EXHIBIT Q-2

receives a win-back offer. The FCC has taken the position that the phone companies can use retail customer data to win back customers but not data obtained as a wholesale provider. The key enforcement actions are occurring in the states, where there are several proceedings considering the issue. Win-back could become a bigger issue, particularly if a number of local customers start to switch service.

A pending issue that could affect the ability of all players to utilize customer data is the Federal Trade Commission's proposal to create a national "Do Not Call" list. If adopted and applied to companies with pre-existing relationships with customers, such as the Bells and the cable companies, it could limit the value of the customer data. While the companies would have the ability to use other means to contact the customers, a limitation on unsolicited calls would reduce the advantage of the customer data.

Customer Preference, Sticker Shock. Companies and surveys have indicated that the most significant reason for wanting the bundle is to receive a single bill. Other reasons — such as a single point of contact, convenience and discounts — provide secondary motivation. Receiving better service is less of an issue.

Despite these indications, there are also some signs that one deterrent to broader acceptance of bundled offerings is consumers' objection to the sticker shock of a single large bill. Verizon is dealing with this issue by selling consumers a three-product bundle (local and long distance with either wireless or Internet) and then gradually adding a fourth product.

It should be noted, moreover, that the benefits of discounts and improved service have yet to be the subject of a mass-marketing campaign, so it is not surprising that consumers don't yet consider them as motivators. Once the Bells have achieved greater long-distance entry and start to use mass-marketing techniques to sell the bundles, consumer impressions may change.

Internal Corporate Organization. Corporations have to determine how to motivate different divisions to push bundles instead of focusing on their own product. For example, Sprint tries to encourage employees to push all the company's services, providing employees of both FON and PCS stock options in both trackers.

A similar issue is marketing. Pushing the bundle can aid or undercut sales efforts for an individual product. In the case of Verizon, the bundling team has its own independent control of its marketing. Due to the way in which the services have been offered historically, this issue will prove more problematic for the Bells, which have different divisions offering the services, than cable, which has had a more unified approach.

Wild Cards. There are a couple of wild cards, in addition to the BSPs previously discussed, that have the potential to disrupt the core battle of the bundles between cable MSOs and the Bells: UNE-P and IP voice and video applications.

- *UNE-P.* Any competitor can offer a local phone service by leasing out a platform of "unbundled network elements" (UNE-P) from a Bell. This means that if non-affiliated wireless providers or cable providers believe that the Bell bundle is taking away too much market share, the others might be able to fight back by offering a bundle that combines their own services with a UNE-P offering of local (and presumably, resold long-distance) service. While the long-term viability of the UNE-P approach is highly dependent on continuing regulatory support at both the federal and state levels, the presence of the UNE-P option could be useful as a tool to protect a customer base while seeking an alternative to drive more users to one's own network.

- ***IP-Based Bundling.*** A different way of creating a bundle is over an Internet protocol (IP) platform. Arguably, both AOL Time Warner (AOL) and Microsoft (MSFT) eventually will be in a position to bundle their existing data services with voice and video features. Given their dominance in their respective markets, the cost advantages they will have when the technology is ready, and their powerful brands, they both should become key players in the consumer bundling battles. Systems based on an IP protocol ultimately will have both a lower cost structure and greater flexibility and functionalities. There are a number of issues that would have to be resolved for the computer-based bundle to be competitive with the current networks. These include technical issues required to improve performance and reliability, and a wide range of policy issues, from the applicability of universal-service subsidies to the resolution of the ENUM (electronic numbering) debate, which involves a technology that allows a user to type a phone number into a browser and connect to an e-mail address for that number.

V. BUNDLES TOMORROW

We believe that the bundles offered currently are primitive in comparison to what they could become over the next several years. While the only significant consumer benefit today is the convenience of a single bill, we think that in the future bundles will provide additional benefits of price and features that can be accessed only through the purchase of the package. These benefits include the following.

Price. To date, the buckets often have not included a significant price discount. But if cable starts to become a real threat to the phone companies' local service, one can anticipate that all the parties will start to offer greater price discounts in an effort to reduce the churn rate.

Integrated Buckets. Bundling allows the customer to buy integrated buckets of service offers. For example, one could buy a bucket of long-distance minutes that could apply to both wireless and wired calls. One could buy a set of equipment, such as mobile phones for the entire family, at a discount.

