



NEW PARADIGM RESOURCES

The CLEC Sector 2009: Making it to the Other Side

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The CLEC Sector 2009

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CLEC Sector Outlook

Objective: Present the “State of Affairs” of the CLEC sector

Based on:

Recently completed industry research & analysis on the CLEC space

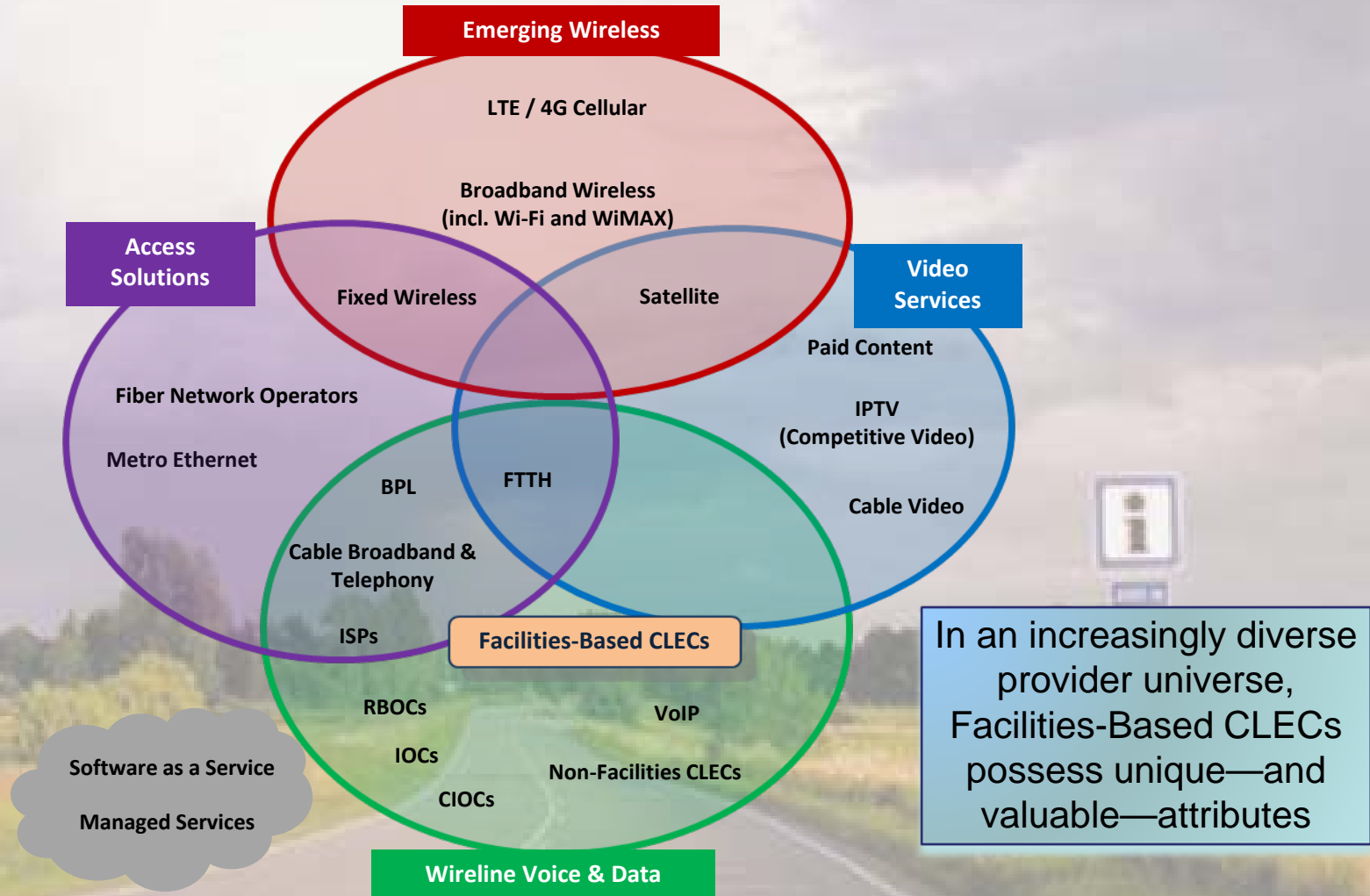
- ✓ CLEC Industry Analysis & Sector Analysis Reports
- ✓ Company-level research & analysis
- ✓ Ongoing research across sectors
- ✓ Competitive Carrier Information & Analysis Track

- Our last Webinar on the CLEC sector looked at the evolution of “CLEC 2.0:” Carrier strategies to thrive in the “Web 2.0” era:
 - Facilities based CLECs
 - Partnerships and innovation to go off-net
 - Primacy of content and solutions
 - Addition of Value-Added Services

**This and other webinars can be downloaded from
NPRG’s Resource Center at reports.nprg.com**

SECTION 1: SECTOR PARAMETERS

NPRG's Sector Classification Schema



What Makes a CLEC a CLEC: Distinguishing Features

Carrier Characteristic:	CLEC Features:
Networks: <ul style="list-style-type: none">• Access & Transport• Network Intelligence	Primarily fiber-based networks TDM-based Class 5 switches in place; Migrating to IP
Services	Full range of voice services Full range of data offerings Some offer advanced services
Historical Aspects	No 100 year history; 1996 Act
Markets Served	No legacy “franchise” markets
Customer Base	Predominantly business users

CLEC Competitive Overlap with Other Sectors

Sector	Nature of Overlap and Competition with CLECs
RBOC <i>("in region")</i>	Broad voice and data portfolio (all customer segments), wireless base station backhaul
Independent Operating Company (IOC)	Broad voice and data portfolio (all customer segments)
Cable Broadband & Telephony (CBT)	Broad voice and data portfolio (primarily among residential and micro-business), wireless base station backhaul
Fiber Network Operator	Metro fiber and long-haul transport (primarily enterprise and wholesale segments), wireless base station backhaul
Internet Service Provider (ISP)	Internet access, high-capacity data service
Reseller	Broad voice portfolio, some data services
VoIP	IP voice service, unified communications

Source: New Paradigm Resources Group, Inc.

