Regional Bell Operating Company (RBOC) Revenues, Expenditures and Profits

(2000-Second Quarter 2002)

The Bell Companies are Misleading Congress, the FCC, and the Public with a Shell Game of Statistics.

October 2002

Presented by

New Networks Institute
Bruce Kushnick, Executive Director
826 Broadway, Suite 900
New York, New York 10003

212-777-5418

http://www.newnetworks.com

Table of Contents

EXECUTIVE SUMMARY

Regional Bell Operating Company (RBOC) Revenues, Expenditures and Profits: The Bell Companies are Misleading Congress, the FCC, and the Public With a Shell Game of Statistics.

The American public is still using their local phone services. They are still going online and the overwhelming majority of America's business and residential customers still pay their local phone Bell "monopolies".

NOTE: The Bell Companies are: BellSouth, Qwest (formerly US West), SBC (including Ameritech, Pac Bell and SNET) and Verizon (including Bell Atlantic, GTE and NYNEX)

The Bell companies would like us to believe that the sky is falling. They are telling Congress, the FCC, and the media that they are losing business at an alarming rate because the number of phone lines are declining and that they are being hit by major losses due to competition.

There is a recession at hand and every company is having its problems. It can also be said that the Bell companies helped in the economy's decline because of their harm to the competitive telecom markets which precipitated the economy's woes.

As we will show, all of these issues pale to the truth--- the Bells are misrepresenting their business problems so that they may receive regulatory relief from Congress. They are still some of the richest companies in America.

Here are the highlights:

Overall Revenues and Profits

- The Bells profits are still beyond anything that could be considered fair and reasonable for companies that are monopolies.
- Verizon, BellSouth and SBC had **122% higher return on equity** than the Business Week Corporate Scoreboard for 2001.
- Instate local **Bell return on equity went up 40%** since 1996.
- Bell revenues from 2000-2001 increased --- Telecom and Directory generated **$60 billion in cash.**
- Yellow Pages and Directory have a **57% profit margin**, making it one of the most profitable businesses in the US.
- **90% of all profits come directly from monopoly customers** ---Local phone service is financing the other lines of business.

- **SBC's** second quarter 2002, shows dividends are up since 2001, **"Free Cash Flow" went up 277%**, expenses, including capital expenditures and employees are decreasing further while profits per-phone line increased.

Major Cuts in Expenses Should Be Leading To Lower Prices.

Phone prices should be declining because the two major costs, construction and staff, are decreasing sharply.

- **107,000 cuts in staff** in the last two years, mostly from the local phone companies.
- **50% drop in capital expenditures/construction**, which will affect security and competition.

The Competitive Threat Remains Relatively Small

- Overall, only **6.9% of the RBOC lines are used by CLECs to provide** resale or "UNE-P" competition**.**

Executive Compensation

- Since 1999, the **top executives** from the Bell companies received an estimated **54 million shares of stock options** with an estimated value of **$1 –$2.1 billion dollars** ---almost 10% of all stock options.
- As a group, the top **4 executives made $160 million dollars** in salaries and bonuses, and an additional **25.5 million shares** of stock options, worth an estimated **$404 –$818 million.**
- Since 1999**, Ivan Seidenberg**, Verizon's CEO, made **$54 million in salary**, bonus and retirement funds, as well as stock options of 2.6 million shares, estimated value between **$83-215 million dollars**.
- The mergers of the various Bell companies have benefited the senior executives with bonuses and rewards worth millions per person.
- Executives can get **free personal use of aircraft**, **apartments,** spending money for "club" memberships, and "**golden parachutes"** worth millions of dollars.
- Who Controls the Board of Directors? The Bell Tell Retirees claim that Verizon's Board of Directors is **"infested with conflicts of interest",** who control the executive pay and perks.

The Number Of Overall Phonelines Is Not Going Down.

- The overall growth of phonelines is NOT going down. It is going up. There has been a **13% increase** in "Voice Grade Equivalents" in 2001 and most of the Bells do not count data lines, including DSL in their equations.

- Why did 25% of US homes have to purchase a second line into their home when a service to provide two voice channels could have been done saving hundreds of dollars?
- Care about Rural Customers? In 2001, Verizon sold approximately 1.3 million lines in rural areas.

Overseas Investments and Write-offs.

- **$15.6 billion in losses** and write-offs for investments overseas**.**
- **$16 billion in write-offs** for the mergers and domestic losses.
- **$9.7 billion in write-offs and losses** in first half of 2002 – major losses in South America.

Customers Paid For A Fiber-Optic Broadband Network They Will Never Receive.

- Customers in most states paid for broadband networks they will never receive through higher phone prices. Pennsylvania is holding Bell accountable for their promises to provide **a fiber-optic wire with speeds of 45mps (in both directions) to 50% of rural and urban customers' homes by 2004.** We estimate that **$3.5 billion** was already collected in the state, counting excessive phone charges and tax write-offs.

1. Regional Bell Company Revenues and Profits

The Regional Bell Operating Companies (RBOCs) are holding companies that control literally thousands of ventures throughout the globe. (For example, BellSouth's 2001 Annual report showed 269 separate subsidiaries, in dozens of countries.)

While the year 2001 is something to forget, the Bells' overall profits compared to other companies still showed strong earnings.

