Q2 2002 AT&T Earnings Conference Call - Final

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OPERATOR: Ladies and gentlemen, thank you for standing by. Welcome to the AT&T second quarter earnings release conference call. At this time all lines are in a listen-only mode mode. Later, there will be an opportunity for questions, instructions will be given at that time. If you should require assistance on the call, please press 0, then star and an operator will assist you off line. I'd also like to remind you that the conference is being recorded. Replay information will be given at the conclusion of the call. I would now like to turn the conference over to our host, Miss Connie Weaver. Please go ahead.

CONNIE WEAVER, AT&T: Good morning and welcome. Thanks for joining us during our second quarter 2000 earnings conference call. Joining me today are our Chairman and CEO, Mike Armstrong, Chuck Noski our Vice Chairman, a welcome to our new CFO, Tom Horton, who is joining us for our first call here this morning.

AT&T President Dave Dorman who will assume the title of Chairman and CEO following the close of the AT&T/Comcast merger later this year. AT&T Broadband President and CEO, Bill Schleyer, and AT&T Consumer Services President and CEO, Betsy Bernard.

Today's call will begin with a brief discussion of the quarter and we'll follow that up by taking your questions and as always we would like to get as many of those questions covered as possible.

I trust you have all had an opportunity to review this morning's earnings release and the accompanying earnings commentary which provide detailed information on AT&T second quarter results. These documents are available on AT&T Investor Relations' website and that can be accessed at www.att.com/ir.

Before I turn things over to Mike, I'd like to caution all participants that our call this morning may contain forward-looking statements reflecting management's beliefs and assumptions concerning future events based on current available information. Listeners are therefor cautioned not to put too much undo reliance on forward-looking statements as they are not a guarantee of future performance and remain subject to a number of uncertainties and other factors that could cause actual results to differ materially from forecasts. A more detailed description of these uncertainties and risk factors is detailed in the earnings release and is also found on -- through AT&T's filings with the Securities and Exchange Commission. I encourage all of you to review them.

With that, let me start our call by turning things over to Mike Armstrong. Mike?

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C. MICHAEL ARMSTRONG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AT&T: Thanks, Connie, and good morning, ladies and gentlemen.

I'd like to start out this morning by highlighting AT&T's solid second quarter results, despite tough industry and economic challenges, I'm just delighted to report that we exceeded our earnings target. EPS from continuing operations, that is excluding other income and expense in the 2002 goodwill and franchise impairment charges, was 7 cents per share in the second quarter ahead of our guidance of 1 to 4 cents and ahead of first call consensus estimate.

Second quarter, AT&T revenue was $12.1 billion, that is a 6.2 percent decline on a normalized basis, but favorably ahead of the guidance. Our second quarter EBITDA excluding other income and expenses, was $3.4 billion, and that was above our target. Our target was around $3 billion. We have also delivered some positive second quarter results on a segment basis.

In Broadband, we generated a solid second quarter EBITDA margin of 25.4%. That's excluding the Comcast merger-related expenses. But that is a 5 percentage point improvement from the first quarter. We added 444,000 RGUs in the quarter and we are now totaling 6.9 million. And we previously had announced that our telephony had reached EBITDA break even in March and during the second quarter we have been building our that momentum and generated a positive second quarter EBITDA for telephony.

We still face some challenges in the basic video and Bill Schleyer will detail some of the results and actions being taken to dress that.

In business services, it was a strong quarter and we exceeded our targets for both revenue and EBIT. We are making continued progress in scaling the growth businesses we have been investing in. Consolidated data, IP, and managed services grew by roughly 7% in the second quarter. That's up from 6% in the first quarter.

Packet services grew nearly 18 percent year-over-year. IP grew approximately 26 percent and managed services grew 20 percent. In consumer services, we continue to manage our consumer business for cash flow.

We had a second quarter EBIT margin excluding other income and expenses of 27 percent. On the same business basis, consumer second quarter EBIT reached nearly $800 million.

A second key topic is our progress on restructuring.

We received the approval of our shareholders at the shareholder meeting July 10th for all those issues on our proxy and really got an outstanding response from our shareholders with some 69 percent who voted for the merger on the basis of shares outstanding or 95 percent in terms of votes cast, and that was on the back of an 87 percent turnout in terms of votes. We're working through the process of obtaining the regulatory approvals and everything is proceeding on track with the IRS, with the Justice Department and the FCC.

We also received consent from greater than 90 percent of the local franchise authorities for the license transfers and we

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continue to anticipate closing the merger by year end. We received the shareholder approval for the one to five reverse stock split following the Broadband spinoff and for the issuance of the consumer services tracking stock.

In terms of the consumer services tracking stock, we will only distribute that if and when there is sufficient market reacceptivity and support. The third key topic in our industry today is AT&T's operational and financial strength.

I think it's fair to say that AT&T is performing in contrast to many of our peers. We are not distracted by investigations into reporting practices or equity sales or other external factors. This is allowing to us focus on our customers and to execute in the marketplace. While many in our industry work to explain their past, AT&T is working with purpose and integrity to serve our customers a competitive and certain future.

Before turning things over to Bill, I'd also like to offer my congratulations to Dave Dorman on his impending appointment as AT&T Chairman and CEO following the close of the transaction with Comcast. Both the Board and I feel Dave is absolutely the best person in the industry to elevate AT&T to the next level of growth and achievement.

I'd also like to welcome Tom Horton to AT&T's management team as a new Chief Financial Officer and I think some you have know Tom as he is a highly respected financial executive and we're all delighted to have him on board.

And take this moment to thank my good friend Chuck Noski for his leadership, strategically and financially, and bringing us the strength and stability of our financial operation.

And with that, I'd like to ask Bill Schleyer to take you through AT&T's Broadband second quarter results. Bill?

WILLIAM SCHLEYER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AT&T BROADBAND: Thanks, Mike.

During the second quarter of 2002, we continued to execute on our stated priorities for AT&T Broadband which include; one, driving continued revenue and EBITDA growth, two, upgrading our network. three, elevating customer service performance and, four, deepening our RGU penetration. I'll highlight our progress in each of these areas starting with our financial results.

During the second quarter, normalized revenue increased 9.8 percent on a year-over-year basis in line with our guidance. Revenue growth was driven primarily by digital video, high-speed data and telephony customer additions.

We maintain our guidance for a full year revenue growth rate in the low double digits, although we expect a slightly lower level of revenue growth in the third quarter than in the second quarter. We're pleased with our solid EBITDA growth this quarter.

As Mike said, our 25.4 percent second quarter EBITDA margin which excludes other income and expense and Comcast-related merger costs, represents a 5 percentage point improvement from our reported first quarter margin. Additionally, EBITDA increased 59 percent from a year ago.

