

25 Year Analysis of Key Financial Indictors for the Bell  
Companies – AT&T, Verizon and Qwest.

Presented by

New Networks Institute

May, 2009

All information derived from primary sources – SEC filings, annual and  
quarterly reports, information filed with the FCC and phone bills.

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## KEY FINDINGS

### Excessive Mergers Eliminated Competition

- In 1984 through 1996, there were 12 potential competitors. Legacy-AT&T and MCI were the 2 largest competitors. By 2009 there are three companies, AT&T, Verizon and Qwest that do not compete for wireline service, long distance service and broadband service.

### Revenue

- AT&T, Verizon and Qwest had \$235 billion in revenues at the end of 2008, up from \$73.3 billion in 1984, a 220% increase. Wireless business now accounts for \$92 billion out of the total.

### Executive Compensation

- From 2006 through 2008, Verizon's top 5 executives received \$194 million dollars. In 2006, AT&T was bought by SBC and the top 6 executives made \$168 million.
- From 1999-2002, 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.

### Profits

- Overall, in 2008, Verizon and AT&T had \$74 billion in cash, EBITDA, "Earnings Before Interest, Taxes, Depreciation and Amortization". Verizon had \$31 billion while AT&T with \$43 billion. It represents 32%-35% of revenues respectively.
- Tax Payments in 2008. Verizon only paid 3% of the total revenue on income taxes, while AT&T only 5%.
- From 1984-1994, return-on-equity (profits) was a healthy 13% on telecom.
- From 1995, the local return-on-equity shot up to 29% --- an increase of 120% --- through deregulation that was supposed to be used to rewire the state from excess profits.

### Broadband

- By 2010, virtually ALL of the US households, accounting for 117 million homes, should have been rewired with a fiber-based service. Today, there is virtually no broadband service in the US that meets the standards of 45mbps in both directions set in 1991.
- America is 15<sup>th</sup> in broadband because AT&T and Verizon failed to deploy and pocketed an estimated \$300 billion dollars by 2009 and counting.
- Combined, Verizon and AT&T's FiOS or U-Verse had approximately 3 million upgraded TV homes as of 2008. These networks do not match the previous commitments as they are not open to competition, not ubiquitous, and do deliver 45mbps in both directions.
- Harm to the Economy. According to Bell-funded reports, \$500 billion annually would be added to the GNP of the US if broadband was fully deployed. Thus, America lost \$6.5 trillion dollars because of a lack of high-speed broadband.

## Construction Expenditures

- Wireline construction expenditures have been down since 2000. In 1984, construction expenditures accounted for almost 25% of revenues, and it remained over 20% till 2000. (This includes Y2K upgrades.) Post 2000, construction expenditures have been as low as 14%, and the current expenditures are around 18%, but that includes ALL wireline expenditures, including FiOS and U-Verse.
- Under-funding of construction: Had the companies actually spent 20%-25% of revenues on construction, they would have spent an additional \$58-\$161 billion dollars more.
- Removing the construction budgets for FiOS and U-Verse. Verizon and AT&T are under-spent on the PSTN by over \$25 billion dollars from 2005-2008.

## Depreciation

- Depreciation has been averaging over 90% for most years as a percentage of new construction. In the 1980's, the companies depreciated at a rate of 65% of capital expenditures.
- Overcharging: Using 65% as the traditional depreciation, and 85% as an aggressive depreciation schedule, since 1984, the phone companies over-depreciated \$100 billion to \$371 billion, taking into account various "special items" that the companies took to write off portions of the networks or speed up their depreciation schedules. Much of these changes were created based on the state deregulation plans for network upgrades that did not occur.

## Employees

- Overall, there's been a 29% drop in employees, from 680,000 to 491,000 employees. (Includes the addition of the merged long distance companies.) However, this is for the entire company. When examining separate Bells, like Qwest or BellSouth (before 2006), there has been a 51% and a 39% drop in employees, respectively.
- The real issue of employees is that job cuts have been exasperated by the fact that revenues have increased 220%. Thus, the actual job cuts are over 70% when compared to revenues for wireline phone services.

## Foreign Investments and Losses

- From 1984-1997, the companies spent \$27 billion in overseas investments and lost \$11 billion on everything from real estate to computer leasing.
- From 1999-2003, the companies lost over \$40 billion in overseas and other investments.

## Competition

- Competition using Wireline Service. Since 2004, because of a string of decisions by the FCC, there has been a conscious removal of competitors from the incumbent networks.
- Local Service Competition: Starting in 1996, there was massive growth of competitors using the wireline networks. However, since 2004, there has been a 60% drop in competitors offering local voice services using wholesaling agreements (known as UNE-p). Today, only 6% of the incumbent lines are competitive.

- Internet Service Providers. According to the US Census, in 2000, there were 9335 Internet Service Providers in the US, providing over ½ of all Internet connections. Because of an FCC decision that removed “line sharing” so that a competitor could use the customer’s line for voice and data, there has been a drop of almost 7000 ISPs, many of which were directly impacted by the FCC’s decisions.
- Competition by Revenue Stream. Cable controls only 15% of local service-long distance and is a monopoly for cable service. Verizon and AT&T have only 3 million TV-upgraded lines. There is a duopoly for broadband and Internet Provisioning. AT&T and Verizon own 80+% of the wireless markets, and ‘wireless only’ is estimated 15%. Long distance has become a ‘captured’ market with AT&T and Verizon on the wireline side or when a customer gets cable-phone package. VOIP services require a broadband connection and many, such as Skype act as an adjunct to another voice service. Also, having to purchase a package to get lower prices on the services inhibits VOIP sales.
- Merger after merger the Bell companies lied to regulators, claiming that they would be competing out of their own territories if the mergers were approved. SBC was to be in 30 cities by 2002, Verizon 24 in the same time period. They never competed against each other in any major way.
- Mergers Harmed Broadband. AT&T’s latest merger required the company to have 100% broadband in all states by 2007 and offer \$10 DSL to new users. In 1999, AT&T had claimed they would spend \$6 billion in ‘Project Pronto’, while almost every AT&T state had plans for broadband that were cancelled after each merger, including SNET, Pacific Bell and Ameritech.

## Access and Other Lines

- The Bell companies (with GTE) had 99.3 million access lines in 1984 and in 2008 claim to have 106 million, with a high of 170 million in 1999. A large part of this growth can be attributed to hypergrowth from 1993-1999, when customers bought second lines and services for fax and Internet use, then dropped the lines when ‘line sharing’ was implemented – using the same line for voice and data, was instituted, among other factors.
- Verizon and AT&T have been manipulating the access line statistics, including removing basic services, like Verizon’s FiOS and U-Verse from the access line accounting. In fact, Verizon claims that their largest competitor is Verizon’s FiOS.
- According to the FCC, the Bell companies have been misrepresenting their total number of phone lines. FCC data shows that lines have dramatically and continuously increased over 187%, with 337 million lines in America. This discrepancy is because the Bell companies’ access lines numbers leave out ‘special access’, broadband and other types of lines in use.

## Cost of Local, Long Distance and Wireless Service

- Local service in New York City has gone up 524% since 1980 for the exact same service. Deregulation of every line item, increased taxes and new charges, like the FCC Line Charge with no regulatory oversight; have caused much of this increase.

- Dramatic, recent, local service increases. In New Jersey and throughout the US, the cost of local phone service and ancillary services has had 80% increases. In California, unlisted numbers are up 346%, while directory assistance is up 1630%.
- Long Distance Service. With competition in the 1980s -1990s, the cost of long distance went from \$.41 cents (first and second minute averaged) to as low as \$.05. However, because of multiple increases to long distance plan fees, a recent California phone bill survey conducted in 2008 found that the average cost of a 1 minute call with AT&T is \$.55.
- AT&T's current long distance basic rate is \$.42 a minute, which is more expensive than a phone call in 1984, when the average call (first and second minute averaged) cost \$.41.
- Harvesting: The increases to AT&T were started after the FCC made a decision to block legacy-AT&T's competition for local service. Known in the industry as "harvesting", the goal is to raise rates until customers leave or are being gouged. This has specifically impacted low volume, loyal customers.
- The FCC claims that a one minute long distance call in the US cost around \$.06 and is falling, but doesn't include any fees and averages all calls from all users, so that high-volume users' statistics drowns out majority of users -- low and medium volume customers.
- Packages. Packages of a bundled service with discount applied can be good deals for high volume users, representing about 35% of the population. Packages can include local and long distance, or with cable or with broadband and Internet service. However, the majority of customers, such as low and mid volume customers, may be paying more than an ala carte plan.
- Total Customer Confusion over Plans. Many users who are low and medium volume customers are on expensive packages or bad plans. Because of a lack of competition, there is no customer education.
- Wireless service cost per minute is extremely high. On average, a one minute wireless call cost \$3.02 when the total costs are compared to the number of minutes. Many customers are on plans that cost \$30 dollars and make 1-10 minutes of calls. High volume customers with 2 or more lines averaged \$.29 per minute.
- The FCC claims that a minute wireless long distance call in the US cost around \$.06 and is falling. However, the FCC's data is simply made up by a series of industry estimates of calls and revenues. They do not use actual phone bills.
- Low utilization of wireless plan minutes. On average, customers only used 32% of their wireless minutes.

## Missing Equipment "Vaporware" Added to Rates and Taxes.

- In 1999, the FCC released an audit of the Bell companies' books pertaining to the inventory of equipment in the networks. Known as "Continuing Property Records", the FCC' audits found that \$18.6 billion of the network equipment could not be found and this was only 1/4 of the total audits. Thus approximately \$80 billion of missing

equipment inflated phone rates and was written off. Neither the FCC nor the states ever finished the audits.

Wireless Spectrum: AT&T & Verizon are “Very Small Businesses”, saving \$8 billion+

- Teletruth filed an \$8 billion complaint alleging that Verizon, AT&T, Cingular (SBC, AT&T and BellSouth), T-Mobile, Sprint and others rigged the FCC wireless auctions by creating false fronts to pose as "very small businesses". This allowed these companies to secure valuable wireless spectrum at discounted prices.

FCC Data is Atrocious

- From the FCC data on broadband, phone bills or data used in regulatory proceedings pertaining to small business competition, the FCC's bad data has led to bad US policy. For example, in the FCC's small business impact studies discuss the current market harms to competition using data from 1992, 1993, 1994, 1997 --- sometimes 8 to 17 years old.

Corporate Influence

- Through lobbying, campaign contributions, astroturf groups, corporate-funded think tanks, co-opted consumer groups, and even the corporations' own staff, deception and undue influence are now the working agenda in the US on both the state and federal level. --- All of the voices heard are those of the corporations, just with different flavors added. Without serious new safeguards, these practices will continue to control America's infrastructure future.

Appendix One provides a bibliography for more information on each topic.

## Introduction

Before January 1, 1984, AT&T, sometimes called “Ma Bell”, was the largest company in America. It controlled local and long distance service and even owned the equipment, including the phones in customers’ homes. AT&T also owned “Bell Labs”, which helped to develop most of the telecom technologies and was the envy of the world. AT&T was the Number 1 company in the world in telecom.

Before 1984, the cost of local service in the US was about \$8.00 a month. It was a bundled price and came with a telephone, the wiring in the home, and in most states, free directory assistance calls and unlimited local service. However, a one minute long distance call cost \$.49 the first minute, \$.33 the second minute (average \$.41 cents).

By the 1970’s it was clear that AT&T had too much power and was harming equipment sales and long distance competition, which was hurting the economy. Among those concerned was an upstart named MCI who wanted to offer long distance phone service and they sued AT&T to let them in. Ironically, the case was settled in a civil suit presided over by Judge Harold Greene.

The break up of AT&T, known as “divestiture”, gave AT&T the long distance business, as well as the equipment company and Bell Labs. The original 22 local Bell phone companies, such as New York Telephone or Pacific Bell, were carved up into 7 larger holding companies which were to be roughly the same size. They were: Ameritech, Bell Atlantic, BellSouth NYNEX, Pacific Telesis, Southwestern Bell and US West. Each company also got control of the directory business, as well as wireless license that covered their entire territory. However, these companies were called “Baby Bells”, as many analysts thought that these smaller companies might not fare well without Ma Bell.

The first decade of the Bell companies was rather straightforward – the companies wanted to be like Ma Bell and make lots of money. The companies switched from ‘utilities’ to believing they were free market entities who should be deregulated and all restrictions removed. Judge Greene had made a wise decision to restrict the Bell companies from entering many lines of business, such as offering cable or long distance service as they could use their market power to harm competition. The companies immediately pleaded poverty in 1984 and immediately got rate increases and then applied to enter every business. On areas where there were no restrictions, the companies starting buying up businesses, including real estate, furniture stores, computer leasing and international telephone companies.

By 1997, the companies had lost over \$11 billion on these new businesses, and had poured in 27 billion in overseas investments.

On average, the companies had a healthy 12%-14% return-on-equity, and construction budgets were 20%-25% of the revenues. The companies were still regulated, and the profits reflected their monopoly status.

Broadband also started to be discussed and in 1986 through 1990, the companies all stated they would be rolling out Integrated Services Digital Networks, ISDN, and were able to get partial deregulation of their profits. A decade later ISDN would be known as “It Still Does Nothing” as it was expensive and/or not available in most areas and the sales and tech force didn’t support it.

But broadband dreams would blossom in 1991. The Clinton-Gore campaign strongly proposed America enter the 21<sup>st</sup> century with a fiber optic-based, nationwide, ubiquitous, open to all competitors “information superhighway”. And instead of a federal plan, the phone companies went to every state in America and requested a new deregulatory plan, known as ‘alternative regulations’. The claim was that if the companies were allowed to charge more by removing the restrictions on profits and more tax writeoffs, the companies would upgrade the public switched telephone networks; the local phone wires would be transformed from copper to the very fast, fiber optic networks capable of 45mbps in both directions. This pitch occurred in virtually every state in the US, though some pitches added the rewiring of schools and libraries or government agencies. By 1995, most of the states had agreed to some form of deregulation in exchange for upgrading and building at the networks.

By 1995, the alternative regulations had dramatically increased the companies’ profits, (rate of return) reaching almost 30%, as compared to 12%-14%. These excess profits were supposed to be used to increase new construction.

Alongside these state filings, the FCC created the video dialtone regulations, only after legal actions to remove the restrictions. It would allow the phone companies to offer cable programming over their phone networks and every Bell company submitted plans to the FCC for millions of lines of upgrades; the same upgrades being outlined in the state proceedings.

Other issues came to a head in the mid-1990’s; the Telecom Act of 1996, the birth of the Internet, competition, and the Bell siblings merging.

