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NEW PARADIGM RESOURCES GROUP'S CLEC REPORT 2004™ SEES SIGNS OF COMING UP-TICK FOR COMPETITIVE INDUSTRY

Consolidation, Pricing Stability and Operational Improvements Point to Improving Industry Forecast – But Watch Out for VoIP

CHICAGO, DECEMBER 10, 2003 – A report by New Paradigm Resources Group, Inc. (NPRG) finds that all the ingredients are present for a growth turnaround in the competitive local exchange carrier (CLEC) industry – though the recipe may indicate a slow rise requiring continued patience on the part of investors and vendors.

NPRG's new ***CLEC Report 2004***™, 18th Edition calls the end of 2003 a key "inflection point," a plateau that may well mark the beginnings of new industry vitality as surviving players put the worst of the telecom downturn behind them and begin to capitalize on factors that promise a healthier marketplace.

Among the chief indicators of strong future growth are: the long-awaited consolidation within the CLEC space, signs of pricing stability for core market offerings, payoff on long term investments in initiatives that improve operational efficiency – and the dramatic tapering off of CLEC bankruptcies. These "behind the scenes" improvements in industry metrics add weight to the CLECs' continuing success in driving annual revenue growth, market share and access line acquisition – provided new developments such as VoIP don't come from behind to clobber CLECs and incumbents alike, in the months ahead.

CLEC Report 2004™ offers detailed profiles of 62 facilities-based CLECs, representing the universe of CLEC industry carriers. Key findings cover:

- Industry Consolidation. The long-heralded advent of business combinations became real in 2003, with five CLECs acquiring their peers, and Qwest making a bid on Allegiance Telecom. This trend will likely accelerate in 2004-2005.

- Slowing Bankruptcy Rate. Some 45 bankruptcies – 30 in 2001 and 15 in 2002 – occurred in the prior two years, but 2003 saw only two major bankruptcies. Others, notably McLeodUSA and XO, have emerged from Chapter 11, and will soon be joined by MCI. The sudden reappearance of this debt-free trio may have a significant impact on competitors with weaker balance sheets, driving further consolidation.

- Ebbing Price Competition. While price competition remains strong, prices are no longer falling at the same rate for core products such as T-1 facilities, a sign that the shakeout may be near an end.

- CLECs Become Operationally Efficient. CLEC capital expenditures fell back to pre-bubble levels, totaling $3.89 billion in 2003. However, total access lines for CLECs rose an impressive 21 percent, from 29.5 million in 2002 to 35.8 million in 2003. The CLECs' ability to increase market share while committing less overall capex indicates increasing operational efficiency.

- Solid Revenue Gains. Continuing to defy premature notices of the industry's death, the CLECs once again turned in a positive revenue gain for the year, growing 9 percent from $45.1 billion in total revenue in 2002 to $49.3 billion in revenue in 2003.

"All innovations are marked by three phases – euphoria, then rejection, ultimately followed by broad market acceptance, and it's possible that the CLECs are quietly edging into the third phase," said Terence Barnich, NPRG President. "We're witnessing a process of maturation in the business, which is now entering its second decade. The early signs are tantalizing, hinting that the industry now stands on the cusp of significant changes that, given patience, will bear results."

Other positive indicators for the market include: CLECs' success at winning customer loyalty through bundled voice/data/video services, and early market entry by a few CLECs into offering VoIP services that offer significant savings and reduced provisioning times. Further, at least for the time being, the FCC is upholding the use of unbundled network element platforms (UNE-Ps), the major factor behind the CLECs' low-cost penetration of residential markets.

"Notwithstanding these optimistic signs, CLECs emerging from the troubled post-boom era must continue to look over their shoulders, particularly at new technologies that could totally transform the telecom horizon," cautions Craig Clausen, Senior Vice President for NPRG. "VoIP, which has gone through its own parabola of acceptance and rejection, may well prove to be the application that flattens circuit-switching, and more CLECs need to pay attention to this. Capex savings at the expense of a relatively small softswitch investment may, in retrospect, appear to have been a foolish economy."

The ***CLEC Report 2004™***, 18th 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 *Broadband Provider Report*™, the *Cable Broadband Telephony Report*™, the *Competitive IOC Report*™ and the *ILEC Report*™. 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 consulting services requested by carriers, equipment vendors, investors 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