

20th Anniversary Data and Analysis Summary

The final section of the book is a 20-year analysis of the Bell companies' revenues, expenditures, including staffing and construction, and profits, from 1984 through 2004. This includes SBC, Verizon, Qwest, and BellSouth, and their merged-conquests. The year 2004 is the last complete set of Annual Reports and the starting point is 1984, the Bell companies' birth-date. This analysis also relies on the Business Week Scoreboard, 1990-2004, and US Census data.¹

Since 1984, the Combined Bell Companies:

- 128% Bell Revenues Increased
- 121% More — Bell Phone Lines Vs Household Growth
- 29.8% Drop in Overall Employees
- 65% Drop in Employees vs Revenue
- \$21.3 Billion in Cost Savings Per Annum From Staff Cuts
- 60% Drop In Construction Vs Revenue
- \$92.6 Billion Missing from Construction Budgets
- 11% Of "New Construction" Has Not Been Written Off Since 1984
- \$111 Billion of Excessive Depreciation?
- 188% Return on Equity Above Other Utilities 1993-2000
- 155% Higher Profit Margins than Business Week "Industry" and Utilities, 2000-2004
- 59% Higher Return on Equity than the Business Week "Industry" During 2000-2004

Overcharging: New Networks Institute Estimates

- \$206 Billion in Customer Overcharging
- \$2,000+ Approximately Owed per Household

Comprised of:

- \$103 Billion for Excess Profits
- \$78 Billion in Excessive Depreciation.
- \$25-\$50 Billion in Cross-Subsidization

Other Items

- \$80 Billion in Missing Network Equipment
- \$88 Billion from 1984-1992, (including \$13 Billion for BellCore, Misc.)
- \$40 Billion in "Special Items"

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- GRAPH 2 Revenues Compared to Employees
- GRAPH 3 Revenues vs Construction
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Executive Summary

Since 1984, the Combined Bell Companies:

Revenues

- **128% Increase in Revenue** In 1984, the Bell companies had \$72 billion in revenues, (the money the company received in sales, sale of an asset, etc.) mostly from local phone service. In 2004, the Bell companies revenues were \$165 billion, about 128% increase. Meanwhile, revenues grew 52% from 1994 through 1999, the ‘fiber optic failure’ years.

Employees

- **29.8% Drop in Employees.** In 1984 there were 680,653 employees, as compared to 477,600 in 2004 — a drop of 29.8%. There have been larger deductions to staff at the local phone companies than at the corporate headquarters or other non-local company areas, from DSL and long distance to wireless.² If the employees tracked with revenue there would be 1,292,461 staffers.
- **\$21.3 Billion in Cost Savings Per Annum from Staff Cuts.** According to NYNEX, (3rdQ1996), the elimination of 16,200 staff during restructuring would save \$1.7 billion annually. This equates to potential staff cut savings \$21.3 billion a year in industry expenses.
- **Staffing Is at 35% of 1984 Levels In Terms of Revenue. — 65% of the Staff Are Doing 200% of the Revenue Intake.** — Staffing levels are at 35% of the original Bell levels when compared to revenue.

Construction

- **Construction Down 60% Since 1984.** In 1984, the Bell companies spent \$18 billion on new construction, approximately 24% of revenues. In 2004, the companies spent \$17 billion, approximately 14.3% of revenues. — A 60% drop. The budgets in 1984 were

dedicated to upgrading the networks and new services, such as Call Waiting and Caller ID. The current new construction covers many other non-local phone company items, from DSL to long distance networks and equipment.

- **\$92.6 Billion Missing from Construction Budgets.** The decrease in expenditures as a percentage of revenues was quite large. Had the companies continued their capital expenditures, in 2004 the companies would have spent \$27.8 billion. Had the phone company's expenditures matched revenue, the companies would have spent an additional \$92.6 billion.

Bell Profits

In comparing the Bell profits as compared to Business Week's Scoreboard "Industry" and "Utilities" (1992-2004)

- **Return On Equity 188% Above Other Utilities 1993-2000.** From 1993, when the alternative regulation plans were starting to be implemented, the Bell companies' return on equity went from a 14.9% return to a 29.1% return; a 9-year increase of 126%. However, it was 188% above the other Utilities. (Source, Business Week Scoreboards, 1993-2000.)
- **From 1984 to 1992, the Bell Companies Had Maintained a Steady Return on Equity.** On average the return for SBC was 13.2%, Ameritech was 15.3%, and the average was 14.2% Starting in 1992, there was a major increase to the earnings, created in a large part by the changes to state laws for fiber optic deployments.

