Before the
COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

In the Matter of the Inquiry into Verizon Virginia Inc.'s Compliance with the Conditions set Forth in 47 U.S.C. § 271(c)	**Case No. PUC-2002-0046**

Declaration

of

LEE L. SELWYN

on behalf of

AT&T Corporation

May 3, 2002

DECLARATION OF LEE L. SELWYN

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DECLARATION OF LEE L. SELWYN

Introduction and Summary

Lee L. Selwyn, of lawful age, declares and says as follows:

1. My name is Lee L. Selwyn; I am President of Economics and Technology, Inc. ("ETI"), Two Center Plaza, Suite 400, Boston, Massachusetts 02108. ETI is a research and consulting firm specializing in telecommunications and public utility regulation and public policy. My Statement of Qualifications is annexed hereto as Attachment 1 and is made a part hereof.

2. I have previously appeared before this Commission in Docket No. 19994, the 1978 Chesapeake & Potomac Telephone Company of Virginia general rate case proceeding, on behalf of the Virginia Business Committee for Equitable Telephone Rates, *et al*. I have

submitted testimony in a number of Section 271 consultative proceedings, including those in Pennsylvania, California, New Jersey, Minnesota and Delaware, as well as in several FCC Section 271 proceedings.

3. My Declaration addresses claims being advanced by Verizon that its entry into the in-region long distance market in Virginia will benefit Virginia consumers. Those claims rely upon "studies" produced by what Verizon has described as "a consumer group" purporting to quantify hundreds of millions of dollars in "savings" realized by New York and Pennsylvania consumers as a direct result of Verizon's entry into the long distance market in those states. The so-called "consumer group' that released these studies, the "Telecommunications Research and Action Center" ("TRAC"), is actually a creation of a Washington, DC public relations firm whose clients include Verizon, all of the other RBOCs, and the RBOCs' lobbying organization, the United States Telephone Association ("USTA"). In fact, the "chairman" of TRAC serves as a consultant to Verizon. Besides the matter of the questionable objectivity of its authors, the TRAC studies reach spurious and results-driven conclusions by making unfair "comparisons" involving the "best" Verizon rates with "average" IXC long distance prices. The TRAC studies cannot be relied upon as supporting Verizon's various "consumer benefits" contentions.

4. In his Declaration on behalf of AT&T, Mr. Robert Kirchberger refers to a "study" by Dr. Jerry A. Hausman and others that was specifically cited by in *Reply Comments* filed with the FCC on February 1, 2002 by Qwest in support of Verizon's New Jersey Section 271

Application.[1] I was asked by AT&T to review the studies that were referred to by Qwest and to analyze the authors' contentions that there are "strong relationships between the price per minute and the customer's income and level of education" and that the IXCs have adopted "a pricing strategy [that] facilitates price discrimination against a segment of consumers who are reluctant to switch from branded, nondiscounted MTS." That study's various assertions and assumptions, and the conclusions based thereon, are demonstrably false.

5. Contrary to Verizon's claims, its entry into the Virginia long distance market will actually be detrimental to the public interest by diminishing competition for both long distance and local telecommunications services in Virginia. If permitted to offer long distance services in this state, Verizon will be able to use its preexisting relationships with the vast majority of the residential customers in its service territory to preemptively "sell" Verizon long distance service during inbound customer contacts initiated by customers for purposes entirely unrelated to obtaining long distance service. Verizon's near-monopoly control of the local market will enable it to leverage and extend that monopoly into the adjacent and currently competitive long distance market, ultimately remonopolizing the long distance market as well. I will present the results of a quantitative model of Verizon's potential long distance market share growth that shows that, if Verizon's claimed existing 91.2% share of the residential market is maintained over the coming five years, at the end of

1. *Id.*, at para. 12; *Application by Verizon New Jersey, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-Region, InterLATA Service in New Jersey,* CC Docket 01-347.

that period Verizon has the potential to control nearly 68% of the Virginia residential long distance market as well. I also provide compelling evidence of the validity of the model's projections, by comparing its predicted BOC long distance market share achievements with market share data reported by several other BOCs for states in which Section 271 authority has been granted.

"Studies" purporting to demonstrate "consumer benefits" of BOC long distance entry are not credible.

6. In its March 15, 2002 press release coinciding with its application in this proceeding, Verizon Virginia's President, Robert Woltz, asserted that "Virginians should be able to realize the same savings [from Verizon's long distance entry] that consumers in New York, Pennsylvania, Massachusetts, Connecticut and Rhode Island now enjoy." Citing "studies" by a group calling itself the Telecommunications Research and Action Center (TRAC), which Verizon has elsewhere described as "a consumer group that follows telecom issues,"[2] Mr. Woltz then attributed purported "savings" in local and long distance charges that it claimed consumers in New York and Pennsylvania had realized specifically as a result of Verizon's entry into the long distance market in those states. TRAC is hardly an independent "consumer group," but is in fact closely affiliated with a Washington, DC public relations firm whose clients include Verizon and all of the other RBOCs.[3]

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2. Verizon Delaware press release, issued February 1, 2002, announcing its Section 271 filing with the Delaware Public Service Commission, DPSC Docket No. 02-001.

3. Declaration of Robert Kirchberger on behalf of AT&T, at para. 16.

7. In fact, Verizon has issued press releases *ad nauseam* announcing conclusions by TRAC purporting to show that consumers will experience millions of dollars of benefit in the first year after a BOC gains Section 271 approval. Indeed, New Hampshire Consumer Advocate Michael Holmes recently described the TRAC studies as "horse feathers." The February 1, 2002 edition of the Concord, New Hampshire, *Concord Monitor* quoted Mr. Holmes describing the studies as

> ... biased because TRAC Chairman Samuel Simon founded another organization that has performed consulting work for Verizon and other telecommunications companies. "Sam Simon works for Verizon through a couple of organizations," he said. The primary group in question is Issues Dynamic Inc., a Washington firm that specializes in public relations and management services. The consulting firm claims that in 1993 it launched the Internet's first corporate affairs Web site; that corporation was Bell Atlantic, which later merged with GTE to form Verizon."

The *Concord Monitor* article went on to report that Mr. Simon defends the objectivity of his study, but quoted him as acknowledging that "I don't hold myself out as a full-time consumer advocate," and that "I disclose all my relationships so there is no misrepresentation. I do work for a lot of different organizations."

8. Nowhere in his reference to the TRAC study does Mr. Woltz disclose the relationship(s) extant between Verizon and TRAC. In fact, TRAC is a §501(c)(3) "not-for-profit" corporation that is affiliated with and is currently being managed by Issue Dynamics, Inc. ("IDI"), a Washington, DC public relations firm whose clients include *all of the RBOCs* as well as their principal lobbying organization, the United States Telephone Association

("USTA").[4] Besides its lack of independence, TRAC's "studies" make meaningless and erroneous "comparisons" of selected BOC and non-BOC long distance prices, for example, comparing the "best" BOC pricing plan with "averages" of numerous plans being offered by IXCs, some of which are not even relevant to customers being targeted by the BOC pricing plan with which these "averages" are being compared.

9. In his Declaration on behalf of AT&T, Mr. Robert Kirchberger refers to a "study" by Dr. Jerry A. Hausman and others that was specifically cited by in *Reply Comments* filed with the FCC on February 1, 2002 by Qwest in support of Verizon's New Jersey Section 271 Application.[5] In those *Reply Comments*, Qwest advanced a similar "consumer benefits" argument, and specifically cited a "new study" by Jerry A. Hausman and J. Gregory Sidak ("Hausman/Sidak study") that, according to Qwest, "suggests that it will be the poorest and least educated customers who will suffer the most" from the recent increases in "basic rates" initiated by the "big three" IXCs. I was asked by AT&T to review the Hausman/Sidak study[6] and to analyze the various assertions being advanced and assumptions being relied

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4. http://www.idi.net/about/clients.vtml, Attachment 2 contains the informational material about IDI that is available on its website.

5. *Id.*, at para. 12; *Application by Verizon New Jersey, Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-Region, InterLATA Service in New Jersey,* CC Docket 01-347.

6. Jerry A. Hausman and J. Gregory Sidak, "Do Long Distance Carriers Price Discriminate Against the Poor and the Less-Educated?," unpublished, January 2002, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=296368

upon by the authors as the basis for their contentions that there are "strong relationships between the price per minute and the customer's income and level of education" and that the IXCs have adopted "a pricing strategy [that] facilitates price discrimination against a segment of consumers who are reluctant to switch from branded, nondiscounted MTS." In this Declaration, I show that the authors' various assertions and assumptions are demonstrably false, and that the "econometric analysis" that the authors present, in addition to being entirely undocumented and nonreplicable, fails even on its face to support the hypothesized price/income/education relationships, let alone the existence of "third-degree price discrimination" by the "big three" interexchange carriers.

10. Qwest also contended in its *Verizon New Jersey* FCC comments that "the long-distance market today remains so concentrated that Bell company entry remains necessary to drive consumer rates down to cost." Qwest offered no facts or quantitative evidence to support this contention. In fact, there are hundreds of long distance companies offering services at retail to consumers, *no single one of which currently controls more than about 38% of the residential long distance market.*[7] According to the most recent (January 2001) FCC *Trends in Telephone Service* report, the *combined market share* for AT&T, WorldCom and Sprint (Qwest's "big three") is only about 69.5%, or about 65% when ILEC shares are

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6. (...continued)
Against the Poor and the Less-Educated?," unpublished, January 2002, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=296368

7. FCC Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service*, August 2001, at Table 10.8. When ILECs and CLECs are included in addition to IXCs, the largest single company share decreases to 35.2%. Table 10.9.

included.[8] Yet by Verizon's own count (which is, if anything, exaggerated), CLECs currently serve only about 16% of Virginia local exchange service lines.[9] With respect to the Virginia *residential* exchange service market, the CLEC share is only about 8.8%,[10] and about 17% of that consists of *resold* Verizon Virginia services.[11] This leaves Verizon with an 84% share of the Virginia local telephone market overall, and a whopping 91.2% share of the retail residential market. Juxtaposing the 69.5% *three-firm* share for the long distance market that Qwest claims to be "concentrated" against Verizon's *one-firm* 91.2% share of the Virginia residence market that Verizon portrays as demonstrating competition, to describe Qwest's claim merely as being disingenuous would be extraordinarily charitable.

11. In yet another unpublished Hausman/Sidak "study,"[12] the authors advance this same contention — that BOC entry into long distance lowers prices and benefits consumers. As I shall demonstrate below, this "conclusion" is based upon a seriously misspecified "econometric model" that omits numerous explanatory variables — most particularly the

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8. *Id.*

9. Verizon Virginia 271 Filing, Robert W. Woltz, Jr. Declaration, March 15, 2002 (Woltz Declaration), Attachment 101, para. 3.

10. *Id.*, para. 5; ARMIS 48-03 Table III "Access Lines in Service By Customer" for year 2001. Accessed 5/1/02. The exact line count figure provided by ARMIS is 2,187,482.

11. Woltz Attachment 101, para. 5.

12. Jerry A. Hausman, Gregory K. Leonard and J. Gregory Sidak, "The Consumer-Welfare Benefits from Bell Company Entry into Long-Distance Telecommunications: Empirical Evidence from New York and Texas," available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=289851

switched access price level — and that selectively compares price changes in the first two "271 states" — New York and Texas — with those in two other "control states," selected by the authors, in which rate reductions over the corresponding time period happen to have been less than in the two "271 states." Yet in other non-271 jurisdictions, long distance rates actually fell by considerably more than in New York and Texas; had these been used as the "control" states, *precisely the opposite conclusion as to the "benefits" of BOC entry would have been demonstrated.*

TRAC is not a "consumer group," the TRAC Study is not an independent study, and TRAC's analysis and conclusions are seriously flawed.

12. Verizon's characterization of TRAC as "a consumer group" does not withstand scrutiny. In fact, TRAC is hardly "a consumer group." As a not-for-profit corporation organized under §501(c) of the US Internal Revenue Code, TRAC files IRS Form 990-EZ return annually with the Internal Revenue Service; these returns are made public and are available from the National Center for Charitable Statistics.[13] A copy of TRAC's Form 990-EZ for its fiscal year ending September 30, 1999 (the most recent year for TRAC that is posted on the NCCS web site) is provided as Attachment 3 to this Affidavit.

13. As of June 8, 1999, all 501(c) organizations—except private foundations—will be required to send copies of their three most recent Form 990 (as well as their Form 1023, the form to apply for tax-exempt status) to anyone who requests them. The TRAC Form 990 for 1999 is available at nccs.urban.org/990/.

13. TRAC's 1999 Form 990-EZ lists a post office box in Washington, DC as its mailing address. In response to Schedule A, Part III, line 2(c), TRAC's Form 990-EZ states that

> DURING THE YEAR, TELECOMMUNICATIONS RESEARCH & ACTION CENTER PURCHASED GOODS AND SERVICES FROM AN AFFILIATED TAXABLE ORGANIZATION NAMED ISSUE DYNAMICS, INC. ISSUE DYNAMICS, INC. PROVIDES MANAGEMENT SERVICES AS WELL AS OVERHEAD COSTS FOR FEES TO TELECOMMUNICATIONS ACTION & RESEARCH CENTER [sic].

According to the Issue Dymanics, Inc. ("IDI") web site, IDI is a public relations firm with offices at 919 18th Street, NW, Washington, DC 20006. The IDI web site lists the firms' clients,[14] a list that includes *all* of the regional Bells, *including Verizon*. In describing its various services, IDI states that it has "over three decades of hands-on experience running associations and not-for-profit organizations," and that "Issue Dynamics Inc. offers clients a comprehensive package of services for association and not-for-profit management, including Database management; Membership recruitment; Direct mail; Production of newsletters, press releases, annual reports and other publications; Coordination of national conferences, seminars and workshops; Advisory committee management; Legal representation and lobbying; [and] Internet services."[15] IDI states that it "currently provides complete management services for: Alliance for Public Technology (APT), Telecommunications Research and Action Center (TRAC), [and] Communications and Public Technology Network (CAPTN)."[16]

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14. http://www.idi.net/about/clients.vtml, visited 2/26/2002.

15. http://www.idi.net/manage/, visited 2/26/2002.

16. *Id.*

14. TRAC's IRS Form 990-EZ for the fiscal year 1999 identifies Total Revenues of $30,364, consisting of $13,200 from "Contributions, gifts, grants, and similar amounts received," $17,108 in "Program service revenue," and $56 in "Investment income." Total expenses are shown as $65,717, producing an operating deficit of $35,353. TRAC's "expenses" include $24,000 in "Management Fees" presumably paid to IDI, and another $13,000 identified as "Uncollectible Consulting Fees." TRAC's *net* assets as of the end of the 1999 fiscal year were a *negative* $46,001, funded entirely by "Accounts Payable" of $50,648. The tax return does not disclose to whom the $46,001 is owed. Finally, although the street address at which TRAC's books are maintained (line 42 of the return) has been redacted, the telephone number that is shown (202-263-2900) is listed on IDI's web site as IDI's phone number.[17] The "affiliation" between TRAC and IDI is also demonstrated by the fact that, when I ordered a copy of the TRAC New York study *from TRAC*, the "merchant" that posted the $4 charge for the study to my VISA card was identified on my VISA bill as "Issue Dynamics Inc."

15. It seems highly unlikely that TRAC could have undertaken all of its various "studies" and other activities for a total operating budget (net of "management fees" and the write-off of an "uncollectible consulting fee") of only about $28,000. It is equally unlikely that true creditors would have allowed an entity with the kind of financials that are shown on the IRS return the ability to increase its payables debt by some $24,000 over the 1999 fiscal year. Not coincidentally, that increase of $24,526 in accounts payable is virtually identical to

17. http://www.idi.net/flash.vtml, visited 2/26/2002.

the $24,000 "management fee" that TRAC identifies as having paid, presumably to IDI. We do not know, of course, whether that debt was subsequently forgiven by IDI or otherwise settled, but inasmuch as nothing in the IDI web site would give the impression that IDI is in the business of actually supporting financially any of the not-for-profit organizations that it "manages," there is certainly reason to believe that some (or all) of TRAC's activities are being supported in some manner by its Issue Dynamics, Inc. "affiliate" and/or by IDI's clients. Funneling support from clients to TRAC would be consistent with the kinds of services that IDI describes on its web site, such as "Strategies for leveraging policy decision for maximum political benefit," "Development of proactive consumer education initiatives with strategic stakeholders," and "Creation and management of consumer advisory panels."[18] In view of Verizon's (and the other RBOCs') client relationship with IDI and IDI's "affiliation" with and "management" of TRAC, the Commission should afford no credence to Verizon's patently fallacious portrayal of TRAC as "a consumer group" or to any TRAC "study" that he offers as support for Verizon's "public interest" showing.

16. Separate and apart from its author's dubious credibility, the TRAC "study" itself distorts the relationship between long distance prices being charged by Verizon vis-a-vis those being offered by the non-BOC long distance providers in New York, and as a result portrays as "benefits" price "differences" that do not in fact exist. Specifically, and as I shall show, TRAC's results are based upon a highly unfair, distorted, and inconsistent comparison of Verizon and IXC long distance pricing.

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18. http://www.idi.net/caffairs/, visited 2/26/2002.

17. Both the theory and the methodology of the TRAC studies are seriously flawed, because TRAC "compares" *specific* Verizon long distance pricing plans with *averages* of prices being offered by other non-BOC carriers, many or even most of which might themselves not be the best choice for a particular consumer. The correct comparison — and one that TRAC did not perform — would be to compare the best Verizon pricing plan with the best non-Verizon plan applicable to the particular customer's calling volume and other attributes. Instead, what TRAC did was to determine a "range" of savings based upon "low-end" and "high-end" estimates of what customers might have been paying to carriers other than Verizon.

18. TRAC's "low-end" estimate compares the *best* Verizon long distance rate for consumers with *assumptions* made by TRAC (and apparently without any specific evidentiary basis) regarding the particular calling plans that TRAC had assumed that residential customers likely subscribed to before switching to Verizon for long distance service. In so doing, TRAC was not comparing "best" with "best," but was instead relating Verizon's "best" with a composite of various other carrier offerings.

19. TRAC's so-called "high-end" estimate is derived from a "comparison" of the *best* Verizon long distance plan with *industry average* rates.[19] These *industry average* rates were determined by calculating a simple arithmetic average of the prices being charged by the "highest priced competitor" with those being charged by the "lowest priced competitor"

19. TRAC Study, at Table 1.

within each of the service "baskets" examined by TRAC. This approach virtually *guarantees* erroneous and overstated results, since clearly not all rate plans for all companies are intended or designed to be attractive to all customers. Because individual customers exhibit decidedly varying calling habits, there will inevitably be some extremely high competitive rates in each calling basket that are essentially irrelevant for any customer whose calling habits would clearly not justify acceptance of such a plan.

20. As an example, TRAC's "Basket 18" includes a highest priced competitor at $349.37 and a lowest priced competitor at $101.27. When averaged, the non-Verizon price-out for this basket is $225.32, which TRAC then compares with the "lowest priced Verizon" plan at $138.42. On the basis of this "comparison," TRAC ascribes a net "savings" of $86.90 (i.e., $225.32 minus $138.42) for customers in this basket, which it then *causally attributes* to Verizon's long distance entry. Of course, that "average savings" would arise only if the distribution of customers across the full range of prices in the basket were uniform, i.e., where the customer is assumed to be as likely to purchase the most expensive (i.e., the $349.37) service as the least expensive (i.e., the $101.27) service. This *critical underpinning* of the TRAC methodology is obviously absurd, because customers are far more likely to select providers and plans at the low end of the range than at its mid-point. Thus, TRAC is comparing the lowest priced Verizon plan with an *average*, inflated by pricing plans that would never have even been considered, let alone adopted, by customers. If the Verizon plan were compared with the *lowest priced competing service* instead of the *average* of the highest and lowest, TRAC predicts that the New York savings would actually have actually been a

negative $1,368,500.[20] Thus, Verizon's pricing plans, when appropriately applied to consumers based upon their actual calling requirements and assuming reasonably rational and informed customer behavior, indicate that Verizon's entry into the long distance market provides consumers with *no competitive gain whatsoever*. But by comparing the *industry average* pricing plan to the *best* pricing plan being offered by Verizon in New York, TRAC *virtually guarantees* that Verizon's offerings will portray "significant savings." Yet if the same TRAC methodology were used to compare a consumer's most beneficial AT&T, MCI or Sprint rate plan with that same "industry average," the IXC services would present the same — or even greater — "consumer benefit" as TRAC ascribes solely to Verizon's offerings.

21. TRAC's "low-end estimate" compares the most advantageous Verizon plan with the most advantageous plan being offered by a simple arithmetic average of the corresponding AT&T and MCI offerings (rather than the entire IXC industry) specifically. TRAC compares Verizon's lowest price plan for a particular customer group with the lowest rates for MCI and AT&T for this customer group.[21] Under this approach, TRAC ignores entirely the pricing plans being offered by all other IXCs, many of which have more favorable rates for some customers than either MCI or AT&T. However, even after narrowing a consumer's choices to AT&T, MCI or Verizon, TRAC further ensures that its "savings" calculation is further inflated by then averaging the AT&T and MCI "savings." By performing this arithmetic

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20. *Id.* In the above example for Basket 18, the result for that basket would have been a negative $37.15, i.e., the Verizon "best" pricing plan is actually $37.15 *above* the lowest priced IXC plan.

21. TRAC New York Study, at Table 2.

sleight-of-hand, "savings" from Verizon's entry jump from $21-million (comparing Verizon rates to AT&T rates for all customers) to $79-million (when averaging in MCI's higher rates).[22] In addition, later applications of this same study contain the notation that "[t]he predictions of savings drop when TRAC assumes that the consumers affected were more likely to be customers of AT&T or WorldCom as those consumers were most likely already subscribers to a cost-efficient calling plan."[23]

22. Thus, it appears that for the numbers in both the "low-end estimate" and the "high-end estimate," TRAC compares the *optimal* Verizon long distance plan with a less-than-optimal plan being offered by a *composite* Verizon competitor. Finally, there is little or no indication that Verizon actually markets its plans so as to realize the hypothetical savings cited by TRAC. If Verizon markets and sells its long distance service to in-bound local service customers using Verizon New York local service representatives, it is much more likely that those individuals will be given a "hierarchy" of calling plans to "recommend," offering a different service plan option (such as a plan with no monthly fee) only when a customer rejects the plan originally offered. Any long distance carrier would be able to use the same bogus TRAC methodology to claim millions of dollars in savings for consumers. Such claims by Verizon, therefore, hardly constitute a consumer benefit arising from Verizon's entry into the long distance market.

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22. *Id.*

23. http://trac.policy.net/relatives/17340.pdf, page 11.

23. It is particularly noteworthy that Verizon is currently offering long distance service *in its formerly-GTE jurisdictions* (where Section 271 authority is not required) *at the same interstate rates that it offers in New York.* Thus, if TRAC or Verizon or anybody else were to apply *exactly the same TRAC New York methodology* to the former GTE jurisdictions, comparing potential consumer savings from selecting *Verizon* for long distance service over non-BOC carriers, the "consumer benefit" would be the same as that which TRAC ascribes to Verizon's entry in New York, *and those "benefits" would be attained without BOC entry into those states' long distance markets.* More generally, one could apply the TRAC methodology to *any* one carrier, comparing its *best* prices with the *average* of its rivals' prices, and "conclude" that consumers would save money by switching to that carrier. This entirely unremarkable result can hardly be afforded any weight in demonstrating that Verizon's entry into the Virginia interLATA market would produce *any* net public benefit or otherwise be in the public interest.

Contentions that long distance companies discriminate against the poor and less-educated are based upon a seriously flawed "econometric model" and are contrary to the facts.

24. Both of the "Hausman" studies cited by Qwest in its FCC comments supporting Verizon New Jersey's Section 271 application and being referred to here by Mr. Kirchberger cannot withstand scrutiny. These clearly results-driven "analyses" make highly selective use of data, ignore obvious and important relationships, and fail to satisfy even the most basic standards of econometric research and analysis.

25. Actual market facts do not support Hausman/Sidak's entirely theoretical claims. If IXCs were engaging in "third-degree price discrimination" against the poor and less-educated, as the authors assert, we would expect to see substantially more low-income customers taking the basic (non-discounted) rate than for higher-income customers. However, this outcome is not supported by actual AT&T data, which not only show that the income and age distributions of AT&T's basic rate plan and discount calling plan customers are nearly identical, but that those distributions are substantially identical to the population as a whole (see Attachment 4). Were "discrimination against the poor" actually taking place as Hausman and Sidak surmise, one would expect to see more low-income households taking basic service than the incidence of such households in the population overall. In fact, the under-$20,000 income households represent 22.61% of all US households,[24] yet constitute only 17.4% of AT&T's basic rate subscribers.

26. The structure of long distance pricing reflects the effects both of both fixed and account-sensitive costs that vary with the total volume of usage. Low-volume users are charged more per call or per minute than heavy users because carriers must recover those fixed, account-sensitive costs across a smaller calling volume. *It is only when a poor or less-educated consumer is also a low user of long distance service that the price will be relatively high*, as it also would be for a low-volume, *high-income* and *highly educated* customer. *Hausman/Sidak offer no data or evidence that would suggest any correlation between*

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24. *Annual Demographic Survey*, March Supplement, Current Population Survey, United States Bureau of Labor Statistics and United States Bureau of the Census, issued Dec. 13, 2001, Table HINC-01.

income/education, on the one hand, and monthly long distance usage, on the other. Yet even though total household calling volume is without question the *single most important determinant* of the average price that consumers are charged for long distance calls and this data *was available* to the authors in the "bill harvesting" data they used for their "study," this key element was *excluded* from the "econometric model" that the authors offer as evidence of their "third-degree price discrimination" claim. The deliberate omission of this critical data forces the econometric model to look for "other" causes, such as income and education, and to offer entirely spurious "explanations" for variations in price on the basis of these otherwise unrelated factors.

27. If Hausman/Sidak's theory was correct that low-income, less-educated customers do not shop for the best long distance rates, then one would expect that AT&T, as the oldest long distance company with the largest number of "legacy" residential customers, would have the highest percentage of "basic rate plan" customers among the major IXCs. In fact, however, *according to Hausman/Sidak's own data*, AT&T actually has the *lowest* percentage of basic rate customers – 42% – whereas 60% of Sprint's customers and 45% of MCI's customers are on those carriers' basic rate plans.[25]

25. Hausman/Sidak, at 13.

28. Each year, some 30-million or more residential customers *change* their long distance company[26] and another 17-million more move their principal residence and are thus afforded an opportunity to select a new long distance company when they order their *local* phone service.[27] These facts soundly refute Hausman/Sidak's claim[28] that "long distance customers display strong brand loyalty," which they then claim "contributes to a divergence in willingness to pay." Moreover, this phenomenon cuts across all income and education groups, and Hausman/Sidak offer no evidence whatsoever that the poor and less-educated display any greater "brand loyalty" than do other customers.

29. That the poor and less-educated are particularly cost-conscious when it comes to long distance service is further confirmed by a study of the demand for prepaid phone cards that was conducted by the very same company – TNS Telecoms – that compiled the "customer bill harvesting" data upon which Hausman/Sidak rely. That study[29] showed that the demand for prepaid calling cards and prepaid wireless services was *greatest* among the poor and less-educated. The Hausman/Sidak study did not even consider service alternatives such as prepaid phone cards, prepaid cellular phones, and dial-around services, all of which

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26. "J.D. Powers and Associates Reports: Sprint and SNET Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.

27. U.S. Census Bureau, American Housing Survey for the United States in 1999, Table 2.9.

28. Hausman/Sidak, at 8.

29. TNS Telecoms, *Market Monitor 2000: PrePaid Calling Cards and PrePaid Wireless*, Indetec International, Inc., 2000.

are disproportionately used by the very group that Hausman/Sidak claim are the object of price discrimination by the IXCs. The same TNS Telecoms study also reveals the lack of any consistent correlation between income level and usage of (wireline) long distance services, but does indicate that *cellular usage* is actually higher among the under-$15,000 annual income level customer group than for customers in the $15,000 to $75,000 income range.

30. Low-income customers are willing and able to make complex pricing decisions concerning purchases of complicated goods, such as computers and automobiles. There is no reason to believe that they will not do the same for long distance service purchases. Hausman/Sidak's insinuation that low income customers and customers who are not highly educated do not shop for the best value in long distance service — an assertion that has no support whatsoever either in their data or in their econometric analysis — is devoid of factual basis and is demeaning to those customers.

31. In fact, low-income customers and customers who are not college educated are certainly not information deprived where long distance pricing and calling plans are concerned. These customers receive competitive pricing information daily at no cost from television advertising, radio advertising, billboards, newspaper ads, direct mail, and the Internet, all paid for by competing long distance carriers.

32. Hausman/Sidak contend that “long-distance pricing is obscure” because “carriers generally do not report the complete schedule of long-distance prices to the customer” and go

on to argue that cellular pricing is less complex. This claim is utterly baseless. Cellular rate structures (including and especially those being offered by BOC-affiliated cellular carriers) are extraordinarily complex. Besides the monthly fee/calling allowance tradeoff (which also exists for long distance pricing plans), to make an accurate decision on the "best" cellular pricing plan the customer will need to consider, in addition to total calling volume, such factors as the mix of on-peak and off-peak calling, the mix of "home" vs. "roaming" use and for roaming, the geographic area within which such roaming is likely to occur, the mix of local vs. long distance use, the mix of incoming vs. outgoing use, and the mix of usage in "digital" service areas vs. analog (800 Mhz) service areas. Yet Hausman/Sidak do not suggest that the poor and less-educated are encountering any particular difficulty in buying cellular services nor do they chastise the BOC-affiliated wireless carriers for creating such complexity in their own pricing.

33. BOC long distance pricing is certainly anything but simple. Verizon Long Distance, for example, offers a range of pricing options differing as to their treatment of peak and off-peak use (some plans offer the same rate at all times, others differentiate), the presence or absence of a monthly fee, and the pricing of in-state vs. interstate calls. Deciding among these alternatives is not easy, even for the well-educated. Consider, for example, two of the pricing options currently being offered by Verizon Long Distance both in New York and in

Massachusetts — the "Best Times" and "State Saver" plans. Both carry the same $4.75 monthly fee, but differ in their respective usage charges:

Table 1

Verizon Long Distance Residential Calling Plans
New York and Massachusetts

Plan	"Best Times"		"State Saver"	
Monthly Fee		$4.75		$4.75
State-to-State calls	Mon-Fri, 8am-5pm Other times	$ .07 $ .05	All times	$ .09
Within Massachusetts	Mon-Fri 8am-5pm Other times	$ .07 $ .05	All times	$ .07

Source: www22.verizon.com/foryourhome/sas/res_fam_domesticcallingplans.asp (visited 4/4/02)

There is, in fact, *no circumstance in which Verizon's "State Saver" plan is a less expensive choice than the "Best Times" plan*, and unless the customer makes *only* intrastate calls and makes them *only* during the peak (Mon-Fri, 8am-5pm) rate period (in which case the total charge under either plan will be the same), the "State Saver" plan will *always* be more expensive. Yet on its website, Verizon describes the "State Saver" plan as "Best for people who want very low in-state rates." In fact, the "State Saver" plan is *never* "best" for anybody; at most it is "just as good" as the other $4.75-a-month "Best Times" plan for that

improbable customer who makes at least 158 minutes worth of peak-period intrastate calls each month but who *never* makes *any* off-peak or interstate calls at all! In Massachusetts, Verizon New England offers a $.05 intraLATA toll discount plan ("Sensible Minute (TM)") to its local service customers with no monthly fee or minimum calling allowance. So if a Verizon Massachusetts customer who places a large number of intraLATA calls were to follow the recommendation of the Verizon website and select the "State Saver" plan for *all* intrastate calling (intraLATA and interLATA) because Verizon describes it as "Best for people who want very low in-state rates," the customer would end up paying $.07 instead of $.05 per minute for intraLATA calls.

34. SBC's long distance offerings are different from Verizon's, but also require that the customer undertake a good deal of careful analysis in order to make the correct least-price choice (see Table 2). Under SBC's pricing structure, the "break-even" point between the "SBC Domestic Saver" and "SBC Long Distance" plans is 165 minutes, which would cost $16.50 under either plan. The "SBC Domestic Saver" plan produces the lowest price for usage levels between 165 and 186 minutes per month. The "Block-of-Time 300 Minute" plan is best for usage between 187 and 415 and above 1005 minutes; the "Block-of-Time 500 Minute" plan is best for usage between 415 and 1005 minutes (see Figure 1). Of course, if the customer's usage level varies from one month to the next and crosses any of these plan boundaries, the total charge to that customer will be higher than under the "best" plan that might have applied for that particular billing period. In that regard, the "SBC Domestic Saver" plan would almost never be the best choice, unless the customer can predict — with

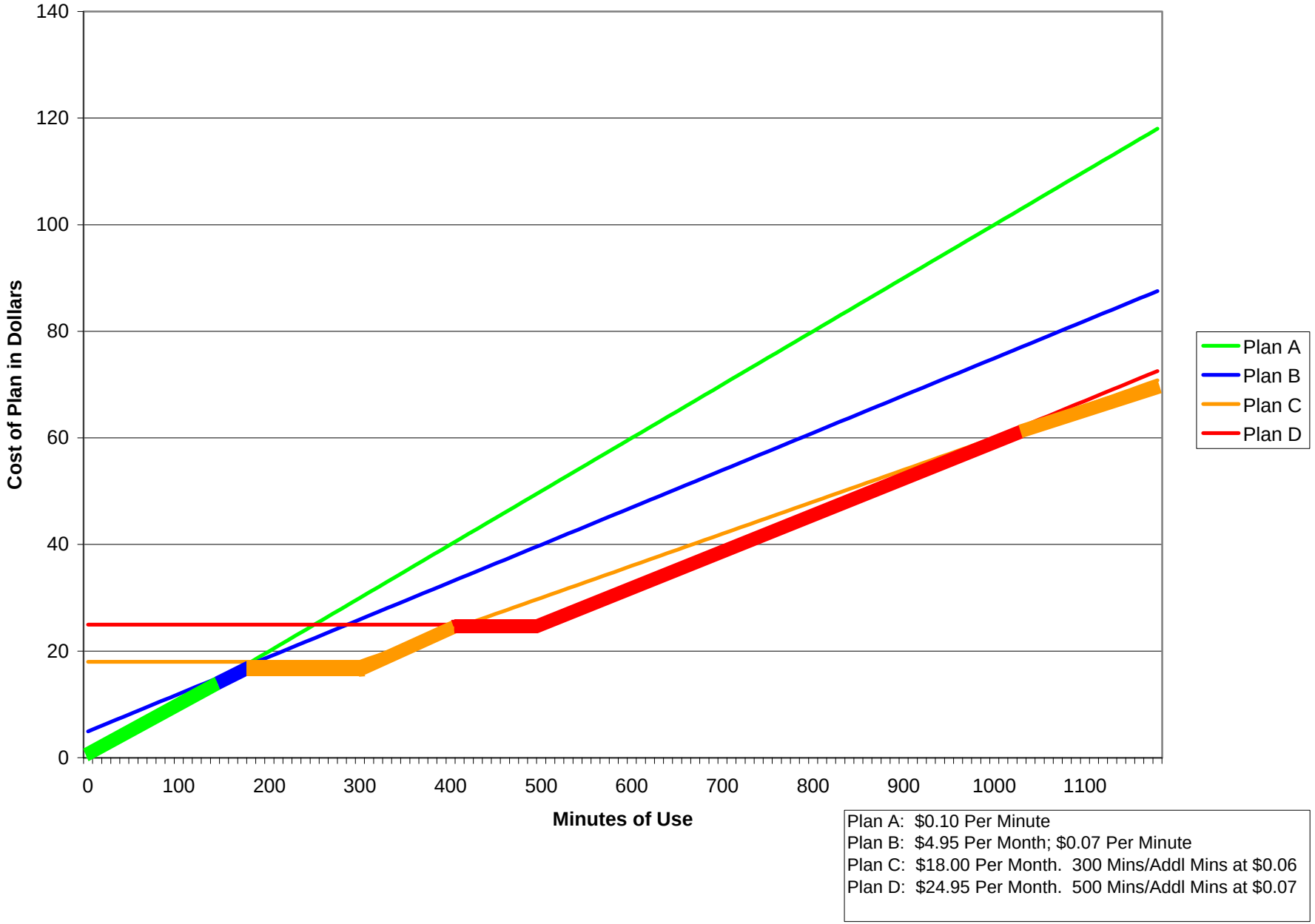

Figure 1: The complex structure of SBC Long Distance Calling Plans makes picking the best one extremely difficult

considerable precision — that her monthly usage will *consistently* fall within the extremely narrow 166-to-186 minute "window" where the average price per minute under this plan is lower than for any other SBC long distance pricing option.

Table 2

SBC Long Distance Residential Calling Plans

Plan	SBC Domestic Saver	SBC Long Distance	Block-of-time 300 minutes	Block-of-time 500 minutes
Monthly fee	$4.95	$0.00	$18.00	$24.95
Included minutes	0	0	300	500
Charge per additional minute	$.07	$.10	$.06	$.07

Source: www.swbell.com/products_services/residential/catalog/1,1965,15--6-3-15,00.html (visited 4/4/02)

35. Qwest's own pricing of residential long distance service in its out-of-region states is, in many respects, even more complex and arcane than Verizon's and SBC's *in-region* pricing practices. For example, Qwest offers a block-of-time plan it calls "Qwest 250" in which the customer gets up to 250 minutes of *interstate* calling per month for $9.95, with additional usage billed at $.07 per minute. In-state calls are *not* included in this block of time, and are

billed separately. Alternatively, the customer can take the "Qwest 200 Plan" at $14.95 per month, which provides for up to 200 minutes of interstate and intrastate calling *combined*, with additional minute charges of $.07 for interstate calls and various (usually higher) charges for in-state calls, depending upon the state. Not only will the customer need to carefully analyze his usage pattern, but for the "Qwest 200 Plan" if total usage exceeds the 200 minute allowance, the total monthly bill, for the same number of total minutes, could nonetheless vary if, for example, the in-state calling occurs toward the end of the month rather than at the beginning of the month, when the higher rate in-state calls would be included within the monthly allowance. Adding to the complexity of its rate plans, Qwest also offers a "5¢ Calling Plan" with a monthly fee of $3.95 plus $.05 per minute for interstate calls, and a "6¢ Calling Plan" with no monthly fee but with a $10 minimum charge, $.06 a minute for interstate calling, and $.10 a minute for in-state and "local toll" (intraLATA) calls.

36. It is not my purpose here to discuss the relative merits of this type of pricing, but in view of the BOCs' own long distance pricing practices, Qwest's — and Hausman/Sidak's — suggestion that BOC entry will somehow "improve" the ability of low-income and less-educated consumers to make intelligent choices among their various long distance alternatives would be laughable if it were also not so ludicrous. There is simply no factual *or even inferential* basis for Hausman/Sidak's — and Qwest's — claim that, following BOC long distance entry, those same customers who, they allege, do not currently price shop for long distance service, will suddenly *begin to price shop* for these services once they are offered by BOCs.

37. There is simply no basis for Hausman/Sidak's conclusion that the poor and less-educated do not price shop for long distance service, and the inference that they will not price shop unless and until the RBOCs are permitted into long distance is thus wholly meritless.

The Hausman/Sidak "econometric model" and the economic "assumptions" upon which it is based do not meet even the most minimal standards of a valid economic analysis.

38. At the outset and as a threshold matter, even a cursory examination of the Hausman\Sidak regression model leads inescapably to the conclusion that the model is woefully misspecified and as such fails entirely to demonstrate the income/education vs. price relationship that the authors assert.

39. Prior to the entry of competition in the long distance market, *no discount plans or declining block rate structures were offered to residential customers*; customers paid exactly the same usage charges whether they made one call or a hundred calls a month. Competition is expected to drive prices to cost, and the per-minute cost decreases as the total volume of usage by a customer increases. The current pricing practices — practices driven by the presence of intense competition in the long distance market — reflect this fundamental cost attribute. In advancing their "discrimination" theory and in constructing their results-driven regression model, Hausman/Sidak ignore entirely the cost structure of the long distance market and the intense competition that has produced a pricing regime reflective of those cost conditions.

40. Hausman/Sidak *assume* — without so much as a single shred of evidence or support — that the "marginal cost" is the same for all types of long distance customers at all usage level. *Yet that critical assumption lies at the core of the Hausman/Sidak "discrimination" contention.* The authors state:

> According to its proper economic definition, price discrimination occurs when consumer *A* pays a firm a different price for a particular good than consumer *B*, even though the marginal cost of producing the good is the same for both consumers.

Of course, "the marginal cost of producing the good" — long distance calls in this case — is distinctly *not* the same for all consumers. Factors influencing cost include the total volume of calling over which customer account-sensitive costs are to be recovered, marketing costs, billing and billing inquiry costs, uncollectibles, and perhaps others. Hausman/Sidak offer no factual support whatsoever for this critical pillar of their argument — that the marginal cost of all long distance calls is the same and that it is not affected by, in particular, the total volume and time-of-day distribution of calls placed by a given customer.

41. The purpose of any econometric model is to test the validity of an hypothesized relationship. The model can only test relationships between the "dependent variable" (average price per minute, in this case) and those "explanatory" variables that are included in the model specification. Additionally, regression analysis is capable of identifying and quantifying *correlations* among variables, *but cannot by itself ascribe or attribute causality to the relationships that it identifies*. For this reason, it is incumbent upon the modeler to include among the explanatory variables *all factors* for which there is at least an intuitive

basis to expect a causal relationship. Omission of one or more such sources of variation in the dependent variable will result in spurious mis-attribution of causality to other explanatory variables In the instant case, Hausman/Sidak *hypothesize* a deliberate strategy on the part of the large IXCs to "discriminate" against certain customers and customer groups, and test this theory by regressing the average revenue per minute (the "price" variable) against the demographics of age, education and income. Incredibly, and even though *total household calling volume* is without question the *single most important determinant* of the average price that consumers pay for long distance calls and was *available* in the "bill harvesting" data used by Hausman/Sidak, this key element was *excluded* from the "econometric model" that the authors claim to have developed. The deliberate omission of this critical data forces the econometric model to look for "other" causes, such as income and education.

