TUCK SCHOOL OF BUSINESS AT DARTMOUTH
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Case #6-0012

AT&T Comcast Corporation: Making Good on the Broadband Promise?

"Just as putting a person on the moon was a national goal, getting broadband to all Americans and small businesses should have the same effort behind it."

—John Chambers, CEO, Cisco

On December 19, 2001, AT&T's Board of Directors unanimously approved Comcast's bid for AT&T Broadband. It was quite a turnaround from 6 months earlier, when an unsolicited bid from Comcast had been vigorously turned down by the communications giant.

AT&T's strategy to offer telephone and cable through "one-stop shopping" had been deemed a dismal failure by many analysts. Would Comcast be any more successful capitalizing on the broadband assets that AT&T had amassed? Broadband had been the promise of the future for so long. Why hadn't it caught on more forcefully? Was the technology not developed? Were consumers not interested?

What is Broadband?

A survey conducted in the United Kingdom found that 69 percent of respondents had never heard of the term "broadband."[1] In fact, one-third thought the word referred to radio. The United States was not much different. As of 2000, there were 5.5 million cable modem subscribers and half as many residential digital subscriber line (DSL) users.[2]

1 Stokes, Jeanie. "What is Broadband? Customers still asking," *Broadband Week*, March 19, 2001.
2 Goldman, M. Corey. "Bidding for Broadband," *ABCNews.com*, August 2, 2001.

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The term "broadband" referred to communication in which a wide band of frequencies was available to transmit information. Because of this wide band, information could be multiplexed and sent on several different channels within the band simultaneously, allowing more information to be transmitted in a given amount of time. An analogy would be the widening of a highway by building more traffic lanes so that a greater number of cars could travel at once. Generally speaking, bandwidth requirements were proportional to the complexity of the data for a given level of system performance. For example, it required more bandwidth to download a photograph in one second than a page of text. Large sound files or animated videos required a great deal of bandwidth for acceptable system performance.

A challenge in understanding the market for broadband services stemmed from the fact that the definition had mutated over time. The original, technical meaning was never set in stone, though some companies tried to nail it down. For example, Jupiter Communications claimed transmission speed had to be at least 256 kilobits per second (Kbps) to be termed "broadband," while IBM noted that a "broadband channel is 6 MHz wide." According to Newton's Telecom Dictionary, broadband is "a transmission facility providing bandwidth greater than 45 Mbps (T3). Broadband systems are generally fiber optic in nature."[3] But as the technology matured, broadband providers across the speed range were finding either that their transmission speeds were not fast enough to meet users' needs or that users' needs did not evolve with the technology.

By 2002, as far as consumers were concerned, broadband appeared in two forms: cable modems and DSL. "But there are others on the way that will penetrate the market even more in the next 3 to 5 years," noted Joe Laszlo, a senior analyst with Jupiter Media Metrix.[4] "Broadband will become the main delivery pipe for all forms of content." Broadband meant a faster, "always on" connection to the Internet that did not tie up the telephone line. It was expected to expand far beyond web services and promised everything from video-on-demand to digital music to interactive television. For example, in 2001 viewers tuning into the QVC home-shopping network (owned by Comcast) were able to instantly purchase a computer simply by pressing a button on their remote control. The result: 32,000 computers sold worldwide (adding up to revenues of $80 million on a single day).[5]

The Landscape

In 2002 the broadband sector had not yet struck the gold mine it once dreamed of. Investors had lost billions of dollars since the mid-1990s on companies promising fast access to the Internet. Technical problems and consumer indifference turned dreams into nightmares, and many companies like Excite@Home went out of business. Forrester Research estimated in 1998 that 93% of firms still accessed the Internet through dial-up connections.

3 Newton, Harry. *Newton's Telecom Dictionary*. p. 102.
4 Goldman, op. cit.
5 Roberts, Johnnie. "Cable's A Team," *Newsweek*, December 31, 2001.

Broadband delivery was controlled by two oligopolies: the cable industry, which delivered service through cable modems; and the Baby Bells, which offered DSL service. As of 2001, approximately 8.5 million Americans had high-speed Internet access through one of these two connections, or about 14 percent of all households online.[6]

The slower-than-expected growth of broadband affected a far larger portion of the technology industry than just cable or phone providers. Sales growth was down everywhere, from Cisco Systems, a maker of networking equipment, to Dell, the personal computer manufacturer. Millions of miles of fiber optic cable were "dark"—i.e., unused—across the United States, hurting the prospects of fiber firms like Corning Inc. Furthermore, many content providers (including suppliers of online movies, music, and video games) were suffering from snail-like Internet connections.

