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BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

IN RE:

IMPLEMENTATION OF THE FEDERAL COMMUNICATIONS COMMISSION'S TRIENNIAL REVIEW ORDER – 9 MONTH PROCEEDING – SWITCHING	))))	DOCKET NO. 03-00491

AT&T'S SUPPLEMENTAL RESPONSES TO BELLSOUTH'S FIRST SET OF INTERROGATORIES (Int. #s 25, 30, 34, 35, 45, 47, and 49)

PUBLIC VERSION

AT&T Communications of the South Central States, LLC ("AT&T"), pursuant to the Order on October 21, 2003 Status Conference, issued by Director Jones of the Tennessee Regulatory Authority ("TRA") (hereinafter "*Procedural Order*"), Rules 26.02 and 33.01 of the Tennessee Rules of Civil Procedure, and subject to the General and Specific Objections filed on or about November 6, 2003, hereby submits the following Supplemental Responses to BellSouth Telecommunications, Inc.'s (hereinafter "BellSouth") First Set of Interrogatories to AT&T Communication of the Southern States, LLC, served on October 24, 2003, as follows:

SPECIFIC RESPONSES

REQUEST: BellSouth First Set of Interrogatories

DATED: October 24, 2003

Interrogatory 25: Please state the total number of end user customers in the State of Tennessee to whom you only provide qualifying service.

Response

The total number of end user customer's in Tennessee to whom AT&T provides qualifying service (local only) for AT&T AIO Business is **XXX Begin Confidential - Subject to Protective Agreement – REDACTED - End Confidential - Subject to Protective Agreement XXX**

The total number of end user customer's in Tennessee to who AT&T provides qualifying service (local only) for AT&T Consumer Local is not available at this time. Please see response to Interrogatory No. 12. AT&T will supplement its response to this Interrogatory as this information becomes available.

Please refer to Confidential Attachment 25

Provided by: Jay Bradbury

Revised Response

The total number of end user customer's in Tennessee to whom AT&T provides qualifying service (local only) for AT&T AIO Business is XXX Begin Confidential - Subject to Protective Agreement – REDACTED - End Confidential - Subject to Protective Agreement XXX

In order to correct error reported for # of AIO Customers with local only service in Tennessee and North Carolina, please see
Revised Confidential Attachment 25

REQUEST: BellSouth First Set of Interrogatories

DATED: October 24, 2003

Interrogatory 30: Please state the total number of end user customers in the State of Tennessee to whom you provide both qualifying and non-qualifying service;

Response: AT&T incorporates by reference its response to Interrogatory No.1 as if fully set forth. Subject to the foregoing, and without waiving any objection. **XXX Begin Confidential - Subject to Protective Agreement - The total number of AIO customers receiving both qualifying and non-qualifying services (bundled) is approximately REDACTED, based on billed data as of September 30, 2003. End Confidential - Subject to Protective Agreement XXX**

For AT&T Consumer Services, this information is not currently available. Please see response to Interrogatory No. 12.

Revised Response: **XXX Begin Confidential - Subject to Protective Agreement - The total number of AIO customers receiving both qualifying and non-qualifying services (bundled) is approximately REDACTED based on billed data as of September 30, 2003. End Confidential - Subject to Protective Agreement XXX**

In order to correct error reported for # of AIO Customers with local only service in Tennessee and North Carolina, please see Revised Confidential Attachment 25

REQUEST:	BellSouth First Set of Interrogatories
DATED:	October 24, 2003
Interrogatory 34:	For each class or type of end user customer referenced in Interrogatory No. 33, please state the average acquisition cost for each such end user class or type. Please provide this information for each month from January 2000 to the present.
Response:	AT&T incorporates its objection to Interrogatory #15, *supra.* Subject to the foregoing, average acquisition cost for all end user customer class is $125.00. See Attachment No. 34.

REQUEST:	BellSouth First Set of Interrogatories
DATED:	October 24, 2003
Interrogatory 35:	For each class or type of end user customer referenced in Interrogatory No. 33, please state the typical churn rate for each such end user class or type. Please provide this information fore each month from January 2000 to the present.
Response:	AT&T incorporates its objection to Interrogatory No 15, *supra*. Subject to the foregoing, churn rate is 4.6%. See Attachment No. 34.

REQUEST: BellSouth First Set of Interrogatories

DATED: October 24, 2003

Interrogatory 45: In determining whether to offer a qualifying service in a particular geographic market, what time period do you typically use to evaluate that offer? That is, do you use one year, five years, ten years, or some other time horizon over which to evaluate the project?

Response: AT&T incorporates its objections to Interrogatory No. 15*, supra* and notes that the FCC's TRO specifically contemplates the consideration of financial and related information of an efficient "model" competitor and not that of AT&T or any other particular competitor.

Accordingly, AT&T's determination of whether to offer a "qualifying service in a particular geographic market" and the time periods involved in such evaluation are irrelevant and not reasonably calculated to lead to the discovery of admissible evidence.

Subject to the foregoing, the period of time used is 3 to 5 years.

REQUEST: BellSouth First Set of Interrogatories

DATED: October 24, 2003

Interrogatory 47: Based on the definition of sales expense in the foregoing Interrogatory, please state how you estimate sales expense when evaluating whether to offer a qualifying service in a particular geographic market?

Response: AT&T incorporates its objections to Interrogatory No. 15, *supra.* Subject to the foregoing:
Sales Expenses are included with overall SG&A Expenses (Sales General and Administrative) and are expressed as a percentage of overall customer revenues.

REQUEST:	BellSouth First Set of Interrogatories
DATED:	October 24, 2003
Interrogatory 49:	Based on the definitions of G&A costs in the foregoing Interrogatory, please state how you estimate G&A expenses when evaluating whether to offer a qualifying service in a particular geographic market.
Response:	Estimated SG&A expenses are 25% of local revenues. See Attachment No. 34.

SUBMITTED THIS 10th of DECEMBER, 2003.

BOULT CUMMINGS CONNERS & BERRY

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(615) 252-2363

Attorney for AT&T Communications of
the South Central States, LLC

CERTIFICATE OF SERVICE

I hereby certify that on December 10, 2003, a copy of the foregoing document was serviced on the parties of record, via US mail:

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REVISED ATTACHMENT TO INTERROGATORY NO. 25

REDACTED

AIO Customers Counts by State

(As of September 30, 2003)

State	September AIO Bundled Customers	September AIO Local Only Customers		
AL				
FL				
GA				
NC				
TN				
TOTAL				

ATTACHMENT
TO
INTERROGATORY NO. 34

Banc of America Securities

Research Brief
Wireline Telecommunications

April 30, 2003

T: $17.05
BUY
Volatility: Medium
12-Month Target: $24.00
Total Return to Target: 45.2%

AT&T Corporation*

A Case for Consumer Services

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- **Our conclusion from a deep dive analysis of AT&T's Consumer segment is that moderating top-line losses, variable costs and low capex will allow the unit to remain a positive value contributor.**
- **We expect revenue loss trends to abate as Bell 271 entry matures.** There is a mature record of data that supports a sharp decline in Bell market share growth in 2004 easing revenue pressures.
- **The Consumer segment has substantial cost variability.** The allocation of corporate overhead and network costs to the Consumer segment is small based on public disclosures and remaining expenses are dominated by variable access and marketing costs.
- **We have incorporated new detailed UNE-P forecasts.** We have modeled out projected market share gains, revenue and costs by state and estimated migration rates and costs for moving the UNE-P platform to facilities over time.
- **Valuation and Target Price Analysis:** Our target price of $24 is the first rung of our valuation for AT&T. Our target starts from a conservative baseline of a 4.5x multiple of 2004E Business EBITDA and giving no value to the Consumer segment despite our analysis here.

Top Picks

Ticker	Rating	Price	Target
T*	B	$17 05	$24 00
BLS*	N	$25 49	$30 00

Least Favorites

BRW*	S	$4 63	$3 00
Q*	S	$3 77	$3.00

B = Buy, N = Neutral, S = Sell, * = New Pick

Sector View: Underweight. A stagnant economy and sector-wide competition shrinking scale economies are boosting churn costs, pressuring margins and curtailing growth.

Sector Price Appreciation Potential (Median of Target Price): 25%

Company Data	
52-Week Range	$29-13
Secular Growth (EPS)	N/A
Market Cap	$13 4 BB
Avg Daily Vol	6,699,912
Debt/Cap (3/03)	58 8%
Est Dividend/Yield	$0 75/4 4%

FYE Dec	2002A	2003E	2004E
EPS			
Q1 (Mar)	$0 61	$0 62A	$0 47
Q2 (Jun)	0.71	0 52	0 48
Q3 (Sep)	0 75	0.48	0 49
Q4 (Dec)	0 66	0 45	0 50
Fiscal Year	**$2.39**	**$2.07**	**$1.93**

Index Data	
DJIA	8480
S&P 500	917

Calendar Yr	$2.39	$2.07	$1.93
P/E	7 1	8 2	8 8
P/E/G	N/A	N/A	N/A

Please see the important disclosures and analyst certification on page 38 of this report. Investors should assume that Banc of America Securities is seeking or will seek investment banking or other business from companies rated in this report.

Summary and Investment Conclusion

In recent months, AT&T has come under intense scrutiny and criticism for its exposure to the Consumer segment. Concerns about the rate of decline within the segment are wholly justified and are the central reason why we undertook this analysis. No investment in AT&T should be made without a comprehensive understanding of the implications for AT&T's presence in the consumer market. The key questions we see are the following.

- What will happen to AT&T's Consumer revenue in light of Bell entry into long distance services?
- What will happen to margins as this segment's revenue declines?
- What impact will AT&T's entry into local services have on the Consumer unit?

Perhaps our most important conclusion is that AT&T's presence in the Consumer market does not jeopardize AT&T as a company. We conclude the Consumer segment revenue declines will slow as Bell entry into long distance markets follows a long-established trend of peaking in year one. Consumer revenue declines will not cease, but as Consumer falls as a percentage of total revenue and LD voice falls as a percentage of Consumer, the impact of Consumer LD voice losses will become irrelevant to the core AT&T story in Business services. Now, as revenue declines or even flattens out, the worry must still be on margins. A high percentage of fixed costs could translate quickly to losses even with minimal revenue decline. Based on AT&T's own disclosures long available in the company's publications surrounding the AT&T Broadband spin-off, the allocation of fixed overhead costs to the Consumer unit is low and the percentage of remaining expenses that are variable appears high. The company's track record over the last several quarters in Consumer margins underscores this point. As Consumer Revenue declines slow, and Consumer falls as a percentage of total revenue and LD voice falls as a percentage of Consumer and as AT&T loses only a fraction of Consumer revenue at the EBITDA line, again, the impact of the Consumer segment at the margin fades in relevance. With low capital requirements, however, the Consumer unit can continue to make a substantial contribution at the free cash flow line and contribute positive value to the company.

At the center of our view is a mature track record of Bell entry into long distance, which shows the rate of market share gains by the Bells slows down over time. By 2004, we expect long distance revenue declines to slow as Bell market share gains anniversary and flatten out after the majority of the 1st year market share gains are taken. In addition, penetration of the local market contributes positively to the flattening of this curve. While Consumer is a falling percentage of the total revenue, long distance voice is a shrinking percentage of Consumer.

Through a series of charts and graphs, we have laid out our view that despite powerful forces working against it, AT&T's Consumer segment can continue to contribute positively to equity value. In this report, we take a deep dive into AT&T's Consumer operations, looking at revenue trends, cost variability, and the emergence of AT&T's Local business on the scene. In our view, AT&T's negative operating leverage exposure to this segment is not as substantial as many might suppose. While there is no denying the Consumer segment is in ongoing decline, we believe AT&T can continue to extract value from this business by offsetting revenue declines with a variable cost structure. We believe AT&T can offset a shrinking Consumer segment by weathering the worst of the storm in 2003 and allowing its Business segment to pick up the slack over time (the focus of our next deep dive analysis).

Variable cost management and UNE-P growth will define the Consumer segment over time. We believe Consumer cost variability is much higher than the market believes, which should allow AT&T to continue to cut costs in Consumer to offset revenue declines and harvest cash from this business. Further, we expect revenue loss trends to abate as Bell 271 entry matures and expect the combined local and long distance operations to create positive value for AT&T shareholders. Management has so far shown the ability to reduce Consumer costs to match a declining revenue base and as we explain in detail in this report, we believe that there remains a large amount of variability in the Consumer model. We expect the Consumer segment to lose roughly $0.30 of EBITDA on average for every $1 revenue decline due to the small amount of fixed costs in the business, more in the short-run as the largest of the volume losses occur in 2003. In addition, since the Consumer segment requires minimal capital expenditures, we believe the company can continue to create free cash flow from this segment.

We have completed a comprehensive state-by-state UNE-P model. The ultimate fate of UNE-P will remain uncertain until the FCC releases its Final Order, which is now expected to be in mid to late May, but it is clear that UNE-P will remain in some fashion for several years to come. We have broken AT&T's UNE-P business down into granular detail to better understand the economics and AT&T's opportunity. Our UNE-P model ultimately derives the state-by-state EBITDA contribution from each of the nine states (plus D.C.) where AT&T currently offers service and from Massachusetts (the only additional state that AT&T has confirmed a plan of entry). In addition, our model includes estimates for the five most attractive new states (based on estimated state-by-state gross margins derived from the most recent data from the NRRI) and the last group of four to seven states that will bring AT&T to the midpoint of its target market of 19-22 states.

We expect AT&T's revenue mix to continue to favorably shift towards Business from 71% of total revenue in 4Q02 to 79% by 4Q04. Consumer will decline substantially, but should continue to provide FCF to support growth in Business. AT&T continues to emerge as the dominant player in Business services and remains the purest play on business services demand and business recovery.

We derive a $3 per share value for the Consumer segment, but conservatively assign no value to the Consumer segment in our consolidated AT&T valuation. Our $24 price target for AT&T is based on a 4.5x multiple of our 2004E Business EBITDA using 2004 estimated net debt and gives no value to the Consumer segment. Our $3 per share valuation for the Consumer segment assumes Consumer long distance-related capex will remain constant at $150 million per annum, assumes substantial local capex in 2004 ($364 million) and 2005 ($400 million) to migrate UNE-P subscribers to a facilities based network, and assumes local maintenance capex of roughly $100 million per annum (5% of local revenue). In total, we project Consumer capex of 6.6% of revenue in 2004, 7.9% in 2005, and 4.8%-5.5% in the steady state. Our FCF estimates for the Consumer segment subtract capex estimates from our tax effected EBITDA estimates. We project Consumer FCF of $1.2 billion in 2003, $504 million in 2004, and $356 million in 2005 (lower due to assumed migration capex requirements). Longer term, we believe the Consumer segment can generate FCF of roughly $400-$500 million per year.