Bells' Poverty a Myth: Profits Were still Excessive from 2000-2004

- **Profit Margins Were 155% Higher Than "Industry" and "Utilities" During 2000-2004.** The Industry had an average of 5.4%, Utilities had a 4.5% return, while the Bell companies averaged 12.5%
 - 132% higher profit margins than the other Industry players
 - 177% higher than other Utilities.

- **The Return on Equity was 56% Higher than the Business Week Scoreboard's "Industry" and "Utility" During 2000-2004.** The Industry had an average of 11.8%; the Utilities had a 10.6% return, while the Bell companies averaged 17.4% return on equity. Over the four years, the Bell's had:
 - 47% higher return on equity than the other industry players
 - 64% higher than the other utilities.

Access Lines

- **121% Above "US Household Growth.** In the period of 1984-2002, the number of households increased 28%, while the Bell companies increased lines 62% — 121% above household growth. Bells overall growth rates were 2.6% annually, from 1984-2002, while the growth in households for the same period was 1.4%
- **Internet Hypergrowth and Rebalancing the Bells' Falling Lines** During the period from 1994-1999, the Bells had phenomenal growth. In 1993 through 1999, there was 5.6% annual growth rate, about 300% above household growth. There was 41% growth overall, adding an additional 44 million lines.

Depreciation/Tax Write-offs

- **133% More Depreciation than New Construction in 2004.** In 1984, depreciation was \$11.7 billion, construction was \$18 billion and the ratio of write-offs to construction was 65%. By 2004, depreciation was \$22.6 billion, construction was \$16.7 billion and so the companies wrote off 133% more than they put into the network.
- **Only 11% of the New Construction has Not Been Written Off.** In comparing new construction budgets to depreciation write-offs, of the \$473 billion spent on new construction, only \$51 billion had not been written off by 2004. Please note that while this spending sounds large, the Bells made \$2.3 trillion dollars, new construction only represented about 20% of the total overall.

- **\$110,616 Billion of Excessive Depreciation?** An additional \$111 billion has been written off if depreciation remained the same relationship to new construction. This figure does not count special items.

Overcharging

- **\$206 Billion: Approximately \$2,000+ a Household.**
- **\$103 Billion for Excess Profits.** Using an average of “Utility” profit margins and return on equity, New Networks Institute contends that the Bell companies made excessive profits, mainly from the alternative regulation plans started in 1992-1995.
- **\$78 Billion in Excessive Depreciation.** Depreciation levels were increased to the extent that the companies have been able to write-off more than they put into the ground in new construction. We’ve applied a higher cap, 90% of new construction, on depreciation that was removed due to the alternative regulation plans. Using a ‘face’ value examination, the total depreciation was \$111 billion. We did NOT include \$40 billion of “Special Items”.
- **\$25-\$50 Billion in Cross-Subsidization.** (Using the low number.) From the information presented it is clear that the phone companies did not use the money from the alternative regulation plans to rewire America, but spent it on DSL, a service over the old copper wiring, long distance, and their wireless divisions. Without audits it is impossible to assign the actual costs to the customer, so we assigned the low number.

\$280 Billion Additional Overcharging Items Not Included:

- **\$80 Billion in Missing Network Equipment.** The FCC’s audits of the Bell companies’ continuing property records were dropped and no state has investigated the equipment in the networks and adjusted rates, even though the FCC found \$18.6 billion in missing equipment, and that represented only ¼ of the potential audits to be completed.
- **\$40.5 Billion in “Special Items”** Special depreciation items added \$25.5 billion in deductions from 1993-1995, the ‘fiber optic failure’ years, and \$15 billion in 2002-2003.

- **NOT INCLUDED: \$75 Billion from 1982-1992.** New Networks Institute previous analysis on this topic, created in 1992-1993 for “10 Years Since Divestiture: The Future of the Information Age”, found approximately \$75 billion had been overcharged to customers from 1982-1992.

Miscellaneous Overcharging

- **\$10 Billion for Bellcore.** BellCore, the Bell companies’ research arm, had a billion-dollar budget and this expense was directly paid by customers. Bellcore also had \$300-\$500 million profits, which the phone companies kept. Bellcore was sold off and customers were never given any financial stake. More to the point, the charges continue today in most states, built into the phone rates.
- **\$3 Billion Verizon, SBC, Qwest, Name Changes.** When New York Telephone decided to change its name to just NYNEX, the company was able to charge customers \$25 million dollars. When Verizon changed its name from Bell Atlantic, it cost over \$1/2 billion. We estimate, conservatively, that the name changes over the last decade were over \$3 billion.

