
AT&T in a Changing Telecom Industry

***AT&T Bargaining Council
December 9 - 11, 2007
St Louis, MO***



Industry Changes Since Divestiture

1. Industry Employment Change
2. The Long Decline of Long Distance
3. The Loss of Access Lines
4. The rise of Wireless from supplemental service to a substitute for wireline phones
5. The rise of Internet as a product and as a platform
6. Cable competition with the Telcos
 - A. For Voice Customers
 - B. For Video Customers
7. Voice prices collapse
8. AT&T in the Telecom Industry



2

Now that we have returned to a situation where a very large portion of the industry is under the AT&T name, its useful to take a look atthe industry has changed since divestiture.

So here are some of the ways that our industry has changed since divestiture, changes that I would argue have affected our union and our members, perhaps more than the Company.

The Long Decline of Long Distance

The Loss of Access Lines is a plague on the local business

The rise of Internet as a product and as a platform to deliver services

The rise of Wireless from supplemental service to a substitute for wireline phones

Collapse of voice prices to commodity status

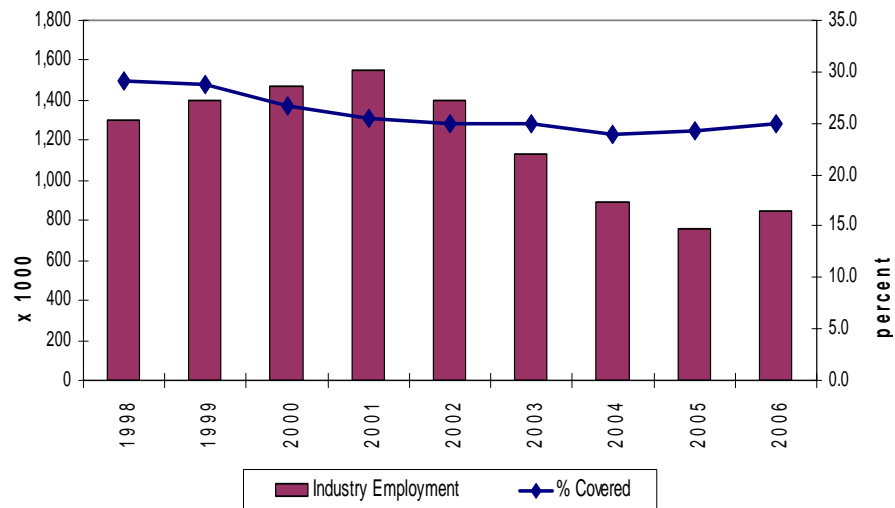
Cable competition

VOIP

Telco competition for TV over IP

Then I'll close with some financial information about AT&T and the industry.

Union Density in the Telecom Industry



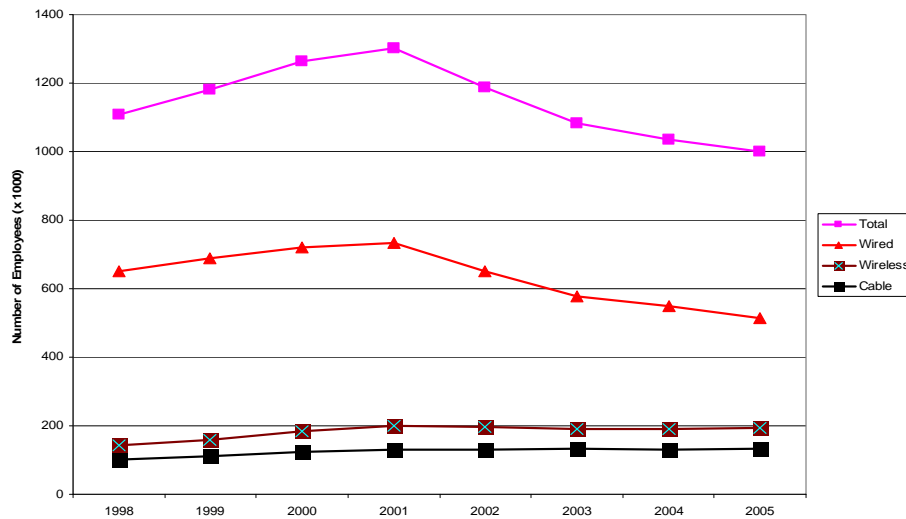
Source: Census Current Population Survey



From 1983 til the mid nineties, total telephone industry employment ranged between one and 1.2 million workers. At the end of the last decade it grew to about 1.6 million in 2001 and since has dropped like a rock, falling almost to half that number by last year. These data are based on the work the Census Bureau does collecting employment counts in different industries. I limited these numbers to “wired communications carriers”, so I know it includes wireline but may or may not include wireless divisions within the larger company.

The critical thing for us, on this graph, is the line which tells us the percentage of that total industry employment that is covered by a collective bargaining agreement. You can see that during this period we’ve stayed at something less than 30% of the industry. Back in the 80s, we were at 60%.

Industry Employment by Segment



Source: FCC Trends in Telephone Service



Using a different data source, the FCC, this chart shows changes in employment from 1990 to 2005. Again, the peak is in 2001 and clearly the largest change since then has been in the wireline business. Cable and wireless have both remained pretty much stable over the last five years. These numbers may be understated compared to data from the industry trade association sources, however, my main point is to note the decline in wireline jobs – down more than a third since 2001.