Consumer Segment Discounted Cash Flow Analysis

($ millions)

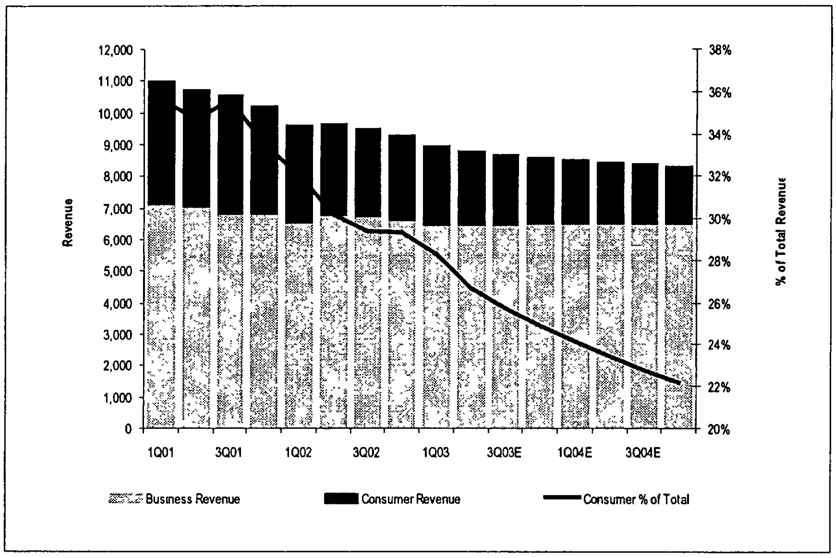
	2002	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Local EBITDA	(85)	34	156	235	324	367	382	399	405	422	429
Long Distance/Prepaid Card EBTIDA	2,928	2,169	1,541	1,275	1,061	929	848	780	737	692	657
WorldNet EBITDA	0	0	0	0	0	0	0	0	0	0	0
Total Consumer EBITDA	**2,843**	**2,202**	**1,697**	**1,510**	**1,386**	**1,296**	**1,230**	**1,179**	**1,142**	**1,114**	**1,086**
Tax Effected EBITDA	**1,706**	**1,321**	**1,018**	**906**	**831**	**778**	**738**	**707**	**685**	**668**	**652**
LD capex	127	150	150	150	150	150	150	150	150	150	150
Migration capex			364	400	61	40	37	27	32	16	8
Local maintenance capex					95	100	103	106	108	110	111
Total Consumer capex	**127**	**150**	**514**	**550**	**306**	**290**	**290**	**283**	**290**	**276**	**269**
note: % revenue	*1.1%*	*1 6%*	*6.6%*	*7.9%*	*4 8%*	*4 8%*	*5.1%*	*5.2%*	*5 5%*	*5 4%*	*5.4%*
Consumer FCF	**1,579**	**1,171**	**504**	**356**	**525**	**487**	**447**	**425**	**395**	**392**	**383**
PV of Consumer FCF		2,314									
Consumer Value Per Share		$\boxed{\$2.94}$									

Source Company reports, Banc of America Securities LLC estimates

A Case for Value in AT&T's Consumer Segment

Consumer Will Shrink In Importance to the AT&T story

AT&T Consumer vs. Business Revenue
($ millions)



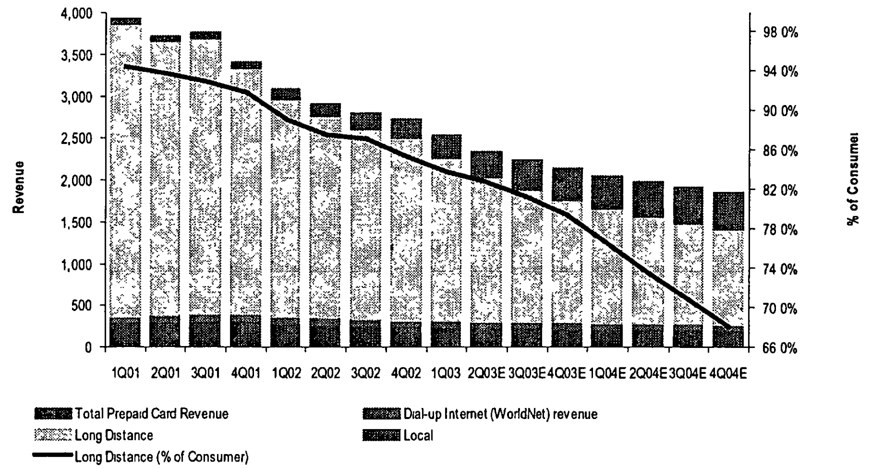
Source: Company reports, Banc of America Securities LLC estimates.

We expect AT&T's Business services to continue to evolve into the dominant segment of AT&T's total revenue picture. We conservatively project minimal Business services growth through 2004 (from $6.4 billion in 1Q03 to $6.5 billion by 4Q04). Conversely, we expect Consumer revenue to fall substantially through 2004 (from $2.5 billion in 1Q03 to $1.9 billion in 4Q04). In 4Q02, Consumer represented 29% of total AT&T revenue. By 4Q04, we project Consumer to represent just 22% of total AT&T revenue, and by 4Q06, just 19% of total revenue. Over the long run, it is clear that Business services performance will be the key to AT&T's success. However, we do expect the Consumer segment, while declining, to nonetheless continue to provide free cash flow to support the growth of the Business segment. The proceeding chart illustrates the dynamics of AT&T's evolving business mix toward the Business services segment and away from the Consumer segment. AT&T's larger proportionate exposure to Business services and the company's emergence as the dominant player in Business services (the highest growth portion of the telecom sector) makes AT&T, in our view, the purest play in the sector on business and business recovery.

Local UNE Revenue Growth Will Help Offset LD Voice Declines

Components of Consumer Revenue

($ millions)



Source. Company reports, Banc of America Securities LLC estimates.

We continue to forecast significant declines in the long distance segment for AT&T, partially offset by gains on the local front. The trends suggest that long distance revenue should continue to shrink as a percentage of Consumer revenue and Local revenue should continue to become a bigger piece of the Consumer model. In our view, Bell entry into the long distance market (through the Section 271 approval process) and wireless substitution will continue to weigh on AT&T's long distance results. As such, we have accordingly modeled in substantial revenue losses from AT&T Consumer long distance. We currently project a 26.6% decline in long distance Consumer voice and prepaid card revenue in 2003 followed by a 23.5% decline in 2004. However, growth in the Local business, through AT&T's UNE-P strategy, should offset a small portion of the long distance declines. We forecast local revenue growth of 77.8% in 2003 and 28.6% in 2004. As a result, we expect Local revenue to increase from 9.2% of Consumer revenue in 4Q02, to 18.5% by 4Q03 and to 24.8% by 4Q04.

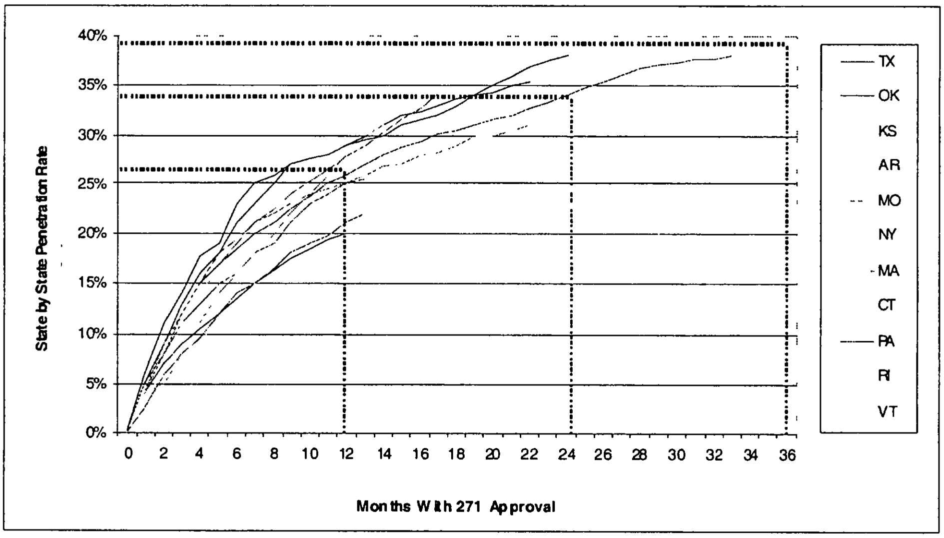
While the FCC's Final Order on UNE-P has not been released, based on the details the FCC has provided to date, the decision appears to be a big win for AT&T. We do not expect the Final Order from the FCC to be released until late mid to late May. Nonetheless, the FCC's preliminary decision appears to extend the life of UNE-P, the primary competitive local entry method to date. Importantly, the decision buys AT&T the valuable commodity of time—time to take increased local market share, time to develop scaled and concentrated local customer bases, and time to develop a facilities migration plan to eventually transition away from UNE-P in the long run. AT&T should be able to continue to expand its local consumer customer base through UNE-P for perhaps an additional two years beyond our pre-Triennial Review expectations. AT&T can also push off any local facilities capital spending decisions for two years more than previously expected before it will need to transition to a facilities-based (UNE-L) solution. AT&T will now be able to observe how the local telecom market plays out over the next couple years before it will need to either begin to spend capital on a local infrastructure or develop an alternative plan.

The UNE-P business model allows AT&T to grow its local customer base with solid economics, building a scaled base upon which a facilities model may be overlaid. AT&T's approach to launching local service has been very granular. AT&T's "cherry picking" approach has drawn Bell ire but it has worked. The company targets expansion by state, by neighborhood, and by profit hurdle, experiencing substantial success in the process. AT&T now offers local service in eight states and Washington D.C. to 2.8 million local customers through UNE-P as of 1Q03. Last week, AT&T announced a 5 state increase in its UNE-P expansion plans. The company is now targeting UNE-P offerings in a total of 19-22 states by the end of 2003, continuing to focus on a goal of profitability within two years of offering service. The extra two years the FCC appears to have provided AT&T could give the company ample time to take substantial local share and harvest strong free cash flow from this business. Further, adding more local customers could help stem losses on the long distance side of its business through lower potential churn since the company will be able to offer a combined local and long distance bundled offering to a larger customer base.

Bell LD entry: Share Gains Slow Rapidly After Early Entry...

Long Distance 271 Penetration Experience

Average State LD Penetration Rate by Number of Months with 271 Approval



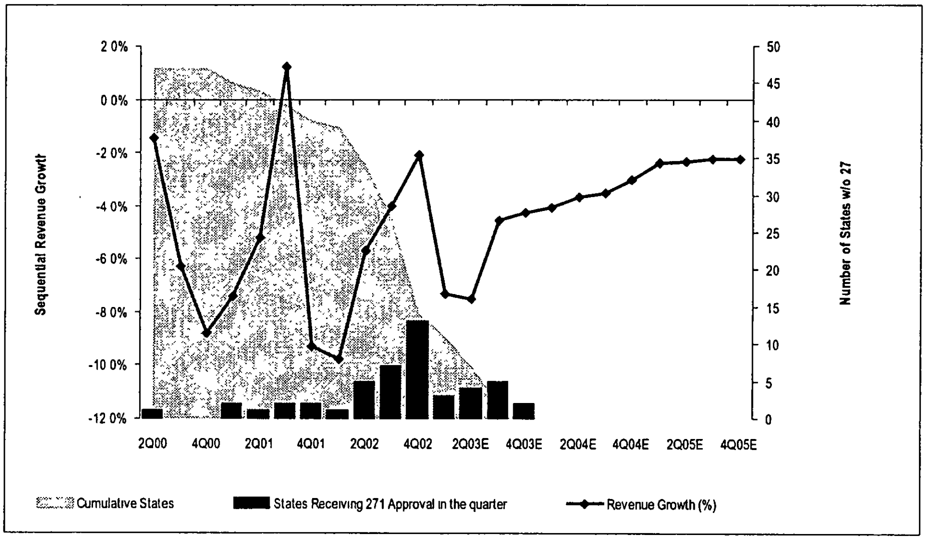
Source Company reports, Banc of America Securities LLC estimates

Bell market share gains taper off considerably after one-year of FCC approval to offer in-region long distance services. Thus, the impact of Bell entry into the long distance market on AT&T's LD business should decline considerably after 2004. Current data suggests Bell state-by-state market share gains taper off substantially after the first year and even more so after the second year following receipt of Section 271 approval from the FCC. As the chart above illustrates, the Bells have historically picked up roughly 20-25% market share in the first year following 271 approval. However, the average market share gain falls to 7-10% in year two and falls to 5-6% in year three. The natural evolution of market share gains for the Bells appears to top out at around 40% at the end of year three. This suggests that the biggest negative impact on AT&T's long distance business is happening right now and will not last in perpetuity due to the declining market share growth of the Bells following the initial spike in the first year of offering long distance services.

So We Expect AT&T Consumer Revenue Declines to Slow in 2004

Consumer LD Sequential Revenue Changes

AT&T Revenue Changes vs. New States with 271 Approval



Source Company reports, Banc of America Securities LLC estimates

The majority of the large state 271 approvals have already been granted and the final wave of 271 approvals is expected to be completed in the summer, save for one or two problem states that could push the completion of the process into late 2003. We expect the Bells to take their expected 20-25% first year market share in the new states upon receipt of 271 approval and to continue to take market share in the states that have had 271 approval for longer periods of time. Thus, we expect the impact on AT&T's Consumer segment from 271 approvals to be substantial 2003, especially given the large number of state approvals in late 4Q02 and the December 2002 approval of California (the largest state in the U.S.).

We expect the impact on AT&T from Bell entry into the long distance market to peak in 4Q03. AT&T will continue to feel the impact of Bell market share gains throughout 2003. However, based on the trends of diminishing market share gains the Bells have experienced to date, we expect the impact of the last wave of 271 applications on AT&T's long distance revenue to peak in 4Q03 in terms of year over year revenue declines. Thus, we do not believe AT&T's Consumer long distance revenue in the out-years will decline at rates similar to the steep declines we forecast for 2003 (26.6%) and 2004 (23.5%), since we expect the majority of Bell market share gains to be taken by the end of 2004. However, we expect these declines to continue at moderating rates, with our current forecast for Consumer LD revenue declines of 16.5% in 2005 and 14.4% in 2006.

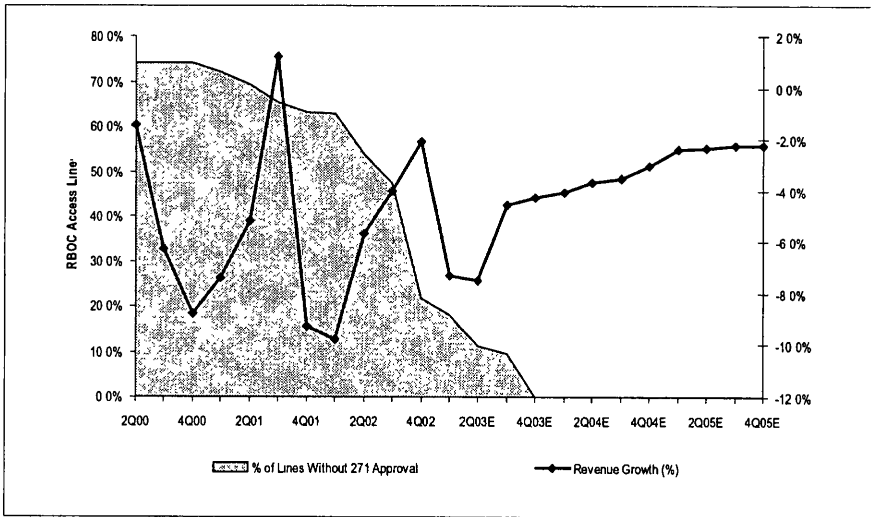
Further supporting our belief that the Bell impact on AT&T will peak in 2003 is the fact that 82% of Bell access lines currently have approval to offer long distance

services. Currently, the Bells have had long distance freedom at least two years in 5 states plus the 18 former GTE states, covering roughly 31% of all Bell access lines in aggregate. The Bells are already in year three of the market share curve in these states, and thus most of the market share gains have been made. In our view, these states (New York, Texas, Oklahoma, Connecticut, Massachusetts, and Verizon's former GTE states) should have a minimal impact on AT&T with respect to future market share gains, since most of the damage has already been done. Currently, 37% of Bell access lines have had long distance freedom for more than one year. By mid-May, an additional 4% of Bell lines will cross the one-year hurdle, brining the total to 42% of Bell access lines that have achieved peak market share gains. In 4Q02, the FCC granted 271 approval to states covering 23% of all Bell access lines. Therefore, by the end of 2003, 78% of all Bell access lines will have completed at least one year of market share gains. Again, based on market share gain trends in existing Bell states, we believe that the impact to AT&T will peak in 4Q03, in conjunction with the one year anniversary of the large number of 4Q02 271 approvals. We expect the Bells to attain approval in the remaining 18% of their aggregate access lines throughout 2003. The impact on AT&T from market share losses in these states will continue through 2004. However, we expect the revenue declines for AT&T's Consumer LD segment to slow 12 months after the completion of the majority of the 271 process.

In the previous chart, we showed the cumulative states that have received 271 approval, the number of states that remain versus our sequential revenue decline estimates for AT&T's consumer. In the following chart, we replaced the shaded area representing the cumulative number of states without 271 approval with the cumulative number of access lines without 271 approval. The result was a nearly identical picture, illustrating how the total access lines receiving state approval has nearly identically matched the number of states receiving approvals. This implies that the remaining states without 271 approval are proportionate to the remaining access lines. Michigan (3.4% of U.S access lines), Wisconsin (2.6%) and Illinois (4.3%) are the only larger RBOC states left, with the remaining eight states each containing less than 1.5% of total U.S. access lines.