Government Involvement

At the beginning of January 2002, Senator Tom Daschle declared that one of his top economic priorities would be "making broadband service as universal tomorrow as telephone access is today." The high-tech industry had been pushing the idea of a national policy to promote high-speed Internet access, and Daschle's comments reflected these lobbying efforts. Even President Bush has jumped on the "broadband wagon" and promises to outline his own plans to boost broadband deployment.

In the fall of 2001 TechNet, a Silicon Valley trade group of high-tech chief executives, and the Telecommunications Industry Association (TIA), a group representing communications and IT equipment manufacturers, both drafted policy papers and sent lobbyists to Washington, D.C. Among their initiatives, TechNet asked the Bush administration to set the ambitious goal of bringing ultra-fast Internet access to 100 million American homes and businesses by the end of 2010.

However, high-tech and telecommunications firms were divided over *how* to bring about an increase in broadband deployment, and Washington was reluctant to back one technology over another. On the Baby Bell side, broadband was entangled in efforts to roll back provisions of the 1996 Telecommunications Act. That act allowed the Bells to sell long-distance phone and data service, but only after they had opened their local markets (the "last mile") to competition.

A new proposal, called the Tauzin-Dingell bill, would allow the Baby Bells to carry voice and data traffic without having to prove their local markets were competitive. The cable industry and long-distance companies strongly opposed the bill. They believed the Tauzin-Dingell bill would allow the Bells to reinforce their dominance over the DSL market and kill any chance of competition in the local phone market, which would hurt their ability to package telephone capabilities with their service bundles.

6 Hafner, Katie. "At a Public Utility Serving the World, No One's in Charge. Does it Matter?" *New York Times*, January 10, 2002.

Meanwhile, the high-tech firms donated $1.2 million to Bush's presidential campaign, while Grant Seiffert, the VP of external affairs at TIA, tried to persuade officials to sign off on tax credits for companies willing to bring broadband connections to poor and rural areas. A tax law change would allow companies to depreciate more of their investments sooner and might help bridge the so-called "digital divide." Many officials in D.C. opposed the idea of subsidizing a rapidly growing young industry.

Exactly what would happen was unclear. The first drafts of policy principles considered by the White House included:

- Modest funds to help spread technology to rural areas
- A statement urging states to adopt more uniform regulations on broadband taxation and rights-of-way access for digging up streets to lay fiber
- A call for adopting a national spectrum policy to free up more airwaves.

There were rumors that the administration might encourage the FCC to deregulate future Bell investments in new high-speed lines. This would mark the first instance in some time that an administration has explicitly urged the agency to adopt a specific policy, in this case one that would be a huge boost for the Bells. But until President Bush outlined his plan, the industry could only conjecture as to the administration's ultimate position.

Comcast Makes a Play

In 1999 and 2000 cable operators faced a host of troubles. They were hit with soaring programming costs from content providers like Walt Disney and Viacom, while at the same time competition was heating up on several fronts. Phone companies had discovered the best way to encroach on cable's turf was to buy cable assets and offer telephone and Internet services through cable. Meanwhile, satellite companies (e.g., EchoStar Communications combined with Hughes's DirecTV) were grabbing millions of new subscribers, cutting into the geographic monopolies long enjoyed by cable operators. In fact, satellite TV subscribers grew by almost 300 percent between 1997 and 2001, while cable saw a much more modest growth of 5 percent.[7]

Brian Roberts, president of Comcast, and his father Ralph, founder and chairman, felt they had found a solution to these troubles: grow through consolidation. (See Exhibit 1 for the leading cable companies in the United States.) It would provide greater leverage when negotiating deals with content providers and it would help stave off the growth of satellite. They felt that AT&T's cable business was particularly attractive.

In 1999 AT&T had outbid Comcast for MediaOne, another cable company. AT&T already owned Tele-Communications, Inc. (TCI) but wanted additional properties. Michael Armstrong, CEO of AT&T, had a vision of seamless cable and telephone service offered to

7 Solomon, Deborah and Robert Frank. "Broad Bands: Comcast Deal Cements Rise of an Oligopoly in the Cable Business," *Wall Street Journal*, January 21, 2002.

all customers from one company. He firmly believed in the idea of "one-stop shopping." AT&T paid $54 billion in cash and stock for MediaOne, but the debt burden was huge. A year or so later, in an effort to boost its stock price, AT&T announced plans for a breakup that would include a public offering (via a tracking stock) of its cable business.

Brian Roberts approached Armstrong privately about buying the business and was rebuffed.[8] Comcast was worried that AT&T might sell to another cable company. For example, Cox Communications was looking for a partner. A smaller player in a rapidly merging industry, Cox was nervous that if it did not buy AT&T Broadband, someone else would buy Cox.[9]

Cox was not the only competitor for AT&T's assets. AOL Time Warner, owner of the number two cable company, jumped into the fray. AOL-TW's interest in AT&T Broadband prompted interest in turn from Microsoft. Microsoft and AOL-TW had been "amicable enemies" for years. Their distrust of each other had always taken a backseat to their public assertions that they competed in different sectors. However, by 2000 it was apparent that AOL-TW and Microsoft were heading for a showdown, especially in the area of broadband.

