increase turn-up of DLC line cards to maximize customer penetration
 - Reduce complexity at the CO
- Attract the small business consumer with performance guarantees, quality of service, and security options

Two Words: Reliability, Differentiation

- Am I differentiated? What is my value proposition?
 - The Residential Customer
 - Why do I need DSL?
 - What can I do with DSL that I can't do now?
 - How will DSL help my family?
 - How will DSL help me work at home?
 - Will DSL change my lifestyle?
 - The Business Customer
 - Is my data secure?
 - Is DSL reliable?
 - Can I get different qualities of service for different locations?
 - Can I get different classes of service for different users?
 - What are the consequences if these things don't happen?

The Strategic Catalyst™

TeleChoice

for the Telecom Industry