

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

SURREBUTTAL TESTIMONY
OF
KENT W. DICKERSON

INTRODUCTION

Q. Please state your name, business address, employer and current position.

A. My name is Kent W. Dickerson. My business address is 6450 Sprint Parkway, Overland Park, KS 66251. I am employed as Director - Cost Support for Sprint/United Management Company.

Q. Are you the same Kent W. Dickerson who filed Direct and Rebuttal Testimony in this case for Sprint?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony?

A. The purpose of my Surrebuttal Testimony is to provide additional evidence and discussion regarding errors contained within BellSouth's potential deployment case. Specifically, I will further highlight problems with BellSouth's BACE model (Model) inputs and potential deployment case relative to CLEC collocation costs, General and Administrative (G&A) expense estimates, and Customer Acquisition Costs. I will also provide and discuss four straightforward sensitivity analyses of the BACE model which demonstrate its results to be illogical and

1 unreliable, thus rendering BellSouth's claims of non-impairment based on
2 potential deployment lacking credible evidence or support.

3

4 **BACE Model Errors – Collocation**

5

6 **Q. In your rebuttal testimony you presented an analysis of Sprint's externally**
7 **computed collocation build-out costs to those estimated by the BACE model**
8 **(See Exhibit KWD-4). Has Sprint's discovery requests to BellSouth resulted**
9 **in any evidence from BellSouth which could explain the dramatic**
10 **understatement of collocation build-out cost demonstrated by Exhibit KWD-**
11 **4 (554%)?**

12 **A. No. In fact BellSouth's response to Sprint's Fifth Set of Interrogatories, No. 15**
13 **(See Exhibit KWD-9), provides further evidence that the BACE model cost**
14 **estimates severely understate a CLEC's cost to establishing collocations within**
15 **BellSouth central offices. I would first point out that BellSouth's response admits**
16 **that the BACE model collocation build-out cost calculations cannot be seen as**
17 **follows:**

18 **Sprint Request**

19 **"e. Where in the model can calculations of such engineering costs be viewed?"**

20 **BellSouth Response**

21 **"e. The calculations cannot be viewed within the BACE Model."**

22 **This same Sprint Interrogatory No. 15 requested that BellSouth identify if the**
23 **BACE model accounted for CLEC engineering costs for DC power cables, cross**
24 **connect cables and collocation equipment and, if so, where in the Model it was**
25 **located. BellSouth's response claims these necessary CLEC collocation costs are**

1 buried in "In-Plant Factors" derived from BellSouth's internal cost records while,
2 at the same time, admitting none of their claim can be viewed and thus verified by
3 an external party such as Commission Staff or Sprint.

4

5 **Q. Do you believe BellSouth's claim that "In-Plant Factors" derived from**
6 **BellSouth's internal cost records and then buried somewhere in the BACE**
7 **Model's invisible calculations, provides adequate assurance these costs have**
8 **been properly estimated and included in the estimate of CLEC collocation**
9 **build-out costs?**

10 A. No, for several reasons. The first and most obvious reason I do not accept
11 BellSouth's claim is because of the extreme understatement (554%) of CLEC
12 collocation build-out costs demonstrated in Exhibit KWD-4 of my rebuttal
13 testimony. Construction costs of DC Power cables are an integral part of a CLEC
14 collocation build-out costs and, while it is convenient for BellSouth to offer
15 unsubstantiated claims that these costs are, in some fashion, buried in "In-Plant
16 Factors" contained elsewhere in the BACE Model, this explanation does not
17 stand up to a simple test of logic. As stated above, CLECs' construction costs of
18 DC Power cables are integral to the "build-out" costs of CLEC collocation space
19 and yet BellSouth now claims these costs are not logically intended to be captured
20 in their understated BACE model ColloBuildOut calculations. Rather, BellSouth
21 asks the Commission and all other parties including Sprint to accept, without
22 evidence, that these costs are buried in factors and unseen calculations contained
23 elsewhere in the "private" BACE Model. This is, at a minimum, an extremely
24 illogical approach to estimating CLEC costs of constructing DC Power cables as
25 part of collocation build-outs.

1 BellSouth's assurance is also implausible given the fact that BellSouth does not
2 perform the engineering and construction of DC power and Cross-connect cables
3 on behalf of CLECs. Instead, BellSouth requires CLECs to bear these costs
4 directly via the CLECs contracting this work themselves using BellSouth
5 approved contractors. Therefore, "In-Plant Factors" derived from BellSouth's
6 internal records would not reflect a CLEC's construction costs (which were never
7 incurred by BellSouth) and thus never reflected in BellSouth's internal accounting
8 records.

9
10 **Q. Ignoring for the moment the fact that BellSouth's internally derived "In-**
11 **Plant Factors" do not include CLEC's collocation construction costs (which**
12 **are never borne by BellSouth), does BellSouth's assurance otherwise make**
13 **sense?**

14 **A.** No, it does not. Starting at the bottom of page 40 of the BACE Model
15 Methodology Manual, the following explanation is provided:

16 "ApplyLoadings (Network Cost table only)"

17 "The Yes/No flag indicates whether BACE should apply the InPlant and Loadings
18 factors from the InPlantAndLoadings table to the cost record. Possible entries
19 include Y or N. Typically, costs that are capital expenditures represents material
20 only and will require the application of InPlant and Loading factors and have
21 ApplyLoadings set to "Y". "

22
23 The ApplyLoadings indicator for all ColloEquipment items contained in
24 BellSouth's filing (including Cross-Connect cabling, which was a subject of
25 Sprint Interrogatory No. 15) was set to "N" thus rendering BellSouth's claim

1 unquestionably false. Even if their “In-Plant Factors” could somehow be
2 accepted to include CLEC costs never incurred by BellSouth, the fact that
3 BellSouth’s filing did not apply those factors to CLEC collocation equipment
4 proves BellSouth’s filing excludes these substantial and necessary costs. This
5 omission of CLEC collocation build-out costs understates each CLEC collocation
6 within the BACE Model and renders the EELs vs. Collocation “Optimization”
7 unreliable as well. Ultimately, this substantial cost omission renders BellSouth’s
8 cumulative NPV figures and their associated claims of CLEC non-impairment
9 inaccurate and unreliable as well.