Bell companies' "Return on Equity" and Earnings Per Share Compared with and "Business Week Scoreboard and Telecom Equipment Manufacturers, 2001

	ROI		**EPS**	
Bell companies	**12.6%**		**$ 1.24**	
All industry	5.7%	122%	$ 0.58	113%
Telecom Equipment	-9.1%	239%	$ (0.91)	236%

Source: Business Week Business Corporate Scorecard, 2/25/02

In the exhibit above, the Bell companies (without Qwest) had 122% higher return-on-equity and 113% higher earnings per share (EPS) as compared to the rest of the Business Week Corporate (2/25/02) Scoreboard. Compared to the Telecom equipment manufacturers who had negative returns on equity and earning per share, the Bells had 239% higher returns.

Unfortunately these statistics do not begin to tell how well the Bells' local phone business has been performing. The next exhibit shows SBC's revenues and "operating expenses" for 2nd Quarter 2002. Of the $10.5 billion dollars profit, approximately 87% of profits was from the local phone and directory services. The exhibit also demonstrates that the "International" businesses are being funded through these excessive profits, because those businesses lost money.

SBC Revenues and Operating Expenses, EBIDTA for 2ndQ 2002

	Revenue	**% Revenue**	**Op. Expense**	**EBIDTA**	**EBIDTA**	**% profits**
Local Telecom	$19,518	76.0%	$11,348	42%	$ 8,170	78.1%
Directory	$ 1,755	6.8%	$ 809	54%	$ 946	9.0%
Wireless	$ 4,375	17.0%	$ 3,009	31%	$ 1,366	13.1%
International	$ 17	0.1%	$ 40	-135%	$ (23)	-0.2%
	$ 25,665	100%	$15,206		$ 10,459	100.0%

Of the $25.7 billion dollars, SBC had over $10.5 billion in cash. Of these profits, the Directory business, the business that supplies yellow pages to small businesses, had a whopping 54% EBITDA, (Earnings Before Income Taxes, Depreciation and Amortization), making it one of the most profitable businesses in the country.

Unfortunately these statistics do not reveal the profits that are coming directly from the local phone customer. This is because even the category of local telecom has built into it thousands of costs not associated with local service. This includes the expenses for the Bells launch of their long distance services, the costs to provide competitive DSL, or even specific costs associated with changing the name of the company or the compensation of the executives.

Case in point - Verizon will spend $1/2 billion dollars to establish its name (Verizon is the merger of GTE and Bell Atlantic and NYNEX), while the top 6 executives have received $$194 million in salaries and other perks in the last three years.

The profits from local phone service have increased almost 40% since 1996. The FCC's statistics quoted below shows that the Bell companies' intrastate return on equity went up almost 40% from 1996 through 2001, from 14.7% to 20.3%. "Intrastate" revenues are from local services within the state jurisdiction). It should be noted that when the Bell companies were under 'rate-of-return' regulations that limited the Bell's profits (so as to keep rates "fair and reasonable"), the standard returns were from 10-12%. --- A 69% increase from current returns.

Bell Intrastate Return on Equity, 1996-2001

	1996	2001	
BellSouth	14.4%	19.4%	35%
Qwest	14.0%	22.1%	59%
SBC	15.7%	22.4%	42%
Verizon	14.5%	17.2%	18%
Increase	14.7%	20.3%	**38%**

Source: FCC, 2002

2. Examining Telecom and Directory Revenues:

Another way of examining the Bells' performance is to look at the Telecom and Directory revenues. It also illustrates that a lower overall return on equity is not from local phone services but other costs, such as overseas losses. From 2000-2001 there were increases in revenues for local telecom services--- from $117 billion to $121 billion. The Bells' "Operating Cash" (which is operating revenue minus operating expenses – identical to the EBITDA analysis) went up to $52.6 billion dollars.

Bell Local Telecom Revenues for 2000-2001

	2000	2001	Increase
Revenues	$ 116,769	$ 120,927	4%
Expenses	$ 65,814	$ 68,318	4%
EBITDA	44%	43%	-1%
Operating Cash	**$ 50,955**	**$52,609**	3%

As we mentioned earlier, these local telecom revenues include all local phone services, from the Bell's DSL services to offering competitors' services.

What is most astonishing has been the profits from Yellow Pages and other telephone directories. The Bell companies not only had an increase in profits and a decrease in expenses, but the EBITDA is 57% which means that over half of all revenues are profit. Historically, prices for yellow page advertisements were kept inflated because the income was used to subsidize phone services. It is clear that small businesses that depend on yellow page advertisements are still paying inflated prices, with little competition to lower these fees.

Bell Directory Revenues for 2000-2001

	2000	2001	Change
Revenues	$12,080	$12,476	3%
Expenses	$5,602	$5,415	-3%
EBITDA	55%	57%	5%
Operating Cash	$6,478	$7,061	9%

This next example demonstrates how profitable the Bells are from their mostly original monopoly products. Last year the companies had $133 billion in revenues and almost $60 billion in cash.

Bell Telecom and Directory Revenues, 2000-2001

	2000	2001	change
Revenues	$128,849	$133,403	4%
Expenses	$71,416	$73,733	3%
EBITDA	50%	51%	2%
Operating Cash	$ 57,433	$59,670	4%

Another way of looking at this data is from the Bell's Operating statistics. Using SBC as an example, (though all of the Bells have close if not identical results), this exhibit from SBC's 2001 annual report shows that over the last year, the average monthly revenue has gone up $1.51 per line a month, the profit per line went up, the expenditures per line (CAPX) declined, and the revenue per employee has increased.