The Telecom Act: During the 1990’s it was realized that opening up just the long distance markets still left a competition bottleneck, sometimes called the “last mile”. The Telecom Act of 1996 was passed to open up the remaining monopolies, the local public switched telephone networks, “PSTN”. AT&T and MCI, along hundreds of other companies, started offering local and long distance service. And the Telecom Act gave the local phone companies a gift --- open the local networks and they would be able to enter the long distance market, a restriction placed because the company could control both local and long distance service.

The Birth of the Internet. Using just the old copper-wire phone line and a modem attached to a computer, a person, with the help of an Internet Service Provider, ISP, could go online and surf the World Wide Web. With the help of the Telecom Act, and the new phenomena, the Internet, thousands of independent ISPs were started and America became number 1 on the

World Wide Web. By 1999 there were 9335 independent Internet Providers in the US, handling over 50% of all business.

Sibling Marriages. At the same time of opening the networks, and building out the infrastructure on a state-by-state basis, the companies were also merging, claiming that bigger was better. Starting with SBC purchasing Pacific Bell and Bell Atlantic and NYNEX merging, this merger path would eventually even overtake the original AT&T and MCI.

## **Fast Forward 2009**

January 1, 2009 marked the 25<sup>th</sup> Anniversary of the break up of AT&T. Now we sit and wonder – What happened? AT&T has been reassembled. Today, the new-AT&T owns 22 states, which combined 6 competitors into one. Verizon owned 13 states (minus 3 sold off including VT, NH and ME) and territories spread throughout the US from the GTE and ALLTEL mergers. With the addition of Qwest, the last remaining Bell, the Bells control not only local service but also long distance service; they split broadband with the cable companies, including offering Internet service. And AT&T and Verizon control over 80% of the wireless markets.

The Telecom Act Giveth and the FCC Taketh Away. By 2009, instead of competition flourishing, the FCC's decisions since 2004 rewrote whole sections of the Telecom Act which closed all of the networks to competition. This has led to over 7000 Internet Service Providers being put out of business, as they could no longer offer their customers the faster networks, such as DSL. There has been a drop of 60% of wireline competitors since 2004, with a loss of over \$130 billion dollars because the FCC removed the competitors' ability to use their local networks for competitive local service. This closure of the networks directly harmed AT&T and MCI from being able to compete for local competition; the consequence was the 2 largest competitors were put out of business and up for sale, impacting all 50 states.

Ironically, virtually every merger guaranteed that there would be direct competition of each Bell company for local and long distance service. SBC was supposed to compete in 30 cities outside their region by 2002. Verizon was to be in 24 cities in the same timeframe. We now know that the Bell companies never competed with each other over these 25 years.

And Broadband? America is 15<sup>th</sup> in the world in broadband, based on a number of international organizations. There is no nationwide, very fast, fiber optic-based information superhighway. By 2009, 113 million homes should have been upgraded. America was charged some \$300 billion for these networks and money is still being collected today in the form of rate increases and tax perks.

When we discuss America's broadband world standing, the reader should note that in Hong Kong and Korea, among other countries, companies are supplying 100 Mbps services in both

directions for \$40.00 --- close to the price of America's ADSL service, that is 30+ times slower and fast in only one direction.

It is clear from the 25 year data that the Bell companies didn't focus on their infrastructure but spent it in other places. We estimate that if the Bell companies had kept pace with network upgrades, they would have spent an additional \$58-\$161 billion dollars. Tied to this, the Bell companies wrote off over 90% of their networks which were never created; thus, the companies over-depreciated \$100 billion to \$371 billion dollars. Meanwhile, as part of the alternative regulations, there were also major staff cuts. Today, there are 190,000 less employees than in 1980, but more importantly, there's been a 70% drop in staff when employees are compared to revenue increases.

## **And where did the money go?**

First, it is clear that the Bells funded their entrance into the wireless markets with money that should have upgraded the networks.

Secondly, the companies lost over \$40 billion from 1999-2003 on overseas and other investments. The investments that were going to be cash cows had major hits and losses because of the devaluation of other South American economies, among other losses.

Thirdly, the Bells gave major financial incentives to their top executives. From 2006 through 2008, Verizon's Top 5 executives received \$194 million dollars. In 2006, AT&T was bought by SBC and the Top 6 executives made \$168 million. From 1999-2002, 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.

## **Competitive Failure Has Lead to Massive Cost Increases.**

If the two largest expenses, capital expenditures and staffing have been in steep decline over the last 25 years, how did prices dramatically increase?

The failure to allow competition on the networks has lead to massive consumer cost increases in local, long distance and even wireless services. In 2009, for the exact same service in New York City (minus the phone) the cost has gone up 524%. Price increases since 2004 have been over 80% in some states for local service. Long distance service has also not fared well. After the elimination of competition, AT&T's basic rate is now \$.42 a minute for a long distance call, and is higher than 1984. In fact, when all of the added charges are added, a one minute long distance call from San Diego, CA averaged \$.55 – 25% above 1984.

We note that heavy users, about 35% of customers, have benefited from technology changes and can take advantage of heavy use deals, such as packages. However, the majority of users have been impacted by deregulation, with major increases to local and long distance service.

It has been majority of customers, especially the low volume, low income users who can least afford it or make less call that have been the hardest hit.

## **The ‘Irregulators’ Failed Us.**

There is no denying that the regulatory framework has been restructured to harm the public interest and it needs to be repaired. Like the financial markets, we are 15<sup>th</sup> in the world because state regulators failed to step in and investigate the failure of the companies to upgrade their networks. Worse, the FCC rewrote the entire history of broadband and decided that the speed of broadband should be 200Kbps in one direction – in 1991 the speed of broadband was 45mbps in both directions... 225 times faster than the standard was in 2008.

Ironically, a very sad pattern has emerged --- The restrictions that were placed on the original 7 Bell companies were slowly changed when ‘signs’ of progress occurred; i.e., they were allowed into long distance once it was found that the networks were ‘open’ to competition. Once the networks were again closed by FCC decisions, there was no return of the restrictions to stop market power. Today, over the same wire, the Bell companies now have control over local, long distance, broadband connection to the internet (ISP), cable and even wireless. --- A vertical integration that would have brought up red flags in the previous 1984 case.

We attribute some of these ‘irregulations’ to corporate favoritism, political influence, but also to a serious lack of accurate data and data collection policies that would have alerted the regulators to problems.

## **The Future?**

The future as of 2009 is not looking good. Essentially AT&T and Verizon, the current remaining monarchs, are no longer acting as ‘utilities’, but as ‘free market’ companies even though they still control of essential facilities and – if AT&T and Verizon don’t build it, then it harms the entire US economy. Worse, the services that are being deployed are closed to competition.

The we have the marketplace, which is anti-competition on multiple levels. What no regulator has examined is not local service but ALL of the services, cable, wireless VOIP, etc. are being divided among a few companies. In our recent survey of San Diego, California, cable service is a monopoly today. Verizon and AT&T have no significant cable penetration – only 3 million upgraded TV homes and some satellite Dish customers nationwide.. Local service is a monopoly today. Legacy-AT&T and MCI, the 2 largest competitors, was put out of business. Cable companies have only 15% of the local phone market. Broadband and the Internet are a duopoly – split between the telco and cable companies. And VOIP? It requires broadband which requires a person to get either local service or cable service for DSL/cable modem service as if they want a good price, they must purchase a bundle – thus eliminating any VOIP savings. Verizon and AT&T have 15+%

wireless only homes, but also have 80% of the wireless markets and the majority of wireless customers in their territories – and the kicker is that the wireless business has been subsidized by the local phone customers.

This lack of competition is obvious and provable; state after state are mandating higher prices with no competition to lower them, and the original utility has been supplanted with a predatory free market company who has been able to replace tariffs and customer safeguards with ‘contract service agreements’, with obvious corporation-protections and anti-customer language.

## **Skunkworks, Lobbyists and Astroturf Have Taken Control Market.**

Without competitive voices fighting the other companies for business – I.e., that legacy-AT&T and MCI used to be a counterbalance to Verizon and SBC—massive consolidation has now created the growth of the vast AT&T and Verizon corporation-funded-networks of influence over all issues. Through lobbying, campaign contributions, astroturf groups, corporate-funded think tanks, co-opted consumer groups, and even the corporations’ own staff, deception and undue influence are now the working agenda in the US on both the state and federal level. Most of the voices heard are those of the corporations, just with different flavors added. Without serious new safeguards, these practices will continue to control America’s infrastructure future.

## **Taking on the 800-Pound Gorilla?**

The current path is to ignore the 800-pound gorilla, AT&T-Verizon-Qwest, to ignore the past completely and more importantly, believe the hype that these ‘poor’ baby bells are losing lines, not making money, etc. In fact, every advocacy group, et al are all discussing various ways to bypass the phone companies, or giving still more money to them to now build out the networks --- ‘stimulating’ areas that should have already been upgraded.

While we bail out the financial institutions, the ‘broadband institutions’ have allowed us to fall way behind in technology and innovation. This has harmed the economy and as the Bell companies’ own consultants would claim, at \$500 billion GDP growth per year from full deployment of broadband, we lost \$6.5 trillion dollars in economic growth.

Will the Obama Administration and FCC really change anything? As the data shows, America’s broadband policies need to be fixed, just like the financial institutions. It’s time to have accountability, new deregulatory policies that reopen the networks, safeguards for customers, and audits that ‘follows all of the money’ currently being collected that was supposed to be used to upgrade America’s critical telecom and broadband infrastructure.

The information we present is the 25 year longitudinal data from 1984-2008; the primary source is the phone company annual and quarterly reports. The goal of this document is not to discuss new alternatives, but to simply examine what has occurred.

## **Introduction to the Data**

Tracking key financial indicators of the Bell companies over the past 25 years is about as easy as translating Aramaic into Swahili. There have been multiple mergers, ups and downs, name changes and even a few scandals thrown in. As previously discussed, these various entities merged into Verizon, AT&T and Qwest, as well as some independent companies remaining, and even spin offs.

In 1984, 7 Bell holding companies were created out of 22 existing local Bell companies: Bell Atlantic, NYNEX, Ameritech, Pacific Telesis, US West, Southwestern Bell, and BellSouth. There were also over 1400 independents including GTE, SNET, Cincinnati Bell, Alltel and Contel. SNET was purchased by Southwestern Bell, (now AT&T) GTE was purchased by Verizon, AT&T and MCI were separate companies that were later bought by the Bells during consolidation, circa 2005+. Also, Verizon sold off properties including many of the former GTE properties, such as Hawaii, as well as Maine, New Hampshire and Vermont. (Verizon also purchased the largest independent left, Alltel.)

This maze of companies is complicated by the available data; in this case, annual and quarterly reports. These sometimes rise to works of fiction, though even that would be giving the materials too much credit. Though signed by accountants and lawyers, it is clear that some data and presentation is done more to obfuscate than enlighten.

Meanwhile, the FCC data is so off as to be unusable, much of it is unaudited information supplied by the phone companies or as we discuss with cost of service issues, is simply made up and not based on primary sources, such as actual phone bills.

With these and other caveats, the basic indicators will be examined over the 25 year period. The information presented reflects only the wireline business, unless stated.

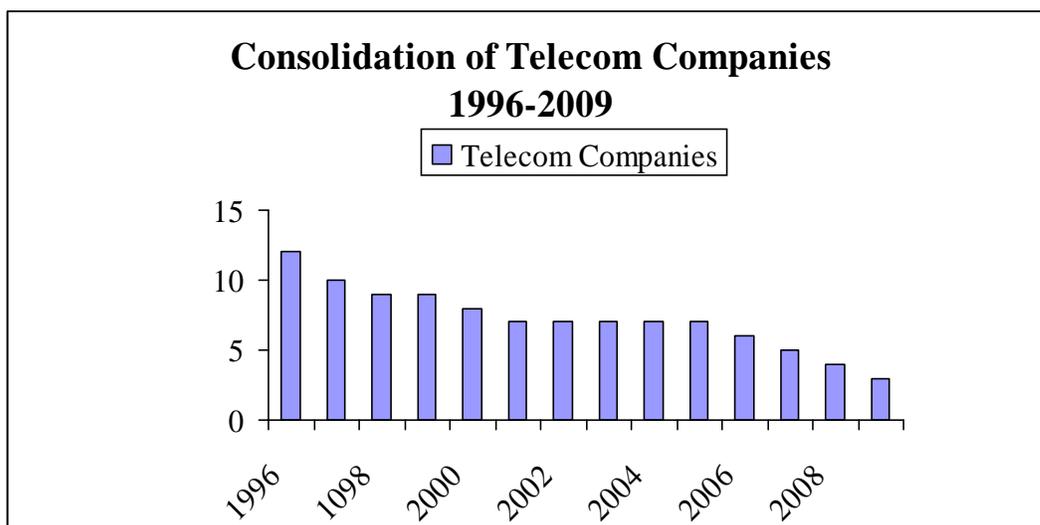
We also note that we did not include ALLTEL in these statistics, as the purchase of the company by Verizon was completed after the research had been finished.

Appendix One provides a bibliography for more information on each topic.

## 1. Mergers and Consolidation

In 1984 there were 12 major potential competitors, not counting the wireless markets. From 1984 through 2000, AT&T and MCI were the 2 largest local and long distance competitors. And while all of the other Bell companies made commitments in various mergers to compete, no major wireline competition ever occurred.

Chart 1



AT&T and MCI held onto the long distance markets until the local Bell companies received the right to offer long distance service post 1999. AT&T was purchased by SBC (then SBC was renamed itself AT&T in 2006). MCI was sold in 2007 to Verizon.

By 2009, in the wireline market, the majority of large potential companies dropped so that the current wireline market has 3 dominant companies that do not compete for local, long distance service, or DSL broadband.

There were a host of other companies that we could also count in this. For example, the Bell companies had hundreds of subsidiaries in other countries; we can include the hundreds of consolidations of wireless companies or licensees, or even larger companies, such as Worldcom first purchasing MCI, or Qwest purchasing US West, the original Bell company.

But on the whole, this consolidation was clearly the elimination of major competitors. Simple examples: Prior to Bell Atlantic merging with NYNEX, documents were presented during the merger process that Bell Atlantic (New Jersey) had plans for entering the New York (NYNEX) markets. Similarly, when AT&T and MCI were sold to SBC and Verizon

respectively, the 2 largest competitors for residential local and long distance services were eliminated as competitors in almost all 50 states.

The other irony is that Verizon and AT&T are actually larger than the original Bell footprint. GTE, SNET and Alltel were all previously not part of the Bell family but were independent incumbents. GTE, which had 28 territories spread throughout the US, was purchased supposedly by Bell Atlantic (renamed Verizon) because they could enter the other incumbent markets as GTE territories were strategically located. Verizon, Los Angeles CA, for example, touches the Pacific Bell (now AT&T) California properties.

