



Covad Communications Group Inc.

Investor Presentation, Q4 2006
Ticker Symbol: DVW

Covad Communications

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995:

This presentation discusses the Company's future business outlook. In this presentation we will make projections and other forward-looking statements regarding future events or the future operational and/or financial performance of the Company, including without limitation statements regarding future revenue and subscription revenue, including VoIP, T1 and wireless revenue, A-EBITDA projections, our plans for new services, such as ADSL 2+, bonded T-1, metro Ethernet, G.SHDSL, IPTV, video, WiMAX service and wireless broadband, and the stability of the regulatory and legislative environment. The Company disclaims any obligation to update any projections, estimates or other forward-looking statements. We caution you that such statements are only projections and actual events or results may differ materially as a result of risks facing the Company or actual results differing from the assumptions underlying such statements. Such risks and assumptions include, but are not limited to, the Company's ability to continue to enhance and expand sales of its services, deploy new services, increase automation in its processes, respond to increasing competition from other companies that provide voice and data services, manage the Company's growth, maintain suitable interconnection agreements with the phone companies, all in a timely manner, at reasonable costs and on satisfactory terms and conditions, as well as new regulatory, legislative, and judicial developments. All forward-looking statements are expressly qualified in their entirety by the above "Risk Factors" and other risk factors and cautionary statements included in the Company's Forms 10-K and 10-Q filed with the SEC.

Please refer to our Q4 2006 Earnings Release and attached tables at <http://www.covad.com/companyinfo/investorrelations/> for reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures.

Covad at a Glance

Covad is a national, facilities-based provider of voice, wireline and wireless broadband services

- **As the leading next-generation communications service provider, we are transforming communications through broadband innovation**
 - Largest ADSL 2+ network with capabilities to deliver next generation broadband and voice services to over 14 million homes and businesses
 - Largest market share of Hosted VoIP with a complete product portfolio addressing the SMB market¹
 - Leading fixed wireless provider, uniquely positioned to capitalize on the emergence of WiMAX
- **National Network and Scalable Infrastructure**
 - 2,050 central offices across 235 MSAs
 - Next-generation network capability in 11 Tier 1 markets
 - 100 wireless base stations passing 500,000 businesses
- **Making an excellent customer experience our #1 priority**
 - 532,000 Access Lines
 - 2,500 VoIP sites (47,000 users)
 - 3,100 Wireless customers