Integrated and Improved Services. Another benefit of bundling is providing integrated services that are more difficult in an unbundled setting. For example, with an integrated offering, it is easier to offer unified messaging. Bundling also could make it easier to offer a service in which a phone call transfers from the wireline network, after one or two rings, to a wireless device. Bundling could facilitate the simultaneous transmission of e-mail messages to, and deletion from, a user's wireless device and PC, if desired. Families may enjoy special features such as direct connect between family members. Bundling could help service providers roll out home-networking services that connect communications and entertainment devices within a home. Bundling also could make it more cost-effective to raise the level of service. For example, customers of bundles could have access to premium services that provide greater responsiveness to problems.

Network Effects. Bundles are likely to build on the network effects already enjoyed by the service providers. The more they attract larger customer bases to their network, the more they should be able to offer programs, such as unlimited calling time to others on the same network, which should both attract new customers and make their current customer base more loyal.

VI. MARKET CONSEQUENCES

Wireless Competition. The more the Bells push wireless/wired buckets, the more the dynamic of wireless competition will favor their wireless affiliates in-region. The bundle provides a unique asset that gives the in-region provider a marketing advantage over the unaffiliated providers in an increasingly commoditized market. To the extent that bundling attracts a critical mass of consumers, the Bell-affiliated wireless companies will gain an advantage in the regions served by their Bell parent, altering the competitive landscape. This could cause the Bell-affiliated wireless companies to focus their marketing strategies even more on the in-region and bundled customer, further creating an edge for them and a long-term problem for AWE, PCS, VoiceStream, and NXTL.

Vertically Integrated vs. Limited Product Providers. The more that bundling catches on as the way consumers buy telecom services, the more the market will favor vertically integrated providers (particularly those with dominance in a core market) over those with fewer offerings. For example, Bell-affiliated wireless providers will have a clear advantage in the residential market over AT&T Wireless, VoiceStream, Nextel and Sprint PCS (except where Sprint has local lines). The bundle will give the Bells an advantage over CLECs and the IXCs, which are taking some lines away from the Bells, particularly through the use of UNE-P. Cable will have advantages over satellite providers of multichannel video services (a fact noted by the EchoStar/DirecTV merger proponents as a justification for the merger). We don't anticipate that bundling will eliminate the market for single-service purchases, but we do see bundling eventually tipping the market toward increasingly integrated providers.

Bell vs. Cable. For years, there has been anticipation that the two main communications pipes into the home, cable coax and telco twisted copper pair, would end up competing to provide communications services. The first real competition between these pipes occurred when both started to offer high-speed Internet access. While there was a considerable debate in the mid-1990s as to who would win the consumer broadband battle, it now appears that cable has developed a decisive and stable edge.

The battle of the bundles increases the stake for both sides. The dollar amounts for the whole bundle are greater and bundles have a greater impact on the long-term wallet share of the customer than a single service. The battle is asymmetrical in two ways. First, as a service matter, the Bells can offer wireless and cable can offer video in an integrated manner that their competitor cannot. Second, as an economic matter, the Bells have more to lose, as cable will be able to take market share from the Bells' core market (voice) while the Bells will not be able to take share from cable's core video market. There already are signs that cable can take a significant share of the voice market. In his April 23, 2002, testimony before the Senate Antitrust Subcommittee, AT&T CEO Michael Armstrong stated that AT&T Broadband had gained a telephony market share of more than 25% in 55 communities in which it offered cable telephone service. Cox is claiming similar penetration in markets in which it offers the service. With the upgrade of cable systems and advances in technology, the broader cable industry soon could have the ability to compete for the residential dollar with a complete package of video, voice, and data services.

While the ILECs lack a video offering (outside the joint marketing agreements with DBS providers) and have more to lose, they still bring a number of assets to the battle. Most importantly, in our view, are marketing advantages that could enable the ILECs to lock up much of the voice market before cable has a widespread telephony offering.

In looking at how bundles will affect this battle, we note that the two sides have different advantages on a number of critical issues.

- ***Bell Timing Advantage.*** Both cable and the Bells have an incentive to build a wide moat around their existing customers as soon as possible, as the larger the moat, the more difficult it will be for the other to take those customers away. In this regard, the Bells have an apparent timing advantage. It appears that over the next 12-18 months, the cable industry will be focusing its new product rollout on video-on-demand products. Further, the biggest cable player, the soon-to-be-merged AT&T/Comcast, will have to focus considerable attention over the next 18 months on driving up the margins of the AT&T cable properties. The other major cable player, AOL Time Warner, has to deal with a number of internal issues that are likely to distract it from making a focused effort on offering telephony. Thus, wide-scale availability of cable telephony is probably still a year or more away from most consumers.