SECTION 2: THE SECTOR TODAY

CLEC Sector Sizing (2009)

Facilities-Based CLECs	56
Total Revenue	~\$28 billion
Metro Fiber Route-Miles	185,000+
Circuit Switches	1,000+
Packet Switches	800+
Access Lines	~30 million

Source: New Paradigm Resources Group, Inc.

Sector Metrics

The CLEC Universe



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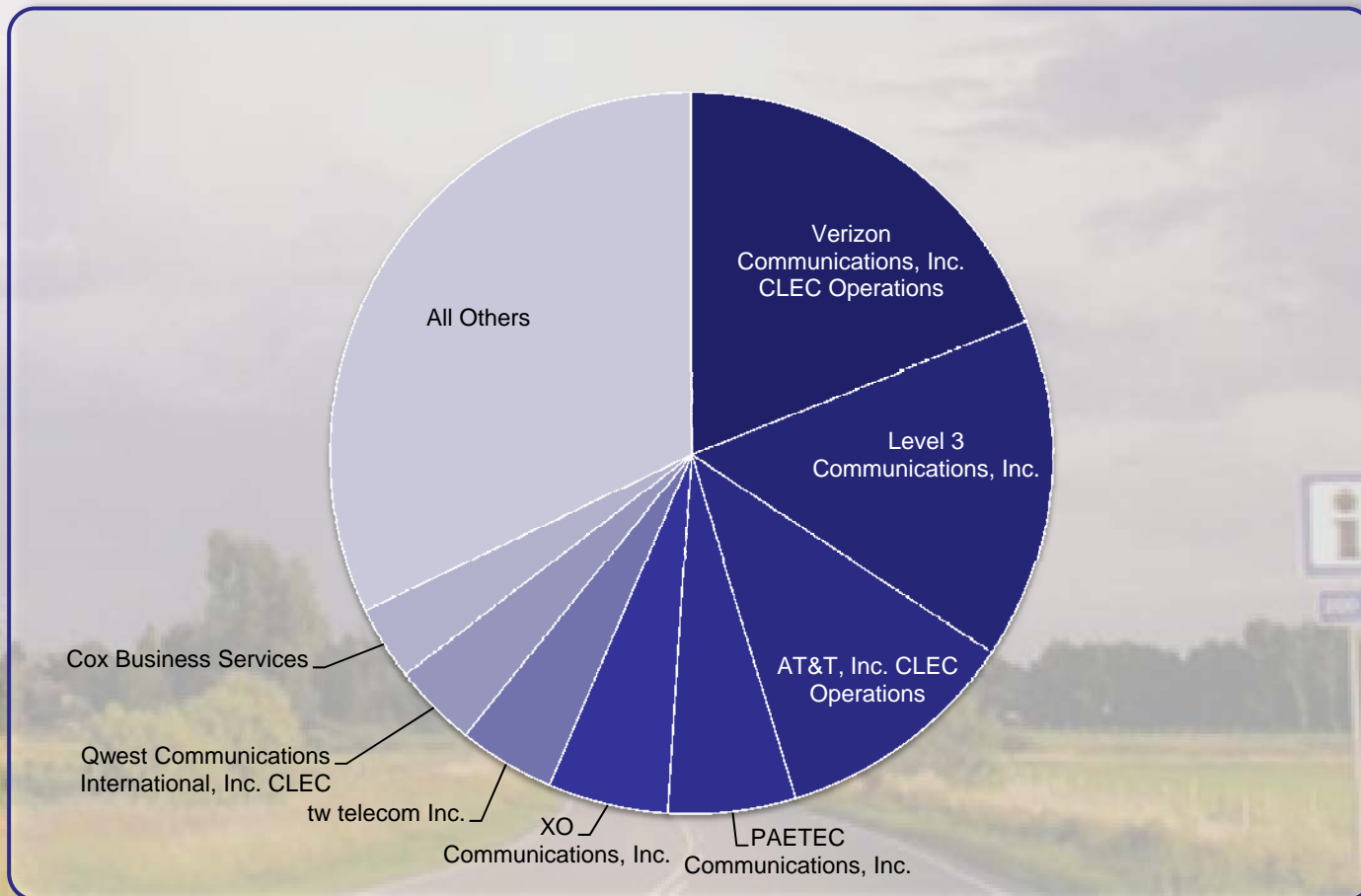
Access One, Inc.
AMA TechTel Communications, Inc.
AT&T, Inc. CLEC Operations
BayRing Communications
Birch Communications, Inc.
Broadview Networks, Inc.
Buckeye Telesystem, Inc.
Cavalier Telephone, LLC
Cbeyond, Inc.
CenturyTel, Inc. CLEC Operations
CIMCO Communications, Inc.
Communication Options, Inc.
ComSpan Communications, Inc.
Cox Business Services
DSL.net, Inc.
Empire One Telecommunications, Inc.
Falcon Broadband, Inc.
First Communications, LLC
General Communication, Inc.
Global Crossing, Ltd. CLEC
Global NAPs Networks, Inc.