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This performance is indicative of our focus on two key business priorities.

First, we continue to scale our advanced services, particularly high-speed data and telephony. Both product lines contributed positive EBITDA this quarter and on a combined basis, contributed the majority of our year-over-year EBITDA growth.

Second, we continue to drive efficiencies and take operating costs out of the business and expect continued progress on the cost management front going forward. The growth in EBITDA also benefited from 100 million restructuring charge in the second quarter last year. We remain on track to meet our full-year EBITDA guidance of 2.4 to 2.5 billion.

The one disappointing aspect of our second quarter performance was a basic video subscriber decline of 125,000, which is larger than we predicted last quarter. A number of factors contributed to this decline. First, we have seen competitive pressure increase to a higher-than-anticipated level this spring, particularly in our non-rebuild areas. Additionally, seasonal disconnects were 50 percent higher than our forecasted levels, largely driven by above-expected activity in South Florida and a number of our major university cities including New England, the Bay Area and Chicago. We expect the majority of these seasonal subscribers to return later in the year.

Now, due to ongoing economic pressures we also experienced a higher than expected increase in multi-dwelling unit vacancy rates in a number of our metro markets including the Bay Area, Dallas and Atlanta. Together, seasonality and MDU vacancy increases account for about half of our subscribe loss in the quarter.

Despite the seasonal and economic pressures, we continue to focus on the controllable factors that improve the competitiveness of our video product. We are upgrading our network, improving customer care, and better targeting our marketing efforts. We understand that plant rebuild status is the key determinant of our basic video competitiveness. In addressing our plant upgrade commitment, we have accelerated our build-out effort as expeditiously as possible.

Of the $950 million in capital spending undertaken in the second quarter, roughly 45 percent was directly related to network improvements. In fact, we completed 4 times more construction mileage in the second quarter than in the first quarter. This construction activity will deliver more bandwidth to expand our video competitiveness and generate new marketable passings for high-speed data and telephony in the third and fourth quarters.

In terms of improved customer care, I am very pleased with the progress that has taken place to date. We have improved our call center metrics to industry benchmarks or above. We believe our improved service will result in better customer acquisition and retention going forward.

While we are delivering on our plant rebuild and customer care objectives, we fully expect our competitors to continue their aggressive marketing efforts heading into the fall season and therefore are focused on enhancing our product and service offerings as quickly as possible. While we expect some sequential improvement in basic subscriber performance in the third quarter, we don't expect to fully extend the competitive challenges until our upgrades are complete in non-rebuilt areas. We

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are moving forward on this priority with the appropriate urgency.

Now let me turn to our advanced services and RGU performance in the quarter. In telephony, we added 105,000 customers in the quarter. We now have 115 franchise areas with greater than 25 percent penetration including dozens of communities within our largest markets. Namely, New England, Chicago, and Pittsburgh. Many of these franchise areas have in fact surpassed 30 percent penetration.

In April, we noted that telephony reached a critical EBITDA break-even milestone at the end of the first quarter. We build on this momentum by delivering sequential EBITDA growth in each month of the second quarter, offering clear evidence of the power of a scale base. We improve our telephony EBITDA margin by increasing revenue through customer additions and deeper long distance penetration and reducing costs as we streamline and automate processes.

In digital video we had generated 202,000 net customer additions during the quarter. Digital video ads were somewhat lower on a sequential basis due to the impact of second quarter seasonality and the decline in basic video subscribers. In early July we expanded our digital video options with two new packages that will broaden the appeal of our offering and further improve digital penetration and profitability. We're pleased with the initial response to these offers.

In high-speed data, we added 137,000 customers in the quarter, on par with our first quarter performance. Just last week, we announced our first multi-ISP market launch with the addition of Earth Link to our high-speed data offering in Seattle and we will bring multiple ISP choice to our New England customers later this year. We have added 950,000 RGU's year to date and continue to anticipate RGU growth for 2002 to be similar to the full year 2001 level.

As we continue our planned upgrades to at least 750 MHz, we expect to add approximately 1.7 million high-speed data marketable homes and 1.5 million telephony marketable homes in the second half of the year. These efforts will allow to us lower turn and increase our sales of advanced services in the second half of the year. With that, let me turn the call over to Dave Dorman. Dave?

DAVID DORMAN, PRESIDENT AND DIRECTOR, AT&T: Thanks, Bill, and good morning, everyone.

Let me first say that I'm delighted with my pending appointment as Chairman and Chief Executive Officer and the Board's vote of confidence and support. I, as Mike indicated, am also very pleased to have an executive Tom Horton's caliber joining AT&T as our Chief Financial Officer. I look forward to his leadership and counsel.

I'd also like to echo Mike's comments about Chuck Noski. Chuck's leadership the last 2 1/2 years in the restructuring of AT&T and his commitment to financial discipline have established the foundation for future success at the new AT&T. I look forward to working with Mike, Tom and Chuck in the months ahead to effect a seamless leadership transition. With the support of employees throughout the company, I look forward to leading AT&T during what I believe will be a period of heightened market opportunity.

I'd now like to focus on communications services second quarter results. As Betsy and I move through our performance and

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outlook discussion this morning, our comments will center around some central themes.

The first theme, as Mike pointed out, is our focus on fundamental execution and delivering solid operational and financial results. Our second quarter performance provided strong evidence of this focus as we achieved very positive results despite obvious challenges facing the telecom services industry and a number of our competitors.

A second theme we'll highlight this morning is our commitment to aggressively pursuing new market opportunities and to take advantage of those opportunities to drive profitable growth. We're already seeing a number of positive signs.

Industry turmoil is clearly heightening AT&T's prospects in a flight to quality given Worldcom's ongoing issues and recent bankruptcy filing, we have seen increased customer interest in service alternatives and have already experienced some wins. We expect to have a much better view of the longer-term implications of Worldcom's bankruptcy filing over the next few months. While activity is at a high level, we won't speculate as to the ultimate level of business we'll win. The healthy industry with healthy competitors and healthy price levels is perhaps more important to AT&T. We stand ready to help customers plan for any contingency.

While recent industry turmoil has brought some opportunities to AT&T, it's important to note that telecom services spending by corporate customers has remained largely constrained due to the secular economic weaknesses in the general tech spending slow down. While there have been some promising signs, including a strong interest in higher end solutions such as managed services, we continue to see the telecom sector recovering or recovery lagging the broader economic recovery. Despite this reality our business services segment had a strong second quarter and met or exceeded its performance targets in several key areas.

