

## Statement of Randall Stephenson

CFO of SBC Communications

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Everyone, thank you very much for joining us this morning for the SBC Corp. presentation. My name is David Barden, the wireline telecom analyst at Bank of America Securities, and I am very pleased to have with us today the CFO of SBC, Randall Stephenson, who has been in the post since August of 2001.

You know, SBC is the largest RBOC –with 60 million lines—is playing, as you know, a very large role in the regulatory debate which surrounds the telecommunications industry today, and they have got a very loud voice on that and Randall has been very straightforward in talking to people about SBC's views. The company has an 80 billion dollar market cap and extraordinarily low leverage. They will be a player in the ongoing consolidation and strategic outlook for the industry as a whole, and as a 60 percent owner of Singular, one of the largest wireless players in the industry, they also have a very large say in how the wireless industry continues to develop. I know you are all here to learn a lot more about those topics and without further ado, I would like to introduce Randall Stephenson. Thanks Randall.

Randall Stephenson: Thank you David. I refuse to say 'can you hear me now' or 'do this', either one. It's good to be here. Can you hear me?

It's good to be here and talk to you a little bit about SBC this afternoon, and I want to do a couple of things. First of all, I know a lot of you aren't familiar with SBC, so I'll give you a little bit of perspective quickly on our business and what it is we do and who we are, talk to you about the industry—there's a lot going on in this industry right now -- and then quickly move to your questions and answers. So, I hope to do this in a way that is balanced, not overly pessimistic, and not quite as optimistic as what we saw during the 90's. So with that, I'll move on.

As you are looking at the Safe Harbor Rules here, let me just kind of give you a perspective on what we are seeing right now. To be frank, in the short run, it's tough; the going is very tough right now. We have a tough economy we're operating in, competition is proving to be pretty tough. Competition is being driven largely by this UNEP - ah, platform -- that the FCC put in place, where our wholesale customers are buying services below our cost. It's being driven by a lot of bankruptcies and turmoil in the marketplace, largely, that being WorldCom—we're all familiar with that situation. So in the short run, it's a difficult situation. I would tell you though, longer term looking out, the fundamentals of the industry are still good, the fundamentals are fine. I think Telecom will continue to grow as we move out. I think SBC is going to be positioned very well as the industry moves forward to do well. From a financial stability perspective, our balance sheet is second to none right now; our scale is second to none. So I think you'll see SBC do quite well as we move forward in this industry. Right now, we are working through a transition in this industry—it's going to be a difficult transition, so what we are doing is trying to make sure we are accomplishing those things that ensure that as we come out of this transition we are stronger than when we went into it, and I'll show you some numbers that I think will help you an appreciation for that.

Just to give you appreciation for SBC, we have four segments basically that we operate in. We have a wireline segment—that's our largest segment, represents about 41 billion dollars in revenue. That also represents about 75 percent of our revenue base. We also have Cingular wireless, which is our wireless segment. We own 60 percent of Cingular wireless along with BellSouth, that represents about 15 percent of our pro forma revenues. We have a very large and a very successful directory business, it does quite well, about 4 ½ billion dollars of

revenue, and then we have a number of international holdings: Mexico, Europe, South Africa is predominantly where those are concentrated.

When you talk about what we are trying to accomplish and what our objectives are, I tell you our priorities are very straightforward right now. First of all, I would start at the top right-hand side of that graph and say in this environment, the balance sheet is absolutely everything. In that regard, we are working very aggressively to control costs, both on the operating expense side as well as the capital expense side. I've been in this business twenty years and I would tell you I have never seen a more intense focus on costs in this business than what I am seeing right now at SBC. The implication of that cost discipline is that in our business it does throw off a lot of cash when you're disciplined here on the capital and expense side, and the business is throwing off a lot of cash. We are going to throw off just in excess of 3 billion dollars of free cash flow after dividends this year. The result of all of that is I would tell you we are the best capitalized telecom business in the world. Our balance sheet is second to none right now, and that's the implication of this strategy we are pursuing in the short run. In the long run, we have got to get the top line moving. The industry is stagnant right now, and we are doing a lot to make sure that the top of the line does get to moving again, particularly in the areas like data, long distance, DSL, and then putting those all together and then bundling them with the access line, and really trying to change the churn characteristics of the industry.

And then finally our third objective right now—and you've heard a lot about it, we've been very vocal about this—is we've got to fix this UNEP platform that the FCC has put in place. This is a regulatory regime, a regulatory environment, that is siphoning away any incentive to invest in this industry, and we'll talk more about that as we move through this.

As I said, when you compare us to our peers in this industry from just a pure financial position, we are second to none. We are a very, very well-capitalized telecom company. As a result, maintaining our balance sheet has been a very consistent theme and objective for us. To keep a balance sheet in check in this environment, you've got to be real aggressive on costs. You see a couple of graphics up here. The one on the left is our operating expense performance over the last few quarters. What you see is that we have had negative year-over-year expense growth for the last three quarters. If you were to drill just in our largest segment, our wireline segment, we've been negative year-over-year growth for the last four quarters, so we have been operating very effectively on the cost side. This has been principally driven by force reductions—workforce reductions. I tell you, over the last three quarters, we have taken 13,000 people out of the business. By the end of this quarter, that number will grow to 16,000, and you will continue to see a focus on this area as well. As a result of this cost initiative and this cost action, we have been able to sustain margins in light of a declining top line. You could see our margins actually expanded by about 140 basis points in the fourth quarter.

We have been putting that same kind of discipline into the capital investment program. What you see here is our capital investment has been shrinking considerably. We've gone from investing 12 billion dollars back in 2000, to this year we will invest under 8 billion dollars in this business. Last quarter, our capex was about 1.7 billion; year to date, we are at about 3 ½ billion dollars, so you can see we are on trend to achieve these kind of numbers. Now if you take aggressive operating expense performance, real aggressive capex performance, what you see is a lot of cash coming out of the business. Our free cash flow before dividends this year will nearly double what we achieved last year. If you look at our free cash flow after dividends, the graphic on the right, you see that last year we were approximately break even. This year, we will throw off 3 billion dollars of cash flow after dividends. Free cash flow through the second quarter was about 1.7 billion dollars, so we are right on target to achieve these numbers.

Real question is how do we use that cash? I tell you, we've returned a lot of it to shareholders, we've purchased a lot of stock in the first half of the year, we've also increased our dividend in

the first half of the year 5.4 percent. That's the largest dividend increase of anybody in our peer group. It's our largest dividend increased since 1990, actually. I tell you, we are the only telecom that has increased its dividends every single year in the history of its corporate identity. We are also working pretty aggressively to pay down debt. In fact, if you look at next side, you can see that all of our credit metrics are improving, second quarter credit statistics all improved, our debt ratio is down by 230 basis points. We've paid our commercial paper down by 1.6 billion dollars in the second quarter. As of right now, all of our commercial paper is backed up with bank lines 100 percent. We have the highest commercial paper ratings available. Our current long-term debt ratings are AA-, and again I will reinforce that at a 13.6 times interest coverage, we have the strongest balance sheet in the industry right now. So our biggest challenge is the top line. Like I said, the industry is going through a lot right now. There's a lot of shakeout going on in this industry, and so we are really challenged on trying to get the top line moving in this industry. We're doing a lot in the areas of data, access line retention, long distance, and I want to talk about some of these initiatives real quickly.