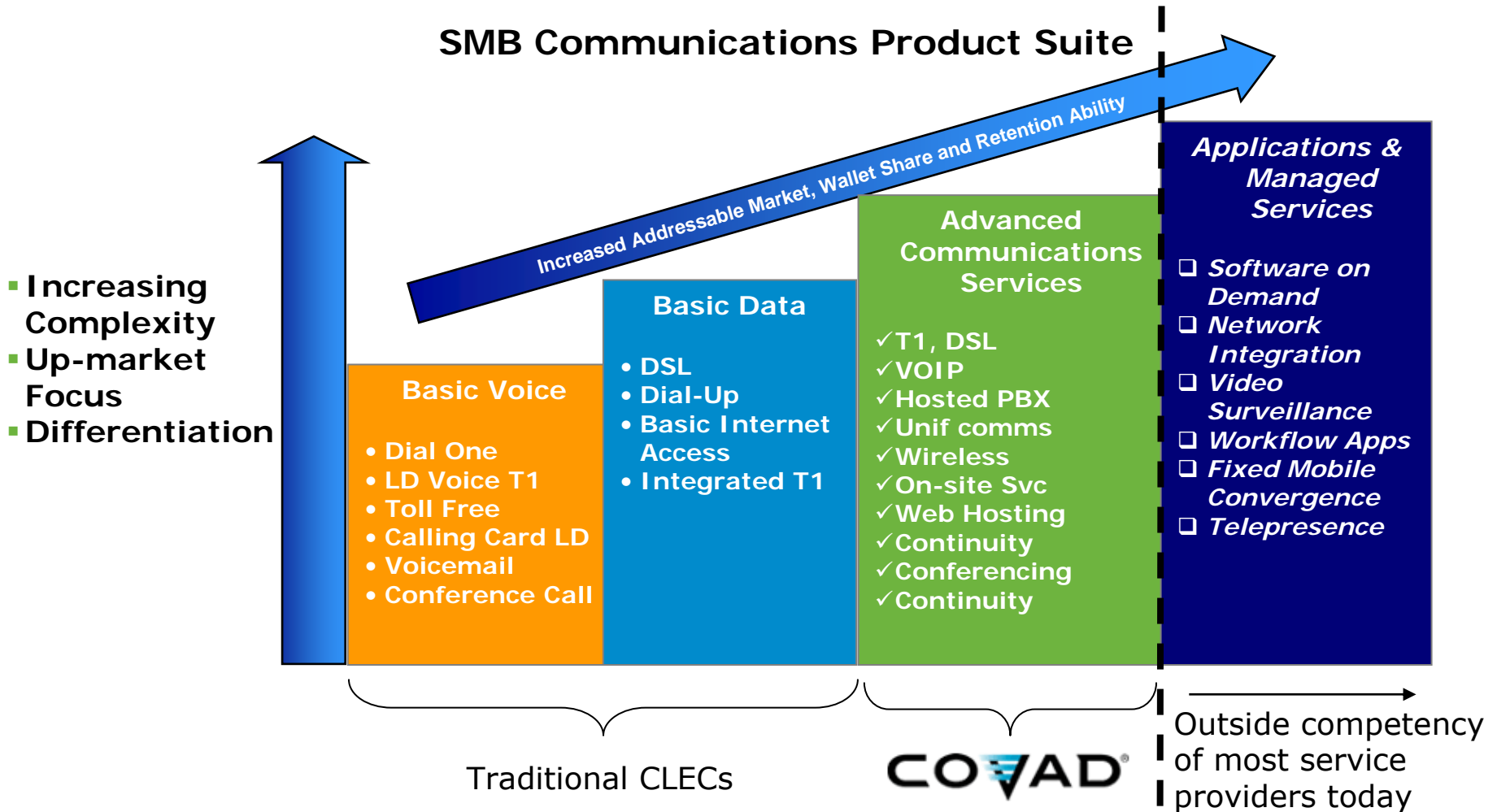
Next-generation services² in 2007:

- LPVA
- Bonded T1
- ADSL 2+
- Wireless

1 - *InStat*, January 2007

2 - Next-generation services commercially deployed in 2007; other services enabled by next-generation network include: Metro Ethernet, Video, and G.SHDSL

Covad Vision



Go to Market

Covad's focus is driving growth from bundled voice and data products through its Direct channel, targeted at the SMB market

	Consumer	SOHO (1-5)	VSB (5-20)	SMB (21-100)	Distributed Enterprise	Medium Enterprise (100-1,000)	Enterprise (1,000+)
Covad Direct			xDSL, T1, VoIP, VOA, Wireless				
Covad Wholesale	LPVA, ADSL				VOA, xDSL, T1, Frame Access		

Direct

Wholesale

Q4 06 Subscription Revenue, Mix	\$41.5M, 38%	\$68.2M, 62%
Annual Subscription Revenue Growth (FY 05 to FY 06)	26%	2%
Key Growth Products	Business ADSL, T1/Bonded T1, VoIP, Wireless	Business ADSL, T1/Bonded T1, VOA, LPVA, ADSL 2+
# of Sales Reps	150+	20
# of Selling Partners	700+ Agents/Dealers	300+

2007: Looking Ahead

- **Solid revenue growth from differentiated products**
 - Fully launched LPVA in all 11 markets as of the end of 2006
 - Q1'07 is the first full quarter of LPVA availability in all 11 markets; sales volume is ramping
 - Strong growth expected to continue from T1, VoIP and Wireless
 - Leveraging the next-generation network capability for new products
 - LPVA: launched in Q4 06, ADSL 2+ and Bonded T1: 1H 07