Access Line Totals Match State Approvals Almost Identically

82% of U.S. Access Lines Are in States With 271 Approval



Source Company reports, Banc of America Securities LLC estimates

Section 271 Approval (Long Distance) Summary

(Lines in 000)

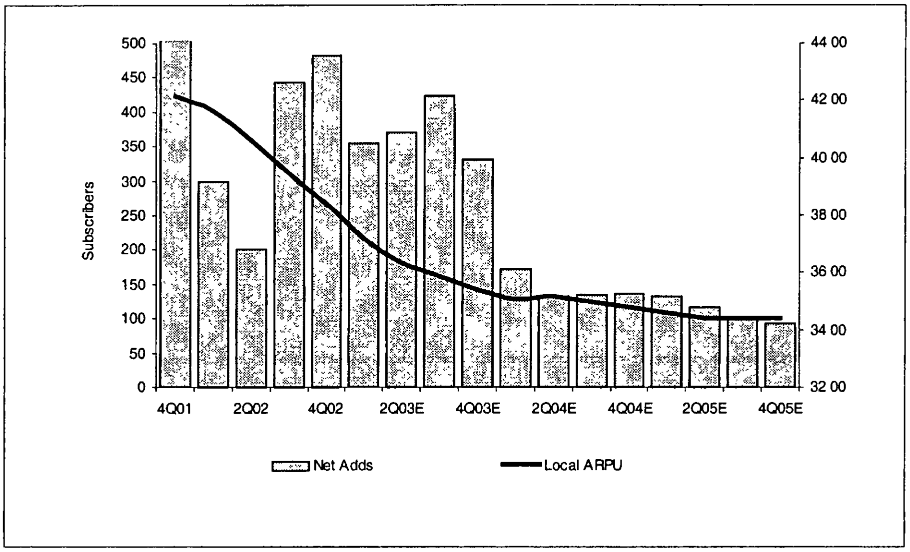
State	Company	271 Approval Date	% of total RBOC lines	Cumulative % of RBOC lines w/ 271 Approval	Cumulative RBOC lines w/ 271 Approval	Remaining RBOC lines for 271
Total Former GTE (VZ)	Verizon	NA	**11.0%**	11.0%	17,305	140,514
Connecticut (SNET)	SBC	NA	1.5%	12 5%	19,661	138,158
New York*	Verizon	12/22/99	7 4%	19 8%	31,282	126,536
Texas	SBC	6/30/00	6.2%	26 0%	41,103	116,715
Kansas	SBC	1/22/01	0 8%	26.9%	42,433	115,385
Oklahoma	SBC	1/22/01	1 0%	27.9%	44,027	113,791
Massachusetts	Verizon	4/16/01	2.7%	30 6%	48,320	109,498
Pennsylvania (fBA)	Verizon	9/19/01	3 9%	34.5%	54,489	103,329
Arkansas	SBC	11/16/01	0 6%	35.2%	55,488	102,330
Missouri	SBC	11/16/01	1 7%	36.8%	58,094	99,724
Rhode Island	Verizon	2/24/02	0 4%	37.2%	58,710	99,108
Vermont	Verizon	4/17/02	0.2%	37 4%	59,081	98,737
Georgia	BLS	5/15/02	2 7%	40.1%	63,302	94,516
Louisiana	BLS	5/15/02	1 5%	41 6%	65,690	92,128
Maine	Verizon	6/19/02	0 5%	42 1%	66,435	91,383
New Jersey	Verizon	6/24/02	4 2%	46 3%	73,122	84,696
Alabama	BLS	9/18/02	1 3%	47 6%	75,122	82,696
Kentucky	BLS	9/18/02	0.8%	48.4%	76,375	81,443
Mississippi	BLS	9/18/02	0 9%	49 3%	77,743	80,076
North Carolina	BLS	9/18/02	1 6%	50 8%	80,248	77,571
South Carolina	BLS	9/18/02	1 0%	51.8%	81,757	76,061
New Hampshire	Verizon	9/25/02	0 5%	52 3%	82,533	75,285
Delaware	Verizon	9/25/02	0 4%	52 7%	83,143	74,675
Virginia (fBA)	Verizon	10/30/02	2 3%	54 9%	86,702	71,116
California	SBC	12/19/02	11 3%	66 3%	104,605	53,213
Florida	BLS	12/19/02	4 2%	70 5%	111,190	46,628
Tennessee	BLS	12/19/02	1.7%	72 2%	113,879	43,939
Washington	Q	12/27/02	1 9%	74 1%	116,905	40,914
Colorado	Q	12/27/02	1 4%	75 5%	119,167	38,651
Iowa	Q	12/27/02	0 7%	76 2%	120,280	37,538
Utah	Q	12/27/02	0 6%	76.8%	121,207	36,611
Nebraska	Q	12/27/02	0.5%	77 3%	121,959	35,859
Idaho	Q	12/27/02	0 4%	77 7%	122,550	35,268
Montana	Q	12/27/02	0 3%	77.9%	122,975	34,843
North Dakota	Q	12/27/02	0 2%	78 1%	123,228	34,591
Wyoming	Q	12/27/02	0 1%	78.2%	123,437	34,381
Maryland	Verizon	3/17/03	2 5%	80.7%	127,419	30,399
Washington D C	Verizon	3/17/03	0 6%	81 4%	128,422	29,397
West Virginia	Verizon	3/17/03	0.5%	81.9%	129,283	28,535
Nevada	SBC	4/14/03	0 2%	82 2%	129,667	28,151
New Mexico	Q	4/15/03	0.5%	82 7%	130,455	27,363
Oregon	Q	4/15/03	1 1%	83.7%	132,132	25,686
South Dakota	Q	4/15/03	0 2%	83 9%	132,405	25,413
Total 271 Approved Lines			**83.9%**	**83.9%**	**132,405**	**25,413**
Unapproved States						
Minnesota	Q	FCC decision due 6/26/03	1 5%	88.8%	140,075	17,743
Michigan	SBC	W/D- Expected Re-filing 5/03	3 4%	87 3%	137,767	20,051
Arizona	Q	Expected filing by 5/03	1 6%	90 3%	142,545	15,273
Wisconsin	SBC	Expected filing by 7/03	1 3%	91 6%	144,630	13,188
Wisconsin	SBC	Expected filing by 7/03	2 6%	94 2%	148,702	9,116
Illinois	SBC	Expected filing by 9/03	4.3%	98 5%	155,505	2,313
Indiana	SBC	Expected filing by 9/03	1 5%	100.0%	157,818	0
Total RBOC Access Lines			**100.0%**	**100.0%**	**157,818**	0

Source Company reports, Banc of America Securities LLC estimates

Local Revenue Estimates Factor in Slowing Adds and Falling ARPU

Local Revenue Drivers

Net Subscriber Adds(000) vs. Average Monthly Revenue Per User ($)



Source: Company reports, Banc of America Securities LLC estimates.

We conservatively estimate that AT&T's largest net subscriber gains occurred in 4Q02. Our state-by-state UNE-P model (details of the model are discussed later in this report) suggests that net adds (gross subscriber adds less churn) should taper off following a strong fourth quarter. The final details of AT&T's UNE-P plan will not likely emerge until the FCC releases its Final Order (expected in late mid to late-May). Accordingly, at this time we believe conservative net add estimates are appropriate. Should the FCC's Final Order allow AT&T greater latitude on the UNE-P front, we would expect AT&T to more aggressively attack the local market and the results of this effort would show in greater net adds in future quarters.

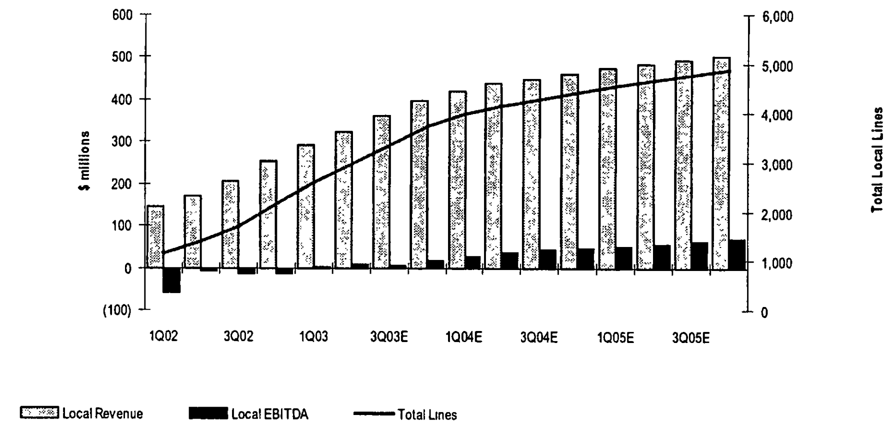
Churn is a key driver of the decline in net adds. MCI disclosed in an ex-parte bankruptcy court filing on November 15, 2002 that it is experiencing high levels of monthly churn for its local and long distance bundled "neighborhood" subscribers. On average, MCI loses 25% of its Neighborhood customers within three months (9.1% monthly churn) and 50% within six months (12.7% monthly churn in months 4, 5 and 6). After six months the monthly churn drops substantially to 4-6% per month. AT&T management has indicated that churn for AT&T's local business resides much closer to that in the cellular industry but still above this level. We estimate AT&T monthly local churn at 4.6%, which implies an annual churn rate of 42.8% of its customer base. We would note there is a substantial divergence in acquisition strategy between MCI and AT&T in terms of breadth with MCI mounting a substantial national telemarketing campaign and AT&T limiting its coverage to select geographies and customer segments.

AT&T churn will be inherently higher than that of the Bells. The Bells are fighting their own churn with a concerted local effort focused on bundled offerings including local, LD, regional calling, DSL, and/or wireless. The Bell win-back campaigns are not focused on lower prices, but are focused on offering a bundled package of services on one bill. Further, AT&T still experiences difficulty getting the Bells to switch customer bills in a timely manner, getting dial tones for new customers from the Bells, and completing the switch from the Bell to AT&T. The negative experiences of some customers within the switching process will yield higher churn rates for AT&T and give the Bells a higher retention rate. The 4.6% average churn rate assumed for AT&T we believe is appropriately proportional to the average cellular churn rate of 2.4% for the big six wireless companies. Including the smaller wireless carriers and affiliates, the wireless churn rate is roughly 2.6%. We believe the wireless churn rate is a relatively close proxy for local churn, although we would expect local churn to be higher than wireless churn. The lack of local number portability is a solid churn defense for the wireless companies (LNP is available for local service) and is only partially offset by service and network issues facing wireless carriers. In combination, the win-back campaign success of the Bells coupled with the ability of the Bells to drag their feet on the procedural front should hinder the long distance companies in substantially reducing the churn of its UNE-P local subscriber base.

Local EBITDA Will Begin Contributing in Late 2003

Local Revenue and EBITDA Growth

($ millions)



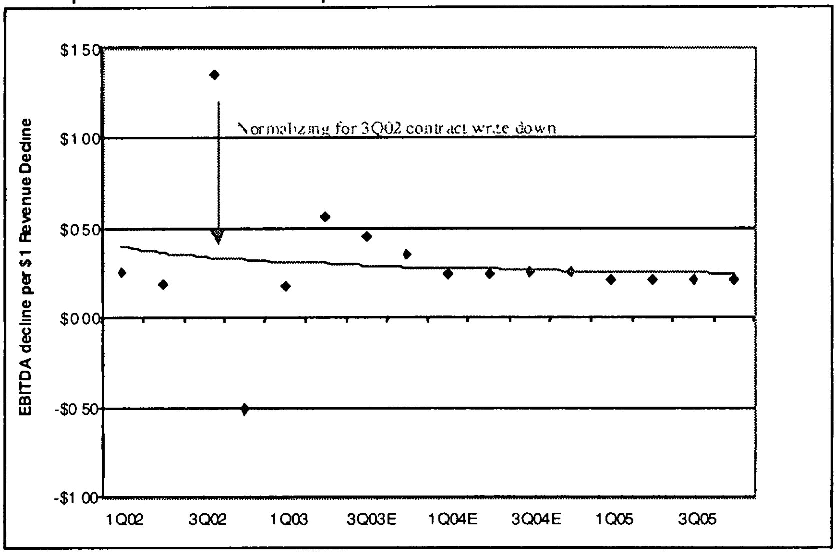
Source Company reports, Banc of America Securities LLC estimates

Local EBITDA should become a steady contributor to AT&T's total EBITDA. In the near term, we expect AT&T to continue to expand its local customer base. As this local footprint grows, AT&T should benefit from scale and margins should improve. Longer term, we estimate AT&T can generate 54% gross margins and 17% EBITDA margins from the local business. Accordingly, we estimate the local segment will produce EBITDA of roughly $50 million per quarter by 2004. In our view, the EBITDA generated by the local business is really the smaller of the two benefits to AT&T from the local business. The real benefit to AT&T from its local offering stems from the potential lower churn in its long distance business. With the RBOCs rolling out unlimited bundled local, long distance and regional calling plans, AT&T needs a product to compete in today's changing wireline telecom market. AT&T is able to offer the same bundled calling package as the RBOCs, which should slow, but not stop, the market share gains of the RBOCs. AT&T has primarily targeted states where UNE-P pricing is competitive (i.e. can supports at least a 45% gross margin). However, the company has also focused on entering bıg states where the RBOCs have already attained 271 approval or are in the process of doıng so. Fınally, AT&T has focused on the Ameritech states, where SBC has had difficulty with the 271 process, which should allow AT&T to build market share and establish a solid customer foundation in place prior to SBC entering the market.

We Expect Continued Consumer Cost Variability...

Variabilizing Costs in Consumer

Ratio of sequential EBITDA decline per $1 of revenue decline

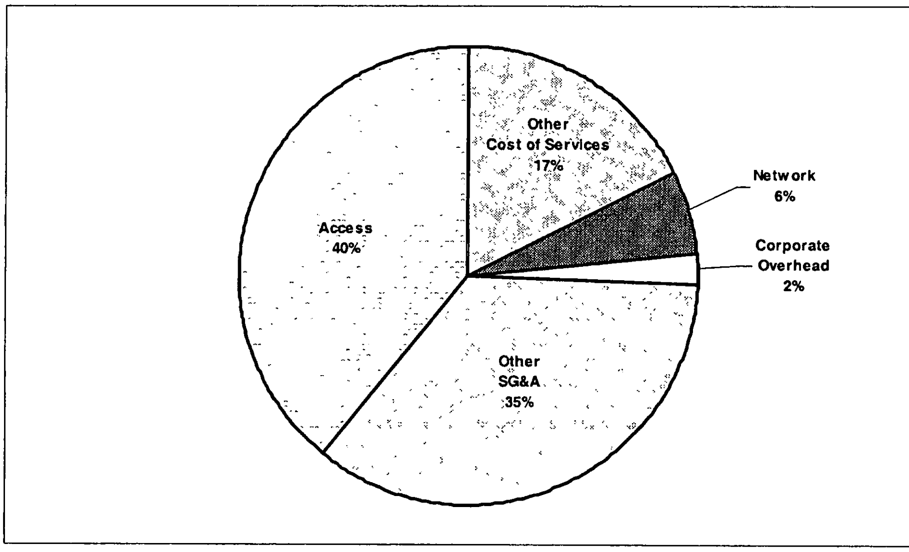


Source Company reports, Banc of America Securıtıes LLC estımates.

We believe AT&T will continue successfully offsetting a large portion of revenue declines with cost reductions in the Consumer segment. Managing costs is a crucial component of maximizing Consumer EBITDA, especially given our forecasts for substantial revenue declines. AT&T has been successful in cost rationalizing in the past, giving us confidence that the company can do so going forward. For every $1 revenue decline, the Consumer segment lost just $0.26 in 1Q02 and 0$.18 in 2Q02. In 3Q02 the loss of a large pay phone contract caused the Consumer segment lose $1.35 of EBTIDA for every $1 revenue decline. Normalized to remove this one-time event, we believe 3Q02 was likely in line with 1Q02 and 2Q02. In 4Q02, the company was actually able to grow its Consumer EBITDA despite continued revenue declines, increasing EBITDA by $0.51 for every $1 it lost in revenue. In 1Q03, the company reported a $200 million revenue declıne in Consumer, but only a $35 million decline in EBITDA, supporting or main thesis that the company can indeed variabilize costs and keep EBITDA declines relative to revenue declines at 2002 levels. The company noted that 1Q03 margins were improved by delayed marketing expendıture tied to the Gulf War and we project that the company's varıabilızation wıll ease ın appearance in 2Q03. That said, as volume declines subside, we expect the unit's variability to re-emerge as cost cuts catch up with realızed losses ın 2004.