Even SNET, the incumbent in Connecticut, was purchased by SBC supposedly to be able to compete with NYNEX in New York and New England.

**Exhibit 1**  
**Local and Long Distance Telecom Competitors in 1984-2009**

1984	2009
Verizon	Verizon
Bell Atlantic	
NYNEX	
GTE	
MCI	
Alltel	
AT&T	AT&T
Southwestern Bell	
Pacific Bell	
SNET	
Ameritech	
AT&T	
BellSouth	
US West	Qwest

We will return to this data when discussing the 25 year analysis of competition.

## 2. Revenues

In 1984, the Bell companies were essentially the utility phone companies, and the revenues were based on local phone service and ancillary services, including the directory business, calling features, etc.. By 2009, the companies have been allowed into multiple businesses, most significantly, wireless services, and having purchased the long distance companies, Legacy-AT&T and MCI. Overall, there's been a 220% increase in revenue, from \$73.3 billion to \$235 billion. Wireless business now accounts for \$92 billion out of the total. The overall numbers in 2008 includes the purchases of AT&T and MCI as well.

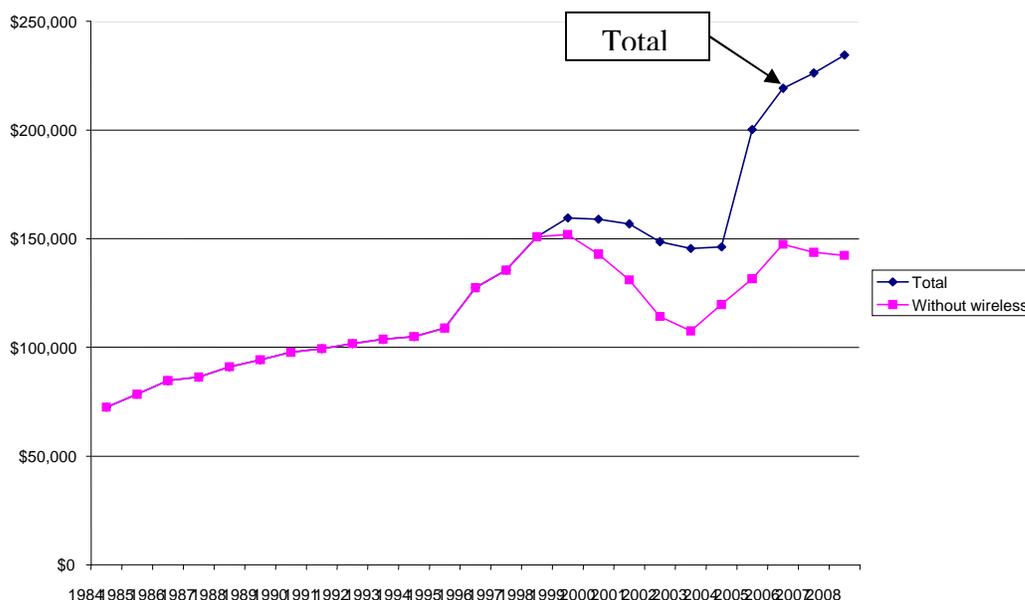
**Exhibit 2**  
**Revenue of the Combined Bell Companies, 1984-2008**

	1984	2008	change
AT&T	\$33,835	\$124,028	267%
Verizon	\$32,213	\$ 97,354	202%
US West	\$7,284	\$ 13,475	86%
Total	\$73,332	\$234,857	220%

- AT&T = Southwestern Bell, Ameritech, Pacific Telesis, BellSouth, SNET, legacy-AT&T.
- Verizon = Bell Atlantic, NYNEX, GTE and later MCI. (Alltel not included.)

**Chart 2**

**Bell Revenues, 1984-2008**



## New Networks Institute

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The chart above gives a picture of the revenue increases. It is clear that the Bells, combined, grew quite nicely based on the addition of new businesses, as well as increases from offering services. (Note: The 'jumps' were caused by the addition of purchasing companies.)

The impact on wireless growth on these numbers is significant in that when examining what the phone companies spent on the upgrades to the utilities, it is clear that they siphoned off funds to pay for wireless at the expense of network infrastructure.

## 3.0 Executive Compensation

One of the places that the phone companies' money has been spent has been for the comfort of the phone companies' executives.

The reason to care about executive compensation, besides the massive amounts of money given to a few individuals, is the fact that this money is paid directly and indirectly as part of the costs of local service and other services.

## 3.1 Verizon

From 2006 through 2008, Verizon's Top 5 executives received \$194 million dollars, which comes to them in a series of payment areas, from "non-equity incentive plan compensation", salary, pensions, and a catchall term "all other compensation".

Note: this information is from "proxy statements" issued annually before the annual meetings. It has many caveats, footnotes, etc. that should be examined in context to our presentation.

**Exhibit 3**  
**Top 5 Verizon Executives, 2006-2008 Compensation**  
(Source, Verizon Proxy Statement, 2009)

Ivan G. Seidenberg Chairman & CEO	66,387,968
Dennis F. Strigl President & COO	44,124,036
William P. Barr* Executive Vice President	34,305,974
Doreen A. Toben Executive Vice President & CFO	23,842,194
Lowell C. McAdam Executive Vice President & President & CEO Verizon Wireless Joint Venture	25,525,868
	194,186,040

The break outs of this material are in the next exhibit. As can be seen, while some areas, like salaries are purposefully kept low, there are a host of other payment areas that dwarf the salaries. For example, in 2007, Ivan Seidenberg made \$26 million in 2007; the salary was only \$2.1 million.

**Exhibit 4  
Compensation Tables, Verizon Top 5 Executives,  
2006-2008**

**Summary Compensation Table**

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards <sup>1</sup> (\$) (e)	Option Awards <sup>2</sup> (\$) (f)	Non-Equity Incentive Plan Compensation <sup>3</sup> (\$) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>4</sup> (\$) (h)	All Other Compensation <sup>5</sup> (\$) (i)	Total (\$) (j)
Ivan G. Seidenberg Chairman & CEO	2008	2,100,000	0	11,365,521	0	3,740,625	420,738	946,754	18,573,638
	2007	2,100,000	0	19,198,033	0	4,200,000	203,231	852,312	26,553,576
	2006	2,100,000	0	13,076,534	0	4,252,500	1,097,288	734,432	21,260,754
Dennis F. Strigl President & COO	2008	1,319,231	0	7,075,305	0	1,888,125	122,590	657,410	11,062,661
	2007	1,250,000	0	14,562,022	0	2,000,000	32,321	615,797	18,460,140
	2006	1,125,000	0	10,305,507	0	2,148,750	537,778	484,200	14,601,235
William P. Barr* Executive Vice President	2008	863,077	0	3,265,948	0	924,469	180,927	10,677,139	15,911,560
	2007	840,000	0	7,480,222	0	1,008,000	80,990	281,402	9,690,614
	2006	840,000	0	6,298,436	0	1,020,600	313,774	230,990	8,703,800
Doreen A. Toben Executive Vice President & CFO	2008	871,154	0	3,323,724	0	1,246,875	149,875	283,183	5,874,811
	2007	825,000	0	7,346,677	0	990,000	20,788	282,860	9,465,325
	2006	825,000	0	6,175,549	0	1,002,375	284,787	214,347	8,502,058
Lowell C. McAdam Executive Vice President & President & CEO Verizon Wireless Joint Venture	2008	823,077	0	4,829,516	(696,813)	881,719	1,310,261	288,945	7,436,705
	2007	800,000	0	8,507,034	7,210,476	1,032,000	207,429	332,224	18,089,163

Verizon Stock: The Proxy Statement also reveals that these 5 executives have \$376 million dollars worth of stock, much of which has been given to them during their time at Verizon. Ivan Seidenberg has over 5.7 million shares.

**Exhibit 5  
Verizon Executive Officers Total Stock  
VALUE: \$33.90 on Dec. 31, 2008.**

Name	Total Shares	Value
Ivan G. Seidenberg*	5,685,936	\$192,753,230.40
Dennis F. Strigl <sup>3</sup>	2,201,795	\$ 74,640,850.50
William P. Barr	1,559,866	\$ 52,879,457.40
Doreen A. Toben	1,235,344	\$ 41,878,161.60
Lowell C. McAdam	399,550	\$ 13,544,745.00
<b>TOTAL</b>		<b>\$375,696,444.90</b>

## 3.2 AT&T Executive Compensation

AT&T's executives have been moving around and the proxy statement doesn't give a similar 3 year analysis except for the current Randall L. Stephenson, Chairman, CEO & President who made \$49 million for 2006-2008. However, in 2006, when SBC took over legacy-AT&T and changed its name to AT&T, the executives in one year made \$168 million in stock and salaries. Ed Whitacre, the CEO, made \$61 million.

**Exhibit 6  
AT&T Compensation Top 6 Executives, 2006**

Edward E. Whitacre, Jr., Chairman and CEO	\$60,726,924
Richard G. Lindner, Senior Executive VP & CFO	\$7,748,367
Stanley T. Sigman, President and CEO Wireless	\$28,561,530
Randall L. Stephenson, Chief Operating Officer	\$14,582,629
James D. Ellis, Senior Exec. VP & General Counsel	\$11,317,807
David W. Dorman, Retired - President	\$44,710,130
<b>Total</b>	<b>\$167,647,387</b>

## 3.3 Executive Perks

Under a category called "All Other Compensation", the list of what the executive is reimbursed for is quite impressive – from club membership to even paying 'tax reimbursements'. This is the "Other Compensation for AT&T's Top 5 Executives for 2008.

**Exhibit 7  
AT&T's Top 5 Executives' "All Other Compensation".**

	<b>Stephenson</b>	<b>Lindner</b>	<b>de la Vega</b>	<b>Miller</b>	<b>Stankey</b>
<b>Personal Benefits</b>					
Financial counseling (includes tax preparation)	14,000	14,000	10,558	14,000	14,000
Estate planning	0	0	0	10,000	0
Auto benefits	26,834	14,870	15,030	13,264	14,616
Personal use of Company aircraft	83,022	1,534	36,327	30,668	37,543
Supplemental health insurance premiums	9,288	9,576	9,504	9,288	9,288
Club membership	19,565	12,036	3,155	12,262	14,230
Relocation *	141,618	67,228	115,858	80,753	0
Communications	1,540	1,493	11,209	2,367	716
Home security	4,269	952	15,034	2,084	830
<b>Total Personal Benefits</b>	<b>300,136</b>	<b>121,689</b>	<b>216,675</b>	<b>174,686</b>	<b>91,223</b>
Tax reimbursements	19,302	18,166	33,326	27,937	10,378
Company matching contributions to deferral plans	56,810	26,860	88,584	28,070	28,500
Life insurance premiums applicable to the employees' death benefit	0	8,950	8,778	37,681	0
<b>Total</b>	<b>376,248</b>	<b>175,665</b>	<b>347,363</b>	<b>268,374</b>	<b>130,101</b>

## 3.4 Previous Report on Executive Compensation.

This largess, especially during mergers, has been a boon for Bell executives. Our report, “Regional Bell (RBOC) Senior Management Compensation: A Primer in Corporate Greed, (1999- 2002)

- 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.
- 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.
- Ivan Seidenberg’s base salary went up 25% over the last three years and his bonuses and “awards” were 1045% above salary. According to the BellTel Retirees, staffers with 30 years at the company haven’t gotten a cost of living increase in a decade.
- Edward Whitacre, Jr. of SBC made \$115 million in salary and stock options, which is 65% of all money paid to SBC top executives.
- Joseph Nacchio of Qwest made \$36 million in salary in the last three years and the stock options were valued from \$238 to \$603 million.

## 4.0 Capital Expenditures and New Construction

**Exhibit 8**  
**Comparing Bell Wireline Capital Expenditures and Revenue, 1984-2008**

	1984	1994	2000	2004	2005	2006	2007	2008
<b>Revenue</b>	\$73,332	\$104,982	\$144,709	\$118,517	\$131,510	\$147,434	\$143,725	\$142,253
Construct	\$18,011	\$21,579	\$35,376	\$16,966	\$18,922	\$23,892	\$26,267	\$26,238
	24.8%	20.6%	24.4%	14.3%	14.4%	16.2%	18.3%	18.4%

The synopsis of spending on the networks is complicated but the basic story is --- in the 1980's, the companies were under a form of regulation called 'rate-of-return'. The rate of return is essentially a formula – revenue minus expenses should equal a percentage of, say 12%.—anything above that profit was returned to the customers as lowering of rates. As the company had to spend money on something, they historically put it back into new construction, which, in 1984, was almost 25% of revenues.

In the next decade, the expenditures went from 20%-24%, We note that the rise from 1996 through 2000 was based, not on upgrading the networks, but to pay for upgrades relating to the Y2K computer upgrades. By 2000, there was a decline with only 14% being spent on new construction. During the last few years, construction has remained about 18% of revenues, essentially lower than under the older rate-of-return.

### 4.1 The Issue of Construction Budgets and Revenue

Chart 3  
**Underspending on Construction**

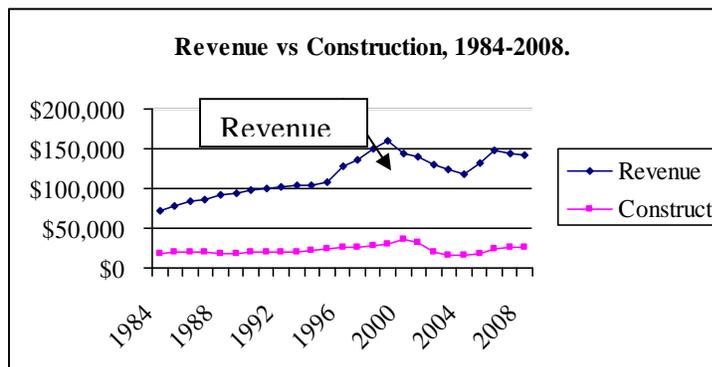
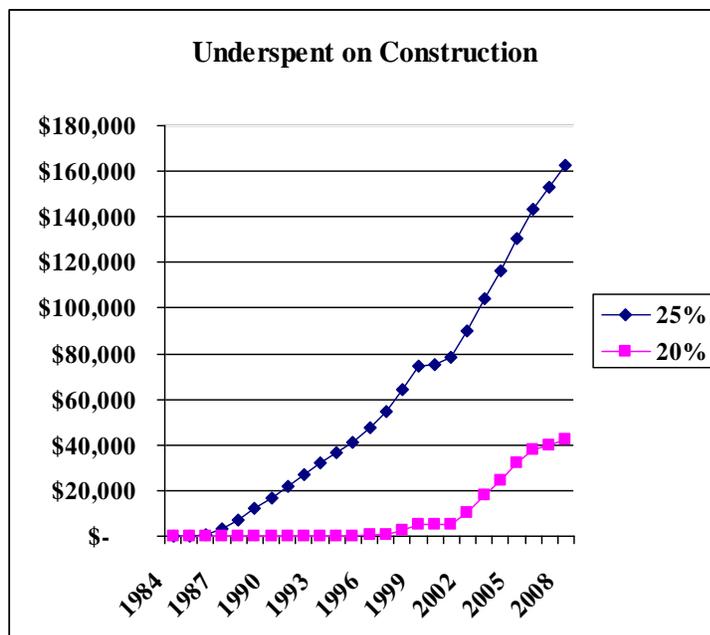


Chart 4



This exhibit examines the question – if the phone companies maintained 20%-25% expenditures per year, how much money should have been spent on new construction. Using the revenue and capital expenditures numbers, \$42.4 billion to \$162.4 billion would have been spent. It should also be recognized that the expenditures decreased significantly since 2000.

