Regional Bell (RBOC) Write-offs and Foreign Investment

(2000-Second Quarter 2002)

(A separate report from)

Regional Bell Revenues, Expenditures and Profits

October 2002

Presented by

New Networks Institute
Bruce Kushnick, Executive Director
826 Broadway, Suite 900
New York, New York 10003

212-777-5418

http://www.newnetworks.com

EXECUTIVE SUMMARY
Regional Bell (RBOC) Write-offs and Foreign Investment

This Report is a section of "**Regional Bell (RBOC) Revenues, Expenditures and Profits"** To read this report see http://www.newnetworks.com/profitreport2002.htm

NOTE: The Bell Companies are: BellSouth, Qwest (formerly US West), SBC (including Ameritech, Pac Bell and SNET) and Verizon (including Bell Atlantic, GTE and NYNEX)

The Bell companies would like us to believe that the sky is falling. They are telling Congress, the FCC, and the media that they are losing business at an alarming rate because the number of phone lines are declining and that they are being hit by major losses due to competition.

As we will show, all of these issues pale to the truth--- the Bells are misrepresenting their business problems so that they may receive regulatory relief from Congress. They are still some of the richest companies in America all from local service.

However, they have had very large write-offs and losses over the last three years and this has caused them to take on more debt, as well as show lower overall returns on equity. Here are the highlights:

Bell Write-offs and Losses for Mergers/CLEC and Foreign Investments.
1999- June 2002
($000)

Merger & CLEC	$16,126
Foreign	$15,578
	$31,704
Through June 2002	$9,680

Sources: Bell SEC filings, New Networks Institute, 1999-2002

From 1999 through June 2002, the Bell companies have had:

- **$15.6 billion in losses** and write-offs for investments overseas**.**
- **$16 billion in write-offs** for the mergers and domestic losses.
- **$9.7 billion in write-offs and losses** in first half of 2002 – major losses in South America.

Bell Write-offs and Foreign Investment Losses

It is clear that the Bells' excess profits from local service has been funding their overseas and non-phone service investments. Unfortunately, the Bells' investment track record has yielded major losses. The exhibit below highlights these losses. (This exhibit only focuses on the large investment losses.)

The Bells' write-offs for 2001 were $14.8 billion dollars and so far for 2002 the Bells have written off or lost $9.7 billion dollars.

Bell Write-downs and Foreign Investment Losses, 1999-June, 2002 ($000)

	1999-2000	2001	1/2 of 2002	To date
BellSouth	$381	$1,980	$2,254	$4,615
Qwest	$470	$3,190	$592	$4,252
SBC	$3,942	$1,350	$409	$5,701
Verizon	$2,471	$8,240	$6,425	$17,136
Totals	$7,264	$14,760	$9,680	$31,704

Sources: New Networks Institute, Bell company SEC filings, 1999-2002

The write-offs and losses total approximately $31.7 billion dollars from 1999 through the second quarter of 2002. The write-offs are almost equally distributed to merger and CLEC write-offs and losses of $16.1 billion, as compared to $15.6 billion for overseas/foreign losses.

Bell Write-offs and Losses for Mergers/CLEC and Foreign Investments. 1999- June 2002 ($000)

Merger & CLEC	$16,126
Foreign	$15,578
	$31,704

Sources: New Networks Institute, Bell company SEC filings, 1999-2002

The first group of massive write-offs can be attributed to losses in investments of telecom companies. These deductions include investments in Qwest, and write-offs from the various Bell mergers, such as the creation of Bell Atlantic and then the creation of Verizon (adding GTE) or the creation of SBC's mergers with Pac Bell and Ameritech.

The other major area of loss has been created from investments in overseas companies, especially losses from South American investments due to the devaluation of the various currencies.

Verizon

Since 1999, Verizon has taken $17,136 billion dollars in write-offs and about $7.8 billion was for mostly overseas investments.