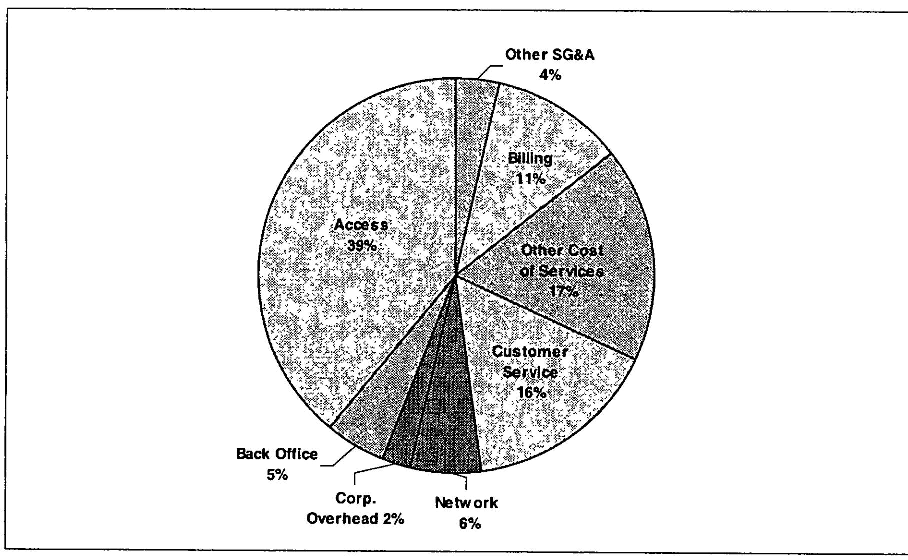
Based On AT&T's Cost Disclosures

2001 Consumer Cost Components (AT&T Data)



Source Company reports, Banc of America Securities LLC estimates

2001 Additional Consumer Cost Components (BAS estimated)



Source Company reports, Banc of America Securities LLC estimates

There are two big pieces of information to be gleaned from this analysis.

- First, there is a relatively small amount of shared expenses in Consumer that could be re-allocated to Business to affect margins there.

♦ Second, there appears to be a high degree of variability in the strictly Consumer-related expenses.

The extent to which AT&T can variabilize its costs will be the mitigating factor in the Consumer segment's ability to generate cash. It is therefore crucial to examine these costs in as great detail as possible given the company's tight disclosure on these items. AT&T breaks its costs down into three main categories—Access Costs, Costs of Service and Products, and SG&A. Based on our conversations with the company and our own estimates, we further break these costs into eight categories:

AT&T Consumer Cost Categories

Access Costs	**(given)**
Costs of Services and Products	**(given)**
Network *	(given)
Other Costs of Services	(given)
Sales General & Administrative	**(given)**
Billing	*(estimate)*
Customer Service	*(estimate)*
Corporate Overhead *	(given)
Back Office	*(estimate)*
Other SG&A	*(estimate)*

* Data for 2000 and 2001 provided in proxy statements

Source Company reports, Banc of America Securities LLC estimates

We base our cost breakdown on information provided in the proxy statements for the periods leading up to the Broadband spin off and the details provided with respect to the aborted Consumer Services Group tracking stock spin-off. In these proxy statements, the company disclosed Consumer network and corporate overhead expenses. Network costs are booked in cost of services and corporate overhead is booked in SG&A. Within the SG&A expense line item, the company only provides total SG&A expense and the corporate overhead expenses. Thus, we estimated the breakdown of SG&A between billing, customer service, and back office. Further, since the company does not provide this level of detail in its standard filings, we only have the details of these costs for 2000 and 2001. We assumed the percentage allocation of the SG&A expense items will be similar in 2002 going forward. The only substantial potential impact to this assumption is the change in access charge rates that has taken place under the CALLS proposal which will have compressed access costs in 2002 vs. 2001. That said, access charges fell commensurately with AT&T's other Consumer cost components into 2002 and the percentage of total costs remains generally the same.

In our view, the key to this cost breakdown is the determination of the fixed costs in this equation, which are Network and Corporate Overhead costs. The estimated allocation between Billing, Customer Service, Back Office and other SG&A is not as crucial to understanding the cost structure, since the majority of the costs in these items appear to be quite variable in nature. Thus, we believe we can look at these costs as a group of primarily variable costs. As such, we believe AT&T can reduce Access, other costs of Service, Billing, Customer Service, Back Office and Other SG&A costs to match declining revenue, although the nature of these costs will make it difficult for the company to precisely time these cost reductions.

BAS Estimated Consumer Cost Breakdown
2000, 2001 and 2002

	Fixed/ Variable	Actual/ Estimate	Cost Breakdown 2000	2001	2002E	Cost Breakdown 2000	2001	2002
Access	**Variable**	**Actual**	**5,120**	**3,995**	**3,257**	**43%**	**39%**	**38%**
Network	Fixed	Actual	846	601	500	7%	6%	6%
Other Cost of Service	Variable	Actual	1,711	1,781	1,507	14%	17%	18%
Total Cost of Services		**Actual**	**2,557**	**2,382**	**2,007**	**22%**	**23%**	**24%**
Corp. Overhead	Fixed	Actual	244	234	234	2%	2%	3%
Billing	*Variable*	*Estimate*	*1,240*	*1,100*	*900*	*11%*	*11%*	*11%*
Customer Service	*Variable*	*Estimate*	*1,800*	*1,600*	*1,300*	*15%*	*16%*	*15%*
Back Office	*Variable*	*Estimate*	*540*	*500*	*400*	*5%*	*5%*	*5%*
Other SG&A	*Variable*	*Estimate*	*304*	*371*	*412*	*3%*	*4%*	*5%*
Total SG&A		**Actual**	**4,128**	**3,805**	**3,246**	**35%**	**37%**	**38%**
Total Costs		Actual	**11,805**	**10,182**	**8,510**	**100%**	**100%**	**100%**

Source Company reports, Banc of America Securities LLC estimates

Access Costs

Access Costs. In the Consumer segment, access costs represent the largest cost to the company (39% of Consumer costs in 2001). Since these costs are based primarily on minutes of use, they are almost entirely variable to volume losses, which is the biggest issue when contemplating Bell 271 entry. A small component of access costs are fixed, including some contractual term and volume conditions with the Bells for special access (which is actually more likely in Business than Consumer) and fixed costs for WorldNet, AT&T's dial up Internet service. AT&T pays the Bells roughly $0.0055 on each end for terminating and originating voice traffic based on the CALLS rate, which is inclusive of tandem fees. In addition, AT&T pays universal service. In the non-Bell footprint (mostly RLECs), the CALLS rate is not used and AT&T pays NECA rates which can range well above CALLS rates. For AT&T, term and volume are not useful in attaining substantially better rates and the company will need to develop its own footprint to make any dent in the access cost component. We expect AT&T's access charges to decline proportionally with declines in minutes of use.

Costs of Services and Products

Network Expenses. For Consolidated AT&T, the network expense is generally a fixed cost. However, for the Consumer segment, the costs are variable. AT&T's Consumer segment purchases network related services from AT&T Business at cost-based prices, which approximate market based prices. The amount of network-related services the Consumer segment realizes is a function of usage. As such, the network costs for the Consumer segment are variable. However, for the consolidated AT&T, the costs are more fixed since the Business segment will pick up the difference between actual network costs and what it receives from the Consumer segment. Essentially, the Business segment owns and operates the network, selling services to Consumer at a price per minute basis. According to the May 2002 proxy, the Consumer segment purchased network services totaling $1.249 billion in 1999, $846 million in 2000, and $601 million in 2001. These inter-company items are booked as elimination of expense items and are not booked as revenue for the business unit. There are no inter-company payables for these services as amounts are deemed to be settled in cash. For 2001, network services costs of $601 million represented 25.2% of the $2.38 billion cost of services total.

General costs of services (i.e. excluding Network Expenses). Cost of services, excluding Network services, represented 74.8% of the cost of services expense in 2001. These costs include other non-transport costs of services such as printing of pre-paid cards, information operators, and bad debt expense. We believe these costs are highly variable for AT&T Consumer.

Sales, General, and Administrative (SG&A)

A constant concern of the investors has been that the Consumer segment contains hidden fixed costs that the Business segment, and the consolidated AT&T will need to support as the Consumer segment shrinks. In our study of the cost structure of the Consumer segment, our conclusion is that this fear is not supported by the data.

SG&A expenses include billing, customer service, back office, corporate overhead expenses, advertising, research and development, and general and administrative expenses. By and large, these costs are at least partially variable. AT&T has already reduced its SG&A run rate by reducing headcount and the company plans to continue to use headcount reduction as a means to cut SG&A expenses, targeting 3,500 additional layoffs in 2003. However, there is a time lag with respect to the impact of layoffs on the financial statements. Management indicated that it takes several months to match revenue with headcount. Thus, AT&T must walk the fine line of managing headcount to stay just ahead of the curve. That said, once cutting has begun, whether it relates directly to the current period or to prior periods, each quarter it will have a beneficial effect. In aggregate, SG&A represented 35% of revenue in 2000, 37% in 2001 and 38% in 2002, slight increases as a percentage of revenue since 2000. However, considering AT&T Consumer revenue declined 47% from 2000 to 2002, it appears the company has indeed been successful in reducing SG&A costs as revenue falls.

Billing. Billing expenses are both variable and fixed. Lost customers yield variable billing costs, since the company has one less monthly bill to handle and one less customer to monitor. Thus, as the RBOCs continue to take market share, we expect AT&T to reduce its billing costs since it will compile, distribute and collect fewer monthly bills. However, billing costs from existing customers simply making fewer calls are not variable. While AT&T has been in the billing business for many years and has made advances in the process, there are still specialized firms that can handle the process more efficiently. As a result, AT&T began a process to look for outside help in billing and collections. In April 2003, AT&T executed on half of this initiative through a 5-year $500 million extension to its existing agreement with Accenture in January 2003 to further reduce costs by preparing for bill collection and other issues in the Consumer segment. We believe AT&T continues to search for a strategic partner for its billing operations. We estimate billing costs to represent 11% of total Consumer costs.

Customer service. AT&T Consumer Services uses an integrated sales and service team to solicit and handle customer contact opportunities. The customer care centers consist of a network of internal and external vendors and AT&T generally pays its vendors based on a contracted hourly rate and some on a pay-for-performance scale methodology. AT&T has a total 22 service centers, of which ten are operated by AT&T and 12 are outsourced to outside vendors. In 2002, these service centers handled 9 million calls per month.

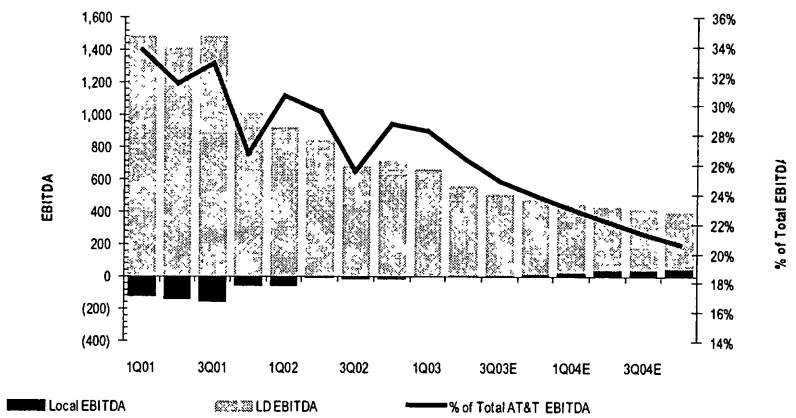
On January 15, 2002, AT&T undertook a substantial step in variabilizing its cost structure through outsourcing a portion of it customer service requirements to Accenture (ACN, $15.79, N/R) in what is termed its 'co-sourcing' arrangement. AT&T signed a five year, $2.6 billion "co-sourcing" agreement with Accenture in which the two companies agreed to work together to transform AT&T Consumer's long distance sales and customer care operation. AT&T retained responsibility for establishing strategic business direction, defining marketing strategies and designing product offerings. Accenture was brought in to provide new technology development and ongoing management direction to increase operational efficiency, reduce costs, and improve productivity and flexibility. At the time of the deal, AT&T expected the contract to reduce sales and customer care costs by more than half over the life of the agreement. Accenture provides personnel to lead the effort and implement technology and process improvements. We estimate customer service costs to represent 15% of total Consumer costs.

Back office. AT&T outsources a meaningful portion of its back office IT functions to a number of specialized companies. The expense to AT&T as a result should vary with volume and customer counts. As the number of customers falls, the amount of back office support required should fall as well. We estimate that back office services represent 5% of total Consumer costs.

General corporate overhead expenses (allocated). AT&T allocates general corporate overhead expenses to both the Business and Consumer segments. These costs are included in SG&A and for the Consumer segment totaled $234 million in 2001, $244 million in 2000, and $335 million in 1999. We expect these costs to remain fairly constant for AT&T in the near term and thus, do not expect to see substantial variability in this expense item. General corporate overhead represented 2% of total Consumer costs in 2000 and 2001.

Declines in EBITDA Will Continue But at a Decelerating Rate

Consumer EBITDA Estimates
($ millions)



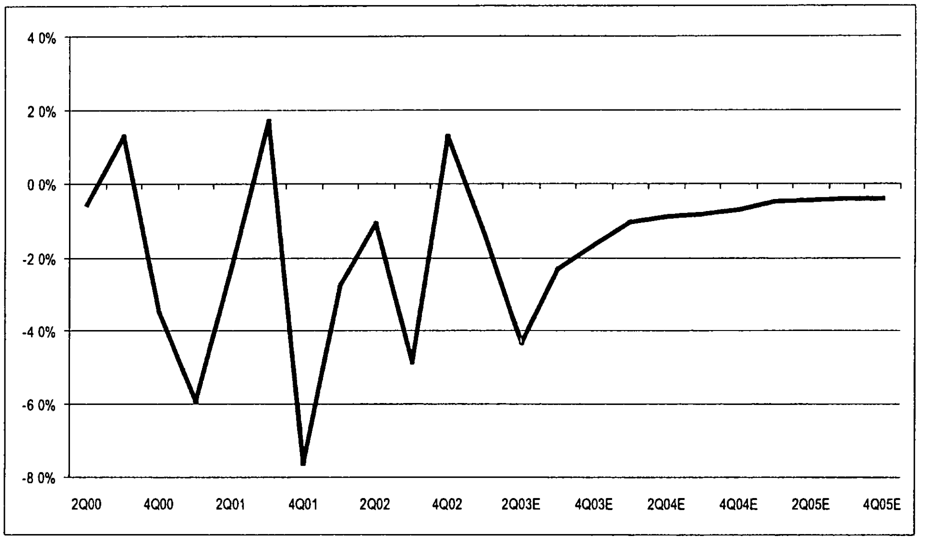
Source Company reports, Banc of America Securities LLC estimates

In two years we expect the Consumer segment to represent less than 20% of total AT&T EBITDA, with the remainder coming from Business services. In our view, the Consumer segment's contribution to overall EBITDA will decline in perpetuity, minimizing the importance of this segment to the long term picture. For 2003, we estimate a 22.5% Consumer EBITDA decline, from $2.8 billion in 2002 to $2.2 billion in 2003. For 2004, we expect even greater percentage declines. We project Consumer EBITDA to fall 23.0% in 2004 to $1.7 billion. Conversely, we project Business EBITDA to fall much slower in 2003, by 15.3% to $6.4 billion and by 3.1% in 2004 to $6.2 billion a level very consistent with the Bells at substantially cheaper valuation.

We note that while we do forecast significant declines in Consumer EBITDA, we do not expect the declines will be felt in perpetuity, since in our view the Bells cannot take market share at current rates forever. Thus, after 2004, we expect the annual EBITDA decline in Consumer to drop from 23.0% in 2004 to 11.0% in 2005. We expect the Consumer EBITDA declines to reach a steady state 3-6% decline by 2007, which in our view would still leave roughly $1.0-$1.3 billion per annum in EBITDA from this segment. For the Business segment, we expect EBITDA growth longer term, as the economy moves along the business cycle and demand increases, although our estimates remain conservative for the company. We project Business EBITDA growth of 2.4% in 2005, 1.3% in 2006, and 1.5% in 2007. While this is a longer term outlook than most investors appear to be taking, we believe that the longer term business mix at AT&T is going to improve and the company will generate EBITDA growth in the long run as a result.

Declines In Consumer Will Fade In Relevance To Earnings

Consumer EBITDA Headwind
EBITDA as a % of total EBITDA x Rate of EBITDA decline



Source Company reports, Banc of America Securities LLC estimates.