  On the other hand, it appears that three of the Bells will be substantially done with their Sec. 271 approvals by the end of the year. At that time, they will be able to offer complete local/long-distance/Internet/wireless bundles to consumers. The Bells also have greater access to the capital required to make the upfront investments to offer bundles. So in the early rounds of the coming battle, it appears that the Bells will have an advantage in using bundles to widen their moat around their current customers.

- ***Bell Market Penetration Advantage.*** The Bells already serve over 90% of the households in their areas. They also generally serve contiguous markets. By contrast, the major cable providers only serve approximately 60% of the residences in their areas, which are often not contiguous. This discrepancy gives the Bells a marketing head-start over cable.

- ***Cable Network Cost Advantage.*** We believe cable's network will be able to provide the overall package of video, data, and voice offerings on a lower cost basis. Cable clearly can provide full-motion video, which the phone networks cannot, and we believe cable also has an edge on data delivery. We believe the cost of installation for cable broadband, based on estimates we have seen, is approximately 40% lower than telco high-speed digital subscriber line (DSL) installation. The telcos have a voice advantage, but eventually cable should benefit from advances in IP telephony, which will reduce the cost of providing voice services.

- ***Bell Capital Advantage.*** For the cable operators to offer voice they will still have to invest more capital. At this time, however, investors are more interested in cable delivering profits from its current investment than new investments. Thus, cable companies face a capital/timing squeeze: if they spend more now, Wall Street could punish them, but if they delay too long, the Bells could put a much larger moat around their voice customers.

- ***Stickiness.*** Some services are stickier than others. Long-distance service is the least sticky. Wireless appears to be stickier, though as people start to receive more calls on their mobile phones, and as wireless number portability keeps getting pushed back, wireless could become stickier. Internet access can be quite sticky due to the nonportability of the e-mail address and personalized data, such as address books and preferences. Further, broadband is stickier than narrowband, given the cost of customer-premises equipment and the relative installation difficulties. Video is not inherently sticky but the cost of the customer-premises equipment can make customers reluctant to change. In this regard, we think the Bells have a temporary advantage because of their ability to add wireless phones to the bundle. Over time, however, as broadband penetration continues to grow, as cable continues to maintain its lead in the residential market, and if wireless number portability becomes a reality, cable should be able to mitigate some of the stickiness in the Bell offering.

- ***Customer Trust/Branding/Marketing.*** As the battle of the bundles becomes more of a marketing battle, customer trust and brand loyalty will become more important. Some might suggest as a generic matter, that phone companies have a better reputation for service. While this may be true, we think that to a certain extent currently, and increasingly over time, this will be a company-specific matter. Cox, for example, has done well with its bundles, in part because it has spent the money on customer service. Cox enjoys a better reputation among its existing customers and, therefore, can cross-sell and up-sell more easily.

  The Bells do have a marketing advantage in that their footprints are more rational, thereby leading to the ability to market their services more efficiently. Bundles also will make the brand more important. In this regard, SBC and BLS have a slight disadvantage, as their wireless brand is distinct from their voice and data brands.

- ***Corporate Organization.*** The Bells will have challenges bundling their wireless with other offerings, as the corporate ownership of the wireless entities is not aligned precisely with the ownership of the wired network. This will make their marketing strategy, pricing allocation, and other decisions more complicated than those faced by the cable operators, all of which own 100% of the assets they will use in offering the bundle. So cable may have the advantage of being able to respond more quickly to market feedback.

- ***Mitigating Weaknesses.*** Both cable and the Bells have a potential Achilles' heel in the bundling battle. For the Bells, the problem is the lack of a video offering. Barring some major technological achievement, it does not appear likely that the Bells will be able to use their current networks to provide video services in the short- to midterm. Further, by the time they perfect a video-over-copper technology, such as ADSL, it is likely that the picture quality required by the customer who can get high-definition TV from both satellite and cable will be such that the Bell network will not be competitive for video. For the Bells, then, the only way to mitigate the lack of a video offering is through a cross-marketing deal with a DBS provider, which as noted previously, has not been very successful in the past but may have a better chance now.

  For cable, it is the lack of a wireless offering that could prove problematic. If so, however, cable has several options because of the number of facilities-based wireless providers. MSOs could create a virtual wireless network (as Virgin Wireless is doing with Sprint PCS), in which the cable operator could create a branded wireless service that appears to the consumer as a seamless offering from the same provider. Cable companies also could choose to enter into cross-marketing agreements (presumably with a non-Bell-affiliated wireless provider, such as AWE, NXTL, PCS, or VoiceStream) in which the wireless service is offered to consumers, much as the Bells have cross-marketing agreements with DBS providers. Finally, an MSO could buy a wireless provider. We don't think this is likely at this time, as it is not yet clear if wireless is essential to the consumer bundle, but, if in the future wireless consolidation reaches a level at which wholesale deals are much less attractive and if the wireless part of the bundle were viewed as critical, the odds of an acquisition or some other kind of transaction assuring cable access to a wireless network would increase.