Globalcom, Inc.
Grande Communications Networks,
HomeTown Solutions, LLC
Integra Telecom, Inc.
ITC^Deltacom, Inc.
Jaguar Communications, Inc.
Level 3 Communications, Inc.
Local Fiber, LLC
Logix Communications Enterprises
Mid-Maine Communications
Norlight, Inc.
NTS Communications, Inc.
NuVox Communications, Inc.
One Communications Corp.
Optimum Lightpath
Orlando Telephone Company
Otter Tail Telecom, Inc.
Pac-West Telecomm, Inc
PAETEC Communications
PCS1, Inc.

Penn Telecom, Inc.
Primus Telecommunications
Group, Inc.
Qwest Communications
International, Inc. CLEC
RCN Corporation
RIO Networks
RNK, Inc.
Socket Telecom LLC
StratusWave
Communications, LLC
SureWest Communications
TDS Metrocom
TelNet Worldwide, Inc.
tw telecom Inc.
US TelePacific Corporation
Verizon Communications, Inc.
CLEC Operations
XO Communications, Inc.

CLECs' Relative Size

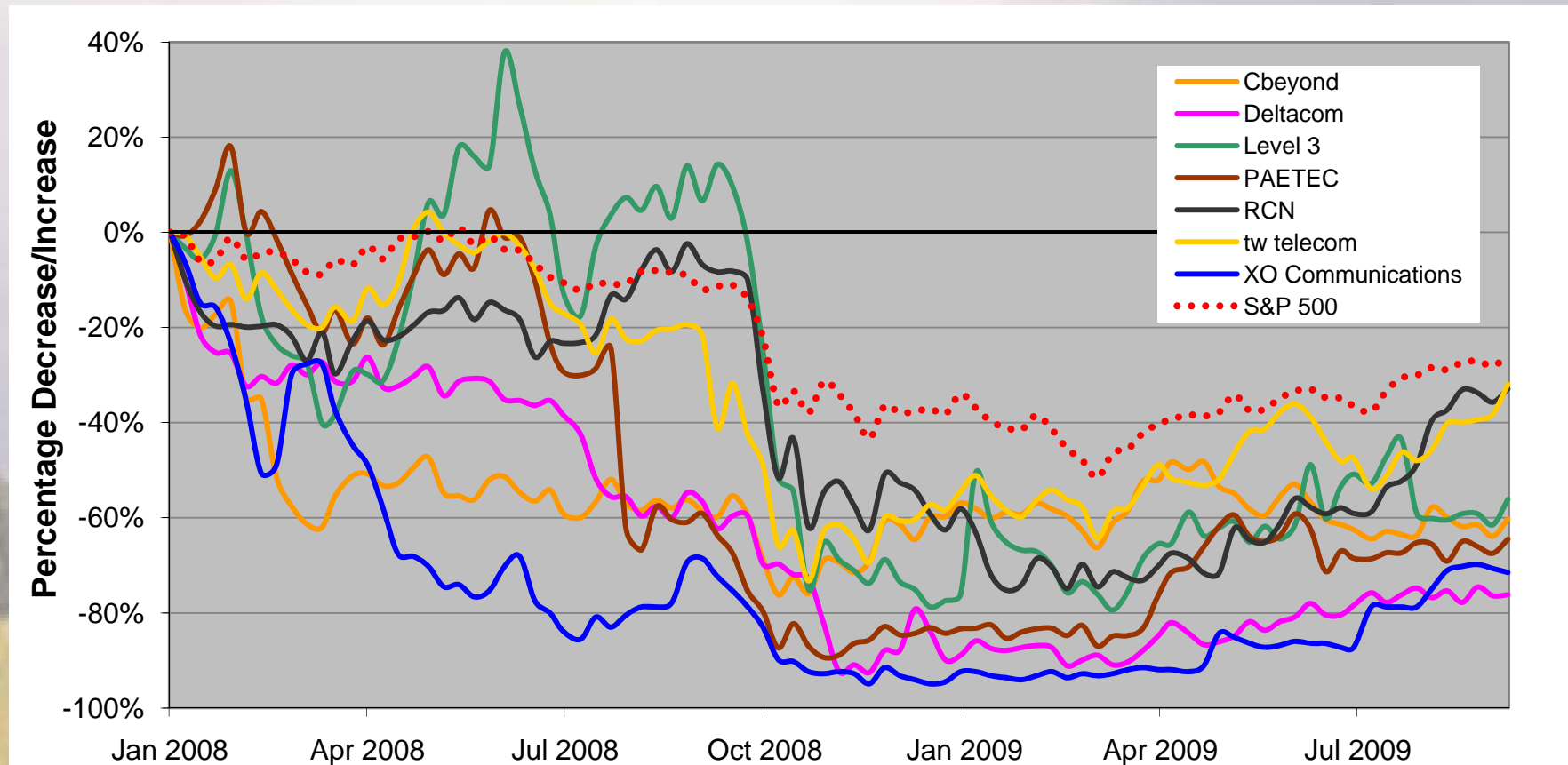
Company Share of CLEC Sector Revenue (2009)



Source: New Paradigm Resources Group, Inc.

