EXHIBIT Q-3

APPENDIX: Breakdown of Current Bundling Efforts

A. Bell/ILEC Bundles

Verizon (VZ). Verizon currently is testing a number of different bundles. Its core strategy is grounded in what it perceives is the key advantage of being able to bundle local and long-distance phone services. It also emphasizes that at this point, it wants to keep packages simple for the sake of sales and customer service. Currently, the packages are oriented for the residential market, but by 3Q, Verizon plans to roll out bundle initiatives for small businesses.

In some states in which it has local and long-distance services, the company is offering a package of local, long-distance and 3-4 premium services (such as caller ID) with an 8 cents per minute long-distance rate. Verizon regards this as a successful test, as 25% of its new customers in long distance buy such a bundle.

In New York, Massachusetts, New Jersey, Connecticut, Rhode Island and New Hampshire, Verizon is offering a one-bill option for local, long-distance, ISP, and wireless services. While the offerings are too new to provide reliable data on their impact, Verizon reports that anecdotal evidence suggests a high level of customer enjoyment and a material reduction in wireless churn. In Massachusetts, it also has launched a package with a wireless discount of $5 a month and a package with a DSL discount of $5 a month. Eventually, Verizon will likely combine the two for a $10 discount. Another test will be a wired-wireless mailbox, which it plans to begin offering in Tampa in June. Verizon said it was too early to release any numbers from these tests but indicated that it was pleased with the results and that customer interest in bundles appears to extend across all demographic groups.

Verizon hopes to launch a one-bill offering nationally in August, with a wireless and DSL discount package also available nationally in the third quarter. The major hurdle to doing more is the need to complete the Sec. 271 long-distance process in all its states. Once it does so, it is likely to begin mass-media marketing for the bundles, whereas now it is using targeted marketing techniques such as direct mail and telemarketing.

SBC (SBC). SBC recently rolled out in several states a Cingular/wireline package that offers a choice of discounts. Customers will be able to choose from a variety of service options for both landline and wireless service, and will receive a single bill from SBC. New Cingular customers who sign up for the landline/wireless service packages will receive a 10% discount on the wireless monthly rate portion of their bills for Cingular local plans, or a 5% discount for Cingular national plans. Cingular service options currently are available in the SBC Ameritech states of Michigan, Ohio and Wisconsin, with availability in Illinois and portions of Indiana scheduled for late June. The wireless services options are expected to be available in the SBC Southwestern Bell region — covering Texas, Missouri, Oklahoma, Kansas and Arkansas — in late June, with SBC Pacific Bell and SBC Nevada Bell expected to follow in August.

SBC recently signed a joint marketing agreement with EchoStar to bundle SBC's DSL offering with EchoStar's DBS video offering. The agreement calls for SBC to offer service discounts of up to $10 per month to consumers who buy the bundle, with both the SBC and EchoStar bills reflecting a $5 discount, and for EchoStar to market SBC's DSL service through its sales channels. Full availability is scheduled for later this summer. Later in the year, SBC plans to offer discounted service options for customers who subscribe to both SBC's high-speed DSL Internet service and EchoStar's DISH Network. Some have suggested that eventually, SBC will be able to utilize DSL to provide video-on-demand in order to compete with cable's offering, but the technology is still unproven.

It should be noted that this kind of joint marketing bundle has been tried before, by AT&T, Bell Atlantic, and SBC each separately with DirecTV, but none of these efforts produced significant results. The new deal is different in that it calls for the DBS provider to affirmatively sell the telco services. The market also is different in that telcos now have greater concerns about cable's cannibalizing their Internet, and eventually voice, customers, so there may be a stronger incentive for SBC to make the agreement productive. Nonetheless, the economic incentives inherent in a joint venture, as opposed to an offering by a single company, undercut the long-term upside potential.

<u>BellSouth (BLS).</u> BellSouth offers a bundle called Complete Choice Residential Offering. It offers local service plus 20 calling features (everything except voice mail, which is extra) for $34 per month. It also offers one bill for all services, including Cingular (SBC-BLS venture) wireless, within the BLS region. It offers a discount that increases when additional features are added to the bundle. For example, when DSL is added to the bundle, the customer receives a 10% (generally $5) monthly discount. If wireless is added on top of that, there is an additional $5-$10 monthly discount. BellSouth believes the program reduces churn but has not released any related data. Because BellSouth received its first long-distance approvals only recently, the value of the program is not fully realized.