SBC 2000, 2001 Operating Statistics

Operating Statistics	2000	2001
Average Monthly Revenue per Access Line	$ 54.33	$ 55.94
Average Monthly EBITDA per Access Line	$ 24.51	$ 25.05
Average Monthly CAPX per Access Line	$ 16.49	$ 15.50
Average Monthly Revenue per Employee	$ 17.99	$ 18.01

In the second quarter 2002, dividends are up since 2001, "Free Cash Flow" went up 277%, while expenses, including capital expenditures and employees are decreasing further. In fact, the number of "Voice Grade Equivalents" is increasing.

SBC Communications Inc.

Supplementary Financial and Operating Data

Dollars in millions except per share amounts

Unaudited	Six Months Ended		
	6/30/02	6/30/01	% Chg
(NOTE: Dividends and Profits are Going Up)			
Dividends Declared Per Share	$ 0.54	$ 0.51	5%
Dividends Paid	$1,762	$1,727	2%
Free Cash Flow [6]	3,137	833	277%
(NOTE: Expenses are Being Slashed)			
Capital Expenditures	$ 3,496	$ 5,744	-39%
Total Employees	186,030	216,600	-14%
(NOTE: Number of Lines Are Increasing)			
Voice Grade Equivalents (000)	113,507	108,495	5%

[6] Net cash provided by operating activities less construction and capital expenditures.

If there was a serious competitive threat, the company would not be able to raise dividends.

3. Competitive Threat?

There is a great deal of data that begs the question, “Why are the Bells complaining about competition?” For example, Verizon’s second quarter 2002 shows that the number of competitor services, “Resale and UNE-P” declined.

NOTE: Local phone and DSL competitors (commonly known as CLEC’s) purchase the local phone networks at “wholesale” prices. UNE-P (Unbundled Network Elements platform) and “Resale” are the services that are offered to competitors so that they can use the phone networks. This is the ‘simple’ explanation.

Example One - According to Verizon’s 2ndQ 2002 results, the number of “Resale and UNE-P services” decreased since last year about 1%. Therefore, the statements made by the Bells that they are increasingly losing revenues to competitors are ridiculous. Secondly, using these same stats, comparing the total Verizon lines we find that of 60 million lines by the end of the quarter 2002, only 6% of the lines are used by CLECs to provide competitive services via resale or UNEP

Comparing Verizon Resale and UNE-P Lines to Total Lines
2nd Quarter 2001, 2002

	2001	2002	Drop.
Resale & UNE-P lines (000)	3,726	3,698	(.8)
Total Verizon Residential and Business	62,465	60,373	(3.3)
Compared Wholesale to Total Verizon	6%	6%	

Please note that the when a competitor resells local service or provides it through the Unbundled Networks Element Platform (UNEP), the Bells also receive money for each resold and UNE-P Line. Additionally there are also other competitive services such as “Unbundled Loops”, which are phone lines rented from the company to be used for voice or data services.) However, the Bells specifically are calling for help with UNE-P. Unbundled loops can be also used for SDSL data services, and therefore are not supposed to be part of the local ‘voice’ phone service wholesale price issue. (The Bell companies do not specify how these unbundled loops are used.)

Example Two - The next exhibit shows that overall, the CLEC lines represent only a small portion of the RBOCs’ phonelines in America --- only 6.9% in second quarter 2002.

Bell Phonelines as Compared to CLEC Lines, 2001-2002,
(2nd Quarter) (000)

	2001	2002
Total Lines	158,745	151,455
CLEC	8,625	10,382
% of lines	5.4%	6.9%

Missing Data: Please note that the Bell companies have different ways of representing their competitive lines. Many of the companies are adding the DSL and other data service resale lines to the overall competitive numbers.

Except for Qwest, none of the Bell companies gave actual revenue figures, and none of the Bell companies gave EBITDA margins, or other information about their resale or UNE Services. They have not even published information about the number of resale DSL lines in which the Internet Service Provider is reselling the Bell product but adding their own Internet service.

4. Bell Staff Cuts Are Excessive

- **82,000 employees have been laid off from the Bell companies between 2000 and 2002.**

- **The total loss from the Bells, including job closings and attrition will be approximately 107,000 staffers -- a drop in two years of 17%.**

The exhibit below highlight the announced staff cuts for the last two years.

Bell Staff Cuts Announced, 2001-2002

	2001	**2002**	**Total**
BellSouth	6,300	5,000	11,300
Qwest	6,500	7,000	13,500
SBC	5,581	26,000	31,581
Verizon	10,000	18,000	28,000
Annual Change	28,381	56,000	82,381

Sources: Bell Annual Reports, Articles, 2001-2002

The Bell companies have been aggressively cutting staff in the last two years; the major reasons cited being a poor economy and “too stringent regulations".

According to an article in ISP Worlds interview with [1]SBC's president William Daley, it is regulation that discourages investment or new jobs.[2]

> "Policymakers could provide this industry and the U.S. economy with a boost by creating rules which provide an incentive for companies to invest and create jobs," said William Daley, SBC president. "As the rules stand now, SBC is discouraged from investing in new infrastructure or new jobs. These rules are not economically rational and they are uncertain at best."