Sector Bellwethers

Publicly-held CLECs: Stock Price Changes (January 2008 – September 11, 2009)



Source: New Paradigm Resources Group, Inc. research

It's not great, but it could be worse...

- Sober financials, but surviving
- Muted M&A activity...
- But look, no bankruptcies!
- Incremental network upgrades & build outs
- Bolstering product portfolios around the margins

SECTION 3: Market Dynamics

Poll Question #2



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Competitive Pressure on ILECs

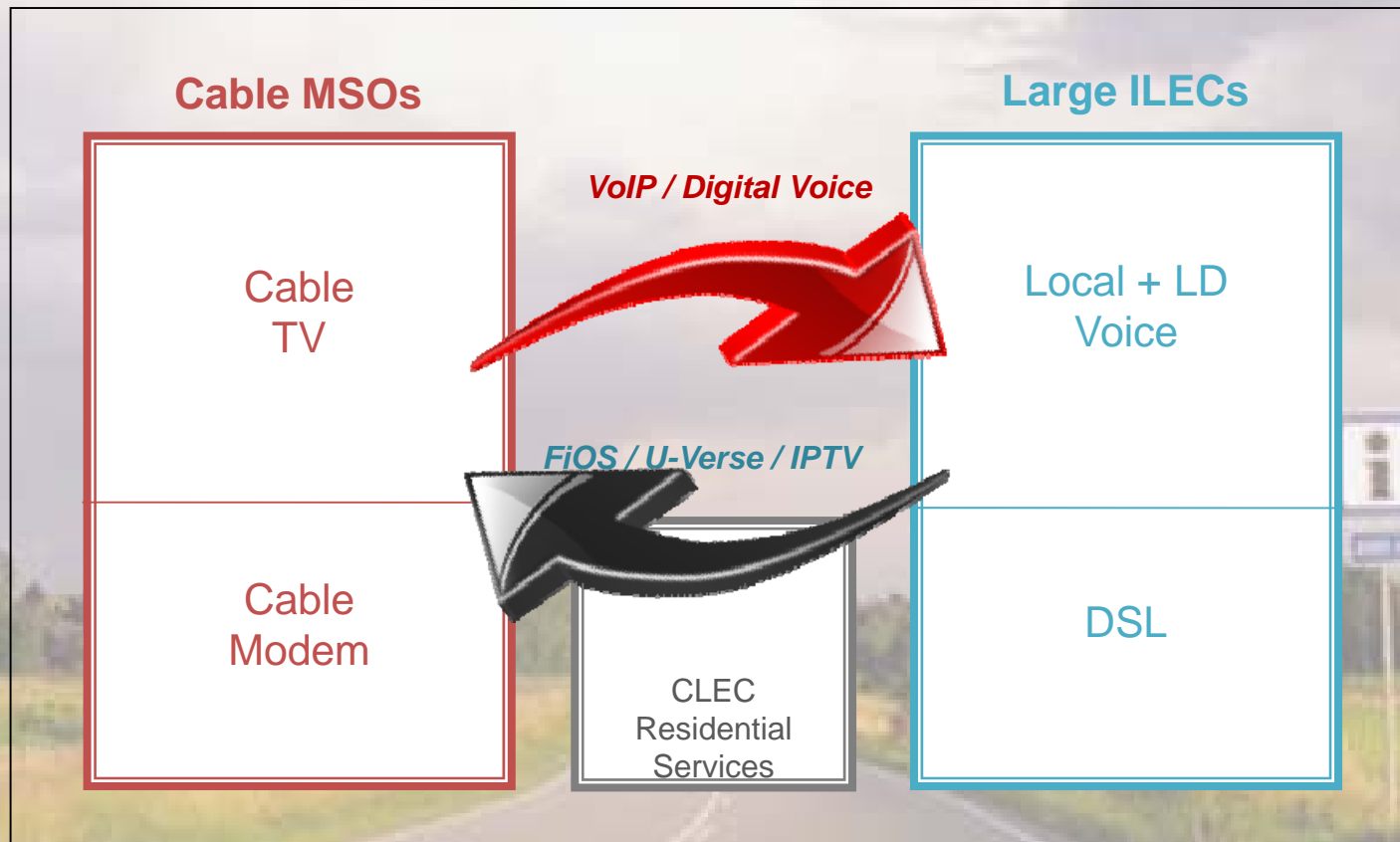
*Informed Direction Within a
Changing Landscape*

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Residential Segment Dynamics

MSOs and ILECs add revenue streams in the Residential Segment...

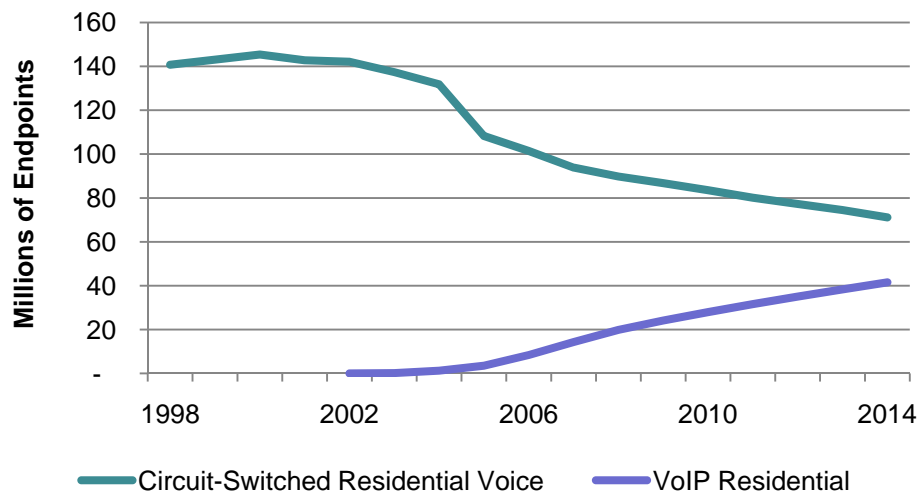


Source: New Paradigm Resources Group, Inc.