10
11 **BellSouth Potential Deployment Errors – G&A Expenses**

12
13 **Q. In your rebuttal testimony you expressed concern with BellSouth’s use of a**
14 **linear factor relationship to revenues in order to estimate what Dr. Aron**
15 **described as CLEC General and Administrative expenses. Do you have**
16 **further evidence to offer on this subject?**

17 **A.** Yes. Attached as Exhibit KWD-10 to this testimony is Sprint’s Third Set of
18 Interrogatories, No. 6 and BellSouth’s corresponding response. Starting at the top
19 of page 2 of 3 and continuing on to page 3, it is immediately evident that Dr. Aron
20 has erroneously classified numerous FCC Part 32 investment related expense
21 accounts as “G&A expenses”. Obvious errors in Dr. Aron’s G&A expense
22 groupings include her inclusion of Network Support expense (Accounts 6110 –
23 6116), General Support expense (Accounts 6120 – 6124), Provisioning (Account
24 6512), Network Operations expense (Accounts 6530 – 6535) and Customer
25 Services expense (Accounts 6620 – 6623). Even a casual examination of the FCC

1 Part 32 account structure instructs that these expense accounts are not General and
2 Administrative expenses as Dr. Aron asserts, but rather are costs associated with
3 either investment related activities (Accounts 6110 - 6116, 6120 - 6124, 6512, and
4 6530 - 6535), or customer related activities (Accounts 6620 -6623). These errors
5 in Dr. Aron's "expense mapping" are compounded through her use of a linear
6 factor relationship of 28.4% of revenues (15% for long distance revenues) to
7 estimate these expenses. Investment related expenses such as Network Support,
8 General Support and Network Operations cannot be perfectly managed in lock
9 step with revenues as Dr. Aron's approach argues. Further, varying levels of
10 customer churn will directly affect customer service expenses while having a
11 much lower impact, or potentially no impact, on revenues. These additional errors
12 in BellSouth's CLEC expense estimation process provide yet another
13 demonstration that BellSouth's BACE Model NPVs are inaccurate and unreliable
14 for purposes of examining CLEC non-impairment in Mass Market Switch self-
15 provisioning.

16

17 **BellSouth Potential Deployment Errors – Residential Customer Acquisition Costs**

18

19 **Q. In your rebuttal testimony, you discussed your concerns with BellSouth's**
20 **proposed values for estimating CLEC customer acquisition costs. Have you**
21 **performed additional research in this area?**

22 **A.** Yes. As part of her testimony, Dr. Aron presented an Exhibit DJA-06 which
23 presented some figures alleged to be CLEC mass market customer acquisition
24 costs. In Sprint's First Request for Production of Documents (POD), Item No. 21
25 Sprint requested, and received from BellSouth, the external documentation

1 referenced in Exhibit DJA-06 enabling me to now comment further on this area of
2 concern.

3

4 **Q. According to Exhibit DJA-06, Z-Tel's customer acquisition target cost is \$50**
5 **and Z-Tel's actual cost is \$60-\$70. Do you agree with these figures?**

6 A. No. The actual quote from the DJA-06 referenced source document (POD Item
7 No. 21), the Thomas Weisel Partners report on Z-Tel Technologies (Exhibit
8 KWD-11) states,

9 "Z-Tel is making an increased effort to lower its customer acquisition costs to
10 below \$50 from **roughly \$100-\$120 excluding TV advertisements...**"
11 (Emphasis added.)

12

13 **Q. Are Z-Tel's customer acquisition costs representative of those that would be**
14 **incurred by a CLEC building market share, as BellSouth's BACE Model**
15 **filing purports to model?**

16 A. No. Dr. Aron fails to mention that Z-Tel was reporting a loss of 40,000 customers
17 and a 6% decline in revenue for that current quarterly period. This loss followed a
18 loss of 80,000 customers for the previous quarter. This cumulative loss of 120,000
19 customers on a starting base of 380,000 customers is a negative growth rate of
20 (31%) for just a six-month period. This does not represent the extremely fast
21 growing CLEC depicted in BellSouth's BACE Model filing. As noted above, the
22 Z-Tel actual costs exclude mass market television advertising which is also
23 inconsistent with the CLEC market penetration assumed in BellSouth's BACE
24 Model filing.

25

1 **Q. According to Exhibit No. DJA-06, Talk America's residential customer**
2 **acquisition cost is \$80. Do you agree with this number?**

3 A. No. Documentation in Talk America's Form 10-K filed with the SEC for the
4 fiscal year ended December 31, 2002, indicates a much higher cost. Talk
5 America's Form 10-K indicates the company incurred \$27.1 million in sales and
6 marketing expenses during 2002 while adding 154,000 new bundled (local and
7 long distance) customers. This would compute to an average customer acquisition
8 cost of \$175 per customer ($\$27,100,000 / 154,000$) or more than double the \$80
9 figure used by Dr. Aron.

10

11 **BACE Model Calculation Errors**

12

13 **Q. Have you performed any further analysis which evidences errors in the**
14 **BACE Model calculations?**

15 A. Yes. In Exhibit KWD-12 to this testimony, I provide the Commission with four
16 straightforward sensitivity analyses, which demonstrate the BACE Model's
17 internal workings and resulting NPVs to be illogical and unreliable. I will now
18 explain each of these.