SBC has made announcements to make 15,00 cuts in the last two business quarters

> "Executives at SBC Communications announced Tuesday the elimination of 5,000 employees this quarter… The announcement brings the total number of cuts at 15,000: in the last two quarters."

An additional 11, 000 job cuts were announced in September 2002, making SBC’s total cut for the year 26,000 staffers.
BellSouth's announcement to reduce staff by 4,000-5,000 on May 17, 2002 was attributed to a slow economy, competition and 'regulatory pricing pressures"

> "BellSouth announced today that it will reduce its workforce by 4,000-5,000 employees. The reduction will involve both non-management and management positions and is designed to reduce operating costs in response to a slow economy, increased competition and regulatory pricing pressures.[3]

Meanwhile, Verizon has also been making announcements of very large staff cuts at the local phone companies. In Verizon's first quarter report 2002, the company is saving money through reductions and “productivity” initiatives, saving 12,000 job “equivalents".

> "Domestic Telecom's expense-control and productivity initiatives, such as capturing attrition and reductions in overtime expenses, produced an equivalent headcount reduction of 12,000 in the first quarter."

According to the NY Post, Verizon eliminated an additional 29,000 in "job equivalents". NY Post 3/5/02.

> "Verizon eliminated the equivalent of 29,000 jobs in 2002"

Meanwhile, on October 4th, 2002, Verizon announced an additional 8000 jobs would be cut.

A great deal of these reductions are also being made because of "duplicative functions' that occur during mergers of large conglomerates. Qwest writes:

> "In connection with the Merger, Qwest reduced its employee and contractor levels by over 14,000 people primarily by eliminating duplicate functions. These employees were terminated prior to December 31, 2001".

Make no mistake that cutting staff also cuts the costs of operating the networks. Verizon in its 2002 annual report states it decreased expenses over $600 million because of staff cuts among other items. It should also be noted that most cuts are from the Bell local phone services.

> "Operations and support expenses, which consist of employee costs and other operating expenses, decreased by $609 million, or 2.5% in 2001 principally due to lower costs at our **domestic telephone operations.** These reductions were attributable to lower overtime for repair and maintenance activity principally as a result of reduced volumes at our dispatch and call centers and lower employee costs associated with declining workforce levels.

> Operating costs have also decreased due to business integration activities and achievement of merger synergies."

These announced cuts do not take into account the attrition of jobs and other closings. If we add the cuts attributed to attrition and other cuts at the company, the total loss from the Bells will be 106,601 staffers. A drop in two years of 17%[4]

Regional Bell Staffing, 2000-2002
(2002 estimates)

	2000	2001	2002	Total Cuts	% of cuts.
BellSouth	103,918	87,875	82,875	21,043	20.20%
Qwest	67500	61000	54,000	13,500	20.00%
SBC	220,089	208,274	182,274	37,815	17.18%
Verizon	263,552	247,309	229,309	34,243	12.99%
Total Bell Staff	655,059	604,458	556,458	106,601	16.85%

5. The Affect of Staff Cuts: Harm to Security and Competition.

A report released in August 2002 by the Communications Workers of America [5] outlines the dramatic staff cuts taking place in New York. The cuts were based on a recent deregulation plan that was passed by the state Public Service Commission.

To read the report http://newnetworks.com/cwareportaugust2002.htm

According to the report, approximately 20% of non-management staff will have been cut over the last 20 months.

> "After the latest cuts, Verizon will have reduced its non-management workforce (in New York) by almost 5,000 workers or 15.5% over an eight-month period and by 6,780 or 20% over a 20-month period."

These cuts can have a direct impact on a number of issues, including competition and security issues within New York.

Security issues include potential problems with the E911 Emergency Networks. According to CWA:

> "Both CWA technicians and internal Verizon memos reveal how the company's reduction in force poses, in the words of the Verizon Operations Report, 'significant risks and consequences' for the public. E911 is an enhanced version of the 911 Emergency Hotline."

The primary equipment that enables New Yorkers to have E911 service is owned and maintained by Verizon.

These cuts in staff also hurt the competitors. According to the report,

> "Since the Verizon Incentive Plan was approved it has become clear that Verizon is instituting a downsizing policy that, by its own admission, degrades services and network reliability." The report continues "Verizon is responding to the market place by eroding service quality and directly hurting its competitors. "

Historical perspective

Note: New Networks Institute has published information about the Bell staff cuts since 1992. We have supplied information in a report titled “How the Bells Stole America’s Digital Future”, published by NetAction. From the Bells inception since 1984, there has been over a 50% cut in employees-per-line, the original standard for the Bell system. http://www.netaction.org/broadband/bells/prices.html

6. Construction and Capital Expenditures are Seriously Decreasing.

According to the Bell companies' quarterly reports, from June of 2001 through June of 2002, there has been a major drop --- almost 50% --- in the Capital Expenditures for local domestic telecommunications. The Bells spending has declined from a total of $17.6 billion for second quarter 2001, to a low of only $9.1 billion dollars in 2002,[6] a decrease of $8.5 billion dollars from last year.