42. Even so, the model still does not support the linkage that Hausman/Sidak seek to make. The principal statistical test used to assess the overall explanatory power of an econometric model – the "coefficient of determination" – in this case indicates that the model "explains" only 1.4% of the variation in the average price of long distance calling.[30] Put another way, the author's study actually confirms that *more than 98.6%* of the variation in the price paid by customers is due to factors *other than income and education – factors that are*

30. Hausman/Sidak contend that "although the regression has an R^2 of 1.4 percent, this is to be expected given the cross-sectional nature of the sample." While it is true that one expects a model based upon cross-sectional data to exhibit a lower R^2 than a model based upon time series data, I know of nothing in the economics literature that would ascribe any meaningful explanatory power to a model with an R^2 as close to zero as that in the Hausman/Sidak study.

not even included in the model itself, such as calling volume! And because the single most important source of variation – calling volume – *has been omitted from the study altogether*, even the by-a-thread 1.4% linkage that the authors seek to portray as between price and income/education cannot withstand scrutiny. Stated differently, this near-zero value actually confirms the *lack* of correlation between income/education and price – precisely the opposite of what Hausman/Sidak claim their analysis demonstrates.[31]

43. Hausman/Sidak cite as the data source for their regression model the "bill harvesting" data collected by TNS Telecoms. The authors do not provide the actual data set; hence, their model results cannot be reproduced, nor can alternative specifications be examined. The TNS survey is conducted in English, and as such would likely exclude non-English-speaking households, a group that is disproportionately represented in the "low-income, less-educated" population segment that Hausman/Sidak purport to have studied. For no apparent reason, Hausman/Sidak excluded all international usage and usage charges from their dataset. In some cases, however, the "discount calling plan" monthly fee includes a fixed amount for a discount international calling "plan." Unless Hausman/Sidak also excluded that component of the monthly plan charge, they would overstate the per-minute price of the *domestic* calls that were included. If international calling is disproportionately high among the non-native American poor and less-educated, the exclusion of this usage and

31. An R^2 that is at or near zero can be interpreted as affirmatively indicating that the explanatory and dependent variables in the model are *uncorrelated*. *See*, e.g., Milton, J. S. and Jesse C. Arnold, *Introduction to Probability and Statistics: Principles and Applications for Engineering and the Computing Sciences, Third Edition*, McGraw-Hill, 1995, at 433.

the possibly incomplete removal of revenues associated therewith could also explain the *apparent* difference in price that the authors claim to have observed.

The existence of volume-based pricing of residential long distance service is a consequence of *competition*, not "discrimination."

44. Rather than indicating *discrimination* as Hausman/Sidak claim, the prevalence of volume-based pricing of residential long distance service actually proves that competition is working to bring prices down. In fact, when adjusted for inflation, the real price of long distance calling has dropped by *more than 80%* since the 1984 break-up of the former Bell System, whereas the inflation-adjusted prices of *monopoly* local phone service has remained largely unchanged over that same period.

45. The "growing divergence between basic and discount prices for MTS" that the authors seek to portray as "discrimination" actually reflects a combination of three key factors – (1) the succession of FCC-ordered reductions in "access charges" that long distance carriers are required to pay local phone companies, (2) the decreasing costs of switching and transmission, and (3) the growth in competition in the long distance market. The increases in prices for low-volume customers results directly from rising costs for account maintenance activities including billing and customer churn. This "growing divergence" is thus neither surprising nor evidence of "discrimination."

BOC entry into the long distance business cannot "cure" a discrimination "problem" that does not even exist.

46. Contrary to the authors' portrayal, the Hausman/Sidak "econometric model" actually confirms the *absence of correlation* between the average price per minute and the "explanatory" variables of income, age and education. And by excluding from their "model" the single most important source of long distance price variation - calling volume — whatever "relationship" their model purports to demonstrate as between price and age/income/education is nothing other than spurious. Finally, and by the authors' own concession, their "third-degree discrimination" theory *requires* that the marginal cost of serving all customers be *identical*, which is demonstrably not the case with residential long distance service. Nothing in the Hausman/Sidak analysis demonstrates that IXCs "discriminate" against the poor and less-educated and, if anything, the utter lack of correlation that the model does affirmatively reveal actually confirms the fact that they do not.

47. Having advanced this spurious and specious theory, Hausman/Sidak then go on to argue that this "problem" would somehow be "solved" if only the BOCs were allowed to enter the in-region interLATA long distance market.[32] What the authors conveniently ignore, but what I have demonstrated here, is that the BOCs themselves engage in the very same type of volume-based pricing and, in fact, are offering an array of pricing plans that is extraordinarily complex.

32. Hausman/Sidak, at 20.

48. Hausman/Sidak claim to have "rerun" their same regression model but this time with the inclusion of 150 households that switched to the BOC for long distance in New York and Texas, and claim that such customers' prices were lower than for customers remaining with the IXC. No regression statistics were provided with respect to this "rerun" model. It is important to note, at the outset, that the TNS survey does not track the *same* households from one period to the next; hence, it is not possible to the authors to have "calculated the savings to consumers from *switching* to BOC provision of MTS."[33] Moreover, the authors once again omitted entirely any variable for a customer's calling volume, the single most important determinant of the average price per minute that the customer pays.[34]

49. Hausman/Sidak claim that their "rerun" model shows that "BOC customers on average paid ... *less* per minute than customers of all other long-distance providers."[35] What Hausman/Sidak fail to show is that *these particular customers* had experienced any savings *by virtue of having switched to the BOC*. In fact, the results that the authors ascribe to BOC entry is entirely consistent with several other explanations, none of which are even tested for, and are thus not refuted by, the analysis that the authors claim to have performed. Customers switching to or selecting the BOC long distance offering are likely to have been obtaining

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33. *Id.*, at 21, emphasis supplied.

34. The authors do claim to have "control[ed] for demographic characteristics that could influence the per-minute price of long-distance service." Of course, inasmuch as the base model does not prove that "demographic characteristics [do] influence the per-minute price of long-distance service," "controlling" for them serves no valid purpose.

35. Hausman/Sidak, at 21.

IXC service under a discount plan before switching to the BOC; hence, even if BOC and IXC prices are the same, this selection of discount plan customers would make the *average* BOC price per minute appear to be lower, but only because the universe of BOC customers was different to begin with.[36]

50. BOC prices are lower for the very low-use customer because both Verizon and SBC offer basic discount plans that do not include a monthly charge or minimum usage level. The BOC long distance affiliates' ability to offer this type of plan stems directly from their unique access to the BOC ILECs' customer service and billing and collection resources. While the BOC ILEC "charges" the BOC long distance affiliate for these services (as it is required to do in accordance with Section 272(b)(5)), the incremental cost *to the overall BOC corporate family* of "piggy-backing" these services for the affiliate onto the existing local service business office, billing and collection infrastructure is extremely small. Competing IXCs that do not possess such a near-universal local customer base must provide these functions and incur their costs on a stand-alone basis. Section 272(b)(5) of the federal *Telecommunications*

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36. This possibility is supported by the authors' finding that "the Chow test ... shows that the way in which demographic characteristics influence the per-minute price of direct-dial interLATA MTS differs significantly between BOCs and the IXCs." If customers selecting BOC long distance service exhibited similar demographic characteristics to those of IXC customers, one might well conclude that BOC prices were uniformly lower. However, what the Hausman/Sidak findings confirm is that the propensity for a customer to select a BOC was not randomly distributed across the entire sample. If the customers switching to the BOC (or selecting the BOC as their long distance PIC when ordering new local service from the BOC) were already subscribing for an IXC discount calling plan, then the "average-to-average" conclusion that BOC prices are lower would be incorrect, and the asserted "benefit" of BOC entry would be entirely illusory.

Act of 1996 requires that the BOC ILEC deal "at arm's length" with their long distance affiliate. If the BOCs were adhering to this statutory requirement — which they are clearly not — the long distance affiliate would not have the ability to absorb the up-front account-sensitive costs. To the extent that the BOC long distance affiliates are willing to forego recovery of these costs through long distance prices and allow their local service operations to cross-subsidize the long distance business in this manner, their ability to charge lower prices is far more a demonstration of anticompetitive conduct that it is of conferring economic benefit upon consumers.

51. In any event, even if the IXCs' pricing practices did work to create the type of "discrimination" that Hausman/Sidak claim - which they do not — there is nothing in the Hausman/Sidak "study" that offers any basis to conclude that BOC entry would do anything to eliminate that alleged discrimination.

The succession of price decreases of residential long distance service are in sense the result of or caused be BOC entry into the long distance business.

52. The dramatic drop in long distance prices that has occurred over the past two decades provides compelling evidence of the extraordinary success of several key FCC policies — the development of competition in telecommunications markets, and the rebalancing of rates to be more reflective of the structure of costs.

53. The *single most important source* of the enormous drop in long distance prices is the succession of FCC-required decreases in "access charges," the fees that long distance companies pay to local phone companies to connect their long distance networks to the phone companies' local subscribers. Access charges have been dropping steadily following their introduction in 1984, shortly after the break-up of the former Bell System.[37] That, along with unprecedented technological innovation in telephone switching and long-haul transmission technologies and the growth of an intensely competitive long distance market, has pushed down the *real* (inflation-adjusted) price of long distance service by *nearly 80%* since 1983 — the last year before the 1984 Bell System break-up and the introduction of access charges — *without BOC entry into the long distance business*. By contrast, the inflation-adjusted prices of *monopoly* local phone service have remained largely unchanged over that same period (see Figure 2).

54. In yet another unpublished "study" released at about the same time as their "discrimination" paper, Hausman, Sidak and Gregory K. Leonard claim to have made "empirical findings that BOC entry has produced substantial consumer-welfare benefits in

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37. *See generally* MTS and WATS Market Structure, CC Docket No. 78-72, *Notice of Inquiry and Proposed Rulemaking*, 67 FCC 2nd 757 (1978). *Supplemental Order (Phase I),* 94 FCC 2nd 852 (1983). *Phase I Order Modified on Reconsideration,* 97 FCC 2nd 682 (1983). *Phase I Order Modified on Further Reconsideration,* 97 FCC 2nd 834 (1984). Phase I Orders Affirmed in Part, *Remanded in Party sub nom. National Association of Regulatory Utility Commissioners v. FCC*, 737 F.2d 1095 (D.C. Cir. 1984). *Cert. denied,* 469 U.S. 1227 (1985). *Report and Order (Phase III),* 100 FCC 2nd 860 (1985). *Phase I Order Modified on Second Further Reconsideration,* 101 FCC 2nd 1222 (1985). *Aff'd sub nom. American Telephone & Telegraph Co. v. FCC,* 832 F.2d 1285 (D.C. Cir. 1987).

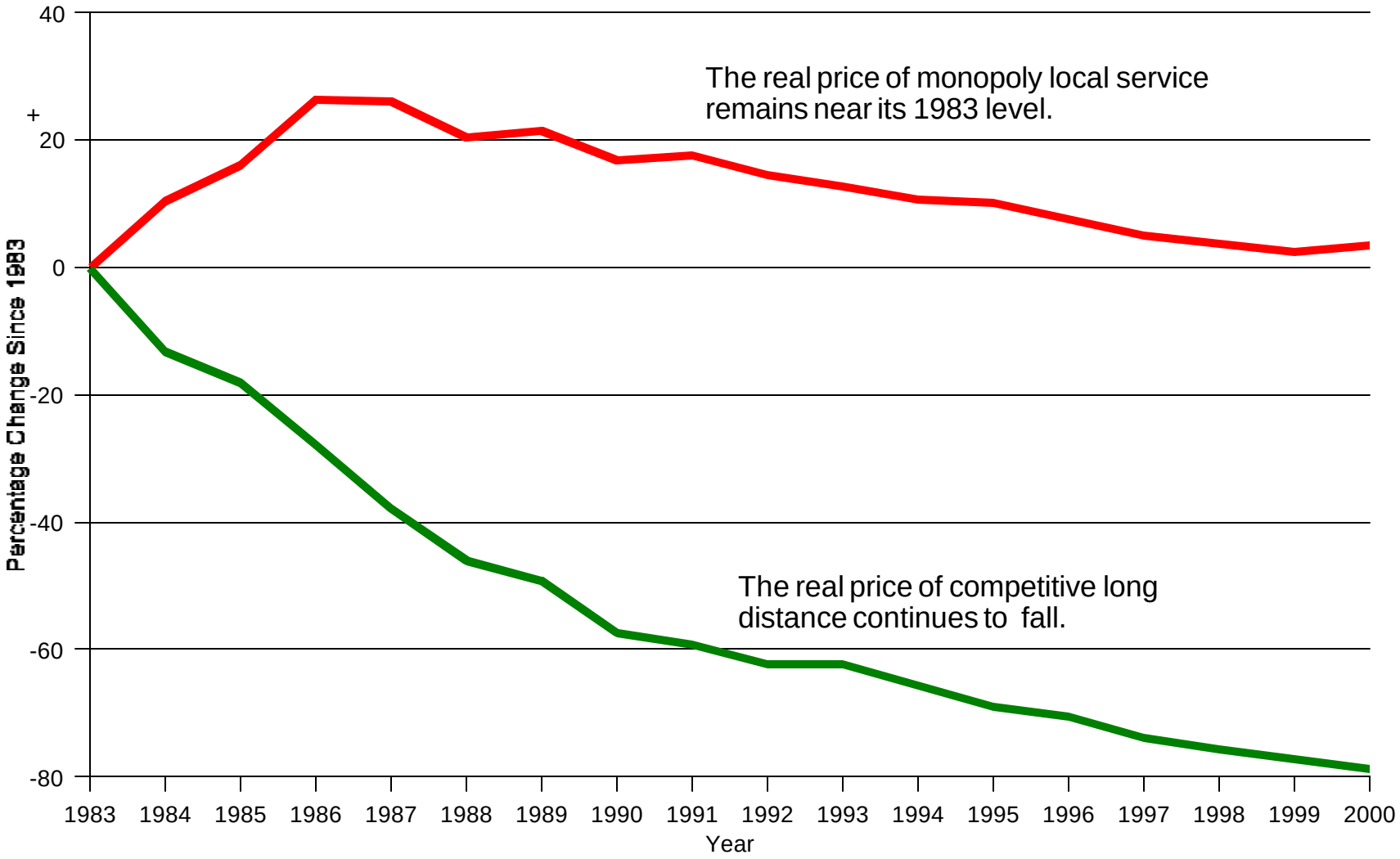

Figure 2: Adjusted for inflation, long distance rates have fallen by nearly 80% since 1983, the last year before the Bell System break-up. By contrast, ILEC local rates have remained essentially unchanged over that same period.

Source: FCC, *Trends in Telephone Service*, Table 14.5; FCC, *Statistics of Communication Common Carriers,* 1995/1996 Edition ,Table 8.4 and 2001 Edition, Table 5.6; Bureau of Labor Statistics, Inflation Calculator at: http*://www.bls.gov/cpi/.* Long distance rate for 2000 is an estimate.

New York and Texas in the form of lower prices for long-distance service" and claim to have found "statistically significant evidence that BOC entry enabled the average consumer to reap a 9-percent savings on her monthly interLATA bill in New York and a 23-percent savings in Texas."[38] Based upon these findings, the authors go on to "predict that, when the BOCs receive section 271 approvals in other states, a similar significant decrease in long-distance prices will occur that leads to consumer benefits." As with their other "study," Hausman/Leonard/Sidak ("HLS") once again fail to provide the actual data set that they utilized in their regression analysis; hence, once again their model results cannot be reproduced, nor can alternative specifications be examined. Significantly, whereas in the "discrimination" paper the authors did cite TNS Telecoms as the source of the billing data that they used, in their "Consumer-Welfare Benefits" paper *no source for the data is provided at all* for the "empirical evidence" upon which their "conclusion" is founded! Additionally, the authors inexplicably "eliminated households with more than one telephone line and households that switched service providers during the billing cycle" but provide no justification or rationale for deliberately selecting-out such customers.[39] Customers who

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38. Jerry A. Hausman, Gregory K. Leonard and J. Gregory Sidak, "The Consumer-Welfare Benefits from Bell Company Entry into Long-Distance Telecommunications: Empirical Evidence from New York and Texas," available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=289851

39. Hausman/Leonard/Sidak eliminated households with more than one long distance bill during a billing period, apparently *assuming* that this will "eliminate households with more than one telephone line and households that switched service providers during the billing cycle." Hausman/Leonard/Sidak, at 6. This statement is not true, since (a) multiple-line households can in fact have a single long distance bill — either because the second line has no PIC at all, or because the IXC combines calls for the several working telephone numbers
(continued...)

switch carriers or who have two phone lines are likely to be above-average users who are also more aware of the various pricing options, and are thus most likely to have been paying lower rates to begin with; thus, eliminating these customers likely creates a systematic upward bias in the resulting average prices.

55. The "methodology" utilized by HLS involved the development of comparisons between the first two states in which BOCs had received Section 271 authority (New York and Texas) with two "control" states — Pennsylvania for New York, and California for Texas — that they selected. The authors' claims of "9-percent savings ... in New York and a 23-percent savings in Texas" were developed on the basis of comparing New York vs. Pennsyl-

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39. (...continued)
on a single bill. Also, there are many explanations for why a customer would have more than one bill. For example, a customer would receive "multiple" long distance bills if he places some but less than all calls on a 1+ basis using the PIC'ed carrier, and uses one or more "dial around" ("101-XXXX") services for the remaining calls. Even where both the PIC'ed IXC and the 101-XXXX usage is billed through the local phone company, TNS will nonetheless identify the customer has having received two "separate" long distance bills. Thus, if the customer uses AT&T (for example) as the PIC but also uses 1010-220 (Telecom USA), the TNS customer record will show two separate bills, and thus would have been omitted from the Hausman/Sidak dataset. In addition, characteristics of customers with a "single bill" may differ from state to state, rendering incorrect the comparisons of these unique sub-groups across several states. It is also unclear as to how Hausman/Sidak treated so-called "threshold billed" customers, low-volume users who do not receive a long distance bill every month, but are billed once every 2-3 months or when their accumulated bill reaches a "threshold" level, e.g., $30, whichever comes first. Depending upon whether a particular customer happened to be billed in a particular month, some of these customers will have no long distance bill in the TNS data, while others will have a bill that reflects several months' usage. Hausman/Sidak may have excluded these customers altogether as not meeting the criteria of "... having only a single long distance bill during the billing cycle," or they could have misinterpreted the total threshold billing level as representative of the customer's usage *in the billing month*.

vania and Texas vs. California average bill changes between the second half of 1999 ("2H99") and the second half of 2000 ("2H00"). In making these comparisons, HLS used the New York 2H00 usage characteristics to develop the average bill for both time periods *and for both states* (New York and Pennsylvania); similarly, the 2H00 Texas usage characteristics was used to develop the average bill for both time periods and for both Texas and California. While there might be some justification for holding usage constant *within the same state* for the two different time periods so as to accurately measure the effects of price changes *in each jurisdiction*,[40] the use of New York and Texas usage for Pennsylvania and California, respectively, serves only to distort local usage patterns, which are heavily influenced by such state-specific attributes as geography, number of LATAs, and the relationship between customers' communities of interest and their local calling areas.

56. Although HLS do not disclose where they obtained their "empirical data," the TNS Telecoms "bill harvesting" survey (the source that Hausman/Sidak had used for their "discrimination" study) is also a source of the type of data that could be used to draw comparisons between "Section 271 states" and those in which BOC long distance entry is still

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40. Even so, using 2H00 minutes for both 1999 and 2000 may produce distorted results, if the price changes occurring between the two time periods are such as to affect consumer behavior either in terms of total consumption or the mix of peak and off-peak calling. New calling plans that either eliminate peak/off-peak price distinctions or that modify the peak/off-peak price relationships, or the introduction of "block-of-time" plans, could materially impact calling volumes. For example, under a block-of-time plan (e.g., SBC's 300 minutes for $18 offering), a customer who might ordinarily use only 200 minutes would view the additional 100 minutes as "free," and might well increase total usage considerably to the extent that such an increase does not result in a higher total bill. Holding calling volumes constant over the two time periods used in the HLS "analysis" ignores this important effect.

barred. AT&T subscribes to the TNS Telecoms data, and at my request prepared summary results in the same format and for the same two time periods as those selected by HLS for the four states whose results are provided by HLS as well as for several other non-271 states in which the average long distance bill decreased by *considerably more* than in either New York or Texas. These results are reproduced in Tables 3 and 4 below. For the sake of comparison (and because we were not able to replicate the precise HLS summary data either because they had obtained it from a source other than TNS Telecoms and/or because they may have processed the individual billing data differently[41]), I also requested that AT&T provide results for the four states used by HLS using the same methodology as was used for the four additional states, except that for each state, I asked that that state's usage characteristics be utilized instead of the New York and Texas usage levels that HLS had incorrectly used for their "control" state calculations.

57. When the results for the two HLS "control states" (Pennsylvania and California) are recalculated using the usage characteristics *of those states* rather than those of New York for Pennsylvania and Texas for California, the price decreases in the two HLS "control states" turn out to have been significantly larger than those reported by the authors — a 10.52%

41. The TNS Telecoms Bill Harvesting data contains virtually all information from customer bills along with both "state weights" and "national weights." Due to the literally hundreds of carriers, types of calling plans, etc., the resulting database is extremely complex. The user of the data must make many decisions about what records to include or exclude, the appropriate weights to use, etc. Because it is unclear whether in fact the TNS data was the data source and, in any event, none of the details as to how the data was processed and utilized are documented in the Hausman/Sidak paper, there is no way to determine whether the data was used correctly and consistently.

decrease for Pennsylvania rather than the 1.89% calculated by HLS based upon *New York* usage characteristics, and an 11.93% decrease for California rather than the 0.77% *increase* that HLS had calculated using *Texas* usage levels:

Table 3

Savings on InterLata Bills for the Average Customer
New York and Pennsylvania

	Avg Mins (NY 2H00)	Avg Price NY 2H99	Avg Price NY 2H00	Avg Mins PA 2H00	Avg Price PA 2H99	Avg Price PA 2H00
Peak (7am - 7pm weekdays)	32	$0.17	$0.13	23	$0.17	$0.14
Off Peak (7pm - 7am weekdays & Sat.)	48	$0.12	$0.09	28	$0.14	$0.11
Off Peak (Sunday)	20	$0.09	$0.08	13	$0.09	$0.09
Fee (MRC)		$1.17	$1.66		$1.19	$1.61
Total Bill *		$14.19	$11.80		$10.10	$9.14
Total Savings			$2.39			$0.96
Savings as Percentage of Total Bill			20.26%			10.52%
Incremental Savings in Entry State			$1.43			
Incremental Savings as Percentage of Total Bill			9.74%			

Texas and California

	Avg Mins TX 2H00	Avg Price TX 2H99	Avg Price TX 2H00	Ave Mins CA 2H00	Avg Price CA 2H99	Avg Price CA 2H00
Peak (7am - 7pm weekdays)	31	$0.15	$0.12	38	$0.15	$0.12
Off Peak (7pm - 7am weekdays & Sat.)	42	$0.13	$0.11	34	$0.12	$0.10
Off Peak (Sunday)	16	$0.10	$0.09	21	$0.09	$0.08
Fee (MRC)		$1.85	$1.68		$1.43	$1.87
Total Bill *		$13.64	$11.56		$12.94	$11.56
Total Savings			$2.08			$1.38
Savings as Percentage of Total Bill			17.96%			11.93%
Incremental Savings in Entry State			$0.70			
Incremental Savings as Percentage of Total Bill			6.03%			

Notes to Tables 3 and 4: To attempt to match HLS methodology, only households with one Long Distance Bill were included in the sample. Threshold billed households (i.e., consumers billed only once every "x" months or when a certain spending level is reached) were also excluded. Average Minutes and Price was calculated for interLATA domestic dial-1 calls only; international calls were excluded. Minutes without associated charges (i.e., such as calls made with "block-of-time" plans) were included in average price per minute calculations since the corresponding charges are reflected in the monthly recurring charges (MRC). Source: TNS Telecoms ReQuest Bill Harvesting Study, National Weight used. (TNS advises use of national weights when two or more states are being compared.)

58. The specific choice of "control states" and the two time periods was entirely arbitrary. Because we do not know exactly what data sources were used or whether alternate "control states" or alternate time periods were examined, there is no basis to conclude that the particular *entirely non-random* selections of Pennsylvania and California that were made by HLS are in any way representative of actual conditions. During the 2H99 through 2H00 time frame, of the 48 jurisdictions (47 states plus the District of Columbia) in which Bell operating companies provide local telephone service, 46 had not as of that time frame received Section 271 authority. Thus, HLS had a wide range of choices for their "control states." Had they selected different "control" states, their "comparisons" might well have yielded dramatically different results. For example, if Florida, Wisconsin, Missouri or Kentucky were used instead of Pennsylvania and California as the "control states" for New York and Texas, then rather than indicating "consumer-welfare benefits" of BOC entry, one would instead conclude *precisely the opposite* — that BOC entry had *harmed* consumers — since the price decreases in these *non-271 states* was significantly greater than for either New York or Texas.

Table 4

Savings on InterLATA Bills for the Average Customer in Alternate "Control" States

Kentucky and Florida

	Avg Mins KY 2H00	Avg Price KY 2H99	Avg Price KY 2H00	Avg Mins FL 2H00	Avg Price FL 2H99	Avg Price FL 2H00
Peak (7am-7pm wkdys)	41	$0.22	$0.10	46	$0.20	$0.11
Off Peak (7pm-7am weekdays & Sat.)	39	$0.17	$0.07	59	$0.14	$0.09
Off Peak (Sunday)	17	$0.14	$0.06	29	$0.12	$0.08
Fee (MRC)		$1.06	$3.43		$0.99	$2.10
Total Bill		$19.33	$11.24		$21.76	$14.92
Total Savings			$8.09			$6.84
Savings as Pct of Total			72.03%			45.88%
NY Savings ($)			$2.39			$2.39
NY Savings (%)			20.26%			20.26%
TX Savings ($)			$2.08			$2.08
TX Savings (%)			17.96%			17.96%

Missouri and Wisconsin

	Avg Mins MO 2H00	Avg Price MO 2H99	Avg Price MO 2H00	Avg Mins WI 2H00	Avg Price WI 2H99	Avg Price WI 2H00
Peak (7am-7pm wkdys)	24	$0.23	$0.10	46	$0.23	$0.10
Off Peak (7pm-7am weekdays & Sat.)	30	$0.16	$0.08	75	$0.16	$0.08
Off Peak (Sunday)	13	$0.11	$0.10	25	$0.11	$0.10
Fee (MRC)		$2.14	$2.59		$2.02	$2.75
Total Bill		$14.12	$8.92		$27.71	$16.33
Total Savings			$5.19			$11.39
Savings as Pct of Total			58.19%			69.73%
NY Savings ($)			$2.39			$2.39
NY Savings (%)			20.26%			20.26%
TX Savings ($)			$2.08			$2.08
TX Savings (%)			17.96%			17.96%

59. From my inspection of the TNS bill harvesting data for all states that was provided to me by AT&T, it is clear that there is *enormous variation* from state-to-state in the percentage and absolute dollar change in average rate per minute between the 2H99 and 2H00 rate periods. There are a number of reasons why this variation is present, reasons that have nothing to do with BOC entry or lack thereof. One particularly important source of difference results from the *timing* of access charge reductions in each state. For example, California intrastate access charges were subject to substantial decreases as a result of two CPUC rate rebalancing decisions that took effect in 1995 and 1998, respectively.[42] The corresponding decrease in Texas access charges did not occur until the 1999-2000 time frame, following an act of the Texas legislature requiring the reductions and flow-through in retail intrastate long distance rates.[43] There is also considerable variation in access charge rate level, and hence retail toll rate levels, from state to state. For example, according to HLS' Table 4, peak period rates in Texas decreased from 19.3 cents to 14.4 cents between 2H99 and 2H00. But that same table also indicates that peak rates in California *started out* in 2H99

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42. California PUC, I.87-11-033, *Alternative Regulatory Frameworks for Local Exchange Carriers*, Implementation and Rate Design phase, Decision (D.)94-09-065, 56 CPUC 2d 117 (1994); *Re: Pacific Bell*, A.97-03-004, D.98.07-033, 187 PUR 4th 120 (1998).

43. Texas Sen. Bill 560 (1999). On August 9, 1999, the Texas PUC voted (in Dockets 18515 and 18516) to reduce intrastate access charges for all ILECs by a weighted average of approximately $0.05 per minute (both ends). For the first nine months of 1999, the combined Southwestern Bell originating and terminating switched access rate was 11.89 cents. Following several reductions, by July of 2000, the beginning of the "post-entry" 2H00 period presented in the HLS study, those rates had dropped to 5.66 cents. Verizon's rates over that same period went from 12.72 cents down to 3.25 cents. Excerpts from the Texas PUC's report to the Texas legislature regarding these access rate reductions is provided as Attachment 5 to this Declaration.

at only 14.9 cents, dropping to 13.7 cents a year later. Obviously, Texas had much further to go than California, so it's hardly surprising that the percentage and dollar reductions were greater. Yet another factor influencing the average interLATA rate is the relative mix of intraLATA vs. interLATA and intrastate vs. interstate calling. The size of the local calling areas, and the number and geography of LATAs is also a key factor. New York has much larger local calling areas than Pennsylvania, whereas calling to northern New Jersey, which represents a substantial portion of the New York City metropolitan area, is interstate interLATA. Texas has large flat-rate local calling areas covering, in each case, entire metropolitan areas. By contrast, California, whose metropolitan areas are far more expansive than those in Texas, limits flat-rate local calling to a 12-mile band. All of these factors have a material impact upon price level and the nature of price changes, *yet HLS did not control for even a single one of them in their "model."*

60. As I have previously noted, while the reductions in access charges at both the interstate and intrastate levels have been and continue to be the largest single factor in driving down long distance prices, there is no "access charge" explanatory variable in the HLS model. As with their "discrimination" claim, the omission of this critically important variable renders all other model results entirely spurious. Indeed, whereas in the "discrimination" model the authors admit to an R^2 of 1.4%, in their "consumer-welfare benefits" model they do not even disclose the R^2 at all, suggesting that it is probably even lower than 1.4%!

61. For example, the roughly 3-cent drop in the average price of long distance calling in Texas between 1999 and 2000 that HLS report and that they seek to ascribe to SBC's entry into the long distance market is *entirely attributable* to an average decrease of slightly *more* than 3 cents in intrastate and interstate access charges that occurred in Texas in that same time frame.[44]

62. HLS's choice of time periods — which ended as of the second half of 2000 — is particularly noteworthy in light of the fact that, in February 2001 – *immediately following the end of the HLS "study period"* — SBC increased its Texas long distance rates by between 1 and 2 cents a minute – erasing nearly half of the access charge driven rate decreases that had

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44. SWBT's access charges decreased by approximately $0.035 per minute; Verizon (GTE) by about $0.096 (terminating by $0.067). From 2H99 to 2H00, interstate switched access charges dropped by about $0.01, for a weighted average decrease (for intrastate calls originated on SWBT phones) of approximately $0.031 per minute. HlS identify average savings per Texas customer at $3.04 with average usage of 97 minutes, representing an average price decrease per minute of $0.0313, *almost exactly the same as the decrease in access charges*. Hence, essentially *all* of the price decrease that authors ascribe to "BOC entry" in Texas is entirely attributable to reduced access charges, *which the authors chose to exclude from their model and causality analysis*. With respect to the "control" state for Texas — California — the authors identify virtually no price change for California between 2H99 and 2H00 (the total LD bill is shown as decreases by $0.098 for the same 97 minutes of usage, or about $0.001 per minute. California *intrastate* access charges were reduced in 1995 and again in 1998, but during the 2H99-2H00 period remained essentially unchanged, and *interstate* access charges decreases by about $0.01, for a weighted average decrease of around $0.004.

occurred in the previous year.[45] By limiting their "study" to 1999 and 2000, HLS conveniently *leave out* that large rate increase that SBC had put through following its long distance entry. The HLS study also conveniently omits any mention of the increases in *local* rates that occurred in Texas since SBC started selling long distance service. For example, Southwestern Bell increased monthly rates for popular features like Caller ID from $4.95 to $7.00 between January 1, 2000 and January 1, 2002.[46] During that same period, SBC's Texas rates for Call Forwarding and Three-way Calling went from $2.10 each to $5.00 each, and SBC increased its local directory assistance rate from $0.30 to $1.25.[47]

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45. "SW Bell raises interstate rate; current subscribers unaffected; PUC approval not needed," *Ft. Worth Star-Telegram*, February 2, 2001:

> Southwestern Bell announced it was raising the interstate rate on its flagship plan from 9 cents a minute to 10 cents a minute for new customers seven months after entering the long-distance market in Texas. Current subscribers will see no change in their domestic U.S. calling charges, said Shawn Ramsey, a San Antonio-based spokeswoman for Southwestern Bell, a unit of SBC Communications.
>
> Ramsey defended the increase, which doesn't require approval by the state's Public Utility Commission, by saying the plan is superior to many offered by the major long-distance services. "We beat the pants off of them," she said. "We've got great rates any way you slice or dice it." Asked if the higher rate reflects a need to boost profits, she said: "We've been in the market about eight months now. We've learned a lot and made a number of changes that reflect what we've seen. And we've changed our plan accordingly."

46. SWBT-Texas General Exchange Tariff, Sec. 10, Sheet 9, Revision 3, Eff. August 26, 1998; Revision 7, Eff. January 17, 2002.

47. *Id.*

63. HLS provide no credible support for the purported "consumer-welfare benefits" they seek to ascribe to BOC entry into the in-region interLATA long distance market in New York and Texas. The "econometric model" omitted access charges — the single most important explanatory variable affecting the price of long distance service — as well as other potential sources of differences in individual state pricing and usage attributes. Their selection of "control states" against which to "compare" outcomes for New York and Texas was arbitrary and entirely results-driven, inasmuch as decidedly opposite conclusions regarding consumer-welfare benefits would have been obtain had HLS selected Florida, Wisconsin, Missouri or Kentucky — or possibly others — as their "control states." Calculations of rate changes for the "control states" that were selected by the authors — Pennsylvania and California — incorrectly utilized New York and Texas usage characteristics rather than usage attributes for the "control states" themselves. No sources were provided for the data upon which the HLS "model" was based, and customers with more than one telephone line or who changed long distance companies during the billing month used for the sample were inexplicably — and improperly — eliminated from the sample data. It is not clear whether the HLS dataset includes or excludes international usage, nor is there any indication as to how the monthly fee was handled if the particular calling plan to which the customer subscribed also included discounted international calling.

64. There is simply no valid scientific basis for HLS's attempt to ascribe the lower long distance rates that existed in 2000 vs. 1999 to BOC long distance entry, and their convoluted

effort to advance such a theory is devoid of credibility and fails entirely to demonstrate that BOC entry into the in-region long distance market is in the public interest.

Verizon's use of the inbound marketing channel to "sell" its long distance service creates a substantial potential for its remonopolization of the long distance market.

65. Far from promoting competition in the long distance market, as Verizon claims, it is likely that Verizon entry into the interLATA market in Virginia will harm long distance competition in the state. The joint marketing planned by Verizon must be addressed in light of this Commission's public interest obligations. Through its use of the inbound marketing channel, as I shall demonstrate below, as long as Verizon continues to maintain its present position of overwhelming dominance in the *local* service market and is afforded the opportunity and ability to engage in "joint marketing" with its Verizon long distance affiliate, Verizon will soon come to dominate the Virginia long distance market as well.

66. To the extent that a BOC maintains a *de facto* monopoly with respect to the provision of *local* services in part or in all of any state in which it has received Section 271(c) authorization, the effect of this preemptive joint marketing opportunity is to permit the BOC to extend its local monopoly into the adjacent, and otherwise competitive, long distance market.

67. Presumably, the principle/theory (if there is one) driving the FCC's and Congress' acquiescence in such "joint marketing" is that *if the local market is competitive* and as such if

customers are given real choices as to whom they contact for local service (which is the presumption once the "Competitive Checklist" has been satisfied), the RBOC then no longer enjoys any advantage vis-a-vis CLECs with respect to selling customers long distance service either, because CLECs are also free to sell long distance service to *their* local service customers. The principle/theory breaks down, of course, if the local market is not actually competitive, i.e., if customers have no choice but to contact the BOC for local service and if the BOC retains the right to preemptively market long distance service to those customers, then other long distance providers will be blocked from addressing these customers.

68. Put another way, the larger the BOC's share of the *local* market, the greater will be its opportunity to preemptively market its affiliate's long distance service. And if customers exhibit a disproportionate propensity to select the BOC as their long distance carrier as a result of this "first to get there" opportunity, then over time the BOC's long distance market share would also be expected to grow *directly and specifically as a consequence of its ability to preempt competing long distance carriers in signing up new customers*.

69. The proposition advanced in the preceding paragraph may be tested quantitatively by means of a dynamic model of market behavior over time. Attachment 6 to this Declaration contains the results of a model I have constructed for this purpose, along with several alternative model runs designed to examine the sensitivity of the model's results to variations in the BOC's share of the *local* market. The model was developed based upon actual experience in New York and Texas following the entry of Bell Atlantic (now Verizon) and

SBC, respectively, into the in-region long distance markets in those states, modified where appropriate to reflect conditions specific to Virginia.

70. According to the US Census Bureau, each year on average some 17% of all US households relocate to a new residence.[48] Thus, each year approximately 17% of Verizon's residential customers can be expected to initiate an order for new local telephone service. In the model, I have assumed that Verizon's share of these inward service orders will correspond with its share of the local exchange service market overall. According to data provided in Mr. Martin's Declaration, CLECs served some 3,400 residential customers via resale of Verizon services, and an estimated 6,700 residential customers ostensibly via CLEC-owned facilities.[49] Verizon, by contrast, currently serves some 383,000 residential lines.[50] On this basis, Verizon controls fully 91.2% of the Virginia residential local exchange service market. Thus, in any given year (and assuming that the churn rate and market share remain constant), Verizon Long Distance will have the opportunity to "address" 15.5% (i.e., 17% household relocation rate x 91.2% residential market share) of all residential customers in Verizon's Virginia service area as a result of *customer-initiated* "inbound" contacts alone.

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48. U.S. Census Bureau, *American Housing Survey for the United States in 1999*, Table 2.9.

49. Martin Declaration, Attachment 101, para. 5.

50. ARMIS 48-03 Table III "Access Lines in Service By Customer" for year 2001. Accessed 4/5/02. The exact number provided by ARMIS is 382,501.

71. The model assumes that in approximately 82.3% of such customer-initiated contacts in which an order for new local service is placed, the customer selects Verizon as the PIC following the "recommendation" of the Verizon service representative.[51] 28.9% of American households have at least two residential access lines,[52] and (assuming that the same relocation rate applies to these households as to the population generally) it is likely that a customer with an additional line will select the same long distance carrier for both the primary line and the additional line.[53]

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51. This 82.3% estimated "take rate" for "inbound" local service customers was developed as follows: Verizon Long Distance claims to have captured a 20% share of the New York market in the first year in which its entry was allowed. "Verizon Communications Posts Strong Results for Fourth Quarter and 2000," Verizon News Release, February 1, 2001. On average, about 30% of residence customers change their PIC in any given year. "J.D. Powers and Associates Reports: Sprint and SNET Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999. Thus, 6% (20% of 30%) out of Verizon's 20% total long distance market share is attributable to PIC changes made by existing customers. The remaining 14% would then be attributable to inbound local service customers selecting Verizon Long Distance at the time that they placed their orders for local service. Since the overall residential relocation rate is 17%, I have estimated the "take rate" at 14%/17%, or 82.3%.

52. FCC Common Carrier Bureau, Industry Analysis Division, *Trends in Telephone Service,* August 2001, Table 8.4.

53. In fact, as discussed above, the FCC has ruled that where the contact is initiated by an *existing* BOC customer (e.g., to order an additional line or to add vertical service features), the BOC *will not be required* to offer to read the list of available IXCs. *In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic - New York, Defendant,* File No. EB-00-MD-011, Memorandum Opinion and Order, Rel. October 6, 2000, ("*AT&T/BA-NY Order*") at para. 15. As a result, it is likely that the customer's propensity to selected the BOC's Long Distance affiliate as the PIC would be even higher for additional lines than for the primary line, where the BOC is required to offer to read the list of IXCs. Since the model assumes the *same* "take rate" for both primary and additional lines, it likely errs on the conservative side.

72. Offsetting these "captures" of customers by Verizon are the ongoing marketing efforts of the other IXCs. In 1999, approximately 30% of all US residential customers changed their PIC.[54] Extrapolating this to Virginia, the model assumes that each year 30% of the customers who had Verizon Long Distance service at the beginning of the year will switch to another IXC (which I assume to occur at mid-year, on average) sometime during the year. However, Verizon will also be marketing its long distance service to customers of other IXCs, and so the model also assumes that Verizon will capture a portion of those customers' PIC changes as well. Specifically, the model uses Verizon's long distance market share at the beginning of each year to determine what proportion of all non-Verizon PIC changes will be captured by Verizon during that year (with the exception of year 1, in which the 20% end-of-year share captured by Verizon in New York is used).