Second quarter revenue, for example, totaled 6.7 billion, a 3.8 percent decline which was favorably ahead of our guidance range. Our EBIT less other income margin of 13 percent was also ahead of guidance, reflecting continued cost management discipline and continued scaling of our growth businesses.

Our data, IP, and managed businesses performed well in the quarter as we continue to scale those growth businesses. Data, IP, and managed generated approximately 7 percent revenue growth in roughly 3 percent growth on a sequential basis. Excluding low speed private line the year-over-year growth rate improved to about 9 percent for the quarter. This includes roughly 1 percent of the total data and IP/managed services revenue coming from customer premise equipment sales which are a key part of the customer bundle.

CPE sales had no material impact on the second quarter growth rate. On a volume basis, we experienced healthy growth in high-speed private line facilities during the quarter and in particular, we are experiencing strong retail growth which more than offset the impact of data facility disconnects associated with distressed carriers. Our frame and ATM ports also showed continued growth consistent with the prior quarter trend.

Based on our current growth rates, we believe that we are continuing to take market share and data/IP and managed services. In terms of data pricing trends, we are seeing signs of stability particularly in frame IP and slower speed private line

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services and continue to closely monitor the pricing environment.

As I mentioned, we have seen recent examples of a flight to quality as customers migrate to AT&T to take advantage of our strength and stability. Some examples of recent customer wins include Apple Computer, Giant Eagle, C Net Networks and Logitech. We have also realized a number of as multi-million dollar competitive wins in recent weeks including Chevron, Texaco and AAA. We are gaining share in packet services where revenue grew around 18 percent year-over-year and roughly 4 percent sequentially.

Packet growth was led by strong IP revenue which was up around 26 percent year-over-year. We continue to grow IP revenue share, and according to a just-released study -- in fact, yesterday -- by RHK, we are leading the industry in IP traffic growth and are now tied for overall IP traffic leadership, up from 6th place 18 months ago.

It's important to note that AT&T's IP growth is driven by the sale of leading edge, advanced IP services for mission-critical applications as opposed to traditional dial-up IP traffic. We now carry more IP traffic on our network than LD voice traffic, offering further proof of our ongoing business transformation. We also have the industry's best performing IP backbone network as confirmed by the most recent ranking from Fordwatch and Keynote Systems.

In addition to strong second quarter IP performance, we also continue to scale our frame business which grew approximately 8 percent year-over-year and roughly 4 percent sequentially. Our new managed services line through which we provide end-to-end network solutions and a broad range of value-added services grew ahead of the industry at around 20 percent in the second quarter. Managed services also grew sequentially roughly 2 percent.

Recent customer wins include Hyatt hotels, Heidelberg and retailer BED, BATH & BEYOND. And long distance voice, revenue declined around 12 percent in the second quarter.

Second quarter long distance volume remained roughly flat, while outbound volume growth remained strong, we're still seeing inbound weakness tide to ongoing softness in key 800-intensive industry sectors and the ongoing impact of substitution. While we continue to see relative pricing stability at the point of sale, year-over-year revenue declines in LD voice reflect two principal factors.

First,, the ongoing flattening of the price curve as we are seeing less direct linkage between volume and discount levels, and LD voice artman declines have been -- seen some moderation in recent months. However, we do expect previous price declines to continue impacting our trends as they work through the system.

The second key factor in the -- is the impact of the ongoing wholesale/retail mix shift as we have been very successful in attracting quality wholesale customers to the network. In fact, AT&T is a leading supplier of minutes to third party wireless and cable telephony providers. It's worth noting that we have experienced recent spikes in daily call volumes. Excluding the extraordinary call volumes on September 11th of last year, we have seen 6 of the top 10 all-time traffic days in AT&T's voice network history occur during June and July.

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While it's too early to draw any meaningful conclusions from this data, we believe this is a healthy sign of customer demand and we'll continue to carefully monitor our volume trends. Long distance is changing, but clearly it's not going away. And our scale remains a strength.

Turning to local voice, this business also continues to scale, growing by approximately 6 percent in fact second quarter and roughly 3 percent on a sequential basis. Growth in local voice is partially driven by strong performance of AT&T's all-in-one bundle and the retail small business market, which delivered over 200 percent year-to-date revenue growth and drove growth in our UNE-P business line count. UNE-P lines now represent a little over 15 percent of the voice business access lines and roughly 1 percent of the more than 40 million DSO equivalents in place supporting business local voice data and access service.

Our focus in local voice continues to be on increasing utilization of our existing footprint. During the second quarter, we added over 200,000 local access lines and we now have a total of approximately 3.3 million access lines. We're also seeing solid growth in revenue for wholesale local voice switching and transport services provided to AT&T Broadband for its 1.2 million cable telephony customers with roughly 1.8 million lines. Those are not included in the 3.3 million I already mentioned so totaling over 5.1 million lines supported.

I'd now like to take a moment to address the overall pricing environment we're seeing. We believe that a number of fundamental issues, including pricing based on accounting distortions, have caused some competitors to engage in pricing practices that are clearly not sustainable to earn a reasonable return. We see overall trends towards stabilization and remain focused on driving low unit cost and high utilization rates to position us to price competitively and deliver solid margin performance.

On the cost management front, we continue to focus on process improvements and driving greater efficiencies. For example, through e enablement and flow-through automation initiatives. We are moving forward on our previously announced force reduction plans and have thus far completed two-thirds of those targeted reductions since the beginning of the year.

Turn, to capital spending, we continue to move forward according to plan benefitting from our ongoing process discipline and our efforts to drive significant spending reductions versus our 2001 levels. That's not to suggest that we have limited our capital spending flexibility. We continue to make capital investments where we see opportunities drive profitable growth while ensuring continued quality of service. We also continue to examine the bankrupt assets as a substitute for new capital equipment deployment. The bone pile continues to grow.

We are currently progressing ahead of schedule on our global network build-out. We're accelerating our plans to add notes to the network and now plan to have 122 points of presence or POPs deployed by year end, 20 more than we previously projected we're on track with our plans to make enhanced VP-end service available globally by year end. We're also planning to deploy end-to-end private line networking capabilities to 90 cities by April of 2003, and we are continuing to opportunistically assess the bone pile of international assets that are available, as well.

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I'd like to expand on my earlier comments regarding the competitive environment where reliability, integrity, and strong operating performance and financial viability count more than ever before. These are clear areas of competitive differentiation for AT&T Business services, where customers can be assured of the sustainability of their service provider and our commitment to ongoing investment in customer service and innovative business solutions.