RBOC Construction and Capital Expenditures in Domestic Telecom
(Second quarter 2001- 2002)

	June2001	June 2002	Difference	Decrease
BellSouth	$2,894	$1,840	$1,054	-36%
Qwest	$2,616	$618	$1,998	-76%
SBC	$5,664	$3,467	$2,197	-39%
Verizon	$6,406	$3,175	$3,231	-50%
Total	$17,580	$9,100	$8,480	-48%

Construction and Capital expenditures are the amount of money the Bell companies are investing in maintenance, new installations, new network equipment and additions to the local phone and data networks. It should be understood that these numbers represent ALL construction by the local phone companies, including their DSL, Long Distance, Data and other non-local phone services.

From the customer perspective, this brings up a very serious issue. Historically, the price of local phone service is directly related to the construction expenses of the local phone companies. If construction budgets have been cut in half, why hasn't the price of local service for phone customers declined?

These next two exhibits should make the concern of every phone customer real. First, the Bell companies are still behemoths who collectively made $58.5 billion in just the first six months of 2002. Although they are experiencing some decrease in overall revenues, the drop for BellSouth, Verizon and SBC has been only 3.3% percent, and as a group, counting Qwest, the drop in revenue has been approximately 5.7%. (In the case of Qwest, the company lost over $1.1 billion dollars in wholesale revenues, in many cases from companies they, ironically, helped to put out of business.)

RBOC Revenues for Domestic Telecom Services,
(Second Quarter, June 2001, June 2002)

	2000	2001	change
BellSouth	$ 9,456	$ 9,353	-1.1%
Qwest	$ 10,273	$ 8,688	-15.4%
SBC	$ 20,447	$19,518	-4.5%
Verizon	$ 21,873	$ 20,942	-4.3%
	$ 62,049	$ 58,501	-5.7%
Without Qwest			-3.3

In the next exhibit, the Bells' telecom revenues are compared to their spending on construction. We see that in 2001, construction expenditures represented approximately 28% as compared to their revenues, but by 2002 the Bells construction expenditures were only 15%.

Comparing RBOC Revenues to Capital Expenditures
(Second Quarter, June 2001, June 2002)

	2001	2002
BellSouth	31%	20%
Qwest	25%	7%
SBC	26%	17%
Verizon	29%	15%
Total	28%	15%

Historically, Bell construction expenditures were 20-25% of the revenues. In short, they are spending less than ever before. Customers are therefore on the short end of the stick because the price of local service is being inflated to give the Bells more profits. The money is NOT going back into the network.

As mentioned before, these funds are for all phone and data services the Bells provide. The real question for customers is how much money are the Bells spending to provide local phone service? Additionally, are local phone service revenues funding the Bells other lines of business, such as Long Distance services, at the customer's expense?

7. Compensation of Bell Executives

To read the full report see: http://www.teletruth.org/docs/compensationFIN.doc

The recent revelations about executive pay and perks at GE, TYCO, Global Crossing and Worldcom question the behavior of top executives at companies, rewarding themselves over the other employees or their shareholders.

The Bells' compensation plans for top executives appear to have the same foilables. To make matters worse, the question becomes whether companies that still serve utility functions (who are required to serve the public at 'fair and reasonable' rates because of their monopoly status) should be held to the same standard as "free market' companies with competition?

The exhibit below gives the number shares and estimated values of the Bell Executives' stock options for the last three years, 1999-2001. Based on the Bells' own valuations of the stock, the top executives in the four companies have options that are estimated in value between $1 billion and $2 billion dollars. (Please note that Verizon and Qwest have estimates of 5% and 10% increases, while BellSouth and SBC use another method to calculate potential earnings.)

Bell Senior Management Stock Options, 1999-2001
($000 for Estimated Values)

	Shares	Estimated value	Estimated value
Verizon	14,756,166	$ 424,441	$ 1,019,324
Qwest	26,500,000	$ 428,270	$ 1,085,087
BellSouth	5,006,760	$58,111	
SBC	7,399,000	$ 93,392	
	53,661,926	$1,004,214	$ 2,104,411

This represents between 7-10% of all stock options the companies give to employees.

This next exhibit gives the salary and stock options for the top executive at each of the four Bell companies. This group had approximately $160 million in salaries over the last three years and stock options with an estimated value of between $400-800 million dollars. (As we stated previously, the companies have different methods or representing the potential values of the stock.)

Bell Executives' Salary and Stock Options, 1999-2001

	Salaries	Stock options	Est. Value	Est. Value
Joseph P. Nacchio, Qwest	$36,420	16,250,000	$237,956	$603,028
F. Duane Ackerman, BellSouth	$10,101	1,864,138	$22,570	
Ivan Seidenberg, Verizon	$54,495	2,552,560	$82,832	$214,660
Edward Whitacre, SBC	$ 58,934	4,814,000	$ 60,539	
Total	$159,950	25,480,698	$403,897	$817,688

(Note: This information does not contain all perks and stock awards.) For a discussion of each Bell company's executive salaries and stock options, see the full report.)

Senior Management Gluttony - As a group, Verizon, (the merger of Bell Atlantic (NYNEX) and GTE) had the highest group pay and salaries and options with 6 executives getting $194 million in salaries and almost 15 million shares of stock, valued at $424 to $1.1 billion - This includes two CEO's (GTE Charles Lee and Bell Atlantic's Ivan Seidenberg.)

Top 6 Verizon Executives, 1999-2001

	Salaries	**Shares**	**Est. value**	**Est. value**
Verizon	$193,638	14,756,166	$ 424,441	$ 1,019,324

Perks of the Job - Verizon gives it's executives a number of perks, which include $31,000 to pay for club dues and memberships, personal use of the corporate aircraft, a car with driver, and an apartment.