73. Scenario 1 in Attachment 6 provides the results of this model, and demonstrates that if the current Verizon *local service* market share of 91.2% is maintained throughout the five-year period covered by the model, at the end of that time Verizon Long Distance will have captured some 67.86% of all Virginia residential subscribers.

74. In Scenario 2 of Attachment 6, I have changed the original assumption regarding Verizon's share of the local market. Rather than holding it constant at the current 91.2% level, I have assumed that it will fall by 3% annually through the fifth year. All else remaining the same as per the original (scenario 1) model, this erosion in Verizon's local

54. J.D. Powers report, *op. cit.*, footnote 105.

market share (down to 76.2% at the end of the fifth year) will still provide Verizon with a 62.69% share of the residential long distance market as of the end of the study period.

75. In Scenario 3 of Attachment 6, I have modeled the case where CLECs are even more successful (than in the Scenario 2 model) in capturing *local* customers. Here, I have assumed that CLECs capture 10% of residential customers in the initial year following Section 271 approval, and have assumed additional annual CLEC market share growth at half of the initial year rate for each of the next four years. At the end of the fifth year, Verizon's local market share would then be 61.2%, but its residential long distance market share will still be larger than that for any IXC today, at 56.17%.

76. While the model attempts to address certain market dynamics, it does not consider all of them. For one, it assumes that all of the existing non-BOC IXCs remain in business during the entire period, i.e., that despite the persistent expansion of the BOC's share of the long distance market, the other carriers continue to remain profitable and continue to maintain the same type of market *and marketing* presence that they do today. The recent and precipitous decline in the value of IXC stocks would, however, suggest that Wall Street expects otherwise. Massive IXC market share losses over a short period of time are likely to result in one or more of the major IXCs exiting the market, an outcome that would be almost certain to further increase Verizon's ultimate market share.

77. There are strong parallels between the various policy initiatives taken during the 1980s that were designed to open the long distance market to entry by "Other Common Carriers" (the "OCC" designation was applied to all of the (then) non-incumbent inter-exchange carriers — i.e., interexchange carriers other than AT&T) and the current policy moves toward authorizing BOC entry into the long distance market. In the earlier case, OCC entry and growth were facilitated by several factors, including the requirement that BOCs (and later extended to ILECs generally) provide "equal access" and associated dialing parity to all IXCs.[55] The current analogy to "equal access" is the Section 271(c)(2)(B) 14-point "Competitive Checklist." The remaining policy initiatives were expressly intended to jump-start long distance competition, to give the OCCs certain specific opportunities to expand their market that would overcome the enormous obstacles confronting any non-incumbent attempting to enter a market long dominated by a single firm.

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55. Others include (a) the requirement that *discounted* access charges apply to OCCs prior to the introduction of equal access in any central office, (b) "balloting" of BOC customers with respect to the choice of PIC and *assignment* of nonresponding BOC customers to OCCs in proportion to the selections made by responding customers, (c) adoption of an "equal charge per minute of use" rule, which deprived AT&T of any opportunity to benefit with respect to access charges paid to ILECs from its size, incumbency or scale economies relative to those of its smaller rivals, and (d) adoption of the so-called "five-mile rule," under which all OCCs locating their points of presence ("POPs") within five miles of an ILEC access tandem would be subject to the same access charges as would AT&T (which was often collocated with the BOC), thereby eliminating any incumbency and preexisting collocation advantages that might otherwise have benefitted AT&T. AT&T was also subject to a disproportionately-applied "equal access recovery charge," forcing it to pay a relatively larger share of the costs of implementing equal access than its OCC rivals.

78. The transition to equal access began in 1985 and was substantially complete by the end of 1988. The 1985 beginning of the transition to equal access is analogous to the initial satisfaction of the 14-point checklist. By the end of the fifth year (i.e., by the end of 1990), the non-AT&T IXCs had acquired 22.92% of presubscribed lines nationwide.[56] As I have discussed, the model I have constructed predicts BOC affiliate shares (also in terms of presubscribed lines) in the range of 56% to 68% at the end of the fifth year following BOC long distance entry. In fact, as I shall discuss below, in less than two years following their entry into the in-region long distance market in those states in which Section 271 authority has been granted, Verizon and SBC easily surpassed that 5-year 22.92% new entrant market share.

79. In view of the strong parallels between OCC entry in the 1980s and BOC entry today, I believe that the *results* of the earlier policy paradigm offer a useful and reasonable standard against which the current policy initiatives relative to BOC entry can be evaluated. That is, but for the BOCs' ability to exploit their inbound marketing channel, there is no *a priori* reason to expect their rate of market share growth to differ materially from that of the OCCs in the initial years following "equal access." Conversely, evidence of substantially greater BOC long distance market share growth serves to verify the enormous value that Verizon and other BOCs obtain solely by virtue of their status as dominant local exchange carriers. In order to facilitate this examination, I have used the model to estimate the share of

56. Federal Communications Commission, Wireline Competition Bureau, Industry Analysis Division, *Long Distance Market Shares, Fourth Quarter 1998*, March, 1999, Table 2.1.

the *local* market that CLECs would have to acquire over the five-year period in order to limit the BOC *long distance* market share to the same 22.92% of presubscribed lines that the OCCs were able to acquire as of five years following the initiation of equal access. As Scenario 4 in Attachment 6 indicates, the CLEC market share that would be required to achieve this outcome is 18.17% as of the beginning of year 2 and through to the end of year 5. In view of the fact that by Verizon's own account CLECs currently have only an 8.8% local residential service market share, it is virtually *inconceivable* that CLECs could achieve a local service penetration rate of 81.83% or anything remotely close to it over the coming five-year period.

80. From the foregoing discussion and analysis, it is evident that the development of effective competition for *local* services is critical to forestall remonopolization of the long distance market following Verizon entry in-region. As long as Verizon is permitted to exploit its captive relationship with the vast majority of local service customers to market and sell its affiliate's long distance services, Verizon long distance shares will grow rapidly and non-BOC IXCs will suffer a precipitous decline in customers and demand. Faced with such losses, IXC costs will rise and at least some IXCs will be forced to exit the business, further exacerbating the situation and affording the BOCs an even greater opportunity to remonopolize the nation’s long distance market.

81. The market share projections contained in the model can now be compared with actual BOC market penetration results as reported by BOCs in states where in-region

interLATA entry has been authorized. On the basis of these empirical results, my model's projections are actually proving to be *conservative*, since the BOCs have in each case achieved *even greater residential long distance PIC penetration* than the model had projected. Verizon Corporation press releases dated from February 2001 and October 2001 provide information on Verizon's experience in providing long distance service in New York and Massachusetts.[57] Approximately 12 months after receiving Section 271 authority in New York, Verizon Long Distance reported a New York residential market share of 20%. This number is the assumption used to estimate the first year of Verizon's market penetration. In addition, Verizon's New York long distance market penetration continued to grow at a rate *higher* than the rate that the model had predicted. After 21 months of providing long distance service in New York, Verizon reported a New York long distance market share of 31.7%, and at the end of 2001, after two full years of 271 authority, Verizon reported that it had acquired some 2.3-million customers in New York, indicating a market share of approximately 34.2%. When the model is run for Scenario 1 (assuming no CLEC market share growth beyond initial levels) using data from the time of Verizon's New York 271 application, my model predicts a Verizon Long Distance New York penetration rate of 32.67%, *which is less than the actual 34.2% that Verizon has achieved in New York.*[58] Attachment 7 contains this data.

57. Copies of these Verizon Press Releases are provided in Attachment 7 hereto.

58. Had CLEC penetration into the local market been higher than that reflected in Scenario 1, the result would be an even lower BOC long distance share than predicted.

82. Verizon's experience in New York is not anomalous. Ten months after receiving 271 authority in Massachusetts, Verizon reported a long distance market share of 17.9%; my model predicts the Verizon Virginia interLATA PIC penetration at between 15% and 17% after ten months. In Texas, where SBC received interLATA authority in June of 2000, SBC reported that after ten months it had acquired a market share of 19%.[59] SBC subsequently stopped releasing long distance market share figures on a state-by-state basis, making further state-level comparisons no longer possible. If anything, based upon the figures that Verizon is reporting for New York and Massachusetts and that SBC had reported for Texas, it appears that my estimate that Verizon will control between 56% and 68% of the Virginia long distance market after five years was extremely conservative. Absent effective competition in the local market, Verizon's continued dominance of the Virginia local market will diminish competition and potentially result in remonopolization of the Virginia long distance market as well.

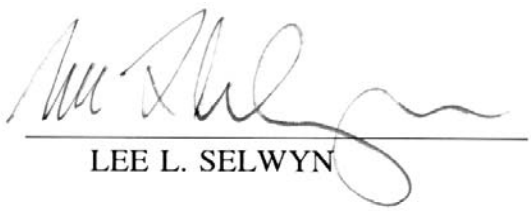
Conclusion

83. There is no credible basis to conclude that Verizon's entry into the long distance market in Virginia will result in lower prices or any other net gain for consumers. On the other hand, there is a substantial risk that such entry, when coupled with Verizon's overwhelming and as-yet unchallenged dominance of the Virginia *local* service market, will permit Verizon to extend its local monopoly into the adjacent long distance market and

59. A copy of the SBC Press Release is provided in Attachment 7 hereto.

ultimately to remonopolize that market as well. That outcome will inevitably lead to higher long distance prices for Virginia consumers. For all of the reasons set forth herein, approval of Verizon's Section 271 Application is not in the public interest, and the Commission should recommend to the FCC that Verizon's Section 271 Application for Virginia be rejected.

The foregoing statements are true and correct to the best of my knowledge, information and belief.



LEE L. SELWYN

Attachment 1

Statement of Qualifications

DR. LEE L. SELWYN

Dr. Lee L. Selwyn has been actively involved in the telecommunications field for more than twenty-five years, and is an internationally recognized authority on telecommunications regulation, economics and public policy. Dr. Selwyn founded the firm of Economics and Technology, Inc. in 1972, and has served as its President since that date. He received his Ph.D. degree from the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology. He also holds a Master of Science degree in Industrial Management from MIT and a Bachelor of Arts degree with honors in Economics from Queens College of the City University of New York.

Dr. Selwyn has testified as an expert on rate design, service cost analysis, form of regulation, and other telecommunications policy issues in telecommunications regulatory proceedings before some forty state commissions, the Federal Communications Commission and the Canadian Radio-television and Telecommunications Commission, among others. He has appeared as a witness on behalf of commercial organizations, non-profit institutions, as well as local, state and federal government authorities responsible for telecommunications regulation and consumer advocacy.

He has served or is now serving as a consultant to numerous state utilities commissions including those in Arizona, Minnesota, Kansas, Kentucky, the District of Columbia, Connecticut, California, Delaware, Maine, Massachusetts, New Hampshire, Vermont, New Mexico, Wisconsin and Washington State, the Office of Telecommunications Policy (Executive Office of the President), the National Telecommunications and Information Administration, the Federal Communications Commission, the Canadian Radio-television and Telecommunications Commission, the United Kingdom Office of Telecommunications, and the Secretaria de Comunicaciones y Transportes of the Republic of Mexico. He has also served as an advisor on telecommunications regulatory matters to the International Communications Association and the Ad Hoc Telecommunications Users Committee, as well as to a number of major corporate telecommunications users, information services providers, paging and cellular carriers, and specialized access services carriers.

Dr. Selwyn has presented testimony as an invited witness before the U.S. House of Representatives Subcommittee on Telecommunications, Consumer Protection and Finance and before the U.S. Senate Judiciary Committee, on subjects dealing with restructuring and deregulation of portions of the telecommunications industry.

In 1970, he was awarded a Post-Doctoral Research Grant in Public Utility Economics under a program sponsored by the American Telephone and Telegraph Company, to conduct research on the economic effects of telephone rate structures upon the computer time sharing industry. This work was conducted at Harvard University's Program on Technology and Society,

where he was appointed as a Research Associate. Dr. Selwyn was also a member of the faculty at the College of Business Administration at Boston University from 1968 until 1973, where he taught courses in economics, finance and management information systems.

Dr. Selwyn has published numerous papers and articles in professional and trade journals on the subject of telecommunications service regulation, cost methodology, rate design and pricing policy. These have included:

"Taxes, Corporate Financial Policy and Return to Investors"
National Tax Journal, Vol. XX, No.4, December 1967.

"Pricing Telephone Terminal Equipment Under Competition"
Public Utilities Fortnightly, December 8, 1977.

"Deregulation, Competition, and Regulatory Responsibility in the Telecommunications Industry"
Presented at the 1979 Rate Symposium on Problems of Regulated Industries - Sponsored by: The American University, Foster Associates, Inc., Missouri Public Service Commission, University of Missouri-Columbia, Kansas City, MO, February 11 - 14, 1979.

"Sifting Out the Economic Costs of Terminal Equipment Services"
Telephone Engineer and Management, October 15, 1979.

"Usage-Sensitive Pricing" (with G. F. Borton)
(a three part series)
Telephony, January 7, 28, February 11, 1980.

"Perspectives on Usage-Sensitive Pricing"
Public Utilities Fortnightly, May 7, 1981.

"Diversification, Deregulation, and Increased Uncertainty in the Public Utility Industries"
Comments Presented at the Thirteenth Annual Conference of the Institute of Public Utilities, Williamsburg, VA - December 14 - 16, 1981.

"Local Telephone Pricing: Is There a Better Way?; The Costs of LMS Exceed its Benefits: a Report on Recent U.S. Experience."
Proceedings of a conference held at Montreal, Quebec - Sponsored by Canadian Radio-Television and Telecommunications Commission and The Centre for the Study of Regulated Industries, McGill University, May 2 - 4, 1984.

"Long-Run Regulation of AT&T: A Key Element of A Competitive Telecommunications Policy"
Telematics, August 1984.

"Is Equal Access an Adequate Justification for Removing Restrictions on BOC Diversification?"
Presented at the Institute of Public Utilities Eighteenth Annual Conference, Williamsburg, VA - December 8 - 10, 1986.

"Market Power and Competition Under an Equal Access Environment"
Presented at the Sixteenth Annual Conference, "Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation" Institute of Public Utilities, Michigan State University, Williamsburg, VA - December 3 - 5, 1987.

"Contestable Markets: Theory vs. Fact"
Presented at the Conference on Current Issues in Telephone Regulations: Dominance and Cost Allocation in Interexchange Markets - Center for Legal and Regulatory Studies Department of Management Science and Information Systems - Graduate School of Business, University of Texas at Austin, October 5, 1987.

"The Sources and Exercise of Market Power in the Market for Interexchange Telecommunications Services"
Presented at the Nineteenth Annual Conference - "Alternatives to Traditional Regulation: Options for Reform" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1987.

"Assessing Market Power and Competition in The Telecommunications Industry: Toward an Empirical Foundation for Regulatory Reform"
Federal Communications Law Journal, Vol. 40 Num. 2, April 1988.

"A Perspective on Price Caps as a Substitute for Traditional Revenue Requirements Regulation"
Presented at the Twentieth Annual Conference - "New Regulatory Concepts, Issues and Controversies" - Institute of Public Utilities, Michigan State University, Williamsburg, VA, December, 1988.

"The Sustainability of Competition in Light of New Technologies" (with D. N. Townsend and P. D. Kravtin)
Presented at the Twentieth Annual Conference - Institute of Public Utilities Michigan State University, Williamsburg, VA, December, 1988.

"Adapting Telecom Regulation to Industry Change: Promoting Development Without Compromising Ratepayer Protection" (with S. C. Lundquist)
IEEE Communications Magazine, January, 1989.

"The Role of Cost Based Pricing of Telecommunications Services in the Age of Technology and Competition"
Presented at National Regulatory Research Institute Conference, Seattle, July 20, 1990.

"A Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network" (with Patricia D. Kravtin and Paul S. Keller)
Columbus, Ohio: *National Regulatory Research Institute,* September 1991.

"Telecommunications Regulation and Infrastructure Development: Alternative Models for the Public/Private Partnership"
Prepared for the Economic Symposium of the International Telecommunications Union Europe Telecom '92 Conference, Budapest, Hungary, October 15, 1992.

"Efficient Infrastructure Development and the Local Telephone Company's Role in Competitive Industry Environment" *Presented at the Twenty-Fourth Annual Conference, Institute of Public Utilities, Graduate School of Business, Michigan State University, "Shifting Boundaries between Regulation and Competition in Telecommunications and Energy"*, Williamsburg, VA, December 1992.

"Measurement of Telecommunications Productivity: Methods, Applications and Limitations" (with Françoise M. Clottes)
Presented at Organisation for Economic Cooperation and Development, Working Party on Telecommunication and Information Services Policies, '93 Conference "Defining Performance Indicators for Competitive Telecommunications Markets", Paris, France, February 8-9, 1993.

"Telecommunications Investment and Economic Development: Achieving efficiency and balance among competing public policy and stakeholder interests"
Presented at the 105th Annual Convention and Regulatory Symposium, National Association of Regulatory Utility Commissioners, New York, November 18, 1993.

"The Potential for Competition in the Market for Local Telephone Services" (with David N. Townsend and Paul S. Keller)
Presented at the Organization for Economic Cooperation and Development Workshop on Telecommunication Infrastructure Competition, December 6-7, 1993.

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," *Utilities Policy*, Vol. 4, No. 1, January 1994.

The Enduring Local Bottleneck: Monopoly Power and the Local Exchange Carriers, (with Susan M. Gately, et al) a report prepared by ETI and Hatfield Associates, Inc. for AT&T, MCI and CompTel, February 1994.

Commercially Feasible Resale of Local Telecommunications Services: An Essential Step in the Transition to Effective Local Competition, (Susan M. Gately, et al) a report prepared by ETI for AT&T, July 1995.

"Efficient Public Investment in Telecommunications Infrastructure" *Land Economics*, Vol 71, No.3, August 1995.

Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995.

Stranded Investment and the New Regulatory Bargain, Lee L. Selwyn with Susan M. Baldwin, under the direction of Donald Shepheard, A Time Warner Communications Policy White Paper, September 1995

"Market Failure in Open Telecommunications Networks: Defining the new natural monopoly," in *Networks, Infrastructure, and the New Task for Regulation*, by Werner Sichel and Donal L. Alexander, eds., University of Michigan Press, 1996.

Establishing Effective Local Exchange Competition: A Recommended Approach Based Upon an Analysis of the United States Experience, Lee L. Selwyn, paper prepared for the Canadian Cable Television Association and filed as evidence in Telecom Public Notice CRTC 95-96, Local Interconnection and Network Component, January 26, 1996.

The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model, Susan M. Baldwin with Lee L. Selwyn, a report prepared by Economics and Technology, Inc. on behalf of the National Cable Television Association and submitted with Comments in FCC Docket No. CC-96-45, April 1996.

Economic Considerations in the Evaluation of Alternative Digital Television Proposals, Lee L. Selwyn (as Economic Consultant), paper prepared for the Computer Industry Coalition on Advanced Television Service, filed with comments in FCC MM Docket No. 87-268, In the Matter of Advanced

Television Systems and Their Impact Upon the Existing Television Broadcast Service, July 11, 1996.

Assessing Incumbent LEC Claims to Special Revenue Recovery Mechanisms: Revenue opportunities, market assessments, and further empirical analysis of the "Gap" between embedded and forward-looking costs, Patricia D. Kravtin and Lee L. Selwyn, In the Matter of Access Charge Reform, in CC Docket No. 96-262, January 29, 1997.

The Use of Forward-Looking Economic Cost Proxy Models, Susan M. Baldwin and Lee L. Selwyn, Economics and Technology, Inc., February 1997.

The Effect of Internet Use On The Nation's Telephone Network, Lee L. Selwyn and Joseph W. Laszlo, a report prepared for the Internet Access Coalition, July 22, 1997.

Regulatory Treatment of ILEC Operations Support Systems Costs, Lee L. Selwyn, Economics and Technology, Inc., September 1997.

The "Connecticut Experience" with Telecommunications Competition: A Case in Getting it Wrong, Lee L. Selwyn, Helen E. Golding and Susan M. Gately, Economics and Technology, Inc., February 1998.

Where Have All The Numbers Gone?: Long-term Area Code Relief Policies and the Need for Short-term Reform, prepared by Economics and Technology, Inc. for the Ad Hoc Telecommunications Users Committee, International Communications Association, March 1998.

Broken Promises: A Review of Bell Atlantic-Pennsylvania's Performance Under Chapter 30, Lee L. Selwyn, Sonia N. Jorge and Patricia D. Kravtin, Economics and Technology, Inc., June 1998.

Building A Broadband America: The Competitive Keys to the Future of the Internet, Lee L. Selwyn, Patricia D. Kravtin and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, May 1999.

Bringing Broadband to Rural America: Investment and Innovation In the Wake of the Telecom Act, Lee L. Selwyn, Scott C. Lundquist and Scott A. Coleman, a report prepared for the Competitive Broadband Coalition, September 1999.

Dr. Selwyn has been an invited speaker at numerous seminars and conferences on telecommunications regulation and policy, including meetings and workshops sponsored by the National Telecommunications and Information Administration, the National Association of

Regulatory Utility Commissioners, the U.S. General Services Administration, the Institute of Public Utilities at Michigan State University, the National Regulatory Research Institute at Ohio State University, the Harvard University Program on Information Resources Policy, the Columbia University Institute for Tele-Information, the International Communications Association, the Tele-Communications Association, the Western Conference of Public Service Commissioners, at the New England, Mid-America, Southern and Western regional PUC/PSC conferences, as well as at numerous conferences and workshops sponsored by individual regulatory agencies.

Attachment 2

Issue Dynamics, Inc.
Company Description, Services, and Clients

Source: http://www.idi.net/about/clients.vtml

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February 11, 2002 - Issue Dynamics, Inc. Names Public Affairs Veteran to Senior Management Team

December 12, 2001 - Grassroots Enterprise and Issue Dynamics Launch New Crisis Preparation System

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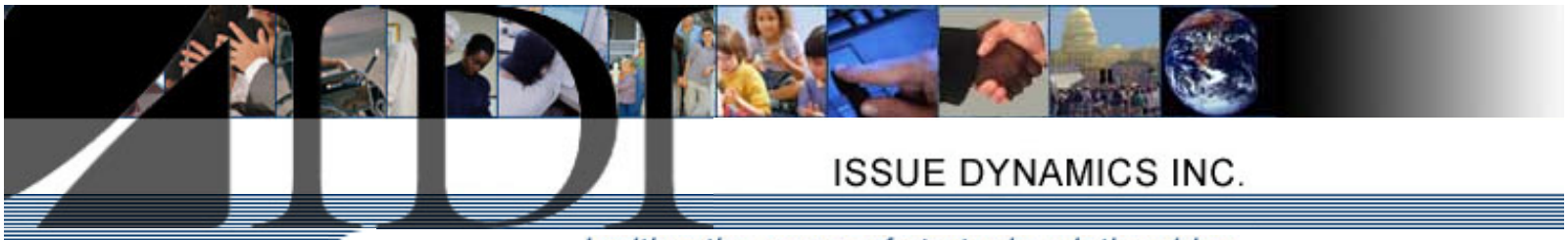

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If you are a member of the press, what issues do you cover?

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- ☐ Internet Politics
- ☐ Corporate Communications
- ☐ Consumer Affairs
- ☐ Other

We would like to periodically send you news and other updates about IDI. Does your email program automatically display email messages that look like web pages (i.e. contain graphics, bold or italic text, etc)?

- ◉ Yes
- ○ No
- ○ I don't know
- ○ Do not send me any updates

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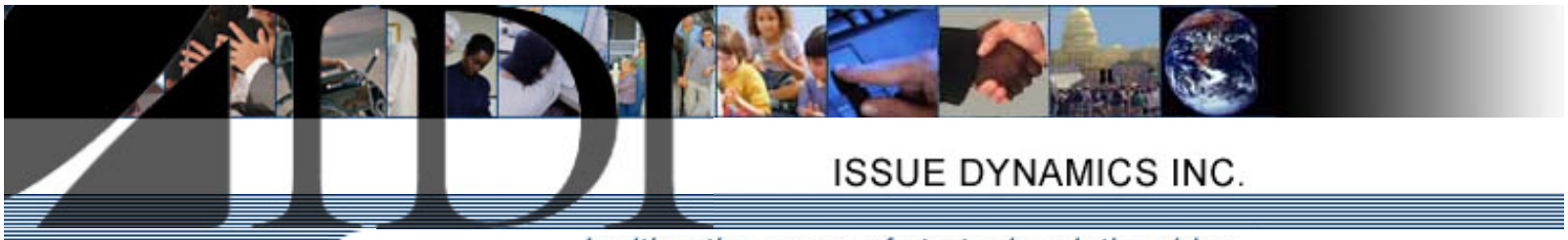

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Issue Dynamics, Inc. Names Public Affairs Veteran to Senior Management Team

Randy Ihara, Former Vice President of External Affairs for Edison Electric Institute to Lead Daily Operations of IDI's Public Affairs Division

Washington, DC, February 11, 2002 - Issue Dynamics, Inc. (IDI) (http://www.idi.net), a leading Washington, DC-based consulting firm specializing in public affairs, Internet strategy and relationship-management services, announced today the appointment of Randy Ihara as Vice President of IDI's Public Affairs division. Mr. Ihara reports to Samuel Simon, Founder and President of Issue Dynamics.

Mr. Ihara brings to IDI over 20 years of experience in public policy, stakeholder management and communications strategy including executive level positions in government and external relations. Mr. Ihara will use his extensive experience gained while working for leading associations to guide IDI's Public Affairs division, develop new client services and grow the Company's business strategy.

"We are very pleased to have Randy, an experienced and successful public policy executive, join the IDI team," said Samuel A. Simon, President of Issue Dynamics. "Randy brings with him a proven track record of leadership and strong results, with in-depth knowledge of how to cultivate effective stakeholder coalitions and alliances as well as develop innovative communications strategies on a range of policy issues," concluded Simon.

Prior to joining IDI, Mr. Ihara held senior management positions with the Edison Electric Institute (EEI), CSX Transportation and was a professional staff member with the Senate Democratic Policy Committee.

Most recently at EEI, Mr. Ihara served as Vice President for External Affairs. In that capacity, he built and directed the newly created department within EEI and was responsible for political affairs, outreach and advocacy to third party constituency organizations. He also worked with state and local elected officials, securing their support for numerous EEI public policy positions before the US Congress. In addition, Mr. Ihara led numerous advocacy campaigns on public policy issues as well as national campaigns. Prior to serving as Vice President at EEI, Mr. Ihara was the Director of EEI's Government Relations department.

"I am pleased to join a company with such enormous potential," said Randy Ihara, Vice President of Issue Dynamics. "IDI's unique combination of traditional and online advocacy, public affairs and communications solutions is setting a new standard in the industry. I am genuinely excited by the opportunity to grow IDI into an industry leader," concluded Ihara.

Mr. Ihara received his B.A. degree in Philosophy from Guilford College and earned his M.A. and Ph.D. in Political Science from the University of Tennessee in Knoxville. He is President of the Substance Abuse and Addiction Recovery Alliance (SAARA) in Northern Virginia and is an accomplished bluegrass musician.

About Issue Dynamics, Inc.

Issue Dynamics, Inc., founded in 1986, is a leading Washington, DC-based consulting firm specializing

in public affairs, issues advocacy, relationship management and crisis mitigation services. IDI has more than a decade of experience developing issue campaigns for some of the nation's most respected organizations, associations and corporations. Experts at bringing together new communication technologies and public affairs know-how, the IDI staff includes many of the nation's premier grassroots organizers and public policy professionals, specializing in issues across the policy spectrum. For more information, visit http://www.idi.net.

Media Contacts:

Jennifer Silberman, Issue Dynamics, jsilberman@idi.net, 202-263-2933

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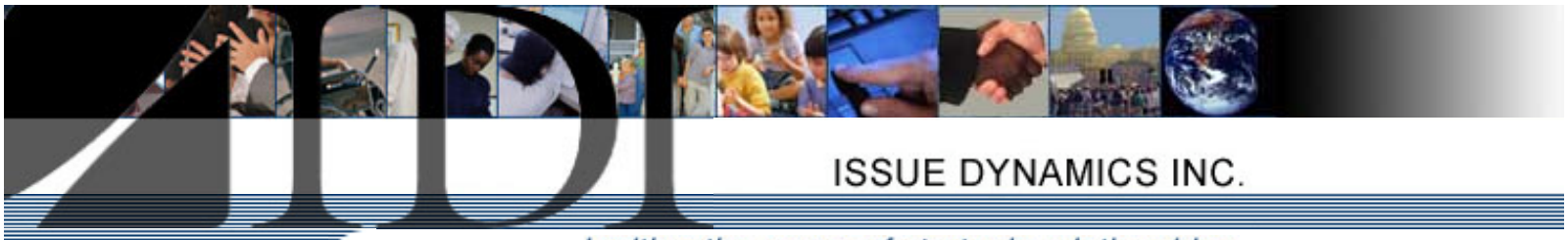

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Grassroots Enterprise and Issue Dynamics Launch New Crisis Preparation System For Public and Government Affairs Leaders

Mike McCurry, Former White House Press Secretary, Headlines Panel On the Importance of Technology and Targeted Outreach for Crisis Scenarios

Washington, DC, December 11, 2001 -- At a crisis communications and management seminar held today at the National Press Club, Grassroots Enterprise, Inc., a provider of advocacy management and communications software, and Issue Dynamics, Inc., a leading Washington, D.C. based consulting firm specializing in public affairs and relationship-management services, announced the launch of a new technology and service bundle which allows organizations to proactively prepare for a crisis. The Crisis Preparedness System, featuring proprietary software powered by Grassroots Enterprise and expert strategic counsel on crisis prevention and mitigation from Issue Dynamics, allows organizations to proactively monitor, manage and react to any type of crisis.

Mike McCurry, Chairman and CEO of Grassroots Enterprise, Inc. and former White House Press Secretary, spoke to a room packed with public and government affairs professionals with one thing on their collective minds: how to prepare for anything that could dramatically change the way they do business.

"Cultivating commitment from staff and supporters in advance of an emergency is the key to crisis management," said McCurry. "Overcoming difficult times is mostly about the strength of the people on your team. Preparing them in advance is the key to success, 365 days a year and when you need it most."

The Crisis Preparedness System provides both the communications plans and the custom technology for organizations to keep in touch with key stakeholders or media despite the circumstance. Crisis alerts, company information and news releases are sent to stakeholders and the media in times of need via wireless devices, e-mail and telephone. The system also includes a series of pre-prepared websites for keeping in touch with employees during physical disasters, accounting for data and online tools for mobilizing legislative support in response to political challenges. These websites are password-protected and customized, so stakeholders can find the information they are looking for to respond to the crisis at hand.

Two panelists at today's seminar spoke of their first-hand experience in leading their companies through major crises: Joan Rasmussen, Director of Media Relations with Verizon and Bill Lecos, Senior Vice President for Policy with the Greater Washington Board of Trade. By using a combination of Internet-based applications such as the Crisis Preparedness System and traditional crisis communications strategy, both speakers were effectively and proactively able to deliver information to their key stakeholders in the aftermath of September 11.

"Through the combined use of Internet-based technology, featuring Grassroots Enterprise software, and the power of an existing and updated database, we had an instant platform to launch our LetFreedomSoar campaign pushing for the re-opening of Washington Reagan National Airport," said Bill Lecos, Senior Vice President for Policy, Greater Washington Board of Trade. "In launching the website www.letfreedomsoar.com, we were able to register thousands of new supporters. In just 24 hours, 850 of those new supporters sent a letter directly from our website to the White House. The

results of our campaign were positive: Reagan National was re-opened on October 4."

Managing and maintaining the database is an important component of utilizing the software. Communicating with stakeholders regularly and keeping information up-to-date allows for crisis preparedness. "Dark sites have no impact if there are dark lists," said Ken Deutsch, Senior Vice President, Issue Dynamics. "By keeping the database updated and segmented, understanding who the stakeholders are and which issues matter to them, enables an organization to gain insight into how to refine messaging, optimize strategy and justify the value of an organization's crisis communications outreach efforts," concluded Deutsch.

Joan Rasmussen, who works at Verizon's New York headquarters, spoke about the challenge of serving as a source of public information, even as the company's facilities near the World Trade Center were seriously damaged by the attacks on September 11. "Using a variety of communications channels, Verizon was able to reach our customers, employees and stakeholders in the immediate aftermath of September 11," said Joan Rasmussen, Director, Media Relations, Verizon. "By working quickly to establish our key messages and solid internal information channels, we were able to proactively manage communications despite the enormous challenges this crisis created for our company and nation."

About Grassroots Enterprise, Inc.
Grassroots Enterprise, Inc. is a leading provider of Internet-based advocacy management and communications software to companies and organizations across the public policy spectrum. Grassroots Enterprise provides the technology and communications platform to grow, manage and mobilize stakeholders. Through its software, Grassroots Enterprise enables organizations to take full advantage of the cost and time efficiencies of the Internet, enabling them to increase their impact on public policy, manage crisis situations and conserve valuable resources. For more information, visit www.grassroots.com.

About Issue Dynamics, Inc. (IDI)
Issue Dynamics, Inc., founded in 1996, is a leading Washington, D.C.-based consulting firm specializing in public affairs, relationship management and crisis mitigation services. IDI has more than a decade of experience developing issue campaigns for some of the nation's most respected organizations and corporations. Experts at bringing together new communication technologies and public affairs know-how, the IDI staff includes many of the nation's premier grassroots organizers, specializing in issues across the policy spectrum. For more information, visit www.idi.net.

Media Contacts:

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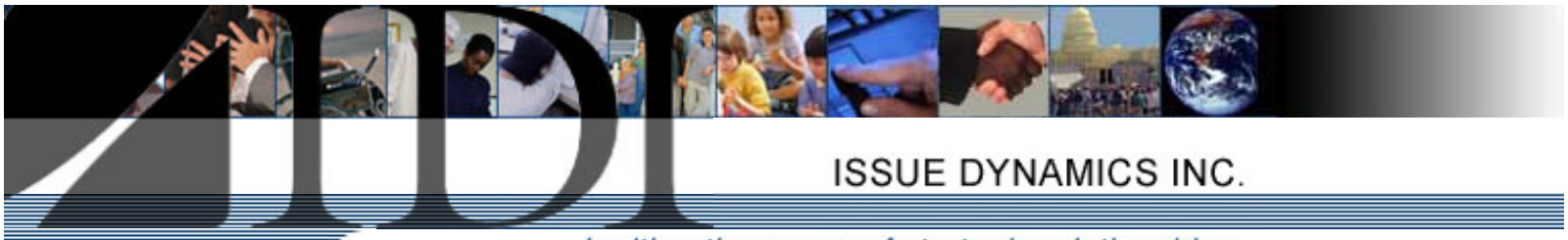
Linda Gamberg, Grassroots Enterprise, Inc., pr@grassroots.com, (415) 633-1185



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Free Crisis Management Seminar

On December 11th, join former White House press secretary Mike McCurry and other expert communication strategists for a free seminar on how companies and interest groups can best prepare for potential crises like:

· Legislative challenges to the way you do business

· Assaults on your corporate reputation

· Physical disruptions that can halt your operations

Corporate communications, public affairs, government relations and human resource professionals are reviewing their crisis management plans with new awareness since September 11th. How to protect business, people, intellectual property and the bottom line is on everyone's mind. Companies and organizations alike are learning that two things are integral to their plans: establishing strong Washington, D.C. relationships and behind-the-scenes technology that can facilitate communication during any type of crisis.

Lay the groundwork now for effectively managing issues that can arise later. Don't wait until a crisis to start planning your response. Be our guest at a free seminar featuring business and political leaders who have successfully guided their organizations through the most serious of challenges - and prevailed.

Click here to learn more and to register for the event.

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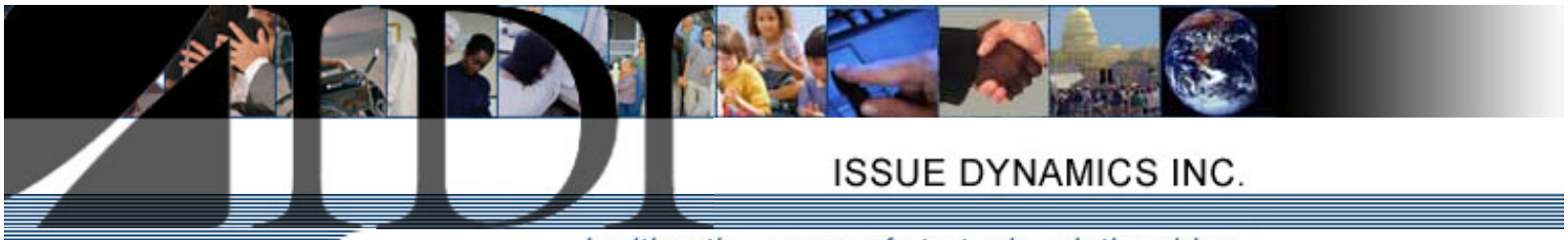

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Issue Dynamics, Inc. announced today the appointment of Randy Ihara as Vice President of IDI's Public Affairs division.
February 11, 2002

Grassroots Enterprise and Issue Dynamics Launch New Crisis Preparation System
Grassroots Enterprise, Inc. and Issue Dynamics, Inc. announce new technology and service bundle which allows organizations to proactively prepare for a crisis
December 12, 2001

Free Crisis Management Seminar
On December 11th, join former White House press secretary Mike McCurry and other expert communication strategists for a free seminar on how companies and interest groups can best prepare for potential crises
November 29, 2001

November IDIdeas - A Newsletter from Issue Dynamics

November 19, 2001

IDI Expands Corporate Grassroots Practice
IDI hires Brian Wild as Director of Grassroots Services and Campaigns and announces other staffing additions.
August 23, 2001

July IDIdeas - A Newsletter from Issue Dynamics

July 16, 2001

May IDIdeas - A Newsletter from Issue Dynamics

May 30, 2001

April IDIdeas - A Newsletter from Issue Dynamics
Issue Dynamics, Inc.'s April Newsletter "IDIdeas" (Flash based newsletter).
April 19, 2001

Learn how Public Affairs Professionals are using the Internet!
Leading public affairs professionals will be discussing what they know, and how they use, the Internet to accomplish their goals. Topics will include Online Grassroots, Media Relations, Crisis Communications, and how to work with (and translate between) IT departments and vendors.
March 27, 2001

March IDIdeas - A Newsletter from Issue Dynamics

Issue Dynamics, Inc.'s March Newsletter "IDIdeas" (Flash based newsletter).
March 15, 2001

If you can't find what you are looking for here, you can try searching the site using the search tool below:

Keyword Search:

Search

Match: Any word All words Exact phrase

Sound-alike matching

Dated: Anytime

From: , ,

To: , ,

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Show: 10 results with summaries

Sort by: score

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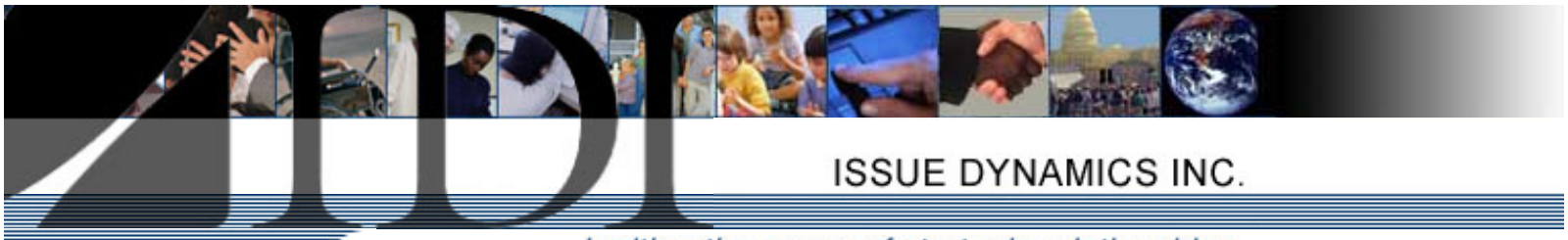

Igniting the power of strategic relationships

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Issue Dynamics, Inc. believes in recruiting and retaining superior employees. Our Washington DC based office is currently offering opportunities in the following areas:

Public Affairs Intern
Full-time paid internship available in the Public Affairs Department. Responsibilities include research and writing, Internet monitoring and project support. Applicants should have some general background in political science, government and/or public affairs and should have the ability to juggle multiple tasks, meet sudden deadlines. Internet experience, strong writing skills required and experience with Microsoft Office programs required.

Send resume, salary history and writing sample to: Attn: Human Resources, PO Box 27911, Washington, DC 20005; Fax: (202) 263-2960; E-mail: jobs@idi.net.

Public Affairs Consultant
Issue Dynamics, Inc., a public policy and consumer affairs firm, seeks a public affairs professional to serve an array of corporate and non-profit clients. Strong relationships with national and/or regional community based organizations, trade associations and consumer groups in two or more of the following areas is preferred: K-12 education, consumer groups, senior citizens, rural, health, or small business. Experience with grassroots organizing and issue campaigns desirable. Knowledge of legislative and regulatory processes and public affairs helpful. Strong writing, analytical and networking skills required. Competitive salary and excellent benefits. Office located in downtown DC close to METRO.

Send resume with salary history to: Attn: Human Resources, PO Box 27911, Washington, DC 20005; Fax: (202) 263-2960; E-mail: jobs@idi.net.

Public Affairs Research Assistant
We are currently seeking a research assistant with 1-3 years experience to support research requirements of firm - Internet monitoring, investigative research and writing on a abroad range of public policy topics and project support for senior consultants. Strong background in public policy research, experience with qualitative and/or technology issues, legislative and regulatory process preferred. Strong writing skills and knowledge of Microsoft Office required. Competitive salary and benefits. Office located in downtown DC close to METRO.

Send resume and salary history to: Human Resources-PA, FAX: 202-263-2960 or E-Mail: jobs@idi.net.