TOTAL OVERCHARGING

We have decided that \$2000 per household is a low number that reflects the basics, though it requires a full audit for justification. However, if we were to use a more accurate household count:

- **\$2,800 Per Household**

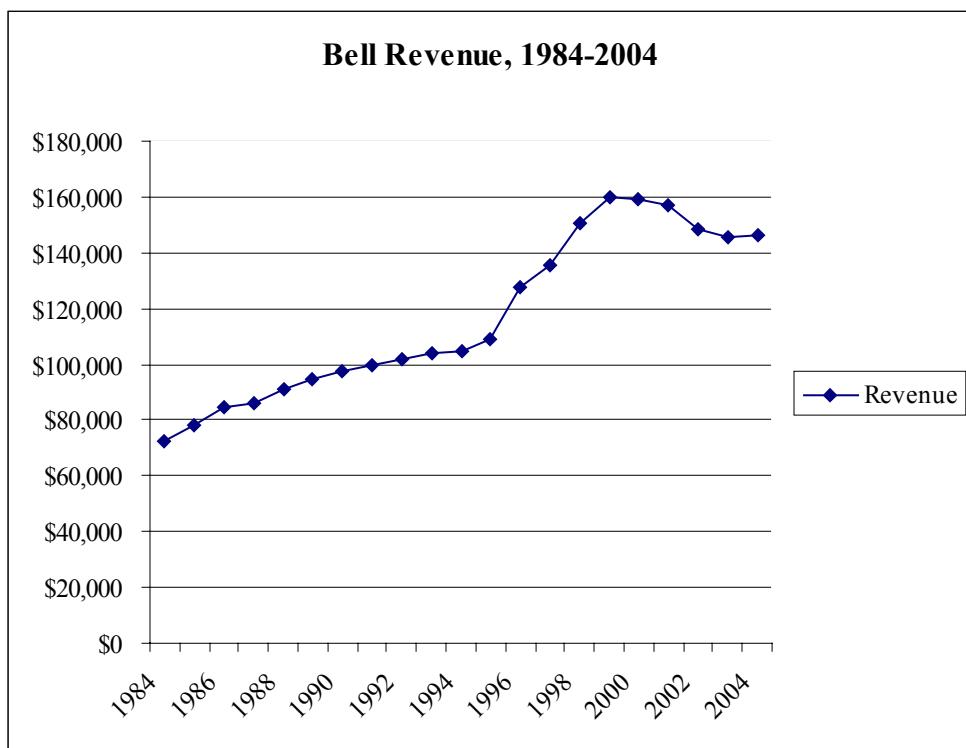
With \$459 Billion Total Overcharging.

- **\$5,100 per household – counting total overcharging**

(See our previous sections on overcharging for details.)

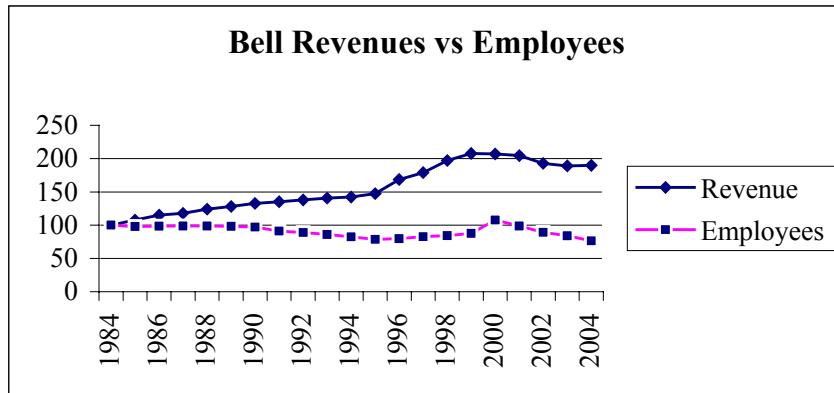
GRAPH 1 Overall Revenues of the Bell Companies, Including GTE

In 1984, the Bell companies had \$72 billion in revenues, (the money the company received in sales, sale of an asset, etc.) mostly from local phone service. In 2004, the Bell companies revenues were \$165 billion, about 128% increase. Meanwhile, revenues grew 52% from 1994 through 1999. There has been growth since 2004, with multiple caveats.³