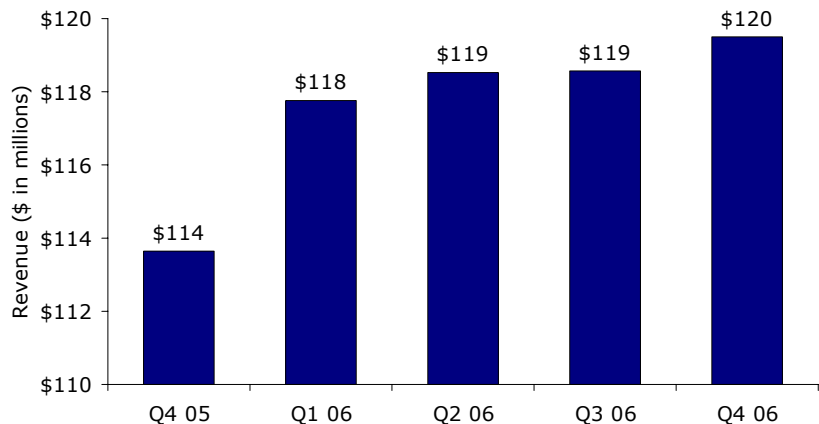
- **Unique set of assets will continue to attract partners and customers**



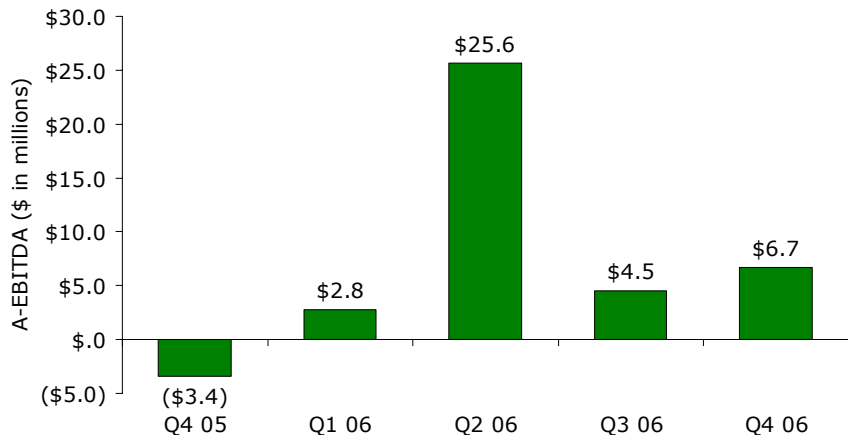
- **Opportunistic growth in new business areas**
 - Exploring opportunities to leverage network assets further (e.g. licensed wireless spectrum, wireless footprint, customer migrations, etc.)
 - Launch of Value-Added Services to expand customer wallet-share

