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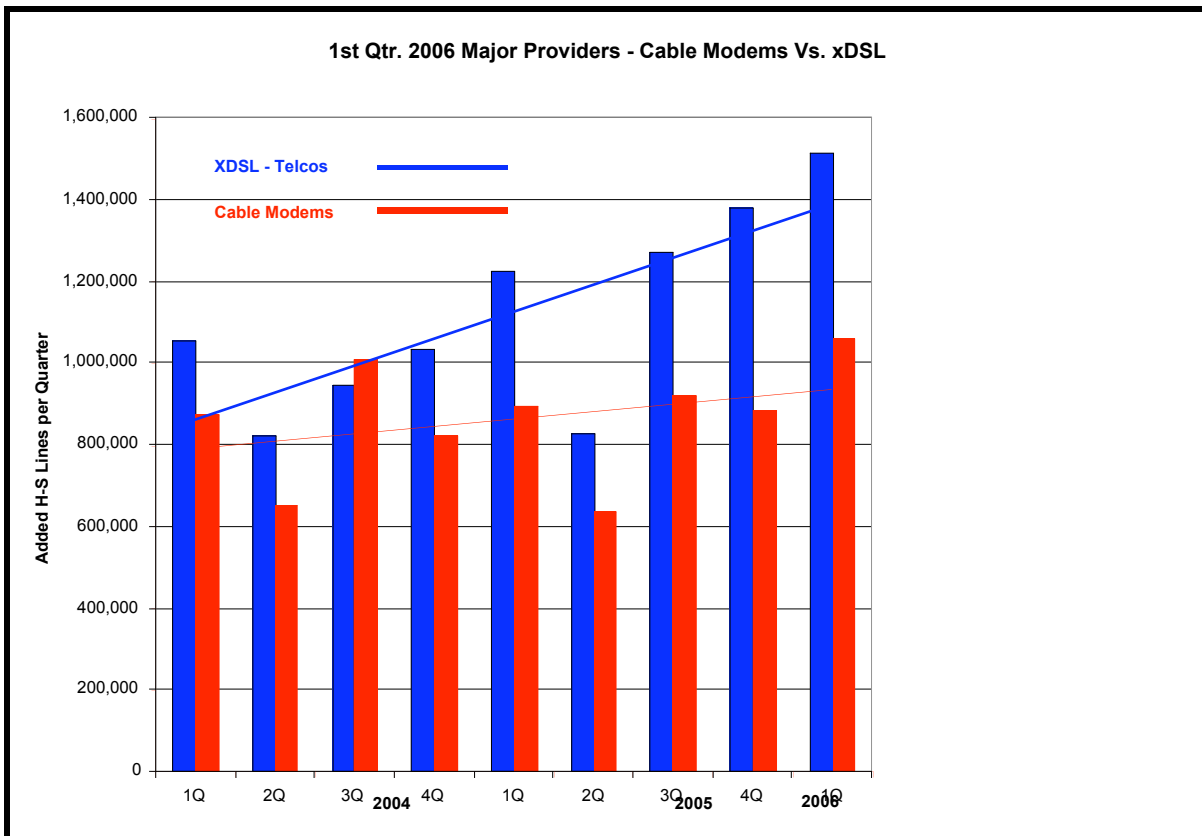
May 4, 2006

First Quarter 2006 H-S Access Report

xDSL – The Telcos Keep Getting Stronger!

At the end of 2005, we proclaimed it the “ Again the Year of the Telcos and xDSL.” In the first quarter of 2006, that story is continuing in a strong way! xDSL additions exceeded last quarter’s very strong – record – results. At the same time, cable modems showed a little life, but are still losing space to the Telcos every quarter. So, we have the trend that was established throughout much of 2004 and 2005, of the telcos continuing to make up the historical 2-to-1 lead of the cable companies. Our previous reports had predicted this and it is happening. We had predicted that that the telcos would catch up by the end of 2007, but at the current rates, it will be much sooner – e thing it will happen late this year!

This trend has to be read as a significant defeat for the cable companies. There has been much speculation about the cable companies ability to take significant market share away from the telcos in voice, but watching how the telcos are now making up this huge deficit in h-s accesses, one has to ask if the cable companies are really up to taking on the major telcos. The other question may be as to how successful the telcos may be in taking video viewers away from the cable companies. By the end of this year there will be widespread competition form the telcos in the video area.