<u>Qwest (Q).</u> While Qwest's wireless business is experiencing the industry slowdown in growth, adding no new net subscribers during 1Q02, it nonetheless uses its local wireline dominance to help drive wireless sales. As then-CEO Joe Nacchio noted during the company's first quarter call, "We have continued to focus on our wireless unit such that it is only now selling bundled service." Qwest believes that 60% of its wireless sales to new customers are bundled with local service; by the end of 2002, Qwest expects that 30% of its total wireless subscribers will subscribe to a bundled package.

Qwest finds that the churn rate for wireless subscribers who buy a wireline package is one-fourth that of non-bundled subscribers. For subscribers whose bundle includes high-speed DSL service, the churn rate is one-sixth. Qwest indicated that it does not use its customer databases for marketing purposes but finds that almost all of its new wireless adds come through in-bound call channels, meaning that its wireless marketing efforts are largely a function of the company's local phone business.

Qwest markets to, and has primarily attracted, "high-end" customers to the wireless/wirelinebundle, and those customers have remained the stickiest to the bundled product. One of the features that Qwest points to as having demonstrated value to its customers is integrating the phone services so that wireless/wired bundle customers enjoy such features as calls to the home phone being automatically forwarded to the wireless phone.

Sprint (FON/PCS). Sprint cross-sells its wireless and long-distance services as well as its local and long-distance wireline services to existing customers of both products. At an analyst meeting Sprint noted that 60% of its recent consumer long-distance sales came from its Sprint PCS customer base. Where Sprint has local service it also cross-sells the other products with great success. In what might be a leading indicator of what the world would look like post-271 completion, Sprint PCS achieves a 50% higher penetration level when paired with wireline service than when it does not have such a bundle. Even more dramatically, by bundling local and long distance, Sprint has achieved a 46% long-distance penetration rate in its residential local markets, about five times its national rate. It offers four local/long-distance packages, including the top-of-the-line Total Solutions, which includes 120 minutes of monthly long distance, with each additional minute costing 6 cents. Sprint is planning on offering a one-bill option for customers later this year. Sprint also has been developing a One Sprint initiative that will offer advanced integrated services such as unified messaging, and integrated pricing.

Cincinnati Bell/Broadwing (BRW). In 2001, Cincinnati Bell reorganized its operations to be able to facilitate selling the whole bundle of voice and data services. Today, it offers a package of local, long-distance, wireless, and Internet access for $99.95 a month, representing a savings of about $30 a month from what it would cost to buy the services separately. Its wireless division enjoys a monthly churn rate of 1.6% which is about half of the average churn in the industry. The company also enjoys a 70% market share in the consumer long-distance market.

B. Cable Bundles

Cox Communications (COX). Cox has been the most successful cable operator in terms of bundling video, data and voice. The company states that customers enjoy the bundled offerings because of the price, technology, and reliability. Cox credits bundling as one of the major reasons that its basic subscriber growth in 1Q02 came in at 1.3%, in contrast with the lower numbers of other cable operators. Cox believes that new subscribers are attracted to the opportunity to buy more than one service from a reliable source.

Cox believes that its local telephone service is the stickiest part of the bundle, as consumers are impressed with the quality of service and pricing compared to those of the incumbent providers. Typically, the bundling of video and data saves the consumer 10% compared to stand-alone service, while the addition of voice service increases the total savings to 25%-35%. The voice product also includes the complete array of calling features (including voice mail, call waiting, caller ID, etc.) as well as long-distance (at $0.06 per minute) and second-line service at a 50% discount. Although Cox's rollout of circuit-switched telephone service is limited to certain markets at present, the company serves over 600,000 telephone subscribers and plans to expand the service to additional markets based on prior results. Additionally, the company is looking to tailor its high-speed data product to consumer needs by offering new data bundles with pricing based on transmission speeds.

Cox also is testing adding home networking services to the package. It is running a trial in selected New England markets in which it offers home networking hardware, software, professional installation and technical assistance. The test package is $349.95 for wireless solutions and $299.95 for wired solutions, with a monthly service fee of $9.95 a month for customer service assistance. These packages provide networking for up to four devices and two personal computers. Cox says its research indicates that more than one-half of its current broadband customers have an interest in such services. It plans to evaluate results of the trial and make further plans later this year.

The company has not noticed much of a difference in the demographics of customers taking the bundled offerings, nor has it seen much of an impact from consumer sticker shock upon receiving one bill for all Cox services. Another attractive part of the Cox offering is consumer-friendly billing. Under the plan, customers have the opportunity to designate when they will receive their bills during the month, and also have the option to split the billings for services throughout the month.