When you look at the volatility in this industry that we've seen recently, what I like to do and what I do when I'm sitting back home in San Antonio, is I look at the top line on a sequential basis, because it's really telling where the industry is headed right now, and you got two graphics up here. On the left is our voice revenue growth on a sequential basis; on the right, it's the data transport growth on a sequential basis. Starting with the graph on the left, what you see is our voice revenues in the last quarter declined 1.1 percent. That is about the best quarter we've had on a sequential basis since last year, second quarter of '01. So we're seeing some stability and actually seeing the rate of decline slow down quite a bit. On the data side, you actually saw sequential growth in the second quarter of last year. It was up 1.6 percent. Q1 actually went negative for the first time that I can remember being with this business. This suggests there's some stability here. I think it's too early to call. We've got a lot of shakeout going on in the ISP industry. Time will tell here.

Let's break down that data growth a little bit further. Now here you see it on a year-over-year basis, and what you see is year over year, our data products were basically flat. Far left-hand graph, they were up 0.2 percent. If you pull CPE out of there—we sell a lot of data CPE (Customer Premise Equipment)—if you pull that out (it's low margin to no margin) and basically what you see is our data revenue growth was about 4 ½ percent. Then if you just look at the high-cap transport, the big pipes that we run into business and homes, those revenues grew still at a 7 ½ percent clip in the second quarter of last year. You can see the breakdown of it over here. Consumer, you could see, was growing at about an 80 percent pace—that's DSL—we're having a lot of success with DSL. If you skip down one line to the wholesale line, you see that the carriers are still buying a significant number of the large pipes into business and so forth. Those volumes are up 9.4 percent—those revenues are.

You can see what the issue is here. It's that middle line, business, including all the ISPs. The data transport products in the business segment was actually down in the second quarter of last year. Now to see what's going on with that business segment, let me just drill down for you here for just a second and show you what's going on. What I've done is taken the three largest products those business' buy that are down year over year, and looked at by segment how are these products growing? What you see is no surprise. The large and global customers—the big customers—they're down, but they're not down dramatically, they're down 5 percent. That's pretty much reflecting the economic environment that we're in. Layoffs are considerable, employee force counts are down, and so they're actually going down in terms of the number of high-cap products they're buying. Look at government, education, and medical. What you see here is they're up almost double digits still, so these products are still growing in the government realm. Medium and small business is growing at a 13 percent clip. But look at the IFPs. You got a huge shakeout going on in the ISP industry. A lot of consolidation, a lot of bankruptcies, people grooming networks, and as a result, the revenues from the ISP industry is

actually down year-over-year 44 percent. We almost lost half of that revenue stream year-over-year. So our biggest challenge is the industry consolidation issue.

Now if you look at ... looking forward, will the ISP shakeout end? I really don't know. Have we seen it stabilize? Not yet. But I think, you know, that will work its way out. When it does stabilize, I think we're positioned pretty well to grow this revenue stream moving forward. What you could see is, relative to our peers we have by far the largest data revenue stream of any of our peers. We also have a really good footprint in our network. We have over half the Fortune 500 located in our footprint. They're big consumers of these types of products. We have some really good relationships with all of these guys. We do have a nationwide IP backbone network. Basically what we're missing is 271 relief, long distance really, in the states of California and the Ameritech region. Once we have that, we think these products are positioned well to grow moving forward. So that's the data story. Data is an industry issue. It's an economy issue, and so we think that there will be good fundamental growth moving forward.

But when you look at the voice side, particularly the consumer side, you see an interesting trend. You got three graphics up here. These are the year-over-year, or actually the access line changes by quarter. On the left-hand side is the business segment. What you see is a real stable environment. Those access lines in this environment are shrinking 1- to 200,000 lines a quarter. Pretty stable, fairly predictable. When you look at the consumer segment you see something really interesting. The second quarter of this year, consumer retail access lines shrank by over 900,000 lines. It was a huge drop in our consumer access lines. What was the driver of that? It's real simple. Look at the right-hand graph. That's UNEP. That's these access lines that our competitors buy from us at about a 60 percent discount and sell to their customers. Those lines actually grew by about 700,000 lines. So what you see here is a shift from our retail customers to the wholesale UNEP platform. Who's using the UNEP? It's really no big surprise. It's AT&T and WorldCom. That's who's buying these products and selling to their customers. They represent in excess of 70 percent of the UNEPs that were purchased in the second quarter. Interesting if you look here on the bottom, all other carriers—other than AT&T and MCI WorldCom—actually shrank in the second quarter in terms of number of UNEPs that they had purchased. How are they using these? This is what they're using to compete in the consumer segment. So basically, they're buying our access lines at a 60 percent discount, competing in the consumer segment—it's not the business segment—to resell these. They're targeting the high-end of the customer base, those high-spend LD customers, and I suggest to you the numbers tell the story. What you see here are our highest UNEP penetration states; and as I said, it's a residential consumer play, it's not a business competition play.

The IXC strategy is pretty simple. In fact, I would suggest to you that the UNEP platform that they're mandated by the FCC is proving to be a gift to the IXCs. It's a gift in form of it allows them to compete in the local market while spending zero capital. They have some pretty good margins in this business, they have no risk in this business, but the problem that you have here is the economics don't work. I don't care how you turn it, this is not a sustainable model for this industry. You force a company over time to sell its products and services below cost, the implication and the end result of that is pretty straightforward: that company stops investing in the products and services that its providing, and that's what we think is exactly going to happen to telecom if this platform and this product isn't fixed. So just to summarize, UNEP isn't competition. This slide says that it's arbitrage. Arbitrage to get some level of subtlety and I would suggest that there's no level of subtlety in the UNEP. This is just blatant subsidization of our competitors. It's got to change, as I said there is absolutely zero incentive to invest in this business if it's not changed. What we actually see is a disincentives facilities-based competition. Where you see UNEP volumes increase, you actually see facility-based competition decreases and so it's disincenting investment on all sides of the spectrum here. The concept of universal service—telephone service for everyone—is completely undermined with this type of platform, and the benefits of this, interestingly enough if you think about it,

the benefits of competition flow to one place—it's the high end of the customer base. Only the high-end users are receiving the benefits of competition, so again I would suggest to you that this is an unsustainable model; in fact, it's sustained only by the ILECs ability to absorb the margin pressure associated with this.