In the current environment, AT&T is increasingly viewed as a safe haven. In response, our sales teams are proactively contacting potential business customers to provide continuity assessment support, determine risks and vulnerabilities and offer contractually compliant transition plans. We found a very high level of receptivity of these calls among users of competitor networks with many more competitor customers contacting us directly. Customers are clearing becoming much more open to the prospect of service alternatives and diversification. We understand, however, that service transitions occur on a contract-by-contract basis over a period of time and not in a single overnight wave.

On the data services side in particular, given the complexity and contracting, engineering and provisioning, the cycle time can extend over several months. We therefore expect to have better insight into the impacts of any flight to quality related gains in the months ahead. We continue to assets impact of the environmental landscape and customer and competitor dynamics and are prepared to be opportunistic and agressive in providing service alternatives.

Recent headlines will only add to AT&T's momentum, based on our strong second quarter performance and the flight to quality gains we are already experiencing, we are revisiting and modestly improving our business services guidance. We now expect to be at the favorable end of our previously communicated guidance of a full year revenue decline in the range of 4 1/2 to 5 percent. And EBIT less other income margin decline of 2 to 3 percentage points off the 2001 EBIT levels. We continue to target communication services CAP-X in a range of $3.8 to $4.2 billion.

To summarize, despite market and industry challenges, AT&T Business services continues to execute to plan. Unlike many of those in telecom services who have slashed their expectations, we were actually improving our outlook in a very tough industry environment.

With that, I'll turn things over to AT&T Consumer Services CEO, Betsy Bernard. Betsy?

BETSY BERNARD, CHIEF EXECUTIVE OFFICER OF CONSUMER SERVICES, AT&T: Thanks, Dave, and good morning, everyone.

Today I'll discuss AT&T's consumer performance with the same themes that you heard Dave outline for AT&T Business. Executing on our business fundamentals, pursuing targeted growth opportunities, and maintaining a conservative perspective of the future. Today's results demonstrate that AT&T Consumer has delivered another quarter of solid returns and met our commitments. With that said, let's begin.

Our first theme this morning is solid execution on our business fundamentals. Which is driving both our financial and operating results. We believe the current events in this industry now more than ever endorse our long-held strategy in Consumer to maximize cash flow. We will continue to focus and deliver on this strategy while transforming our service

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delivery capabilities and broadening our service lines.

With the current industry disruptions, opportunities arise every day. We examine them with the same prudence that we have consistently used in running this business. We will seize any opportunity that makes sense which we demonstrated by creating AT&T Unlimited and our targeted all-distance offer. Both of which enable us to retain our high valued customers and attract others from our competitors. We can do this because we have one of the top 10 brands in the world, 60 million customer relationships, and a national footprint. All of this and more gives AT&T Consumer unmatched leverage to create attractive offers and execute on them without making economic sacrifices.

AT&T Consumer continued to deliver strong returns to the business this quarter, differentiating ourselves in this industry through financial discipline, strength, and integrity. By delivering nearly 800 million of EBIT this quarter on minimal capital expense, we are successfully maximizing cash while improving AT&T's competitive position and the health of the balance sheet. Our 27 percent EBIT excluding other income margin this quarter reflects the ongoing efforts of AT&T Consumer to manage our cost structure and take advantage of industry dynamics. For example, while we are determined to variablize costs we also remain operationally nimble.

We delayed marketing and related spending this quarter as a result of slower-than-planned RBOC entry and long distance. This allowed to us deliver even greater value to the bottom line.

Turning to pricing, we are encouraged by what we see in the consumer industry. While there is no shortage of competitive forces in long distance, we continue to see relatively stable pricing during the quarter. And we continued to observe that RBOC entry into long distance so far has not trigger irrational price points.

For our part, we constantly look for ways to change the game in long distance with creative offers like AT&T Unlimited. To date, we have enrolled hundreds of thousands of customers and last quarter we implemented the second phase of this successful offer adding a significant new feature supported by our marketing campaigns.

We have seen several major benefits from Unlimited. First, a greater than 50 percent save rate from our high valued customers who would have left AT&T if not for Unlimited, making this a terrific retention base program. Second, over a third unlimited enrollees are coming to us from our competitors, expanding our high value customer base. And third, our take rates are highest in states where the RBOC's are not offering long distance, supporting our preemptive strategy in those soon-to-be vulnerable markets. With Unlimited, we set out to retain and attrack high value customers and we are doing just that.

For our overall business, the second quarter revenue decline of 21.8 percent is consistent with our guidance and reflects many of the trends that we have seen for several quarters. Revenue continues to be impacted by substitution, competition, migration to lower price plans and products, and a mix shift within our portfolio to products like prepaid card.

As we have said many times, we believe that RBOC entry will continue to be very meaningful in 2002 and that entries will accelerate dramatically in the second half of the year. However, we have a preemptive model in place that is highly effective

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in tempering the impact of RBOC entry whenever it occurs. We have seen how investing in preemptive tactics makes sense because we have achieved as much as a 25 percent reduction in outpicks in markets using this strategy. The net is while our expectation on the timing of some entries has shifted, we still anticipate significant activity through the end of the year. The second theme we wanted to discuss today is pursuing targeted growth opportunities to transform our portfolio. We are looking to our combined long distance and local package, what we call all-distance, as the lead initiative that will ultimately stem decline in revenue.

At the end of the quarter, AT&T had 1 1/2 million all-distance customers in six states. A greater than 15 percent sequential growth. The majority of this growth came from Michigan, where we began offering service in mid-February. Just five months in, we achieved a 6 percent share in the RBOC territory which speaks to the incredible power of the AT&T brand and our focus on execution. However, we aren't in this business just to gain subscribers.

Our principle of maximizing cash requires that we only enter states that meet our gross margin requirements. Once we have entered a state, we design and target each offer to high value customers to further improve the economics of the business. An excellent example of this discipline is New York where we have achieved a mid-teens share and we are growing in profitability while we add to the subscriber base.

Last quarter, we told you that we would become more aggressive in locals if state commissions improved the economic conditions necessary to bring consumers a choice. Some have and we have followed through on our promise.

During the quarter, we began offering local service in Illinois and Ohio and just last week, we announced we'll enter New Jersey this quarter. We have identified several additional opportunities such as California and Pennsylvania. We are confident that other PUC's will look at the competitive environments fostered in those states and make similar choices to benefit their residents.

Now I'd like to discuss our expectations for the rest of the year using our third theme today, maintaining a conservative view of the future. Last quarter, we said we were seeing a slight leveling in the acceleration of wireless and Internet substitution. At the time, we thought it was too early to identify a trend for the full year. However, during this quarter we continued to see a modestly better-than-expected rate of substitution. We believe we will benefit from an ongoing stabilization in the growth rate of substitution as well as from our success in reducing our cost structure.