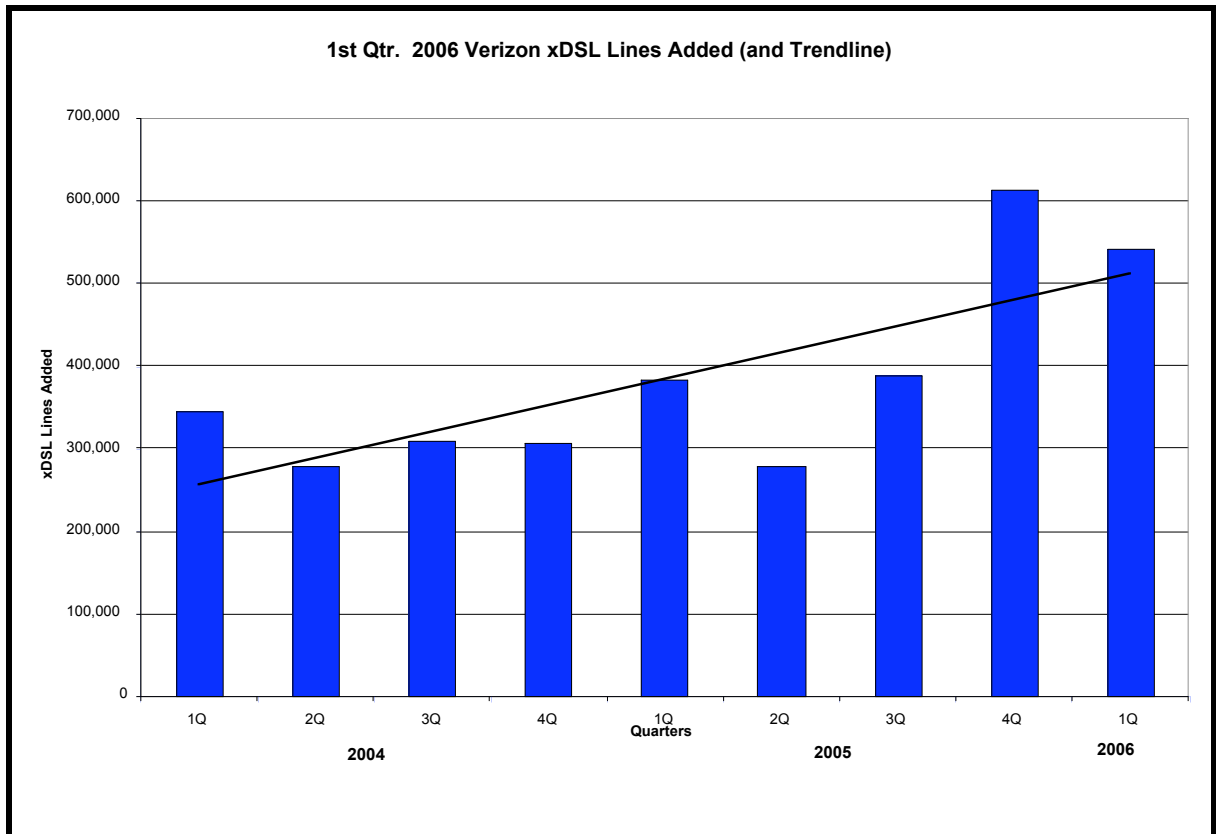
The above chart illustrates these points. It compares the quarter-by-quarter h-s additions for the four US RBOCs versus the five major US cable companies.

The trend lines tell the whole story. The trend line for xDSL by the four RBOCs is decidedly positive, while the trend line for the cable companies has turned somewhat positive this quarter (it was flat last quarter and negative the quarter before.) However, note that the Telco trend line is much steeper and getting more so. Comcast and Time-Warner had a very good quarter, and by themselves brought the cable companies into the positive area. BellSouth again (installed more xDSL than ever in a quarter, and SBC and Verizon both had quarters that were second to their all-time records for xDSL lines. Verizon added over 1.1 million h-s lines in the last two quarters – far more than any other companies ever has.

