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New Paradigm Resources Group Sees Independent Telcos Gaining Ground in Competitive Telecom

Competitive Independent Operating Companies Offer Broadband Choices to Business and Residential Customers in Smaller Markets

CHICAGO, JULY 16, 2001 – As telecom’s giants and upstart competitors fight it out building-to-building and street-to-street in America’s cities, a new breed of competitive carrier is gaining clout in the smaller markets and wide open spaces in between, according to a new market analysis from New Paradigm Resources Group. The *CIOC Report*[™], released today, examines the Competitive Independent Operating Companies (CIOCs) that are leveraging community roots, government programs and increasing second, third, even fourth tier markets' demand for bundled and broadband services to meet the needs of business and residential customers in rural areas.

CIOCs are holding companies that own and operate Incumbent Local Exchange Carriers (ILECs) as well as Competitive Local Exchange Carriers (CLECs). Serving smaller markets and rural areas has enabled CIOCs to avoid attracting the attention of the Regional Bell Operating Companies (RBOCs) and larger CLECs that have invested their time, effort and capital in serving larger cities. The resulting low barriers to entry give CIOCs a near lock on the markets they serve, creating steady revenue streams and loyal customers that drive service expansion.

CIOCs also benefit from state and federal government programs designed to foster development of broadband services in rural America. The Universal Service Fund, for example, which primarily subsidizes rural telecommunications, was increased 27 percent by the FCC in May 2001 to \$1.1 billion. This and other programs offer a variety of loans, grants and credits to providers of local service in smaller markets, further enhancing CIOCs’ ability to develop advanced telecommunications infrastructure.

Additionally, demand for broadband in rural areas is on the rise. Rural demand for Internet access is enjoying strong growth as agribusiness finds use for innovative online applications. According to the U.S. Department of Agriculture, computer use and Internet access in the agriculture industry have doubled in recent years, fueling CIOC growth.

“CIOCs are enjoying unique benefits in competitive telecom and are capitalizing on them to firmly establish a strong presence in their markets,” said Terry Barnich, President of New Paradigm Resources Group. “Free from crushing debts and currently under the radar of the incumbent carriers in their territories, CIOCs are gaining ground and may very well be the first competitors to bring the benefits of competition to residential consumers.”

Still, the market presents several threats that could derail CIOC success. First, RBOCs like Verizon and Qwest could mount a serious challenge to CIOCs should they decide to compete with them. Second, technology innovations like fixed wireless broadband could threaten CIOC holds on rural markets by bypassing their last mile connectivity. Finally, demographic trends are not in CIOCs favor. 2000 census data show Americans are moving from rural to urban areas – a trend that will increasingly diminish CIOC market opportunities and erode their revenue streams.

“Like the rest of the industry, CIOCs face obstacles to growth in a dynamic business that is constantly changing,” said Craig Clausen, Senior Vice President for New Paradigm Resources Group. “However, these companies are in excellent positions to buck the current trend and show strong performance. The *CIOC Report™* offers industry executives, analysts and investors invaluable insight to the trends and companies that are shaping the market’s future.”

About New Paradigm Resources Group

New Paradigm Resources Group, Inc. is a research and consulting firm monitoring and analyzing developments in the competitive telecommunications industry. NPRG maintains an extensive array of proprietary databases that support our foundational industry reports, which, in turn, fuel our client-specific expert consulting work. NPRG publishes the *CLEC Report™*, a biannual multi-volume review of the state, trends and future of the competitive local telecom industry, as well as the *ISP Report™*, *DSL Report™*, *ASP Report™*, *Utilities in Telecom Report™* and the *BLEC Report™*.