2) Prices Should Have Plummeted

GRAPH 2: Revenues Compared to Employees



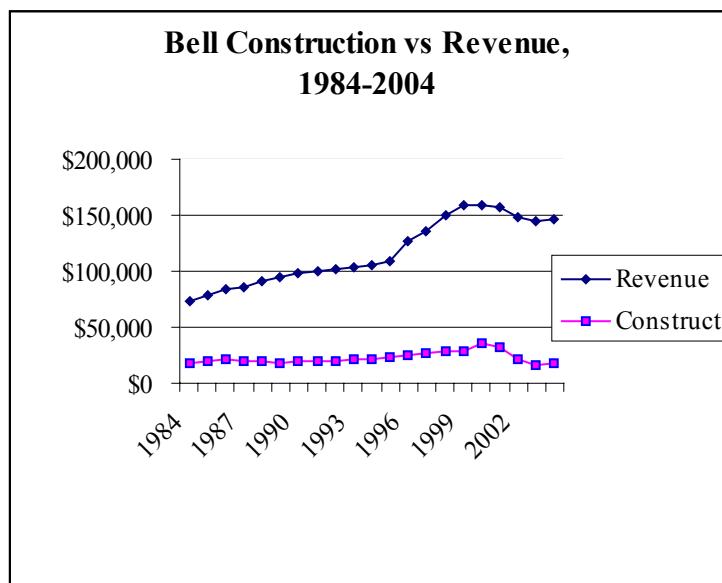
In 1984 there were 680,653 employees, as compared to 477,600 in 2004 — a drop of 29.8%. There have been larger deductions to staff at the local phone companies that at the corporate headquarters or other non-local company areas, from DSL and long distance to wireless.⁴ If the employees tracked with revenue there would be 1,292,461 staffers.

Conclusion

- **\$21.3 Billion in Cost Savings Per Annum from Staff Cuts.** According to NYNEX, (3rdQ1996), the elimination of 16,200 staff during restructuring would save \$1.7 billion annually — That would mean that the staff cuts save \$21.3 billion a year in industry expenses.
- **65% of the Staff are Doing 200% of the Revenue Intake.** Staffing levels are at 35% of the original Bell companies in terms of revenue.

Graph 3: Revenues vs Construction

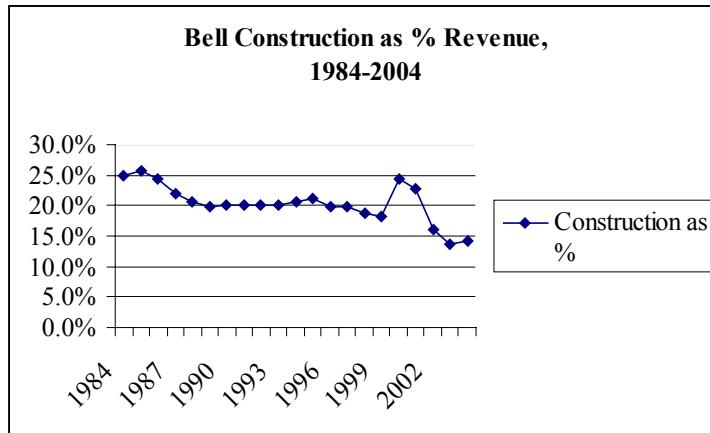
In 1984, the Bell companies spent \$18 billion on new construction, approximately 24% of revenues. In 2004, the companies spent \$17 billion, approximately 14.3% of revenues. — a 60% drop. The budgets in 1984 were dedicated to upgrading the networks and new services, such as Call Waiting and Caller ID. The current new construction covers many other non-local phone company items, from DSL to long distance networks and equipment.

**Conclusions:**

- **\$92.6 Billion Missing from Construction Budgets.** The decrease in expenditures as a percentage of revenues was quite large. Had the companies continued their capital expenditures, in 2004 the companies would have spent \$27.8 billion. Instead, there has been a 39% decrease, representing only a 14.3% of revenues. Had the phone company's expenditures matched revenue, the companies would have spent an additional \$92.6 billion.

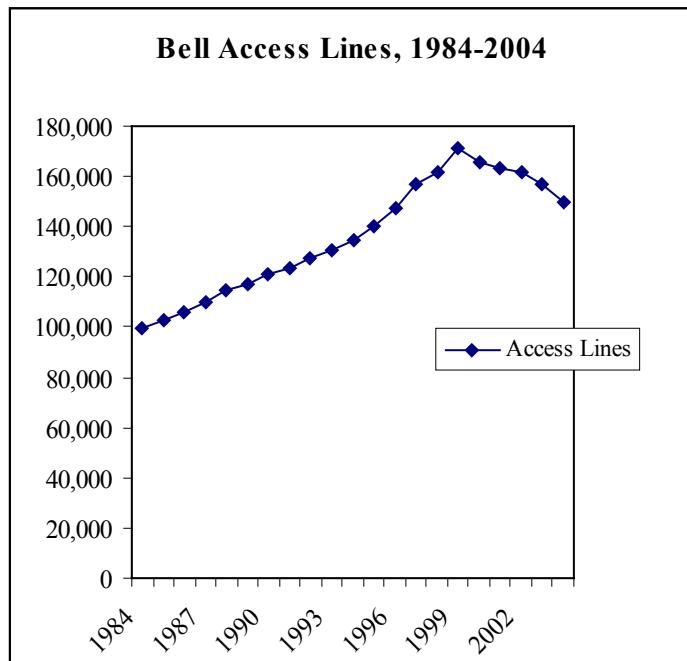
GRAPH 4: Bell Construction as a Percentage of Revenue