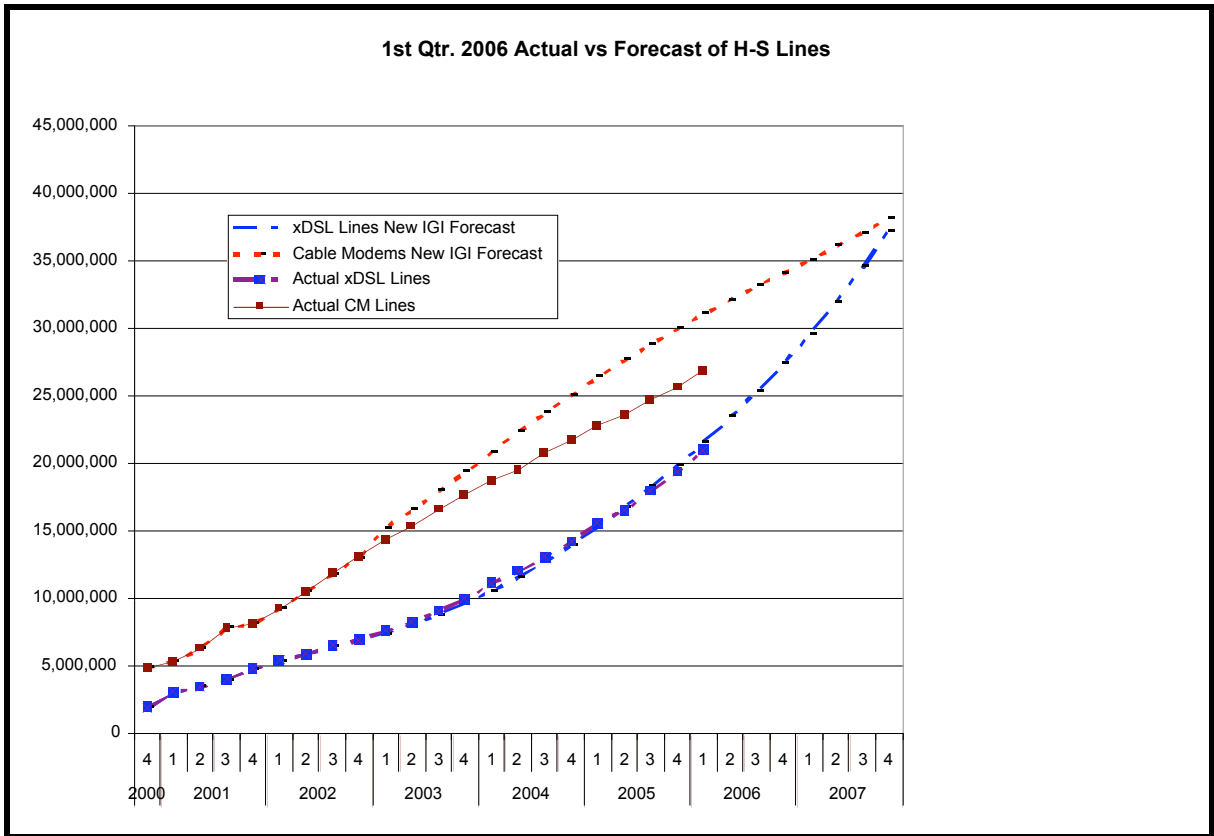
The telcos continue to compete on price and packaging – and winning big! Some of the telcos are offering introductory packages for as low as \$19.95 a month. (Why would anybody buy dial-up, when you can get h-s access at this price?) They are also offering the ‘big’ package – bundled mobile, data, voice and video. The cable companies (at least generally, can’t match that. The cable companies appear to be trying to compete with feature differentiation – adding speed, mainly – but in a commodity market, features really don’t count. Those who would buy for features

(speed) did so early in the growth curve. Those who are buying now will buy as you select any commodity (assuming availability of options) – on price and packaging.

The following chart illustrates the good quarters that Verizon is having.