I would note, not those of you that are counting it up that the total industry includes some resellers and other miscellaneous employers.

Union Density at Our Major Telecom Employers

	Total Employment	Union Percentage
AT&T	302,770	60%
Verizon	242,000	40%
Qwest	38,000	58%

Source: Company 10Ks



5

As President Cohen noted last evening, while the percentage of industry employment represented by a union is under 30%, our contracts with the three largest telecom companies is much higher than that. In particular, AT&T as the largest employer, also has the highest union density.

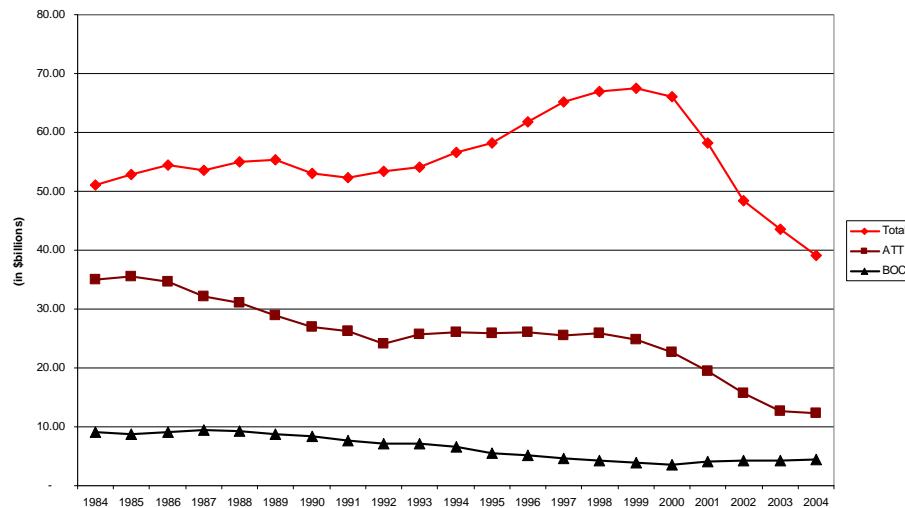
The question to consider is whether we can maintain this density even as the industry continues to change.

2. The Long Decline of Long Distance



The Long Decline of Long Distance

Toll Service Revenues 1984-2004 (inflation adjusted)



Source: FCC



7

Competition from MCI, Sprint and others and later, more intense competition from RBOCs and other local telephone companies

Eventually, the bottom dropped out of the market altogether.

LD industry revenue topped out at just about \$110 billion in 2000. Of that AT&T's share was about \$38 billion.

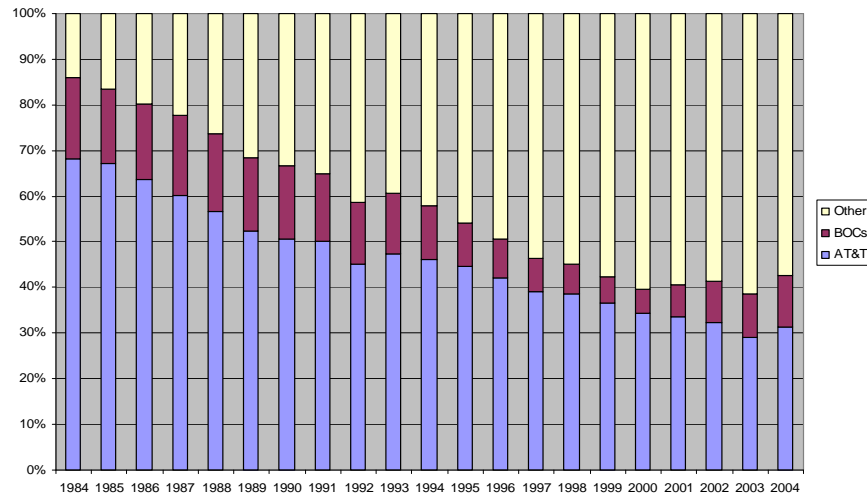
In 2004, those numbers had fallen to \$71 billion total, of which only 22 billion was AT&T share.

Even more telling, when you factor inflation into the equation, industry revenue actually peaked well under 70 billion in 1984 dollars and fell by close to than 30 billion 1984 dollars thereafter.

AT&T dropped from \$35 B to \$12B, almost 2/3 in 1984 dollars.

The Long Decline of Long Distance

Share of Toll Service Revenue



Source: FCC



AT&T controlled 70% of the market in 1984
Barely 30% in 2004.

RBOC entry into the market eventually led to the current conditions where LD is bundled with other services and most people have plans where long distance services effectively cost nothing.

Long Distance became a loss leader: a product added to bundles to attract customers and to keep them from going to the competition

3. The Loss of Access Lines



So that's what happened to AT&T and its premier unionized business. And clearly that had something to do with the demise of thousands of union jobs at AT&T, particularly over the last 10 years.

On the local service side, something similar has been happening.