For example, AOL, which had purchased the Internet browser Netscape, did not promote the use of Microsoft's Internet Explorer. Additionally, both had made very clear their interest in "converging technologies"—i.e., the melding of entertainment and technology into one set-top box—and each wanted to be the one controlling that box. If AOL-TW won this round, AT&T Broadband's 13.7 million cable subscribers would join Time Warner's 12.7 million and would most likely not use Microsoft products. In fact, Microsoft was so concerned about AOL-TW that it hedged its bets and backed both Comcast's and Cox's proposals for AT&T Broadband.

In July 2001 Comcast made an unsolicited offer for AT&T's cable business. (See Exhibit 2 for a timeline of the related events.) The offer was rejected by the AT&T's Board as inadequate. It was not until September that AT&T and Comcast agreed to work through their differences. One major issue was the voting stake of Ralph and Brian Roberts. Under the terms of the unsolicited bid, the Roberts family would own 2 percent of the combined company's shares but control 45 to 49 percent of the voting power. That did not suit AT&T. Furthermore, there were discussions over the name of the combined company and who would lead it.

Comcast submitted a revised bid to AT&T but received the message, "You're not the high bidder."[10] Brian Roberts offered to assume additional debt and other liabilities, making Comcast's bid 15 percent higher than what it was in July. After 7 hours of debate, AT&T's Board of Directors unanimously voted for Comcast and accepted $47 billion in stock and $25 billion in assumed debt from the cable company.[11] Its bid was slightly higher than the next and the Board felt the geography and synergy of the combined companies was the strongest. "AT&T Broadband and Comcast can accomplish more together than we could

8 Sorkin, Andrew and Seth Schiesel. "AT&T's Cable Deal: the Negotiations," *New York Times*, January 21, 2002.
9 Ibid.
10 Solomon, Deborah and Robert Frank, op cit.
11 *Business Wire*. "AT&T Broadband to Merge with Comcast in $72 billion Transaction," December 19, 2001.

alone," Michael Armstrong noted. "Our shareowners and our employees will both benefit from the industry-leading growth we will achieve."[12]

The Merger

Founded in 1963, Comcast grew from a 1,200-subscriber cable system in Tupelo, Mississippi, to a cable powerhouse based in Philadelphia serving 8 million customers and boasting some of the highest profit margins in the business. In the fourth quarter of 2001, Comcast reported strong sales but said it expected to add fewer digital subscribers in 2002. Revenue increased from $2.4 billion to $2.8 billion, though the company reported a loss of $321 million. (See Exhibits 3 and 4 for financial data for both Comcast and AT&T.) Operating cash flow fell 3 percent as Comcast spent $140 million to move high-speed Internet customers to a new network after the demise of Excite@Home. (Excluding this charge, Comcast's operating cash flow increased almost 18 percent.) The company added 213,800 digital-TV and 155,400 high-speed Internet subscribers in the fourth quarter 2001.

The new AT&T Comcast would have 22 million subscribers and a major presence in 17 of the United States' largest metropolitan areas, including Atlanta, Boston, Chicago, Dallas-Forth Worth, Denver, Detroit, Miami, Philadelphia, and San Francisco. It would be the leading provider of broadband video, voice, and data services with annual revenue of approximately $19 billion. AT&T Comcast's telephony footprint would have national reach and its scale might justify widespread deployment of broadband applications such as video-on-demand and interactive TV.

As for AT&T, the deal effectively ended the existence of the corporation in its current form and was a significant step in the long anticipated breakup of the company. In the prior 3 years AT&T had acquired two cable companies in an unsuccessful attempt to transform itself into a full-service telecommunications powerhouse. Facing additional credit downgrades, AT&T had been under pressure to reduce its debt. The deal with Comcast would help.

With the merger, three companies (AT&T Comcast, AOL-Time Warner, and Charter Communications) would control 65 percent of the nation's cable market. But cable and telephone outlets were not alone in their ability to offer broadband to consumers. Other forms of access were in development and they could quadruple distribution.

Fixed wireless, for example, would allow users to receive a broadband signal that did not go through telephone lines or the cable system. And Hughes Networks Systems, an offshoot of Hughes Electronics, was about to launch a new service called DirecWay, which was a satellite-based broadband service that would provide high-speed Internet access. "There will be competition out there," warned Patrick Comack, a telecom analyst.[13] Tom Wolzien, another analyst, added, "I want to see if AT&T Broadband will be able to improve its operating margins in the coming year. . . . Cable's growth doesn't come from basic

12 Ibid.
13 Goldman, op. cit.

subscribers, but on new services. Get marginal growth on subscribers and extract more dollars from those who already subscribe."[14] (See Exhibit 5 for a breakout of cable revenues.)