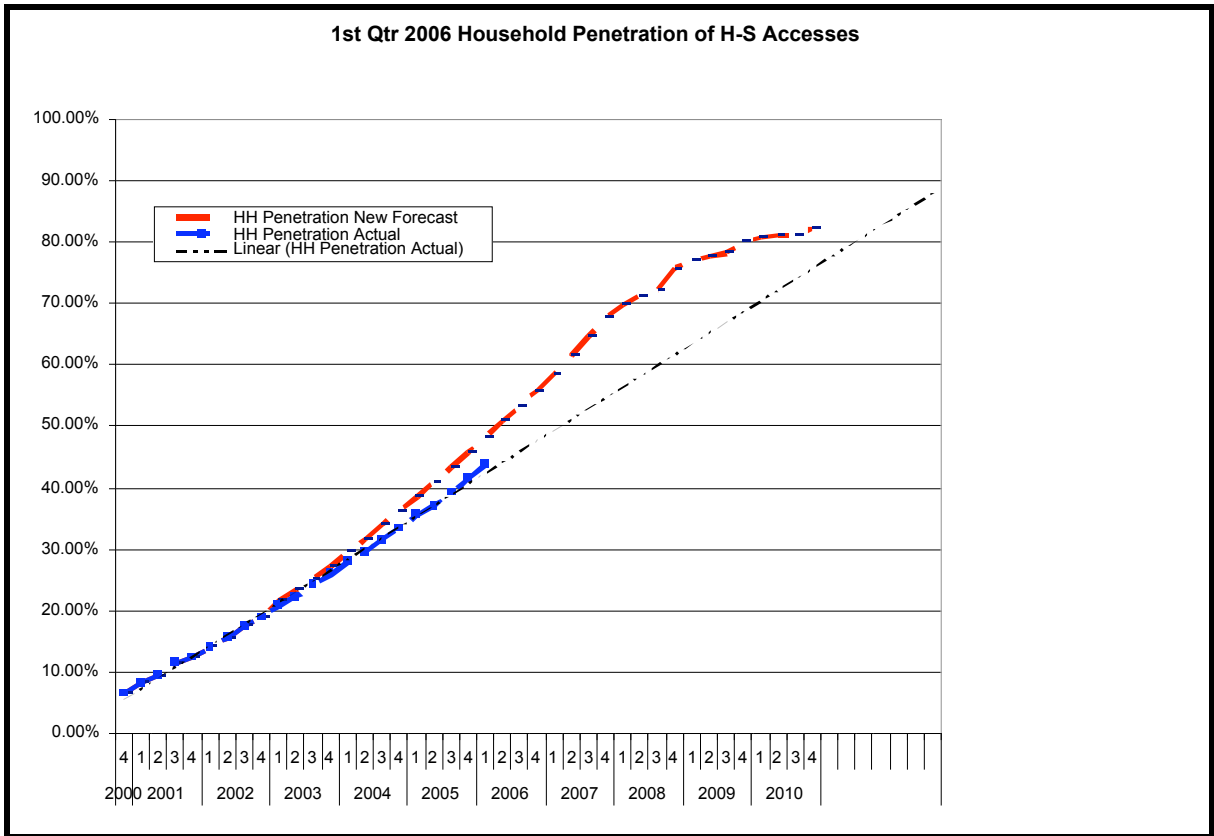
The following chart shows just xDSL vs. CMs. It is clear that the cable modems are continuing to fall behind.



The next shoe to drop from the telcos is going to be (already is in some cases) FTTP, and its cousins with video, data (very high-speed) and voice. If the cable companies don't counter this threat, they are going to be in more trouble! (Our latest report for IGI – to be issued in May – “FTTP – Going Strong in 2005!” details the FTTP threat to cable companies.

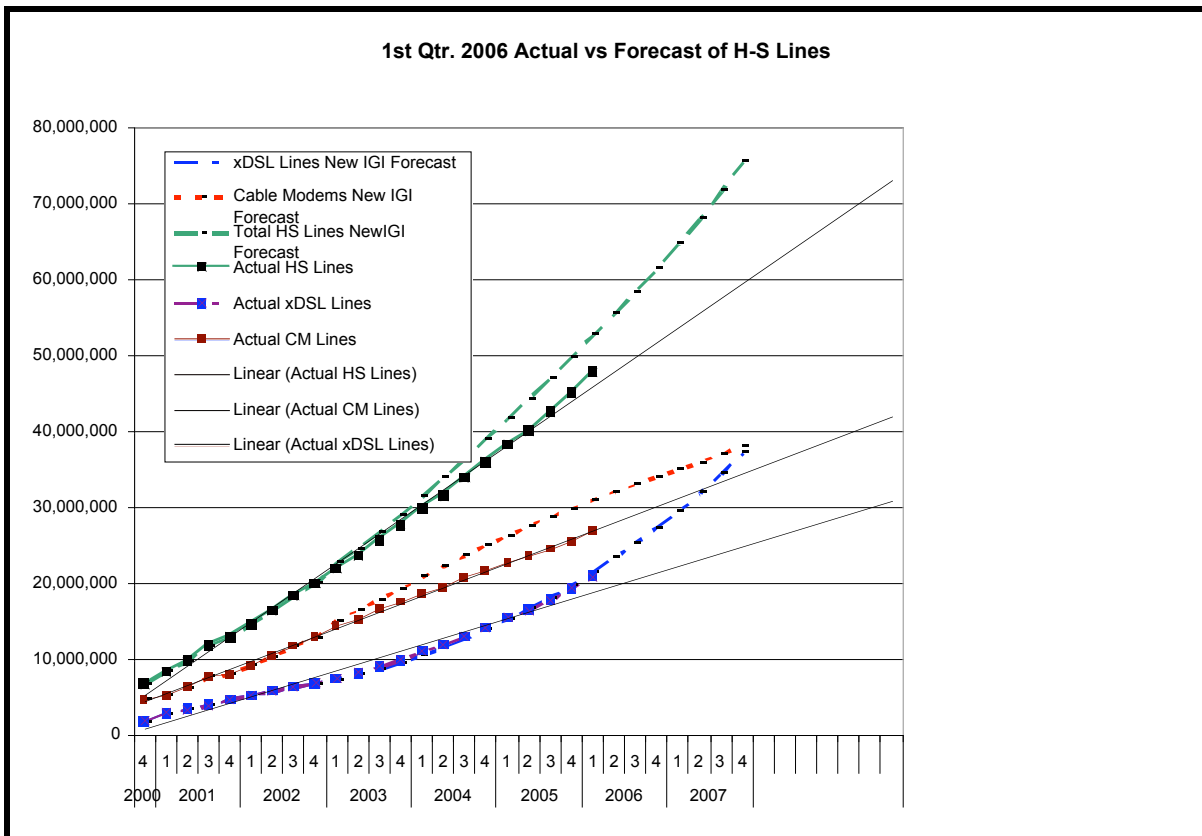
It Really Was a Good Quarter for H-S Access Growth!