Web Designer/Flash Designer
IDI (http://idi.net), the leader in Public Affairs Internet Strategic Communications since 1993 seeks an experienced web designer. Strong Macromedia Flash skills are required. Need individual who can create project storyboards and original vector-based illustrations. Qualified candidate should have experience with Photoshop, Illustrator or FreeHand and other web design software. Prefer individual who can work on both PC and Mac platforms.

Send cover letter with resume, URLs and salary requirements to: Attn: Human Resources, PO Box 27911, Washington, DC 20005; Fax: (202) 263-2960; E-mail: jobs@idi.net

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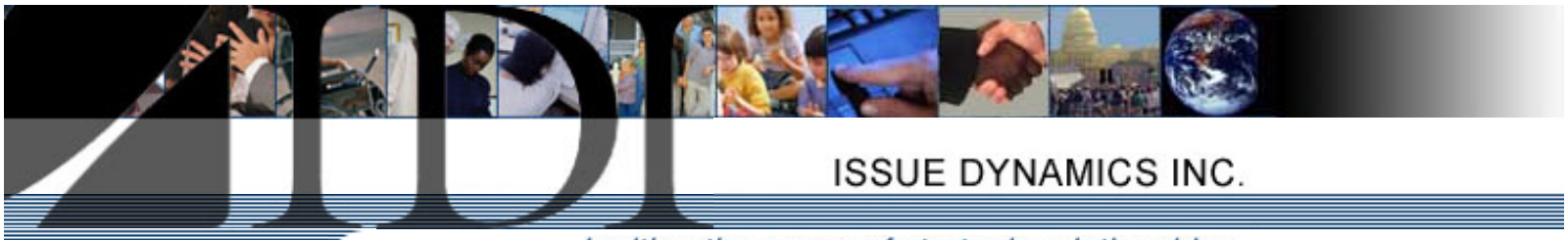

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Public Relations

IDI has a great deal of experience in managing public relations. Our online Media Relations Management tools are the best available on the market today. But the best public relations strategies are the ones that integrate many aspects of communications.

Our clients look for more than message awareness - they want the public to fully understand their message, and for the public to agree with their point of view.

IDI is a leader in using the Internet for public relations. We are leaders in promoting our clients' views with third party stakeholders, and with integrating those stakeholders views into the overall public relations strategy. But this is not about simply getting third party stakeholders to mimic the "message points." We assist them in fully understanding and articulating complimentary messages in ways that are sure to garner media attention.

It's about "the power of the many." More voices, more power. IDI works individually with third party stakeholders and as members of coalitions to influence media coverage of an issue through:

- News conferences.
- Preparation and release of studies, issue briefs, advocacy papers.
- Voter surveys.
- Online Media Relations Management Tools.
- Drafting and placement of op-ed articles and advertorials.
- Letters-to-the-editor campaigns.
- Editorial board meetings.
- Design and placement of issue advertisements.
- "Off the record" issue briefings

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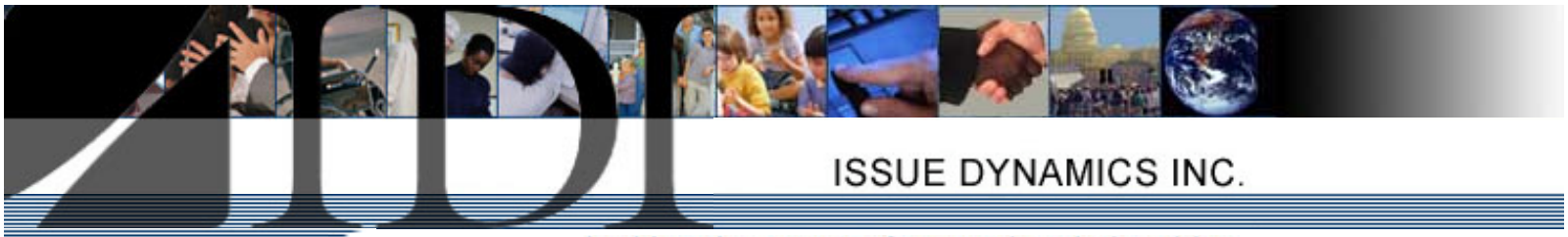

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Grassroots/Grasstops

What is the goal of your grassroots / grasstops campaign? Is it to have immediate, short term results focused on a specific issue… or are you building relationships and forming an "army" that would be ready at a moment's call? At IDI, we know how to build and leverage grassroots mobilization and grasstops contacts… and we know how to do it the right way. We know that successful campaigns build "1-to-1-to-1 relationships" between your organization and your supporters, and between your supporters and their elected officials.

While no two grassroots campaigns are the same, IDI knows that the most successful grassroots efforts are the ones that integrate both online and offline elements. They can be ever-green campaigns that include field canvassing, field events, road-shows and tours, videotapes, public speaking, third party organizing, mdeia relations, and much more. This is but a short list of possible elements.

The bottom line is that successful grassroots / grasstops campaigns ensure that participants understand the underlying issue and are comfortable with getting involved. We work to keep our clients' supporters informed on the issue with regular updates and briefings. And we never put our clients' grassroots supporters' names on a letter, petition or advertisement, or share their names with other groups, without their informed consent.

IDI's staff includes several of the nation's premier grassroots organizers. We also have a network of grassroots managers across the country that is available on a project-by-project basis. IDI supervises their time and talents to keep costs low and results high.

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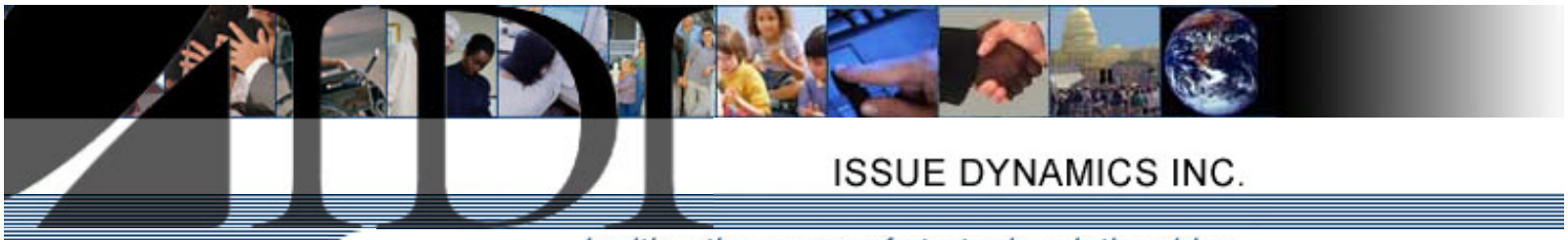

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Coalition Building

IDI frequently recommends that our clients work in formal coalitions with other strategic stakeholders, companies and trade associations. IDI manages such client/strategic stakeholder coalitions to ensure consistency of message and coordination of industry and strategic stakeholder activities. With IDI's support, our clients and their strategic stakeholders support a common agenda.

IDI-managed industry/strategic stakeholder coalitions can respond quickly to emerging issues and developments on behalf of its members. IDI keeps all coalition members updated, informed and involved.

Coalition members are often called upon to support the activities of the coalition by:

- Participating in planning sessions
- Attending press conferences
- Visiting elected officials
- Writing letters to public officials
- Testifying before public bodies
- Submitting written testimony for hearings
- Authoring op-ed articles and letters-to-the editor
- Participating in advertising campaigns
- Organizing and mobilizing their organizations' membership

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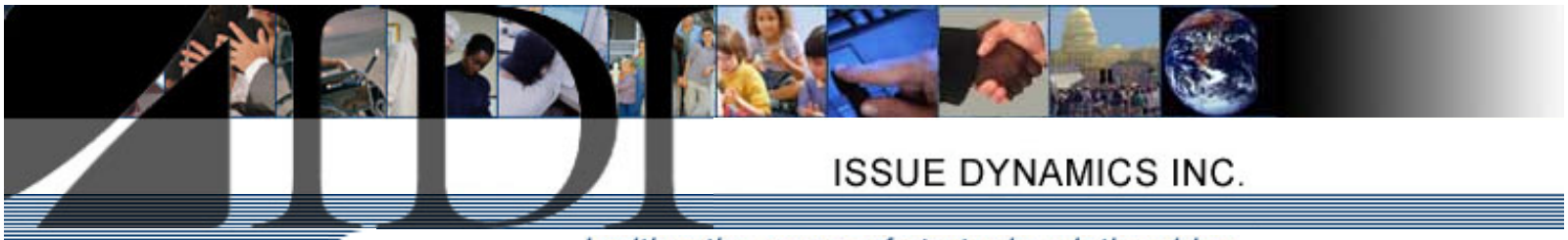

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Association/Nonprofit Management

With over three decades of hands-on experience running associations and not-for-profit organizations, Issue Dynamics Inc. offers clients a comprehensive package of services for association and not-for-profit management, including:

- Database management
- Membership recruitment
- Direct mail
- Production of newsletters, press releases, annual reports and other publications
- Coordination of national conferences, seminars and workshops
- Advisory committee management
- Legal representation and lobbying
- Internet services (see Strategic Internet Communications)

IDI currently provides complete management services for:

- Alliance for Public Technology (APT)
- Telecommunications Research and Action Center (TRAC)
- Communications and Public Technology Network (CAPTN)

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Creative Services

In support of its other professional services, IDI provides a complete range of creative and graphic design services. This ensures that the communications materials and tools created for the client, accurately and effectively support the strategy and intent of the client's communication plan.

While much of IDI's creative focus is on Internet-based communications, IDI's design team also produces high-quality newsletters, brochures, direct mail cards, and other print materials, multimedia CD-ROMs and laptop presentations, exhibit graphics and other marketing communications tools.

In the area of Internet communications, IDI's creative design services designs new web sites from the ground up, and redesigns existing sites to improve their appearance, strengthen their brand identity, streamline their navigation, and improve their load time and overall usability.

In addition to web site design, IDI creates online advertising, including standard banner ads, popup window ads, and "rich media" (audio and video) ads and emails that can be used for "viral marketing" and other online promotional campaigns.

Whatever the creative requirements of a project may be, IDI's writers and designers have the creative edge and the technological skills to make the project a success.

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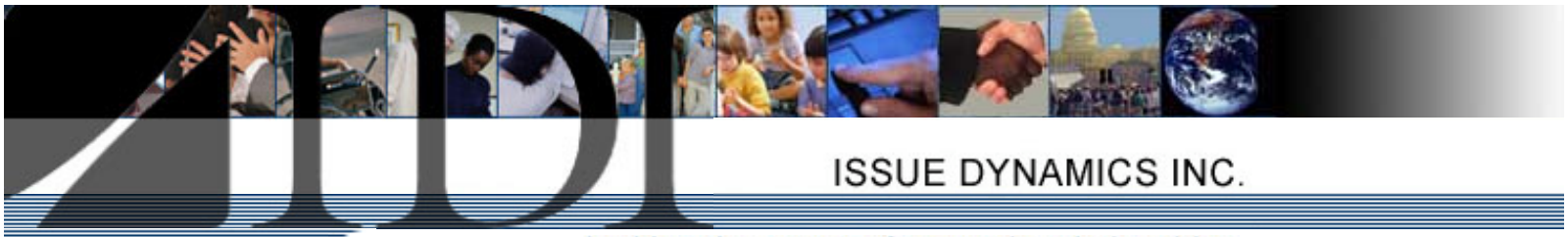

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Research

With an experienced staff in both the public and private sectors, IDI's research team provides clients with topical briefs, targeted policy research, and in-depth issue analysis. Subjects of IDI research projects include, but are not limited to, telecommunications, Internet, and technology policy issues such as education and telework.

In conjunction with its Internet Monitoring Services, IDI also provides clients with competitive intelligence.

IDI also provides clients with a network of policy experts who can provide content and services over a range of topics. These experts are also available as members of IDI's speakers bureau. An online technology policy e-zine featuring the writings of academics and other policy experts is under development as well.

IDI's customized research is fully supported by its Public Affairs Department. Not only do we conduct the research, but we utilize this information to meet clients' advocacy needs through other services, including media relations and Internet communications.

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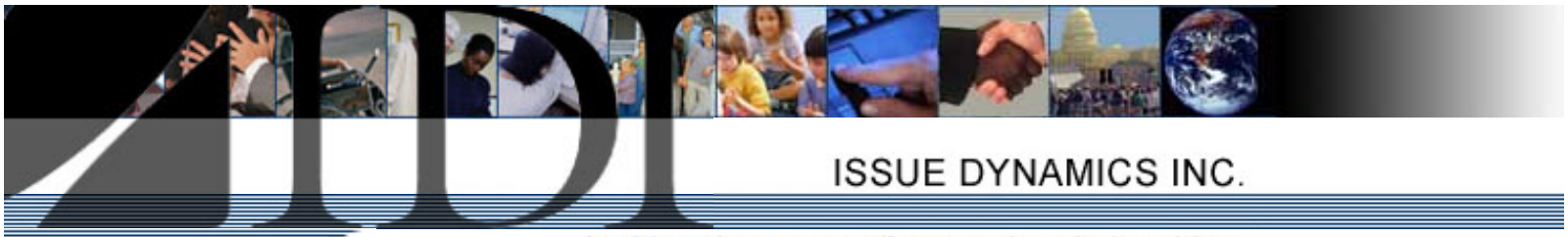

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Consumer Education

The IDI team includes national leaders in such areas as the Internet, consumer affairs, disability rights, civil rights, community organizing, education, economic development, research and telemedicine. IDI uses this talent and know-how to develop consumer education campaigns that promote our clients' business and public policy goals.

IDI-managed consumer education campaigns turn potential problems into opportunities. We help our clients identify trends and emerging issues that can affect their business or organization. Most importantly, IDI develops strategies to get out "ahead of the curve" and use consumer education initiatives to help our clients take advantage of these new developments.

IDI works with our clients to develop joint consumer education projects with their strategic stakeholders. Joint education projects can help consumers make sense of changes in the marketplace. And joint education projects lend credibility and bolster consumer confidence in the key messages and underlying themes. Members of IDI's team are also available to play a visible, high-profile role in consumer education projects.

IDI consumer education projects include survey research to identify issues, development of key messages and themes, preparation of consumer education materials, promotion through the media and other appropriate channels, and distribution through the us e of toll-free telephone numbers, public distribution centers, and the Internet.

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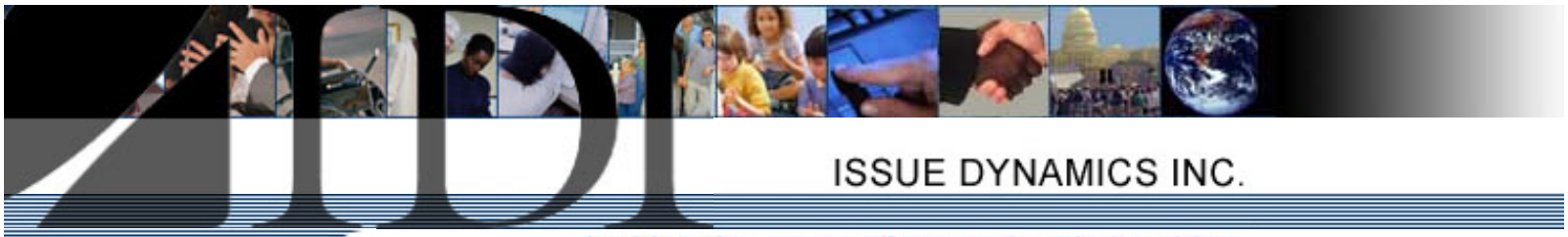

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Consumer Affairs

IDI helps our clients keep their "finger on the pulse" of their strategic stakeholders. By anticipating developments that affect their interests, our clients are better able to turn potential problems into opportunities to reach out to strategic stakeholders and develop "win-win" outcomes.

IDI's consumer affairs services also help our clients (1) anticipate developments affecting their industry, (2) understand how other companies manage their relationships with strategic stakeholders, and (3) develop and expand relationships with strategic stakeholders and win support for public affairs, legislative and marketing goals.

IDI provides regular reports and special updates to our clients on strategic stakeholder activity. These reports and updates include information on meetings, conferences and special events, internal organizational changes, legislative, regulatory and legal activities, coalition building and media events.

Most importantly, IDI identifies opportunities for our clients to understand and reach out to strategic stakeholders through:

- Advice on strategic corporate giving
- Placement of senior executives on the boards of directors or special committees of key third party groups
- Strategies for leveraging policy decisions for maximum political benefit
- Identification of speaking and other opportunities for client representatives at events sponsored by strategic stakeholders
- Participation of strategic stakeholders on government advisory panels and industry sponsored panels
- Development of proactive consumer education initiatives with strategic stakeholders.
- Creation and management of consumer advisory panels

By effectively managing relationships with strategic stakeholders, IDI helps our clients develop the broadest possible support for their public policy and marketing goals.

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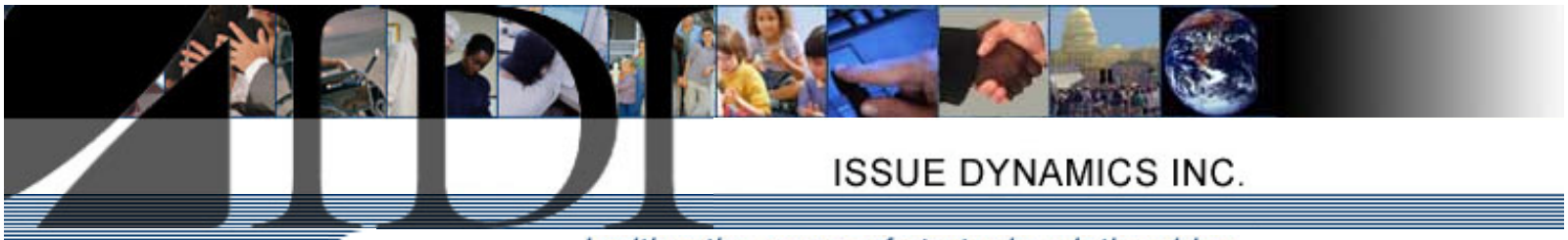

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[Grassroots Multiplier | Newsroom Multiplier | Crisis Preparedness System | Action Dialer |
| Software Strengths | Demo]

Issue Dynamics and Grassroots Enterprise, Inc. partnered together in November 2000, uniting the leaders in online advocacy and communications with the power of Silicon Valley to create the next generation of advocacy management software: Grassroots Multiplier[SM] and Newsroom Multiplier[SM].

This suite of Internet-based software, along with Action Dialer, provides public affairs professionals with innovative solutions to critical challenges. These products can help you build stronger relationships with your strategic stakeholders and monitor the success of your initiatives.

- Grassroots Multiplier[SM] provides effective management of advocacy and outreach efforts.
- Newsroom Multiplier[SM] provides timely, dynamic delivery of news releases and other company information.
- Crisis Preparedness System provides custom technology and communications strategies to aid in your crisis management preparation.
- Action Dialer[SM] uses the Internet to quickly connect stakeholders to policymakers from your website via a toll-free phone call.

For more information or to schedule a demonstration of the software please contact IDI.

Grassroots ENTERPRISE

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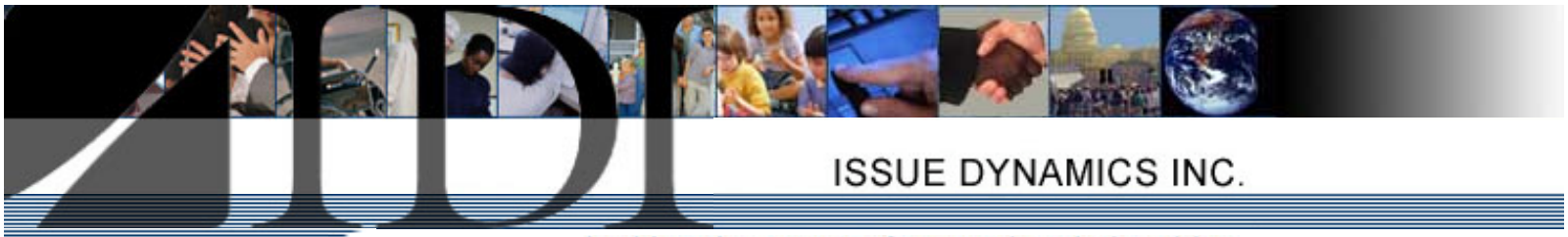

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Internet Communications

If it involves the Internet, chances are that Issue Dynamics knows about it and has investigated how to use it for our clients. That is because we have been specializing in online communications since before there was a World Wide Web. And we are comfortable saying that no other organization knows more about using the Internet for public affairs, government and media relations than us.

In the early days of the Internet, Issue Dynamics was the first to launch a media relations web site on the Web. We were first to launch a major corporate public policy site and the first to use the Internet to affect public policy issues. IDI's current line of proprietary Internet products have won multiple awards and has been used by Fortune 50 corporations, political parties, national associations, law firms, federal agencies, public policy groups and non-profit organizations.

What truly makes IDI's Internet consulting different is the staff's ability in developing and implementing strategies. Our account managers and consultants are activists who also know how to use technology… not the other way around.

Our unique combination of public affairs experience, Internet programming, creative Internet site design, and technical skills makes IDI that rare organization. We provide all the services necessary to create an Internet campaign that impacts the right audiences with the right messages and achieves the established goals.

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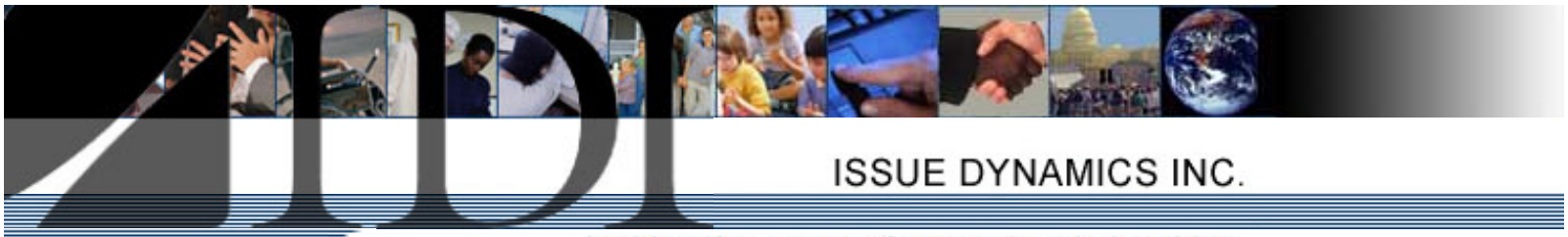

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Issue Dynamics Inc. (IDI), founded in 1986, is a leading Washington, D.C. based consulting firm specializing in public affairs and relationship-management services. IDI has figured out how to successfully merge and seamlessly integrate the relationship-building profession with the development of online tools. It has more than a decade of experience in developing issue campaigns for some of the nation's most respected organizations and corporations.

What makes IDI unique is our skill and ability to build relationships for our clients. We have been the leader in offering relationship management services for over fifteen years. It continues to be the driving force behind the professional and consulting services we offer our clients, and we made sure it was built into the award-winning Internet technology we sell.

No other company can match IDI's breadth and ability to merge traditional public affairs consulting with today's Internet based communications. We are the largest and most experienced company that offers both Internet based relationship management tools and professional services components together as one package.

Our experience is simply unmatchable.

We were among the first to help our clients "go online" by offering them electronic bulletin boards in the late 80's. In 1993, we were the company that launched the Internet's first corporate public affairs web site (Bell Atlantic), the first trade association issue campaign site (1993, Alliance for Competitive Communications), the first major political party committee and candidate Internet sites (1994, Democratic Senate Campaign Committee) and the first independent Congressional information site (1994, Congress.org). We developed the first user database driven grassroots web technology (1998, Grassroots Manager), the first Internet to phone gateway to Congress (1998, Washington Call Manager) and were the first to develop a wireless Internet grassroots tool (2000).

In a nutshell, no company can offer their clients better public affairs consulting, strategic Internet communication applications and over-all relationship management services. It is as simple as that.

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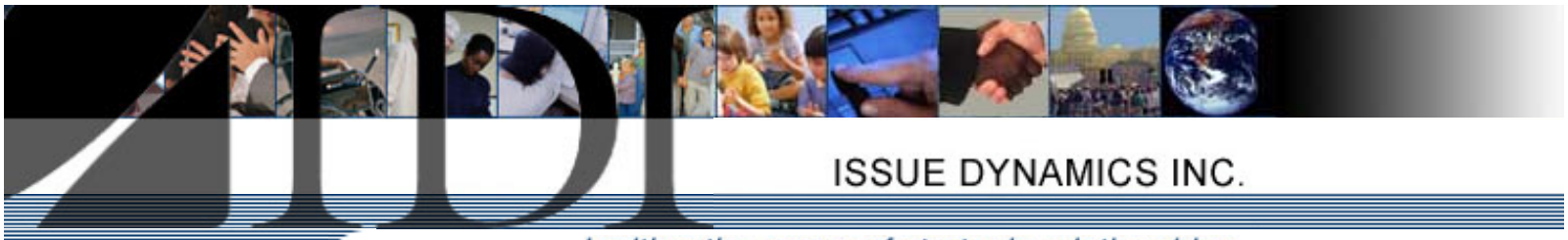

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Public Affairs

IDI offers a range of services that give our clients the edge in achieving their business and public policy goals. Whether the need is to shape public opinion or influence public policy makers, IDI offers services unequaled by other firms in the field. We know how to shape issues and make them work for our clients.

The IDI team has extensive experience working on Capitol Hill and in state and local governments, in organizing grassroots and political campaigns, building coalitions and communities, managing associations and non-profits, launching public relations campaigns, developing strategic Internet communications and conducting strategic research.

IDI identifies emerging issues and develops competitive intelligence. Using this information, we identify and cultivate potential allies, and then develop strategies to define and shape issues through research, oversight, and advocacy.

IDI works with our clients on reputation management and image enhancement through special projects, affinity marketing, and cause marketing with strategic stakeholders. These projects give IDI's clients a competitive edge in the marketplace and in the public policy arena.

IDI represents our clients and their interests before legislative bodies, executive branch agencies, and the courts at all levels of government. We work with our clients' strategic stakeholders to ensure that their voice is heard and that their clout is felt whenever and wherever decisions are being made.

IDI helps our clients shape the public policy agenda through their relationships with strategic stakeholders. Through consumer education, coalition building, grassroots campaigns, public relations, and consumer affairs projects, IDI helps our clients define the issues that are critical to their bottom line success.

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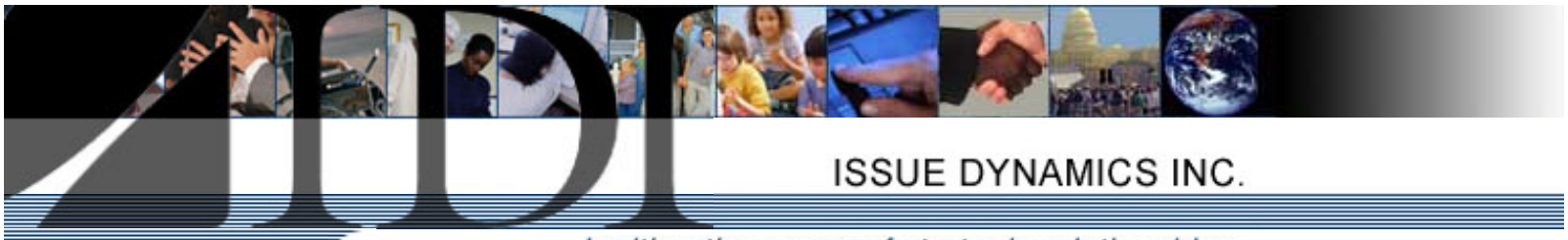

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Enter your email address and the password that you created when you first visited the IDI web site. (If you can't remember your password, leave that box blank and follow the instructions on the next page for having your password mailed to you.)

Email:

Password:

Next

If this is your first visit to the site, click here to tell us about yourself.

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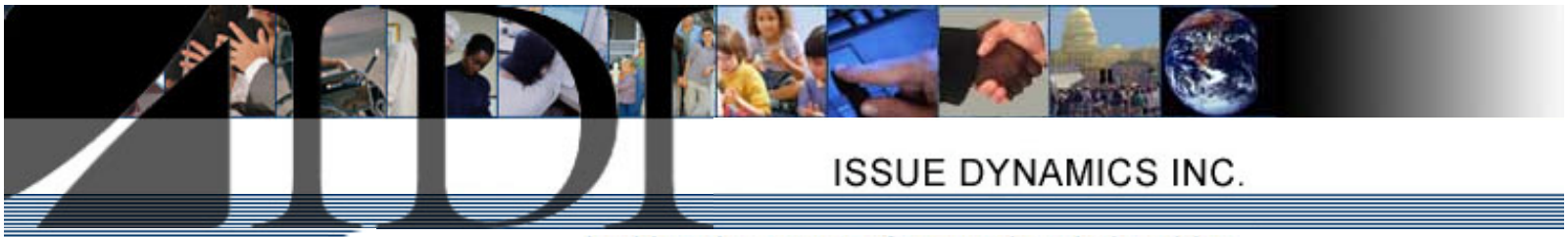

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Consumer Education
Research
Creative Services
Assn./Nonprofit Mngmnt.
Coalition Building
Grassroots/Grasstops
Public Relations
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Representative list of past and present IDI clients.

Alliance for Consumer Rights
Alliance for Public Technology
America Online
American Express
American Heart Association
American Social Health Association
American Strategies
American Telemedicine Association
Ameritech
Amnesty International USA
Associated Credit Bureaus
Association of America's Public Television Stations
Bank of America
Bell Atlantic
BellSouth
Bill Bradley for President
Blue Cross Blue Shield Association
Blue Cross Blue Shield of Georgia
Business Coalition for US-China Trade
California Teachers Association
CDR Associates
Center for Marine Conservation
Citizens Educational Foundation
Clear the Air
Coalition for Affordable Local and Long Distance Service (CALLS)
Communications and Policy Technology Network (CAPTN)
Corning
Crounse Malchow & Schlackman
Defenders of the Wildlife
Dontblowit.org
Edelman Interactive
Edison Electric Institute
Education and Libraries Networks Coalition (EdLiNC)
Emergency Committee on American Trade (ECAT)
endgridlock.org
Epilepsy Foundation of America
Fannie Mae
Fireman's Fund Insurance Co.
Fleishman-Hillard
George Washington School of Political Management
George Washington University - Virginia Campus
Georgia Early Learning Institute (GELI)
Greater Phoenix Chamber of Commerce
Greater Washington Board of Trade
GreenCar.org
GTE

Gun Free Kids, a project of New Yorkers Against Gun Violence
Hewlett-Packard
Hispanic Association on Corporate Responsibility (HACR)
Human Rights Campaign
iAdvance
Inova Health System
International Campaign for Tibet
International Food Information Council (IFIC)
Internet Alliance
Internet Public Policy Network (IPPN)
Juno Advocacy Network
Kelsey-Hayes
Leadership Conference on Civil Rights (LCCR)
M&R Strategic Services
Mark Warner 2001
Metricom
NAACP
National Association of Realtors
National Association of the Deaf
National Biosolids Partnership
National Center for Tobacco Free Kids
National Community for Latino Leadership
National Consulting Strategies
National Council of La Raza
National Environmental Trust
National Latino Telecommunications Task Force
New Millennium Research Council
New York State Democratic Party
Novartis
Open Access
Optimum Public Relations
Organizations Concerned About Rural Education
Ozone Action Corporation
Pacific Bell
Pacific Gas & Electric
Personal Communications Industry Assoc.
Public Affairs Council
Qualcomm
Qwest
Repeal the Tax on Talking
Salestar
San Francisco Giants
SBC Communications
Southern Environmental Law Center
Sprint
Techrocks
Telecommunications Research & Action Center
Teligent, Inc.
The Global Telemedicine Group
The Justice Project
The NOAH Group
The TransAfrica Forum
The US Internet Industry Association (USIIA)
United States Telecom Association (USTA)
U.S. Chamber of Commerce
U.S. West
Verizon
Verizon Wireless
Virginia Center for Innovative Technology
Virginia Secretary of Technology
Virginia Power

919 18th Street N.W. 10th Floor Washington, DC 20006 Tel: 202.263.2900 Fax: 202.263.2960

Attachment 3

Telecommunications Research and Action Center
IRS Form 990-EZ for fiscal year ending September 30, 1999

Form **990-EZ**

Department of the Treasury
Internal Revenue Service

Short Form
Return of Organization Exempt From Income Tax

Under section 501(c) of the Internal Revenue Code (except black lung benefit trust or private foundation) or section 4947(a)(1) nonexempt charitable trust
▶ For organizations with gross receipts less than $100,000 and total assets less than $250,000 at the end of the year
▶ *The organization may have to use a copy of this return to satisfy state reporting requirements.*

OMB No. 1545-1150

1998

This Form is Open to Public Inspection

A For the 1998 calendar year, OR tax year beginning 10/ 1 , 1998, and ending 9/30 , 19 99

B Check if: ☐ Change of address ☐ Initial return ☐ Final return ☐ Amended return (required also for state reporting)

Please use IRS label or print or type. See Specific Instructions.

C Name of organization
TELECOMMUNICATIONS RESEARCH & ACTION CENTER

Number and street (or P.O. box, if mail is not delivered to street address) Room/suite
P.O. BOX 12038

City or town, state or country, and ZIP code + 4
WASHINGTON, DC 20005

D Employer identification number
52-0988429

E Telephone number
202-263-2900

F Check ▶ ☐ if exemption application is pending

H Enter four-digit group exemption number (GEN)

G Accounting method: ☐ Cash ☒ Accrual ☐ Other (specify) ▶

I Type of organization - ▶ ☒ Exempt under Section 501(c) (3) ▶ (insert number) OR ▶ ☐ Section 4947(a)(1) nonexempt charitable trust
Note: Section 501(c)(3) organizations and section 4947(a)(1) nonexempt charitable trusts MUST attach a completed Schedule A (Form 990).

J Check ▶ ☒ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, the organization should file a return without financial data. **Some states require a complete return.**

K Enter the organization's 1998 gross receipts **(add back lines 5b, 6b, and 7b, to line 9)** ▶ $ 30,364.
If $100,000 or more, the organization must file Form 990 instead of Form 990-EZ.

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances

Revenue	1	Contributions, gifts, grants, and similar amounts received		1	13,200.
	2	Program service revenue including government fees and contracts		2	17,108.
	3	Membership dues and assessments		3	
	4	Investment income		4	56.
	5a	Gross amount from sale of assets other than inventory	5a		
	b	Less: cost or other basis and sales expenses	5b		
	c	Gain or (loss) from sale of assets other than inventory (line 5a less line 5b)		5c	
	6	Special events and activities (attach schedule):			
	a	Gross revenue (not including $ _____ of contributions reported on line 1)	6a		
	b	Less: direct expenses other than fundraising expenses	6b		
	c	Net income or (loss) from special events and activities (line 6a less line 6b)		6c	
	7a	Gross sales of inventory, less returns and allowances	7a		
	b	Less: cost of goods sold	7b		
	c	Gross profit or (loss) from sales of inventory (line 7a less line 7b)		7c	
	8	Other revenue (describe ▶)		8	
	9	**Total revenue** (add lines 1, 2, 3, 4, 5c, 6c, 7c, and 8) ▶		9	30,364.
Expenses	10	Grants and similar amounts paid		10	
	11	Benefits paid to or for members		11	
	12	Salaries, other compensation, and employee benefits		12	
	13	Professional fees and other payments to independent contractors		13	1,534.
	14	Occupancy, rent, utilities, and maintenance		14	
	15	Printing, publications, postage, and shipping		15	8,142.
	16	Other expenses (describe ▶ SEE STATEMENT 1)		16	56,041.
	17	**Total expenses** (add lines 10 through 16) ▶		17	65,717.
Net Assets	18	Excess or (deficit) for the year (line 9 less line 17)		18	<35,353.>
	19	Net assets or fund balances at beginning of year (from line 27, column (A)) (must agree with end-of-year figure reported on prior year's return)		19	<10,648.>
	20	Other changes in net assets or fund balances (attach explanation)		20	
	21	Net assets or fund balances at end of year (combine lines 18 through 20) ▶		21	<46,001.>

SCANNED JAN 24 2000

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DEC 10 1999
OGDEN, UT
IRS-OSC

Part II Balance Sheets - If Total assets on line 25, column (B) are $250,000 or more, file Form 990 instead of Form 990-EZ.

		(A) Beginning of year		(B) End of year
22	Cash, savings, and investments	2,474.	22	3,895.
23	Land and buildings		23	
24	Other assets (describe ▶ SEE STATEMENT 2)	13,000.	24	752.
25	**Total assets**	15,474.	25	4,647.
26	**Total liabilities** (describe ▶ ACCOUNTS PAYABLE)	26,122.	26	50,648.
27	**Net assets or fund balances** (line 27 of column (B) must agree with line 21)	<10,648.>	27	<46,001.>

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose?

Describe what was achieved in carrying out the organization's exempt purposes. In a clear and concise manner, describe the services provided, the number of persons benefited, or other relevant information for each program title.

Expenses (Required for 501(c)(3) and (4) organizations and 4947(a)(1) trusts; optional for others.)

28 PUBLIC EDUCATION - CONSUMER AND PUBLIC EDUCATION ON TELECOMMUNICATIONS OPTIONS (Grants $) 28a 65,717.

29 (Grants $) 29a

30 (Grants $) 30a

31 Other program services (attach schedule) (Grants $) 31a

32 Total program service expenses (add lines 28a through 31a) ▶ 32 65,717.

Part IV List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
SEE ATTACHED SCHEDULE		0.	0.	0.

Part V Other Information

		Yes	No
33	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity		X
34	Were any changes made to the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.		X
35	If the organization had income from business activities, such as those reported on lines 2, 6, and 7 (among others), but NOT reported on Form 990-T, attach a statement explaining your reason for not reporting the income on Form 990-T.		
a	Did the organization have unrelated business gross income of $1,000 or more or 6033(e) notice, reporting, and proxy tax requirements?		X
b	If "Yes," has it filed a tax return on Form 990-T for this year?	N/A	
36	Was there a liquidation, dissolution, termination, or substantial contraction during the year? (If "Yes," attach a statement)		X
37a	Enter amount of political expenditures, direct or indirect, as described in the instructions. ▶ 37a 0		
b	Did the organization file Form 1120-POL, for this year?		X
38a	Did the organization borrow from, or make any loans to, any officer, director, trustee, or key employee OR were any such loans made in a prior year and still unpaid at the start of the period covered by this return?		X
b	If "Yes," attach the schedule specified in the line 38 instructions and enter the amount involved 38b N/A		
39	501(c)(7) organizations. - Enter: a Initiation fees and capital contributions included on line 9 39a N/A		
b	Gross receipts, included on line 9, for public use of club facilities 39b N/A		
40a	501(c)(3) organizations. - Enter: Amount of tax imposed during the year under: section 4911 ▶ 0. ; section 4912 ▶ 0. ; section 4955 ▶ 0.		
b	501(c)(3) and 501(c)(4) organizations. - Did the organization engage in any section 4958 excess benefit transaction during the year? If "Yes," attach an explanation		X
c	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955 and 4958 ▶ 0.		
d	Enter: Amount of tax in 40c above, reimbursed by the organization 0. ▶		

41 List the states with which a copy of this return is filed. ▶ DISTRICT OF COLUMBIA

42 The books are in care of ▶ TELECOMMUNICATIONS RESEARCH Telephone no. ▶ (202)263-2900

, NW, WASHINGTON, DC ZIP + 4 ▶ 20006

Form 1041. - Check here ▶ ☐

x year ▶ 43 N/A

accompanying schedules and statements, and to the best of my knowledge and belief, it is true, information of which preparer has any knowledge.

SCHEDULE A (Form 990)

Department of the Treasury
Internal Revenue Service

Organization Exempt Under Section 501(c)(3)

(Except Private Foundation) and Section 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

Supplementary Information

▶ Must be completed by the above organizations and attached to their Form 990 or 990EZ.

OMB No. 1545-0047

1998

Name of the organization: TELECOMMUNICATIONS RESEARCH & ACTION CENTER

Employer identification number: 52 0988429

Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees

(See instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than $50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
NONE				
Total number of other employees paid over $50,000 ▶	0			

Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services

(See instructions. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than $50,000	(b) Type of service	(c) Compensation
NONE		
Total number of others receiving over $50,000 for professional services ▶	0	

Part III Statement About Activities

		Yes	No
1	During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum?		X
	If "Yes," enter the total expenses paid or incurred in connection with the lobbying activites. ▶ $		
	Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.		
2	During the year, has the oganization, either directly or indirectly, engaged in any of the following acts with any of its trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary:		
a	Sale, exchange, or leasing of property?		X
b	Lending of money or other extension of credit?		X
c	Furnishing of goods, services, or facilities?	X	
d	Payment of compensation (or payment or reimbursement of expenses if more than $1,000)?		X
e	Transfer of any part of its income or assets?		X
	If the answer to any question is "Yes," attach a detailed statement explaining the transactions. SEE STATEMENT 3		
3	Does the organization make grants for scholarships, fellowships, student loans, etc.?		X
4 a	Do you have a section 403(b) annuity plan for your employees?		X
b	Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs qualify to receive payments. (See instructions.)		

Part IV Reason for Non-Private Foundation Status (See instructions.)

The organization is not a private foundation because it is (Please check only **ONE** applicable box):

- 5 ☐ A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).
- 6 ☐ A school. Section 170(b)(1)(A)(ii). (Also complete Part V, page 4.)
- 7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).
- 8 ☐ A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).
- 9 ☐ A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). **Enter the hospital's name, city, and state** ▶
- 10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)
- 11a ☒ An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 11b ☐ A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 12 ☐ An organization that normally receives: **(1) more than 33 1/3%** of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions - subject to certain exceptions, and **(2) no more than 33 1/3%** of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)
- 13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See instructions on page 4.)