Looking to the Future

The dream of broadband was linked to the dream of one-stop shopping, yet as AT&T demonstrated, it was not as easy as it looked. People found one-stop shopping valuable and convenient, but the issue was in the product line. Combining cable, Internet access, and telephony into one offering put together three different value points in terms of revenue for any company. For example, long distance service was all about price. Consumers changed carriers all the time. On the other hand, cable customers often found they only had one choice.

On the cost side, provisioning requirements for telephony were the opposite of those for high-speed data. (Telephony could be remote, high-speed data could not.) Furthermore, rolling out a truck to a site involved a great deal of capital. A "triple tech" could be sent (expert in high-speed data, video, and telephone) but unless all three services were being installed, it was costly to have a fully trained technician respond to the call.

At the same time, the capital and upgrade costs were much more than expected for some companies. Execution could be resource-intensive in certain areas. For example, in tony Beacon Hill, the cobblestone streets are considered historical and, if dug up, each stone must be placed exactly where it had originated. As companies grew geographically, synergies and savings were often mirages. Managing Connecticut, with its "nor'easter" storms, presented different deployment and maintenance challenges than cable assets in Los Angeles, with its earthquake threat. But size continued to be important. Cable companies needed to be local because of local licenses but needed broad scope to cover increasing programming costs.

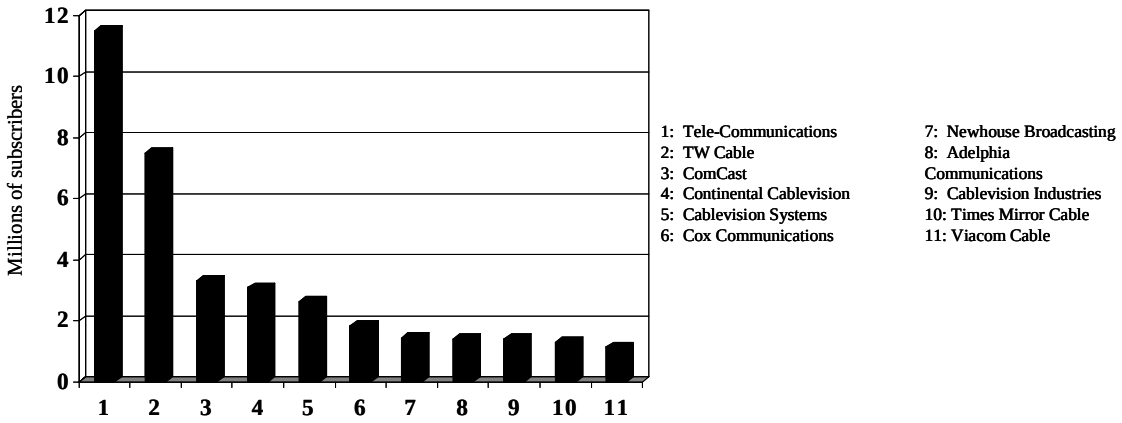
Companies offering one-stop shopping faced additional hurdles. In addition to stringent regulatory requirements, the cable industry confronted the fact that high returns on investment were expected and required very quickly to keep Wall Street satisfied. Another issue was the merger of different cultures. As the industry consolidated, companies became hodge-podges of business and social philosophies.

Finally, branding was often mentioned as a problem. For example, AT&T bought TCI and then MediaOne. Comcast then bought AT&T Broadband. Companies spent large amounts of marketing dollars on advertising but nothing on brand-building. Did consumers really understand which company was which, or what services a company offered? Would AT&T Comcast be able to clear these hurdles and successfully promote broadband access to the masses?