This graph shows the massive decrease in capital expenditures as compared to the revenue increases.



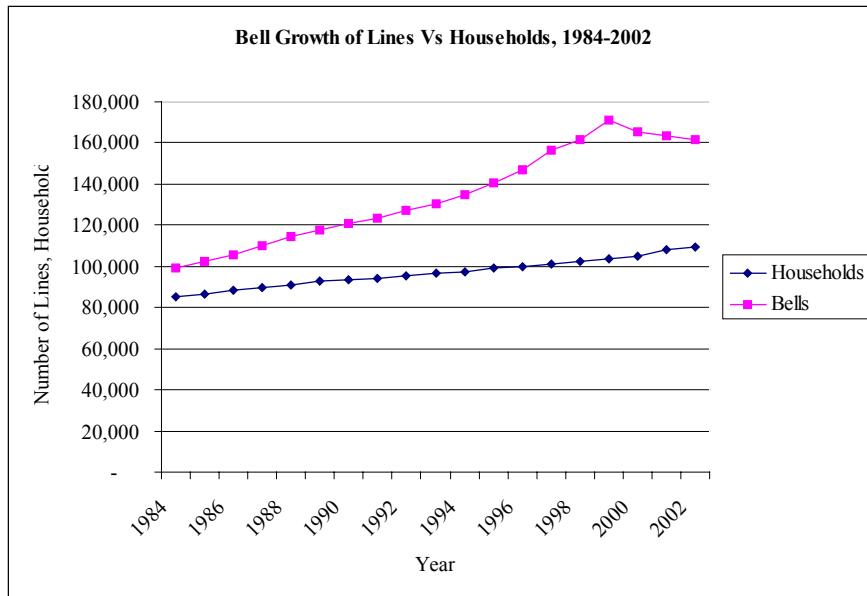
GRAPH 5: Bell Access Lines, 1984-2004

Since 1984, access lines went from 99.3 million to 151 million lines in 2004, with a high of 171 million in 1999.⁵



GRAPH 6: Bell Lines as Compared to Households.

According to the Census, through 2002, households in the US increased 28% since 1984, from 85.4 million to 109.3 million in 2002. Notice the 'hypergrowth' of Bell lines to households.

**Bell Line Increases Attributed to Hypergrowth of the Internet**

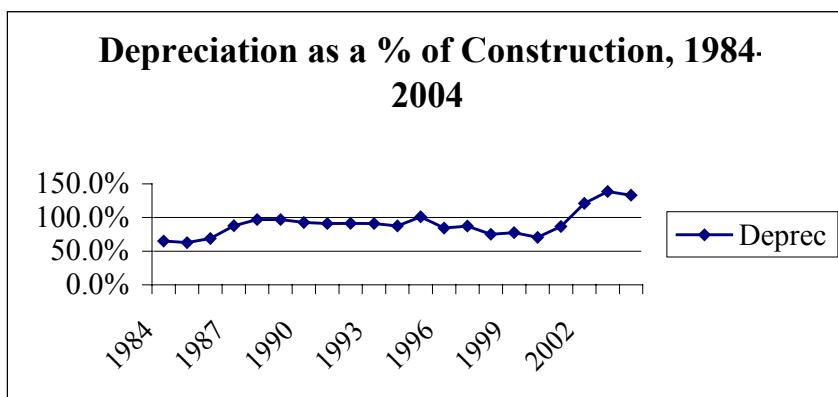
Conclusion: The Bell companies' growth in lines during the 1990's can be attributable to the Internet "hypergrowth" and a rebalancing of the lines, which was inevitable.

In the period of 1984-2002, the number of households increased 28%, while the Bell companies' lines increased 62%, 121% above household growth. If you examine the graph above, the Bells overall growth rates were 2.6% annually, from 1984-2002, while the growth in households for the same period was 1.4% During the period from 1994-1999, the Bells had phenomenal growth, In 1993 through 1999, there was 5.6% annual growth rate, about 300% above household growth. There was 41% growth overall, adding an additional 44 million lines.