(a) Name(s) of supported organization(s)	(b) Line number from above

- 14 ☐ An organization organized and operated to test for public safety. Section 509(a)(4). (See instructions on page 4.)

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12 above.) **Use cash method of accounting.**
Note: *You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.*

Calendar year (or fiscal year beginning in) ▶	(a) 1997	(b) 1996	(c) 1995	(d) 1994	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)	2,981.	16,733.	16,925.	23,357.	59,996.
16 Membership fees received					
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is not a business unrelated to the organization's charitable, etc., purpose	21,837.	43,848.	13,438.	37,576.	116,699.
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	69.	986.	798.	342.	2,195.
19 Net income from unrelated business activities not included in line 18		7,471.			7,471.
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge					
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets	15.	5,509.	SEE STATEMENT 4 9.	3.	5,536.
23 Total of lines 15 through 22	24,902.	74,547.	31,170.	61,278.	191,897.
24 Line 23 minus line 17	3,065.	30,699.	17,732.	23,702.	75,198.
25 Enter 1% of line 23	249.	745.	312.	613.	

26 **Organizations described in lines 10 or 11:** a Enter 2% of amount in column (e), line 24	26a	1,504.
b Attach a list (which is not open to public inspection) showing the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1994 through 1997 exceeded the amount shown in line 26a. Enter the sum of all these excess amounts	26b	0.
c Total support for section 509(a)(1) test: Enter line 24, column (e)	26c	75,198.
d Add: Amounts from column (e) for lines: 18 2,195. 19 7,471. 22 5,536. 26b	26d	15,202.
e Public support (line 26c minus line 26d total)	26e	59,996.
f **Public support percentage (line 26e (numerator) divided by line 26c (denominator))**	26f	79.7840%

27 **Organizations described on line 12:** a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," attach a list to show the name of, and total amounts received in each year from, each "disqualified person." Enter the sum of such amounts for each year. N/A
(1997) (1996) (1995) (1994)

b For any amount included in line 17 that was received from a nondisqualified person, attach a list to show the name of, and amount received for each year, that was more than the **larger** of **(1)** the amount on line 25 for the year or **(2)** $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) After computing the difference between the amount received and the larger amount decribed in **(1)** or **(2)**, enter the sum of these differences (the excess amounts) for each year: N/A
(1997) (1996) (1995) (1994)

c Add: Amounts from column (e) for lines: 15 16 17 20 21	27c	N/A
d Add: Line 27a total and line 27b total	27d	N/A
e Public support (line 27c, total minus line 27d total)	27e	N/A
f Total support for section 509(a)(2) test: Enter amount on line 23, column (e) ▶ 27f N/A		
g **Public support percentage (line 27e (numerator) divided by line 27f, (denominator))**	27g	N/A %
h **Investment income percentage (line 18 column (e) (numerator) divided by line 27f (denominator))**	27h	N/A %

28 **Unusual Grants:** For an organization described in line 10, 11, or 12, that received any unusual grants during 1994 through 1997, attach a list (which is not open to public inspection) for each year showing the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. Do not include these grants in line 15. (See instructions.) NONE

Part V **Private School Questionnaire**
(To be completed ONLY by schools that checked the box on line 6 in Part IV) N/A

			Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29		
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30		
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?	31		
	If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)			
32	Does the organization maintain the following:			
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	32a		
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b		
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c		
d	Copies of all material used by the organization or on its behalf to solicit contributions?	32d		
	If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)			
33	Does the organization discriminate by race in any way with respect to:			
a	Students' rights or privileges?	33a		
b	Admissions policies?	33b		
c	Employment of faculty or administrative staff?	33c		
d	Scholarships or other financial assistance?	33d		
e	Educational policies?	33e		
f	Use of facilities?	33f		
g	Athletic programs?	33g		
h	Other extracurricular activities?	33h		
	If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)			
34 a	Does the organization receive any financial aid or assistance from a governmental agency?	34a		
b	Has the organization's right to such aid ever been revoked or suspended?	34b		
	If you answered "Yes" to either 34a or b, please explain using an attached statement.			
35	Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	35		

Part VI-A Lobbying Expenditures by Electing Public Charities

(To be completed ONLY by an eligible organization that filed Form 5768)

N/A

Check here ▶ a ☐ If the organization belongs to an affiliated group.

Check here ▶ b ☐ If you checked "a" above and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
		N/A	
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38		
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40		
41 Lobbying nontaxable amount. Enter the amount from the following table -			
If the amount on line 40 is - / The lobbying nontaxable amount is -			
Not over $500,000 — 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 — $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 — $175,000 plus 10% of the excess over $1,000,000			
Over $1,500,000 but not over $17,000,000 — $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 — $1,000,000	41		
42 Grassroots nontaxable amount (enter 25% of line 41)	42		
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43		
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44		

Caution: *If there is an amount on either line 43 or line 44, you must file Form 4720.*

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50.)

N/A

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in) ▶	(a) 1998	(b) 1997	(c) 1996	(d) 1995	(e) Total
45 Lobbying nontaxable amount					0.
46 Lobbying ceiling amount (150% of line 45(e))					0.
47 Total lobbying expenditures					0.
48 Grassroots nontaxable amount					0.
49 Grassroots ceiling amount (150% of line 48(e))					0.
50 Grassroots lobbying expenditures					0.

Part VI-B Lobbying Activity by Nonelecting Public Charities

(For reporting only by organizations that did not complete Part VI-A)

N/A

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	Yes	No	Amount
a Volunteers			
b Paid staff or management (include compensation in expenses reported on lines c through h)			
c Media advertisements			
d Mailings to members, legislators, or the public			
e Publications or published or broadcast statements			
f Grants to other organizations for lobbying purposes			
g Direct contact with legislators, their staffs, government officials, or a legislative body			
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means			
i Total lobbying expenditures (add lines c through h)			0.

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.

Part VII Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

		Yes	No
a	Transfers from the reporting organization to a noncharitable exempt organization of:		
	(i) Cash	51a(i)	X
	(ii) Other assets	a(ii)	X
b	Other transactions:		
	(i) Sales of assets to a noncharitable exempt organization	b(i)	X
	(ii) Purchases of assets from a noncharitable exempt organization	b(ii)	X
	(iii) Rental of facilities or equipment	b(iii)	X
	(iv) Reimbursement arrangements	b(iv)	X
	(v) Loans or loan guarantees	b(v)	X
	(vi) Performance of services or membership or fundraising solicitations	b(vi)	X
c	Sharing of facilities, equipment, mailing lists, other assets, or paid employees	c	X

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always indicate the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received. N/A

(a) Line no.	(b) Amount involved	(c) Name of noncharitable exempt organization	(d) Description of transfers, transactions, and sharing arrangements

52 a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ▶ ☐ Yes ☒ No

b If "Yes," complete the following schedule. N/A

(a) Name of organization	(b) Type of organization	(c) Description of relationship

FORM 990-EZ OTHER EXPENSES STATEMENT 1

DESCRIPTION	AMOUNT
BANK SERVICE CHARGES	553.
MANAGEMENT FEES	24,000.
MEALS & ENTERTAINMENT	125.
OFFICE SUPPLIES	25.
OUTSIDE SERVICES	3,902.
TELEPHONE, FAXES, ETC.	5,125.
TRAVEL & TRANSPORTATION	205.
DUES	106.
UNCOLLECTIBLE CONSULTING FEES	13,000.
NEWSROOM MANAGER	9,000.
TOTAL TO FORM 990-EZ, LINE 16	56,041.

FORM 990-EZ OTHER ASSETS STATEMENT 2

DESCRIPTION	BEG. OF YEAR	END OF YEAR
ACCOUNTS RECEIVABLE	13,000.	0.
CREDIT CARD RECEIVABLE	0.	752.
TOTAL TO FORM 990-EZ, LINE 24	13,000.	752.

SCHEDULE A STATEMENT REGARDING ACTIVITIES WITH DIRECTORS, TRUSTEES, PRINCIPAL OFFICERS OR CREATOR PART III, LINE 2 STATEMENT 3

DURING THE YEAR, TELECOMMUNICATIONS RESEARCH & ACTION CENTER PURCHASED GOODS AND SERVICES FROM AN AFFILIATED TAXABLE ORGANIZATION NAMED ISSUE DYNAMICS, INC. ISSUE DYNAMICS, INC. PROVIDED MANAGEMENT SERVICES AS WELL AS OVERHEAD COSTS FOR FEES TO TELECOMMUNICATIONS ACTION & RESEARCH CENTER.

SCHEDULE A OTHER INCOME STATEMENT 4

DESCRIPTION	1997 AMOUNT	1996 AMOUNT	1995 AMOUNT	1994 AMOUNT
ADVERTISING				
MISCELLANEOUS	15.	5,435.		3.
ROYALTY		74.	9.	
TOTAL TO SCHEDULE A, LINE 22	15.	5,509.	9.	3.

March 1998 TRAC Board

Sam Simon, Chairman of the Board

Andrew Schwartzman
MAP
Suite 400
1707 L Street N.W.
Washington, DC 20036

Henry Geller
3001 Veasey Terrace
Apartment 720
Washington, DC 20008

Emmitt Carlton, Secretary
Issue Dynamics Inc.
901 15th Street, N.W.
Suite 230
Washington, DC 20036

Jay Halfon, Treasurer
215 88th Street
#5E
New York, NY 10024-2326

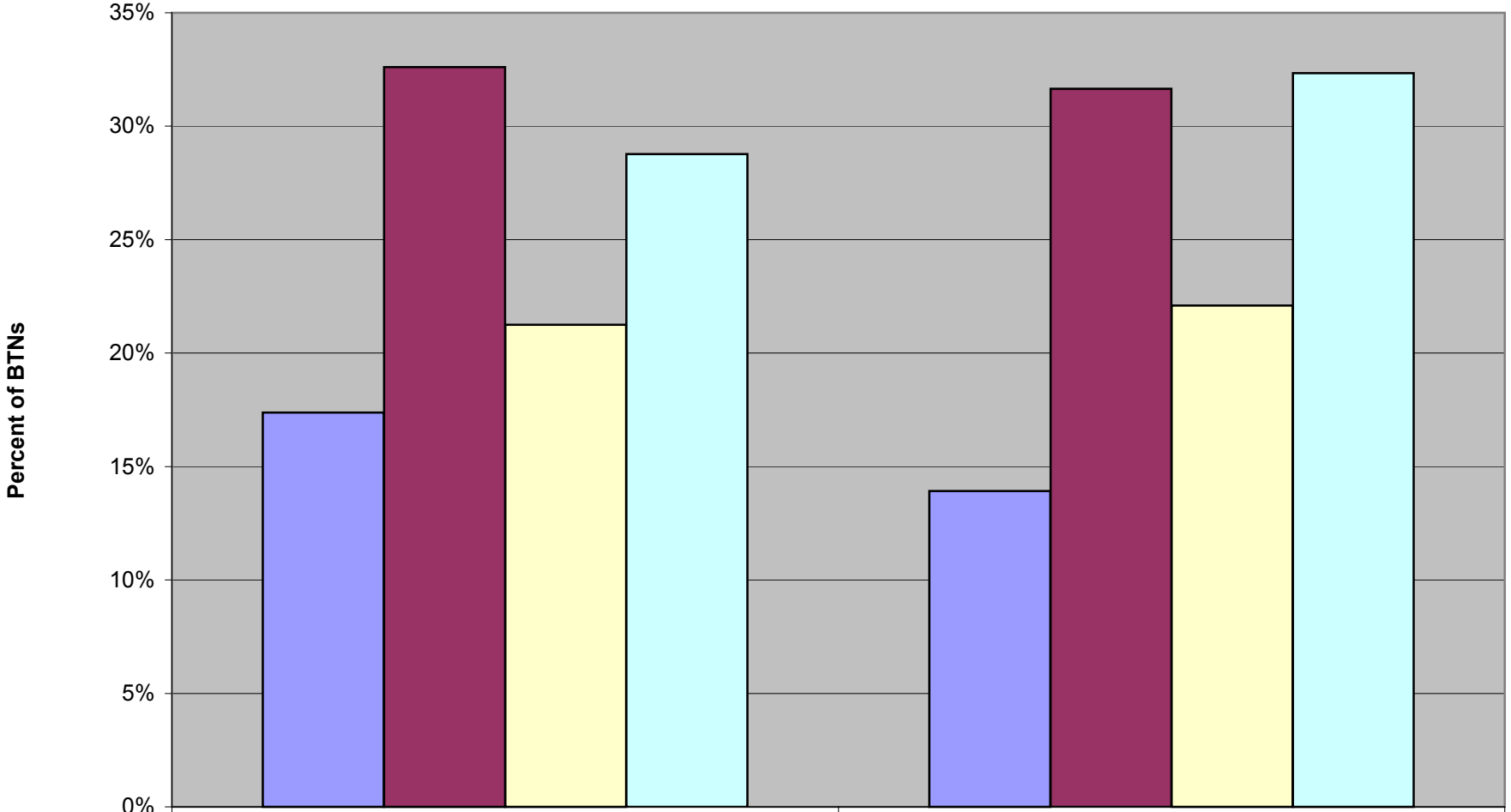
Everett Parker
11 Midland
White Plains, NY 10606

Attachment 4

AT&T Customer Demographic Data
Basic and Optional Calling Plans

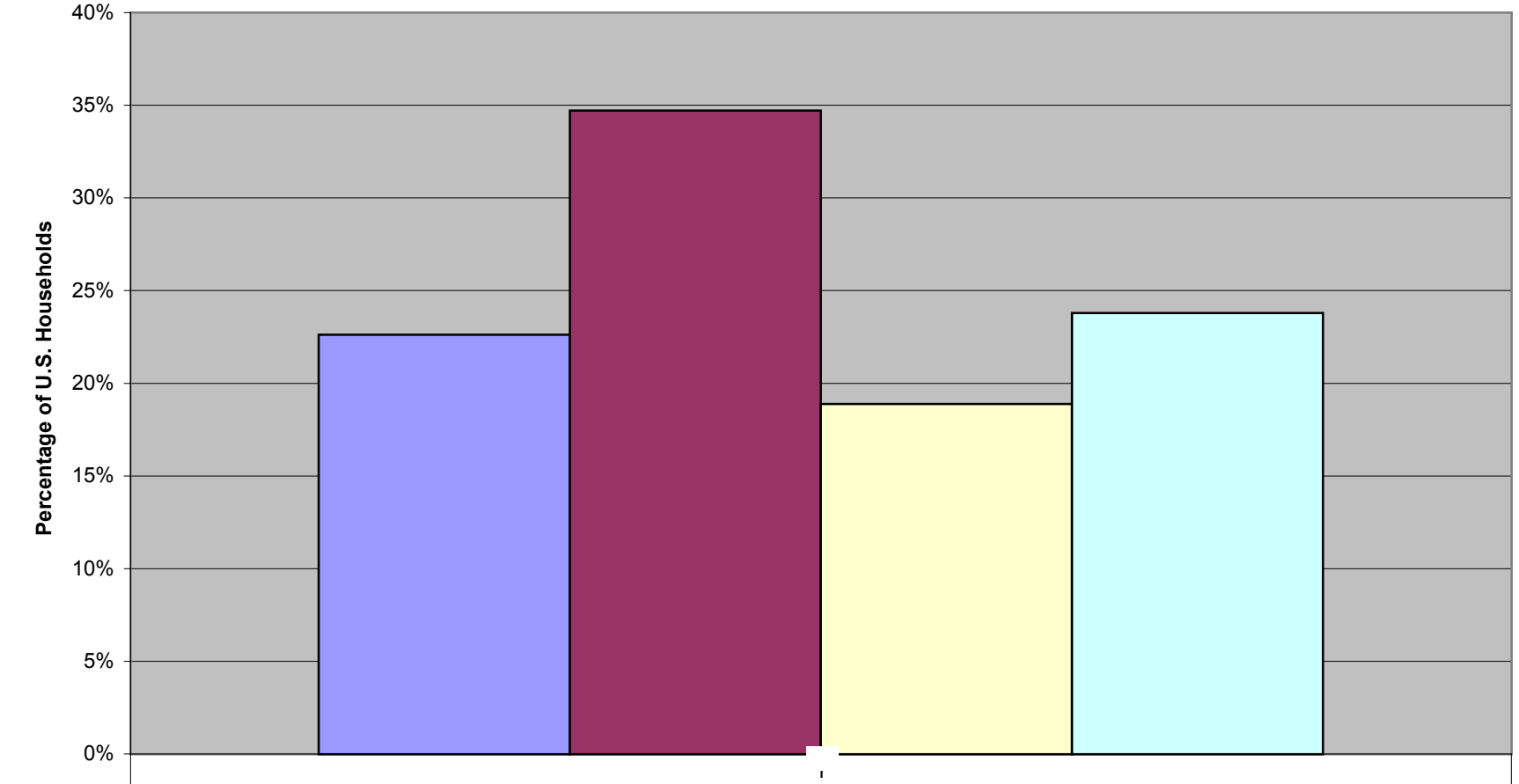
ECONOMICS AND
TECHNOLOGY, INC.

Income Distribution by Calling Plan



	Basic	OCP
<$20K	17.4%	13.9%
$20-$50K	32.6%	31.6%
$50-$75K	21.2%	22.1%
$75K+	28.8%	32.3%

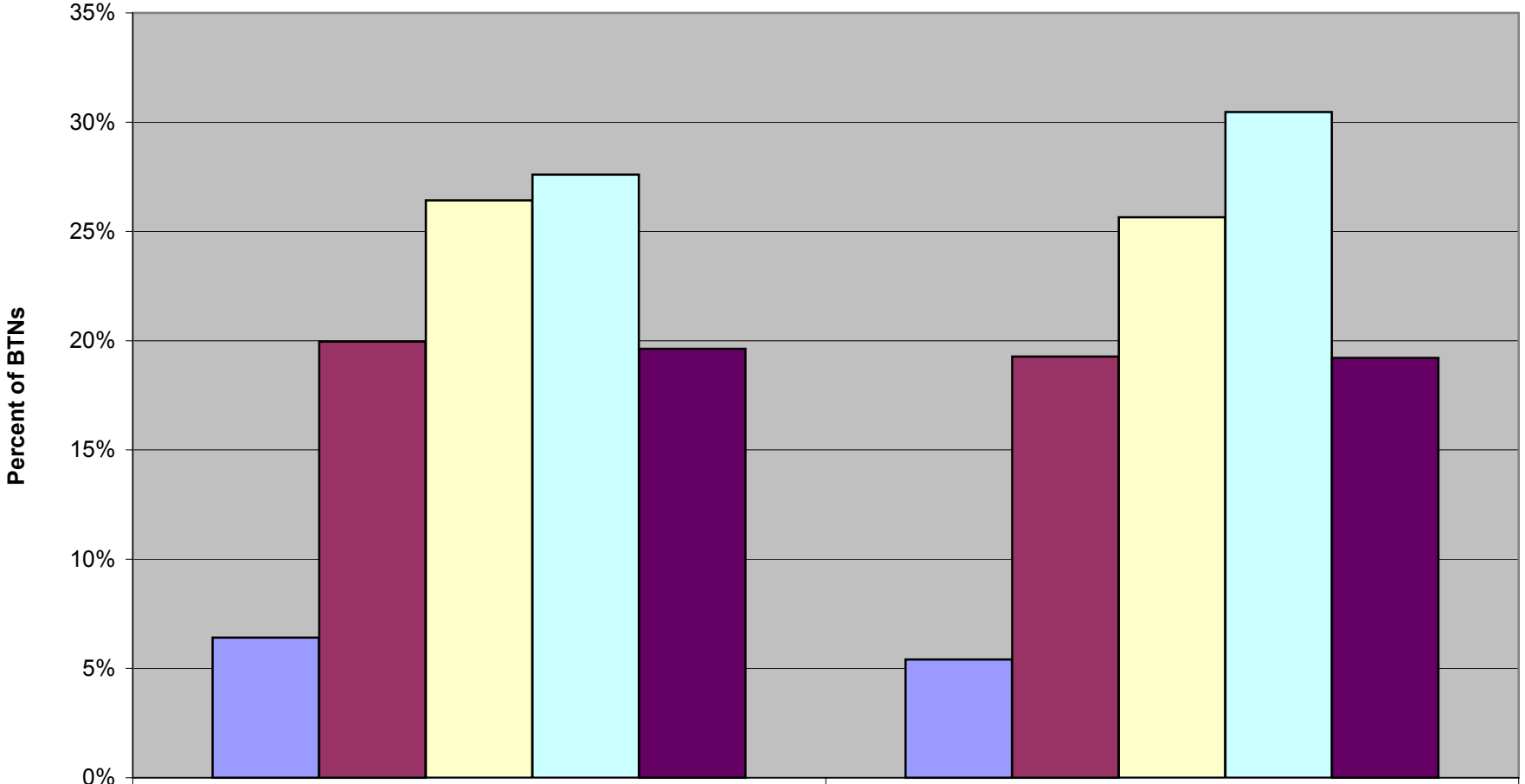
US Household Distribution by Income



<$20K	22.61%
$20-$50K	34.71%
$50-$75K	18.89%
$75K+	23.79%

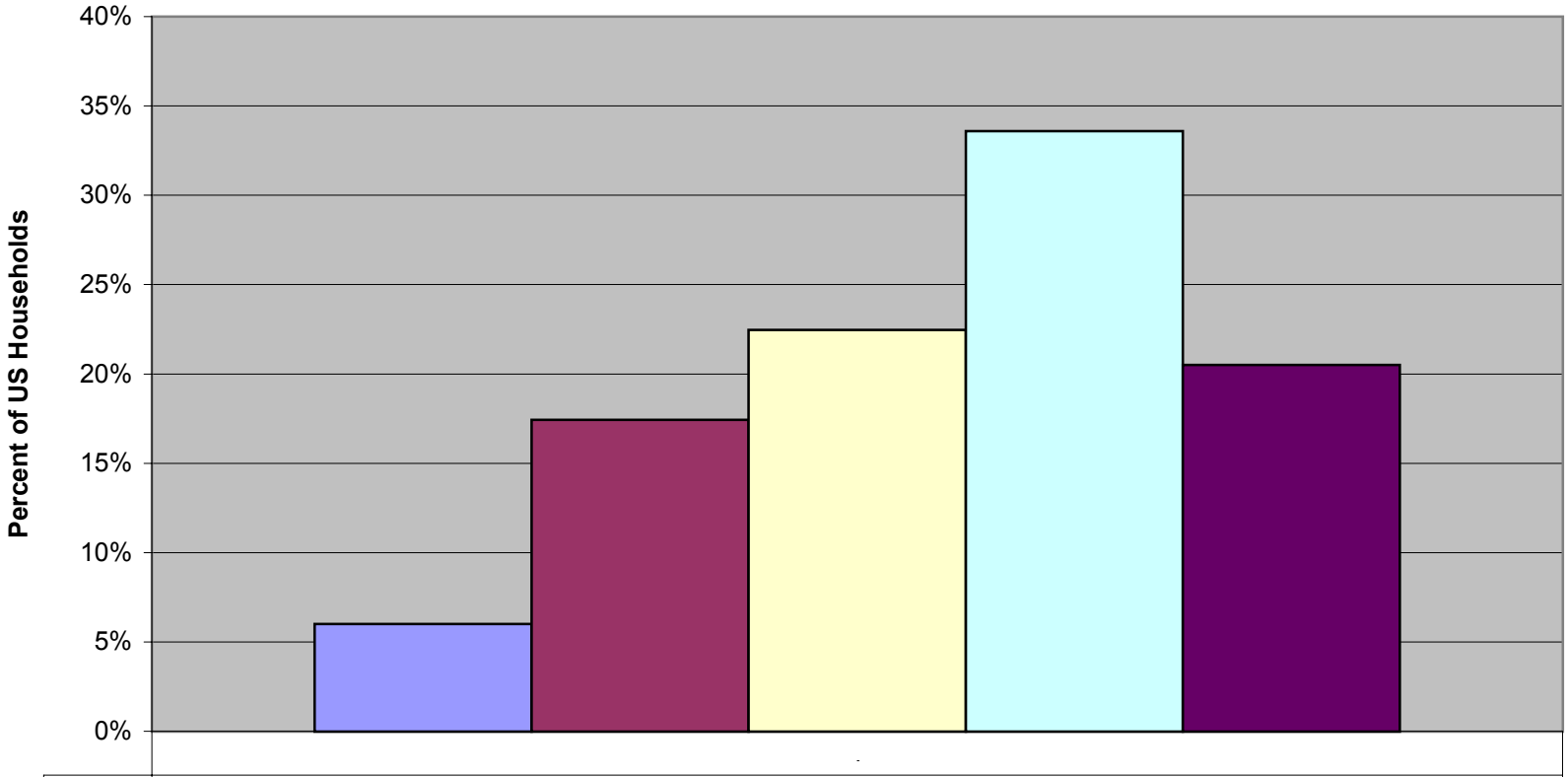
Source: Annual Demographic Survey, March Supplement, Current Population Survey, Bureau of Labor Statistics and the Bureau of the Census. December 2001

Age Distribution by Calling Plan



	Basic	OCP
18-29	6.4%	5.4%
30-39	20.0%	19.3%
40-49	26.4%	25.6%
50-65	27.6%	30.5%
66+	19.6%	19.2%

U.S. Household Distribution by Age



15-25	6.01%
25-34	17.44%
35-44	22.46%
45-64	33.59%
65+	20.51%

Source: Annual Demographic Survey, March Supplement, Current Population Survey, Bureau of Labor Statistics and the Bureau of the Census. December 2001. Age brackets do not correspond precisely to AT&T data.

Attachment 5

Texas Public Utilities Commission
Report on Switched Access Charges
Chapter 1, Recent Changes in Access Charges
December 29, 2000

(excerpt)

ECONOMICS AND
TECHNOLOGY, INC.

Pat Wood, III
Chairman
Judy Walsh
Commissioner
Brett A. Perlman
Commissioner
W. Lane Lanford
Executive Director

Public Utility Commission of Texas

December 29, 2000

Honorable Members of the Seventy-Seventh Texas Legislature:

We are pleased to submit our Report on Switched Access Charges, as required by Section 58.303 of the Public Utility Regulatory Act (PURA).

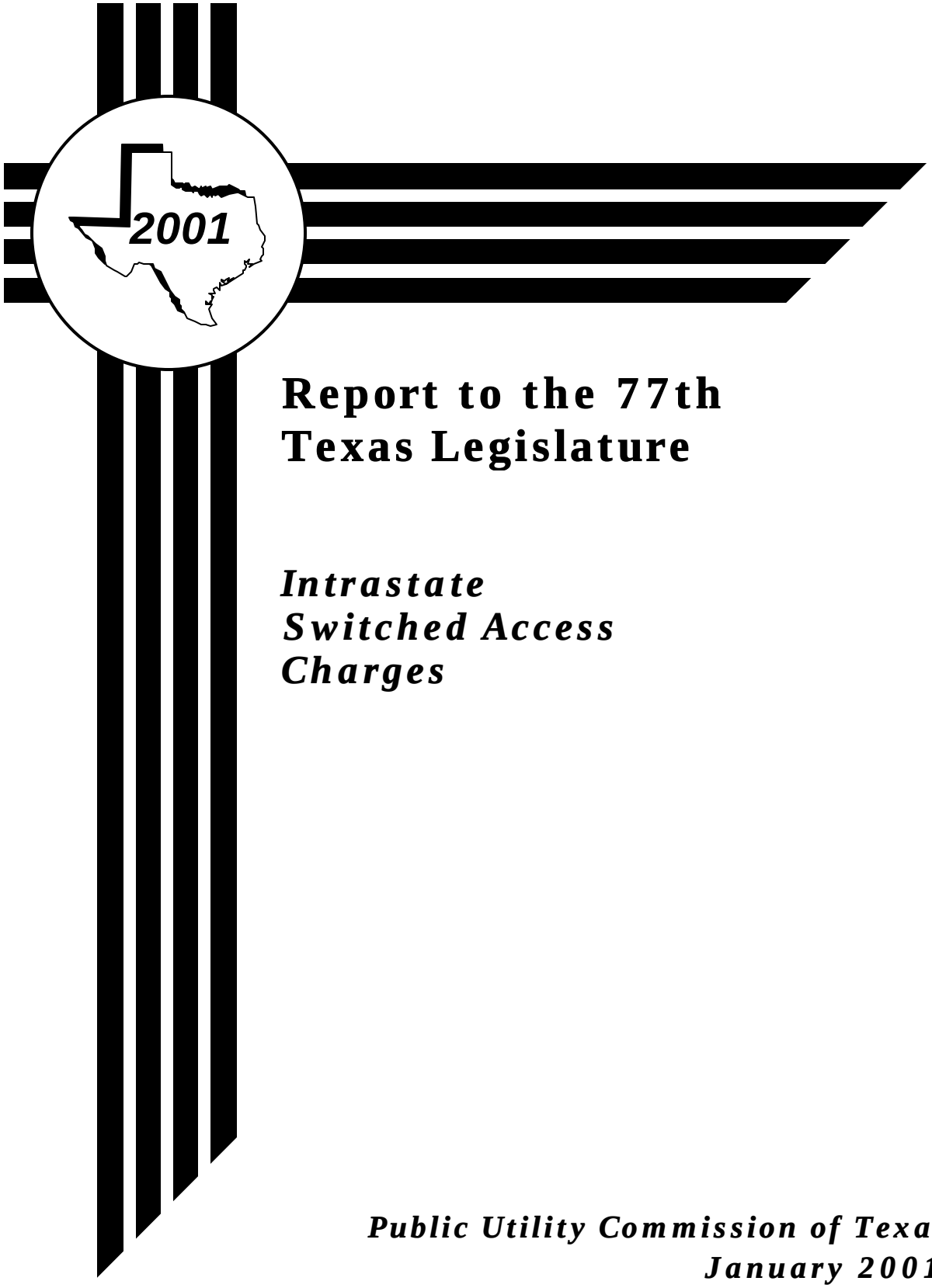
This report provides a description and discussion of switched access charges, an important issue in telecommunications. As required by the statute, this report examines whether alternative rate structures for recovery of switched access revenues are in the public interest and competitively neutral, examines whether disparities in rates for switched access service between local exchange companies are in the public interest, and provides our recommendations on the issues reviewed and evaluated.

This is one of three reports on telecommunications issues being provided to the Seventy-Seventh Texas Legislature by our Commission. The companion documents are the Report on the Scope of Competition in Telecommunications, and the Report on the Deployment of Advanced Services in Rural Areas of Texas.

We hope that the information contained in this report will assist you in meeting your public policy objectives. If you need additional information about any issues addressed in the report, please call on us.

Sincerely,

Pat Wood, III Chairman	Judy W. Walsh Commissioner	Brett A. Perlman Commissioner



Report to the 77th Texas Legislature

Intrastate Switched Access Charges

Public Utility Commission of Texas
January 2001

REPORT TO THE 77TH TEXAS LEGISLATURE ON SWITCHED ACCESS CHARGES

TABLE OF CONTENTS

CHAPTER 1
RECENT CHANGES IN ACCESS CHARGES

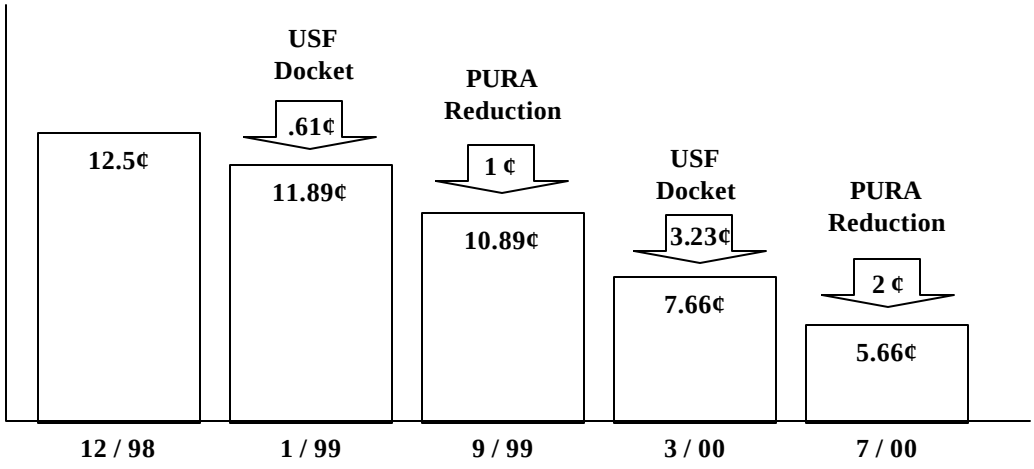
Access charge structures and rates have recently been modified by both the Texas PUC (for in-state calls) and the FCC (for interstate calls). This chapter describes the changes in both jurisdictions to facilitate a better understanding of the actions and their relationship.

Texas Activity on State Switched Access Charges

Switched access reductions prior to 1999 came from either rate case activity or general access reform cases. Because Texas' usage-based switched access rates began in 1984 at over 20 cents per minute, and no flat-rate access charge was employed, the significant reductions from past cases still left intrastate switched access rates very high when compared to interstate rates.

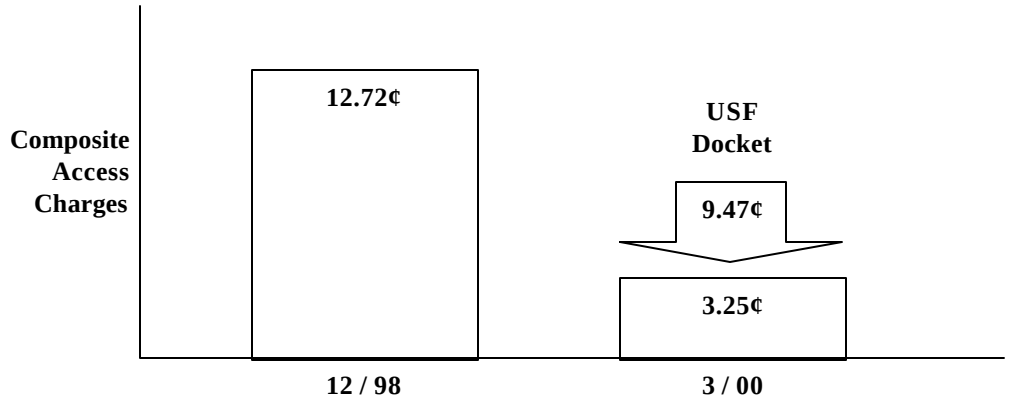
Switched access rates have been significantly reduced in Texas during the last two years as a result of activities related to the Texas Universal Service Fund (TUSF) and PURA requirements. Within Texas, high switched access rates were used to support local telephone companies' high cost and rural infrastructure requirements. But under the directives established by PURA 95, FTA 96, and PURA 99 to reduce subsidies, the PUC investigated and increased the TUSF and made offsetting reductions to switched access charges for the incumbent local telephone companies between December 1998 and March 2000. PURA Section 58.301 required Southwestern Bell Telephone Company (SWBT) to reduce its combined originating and terminating switched access charges by one cent per minute in September 1999 and by an additional two cents per minute in July 2000. The graphic below illustrates recent reductions in SWBT's access charge rates.

Southwestern Bell's Recent Access Rate Reductions
(Composite Originating and Terminating Charges; Excludes Transport Element)



While GTESW/Verizon did not have reductions from statutory requirements, the company did experience a significant decrease in access charges as a result of the PUC's TUSF proceeding, as illustrated below.

GTESW's (Verizon's) Recent Access Rate Reductions
(Composite Originating and Terminating Charges; Excludes Transport Element)



As described more fully in Appendix A, there have been efforts to reduce the level of switched access charges, specifically the usage-sensitive Carrier Common Line (CCL) element. As a result of these efforts, CCL charges have been reduced, and in some cases eliminated, by the local telephone companies. The following table shows the current CCL rates and annualized revenues for the largest incumbent local telephone companies as well as the range of rates and revenues for the small incumbents.

Current Carrier Common Line (CCL) Rates and Revenue For Incumbent Carriers[4]

Incumbent Local Exchange Carrier	Originating CCL Revenue	Originating CCL - Present Rate or Range	Terminating CCL Revenue	Terminating CCL - Present Rate or Range	Total CCL Revenue
Southwestern Bell	$69,950,000	1.6¢	$178,450,000	2.7¢	$248,400,000
GTE/Verizon (incl. Contel)	$0	0.0	$0	0.0	$0
Valor	$0	0.0	$0	0.0	$0
United	$5,550,000	2.8¢	$3,150,000	1.4¢	$8,700,000
Centel	$0	0.0	$0	0.0	$0
Small ILECs	$8,860,000	0.5¢ - 2.8¢	$12,700,000	0.9¢ – 7.1¢	$21,560,000
Total Revenue	$84,360,000		$194,300,000		$278,660,000

[4] Large telephone company revenue estimates are derived from financial results for 12 months ended 06/30/99 with 5% growth factor for 1yr. Small telephone company revenue estimates are derived from financial results of 12/31/97 with 5% growth factor for 2 yrs.

When evaluating the rates for switched access elements, it is important to note that the charges apply on both the originating end of the connection and the terminating end. Thus, the total charge to the long distance company is the sum of all originating and terminating rate elements. Originating and terminating rates may vary, and the rates may be different for each end of the call, depending on the local telephone company serving the calling or called customer.

The following table shows the composite rate (combined originating and terminating) rates per minute for the CCL and the local switching, but not the transport element of access which could be usage sensitive or flat rated.[5] The composite rate assumes that a call is originated and terminated within the same local telephone company's territory.

Current Composite Switched Access Charge Rates for Incumbent Carriers

Incumbent Local Exchange Carrier	Composite of Originating and Terminating Switched Access Charges[6]
Southwestern Bell	5.7¢
GTE/Verizon (incl. Contel)	3.3¢
Valor	3.3¢
Sprint/United	6.7¢
Sprint/Centel	1.5¢
TXU Communications	4.4¢
Century – San Marcos	4.1¢
Fort Bend	4.1¢
Sugarland	4.4¢
Small ILECs	3.4 ¢ - 11.8 ¢

[5] See Appendix A for a more detailed description of switching and transport elements.

[6] Rounded, does not include charges for transport.

Recent FCC Actions - Interstate Switched Access

In May 1997, the FCC adopted the Access Charge Reform Order,[7] applicable to the large incumbent local telephone companies, which established a new common line rate structure in an attempt to align cost recovery with the way costs are incurred. This structure was designed to recover all interstate-allocated common line costs through two flat rate charges: the flat-rate SLC to end users, and a new flat-rate Presubscribed Interexchange Carrier Charge ("PICC") assessed to long distance companies based on their number of presubscribed customers. With this change, the FCC eliminated the originating and/or terminating CCL charges in some instances for the large incumbent local telephone companies and shifted revenue recovery to the PICC. The Order attempted to reduce usage-sensitive access charges through what the FCC described as a market-based approach. In a revenue-neutral manner, the Order separated the previous minute-of-use rate into two parts: a much lower minute-of-use rate and a fixed monthly PICC.

It was the FCC's intent to make these changes without significant rate increases for customers. However, the restructuring failed to reduce long distance rates as planned, primarily because the long distance companies passed the PICC charge directly onto customers' bills in the form of minimum monthly charges, regardless of long distance usage. As a result, many customers' bills did increase, and the FCC began searching for another remedy.

In July 1999, the Coalition for Affordable Local and Long Distance Services ("CALLS") submitted a proposal to the FCC to revise interstate access charges and universal service rules for the larger incumbent local telephone companies.[8] The FCC adopted a modified version of the CALLS plan[9] on May 31, 2000. The FCC's rationale for implementing revisions to interstate access rates was that it would lower rates, lessen confusion to customers, and establish a more rational interstate rate structure for the large telephone companies. The FCC reduced the originating and/or terminating interstate CCL for "price cap" incumbent local telephone companies[10] in May 2000. However, all other federally regulated incumbent telephone companies still charge the CCL rate at this time.

The *CALLS Order* eliminated the PICC for residential and small business customers, established a cap on the PICC for multi-line business customers, and reduced originating and terminating CCL charges. The FCC replaced the revenue lost from the

---

[7] *Access Charge Reform*, CC Docket No. 96-262, First Report and Order, 12 FCC Rcd 15982 (1997) (*Access Charge Reform Order)*.

[8] CALLS consists of AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint.

[9] Sixth Report and Order in CC Dockets 96-262 and 94-1, Report and Order in CC Docket No. 99-249 and Eleventh Report and Order in CC Docket No. 96-45, May 31, 2000 (*CALLS Order*).

[10] Rate-of-return regulation is designed to control the profits an incumbent local carrier may earn from access service, whereas the FCC's price cap regulation plan focuses primarily on the prices that such a carrier may charge and the revenues it may generate from interstate access services.

reduced or eliminated charges with an increase in the interstate SLC[11] as well as funding from a new $650 million federal USF program. Therefore, customers continue to pay for a portion of local loop costs through their interstate SLC charges. The FCC has scheduled future review of the switched access revisions and has established a phase-in for the SLC increases. As an additional part of the *CALLS Order*, the FCC increased its support for Lifeline and Link-Up services, targeted at low-income individuals. The interstate switched access reforms in the *CALLS Order* will be required of price cap LECs, including Southwestern Bell and Verizon (formerly GTESW), for a five-year term. At the end of the five years, the FCC will conduct a proceeding to determine whether to partially or fully deregulate price cap LECs, and to assess the adequacy of the interstate access universal service support mechanism. A version of access charge reform for smaller and rural LECs is currently being evaluated as well.[12]

[11] The FCC raised the interstate SLC from $3.50 to $4.35 monthly for single line residence and business access lines, and phases in additional increases to the monthly rates for residence and business access lines over a five-year period.