**Exhibit 9**  
**Expenditure Under-Funding for 20% and 25%, 1984-2008**  
 (in the millions)

	1984	1987	1990	1996	2000	2004	2006	2008
20%	\$113	\$3,120	\$17,008	\$47,361	\$75,518	\$116,489	\$143,411	\$162,401
25%	\$ -	\$ -	\$ 276	\$347	\$5,405	\$24,705	\$37,680	\$42,370

**4.2 FIOS and U-Verse Expenditures**

- Verizon’s FIOS was announced in 2004, and TV was available in 2006. Verizon claims it is going to spend a total of \$23 billion on FIOS. “Costs through 2010 will be about \$23 billion and will generate some \$1 billion annually in operations savings.”
- Home passed; “Verizon expects to continue the FiOS build-out through 2010, when the company expects to have passed about 18 million homes”. – That is \$1,277 a home passed.

- Current homes as of 2008 were 1.6 million TV households, and 2.2 million Internet customers.
- AT&T U-Verse claims it spent \$2.5 billion in 2007 and the same in 2008. “We spent approximately \$2,500 on our U-verse services in 2007 and expect spending to be approximately \$2,500 in 2008 for capital expenditures on our U-verse services for initial network-related deployment costs.”
- Home Passed: “We expect to pass approximately 30 million living units by the end of 2010.”
- Current homes 1 million TV households, as of December 2008.

If these numbers on expenditures are true, then there is a serious problem --- Where’s all the money coming from?

If Verizon is spending \$23 billion and it started in 2005, that would mean that they are spending \$3.8 billion annually. If we go back to the capital expenditures for the years 2005, 2006, 2007 and 2008 we find that the money being spent on the utility wireline service side has dropped dramatically.

Based on removing FiOS and U-Verse, it means that AT&T’s 22 states, Verizon’s 10 states and the GTE territories are being short changed by over \$25.2 billion dollars, and the actual expenditures to revenue is from 8.4% to 12.7%, less than ½ what it has been traditionally for wireline services. These numbers are, of course, an approximation as the company doesn’t provide the actual numbers for this exercise, probably because if the public knew that the major expenses have been slashed though prices continue to rise, there could be legal challenges.

**Exhibit 10**  
**Verizon and AT&T Wireline Revenue and Construction without FiOS and U-Verse**  
**2005-2008**

	2005	2006	2007	2008	
Revenue	\$131,510	\$147,434	\$143,725	\$142,253	
Actual	\$17,309	\$22,260	\$24,598	\$24,438	\$88,605
FiOS U-Verse	\$6,300	\$6,300	\$6,300	\$6,300	\$25,200
Construct	\$11,009	\$15,960	\$18,298	\$18,138	\$63,405
Percent	8.40%	10.80%	12.70%	12.80%	

## 5.0 Depreciation

In 1984, depreciation, the writing off of the network equipment, was done at a pace where the actual useful age of the equipment was considered. Under the older rate-of return model, where the company earned a specific range of profits, depreciation was set because it is both an expense as well as “cash”, which is discussed other chapters.

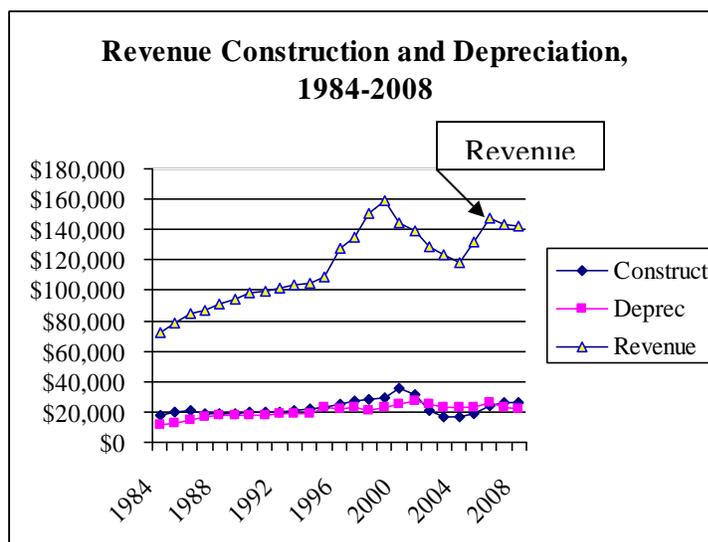
In the following exhibit we highlight the depreciation as compared to the construction budgets as well as the revenues. In the beginning, depreciation was 65% of the new construction being done, but by 2004, depreciation budgets could be 119% of actual construction expenditures, meaning the company was writing off more than it was putting into the ground. In 2002 and 2003, depreciation was over 130% of construction.

**Exhibit 6**  
**Comparing Wireline Depreciation, Construction and Revenue, 1984-2008**

	1984	1989	1994	2000	2005	2006	2007	2008
Construct	\$18,011	\$18,613	\$21,579	\$35,376	\$18,922	\$23,892	\$26,267	\$26,238
Depreciation	\$11,736	\$18,074	\$18,912	\$24,975	\$22,599	\$25,869	\$22,595	\$21,989
Wireline rev.	\$73,332	\$94,443	\$104,982	\$144,709	\$131,510	\$147,434	\$143,725	\$142,253
Deprec	65.2%	97.1%	87.6%	70.6%	119.4%	108.3%	86.0%	83.8%

In 2005 and 2006, the companies wrote more than they were spending on new construction and only recently, in 2007 and 2008, did the depreciation go down to over 80%. By the end of 2008, the companies wrote off 90% of the entire construction budgets since 1984.

**Chart 5**



The biggest question of this equation is – What should the depreciation rates be as compared to new construction?

Using 65% as the traditional depreciation, and 85% as an aggressive depreciation schedule, since 1984 the phone companies over-depreciated \$100 billion to \$371 billion, taking into account various “special items” that the companies took to write off portions of the networks or speed up their depreciation schedules. This means that the companies not only saved on taxes that they didn’t have to pay, but also got to use the money as ‘cash’.

**Exhibit 12**  
**Depreciation Overcharges Based on 65% and 85% as Standards**

	Overcharge
At 65% depreciation since 1984	\$99,882
At 85% depreciation since 1984	\$371,395

In other chapters we question whether the depreciation schedules that were implemented to deploy the ‘information superhighway’ were justified as the copper wiring that was supposed to be replaced with fiber optic cable did not happen, and much of the depreciated equipment is still in use – proven by the fact that 90% of all construction since 1984 has already been written off.

## 6.0 Employees

There are two numbers of interest when examining employees --- the drop in employees when examining revenues overall, but more importantly, the drop in employees who actually work to deliver phone service, the original business of the original Bell companies.

This exhibit represents all of the employees for the entire company, which includes wireline, wireless, and other services and products, showing a 28% drop since 1984, with 189,367 jobs lost.

**Exhibit 13  
Bell Employees, 1984-2008**

	1984	2008	decrease
Employees	680,653	491,286	28%
Jobs lost		189,367	

A more accurate assessment of the changes could be seen in 2 companies, US West (now Qwest) and BellSouth, which was purchased in 2006 by SBC-AT&T. Qwest has had a 51% drop in employees while BellSouth had a 39% drop. These numbers, again, reflect the entire Bell company.

**Exhibit 14  
Comparing Qwest and BellSouth Employees and Revenues, 1984-2006, 2008  
(BellSouth uses 2006 data)**

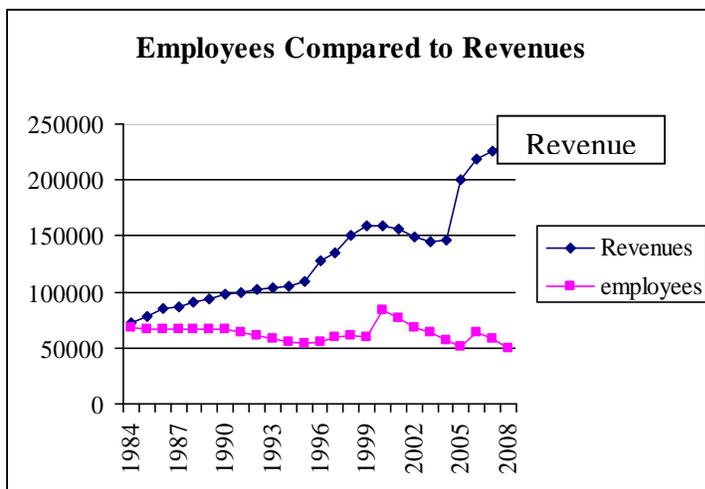
	1984	2006, 2008	Decline
Qwest	70,765	34,656	-51%
Bellsouth	100,704	61,434	-39%
Revenue	(in the millions)		Increase
Qwest	\$7,284	\$13,537	86%
Bellsouth	\$9,631	\$20,547	113%

The real comparison of job cuts needs to be done against the revenue increases. In 1984, BellSouth had \$9.6 billion in revenues, which increased to \$20.5 billion by 2006. Taking into account the revenue increases, this would mean that the staff cuts were much deeper than simply examining the cuts without comparisons.

More scrutiny in examining the employees who actually work for the local customers, which was the base of the original Bell companies, shows a much larger loss of customer services to customers.

When one compares the total revenues by the number of employees, This next chart gives a more disturbing picture --- while staff was cut, 29%, revenues increased 220%, If employees tracked with revenue, instead of cutting, there would have been an increase of staff a 361% increase in staff.

**Chart 6**



The phone companies, of course, have stated that there have been productivity gains; there was a need to lower staff based on profit margins, etc. However, today, most phone companies have severely cut back on customer services, with most companies now offering banking hours – 8:00 AM to 6:00PM, Monday through Friday.

## 6.1 Missing Data: Employees-Per-Line

One of the standard measurements that was used by the Bell companies since eternity has been a statistic called “employees-per-line”, which represented the employees that worked for the customer on local service. We believe this data statistic was taken out because it would show that the phone companies have cut staff past 70% from what was done in the 1980’s, where customer service was considered important and the companies could be penalized if they did not perform swiftly fixing problems.

Today, there are virtually no standards that are kept. Customer service has fallen to new lows, and this trend, which started in the 1990’s, is reminiscent of the line “We’re the phone company”.

## 7.0 Foreign Investments and Other Losses

The Bell companies were never restricted from purchasing overseas phone, cable or wireless companies nor other types of business, from real estate to computer leasing.

We've previously covered these topics in other documents. In 1994, New Networks Institute published, "Regional Bell Revenues, Expenditures and Profits", and this material was updated in "The Unauthorized Bio of the Baby Bells", which covered 1984 through 1997.

By 1997, the Bell companies had spent \$27 billion overseas and it was projected they would spend approximately \$4.5 billion in the following years. At the same time-frame, the Bell companies purchased and lost approximately \$11 billion in real estate, financial services, and computer leasing.

In 2002, New Networks published "Regional Bell (RBOC) Write-offs and Foreign Investment (2000-Second Quarter 2002)". This updated chart shows that by the end of 2003, the Bell companies had lost over \$40 billion in investments overseas and other telecom related investments. The companies also wrote off \$6 billion in merger related deductions.

To read the report: <http://www.teletruth.org/docs/ForeignBellinvest.doc>

**Exhibit 15**  
**Regional Bell Foreign Investment and Telecom Losses.**

	2000-2003	mergers
Verizon	\$15,773	\$3,089
Qwest	\$16,108	
SBC	\$8,959	
SBC	\$2,744	\$2,971
	\$40,840	\$6,060

For example, in the second quarter of 2002, Verizon took a \$1.4 billion write-off for their investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV).

"During the first quarter of 2002, we recorded a pretax loss of \$1,400 million (\$1,400 million after-tax) due to the other than temporary decline in the market value of our investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV). As a result of the political and economic instability in Venezuela, including the devaluation of the Venezuelan Bolivar, and the related impact on CANTV's future economic prospects, we no longer expected that the future undiscounted cash flows applicable to CANTV were sufficient to recover our investment.

Accordingly, we wrote our investment down to market value as of March 31, 2002.”

Bell South has created a series of Latin American business enterprises in 11 countries.

“The Latin America segment is comprised of our investments in wireless businesses in eleven countries in Latin America. Consolidated operations include our businesses in Argentina, Chile, Colombia, Ecuador, Nicaragua, Peru and Venezuela”

In the first half of 2002, BellSouth has taken approximately \$2.2 billion in write-offs from failed loans and the devaluation of the Latin American currencies.

“At the end of the second quarter reporting period, the Argentine Peso had devalued approximately 72 percent relative to the U.S. dollar, and the Venezuelan Bolivar had depreciated approximately 34 percent.”

The obvious question about all of these investments is --- should the phone companies have been allowed to take their eye off the ball – i.e., not upgrade the networks and use the money out of the region or out of the country?

## 8.0 Competition's Rise and Fall

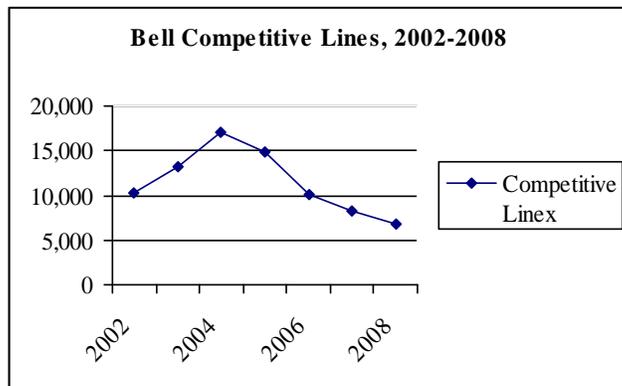
There are a number of ways of examining competition today.

