

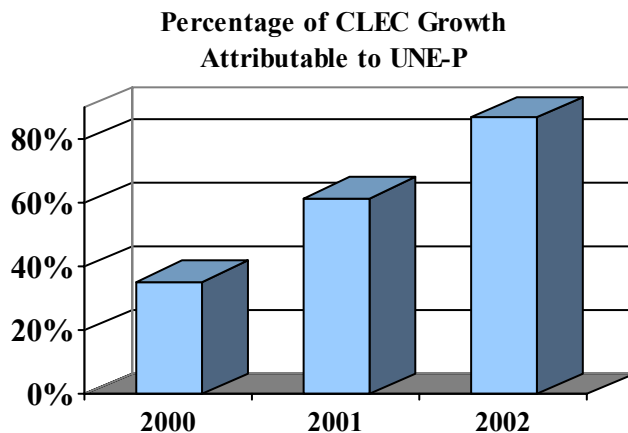


The UNE-P Fact Report: July 2003¹

This is the third in a series of reports tracking the progress of the unbundled network element platform (UNE-P) in transforming local telephone markets from monopoly to competition. The UNE-P Fact Report is based on hard data filed by the incumbent local exchange carriers with federal and state regulators, as well as statements released to investors, and is intended to provide an objective summary of the status of UNE-P based competition.

UNE-P Remains the Fastest Growing Form of Local Competition

Market data confirms that UNE-P remains the fastest growing form of local competition, serving an estimated 12.75 million residential and small business lines by the end of the second quarter of 2003. UNE-P is unmistakably the principal driver of competitive growth in the local market, accounting for more than 85% of the net growth in competitive access lines last year (2002).



The Growth of UNE-P (in lines)

0.49 million
December 1999

1.62 million
June 2000

2.84 million
December 2000

4.76 million
June 2001

5.78 million
December 2001

7.48 million
June 2002

10.23 million
December 2002

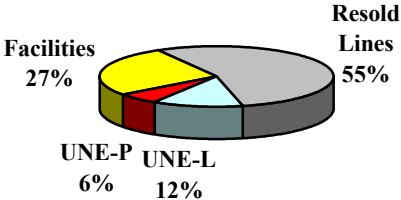
12.75 million
June 2003 est.

¹ The UNE-P Fact Report is published twice annually by the PACE (Promoting Active Competition Everywhere) Coalition. Previous versions of the UNE-P Fact Report may be downloaded at www.pacecoalition.org. The PACE Coalition consists of smaller entrants that use UNE-P to provide some or all of their local services. The members of the PACE Coalition are: Access Integrated Networks, ATX Communications, Birch Telecom, BiznessOnline.com, BridgeCom, DSCI Corporation, Ernest Communications, Granite Telecommunications, IDS Telecom, InfoHighway Communications, ITC^DeltaCom, MCG Capital Corp., MetTel, MicroTech-Tel, Momentum Business Solutions, nii communications, TruComm, and Z-Tel Communications.

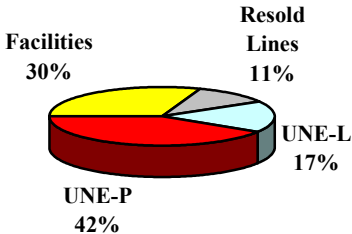
UNE-P Complements Other Forms of Facilities-Based Competition

The rapid growth in UNE-P (particularly relative to other entry strategies) is occurring because the strategy is uniquely suited to bring competitive services to the mass market (i.e., customers served by traditional analog phone lines), while other approaches (such as UNE-L) are better suited to serving higher-speed digital customers. Because UNE-P and UNE-L are used to