So we are raising our guidance for AT&T Consumer today. We are improving the guidance for an EBIT less other income margin which we now expect to decline at a high single-digit rate in 2002 versus our previous guidance of a low double-digit rate. And while we still believe revenue will decline in the mid-20 percent range this year, we expect to be at the favorable end of that range.

Let me conclude by repeating my firm belief that a accross the themes we discussed today, solid execution, pursuing targeted growth opportunities, and maintaining a conservative view of the future, AT&T Consumer is well positioned with a successful strategy, financial and operating strength, and a great team.

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With that I'd like to turn the call over to Chuck Noski. Chuck?

CHARLES NOSKI, VICE CHAIRMAN, AT&T: Thanks, Betsy. Good morning, everyone.

I'd like to begin this morning by reminding you of our treatment of the Concert reintegration as we outlined on our first quarter earnings call. On April 1, 2002, we completed the unwind of the Concert joint venture. As a result, as of that date, our going forward results reflect the full integration of the Concert assets and operations that AT&T acquired. Given the broad distribution of these assets throughout the business services organization, we cannot reasonably break out the reintegrated Concert assets and operations as part of our reporting.

However, as we told you last quarter, incremental business services revenue associated with the Concert reintegration is expected to$ approximate 575 to $675 million spread over the final 3 quarters of the year, while segment EBIT less other income and expense is expected to be reduced by $200 to $250 million this year. This is important to remember particularly when looking at year-over-year growth rates as our 2001 results have not been restated.

Now, to expand on the consolidated financial results for the quarter. As Mike noted, our second quarter normalized revenue decline of 6.2 percent was favorably ahead of our guidance. On a reported base, revenue declined 8.7 percent.

For the third quarter of 2002, we expect to see a slight increase in the rate of revenue decline from the 6.2 percent second quarter rate. Second quarter EBITDA excluding other income and expense and the 2002 goodwill and franchise impairment charges was $3.4 billion versus our guidance of around $3 billion.

Earnings per share from continuing operations excluding other income and expense and the 2002 goodwill and franchise impairment charges was 7 cents for the quarter. Ahead of our 1 to 4-cent guidance range and the First Call consensus estimate. The main contributor to this better-than-expected performance was operating margin strength within our core business services and consumer services segments as Dave and Betsy highlighted earlier. On a reported basis, our loss from continuing operations was $3.49 per share for the quarter.

As we told you last quarter, on January 1, 2002 AT&T adopted Statement of Financial Accounting Standards number 142, goodwill and other intangible assets. This statement requirements that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would likely reduce the fair value of a reporting unit below its carrying amount.

As we closed our books for the second quarter, we noted significant changes in the general business climate evidenced by severe volatility in the stock market, including the fall in values of publicly traded cable industry stocks and corporate bankruptcies. We are taking a charge at this time because we believe it is appropriate to reflect the current value of our Broadband cable segment given present market conditions. We assessed our impairment on the same principle employed by our independent appraisers during the initial adoption of Statement 42. This outcome, combined with other charges, primarily related to our cable investments resulted in us incurring a second quarter 2002 after-tax impairment charge of $13.1 billion.

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Our effective tax rate applied to pre-tax earnings excluding other income and expense for the quarter was 54.1 percent, on target with our guidance of a low to mid 50 percent rate. On a reported base, our second quarter tax rate was 27.9 percent.

Looking forward into the third quarter of 2002, we expect earnings per share excluding other income and expense to be in the range of 3 to 6 cents. We expect -- we continue to expect our third quarter effective tax rate to remain in a low to mid 50 percent range. We ended the second quarter with $30.7 billion in debt, net of $6.1 billion of modernizations and $6 billion of cash. This cash balance includes 2.5 billion of net proceeds from our recent equity offering which as you know will be used to help fund the AT&T Canada backend obligation later this year.

Earlier this month, we announced initial commitments from a consortium of lenders for a significant portion of a new AT&T bank facility of up to $4 billion. The banks have also agreed to act as lead arrangers to syndicate the balance of the 364-day credit facility. The proposed new facility will replace AT&T's existing $8 billion facility which matures in December 2002 and remains undrawn. We have also completed the renewal of our business and consumer receivables securitization programs providing us with total funding of up to $2 billion. Of this only $200 million has been used.

Capital expenditures for the second quarter were $1.9 billion, the majority of which were directed towards our growth businesses. This spending level reflects the ongoing disciplined nature of our capital management efforts throughout the company. As we move through the second half of 2002, our focus will remain fixed on driving shareholder value through the ongoing execution of our business performance, continued aggressive cost and CAP-X management initiatives and the successful completion of our corporate restructuring and deleveraging program, including closing the AT&T Comcast transaction.

Finally, on a personal note, I want to thank Mike and Dave for your kind remarks. And I also want to welcome Tom Horton. I know he will do a great job for AT&T. I'd like to acknowledge the extraordinary efforts of our employees during the past few years, particularly my financial team. And last but not least, I'd like to especially thank our shareholders for their support. Now with that let me turn it back to Connie.

CONNIE WEAVER: Thanks, Chuck. In just a moment, we'll ask the operator to review the procedures for asking questions.

I would like to ask you limit your questions to 1 per person so that we can accommodate as many of you as possible. Joining me for Q & A are those you have already heard from, Mike, Bill, Dave, Betsy and Chuck. And also, as I mentioned earlier, our new CFO, Tom Horton is with us. And additionally joining Bill on the Broadband team will be our Chief Operating Officer, Ron Cooper, and Broadband's Chief Financial Officer, Mike [Huseby]. Let me ask the Operator to explain the question procedures.

OPERATOR: Thank you. Ladies and gentlemen, if you would like to ask a question, please press the 1 on your touch-tone phone. You'll hear a tone indicating you have been placed in queue. You may remove yourself from queue at any time by pressing the pound key. If you are using a speaker phone, please pick up your hand set before dialing. Our first question comes from Frank Governally with Goldman Sachs. Please go ahead.

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FRANK GOVERNALLY (ph), GOLDMAN SACHS: Thank you. I have a question for Dave.

Dave, you talked both about the continuing competitive pricing pressure but also, it seemed, on the margin you emphasize more price stability this quarter than we have seen in the last quarters. And it makes me think that the pricing pressure that is we are seeing is primarily from the repricing of maturing contracts. And if this is true, when does it end? And given the competitive environment right now, in the business market, that's probably as good as you have ever seen in the past 20 years at AT&T. Why won't we look when these contracts mature for the opportunity actually for either literally stable pricing meaning no declines or perhaps even price increases?

DAVID DORMAN: I think the number of competitors are out there that would have previously introduced acquisition prices at new lows is clearly been the biggest change. Without naming names, I think that's -- that's the biggest contributory stability is that those that were most -- had a predilection to drive price down to try to acquire share are apparently more focused on returns and other things.