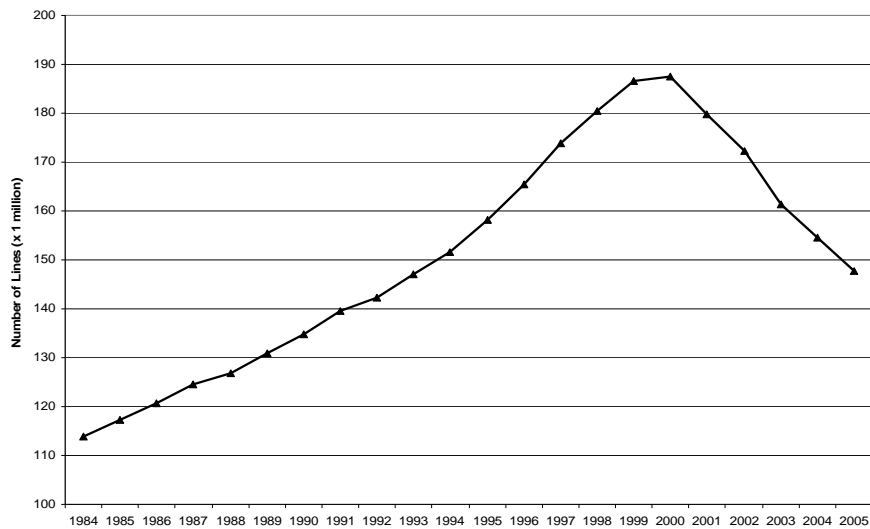
The Loss of Access Lines

- ILECS have suffered the loss of access lines at an increasing rate since 2000
- Changing customer demands for new services
 - Wireless substitution
 - Elimination of second household lines
- Alternatives to Dial-up Internet Access
 - DSL service
 - Cable modem
- VOIP: Voice Over Internet Protocol



The Loss of Access Lines

1984 – 2005



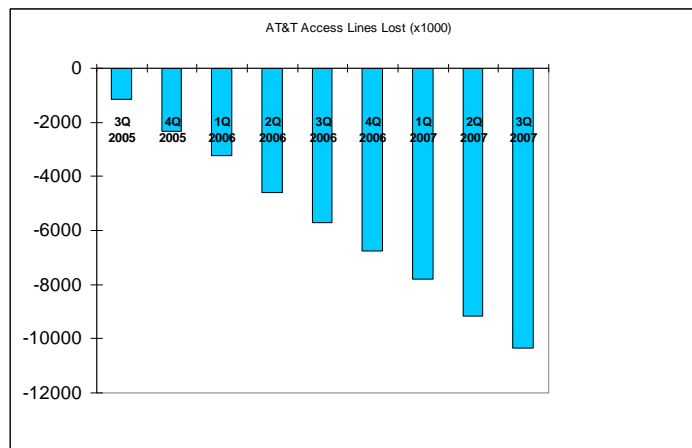
Source: FCC



ILEC Access lines peaked in 2000 at 188 million

By 2005, the number had fallen to 148 million, a drop of more than 21%

The Loss of Access Lines



Since Summer 2005, AT&T has lost 10.4 million wireline customers.

Verizon lost 8.4 million over the same period

Source: Morgan Stanley Analyst Report



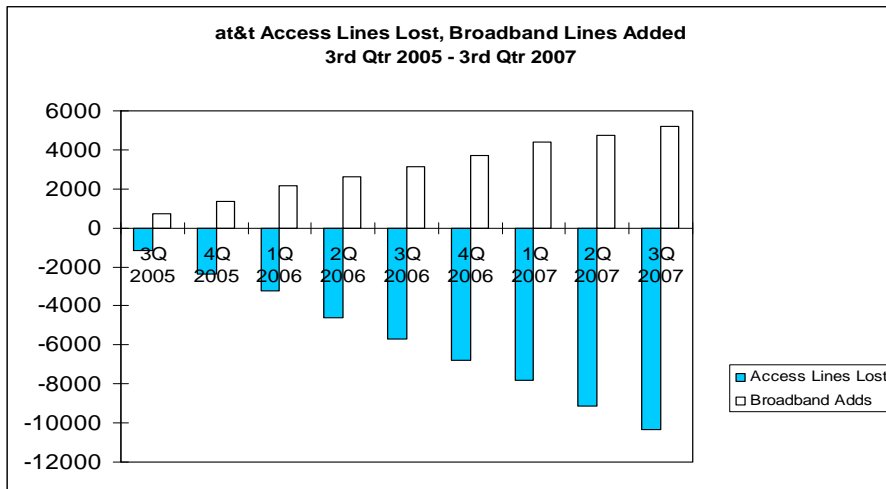
Over those five years, SBC and BellSouth together dropped 18%

Verizon dropped almost 20%

And more recently, AT&T losses have been running at a average of 400,000 per month, Verizon over 300,000

According to AT&T's Report for the 3rd Qtr 2007, they were down to 62.8 million, another 10% loss from 2005

The Loss of Access Lines BroadBand Adds



Since Summer 2005, At&t has lost twice as many access lines as it has added broadband customers.

Source: Morgan Stanley Analyst Report



As I mentioned, one cause of access line losses is the switch to DSL BroadBand. This technology generates more revenue for the company, but from our viewpoint it comes at the expense of the work to support another access line.