19

20 In Exhibit KWD-12, I present key BACE Model results pulled from the BACE
21 Model output reports, NetIncome-Total (lines 7-19 of Exhibit KWD-12) and CEA
22 UneZone Reports (lines 23-34 of Exhibit KWD-12). Columns D-G represents
23 four distinct BACE Model sensitivity analyses which demonstrate extreme
24 problems with the BACE Model NPV results.

25

1 **Q. Please describe Column D of Exhibit KWD-12.**

2 A. Column D of Exhibit KWD-12 presents the results of running the BACE Model
3 with the cumulative input changes contained and described in Exhibit KWD-6,
4 Sprint Scenario 11 titled "Scenarios 2-10 Cumulative Changes", with one
5 exception, that being the use of BellSouth's filed values for customer acquisition
6 costs as shown on rows 38-42 of Column D. This BACE Model run produced a
7 negative Pre-Tax NPV for Mass Market of (\$16,197,393) (1a) and a positive Pre-
8 Tax NPV for Enterprise of \$47,486,823 (2a). Yet the BACE Model's after-tax
9 NPV for Mass Market is a positive \$17,280,924 (1b) and a negative after-tax
10 NPV for Enterprise of (\$50,663,472) (2b)! While it is proper to consider the
11 positive NPV impacts of reduced income taxes associated with a pre-tax negative
12 NPV for Mass Market, it is not conceivably possible for this to reverse the pre-tax
13 negative NPV to a positive after-tax NPV. Conversely, it is not possible for
14 income taxes to reduce the Enterprise NPV from a positive pre-tax value to a
15 negative after-tax value. Yet those are the results produced by the BACE Model!
16 While the BACE Model calculations cannot be traced within the model, it is
17 obvious that the Model's estimated Tax NPVs and after-tax NPVs for both Mass
18 Market and Enterprise are grossly in error.

19
20 **Q. Please describe Column E of Exhibit KWD-12.**

21 A. Column E of Exhibit KWD-12 presents the results of running the BACE Model
22 with the inputs used to generate Column D, except that Column E uses the
23 increased sales cost input values as shown on rows 38-42 of Column E (versus the
24 lower BellSouth values used in Column D). Please note this single input value
25 modification increases sales costs for both Mass Market and Enterprise. (This

1 single change can be verified by comparing the values on rows 7-13 in the
2 respective columns and noting that they remain constant but for Sales Expenses
3 on Row 11 as described for each column.) Yet this single value change, which
4 increases sales costs for all customers including Enterprise, drives the after-tax
5 NPV for Enterprise from a negative (\$50,663,472) (2b) to a positive \$13,268,463
6 (2c)! It defies logic to suggest that an increase in sales costs would drive the NPV
7 results of serving Enterprise customers from negative to positive and yet that is
8 the erroneous result the BACE Model yields.

9
10 **Q. Please describe Column F of KWD-12.**

11 A. Column F starts with Column E and reduces only the sales cost for Enterprise
12 customers as shown in rows 39-43 of Column F versus the same in Column E.
13 Once again the BACE Model produces extremely anomalous results. Under this
14 scenario, the BACE Model results depict that it is somehow possible to increase
15 the losses for negative after-tax NPV Mass Market from (\$133,625,579) (1c) to
16 (\$227,115,584) (1d), when no changes were made to Mass Market input values
17 and in fact, a sales cost reduction for Enterprise was the only input value altered!

18
19 **Q. Please describe Column G of KWD-12.**

20 A. Column G simply reverses the sensitivity performed in Column F and reduces the
21 sales cost input values for Mass Market from the levels used in Column E, while
22 holding the values for Enterprise customers in Column G constant to Column E.
23 This BACE Model run yields effectively the same error described for Column F
24 above. Although the Enterprise customer sales costs are held constant and the
25 Mass Market customer sales costs are reduced, the BACE Model results from this

1 run reduced the after-tax NPV for Enterprise customers from a positive
2 \$13,268,463 (2c) to a negative (\$76,855,450) (2d).

3

4 These straight forward sensitivity analyses presented in Exhibit KWD-12
5 demonstrate the BACE Model NPV results to be fatally flawed and unsuitable for
6 the conclusions asserted by BellSouth.

7

8 **Q. Does this conclude your Surrebuttal testimony?**

9 **A. Yes.**

10

11

12

13

REQUEST: For the purposes of this question, engineering costs incurred by a CLEC for each wire center in which the CLEC collocates include costs related to the placement of power cabling, cross-connect cabling and collocation equipment.

- a. Have all of the CLEC costs for engineering of its collocation arrangements listed above been included in the BACE Model?
- b. Where in the model are such engineering costs included?
- c. How are such engineering costs calculated?
- d. Where in the model can such engineering cost results be viewed?
- e. Where in the model can calculations of such engineering costs be viewed?

RESPONSE:

- a. Yes. Costs related to engineering and placement of equipment, including cabling are incorporated into the BACE Model results via in-plant factors.
- b. In-Plant factors found in the In Plant and Loadings factor table account for the engineering and installation of equipment. Support and Power loading factors identified in the In Plant and Loadings table account for the material costs of power cabling to the CLECs collocation equipment.
- c. The annual material Amount associated with each Network Cost Input that has an associated PlantCat is multiplied by the In-Plant factor for the identified PlantCat to establish the installed investment associated with the equipment. Similarly, the BACE Model logic matches Network Cost Input records with the appropriate Support and Power loading factor by matching on PlantCat and multiplies the factors by the installed investment.
- d. The costs related to the In-Plant and Support and Power factors are included in the PlantCat investment associated with each cost element, i.e., it is not separated from the material investment.
- e. The calculations cannot be viewed within the BACE Model.