Residential Segment Metrics

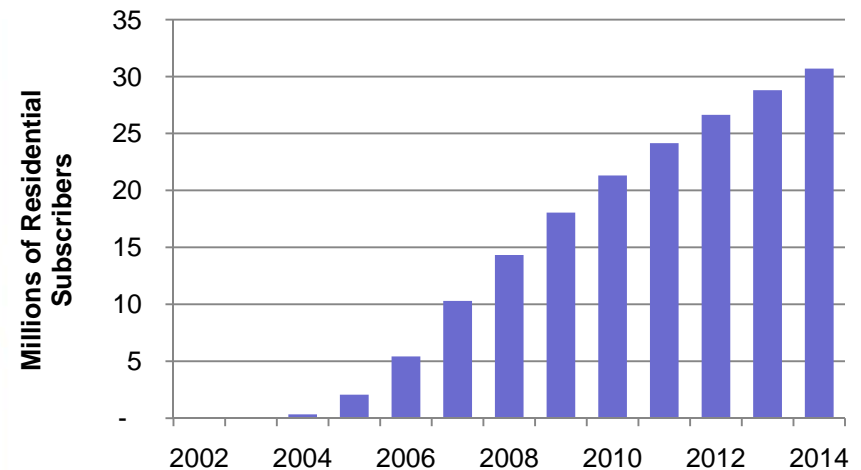
... Leaving less room for CLECs in the residential segment

Residential Endpoints Deployed by All Carriers



Source: New Paradigm Resources Group, Inc.

Cable Residential VoIP Subscribers



Source: New Paradigm Resources Group, Inc.

SECTION 4:

Portfolio Evolution & Opportunities

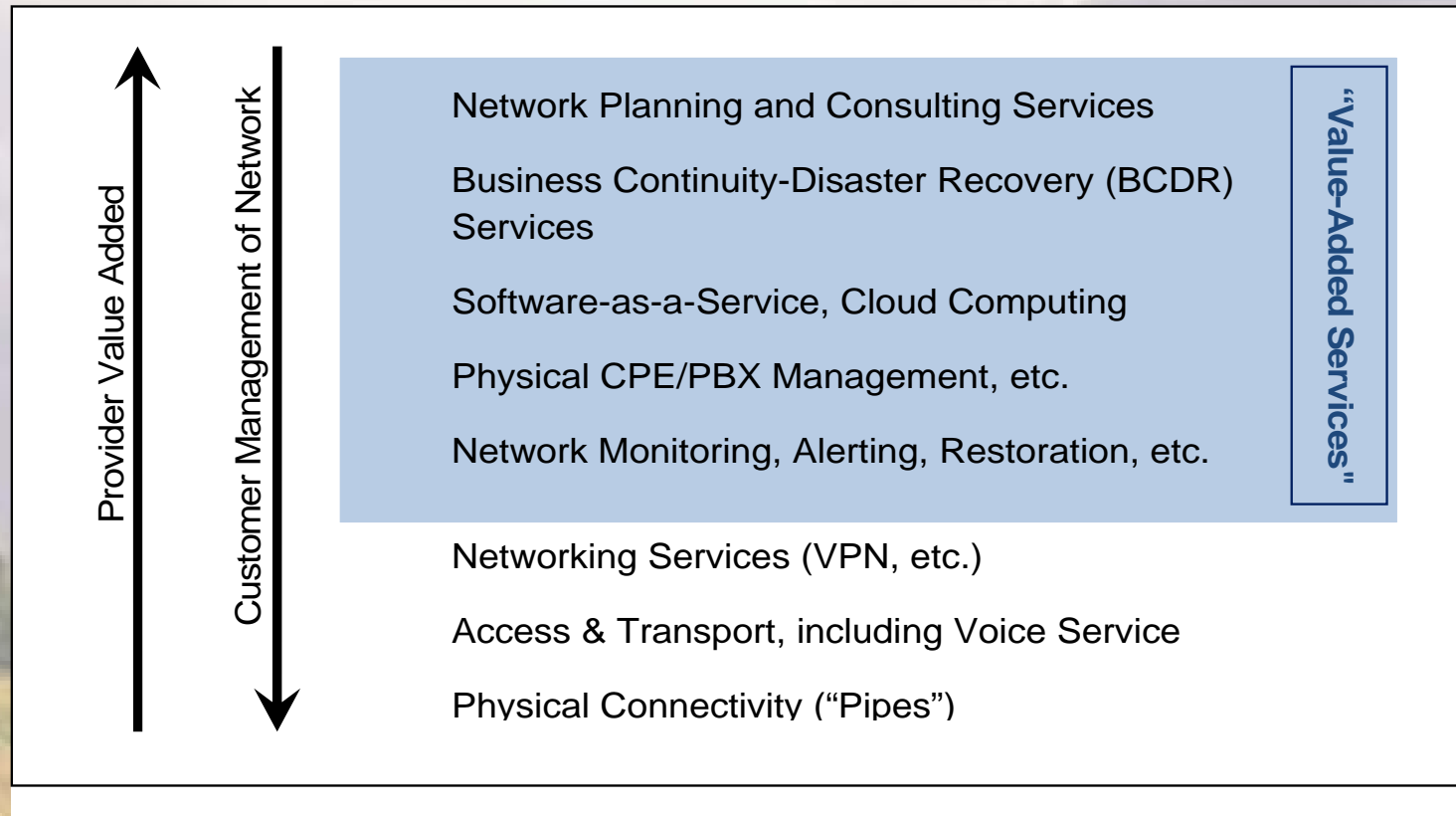
Poll Question #3



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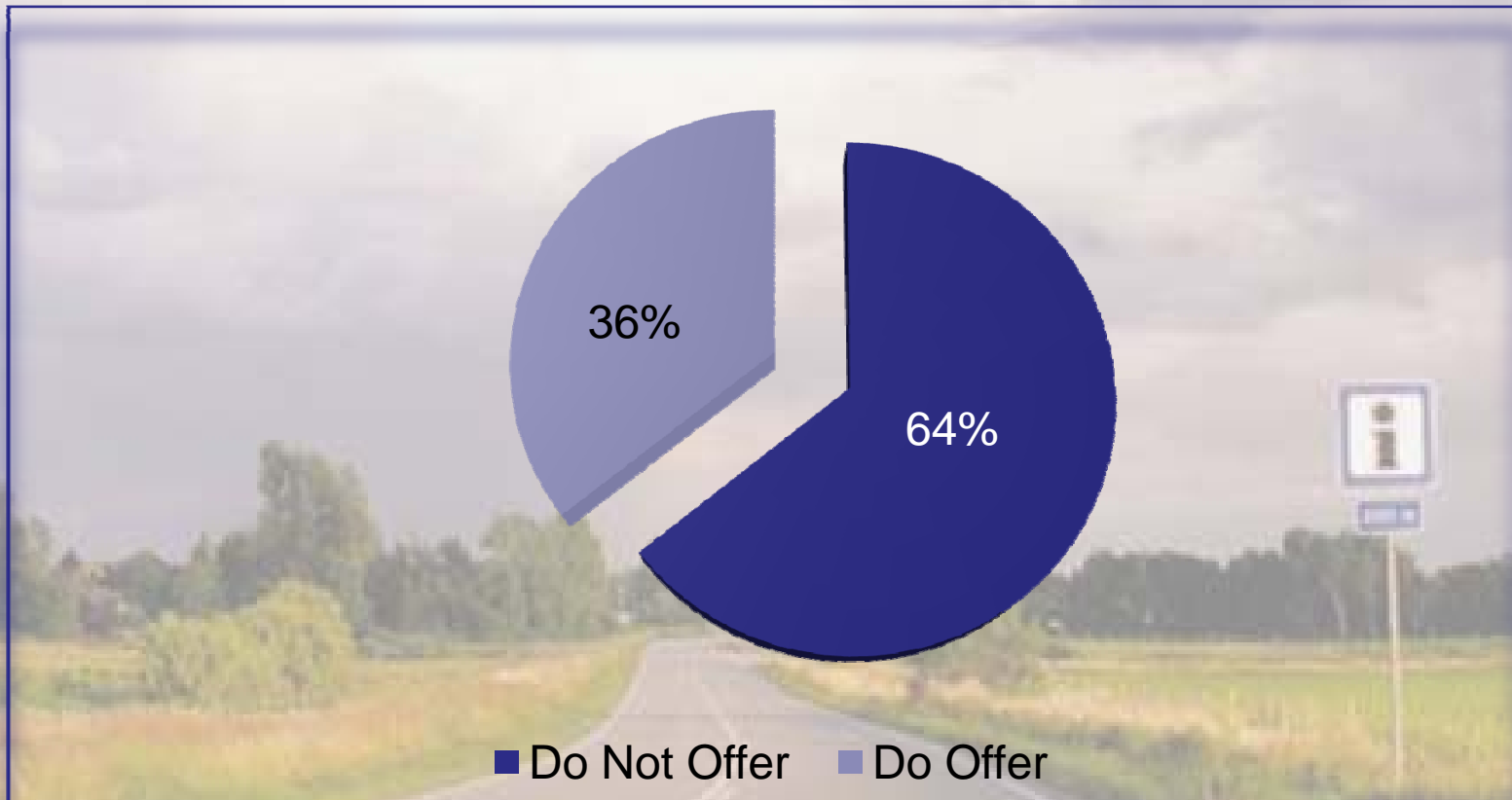
CLEC Revenue Sources

Value-Added Services in Carriers' Portfolios



Source: New Paradigm Resources Group, Inc.

Facilities-Based CLECs Offering Managed Services (2009)



Source: New Paradigm Resources Group, Inc.