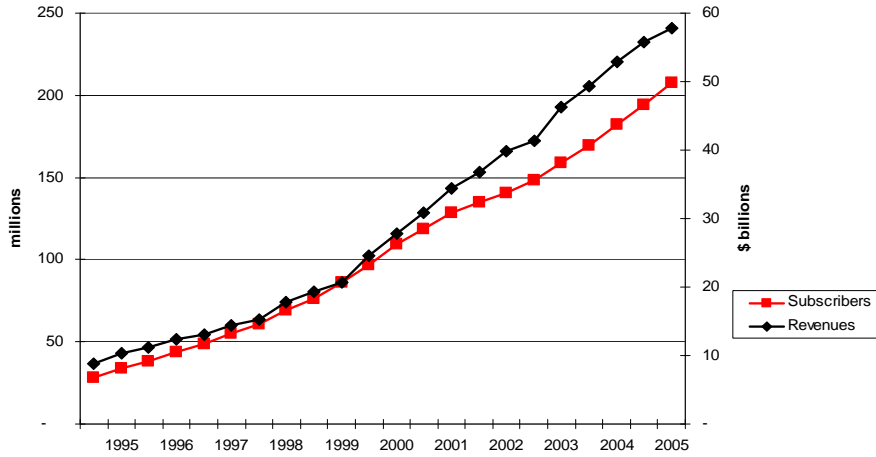
4. Wireless



Lets talk about the wireless business

Wireless

Industry Growth 1994 - 2005



Source: FCC

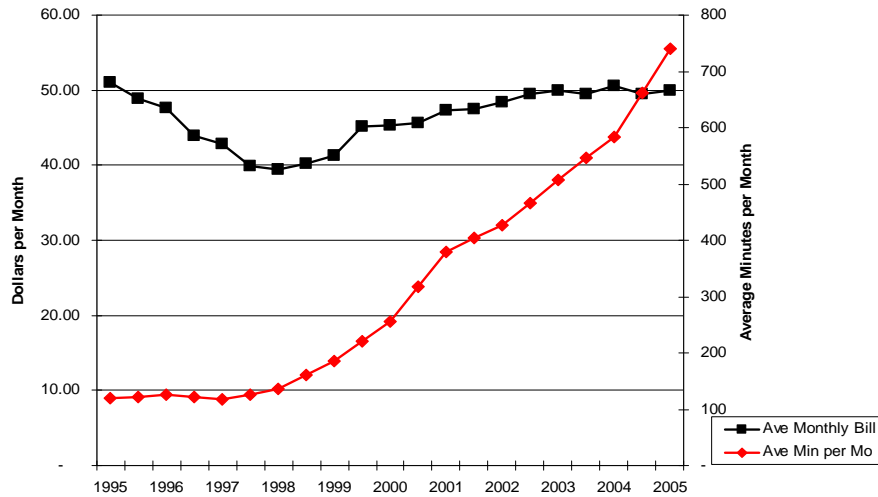


Wireless Subscribers have grown from under 30million in 1995 to over 250 million last month (per Cellular Telecommunications and Internet Assn), the wireless industry trade association.

With that growth in subscribers, revenue has gone from about 6 billion dollars in 1995 to over 50 billion in 2005.

Wireless

Industry Pricing and Usage 1995-2005



Source: FCC



16

This chart gives another indication of change in the wireless industry over the last 10 years or so.

Average monthly bills are close to the same in 2005 as they were in 1995. But at the same time, the average number of minutes used in a month in 2005 was about 750, when it had been about 100 in 1995.

That translates into a cost of under 7 cents a minute now compared to 50 cents ten years earlier.

So another aspect of the industry where voice revenue has been dropping significantly.

Wireless

- AT&T Mobility is the nation's only unionized wireless employer, representing about 15% of the industry

- AT&T Mobility Subscriber Growth
 - Since 2003, more than doubled subscribers, with Cingular's purchase of AT&T Wireless
 - Continues to increase at about 13% per year

- Revenue Growth
 - Increased revenue by 73% since 2003
 - Significant increase in average revenue per user in the last year, led by very strong data usage
 - Steady growth of 40-50% a quarter in data services since the beginning of 2006
 - Notable success with the iPhone



5. Internet Services



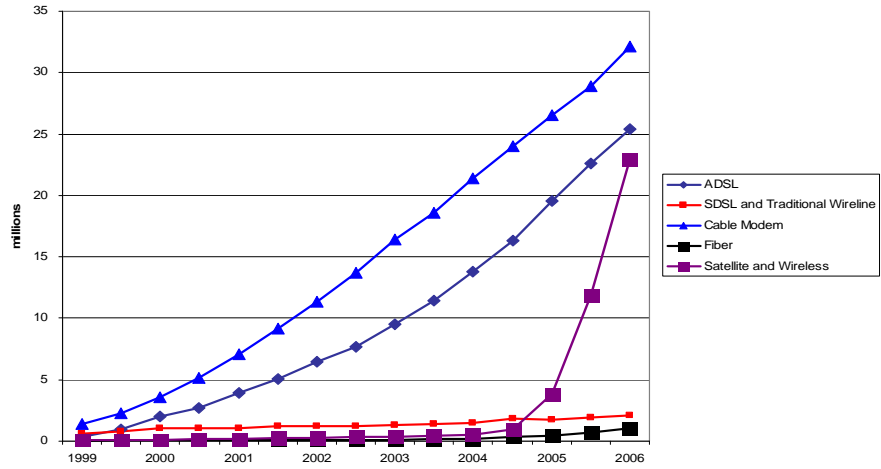
Internet Services

- The Internet has changed everything
- Access is the first step
- Dial Up has been replaced with High Speed Advanced Data Lines
 - DSL
 - Cable
- Speed, both download and upload, is critical to the success of all applications (consumer and enterprise)
- CWA Speed Matters Campaign