GRAPH 7 Depreciation Compared to New Construction

Under the rate of return models, the depreciation write-offs of the network were somewhat controlled. By the 1990s, depreciation was sped up to write-off the networks faster, with the promise to rewire and upgrade. In 1984, depreciation was \$11.7 billion, construction was \$18 billion and the ratio of write-offs to construction was 65%. By 2004, depreciation was \$22.6 billion, construction was \$16.7 billion and so the company wrote off 133% more than they put into the network.

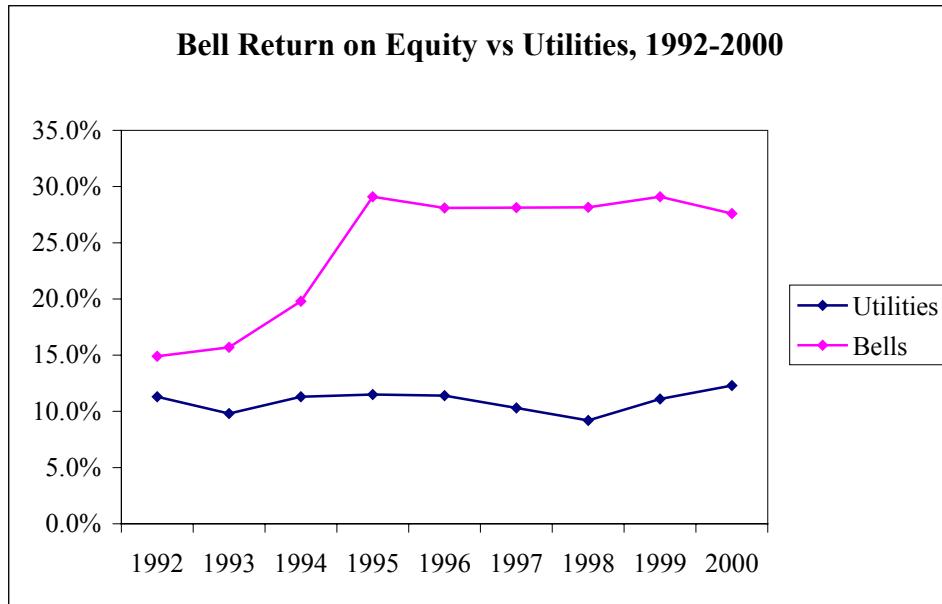
The graph shows the changes in depreciation as a percentage of “New Construction.”

**Conclusions**

- **\$110,616 Billion of Excessive Depreciation?** If depreciation remained the same relationship to new construction, an additional \$111 billion has been written off, not counting special items.
- **\$40.5 Billion in Special items.** Special depreciation items added \$25.5 billion in deductions from 1993-1995, and \$15 billion in 2002-2003. (We did not add them to this chart)
- **In comparing new construction budgets to depreciation write-offs,** of the \$473 billion spent on new construction, only \$51 billion has not been written off to date, representing only 11% that has not been written off. Please note that while this spending sounds large, the new construction budgets over the last 20 years only represented 20% of the entire amount collected, \$2.3 trillion dollars.

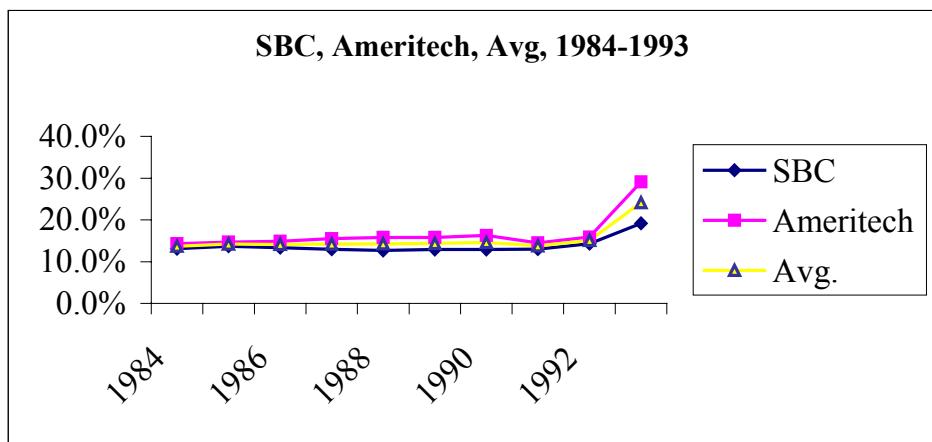
GRAPH 8: Bell Return on Equity

From 1992, when the alternative regulation plans were starting to be implemented, the Bell companies' return on equity went from a 14.9% return to a 29.1% return; a 9-year increase of 126%, a 188% above the other Utilities (Source, Business Week Scoreboards, 1992-2000.)