RESPONSE PROVIDED BY: Bob McKnight
James Stegeman

REQUEST: Map each USOA Part 32 Expense Account (6XXX series), at a 4-digit level, to the following expense categories reflected in the model and its reports:

Opex/Mtce
COGS
Sales
G&A

RESPONSE: Since the BACE model does not explicitly use the USOA account structure, the mapping of categories to accounts is approximate. See below for all the part 32 expense accounts and the associated expense category as requested by Sprint. Note that although BACE allows the user to enter Network Operations costs for all the Part 32 expense items, the "Opex/Mtce" costs included in the BACE results are based on the equipment necessary to provide the modeled services. Thus, costs associated with each of the listed accounts may not be included in the BACE results filed for this proceeding. That is, there may not in fact be equipment included in BACE that is associated with each part 32 "Opex/Mtce" subaccount.

In addition to the items listed below, the cost of goods sold (COGS) also includes UNE loops and other service and network capabilities leased from BellSouth or other providers. Depreciation, amortization and provision for uncollectible notes receivable accounts are not used in the model. However, depreciation expense is calculated in the model for the purposes of calculating income taxes, but is not a cash flow used in the NPV calculation. Note that the 6XXX series of expense accounts omits many important negative cash flows included in the BACE model such as capex, taxes, and bad debt.

RESPONSE: (Cont.)

Account	Account Description	Category
6110	Network support expense	G&A
6112	Motor vehicle expense	G&A
6113	Aircraft expense	G&A
6114	Special purpose vehicles expense	G&A
6115	Garage work equipment expense	G&A
6116	Other work equipment expense	G&A
6120	General support expenses	G&A
6121	Land and building expenses	G&A
6122	Furniture and artworks expense	G&A
6123	Office equipment expense	G&A
6124	General purpose computers expense	G&A
6210	Central office switching expense	Opex/Mtce
6211	Analog electronic expense	Opex/Mtce
6212	Digital electronic expense	Opex/Mtce
6215	Electro-mechanical expense	Opex/Mtce
6220	Operators system expense	Opex/Mtce
6230	Central office transmission expenses	Opex/Mtce
6231	Radio systems expense	Opex/Mtce
6232	Circuit equipment expense	Opex/Mtce
6310	Information origination/termination expense	Opex/Mtce
6311	Station apparatus expense	Opex/Mtce
6341	Large private branch exchange expense	Opex/Mtce
6351	Public telephone terminal equipment expense	Opex/Mtce
6362	Other terminal equipment expense	Opex/Mtce
6410	Cable and wire facilities expenses	Opex/Mtce
6411	Poles expense	Opex/Mtce
6421	Aerial cable expense	Opex/Mtce
6422	Underground cable expense	Opex/Mtce
6423	Buried cable expense	Opex/Mtce
6424	Submarine cable expense	Opex/Mtce
6425	Deep sea cable expense	Opex/Mtce
6426	Intrabuilding network cable expense	Opex/Mtce
6431	Aerial wire expense	Opex/Mtce
6441	Conduit systems expense	Opex/Mtce
6510	Other property plant and equipment expenses	Opex/Mtce
6511	Property held for future Telecommunications use expense	G&A
6512	Provisioning expense	G&A
6530	Network operations expenses	G&A

RESPONSE: (Cont.)

6531	Power expense	G&A
6532	Network administration expense	G&A
6533	Testing expense	G&A
6534	Plant operations administration expense	G&A
6535	Engineering expense	G&A
6540	Access expense	COGS
6560	Depreciation and amortization expense	
6561	Depreciation expense—telecommunications	
	Depreciation expense—property held for future telecommunications	
6562	use	
6563	Amortization expense—tangible	
6564	Amortization expense—intangible	
6565	Amortization expense—other	
6610	Marketing	Sales
6611	Product management	Sales
6612	Sales	Sales
6613	Product advertising	Sales
6620	Services	G&A
6621	Call completion services	G&A
6622	Number services	G&A
6623	Customer services	G&A
6710	Executive and Planning	G&A
6711	Executive	G&A
6712	Planning	G&A
6720	General and administrative	G&A
6721	Accounting and finance	G&A
6722	External relations	G&A
6723	Human resources	G&A
6724	Information management	G&A
6725	Legal	G&A
6726	Procurement	G&A
6727	Research and development	G&A
6728	Other general and administrative	G&A
6790	Provision for uncollectible notes receivable	