Verizon Major Write-offs, 1999-2002 ($000)

	1999-2000	2001	1/2 of 2002	To date
Verizon	$2,471	$8,240	$6,425	$17,136

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

> "During the first quarter of 2002, we recorded a pretax loss of $1,400 million ($1,400 million after-tax) due to the other than temporary decline in the market value of our investment in Compania Anonima Nacional Telefonos de Venezuela (CANTV). As a result of the political and economic instability in Venezuela, including the devaluation of the Venezuelan bolivar, and the related impact on CANTV's future economic prospects, we no longer expected that the future undiscounted cash flows applicable to CANTV were sufficient to recover our investment. Accordingly, we wrote our investment down to market value as of March 31, 2002."

Verizon's 2000 – June 2002 Write-offs and Charges ($000)

	2000	2001	2002 (2ndq)
Venezuela (CANTV).			$1,400
CTI Argentina		$672	$230
C & W, NTL, Metromedia Fiber		$4,686	
Cable & Wireless plc (C&W)			$303
TELUS Corporation			$580
Video business	$566	$258	$246
CLEC		$334	
Genuity		$1,251	$2,443
Northpoint	$155		$175
Bell Atlantic –GTE merger	$1,750	$1,039	$300
Metromedia Fiber. (MFN).			$516
Second quarter misc			$232
Total	$2,471	$8,240	$6,425

Sources: New Networks Institute, Verizon's 10K and 10Q reports 1999-2002

South American investments have been having problems over the last few years. For example, Verizon took a charge of $672 million for its holdings in CTI, a cellular subsidiary in Argentina.

> "In 2001, we recorded a pretax charge of $672 million ($663 million after-tax, or $.24 per diluted share) primarily relating to our investment in CTI, our cellular subsidiary in Argentina. Given the current status of the Argentinean economy, the recent devaluation of the Argentinean peso as well as future economic prospects, including a worsening of the recession, we recorded an estimated loss of $637 million ($637 million after-tax, or $.23 per diluted share) based on CTI's current financial position and revised expected results of operations."

The company also took a massive $4.7.billion dollar write-off in Cable and Wireless, NTL and Metromedia Fiber.

> "…included in our results for 2001 is the recognition of pretax losses recorded in June 2001 and December 2001 totaling $4,686 million ($3,607 million after-tax, or $1.32 diluted loss per share) primarily relating to our investments in Cable & Wireless plc (C&W), NTL Incorporated (NTL) and Metromedia Fiber Network, Inc. (MFN). We determined, through the evaluation described above, that market value declines in these investments were considered other than temporary."

Qwest Wipe-Out

As many of the readers are aware, Qwest was comprised on US West, the original Bell company, and the addition of new businesses. While the Bell component of this new company still retains the local phone company cash cow, their other investments, specifically KPNQwest, lost billions in value.

Qwest Charges, 2000-2001
($000)

	2000	**2001**	**2002**
KPNQwest		$3,000	$692
Misc.		$154	
Lucent		36	
Global	$470		

Crossing			
	$470	**$3,190**	**$592**

KPNQwest Write-down.

In this case, the value of the company's KPNQwest holdings dropped from $7.9 billion dollars to $1.3 billion dollars in approximately one year. The stock was originally valued at $7.9 billion as "Class C" shares.

> "On June 30, 2000, Qwest's preliminary estimate of the value of its investment in KPNQwest was $7.9 billion. This preliminary estimate was based upon the closing price of $39.625 of KPNQwest's publicly traded Class C shares on June 30, 2000."

Qwest had purchased class B" shares and so the stock was reevaluated to be worth $4.8 billion in 2001

> "The work was completed in June 2001, and indicated a fair value for the Company's investment in KPNQwest of $4.8 billion or $23.775 per Class B share. Accordingly, the carrying value of the KPNQwest investment was adjusted, in accordance with APB Opinion No. 16, to equal the $4.8 billion fair value."

By June 2001, the stock's value had declined severely with the investment only worth $1.3 billion and the company taking a $3 billion dollar loss.

> "At June 30, 2001, Qwest evaluated its investment in KPNQwest and concluded that the decline in fair value from $4.8 billion was other than temporary… As a result of the evaluation of Qwest's investment in KPNQwest, the Company concluded that the fair value of its investment at June 30, 2001 was $1.3 billion and took a charge of $3.048 billion to reduce the carrying value to the estimated fair value of $6.67 per Class B share."