Cox has benefited from a reduction in churn for those customers who take the bundle. The company found that average monthly churn for cable subscribers was 1.7% in 2001, while churn for subscribers who took a video, data and voice package was less than half that, at 0.8%. Cox also believes that its bundle customers are more likely to take on some additional services.

Charter (CHTR). Like most other cable MSOs, Charter Communications recently has touted reduced churn as one of the benefits derived through bundling its multiple service offerings. Charter currently offers three distinct products: basic video, digital video, and data services. The company is conducting technical trials of its voice telephony offering (approximately 16,000 subs), but the product is not available commercially.

Charter's current bundle of video (either analog or digital) and high-speed data service offers customer savings of upwards of $20 per month, depending on the data speed. About 55% of Charter's data customers subscribe to the lowest level of broadband speed (256-380 kilobits per second) at a rate of $29.95 per month; 30% select the 512-768 kbps service for $39.95 and 15% select the premium speed of 768+ kbps for $59.95. All the packages offer the consumer the one-bill option and the company reports that customers have not expressed sticker shock.

As a result of the bundling programs, Charter reported during its 1Q02 results that digital video customers with cable modems churned 32% less than digital-video-only customers, while customers who bundle basic cable and data churn approximately 20% less than those who take a single service. Charter's composite digital churn during 1Q02 was 5.2% (still higher than desired) while cable modem churn was 2.5%. The company believes that the addition of video-on-demand to the digital offering also will help reduce churn.

AT&T Broadband and Comcast (T unit, CMCSK). Clearly the largest cable opportunity to demonstrate the benefits of bundles could come as a result of the proposed merger between AT&T Broadband and Comcast. The merger would create the biggest provider of broadband services, covering 17 of the 20 largest metropolitan areas in the United States, with approximately 22 million basic cable subscribers, over 5 million digital cable subs, and the opportunity to serve more than 38 million homes with voice telephony upon completion of systems upgrades.

AT&T Broadband, currently the largest MSO in terms of total basic video subscribers and digital telephony subs, reports that in its upgraded markets (in which it can offer video, data, and voice), single-product customer churn is 2% per month. In those markets in which AT&T subscribers purchase two products, the churn rate drops to 1.6%, while the churn rate for three-product subscribers drops to 1.2%. It is important to distinguish markets that have been upgraded from those that have not, as AT&T Broadband has lagged behind its large MSO peers, with only 60% of its plant upgraded to 750+ MHz of capacity as of 1Q02. Obviously, upgrading the company's facilities and increasing the existing EBITDA margins will be a top priority for the new company, and we believe that the bundling strategy will play an important role.

AT&T's planned merger partner, Comcast, recently introduced a bundled promotion that includes digital video and cable modem service for $69.95 per month for the first three months, and $99.00 per month thereafter. On an à la carte basis, Comcast currently is offering digital cable for approximately $54.95 per month and high-speed data at $54.95 per month, meaning that the initial three-month discount derived through bundling is approximately 37%, while the remaining months are discounted by nearly 10%. The company has not released any specific churn statistics for the new package, but we believe that the deep initial discounts could stimulate consumer trials of the products because no contract is required beyond the initial three-month period. Such an offering structure also could have the negative impact of higher *reported* digital churn if users decide to "downgrade" to basic video after the initial offering period expires.

AOL Time Warner (AOL). Despite its corporate integration efforts, AOL Time Warner's bundling initiatives have been somewhat limited so far, though we understand that further packages are on the drawing board. In its Time Warner cable areas, AOL is bundling digital cable, a choice of four premium channels, and its Road Runner high-speed Internet service — a package that costs about $108 in Manhattan. AOL's cable telephony initiative, to date, has been limited to tests in Portland, ME, and Rochester, NY.

Cablevision (CVC). Cablevision Systems markets a single-bill, bundled offering, comprised of video and data service, with the discounted pricing dependent on the level of video service. High-speed data service, without Cablevision video service or with Cablevision basic video, is currently priced at $49.95 per month. If the consumer chooses Cablevision's "Family Cable" plan, the bundled savings is $10 per month ($39.95 for data), while a bundle including "Family" plus any extra service, including premium channels and digital cable, saves the customer $15 per month ($34.95 for data) representing a 30% discount on data. Additionally, Cablevision recently announced that its data customers can enhance their service by adding a suite of security software products including Computer Associates' eTrust EZ Armor solution. Cablevision's online subscribers can utilize the security package for $29.95 during the first year, which the company states is a 40% discount off "average industry prices," and $19.95 each succeeding year.