Merger Related Executive Gifts - All executives received stock options and other 'incentives' for the various mergers. For example, the Verizon executives got $13 million in bonuses, while the CEO's of Verizon and GTE got stock estimated at $56 million dollars.

How the Executives Control the Environment: Control the Board of Directors - According to the BellTell Retirees, the Verizon Board is "infested with conflicts of interest" and "at least eight of Verizon's 16 directors are non-independent. In addition to the two co-CEOs, six outside directors are viewed as non-independent due to board interlocks or because their own employer receives grants, fees, or business from the Company, or did in the recent past".

Golden Parachutes - Almost all of the executives have lucrative packages that guarantee almost as much money when the leave, including salaries, bonuses and even increases

8. The Number of Bell Phone Lines is GOING UP, NOT Going Down.

The Bell companies have been giving the media and regulators the impression that there have been serious decreases in local phone service customer lines. According to the Washington Post: [7] "For the first time in decades, the number of telephone lines served by local phone companies is declining." and this loss in phone lines will "increase pressure on regulators to consider easing requirements on the Bells to resell their networks to competitors".

According to the Bells' Annual Reports, the number of phone lines decreased 3% from 2000 through 2001.

Bell Residential and Business Access Phone Lines, 2000-2001

	2000	**2001**	**change**
BellSouth	17,135	16,773	
Verizon	62,902	61,551	
SBC	36,078	34,518	
Qwest	18,089	17787	
Total	134,204	130,629	3%

A closer examination of the number reveals that the Bells statistics cover a healthy growth in their number of "Voice Grade Equivalents". In this next exhibit we see that the number of "Voice Grade Equivalents" increased some 13% from 2000 to 2001.

Bell Voice Grade Equivalents, 2000-2001

	2000	**2001**	**change**
Qwest	47,609	58,961	19%
BellSouth	53,800	65,629	18%
Verizon	116,883	132,126	12%
SBC	103,456	111,769	7%
Total	**321,748**	**368,485**	**13%**

Source: Bell Annual Reports, New Networks Institute, 2000-2002

According to SBC, voice grade equivalents that include data circuits are a more accurate approach to growth than compared to simply looking at the installed lines.

> "Given the growing importance and magnitude of data revenue streams and circuit volumes, access line growth has become less than a comprehensive measure of strength in the market. The development of Voice Grade Equivalents (VGEs), which include data circuits, provides a consistent and quantifiable means for bridging the gap between access lines and data services."

How can the Bells issue statements that the numbers of lines are declining? This is because the Bells have selectively left out services such as DSL or services that use their wire, such as ‘resold” lines, i.e., part of the “voice grade equivalents”.

In the exhibit below we see that BellSouth’s residential line statistics shows a decline from 17 million lines in 1999 to 16.8 million lines in 2001--- a drop of 1.3%.

BellSouth Residential Phone Lines, with DSL and Resale 1999-2001

	1999	2000	2001	change
Residential	17,002	17,135	16,773	-1.3%
Residential with DSL	17,032	17,350	17,394	2.1%
DSL with resold	17,848	18,658	19,131	7.2%

But the BellSouth residential phone line category does not include the number of DSL lines it has sold. And if you look at “Residential with DSL” you see that the number of phone and data services being sold is increasing.

The issue is **“line-sharing”** --- The same copper wiring can now supply both the DSL service as well as the voice phone service. In the case of a “second line” into the home, the Bell company physically puts an additional piece of wire into the home. If someone had a second phone line for their Internet, they could get rid of the extra charges and just install the new service on the already existing first line.

The Bell companies also have left out another critical piece of the picture: “Reselling”. This is when a competitor uses the same copper wiring that the Bell phone service used to offer a local customer phone service. In reselling, the competitor is essentially renting the already existing phone line and is paying usually high fees to do this. The Bell companies have not included these lines in their calculations. If you examine the “DSL with Resold” you see that these services - which use existing copper wiring but still provide Bell companies revenues - have grown 7.2%.

In short, the Bells have distorted the current picture by excluding information. This entire exercise should have every reader wondering --- if the Bell companies could supply DSL over the same phone wire, why didn’t they provide a service that offered 2 phone-channels with two separate phone numbers over the same wire? Why do 25% of America’s households have to pay many additional charges and installation fees for a second line when one line could have been used and saved hundreds of dollars?

We are not arguing that there haven’t been inhibitors to growth. We argue that using the “Resale and UNE-p” and the “loss of copper lines” argument is more politically driven than one that can be substantiated from their own annual report and other financial statements. Some of the other factors:

- **It's the Economy - ** Though there are few customers who have simply stopped using telephone service, companies have been scaling back their use of local and long distance services, affecting all segments of the phone usage and even phone equipment sales.

- **Cannibalization Of DSL Line Sharing For Second Lines** - As we suggest, anyone who purchases ADSL that uses line sharing no longer needs to have a 'second' wireline connection into the home.

- **Harm to Competitors' Local Phone and DSL Services** - The collapse of the competitive local phone market has in part been caused by the Bell companies' anti-competitive treatment. Hundreds of companies have gone bankrupt or have severely cut back service offerings and these companies were major purchasers of local phone lines. They also drove the sale of new Bell installations, since even competitive local phone service and SDSL services use the Bell networks.