RESPONSE PROVIDED BY: James Stegeman

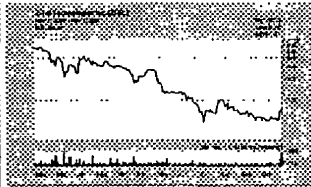


November 8, 2001

Telecom Services -
Integrated Communications
Providers

James J. Linnehan
212.271.3751
jlinnehan@tweisel.com

PT Luther
212.271.3752
pluther@tweisel.com



Source: FactSet

Z-TEL TECHNOLOGIES, INC.^{1,2} — MARKET PERFORM

STILL CHUGGING ALONG

Earnings Update

NASDAQ: ZTEL-\$1.34

Key Data	FY	2000	2001	2001 Prv	2002	2002 Prv	
Price	\$1.34	EPS					
52-Week Range:	\$1-\$10	Q1	(\$0.48)A	(\$0.60)A	(\$0.60)A	(\$0.34)E	(\$0.09)E
Market Cap.(mn):	\$45.5	Q2	(\$0.70)A	(\$0.64)A	(\$0.64)A	(\$0.29)E	(\$0.03)E
Shares Out.(mn):	34.0	Q3	(\$0.92)A	(\$0.77)A	(\$0.37)E	(\$0.24)E	\$0.02E
Avg Daily Vol.:	87,495	Q4	(\$1.23)A	(\$0.39)E	(\$0.14)E	(\$0.16)E	\$0.08E
Fiscal Year End:	31-Dec	Year	(\$3.35)A	(\$2.39)E	(\$1.75)E	(\$1.02)E	(\$0.02)E
		P/E	NM	NM		NM	
		Revenue(mn)					
Debt/Total Capital:	22%	Q1	\$14.0A	\$75.0A	\$75.0A	\$63.5E	\$74.6E
Price/TTM Sales:	0.2x	Q2	\$40.2A	\$73.1A	\$73.1A	\$66.1E	\$78.2E
Net Cash/Share:	\$0.11	Q3	\$54.4A	\$68.6A	\$69.2E	\$69.7E	\$78.5E
Book Value/Share:	\$0.00	Q4	\$69.1A	\$62.4E	\$71.4E	\$76.1E	\$79.4E
Price/Book Value:	NM	Year	\$177.7A	\$279.1E	\$288.8E	\$275.5E	\$310.7E
Secular Growth:	10%	TEV/Sales	0.2x	0.2x		0.2x	

EPS estimates are after one-time items

Executive Summary

- Z-Tel reported revenue of \$68.6 million in 3Q01, below our \$69.2 million estimate and down 6% from 2Q01. Z-Tel ended 3Q01 with 260,000 subscribers generating an ARPU of roughly \$75 versus 300,000 and \$63 in 2Q01.
- Gross margin was 44.2% in 3Q01, in line with our estimate. EBITDA (excluding one time charges) was (\$6.9) million in 3Q01, below our (\$4.4) million estimate, but better than (\$12.3) million in 2Q01. EPS were (\$0.77) in 3Q01 versus our (\$0.37) estimate.
- We are adjusting our model to reflect 3Q01 results and Z-Tel cleaning up its subscriber base. We are adjusting our revenue estimates from \$289 million to \$279 million in 2001 and from \$311 million to \$276 million in 2002. We are adjusting our EPS estimates from (\$1.75) to (\$2.39) in 2001 and from (\$0.02) to \$(1.02) in 2002.
- We believe the Z-Tel shares will remain under pressure until Z-Tel demonstrates its ability to grow its subscriber and revenue base through profitable sales channels. We believe Z-Tel will need to meet current expectations over the next few quarters and deliver improving trends in subscriber adds and profitability before investors revisit the shares.

Company Description: Z-Tel is an integrated communications provider. Z-Tel offers packages of local, long distance and Internet services integrated with Internet enhanced communication features. Delivered by proprietary software and an innovative network design, Z-Tel's services merge the familiarity and simplicity of the telephone with the power and visual, "point and click" facility of the Internet.

THIRD-QUARTER RESULTS

Z-Tel reported 3Q01 revenue of \$68.6 million, below our \$69.2 million estimate and down 6% from 2Q01. Z-Tel ended 3Q01 with 260,000 subscribers generating an average monthly revenue (ARPU) of roughly \$75 versus an ARPU of \$63 in 2Q01. Z-Tel lost 40,000 subscribers in 3Q01 versus 80,000 subscribers lost in 2Q01. The decrease in subscribers is due to Z-Tel writing off subscribers that were considered high credit risk.

Gross margin was 44%, better than our estimate of 43% and 43% in 2Q01. EBITDA (excluding one time charges) was (\$6.9) million, in line with our estimate and better than the (\$12.3) million in 2Q01. Z-Tel reported EPS of (\$0.77) versus our (\$0.37) estimate. The following table highlights Z-Tel's results versus our estimates.

Z-Tel 3Q01 Results

	TWP Estimate (millions)	Actual	Change/ Estimate	Change/ Prior Quarter
Revenues	\$69.2	\$68.6	-1%	-6%
Gross Margin	43.0%	44.2%	3%	3%
SG&A and R&D Expenses	\$34.2	\$37.2	9%	-15%
EBITDA	(\$4.4)	(\$6.9)	56%	-44%
EPS	(\$0.37)	(\$0.77)	106%	20%
Wght Avg. Shares Out.	33.9	34.0	0%	0%
				Vs. 3Q00
EOP HE Subs	308,542	260,000	-16%	256,093
Avg. Mthly Rev/Sub	\$70.00	\$70.00	0%	\$70.00

Source: Thomas Weisel Partners LLC estimates

Additional information is available upon request.

Thomas Weisel Partners LLC ("TWP") may from time to time perform investment banking or other services for or solicit investment banking or other business from, any company mentioned in this report. For the securities discussed in this report, TWP may make a market and may sell to or buy from customers on a principal basis. TWP, or any individuals preparing this report, may at any time have a position in any securities or options of any of the issuers in this report. Although the statements of facts in this report have been obtained from and are based upon sources TWP believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates included in this report constitute TWP's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of a security. This report does not take into account the investment objective, financial situation or particular needs of any particular person. Investors should obtain individual financial advice based on their own particular circumstances before making an investment decision on the basis of the recommendations in this report.

In the UK this document is not intended for and may not be distributed to or passed on, directly or indirectly, to Private Customers.

Thomas Weisel Partners International Limited, regulated by SFA, is the issuer and approver of this document.

¹Thomas Weisel Partners makes a market in the security mentioned in this report.

²Thomas Weisel Partners was a manager or comanager (within three years) of the most recent public offering of the company mentioned in this report.

³Thomas Weisel Partners may have a position or own options in the security; or any individuals preparing this communication have a position or own options in the security.