Financial Summary

Revenue



A-EBITDA



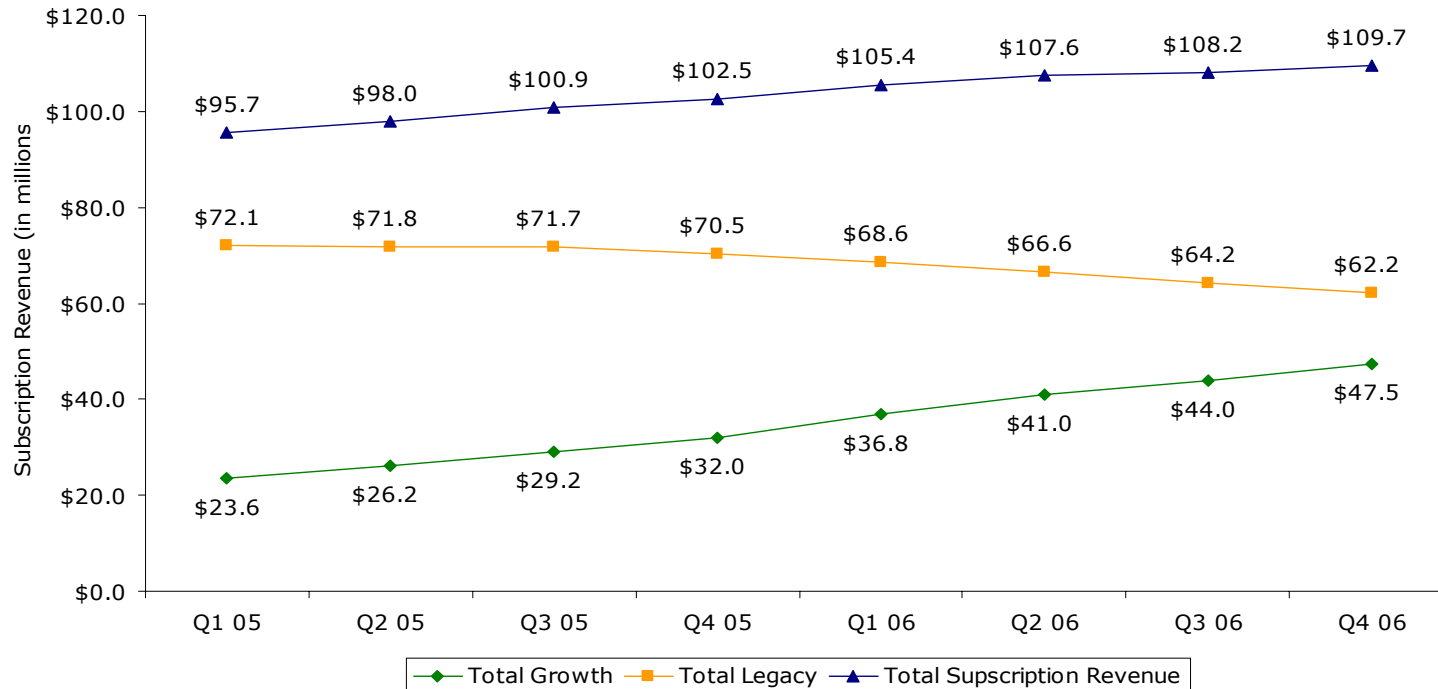
Notes:

- All growth rates or increases, unless noted, are measured from Q4'05 to Q4'06
- Q2'06 A-EBITDA includes the benefit of a transaction tax adjustment of \$19.5M and a \$2.1M employment related tax adjustment. Excluding these one-time items, A-EBITDA was \$4M
- Q1'06 includes \$1.7M benefit from ACCA; without ACCA, A-EBITDA in Q1'06 was \$1.0M

- 2006 Total Revenue: \$474M, +7% vs 2005
- Q4 06 Subscription Revenue: \$110M, +7% vs Q4 05
 - Growth Products: \$48M, +52%
 - T1: \$24M, +40%
 - VoIP: \$8.5M, +79%
 - Wireless: \$3.4M
- ~8,000 LPVA Net Adds in Q4 06
- New distribution partners: United Online & TalkSwitch
- 2006 A-EBITDA: \$39.6M
- Q4 06 A-EBITDA: \$6.7M, +\$10M vs Q4 05
- Q4 06 SG&A: 25% of Revenue, 31% in Q4 05

Revenue Growth and Transition

Subscription Revenue



**Q4 05-06
CAGR**

7%

(12%)

48%

<u>Legacy Products</u>	<u>ARPU¹</u>	<u>Q4 Mix</u>
▪ Business SDSL	\$90-100	33%
▪ Consumer ADSL	\$20-25	18%
▪ Partner Circuits	N/A	4%
▪ Frame Access	\$70-80	1%