Internet Services

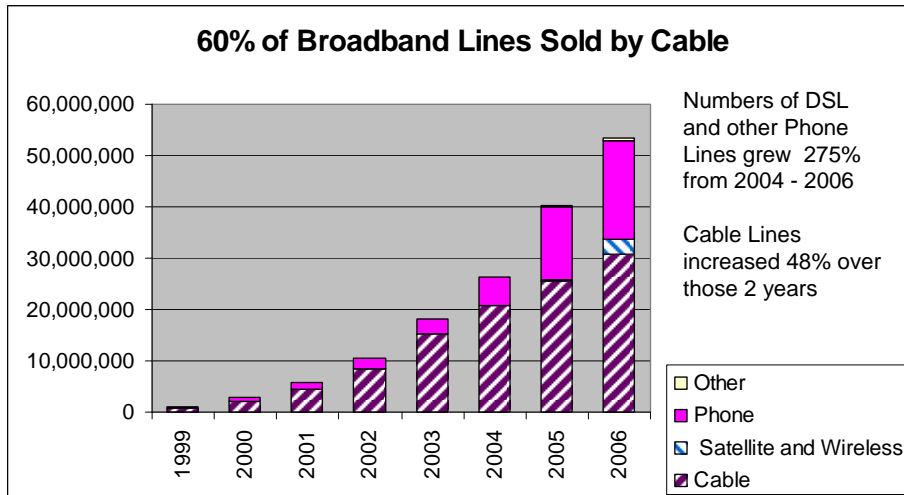
Growth of Broad Band Internet Access Technologies



Source: FCC



Internet Services



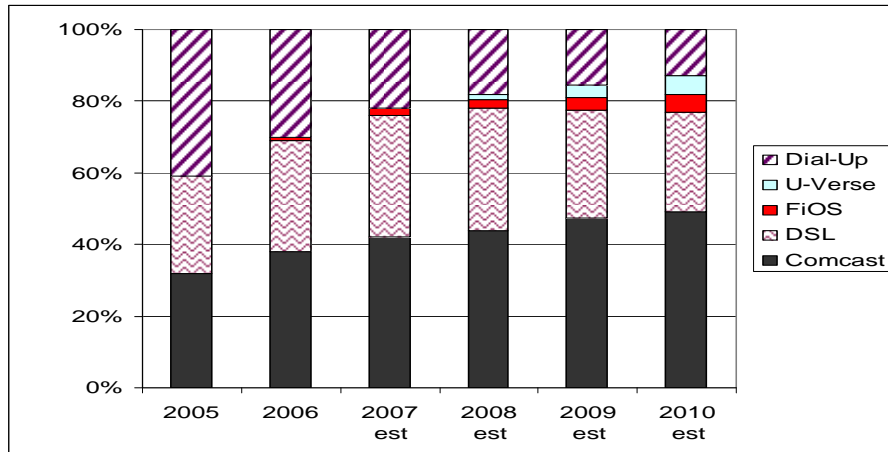
Source: FCC



While DSL is second to Cable in the number of subscribers, it continues to grow. But an important thing to not is the rise of wireless and satellite access. As I noted a moment ago, revenues from data services are critical to the future of the wireless business. If wireless begins to compete for internet access with truly high speed broadband, DSL revenues are likely to suffer.

Internet Services

Shares of Internet Access Subscribers in Comcast Market Areas



From "Blue Sky Blues: Cable Consensus Still Too High", Morgan Stanley analyst report, 9/25/2007



This graph shows a projection of how market share will change over the next few years in areas where Comcast will compete with U-Verse or FiOS for subscribers.

Wall Street has shown confidence that FiOS and U-Verse will eventually compete well with cable, but these estimates suggest that it won't happen immediately.

6. Cable Competition with Telcos



So lets talk a little more about cable competition with the Telcos.

Cable Competition with Telcos: Cable Voice

	Employees	Video Customers	Broadband Customers	Telephone Customers
Comcast	90,000	24,100,000	12,400,000	3,500,000
Time Warner	47,000	13,400,000	7,000,000	1,900,000
Cox	23,000	6,700,000	3,100,000	1,700,000
Cable-Vision	20,400	3,000,000	2,100,000	1,200,000
Charter	17,200	5,900,000	2,500,000	445,800

Source: CWA Cable SIF Proposal

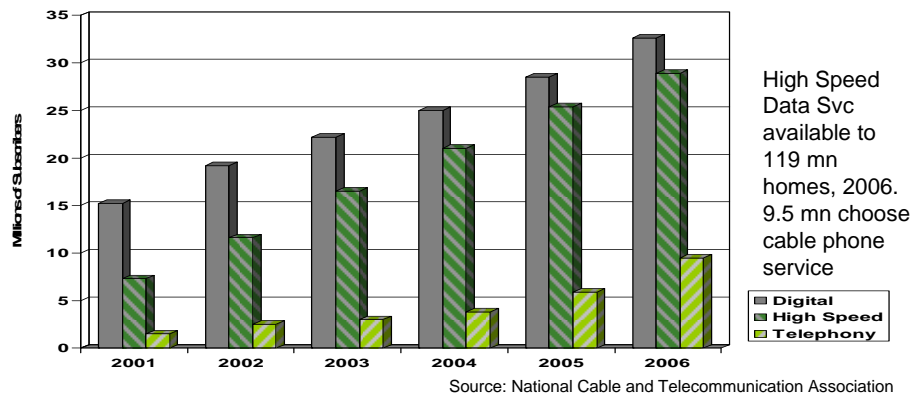


Here are some current stats taken from the proposal for an SIF campaign on cable.