Revenue Shifts (2008 - 2009)

Company	Voice	Video	Data	Other
First Communications, LLC	↓ 7.9%	-	↑ 7.2%	↑ 0.7%
Level 3 Communications, Inc.	↓ 1.4%	↑ 0.5%	↑ 0.9%	↑ 0.0%
Norlight, Inc.	↓ 3.2%	-	↑ 3.2%	-
PAETEC Communications, Inc.	↓ 1.0%	-	↓ 1.2%	↑ 2.2%
tw telecom Inc.	↓ 0.2%	-	↑ 0.3%	↓ 0.1%

Source: New Paradigm Resources Group, Inc.

CLEC Wholesale Opportunities

Sector	CLEC Wholesale Opportunity
RBOC <i>("in region")</i>	Limited: Out-of-franchise access, some long distance service
Independent Operating Company (IOC)	Interexchange services, long distance service, Internet transit and peering
Cable Broadband & Telephony (CBT)	Backbone services (inter-regional transport), wholesale VoIP platforms
Fiber Network Operator	Metro and long-haul transport (complementary), switching, equipment collocation
Internet Service Provider (ISP)	Wholesale access, metro and long-haul transport, Internet transit and peering, equipment collocation
Reseller	Wholesale access and voice service, interexchange services, long distance, VoIP services
VoIP	Wholesale VoIP platforms, origination/termination, E911, wholesale access, metro and long-haul transport

Source: New Paradigm Resources Group, Inc.

SECTION 5:

Sector Trends & Forecasts

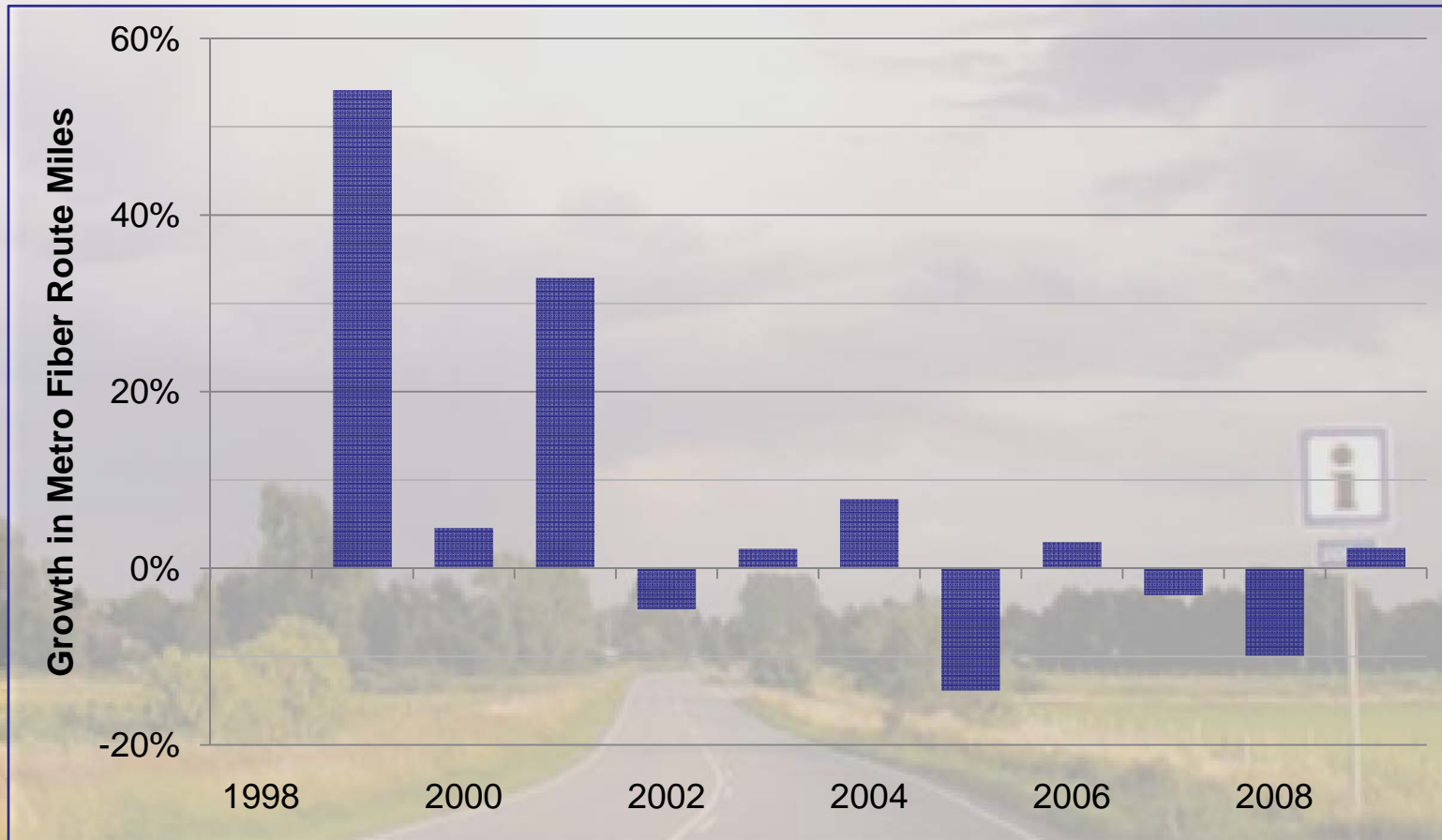
CLEC Sector Movement: Revenue

CLEC Sector Annual Revenue Growth (%)



Source: New Paradigm Resources Group, Inc.

Facilities Deployed: Metro Fiber Route Miles Growth



Source: New Paradigm Resources Group, Inc.