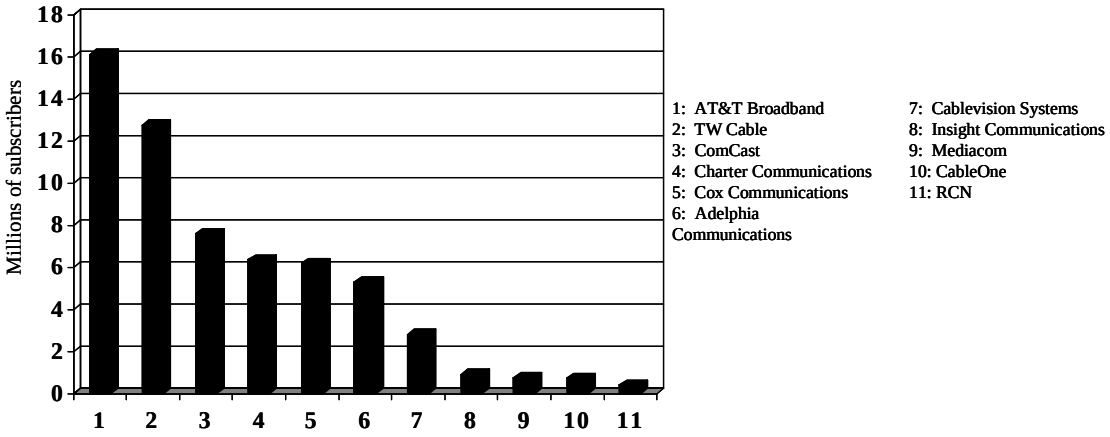
14 Gilpin, Kenneth. "In Cable, the Race Approaches a Far Turn," *New York Times*, December 23, 2001.

Exhibit 1: The Top Cable Companies

Spring 1995



Spring 2001



Source: Solomon, Deborah and Robert Frank. "Broad Bands: Comcast Deal Cements Rise of an Oligopoly in the Cable Business." *Wall Street Journal*. January 21, 2002.

Exhibit 2: Timeline:

7/8/2001:	Comcast makes unsolicited offer for AT&T's cable business.
7/18/2001:	Offer is rejected by AT&T. AT&T says it will "explore financial and strategic alternatives" for the business.
7/25/2001:	AT&T and AOL-TW said to be talking.
8/10/2001:	AT&T meets with Microsoft and Disney.
9/9/2001:	AOL-TW makes offer. Cox said to be considering a bid.
9/10/2001:	Disney vows opposition to any combination of AOL-TW and AT&T Broadband unless merged company sells all of its content holdings.
10/23/2001:	AT&T Broadband president resigns. William Schleyer replaces him.
12/3/2001:	AOL-TW, Cox, and Comcast submit bids.
12/8/2001:	AT&T Board asks for new bids.
12/19/2001:	AT&T Board picks Comcast as winning bidder.

Source: Solomon, Deborah and Robert Frank. "Broad Bands: Comcast Deal Cements Rise of an Oligopoly in the Cable Business." *Wall Street Journal*. January 21, 2002.

Exhibit 3: Comcast Cash Flow Statement

In Millions of U.S. Dollars (except for per share items)	N/A Ending	12 Months Ending 12/31/00	12 Months Ending 12/31/99	12 Months Ending 12/31/98 Reclass. 12/31/99	12 Months Ending 12/31/97 Reclass. 12/31/99
Net Income	–	2,021.5	1,065.7	972.1	(238.7)
Depreciation/ Depletion	–	837.3	572.0	463.9	404.1
Amortization	–	1,794.0	644.0	475.7	422.4
Deferred Taxes	–	1,102.3	(31.9)	418.2	(40.6)
Non-Cash Items	–	(4,207.7)	(1,569.6)	(1,379.9)	267.0
Changes in Working Capital	–	(328.1)	569.2	117.7	30.4
Total Cash from Operating Activities	**–**	**1,219.3**	**1,249.4**	**1,067.7**	**844.6**
Capital Expenditures	–	(1,636.8)	(893.8)	(898.9)	(795.5)
Other Investing Cash Flow Items	–	418.2	(1,645.5)	(516.4)	(250.3)
Total Cash from Investing Activities	**–**	**(1,218.6)**	**(2,539.3)**	**(1,415.3)**	**(1,045.8)**
Financing Cash Flow Items	–	(55.8)	(54.0)	(8.3)	(16.8)
Total Cash Dividends Paid	–	0.0	(9.4)	(36.0)	(34.0)
Issuance (Retirement) of Stock, Net	–	(294.4)	(13.6)	28.9	970.2
Issuance (Retirement) of Debt, Net	–	78.8	1,418.4	824.6	(635.5)
Total Cash from Financing Activities	**–**	**(271.4)**	**1,341.4**	**809.2**	**283.9**
Foreign Exchange Effects	–	0.0	0.0	0.0	0.0
Net Change in Cash	**–**	**(270.7)**	**51.5**	**461.6**	**82.7**
Cash Interest Paid	–	705.8	529.2	418.9	467.2
Cash Taxes Paid	–	669.0	190.5	129.2	113.7