If you look at the number of telephone customers in this table for the five largest cable companies, and compare those 9 million to even the 140 million telco access lines, it might seem cable telephony is just a fad.

Cable Competition with Telcos: Cable Voice

Telephone Over Cable Doubled 2003-2006



50% of Cable Customers buy Broadband Access via Cable, 25% of Telecom Customers buy DSL (per Telephony Online, 4/27/2007)



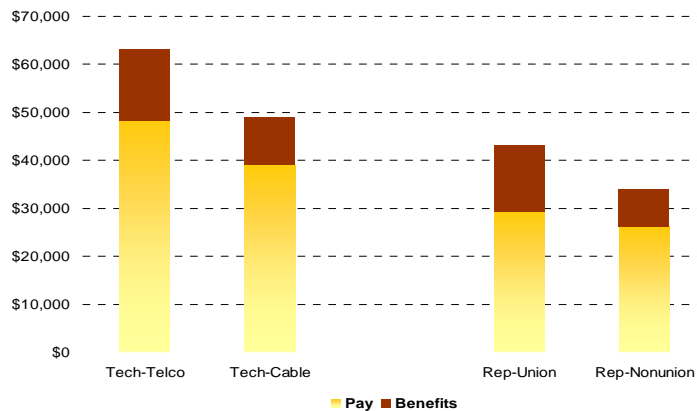
But if it's a fad, its growing at an increasing rate, having doubled between 2003 and 2006.

Recent reports say that Cablevision has sold telephone service to 30% of the homes in its market areas while TimeWarner has about telephone service in 12% homes to which it offers cable tv.

Perhaps more important, as cable access to broadband grows, cable telephony will become an increasingly more viable option to consider, particularly if the price is attractive. And if 50% of new cable customers opt for broadband, we should expect to see some portion of those folks to use Vonage or another VOIP product to replace their wireline telephone.

Cable Competition with Telcos: Cable Voice

- Cable Companies Pay Workers Less
 - Labor costs 20% lower than Bells'
 - Bells say they have to compete on cable's cost structure



Sources: Technicians - Survey data. Service reps - Cornell-Rutgers Telecommunications Project, *Telecommunications 2000: Strategy HR Practices & Performance*. Pay includes base wage, overtime, and commissions.

And, of course, part of the way that Cable Cos compete for customers is by paying less in wages and benefits than the telephone companies pay. And that does not reflect the fact that much of the work is performed by contractors.

Cable Competition with Telcos: Telco TV

- AT&T and Verizon have focused much of their household consumer strategy on competition with Cable to deliver Pay TV
- Significant capital investment required
- Long time horizon without much return in the short run
- Meanwhile, cable is expanding telephony over cable plant
- Success of cable modems offers substantial opportunity on which they can build



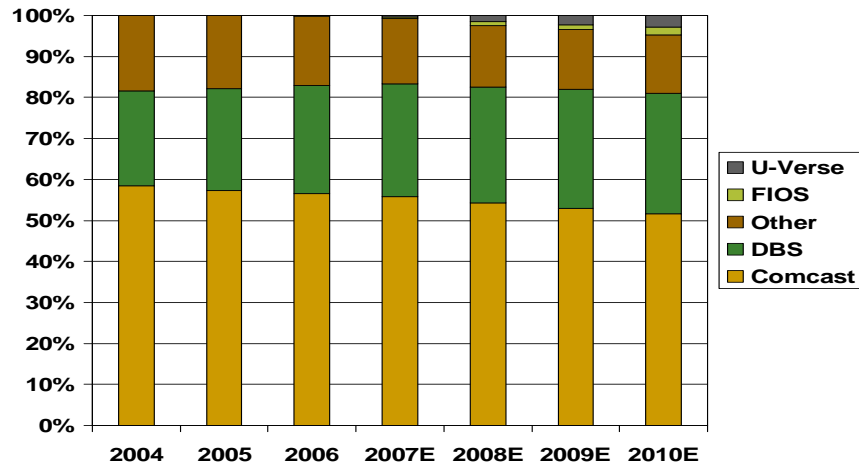
Cable Competition with Telcos: Telco TV

- IPTV expected to remain a small portion of the TV market for several years,
 - even as it grows rapidly
 - U-Verse grew from under 3,000 subscribers 4Q06 to 126,000 3Q07
 - Company claims 10,000 installations per week
- Direct Broadcast Satellite making inroads on Comcast for video
- Dial Up market shrinking, migrating to DSL and cable



Cable Competition with Telcos: Telco TV

Projected Pay-TV Market Share in Comcast Markets



From "Blue Sky Blues: Cable Consensus Still Too High", Morgan Stanley analyst report, 9/25/2007



Again here are some projections for FIOS and U-Verse, vs. Comcast in their common footprints

You can see that the Telco market share just begins to appear in the 2007 estimates.

However, Comcast's market share is expected to fall nearly to 50% by 2010.

As I mentioned earlier, Wall Street thinks that the cable companies will eventually have a hard time warding off their telephone competitors in the Pay TV arena.