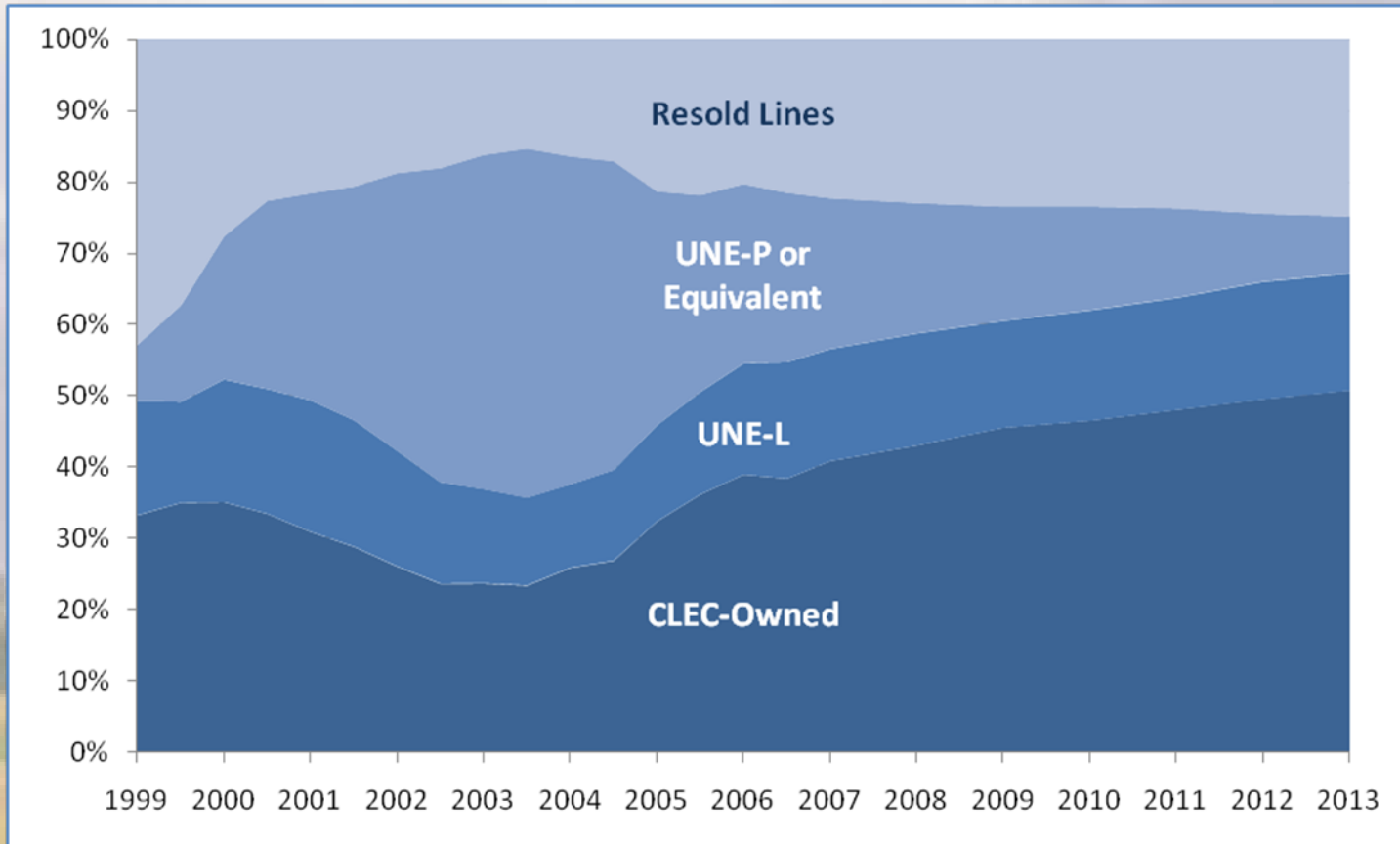
CLEC Network Evolution Continues

Circuit and Packet Switches Deployed (2008 to 2009)

Net Change in Switch Count:	Circuit Switches		Packet Switches	
	Number of Companies	Percent of Companies*	Number of Companies	Percent of Companies*
Increase	0	0.0%	14	25.5%
No Change	49	89.1%	41	74.5%
Decrease	6	10.9%	0	0.0%
Not Applicable	1	*	1	*

Source: New Paradigm Resources Group, Inc.

CLEC-Delivered Access Lines by Provisioning Method



Source: New Paradigm Resources Group, Inc.

Notable CLEC Activity in 2009

- CLECs spotlighting fiscal, integrative triumphs: tw telecom (Xspedius), PAETEC (McLeodUSA, US LEC), Level 3 (multiple)
- Showcasing position for wireless backhaul and wireline content delivery as business drivers
- Hinting cleaner balance sheets precursors to renewed acquisition cycle

SECTION 6: Sector Outlook

Poll Question #4



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CLEC Sector Strength

CLEC Sector 2010 Outlook

- Premium on facilities-based network strategies
- Last-mile extension via alternate technologies
- Converged IP-based networks predominate
- Value-added services for growth
- M&A on tap: Consolidation and diversification
- Iconoclasts will find their niches

- **Telecom Industry Index & Catalog**
- **NPRG's Online Resource Center**
- **CLEC Information & Analysis Track**
- **Upcoming Webinars**
- **NPRG's Research Agenda**



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Informed direction

...within a changing landscape

Thank You!

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