As Consumer becomes a smaller part of the company, we expect the headwind from Consumer EBITDA losses to also decline. The output of multiplying EBITDA as a percentage of total EBITDA times the rate of EBITDA is the Consumer headwind. As the headwind percentage falls, so does the rate of EBTIDA growth required by the larger Business segment in order to compensate for Consumers declines. As Consumer EBITDA as a percentage of total EBITDA shrinks, the sequential declines in this segment will have a smaller impact on overall results, and thus the headwind approaches zero.

State-By-State AT&T UNE-P Model

We have constructed a state-by-state UNE-P model for AT&T for purposes of inclusion in our AT&T financial model. In our UNE-P model, we have broken down AT&T's local customer base into states where AT&T currently offers service and guesstimated new states we believe could be next on the radar screen for the company (including the recently announced state of Massachusetts). We base our model on the limited disclosures from the company regarding customer demographics, UNE-P related data points published by the National Regulatory Research Institute (NRRI) in January 2003, and several key assumptions based on details provided by management in press releases, public documents, and conference calls over the past several quarters. To date, AT&T has not disclosed total UNE-P customers by state, but has disclosed total customers by quarter and other market share data. The company also disclosed in January that it reached a mid single digit market share in all states where it offered service at the end of 2002. Based on this information and our analysis of data provided by AT&T at its UNE-P investor day in September 2002, we constructed our view of AT&T's state-by-state customer totals and forward looking estimates.

For each state, the NRRI pricing study served as the base for our UNE-P rate and average revenue per customer assumptions. Our average UNE-P cost estimate in each state is the weighted average sum of the loop, port, switching and transport rates in zones 1, 2, and 3, as determined by the NRRI study which possibly overstates the true cost to AT&T if its lines are focused primarily in Zones 1 and 2. We assumed constant UNE-P prices going forward as a simplifying assumption but because our model is dynamic by state, we will be able to capture future changes.. On the revenue side, we also referred to the NRRI study to determine a state specific revenue estimate per UNE-P subscriber. We assumed AT&T currently receives a 10% premium to the NRRI calculated state-by-state revenue estimates (consistent with historical revenue rates for AT&T's local offering) and that this premium falls quarterly until the state rates are equal to the calculated rates from the NRRI study.

For the purposes of our model, we assumed what we deem to be an appropriate $125 acquisition cost per gross add and SG&A expenses of 25% of local revenue. Our estimated quarterly churn rate (discussed earlier) rises from 4.5% in 4Q02 to 4.6% and falls back to 2.4% by 2006 in each state as customers settle down with their bundled services. We note that the model is sensitive to changes in the assumed CPGA, churn, and SG&A costs, as would be expected in a new and growing business. We expect greater clarity and detail from the company in coming months to allow us to fine tune these assumptions and closely track the performance of the local UNE-P rollout.

We estimated historical state-by-state UNE-P customer totals based on limited market share data provided by the company. The market share totals disclosed by the company are based on total state households, not access lines. To estimate the state-by-state addressable market for AT&T (defined by the company as the number of households in each state), we assumed 1.19 lines per household in 4Q02 and that this total would decline over time to 1.14 as second lines become less prevalent in the average household. We estimated the number of local customers in each state using a combination of data from the UNE-P investor day, historical press releases regarding specific states, and the recent market share data provided in the 4Q02 earnings call. Going forward, we forecast AT&T to take a 10-14% local share in the states it enters, which translates into 3.9 million customers by 4Q03, 4.5 million customers by 4Q04 and 5.2 million customers by 4Q06.

AT&T management is targeting an expansion of its UNE-P service into a total of 19-22 states in 2003, which should cover more than 75% of RBOC lines. According to AT&T, it will only enter states that can support a 45% gross margin requirement based on the spread between established UNE-P rates and existing local service retail rates. The payback period per gross customer add is 7-14 months, implying that AT&T's UNE-P breakeven and profitability strategy is highly sensitive to customer churn. While the program has seen some initial success to date, we don't perceive AT&T's UNE-P strategy as the panacea for stemming substantial revenue losses in the immediate term. Rather, we view this as a longer-term strategy intended to battle the RBOCs as a viable and survivable vertically integrated service provider and reduce churn in its own core consumer LD market. The program's aim is to target and retain high-valued customers in order to further improve the economics of its consumer division as competition heats up in anticipation of RBOC long distance entry. AT&T has achieved a mid-single digit share in each of the 8 markets in which it offers All Distance service.

We completed a state-by-state UNE-P gross margin analysis to determine which states could be targeted for UNE-P service by AT&T. With respect to new states where AT&T will expand its local service offerings, the company has to date only announced specific plans to enter the state of Massachusetts with UNE-P service, although we believe the company will take advantage of expected rate reductions from other states such as Massachusetts. The company has not specified which other states it will enter to reach its targeted 19-22 states by the end of 2003. However, the company has previously stated that it will only enter states where it can generate a 45% gross margin. Based on UNE-P rate data and average revenue per line data from the NRRI, we ranked the states where AT&T does not offer UNE-P service by gross margin in an attempt to get a better idea of which states could be next. According to this data, 25 states currently meet the 45% gross margin threshold. All 10 states (including D.C.) where AT&T offers local service via UNE-P meet the 45% UNE-P threshold, with D.C. leading the pack at 84% and Texas at the bottom at 45%.

Our gross margin analysis suggests that Wisconsin, Maryland, Kentucky, South Carolina and Tennessee could be the next states in which AT&T announces a local UNE-P service offering. For these potential new states we chose states that at least meet the 45% gross margin estimate. In South Carolina, we estimate a 54% gross margin and believe this could be an attractive state for AT&T since the South Carolina PUC is currently in the midst of a UNE-P rate study that could lower the rates even further. In Kentucky (50% average gross margin) and Maryland (51% average gross margin), AT&T could also see near-term rate reductions due to pending PUC rate studies. Finally, we believe Wisconsin (54% average gross margin) and Tennessee (average 55% gross margin) would also be attractive UNE-P states for AT&T due to the high gross margins. We believe AT&T could soon enter the Pennsylvania, a state that currently does not meet the 45% gross margin hurdle rate but has a pending rate study that could result in reduced UNE-P rates in the near term. AT&T may refrain from entering several states that have rates that could support 45% gross margins but have unfriendly PUCs, have a lack of zone 1 density, or have other strategic problems with respect to entry. Please see the following table for our state-by-state UNE-P rate, local revenue, and gross margin estimates.

Projecting the remaining five states that will bring AT&T to 19-22 total states involves a great deal of uncertainty. At this level of detail, there are numerous possibilities and little in the form of data to make a sound estimate. Nonetheless, these additional states still represent an opportunity for AT&T. To complete the model, at this time, we have chosen to add in the next five highest states with that represent the best economic opportunity for AT&T with respect to average gross margins.

Please see our full UNE-P model located in Appendix I.

We estimate the capex required to migrate local customers to a facilities based network to be $364 million in 2004 and $400 million in 2005 which is in our current AT&T model. Since the FCC's Final Order is still not public, it is still relatively early in the local business model to get a true sense for the costs AT&T will need to incur to switch its local UNE-P customers to a facilities based network. In fact, to date it is still not clear how quickly AT&T will need to complete this migration or when it will begin. Nonetheless, we estimated the capital requirements assuming that AT&T transfers 40% of its base in 2004 and another 40% of its base in 2005 for a total of 80% base migration. We assumed that the company could put two users per port on its network, with a $200 cost per port and a $200 labor cost per user to migrate to the network. We also assume local maintenance capex of roughly $100 million per annum (5% of local revenue). We estimate AT&T will dilute its FCF by $270 million in 2004, $259 million in 2005, at which time the company will generate positive FCF from its local operations totaling $38 million in 2006, $80 million in 2007, and $89 million in 2008.

AT&T Local Capex and Free Cash Flow Estimates Assume 80% UNE-P to UNE-L Migration

($ millions, except per port and labor costs)

	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Local EBITDA	(85)	34	156	235	324	367	382	399	405	422	429
(tax affected Local EBITDA)	(51)	20	93	141	195	220	229	239	243	253	257
Migration capex			Base subscribers				Incremental subscribers				
Users per port			2	2	2	2	2	2	2	2	2
Cost per port			$200	$200	$200	$200	$200	$200	$200	$200	$200
Labor cost to switch			$200	$200	$200	$200	$200	$200	$200	$200	$200
Capex at migration rate of X%											
10%											
20%											
30%			$273	$300							
40%			$364	$400							
50%			$455	$500							
60%											
70%											
80%					$54	$36	$33	$24	$28	$15	$7
90%					$61	$40	$37	$27	$32	$16	$8
100%					$68	$45	$41	$30	$35	$18	$9
Assumed switch migration capex			**$364**	**$400**	**$61**	**$40**	**$37**	**$27**	**$32**	**$16**	**$8**
Local maintenance capex					95	100	103	106	108	110	111
Estimated Local FCF	**(55)**	**22**	**(270)**	**(259)**	**38**	**80**	**89**	**106**	**103**	**127**	**138**

Source. Company reports, Banc of America Securities LLC estimates

State-By-State UNE-P Gross Margin Analysis Based on January 1, 2003 Data

($ Monthly rates)

State	Density Weighted Average Monthly UNE-P rate (w/transport)	Average Monthly Revenue Per Line	Average Gross Margin
Current AT&T UNE-P States			
DC	$5.72	$36 57	84%
Illinois	12.51	36 56	66%
Indiana	11 99	33.06	64%
Georgia	16.86	43 72	61%
New York	16.61	38.84	57%
Ohio	15 56	33 85	54%
Michigan	14 51	30 88	53%
California	13.07	26 76	51%
New Jersey	13.38	26 09	49%
Texas	20 09	36 65	45%
Massachusetts	22.62	31 98	29%
Potential New States			
Wisconsin	15 32	33 53	54%
South Carolina	19 26	41 97	54%
Florida	16 46	34 58	52%
Kentucky	20.55	41.17	50%
Tennessee	17 98	39 73	55%
Louisiana	19 95	43 87	55%
Nebraska	19 57	41.51	53%
Alabama	20.59	42 67	52%
Mississippi	25 25	51.50	51%
Maryland	16 62	33 94	51%
Remaining States			
Colorado	21 12	42 64	50%
Arkansas	17 51	34 86	50%
Utah	18 11	35 41	49%
North Carolina	19.10	37 28	49%
Kansas	18.72	33 85	45%
Virginia	18 98	34.07	44%
North Dakota	20 83	37.32	44%
Washington	18.37	32 30	43%
Arizona	19 45	34 06	43%
Vermont	20 99	36 70	43%
Delaware	16 99	28 89	41%
Missouri	21 10	34 51	39%
Rhode Island	19.53	31.05	37%
West Virginia	25 46	40 45	37%
Oklahoma	20 78	31.74	35%
Maine	20 50	30.92	34%
Pennsylvania	19 13	28.55	33%
Wyoming	28.75	42 54	32%
Minnesota	23.58	33 30	29%
New Hampshire	21.77	30.63	29%
Idaho	24 69	34 29	28%
New Mexico	23.88	32 90	27%
Iowa	20 45	26 71	23%
Connecticut	24.94	32.04	22%
Oregon	19 32	24.20	20%
Montana	28 67	35 13	18%
South Dakota	29 54	33 51	12%
Nevada	32 05	29 31	-9%

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

Appendix I: UNE-P Model

AT&T UNE-P State by State Model Example

Texas and Michigan

	2001	2002E	2003E	2004E	2005E
Texas					
UNE-P Subscribers (Beginning)	85,448	367,996	471,051	539,697	589,600
Gross Adds	160,708	427,223	378,144	324,996	287,637
note· p/p change		*165 8%*	*-11 5%*	*-14 1%*	*-11 5%*
Churn	19,767	188,568	256,559	275,659	240,039
Net Adds	140,940	238,655	121,585	49,337	47,598
UNE-P Subscribers (Ending)	**140,940**	**379,595**	**501,180**	**550,518**	**598,115**
Average UNE-P Subscribers	70,470	260,268	440,388	525,849	574,316
Total households	5,638	5,462	5,332	5,243	5,156
note: p/p change	*nm*	*-3 1%*	*-2.4%*	*-1 7%*	*-1.7%*
Penetration	2 5%	7 0%	9.4%	10 5%	11.6%
Revenue per sub (monthly)	$40 32	$40 32	$39.32	$37.77	$36 55
Total revenue opportunity	2,727	2,642	2,516	2,376	2,262
AT&T revenue	**19**	**163**	**210**	**239**	**252**
- UNE-P cost per line	$20 09	$20 09	$20 09	$20 09	$20 09
= AT&T gross margin	**9**	**82**	**103**	**112**	**114**
note % of revenue	*50 2%*	*50 2%*	*48.9%*	*46.8%*	*45 0%*
- Cost per gross add	10	13	12	10	9
- SG&A	5	41	52	60	63
= AT&T UNE-P EBITDA	**(15)**	**(12)**	**3**	**11**	**15**
note: % of revenue	*-81 4%*	*-7 6%*	*1 3%*	*4 8%*	*5 8%*
Michigan					
UNE-P Subscribers (Beginning)		205,448	290,823	319,252	334,651
Gross Adds		311,927	227,125	185,947	154,942
Note p/p change		*nm*	*-27 2%*	*-18 1%*	*-16 7%*
Churn		82,287	156,901	163,738	137,754
Net Adds		229,640	70,224	22,210	17,188
UNE-P Subscribers (Ending)		**229,640**	**299,864**	**322,074**	**339,262**
Average UNE-P Subscribers		114,820	264,752	310,969	330,668
Total households		2,982	2,911	2,863	2,815
Note p/p change		*nm*	*-2 4%*	*-1 7%*	*-1 7%*
Penetration		7 7%	10 3%	11.3%	12 1%
Revenue per sub (monthly)		$33 97	$33 13	$31 82	$30.80
Total revenue opportunity		1,216	1,157	1,093	1,041
AT&T revenue		**57**	**107**	**120**	**122**
- UNE-P cost per line		$15 16	$14 51	$14 51	$14.51
= AT&T gross margin		**32**	**60**	**65**	**65**
Note. % of revenue		*55 7%*	*56 2%*	*54 4%*	*52.9%*
- Cost per gross add		10	7	6	5
- SG&A		14	27	30	31
= AT&T UNE-P EBITDA		**(21)**	**5**	**12**	**15**
Note· % of revenue		*-37 5%*	*4.6%*	*10 0%*	*12 0%*

Source: Company reports, Banc of America Securities LLC estimates

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AT&T state-by-state UNE-P Model Summary Tables
UNE-P Penetration Rates and Subscriber % by State

	2001	2002E	2003E	2004E	2005E
Penetration Rate Summary					
Texas	2 5%	7.0%	9 4%	10 5%	11 6%
Michigan		7 7%	10 3%	11 3%	12.1%
Illinois		4 7%	8 0%	10 4%	11 2%
Indiana			4 2%	6 3%	8.3%
Ohio		5 5%	8 7%	10 0%	11.0%
California		4 3%	8 1%	9 9%	11 5%
Georgia		4 0%	6 0%	7 1%	8 2%
New York	8 0%	13.3%	14 7%	14.9%	15.3%
New Jersey		4 5%	8 3%	8.7%	9.5%
Washington D C			3 7%	5 7%	7 7%
Massachusetts			3.7%	4 9%	5.8%
Wisconsin (BAS estimated target)			3 7%	4 9%	5.8%
South Carolina (BAS estimated target)			2.5%	4 6%	5 6%
Florida (BAS estimated target)			2 5%	4 6%	5 6%
Kentucky (BAS estimated target)			2.5%	4 6%	5 6%
Tennessee (BAS estimated target)			2 5%	4.6%	5 6%
Louisiana (BAS estimated target)			2 5%	4 6%	5.6%
Nebraska (BAS estimated target)			2.5%	4 6%	5.6%
Alabama (BAS estimated target)			2 5%	4 6%	5 6%
Mississippi (BAS estimated target)			2.5%	4 6%	5 6%
Maryland (BAS estimated target)			3 7%	4 9%	5 8%
% Subs by state					
Texas	22%	16%	13%	12%	12%
Michigan	0%	9%	8%	7%	7%
Illinois	0%	7%	8%	8%	8%
Indiana	0%	0%	1%	2%	2%
Ohio	0%	5%	5%	5%	5%
California	0%	18%	20%	21%	22%
Georgia	0%	4%	3%	3%	4%
New York	78%	34%	23%	19%	18%
New Jersey	0%	7%	7%	6%	6%
Washington D C	0%	0%	0%	0%	0%
Massachusetts	0%	0%	2%	2%	2%
Wisconsin (BAS estimated target)	0%	0%	1%	1%	1%
South Carolina (BAS estimated target)	0%	0%	1%	1%	1%
Florida (BAS estimated target)	0%	0%	2%	4%	4%
Kentucky (BAS estimated target)	0%	0%	0%	1%	1%
Tennessee (BAS estimated target)	0%	0%	1%	2%	2%
Louisiana (BAS estimated target)	0%	0%	1%	1%	1%
Nebraska (BAS estimated target)	0%	0%	0%	0%	0%
Alabama (BAS estimated target)	0%	0%	1%	1%	1%
Mississippi (BAS estimated target)	0%	0%	0%	1%	1%
Maryland (BAS estimated target)	0%	0%	2%	2%	2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