C. Broadband Service Providers

RCN (RCNC). The only publicly traded BSP is RCN. (Another BSP, Knology, has some publicly traded debt.) RCN recently began to offer a bundle of services, which it calls RCN Essentials. The bundled package includes RCN's full basic cable video service with one digital converter box, one phone line with unlimited local calling, and high-speed cable modem Internet service. The company says the product will allow consumers to build their own bundle by customizing the basic package of core communication services through the purchase of additional voice, video and data products. The product is being launched in the Boston, New York, Philadelphia, Lehigh Valley, PA, San Francisco, Los Angeles, and Washington, DC, metropolitan markets.

D. Limited Service Provider Bundles

DBS. As noted previously, there have been several efforts to bundle DBS with telco services through joint marketing agreements. While they have had minimal impact in the past, we think that the DBS providers and telcos have a stronger incentive to make such agreements work. EchoStar (DISH) and DirecTV (part of GMH) also have bundled broadband services with their video services, but they currently are arguing to the federal government officials reviewing their proposed merger that such offerings are not viable unless the government allows the merger to close. In any event, we believe DBS always will be at a disadvantage with the bundle, as it is unlikely to ever be able to offer an efficient fixed or mobile voice service on its own platform.

Non-ILEC Wireless. AT&T Wireless (AWE), Nextel (NXTL), VoiceStream (a subsidiary of DT), and Leap Wireless (LWIN), unlike the other three major national wireless providers, do not have an affiliation with an ILEC that facilitates a natural bundle with a wired service. (AWE offers a wireless/wire bundle in conjunction with AT&T Business Services for some businesses but does not offer any bundled package for its consumer subscriber base.) Nextel focuses on the business customer, so bundles targeted at the consumer market have less of an effect on Nextel. To a certain extent, AWE, VoiceStream, and Leap are banking on wireless replacing wired so that the bundle of local, long distance, and wireless effectively will be done on a consumer's wireless phone. Leap provides some evidence of this happening, as it reports that 26% of its users do not have a wired phone in their home. This could represent a long-term trend or it could represent a more-limited age-related phenomenon in which people do not have a wireline phone for a period of their lives. About 61% of Leap's customers without a wired phone were between the age of 18 and 34, and 75% were single. While this trend toward wireless replacement of wireline is important, it may not happen fast enough to protect the market share of the non-ILEC wireless providers. Further, it does not account for Internet access and video becoming critical parts of the bundle. If a significant number of customers want those services as part of a bundled offering, the pure wireless companies will be at a considerable disadvantage.

IXCs. The two major interexchange carriers (IXCs) — AT&T (T) and WorldCom (WCOM) — recognize that their consumer long-distance business is being diminished by wireless, by e-mails, and to an ever-growing extent, by Bell entry into long distance. The latter trend, we believe, will accelerate this fall with a number of new Sec. 271 long-distance approvals. The Bell offerings are particularly problematic, as the local/long-distance bundle presents a competitive offering that AT&T and WorldCom have a difficult time emulating.

In response, AT&T and WorldCom have announced plans to build, in effect, larger moats around their phone customers. AT&T now offers its customers a plan under which customers can make unlimited calls to other AT&T customers for $19.95 per month. WorldCom/MCI has a more direct counter to the Bell bundle, offering an "all-you-can-eat" local and long-distance service at flat rates that vary between $50 and $60 monthly. The program is clearly aimed at the high-end user, as the rates imply monthly long-distance fees of $35+ and a feature set including caller ID, voicemail, call waiting and three-way calling (comparable sets, which are implied in the pricing of the MCI plan, typically are used by about 16%-18% of the public). If a customer is not using caller ID or other features, the implied monthly long-distance usage is about $45. The plan is now available in 21 states, only five of which have been approved for Bell long-distance service; the states in question (if the entire state is served) account for approximately 10% of SBC's lines (KS, MO, OK), 31% of Verizon's lines (MD, MA, RI, VA), 45% of BellSouth's lines (AL, KY, LA, MS, SC, TN), and 84% of Qwest's lines (AZ, CO, IA, MN, ND, OR, UT, WA). (Our April 23, 2002, note contains a full discussion of the plan and is available upon request.)

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