Exhibit 3 (continued): Comcast Income Statement

In Millions of U.S. Dollars (except for per share items)	12 Months Ending 12/31/01	12 Months Ending 12/31/00	12 Months Ending 12/31/99 Reclass. 12/31/00	12 Months Ending 12/31/98 Reclass. 12/31/00	12 Months Ending 12/31/97 Restated 12/31/98
Revenue	9,674.2	8,218.6	6,529.2	5,419.0	4,467.7
Other Revenue	–	–	–	–	–
Total Revenue	**9,674.2**	**8,218.6**	**6,529.2**	**5,419.0**	**4,467.7**
Cost of Revenue	2,514.0	2,284.9	2,060.0	1,735.7	1,270.2
Gross Profit	**7,160.2**	**5,933.7**	**4,469.2**	**3,683.3**	**3,197.5**
Selling/ General/ Administrative Expenses	–	1,250.9	926.1	776.3	700.3
Research & Development	–	–	–	–	–
Depreciation/ Amortization	3,448.0	2,631.3	1,216.0	939.6	826.5
Interest Expense (Income), Net Operating	–	–	–	–	–
Unusual Expense (Income)	–	–	–	–	–
Other Operating Expenses	4,458.4	2,212.5	1,663.1	1,410.3	1,204.1
Total Operating Expense	**10,420.4**	**8,379.6**	**5,865.2**	**4,861.9**	**4,001.1**
Operating Income	**(746.2)**	**(161.0)**	**664.0**	**557.1**	**466.6**
Interest Expense, Net Non-Operating	(731.8)	(691.4)	(538.3)	(466.7)	(458.9)
Interest/ Investment Income, Non-Operating	1,061.7	983.9	629.5	(187.8)	149.4
Interest Income (Expense), Net Non-Operating	329.9	292.5	91.2	(654.5)	(309.5)
Gain (Loss) on Sale of Assets	–	–	–	–	–
Other, Net	1,272.5	3,470.2	744.8	1,654.8	(345.8)
Income Before Tax	**856.2**	**3,601.7**	**1,500.0**	**1,557.4**	**(188.7)**
Income Tax	470.2	1,441.3	723.7	594.0	70.4
Income After Tax	**386.0**	**2,160.4**	**776.3**	**963.4**	**(259.1)**

Exhibit 3: Comcast Income Statement (continued)

Minority Interest	(160.4)	(115.3)	4.6	44.3	76.2
Equity In Affiliates	–	–	–	–	–
Net Income Before Extra. Items	**225.6**	**2,045.1**	**780.9**	**1,007.7**	**(182.9)**
Accounting Change	384.5	0.0	–	0.0	0.0
Discontinued Operations	–	0.0	335.8	(31.4)	(25.6)
Extraordinary Item	(1.5)	(23.6)	(51.0)	(4.2)	(30.2)
Net Income	**608.6**	**2,021.5**	**1,065.7**	**972.1**	**(238.7)**
Preferred Dividends	0.0	(23.5)	(29.7)	(29.1)	(14.8)
Income Available to Common Excl. Extra. Items	**225.6**	**2,021.6**	**751.2**	**978.6**	**(197.7)**
Income Available to Common Incl. Extra. Items	**608.6**	**1,998.0**	**1,036.0**	**943.0**	**(253.5)**
Basic/ Primary Weighted Average Shares	949.70	890.70	749.10	733.00	678.00
Basic/ Primary EPS Excl. Extra. Items	**0.238**	**2.270**	**1.003**	**1.335**	**(0.292)**
Basic/ Primary EPS Incl. Extra. Items	**0.641**	**2.243**	**1.383**	**1.286**	**(0.374)**
Dilution Adjustment	0.0	23.5	29.7	30.1	0.0
Diluted Weighted Average Shares	964.50	948.70	819.90	806.00	678.00
Diluted EPS Excl. Extra. Items	**0.234**	**2.156**	**0.952**	**1.251**	**(0.292)**
Diluted EPS Incl. Extra. Items	**0.631**	**2.131**	**1.300**	**1.207**	**(0.374)**
Dividends per Share - Common Stock Primary Issue	0.000	0.000	0.000	0.047	0.047
Gross Dividends - Common Stock	0.0	0.0	0.0	34.4	32.4
Stock Based Compensation	–	103.4	60.2	35.7	13.3
Pro Forma Net Income	–	1,918.1	1,005.5	936.4	(252.0)
Pro Forma Basic EPS	–	2.130	1.300	1.240	(0.400)
Pro Forma Diluted EPS	–	2.020	1.230	1.170	(0.400)
Interest Expense, Supplemental	731.8	691.4	538.3	466.7	458.9
Depreciation/ Amortization, Supplemental	1,141.8	837.3	572.0	463.9	404.1

Exhibit 3: Comcast Income Statement (continued)