AT&T state-by-state UNE-P Model Summary Tables

UNE-P Net Subscriber Adds and Total Subscribers

	2001	2002E	2003E	2004E	2005E
Net Add Summary					
Texas	140,940	238,655	121,585	49,337	47,598
Michigan	0	229,640	70,224	22,210	17,188
Illinois	0	176,805	120,130	82,660	22,427
Indiana	0	0	52,987	25,172	23,106
Ohio	0	125,283	68,171	25,208	17,881
California	0	430,415	361,054	159,792	135,433
Georgia	0	89,318	41,955	21,979	23,656
New York	512,972	322,089	60,242	(13,814)	6,027
New Jersey	0	159,023	125,496	6,144	20,516
Washington D C	0	0	8,525	4,275	4,153
Massachusetts	0	0	77,540	22,760	16,220
Wisconsin (BAS estimated target)	0	0	41,511	12,666	8,954
South Carolina (BAS estimated target)	0	0	21,031	16,458	7,583
Florida (BAS estimated target)	0	0	91,556	72,754	34,086
Kentucky (BAS estimated target)	0	0	17,251	13,470	6,191
Tennessee (BAS estimated target)	0	0	38,855	30,325	13,932
Louisiana (BAS estimated target)	0	0	32,564	25,496	11,754
Nebraska (BAS estimated target)	0	0	9,677	7,968	3,788
Alabama (BAS estimated target)	0	0	27,299	21,103	9,589
Mississippi (BAS estimated target)	0	0	18,855	14,856	6,896
Maryland (BAS estimated target)	0	0	72,670	21,330	15,201
Total	**653,913**	**1,771,227**	**1,479,179**	**642,148**	**452,180**
Total Subscriber Summary					
Texas	140,940	379,595	501,180	550,518	598,115
Michigan	0	229,640	299,864	322,074	339,262
Illinois	0	176,805	296,935	379,595	402,022
Indiana	0	0	52,987	78,159	101,265
Ohio	0	125,283	193,454	218,662	236,544
California	0	430,415	791,469	951,261	1,086,694
Georgia	0	89,318	131,273	153,252	176,908
New York	512,972	835,061	895,303	881,489	887,516
New Jersey	0	159,023	284,519	290,663	311,179
Washington D C	0	0	8,525	12,800	16,953
Massachusetts	0	0	77,540	100,300	116,520
Wisconsin (BAS estimated target)	0	0	41,511	54,177	63,131
South Carolina (BAS estimated target)	0	0	21,031	37,489	45,072
Florida (BAS estimated target)	0	0	91,556	164,310	198,396
Kentucky (BAS estimated target)	0	0	17,251	30,721	36,912
Tennessee (BAS estimated target)	0	0	38,855	69,180	83,113
Louisiana (BAS estimated target)	0	0	32,564	58,060	69,814
Nebraska (BAS estimated target)	0	0	9,677	17,644	21,432
Alabama (BAS estimated target)	0	0	27,299	48,402	57,991
Mississippi (BAS estimated target)	0	0	18,855	33,711	40,607
Maryland (BAS estimated target)	0	0	72,670	94,000	109,201
Total	**653,913**	**2,425,140**	**3,904,319**	**4,546,467**	**4,998,648**

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

AT&T state-by-state UNE-P Model Summary Tables

UNE-P Revenue Per Access Line and Weighted Average Revenue Per User

($ Monthly rates)

	2001	2002E	2003E	2004E	2005E
Revenue Per Access Line Summary					
Texas	$40 32	$40.32	$39 32	$37 77	$36 55
Michigan		$33.97	$33 13	$31 82	$30 80
Illinois		$40.22	$39 22	$37 68	$36 46
Indiana			$35.47	$34 07	$32.97
Ohio		$37 24	$36 31	$34 88	$33 76
California		$29 44	$28 71	$27 58	$26 69
Georgia		$48 09	$45 74	$43.47	$43.47
New York	$42 72	$42 72	$40 63	$38.62	$38.62
New Jersey		$28 70	$27 29	$25 94	$25 94
Washington D C			$38 26	$36 36	$36 36
Massachusetts			$33 45	$31.80	$31 80
Wisconsin (BAS estimated target)			$35 08	$33 34	$33 34
South Carolina (BAS estimated target)			$43.90	$41.73	$41 73
Florida (BAS estimated target)			$36.17	$34 38	$34 38
Kentucky (BAS estimated target)			$43 07	$40.94	$40.94
Tennessee (BAS estimated target)			$41 56	$39 50	$39.50
Louisiana (BAS estimated target)			$45 89	$43 62	$43 62
Nebraska (BAS estimated target)			$43 42	$41 27	$41.27
Alabama (BAS estimated target)			$44 64	$42 43	$42 43
Mississippi (BAS estimated target)			$53.87	$51 21	$51 21
Maryland (BAS estimated target)			$35 50	$33.75	$33 75
Weighted ARPU					
Texas	8.69	6.31	5.05	4 57	4 37
Michigan	-	3.22	2 54	2.25	2 09
Illinois	-	2 93	2 98	3.15	2 93
Indiana	-	-	0 48	0 59	0 67
Ohio	-	1 92	1.80	1 68	1 60
California	-	5 22	5 82	5 77	5.80
Georgia	-	1.77	1.54	1.47	1 54
New York	33 52	14 71	9 32	7 49	6 86
New Jersey	-	1 88	1.99	1.66	1.61
Washington D C	-	-	0.08	0.10	0.12
Massachusetts	-	-	0 66	0 70	0 74
Wisconsin (BAS estimated target)	-	-	0 37	0 40	0.42
South Carolina (BAS estimated target)	-	-	0 24	0 34	0 38
Florida (BAS estimated target)	-	-	0.85	1.24	1 36
Kentucky (BAS estimated target)	-	-	0 19	0 28	0 30
Tennessee (BAS estimated target)	-	-	0.41	0 60	0.66
Louisiana (BAS estimated target)	-	-	0 38	0.56	0 61
Nebraska (BAS estimated target)	-	-	0.11	0 16	0.18
Alabama (BAS estimated target)	-	-	0 31	0 45	0.49
Mississippi (BAS estimated target)	-	-	0.26	0.38	0.42
Maryland (BAS estimated target)	-	-	0.66	0 70	0 74
Weighted average	42 20	37.97	36 05	34 53	33 89

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

AT&T state-by-state UNE-P Model Summary Tables

UNE-P Cost and Gross Margin Per Subscriber

($ Monthly rates)

	2001	2002E	2003E	2004E	2005E
Total UNE-P rate Summary					
Texas	$20 09	$20 09	$20 09	$20 09	$20.09
Michigan		$15 16	$14 51	$14.51	$14 51
Illinois		$14 73	$12 51	$12.51	$12 51
Indiana			$11 99	$11 99	$11 99
Ohio		$15 56	$15 56	$15.56	$15.56
California		$13 07	$13.07	$13.07	$13 07
Georgia		$19 54	$16 86	$16 86	$16 86
New York	$16 61	$16.61	$16.61	$16.61	$16 61
New Jersey		$13.58	$13 38	$13 38	$13 38
Washington D C			$5 72	$5 72	$5 72
Massachusetts			$18.41	$17.00	$17 00
Wisconsin (BAS estimated target)			$15 32	$15 32	$15 32
South Carolina (BAS estimated target)			$19.26	$19 26	$19.26
Florida (BAS estimated target)			$16 46	$16.46	$16 46
Kentucky (BAS estimated target)			$20.55	$20.55	$20 55
Tennessee (BAS estimated target)			$17.98	$17.98	$17 98
Louisiana (BAS estimated target)			$19 95	$19 95	$19 95
Nebraska (BAS estimated target)			$19 57	$19 57	$19 57
Alabama (BAS estimated target)			$20 59	$20 59	$20 59
Mississippi (BAS estimated target)			$25 25	$25 25	$25 25
Maryland (BAS estimated target)			$16 62	$16 62	$16 62
Average	**$18.35**	**$16.04**	**$16.68**	**$16.61**	**$16.61**
Total Gross Margin Summary (per sub)					
Texas	$20 23	$20 23	$19 23	$17 68	$16 46
Michigan		$18.81	$18.62	$17 31	$16 29
Illinois		$25 49	$26 71	$25 17	$23 95
Indiana			$23.48	$22 08	$20 98
Ohio		$21 68	$20 75	$19 32	$18 20
California		$16 37	$15 64	$14 51	$13 62
Georgia		$28 55	$28 88	$26 61	$26.61
New York	$26 11	$26 11	$24.02	$22 01	$22 01
New Jersey		$15 12	$13.91	$12.56	$12 56
Washington D C			$32 54	$30.64	$30.64
Massachusetts			$15 05	$14 80	$14.80
Wisconsin (BAS estimated target)			$19 76	$18 02	$18.02
South Carolina (BAS estimated target)			$24.64	$22.47	$22 47
Florida (BAS estimated target)			$19.71	$17.92	$17.92
Kentucky (BAS estimated target)			$22 52	$20.39	$20 39
Tennessee (BAS estimated target)			$23.58	$21.52	$21.52
Louisiana (BAS estimated target)			$25 94	$23 67	$23 67
Nebraska (BAS estimated target)			$23.85	$21.70	$21.70
Alabama (BAS estimated target)			$24.05	$21 84	$21 84
Mississippi (BAS estimated target)			$28 62	$25 96	$25 96
Maryland (BAS estimated target)			$18.88	$17 13	$17 13
Weighted average	**$23.17**	**$21.54**	**$22.40**	**$20.63**	**$20.32**

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

AT&T state-by-state UNE-P Model Summary Tables

Total AT&T UNE-P Revenue and EBITDA

($ millions)

	2001	2002E	2003E	2004E	2005E
Total Revenue Summary					
Texas	19	163	210	239	252
Michigan	0	57	107	120	122
Illinois	0	30	115	154	171
Indiana	0	0	9	27	35
Ohio	0	16	71	87	93
California	0	56	223	284	330
Georgia	0	16	63	74	86
New York	58	399	428	412	410
New Jersey	0	10	74	90	93
Washington D C	0	0	2	5	6
Massachusetts	0	0	13	34	42
Wisconsin (BAS estimated target)	0	0	7	19	24
South Carolina (BAS estimated target)	0	0	3	16	21
Florida (BAS estimated target)	0	0	12	58	76
Kentucky (BAS estimated target)	0	0	3	13	17
Tennessee (BAS estimated target)	0	0	6	28	36
Louisiana (BAS estimated target)	0	0	5	26	34
Nebraska (BAS estimated target)	0	0	2	7	10
Alabama (BAS estimated target)	0	0	4	21	27
Mississippi (BAS estimated target)	0	0	4	18	23
Maryland (BAS estimated target)	0	0	13	34	41
Total	**77**	**747**	**1,373**	**1,765**	**1,949**
Total EBITDA Summary					
Texas	(15)	(12)	2	11	15
Michigan	0	(21)	5	12	15
Illinois	0	(14)	16	31	46
Indiana	0	0	(5)	3	6
Ohio	0	(12)	2	9	13
California	0	(48)	(28)	1	15
Georgia	0	(7)	10	15	20
New York	(49)	48	73	74	84
New Jersey	0	(18)	(14)	1	4
Washington D C	0	0	(0)	2	3
Massachusetts	0	0	(9)	(2)	1
Wisconsin (BAS estimated target)	0	0	(4)	1	3
South Carolina (BAS estimated target)	0	0	(2)	0	3
Florida (BAS estimated target)	0	0	(10)	(3)	7
Kentucky (BAS estimated target)	0	0	(2)	(0)	2
Tennessee (BAS estimated target)	0	0	(4)	1	5
Louisiana (BAS estimated target)	0	0	(3)	1	5
Nebraska (BAS estimated target)	0	0	(1)	0	1
Alabama (BAS estimated target)	0	0	(3)	0	3
Mississippi (BAS estimated target)	0	0	(2)	1	3
Maryland (BAS estimated target)	0	0	(8)	0	3
Total	**(64)**	**(85)**	**13**	**159**	**256**

Source FCC Data, NRRI Data, and Banc of America Securities LLC estimates

AT&T state-by-state UNE-P Model Summary Tables

UNE-P Gross Margin and EBITDA Summary

	2001	2002E	2003E	2004E	2005E
Total Gross Margin Summary (%)					
Texas	50%	50%	49%	47%	45%
Michigan		55%	56%	54%	53%
Illinois		63%	68%	67%	66%
Indiana			66%	65%	64%
Ohio		58%	57%	55%	54%
California		56%	54%	53%	51%
Georgia		59%	63%	61%	61%
New York	61%	61%	59%	57%	57%
New Jersey		53%	51%	48%	48%
Washington D C			85%	84%	84%
Massachusetts			45%	47%	47%
Wisconsin (BAS estimated target)			56%	54%	54%
South Carolina (BAS estimated target)			56%	54%	54%
Florida (BAS estimated target)			54%	52%	52%
Kentucky (BAS estimated target)			52%	50%	50%
Tennessee (BAS estimated target)			57%	54%	54%
Louisiana (BAS estimated target)			57%	54%	54%
Nebraska (BAS estimated target)			55%	53%	53%
Alabama (BAS estimated target)			54%	51%	51%
Mississippi (BAS estimated target)			53%	51%	51%
Maryland (BAS estimated target)			53%	51%	51%
Total	**56%**	**57%**	**57%**	**55%**	**55%**
Total EBITDA Margin Summary (%)					
Texas	-81%	-8%	1%	4%	6%
Michigan		-37%	4%	10%	12%
Illinois		-47%	14%	20%	27%
Indiana			-51%	12%	17%
Ohio		-76%	3%	11%	14%
California		-84%	-13%	1%	5%
Georgia		-45%	16%	20%	23%
New York	-85%	12%	17%	18%	21%
New Jersey		-185%	-19%	1%	4%
Washington D C				33%	39%
Massachusetts			-68%	-5%	3%
Wisconsin (BAS estimated target)			-60%	4%	11%
South Carolina (BAS estimated target)			-66%	3%	14%
Florida (BAS estimated target)			-88%	-5%	9%
Kentucky (BAS estimated target)			-71%	-2%	10%
Tennessee (BAS estimated target)			-70%	2%	14%
Louisiana (BAS estimated target)			-57%	4%	15%
Nebraska (BAS estimated target)			-68%	1%	12%
Alabama (BAS estimated target)			-66%	1%	12%
Mississippi (BAS estimated target)			-51%	4%	13%
Maryland (BAS estimated target)			-62%	1%	8%
Total	**-84%**	**-11%**	**1%**	**9%**	**13%**

Source: FCC Data, NRRI Data, and Banc of America Securities LLC estimates

Appendix II: Financial Models

AT&T Corp.
Annual Income Statement
($ millions)