So, you know, I can't give specifics on this because it is an evolving, but I think your assesment -- the initial point that you made that the flow-through of previous price-downs are coming through, uhm, we're just clearly not seeing new lows but we remain cautious that we cannot predict the actions of others particularly in times like we have. There's obviously a lot of people that are unsettled by the Worldcom announcement. What will really happen on the various scenarios. So we are just remaining cautious. But yet, optimistic that you are right that the conditions are better than we have seen them for a while.

FRANK GOVERNALLY (ph): Great, thank you.

CONNIE WEAVER: Next question, please?

OPERATOR: Thank you. Our next question comes from Jeffery Halford with Sanford Bernstein. Please go ahead.

JEFFREY HALFORD (ph), SANFORD BERNSTEIN: Good morning, guys.

CONNIE WEAVER: Hi, Jeff.

JEFFREY HALFORD (ph): Betsy, I was hoping you could just aggregate your margin benefit if possible from delayed marketing expenses versus the effects of our out-sourcing agreement with Accenture.

And then just a quick one for Chuck. On your pension plans, you have taken a recent decrease in your assumptions from 9 1/2 to 9 percent returns. Do you expect any further reductions? And what kind of impact do you think that will have on the P&L?

BETSY BERNARD: Hi, Jeff. It's Betsy. I'll start first. I'll provide some additional detail behind the guidance that we provided in my remarks today. The biggest drivers of what's going on from a margin standpoint are two things. Strong cost controls

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and the leveling off of the acceleration of substitution. So it still remains a force. It's just as a growth, the growth has, uhm, slowed down. Now, some of those strong cost controls are ones that are not going to get carried forward, and that's the RBOC spending. So that's a question of shifting our preemptive investments from RBOC entry from the first two quarters into the last two quarters. The other thing that's going on in terms of our guidance is we are clearly being more aggressive in our UNE expansion than we had assumed when we started the year. That's because of the public utility commission's choosing to have choice for their consumers in some of the states.

And then the final thing I'd point out from a guidance standpoint is in the consumer market, we have a typical seasonal decline from third to fourth quarter. If you look last year, it was 7 points. So those are the four big drivers of the guidance that we provided this morning. Chuck?

CHARLES NOSKI: Jeff, with respect to our pension plan, as you know, in 2002, we have reduced our expected return from 9 1/2 to 9 percent. That had about a $100 million impact on pre-tax earnings. We will obviously periodically reevaluate the appropriateness of that long-term rate. I want to emphasize it is a long-term rate, not an annual rate. And I would further point out that the effects of the recent decline in the stock market in our view will not result in us having to fund our pension plan next year. Or this year, for that matter.

JEFFREY HALFORD (ph): Thank you.

CONNIE WEAVER: Next question, please.

OPERATOR: Thank you. We now have a question from Richard Greenfield with Goldman Sachs. Please go ahead.

RICHARD GREENFIELD, GOLDMAN SACHS: Hi. Could you just give us a little bit more detail on the $100 million of AT&T-Comcast related merger costs as well as what else was excluded from that $641 million of EBITDA and then just a quick housekeeping point, you wrote down about $13.1 billion of cable value, 11.8 of it related to consolidated cable operations. What was that 11.8 billion of consolidated written down from and to? Thanks.

CONNIE WEAVER: Okay. Thanks, Rich. Let's start with Chuck.

CHARLES NOSKI: I'm not sure I can answer the last question directly. The $11.8 billion of the $13.1 billion related to goodwill and franchise costs. The remainder related to the writedown of equity [INAUDIBLE] investments including our investments in the two Adelphia partnerships that we have minority interests in as well as some of our what we would refer to as cost method investments such as Cablevision, Comcast and the like.

With respect to what's in the $100 million, the vast majority of that relates to costs associated with the proxy and the proxy solicitation as you know, we, uhm, mail well in excess of 4 million copies of that 750-page proxy last quarter. And also, other advisory costs associated with the transaction including legal fees.

CONNIE WEAVER: Great. Thank you. Next question, please.

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OPERATOR: Thank you. The next question is from Adam Quinton with Merrill Lynch. Please go ahead.

CONNIE WEAVER: Good morning, Adam.

ADAM QUINTON, MERRILLY LYNCH: Good morning.

I've got a very broad question for Mike. And it relates to the kind of telecom environment which clearly is pretty unhappy one in many respects in many companies.

I'm just wondering, Mike, what your take is on the way this is all perceived in Washington both by legislators and the FCC and whether there might be any change in the regulatory environment; for example, that might stem from all the turmoil that we have seen and particularly, of course, whether there might be any such change that would be, uhm, impactful on AT&T?

And I guess a specific question related to that would be: To what extent does the current market environment play into the way that you see states thinking about UNE price reductions as they roll through in states like California and others which you mentioned before? Thank you.

C. MICHAEL ARMSTRONG: Adam, I think the best two words I can describe both at the state level and at the national Washington level is see change. I think some on the call know that this company and I personally have fought for five years to make the telecom act of 1996 work. And we have been plenty frustrated in that regard. And we all have differing opinions of what was the milestone or the trigger that enabled the act to begin to work. But I would point to certainly the state of New York and the administrative law judge decision and the momentum that that carried across the country state by state to the Michigans, Ohios, the Illinoiss, et cetera. It also carried to Washington, Adam.

Because today, I think at both the regulatory as well as the legislative level, people are beginning to recognize -- our representatives are beginning to recognize that there can be choice in the market but the model of theTtelecom Act of '96 can work and competition is ensuing and I think they understand that that's good, both for consumers, it's good for the industry. And so while there have been some thrusts by some of our competitors to derail that act, I definitely see the momentum to support that act going across the country and being understood in Washington.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: Thank you. That will come from Laura Warner with Credit Suisse First Boston. Please go ahead.

LAURA WARNER, CREDIT SUISSE FIRST BOSTON: Thanks. Good morning. Bill, I just wondered if you could, uhm, break out in a little more detail your outlook for the year basic sub growth going forward. I know you said you expected it to be up sequentially but is that merely the seasonal trends reversing themselves or are you actually expecting to see growth in the third and fourth quarter? If you could break it out between seasonal versus an actual reversal in some of the trends in your weaker markets. Thanks.

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WILLIAM SCHLEYER: Thanks, Laura. We are not going to get specific guidance, but on subscriber counts. But I can give you general direction.

As you know, we have lost about half of our subscribers this quarter to seasonal or economic cyclical issues. We expect to have another crack at those at least most of those in the second half. But the ones we are worried about are the other half, which we have lost either competitive efforts or people that are leaving the category altogether.