Qwest had other write-downs in 2000 and 2001 including $36 million in Lucent in 2001 and $447 million in Global Crossing, as well as $154 million in misc. investments.

BellSouth

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

> "The Latin America segment is comprised of our investments in wireless businesses in eleven countries in Latin America.

> Consolidated operations include our businesses in Argentina, Chile, Colombia, Ecuador, Nicaragua, Peru and Venezuela"

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

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

BellSouth Investment Losses 1999-2002
($000)

	1999-2000	2001	2002
Qwest losses		$1,800	
Brazilian currency losses	$381	$180	
First Q. 2002			
Brazilian investment,			$ 275
Brazilian Debt			$108
Argentinean devaluation,			$ 277
Qwest. Losses.			$ 179
Second Q 2002			
foreign currency transaction			$ 353
foreign currency transaction			$ 78
Brazil (BCP SA default			$ 375
BSE SA). Loan impairment			$ 383
foreign currency translation			$ 226
	$381	**$1,980**	**$ 2,254**

BellSouth also had a number of serious write-offs as well, including a $1.8 billion write-off in its investment in Qwest.

> "Over the course of 2001, there has been a broad decline in the public equity markets, particularly in technology and communications stocks, including investments held in our portfolio. Similarly, we experienced significant declines in the value of certain publicly held investments and restricted securities. As a result, we recorded a $1,817 noncash pretax charge to reduce the carrying value of certain strategic investments in publicly traded and private equity securities, principally our investment in Qwest. We concluded that the continuing depressed market of these

> investments, as well as the difficulties experienced by similar companies, indicated that the decline was other than temporary."

The company's foreign dealings have been hit with problems for years. The company lost approximately $561 million in the exchange rate between the US currency and their Brazilian holdings from 1999 through 2001.

> "In January 1999, the Brazilian Government changed its foreign exchange policy, extinguishing the exchange band through which it had managed the range of the fluctuation of the Real in relation to the U.S. Dollar, allowing the market to freely determine the exchange rate. As a consequence of this change, the Real devalued significantly in relation to the U.S. Dollar in early 1999. The devaluation and subsequent fluctuations in the exchange rate resulted in our Brazilian wireless properties recording net currency losses related to their net U.S. Dollar-denominated liabilities. Our share of the Brazilian foreign currency losses was $308 for 1999, $73 for 2000 and $180 for 2001."

SBC Communications

Since 1999, SBC has been merging, first with Pac Bell then with Ameritech and SNET. Since 1999 the company has taken large write-offs of almost $4 billion dollars for these maneuvers, including restructuring charges of many of the various companies Ameritech owned, including Security Link.

SBC's Write-offs and Overseas Losses, 1999-2002 ($000)

	1999-2000	2001	June, 2002
Merger with Ameritech	$1,205		
SecurityLink, Ameritech	$971		
Ameritech merger (1999)	$1,766		
Cable business		$205	
Williams Communications Group		$261	
Telecom Americas		$262	
TDC's Talkline subsidiary		$197	
Misc.;		$425	
Belgacom S.A			$101
WorldCom, Inc, bad debt			$125
Teléfonos de Mexico, S.A. de C.V. (Telmex) exchange rate			$55
Cegetel S.A's, French			$53

Williams and webhosting loss			$75
	$3,942	$1,350	$409

And in 2001-2002, the company has written off about $675 million in overseas operations.

In 2001, SBC also had a number of writedowns or charges for its "Cable Business", CLEC investment in Williams Communications, and a host of other charges

These are just some of the deductions by SBC for the year 2001.

- $205 related to impairment of our cable business.
- $261 in the second quarter and for the first six months related to valuation adjustments of Williams Communications Group and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities."
- $262 indicated by a transaction pending as of December 31, 2001 to reduce the direct and indirect book value of our investment in Telecom Americas.
- $197 for costs related to TDC's decision to discontinue non-wireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to that subsidiary.
- Combined charges $425 in the fourth quarter and for the twelve months of 2001 associated with our comprehensive review of operations which resulted in decisions to reduce workforce, terminate certain real estate leases and shut down certain operations.