So how have we responded? We try to be positive in our response. We're going out to talk to all of our major regulators where this UNEP platform has been put in place; and I would tell you the reaction has been good. I think there is a good understanding of the dilemma that this industry is in if this issue is not resolved. I would suggest to you and I am fairly confident that we will see change. The FCC has a timeline in front of them of January 3<sup>rd</sup>, their tri-annual review, where they will have to deal with this issue, and I am confident that at the end of the day economics and rationality will win out here, I am very confident of that.

The other way we are responding is to work aggressively to get into long distance. In the Ameritech region where this thing is playing itself out most aggressively, we are working aggressively to get into long distance; we have a competitive product platform. California—it appears that we will be in the long distance market by the end of this year. We are working very aggressively to expand the DSL product. What we have found is where DSL penetration is high, those people with DSL are 75 percent less likely to churn, so we are working very aggressively there. We are moving very aggressive then to bundle all of these products and services, including the wireless with the wireline offering. All with the intent of trying to reduce churn and improve the economics of the business.

So before I go to Q&A, let me just take a quick minute and tell you why where we are with long distance and DSL. These are really important products for us. In long distance, we now have 5.6 million long distance lines at the end of the second quarter. We are offering the product in six states. Our interlata and international long distance revenues in the second quarter actually increased 53 percent in the second quarter. We think we'll add California by the end of December, and when we add California at that point, two-thirds of our access lines we'll be eligible to sell long distance to. DSL we're moving fast. We're continuing to accelerate. You see in Q2 here we added 213,000 DSL customers. It was our best quarter in nearly six quarters. We're doing a lot to bring the cost of this product down, they're coming down very quickly. The economics are really starting to look compelling. Pretty excited about the product. We introduced the Yahoo DSL product just last week, and their early feedback on that has been really good. The content is really good and it looks like it's going to be a real benefit to us.

Quickly on wireless. We're making a lot of progress here in terms of trying to rationalize the business model. We're trying to be disciplined here, trying to be very disciplined in how we approach the wireless market. As a result, our pursuit, our focus is on the digital contract customers, and it's very simple. The economics of the contract customer are very compelling. Churn rates are significantly lower. RPU's tend to be significantly higher. Implication is margins tend to be a lot better. You saw the results of this in the second quarter. In the second quarter, we added 619,000 contract subscribers and our RPU increased for the fourth consecutive quarter in the second quarter. We're moving to an all-digital network, all of our customers are migrating to digital, we're virtually there, and what we have as a result is a good healthy business model that I think will be able to sustain good strong cash flows as the industry works through consolidation and through a lot of the transition its going through right now.

Like I said, our priorities are pretty simple. We've got some very proactive revenue strategies. At the end of the day, our key advantage is the ability to bundle all of these products and services, wireline and wireless. That's an advantage that few can duplicate—Verizon and BellSouth, perhaps. That drives down churn, helps on retention, and at the end of the day is just a more compelling cost model and a revenue model. We are being very aggressive on the cost side, about as aggressive as I have seen us. The cash flow to the business are really strong

and getting stronger, and as a result, our credit profile—our credit metrics—are all improving and getting better, and we are working very aggressively to try to provide our leadership in terms of UNEP reform, because at the end of the day the health of this industry -- not just SBC, but the health of this industry -- is dependent upon getting good UNEP reform and that is a priority for Ed Whitaker and myself, Bill Dailey, and all of us at SBC.

So I thank you for your attention and I'd be more than glad to take those questions you might have.

*Question: Unintelligible*

The question was, she said I talked about 900,000 drop in consumer access lines and increase in UNEP of 700,000. The math suggests there is a 200,000 dollar gap, and really, what's the makeup of that gap? It's hard to do that math. I can't be real precise with you, it's kind of soft. But I tell you, we are seeing migration to wireless without a doubt. It's not as dramatic as perhaps you might suspect, but we are seeing it. It appears to be more in the MDU community, Multiple Dwelling Units and so forth. We have done studies and we see a real high incidence in those communities of people that have displaced a wireline with wireless. That's the primary place where you see that happening, and again it's hard to put a number on it. But then to give you a perspective, we really see it playing out and you can quantify it, is on the long distance side, and what you see in the long distance is wireline long distance. Back when we first had visions of going into the long distance market, is you were seeing minutes of use per customer from about like 200 minutes per customer per month. That number is now in half, down to about 100 minutes per customer. Where have those minutes gone? They didn't go away, they're on the wireless network. So you're seeing a lot of traffic move to the wireless network. Wireless minutes and use are up 40 percent year-over-year. Subscribers aren't up that high, so basically you see what happened is just more and more use is being directed to wireless. We're also seeing a lot of substitution with cable modems, and we're seeing substitution with DSL—somebody gets a DSL line and they perhaps don't need that second line, so we are seeing some disconnect there, and I tell you about half of that 200,000 gap is just plain old economy—people disconnecting the additional lines and so forth, but the other half being the other two issues we just articulated.

*Question: Unintelligible*

What percentage of our operating income is for pension gains? When you say pension gains, I assume you mean the income off the pension trust, and when you look at our numbers, and we got a pension trust of about 30 billion dollars, our assumed return is about 9 percent, so you know, you can do the math—about 2.7 billion. If you take all of the elements of the pension income, the pension service costs, the interest costs of the pension plan, and all your post-retirement medical—if you just take all of that and net it all out, you basically come in 2002 to about a zero number, so it's a net impact of zero. I think your question was where do I see it going forward. It's going to be a lot of pressure going forward. I think everybody with big pension trusts are going to be experiencing some pressure next year. It's hard to say right now where the market will end up. We're in the negative return territory right now. If we assume that we stay in the negative return territory this year, you know we have a positive assumption of 9 percent that's in our numbers—say it's negative six just to make the math easy. You got a 15 percent swing in pension income, 15 percent times a 30 billion dollar pension trust, and you spread that over five years, that's a big number. We're probably all going to have to take a look at our discount rates moving into next year with interest rates being as low as they've been, so that'll probably provide further pressure, so I think most people with large, well-funded pension plans are probably going to have some pressures to deal with next year, but it's hard to quantify yet.

*Question: Unintelligible*

I wouldn't tell you we and our competitors are all coming together with some cohesive plan that we think will be adopted, and I will tell you though, that our request is really very simple.

We have not asked the FCC or any state regulator to eliminate the UNEP. That's not our priority. I don't know if that's realistic or not. What we are asking, what we are requiring, is that the UNEP pricing be fixed. In the Ameritech states, those five states, the average discount of the UNEP is about 60 percent. That is not a viable model. It is well below cost on anybody's cost modeling assumption. If you use TELRIC pricing, if we use any pricing, you cannot get to a \$14 UNE price. The fix here is to address the pricing, and that's what we're trying to get addressed, is the pricing. Not to get rid of it, just get it priced at cost.