	2002	2003E	2004E	2005E	2006E	2007E
Business Services Revenue	26,558	25,795	25,906	26,042	26,222	26,626
Consumer Services Revenue	11,527	9,262	7,800	6,989	6,415	6,000
Broadband Revenue	0	0	0	0	0	0
Corp/Other Revenue	(258)	52	52	52	52	52
=Total reported revenue	**37,827**	**35,109**	**33,758**	**33,083**	**32,688**	**32,678**
note y/y change	*-26 8%*	*-7 2%*	*-3 8%*	*-2 0%*	*-1 2%*	*0 0%*
-Cost of services and products	8,363	8,585	8,661	8,447	8,344	8,371
-Cost of access and other connection	10,790	10,564	10,238	10,051	9,944	9,952
= Gross profit	18,674	15,961	14,859	14,585	14,401	14,355
note: y/y change	*-28.8%*	*-14 5%*	*-6 9%*	*-1 8%*	*-1 3%*	*-0.3%*
note: % total reported revenue	*49.4%*	*45 5%*	*44.0%*	*44.1%*	*44 1%*	*43.9%*
- Selling, general and administrative	7,988	7,498	7,064	6,825	6,682	6,627
= Reported EBITDA	**10,686**	**8,463**	**7,794**	**7,760**	**7,719**	**7,728**
note. y/y change	*-31 6%*	*-20 8%*	*-7.9%*	*-0 4%*	*-0.5%*	*0 1%*
note % total reported revenue	*28 2%*	*24 1%*	*23 1%*	*23 5%*	*23 6%*	*23.6%*
- Depreciation and Amortization	4,888	4,620	4,388	4,229	4,087	3,950
= EBIT	5,798	3,842	3,406	3,531	3,632	3,778
note y/y change	*-7 7%*	*-33.7%*	*-11 4%*	*3 7%*	*2.9%*	*4 0%*
Interest expense	1,448	1,196	985	918	835	605
+ Other expense (income), net	1,514	(92)	(109)	(125)	(175)	(179)
Income before income taxes	2,836	2,738	2,530	2,737	2,972	3,351
- Income taxes	1,587	1,055	1,011	1,093	1,187	1,339
note· effective tax rate	*56 0%*	*38.5%*	*40 0%*	*40 0%*	*40.0%*	*40 0%*
+ Min interests earnings rel to equity investments	(286)	(15)	4	4	4	4
= Net income before extraordinaries	963	1,668	1,523	1,648	1,789	2,017
note· y/y change	*-123 3%*	*73 2%*	*-8 7%*	*8 2%*	*8 6%*	*12 7%*
+Cum eff of accting change (net of taxes)						
+ Extraordinary items	(14,513)	0	0	0	0	0
+ gain on disposition of discontinued operations-net of taxes	1,324	0	0	0	0	0
= Net income	(13,082)	1,711	1,523	1,648	1,789	2,017
- Preferred interest	0	0	0	0	0	0
= Net income avail to common shareholders	**(13,082)**	**1,711**	**1,523**	**1,648**	**1,789**	**2,017**
note: y/y change	*-237 6%*	*-113 1%*	*-11.0%*	*8 2%*	*8.6%*	*12 7%*
Weighted average shares for diluted EPS	763	785	789	793	797	801
Diluted earnings per share - Operating	**(17.50)**	**2.18**	**1.93**	**2.08**	**2.24**	**2.52**
Basic earnings per share – Reported	(18.02)	2 18	1 93	2.08	2 24	2.52
Diluted earnings per share (normalized	**4.64**	**2.07**	**1.93**	**2.08**	**2.24**	**2.52**
Common dividend per share	0 75	0.75	0 75	0 75	0 75	0 75

Source Company reports, Banc of America Securities LLC estimates

AT&T Corp.

Quarterly Income Statement

($ millions)

	1Q 2002	2Q 2002	3Q 2002	4Q 2002	1Q 2003E	2Q 2003E	3Q 2003E	4Q 2003E	1Q 2004E	2Q 2004E	3Q 2004E	4Q 2004E
Business Services Revenue	6,528	6,742	6,700	6,588	6,437	6,449	6,449	6,460	6,466	6,472	6,480	6,489
Consumer Services Revenue	3,086	2,911	2,794	2,736	2,536	2,345	2,238	2,143	2,055	1,980	1,911	1,853
Broadband Revenue	0	0	0	0	0	0	0	0	0	0	0	0
Corp/Other Revenue	(66)	(73)	(85)	(34)	13	13	13	13	13	13	13	13
=Total reported revenue	**9,548**	**9,580**	**9,409**	**9,290**	**8,986**	**8,807**	**8,700**	**8,616**	**8,534**	**8,465**	**8,404**	**8,355**
note p/p change	*-23 9%*	*0.3%*	*-1 8%*	*-1 3%*	*-3 3%*	*-2.0%*	*-1.2%*	*-1 0%*	*-0 9%*	*-0 8%*	*-0.7%*	*-0 6%*
-Cost of services and products	2,014	2,086	2,066	2,197	2,011	2,187	2,186	2,201	2,186	2,174	2,158	2,143
-Cost of access and other connection	2,788	2,747	2,679	2,576	2,698	2,637	2,620	2,609	2,586	2,567	2,550	2,536
= Gross profit	4,746	4,747	4,664	4,517	4,277	3,983	3,894	3,806	3,762	3,724	3,697	3,676
note y/y change	*-29.7%*	*-29.7%*	*-28.5%*	*-27 1%*	*-9 9%*	*-16.1%*	*-16 5%*	*-15.7%*	*-12 0%*	*-6 5%*	*-5 1%*	*-3 4%*
note % total reported revenue	*49 7%*	*49 6%*	*49.6%*	*48 6%*	*47 6%*	*45 2%*	*44 8%*	*44 2%*	*44 1%*	*44 0%*	*44 0%*	*44 0%*
- Selling, general and administrative	1,937	1,942	2,032	2,077	1,921	1,878	1,864	1,836	1,805	1,775	1,750	1,735
= Reported EBITDA	**2,809**	**2,805**	**2,632**	**2,440**	**2,356**	**2,106**	**2,031**	**1,970**	**1,957**	**1,949**	**1,947**	**1,941**
note p/p change	*-20.9%*	*-0.1%*	*-6 2%*	*-7 3%*	*-3.4%*	*-10.6%*	*-3 6%*	*-3 0%*	*-0 7%*	*-0 4%*	*-0 1%*	*-0 3%*
note % total reported revenue	*29 4%*	*29 3%*	*28 0%*	*26 3%*	*26 2%*	*23 9%*	*23 3%*	*22 9%*	*22 9%*	*23 0%*	*23 2%*	*23 2%*
- Depreciation and Amortization	1,175	1,213	1,243	1,257	1,186	1,161	1,145	1,129	1,113	1,102	1,091	1,081
= EBIT	1,634	1,592	1,389	1,183	1,170	945	886	841	843	847	856	860
note y/y change	*0.7%*	*-3 6%*	*-21.3%*	*-5 1%*	*-28.4%*	*-40 6%*	*-36 2%*	*-28 9%*	*-27 9%*	*-10 4%*	*-3.4%*	*2 3%*
Interest expense	396	336	355	361	332	292	292	279	256	245	245	239
+ Other expense (income), net	55	50	154	1,255	(6)	(26)	(30)	(29)	(26)	(26)	(29)	(28)
Income before income taxes	1,183	1,206	880	(433)	844	679	624	591	613	628	639	650
- Income taxes	479	513	370	225	297	272	249	236	245	251	255	260
note effective tax rate	*57.8%*	*54 1%*	*42 0%*	*-52 0%*	*35 2%*	*40 0%*	*40 0%*	*40.0%*	*40 0%*	*40 0%*	*40 0%*	*40.0%*
+ Minority int + earnings rel to equity inv	(258)	(90)	15	47	(18)	1	1	1	1	1	1	1
= Net income before extraordinaries	446	603	525	(611)	529	408	375	356	369	378	385	391
note· y/y change	*-192 3%*	*-1282 4%*	*-123 8%*	*-56 1%*	*18 6%*	*-32.3%*	*-28.5%*	*-158.2%*	*-30 2%*	*-7 5%*	*2.6%*	*9 9%*
+Cum eff of acctng change (net of taxes)	(856)	0	0	0	42	0	0	0	0	0	0	0
+ Extraordinary items	(565)	(13,433)	(318)	(197)	0	0	0	0	0	0	0	0
+ gain on disp of disc operations-net of taxes	0	0	0	1,324	0	0	0	0	0	0	0	0
= Net income	(975)	(12,830)	207	516	571	408	375	356	369	378	385	391
- Preferred interest	0	0	0	0	0	0	0	0	0	0	0	0
= Net inc available to common shareholders	**(975)**	**(12,830)**	**207**	**516**	**571**	**408**	**375**	**356**	**369**	**378**	**385**	**391**
note y/y change	*6864.3%*	*8510 7%*	*-98 1%*	*-137 1%*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Weighted average shares for diluted EPS	738	750	788	776	785	785	786	787	788	789	790	791
Diluted EPS - Operating	(1.32)	(17 11)	0 26	0 66	0.73	0.52	0 48	0 45	0 47	0.48	0.49	0 49
Basic EPS - Reported	(1 38)	(17 58)	0.27	0 66	0 73	0 52	0 48	0 45	0.47	0 48	0 49	0.49
Diluted EPS (normalized)	**0.60**	**0.80**	**0.67**	**2.54**	**0.62**	**0.52**	**0.48**	**0.45**	**0.47**	**0.48**	**0.49**	**0.49**
Common dividend per share	0 19	0.19	0 19	0 19	0 19	0 19	0 19	0 19	0 19	0 19	0 19	0 19

Source Company reports, Banc of America Securities LLC estimates.

AT&T Corp.
Annual Balance Sheet
($ millions)

	2002	2003E	2004E	2005E	2006E
Operating cash	465	431	418	411	407
+ Accounts receivable	5,286	4,906	4,670	4,597	4,555
+ Other receivables	173	0	0	0	0
+ Investments	0	0	0	0	0
+ Deferred income taxes	910	779	779	779	779
+ Other current assets	1,520	1,150	1,150	1,150	1,150
= Total current assets	8,354	7,266	7,016	6,937	6,891
+ Accounts payable and accrueds	3,819	3,330	3,303	3,237	3,104
+ Payroll and benefit-related liabilities	1,519	941	941	941	941
+ ATTC obligation	0	0	0	0	0
+ Other S-T liabilities (excl debt)	2,924	2,921	2,832	2,788	2,763
= Total current liabilities	8,262	7,191	7,076	6,966	6,807
= Net trade working capital	**92**	**75**	**(60)**	**(29)**	**84**
+ PP&E, Net	25,604	24,215	23,280	22,519	21,685
+ Franchise costs, Net	0	0	0	0	0
+ Investments	0	0	0	0	0
+ Prepaid pension costs	3,596	3,655	3,655	3,655	3,655
+ Other LT Assets	5,543	5,005	5,005	5,005	5,005
+ Intangibles	4,626	4,660	4,660	4,660	4,660
+ Net assets of discontinued operations	0	0	0	0	0
= Total LT Assets	39,369	37,535	36,600	35,839	35,005
Total operating investment	39,461	37,610	36,539	35,810	35,090
+ Excess cash (reported less operating)	7,550	5,027	4,927	6,043	4,429
= Total investment	**47,010**	**42,637**	**41,467**	**41,853**	**39,519**
+ Deferred income taxes	4,739	4,918	5,022	5,103	5,144
+ Long-term benefit related liabilities	4,001	4,095	4,095	4,095	4,095
+ Short-term and long term debt	22,574	17,081	14,644	13,459	9,328
+ Other long-term liabilities and deferred credits	3,384	3,359	3,359	3,359	3,359
+ Convertible preferred stock	0	0	0	0	0
Minority interest	0	0	0	0	0
= LT liabilities	34,698	29,453	27,120	26,016	21,926
Stockholder's equity					
AT&T common stock	783	787	791	795	799
AT&T Wireless common stock	0	0	0	0	0
Additional capital	28,163	28,079	28,079	28,079	28,079
Retained earnings	(16,566)	(15,444)	(14,513)	(13,461)	(12,270)
Accumulated other comprehensive income	(68)	0	0	0	0
Other	0	(238)	(9)	424	986
Total stockholders equity/(deficit)	12,312	13,184	14,347	15,837	17,593
Total sources	**47,010**	**42,637**	**41,467**	**41,853**	**39,519**
note: total capital	*55,272*	*49,828*	*48,543*	*48,819*	*46,326*
note: net debt	*14,560*	*11,623*	*9,298*	*7,005*	*4,491*

Source Company reports, Banc of America Securities LLC estimates

AT&T Corp.

Quarterly Cash Flow Statement

($ millions)

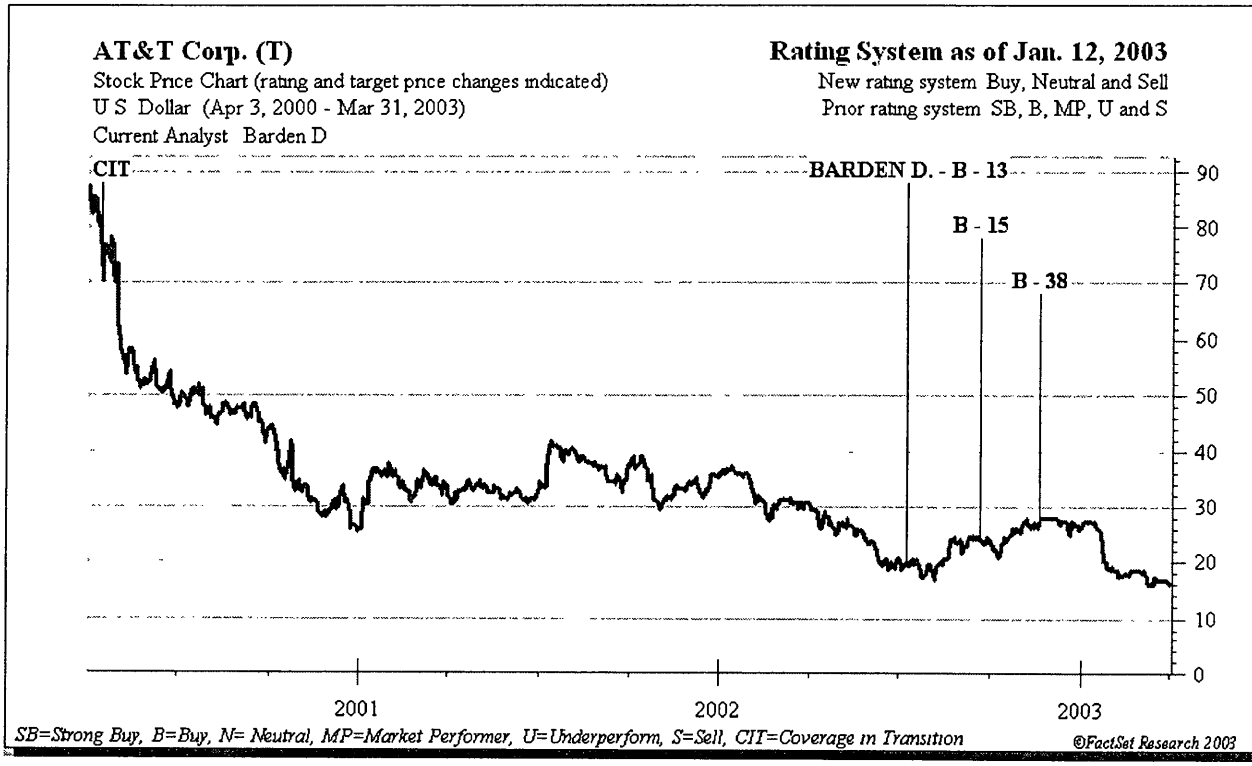
	4Q 2002	1Q 2003E	2Q 2003E	3Q 2003E	4Q 2003E	1Q 2004E	2Q 2004E	3Q 2004E	4Q 2004E	1Q 2005E	2Q 2005E	3Q 2005E	4Q 2005E
Net Income	516	571	408	375	356	369	378	385	391	400	408	416	424
Depreciation+Amortization	1,257	1,186	1,161	1,145	1,129	1,113	1,102	1,091	1,081	1,071	1,061	1,053	1,044
Net equity losses from LMG	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in net working capital	(217)	56	37	(38)	(39)	171	(13)	(14)	(9)	(8)	(8)	(8)	(8)
Cash generated from operations	**2,669**	**1,811**	**1,735**	**1,611**	**1,575**	**1,751**	**1,555**	**1,541**	**1,536**	**1,592**	**1,591**	**1,590**	**1,591**
Capital expenditures	(1,346)	(662)	(810)	(800)	(793)	(872)	(865)	(860)	(855)	(865)	(866)	(868)	(869)
Other Changes	0	0	0	0	0	0	0	0	0	0	0	0	0
- Cash utilized	(1,346)	(662)	(810)	(800)	(793)	(872)	(865)	(860)	(855)	(865)	(866)	(868)	(869)
= Free cash flow	**1,323**	**1,149**	**925**	**811**	**783**	**879**	**689**	**681**	**681**	**727**	**724**	**723**	**722**
- Common dividends	(147)	(147)	(147)	(147)	(148)	(148)	(148)	(148)	(148)	(149)	(149)	(149)	(149)
= Net internal surplus / (deficit)	1,176	1,002	778	664	635	731	541	533	532	578	576	574	573
Repayment of debt	0	(4,019)	0	0	(1,500)	(1,250)	(14)	0	(1,174)	0	(229)	0	(956)
Issuance of debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Repurchase of equity (treasury stock)	0	0	0	0	0	0	0	0	0	0	0	0	0
Issuance of equity	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	(4,476)	(97)	0	0	0	0	0	0	0	0	0	0	0
Net cash from announced financing	**(4,476)**	**(4,116)**	**0**	**0**	**(1,500)**	**(1,250)**	**(14)**	**0**	**(1,174)**	**0**	**(229)**	**0**	**(956)**
Incremental outside finance (repayment)	0	0	0	0	0	0	0	0	0	0	0	0	0
= Net change in cash	**(3,300)**	**(3,114)**	**778**	**664**	**(865)**	**(518)**	**528**	**533**	**(642)**	**578**	**347**	**574**	**(383)**

Source Company reports, Banc of America Securities LLC estimates.