[12] For a complete copy of the proposal, known as the MAG plan, as submitted to the FCC on October 20, 2000, see; www.opastco.org or www.ntca.org/mag.html

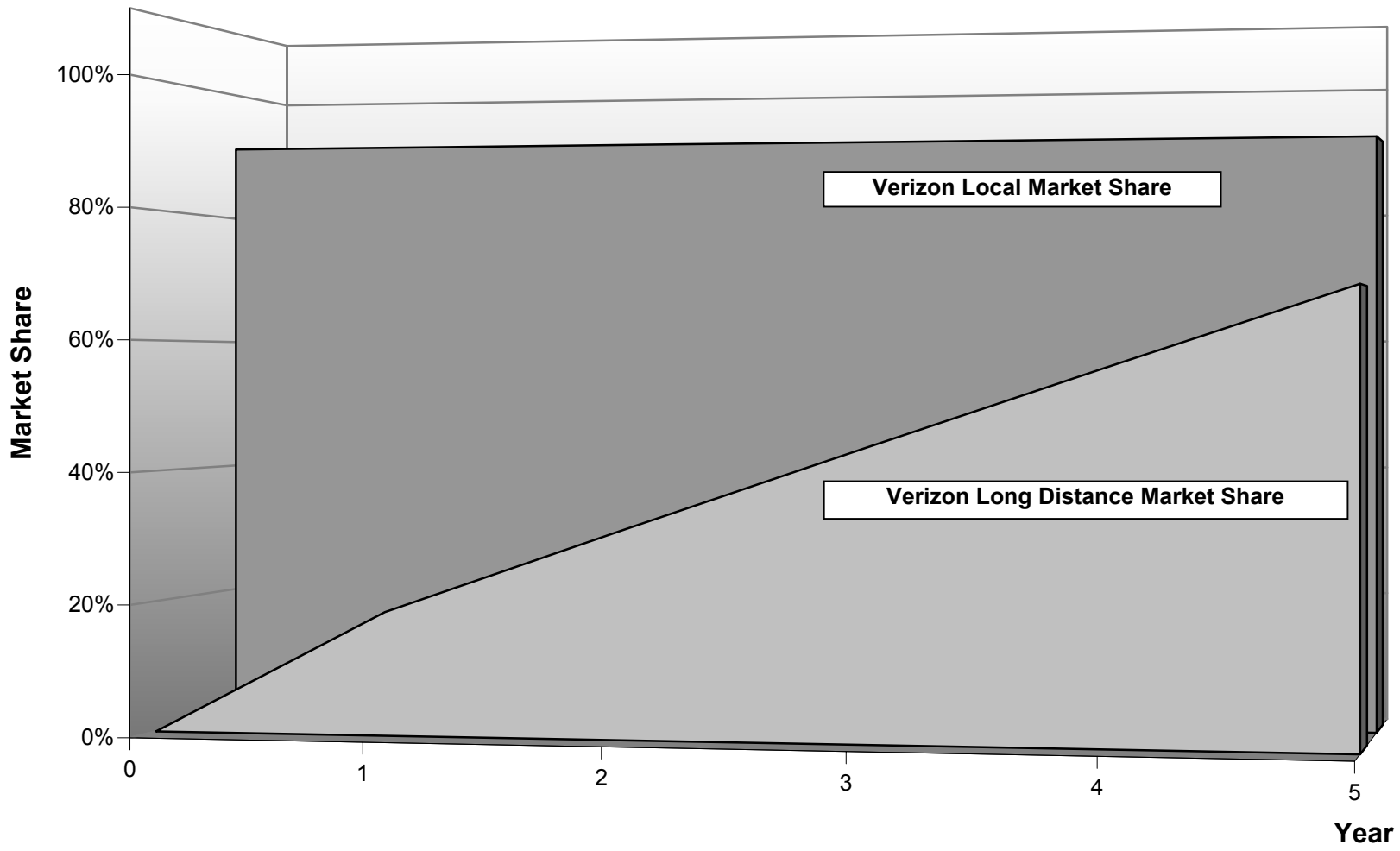
Attachment 6

Model of the Growth in Verizon Virginia Long Distance Market Share

ECONOMICS AND TECHNOLOGY, INC.

Verizon Virginia Long Distance Market Share

Scenario 1: Local Market Share Constant at 91.2%

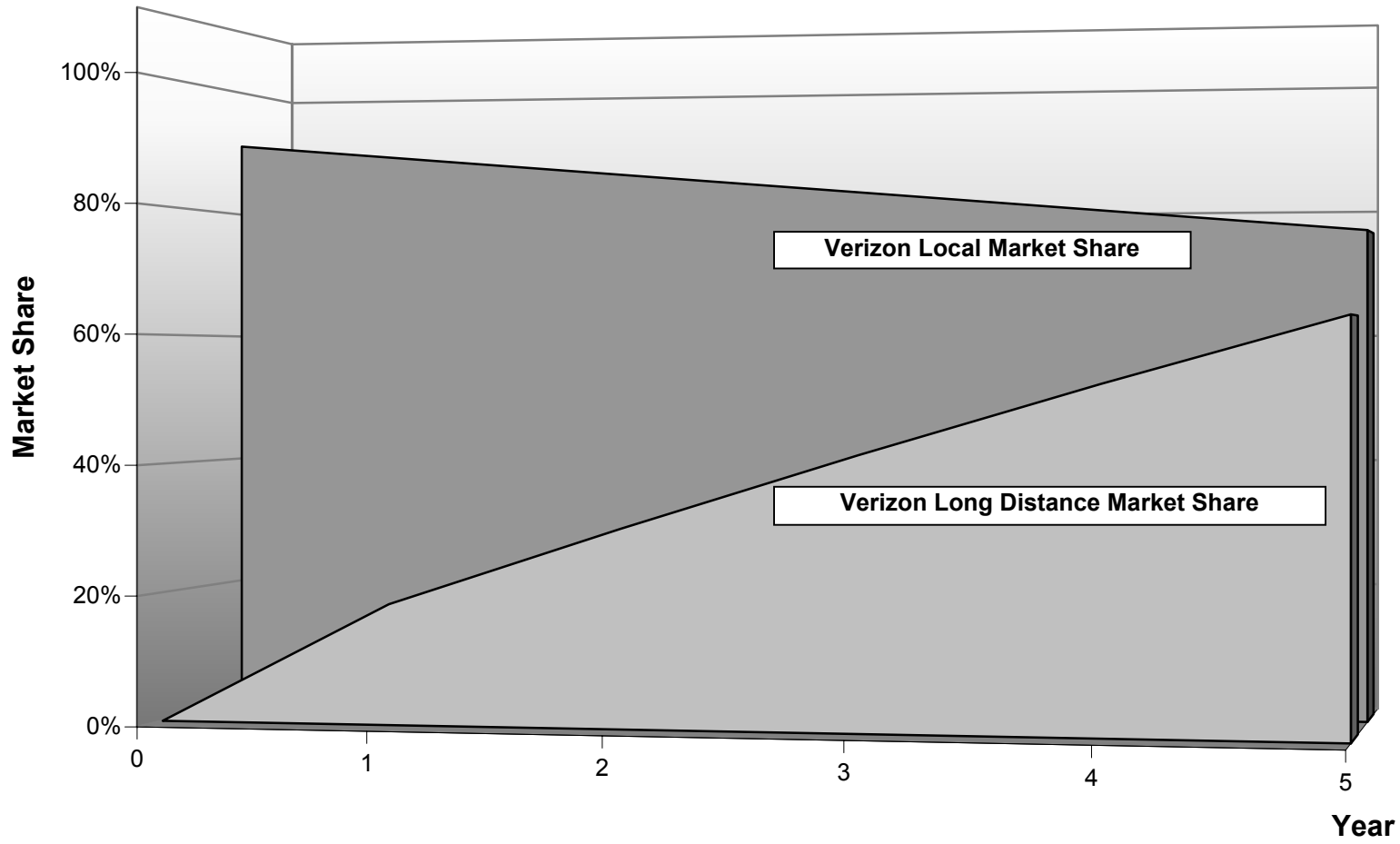


Scenario 1 Results : Local Market Share Constant at 91.2%						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon Virginia local market share in Verizon Virginia territory, BOY	91.20%	91.20%	91.20%	91.20%	91.20%	$l = z^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, BOY	0%	18.77%	31.29%	43.64%	55.83%	$m = y^{(t-1)}$
Residential lines in Verizon Virginia territory (including competitive)	2,398,482	2,444,773	2,491,957	2,540,052	2,589,075	$n = n^{(t-1)} * f$
Verizon Virginia residential lines	2,187,482	2,229,700	2,272,734	2,316,597	2,361,308	o = l*n
Residential households in Verizon Virginia territory (including competitive)	1,860,731	1,896,643	1,933,248	1,970,560	2,008,592	p = n/(1+g)
Verizon Virginia residential households	1,697,038	1,729,791	1,763,176	1,797,205	1,831,891	q = o/(1+g)
Verizon Virginia inward residential customer orders, midyear	288,496	294,064	299,740	305,525	311,421	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	237,585	242,171	246,845	251,609	256,465	s = i*r
"PIC change" residential customers switching to ILEC	111,644	106,791	181,462	257,996	336,429	t = j*m*p
Verizon Virginia long distance customers	349,229	348,962	428,307	509,604	592,894	u = s+t
Verizon Virginia long distance customers net of current year PIC changes	349,229	244,193	250,281	256,494	262,835	$v = u - (w^{(t-1)} * j)$
Verizon Virginia long distance customers (cumulative)	349,229	593,422	843,702	1,100,196	1,363,031	$w = v + w^{(t-1)}$
Verizon Virginia residential access lines with Verizon Virginia long distance	450,156	764,921	1,087,532	1,418,153	1,756,947	$x = w*(1+g) + x^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, EOY	**18.77%**	**31.29%**	**43.64%**	**55.83%**	**67.86%**	y = x/n
Verizon Virginia local market share in Verizon Virginia territory, EOY	**91.20%**	**91.20%**	**91.20%**	**91.20%**	**91.20%**	z = l + e

Scenario 1 Inputs: Local Market Share Constant at 91.2%			
Data Type	**Data Value**	**Source**	**Line**
Verizon Virginia residential lines, Year 1	2,187,482	2001 ARMIS Report 43-08: Table III	a
Competitor residential lines, Year 1	211,000	Declaration of Robert W. Woltz, Jr. on Behalf of Verizon Virginia Inc., filed March 15, 2002, at Attachment 101, Table 1.	b
Total residential lines in Verizon Virginia territory, Year 1	2,398,482		c = a + b
Verizon Virginia residential market share in Verizon Virginia territory, Year 1	91.20%		d = a / c
Annual Growth in Verizon Virginia residential market share in Verizon Virginia territory	0.00%		e
Annual growth in Verizon residential lines in Verizon Virginia territory for years 1997-2001	1.93%	Average annual growth in Verizon residential access lines in VA (1997-2001 ARMIS Report 43-08: Table III).	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, *Trends in Telephone Service* , August 2001, Table 8.4.	g
Local residential inward movement	17.00%	U.S Census Bureau, *American Housing Survey for the United States in 1999* , Table 2.9.	h
Percentage of orders from residential customers who accept ILEC long distance service on the initial (inward) contact	82.35%	Based upon Verizon - New York's end of year long distance market share. (See the explanation for this calculation in footnote 51.)	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30.00%	News Release, *J.D. Powers and Associates Reports,* "Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20.00%	Conservative estimate for Year 1. In future years, the ILEC's share of PIC changes is its share of Verizon Virginia's share of the long distance market.	k

Verizon Virginia Long Distance Market Share

Scenario 2: Local Market Share Decreases by 3% Each Year

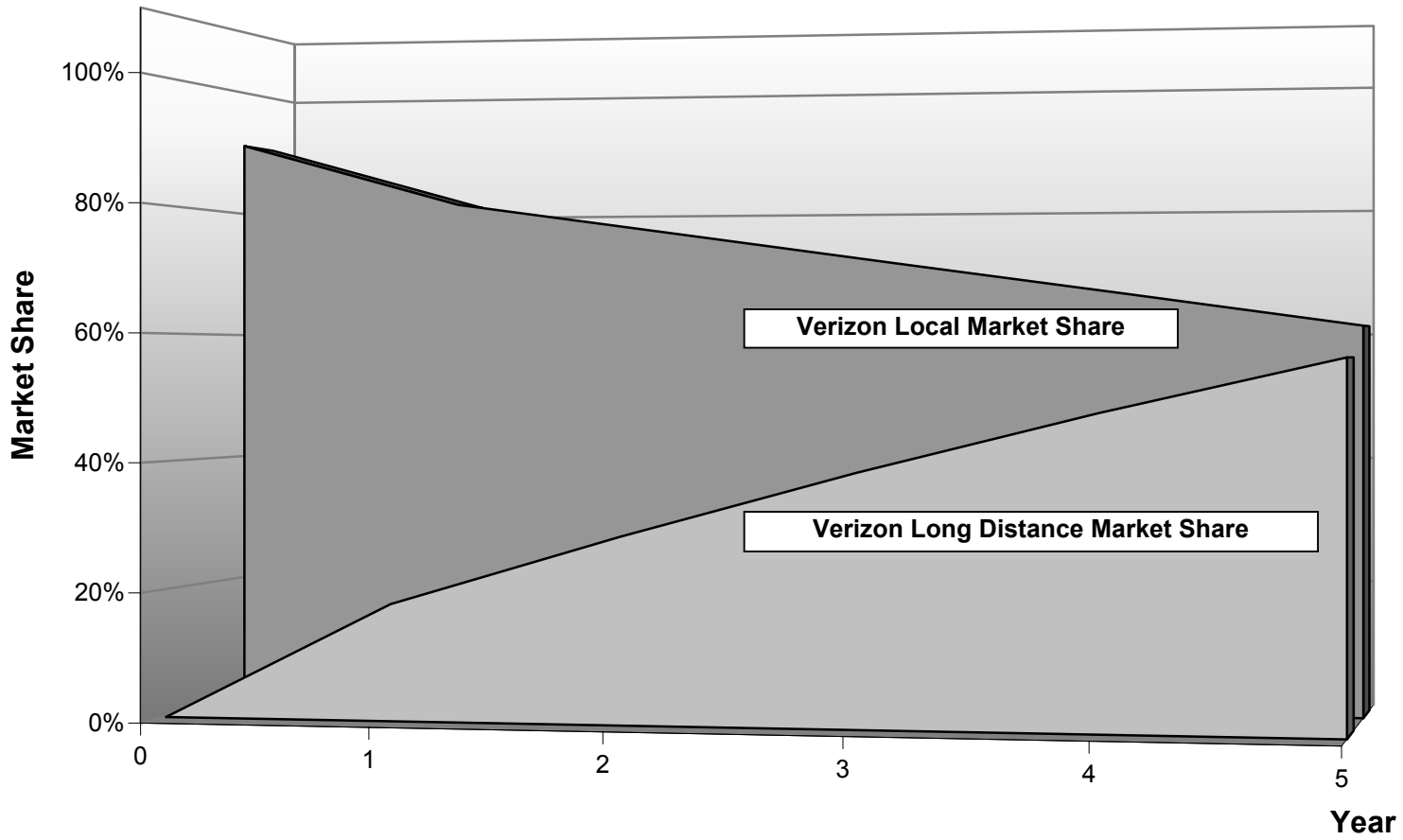


Scenario 2 Results: Local Market Share Decreases by 3% Each Year						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon Virginia local market share in Verizon Virginia territory, BOY	91.20%	88.20%	85.20%	82.20%	79.20%	$l = z^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, BOY	0%	18.56%	30.45%	41.77%	52.51%	$m = y^{(t-1)}$
Residential lines in Verizon Virginia territory (including competitive)	2,398,482	2,444,773	2,491,957	2,540,052	2,589,075	$n = n^{(t-1)}*f$
Verizon Virginia residential lines	2,187,482	2,156,357	2,123,216	2,087,993	2,050,619	o = l*n
Residential households in Verizon Virginia territory (including competitive)	1,860,731	1,896,643	1,933,248	1,970,560	2,008,592	p = n/(1+g)
Verizon Virginia residential households	1,697,038	1,672,892	1,647,181	1,619,855	1,590,860	q = o/(1+g)
Verizon Virginia inward residential customer orders, mid year	283,752	279,555	275,091	270,350	265,324	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	233,678	230,222	226,546	222,641	218,502	s = i*r
"PIC change" residential customers switching to ILEC	111,644	105,596	176,607	246,905	316,416	t = j*m*p
Verizon Virginia long distance customers	345,322	335,818	403,152	469,546	534,918	u = s+t
Verizon Virginia long distance customers net of current year PIC changes	345,322	232,221	229,889	227,317	224,494	$v=u-(w^{(t-1)}*j)$
Verizon Virginia long distance customers (cumulative)	345,322	577,543	807,432	1,034,749	1,259,242	$w=v+w^{(t-1)}$
Verizon Virginia residential access lines with Verizon Virginia long distance	445,120	744,453	1,040,780	1,333,791	1,623,164	$x=w*(1+g) + x^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, EOY	**18.56%**	**30.45%**	**41.77%**	**52.51%**	**62.69%**	y = x/n
Verizon Virginia local market share in Verizon Virginia territory, EOY	**88.20%**	**85.20%**	**82.20%**	**79.20%**	**76.20%**	z = l + e

Scenario 2 Inputs: Local Market Share Decreases by 3% Each Year			
Data Type	**Data Value**	**Source**	**Line**
Verizon Virginia residential lines, Year 1	2,187,482	2001 ARMIS Report 43-08: Table III	a
Competitor residential lines, Year 1	211,000	Declaration of Robert W. Woltz, Jr. on Behalf of Verizon Virginia Inc., filed March 15, 2002, at Attachment 101, Table 1.	b
Total residential lines in Verizon Virginia territory, Year 1	2,398,482		c = a + b
Verizon Virginia residential market share in Verizon Virginia territory, Year 1	91.20%		d = a / c
Annual Growth in Verizon Virginia residential market share in Verizon Virginia territory	-3.00%		e
Annual growth in Verizon residential lines in Verizon Virginia territory for years 1997-2001	1.93%	Average annual growth in Verizon residential access lines in VA (1997-2001 ARMIS Report 43-08: Table III).	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, *Trends in Telephone Service* , August 2001, Table 8.4.	g
Local residential inward movement	17.00%	U.S Census Bureau, *American Housing Survey for the United States in 1999* , Table 2.9.	h
Percentage of orders from residential customers who accept ILEC long distance service on the initial (inward) contact	82.35%	Based upon Verizon - New York's end of year long distance market share. (See the explanation for this calculation in footnote 51.)	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30.00%	News Release, *J.D. Powers and Associates Reports* , "Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20.00%	Conservative estimate for Year 1. In future years, the ILEC's share of PIC changes is its share of Verizon Virginia's share of the long distance market.	k

Verizon Virginia Long Distance Market Share

Scenario 3: Local Market Share Decreases by 10% in Year 1; 5% in Each of Years 2 through 5

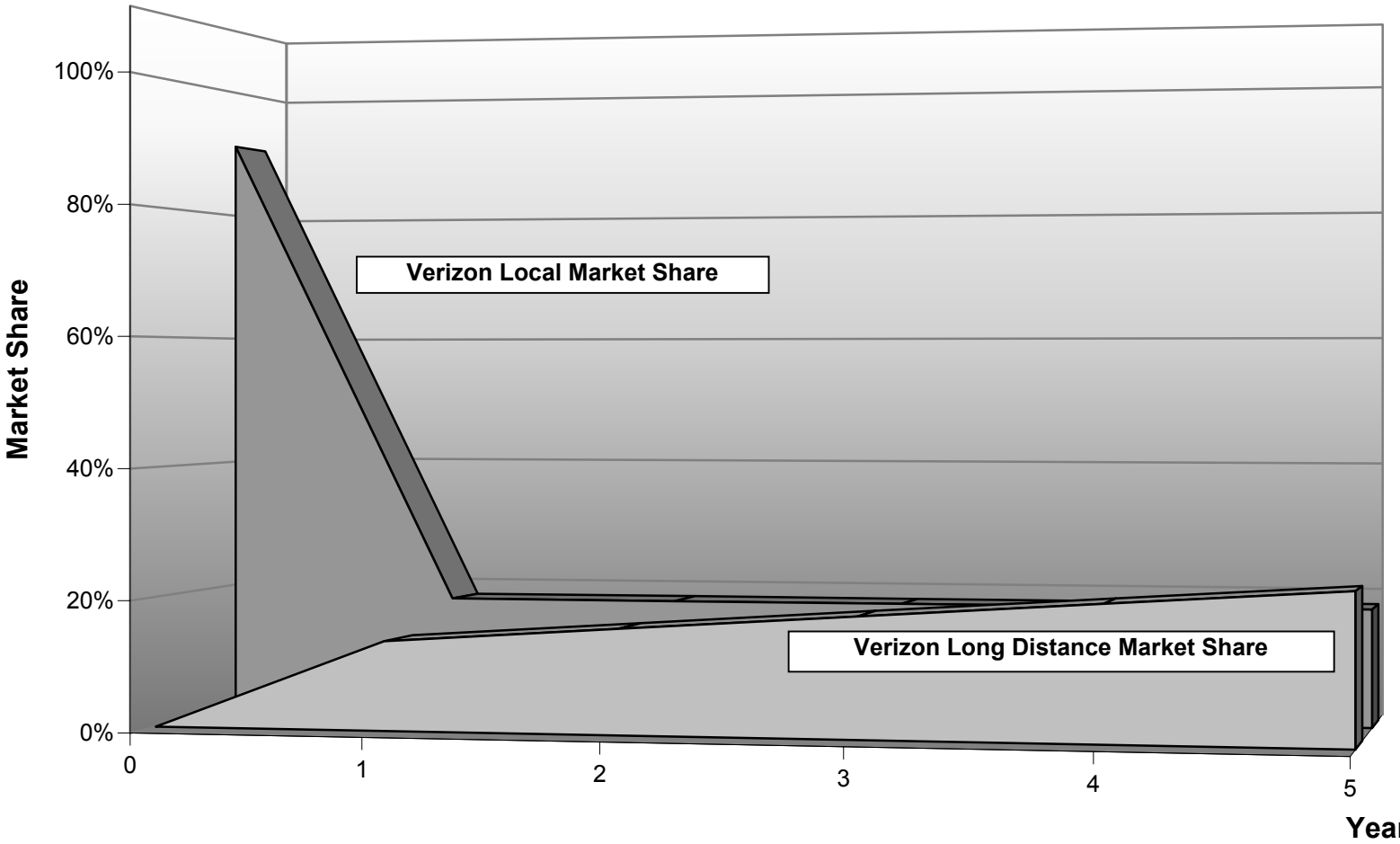


Scenario 3 Results: Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon Virginia local market share in Verizon Virginia territory, BOY	91.20%	81.20%	76.20%	71.20%	66.20%	$l = z^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, BOY	0%	18.07%	28.85%	38.78%	47.89%	$m = y^{(t-1)}$
Residential lines in Verizon Virginia territory (including competitive)	2,398,482	2,444,773	2,491,957	2,540,052	2,589,075	$n = n^{(t-1)}*f$
Verizon Virginia residential lines	2,187,482	1,985,223	1,898,940	1,808,587	1,714,039	o = l*n
Residential households in Verizon Virginia territory (including competitive)	1,860,731	1,896,643	1,933,248	1,970,560	2,008,592	p = n/(1+g)
Verizon Virginia residential households	1,697,038	1,540,127	1,473,189	1,403,093	1,329,743	q = o/(1+g)
Verizon Virginia inward residential customer orders, mid year	272,680	253,761	242,226	230,151	217,520	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	224,560	208,979	199,480	189,536	179,134	s = i*r
"PIC change" residential customers switching to ILEC	111,644	102,808	167,307	229,275	288,560	t = j*m*p
Verizon Virginia long distance customers	336,204	311,787	366,787	418,811	467,694	u = s+t
Verizon Virginia long distance customers net of current year PIC changes	336,204	210,926	202,648	193,877	184,598	$v=u-(w^{(t-1)}*j)$
Verizon Virginia long distance customers (cumulative)	336,204	547,130	749,778	943,655	1,128,253	$w=v+w^{(t-1)}$
Verizon Virginia residential access lines with Verizon Virginia long distance	433,367	705,251	966,464	1,216,372	1,454,318	$x=w*(1+g) + x^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, EOY	**18.07%**	**28.85%**	**38.78%**	**47.89%**	**56.17%**	y = x/n
Verizon Virginia local market share in Verizon territory, EOY	**81.20%**	**76.20%**	**71.20%**	**66.20%**	**61.20%**	z = l + e

Scenario 3 Inputs: Local Market Share Decreases by 10% in Year 1, 5% in each of Years 2 through 5			
Data Type	**Data Value**	**Source**	**Line**
Verizon Virginia residential lines, Year 1	2,187,482	2001 ARMIS Report 43-08: Table III	a
Competitor residential lines, Year 1	211,000	Declaration of Robert W. Woltz, Jr. on Behalf of Verizon Virginia Inc., filed March 15, 2002, at Attachment 101, Table 1.	b
Total residential lines in Verizon Virginia territory, Year 1	2,398,482		c = a + b
Verizon Virginia residential market share in Verizon Virginia territory, Year 1	91.20%		d = a / c
Annual Growth in Verizon Virginia residential market share in Verizon Virginia territory	-10% for Year 1, -5% future years		e
Annual growth in Verizon residential lines in Verizon Virginia territory for years 1997-2001	1.93%	Average annual growth in Verizon residential access lines in VA (1997-2001 ARMIS Report 43-08: Table III).	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, *Trends in Telephone Service* , August 2001, Table 8.4.	g
Local residential inward movement	17.00%	U.S Census Bureau, *American Housing Survey for the United States in 1999* , Table 2.9.	h
Percentage of orders from residential customers who accept ILEC long distance service on the initial (inward) contact	82.35%	Based upon Verizon - New York's end of year long distance market share. (See the explanation for this calculation in footnote 51.)	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30.00%	News Release, *J.D. Powers and Associates Reports* , "Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.	j
Percentage of PIC changes going to ILEC, Year 1	20.00%	Conservative estimate for Year 1. In future years, the ILEC's share of PIC changes is its share of Verizon Virginia's share of the long distance market.	k

Verizon Virginia Long Distance Market Share

Scenario 4: Local Share Decreases by Amount Sufficient to Produce 22.92% LD Share After Year 5



Scenario 4 Results: Local Share Decreases by Amount Sufficient to Produce 22.92% LD Share after 5 Years						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Verizon Virginia local market share in Verizon Virginia territory, BOY	91.20%	18.17%	18.17%	18.17%	18.17%	$l = z^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, BOY	0%	13.66%	16.02%	18.35%	20.65%	$m = y^{(t-1)}$
Residential lines in Verizon Virginia territory (including competitive)	2,398,482	2,444,773	2,491,957	2,540,052	2,589,075	$n = n^{(t-1)}*f$
Verizon Virginia residential lines	2,187,482	444,215	452,789	461,527	470,435	o = l*n
Residential households in Verizon Virginia territory (including competitive)	1,860,731	1,896,643	1,933,248	1,970,560	2,008,592	p = n/(1+g)
Verizon Virginia residential households	1,697,038	344,620	351,271	358,051	364,961	q = o/(1+g)
Verizon Virginia inward residential customer orders, mid year	172,986	58,585	59,716	60,869	62,043	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	142,459	48,247	49,178	50,127	51,095	s = i*r
"PIC change" residential customers switching to ILEC	111,644	77,702	92,905	108,482	124,438	t = j*m*p
Verizon Virginia long distance customers	254,103	125,949	142,083	158,609	175,533	u = s+t
Verizon Virginia long distance customers net of current year PIC changes	254,103	49,718	50,937	52,181	53,451	$v=u-(w^{(t-1)}*j)$
Verizon Virginia long distance customers (cumulative)	254,103	303,821	354,758	406,939	460,390	$w=v+w^{(t-1)}$
Verizon Virginia residential access lines with Verizon Virginia long distance	327,539	391,626	457,283	524,545	593,443	$x=w*(1+g) + x^{(t-1)}$
Verizon Virginia long distance market share in Verizon Virginia territory, EOY	**13.66%**	**16.02%**	**18.35%**	**20.65%**	**22.92%**	y = x/n
Verizon Virginia local market share in Verizon Virginia territory, EOY	**18.17%**	**18.17%**	**18.17%**	**18.17%**	**18.17%**	z

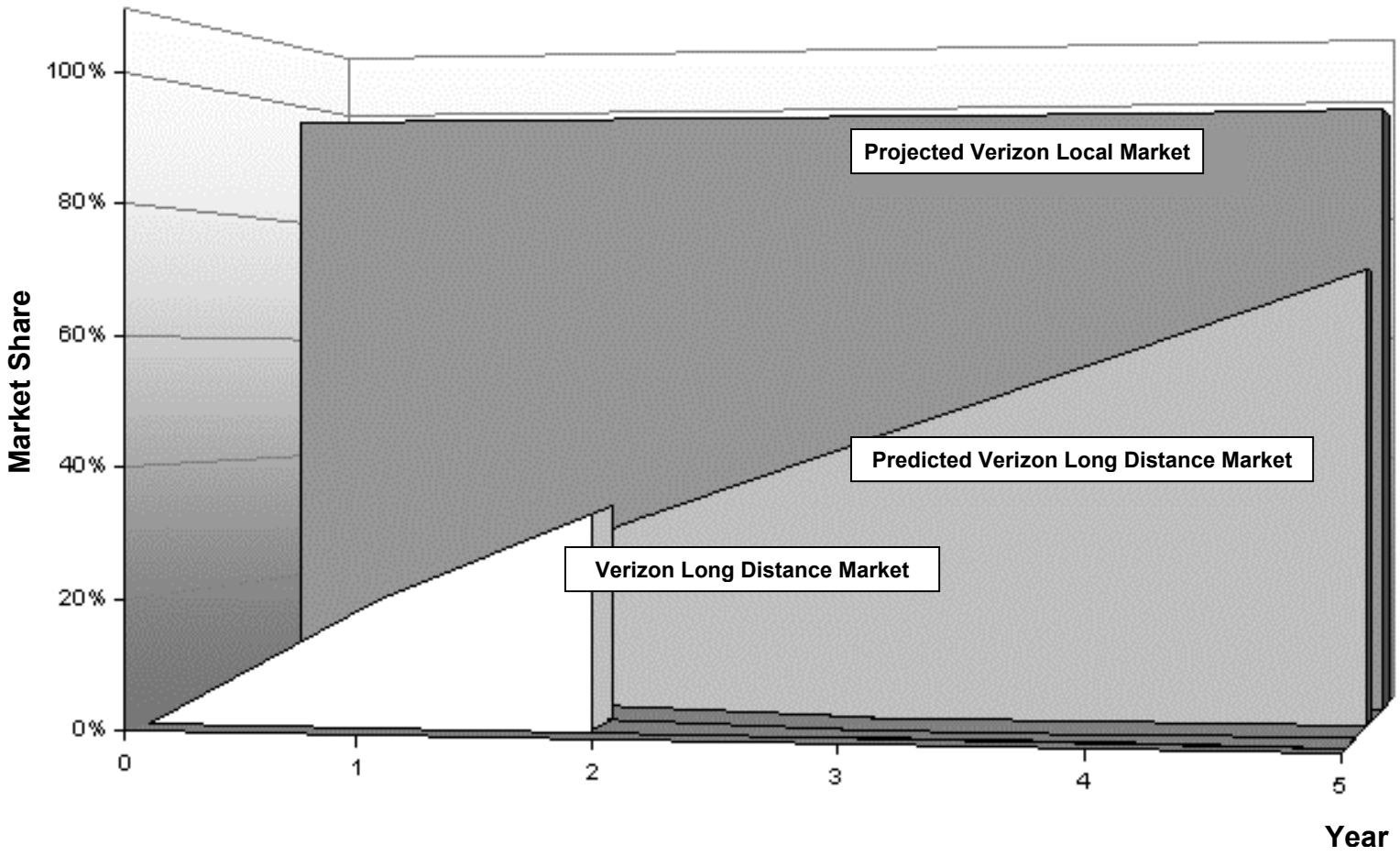
Scenario 4 Inputs: Local Share Decreases by Amount Sufficient to Produce 22.92% LD Share after 5 Years			
Data Type	**Data Value**	**Source**	**Line**
Verizon Virginia residential lines, Year 1	2,187,482	2001 ARMIS Report 43-08: Table III	a
Competitor residential lines, Year 1	211,000	Declaration of Robert W. Woltz, Jr. on Behalf of Verizon Virginia Inc., filed March 15, 2002, at Attachment 101, Table 1.	b
Total residential lines in Verizon Virginia territory, Year 1	2,398,482		c = a + b
Verizon Virginia residential market share in Verizon Virginia territory, Year 1	91.20%		d = a / c
Annual Growth in Verizon Virginia residential market share in Verizon Virginia territory	0.00%		e
Annual growth in Verizon residential lines in Verizon Virginia territory for years 1997-2001	1.93%	Average annual growth in Verizon residential access lines in VA (1997-2001 ARMIS Report 43-08: Table III).	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, *Trends in Telephone Service* , August 2001, Table 8.4.	g
Local residential inward movement	17.00%	U.S Census Bureau, *American Housing Survey for the United States in 1999* , Table 2.9.	h
Percentage of orders from residential customers who accept ILEC long distance service on the initial (inward) contact	82.35%	Based upon Verizon - New York's end of year long distance market share. (See the explanation for this calculation in footnote 51.)	i
Primary Interexchange Carrier (PIC) change rate	30.00%	News Release, *J.D. Powers and Associates Reports* , "Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.	i = (.2-(j*k))/h
Percentage of PIC change going to ILEC, Year 1	20.00%	Conservative estimate for Year 1. In future years, the ILEC's share of PIC changes is its share of Verizon Virginia's share of the long distance market.	k

Attachment 7

Growth in BOC Long Distance Market Share
Predicted vs. Actual Results

ECONOMICS AND
TECHNOLOGY, INC.

Attachment 5
Growth in BOC Long Distance Market Share: Predicted vs. Actual Results



Attachment 5 Results						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Line**
Bell Atlantic - NY local market share in Bell Atlantic - NY territory, BOY	97.01%	97.01%	97.01%	97.01%	97.01%	$l = z^{(t-1)}$
Bell Atlantic - NY long distance market share in Bell Atlantic - NY territory, BOY	0.00%	19.58%	32.67%	45.44%	57.88%	$m = y^{(t-1)}$
Residential lines in Bell Atlantic - NY territory (including competitive)	7,914,537	8,208,166	8,512,689	8,828,510	9,156,048	$n = n^{(t-1)}*f$
Bell Atlantic - NY residential lines	7,677,895	7,962,745	8,258,163	8,564,541	8,882,285	o = l*n
Residential households in Bell Atlantic - NY territory (including competitive)	6,140,060	6,367,856	6,604,103	6,849,116	7,103,218	p = n/(1+g)
Bell Atlantic - NY residential households	5,956,474	6,177,459	6,406,643	6,644,329	6,890,834	q = o/(1+g)
Bell Atlantic - NY inward residential customer orders, midyear	1,012,601	1,050,168	1,089,129	1,129,536	1,171,442	r = h*((l+z)/2)*p
Inward residential customer orders where customers accept ILEC long distance service on the initial contact.	833,906	864,844	896,930	930,206	964,717	s = i*r
"PIC change" residential customers switching to ILEC	368,404	374,075	647,317	933,584	1,233,389	t = j*m*p
Bell Atlantic - NY long distance customers	1,202,310	1,238,919	1,544,247	1,863,790	2,198,106	u = s+t
Bell Atlantic - NY long distance customers net of current year PIC changes	1,202,310	878,226	920,086	963,603	1,008,839	$v=u-(w^{(t-1)}*j)$
Bell Atlantic - NY long distance customers (cumulative)	1,202,310	2,080,536	3,000,622	3,964,225	4,973,064	$w=v+w^{(t-1)}$
Bell Atlantic - NY residential access lines with Bell Atlantic - NY long distance	1,549,778	2,681,811	3,867,802	5,109,886	6,410,279	$x=w*(1+g) + x^{(t-1)}$
Bell Atlantic - NY long distance market share in Bell Atlantic - NY territory, EOY	**19.58%**	**32.67%**	**45.44%**	**57.88%**	**70.01%**	y = x/n
Bell Atlantic - NY local residential market share in Bell Atlantic - NY territory, EOY	**97.01%**	**97.01%**	**97.01%**	**97.01%**	**97.01%**	z = l + e

Attachment 5 Inputs			
Data Type	**Data Value**	**Source**	**Line**
Bell Atlantic - NY residential lines, Year 1	7,677,895	ARMIS 43-08 Table III, run for 1999.	a
Competitor residential lines, Year 1	236,642	Declaration of William E. Taylor on behalf of Bell Atlantic, CC Docket No. 99-295, Filed September 29, 1999, Attachment A, Table 3.	b
Total residential lines in Bell Atlantic - NY territory, Year 1	7,914,537		c = a + b
Bell Atlantic - NY residential market share in Bell Atlantic - NY territory, Year 1	97.01%		d = a / c
Annual Growth in Bell Atlantic - NY residential market share in Bell Atlantic - NY territory	0.00%		e
Annual growth in Verizon residential lines in Bell Atlantic - NY territory	3.71%	Average annual growth in Qwest residential access lines in MN (1996-2000 ARMIS Report 43-08: Table III).	f
Percentage of households with additional lines	28.90%	FCC, Industry Analysis Division, *Trends in Telephone Service* , August 2001, Table 8.4.	g
Local residential inward movement	17.00%	U.S Census Bureau, *American Housing Survey for the United States in 1999* , Table 2.9.	h
Percentage of orders from residential customers who accept ILEC long distance service on the initial (inward) contact	82.35%	Based upon Verizon - New York's end of year long distance market share. (See the explanation of this calculation in footnote **.)	i = (.2-(j*k))/h
Primary Interexchange Carrier (PIC) change rate	30.00%	News Release, *J.D. Powers and Associates Reports* , "Sprint and Snet Top Performers in Residential Long Distance Customer Satisfaction," July 29, 1999.	j
Percentage of PIC change going to ILEC, Year 1	20.00%	Conservative estimate for Year 1. In future years, the ILEC's share of PIC changes is its share of Bell Atlantic - NY's share of the long distance market.	k

Verizon Communications Posts Strong Results For Fourth Quarter and 2000

Feb 01, 2001

High-Growth Services Fuel Revenue Gains; Company Meets Financial Goals and Delivers Adjusted EPS of 77 Cents for Quarter, $2.91 for Year

YEAR-END HIGHLIGHTS

- 540,000 DSL (digital subscriber line) customers vs. 500,000 target
- 1.4 million New York long-distance customers vs. 1 million target
- 1.2 million net new U.S. wireless customers in quarter, 27.5 million total
- Data revenues grow 30 percent for the year
- 108.8 million access line equivalents (ALEs), with data circuits as measured in ALEs growing 60 percent
- Telecom package sales increase 71 percent year-over-year
- Proportionate international wireless customers grow 47 percent to 8.1 million

Verizon Communications announced today that fourth quarter 2000 reported earnings of 70 cents per diluted share, on net income of $1.9 billion, increased 11.1 percent from 63 cents, or $1.7 billion, in fourth quarter 1999. For 2000, reported earnings per share (EPS) were $4.31, or $11.8 billion, a 45.1 percent increase from $2.97, or $8.3 billion, in 1999. Reported results for all periods incorporate the net after-tax effect of gains, charges and other adjustments described below.

Adjusted EPS for fourth quarter 2000 of 77 cents, or $2.1 billion, increased 2.7 percent from 75 cents, or $2.1 billion, in fourth quarter 1999. For the year, adjusted EPS rose 2.5 percent to $2.91, or $8.0 billion, from $2.84, or $7.9 billion, in 1999, in line with the company's previously announced financial targets. Adjusted results for fourth quarter 1999 include results of the U.S. wireless properties of Vodafone Group Plc that became part of Verizon Wireless as of April 2000.

Continuing strong demand for high-growth services such as wireless and data, and solid volumes for voice services, drove a 6.7 percent increase in adjusted consolidated revenues from current operations, to $16.9 billion, from $15.8 billion in fourth quarter 1999. Full-year adjusted consolidated revenues from current operations grew 7.2 percent, to $63.4 billion from $59.2 billion in 1999. Adjusted revenues in all periods exclude revenues from certain significant operations sold in 1999 and 2000.

"Our solid operating performance in 2000 confirms both the validity of our business model and our ability to execute on it," said Verizon Chairman and Co-CEO Charles R. Lee.

"Last year, we completed two major transactions that gave us the scale as well as the financial strength and flexibility to deliver sustained, profitable growth in competitive markets. We integrated organizations without missing a beat and made full use of our new capabilities. We started a long-distance operation in New York that established a new model for simplicity and value and won more than 20 percent of the consumer market; we worked through numerous industry-wide challenges to begin meeting the tremendous demand for broadband services; we

formed Verizon Wireless and became the U.S. wireless industry leader; and we did all this while maintaining both service quality and the level of growth in our telecom business. In 2001, we will build on these successes and further expand into the high-growth markets of the future," Lee said.

Verizon President and Co-CEO Ivan Seidenberg said, "As our results indicate, our investments in new services are starting to deliver significant revenue growth. We plan to further expand our market opportunities by working through the long-distance approval process this year in Massachusetts, Pennsylvania and New Jersey -- which together represent a $14 billion-a-year market in voice long-distance alone -- and we'll continue to make the investments that unlock the full potential of our networks to serve a data-centric world.

"Verizon is distinguished from its peers by its experience and its success with competition. Verizon and its predecessor companies accelerated top-line growth every year for the past few years while operating in the most competitive wireline and wireless markets in the country. We're well positioned in 2001 to further transform our growth profile and move into our target ranges of 8 - 10 percent revenue growth and $3.13 - $3.17 earnings per share," Seidenberg said.