*Question: Unintelligible*

Let's give you an example. Illinois, we have filed revised cost studies, actually new cost studies, under the TELRIC pricing methodology. The UNEP in the state of Illinois is about \$15, roughly. Our cost studies put it over \$30. That is what a TELRIC pricing methodology would give you. So, state of Texas, it's about a \$20/21 UNEP. You know, the state of Texas, you have a pretty rational model. You know at \$20/21, you have good, vibrant competition and it's not at such a level where we cannot earn money or are disincented to invest. But if it starts to slip below that level, you've got a model that's not sustainable.

*Question: Unintelligible*

Yes, we are. We have done that already. There is just so much turmoil going on in the marketplace right now, a lot of movement on industry consolidation and so forth, but it's just prudent in this environment to pay down debt and we have— *Question: Unintelligible* -- I have not given any targets. I would suggest most of our discretionary free cash flow will probably go towards paying down debt. As I mentioned, our CP balances have been dropped by 1.6 billion dollars. There's going to be a lot of cash coming in over the next couple of years through the Bell Canada disposition, Sterling, etc. That business will generate a lot of free cash flow. The emphasis will be to pay down debt. We'll probably continue to be -- you know we've got a good history in terms of dividends -- increasing dividends, and I don't think you'll see us compromise there, but most of the free cash flow will go to pay down debt.

*Question: Unintelligible*

It depends on where, all right, but if you assume in the Ameritech region we lose a million lines, the math's pretty simple. Average revenue per customer in the consumer segment in Ameritech is about \$36, the average UNEP is about \$15, so about 21 bucks times a million times 12.

*Question: Unintelligible - regarding Nortel's financial condition*

No, I don't think so. I'd hate to see that happen. That's kind of a logical implication of the policy that we're following right now in the United States. I mean, we're not going to invest. You're not going to see our investment go up next year. I would suspect Verizon and BellSouth would say the same thing. Probably be more downward pressure than upward pressure. If one of them were to go out of business, would that have significant implications to our operations day-to-day? No, I don't think so. It would obviously depend on what happened to them in a bankruptcy-type proceeding, you know, the 5E technology and support just went away over night? Well, yes, that would probably be significant, but I don't see that as probably being a likely scenario.

*Question: Unintelligible*

Well, Chairman Powell has been pretty clear that going from six to five competitors is doable. He made that statement publicly back I think in the first or second quarter. He said going from five to four gets a little more difficult, and going from four to three is maybe not—I'm not sure if I'm articulating correctly—but it's getting progressively harder, so obviously the first one in probably stands a better probability of success than the second or the third.

*Question: Unintelligible*

In terms of DSL—I'll take the question a couple of stages. First of all, let me talk about the economics of DSL. They're pretty compelling. If you'd asked me that question a year ago, I wouldn't have said they were overly compelling, but I feel really good about the product. I just take our one market where we have really deep penetration levels—California, we're in excess of 10 percent penetration there. The economics look really good. We've not given any specifics in terms of the economics of DSL other than in California. Set customer acquisition costs aside once you have a customer up, the recurring margins run in excess of 40 percent, EBITDA margins, and so with the capital that you have to invest on a per-customer basis, you get to a pretty good positive NPV-type customer. Where your penetration rates get over 10 percent, churn rates come way down. Churn rates in California are about half those in Southwest and the Ameritech regions. So I look at California and say that's where the business is headed. Southwestern Bell is moving there very quickly—they're about half of California penetration rates and closing in on them fast, and they're economics are starting to look like California. So I step back from it, but it is the business I like. It's the business we want to be in, and the retentive benefits of it for an access line are so strong that it's a business we got to be in—it's a priority.

Now I go to the tri-annual review in terms of, you know, how important is that to us. I would tell you that until we get rules that put us at parity with the cable modem providers, you're not going to see us moving our footprint beyond where it is right now, though. The reason being, you know, when we have to sell this product at wholesale prices in a urban area, you can still make the economics work. Take this to a tier two or a rural market, and then start selling this product at wholesale prices, you can't make the economics work. So if the FCC were to put in place rules that would put us at parity with the cable providers, meaning, we would invest all of this money, we don't have to sell it at 40/50/60 percent discounts, then we would expand our footprint. We'd probably invest more in tier two towns and work hard to get this product moved out. Absent that, you're not going to see us investing now.

*Question: Unintelligible*

The question was whether I think we'll have some definite visibility in terms of what this market looks like for DSL. I haven't got a clue. You know some states are just acting on it on their own. The state of Oklahoma came out and basically said no regulations for broadband. Well guess what, we're investing there. We're going to expand the footprint in Oklahoma and that works real well, and we're petitioning a lot of other states to do that. But in terms of when we'll have just a good national framework, I don't know. I think January the FCC will act and I think their bias will be to act in a way that brings parity to the marketplace. But you said it. Will there be appeals? Probably. I don't know. I can't answer. Sorry.

*Question: One more question—Maybe I'll ask it. Randall, I know that you've had some pretty eloquent things to say about kind of a five-year growth outlook for the business when you kind of normalize sort of the economic environment we're in when you normalize the UNE environment. Can you kind of walk it through just to kind of close out the time here, kind of what you think the five-year outlook for the state is.*

I have a hard enough time projecting right now one quarter, much less five years, but I'll kind of tell you where my head is. On the wireline side, I think the consumer market in terms of access lines because of wireless substitution and DSL substitution and so forth—I don't think you'll see access line growth in the consumer segment. I think you'll see our access line growth will continue to be negative. I think that's natural. I think though the ability to bundle DSL, long distance, and wireless together will allow us to keep RPU on a total customer basis up enough to, you know, to work towards a flat-type revenue growth forecast for the consumer segment. On the business side, I don't think you'll see access lines grow quite up to where you'll see nominal GDP growing, but I think they will continue to grow. There's no reason business access lines in a good, healthy economy should not continue to grow, and so I think

we'll see good fundamental growth there and as we move into long distance that should provide some lift to the business segment, and so I always fall back on what do you think is going to happen with these high-cap data products? You know, the bread and butter, if you will, on the business side? High margin, good growth products. I don't see any reason why those products shouldn't continue to grow in 8- to 12-percent type range moving forward. You'll never see 30 percent like we saw back in the 90's, I mean we'll never see that again, but good high single-digit growth rates ought to materialize. If you add all that up and you get some kind of good single digits on wireless, you know, you've got a, you know, a conceivable mid-single-digit type growth platform for this business. It is a cash-rich business. If we can get the UNEP platform fixed I think we got a business that can, you know, continue to grow long term, not, you know, the double-digit range, but, you know, good solid single-digit type growth.

Thanks Randall.  
Thank you.

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Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
The Portals  
445 12th Street, S.W.  
Washington, DC 20554

Re: CC Docket No. 01-338

Dear Ms. Dortch:

Attached for inclusion in the record of this proceeding is a letter to Chairman Powell from Robert A. Curtis, President of Z-Tel Network Services, and Thomas M. Koutsky, Vice President, Law and Public Policy.