In spite of the comments about the cable companies, this h-s growth in total continues to be strong. The following penetration chart illustrates the penetration versus our forecast, and a linear growth line. As the reader will see, the actual growth is very near our forecast, and easily is exceeding the linear growth trend.



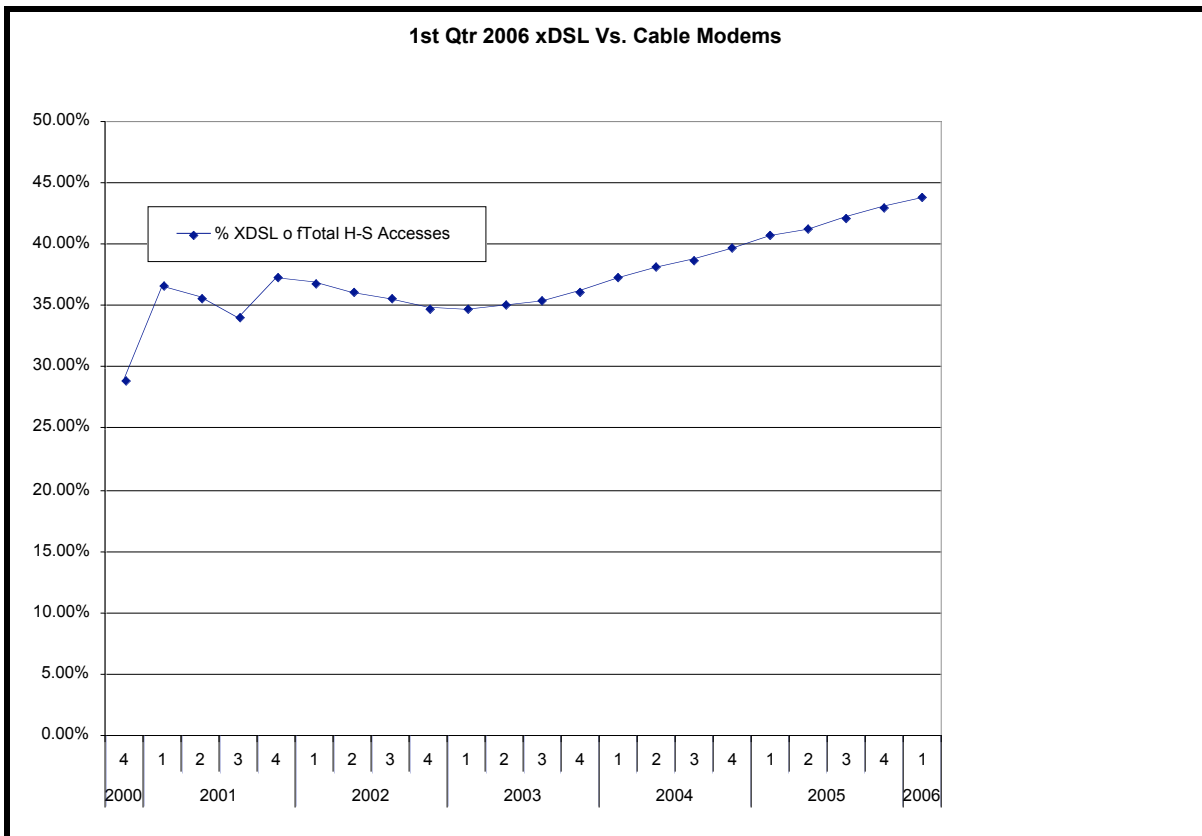
Note that this forecast suggests that by 2009, h-s accesses will be available in 80% of our households. This result requires a concomitant growth of household PCs to around 85%. (See “The Telecom Market: in Transition – The Lightwave Is Going to Shine Again!” www.igigroup.com and the end of this report for details of the forecast.)