Cable Competition with Telcos: Telco TV

Can the Telcos overtake Cable?

- Broadband access will mature, speed and quality will distinguish alternative offerings
- Cable success with Broadband is slowing down
 - Fewer net new subscribers in recent quarters
 - 2004: Voice 3% of 2004 cable industry revenue
 - Video was 79%, Internet 18%
 - 2010 Telephony still only 16% (Morgan Stanley estimate)
- Direct Broadcast Satellite well positioned to compete with Cable
- Telcos can leverage wireless and other services bundled with DBS
- Telcos well positioned to undercut cable pricing



30

So the real question comes down to whether you can bet on the Telcos to overtake the Cable Companies.

In fact

Comcast sees customer loss in 2008
Wed Dec 5, 2007 11:41am EST

NEW YORK (Reuters) - Comcast Corp (CMCSA.O: [Quote](#), [Profile](#), [Research](#)), the largest U.S. cable television operator, said on Wednesday it expects to lose video customers in 2008 as competitive and economic pressure mounts, and its shares fell more than 10 percent.

The comments from **Comcast Chief Financial Officer Michael Angelakis came a day after the company lowered its forecast for 2007 cable revenue growth to about 11 percent from a previous forecast of at least 12 percent, citing a "challenging economic and competitive environment."**

The cautious outlook took down other cable stocks, with Time Warner Cable Inc. (TWC.N: [Quote](#), [Profile](#), [Research](#)) falling 5 percent to \$25.69 and Cablevision Systems Corp. (CVC.N: [Quote](#), [Profile](#), [Research](#)) losing 6 percent to \$25.32.

Angelakis said Comcast's scale across the United States has meant that it has been **hurt by the downturn in the housing market and a tougher macro-economic environment.**

"When we see a little bit of a rise in both churn and bad debt, that indicates there's an economic issue," he told investors at a UBS media conference. Churn is the industry term for customer losses.

Angelakis said Comcast expected to lose more basic video customers in the current quarter and into 2008, **hurt by competition from new video services from Verizon Communications Inc (VZ.N: [Quote](#), [Profile](#), [Research](#)) and AT&T Inc (T.N: [Quote](#), [Profile](#), [Research](#)), as well as from longer-term competition from satellite TV operators DirecTV Group Inc DTV.O and EchoStar Communications Corp (DISH.O: [Quote](#), [Profile](#), [Research](#)).**

"We will fight in the streets and do everything we can for retention but I think the expectation that I have is we will lose some share in the video side," said Angelakis.

In the third quarter, Comcast posted a 54 percent drop in quarterly profit as it lost more basic video subscribers than expected.

Analysts at Goldman Sachs and Miller Tabak cut Comcast shares' rating to "neutral" from "buy" on Wednesday after Comcast lowered its outlook late on Tuesday.

"Our "extreme downside scenario" is playing out worse than we thought and are thus lowering our estimates again," Goldman's Anthony Noto said in a note to investors.

Another analyst said **competition from the likes of Verizon, which is offering free high-definition television sets to new customers of its FiOS video service, was more of a problem than the U.S. economy.**

"We believe the vast majority of the reductions are due to competition," said Richard Greenfield, an analyst at Pali Research. **"Comcast simply did not expect the level of competitive marketing spend that has occurred this year."**

Comcast also raised its 2007 capital expenditure by 5 percent to about \$6 billion due to an increased spending on

■ 7. Voice Prices Collapse



But the critical thing here is that all these pressures have caused the value of POTS to fall to almost nothing.

Voice Prices Collapse

- Voice is a commodity service
 - Though still important to bundled services
- Phone company gets only half of new customers
 - 20% to wireless, 30% to cable
- 10% of households no longer have wireline at all (per 2006 CDC Nat'l Health Interview study)
- Skype: 250 million customers
 - Free calling, free video conferencing computer to computer, 1 cent a minute to landline
- Magic Jack
 - \$40/year unlimited local/long distance
 - Plugs a regular phone into a computer



A commodity is something where the price is set by the open market – in this case, think of soy beans, and not oil.

50% of new customers don't choose to get phone service from their local telephone company.

10% of households no longer even have a wireline phone, they have substituted wireless entirely.

Skype, with 250 million customers worldwide, charges nothing for calls made between computers and a penny a minute for calls placed to a wireline phone.

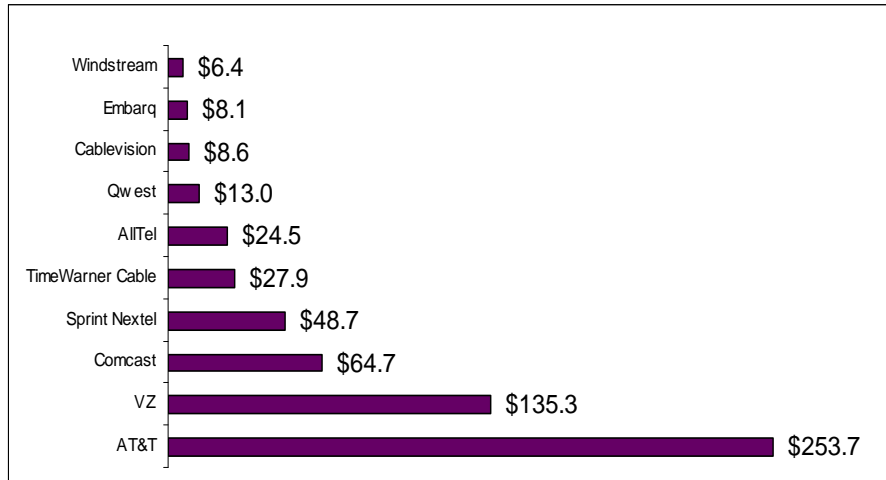
Magic Jack is the real killer. A little box that plugs into your computer and into which you can plug a regular telephone plug. All you need is broadband access. For \$40 for the first year and \$20 a year thereafter, you can make unlimited phone calls.