EDITOR'S NOTE: Verizon will provide details of its plans for 2001 in a meeting with the investment community on Wednesday, Feb. 7 from 8 a.m. to 12:30 p.m. The meeting will be available to all investors through a Webcast at www.verizon.com/investor. The company will also Webcast its 9 a.m. conference call this morning on fourth-quarter and 2000 results at the same Web address.

Revenue, Expense, Capital

Nearly 40 percent of Verizon's adjusted consolidated revenues for both the fourth quarter and the year were generated from high-growth data, wireless, long-distance, DSL and international services. In the fourth quarter, revenues from these services totaled approximately $6.6 billion, and for the year totaled more than $23.6 billion.

Total adjusted U.S. Telecom revenues grew 3.3 percent for the quarter, to $10.9 billion, while Telecom provided competitors with nearly 3.5 million switched wholesale lines and 804,000 unbundled loops at the end of the year, double the number of lines and three times the number of loops in service at the end of 1999. For the year, Telecom revenues grew 3.9 percent to $43.3 billion. Regulatory rate reductions totaled $200 million in the fourth quarter and $850 million for the year (up sharply from $500 million in 1999).

Verizon's consolidated adjusted expenses for the quarter and the year increased 8.4 percent over the respective prior-year periods, due primarily to investment in high-growth wireless, data and long-distance services.

Adjusted fourth quarter expenses for U.S. Telecom rose 4.9 percent over fourth quarter 1999, with cash expenses up 3.6 percent. The company's largest business continued to exercise strong expense control: excluding costs associated with the DSL and long-distance businesses, Telecom's quarterly expenses increased only 2.5 percent, with cash expenses growing less than 1 percent. For the year, adjusted Telecom expenses rose 4.4 percent, with cash expenses increasing 3.6 percent; excluding DSL and long-distance costs, full-year expenses grew only 2.5 percent, and cash expenses grew 1.4 percent.

Verizon also achieved approximately $535 million in annual merger-related expense savings in 2000, making substantial progress toward its target of saving $2 billion a year in expenses by the end of 2003 through synergies resulting from the Bell Atlantic-GTE merger and the formation of Verizon Wireless. These savings were realized through various means, including

the re-negotiation and termination of contracts, the integration of information systems, the integration of call centers and operator service centers, and the use of best practices to improve processes.

The company's capital expenditures for the year were $17.6 billion, with almost 50 percent invested in data and wireless infrastructure.

Highlights of Operations

DSL:

- Verizon added 190,000 DSL lines in the fourth quarter, 46 percent more than in the third quarter. The 540,000 lines in service at the end of the year represent an increase of more than 500 percent over the number in service at the end of 1999.

- Verizon Online, the company's Internet service provider, ended the year with approximately 847,000 subscribers, a 21 percent increase since the end of 1999.

- Verizon equipped approximately 500 central offices for DSL in 2000 and ended the year with approximately 1,850 equipped offices, 30 percent more than a year ago. An average of 60 percent of the access lines in those offices qualify for DSL, making the service available to 45 percent of Verizon's access lines and households, nearly 29 million and 14 million respectively.

- During the quarter, the company completed the acquisition of OnePoint Communications Corp. and launched Verizon Avenue, which provides bundled voice, data and video services to residents of multi-dwelling unit buildings in high-growth, densely populated urban and suburban markets around the country.

Data:

- Verizon ended 2000 with data circuits in service equivalent to 45.9 million voice-grade lines, 60 percent more than at the end of 1999. Combined with 62.9 million voice-grade lines, Verizon ended the year with 108.8 million total access line equivalents in service, 20 percent more than at the end of 1999 (comparisons adjusted for access line sales in 2000).

- Demand for digital high-capacity facilities and services remained strong through the fourth quarter. Verizon installed more than 2 million inter-office fiber links in 2000, ten times the number installed in 1999. The number of frame relay circuits, cell relay circuits and Primary Rate Interface ISDN (Integrated Services Digital Network) lines in service grew 47.9 percent, 80.5 percent, and 35 percent respectively since the end of 1999.

- Fourth-quarter revenues for data services, including high-capacity, high-speed local transport services, continued their strong growth over prior periods, with full-year revenues growing 30 percent over 1999.

Long Distance:

- Verizon's long-distance unit continued its strong growth and ended the year with 4.9 million customers nationwide, 44 percent more than a year ago, making Verizon the nation's fourth-largest provider of long-distance services. During the quarter, Verizon signed up an additional 240,000 new subscribers in New York, and the company ended the year with approximately 1.4 million New York subscribers, including some 78,000 businesses, that use Verizon Long Distance on 1.7 million lines. Verizon now serves more than 20 percent of New York's residence long-distance customers, with average revenue per consumer customer in line with industry averages, and more than 12 percent of the business market.

- Of the 240,000 customers added in the quarter, almost 95,000 came back to Verizon from other carriers for their intraLATA toll calling, increasing the total number of "win-back" customers to 326,800, almost 41 percent more than at the end of the third quarter. As of the end of the year, 97 percent of Verizon's New York long distance customers purchase local, intraLATA toll and long-distance usage from Verizon.

- In addition, the number of Verizon-wide customers purchasing vertical services such as Caller ID and Home Voice Mail in packages, often with basic service, grew 71 percent over fourth quarter 1999. Revenues from service packages totaled nearly $740 million for the year. On Jan. 8, 2001, Verizon introduced The Big Deal, a group of packages that in New York bundle long-distance service at 8 cents a minute with a variety of basic and value-added services.

- On Jan. 16, 2001,Verizon re-submitted its filing for federal approval to offer long-distance service in Massachusetts, where Verizon serves 4.7 million access lines and the long-distance market is a $2 billion-plus annual opportunity. The Federal Communications Commission's decision is due by mid-April. Verizon has also filed with the Pennsylvania Public Utility Commission to begin its 100-day review of the company's proposed long-distance application to the FCC. The PUC will use the 100-day period to review the evidence that Verizon has opened its network to competitors and determine whether to support the company's application to the FCC, which Verizon then plans to file.

Verizon Wireless:

- Verizon Wireless added 1.2 million net new customers during the fourth quarter, 5.9 percent more net additions than in fourth quarter 1999, with the total number of customers growing 15.6 percent year-over-year to 27.5 million. Penetration of covered POPs increased to 13.5 percent from 11.7 percent a year ago. The penetration gain in 2000 of 1.8 percentage points represents an increase from the 1.6 point gain in 1999.

- More than 99 percent of fourth-quarter net customer additions were contract customers, up from 62 percent in fourth quarter 1999. Driving the strong growth in contract customers were the company's national and regional Single Rate calling plans. Also contributing to this increase was New Every Two, the industry's first handset upgrade plan, aimed at increasing loyalty and keeping customers current with the latest technology.

- More than half of Verizon Wireless customers now subscribe to CDMA (Code Division Multiple Access) digital services, and generate more than 80 percent of the company's busy-hour usage, compared to 65 percent at mid-year. More than 750,000 customers subscribe to the company's data services, including Mobile Web Internet access, up more than 50 percent from 500,000 at the end of the third quarter.

- Wireless revenues for the quarter grew to $4.1 billion, up 16.7 percent from fourth quarter 1999, with average monthly service revenue per subscriber increasing 3 percent. For the year, revenues grew 19.3 percent to $14.2 billion.

- Quarterly operating income rose 35 percent to $405 million, with operating cash flow increasing 13.3 percent to $1.2 billion. For the year, operating income rose 25.5 percent, to $1.8 billion, and operating cash flow grew 14.9 percent to $4.7 billion. Operating cash flow margin was 32.4 percent for the quarter and 35.6 percent for the year.

- During the quarter, Verizon Wireless agreed to acquire Price Communications Wireless, a wholly owned subsidiary of Price Communications [NYSE: PR], for $1.5 billion in Verizon Wireless stock and $500 million in net debt. The transaction is conditioned upon completion of

the Verizon Wireless initial public offering. The deal will significantly expand the company's footprint in the Southeastern U.S. and add some 500,000 customers.

- Verizon Wireless was the winning bidder for 113 licenses in the FCC's recently concluded auction of 1.9 GHz spectrum. The company added capacity for growth and advanced services in markets including New York, Boston, Los Angeles, Chicago, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of approximately $8.8 billion. Verizon Wireless now has spectrum in all 50 of the top 50 Metropolitan Service Areas in the United States.

Information Services:

- Operating income from Verizon's directory publishing and electronic commerce operations for the year rose 2 percent to $2 billion. Strong cost control and merger-related synergies limited expense increases to less than 1 percent over 1999. Revenues totaled $4.1 billion for the year, a 1.4 percent increase over 1999, with revenues from SuperPages.com, Verizon's Internet directory service, growing 75 percent.

International:

- Revenues from consolidated international operations grew 19.2 percent over fourth quarter 1999 to $540 million, with proportionate international revenues exceeding $1.5 billion. For the year, consolidated revenues of $2 billion grew 15.3 percent over 1999, with proportionate revenues reaching $6.1 billion.

- International revenue growth was driven primarily by continued worldwide demand for wireless services. The number of proportionate international wireless customers served by Verizon investments increased 2.6 million to more than 8.1 million, a 46.6 percent increase over fourth quarter 1999. A number of Verizon's wireless investments reached major customer milestones, as Taiwan Cellular exceeded 5 million subscribers and EuroTel Praha reached 2 million, and Omnitel Pronto Italia in Italy closed in on the 15-million mark.

Reported Results

Reported net income for fourth quarter 2000 of $1.9 billion, or 70 cents per share, reflects the net after-tax effect of charges which, after offsetting adjustments, totaled $198 million, or 7 cents per share. These include a net gain on the sale of wireless properties for regulatory reasons which partially offset charges for transition costs related to the Bell Atlantic-GTE merger and other special items, including Verizon's share of certain restructuring charges at two international equity investments, and the write-off of its investment in NorthPoint Communications Corp. as a result of the deterioration in NorthPoint's business, operations and financial condition.

Reported fourth-quarter 1999 net income of $1.7 billion, or 63 cents per share, reflects net after-tax effects of charges which, after offsetting adjustments, totaled $342 million, or 12 cents per share. These include Bell Atlantic-NYNEX merger charges, net losses of Genuity (which was separated from Verizon in 2000 through an initial public offering), and a mark-to-market accounting adjustment related to notes issued by Bell Atlantic in 1999 that are exchangeable into shares of NTL Inc. and Cable & Wireless plc. This adjustment is a non-cash gain or loss, subject to limitations, depending on the share prices of NTL and Cable & Wireless. These charges were partially offset by gains including gains from asset sales.

Reported net income for 2000 of $11.8 billion, or $4.31 per share, reflects the net after-tax effect of gains, charges and other adjustments totaling approximately $3.8 billion, or $1.40 per share. The gains, which total approximately $6.3 billion, or $2.32 per share, include net gains on wireline and wireless asset sales, mark-to-market accounting adjustments related to the

exchangeable notes, non-cash gains resulting from the acquisition of the assets of Cable & Wireless Communications by NTL Inc. and Cable & Wireless plc; and conforming accounting adjustments. Offsetting charges, which total approximately $2.5 billion after taxes, or 92 cents per share, include charges for merger and transition costs related to the Bell Atlantic-NYNEX and Bell Atlantic-GTE mergers, Genuity net losses and other items.

Reported net income for 1999 of $8.3 billion, or $2.97 per share, reflect the net after-tax effect of gains, charges and other adjustments totaling $365 million, or 13 cents per share, for special items including gains from asset sales, mark-to-market accounting adjustments, Genuity net losses, merger transition charges and other adjustments.

NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, universal service, and unbundled network element and resale rates; the extent, timing, success, and overall effects of competition from others in the local telephone and intraLATA toll service markets; the timing and profitability of our entry into the in-region long-distance market; our ability to combine former Bell Atlantic and GTE operations, satisfy regulatory conditions and obtain revenue enhancements and cost savings; the profitability of our entry into the nationwide broadband access market; the ability of Verizon Wireless to combine operations and obtain revenue enhancements and cost savings; our ability to convert our ownership interest in Genuity Inc. into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; and changes in our accounting assumptions that may be required by regulatory agencies, including the SEC, or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

Verizon Communications Reports Solid 3Q Earnings And Provides Outlook for Remainder of 2001

Oct 30, 2001

Company Posts Continued Quality Growth in Wireless Sector, DSL; Increased 2001 Long-Distance Sales Goal Reached in Nine Months

THIRD-QUARTER HIGHLIGHTS

- 752,000 new wireless customers, for 28.7 million total, with continued reduced customer churn, high percentage of contract sales and 20 million digital customers
- 6.9 million long-distance customers nationwide, reaching previously announced, increased year-end targets
- Long-distance approval in Pennsylvania, a $3 billion annual revenue opportunity
- 135,000 net new DSL (digital subscriber line) customers for a third-quarter total of 975,000 and a current total of more than 1 million
- 52 percent growth in data circuits as measured in access line equivalents (ALEs); total ALEs in service grew more than 20 percent to 128.5 million
- Continued industry-leading cost control, with second consecutive quarter of cash expense reductions in the Domestic Telecom segment
- 18.1 percent data transport revenue growth over third quarter 2000
- 2.0 million increase, to 9.1 million total, in proportionate international wireless customers, a 28.6 percent increase over third quarter 2000

Verizon Communications today reported adjusted third-quarter net income of $2.04 billion, or adjusted diluted earnings per share (EPS) of 75 cents, which includes a 3-cent-per-share impact related to the Sept. 11 terrorist attacks in New York City and at the Pentagon. This represents a 2.8 percent increase from $1.98 billion, or 73 cents per share, in the third quarter 2000.

Adjusted net income for the first nine months of 2001 was $6.1 billion, or $2.23 per share, compared to nine-month 2000 adjusted net income of $5.9 billion, or $2.13 per share.

"Verizon has come through a difficult experience in a strong financial and operational position," said Verizon Chairman and Co-CEO Charles R. Lee. "Verizon's depth of management talent and technical skill enabled us to respond with incredible speed to restore service and respond to this national crisis. At the same time, the breadth and scale of our company allowed us to continue to grow revenues in key areas of our business during the quarter, while we once again demonstrated industry-leading cost control."

Lee added, "Our view for the remainder of this year is shaped by the economic outlook, and we continue to take the appropriate steps to manage through the declining economy and to position ourselves for the recovery. We have adjusted our capital investment spending in 2001 to reflect this, while maintaining our investments in service quality and growth initiatives. Planning for the possibility of a prolonged economic weakness, we took steps earlier to reduce our cost structure in a way that has become ingrained in our business. This has given us the ability to continue to pursue growth opportunities and move forward with our long-distance applications and regulatory reform initiatives."

Verizon President and Co-CEO Ivan Seidenberg said, "Our focus on execution is solidifying Verizon's leadership position in a dynamic industry. In long distance, we had another successful quarter. We have already met previously increased year-end sales targets, and customers in Pennsylvania are responding enthusiastically to last week's long-distance launch in that state. In DSL, we have continued to focus on improving operations. In the past quarter, we have cut the average installation interval in half, and we recently unveiled an aggressive sales promotion. In wireless, we had a very strong, profitable quarter as we continued to keep our eye on the fundamentals of the business and quality customer growth."

"Looking ahead, these extraordinary times have lent new clarity to critical issues facing our industry, and we will work closely with federal and state regulators to create meaningful and necessary industry change." Referring to the policy goals recently outlined by Federal Communications Commission Chairman Michael Powell, Seidenberg said, "We are encouraged that Chairman Powell's agenda recognizes the key industry issues, including the need for a better wireless spectrum allocation process and a broadband policy that removes the barriers to deployment and supports even more investment in high-speed technology."

CONSOLIDATED RESULTS

Consolidated adjusted revenues for the quarter grew 3.7 percent, to $17.0 billion from $16.4 billion in third quarter 2000. Nine-month consolidated revenues were $50.2 billion, up 7.7 percent from $46.6 billion in the first nine months of 2000. Revenues for the earlier period do not include first-quarter revenues from the Vodafone properties that were contributed to Verizon Wireless in April 2000; including those revenues, the nine-month increase would have been 5.2 percent.

Consolidated adjusted expenses increased 3.7 percent and cash expenses increased by 2.9 percent over third quarter 2000. Excluding the effects of the Sept. 11 attacks, merger-related expense savings and cost-control measures enabled the company to hold increases in cash expenses to 1.5 percent while continuing to invest in high-growth capabilities and services.

For the second consecutive quarter, Verizon's largest business unit, Domestic Telecom, decreased its cash expenses over the prior-year period; through the first nine months of 2001, cash expenses decreased 1.7 percent, to $17.9 billion from $18.2 billion in the first nine months of 2000. Third quarter 2001 cash expenses decreased 0.8 percent to $6.1 billion, including expenses to restore services in the World Trade Center area and at the Pentagon, and decreased 3.1 percent excluding this impact.

HIGHLIGHTS OF OPERATIONS

LONG DISTANCE:

- Verizon Long Distance, the nation's fourth largest long-distance provider, added approximately 850,000 customers in the quarter and ended the quarter with 6.9 million customers nationwide. The third-quarter increase includes approximately 160,000 retail customers in Hawaii not previously counted as part of the base. Excluding Hawaii, this is a more

than 50 percent increase over third quarter 2000.

- With 2,132,000 customers in New York and 475,000 customers in Massachusetts, more than 38 percent of long-distance customers come from Verizon's newest long-distance markets. Verizon now has 31.7 percent in-franchise market share in New York and 17.9 percent in-franchise market share in Massachusetts.

- On Oct. 23, Verizon announced that it had begun marketing long-distance services in Pennsylvania, where Verizon serves about 7 million access lines and the long-distance market is an estimated $3 billion annual revenue opportunity.

- Verizon is now offering long-distance service to approximately 54.5 percent of the former Bell Atlantic's access lines and more than two-thirds of all Verizon access lines nationwide. Verizon is now able to offer long distance in Massachusetts, Connecticut, New York and Pennsylvania, as well as 36 other states formerly served by GTE Long Distance.

- On Oct. 18, Verizon notified state regulators in Maine that it plans to file a long-distance application with the FCC by year's end. The company is also working closely with state regulators in New Hampshire, Vermont, Rhode Island and New Jersey, where similar notices were filed earlier this year.

DSL:

- Verizon added 135,000 DSL lines in the third quarter and ended the period with approximately 975,000 lines in service -- a 625,000-line year-over-year increase. Average installation intervals have been cut in half, resulting in improved customer satisfaction.

- On Oct. 17, Verizon announced it had surpassed a total of 1 million DSL customers, representing 85 percent year-to-date growth, and the company is targeting 1.2 to 1.3 million DSL subscribers by year-end.

- Approximately 32.8 million of Verizon's 62.0 million access lines nationwide are DSL-qualified. Verizon recently extended the reach of its DSL service to an additional 3.5 million lines, as the company continues to add capacity in its central offices to meet continued strong demand. Approximately 2,050 central offices are equipped to provide DSL.

- Also on Oct. 17, Verizon Online, the company's Internet service provider, unveiled a fourth-quarter sales promotion for DSL service, including a three-month introductory rate of $29.95 per month. The promotion also includes a free modem, installation kit and digital camera.

- Verizon Online, which is the Internet service provider (ISP) to more than 1 million subscribers, reported a nearly 37 percent increase over third quarter 2000 customer totals.

DATA AND TELECOM:

- Data Services revenues grew to nearly $1.8 billion, driven by 18.1 percent growth in data transport services over third quarter 2000.

- The 52 percent third-quarter growth in data circuits as measured in ALEs marked Verizon's fourth consecutive quarter of more than 50 percent growth. Data circuits now account for more than half of Verizon's 128.5 million ALEs.

- On Oct. 23, Verizon and Microsoft announced that they were exploring ways to extend the reach of Verizon services through the use of select Microsoftâ.NET and WindowsâXP services.

This would provide customers with remote access to features of Verizon's call services, such as Caller ID and voice mail, any time, anywhere and from virtually any device.

- Sales of packages of domestic wireline telecommunications services -- combining Caller ID, voice mail and other features -- increased 53 percent in the third quarter 2001 compared to the third quarter 2000.

VERIZON WIRELESS:

- Verizon Wireless added 752,000 net new customers during the third quarter 2001, with the total number of customers growing 12.2 percent over the prior year to 28.7 million. Penetration of covered POPs, which have been adjusted to reflect updated census and network coverage data, increased to 13.0 percent.

- Nearly 94 percent of Verizon Wireless' total base is made up of contract customers. Retail contract gross additions increased 7 percent year-over-year. Retail net additions of contract customers increased 36 percent over the prior year.

- Total churn decreased to 2.2 percent, down year-over-year and sequentially.

- With the largest digital base in the U.S., Verizon Wireless ended the quarter with 20 million digital customers, 69 percent of total subscribers. These customers generate more than 90 percent of the company's busy-hour usage.

- Average usage per subscriber increased 36 percent to 274 minutes a month, with digital usage of approximately 370 minutes a month.

- Service revenues for the quarter grew 13.2 percent to $4.2 billion, with service revenue per subscriber increasing 1 percent to more than $49, the fifth consecutive quarter of a year-over-year increase in service revenue per subscriber. Total revenues were $4.5 billion, up 12.0 percent. Quarterly operating income rose 19.9 percent to $688 million, with operating cash flow increasing 12.3 percent to $1.6 billion.

- Industry-leading operating cash flow margin remained strong at 39 percent for the quarter.

- Verizon Wireless ended the quarter with 1.2 million subscribers to its Mobile Web and Mobile IP data services.

- This month the company introduced its 1XRTT high-speed Express Network for select enterprise customers and developers in the Philadelphia area. From laptops and PDAs, these subscribers are using the network's advanced high-speed data rates to access corporate intranets and the Internet. The company expects to consistently deliver 40-60 Kbs (kilobits per second) speeds, significantly higher than with alternative wireless technologies, when it rolls out Express Network to key markets around the country, including New York, in the fourth quarter.

INTERNATIONAL:

- Revenues from consolidated international operations grew 17.5 percent over third quarter 2000 to $597 million. Operating income increased $96 million to $125 million, while operating cash flow increased 78 percent to $210 million compared to third quarter 2000.

- Total proportionate revenues increased $76 million over third quarter 2000 to $1.5 billion. Proportionate operating income of $350 million and proportionate operating cash flow of $618 million increased 15.9 percent and 17.9 percent, respectively, compared to third quarter 2000.

- The number of proportionate international wireless customers served by Verizon investments increased by 2.0 million to 9.1 million, a 28.6 percent increase over third quarter 2000. Verizon's international wireless investments reported strong customer gains, including Omnitel, now with 16.7 million subscribers; EuroTel Praha with 2.9 million; and Stet Hellas with 2.0 million.

- Verizon's new global network is progressing on plan. During the third quarter, Verizon Global Solutions Inc. added additional locations -- including London, Paris, Amsterdam, Brussels, Frankfurt and Dusseldorf -- to its network, which now links the U.S. and major commercial and financial centers around the world. Also during the quarter, Verizon rolled out high-speed global private-line service.

INFORMATION SERVICES:

- Revenues from Verizon's directory publishing and electronic commerce operations were $1.1 billion in the third quarter, an increase of 14.6 percent from third quarter 2000 due to operational growth and shifts in directory publication dates.

- Revenues from SuperPages.com, Verizon's Internet directory service, grew 63.6 percent over third quarter 2000, as Information Services carried out its strategy to bundle print and online services.

REPORTED RESULTS

For the third quarter of 2001, Verizon reported consolidated net income of $1.9 billion, or 69 cents a diluted share, compared to $3.5 billion, or $1.27 per share, during the third quarter 2000. Current-quarter net income includes transition costs and mark-to-market adjustments for financial instruments totaling $165 million, or 6 cents a share. Third quarter 2000 included net income reported on sales of assets of approximately $1.3 billion, or 47 cents a share. Assets sold included certain non-strategic wireline properties, which were reported in operating income, and overlapping wireless properties that were sold for regulatory reasons and which were reported as an extraordinary item. In third quarter 2000, the company also recorded a gain of $245 million, or 9 cents a share, for a mark-to-market adjustment for notes issued in 1998 that are exchangeable into shares of Cable & Wireless plc and NTL Inc., and transition costs of $65 million, or 2 cents a share.

Reported net income for the first nine months of 2001 was $2.4 billion, or 89 cents a share, compared to $9.9 billion, or $3.60 a share, in the first nine months of 2000.

Reported operating revenues rose 2.8 percent in the third quarter 2001, to $17.0 billion, compared to the third quarter 2000. For the first nine months of 2001, Verizon's revenues rose 4.9 percent, to $50.2 billion, compared to the first nine months of 2000.

2001 OUTLOOK

Verizon anticipates a continued financial impact related to the Sept. 11 terrorist attacks and to the ongoing economic downturn in the fourth quarter 2001.

In the fourth quarter, the company is targeting the following:

- Quarterly revenue growth of approximately 3 percent

- EPS -- including a fourth-quarter impact from Sept. 11 restoration efforts of approximately 3 cents -- of 77 to 80 cents

- Capital expenditures of $4.5 to $4.7 billion

The company is updating the following year-end 2001 financial targets accordingly:

- Annual revenue growth of 4 to 5 percent; previous target was 5 to 6 percent

- EPS of $3.00 to $3.03, including impacts of approximately 6 cents from the Sept. 11 attacks; excluding the impacts, EPS in the range of $3.06 to $3.09, which is in line with previous targets. Additionally, the company estimated the impact of FAS 142, a Financial Accounting Standard that will be implemented next year relating to the amortization of goodwill, to be 8 cents a share on an annual basis.

- Capital expenditures of $17.0 to $17.2 billion; previously $17.5 billion

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NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: the duration and extent of the current economic downturn; materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations; the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, and unbundled network element and resale rates; the extent, timing, success, and overall effects of competition from others in the local telephone and toll service markets; the timing and profitability of our entry and expansion in the national long-distance market; our ability to combine former Bell Atlantic and GTE operations, satisfy regulatory conditions and obtain revenue enhancements and cost savings; the profitability of our broadband operations; the ability of Verizon Wireless to achieve revenue enhancements and cost savings, and obtain sufficient spectrum resources; the continuing financial needs of Genuity Inc., our ability to convert our ownership interest in Genuity into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; our ability to recover insurance proceeds relating to equipment losses and other adverse financial impacts resulting from the terrorist attacks on Sept. 11, 2001; and changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

News Release

Verizon Communications Reports Solid Results For Fourth Quarter, Provides Outlook for 2002

Company Posts Adjusted EPS of 77 Cents; Long-Distance, DSL, Wireless Sales Highlight Strong Operational Execution

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2001 HIGHLIGHTS

- 59 percent increase in long-distance customers year-over-year, with approximately 40 percent of the customer base coming from New York, Massachusetts and Pennsylvania.
- 122 percent increase in DSL (digital subscriber line) customers while improving customer service.
- 21.2 percent increase in data transport revenues; total data revenues exceed $7 billion.
- Continued industry-leading cost control, with the Domestic Telecom unit showing a year-over-year decline in expenses, including three consecutive quarters of cash expense reductions.
- Technology deployment that enabled the launch of the nation's first major next-generation, 1XRTT wireless network and expanded the company's DSL reach to central offices serving 79 percent of access lines.
- 22.8 percent year-over-year increase in proportionate international wireless customers, including a 1.8 million increase year-over-year, to 9.6 million total.
- Year-end totals: 29.4 million domestic wireless customers, 7.4 million long-distance customers, 1.2 million DSL customers; $17.4 billion in capital expenditures.

2002 GUIDANCE

- EPS (earnings per share) target of $3.20 to $3.30; comparable revenue growth of 3 to 5 percent; capital expenditures of $15 to $16 billion.

NEW YORK -- Verizon Communications Inc. (NYSE:VZ) today announced adjusted diluted earnings per share of 77 cents for the fourth quarter 2001 and $3.00 for the full year on increased sales in long distance, DSL and wireless, and continued industry-leading

cost cutting.

The company's adjusted net income for 2001 was $8.2 billion, compared to $8.0 billion for 2000. Fourth-quarter adjusted net income was $2.1 billion, essentially flat compared to the fourth quarter 2000. The adjusted net income for the fourth quarter and year-end 2001 include the previously announced impact related to the Sept. 11 terrorist attacks. The impact in the fourth quarter was 3 cents per share, and 6 cents per share for the full year.

Consolidated adjusted revenues grew 5.9 percent for the year, to $67.2 billion in 2001 from $63.4 billion in 2000. Revenues for 2000 did not include revenues from Vodafone properties prior to their contribution to Verizon Wireless in April 2000; adjusting for those revenues, the 2001 revenue increase was 4.1 percent. In the fourth quarter 2001, revenues grew 1.0 percent to $17.0 billion from $16.9 billion in the year-earlier quarter.

Expense Control

Consolidated adjusted expenses increased 1.8 percent and cash expenses decreased by 0.3 percent compared to the fourth quarter 2000. For the third consecutive quarter, Verizon's largest business unit, Domestic Telecom, decreased its adjusted cash expenses over the prior-year period. In the fourth quarter, the unit's adjusted cash expenses were down 4.6 percent to $6.0 billion from $6.3 billion in the fourth quarter 2000, and the unit's total operating expenses were down 2.3 percent to $8.4 billion from $8.6 billion.

Verizon ended 2001 with a headcount of approximately 247,000, a reduction of more than 16,000 from year-end 2000 that was accomplished largely through attrition and a fourth-quarter voluntary program. Domestic Telecom expense-control initiatives, such as reductions in overtime expenses and in the use of contractors, produced an additional equivalent headcount reduction of 13,000.

The company's 2001 capital expenditures totaled $17.4 billion, compared to $17.6 billion in 2000.

"In Verizon's first full year of operation, we have repeatedly demonstrated the strength of the GTE and Bell Atlantic merger," said Verizon Chairman and Co-CEO Charles R. Lee. "We achieved solid results for the quarter and for the year despite the continuing downturn in the economy. Synergies have enabled us to continuously reduce expenses, while our combined assets have given us a more diverse geographic base and product line. With Verizon's great businesses, the company is well-positioned for profitable growth in the years ahead."

Verizon President and Co-CEO Ivan Seidenberg said, "Verizon's focus is on operational execution. In 2001, we moved early and aggressively to head off the effects of the economy with cost-reduction efforts. At the same time, we had the management discipline and skilled workforce to respond effectively to Sept. 11, remain focused on operational metrics, and accelerate our merger

integration and transition efforts. The solid foundation we built in 2001 will lead to continued quality growth and continued customer-service improvements in 2002."

Reported Results

Reported results incorporate the net after-tax effect of gains and charges. For the fourth quarter 2001, Verizon reported a consolidated loss of $2.0 billion, or 75 cents per diluted share, compared to net income of $1.9 billion, or 70 cents per share, in the fourth quarter 2000.

Results for the fourth quarter 2001 include charges totaling $4.1 billion, or $1.52 per diluted share. These charges relate to a variety of items, including severance costs for the reduction of approximately 10,000 employees, primarily through the fourth-quarter voluntary program; charges reflecting the current market values of investments, including Genuity; a restructuring of CTI, the company's wireless affiliate in Argentina, as a result of recent economic events in that country; charges for the sales or exit of non-strategic businesses and other asset impairments; and merger transition costs.

Reported net income for year-end 2001 was $0.4 billion, or 14 cents per diluted share, compared to $11.8 billion, or $4.31 per share, for 2000.

Reported operating revenues rose 0.8 percent in the fourth quarter 2001, to $17.0 billion, compared to the fourth quarter 2000. For the year, reported operating revenues rose 3.8 percent, to $67.2 billion in 2001 from $64.7 billion in 2000.

2002 Guidance

Verizon today also issued the following financial and operational guidance for 2002.

- EPS: $3.20 to $3.30
- Revenue growth: 3 to 5 percent
- EBITDA (earnings before interest, taxes, depreciation and amortization) growth: 7 to 9 percent
- Capital expenditures: $15 to $16 billion
- Long-distance customers: 10 million plus
- DSL customers: 1.8 to 2 million

Fourth Quarter and 2001 Operational Highlights

Long Distance:

- Verizon Long Distance, the nation's fourth largest long-distance provider, ended 2001 with 7.4 million customers in 40 states, an increase of 2.7 million during the year, or 59 percent.

- Approximately 40 percent of the long-distance customer base

comes from three states where the service has been most recently introduced. There are nearly 2.3 million customers in New York, 600,000 in Massachusetts and nearly 250,000 in Pennsylvania.

- Verizon now has more than 30 percent consumer in-franchise market share in New York and in the former GTE states, and more than 20 percent consumer in-franchise market share in Massachusetts. Sales results for Pennsylvania, where Verizon began marketing long-distance services in late October 2001, are in line with the early success rates in other Verizon states.

- On Jan. 4, 2002, the Department of Justice (DOJ) recommended that the Federal Communications Commission (FCC) approve Verizon's long-distance application in Rhode Island. In New Jersey, the state's Board of Public Utilities gave its support to Verizon's long-distance application on Jan. 9, and the DOJ recommended FCC approval on Jan. 28. On Jan. 17, Verizon filed with the FCC to provide long-distance service in Vermont.

DSL, Data and Telecom:

- In 2001, Verizon increased the number of DSL customers by 660,000, to 1.2 million, a 122 percent increase from 2000. Verizon added 225,000 customers in the fourth quarter.

- Verizon has deployed DSL to central offices serving 79 percent of the company's access lines. Operational improvements have reduced DSL installation intervals from 15 to 8 days.

- Data Services revenues grew to more than $1.8 billion for the quarter, driven by 14 percent fourth-quarter growth of Data Transport Services over 2000 and 21.2 percent growth for the year. Total annual revenues for Data Services exceeded $7 billion.

- Access line equivalents grew 13 percent in the quarter and totaled 132.1 million by year-end. Data circuits account for more than half of that total.

- Sales of packages of domestic wireline telecommunications services -- combining Caller ID, voice mail and other features -- increased 47 percent year-over-year.

Verizon Wireless:

- As previously announced, Verizon Wireless ended 2001 with 29.4 million customers, growing its total number of customers nearly 10 percent year-over-year. When fully allocating in the prior year previously announced subscriber-base adjustments, the growth rate would be nearly 12 percent. During the fourth quarter, the company added 715,000 net

new customers.

- The company maintained its strong focus on the quality and profitability of its subscriber base. Nearly 94 percent of Verizon Wireless' total base is made up of contract customers, most of which are retail.

- Verizon Wireless continued to lead the industry in profitability and low cost structure. Operating cash flow margin improved to a strong 35 percent for the quarter and 38 percent for the year. Cash-expense-per-subscriber decreased more than 6 percent for the quarter and 1 percent for the year, due in part to a decrease in roaming costs.

- Average monthly total churn was 2.5 percent for the year and 2.7 percent for the quarter, while post-paid retail churn was 2.1 percent for both the quarter and the year. These industry-leading customer loyalty levels are due in part to the company's Worry Free Guarantee^{sm} introduced early in 2001.

- Verizon Wireless has the most digital customers, and the most total customers, of any U.S. wireless carrier. The company ended the fourth quarter with 22 million digital customers, or 75 percent of its subscriber base.

- Service revenues for the quarter grew 8.1 percent to $4.0 billion, with total revenues up 8.8 percent to $4.4 billion. For the year, on a comparable basis including Vodafone property revenues in the first quarter 2000, service revenues grew 14.1 percent to $16.0 billion, with total revenues up 13.2 percent to $17.4 billion. Service-revenue-per-subscriber decreased by $1, to $46 in the fourth quarter, due to lower roaming revenues. For the full year, service-revenue-per-subscriber increased by more than 1 percent to $48.

- Quarterly operating income rose 10.6 percent to $448 million, and operating cash flow increased 15.3 percent to $1.4 billion. For the year, on a comparable basis, operating income grew 28.3 percent to $2.3 billion, with operating cash flow up 16.3 percent to $6.0 billion.

- Verizon Wireless continued to invest to preserve and expand its premier network. In 2001, the company handled a 41 percent increase in total traffic while achieving dramatic improvement in key network-quality metrics.

- Earlier this week, the company launched the nation's first major next-generation wireless network. With more than 20 percent of the Verizon Wireless network already converted to 1XRTT technology, the company's *Express Network* is now available to customers in East and West Coast markets -- including New York, Boston, Washington and San Francisco -- as well as in Salt Lake City.

Information Services:

- Revenues from Verizon's directory publishing and electronic commerce operations were $1.4 billion in the fourth quarter, an increase of 6.6 percent from fourth quarter 2000. The increase was due to strong operational growth, shifts in directory publication dates and increased revenues from international operations. Revenues for 2001 of $4.3 billion grew 4.1 percent over 2000. Revenues from SuperPages.com, Verizon's Internet directory service, grew 87.1 percent over fourth quarter 2000 and 71.9 percent for the year, as Verizon Information Services carried out its strategy to bundle print and online services.

- Operating income increased to $804 million, up 18.8 percent, in the fourth quarter 2001 compared to the fourth quarter 2000. The year-over-year increase was $229 million, or 11.2 percent. These increases include expense reductions as a result of cost-containment initiatives and merger synergies.

International:

- The number of proportionate international wireless customers served by Verizon investments increased by 1.8 million to 9.6 million, a 22.8 percent increase over 2000. During 2001, Omnitel passed the 17 million subscriber mark, Eurotel Praha passed 3 million subscribers, Stet Hellas passed 2 million subscribers and Eurotel Bratislava reached more than 900,000 subscribers.

- Revenues from consolidated international operations grew $75 million, or 13.9 percent, over fourth quarter 2000 to $615 million. For the year, consolidated revenues of $2.3 billion grew $361 million, or 18.3 percent, compared to the prior year. Total proportionate revenues were $1.5 billion in the fourth quarter 2001, bringing full year 2001 proportionate revenues to $5.9 billion, an increase of $400 million or 7.3 percent compared to 2000.

- Fourth quarter 2001 operating income of $78 million brought full year 2001 operating income to $293 million, an increase of 11.8 percent compared to the prior year. Operating cash flow of $196 million in the fourth quarter 2001 brought the full year operating cash flow to $715 million, an increase of 15.9 percent compared to 2000. Equity income from international investments increased $65 million over fourth quarter 2000 to $234 million. For the year, equity income was $919 million, an increase of $247 million over 2000.

- During the year, Verizon Global Solutions Inc. established high-speed connectivity among leading commercial centers around the world, deploying a core set of global voice and data product offerings. Global Solutions Inc. switched more than 1 billion minutes in 2001 and has agreements with more than 80 different global carriers.

- On Jan. 25, 2002, Verizon Communications exercised its option to purchase an additional 12 percent of Telecomunicaciones de Puerto Rico, Inc. (TELPRI) common stock from the government of Puerto Rico, for a purchase price of $138 million. TELPRI is the holding company of the Puerto Rico Telephone Company and Verizon Wireless de Puerto Rico, Inc. Verizon obtained the option as part of the March 1999 TELPRI privatization. Verizon now holds 52 percent of TELPRI stock, up from 40 percent.

NOTE: The financial tables associated with this news release can be found on Verizon's Investor Web site.

Verizon Communications (NYSE:VZ) is one of the world's leading providers of communications services. Verizon companies are the largest providers of wireline and wireless communications in the United States, with 132.1 million access line equivalents and 29.4 million wireless customers. Verizon is also the largest directory publisher in the world. A Fortune 10 company with more than $67 billion in annual revenues and approximately 247,000 employees, Verizon's global presence extends to more than 40 countries in the Americas, Europe, Asia and the Pacific. For more information on Verizon, visit www.verizon.com.

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NOTE: This press release contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: the duration and extent of the current economic downturn; materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments; material changes in available technology; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations; the final outcome of federal, state, and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, and unbundled network element and resale rates; the extent, timing, success, and overall effects of competition from others in the local telephone and toll service markets; the timing and profitability of our entry and expansion in the national long-distance market; our ability to satisfy regulatory merger conditions and obtain combined company revenue enhancements and cost savings; the profitability of our broadband operations; the ability of Verizon Wireless to achieve revenue enhancements and cost savings, and obtain sufficient spectrum resources; the continuing financial needs of Genuity Inc., our ability to convert our ownership interest in Genuity into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; our ability to recover insurance proceeds relating to equipment losses and other adverse financial

impacts resulting from the terrorist attacks on Sept. 11, 2001; and changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

SBC InvestorBriefing

April 23, 2001 | No. 225

Strong Growth in Data, Wireless and Long Distance Highlights SBC's First-Quarter Results

Economy Impacts Outlook for Remainder of 2001

SAN ANTONIO, April 23, 2001 — SBC Communications Inc. (NYSE: SBC) today reported that its primary growth drivers — data, wireless and long distance — performed strongly during the first quarter.

Highlights included:

- 39.9 percent growth in data revenues
- A net gain of 854,000 subscribers at Cingular, SBC's nationwide wireless joint venture with BellSouth
- 2.2 million long-distance lines in Texas, Oklahoma and Kansas; SBC entered the Texas long-distance market in July 2000, and the two other states in March of this year

As expected, the timing of SBC's investments in its growth initiatives during 2000 impacted first-quarter expense and earnings comparisons. The slowing U.S. economy also dampened growth. First-quarter earnings were $1.7 billion, or $0.51 per diluted share, before one-time items, compared with $1.9 billion, or $0.56 per diluted share, in the first quarter a year ago. Operating revenues for the quarter, including results from Cingular, increased 4.7 percent to $13.1 billion.

First-quarter revenue growth was adversely impacted by SBC's sale of Ameritech's security-monitoring business. Excluding results from this divestiture as well as shifts in directory publishing dates and the pro forma effect on the year-ago quarter of the Cingular venture, first-quarter revenues increased 6.7 percent.

Primarily because of weakening U.S. economic conditions, SBC expects earnings per share for 2001, before one-time items, in the $2.35 to $2.40 range.