⁴Thomas Weisel Partners, a member, allied member, or employee is a director of the issuer.

Thomas Weisel Partners LLC, 2001. All rights reserved. Any unauthorized use, duplication or disclosure is prohibited by law and will result in prosecution.

KEY TRENDS

Churn. Z-Tel reported monthly churn of roughly 4%, in line with 2Q01. Z-Tel expects churn to remain at this level in 4Q01 as it continues to focus on eliminating poor credit quality customers.

Sales Channels. Z-Tel is making an increased effort to lower its customer acquisition cost to below \$50 from roughly \$100-\$120 excluding TV advertisements in 3Q01. Z-Tel plans to achieve this by cutting back on its use of telemarketing and eliminating the use of direct mail, as these are its most expensive sales channels. Z-Tel will instead focus on its agent sales and referral incentives such as its "City of America" plan.

Prepaid. Z-Tel announced that it intends to launch a prepaid product in order to retain the 50% of incoming orders it currently rejects due to credit concerns. While we believe this channel can deliver additional revenue at minimal cost, we are cautious with regards to increased churn typically associated with this type of customer base.

ADJUSTING OUR MODEL

As a result of Z-Tel's 3Q01 results, we are adjusting our model. We are lowering our revenue estimates from \$289 million to \$279 million in 2001 and from \$311 million to \$276 million in 2002. We are reducing our EBITDA estimates from (\$26.9) million to (\$37.4) million in 2001 and from \$32.9 million to (\$0.7) million in 2002. We are adjusting our EPS estimates from (\$1.75) to (\$2.39) in 2001 and from (\$0.02) to (\$1.02) in 2002. The decrease in EPS is largely due to reduced interest income previously expected from late fees that Z-Tel charges its customers. With the write-down of lower credit quality customers, we do not expect as great a contribution from late fees. The following table highlights the changes to our forecast.

Z-Tel Revised Estimates (\$mn except share data)

	2001E		2002E	
	From	To	From	To
Revenue	288.8	279.1	310.7	275.5
Gross Profit	123.8	121.1	136.3	125.3
Gross Margin	43%	43%	44%	45%
EBITDA	(26.9)	(37.4)	32.9	(0.7)
EBITDA Margin	-9%	-13%	11%	0%
Operating Income	(48.7)	(60.3)	13.7	(21.6)
Operating Margin	-17%	-22%	4%	-8%
EPS	(\$1.75)	(\$2.39)	(\$0.02)	(\$1.02)
End of Per. Subs. Home Edition	324,882	264,350	409,500	334,420

Source: Thomas Weisel Partners LLC estimates

INVESTMENT THESIS

We believe ZTEL shares will remain under pressure until ZTEL demonstrates its ability to grow its subscriber and revenue base through profitable sales channels. As a result, we reiterate our MARKET PERFORM recommendation. Z-Tel is currently trading at 0.1x our 2002 revenue estimate versus a CLEC average of 2.8x.

Z-Tel Quarterly Income Statement

	2000A	Mar 1Q01A	Jun 2Q01A	Sep 3Q01A	Dec 4Q01E	2001E	Mar 1Q02E	Jun 2Q02E	Sep 3Q02E	Dec 4Q02E	2002E
Revenue	177.7	75.0	73.1	68.6	62.4	279.1	63.5	66.1	69.7	76.1	275.5
Network Cost	107.1	43.3	41.7	38.3	34.7	158.0	35.0	36.1	37.9	41.2	150.1
Gross Profit	70.6	31.7	31.4	30.3	27.7	121.1	28.5	30.0	31.8	35.0	125.3
Gross Margin	39.7%	42.3%	43.0%	44.2%	44.4%	43.4%	44.9%	45.4%	45.7%	45.9%	45.5%
Sales Expense	45.0	12.8	8.9	3.9	3.5	29.1	3.1	2.9	2.7	2.7	11.3
General & Admin Exp.	91.3	30.2	32.3	31.1	26.8	120.4	26.7	26.7	27.0	27.6	108.1
R&D Expense	8.3	2.4	2.6	2.3	1.9	9.1	1.8	1.7	1.6	1.5	6.6
EBITDA	(74.0)	(13.6)	(12.3)	(6.9)	(4.6)	(37.4)	(3.0)	(1.2)	0.5	3.1	(0.7)
EBITDA Margin	NM	NM	NM	NM	NM	NM	NM	NM	1%	4%	NM
Depreciation & Amort.	17.2	6.0	6.5	5.3	5.1	22.95	5.2	5.2	5.3	5.3	21.0
Total Operating Exp.	268.9	94.7	91.9	80.8	72.1	339.4	71.7	72.6	74.5	78.3	297.1
Operating Income	(91.2)	(19.6)	(18.8)	(12.2)	(9.7)	(60.3)	(8.2)	(6.5)	(4.8)	(2.2)	(21.6)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Interest Exp. (income)	(3.2)	(2.05)	(0.14)	(0.36)	0.05	(2.49)	0.08	0.05	(0.01)	(0.12)	(0.01)
Income Before Tax	(88.0)	(17.6)	(18.6)	(11.9)	(9.7)	(57.8)	(8.3)	(6.5)	(4.8)	(2.1)	(21.6)
Taxes	-	-	-	-	-	-	-	-	-	-	-
Net Income	(88.0)	(17.6)	(18.6)	(11.9)	(9.7)	(57.8)	(8.3)	(6.5)	(4.8)	(2.1)	(21.6)
Preferred Stock Dividend	3.6	2.5	3.0	5.3	3.6	14.5	3.6	3.6	3.6	3.6	14.5
Net Income to common	(91.6)	(20.1)	(21.7)	(17.1)	(13.4)	(72.3)	(11.9)	(10.1)	(8.4)	(5.7)	(36.1)
One Time Items	20.4	-	-	8.9	-	8.9	-	-	-	-	-
Net Income after One Time Items	(110.7)	(20.1)	(21.7)	(26.0)	(13.4)	(81.2)	(11.9)	(10.1)	(8.4)	(5.7)	(36.1)
Weighted Avg. Shares Out	33.1	33.8	33.9	34.0	34.0	33.9	34.5	35.01	35.53	36.07	35.3
Diluted Shares Out	37.7	38.7	39.6	40.6	41.6	40.1	42.2	42.88	43.52	44.18	43.2
EPS	\$ (2.77)	\$ (0.60)	\$ (0.64)	\$ (0.50)	\$ (0.39)	\$ (2.13)	\$ (0.34)	\$ (0.29)	\$ (0.24)	\$ (0.16)	\$ (1.02)
EPS (after one time Items)	(3.35)	(0.60)	(0.64)	(0.77)	(0.39)	(2.39)	(0.34)	(0.29)	(0.24)	(0.16)	(1.02)