- 8. AT&T in the Telecom Industry



Nonetheless, there is no question that AT&T is a huge company and hugely profitable. And it is truly the biggest fish in the telecom pond.

AT&T in the Telecom Industry - Market Capitalization, 10/31/2007



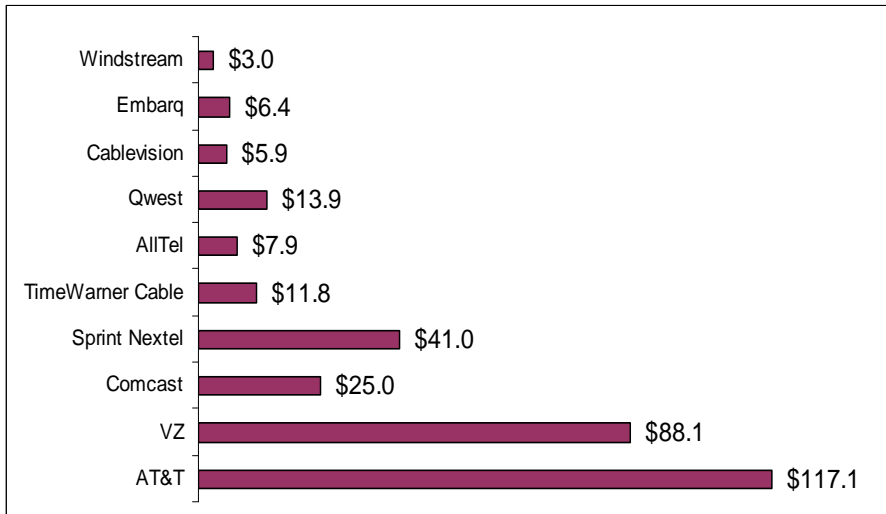
Based on reported stock price and outstanding shares, 10/31/07



In Market Value (total value of all its shares on the stock market) AT&T is nearly twice the size of Verizon and 4x bigger than Comcast

In fact, ATT is worth almost as much as all it's competitors put together.

AT&T in the Telecom Industry - Revenues - 2006

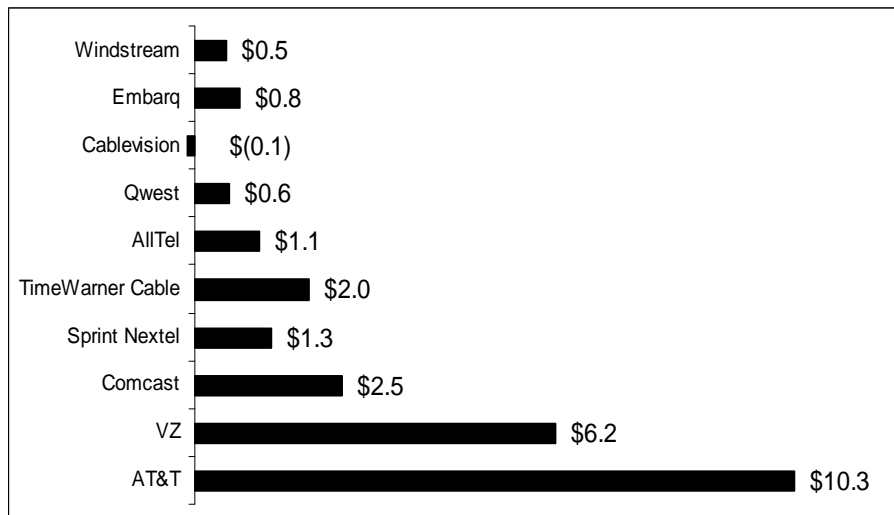


From Yahoo Finance and AT&T Company ProForma Statements, including BellSouth



Its revenues are a third larger than Verizon's reported revenue (includes the portion which should be credited to Vodaphone, their partner in Verizon Wireless).

AT&T in the Telecom Industry - Net Profit 2006



From Yahoo Finance and AT&T Company ProForma Statements, including BellSouth



And AT&T made more money than any other telecom company, 2/3 more than Verizon, 4x Comcast

AT&T's Vision of Itself in the Global Telecom Industry

- America's #1 Wireless provider
- World's most powerful global backbone network serving business customers worldwide
- The nation's #1 provider of broadband services via Satellite, WiMax, WiFi, IPTV and fiber networks
- Will expand internationally as opportunities open up

- 2006 Annual Report



Everything runs on the Internet Protocol Platform

Delivering content and services to a wide variety of devices

Build wireless capacity through technology, spectrum auctions and buying out smaller players

Compete via U-Verse, Satellite TV partnership or outright purchase

Expand as international markets open

India, Middle East, China, Southeast Asia