### 8.1 Local and Long Distance Competition

In 1996, the Telecom Act was supposed to open the local phone companies' networks to competitors by offering wholesale rates to these independent companies, which included AT&T and MCI. Starting in 2004, the FCC made a series of bad decisions that rewrote the Telecom Act and no longer required the Bell companies to open their networks to competitors using wholesale rates. This was the main reason AT&T and MCI were put up for sale – they could no longer compete for local service.

This next exhibit highlights what happened before and after the FCC's decision. In 2002, there were 10.2 million competitive lines, rising to 17 million by 2004. Without the ability to use the local networks, there was a steep decline and now there are 6.8 million lines left, some owned by AT&T and Verizon as a remainder of the legacy-AT&T and MCI service offerings. By 2008, only 6% of Bell lines are used by competitors.

**Chart 7**



**Exhibit 16**  
**Competition Rise and Fall, 2002-2008**  
 (000)

	2002	2003	2004	2005	2006	2007	2008	Decline	Total
Verizon	3,698	4,100	6,597	6,172	3,806	3,046	2,466	62.6%	39,883
SBC	4,476	6,682	7,363	5,977	4,358	3,849	3,142	57.3%	57,191
Qwest	2,070	2,482	3,181	2,666	1,906	1,385	1,167	63.3%	11,869
	10,244	13,264	17,141	14,815	10,070	8,280	6,775	60.5%	108,943
								6%	

## 8.2 Internet Service Providers

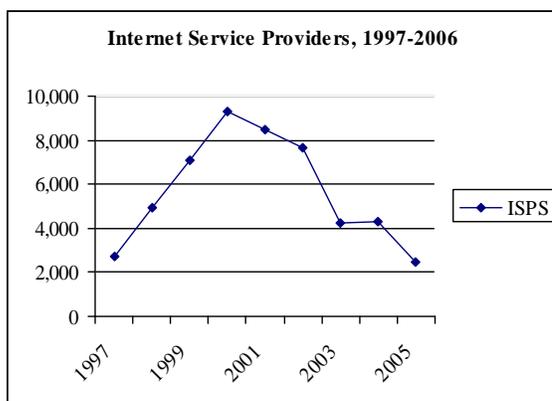
The other class of competitors that were hurt by the changes in FCC regulations was the Internet providers and D-LECs, competitive local data companies, who offered DSL and other services.

The independent Internet Service Providers were also allowed to receive wholesale rates to offer DSL. The ISP could use the phone company supplied DSL service with their own ISP service, or use a competitive “D-LEC”, a competitor offering DSL and other data services. (NOTE: In many states, DSL upgrades were paid for by customers through excess phone charges, not by the phone companies.)

By 2000 there were 9335 ISPs according to the Census. Ironically, the new-AT&T and Verizon were not even in the Top 10 of US ISP providers. Also, over 50% of all customers who went online were handled by small, independent ISPs, not the phone companies.

However, because of an FCC that failed to enforce the laws pertaining competitors, allowing predatory pricing and sub-standard customer services, and the FCC closing the ISPs rights to use the line-sharing of the customers’ lines, there has been a drop of 7000 ISPs. Except for a few, like AOL and Earthlink, today’s market does not represent any significant competition to either the cable or phone companies’ offerings.

Chart 8



**Exhibit 17**  
**US Internet Service Providers (ISPs)**

Source: Census, 1997-2005

1997	1998	1999	2000	2001	2002	2003	2004	2005
2,751	4,915	7,099	9,335	8,450	7,627	4,249	4,327	2,437

## 8.3 Competition and Revenue Streams

The most disturbing thing about discussions of competition is that AT&T and Verizon will claim that they have competition, when in reality, when one examines the current data on the competition per revenue stream, there really is no competition. In most cases, it is, at best, a duopoly. In the next exhibit we outline the basic competition by lines of business.

**Exhibit 18**  
**Competition by Revenue Streams**

Local Service	Cable 15% Wholesale 6%	Today, the cable companies only have 12% of the phone market. VOIP over cable and other VOIP service still requires someone to purchase a broadband connection. Because of the wholesale rate decision, only 6% of wireline competitors exist.
Long Distance Service	Owens market for stand alone LD	Purchasing the remaining long distance companies, and consolidating their market through bundling or lack of competition, they own the marketplace. AT&T and MCI do not compete.
Directory Assistance	Own the market	The Bells own the call when the customer dials "411", the local directory, and they added long distance DA, an additional service that was the domain of the long distance companies.
Yellow Pages	Own the market	This market has few competitors and the profit margins have remained obscene as people still get the books.
Broadband (DSL et al)	50% split cable	The cable companies split the market with the phone companies. It was the phone companies' to lose and they did. FIOS and U-Verse are closed to competitors.
ISP- Connection to the Internet.	Own the market for wireline	Over 7000 small ISPs went out of business, in part due to predatory pricing and bad FCC decisions. The Bells have the entire DSL market as other ISPs still have to pay them for use of the DSL connection.
Cable Service	No real competitor	AT&T and Verizon have a few million customers, except for their deals with DISH TV, etc. In fact, of the upgraded networks, about 1-2% could be considered competition against cable.
Wireless Service	Owens 50%	Since AT&T and Verizon are the 2 largest wireless providers, in their own region they each have at least 50% of wireless customers.

## 9.0 Bell Access Lines

On face value, comparing 1984 to 2008, it would seem that the Bell companies gained a significant amount of lines through 1999, then had a large decline. In 1984, there were 99 million lines, climbing to 171 million then down to 106 million – a drop of over 70 million lines. These are both business as well as residential lines.

**Exhibit 19**  
**Bell Access Lines, 1984-2008**

	1984	1989	1994	1999	2004	2008
AT&T	50,297	58,078	67,357	85,067	73,712	57,191
Verizon	38,122	47,170	53,011	68,807	52,289	37,072
Qwest	10,871	12,218	14,300	17,009	15,434	11,869
total	99,290	117,466	134,668	170,883	141,435	106,132

The Bell companies contend that these losses stem from competition, AT&T’s Annual Report, 2007.

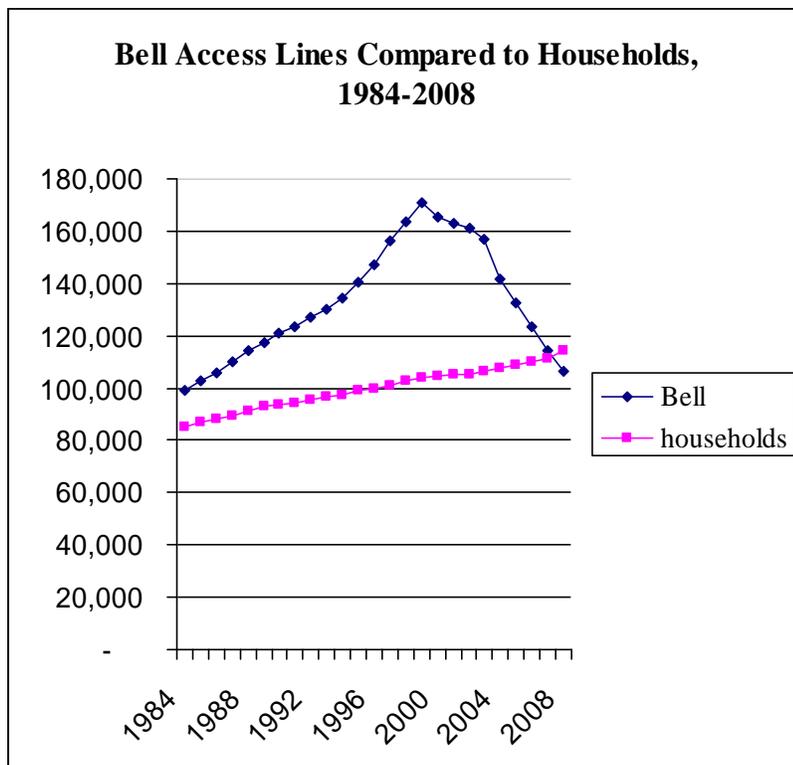
“Our operating income was slightly offset by the continued decline of our retail access lines due to increased competition, as customers continued to disconnect both primary and additional lines and switched to competitors’ wireless, Voice over Internet Protocol (VoIP) and cable offerings for voice and data. While we lose the wireline voice revenues, we have the opportunity to increase wireless service revenue should customers choose AT&T Mobility as their alternative provider.”

There are many different reasons for the line drops and even how the lines have been counted, and we should examine them separately.

## 9.1 Hypergrowth and the Decline of Access Lines

The chart below outlines the access lines by year vs the growth in households. As is evident, there was a major peak of growth from 1992 through 1999, which was caused by the Internet, customers’ purchased a second line for both the Internet and fax and competitors helped to sell millions of a lines, not to mention purchasing millions of lines so they could offer dial up Internet service.

Chart 9



As is evident from the exhibit below, the growth of services from 1992-1999 had 91% to over 650% higher growth than the Census information about household growth.

Exhibit 20  
Bell Hypergrowth Internet and Fax Era, 1992-1999

	1992	1993	1994	1995	1996	1997	1998	1999
Access	2.75%	2.61%	3.27%	4.17%	4.85%	6.41%	4.39%	4.59%
Census	1.44%	0.79%	0.71%	1.94%	0.64%	1.40%	1.49%	1.31%
	91.4%	230.4%	363.6%	115.3%	653.4%	358.8%	193.6%	249.7%

Based on the chart, had hypergrowth not occurred, the number of lines would be in line with household growth, to a point.

### 9.2 Playing with the Line Counts

The FCC's data on line counts makes clear that the Bell companies have essentially manipulated the actual accounting on lines in multiple ways. This first exhibit and chart

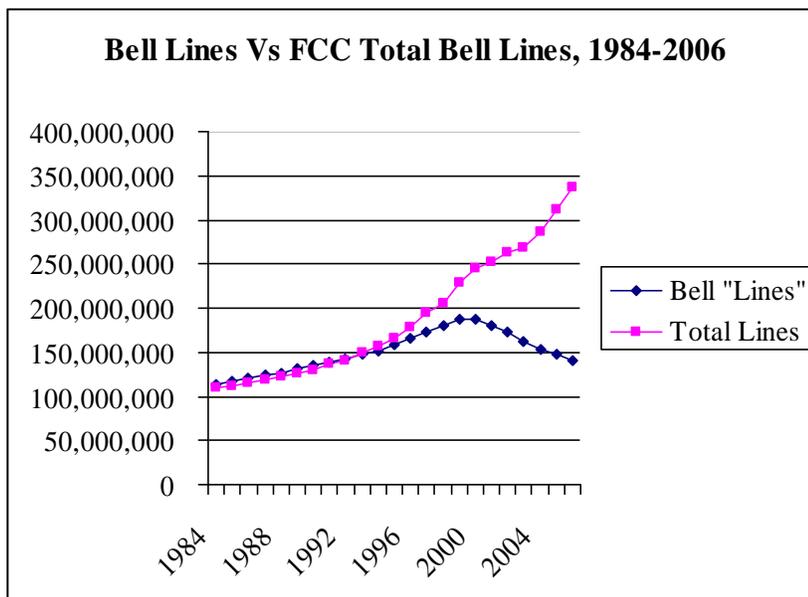
reveals that the Bell companies have only given the line counts for what is called “switched access” lines. These do not represent the entire class of lines Verizon or AT&T sells as it doesn’t include “non-switched lines”, “broadband lines”, like ISDN, DSL or even FiOS, and so it allows the companies to claim line losses without the major fact – that the Bell lines have had steady increases throughout this period.

As is clear from the exhibit below, the Bell’s total lines went from 103.1 million to 337 million while the Bells’ stated lines in their press releases and annual reports show it went from 99.3 million to 188 million then down to 139 million by 2006 (the FCC does not publish later data.) If we use the peak of 188 million lines in 2000, according to AT&T and Verizon there’s been a 25% decrease in lines. However, the FCC’s data shows an increase of 38%. Overall, while the Bells rise and fall numbers gives the total increase at 23%, the FCC total line numbers reveals a 187% increase.

**Exhibit 21**  
**Bell Access Lines Vs FCC Bell “Total Lines”, 1984-2006**

	<b>1984</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2005</b>	<b>2006</b>	<b>Since 2000</b>	<b>Overall</b>
Access Lines	99.3	134.7	158.2	187.6	179.8	140.2	139.0	-25.4%	23%
Total Lines	103.1	130.4	166.0	244.8	252.7	311.5	337.1	37.7%	187%

Chart 10



There are a number of other factors about line growth that are important to discuss.

### 9.3 The CLEC and ISP Factor in Line Counts

AT&T currently includes wholesale lines in the calculations of access lines. This means that AT&T has added an additional 7.4 million lines to the access line calculations, which went down some 57% to 3.1 million lines. On top of this, the CLECs and Internet Providers also bought millions of lines to deploy their services, and because the industry was essentially put out of business by the policies of AT&T and Verizon with the help of the FCC, these lines would have been accounted for in the rise, then fall of the line counts for ALL phone companies.

The decline is also tracked in the revenue statistics. The loss of CLEC and ISP business meant billions of dollars lost in access services.

### 9.4 Substitution of Second Lines for DSL

It is now clear that DSL, which travels over the phone companies' copper wiring that is used for both data and voice services, did not require a second line, which many customers had for fax and the Internet.

From the numbers presented in the next exhibit, it is clear that a drop of 5.5 million lines could be attributed to DSL substitution. At the same time, the companies increased their DSL service by 16.4 million lines. (NOTE: The number of switched access, etc. have some differences in line counts because of different sources – FCC, annual and quarterly reports, or even restatements of the Bell reports because of mergers and other factors.)

**Exhibit 22**  
**Customers Are Replacing Additional Lines with DSL Connections**

	2000	2001	2002	2003	2004	2005	
Switched Access Lines	163,771	156,208	147,107	137,316	130,397	124,307	-39,463
Res. Additional Lines	NA	NA	14,671	12,432	10,530	9,191	-5,480
DSL Connections	1,793	3,602	5,530	7,915	11,722	16,427	14,634

(Appendix C, Replacement of Additional Lines with DSL Connections, CC Docket No. 80-286, Federal-State Joint Board ), Affidavit Of, Susan M. Baldwin, on behalf of the New Jersey Division of Rate Counsel, and the, National Association of State Utility Consumer Advocates, August 22, 2006)

As NASUCA writes:

“According to the FCC data, between June 2003 and June 2005 AT&T lost 4.2 retail access lines, According to AT&T documents, DSL connections increased by approximately 3.4 in the same period. BellSouth... lost 2.2

million retail access lines... and increased its DSL connections by 1.4 million lines.'