Sincerely,

/s/

Christopher J. Wright  
*Counsel Z-Tel Communications, Inc.*



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September 30, 2002

**Ex Parte**

Hon. Michael K. Powell  
Chairman  
Federal Communications Commission  
Washington, DC 20554

Hon. William M. Nugent  
President, NARUC  
Maine Public Utilities Commission

Hon. David A. Svanda  
Vice President, NARUC  
Michigan Public Service Commission

Hon. Joan H. Smith  
Chair, NARUC Telecommunications Cttee  
Oregon Public Utility Commission

Hon. Pam Nelson  
Chair, NARUC Consumer Affairs Cttee  
South Dakota Public Utilities Commission

Hon. Diane Munns  
Chair, NARUC Finance and Technology Cttee  
Iowa Utilities Board

Re: Short Follow-Up to September 23, 2002 Letter on the Impact of the UNE Platform on Bell Company Financial Results, FCC CC Docket No. 01-338

Dear Chairman Powell and Commissioners Nugent, Svanda, Smith, Nelson and Munns,

Last week, we wrote a comprehensive letter to you showing that, based upon ARMIS data, Bell companies earn very healthy returns – **56% on average** – when they sell UNE-P to Z-Tel.

Those findings have recently been confirmed by an unlikely source: the Chief Financial Officer of SBC Communications, Inc., Randall Stephenson. Attached to this letter is a report by Bank of America Securities (BAS), discussing Mr. Stephenson's

public comments to investors at BAS's 32<sup>nd</sup> Annual Investment Conference.<sup>1</sup> Far from the wolf-crying story the Bells now routinely tell policymakers and the press, Mr. Stephenson's presentation to investors ratifies statements made earlier this month by Verizon's CEO that the financial pressure from UNE-P competition is "manageable."

Speaking before investors, Mr. Stephenson made the following points:

**1. SBC "lauds" Texas as UNE-P Success Story.** Mr. Stephenson pointed out that "SBC lauds Texas as an example of a state where competition is vital and yet UNE rates are a middle of the road \$19 per month. . . . The company points to Texas as a **workable example of UNE-P competition** where competitors have made substantial inroads with UNE-P pricing in the \$20 range. **It is doable.**"

Z-Tel agrees and also applauds what the Texas Commission has accomplished with regard to UNE-P implementation. Indeed, it is important to note that Texas is one of the many states that earlier this year decided to *require unrestricted access to UNE-P statewide*. As Z-Tel pointed out in its FCC Triennial Review Comments and Reply, the Texas Commission engaged in a detailed, "granular" analysis of mass-market competition in the state and decided that UNE-P be available pursuant to state and federal law. Statewide, unrestricted availability of UNE-P in Texas has been in place since adoption of the "T2A" interconnection agreement in 1999 as part of SBC's 271 approval. CLECs have gained considerable market share in Texas – over 15% – and, according to the UNE-P Fact Report, consumers *statewide* have benefits, down to the least-dense central office.<sup>2</sup>

Clearly, unrestricted access to UNE-P has benefited consumers and competitors in a manner that SBC admit is "workable" and "doable." So why does SBC tell the FCC that it should preempt state initiatives like the Texas Commission's? As Z-Tel urged in its Triennial Review pleadings, instead of making the Texas Commission rewrite its pro-competitive approach, the FCC should follow it.

**2. SBC has a "Profitable" DSL Platform in California.** Part of SBC's regulatory advocacy is the contention that if it is forced to "share" its local network with competitors through regulatory policies like UNE-P and line-sharing, it will not deploy

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<sup>1</sup> David W. Barden, Joseph Bender, and Robert Dezego, "SBC Communications Inc.: Highlights from the BAS 32<sup>nd</sup> Annual Investment Conference" (Sept. 23, 2002) (attached).

<sup>2</sup> According to the FCC's most-recent Local Competition Report, CLECs serve 16% of the Texas lines – compared to only 10% of the lines nationwide. Industry Analysis Division, Wireline Competition Bureau, FCC, *Local Telephone Competition: Status as of December 31, 2001* (July 2002) at Table 6. Unrestricted access to UNE-P has been a boon to consumers and competition, and other states that provide broader access to UNE-P also show larger than average CLEC market share and statewide benefits to consumers. See PACE Coalition, *UNEP Fact Report*, ex parte filed Sept. 3, 2002.

advanced telecommunications capability because it cannot profit from those investments. But SBC's CFO told investors that the company "is profitable" in California "with its DSL platform." It is important to note that California is the state with perhaps more CLEC DSL lines than any other, and the California Public Utilities Commission has implemented line-sharing as a matter of state law. Clearly, the market success of CLECs like Covad and the CPUC's state law implementation of line-sharing have not prevented SBC from becoming "profitable" with its DSL investments in the state – it is making 40% EBITDA margins on DSL in the state. Clearly, SBC once again appears to be crying wolf to policymakers.

**3. Competition is Working where UNE-P has been Implemented.** Mr. Stephenson also noted to investors that SBC is beginning to succeed in "winning back" customers from UNEP CLECs.<sup>3</sup> The result is lower prices for consumers – SBC noted that as a result of win-back, consumers save 10-15% on their telephone services. These benefits are being enjoyed by millions of residential and small business consumers, and that is what the 1996 Act was supposed to be about. Make no mistake – **successful efforts to ban UNE-P will cause consumer telephone rates to go up.**

**4. Profits – not UNE-P availability – are the Issue.** As further evidence that SBC is mostly interested in raising telephone rates, BAS notes that while the Triennial Review "is certainly important to SBC, **the company privately stresses the pricing of UNEs as its critical issue.**" BAS states that State commissions are "ultimately responsible for setting" UNE rates, which makes this a "trickier battle to fight" because the FCC "does not necessarily have the power to enforce a strict pricing structure on the states."

But that is not stopping SBC from trying. In fact, scoring public policy points seem to be SBC's primary motivating factor in their advocacy campaign. On September 26, 2002, SBC CEO Ed Whitacre blamed regulators when he announced reductions in capital expenditures and employee layoffs. However, a report by JP Morgan Securities the next day stated that SBC's recent capital expenditure and workforce announcements are "not directly related to UNEP competition," despite SBC's spin.<sup>4</sup> JP Morgan noted that "the company's announcement regarding reductions in capex and workforce may be

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<sup>3</sup> Z-Tel believes that those win-back efforts are the product of anticompetitive practices. See Order, *In the Matter of Z-Tel Communications, Inc. v. Illinois Bell Telephone Company d/b/a/ Ameritech Illinois*, ICC Docket No. 02-0160 (May 8, 2002), where the Illinois Commerce Commission ruled that SBC was providing its retail win-back arm discriminatory access to Z-Tel's customer account information. The ICC awarded hundreds of thousands of dollars in damages and costs to Z-Tel and is also investigating SBC for additional penalties.