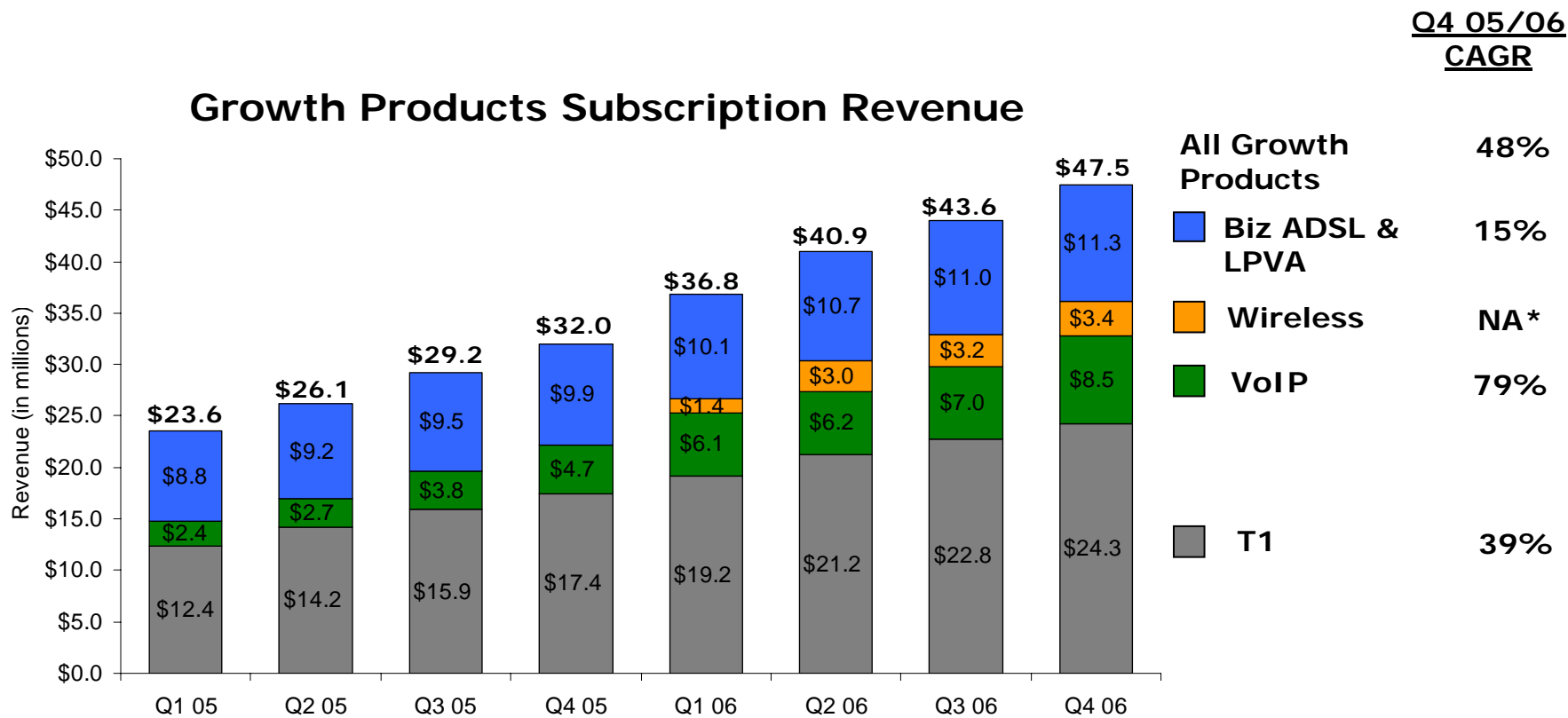
<u>Growth Products</u>	<u>ARPU¹</u>	<u>Q4 Mix</u>
▪ T1	\$300-400	22%
▪ Business ADSL	\$50-75	9%
▪ VoIP	\$1,500-2,000	8%
▪ Wireless ²	\$300-350	3%
▪ LPVA	\$30-40	~1%
▪ Bonded T1 ³	N/A	0%

Notes:

- 1- ARPU's are blended across wholesale and direct segments
- 2- Hi-Cap wireless ARPU: \$3,000-5,000
- 3- Bonded T1 available in 1H 07

Growth Product Revenue Profile

Covad growth products, currently comprising 43% of total subscription revenue, are expected to accelerate in 2007 with the launch of LPVA, Bonded T1, and ADSL 2+ services



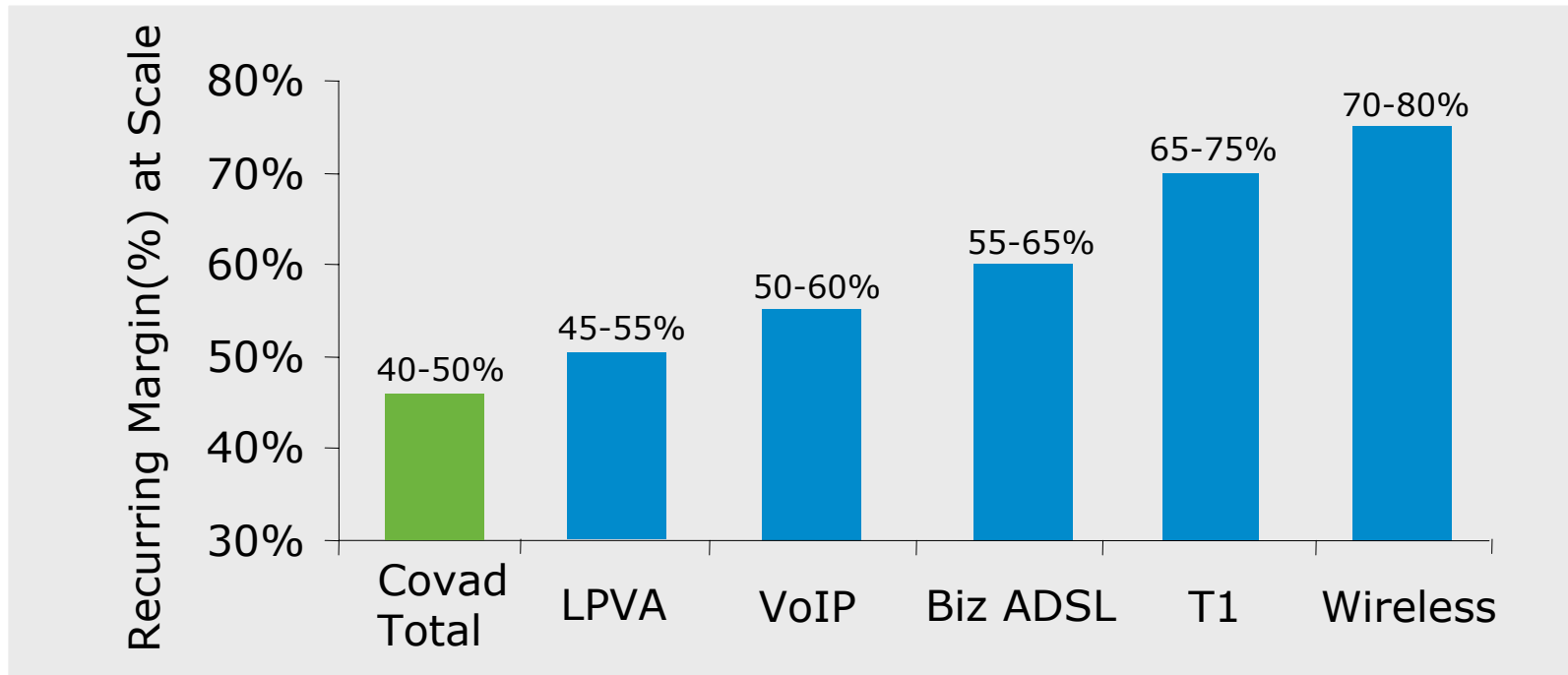
Notes:

9 ■ NextWeb transaction closed in Q1 2006

Recurring Margin from Growth Products

Margin expansion is expected once growth products achieve scale

- VoIP, Wireless and LPVA products are scaling
- Margins within product lines vary by channel (Wholesale vs Direct) and speed
- Total company ARPU continues to increase with change in product mix



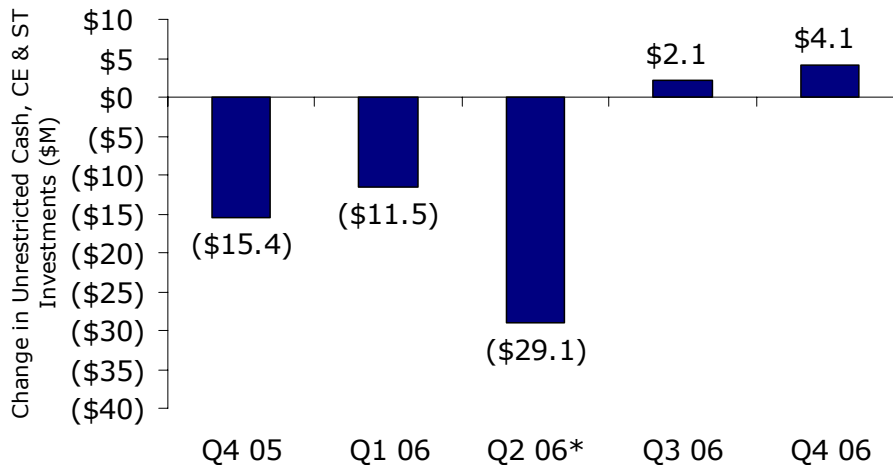
Notes:

- Recurring margin is defined as recurring revenue – recurring costs. It does not equate to gross margin as it does not include non-recurring revenue and costs.

Cash Growth

Profitable growth and cost structure management have resulted in positive changes in our unrestricted cash¹ over the last two quarters

Change in Unrestricted Cash¹



Notes:

1-Unrestricted cash is defined as cash, cash equivalents and short-term investments, a GAAP metric that is referenced in our public SEC filings and earnings releases. It does not include restricted cash.

*Q2 06 includes a \$33.5M cash outflow associated with redeeming the AT&T pre-paid liability

Capital Structure Summary

(\$ in 000's)

As of 12/31/06

Total Cash	\$81,650
Restricted Cash²	\$19,578
Debt³	\$167,240

Notes:

2-Restricted Cash Balance consists primarily of unused ELNK LPVA project expenditures

3-Supplemental information on Covad debt:

- DVW convertible note: \$125m, 3% cash interest, \$3.17 convertible price, due in 2009
- ELNK convertible note: \$40m, 12% PIK, \$1.86 convertible price, due in 2011
- \$50m credit facility available through Silicon Valley Bank

Summary

- **Covad has a unique set of assets with next generation product capability in the top 11 markets**
 - 758 central offices, 14M+ homes and businesses
 - 11 markets are: Atlanta, Chicago, Dallas, Los Angeles, Miami, New York, Philadelphia, San Diego, San Francisco/San Jose, Seattle, and Washington, DC
- **These assets enable Covad to offer differentiated product solutions to our customers and partners. Recent examples include:**
 - EarthLink - Offering a bundle of 8 Mbps DSL+ Local & Long Distance using Covad's Line Powered Voice solution
 - United Online - Agreement to offer consumer ADSL on a national scale
 - FiberTower & NextLink - Covad provides licensed Wireless Hi-Capacity service to companies like Disney, Marriott and Intel
- **Growth products expected to accelerate in 2007 with the launch of LPVA, Bonded T1, and ADSL 2+ services**
 - Subscription Revenue from Growth products should surpass the Legacy products by mid-to-late 2007
- **Improving financial profile provides increased flexibility**
 - Continued focus on operational efficiency
 - Opportunistic expansion of new growth opportunities