## 9.5 Deceptive Accounting of Broadband Connections and Access Lines.

None of the Bell companies count their current broadband deployments, including Verizon's FiOS or AT&T's U-Verse as an 'access' line. When one considers that FiOS installations either abandon or remove the copper wiring, and replace it with a fiber optic cable, it is clear a substitution of the utility product, not a new product or even a second product, is happening and should be counted as an 'access' line.

This accounting slight-of-hand has two implications. First, Verizon is counting the loss of the copper wiring as a loss of an access line and secondly, it fails to count the FiOS installation as a new access line – thus double-counting of the same line, both of which lowers the access lines counts. And this includes both Verizon's Internet service as well as Verizon's cable TV offering.

The mathematics are as follows: in 3<sup>rd</sup> q 2008, Verizon had 1.6 million FiOS TV customers and 2.2 million FiOS Internet customers.

Verizon has 37 million lines, but in reality, the company has at least 7.6 million more, as the 3.8 million is not only deducted from the line counts, but Verizon also doesn't add the 3.8 million to the account as additions. Thus, Verizon had 44.7 million at the end of 2008. (37 +7.6 million). Adding this fact, Verizon most likely DID NOT lose lines, but actually gained lines, especially when we add the other factors we will bring up.

Verizon's access lines vs the additions of FiOS that were not added to the line count.

**Exhibit 23  
Verizon's Access Lines vs the Additions of FiOS**

	9/30/07	9/30/08	FiOS	actual lines
Access lines	40,719	37,072	40,872	44,672
		-8.96%	0.38%	9.71%

Verizon also had 8.5 million 'broadband connections' and there is know way of knowing how many actual services replaced the traditional access lines, and were not counted.

Unfortunately, AT&T is playing the same numbers game. In the exhibit below, taken directly from AT&T's 3rdQ2008, it is clear that broadband connections and access lines are distinct line items in the accounting, 'broadband' includes U-Verse, the companies' fiber-

replacement for current access lines. While the number of access lines decreases, it is clear that the actual lines continues to increase, but is not stated as such.

**Exhibit 24**  
**AT&T's Accounting of Access Lines and Broadband Connections.**  
**Selected Financial and Operating Data**

	September 30,	
	2008	2007
Consumer revenue connections (000) <sup>1,2</sup>	47,548	49,598
Network access lines in service (000) <sup>2</sup>	57,191	62,871
Broadband connections (000) <sup>2,3</sup>	14,841	13,760
Video connections (000) <sup>4</sup>	2,963	2,112

<sup>1</sup> Consumer revenue connections include retail access lines, U-verse voice over IP connections, broadband and video.

<sup>2</sup> Represents services by AT&T's local exchange companies (ILECs) and affiliates.

<sup>3</sup> Broadband connections include DSL, U-verse high-speed Internet access and satellite broadband.

<sup>4</sup> Video connections include customers that have satellite service under our agency arrangements and U-verse video connections of 781 in 2008 and 126 in 2007.

## 9.6 Sell Off of Properties

By 2008, Verizon has sold off over 4.5 million lines since 2000. This includes the sale of GTE Hawaii, not to mention the entire states of Maine, New Hampshire and Vermont, as well as properties throughout the US.

## 10.0 Bell Company Profits

The Bell companies have done quite well financially over the last 25 years. For example, AT&T announced its 25<sup>th</sup> annual consecutive dividend increase.

“ AT&T today announced that its board of directors has approved a 2.5 percent increase in the company's quarterly dividend, marking AT&T's 25th consecutive annual dividend increase, a record unmatched among major telecom companies.”, December 12, 2008

Verizon was Number 4 in the Business Week 50 Best Corporate Performers for 2008, while AT&T was 27, above Google, PepsiCo and Microsoft. It is hard to currently calculate the profits on, say local service or any of their businesses as the companies' data does not give that kind of information.

What has happened is simple; the companies' profits were greatly increased by deregulation.

Under the original AT&T that controlled the local Bell companies, the return on equity, the profits derived from the utility customer were capped, between 10%-12% was considered healthy. Considering the current marketplace, where the interest rates from banks are virtually no return, this is a healthy amount of money.

That all changed when the Bell Companies were created.

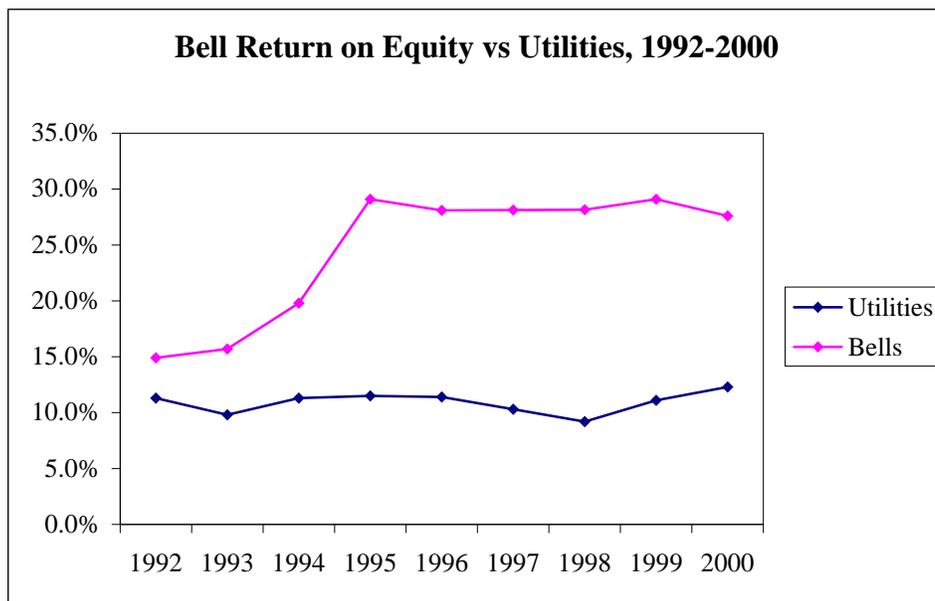
## 10.1 From 1984 to 1992, the Bell Companies had Maintained a Steady Return on Equity

The first step of the phone companies was to plead poverty because they were 'poor babies', and each state raised the company's profits by increasing the price of service, or allowing some deregulation of some of their business so they could earn more. In some states, they got partial deregulation based on making statements that they would roll out ISDN, the first 'high-speed' line. On average the return for this period was 12% to 15%.

## 10.2 Return on Equity 188% above Other Utilities 1992-2000

Starting in 1992, there was a major increase to the earnings, created in a large part by the changes to state laws for fiber optic deployments. This plan worked like a charm. The companies went to each state and pitched a change in state law to give the companies more money to build out their networks. From 1993, when the alternative regulation plans were starting to be implemented, the Bell companies' return on equity went from 14.9% to 29.1%; a 9-year increase of 126%. However, it was 188% above the other Utilities. (Source: Business Week Scoreboards, 1993-2000)

**Chart 11**



### 10.3 Bells Compared to Business Week Industry and Utilities, 2000-2004

The Bell companies have continually complained about the impacts of competition. However as compared to the rest of the Business Week Scoreboard’s Industry or Utilities, the Bell companies retained a higher return on equity than the other companies. (Source, Business Week Scoreboards, 2000-2004.)

The “Industry” had an average of 11.8%; the “Utilities” had a 10.6% return, while the Bell companies averaged 17.4% return on equity. Combined, over the five years, the Bell’s had:

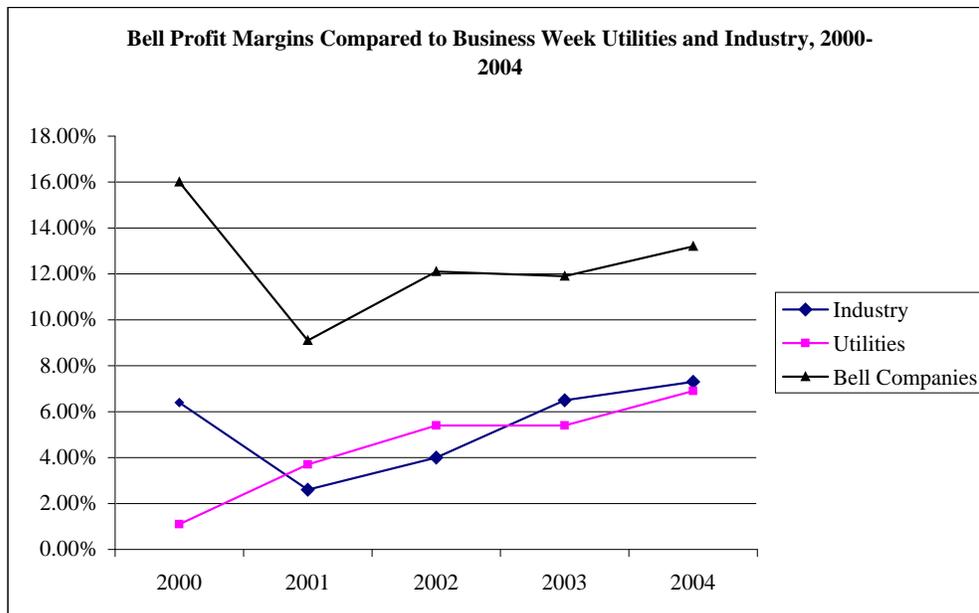
- 56% above the Business Week industry and utilities.
- 47% higher return on equity than the other industry players.
- 64% higher than the other utilities.

### 8.4 Bell Profit Margins, 2000-2004

The Industry had an average of 5.4%; the Utilities had a 4.5% return, while the Bell companies averaged 12.5%

- 132% higher profit margins than the other Industry players.
- 177% higher than the other Utilities.

Chart 12



**10.5 Bell Profits, 2005-2008.**

In 2004 and 2005 Verizon and AT&T were not the top 50 Performing Business Week companies. In 2006, Verizon was 7, AT&T 44, and in 2007, Verizon moved to 4<sup>th</sup> place, AT&T to 27. If we compare Verizon and AT&T’s total returns for one year as compared to the S&P 500, in 2006, Verizon’s return was 148% above the S&P, though this went to a minus 1% in 2007. In 2006, AT&T had 20.5% return, almost 30% above the S&P, while in 2007 the company had a 119% above the S&P’s 5.49%.

**Exhibit 25  
Comparing S&P 500 With AT&T and Verizon’s Total Return for One year, 2006, 2007**

	2006			2007		
	Ranking	Return	Above S&P	Ranking	Return	Above S&P
AT&T	44	20.50%	29.7%	27	12.00%	119%
Verizon	7	39.20%	148.1%	4	-.1%	
S&P		15.80%			5.49%	

Some of these statistics are not good indicators of actual performance. The full year return of Verizon in 2007 shows a -.1% percent, when in reality, the revenues and profits were quite healthy. Verizon’s total revenue was \$93 billion in 2007 and \$88 billion in 2006 while the

operating income, which is profits after most expenses, were also quite healthy, from \$15.6 billion in 2007, up from \$13.4 billion in 2006. The reason for the low return was that the company spent money on repaying loans, and reasons not tied to telecom or broadband performance.

The question we can not answer from this information is how much profits are the companies making from the utility local phone service or network maintenance as these numbers only indicate the total revenues and total returns.

However, for 2007 and 2008, the raw aggregated numbers are quite large. Overall, in 2008, Verizon and AT&T had \$74 billion in ‘cash’ or commonly known as EBITDA, Earnings Before Interest, Taxes, Depreciation and Amortization. Verizon had \$31 billion in EBITDA; AT&T had \$43 billion --- representing about 32-35% of revenues.

Both depreciation and amortization act as ‘cash’ as these are both expenses, but the expense could have occurred 2 decades ago, and now is a tax write-off. And while Verizon had 84% depreciation expense as compared to construction, AT&T had 101% -- i.e., AT&T wrote off more than they put into new construction.

There is also a disturbing issue of taxes – With 32%-35% of their revenues is profits, Verizon only paid 3% of revenue on income taxes, while AT&T only 5%.

**Exhibit 26**  
**Verizon and AT&T Revenue, Depreciation,**  
**Operating Income, Cash Flow, and Taxes, 2007-2008**  
**(In the millions)**

	Verizon	AT&T
	2008	2008
Revenue	\$97,354	\$124,028
Depreciation	\$14,565	\$19,883
Operating Income	\$16,884	\$23,063
Cash Flow	\$31,449	\$42,946
	32%	35%
Taxes	\$3,331	\$ 6,253
	3%	5%
Construction	\$17,238	\$19,676
	17%	16%
Depreciation vs Construction.	84%	101%

## 11.0 Broadband Commitments vs Reality.

Today, America is 15<sup>th</sup> in the world in broadband. Today, there are less than 1 million broadband connections in the US as defined by either state laws created in 1993 –with speeds of over 45Mbps in both directions, or the Telecom Act of 1996, which defines broadband (“advanced services”) as high quality video in both directions. By 2010, America should have been virtually completed with fiber to the curb/home, with over 117 million completed lines. This is based on actual statements and filings made by AT&T, Verizon and Qwest.

Chart 12

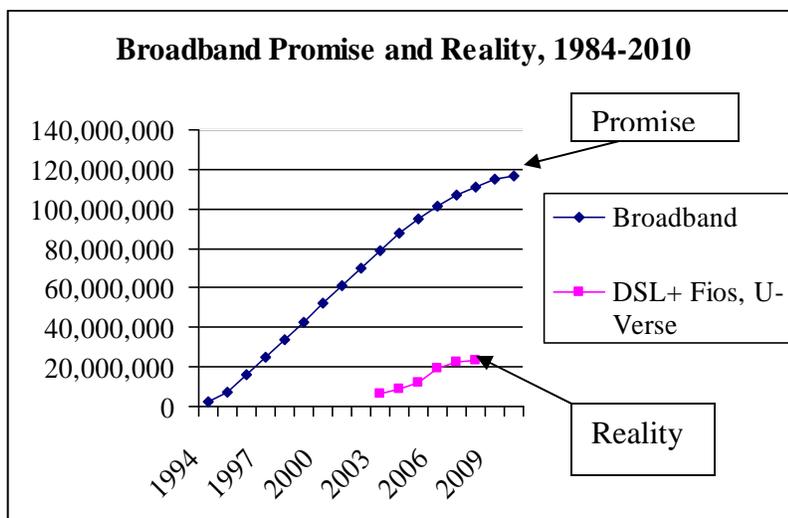


Exhibit 27  
Stated Broadband Commitments, 1994-2008  
(In the millions)

	1994	1997	2000	2003	2008	2009	2010
Broadband	2.5	25.1	51.9	78.7	110.7	114.7	117.0

State laws were changed and billions per state collected for fiber optic services that were never deployed. In state after state, the companies went to regulators and made commitments to rewire the entire state if the regulators ‘deregulated’, allowing the companies to get more profits from customers’ services in the form of higher phone rates, as well as massive tax incentives, in the form of faster depreciation – writing off the networks.