Source: Company reports and Thomas Weisel Partners LLC estimates

11/08/01

EQUITY RESEARCH DIRECTORY

Sprint-Florida, Inc.
Docket No. 030851-TP
Exhibit KWD-11
Page 6 of 6
Filed: January 28, 2004

Mark Manson • Director of Research • mmanson@twisel.com • 212.271.3815 or 415.364.6955
H. Perry Boyle, Jr., CFA • Deputy Director of Research • pboyle@twisel.com • 212.271.3750

Growth Strategy Group

David Readerman, CFA, Partner
Equity Growth Strategist
dreaderman@twisel.com 415.364.2573
Sanjay Puri 415.364.7039
Jeff Gregor 415.364.2757

Erika Henik, Vice President
ehenik@twisel.com 415.364.5990

Mat Johnson, Vice President
Economist
mjohnson@twisel.com 415.364.2769
Shane Wells 415.364.2794

Communications Equipment

Wireline Equipment

Hasan Imam, PhD, Principal
himam@twisel.com 212.271.3698
Bobby Sarkar 212.271.3582
Cynthia Miller 212.271.3760
Michael DeMichele 212.271.3798

Communications Components

Jeremy Bunting, PhD, Principal
jbunting@twisel.com 415.364.2610
Neville Shah 415.364.2858
Ruben Roy 415.364.2759

Wireless Equipment and Software

Matt Finick, Vice President
mfinick@twisel.com 415.364.2577
Vince Carey 415.364.5959

Broadband Access

Jason Ader, CFA
jader@twisel.com 617.488.4621
Alex Kurtz 617.488.4116

Consumer

Specialty Retail / Branded Consumer

Anne-Marie Peterson, CFA, Vice President
apelerson@twisel.com 617.488.4117
Hil Davis 415.364.2996
Megan Hall 415.364.2641

Hospitality

Jake Fuller, Vice President
jfuller@twisel.com 212.271.3821

Electronic Supply Chain

EMS / Power Electronics

Jim Savage, Partner
jsavage@twisel.com 212.271.3756
Abel Beyene 212.271.3763

Semiconductor Assembly / Components & Interconnect

Eric Gomberg, Vice President
egomberg@twisel.com 212.271.3765
Jason Pflaum, CFA 212.271.3583

Distribution

Matt Sheerin, Vice President
msheerin@twisel.com 212.271.3753
Mark W. Bachman 415.364.3586

Hardware / Storage / Semiconductors

Enterprise Systems & Storage / Rich Media

Doug van Dorsten, CFA, Partner
dvandorsten@twisel.com 415.364.2574
Patrick Franke 415.364.6019

Kevin Hunt, CFA
khunt@twisel.com 415.364.2674

Semiconductor Devices

Eric M. Ross, Principal
eross@twisel.com 212.271.3846
Robert J. Burleson 212.271.3590
Michael McConnell 415.364.5979
Alan Curry 212.271.3852

Healthcare

Specialty Pharmaceuticals

Donald B. Ellis, PharmD, Partner
dellis@twisel.com 415.364.7038
Adam Walsh, MD 415.364.5934
Diana Rikkola 415.364.2796
Cory Gaffney 415.364.5692

LifeScience Technology

Paul Knight, CFA, Partner
Co-Director, Healthcare Research
pknight@twisel.com 212.271.3757
David P. Parsekian 212.271.3764
Erick Noensie, PhD 212.271.3591
Allyson Cuccia 212.271.3769

Healthcare IT & Services

Steve P. Halper, Principal
shalper@twisel.com 212.271.3807
Eric Percher 212.271.3806

Medical Devices

Lynn C. Pieper, CFA, Vice President
lpieper@twisel.com 617.488.4117
Jason R. Mills 415.364.6975

Genomics & Proteomics

Scott R. Greenstone, CFA, Vice President
sgreenstone@twisel.com 212.271.3766

Diagnostics

David Lewis
dlewis@twisel.com 415.364.2939
Jennifer Haroon 415.364.2666

Media

Media

Gordon Hodge, Partner
ghodge@twisel.com 415.364.2575
Christa Sober 415.364.7154
Lauren Crismanauskas 415.364.2607

Power Technology

Power Technology

Tim Fogarty, Vice President
tfogarty@twisel.com 212.271.3809
Stephen G. Kawaja 212.271.3593

Software

Content Management Applications & Infrastructure

R. Keith Gay, Partner
kgay@twisel.com 415.364.2582
Brian Neigut 415.364.7106
Kerry O'Connor 415.364.2855

Enterprise Applications

Robert J. Schwartz, PhD, Principal
rschwartz@twisel.com 617.488.4625
Kevin McGuire 415.364.2658
Daniel Halsey, CFA 617.488.4125