AT&T Corp.
Annual Cash Flow Statement
($ millions)

	2002	2003E	2004E	2005E	2006E
Net Income	(13,082)	1,711	1,523	1,648	1,789
Deduct discontinued operations	(1,236)	0	0	0	0
Depreciation+Amortization	4,888	4,620	4,388	4,229	4,087
Provision for uncollectible receivables	1,058	400	200	200	155
Non-cash other	1,229	(6)	0	0	0
Deferred taxes	2,631	179	104	81	41
Cumulative effect of accounting changes (net)	856	42	0	0	0
Net equity losses from LMG	0	0	0	0	0
Net losses related to other equity inv	512	0	0	0	0
Cost method investment impairment charges	0	0	0	0	0
Net revaluation of certain financial instruments	0	0	0	0	0
Minority interest and dividends on subsidiary preferred stock	300	29	(4)	(4)	(4)
Change in net working capital	(868)	17	135	(31)	(113)
Other	14,384	(259)	36	242	414
Cash generated from operations	**10,672**	**6,733**	**6,382**	**6,364**	**6,368**
Capital expenditures	(3,904)	(3,065)	(3,453)	(3,468)	(3,253)
Investments	0	0	0	0	0
Other Changes	(329)	0	0	0	0
- Cash utilized	(4,233)	(3,065)	(3,453)	(3,468)	(3,253)
= Free cash flow	**6,439**	**3,668**	**2,930**	**2,896**	**3,115**
- Common dividends	(549)	(589)	(592)	(595)	(598)
= Net internal surplus / (deficit)	5,890	3,078	2,338	2,300	2,517
Repayment of debt	(8,796)	(5,519)	(2,437)	(1,185)	(4,131)
Issuance of debt	405	0	0	0	0
Repurchase of equity (treasury stock)	(29)	0	0	0	0
Issuance of equity	2,594	0	0	0	0
Other	(2,642)	(97)	0	0	0
Net cash from announced financing	**(8,468)**	**(5,616)**	**(2,437)**	**(1,185)**	**(4,131)**
Incremental outside finance (repayment)	0	0	0	0	0
= Net change in cash	**(2,578)**	**(2,538)**	**(100)**	**1,116**	**(1,614)**

Source Company reports, Banc of America Securities LLC estimates


AT&T Corp. (T)
Stock Price Chart (rating and target price changes indicated)
U S Dollar (Apr 3, 2000 - Mar 31, 2003)
Current Analyst Barden D
Rating System as of Jan. 12, 2003
New rating system Buy, Neutral and Sell
Prior rating system SB, B, MP, U and S
CIT
BARDEN D. - B - 13
B - 15
B - 38
90
80
70
60
50
40
30
20
10
0
2001
2002
2003
SB=Strong Buy, B=Buy, N= Neutral, MP=Market Performer, U=Underperform, S=Sell, CIT=Coverage in Transition
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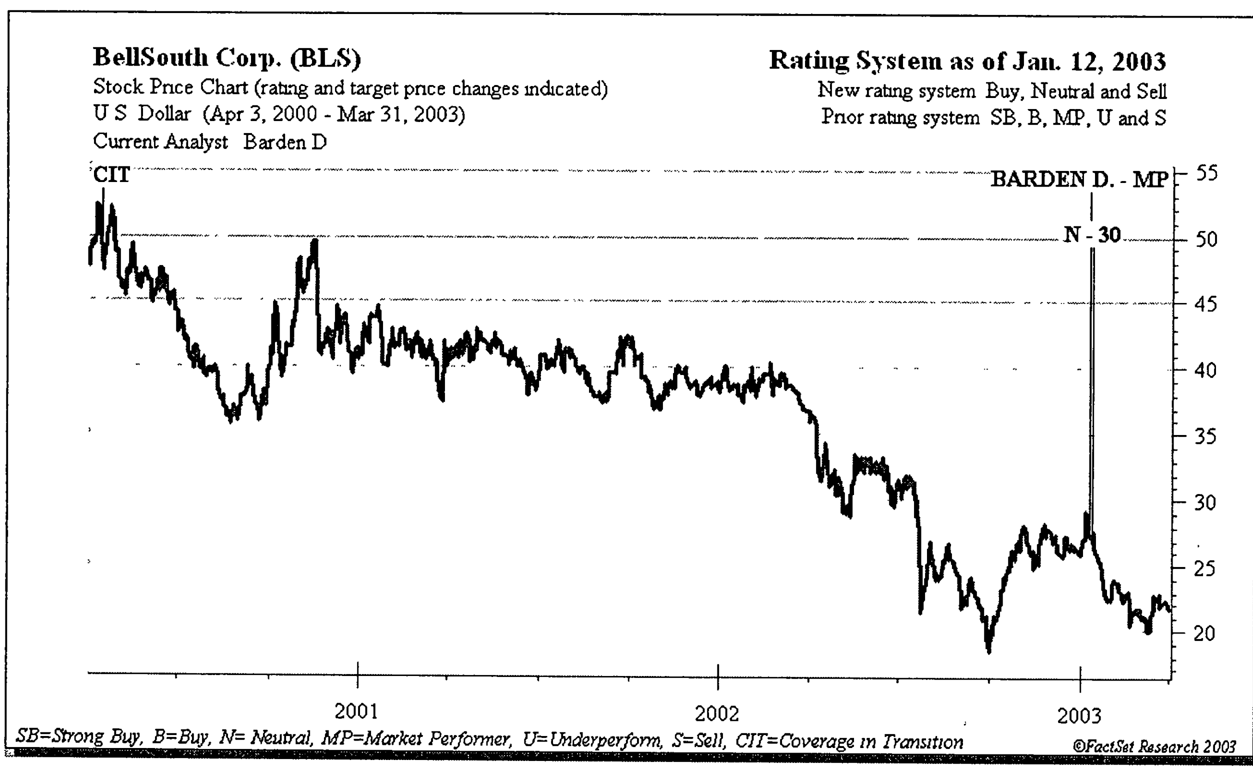
BellSouth Corp. (BLS)
Stock Price Chart (rating and target price changes indicated)
U S Dollar (Apr 3, 2000 - Mar 31, 2003)
Current Analyst Barden D
Rating System as of Jan. 12, 2003
New rating system Buy, Neutral and Sell
Prior rating system SB, B, MP, U and S
CIT
BARDEN D. - MP
N - 30
55
50
45
40
35
30
25
20
2001
2002
2003
SB=Strong Buy, B=Buy, N= Neutral, MP=Market Performer, U=Underperform, S=Sell, CIT=Coverage in Transition
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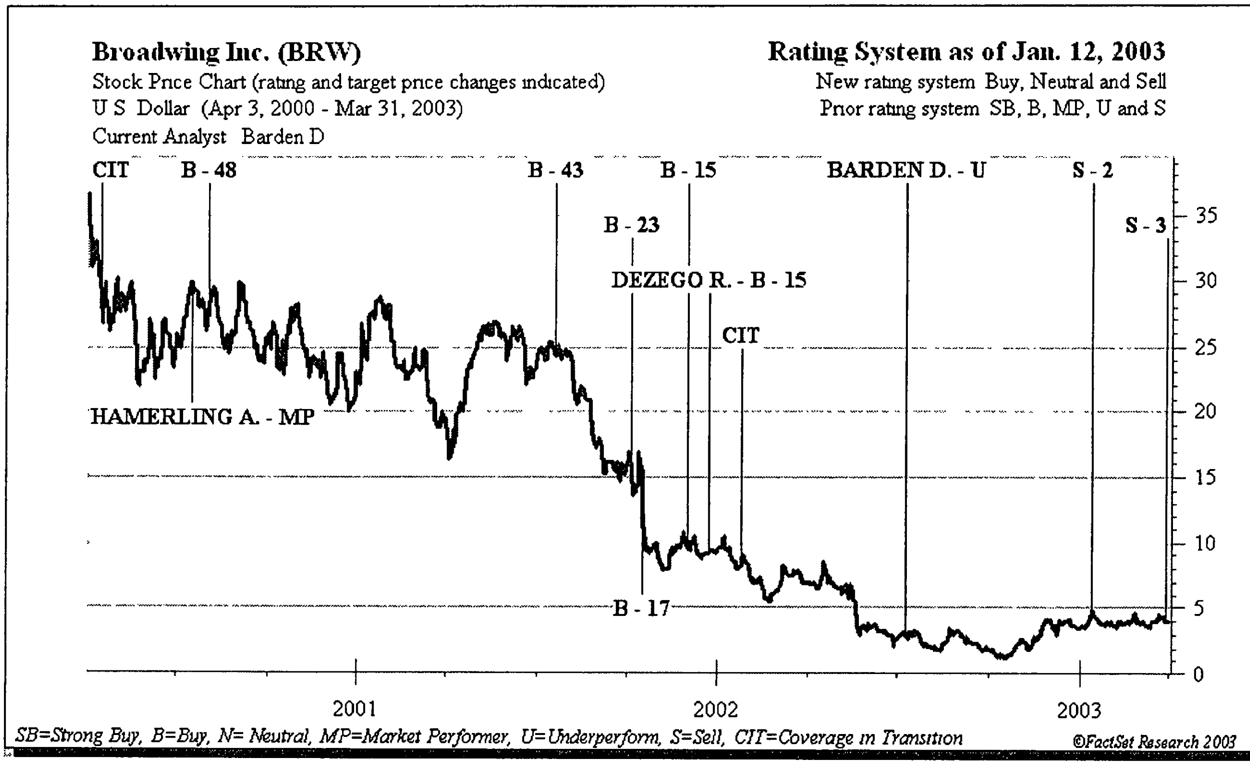
Broadwing Inc. (BRW)
Stock Price Chart (rating and target price changes indicated)
U S Dollar (Apr 3, 2000 - Mar 31, 2003)
Current Analyst Barden D
Rating System as of Jan. 12, 2003
New rating system Buy, Neutral and Sell
Prior rating system SB, B, MP, U and S
CIT
B - 48
B - 43
B - 15
BARDEN D. - U
S - 2
B - 23
S - 3
DEZEGO R. - B - 15
CIT
HAMERLING A. - MP
B - 17
35
30
25
20
15
10
5
0
2001
2002
2003
SB=Strong Buy, B=Buy, N= Neutral, MP=Market Performer, U=Underperform, S=Sell, CIT=Coverage in Transition
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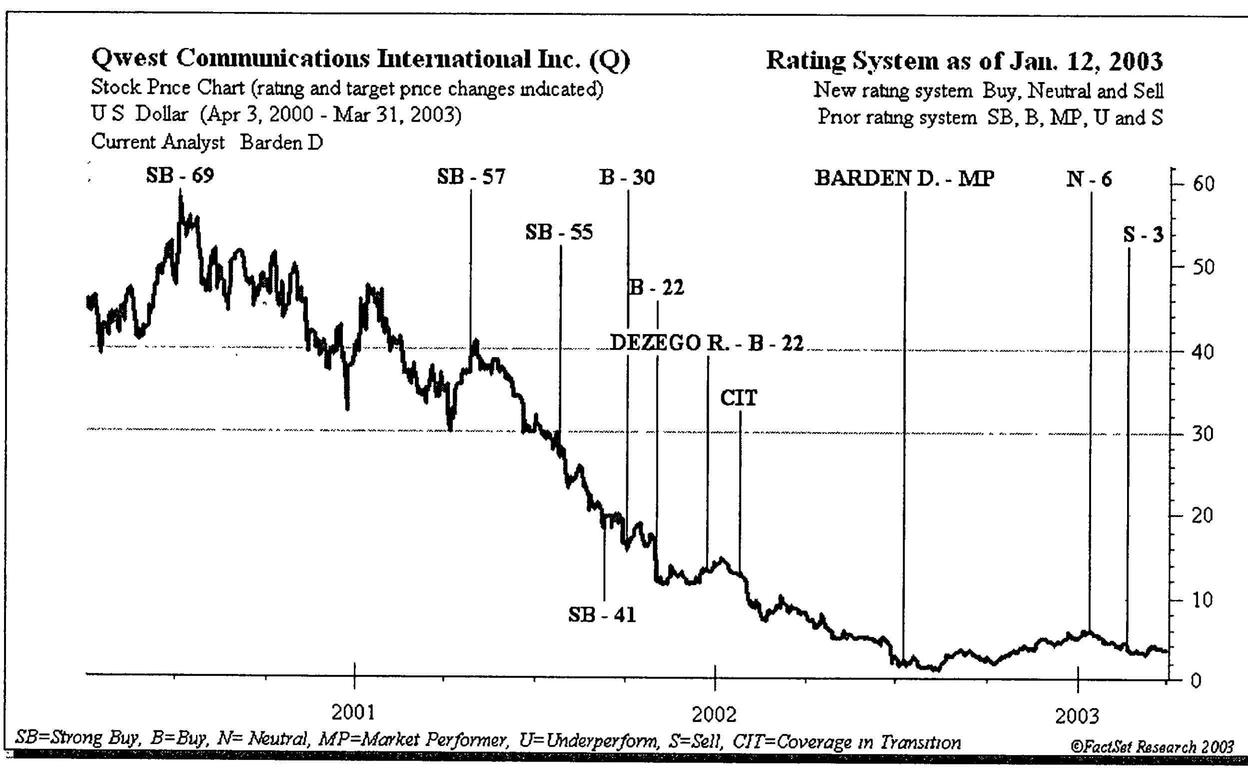
Qwest Communications International Inc. (Q)
Stock Price Chart (rating and target price changes indicated)
U S Dollar (Apr 3, 2000 - Mar 31, 2003)
Current Analyst Barden D
Rating System as of Jan. 12, 2003
New rating system Buy, Neutral and Sell
Prior rating system SB, B, MP, U and S
SB - 69
SB - 57
B - 30
BARDEN D. - MP
N - 6
SB - 55
S - 3
B - 22
DEZEGO R. - B - 22
CIT
SB - 41
60
50
40
30
20
10
0
2001
2002
2003
SB=Strong Buy, B=Buy, N= Neutral, MP=Market Performer, U=Underperform, S=Sell, CIT=Coverage in Transition
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Target Price, Valuation Method, Risk Factors

Target Price: $24.00

Valuation Method Used To Reach Target Price: Sum of the Parts, Discounted Cash Flow and Comparable Multiples

Risk Factors:

1. Declining revenues and revenue growth due to weakened economic environment, market share loss, pricing erosion, technology substitution and the eventual commoditization of long distance voice.
2. Bell entry into long distance is accelerating, threatening AT&T s market share in its core switched voice long distance market.

Banc of America Securities LLC Stock Rating System

The rating system is based on a stock's forward-12-month expected total return (price appreciation plus dividend yield).

Volatility		Ratings		
		Buy	Neutral	Sell
Low	0-35%	10%+	9%-(6)%	(7)% or worse
Medium	36-50%	15%+	14%-(10)%	(11)% or worse
High	51-80%	25%+	24%-(15)%	(16)% or worse
Extreme	81%+	50%+	49%-(25)%	(26)% or worse

Source on volatility: Bloomberg

Rating Distribution

US Coverage

Coverage Universe	Companies	Percent	Investment Banking Clients	Companies	Percent*
Buy	239	43	Buy	203	85
Hold	288	51	Hold	246	85
Sell	34	6	Sell	27	79

Media/Telecom Services Sector

Coverage Universe	Companies	Percent	Investment Banking Clients	Companies	Percent*
Buy	8	53	Buy	7	88
Hold	5	33	Hold	5	100
Sell	2	13	Sell	2	100

* Percentage of companies in each rating group that are investment banking clients.
As of 04/04/2003.

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Banc of America Securities LLC and/or its affiliates was comanager of a public offering of debt securities for this company in the previous 12 months: SBC, T.

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