Companies That Provide Services to Service Providers. Bundling will have an impact on those customer-care companies that handle back-office issues, billing, and other customer services for the large service providers. If bundling is done through a flat, fixed-rate price reduction, bundling will have very little impact on customer-care companies, as the service companies still can maintain numerous billing systems and "electronically staple" them together at statement publishing time. The computer simply reduces the amount to be charged by some fairly simple formula. This type of offering would have little impact on those that provide service to the service providers.

When the service providers begin to introduce more complex bundling offerings, they will require systems that are much more flexible and fully convergent. Most legacy billing systems can't perform in a very complex bundling environment, in which case the providers would have

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to work with the customer-care vendors that are most capable of offering this type of system, have the best architecture, and are more fully convergent — mainly Amdocs and Covergys, and possibly CSG's Kenan. This would be a positive for those billing systems that could handle the requirements, as the providers would have to replace legacy systems and require further integration and migration services.

Understanding the customer's particular bundle will become increasingly more important to the service provider. But the negative fallout on the less vertically integrated providers could hurt the software and customer-care sectors if it reduces the number of providers that need those solutions.

How Consumers View the Services. For customers, bundling will mean that they will look at communications, information, and entertainment services differently. In the past, customers bought services in which the cost was related to time and distance, particularly with long-distance phone service and, in the early years, wireless. As bundling grows, customers increasingly will be buying access to the network, but the costs are not necessarily a function of how much time one spends on the network or where one is communicating. In the past, customers bought individualized products from different service providers. As bundling grows, customers increasingly will view a company as an integrated provider of multiple services. The more customers look at the market that way, the more difficult it will be for single-service providers to prosper.

VII. CONCLUSION: Redefining the Value Proposition by (Hopefully) Getting Consumers to Pay More, for More.

With the ongoing elimination of the Bell long-distance restrictions and the advent of cable telephony, we believe that Bell and cable efforts to sell bundles over their dominant networks will grow. We also believe that the success of those efforts will be critical to the financial health of the two groups as well as their other competitors.

Bundling, however, is not occurring in a vacuum. It is occurring as all the parties face more competitive and financial pressures in a converging market. Bundling, in many ways, is an opportunity to mitigate those pressures by creating a more secure relationship with the customer. In the long run, we believe there are two likely ways to do that: by lowering the price or by offering a better, and possibly even unique, service.

While lower prices through bundles is both inevitable and appropriate, if bundling simply leads to a price war, as happened in the late 1980s with long distance and in the late 1990s with wireless, then none of the companies is likely to be better off, unless like Wal-Mart, they are able to win the lion's share of the customer base. With networks that have fixed costs, the value proposition of paying less for the same thing is ultimately a recipe for problems. If bundling simply lowers prices, the only party that can "win" will be the low-cost provider, and even it won't necessarily prosper. Customers will likely demand a discount for the bundle. If the lower price reflects the lower operating costs of the service provider, the price reductions should be sustainable and should improve the provider's competitive position. If, however, price reductions are the only value-add of the bundle, we believe it may ultimately not reduce churn and would probably represent a negative trend for the overall communications sector.

The other scenario is for companies to create new and higher levels of service. We believe bundling also represents an opportunity for both the Bells and the cable companies to create a different value proposition for the customer — one of paying more, for a lot more. The key to making bundling work, in our opinion, is using the customer relationship to discern and design new products and improve service for customers in ways that improve their lives and productivity. Good customer service does not come without a reduction in margins, and in today's economic climate, there is a temptation to cut customer service to improve margins. To build long-term customer loyalty, however, accepting those costs is essential.

A third scenario recently was suggested by a communications executive who argued that consumers should have to start paying more for the same level of service. We think this viewpoint underestimates the competitive forces now in the market and is unlikely to succeed. If, however, companies could impose significant price increases for the same services, we believe, such actions would lead invariably to political pressure for new regulation.

In trying to determine the long-run implications of bundling for all parties, therefore, we think it will be instructive to watch how the bundles are marketed. If the focus is on price, we think there may be some short-term winners but ultimately they will find the customer loyalty, and therefore their upside potential, to be limited. If, however, the companies focus the marketing on the service advantages of bundling, we think they will be able to develop a more sustainable, and more profitable, relationship with the customer.