Platform & Infrastructure Software

Tim Klasell, Principal
tklasell@twisel.com 415.364.2949

Business Analytics Software

Tom Ernst
ternst@twisel.com 415.364.2789
Allison Ruckey 415.364.5952

e*Business Applications

David Gremmels, CFA
dgremmels@twisel.com 617.488.4630

Technology Services

IT Services / Transaction Processors

David Grossman, Partner
dgrossman@twisel.com 415.364.2541
Alice Manard 415.364.2913
Yasaman Nazmi 415.364.7170

Education / Market Research

Fred McCrea
fmcreea@twisel.com 415.364.2660
Paige Prichard 415.364.2995

Financial Services

Matthew Park, Vice President
mpark@twisel.com 212.271.3818
Michael Maestas, CFA 415.364.6063

Telecommunications

Telecom Services - Wireless

Ned P. Zachar, CFA, Partner
nzachar@twisel.com 212.271.3838
John Sharko, CFA 212.271.3759
Sophia Hardy 212.271.3799

Telecom Services - Wireline

Peter DeCaprio, Principal
pdecaprio@twisel.com 617.488.4103
James D. Breen, Jr. 617.488.4107
Kent Siefers 617.488.4104
Brendan Donoghue 617.488.4191

Telecom Services - ICPs

James J. Linnehan, Principal
jlinnehan@twisel.com 212.271.3751
Kevin Monroe 212.271.3767
John Sharko, CFA 212.271.3759
PT Luther 212.271.3752

Towers / DBS / Cable

Ray Schleinkofer, CFA, Vice President
rschleinkofer@twisel.com 212.271.3595
Matt Nemer 212.271.3703

A	B	C	D	E	F	G
	Total 10-Year Income Statement - data source is Net Income Total standard BACE report.	Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes - Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost	
10	Net Income - Total					
11	Net Revenues	3,270,710,325	3,270,710,325	3,270,710,325	3,270,710,325	3,270,710,325
12	Operating Expenses					
13	Opex/Mtce	20,818,154	20,818,154	20,818,154	20,818,154	20,818,154
14	COGS	1,583,287,069	1,583,287,069	1,583,287,069	1,583,287,069	1,583,287,069
15	Sales	242,009,931	482,156,463	378,273,495	288,750,117	288,750,117
16	G&A	770,785,814	770,785,814	770,785,814	770,785,814	770,785,814
17	Taxes Other than Income Taxes	14,406,094	14,406,094	14,406,094	14,406,094	14,406,094
18	EBITDA	639,403,262	399,256,730	503,139,699	592,663,077	592,663,077
19	Depreciation (Book Basis) Expense	177,376,325	177,376,325	177,376,325	177,376,325	177,376,325
20	Interest Expenses	18,067,601	18,067,601	18,067,601	18,067,601	18,067,601
21	Pre Tax Income	443,959,336	203,812,804	307,695,773	397,219,151	397,219,151
22	Income Taxes	178,851,119	86,214,595	126,287,450	160,821,093	160,821,093
23	Net Income	265,108,217	117,598,210	181,408,323	236,398,058	236,398,058

	10-Year NPV - data source is CEA UNEZone standard BACE report	Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes - Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost	
26	Pre-tax NPV					
27	NPV for Mass Market	(16,197,393) (1a)	(103,505,595)	(103,505,595)	(3,584,825)	(3,584,825)
28	NPV for Enterprise	47,486,823 (2a)	10,277,675	67,729,593	10,277,675	10,277,675
29	Net Present Value Total	31,289,430	(93,227,921)	(35,776,002)	6,692,849	6,692,849
30						
31						
32	Est Taxes NPV					
33	NPV for Mass Market	33,478,317	(30,119,984)	(123,609,988)	30,391,799	30,391,799
34	NPV for Enterprise	(98,150,295)	2,990,789	80,885,040	(87,133,124)	(87,133,124)
35	Net Present Value Total	(64,671,979)	(27,129,195)	(42,724,949)	(56,741,325)	(56,741,325)
36	After-tax NPV					
37	NPV for Mass Market	17,280,924 (1b)	(133,625,579) (1c)	(227,115,584) (1d)	26,806,974	26,806,974
38	NPV for Enterprise	(50,663,472) (2b)	13,268,463 (2c)	148,614,633	(76,855,450) (2d)	(76,855,450)
39	Net Present Value Total	(33,382,549)	(120,357,116)	(78,500,951)	(50,048,475)	(50,048,475)

Sales Cost Change	Sales Cost Inputs - Bell South	Sales Cost Inputs - Sprint Scenario 11	Sales Cost Inputs - Decrease Enterprise	Sales Cost Inputs - Decrease Mass Market
41				
42	Residential (Mass Market)			
43	SOHO (Mass Market)			
44	SME/A (Enterprise)			
45	SME/B (Enterprise)			
46	SME/C (Enterprise)			

Notes:

- (1a) & (1b) Mass Market 10-year NPV changes from a negative value (pre-tax) to a positive value (post-tax).
- (2a) & (2b) Enterprise 10-year NPV changes from a positive value (pre-tax) to a negative value (post-tax).
- (2c) Enterprise 10-year NPV turns positive, although sales costs have increased (in comparison to Col. D).
- (1c) A pre-tax NPV increase in sales cost for Mass Market of \$87,308,203, results in an after-tax negative NPV change of almost double that amount.
- (1d) With no input changes to Mass Market, the 10-year post-tax NPV decreases by almost \$100,000,000 (comparison to Col. E).
- (2d) With no input changes to Enterprise (in comparison to Col. E), the 10-year post-tax NPV decreases by almost \$90,000,000.