Entry Mix: December 1999



Entry Mix: December 2002

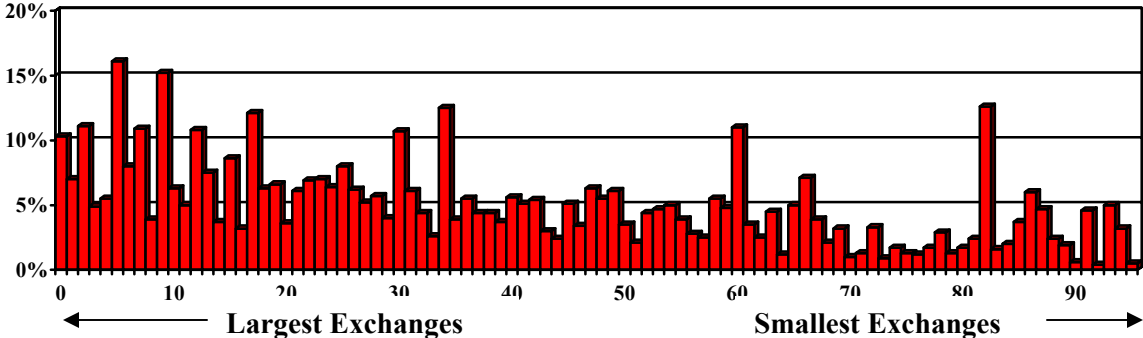


serve different customer segments, both have seen their share of the competitive pie increase. For instance, since the FCC has been tracking CLEC entry, UNE-P has grown from only 6% of CLEC lines at the end of 1999 to more than 40% by June of 2002. Although UNE-P is now the dominant local entry strategy (at 42%), its gain has *not* occurred at the expense of either UNE-L or purely facilities-based strategies. Rather, each of the approaches address different customer segments, and therefore grow independently of one another.

UNE-P Extends Competition From Urban to Rural Markets

As noted above, what sets UNE-P apart from other entry strategies is that it (and it alone) is capable of bringing competition to the mass market of residential and small business customers that are principally interested in voice services utilizing traditional analog lines. Significantly, these customers are dispersed throughout each state.² The bar chart below compares UNE-P's

**UNE-P Market Share by Exchange
 (BellSouth Florida – December 2002)**

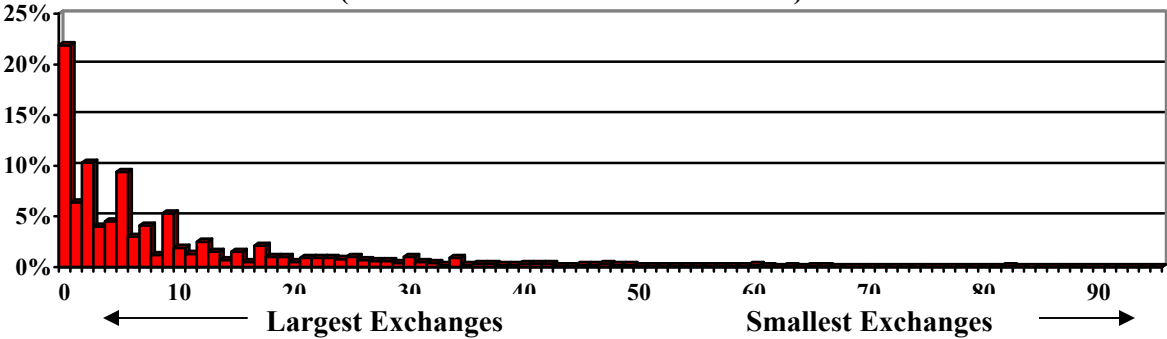


² Prior versions of the UNE-P Fact Report (August 2002 and January 2003) provide additional discussion of UNE-P's focus on the analog customer, as well as evidence of UNE-P's ability to bring competition broadly to this market.

market share in each of BellSouth’s 96 Florida exchanges, ranked by the size (measured in access lines) of the exchange. BellSouth’s largest exchange (Miami, with over 1 million lines) is on the left, its smallest exchange (Munson, 632 lines) is on the right, and the remaining exchanges are arranged in between according to size. As the chart clearly shows, UNE-P is bringing competition to *every* exchange in Florida, exhibiting a competitive profile unmatched by any other approach.³

Importantly, however, it is impossible to separate UNE-P’s ability to extend competition to smaller exchanges from its ability to serve the mass market in urban areas as well. Although the figure above demonstrated that UNE-P *extends* competition throughout Florida, most UNE-P lines are in *urban* exchanges (because such exchanges comprise such a large portion of the underlying market). The frequency distribution below (measuring the percentage of UNE-P lines in each exchange) demonstrates the dependency of rural competition on urban entry.