- **Pacific Bell Annual Report, 1993** -- "In November 1993, Pacific Bell announced a capital investment plan totaling \$16 billion over the next seven years to upgrade core network infrastructure and to begin building California’s ‘Communications superhighway’. Using a combination of fiber optics and coaxial cable, Pacific Bell

expects to provide broadband services to more than 1.5 million homes by the end of 1996, 5 million homes by the end of the decade."

- **SNET 1993 Annual Report** -- "On January 13, 1994, the Telephone Company announced its intention to invest \$4.5 billion over the next 15 years to build a statewide information superhighway ("I-SNET"). I-SNET will be an interactive multimedia network capable of delivering voice, video and a full range of information and interactive services. – completed by 2007.
- **Ameritech Fact Book, March 1994** -- "We're building a video network that will extend to six million customers within six years."
- **NYNEX, 1993 Annual Report** -- We're prepared to install between 1.5 and 2 million fiber-optic lines through 1996 to begin building our portion of the Information Superhighway."
- **US West, 1993 Annual Report** -- "In 1993 the company announced its intentions to build a 'broadband', interactive telecommunications network... US West anticipates converting 100,000 access lines to this technology by the end of 1994, and 500,000 access lines annually beginning in 1995."

States also had separate commitments: New Jersey 100% completed by 2010, Pennsylvania, 100% completed 2015, Maryland 100% completed 2010, Massachusetts 330,000 lines by 2000.

There were also FCC filings, known as 'video dialtone', which were the federal corollary to the states' filings. In the early 1990's, the phone companies even took legal challenges to be able to offer cable services over their phone networks, which would be upgraded to fiber-to-the-curb technology.

The exhibit on the next page highlights the 44 different video dialtone proposals applications, Here are just some highlights

## Exhibit 28

### Requested Video Dialtone Applications by the Phone Companies

Date	Telephone Company	Location	Homes	Type of Proposal
10/21/92	Bell Atlantic-VA	Arlington, VA	2,000	technical/market
10/30/92	NYNEX	New York, NY	2,500	technical
11/16/92	New Jersey Bell	Florham Park, NJ	11,700	permanent
12/15/92	New Jersey Bell	Dover Township, NJ	38,000	permanent
04/27/93	SNET	West Hartford, CT	1,600	technical/market
06/18/93	Rochester Telephone	Rochester, NY	350	technical/market
06/22/93	US West	Omaha, NE	60,000	technical/market
12/15/93	SNET	Hartford & Stamford, CN	150,000	technical/market
12/16/93	Bell Atlantic	MD & VA	300,000	permanent
12/20/93	Pacific Bell	Orange Co., CA	210,000	permanent
12/20/93	Pacific Bell	So. San Francisco Bay, CA	490,000	permanent
12/20/93	Pacific Bell	Los Angeles, CA	360,000	permanent
12/20/93	Pacific Bell	San Diego, CA	250,000	permanent
01/10/94	US West	Denver, CO	330,000	permanent
01/24/94	US West	Portland, OR	132,000	permanent
01/24/94	US West	Minneapolis/ St. Paul, MN	292,000	permanent
01/31/94	Ameritech	Detroit, MI	232,000	permanent
01/31/94	Ameritech	Columbus & Cleveland, OH	262,000	permanent
01/31/94	Ameritech	Indianapolis, IN	115,000	permanent
01/31/94	Ameritech	Chicago, IL	501,000	permanent
01/31/94	Ameritech	Milwaukee, WI	146,000	permanent
03/16/94	US West	Boise, ID	90,000	permanent
03/16/94	US West	Salt Lake City, UT	160,000	permanent
04/13/94	Puerto Rico Tel. Co.	Puerto Rico	250	technical
05/23/94	GTE - Contel of Va.	Manassas, VA	109,000	permanent
05/23/94	GTE Florida Inc.	Pinella and Pasco Co., FL	476,000	permanent
05/23/94	GTE California Inc.	Ventura Co., CA	122,000	permanent
05/23/94	GTE Hawaiian Tel.	Honolulu, HA	334,000	permanent
06/16/94	Bell Atlantic	Wash. DC LATA	1,200,000	permanent
06/16/94	Bell Atlantic	Baltimore, MD; Northern NJ; DE; Philadelphia, PA; Pittsburgh, PA; and S.E. VA	2,000,000	permanent
06/27/94	BellSouth	Chamblee & DeKalb s, GA	12,000	technical/market
07/08/94	NYNEX	RI	63,000	permanent
07/08/94	NYNEX	MA	334,000	permanent
09/09/94	Carolina Tel. & Tel.	Wake Forest, NC	1,000	technical/market
4/28/95	SNET	CT	1,000,000	permanent

In 1993, the speed of broadband was high definition video in both directions with a speed of 45mbps. Speed of Broadband, New Jersey State Law, 1993.

"Broadband Digital Service — Switching capabilities matched with transmission capabilities supporting data rates up to 45,000,000 bits per second (45mps) and higher, which enables services, for example, that will

allow residential and business customers to receive high definition video and to send and receive interactive (i.e., two way) video signals."

DSL was a Bait-and Switch. DSL, which goes over the old copper wiring, was considered an inferior service in 1992, as stated in state filings by Verizon. DSL was only used because the Internet users wanted more speed than dial up.

This is not historic. Though some of the state's advocates questioned the outcomes of these failed deregulatory plans, NO state attempted to remove the alternative regulation/deregulatory freedoms, even though the phone companies had submitted falsified cost models and couldn't build the networks based on current 1992-2000 technology. Thus, money is still being collected today.

## **11.1 Follow the Money. \$300 Billion and Counting**

In "\$200 Billion Broadband Scandal", we examined the statistics for profits, depreciation and tax deductions and revenues and compared that to both utilities as well as the S&P 500 and Business Week. Our current estimate of 'overcharging' has become more problematic as the regulators have allowed multiple businesses to be combined under basic categories like "local service" or "wireline service". We estimate that overcharging is around \$20 billion a year from failed deployments, monies collected under deregulation, depreciation, funding of non-local services, such as DSL and FIOS out of construction budgets through cross subsidization, and simply raising rates without any financial investigations into profits and costs.

Since the publication of the book, we have also examined more closely other states, including Wisconsin, Ohio, Illinois, New Jersey, New York, Massachusetts and California, and believe our original projections were low as the details of these states indicates that our overall combined analysis missed the depth of various problems like cross-subsidization, or the issue surrounding taxes, such as property tax payments.

## 12.0 The Price of Service

This section is based on an ongoing collecting of actual phone bills for data, which is not the method used by either the FCC or most state regulators. The data collection for the cost of service from 1980-1993 was done as part of a study, “Telephone Charges in America” which outlines the first decade of the Bell companies’ pricing of local and ancillary services, as well as examining long distance bills and tariffs, etc.

We have also completed a new study of phone charges in California, working with UCAN, a San Diego customer advocacy group.

### 12.1 Local Service in New York City has Gone up 524% since 1980.

The exhibit below highlights the charges of phone customers, (including Aunt Ethel), in Brooklyn, New York. The customer, for the exact same service (minus the rotary telephone rental) had the cost of their service go up 524% for basic local phone service.

**Exhibit 22**  
**Verizon New York Basic Local Service, 1980-2008**

	1980	1987	1992	1998	2003	2006	2008	
Untimed Message	\$6.04	\$7.44	\$6.60	\$6.60	\$8.61	\$9.85	\$13.85	129%
Wire Maintenance	\$1.24	\$0.95	\$1.51	\$1.49	\$3.45	\$4.48	\$ 5.99	383%
FCC Line Charge	0	\$2.00	\$3.50	\$3.50	\$6.38	\$6.40	\$ 6.42	
E911	0		\$0.35	\$0.35	\$1.00	\$1.00	\$ 1.00	
DA @ 3 calls (6 free)	(\$0.30)	\$0.92	\$1.58	\$1.58	\$2.81	\$4.39	\$ 4.42	1573%
Local Number Portability					\$0.23			
Call Allowance	(\$4.00)	\$0.90	\$5.09	\$5.09	\$5.47	\$7.20	\$ 7.90	298%
Universal Service Charge	0				\$0.62	\$0.74	\$ 0.73	
Surcharges				\$1.56	\$1.67	\$1.86	\$ 2.46	
Total Before State and Local	\$6.98	\$12.21	\$18.63	\$20.17	\$30.24	\$35.92	\$ 42.77	513%
State, Local, Federal	\$0.65	\$1.37	\$2.10	\$2.27	\$3.40	\$4.18	\$4.81	645%
<b>Total</b>	<b>\$7.63</b>	<b>\$12.21</b>	<b>\$18.63</b>	<b>\$20.17</b>	<b>\$30.24</b>	<b>\$40.10</b>	<b>\$47.58</b>	524%
<b>Increases:</b>		60%	144%	165%	297%	426%	524%	

In 1980, local service was a ‘bundled service’. In New York City, local service came with the wire in the home, (the telephone rental), a \$4.00 local call allowance, and 6 free directory calls for \$7.63.

NOTE: We took out the rotary telephone from this equation because most people would not include this equipment rental in today’s calculations, but we will provide some facts about it.

Then deregulation happened. First, the phone rental and the inside wiring were deregulated in 1982 in anticipation of the break up of AT&T. Next, the FCC Line Charge was added to the

bill, supposedly because AT&T Long Distance had been supplementing the local phone companies' revenues with a long distance kick back. It is now a charge on every local phone bill and is capped at \$6.50 a month, up from \$3.50 from 1992 through 2000, and is direct revenue to the phone company.

The Universal Service charge was added, which was added as an explicit charge. It originally was 3.9% and has been hovering around 11+%. It is applied to every 'interstate' call or service, on the long distance portion of the bill. It is filled with problems including it has been declared an 'at risk' program by the FCC's Inspector General.

Since every service became ala carte and eventually deregulated, the cost of every service skyrocketed. New York City had 6 free directory assistance calls, then \$.10 each. If the customer did not use the calls, they were credited \$.30. It now cost \$1.25, not counting taxes. There was also a \$4.00 call allowance, which was dropped and the cost of the call increased. (We used one cent for the FCC Line and USF as division by 0 is not usable.)

**Exhibit 29**  
**Verizon Basic Local Service, New York City, 1980-2008**

	1980	2008	increase
Local Service	\$6.04	\$13.85	129%
FCC Line Charge	0	\$6.50	550%
Inside Wire	\$1.24	\$5.99	383%
Call Allowance	-\$4.00	No	400%
Directory	6 free, then \$.10 each	No Free, \$1.25 each	1573%
Universal Service	0	11.4% on interstate.	91%

About 90% of America had unlimited local service, unlimited directory assistance, as well as the wire and the phone for under \$10.00 before the break up. Over time each service was deregulated.

We need to stress that no regulator, not the FCC nor the states examine the entire bill, and so taxes and surcharges keep being put upon the customer. No regulator examines the entire profits or expenses of local service as well.

**12.2 The Rotary Telephone Cost Aunt Ethel Over \$1119, from 1982-1997**

In examining the deregulation of the telephone rental, it is clear that neither the FCC nor the states cared about what happened to the customers. Today, there are probably over 1 million customers still renting their phone at outrageous rates, even though there was a court case to make these people whole.

The deregulation of the phone was a mess. The customer could buy their phone, a piece of used equipment, for \$39 or \$49 dollars, or they could rent, where there was a hidden charge on the phone bill to pay back the phone company for the phone, as well as a rental fee. Meanwhile, the phones were written off for tax savings.

Aunt Ethel, who had 2 rotary telephones installed in 1966, and through deregulation, her phone rentals cost over \$1000 per phone. In 1992, a New Networks survey found that 26% of seniors were still renting their phones, and even though there's been a subsequent class action suit, there are estimated to be over 1 million customers still rent at exorbitant rates.

### 12.3 Recent Increases in Local Service throughout the US.

Local prices are going up almost in every state, especially over the last 4 years. AT&T, California has had major price increases for both local as well as long distance services since 2004. For example, Call Waiting went up 86%, while unlisted numbers went up 346%.

**Exhibit 30**  
**AT&T California Local Service Calling Features and Services, 2004 -2008**

	2004	2008	Increase	Annual
Local service	\$10.69	\$10.94	2%	\$3.00
Call Waiting	\$3.23	\$6.00	86%	\$33.24
Caller ID	\$6.17	\$9.99	62%	\$45.84
Inside Wire (Wirepro)	\$2.99	\$6.00	101%	\$36.12
Unlisted numbers	\$.28	\$1.25	346%	\$11.64
Directory assistance	\$.46	\$7.96	1630%	\$90.00

In December 2008, AT&T California again increased the costs of service. It includes local flat rate service – up to 24% per month and measured rate – up to 25%. This cost doesn't include the FCC Line Charge, or taxes or surcharges that also go up.

Also, the cost of Directory has gone up greatly in most states. 1/3 of the US had free directory assistance in 1980, while the other states gave large amounts of free calls included with local service. In California in 2004, AT&T charged \$.46 a call, and the customer received 4 free calls. By 2008, there are no free calls and the cost per call is \$1.99.

### 12.4 Long Distance Service

Long distance service is a phone call that goes between states, an 'interstate' call.

There is a myth in the US. The FCC claims that stand alone long distance service is no longer being used and the cost averages \$.06 a minute and falling. According to our recent California phone bill surveys conducted in 2008 in San Diego, the average cost of a 1 minute

call with AT&T is \$.55 a minute and over 50% of the customers with AT&T local phone service also had AT&T long distance with a stand alone service.

More importantly, the FCC wants to hide the actual number of AT&T customers, which, at last count in 2005, was over 25 million customers. Here's the information the FCC supplied:

(From FCC ORDER: 8/31/07, FCC Replaces Outmoded Long-Distance Rules with New Protections for Consumers. News Release: FCC 07-159 (Order). It contained the following information for pages. This is just a sample.

"AT&T's market share of stand-alone, interstate, long distance services ranges from [REDACTED] percent to [REDACTED] percent, with a median market share of [REDACTED] percent. The respective figures for Verizon are [REDACTED] percent, [REDACTED] percent, and [REDACTED] percent."

This statistic uses a simple formula. The cost per minute is equal to the total costs divided by the number of minutes. As discussed elsewhere the FCC's analysis does not include any plan fees or questionable fees, such as Cost Recovery, that have been added to the customers' cost of service and is skewed toward heavy users.