<sup>4</sup> Marc Crossman and Brian Hong, "SBC," JP Morgan Securities, Inc., (Sept. 27, 2002) at 1.

partially motivated in protest to the challenging regulatory environment the Company currently faces. . . .”<sup>5</sup>

Mr. Stephenson told investors that “SBC is picking its battle in the UNE war with pricing, not the elements themselves, as its key focus. . . . SBC is not trying to eliminate UNE-P pricing, but rationalize the price-setting structure.” So while SBC makes conciliatory statements about UNE-P availability to investors, it continues its full-court press at the FCC to ban UNE-P.<sup>6</sup>

Mr. Stephenson’s statements confirm Z-Tel’s view (and common logic) that Bell companies like SBC are **far worse off financially** when they lose lines to pure facilities-based or UNE-Loop providers rather than a UNE-P provider like Z-Tel. What SBC wants is for these current wholesale customers to become high-margin retail customers. In other words: kill existing consumer choice and increase rates.

**SBC To Increase Dividend.** Despite recent hue and cry about its financial situation, Mr. Stephenson noted that SBC still expects to generate enough profits to continue “its policy of dividend increases and share buybacks.” **SBC today pays nearly \$3.6 billion annually in dividends to its shareholders, and it expects to grow that dividend.** The financial pain from competition must not be that bad.

\* \* \*

The FCC and State commissions stand at a cross-roads. Will they implement policies designed to guarantee Bell company profits and dividends at current levels? BellSouth’s CEO Duane Ackerman called upon policy makers to change the current “dis-inflationary” regime – a code word for raising rates.

Congress’s mandate upon regulators is clear – implement unbundling at “cost-based” rates. That is happening, and Bells generate healthy profit margins when they sell UNE-P to CLECs like Z-Tel. Last Friday, NARUC let Congress know where it stands – on the side of competition.<sup>7</sup> And even SBC’s CFO confirmed to investors that

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<sup>5</sup> *Id.* at 2.

<sup>6</sup> The law is clear that the BOCs must unbundle the core components of UNE-P. As discussed in our September 23, 2002 letter, Congress specifically unbundled switching, loops and transport in the Section 271 checklist, so SBC must provide those elements to provide long-distance service *regardless* of any FCC section 251(d)(2) “impairment” finding. In addition, state actions to implement UNE-P under state law (as Illinois, Texas, New York, Pennsylvania, and other states have done) are *specifically preserved* by section 251(d)(3) of the Act.

<sup>7</sup> Letter from Commissioners Joan Smith and Robert Nelson, Chair and Co-Vice Chair, NARUC Telecommunications Committee, to Senate Majority Leader Thomas Daschle (Sept. 27, 2002).

competition in Texas – where UNE-P is available without restriction statewide – is a “workable” and “doable” proposition.

Z-Tel agrees. The question is whether policymakers will heed the facts and law – or whether they will pay attention to the politics and theatrics.

Sincerely,

/s/

Robert A. Curtis  
President, Z-Tel Network Services

/s/

Thomas M. Koutsky  
Vice President, Law and Public Policy

cc: Commissioner Kathleen Q. Abernathy  
Commissioner Michael Copps  
Commissioner Kevin J. Martin  
Christopher Libertelli  
Mathew Brill  
Jordan Goldstein  
Daniel Gonzalez  
William Maher  
Jeffrey Carlisle  
Michelle Carey  
Robert Tanner  
Brent Olson  
James Ramsay

Research Brief  
Wireline Telecommunications

September 23, 2002

## SBC Communications Inc.\*

### Highlights from the BAS 32nd Annual Investment Conference

- ◆ **BAS was pleased to host Randall Stephenson, SBC Corp. CFO, as a speaker at our 32nd annual investor conference.** The company's presentation and our discussions covered a wide range of topics including the company's views of regulatory evolution, the company's top line and margin drivers and consolidation in the wireless and wireline markets.
- ◆ **SBC is picking its battle in the UNE war with pricing, not the elements themselves, as its key focus.** The company has filed recent cost studies arguing UNE-P pricing in the Ameritech states should be priced roughly twice (\$30 per month) where it is priced today (\$15 per month). At the same time, SBC lauds Texas as an example of a state where competition is vital and yet UNE rates are a middle of the road \$19 per month.
- ◆ **Top line pressures continue as the company is facing market loss through the UNE-P platform at a consistent rate.** The company is aggressively focused on driving costs and capital expenditure out of the business, targeting a wireline capex run rate of 15% of revenue by 4Q02. Looking forward to California long distance entry, SBC is ramping up a series of consumer bundles and new data products.
- ◆ **Wireless consolidation is necessary in the view of SBC.** The company's Cingular wireless affiliate will likely be able to rely on SBC for incremental funding should it be necessary in a consolidating transaction. The company's two big objectives in wireless remain bundling to increase consumer stickiness and realizing capital and operating synergies in a new consolidated entity.

**Market Performer**  
SBC (NYSE): \$22.71**David W. Barden, CFA**

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Company Data		FYE Dec	2001A	2002E	2003E
12-Month Target Price		<b>EPS</b>			
52-Week Range	\$48-22	Q1 (Mar)	\$0.51	\$0.51A	
Secular Growth (EPS)	5%	Q2 (Jun)	0.61	0.61A	
Market Cap.	\$76.1 BB	Q3 (Sep)	0.59	0.55	
Avg. Daily Vol.	9,099,265	Q4 (Dec)	0.63	0.60	
Debt/Cap. (6/02)	44.8%	<b>Fiscal Year</b>	<b>\$2.34</b>	<b>\$2.27</b>	<b>\$2.22</b>
Dividend/Yield	\$1.08/4.8%				
<b>Index Data</b>		<b>Calendar Yr</b>	<b>\$2.34</b>	<b>\$2.27</b>	<b>\$2.22</b>
DJIA	7872	P/E	9.7	10.0	10.2
S&P 500	834	P/E/G	194%	200%	205%

Please see the important disclosures at the end of this report. Investors should assume that Banc of America Securities is seeking or will seek investment banking or other business from companies rated in this report.

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## Summary and Investment Conclusion

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BAS was pleased to host SBC Corp. CFO Randall Stephenson as a speaker at our 32<sup>nd</sup> Annual Investor Conference. We have attached here key elements of our notes from the company's presentations and our meetings with the company.

### UNE

Two key fronts exist in the debate on Unbundled Network Elements (UNE) that is currently the subject of a broad FCC review called the Triennial Review. The first is the issue of what network components are the Bells required to unbundle. The central network element in question is the circuit switch. The Bells argue that circuit switches are freely available and if purchased by a competitor, can be collocated and connected to unbundled copper loops. Allowing competitors to bundle switching loops and transport enables total service resale of the Bell network at substantially lower prices than available under traditional wholesale pricing. Interestingly, while this issue is certainly important to SBC, the company privately stresses the pricing of UNEs as its critical issue. Pricing is a trickier battle to fight because while the FCC is reviewing UNE, the FCC does not necessarily have the power to enforce a strict pricing structure on the states. The FCC can set guidelines and methods, but currently the states are ultimately responsible for setting the prices SBC can charge on its network.