**Distribution of UNE-P Lines by Exchange
 (BellSouth Florida – December 2002)**

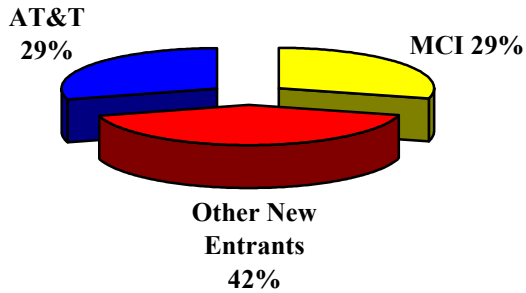


The important point illustrated by the figures above is that highly dispersed nature of the mass market is addressable only by UNE-P. Only if the strategy is able to achieve critical mass in urban areas, however, can it incrementally extend competition to less dense markets. If given the opportunity to extend competitive choice, the evidence suggests that the competitive profile of UNE-P will conform to that of the underlying market, extending competition throughout a state.

UNE-P Remains Critical to New Entry

One of the benefits of UNE-P is that it extends local competition to an important (yet forgotten) customer segment: the mass market. In addition to reaching a new customer segment, UNE-P is also providing an entry path for a new layer of competitive entrant, the innovative small carrier. Although the traditional long distance companies (AT&T and MCI) are large individual

The Distribution of UNE-P (1Q03est)



³ An analysis comparing the competitive profile of UNE-P and UNE-L in Texas similarly demonstrated that UNE-P extends competition more broadly than other strategies. See *UNE-P Fact Report, August 2002*.

competitors, the largest carrier segment using UNE-P are new entrants, including the carriers that together form the PACE Coalition (sponsor of the UNE-P Fact Report). Although less well known than AT&T and MCI, this “second tier” of competitive entrant represents the largest (collective) purchaser of UNE-P, serving nearly 5 million lines. It is within this tier that new competitive ideas are first tested and innovation is most likely to develop. Because innovation frequently begins with the most recent entrant, it is important that entry barriers remain low (as Congress intended by the 1996 Act).

The Benefits of UNE-P Are Becoming More Widespread

One significant trend is that the benefits of UNE-P based competition are becoming less concentrated. In December 2001, approximately 72% of the UNE-P lines were concentrated in the top 5 states; one year later, the top 5 states represented only 58% of the nation’s UNE-P lines. As shown in the table to the right, the competitive benefits from UNE-P are becoming more diffused, with the distribution of UNE-P lines becoming more widespread across the nation.

The Distribution of UNE-P Competition Shows Benefits Becoming More Dispersed

	Dec 2001	Dec 2002
Top 2 States	54%	35%
Next 3 States	18%	23%
States 6 to 10	11%	21%
States 11 to 15	6%	11%
States 16 to 25	6%	7%
Remaining States	4%	4%
Total	100%	100%

This trend is partially frustrated, however, by the lack of competitive progress in the Qwest region, the only region where UNE-P growth has been negative over the past year. The

Growth of UNE-P by RBOC Region

	2Q02	3Q02	4Q02	1Q03	Average Growth
BellSouth	1,118.0	1,359	1,545	1,774	19.6%
Qwest	512.0	498	490	503	-0.6%
SBC	3,453.0	4,204	5,014	5,784	22.5%
Verizon	2,398.0	2,716	3,186	3,572	16.3%
Total	7,481.0	8,777	10,243	11,633	18.5%

slow-to-negative growth in the Qwest region, however, does *not* appear to be the result of the rural character of some of the Qwest states. In fact, the competitive share achieved by UNE-P in the three smallest Qwest states (Wyoming, South Dakota and North

Dakota) is significantly greater than UNE-P’s competitive share in Qwest’s three largest states (Arizona, Colorado and Washington).⁴

The “Lost Verizon”

For the first time, data on UNE-P penetration in the Verizon territory formerly served by GTE is publicly available. The January 2003 UNE-P Fact Report commented on the widely disparate levels of competitive activity between the territories served by the Regional Bell Operating Companies (which are subject to Section 271), and the levels of competition in the exchanges of those companies previously served by GTE and SNET. The state-level data

⁴ UNE-P’s share in Wyoming, South Dakota and North Dakota is 9.6%, 6.0% and 8.7% respectively, while its share in Arizona, Colorado and Washington is 1.5%, 2.8% and 2.3%.

