

Contact:
Jim Crawford
Crawford Public Relations
703-753-4480
jcrawford@crawfordpr.com

NEW PARADIGM RESOURCES GROUP'S CLEC REPORT 2005™ SEES COMPETITIVE TELECOM INDUSTRY STABILIZING

Report Shows Nationwide for CLECs and Lists All Markets Where they Compete

CHICAGO, DECEMBER 15, 2004 – A report by New Paradigm Resources Group, Inc. (NPRG) finds the competitive local telecom industry continued to reduce costs, improve balance sheets, strengthen operations and weed out weak players during 2004 – all signs that the business continues to move toward stability in the wake of the telecom depression.

NPRG's new *CLEC Report 2005™*, 19th Edition provides detailed analysis of 56 traditionally voice-focused, facilities-based CLECs, as well as another 13 potential facilities-based operators, present a comprehensive list of all the markets where CLECs are active, and provides detailed breakdowns on competitive carriers' revenues and facilities.

This year's report shows the CLEC industry continuing to face significant challenges, yet with many players exhibiting staying power in the marketplace.

"It's a mixed story, but even the negative aspects have a longer term upside," said Terrence Barnich, NPRG President. "On the one hand, revenue is flat or falling, prices are under intense competitive pressure, bankruptcy fears linger, and changes in UNE-P cast doubts on the industry's longevity. But over time this is good for the industry. Consolidation moves the sector towards equilibrium. Competitive carriers must compete based on product expansion and innovation, in the end, customers benefit. Additionally, these carriers have excellent management teams and extensive nationwide presences. Over time, therefore, industry indicators will point up, not down."

Among the highlights of findings:

- Bankruptcies Dropped as Consolidation Continued. Only three companies declared bankruptcy during 2004: Corecomm (ATX), RCN and Choice One. This compares to four in 2003, and 47 in 2001-2002. During 2004, 12 CLECs merged into six.

- Adjusted Revenue Flattened. As key CLECs emerged from bankruptcy, their finances became more transparent and NPRG could determine their actual revenue. Re-stated revenue growth for 2004 was flat, roughly \$38 billion.
- Access Lines Increased – While Prices Fell. Access lines grew a very healthy 9.1% to 37 million lines in 2004, giving CLECs 18% of the market. But strong competition undercut this increase, as reflected in flat revenue growth.
- Data Revenue Rose Significantly. Switched local revenue dropped 1% to \$1.939 billion, while long distance revenue fell 3% to \$2.742 billion. But dedicated access revenue rose 2% to \$5.662 billion, and data revenue increased 3% to \$16.399 billion.
- Capex Took a Major Hit. Capital expenditures by CLECS fell 50% from 2003 to 2004, to \$2.4 billion, or just 6% of revenue. While this savings helped ensure survival, it prevented investments in new technologies that would maintain CLEC networks' competitive edge, and also reduce operating expenses over the long term.

“Bottom line – the CLECs will continue to face many challenges that could sink even the biggest ones,” said Craig Clausen, Senior Vice President for NPRG. “But the competitive carriers are here to stay, and will take more market share away from incumbents, particularly as IP technology makes inroads into these carriers' networks.”

“Looking to the future, we expect to see a slight increase in the number of CLECs through 2005, then another wave of consolidation that leaves fewer and bigger competitive service providers,” Clausen added. “Some will be highly specialized, while others will leverage network transformation to deliver multiple services over IP core networks, just like the ILECs are doing now. Whatever shape they take, it is important for the CLECs to differentiate themselves from being ‘mini-ILECSs,’ and to explore new ways to capitalize on the future explosion in demand for bandwidth.”

The *CLEC Report 2005*TM, 19th Edition, is available from NPRG for \$4,250 (additional copies are \$2,100). Site Licenses are also available. Order your hardcopy(s) or CD-ROM(s) by calling Rochelle Barnich at 312-980-7823 or via e-mail at rbarnich@nprg.com.

About New Paradigm Resources Group

New Paradigm Resources Group, Inc. (NPRG) is the nation's leading research and consulting firm analyzing the competitive telecom industry. NPRG's publications are recognized as the most reliable and comprehensive in the competitive telecom sector with several specializing on various segments, such as the *VoIP Report*TM, the *Broadband Provider Report*TM, the *Cable Broadband Telephony Report*TM, the *Competitive IOC Report*TM and the *ILEC Report*TM. By continually monitoring the telecom market to develop these in-depth reports, NPRG underscores and hones its expertise in providing a wide range of client-specific market research, strategy consulting and expert witness

services requested by carriers, investment bankers, equipment vendors, and consultants in the industry. NPRG was founded in 1993 and is headquartered in Chicago. Additional information about New Paradigm Resources Group is available on the Internet at www.nprg.com

* * *