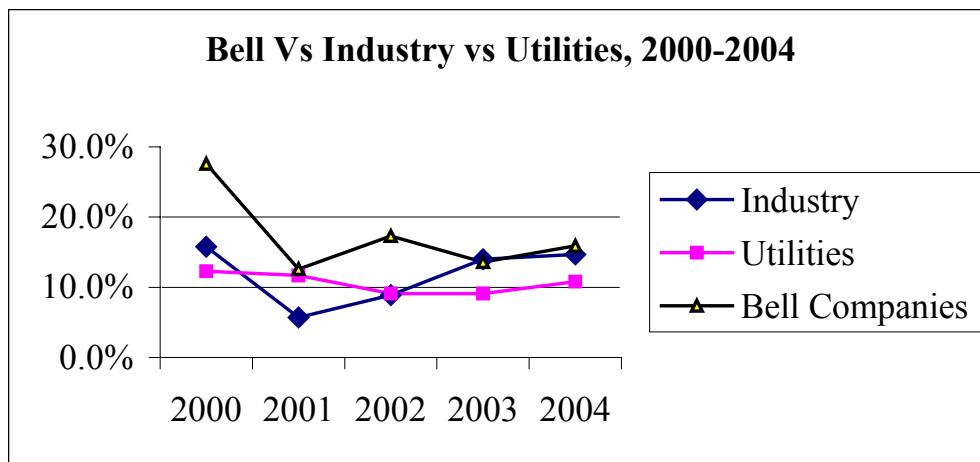
GRAPH 9 Ameritech, SBC Return on Equity, and Average, 1984-1993

Prior to 1992, the Bell companies had maintained a relatively steady return on equity. On average the return for SBC was 13.2%, Ameritech was 15.3%, and the average was 14.2% As you can see from the graph, starting in 1992, there was a major increase to the earnings, created in a large part by the changes to state laws for fiber optic deployments.



GRAPH 10 Bells Compared to Business Week Industry and Utilities, 2000-2004

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



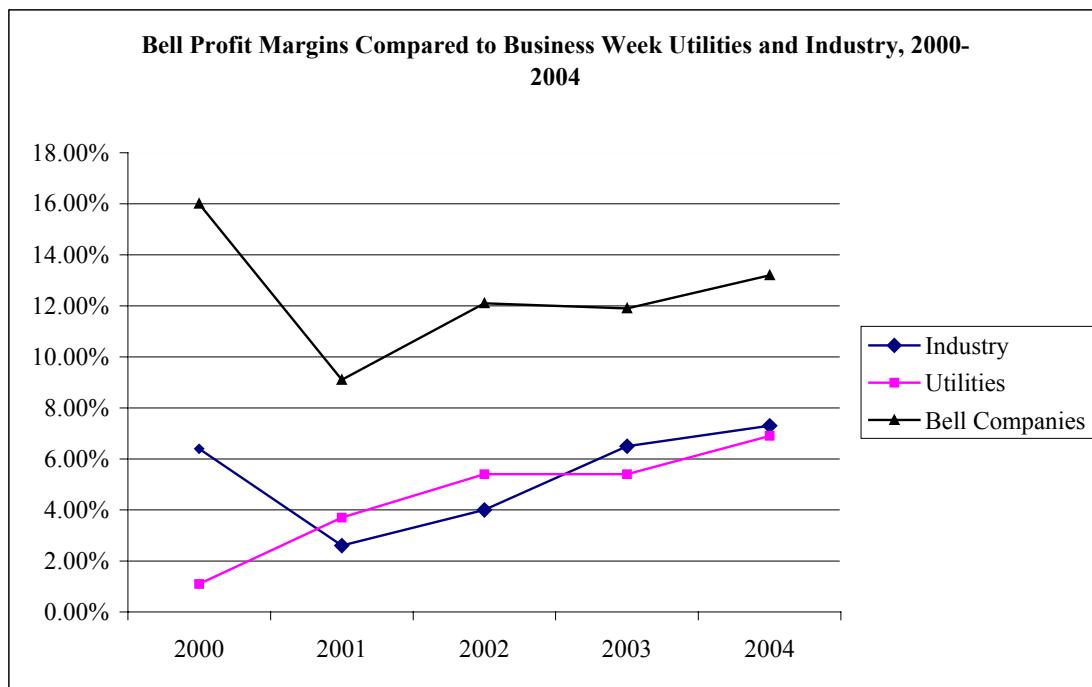
The Industry had an average of 11.8%; the Utilities had a 10.6% return, while the Bell companies averaged 17.4% return on equity. Combined, over the five years, the Bell's had:

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

GRAPH 11: Bell Profit Margins, 2000-2004

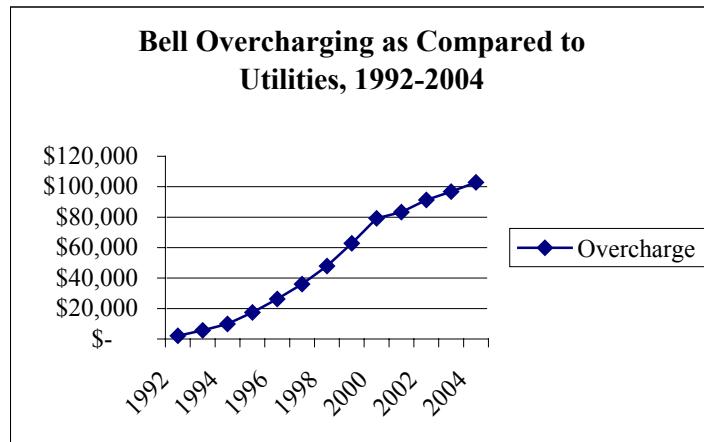
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- 132% higher profit margins than the other Industry players.
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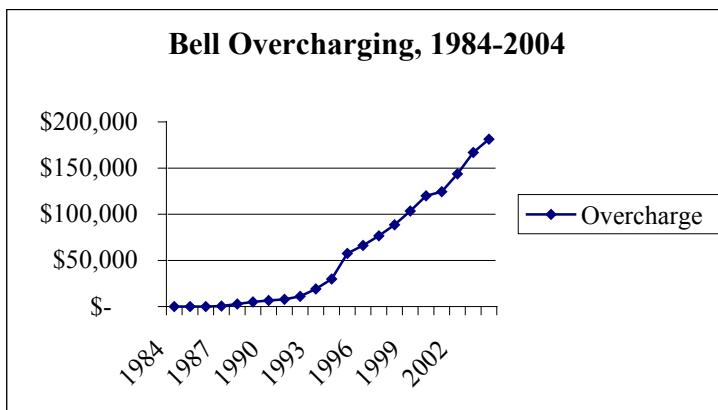


GRAPH 12: Bell Company Overcharging, as Compared to Utilities.

\$103 Billion in Excess Profits. Using an average of “Utility” profit margins and return on equity, New Networks Institute contends that the Bell companies made excessive profits, mainly from the alternative regulation plans started in 1992-1995.



As previously stated, from 1992, when the alternative regulation plans were starting to be implemented, the Bell companies’ return on equity went from a 14.9% return to a 29.1% return, a 9 year increase of 126%, 188% above the other utilities from 1993-2000. (Source, Business Week Scoreboards, 1992-2000.)⁶

GRAPH 13: Excessive Depreciation Overcharging Included

ENDNOTES

- ¹ NOTE: There are hundreds of data caveats to this presentation for multiple reasons. One simple example is the fact that the Bell companies' annual reports can have different amounts for any line item, from revenues or expenses, for the same year when comparing a 1995 and 1996 annual report for the same company. Also, the data presented by the Bell companies are composites of multiple states and hundreds of companies, each with their own data caveats. The mergers-merged data also disrupts any idea of continuity in the accounting presentations.
- ² We have had to adjust this example. We did not add Cingular revenue for SBC nor did we include staffers for the Cingular division.
- ³ Please note that Verizon includes its wireless division in the accounting of Verizon's overall revenues, as does BellSouth, which partners with SBC as their owners of Cingular, the wireless company. For example, Business Week Scorecard did not include SBC's Cingular revenue in its overall revenue numbers. This causes multiple problems in accounting. Since cellular and wireless have been part of the Bell companies overall revenues in most years, we have added the Cingular-SBC component for balance and accuracy.
- ⁴ In this example we have had to adjust. We did not add Cingular revenue for SBC nor did we include staffers for the cingular division.
- ⁵ Note: We have added the wholesale lines into this equation because some of the Bell companies count them, such as SBC and BellSouth, while Verizon didn't in its total.
- ⁶ NOTE: This overcharging is above and beyond the \$75 Billion New Networks Institute documented from 1984-1992 in "and "Telephone Charges in America, Published by Probe Research in 1993, and "Regional Bell Earnings, Expenditures and Profits," marketed through Phillips Business Information, 1994.