

## High-Speed Access — A Mixed Bag for the Quarter

March 3, 2002 Boston, MA - In our 3<sup>rd</sup> Quarter report, we were brimming with optimism, declaring, Dare we say it? The recovery has started! This quarter's results in high-speed access line growth are not as clear. As we have discussed in previous releases, h-s accesses are the driving force for our national network, and we firmly believe that this demand pressure will ultimately cause a turnaround in all sectors of the telecommunications industry! However, if the national economy doesn't continue its improvement, then there will be a drag on telecommunications, and that drag could be coming at just the time of the beginnings of a telecom recovery.

Our estimates (although we track the larger providers, the quantity of smaller providers make it necessary to estimate totals) indicate that we finished the year with 21,069,000 h-s accesses in service. That is almost exactly 20% of the households in the US with h-s access. This mark has been reached faster than almost any other residential communication or entertainment technology! Therefore, the news with h-s access is still impressive, just not what we had expected for this quarter.

While the results this quarter were not really terrible, they failed to show the hoped for quarter over quarter (i.e., compared to third quarter 2002) growth, that we were anticipating. Of the six (now five, with the purchase of the cable assets of AT&T by Comcast) major cable providers, only Comcast had substantial quarter over quarter growth in added cable modems. The others (ATT, Rodgers, and Cox) were either about the same or slightly lower. (Charter hasn't reported as of this writing).

The Telcos showed a similar inconsistency, but overall also lacked growth. Of the five majors, only Bell Canada and SBC showed substantial growth on a quarter over quarter basis. The others (Bell South, Qwest, and Verizon) were lower — Bell South substantially lower — than last quarter.

Again, while the totals would place the last quarter as one of the three or four highest in growth ever, it was not the sustained growth from last quarter that would have truly indicated the end of the telecom recession, and signaled a real beginning of the recovery.

The actual results for these companies are as follows:

### Cable Companies

	<b>3Q</b>	<b>4Q</b>	<b>Total 2002</b>
	<b>Adds</b>	<b>Adds</b>	<b>Installed</b>
ATT	172,000	173,200	2,122,200
Charter	150,000	Not Rpt.	1,242,800*

Comcast	169,800	187,200	1,524,300
Rodgers	53,300	44,900	639,000
Cox	157,300	127,752	1,400,000
Time Warner	257,000	194,000	2,956,000

\* Includes an estimated 150,000 additions for 4<sup>th</sup> Q.

### Telcos

	<b>3Q</b>	<b>4Q</b>	<b>Total 2002</b>
	<b>Adds</b>	<b>Adds</b>	<b>Installed</b>
Bell South	120,500	97,000	1,021,000
Bell Canada	93,000	108,000	1,110,000
Qwest	17,000	10,000	535,000
SBC	226,000	245,000	2,200,000
Verizon	155,000	148,000	1,803,000

As can be seen, the cable companies continue to dominate the field, with only SBC and Verizon even in the same class. The showing of the telcos is particularly disappointing in this quarter, because several of them have started new promotional efforts, along with innovative packaging and pricing. It may be that these efforts have not had time as yet to take effect.

Without the negatives of the overall national economy and the unsettled international situation, there would be several strong positives for broadband access growth. These include the new marketing initiatives by the telcos just mentioned, but also the change in the regulatory environment in Washington, certainly is positive for h-s access. The recent ruling from the FCC that telcos will not have to share new technology access construction is exactly what the telcos have been saying they needed to actively build out their networks to pick up the big balances of their territories not now served. Again, however, with the national economy beginning to look like it is still in turmoil, it is unclear as to when we will see the telcos take advantage of this new ruling. (There is also, as always, a judicial uncertainty as to whether the courts will allow this ruling to stay in place.) another positive that should be driving growth of h-s accesses, is a statistical indication. Historically, when technologies reach a 20% household penetration, they tend to accelerate their growth rates. This has happened with many other technologies; we will see if h-s access follows suit.

Dr. Paul Polishuk, President of [Information Gatekeepers Inc.](#), explained the situation as follows, The fundamental, end customer demand push for h-s accesses seems to still be in place. However, this demand may be dampened by outside events, at least for a while. Once this demand is allowed to influence the h-s market, unfettered, it will quickly cause the excess capacity in our fiber networks to be consumed, and the result will be the development of an orderly growth market in many areas of telecom. The outside influences now cause us to say we are less sure as to when this will occur. We just need to wait a quarter, and see how the international situation and the general economy shake out .

High-speed accesses have grown all through the recession period, but noticeably slower. For a good part of that time, it was the only positive indication in the telecom sector. In spite of the nay sayers and the lobbyists with axes to grind, and analysts with nothing else to write about, h-s access demand has continued! Our new report on the telecom market, [Return of the Telecom Market — When?](#) explains in detail how h-s accesses drive network growth, and the companion reports in the [Recovery Trilogy](#) describe the characteristics of the new marketplace, and the players who will survive and prosper.

Our projection for recovery in the above-mentioned reports is based on our forecasts for h-s access growth, made about a year ago, which we felt were conservative at the time, and are proving to be so. The third and fourth quarter s results show a growth exceeding these forecasts (in spite of the disappointment in the fourth quarter), and consequently argue strongly for the beginning of the recovery when other factors are out of the way.