And what we are really focused on is addressing the issues as to why we would lose those subscribers and the things we are doing to address that are, one, rebuild the systems as quickly as we can and we have a run rate where we want it. We are improving customer service and we think that will be felt in the marketplace. We're addressing our marketing efforts and getting much more aggressive with our marketing tactics. And then we're also at the same time improving the value of our video product through repackaging and we have had some early wins there.

Net-net is that we would expect until we can get the systems largely rebuilt, that we'll continue to have lossesly largely in our rebuilt - unrebuilt areas. And we would expect a slightly lower loss next quarter. But the fourth quarter traditionally has been our strongest quarter and we see no reason why that won't continue.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: Thank you. The next question comes from Simon Flannery with Morgan Stanley. Please go ahead.

SIMON FLANNERY, MORGAN STANLEY: Thank you. Good morning, everybody. Question for Dave.

Dave, on the Worldcom opportunity, the flight to quality, are there any specific contracts that customers have that actually allow them to terminate within bankruptcy or do typically the contracts survive so you have to wait for those? And if you can give us a sense of, you know, how much of that business you think is under contract versus is sort of available for bid, voice traffic or whatever on a monthly basis? Thanks.

DAVID DORMAN: The honest answer is I don't know.

I think that we have heard anecdotes that some customers over the -- in the 2002 time frame had negotiated specific terms regarding Worldcom's financial condition. I'm not personally aware of very many of those. I think in general, their contracts are going to run their course. That's one of the reasons we remain cautious of those things.

While customers do notify you if a contract's coming due that they want to hold another bid, or review process, I think the most acute opportunity frankly is involving those customers that are up for bid now or had notified us that they were going to be up during the coming months. And I think it's less and less likely in those cases that Worldcom gets the same consideration that they would have gotten before. And so that's where the near term opportunity comes. And I think customers are busily assessing what their alternatives are and we work with them based on what those legal commitments

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would be and going forward to the extent that they ask us to participate.

We are not leaving any stones unturned with respect to chasing the opportunity.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: Thank you. Our next question is from Jack Grubman with Salomon Smith Barney. Please go ahead.

JACK GRUBMAN, SALOMON SMITH BARNEY: Thanks. Good morning.

Betsy, you know, you talked about unlimited and the effect it's had on retention, the effect it's had on getting customers from other competitors. And you know, the effect it's had on kind of outpick, you know, where you have gone in preemively. What would you guess would be the same kind of impacts with the all-distance program and I guess as both programs evolve, what is the, if you will, typical customer that you are looking for, for all-distance versus unlimited? I guess I'm trying to get to how much cross elasticity there might be between the two.

And while you have, as you said, kind of guided up if you will for the rest of this year, uhm, is there any reason to think that as time goes on, I mean, you should be getting into markets quicker than the Bells are getting into LD because you can preemively strike as they are going through their filings. So why can't it be that, uhm, over the course of the next several quarters, your business trends actually improve quite a bit more than, you know, kind of the incremental stuff that we've seen now? Thanks.

BETSY BERNARD: Okay. That's a big question, Jack.

So I'm going to answer it simply and I'll kind of refer to you some of the collective conversations that we have had. We are facing the big tsunami or big bang of RBOC entry. And as I have shown in models that are easier to do with a picture than with words, it is a very disruptive to our business as it happens, a big six-month disruption, trends back to what was going on before they entered, and then we have the year-over-year of negative impact to watch through our financials. So that's the picture of RBOC entry on AT&T Consumer. Both unlimited and all-distance again as we have shown in pictures have had a positive impact in terms of reducing the outpick rate and if you have - previously we talked about reducing it by 20 percent. Today you heard me use a figure of 25 percent.

So, yes, we keep getting more effective in the tactical implementation of those preemptive tactics. And clearly, getting to operate in a state like Michigan prior to RBOC entry has a positive impact. So -- but, we are not going into states where we don't have a gross margin of 45 percent on the local. That's kind of our threshold trigger to go in and we are not going to go in on the hope and the prayer that next year or two years from now, the rates may change to make it favorable to the strategy that we're executing from maximizing cash.

So all of those things have been taken into account and modeled in the guidance that we have provided to date including that which we have provided today. Both very positive, we do expect all-distance as the lead initiative that will ultimately

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stem the decline in the overall consumer revenue. But that's over a period of time, not in the short run.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: Thank you. The next question comes from Phillip Olson with UBS Warburg. Please go ahead.

PHILLIP OLSON, UBS WARBURG: Just a quick question in terms of the pending merger.

From a financing perspective, I understand that the transactions are not dependant upon having financing in place but the Comcast or the new AT&T-Comcast credit facility does require the merged company to obtain investment grade ratings in order to be able to access that facility. What would be the backup plan in terms of providing the financing to take out the intercompany note if AT&T-Comcast on a pro forma basis was to have ratings below investment grade?

CHARLES NOSKI: Bill, this is Chuck Noski.

First, as now, either formally or informally I think all of the rating agencies have indicated they expect AT&T-Comcast to be investment grade so this may largely an academic question and you are right that the financing is not a condition to the closing of the transaction. Comcast I believe has indicated publicly that they are -- that they also have additional credit facilities as well as a wealth of non-cable assets that could be available for disposition if they needed additional financial support in order to preserve their credit rating and certainly to close the transaction.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: Thank you. Next in line is Raymond Katz with Bear Stearns. Please go ahead.

RAYMOND KATZ, BEAR STEARNS: The press release mentions I believe $2.9 billion of attributable debt in the investments in the cable-related investments, a billion five is guaranteed. Can you give us some detail as to what the billion five is and specifically how much of that is Adelphia-related partnerships?

DAVID DORMAN: Well, none of the debt relates to Adelphia-related partnerships. The guaranteed obligations have to do with I think some of our other partnershiping including those with Time Warner.

CONNIE WEAVER: Thank you. Next question, please.

OPERATOR: The next question comes from Richard Klugman with Jefferies. Please go ahead.

RICHARD KLUGMAN (ph), JEFFRIES: Thanks a lot.

For Dave, one is -- I don't know if this is an easy question to answer, but you know, on one hand you say it's too soon to tell on the bankruptcy of Worldcom to know, you know, how much it's going to impact us. But maybe if there's -- even if it's a

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wide range, is it the kind of thing where you think maybe by year end '03 your revenues would be 1 percent higher or 10 percent higher or what in kind of a good scenario for you? I know that may be a tough question. So let me ask one more. Standard.