The following chart shows actual versus forecast growth.



As you will see, while xDSL is continues above forecast, cable modems are below, and are falling further below, what was considered at the time a relatively conservative forecast (at least near-term.)

The following shows how xDSL is closing in on being 50% of all h-s lines.



We point with pride to the fact that we forecast the turnaround in xDSL fortunes back a couple of years ago, when it was a very unpopular idea. It appears now that our forecast may be very accurate, as xDSL continues to run right with our forecast and slightly above it. Note also, that total h-s access lines are running with the forecast, only slightly below.

Trend lines have been added to the cable modems growth line and the total h-s line. Cable modems are growing almost exactly on the trend line (a linear projection, of course), while the xDSL lines are growing on the forecast line, which is a much steeper curve. As the reader will see, a continuation of these circumstances will result in the telcos catching up at least a couple of quarters sooner than forecast. In addition, the total h-s lines will be close to 10,000,000 less than forecast by the end of period, with the existing trend.

Growth Detail by Company

The following chart illustrates the major cable companies' and telcos' results for the quarter and year.

Note that the telcos added over 4.2 million lines in 2005 while these cable companies only added about 3.5 million. That is a substantial difference, and the reason that the telcos are rapidly catching up to the cable companies. Only a few quarters ago, the cable companies held a clear two to one advantage. The split is now about 56-44 and closing fast!

Our forecast is for the Telcos to overtake the cable companies by the end of this year!

One other thing to note from this chart is that BellSouth again had a great quarter. They have added xDSLs at close to double the rate they previously were achieving. They have attained the much greater rate now for two quarters in a row. Also, note the previously described great quarter that SBC has enjoyed.

	Major Cable Companies - CMs Added							
	2004	2005	2005	Total	2005	2005	2005	2006
	Total	1Q	2Q	1st H 05	3Q	4Q	Total	1Q
Charter	2,011,500	94,000	43,800	2,149,300	98,400	91,000	2,338,700	126,000
Comcast	6,977,200	414,000	297,000	7,688,200	437,000	378,000	8,503,200	437,000
Rodgers	951,400	51,600	33,400	1,036,400	53,300	62,200	1,151,900	40,300
Cox	2,548,549	177,000	150,000	2,875,549	150,000	150,000	3,175,549	150,000
Time Warner	4,009,000	209,000	201,000	4,419,000	234,000	265,000	4,918,000	346,000
Totals	16,497,649	945,600	725,200	18,168,449	972,700	946,200	20,087,349	1,099,300
	Major Telcos - DSLs added							
	2004	2005	2005	Total	2005	2005	2005	2006
	Total	1Q	2Q	1st H 05	3Q	4Q	Total	1Q
BellSouth	2,096,000	253,000	124,000	2,473,000	205,000	204,000	2,882,000	263,000
Bell Can.	1,857,000	91,000	92,000	2,040,000	106,000	61,000	2,207,000	71,000
Qwest	1,065,000	85,000	68,000	1,218,000	150,000	140,000	1,508,000	198,000
SBC	5,104,000	504,000	360,000	5,968,000	528,000	425,000	6,921,000	511,000
Verizon	3,559,000	385,000	278,000	4,222,000	389,000	613,000	5,224,000	541,000
Totals	13,681,000	1,318,000	922,000	15,921,000	1,378,000	1,443,000	18,742,000	1,584,000
Total	30,178,649	2,263,600	1,647,200	34,089,449	2,350,700	2,389,200	38,829,349	2,683,300
CM+xDSL								
Mjr. Car.								