The company feels that UNE pricing in its five Ameritech states, and interim pricing in California, which is patterned after Michigan in the \$14 to \$15 per month range, is unreflective of the cost of service. The company's six states represent the six cheapest UNE-P states in the country. SBC has submitted cost studies with the Michigan and Illinois PUCs and is currently arguing for UNE-P pricing at almost double the price. The company is planning to file a new cost study with the California PUC in October and hopes for a resolution on that debate by the year-end. The company is trying to convince PUCs that the low-cost UNE-P platforms are not sufficient to meet the costs of maintenance or to provide incentive for incremental investment. The company replies to some common questions and criticisms in the following manner.

- 1) **How can you argue prices are too low when you are making 40%+ margins at the EBITDA level?** The company's response here is that margins are the necessary component to the profit calculation, which generates positive ROIC. SBC believes positive margins in the, say, 35% range would not generate a sufficient ROIC, given the substantial capital investment required in the wireline business. Profits are necessary to cover capital investment.
- 2) **Aren't capital equipment costs coming down with distress in the telecom equipment market?** The company's answer is yes, they are, but in areas such as ATM, optics and IP. The baseline infrastructure of 5E switches and copper-related electronics, which is the bread and butter of the equipment industry, is not seeing material if any reductions in price. While business-oriented data services could potentially be getting more profitable, these returns are now cross-subsidizing competitive entry into the consumer market.
- 3) **What philosophy could be driving PUCs to derive below-cost outcomes in UNE-P price setting?** The company's belief is that competition for the sake of competition is driving many decisions at the margin rather than long-term sustainability of the industry's cost structure. SBC is not trying to eliminate UNE-P pricing, but rationalize the price-setting structure. The company points

to Texas as a workable example of UNE-P competition where competitors have made substantial inroads with UNE-P pricing in the \$20 range. It is doable.

SBC has been travelling in the Ameritech states with CEO Ed Whittaker to visit PUCs in Ohio, Illinois and Michigan. The company believes that these were good meetings. The thrust of these meetings is that SBC said it would deliver better service and it has. Now, the company is telling PUCs that at low UNE-P prices, service levels are doomed to fall in the future. The PUCs' reaction has been to encourage SBC to file new cost studies which back up its case and the company has been doing just that as we note above.

### **Stabilizing the Top Line**

Largely because of the availability of the UNE-P at low prices, SBC notes that line losses continue in the Ameritech states and the company expects line losses in California will track Texas. In the company's Southwestern Bell states, the company's line loss levels are continuing but revenue growth rose in the second quarter by 2.9%. The company attributes the stabilization to the impact of bundling long distance services with wireless. The company sees long distance service reducing churn and adding to margins incrementally. The company sees state-by-state long distance penetration becoming profitable in 9 to 12 months as targets longer-term margins after acquisition costs and marketing launches still lower than current core wireline margins but still in the 30% range. The company is optimistic about its 271 filing in California getting federal approval in late December. The California PUC announced last week that SBC has substantially complied with the 271 14-point competitive checklist but some conflict remains regarding the importance of California's assessment that only 12 of the required competitive metrics have been met. SBC is pursuing its case now with the FCC. There was some further confusion on the California ruling as the state is potentially interested in asserting authority over SBC's ability to inter-LATA service in the state. SBC believes the FCC has authority over the matter and will be able to over-rule any state assertions in this matter.

In addition to pursuing 271 approval to enhance the top line and churn stabilization, the company is working to more aggressively incorporate DSL into its bundle. DSL customers, according to the company, are 75% less likely to churn their local service. The company recently launched a new joint platform with Yahoo! and all new adds are now on this platform. DSL penetration in California is over 10% currently and churn has been falling. Churn in California is roughly 50% of SBC's average churn. The company is profitable in the state with its DSL platform. Mr. Stephenson commented today that excluding non-recurring acquisition costs, DSL is generating greater than 40% EBITDA margins in California. Wireless bundling is starting to happen but the company is still developing on this front. Verizon is the acknowledged leader here and success at Verizon could spur more aggressive deployment at SBC, in our view. Finally, on the win-back front, the company is having some good success in Southwestern Bell states with greater than 50% customer recovery. Win-back tariffs are generally 10% to 15% below standard retail prices. The company is seeing a 20% to 30% recovery in its Ameritech and California regions.

### **Addressing Costs**

The key focus for SBC in addressing the current top line reality is taking costs out of the business. The company has had three quarters of negative expense growth and at the wireline division, this is four quarters. When the company talks costs, it is clear that headcount will continue to come under pressure in the current environment. Mr.

Stephenson commented that SBC has downsized roughly 13,000 employees year to date with another 3,000 targeted by yearend.

The company is also focused on taking capex out of the business. The company is targeting a range of \$7 billion to \$8 billion. While the company is not giving 2003 guidance on this metric yet, the company notes that they expect to be exiting 2002 at a 15% capex to revenue run rate for the wireline business. SBC's 60% share of Cingular's capex boosts this figure on a normalized basis. Falling capex can bring costs down as well because of the maintenance and headcount relationship. In our discussions with other LEC companies, each dollar of capital can come with 30 to 40 cents of expense connected to it. The company notes that its 15% target is not a 'maintenance' level and can support growth in areas such as the data services market. Mr. Stephenson suggested maintenance capex might actually be closer to 10% of revenue in the wireline business. Capex in the wireless industry is expected to eventually run at the 20% of revenue level in his view.

The company feels very confident about cost controls in light of the current revenue environment save for the pension expense issue. SBC currently has roughly \$30 billion in pension assets and while the company has an actuarial return assumption of 9%, the company's return experience to date is negative. While the company amortizes returns over five years, a negative return amounting to say a 15% swing (9% positive assumption but negative 6% actual return) in one year would constitute a \$900 million hit (\$30 billion x 15% / 5 years). Factoring in the belief that discount rates are most likely to fall in a low discount rate environment and going forward return assumptions may likely come down, the company will, like most companies with large pensions, be facing a major cost challenge in 2003 on the pension side. For the most part, this cost issue is unlikely to translate to a major cash issue for SBC in 2002, though it could ultimately. The company's cash situation and balance sheet are very capable of dealing with this issue. In 2002, the company expects net pension expense to be flat.

### **Cingular**

SBC views the wireless market as highly competitive, with 6 major competitors, falling prices, rising minutes of use and flat ARPUs. The industry is cash flow negative in a tight capital market and consolidation is the rational result. The company acknowledges that widespread press reports of conversations between SBC and VoiceStream have an element of truth to them. Asked about the regulatory environment surrounding any consolidating transaction, the company paraphrases FCC Chairman Michael Powell as indicating that the first transaction in the wireless industry may find it much simpler to navigate the regulatory approval maze than subsequent transactions. Further, asked about the merits of a Cingular-VoiceStream transaction versus a Cingular-AT&T Wireless transaction, the company notes that the control issue is a substantial one. A big part of the synergy between SBC and its wireless subsidiary is seen as the ability to bundle wireless and wireline. This bundling requires complex transfer pricing models and issue resolution that get more complex the more parties are involved with a transaction, including public shareholders.