"The economy is having a greater impact on our business than we projected," said Edward E. Whitacre Jr., SBC chairman and CEO. "We handled the first-quarter revenue shortfall well, thanks to very disciplined expense management. Going forward, we are determined not to lose sight of our larger strategic mission — including fully developing our broadband capabilities and obtaining long-distance relief in our states as quickly as possible — and we will not compromise our long-term future to preserve near-term projections.

"Broadband is the foundation for a host of new value-added services, and we will continue to pursue it aggressively," Whitacre said. "Long distance complements our broadband strategy, and this year we have the potential to increase our long-distance opportunity from two states to eight states. Looking ahead, we will continue playing to our strengths, and our adjusted game plan for 2001 should yield a much more stable and predictable growth profile for the future."

FIRST-QUARTER RESULTS

(Dollars in millions, except per-share amounts. Results exclude one-time items. First-quarter 2001 results include proportionate Cingular results. First-quarter 2000 not restated.)

(Volumes in thousands)	1Q01	1Q00	Change
Total operating revenues	$13,144	$12,553	4.7%
EBITDA	$ 5,164	$ 5,291	-2.4%
Earnings before extraordinary item	$ 1,739	$ 1,910	-9.0%
Diluted earnings per share	$ 0.51	$ 0.56	-8.9%
Data revenues	$ 2,127	$ 1,521	39.9%
Wireless subscriber revenues	$ 1,688	$ 1,500	12.5%
Domestic wireless subscribers[1]	20,535	17,294	18.7%
Proportionate international revenue[2]	$ 1,795	$ 1,464	22.6%

1 – Represents total Cingular pro forma subscribers in both periods.
2 – Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

Revenue *and* Expense *trends*

SBC achieves significant sequential expense and margin improvement, strong results in major growth drivers — data, wireless, long distance

SBC's first-quarter financial performance was defined by: (1) continued strong results in its major growth drivers — data, wireless and long distance; (2) solid expense management as total operating expenses declined 6.1 percent from fourth-quarter 2000 levels; and (3) lower-than-expected revenue growth due to a weakened U.S. economy and increased competition, particularly in the Ameritech region.

In the first quarter:

- Data revenues increased 39.9 percent.
- Cingular Wireless recorded a net subscriber gain of 854,000, compared with a pro forma gain of 695,000 in the first quarter a year ago.
- Total long-distance lines in Texas, Kansas and Oklahoma increased to 2.2 million, up from 1.7 million at the end of the fourth quarter. SBC began selling long-distance services in Texas in July 2000, and in Kansas and Oklahoma this March.
- Compared with the first quarter a year ago, cash operating expenses increased 9.9 percent, reflecting the timing of investments in major growth drivers in 2000. However, from fourth-quarter 2000 levels, cash operating expenses declined 7.1 percent, and SBC's EBITDA margin increased 50 basis points. These sequential improvements occurred despite the fact that first-quarter results included significant expenses to support Cingular's national branding campaign, launched in January, as well as expenses for initiatives to integrate SBC's and BellSouth's formerly separate wireless operations.
- Wireline cash operating expenses declined 7.2 percent, and the company's wireline EBITDA margin increased to 38.8 percent, up 420 basis points from fourth-quarter levels.
- Revenues grew 6.7 percent excluding the impact of the sale of Ameritech's security monitoring business, directory publishing date shifts and the year-ago pro forma effect of Cingular. Wireline revenues increased 5.0 percent compared with the first quarter a year ago.

REVENUE DYNAMICS

SBC's lower than-expected first-quarter revenue growth in both residential and business markets was caused principally by a weakened U.S. economy, increased competitive inroads and the divestiture of Ameritech's security monitoring business.

SBC has experienced the impacts of a slower economy across its regions, with impacts in February and March being more severe than in the previous months and more severe than the company had anticipated. Across the company, inward call volumes to service centers declined with access line growth trends, particularly in residential markets. Broader economic trends — including housing starts, layoffs and bankruptcies — mirror SBC's business indicators. In California, the largest state in SBC's in-region territory, the macroeconomic impact on access line growth was exacerbated by California's energy crisis and the failure of many dot-com and high-tech startups.

AN IMPORTANT YEAR

SBC is confident in its long-term growth strategies — in data, DSL, wireless and long distance — and its focus is on building platforms in these high-potential areas that are capable of driving sustainable growth in 2002 and the years ahead.

SBC also believes that 2001 is an important year in the telecommunications industry's transformation and in its own development.

- SBC, which started this year providing long distance in two states, hopes to end the year as a long-distance provider in eight states, including the two largest in this country — Texas and California. Long distance is a linchpin to having a full set of products in both the residential and business markets.

SBC Major Revenue Growth Drivers

- Data
- Wireless
- Long Distance

- SBC also has made rapid progress in broadband and believes that in the quarters ahead it has the opportunity to expand substantially its DSL customer base. Demand for broadband services is robust, and SBC plans to be aggressive in expanding its DSL growth platform.
- At the same time, while SBC has made substantial progress on service quality issues at Ameritech, finalizing those efforts while improving the regulatory and competitive climate in the region will require continued effort.

YEAR 2001 PRIORITIES

In light of these opportunities and commitments, SBC's priorities in 2001 are:

- Aggressive execution of major growth drivers — data services, mass market broadband (DSL), nationwide wireless and long distance.
- Superior customer service — SBC believes that delivering the market's best customer service provides a critical competitive edge and forms a foundation for future growth initiatives.
- Financial strength — SBC views its financial strength and flexibility as key strategic assets. It is committed to enhancing its already strong balance sheet and solid cash flow through disciplined expense management and investment strategies designed to yield returns well in excess of the cost of capital.

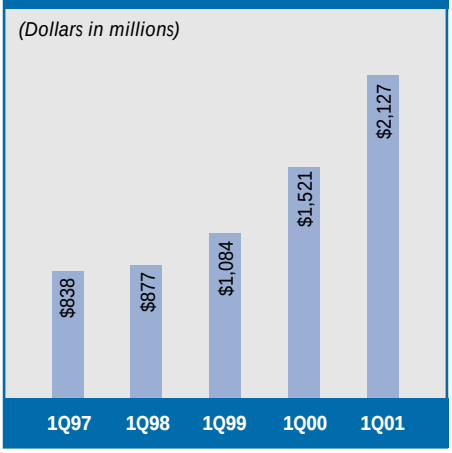
Data *growth*

SBC's wireline data revenues grew 39.9 percent in the first quarter — driven by high-speed transport, network integration and Internet services

In the first quarter, SBC extended its strong growth record in wireline data. Total data revenues increased 39.9 percent compared with the first quarter a year ago and exceeded $2.1 billion dollars — nearly double SBC's data revenue stream just two years ago.

SBC Data Revenues

(Dollars in millions)



Data revenues represented 21 percent of SBC's total wireline revenues in the quarter, up from 16 percent in the first quarter a year ago.

SBC's first-quarter data growth highlights included:

- Core data transport products, including DS3s and ATM, sustained their strong growth rates.
- SONET revenues also continued their strong growth, as demand from enterprise customers for high-bandwidth solutions continues to expand rapidly.
- Revenues from integration services were up as well, as enterprise companies continue to turn to SBC for a range of network analysis, planning and security solutions.
- Strong growth in Internet services revenues also continued as SBC and its subsidiary Sterling Commerce expanded e-business solutions for the small-business market while SBC added to its Web-hosting operations. SBC currently hosts the Web sites of more than 21,000 businesses, nearly double its total a year ago.

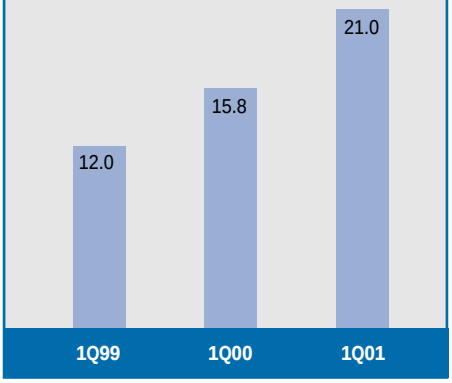
DATA GROWTH INITIATIVES

SBC continues to drive growth by migrating customers to higher-speed services and longer-term commitments and by expanding capabilities in attractive market segments. For example, in the first quarter SBC:

- Launched GigaMAN service in the Southwestern Bell and Pacific Bell regions. The service, which provides high-bandwidth LAN links within a metropolitan area, already has proven very successful in the Ameritech region.
- Expanded sales of its "OnLine Office" bundle of DSL, Internet access, e-mail accounts and Web-hosting services for small businesses. This high-value package helps a wide range of businesses participate more easily in the e-economy through informational Web sites, online catalogs and transaction tools. Sales of OnLine Office have increased dramatically during the past two quarters due in part to mainstreaming the product's sales force to include more than 4,000 general sales people.

Revenue Mix

Data revenues as a percent of total wireline revenues



- Continued to see strong results from its major sales and marketing alliance with Cisco Systems, which was launched in the second quarter of 2000.
- Launched its second Internet Data Center (IDC). The newest center, in Irvine, California, follows the successful opening of its sister IDC in Dallas in the third quarter of last year. In addition, SBC launched its new WebHosting.com line of dedicated hosting products. SBC acquired a controlling interest in the parent company of WebHosting.com in the third quarter of last year.
- Moved to increase its international data capabilities by developing a frame relay service to Mexico, which is expected to be available in the second quarter, and by adding three virtual border crossings along the Rio Grande region of Texas, which should further increase the sale of private lines to Mexico.

SBC Data Revenues

(Dollars in millions)

	1Q01	1Q00	Change
Data transport	$1,534	$1,190	28.9%
Advanced services	$ 593	$ 331	79.4%
Total data revenues	$2,127	$1,521	39.9%

DSL *growth*

Total DSL subscribers reach 954,000 at end of quarter; systems advances improve provisioning, quality of customer experience

In the first quarter, SBC made substantial advances in broadband, further strengthening its position as the nation's leading provider of DSL services.

SBC views DSL as a key growth platform for the future — capable of delivering a host of entertainment, information and time management services as well as high-speed Internet access to both residential and business customers. During the past few months, SBC's conviction that DSL holds huge potential as a strategic growth driver has been reinforced by market research.

During the first quarter, SBC:

- Expanded its DSL in-service subscriber base to 954,000.
- Achieved significant improvements in provisioning, operating efficiency and overall customer experience. Due date intervals now average less than 10 business days, and 90 percent of orders are completed on or before their original due dates.
- Further broadened its addressable market through its Project Pronto network build-out. At the end of first quarter, SBC was able to reach 21.7 million customer locations, or more than 50 percent of the company's customer base with its DSL service, up from 12.9 million locations just one year ago.

"Over the past two quarters, SBC has elevated the quality of customers' broadband experience," said Ed Whitacre. "While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years. SBC plans to continue to be aggressive in expanding its DSL growth platform."

> ***"Over the past two quarters, SBC has elevated the quality of customers' broadband experience. While we are only two years into broadband and still have considerable work to do, demand is strong, per-customer financial metrics are improving, and we are confident in our business model — which is every bit as promising as wireless was in its first years."***
>
> **EDWARD E. WHITACRE JR.**
> **CHAIRMAN AND CEO**

CUSTOMER GROWTH

SBC's emphasis in the first quarter has been on improved operating efficiencies and enhanced quality for the overall customer experience — both critical foundations for aggressive growth in DSL.

Gross install levels in the first quarter were consistent with results in the fourth quarter, and SBC's net subscriber gain of 187,000 represents a solid extension of recent momentum in light of two factors. Database reconciliations made possible by enhancements to automated systems added to the number of disconnects attributed to this quarter. In addition, during the first quarter, SBC changed its bundled offer of a DSL-ready Compaq PC plus Internet access over DSL, launched in July 2000, so that customers purchased the PC from Compaq rather than as part of a seamless offer. This change resulted in significantly slower sales of the bundle. Excluding the impact of these two factors, SBC's daily net gain in subscribers would have been in the 3,500 – 4,000 range, as expected.

Market trends continue to be positive. The company's most recent research found that in the competitive broadband marketplace SBC maintains its composite leading position in five key service areas — Dallas, Houston, Los Angeles, San Francisco and San Antonio.

Going forward, SBC anticipates volatility in quarterly customer growth numbers as it completes the transition of its customer base to automated systems and as a limited number of ISP (Internet Service Provider) resellers and DSL providers work their way through widely reported financial difficulties. Because more than 80 percent of its DSL customer base obtains Internet access service directly from an SBC entity or affiliate, SBC has limited exposure to ISP financial failure. Nevertheless, a few ISPs' restructuring or closing operations in a quarter could significantly distort that quarter's growth statistics. Over time, SBC expects to continue to be the DSL provider for many of these ISPs' customers — including temporarily displaced customers — whether these ISPs successfully restructure, transition their customers to more stable ISPs or cease operations altogether.

STRONG DEMAND

Demand for DSL services continues to be robust and is expected to grow significantly over the next few years. At the end of 2000, there were more than 6 million U.S. residential customers accessing the Internet through a broadband connection and that number is expected to grow to more than 28 million customers in 2004, according to industry analyst firm Gartner Dataquest. Other recent independent studies have projected even higher totals for residential and small-business customers combined.

Moreover, customers who adopt broadband are passionate in their commitment to the service. Broadband Watch, a new survey

sponsored by SBC Communications designed to check the pulse of today's broadband users, found that residential DSL users spend an average of 25 hours a week online, compared with just 7.5 hours with dial-up Internet service. Broadband Watch, which surveyed customers in SBC's 13-state region, also found that DSL service and the PC have already become the two most important household technologies for customers. Nearly all respondents (96 percent) consider their high-speed Internet access to be an important household technology, more significant than the microwave (88 percent), remote control (87 percent), VCR (81 percent), cable TV (70 percent), and their garage door opener (59 percent).

Looking ahead, the research found that there is growing anticipation for emerging high-speed Internet access products and services. More than two-thirds of the respondents expressed interest in future applications and content such as distance learning (71 percent), video-on-demand (70 percent), videoconferencing (69 percent) and home networking (66 percent).

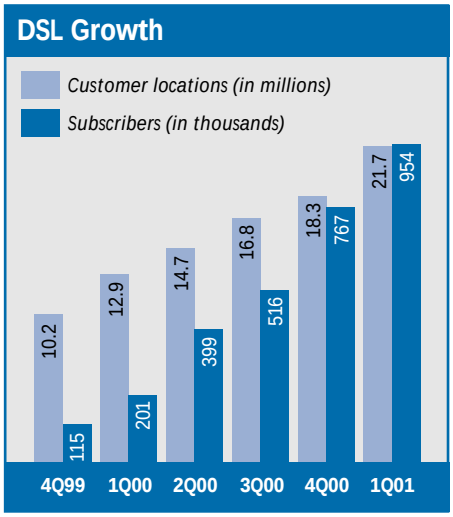
SUSTAINED DSL LEADERSHIP: MAJOR FOCUS AREAS

In addition to continued expansion of its customer base, SBC continues to make excellent progress in areas that are critical to realizing the tremendous potential of its DSL platform:

Improved Financial Metrics — Improved provisioning and added scale already have improved significantly the economics of DSL, and SBC expects continued advances over the next two years. During the past six months, SBC's DSL subscriber acquisition costs have declined more than 25 percent. Going forward, expenses are expected to decline further due to additional process improvements and declining costs for modems and other DSL equipment. At the same time, per-customer revenue growth is expected to be driven by new revenue-generating applications and by a shift in subscriber mix to higher-revenue business customers who purchase premium speeds and multiple IP services.

Expanded Addressable Market — SBC continues to move rapidly with Project Pronto, and the central thrusts of this deployment for its DSL service are reaching more potential customers and moving many more customers into the 14,000-feet-and-under zone. This zone offers superior financial characteristics and a greatly enhanced overall broadband customer experience. Because of regulatory delays, SBC was behind plan in remote terminal deployment in 2000, which impacted both the pace and the initial economics of its DSL initiative.

At the end of first quarter, SBC's total potential broadband customer base reached 21.7 million locations, up from 12.9 million locations just one year ago. SBC has deployed DSL enabling equipment in nearly 1,300 of its central offices, representing more than 90 percent of the company's targeted level for this aspect of Project



Pronto, and all of these central offices have capacity to support new orders. In addition, SBC now has nearly 3,000 Broadband Neighborhood Gateways in service but has suspended their DSL-related deployment in Illinois due to regulatory issues in that state.

Enhanced Customer Experience — SBC continues to make good progress making DSL easier, faster and more efficient to install. In the first quarter, nearly 70 percent of new subscribers used self-install. Over the past six months, the percentage of automated order flow-through at SBC's data subsidiary has more than doubled. These process improvements combined with the success of self-installs has enabled SBC to reduce average due date intervals more than 50 percent since September. A key to further enhancing customers' broadband experience is the availability of new applications, and SBC expects to begin trials of several in the coming months.

Wireless *growth*

Cingular adds 854,000 subscribers in quarter to reach 20.5 million, service revenues increase 14.8 percent

Cingular Wireless delivered strong growth in the first quarter as it introduced new services and launched a national campaign establishing its new brand. A joint venture of SBC and BellSouth, Cingular is the United States' second-largest wireless provider, has 20.5 million subscribers and covers markets encompassing a total population of 192 million. SBC owns 60 percent of the joint venture.

Cingular first-quarter highlights include:

- An 854,000 net gain in subscribers, compared with a 695,000 pro forma net gain in the first quarter a year ago and 814,000 subscribers added in the fourth quarter of 2000. Cingular's cellular and PCS customer base grew 18.7 percent from pro forma levels at the end of the first quarter a year ago.
- A 14.8 percent increase in wireless service revenues to $3.1 billion, compared with pro forma results for the first quarter of 2000.
- An 84,000 increase in subscribers at Cingular Interactive. Over the past year, Cingular Interactive's customer base has more than doubled. Cingular Interactive, formerly BellSouth Wireless Data, provides advanced two-way messaging, customized content services and transaction applications to customers throughout the United States, and it covers more than 93 percent of the urban business population.

Cingular Focus

- **20.5 million subscribers**
- **192 million POPs**
- **43 of top 50 U.S. markets**
- **$3.3 billion in revenues (1Q01)**
- **$972 million EBITDA (1Q01)**
- **SBC ownership – 60 percent**

cingular WIRELESS

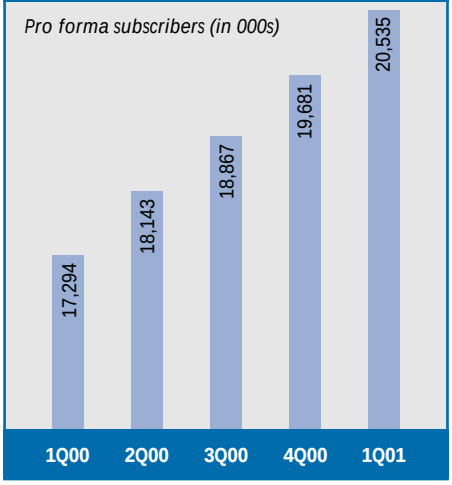
Cingular's first-quarter EBITDA margin was 31.7 percent, up more than 300 basis points from fourth-quarter 2000 levels and down from a pro forma 35 percent in the first quarter a year ago. This lower EBITDA margin was driven primarily by higher levels of gross subscriber additions as well as higher cash expenses for marketing and advertising related to Cingular's national branding campaign and for merger-related and integration initiatives. Cingular began operation in the fourth quarter of last year and kicked off its branding initiative in January.

NEW SERVICES, MARKET EXPANSION

In addition to its strong subscriber growth, during the past three months Cingular took important steps to expand its growth potential:

- In January the company launched its nationwide brand with high-profile and highly effective mass media advertising.
- To broaden its geographic reach, in early March, Cingular launched service in the Seattle and Spokane markets with an all-digital GSM (global system for mobile communications) network and 50 stores, more than any other carrier in this market.
- Also in the first quarter, Salmon PCS, of which Cingular is an 85 percent non-controlling equity owner, was a winner of spectrum in the recent 1900 MHz band auction covering approximately 77 million POPs; 28 million of these POPs are in markets where Cingular currently has no presence. The additional spectrum has the potential to add capacity in major existing Cingular markets such as Atlanta, Boston, Dallas, Houston and Washington, D.C., as well as in new markets including Denver, Minneapolis and Pittsburgh.

Cingular: Total Domestic Wireless Subscribers



- In early April, Cingular advanced its integration and customer service objectives by announcing plans to consolidate and streamline customer service functions. New, multifunctional regional centers will replace small centers and will handle inbound and outbound customer service, collections, credit, activations, roaming and technical support. Cingular also is consolidating regional distribution centers into a single, more efficient facility.
- In March, the company announced "Cingular Wireless Internet Express," the first operational standards-based General Packet Radio Service (GPRS) in the United States. The service provides customers in Cingular's GSM markets with faster wireless access to e-mail, Internet, games and other services.
- Cingular also announced the launch of the first Hispanic wireless Internet portal offered by a wireless carrier in the United States. Cingular already is a leading wireless provider in nine of the country's top 10 Hispanic metropolitan area markets.

cingular WIRELESS

Cingular pro forma financial statements are available in the Investor Relations section of SBC's Web site. *www.sbc.com*

Long-Distance *growth*

SBC launches long-distance service in two states, ends first quarter with 2.2 million lines in Texas, Kansas and Oklahoma

In the first quarter, SBC sustained its strong growth in the Texas long-distance market, launched service in two additional states — Kansas and Oklahoma — and won state commission approval to file with the FCC (Federal Communications Commission) to enter the Missouri market. SBC is the first of the former regional Bell companies to gain long-distance approvals in multiple states.

SBC views interLATA long distance as a key growth driver for the future — adding to its bundles of services for residential and small-business customers and greatly expanding its ability to deliver packages of data services for larger enterprises with more sophisticated communications requirements.

SBC's long-distance business model is built on positive economics — combining increased revenues per customer with an attractive cost structure. The company's long-distance support systems for billing and customer service are already in place, its mix of sales channels is efficient, and SBC has an attractive nationwide transport alliance with Williams Communications Group, the United States' largest next-generation long-distance network.

WINNING WITH CUSTOMERS

SBC's Southwestern Bell Long Distance unit began marketing services in Texas on July 10, 2000. At the end of the first quarter, less than nine months after launch, it had won more than 2.1 million lines. Southwestern Bell has approximately 10 million access lines in Texas, and the state's total long-distance market is estimated at $7.7 billion annually.

In March, Southwestern Bell Long Distance added to its array of services for customers in Texas with its introduction of SuperMexico "block-of-time" monthly plans that offer calls to neighboring Mexico for flat, highly competitive rates. According to the FCC, Mexico is the second most frequently called international destination by U.S. consumers. Currently more than 50 percent of Southwestern Bell Long Distance international calls are placed to Mexico, making it the most called country by the company's subscribers in Texas.

On March 7, the company launched long-distance service in Kansas and Oklahoma, and on a percentage basis its initial sales pace in these states has been comparable to its early growth in Texas. Southwestern Bell has more than 3 million access lines in the two states.

Southwestern Bell's flagship offer in Kansas and Oklahoma is a stand-alone basic rate of 10 cents a minute. Customers who purchase Southwestern Bell long distance as part of a "Simple Solutions" package of vertical calling services receive a rate of 8 cents a minute. The company also offers calling-card services, international calling and a range of plans for business customers.

MISSOURI APPLICATION, ADDITIONAL STATES

On April 4, SBC formally asked the FCC for permission to offer long-distance services in Missouri. The filing followed unanimous endorsement of SBC's application by the Missouri Public Service Commission in March. SBC expects the FCC to rule by July.

SBC continues to make good progress in additional states and expects to gain approvals for long-distance launches in California, Nevada and Arkansas this year. Independent systems testing is under way in each of the Ameritech states, and based on current progress, Michigan is expected to be the first of those states to file an application with the FCC.

Long-Distance Market Estimates
(SBC's in-region, 12-state)

Region	Estimated total long-distance market revenues
SOUTHWESTERN BELL	
Texas, Kansas, Oklahoma	$8.7 billion
Missouri, Arkansas	$2.0 billion
PACIFIC BELL/NEVADA BELL	
California, Nevada	$16.9 billion
AMERITECH	
Illinois, Indiana, Ohio, Michigan, Wisconsin	$21.2 billion
TOTAL 12-STATES	$48.8 billion

International *growth*

Increases in customers and revenues expand platforms for growth and value creation

In the first quarter, SBC's broad international holdings continued to generate strong gains in customers and revenues, expanding their growth platforms for the future.

First-quarter highlights from SBC's directly held international investments, excluding the impacts of divestitures during the past year, include:

- 55.4 percent growth in total wireless subscribers to 34.9 million
- 4.4 percent growth in total landline access lines to 38.2 million
- 18.3 percent growth in total revenues to $10.7 billion

Equity income from SBC's international holdings declined primarily because of the sale of assets during the past year.

SBC International Highlights

(Dollars in millions) *(Volumes in 000s)*	1Q01	1Q00	Change
Equity income	$ 177	$ 199	-11.1%
Total access lines	38,239	36,611	4.4%
Total wireless customers	34,855	22,423	55.4%
Total revenues	$10,720	$ 9,065	18.3%
Proportionate access lines	6,644	6,595	0.7%
Proportionate wireless customers	4,401	2,917	50.9%
Proportionate revenues	$ 1,795	$ 1,464	22.6%

Amounts for 2000 have been restated to exclude investments that have been sold or are no longer accounted for under the equity method.

GROWTH INITIATIVES

During the first quarter, the companies in which SBC is an investor continued to generate solid growth, particularly in wireless and data services, and they took important steps to expand their growth potential. First-quarter highlights include:

- Telecom Americas, the Latin American joint venture among SBC, Mexico's América Móvil and Bell Canada International, acquired an equity interest in the São Paulo State cellular company Tess. Tess serves approximately 940,000 subscribers in the Brazilian State of São Paulo excluding the Metropolitan São Paulo region — an area with a population of 18.4 million.
- Belgacom's wireless operation reached more than 3.6 million subscribers at the end of March, up 385,000 during the past three months.
- TDC announced that it plans to accelerate the rollout of ADSL broadband service in Denmark so that more than 95 percent of Danish households will have the opportunity to sign up for ADSL within the next 17 months.

NORTH AMERICAN GROWTH PLATFORM

SBC's international alliances with and investments in Telmex, América Móvil, Bell Canada and Williams Communications Group form a high-potential North American growth platform. Telmex is Mexico's premier telecommunications company. América Móvil, Latin America's largest wireless communications provider, owns Telcel in Mexico and telecommunications investments in several countries throughout the region. Bell Canada is the largest communication provider in Canada. Williams has completed the United States' largest next-generation network connecting 125 U.S. cities.

Core *growth*

Vertical service features in service increased 17.2 percent; VGEs grew 17 percent

A solid core business continues to be the foundation for SBC's major growth strategies. In the first quarter, SBC's core operations — which include wireline voice, switched access, vertical services, directory and wholesale services — delivered essentially flat revenue growth, reflecting a weakened U.S. economy and declines in access revenues largely due to slightly reduced minutes of use and regulatory mandated price decreases. First-quarter core revenues exclude the impacts of shifts in directory publication dates as well as the sale of Ameritech's security monitoring business.

First-quarter highlights include:

- 17 percent growth in VGEs (voice grade equivalents) to 107 million. Traditional access lines increased slightly to 61.3 million.
- 17.2 percent growth in vertical service features, and more than 20 percent growth in total household penetration of packages.
- Directory revenues excluding the impacts of shifts in publication dates increased 2.7 percent.

SBC VGE Line Growth

(in thousands)	1Q01	1Q00	Change
Business VGEs	64,154	52,053	23.2%
Residence VGEs	42,279	38,722	9.2%
Other VGEs	625	730	-14.4%
Total VGEs	107,058	91,505	17.0%

Cautionary Language Concerning Forward-Looking Statements

Information set forth in this *Investor Briefing* contains financial estimates and other forward-looking statements that are subject to risks and uncertainties. A discussion of factors that may affect future results is contained in SBC's filings with the Securities and Exchange Commission. SBC disclaims any obligation to update or revise statements contained in this *Investor Briefing* based on new information or otherwise.

SBC Communications Inc.

Consolidated Statements of Income (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Operating Revenues			
Landline local service	**$ 5,568**	$ 5,124	8.7%
Wireless subscriber	**54**	1,500	—
Network access	**2,603**	2,665	-2.3%
Long distance service	**793**	803	-1.2%
Directory advertising	**830**	882	-5.9%
Other	**1,342**	1,579	-15.0%
Total Operating Revenues	**11,190**	12,553	-10.9%
Operating Expenses			
Operations and support	**6,083**	7,214	-15.7%
EBITDA*	**5,107**	5,339	-4.3%
Depreciation and amortization	**2,448**	2,263	8.2%
Total Operating Expenses	**8,531**	9,477	-10.0%
Operating Income	**2,659**	3,076	-13.6%
Interest Expense	**459**	356	28.9%
Interest Income	**178**	24	—
Equity in Net Income of Affiliates	**401**	200	—
Other Income (Expense) – Net	**106**	17	—
Income Before Income Taxes	**2,885**	2,961	-2.6%
Income Taxes	**1,021**	1,139	-10.4%
Income Before Extraordinary Item	**1,864**	1,822	2.3%
Extraordinary Item, net of tax	**(10)**	—	—
Net Income	**$ 1,854**	$ 1,822	1.8%
Basic Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.55**	$ 0.54	1.9%
Net Income	**$ 0.55**	$ 0.54	1.9%
Weighted Average Common Shares Outstanding (000,000)	**3,377**	3,396	-0.6%
Diluted Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.55**	$ 0.53	3.8%
Net Income	**$ 0.54**	$ 0.53	1.9%
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,413**	3,432	-0.6%
Diluted Earnings Per Share Before Goodwill Charges:			
Income Before Extraordinary Item	**$ 0.57**	$ 0.57	—
Net Income	**$ 0.57**	$ 0.57	—

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.

Consolidated Statements of Income – Normalized (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Operating Revenues			
Landline local service	**$ 5,568**	$ 5,124	8.7%
Wireless subscriber	**1,688**	1,500	12.5%
Network access	**2,592**	2,665	-2.7%
Long distance service	**793**	803	-1.2%
Directory advertising	**830**	882	-5.9%
Other	**1,673**	1,579	6.0%
Total Operating Revenues	**13,144**	12,553	4.7%
Operating Expenses			
Operations and support	**7,980**	7,262	9.9%
EBITDA*	**5,164**	5,291	-2.4%
Depreciation and amortization	**2,408**	2,192	9.9%
Total Operating Expenses	**10,388**	9,454	9.9%
Operating Income	**2,756**	3,099	-11.1%
Interest Expense	**483**	356	35.7%
Interest Income	**79**	24	—
Equity in Net Income of Affiliates	**188**	200	-6.0%
Other Income (Expense) – Net	**136**	17	—
Income Before Income Taxes	**2,676**	2,984	-10.3%
Income Taxes	**937**	1,074	-12.8%
Income Before Extraordinary Item	**1,739**	1,910	-9.0%
Extraordinary Item, net of tax	**(10)**	—	—
Net Income	**$ 1,729**	$ 1,910	-9.5%
Basic Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.52**	$ 0.56	-7.1%
Net Income	**$ 0.51**	$ 0.56	-8.9%
Weighted Average Common Shares Outstanding (000,000)	**3,377**	3,396	-0.6%
Diluted Earnings Per Share:			
Income Before Extraordinary Item	**$ 0.51**	$ 0.56	-8.9%
Net Income	**$ 0.51**	$ 0.56	-8.9%
Weighted Average Common Shares Outstanding with Dilution (000,000)	**3,413**	3,432	-0.6%
Diluted Earnings Per Share Before Goodwill Charges:			
Income Before Extraordinary Item	**$ 0.54**	$ 0.58	-6.9%
Net Income	**$ 0.53**	$ 0.58	-8.6%

The first quarter of 2001 reflects 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. First quarter 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

Normalized 2001 net income excluded the following special items:
Pension settlement gains of ($330) related to management employees, primarily resulting from a voluntary retirement program net of costs associated with that program.
Combined charges of $205 related to impairment of our cable operations.

Normalized 2000 net income excluded the following special items:
Pension settlement gains of ($161) primarily related to employees who terminated employment during 1999.
A charge of $132 related to in-process research and development from the March 2000 acquisition of Sterling.
Costs of $117 associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.

SBC Communications Inc.

Consolidated Statements of Income – Normalized (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Wireline			
Operating Revenues			
Local service	**$ 5,564**	$5,128	8.5%
Network access	**2,603**	2,688	-3.2%
Long distance service	**748**	763	-2.0%
Other	**1,192**	1,046	14.0%
Total Operating Revenues	**10,107**	9,625	5.0%
Operating Expenses			
Operations and support	**6,182**	5,408	14.3%
EBITDA*	**3,925**	4,217	-6.9%
Depreciation and amortization	**1,967**	1,787	10.1%
Total Operating Expenses	**8,149**	7,195	13.3%
Operating Income	**1,958**	2,430	-19.4%
Interest Expense	**333**	317	5.0%
Other Income (Expense) – Net	**15**	22	-31.8%
Income Before Income Taxes	**$ 1,640**	$2,135	-23.2%
Wireless**			
Operating Revenues			
Subscriber Revenues	**$ 1,688**	$1,500	12.5%
Other	**343**	326	5.2%
Total Operating Revenues	**2,031**	1,826	11.2%
Operating Expenses			
Operations and support	**1,455**	1,173	24.0%
EBITDA*	**576**	653	-11.8%
Depreciation and amortization	**287**	279	2.9%
Total Operating Expenses	**1,742**	1,452	20.0%
Operating Income	**289**	374	-22.7%
Interest Expense	**142**	39	—
Equity in Net Income of Affiliates	**7**	1	—
Other Income (Expense) – Net	**35**	(35)	—
Income Before Income Taxes	**$ 189**	$ 301	-37.2%

**The first quarter of 2001 reflects 60% proportional consolidation of Cingular actual results plus the residual wireless properties we hold that have not yet been contributed to Cingular. First quarter 2000 results reflect the historical results of our wireless businesses that have been or will be contributed to Cingular.

Directory			
Operating Revenues	**$ 824**	$ 871	-5.4%
Operating Expenses			
Operations and support	**440**	482	-8.7%
EBITDA*	**384**	389	-1.3%
Depreciation and amortization	**9**	8	12.5%
Total Operating Expenses	**449**	490	-8.4%
Operating Income	**375**	381	-1.6%
Interest Expense	**—**	3	—
Other Income (Expense) – Net	**5**	5	—
Income Before Income Taxes	**$ 380**	$ 383	-0.8%
International			
Operating Revenues	**$ 70**	$ 61	14.8%
Operating Expenses	**75**	89	-15.7%
Operating Income (Loss)	**(5)**	(28)	82.1%
Interest Expense	**1**	70	-98.6%
Equity in Net Income of Affiliates	**177**	199	-11.1%
Other Income (Expense) - Net	**107**	138	-22.5%
Income Before Income Taxes	**$ 278**	$ 239	16.3%

*EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization.

SBC Communications Inc.

Consolidated Balance Sheets (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	3/31/01	12/31/00
Assets		
Current Assets		
Cash and cash equivalents	**$ 551**	$ 643
Accounts receivable – net of allowances for uncollectibles of $1,008 and $1,032	**9,315**	10,144
Prepaid expenses	**999**	550
Deferred income taxes	**612**	671
Notes receivable from Cingular Wireless	**9,138**	9,568
Other current assets	**1,099**	1,640
Total current assets	**21,714**	23,216
Property, Plant and Equipment – at cost	**121,365**	119,753
Less: Accumulated depreciation and amortization	**73,815**	72,558
Property, Plant and Equipment – Net	**47,550**	47,195
Intangible Assets – Net of Accumulated Amortization of $557 and $746	**5,022**	5,475
Investments in Equity Affiliates	**11,399**	12,378
Other Assets	**11,640**	10,387
Total Assets	**97,325**	$ 98,651
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	**$ 10,643**	$ 10,470
Accounts payable and accrued liabilities	**13,770**	15,432
Accrued taxes	**2,645**	3,592
Dividends payable	**867**	863
Total current liabilities	**27,925**	30,357
Long-Term Debt	**16,561**	15,492
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**7,288**	6,806
Postemployment benefit obligation	**9,811**	9,767
Unamortized investment tax credits	**302**	318
Other noncurrent liabilities	**4,622**	4,448
Total deferred credits and other noncurrent liabilities	**22,023**	21,339
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**500**	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	**3,433**	3,433
Capital in excess of par value	**12,105**	12,125
Retained earnings	**19,333**	18,341
Guaranteed obligations of employee stock ownership plans	**(21)**	(21)
Deferred Compensation – LESOP	**(33)**	(37)
Treasury shares (at cost)	**(2,933)**	(2,071)
Accumulated other comprehensive income	**(1,568)**	(1,307)
Total shareowners' equity	**30,316**	30,463
Total Liabilities and Shareowners' Equity	**$ 97,325**	$ 98,651

SBC Communications Inc.

Consolidated Statement of Cash Flows (Unaudited)

(Dollars in Millions, Increase [Decrease] in Cash and Cash Equivalents)

	Three months ended	
	3/31/01	3/31/00
Operating Activities		
Net income	**$ 1,854**	$ 1,822
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,448**	2,263
Undistributed earnings from investments in equity affiliates	**216**	(152)
Provision for uncollectible accounts	**230**	211
Amortization of investment tax credits	**(16)**	(18)
Deferred income tax expense	**649**	352
Gain on sale of investments	**(129)**	(191)
Extraordinary item, net of tax	**10**	—
Changes in operating assets and liabilities:		
Accounts receivable	**574**	408
Other current assets	**(386)**	(508)
Accounts payable and accrued liabilities	**(2,468)**	(581)
Other – net	**(1,032)**	(657)
Total adjustments	**96**	1,127
Net Cash Provided by Operating Activities	**1,950**	2,949
Investing Activities		
Construction and capital expenditures	**(2,807)**	(2,349)
Investments in affiliates	**1,158**	(103)
Proceeds from short-term investments	**510**	—
Dispositions	**244**	215
Acquisitions	**—**	(3,663)
Other	**1**	1
Net Cash Used in Investing Activities	**(894)**	(5,899)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	**(84)**	4,867
Issuance of long-term debt	**2,238**	—
Repayment of long-term debt	**(980)**	(526)
Early extinguishment of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	**(500)**	—
Purchase of treasury shares	**(1,065)**	(284)
Issuance of treasury shares	**90**	60
Dividends paid	**(859)**	(834)
Other	**12**	29
Net Cash Provided by (Used in) Financing Activities	**(1,148)**	3,312
Net increase (decrease) in cash and cash equivalents	**(92)**	362
Cash and cash equivalents beginning of year	**643**	495
Cash and Cash Equivalents End of Period	**$ 551**	$ 857

SBC Communications Inc.

Supplementary Financial and Operating Data (Unaudited)

(Dollars in Millions, Except per Share Amounts)

	Three Months Ended		
	3/31/01	3/31/00	% Change
Capital Expenditures	**$ 2,807**	$ 2,349	19.5%
Dividends Declared Per Share[1]	**$0.25625**	$0.25375	1.0%
End of Period Common Shares Outstanding (000,000)	**3,369**	3,400	-0.9%
Pretax interest coverage[1,4]	**6.8**	9.4	-27.3%
Net cash flow to average total debt[2]	**11.8%**	11.2%	62 BP
Funds from operations interest coverage[3]	**9.7**	11.1	-13.0%
Debt Ratio	**46.9%**	46.7%	21 BP
Total Employees	**216,180**	208,380	3.7%
Access Lines Served (000)	**61,254**	61,154	0.2%
Residence	**36,568**	37,517	-2.5%
Business	**24,061**	22,907	5.0%
Other	**625**	730	-14.4%
Voice Grade Equivalents (000)[4]	**107,058**	91,505	17.0%
Residence	**42,279**	38,722	9.2%
Business	**64,154**	52,053	23.2%
Other	**625**	730	-14.4%
Resold Lines (000)	**1,597**	1,562	2.2%
Access Minutes of Use (000,000)	**69,388**	69,475	-0.1%
Cingular Wireless (Pro Forma)[5]			
Wireless Voice Customers (000)	**20,535**	17,294	18.7%
Net Adds (000)	**854**	695	22.9%
POPs (000,000)	**192**	192	—
SBC International[6]			
Total customers of SBC International's affiliates			
Access Lines (000)[5]	**38,239**	36,611	4.4%
Wireless (000):			
Subscribers	**34,855**	22,423	55.4%
Net Adds	**4,111**	3,842	7.0%
Total Revenues	**$ 10,720**	$ 9,065	18.3%
SBC's proportionate interest of SBC International's affiliates			
Access Lines (000)[5]	**6,644**	6,595	0.7%
Wireless (000):			
Subscribers	**4,401**	2,917	50.9%
Net Adds	**383**	350	9.4%
Total Revenues	**$ 1,795**	$ 1,464	22.6%

[1]Normalized pretax income and interest, excluding the 60 percent proportional consolidation of Cingular interest.
[2]Net cash flow equals funds from operations (cash flow from operations before working capital changes) less dividends paid.
[3]The sum of funds from operations and cash paid for interest on debt divided by interest incurred on debt.
[4]Prior year amounts restated to conform with current period reporting methodology.
[5]Amounts represent the 100% pro forma results of Cingular Wireless as if Cingular had existed for all periods presented.
[6]Amounts for 2001 and 2000 include our investments accounted for under the equity method in 2001. Amounts for 2000 have been restated to exclude investments no longer accounted for under the equity method.

SBC Investor**Briefing**

SBC *Investor Briefing* is published by the Investor Relations staff of SBC Communications Inc. Requests for further information may be directed to one of the Investor Relations managers by phone (210-351-3327) or fax (210-351-2071).

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