previously withheld by Verizon-GTE confirms that competition in these markets dramatically lags competitive development in other, similarly sized states.⁵

Contrasting Verizon-GTE Territories to Similarly Sized RBOC States

Verizon-GTE States			Comparable RBOC States		
State	GTE Lines	UNE-P Share	State	RBOC Lines	UNE-P Share
California	4,567,288	0.04%	Pennsylvania	5,202,704	6.44%
			Michigan	4,216,623	17.56%
Florida	2,269,402	0.17%	Missouri	2,302,419	6.58%
			North Carolina	2,302,280	4.42%
			Louisiana	2,167,973	4.64%
			Indiana	2,127,833	4.03%
Texas	1,647,656	0.40%	Wisconsin	1,879,847	3.96%
			Alabama	1,775,012	5.68%
			Oklahoma	1,428,957	5.14%
Indiana	996,488	0.03%	Kansas	1,053,069	14.83%
Ohio	954,398	0.09%	Utah	998,754	1.50%
			Iowa	963,547	6.89%
			Arkansas	874,852	8.60%

As the above table illustrates, mass market competition in the territories served by Verizon-GTE trails that developing in the areas served by Regional Bell Operating Companies. Even though these “GTE” territories are now part of Verizon, consumers in the legacy GTE exchanges are not benefiting from competition in the same way as consumers in legacy Bell Atlantic exchanges. This not only harms consumers in the Verizon-GTE exchanges, but it also reduces the effective overall market in the state as a whole. For instance, in Indiana, competitive barriers in the Verizon-GTE exchanges reduce the overall market by nearly 1/3rd.⁶ Thus, the absence of competitive opportunity in the Verizon-GTE territory not only harms consumers in its exchanges, it collaterally harms other consumers in the exchanges of others as well.

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⁵ The table is limited to only the largest Verizon-GTE states, i.e. those states with more than 900,000 access lines.

⁶ ARMIS 43-08, Table II, Switched Access Lines in Service.

The National UNE-P Report Card – RBOCs

State	Holding Company	UNE-P as of December 2002			National Rank		
		Gain	Lines	Share	Gain	Lines	Share
Alabama	BellSouth Corporation	41,596	110,288	5.7%	19	15	18
Arizona	Qwest	5,764	41,483	1.5%	28	32	43
Arkansas	SBC Communications	50,645	85,707	8.6%	16	20	10
California	SBC Communications	511,816	691,914	3.9%	1	4	27
Colorado	Qwest	-5,838	75,689	2.8%	42	25	31
Connecticut	SBC Communications	2,886	2,898	0.1%	32	47	49
Delaware	Verizon (Bell Atlantic)	WH	12,146	2.1%		41	36
DC	Verizon (Bell Atlantic)	WH	12,412	1.4%		40	44
Florida	BellSouth Corporation	65,565	493,891	7.5%	11	6	11
Georgia	BellSouth Corporation	68,279	395,426	9.6%	8	9	7
Idaho	Qwest	-998	10,093	1.8%	37	42	40
Illinois	SBC Communications	228,105	651,995	9.4%	3	5	8
Indiana	SBC Communications	45,686	92,817	4.0%	17	18	25
Iowa	Qwest	-26,251	76,767	6.9%	43	24	12
Kansas	SBC Communications	65,946	191,748	14.8%	10	11	4
Kentucky	BellSouth Corporation	31,020	66,634	5.4%	23	28	19
Louisiana	BellSouth Corporation	56,675	109,323	4.6%	13	16	22
Maine	Verizon (Bell Atlantic)	WH	23,991	3.4%		34	30
Maryland	Verizon (Bell Atlantic)	43,674	74,980	2.0%	18	26	37
Massachusetts	Verizon (Bell Atlantic)	37,274	100,189	2.4%	22	17	32
Michigan	SBC Communications	196,154	947,049	17.6%	6	3	2
Minnesota	Qwest	-484	85,197	3.8%	36	21	28
Mississippi	BellSouth Corporation	30,099	82,597	6.2%	24	22	16
Missouri	SBC Communications	52,564	167,970	6.6%	15	12	13
Montana	Qwest	657	5,657	1.5%	33	44	42
Nebraska	Qwest	3,940	8,027	1.8%	31	43	39
Nevada	SBC Communications	-25	26	0.0%	35	50	50
New Hampshire	Verizon (Bell Atlantic)	WH	17,507	2.3%		36	34
New Jersey	Verizon (Bell Atlantic)	330,151	405,724	6.5%	2	7	14
New Mexico	Qwest	85	5,537	0.6%	34	45	47
New York	Verizon (Bell Atlantic)	206,491	2,044,226	18.3%	4	1	1
North Carolina	BellSouth Corporation	53,749	110,720	4.4%	14	14	23
North Dakota	Qwest	-1,823	18,368	8.7%	38	35	9
Ohio	SBC Communications	200,726	399,639	9.7%	5	8	5
Oklahoma	SBC Communications	21,073	79,583	5.1%	26	23	20
Oregon	Qwest	5,344	51,869	3.7%	29	31	29
Pennsylvania	Verizon (Bell Atlantic)	67,779	379,928	6.4%	9	10	15
Rhode Island	Verizon (Bell Atlantic)	10,071	14,178	2.4%	27	39	33
South Carolina	BellSouth Corporation	25,016	64,821	4.3%	25	29	24
South Dakota	Qwest	-2,321	15,022	6.0%	41	38	17
Tennessee	BellSouth Corporation	58,980	134,636	5.0%	12	13	21
Texas	SBC Communications	105,779	1,448,241	15.0%	7	2	3
Utah	Qwest	-2,282	15,875	1.5%	40	37	41
Vermont	Verizon (Bell Atlantic)	WH	3,984	1.1%		46	45
Virginia	Verizon (Bell Atlantic)	39,628	67,266	2.0%	21	27	38
Washington	Qwest	4,615	56,252	2.3%	30	30	35
West Virginia	Verizon (Bell Atlantic)	WH	1,643	0.2%		48	48
Wisconsin	SBC Communications	41,596	88,993	4.0%	20	19	26
Wyoming	Qwest	-1,982	24,864	9.6%	39	33	6