The VoiceStream deal is seen as more doable with internal capital resources than an AT&T deal that might involve public shareholders on a going-forward basis. The company did not flinch at the idea it might need to use its own balance sheet though to shore up Cingular if were to pursue a wireless consolidation transaction. A second major synergy in any wireless transaction is in capex savings. Cingular is in the midst of a major technology upgrade and has spent only 25% of its planned overlay capex. A

transaction with VoiceStream would allow the company to cease its upgrade expenditures. SBC feels BellSouth's views are congruous to their own. A final issue of uncertainty surrounding any Cingular/AT&T partnership would be any requirements to divest subscribers. While a 2 million subscriber base sale would be achievable, offloading, for example, 9 million subscribers would be a non-starter.

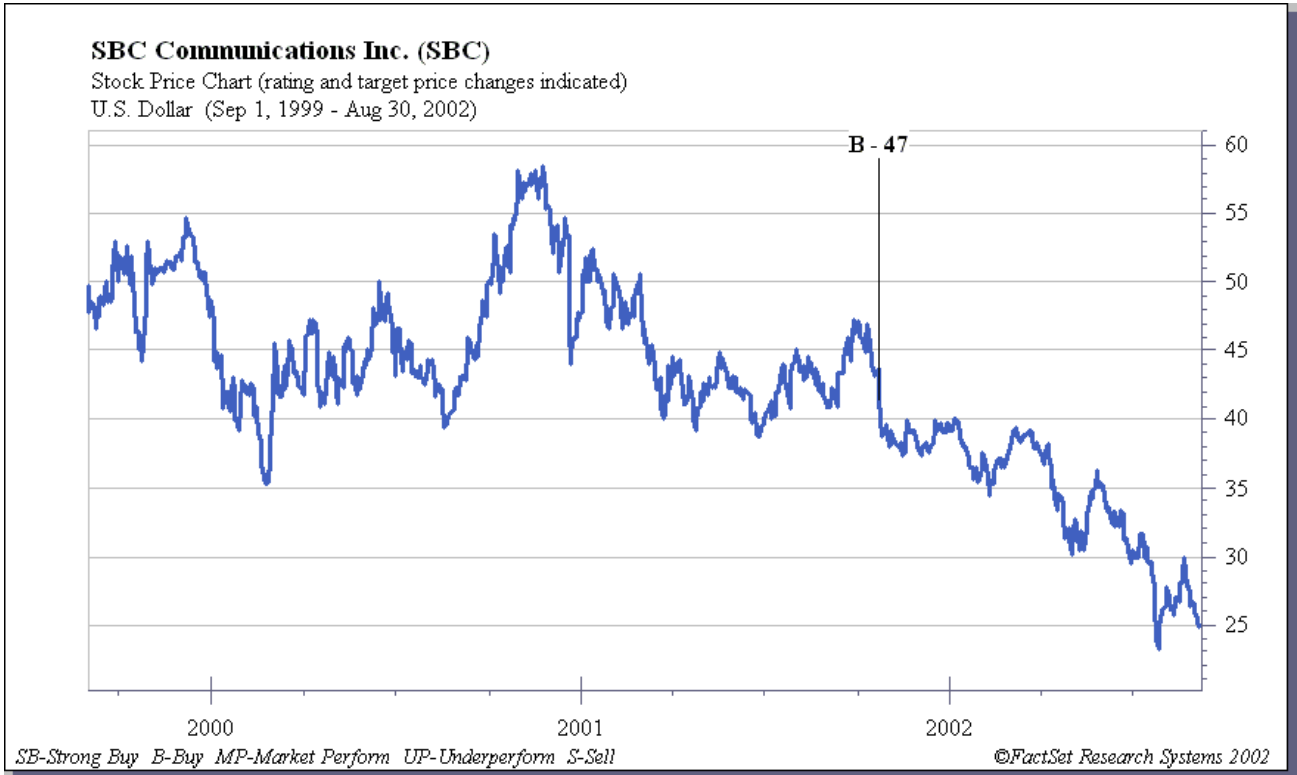
### **Cash and Balance Sheet**

On the cash and balance sheet front, the company is very comfortable with its position, regardless of any potential ratings agency action. The company has continued to pay down commercial paper and current balances represent a 10-year low for the company. Mr. Stephenson commented that SBC's \$3.8 billion credit backstop covers its outstanding commercial paper, implying that it has reduced commercial paper substantially from \$5 billion at the end of the second quarter, consistent with our debt reduction forecasts.

In addition to strong cash from operations, the company sees a big cash inflow coming from the sale of its Bell Canada stake of over \$3 billion. SBC also sees a potential sale of Sterling and the monetization of its stake in Cegetel as yielding incremental cash. In light of the company's strong cash flow, CFO Stephens notes that the key priority of management is shoring up the company's already strong balance sheet. In the same breath, the basis for shoring up the balance sheet is to prepare for industry consolidation. In our view, SBC wants to be in a strong position to act decisively either in the wireless or the wireline arenas when the timing is appropriate. The company notes that its policy of dividend increases and share buybacks will likely continue over time (Stephenson favors dividends over buybacks).

### **Wireline Consolidation**

On the wireline side, SBC sees consolidation as less urgent given the timeframes involved and the current uncertainties. The company believes that they should be addressing the high-end enterprise segment of the market. Pursuing this organically would take time and money, perhaps three to five years. Acquisition is a logical way to avoid the costs and time, but price and regulatory barriers are the key barriers to growth through M&A. Looking at WorldCom, the company sees a strong underlying asset and customer base but nothing is really possible here until audited numbers are available and possibly not even then. AT&T is the crown jewel in the enterprise market but its price tag would no doubt reflect this. Other players in the industry represent a spectrum of trade-offs between customer penetration, network quality and cost.



## Banc of America Securities

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### Price Target, Valuation Method, Risk Factors

**Price Target:** N/A

**Valuation Method Used To Reach Price Target:** N/A

#### Risk Factors:

1. SBC currently has negative revenue growth
  2. Competition for the company's local business is intensifying
  3. Long distance approval for Ameritech states could be delayed through 2003
- 

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### Rating Distribution

<b>US Coverage Universe</b>	<b>Companies</b>	<b>Percent</b>	<b>Investment Banking *</b>	<b>Companies</b>	<b>Percent</b>
Buy	405	55	Buy	361	89
Hold	320	43	Hold	260	81
Sell	11	1	Sell	8	73

\* Companies BAS has received compensation from in the past 12 months.  
As of 09/06/2002.

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