Total Special Items	–	–	–	–	–
Normalized Income Before Tax	**856.2**	**3,601.7**	**1,500.0**	**1,557.4**	**(188.7)**
Effect of Special Charge on Income Taxes	–	–	–	–	0.0
Income Taxes Excl. Impact of Special Items	470.2	1,441.3	723.7	594.0	70.4
Normalized Income After Tax	**386.0**	**2,160.4**	**776.3**	**963.4**	**(259.1)**
Normalized Income Available to Common	**225.6**	**2,021.6**	**751.2**	**978.6**	**(197.7)**
Basic Normalized EPS	0.238	2.270	1.003	1.335	(0.292)
Diluted Normalized EPS	0.234	2.156	0.952	1.251	(0.292)

Source: Multexinvestor.com

Exhibit 4: AT&T Cash Flow

In Millions of U.S. Dollars (except for per share items)	N/A Ending	12 Months Ending 12/31/00	12 Months Ending 12/31/99 *Reclass. 12/1/00*	12 Months Ending 12/31/98 *Reclass. 12/31/00*	12 Months Ending 12/31/97 *Restated 12/31/98*
Net Income	–	4,669.0	3,428.0	6,398.0	4,415.0
Depreciation/ Depletion	–	10,267.0	7,439.0	4,629.0	3,982.0
Deferred Taxes	–	1,054.0	145.0	(128.0)	–
Non-Cash Items	–	1,436.0	4,963.0	1,357.0	1,761.0
Changes in Working Capital	–	(4,119.0)	(4,454.0)	(2,039.0)	(1,741.0)
Total Cash from Operating Activities	**–**	**13,307.0**	**11,521.0**	**10,217.0**	**8,417.0**
Capital Expenditures	–	(15,771.0)	(14,312.0)	(7,914.0)	(8,039.0)
Other Investing Cash Flow Items	–	(24,163.0)	(12,731.0)	11,496.0	1,284.0
Total Cash from Investing Activities	**–**	**(39,934.0)**	**(27,043.0)**	**3,582.0**	**(6,755.0)**
Financing Cash Flow Items	–	(218.0)	392.0	145.0	54.0
Total Cash Dividends Paid	–	(3,341.0)	(2,847.0)	(2,187.0)	(2,142.0)
Issuance (Retirement) of Stock, Net	–	9,832.0	(4,624.0)	(3,289.0)	171.0
Issuance (Retirement) of Debt, Net	–	19,456.0	20,465.0	(5,626.0)	377.0
Total Cash from Financing Activities	**–**	**25,729.0**	**13,386.0**	**(10,957.0)**	**(1,540.0)**
Foreign Exchange Effects	–	–	–	–	–
Net Change in Cash	**–**	**(898.0)**	**(2,136.0)**	**2,842.0**	**122.0**
Cash Interest Paid	–	3,453.0	1,425.0	422.0	250.0
Cash Taxes Paid	–	1,976.0	3,906.0	2,881.0	2,416.0

Exhibit 4 (continued): AT&T Income Statement

In Millions of U.S. Dollars (except for per share items)	12 Months Ending 12/31/01	12 Months Ending 12/31/00 Restated 12/31/01	12 Months Ending 12/31/99 Reclass. 12/31/00	12 Months Ending 12/31/98 Reclass. 12/31/99	12 Months Ending 12/31/97 Reclass. 12/31/99
Revenue	52,550.0	55,533.0	62,600.0	53,223.0	51,577.0
Other Revenue	–	–	–	–	–
Total Revenue	**52,550.0**	**55,533.0**	**62,600.0**	**53,223.0**	**51,577.0**
Cost of Revenue	26,096.0	25,935.0	29,280.0	25,823.0	26,388.0
Gross Profit	**26,454.0**	**29,598.0**	**33,320.0**	**27,400.0**	**25,189.0**
Selling/ General/ Administrative Expenses	10,832.0	9,752.0	13,516.0	12,770.0	14,371.0
Research & Development	–	–	–	–	–
Depreciation/ Amortization	9,338.0	8,589.0	7,439.0	4,629.0	3,982.0
Interest Expense (Income), Net Operating	–	–	–	–	–
Unusual Expense (Income)	2,530.0	7,029.0	1,506.0	2,514.0	0.0
Total Operating Expense	**48,796.0**	**51,305.0**	**51,741.0**	**45,736.0**	**44,741.0**
Operating Income	**3,754.0**	**4,228.0**	**10,859.0**	**7,487.0**	**6,836.0**
Interest Expense, Net Non-Operating	(3,242.0)	(2,964.0)	(1,765.0)	(427.0)	(307.0)
Interest/ Investment Income, Non-Operating	–	–	–	322.0	59.0
Interest Income (Expense), Net Non-Operating	(3,242.0)	(2,964.0)	(1,765.0)	(105.0)	(248.0)
Gain (Loss) on Sale of Assets	–	–	–	770.0	97.0
Other, Net	(9,070.0)	562.0	(1,856.0)	155.0	287.0
Income Before Tax	**(8,558.0)**	**1,826.0**	**7,238.0**	**8,307.0**	**6,972.0**
Income Tax	(3,464.0)	3,284.0	3,695.0	3,072.0	2,723.0
Income After Tax	**(5,094.0)**	**(1,458.0)**	**3,543.0**	**5,235.0**	**4,249.0**
Minority Interest	963.0	4,103.0	(115.0)	0.0	0.0
Equity In Affiliates	–	–	–	–	–
Net Income Before Extra. Items	**(4,131.0)**	**2,645.0**	**3,428.0**	**5,235.0**	**4,249.0**