- **Holes in the Copper Deployments - ** Many of the competitors have heard when asking for the installation of a new copper wire installation that there are "no facilities" meaning that the Bell companies' network does not have enough new copper wire to give the customers their new services. This has been documented in August 2002 in report from the Communications Workers of America.

- **The Implosion of the Internet Explosion - ** After numerous years of major growth, the entire Internet industry, consisting of millions of individuals and companies, had a reality check and thousands of companies went bankrupt or cut back dramatically. Since the Internet is largely based on the copper networks, companies either closed shop and cancelled their phone services, or they cut back, requiring a much smaller telecom budget.

- **Cannibalization of the Bells' Own Local Wireline Services Through Wireless** - We estimate that 3% of customers have shifted to relying solely on wireless services and have dropped their local wireline phone service. The Bells' own wireless offerings are therefore taking away customers from one service to another.

- **Cannibalization of the Bells' Local Wireline Payphones Through Wireless. -** The other effect of wireless has been the drop in payphone revenues, though a recent report about payphone usage in the New York City subways showed a high percentage of payphones weren't working.

9. The Bells Don't Care About Rural Customers.

Over the last two years, there has been a trend to drop rural communities in various western states, Utah, Arizona, North Dakota, South Dakota. And this trend is seen as raising revenues, not about handling the customers who have been clients for decades. Qwest states

> "During 2001, Qwest sold approximately 41,000 access lines in Utah and Arizona resulting in a gain of $51 million and cash proceeds of $94 million. In 2000, the Company sold approximately 20,000 access lines in North Dakota and South Dakota resulting in proceeds of $19 million and a gain of $11 million. [8]"

Verizon and GTE have sold, or are planning to sell a great deal more phone customers. According to Verizon's 2001 annual report, the company is committed to sell almost 3 million phonelines or the equivalent of 2.2% of domestic line “equivalents".

> "We have either sold or committed to sell wireline properties representing approximately 2.9 million access lines or 2.2% of the total Domestic Telecom access line equivalents."

From 1999 through 2002, the company has made $11 billion from these sales.

Verizon (with GTE) Sale of Wireline Services, 1999-2002
(In the millions)

Sold in 2001	$4,100
Year 2000:	$ 766
GTE, 2000	$5.028
1999	$1,151
Total Sales	$11,045

Source: New Networks Institute, Verizon Annual Reports and 10Qs.

For example, in 2001 Verizon sold approximately 675,000 lines for $2.2 billion

> "In October 2001, we agreed to sell all 675,000 of our switched access telephone lines in Alabama and Missouri to CenturyTel Inc. for $2.2 billion. The sale must be approved by the Missouri public service commission, the FCC and the Department of Justice (DOJ). The Alabama public service commission approved the sale in December 2001. We expect to close the sale and transfer our operations to CenturyTel during the second half of 2002.

10. Bell Write-offs and Foreign Investment Losses

For the full report see http://www.teletruth.org/docs/ForeignBellinvest.doc

It is clear that the Bells excess profits from local service has been funding their overseas and non-phone service investments. Unfortunately, the Bells' investment track record has yielded major losses. The exhibit below highlights these losses. (This exhibit only focuses on the large investment losses.)

The Bells' write-offs for 2001 were $14.8 billion dollars and so far for 2002 the Bells have written off or lost $9.7 billion dollars.

Bell Write-downs and Foreign Investment Losses, 1999-June, 2002

	1999-2000	2001	1/2 of 2002	To date
BellSouth	$381	$1,980	$2,254	$4,615
Qwest	$470	$3,190	$592	$4,252
SBC	$3,942	$1,350	$409	$5,701
Verizon	$2,471	$8,240	$6,425	$17,136
Totals	$7,264	$14,760	$9,680	$31,704

Sources: New Networks Institute, Bell company SEC filings, 1999-2002

The write-offs and losses total approximately $31.7 billion dollars from 1999 through the second quarter of 2002. The write-offs are almost equally distributed to merger and CLEC write-offs and losses at $16.1 billion, as compared to $15.6 billion for overseas/foreign losses.

Bell Write-offs and Losses for Mergers/CLEC and Foreign Investments. 1999- June 2002

Merger & CLEC	$16,126
Foreign	$15,578
Total	$31,704

Sources: New Networks Institute, Bell company SEC filings, 1999-2002

The first group of massive write-offs can be attributed to losses in investments of telecom companies. These deductions include investments in Qwest, and write-offs from the various Bell mergers, such as the creation of Bell Atlantic and then the creation of Verizon (adding GTE) or the creation of SBC's mergers with Pac Bell and Ameritech.

The other major area of loss has been created from investments in overseas companies, especially losses from South American investments due to the devaluation of the various currencies.

Sample Losses, Verizon's 2001 – June 2002 Write-offs and Charges

	2001	2002 (2ndq)
Venezuela (CANTV).		$1,400
CTI Argentina	$672	$230
C & W, NTL, Metromedia Fiber	$4,686	
Cable & Wireless plc (C&W)		$303
TELUS Corporation		$580

Sources: New Networks Institute, Verizon's 10K and 10Q reports 1999-2002

Qwest's KPNQwest Write-down. The value of the company's KPNQwest holdings dropped from $7.9 billion dollars to $1.3 billion dollars in approximately one year. The stock was originally valued at $7.9 billion as "Class C" shares.