Uhm, wholesale, you mention was a driver on the, you know, high quality wholesale. Could you -- how much did -- what was the kind of the year-over-year trend on wholesale? How much did that help out on the revenue and specifically, I wanted to give you a chance to rebut what Sprint said, which is that, you know, you are getting a lot more aggressive on wholesale pricing this quarter. Thanks.

DAVID DORMAN: Let me just say on as far as Sprint's concerned, they seem to bring that up every quarter. It usually correlates to the fact that they have lost a customer. So I can't see any trends that would suggest to me we have gotten any more agressive in wholesale. In fact, I think the opposite is true with respect to wholesale business in general.

We have actually tightened prices in the wholesale market, not lowered them. I think in the context of your other question, again, it's just speculation on my part.

If you could tell me, Rick, how much business Worldcom's going to give up due to the bankruptcy process, uhm, you know, I think we ought -- we ought to be the biggest beneficiary of that as it goes forward. But what I don't know is how much they will give up, how long their bankruptcy process will take, how protracted it is based on litigation from the parties, and, therefore, what's the concomitant effect on their customers and people. We're just trying not to be ahead of ourselves here and try to create an impression of something we can't accurately predict. But, yes, I mean, we believe we should be beneficiaries of this as I think most people have reported.

With respect to the year-over-year numbers, I don't have the breakdown of that in terms of overall volume increase and wholesale. There has been some but frankly a lot of the wholesale growth we have gotten hasn't been at the expense of our business company. It's frankly basically taking advantage of the substitution effect in the consumer market where they are losing customers to RBOC entry and wireless and our wholesale business supplies some of those same providers.

So in terms of its complementary traffic, it follows a pattern that we have said before, which is it's playing against our surplus or where we have peak business day traffic, we prefer to do wholesale and a -- in a complementary fashion of that not evening and weekend, which follows the consumer pattern. So it is a good balancing act which is keeping our utilization high. I just don't have specifics for you about exactly what the volume differences are.

CONNIE WEAVER: Thanks. Let's take about 3 more questions, please. Operator?

OPERATOR: Thank you. We have a question from Kareem Dja with Deutsche Banc. Please go ahead.

KAREEM DJA (ph), DEUTSCHE BANC: Thanks. Question for Bill.

Video RPU increase of 6 percent, Bill, in the quarter seems somewhat low in light of basic rate increases and digital sub

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growth. Is there any kind of downgrading phenomenon or discounting on basic or digital that's driving that and related, can you say if you're seeing any churn effects in response to your digital price increase which I think was on July 1st?

WILLIAM SCHLEYER: No, Kareem. In fact, we have been very surprised with the success of that digital repackaging and pricing increases that we did in July 1st. Early indication is it's been a tremendous success.

We have lost very few customers that were dissatisfied with the changes. In fact, we have got some positive feedback because of some of the price -- some of the packages we have been able to introduce.

But speaking specifically to the second quarter, you know, we are not seeing -- I think your question was, why the video RPU was up 6 percent with the rate increases and I think that's, you know, we are not seeing much change in that and that's been pretty consistent. And we would -- we'll see the video -- the digital video price change that will show up in the second quarter so you wouldn't have seen those in the first -- I'm sorry, will show up in the third quarter so you wouldn't have seen those in the second quarter.

CONNIE WEAVER: Great. Thank you. Another question, Operator?

OPERATOR: Yes. It comes from the line of Doug Shapiro with Banc of America Securities. Please go ahead.

DOUG SHAPIRO, BANC OF AMERICA SECURITIES: Thanks. Yeah. This is also for Bill. For the other half of your sub-losses that were tied to competition, I was wondering if you could break out what proportion of those losses occurred in the year -- in your un-rebuilt systems.

WILLIAM SCHLEYER: Yeah. It was the overwhelming majority were in the unrebuilt systems. I mean, clearly, that's where we're less competitive with satellite and that's where we're -- you know, focusing our efforts with both capital and marketing programs. You know, as you know, we do in our rebuild areas, we -- when we have both data and telephony, when customers take video and either telephony or data or both, the churn is reduced dramatically.

So in addition to having a stronger video product in those market places, we have other products that help reduce churn in those market places and that's why we are working very hard to get those new products, both high-speed data and telephony into some of the unrebuilt areas.

CONNIE WEAVER: Great. Thank you. Operator, let's make this next one our last question.

OPERATOR: Thank you. Our final question, then, will come from Robert Fagan with Bear Stearns. Please go ahead.

ROBERT FAGAN, BEAR STEARNS: Thanks. Good morning. Question for Betsy.

You infered that about 2/3rds of your all-distance packages are from existing AT&T customers. Could you perhaps quantify what that does in terms of total revenue, long distance revenue per customer? And then also, in terms of your flight to quality

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overall, what's AT&T doing to kind of encourage that along in terms of adding salespeople. Are there any special price incentives for Worldcom customers, et cetera.

BETSY BERNARD: Great. Good. Two questions.

First of all, the statistic you were referring to is for unlimited, not all-distance. So you know, a third of the customers coming into unlimited are high value customers coming from someone else's base.

For our base, though, overall, all of the unlimiteds subscribers, about 50 percent of them, excuse me, are spending more with us than they were before. So all unlimited is helpful both from a retention standpoint of our high values as well as what we believe when we launched it is the $20 monthly recurring fee, really is a revenue floor upon which we are successfully building.

So unlimited, we launched it as a retention tool for a high value customers. It's being -- it's very successful there. It also has the benefit of the fact that we are attracting high value customers from others' base, so all in 50 percent of the unlimited enrollees are now spending more with AT&T than they previously were. So that's unlimited.

If we go to, so what's going on from a market environment as it relates to the consumer space, well, we again, as I indicated in my remarks, we are being opportunistic, but not changing our strategy in the process. If you open the "Wall Street Journal" today, you will see an ad that's focused on yesterday, today and tomorrow, focusing on the strengths of AT&T and encouraging folks if they would like to talk about a different plan to call 1-800-pick-AT&T or go to our website.

So we are being opportunistic. We have seen an increase in the yield rates from our normal acquisition activities. And you can make the assumption that that's being partially driven by the changes going on in the marketplace.

CONNIE WEAVER: Thank you. And that concludes the question and answer portion of our call today.

I'd like to thank you all for participating in today's call.

Beginning later this morning, you can access the replay of this call at the AT&T Investor Relations website and that's att.com/ir or by dialing the following telephone numbers. Domescally, U.S., is 800-475-6701. Internationally, it's 320-365-3844. And in both cases, please use access code 642879.

As always, if you have additional questions, please feel free to contact myself or the other members of the Investor Relations team here at AT&T. And that phone number is 908-221-3655. With that, have a great day. Thank you.

OPERATOR: Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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