## 12.5 Long Distance Costs Since 1980

The exhibit below was taken directly from AT&T phone bills. In 1980, the cost of a day call was \$.49 the first minute, \$.33 a minute for the second minute. (Note: these costs were averaged for all distances. AT&T used to have distance sensitive pricing.) The costs also declined based on evening or night usage. By 1992, the cost was down to \$.22 cents a minute for 'day use'.

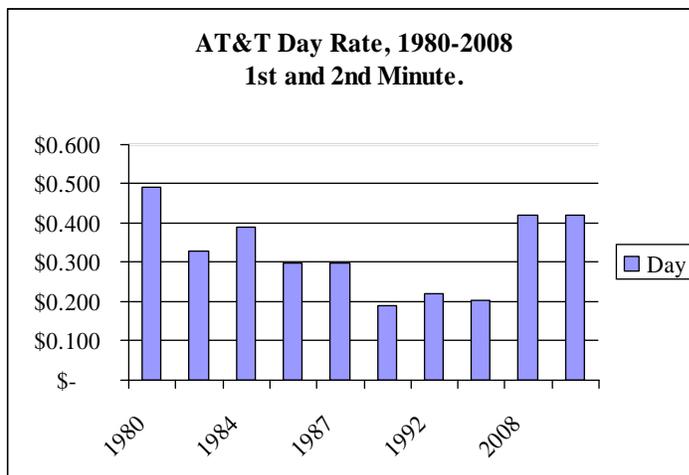
Yet, by 2008, the cost of a daytime one minute basic rate interstate call went to \$.42 a minute and an evening call is actually \$.36 a minute, an increase from 1980 of \$.03 cents.

**Exhibit 31**  
**Cost of a One Minute Call Using AT&T, 1980-2008**  
**(averaged for distance)**

	1980		1984		1987		1992		2008	
Day	\$0.490	\$0.330	\$0.390	\$0.300	\$0.300	\$0.190	\$0.220	\$0.205	\$0.42	\$0.42
Evening	\$0.300	\$0.220	\$0.295	\$0.250	\$0.175	\$0.150	\$0.145	\$0.145	\$0.365	\$0.365
Night	\$0.190	\$0.145	\$0.255	\$0.175	\$0.165	\$0.135	\$0.140	\$0.130	\$0.365	\$0.365

This exhibit shows the rise and fall and rise of cost of a one minute call using AT&T's basic rate.

**Chart 14**



**12.6 Harvesting**

One of the areas that is most troubling has been the harvesting of customers, meaning raising rates to force them to leave or to pay unreasonable rates because the phone bills are unreadable or the customer is foolishly loyal. Once the ink was dry on the merger conditions of AT&T-SBC and Verizon-MCI, the companies have been continuously raising not only the cost per minute but also the various fees.

**12.7 Breakouts of Long Distance**

Using AT&T bills with long distance calls from our California survey we found that the average per minute, when examining ALL fees and charges divided by the number of minutes used was \$.55. The average person made only 87 minutes and spent \$14.02

**Exhibit 32  
Long Distance Call Minutes and Pricing**

\$14.02	total LD
\$.55	Minute average
13	Calls
87	Minutes
6.7	Average call length

If there are 87 minutes and a total of \$14.01, the actual average should be equal to \$.16 cents a minute. But this analysis has flaws. The main difference is the examining “accounts” vs adding ALL minutes together and dividing by all customers.

This break out outlines how bad the problem is. The majority of the population, 54% are paying over \$.20 a minute, and 21% paying over \$.50 a minute, with 10% paying \$1.00 a minute or more.

**Exhibit 33**  
**Cost Per Minute Based on Percentage of Costs**  
**(Based on AT&T bills with Long Distance)**

10%	over \$1.00 a minute
11%	\$.99 -\$.50 a minute
25%	\$.49 - \$.25 a minute
8%	\$.24-\$.20 a minute
12%	\$.19-\$.15 a minute
26%	\$.14-\$.10 a minute
8%	\$.09-\$.06 a minute
100%	

The reason for these major costs is that many are on plans where there are multiple fees – but the average household did not make a lot of calls. About 17% of those surveyed had one minute or no calls, while the overall average was 87 minutes a month. Only 15-25% can be considered heavy users, as defined as over 100 minutes.

**Exhibit 34**  
**Calling Patterns by Number of Minutes**  
**(AT&T local bills with long distance)**

% of bills	# of Calls
17%	>1
13%	2 and 10
13%	11 and 25
20%	26-50
12%	51-100
10%	101-200
15%	<201
100%	

## 12.8 Package Pricing Is Not a Savings for Most Consumers

AT&T does not sell packages in California in the sense that the local and long distance services are not given a ‘package’ price, unlike Verizon, which has plans where they offer local and long distance for one price.

There are 2 problems with current packages.

a) Packages are good for heavy users, bad for light or medium users and who overbuy packages. With an average of 87 minutes, a package is priced so that \$12.00-\$15.00 is allocated to long distance. Heavy users are about 1/3 of households and so those customers who wanted to make sure they had ‘unlimited’ calls, even light users, still buy packages. – but medium and light users are overpaying.

b) Misleading prices for package. In our New York and New Jersey surveys, we found that Verizon’s advertised package price does not include almost 30% or more of expenses, while some packages examined cost over 50% from the advertised price.

## 12.9 Wireless Usage

The common wisdom is that wireless customers get great deals and the FCC claims that the average price per minute is \$.06 cents. This is pure fiction. Our surveys found that 1 line and 2 line accounts cost \$35.00 and \$80 respectively and many customers make few calls, thus the cost per minute can be very high.

With an average of \$3.02 a minute, like long distance, we have high costs for the plan and fees but many customers with little, if any, usage. However, there is major differentiation between one and 2 line or more accounts for cost per minute. One line accounts are paying \$5.33 on average while large families, who can spread out their plan fees with 2 or more users, are averaging \$.29 cents a minute.

**Exhibit 35**  
**Wireless Cost per minute by 1 and 2 Lines or More Households**

Total	One line	2 or more
\$3.02	\$5.33	\$.29

Minutes used by different user groups show a major discrepancy in calling patterns. Like the calling patterns of the long distance users, 40% of users made less than 100 minutes and most of these were households with 1 line. Families with multiple lines get the best deals.

To read more about our methodology and the flaws with the FCC’s data see:  
<http://www.newnetworks.com/Methodteletruthsurvey.htm>

## 12.10 Truth In Billing Violations Are Rampant on Phone Bills Across America.

AT&T and Verizon have unreadable wireline and wireless phone bills. Most people simply look at the total and pay it, not actually understanding any of the charges. Some charges, like the “FCC Line Charge” is simply a disguise so that the customer thinks it goes to the FCC,

instead of the actual location – direct revenues to AT&T and Verizon. Also, the information that comes with the bill has turned into an advertisement, instead of explaining the charges or more importantly the plan.

One of the simplest ways of proving the lack of information is to attempt to calculate the taxes to see if they are correct on the current bill. In our previous California Survey we found that 80% of all bills had miss-calculations of the tax, and there is no way of knowing how the tax is applied to any charge. The phone bills, nor the web site, give enough information to take on this task.

## **12.11 Phone Bills Are Littered with Mistakes and Extra Charges.**

AT&T and Verizon's bills are atrocious as they are populated with incorrect charges. Over 70% of all small businesses have a mistake on their bill, costing them hundreds, if not thousands of dollars in overcharging. New Networks Institute and LTC Consulting have helped to develop class action suits and legal actions and have had 3 successful cases. For example, in a New Jersey case against Verizon we estimated that 10% of special access lines, like alarm circuits, are non-existent, meaning that they do not exist but the customer is paying for them.

## **13.0 Wireless Spectrum: AT&T and Verizon “Very Small Businesses”?**

Teletruth filed an \$8 billion complaint alleging that Verizon, AT&T, Cingular (SBC, AT&T and BellSouth), T-Mobile, Sprint and others rigged the FCC wireless auctions by creating false fronts to pose as "very small businesses". This allowed these companies to secure valuable wireless spectrum at discounted prices.

To read our summary:

[http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask\\_this.view&askthisid=210](http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask_this.view&askthisid=210)

To read the Complaint:

<http://www.teletruth.org/docs/wirelesscomplaintfin.pdf>

## **14.0 Missing Equipment “Vaporware” Added to Phone Rates.**

During 1999, FCC released a series of Audits done of the Bell companies and it found approximately \$19 billion dollars of missing equipment. This was only 1/4 of the audit that should have been conducted --- Some \$80 billion dollars or more may be missing and charged to customers in the form of higher phone rates.

And over the last decade Teletruth members have been filing complaints with the SEC, various states, the IRS and the FCC (to open up all of the books.)

<http://www.teletruth.org/auditupdate.html>

## **15.0 The FCC’s Data is Atrocious**

From the FCC data on broadband, phone bills or data used in regulatory proceedings pertaining to small business competition, the FCC’s bad data has led to bad US policy. For example, in the FCC’s small business impact studies discuss the current market harms to competition using data from 1992, 1993, 1994, 1997 --- sometimes 8 to 17 years old.

Teletruth filed many complaints against the FCC’s data since 1994.

In this document we outline how the FCC is using boilerplate data pertaining to current competition that comes from 1992, 1993, and 1994 – before the Internet.

<http://www.teletruth.org/forbearance.htm>

This complaint outlines that the FCC’s data on phone bills shows that the average one minute long distance call was \$.06 in 2007, when AT&T’s own ‘basic’ rate cost \$.42 a minute, and at last count 35 million homes could have been impacted – about 1/3 of the US.

<http://www.newnetworks.com/dataqualityharvest.htm>

To see the collection of FCC related data quality filings  
<http://www.newnetworks.com/Teletruthdataqualityfilings.htm>

## **16.0 Corporate Influence, Not Public Interest, Over the Infrastructure**

Through lobbying, campaign contributions, astroturf groups, corporate-funded think tanks, co-opted consumer groups, and even the corporations' own staff, deception and undue influence are now the working agenda in the US on both the state and federal level. --- All of the voices heard are those of the corporations, just with different flavors added. Without serious new safeguards, these practices will continue to control America's infrastructure future.

We have written extensively about this issue.  
<http://www.newnetworks.com/astroturfstink.htm>

For example, we have filed complaints over the members of the FCC's Consumer Advisory Committee, as many who were supposed to be 'consumer groups', where, in fact, funded by AT&T and Verizon, such as Alliance for Public Technology. The representative on the FCC happened to also be the lawyer for the phone companies' association, USTA.

<http://www.newnetworks.com/CACletterfinal20205.htm>

Appendix One:  
**25<sup>th</sup> Anniversary Bibliography –  
Reports, Ebooks, FCC and State Filings, Articles**

Starting in 1992, New Networks Institute created the largest, in depth examination of the first decade of the Bell companies titled “10 Years Since Divestiture, the Future of the Information Age”. Reports, databases and survey results were published with Probe Research, Fairfield Research and Phillips Business Information.

<http://www.newnetworks.com/biblio.html>

FREE DOWNLOAD EBOOK: In 1999, New Networks published “The Unauthorized Bio of the Baby Bells”. This ebook summarized the information and updated the work and is available as a free download. Foreword by Dr. Bob Metcalfe. Originally a paperback, 508 pages, 664 footnotes

<http://www.newnetworks.com/downloadbook.html>

Materials Available for Specific Sections: (See ebook for 1980-1999.)

Who Are the Bell Companies – Now AT&T, Verizon and Qwest.

- <http://www.teletruth.org/History/history.html>

Revenues, Expenditures and Profits

- 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.
- <http://www.newnetworks.com/profitreport2002.htm>

Executive Compensation

- “Regional Bell (RBOC) Senior Management Compensation: A Primer in Corporate Greed, (1999- 2002)
- <http://www.teletruth.org/docs/compensationFIN.pdf>

Foreign Investment and Losses.

- Bell Write offs and Foreign Investment Losses, 2002
- <http://www.teletruth.org/docs/ForeignBellinvest.doc>

Competition

- Internet Service Provider Harms, 2008
- <http://www.newnetworks.com/parttwosummary.htm>
- Petition to the FCC over Internet Provider harms, 2004
- <http://www.newnetworks.com/PRISPPETITIONS.html>
- Local phone competition, 2008
- <http://www.newnetworks.com/partonefcccompetition.htm>

## Broadband Commitments vs Reality

- "\$200 Billion Broadband Scandal", 2005. This book outlines the Bells' failed broadband deployment. <http://www.newnetworks.com/broadbandscandals.htm>
- Broadband Scandal by State and Overview, 2009
- <http://www.teletruth.org/fiberopticstates.htm>

## Access and Other Lines

- AT&T and Verizon Are Manipulating "Access Line" Losses. U-verse and FiOS are NOT included as "access" lines. Verizon's largest competitor is -- Verizon., 2009
- <http://www.newnetworks.com/Accesslines.htm>

## Phone Service

- Teletruth-UCAN Phone Bill Survey of San Diego CA Phone, Broadband, Internet and Cable Services, 2009
- <http://www.teletruth.org/docs/UCANteletruth.pdf>
- Phone Bill Independence Report, 2003. This is based on surveys of New Jersey and New York residents collecting actual phone bills.
- <http://www.teletruth.org/phonebillindependencereport.html>
- Previous work by Teletruth on phone bills and legal actions.
- <http://www.newnetworks.com/phonebillissues.htm>

## Wireless Spectrum: AT&T and Verizon "Very Small Businesses"?

- Verizon, AT&T, Cingular (SBC, AT&T and BellSouth), T-Mobile, Sprint are small businesses?
- [http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask\\_this.view&askthisid=210](http://www.niemanwatchdog.org/index.cfm?fuseaction=Ask_this.view&askthisid=210)
- To read the complaint
- <http://www.teletruth.org/docs/wirelesscomplaintfin.pdf>

## Missing Equipment "Vaporware" Added to Phone Rates.

- Teletruth members have been filing complaints with the SEC, various states, the IRS and the FCC
- <http://www.teletruth.org/auditupdate.html>

## Corporate Influence Over the Infrastructure

- We have written extensively about this issue.
- <http://www.newnetworks.com/astroturfstink.htm>
- Complaint over the members of the FCC's Consumer Advisory Committee.
- <http://www.newnetworks.com/CACletterfinal20205.htm>

## FCC Data on Broadband, Phone Bills, etc.

- The FCC is using boilerplate data that comes from 1992, 1993, and 1994, etc to describe current markets. <http://www.teletruth.org/forbearance.htm>
- FCC's data on phone bills shows that the average one minute long distance call was \$.06 in 2007. However, AT&T's 'basic' rate cost \$.42 a minute, and the FCC has covered up the data on customers.
- <http://www.newnetworks.com/dataqualityharvest.htm>
- Collection of FCC related data quality filings starting 1994
- <http://www.newnetworks.com/Teletruthdataqualityfilings.htm>