Qwest Charges, 2001- first half 2002

	2001	2002
KPNQwest	$3,000	$462

BellSouth has been losing money steadily from their Latin American investments in 11 countries. These include the devaluations of Brazilian and Argentinean currencies.

Sample, BellSouth Investment Losses,-2002

First Q. 2002	
Brazilian investment,	$ 275
Argentinean devaluation	$ 277
Second Q 2002	
foreign currency transaction	$ 353
Brazil (BCP SA default	$ 375

SBC Communications Since 1999, SBC merged with Pac Bell then with Ameritech and SNET. The company has taken over $4 billion dollars in write-offs including restructuring charges of many of the various companies Ameritech owned, including Security Link. Here are just a few items, taken from SBC's annual reports.

SBC's Write-offs for Mergers, 1999-2000

Merger with Ameritech	$1,205
SecurityLink, Ameritech	$971
Ameritech merger (1999)	$1,766
Cable business	$205

11. Broadband Incentives: Case Study: The Pennsylvania Bait and Switch

On March 28th, 2002, the Pennsylvania Public Utility Commission (PPUC) found Verizon not in compliance with the state's Alternate Regulation plan, concluding that the giant Bell company had not satisfied its specific commitments to state residents and its legal obligations under the plan to supply broadband services at 45Mbs. [9] In exchange for Verizon's commitment to deliver robust broadband to Pennsylvania residents and businesses, state regulators agreed to eliminate the regulated ceiling on Verizon profits. As of today, Verizon has collected the profits, but has not delivered the promised broadband service. Here's a summary of the promises and the costs to customers.

Myth	Reality
Verizon is committed to Bring the State of Pennsylvania Broadband	In 1994, Verizon committed to a fiber-optic network with speeds of 45 Mbs in both directions. This is 50-100 times faster than the copper wire-based ADSL "broadband" service currently available from Verizon in Pennsylvania. Verizon has not – and has no plans to – deliver the advanced broadband service it promised.
Verizon committed to installing fiber optic connections to 50% of the state's residences and businesses by 2004. Importantly, its commitment included stringing fiber optic lines to residences and businesses of all sizes in both rural and urban areas.	No fiber rollout or highspeed services have been rolled out. Today, only businesses can afford to obtain the broadband speeds promised through older, much more expensive, but for Verizon highly profitable T-1 services.
Verizon claims it now needs additional and new financial incentives to roll out broadband	NNI and TeleTruth estimate that Verizon PA has already collected $2.1 billion in surplus earnings and overcharges from Pennsylvania customers and took advantage of $1.5 billion in questionable write-offs to pump up earnings. Virtually all of this should have been used to build the promised fiber-optic network for Pennsylvanians –or—should be returned to customers in the form or rebates or lower phone rates.
Verizon says none of this actually effected phone rates since rates were "capped" under the new regulation scheme.	NNI and TeleTruth estimate that the surplus collected by Verizon after its profits were deregulated cost each household $785 from 1994 to 2002. (In 2002 alone, this surplus

	amounted to $165 on average per household. This surplus should be returned to customers.)
ADSL is a suitable substitute for the type of broadband service originally promised.	ADSL (Asymmetric Digital Subscriber Line) service is mostly-one-way (that's why they call it "asymmetric), much slower speed service than the high-speed, two-way fiber optic-based service Verizon promised to get it profits deregulated. ADSL is much cheaper to deploy and much more limited in terms of how many customers can access it because it uses Verizon's old copper wire plant. Customers should not pay forced to pay for an expensive, advanced broadband service network and then be forced to settle for less. They should get the promised network or get a refund.
This is an isolated incident, relating just to Pennsylvania.	Verizon has made a litany of similar false and misleading promises to customers and regulators in ALL of the states where it serves and has collected billions of dollars in surplus earnings without delivering on its commitments. It's time for a reckoning.
Trust Us -- We know best. We're the Phone Company.	This was one of the largest bait-and switches in history. Verizon-PA (and its other states) must refund the money.
NEXT STEPS?	Take either the money away from Verizon and give it to customers or use it to build an independently run wholesale focused fiber optic-based broadband service network for all (wholesale and retail) users in Pennsylvania. The latter will ensure Pennsylvanian's will enjoy the competitive choices they deserve in the market for broadband services.

ENDNOTES

[1] "SBC Cuts Jobs Blaming Regulators, Economy, By Jim Wagner", Internet News, May 14, 2002 http://www.internetnews.com/bus-news/article.php/1122061

[3]"BellSouth Announces Workforce Reduction", press release May 17, 2002

[4] This statistic comes from adding the information supplied in the Bell 10Ks for 2000 and 2001 staffing levels and subtracts the announced cuts for 2002. Also, the number for SBC includes their transfers of staff from the parent company to Cingular, the SBC/BellSouth wireless venture.

[5] The Final CWA Petition To Rehear Verizon Incentive Plan (VIP), Re: Case 00-C-1945 Communications Workers of America, August 29th, 2002

[6] Qwest numbers were based on three months ending June 30th, 2002, as compared to the other companies which supplied a full 6 months

[7] Telecom Slump Continues, Washington Post, September 13th, 2002 http://www.washingtonpost.com/wp-dyn/articles/A15116-2002Sep13.html

[8] Qwest 2001 10K,

[9] Public Meeting held March 28, 2002 Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 2000 Biennial Update to Network Modernization Plan
P-00930715