Note: Gain is measured by the gain in UNE-P lines during last 6 months of 2002. Share is market share in RBOC territory only.

WH: Withheld due to confidentiality claim by the RBOC.

Source: RBOC Form 477 (Local Competition) Filings with the Federal Communications Commission.

The State of Local Competition in Legacy GTE Territories of Verizon

Holding Company	State	Data as of December 2002		
		ILEC End User Lines	UNE-P Lines	UNE-P Share
Verizon (formerly GTE)	California	4,567,288	1,963	0.04%
Verizon (formerly GTE)	Florida	2,269,402	3,870	0.17%
Verizon (formerly GTE)	Texas	1,647,656	6,987	0.42%
Verizon (formerly GTE)	Indiana	996,488	268	0.03%
Verizon (formerly GTE)	Ohio	954,398	849	0.09%
Verizon (formerly GTE)	Washington	893,461	2,314	0.26%
Verizon (formerly GTE)	Illinois	850,923	0	0.00%
Verizon (formerly GTE)	Michigan	780,988	1,072	0.14%
Verizon (formerly GTE)	Hawaii	723,111	4	0.00%
Verizon (formerly GTE)	Pennsylvania	680,267	1,050	0.15%
Verizon (formerly GTE)	Virginia	672,141	1,058	0.16%
Verizon (formerly GTE)	Oregon	456,744	2,986	0.65%
Verizon (formerly GTE)	Wisconsin	403,197	0	0.00%
Verizon (formerly GTE)	North Carolina	363,069	1,249	0.34%
Verizon (formerly GTE)	South Carolina	209,404	905	0.43%
Verizon (formerly GTE)	Idaho	138,452	0	0.00%
Verizon (formerly GTE)	Nevada	42,604	0	0.00%
Verizon (formerly GTE)	Arizona	8,714	0	0.00%

Source: RBOC Form 477 (Local Competition) Filings with the Federal Communications Commission.

Note: Verizon-GTE results are not included in the preceding National UNE-P Report Card because (1) the data has only been released for one period, thereby precluding the calculation of any measure (such as growth) requiring multiple observations, and (2) the competitive penetration rates are so uniformly poor that it would be misleading to draw distinctions between conditions in different states.