Exhibit 4: AT&T Income Statement (continued)

Accounting Change	359.0	0.0	–	–	–
Discontinued Operations	13,653.0	536.0	–	1,300.0	166.0
Extraordinary Item	–	–	–	(137.0)	0.0
Net Income	**9,881.0**	**3,181.0**	**3,428.0**	**6,398.0**	**4,415.0**
Preferred Dividends	(652.0)	0.0	–	–	–
Miscellaneous Earnings Adjustment	(75.0)	4.0	2,022.0	0.0	–
Income Available to Common Excl. Extra. Items	**(4,858.0)**	**2,649.0**	**5,450.0**	**5,235.0**	**4,249.0**
Income Available to Common Incl. Extra. Items	**9,154.0**	**3,185.0**	**5,450.0**	**6,398.0**	**4,415.0**
Basic/ Primary Weighted Average Shares	3,643.00	3,486.00	3,082.00	2,676.00	2,671.50
Basic/ Primary EPS Excl. Extra. Items	**(1.334)**	**0.760**	**1.768**	**1.956**	**1.590**
Basic/ Primary EPS Incl. Extra. Items	**2.513**	**0.914**	**1.768**	**2.391**	**1.653**
Dilution Adjustment	–	–	26.0	0.0	0.0
Diluted Weighted Average Shares	3,643.00	3,545.00	3,152.00	2,700.00	2,683.50
Diluted EPS Excl. Extra. Items	**(1.334)**	**0.747**	**1.737**	**1.939**	**1.583**
Diluted EPS Incl. Extra. Items	**2.513**	**0.898**	**1.737**	**2.370**	**1.645**
Dividends per Share - Common Stock Primary Issue	0.150	0.698	0.880	0.880	0.880
Gross Dividends - Common Stock	–	–	2,807.0	2,230.0	2,145.0
Stock Based Compensation	–	–	257.0	160.0	92.0
Pro Forma Net Income	–	–	5,193.0	6,238.0	4,323.0
Pro Forma Basic EPS	–	–	1.680	2.330	1.620
Pro Forma Diluted EPS	–	–	1.650	2.310	1.610
Interest Expense, Supplemental	3,242.0	2,964.0	1,765.0	427.0	307.0
Interest Capitalized, Supplemental	–	–	(143.0)	(197.0)	(254.0)
Depreciation/ Amortization, Supplemental	6,865.0	5,924.0	6,138.0	4,378.0	3,728.0

Exhibit 4: AT&T Income Statement (continued)

Total Special Items	2,530.0	7,029.0	1,506.0	1,744.0	(97.0)
Normalized Income Before Tax	**(6,028.0)**	**8,855.0**	**8,744.0**	**10,051.0**	**6,875.0**
Effect of Special Charge on Income Taxes	0.0	2,460.2	768.8	644.9	(37.9)
Income Taxes Excl. Impact of Special Items	(3,464.0)	5,744.2	4,463.8	3,716.9	2,685.1
Normalized Income After Tax	**(2,564.0)**	**3,110.9**	**4,280.2**	**6,334.1**	**4,189.9**
Normalized Income Available to Common	**(2,328.0)**	**7,217.9**	**6,187.2**	**6,334.1**	**4,189.9**
Basic Normalized EPS	(0.639)	2.071	2.008	2.367	1.568
Diluted Normalized EPS	(0.639)	2.036	1.971	2.346	1.561

Source: Multexinvestor.com

Exhibit 5: U.S. Cable TV Subscribers and Revenues

	1995	1996	1997	1998	1999	2000	2001
Subscribers (millions)	63.0	64.7	65.9	67.0	68.5	69.7	70.5
Revenues (billions)	29.9	33.6	37.5	42.4	45.2	52.5	56.5
Basic subscription revenues	16.9	18.4	20.4	21.8	23.1	24.5	25.8
Advertising revenues	4.6	5.6	6.7	8.0	11.2	12.5	13.6
Other cable revenues	8.4	9.6	10.4	12.6	10.9	15.5	17.1

Source: Choe, Howard. *Broadcasting & Cable Industry Survey*. New York: Standard and Poor's, Vol. 160, No. 30, Section 1, July 26, 2001.