NetworkWorldFusion NEWS

Chapter 11 isn't always the end

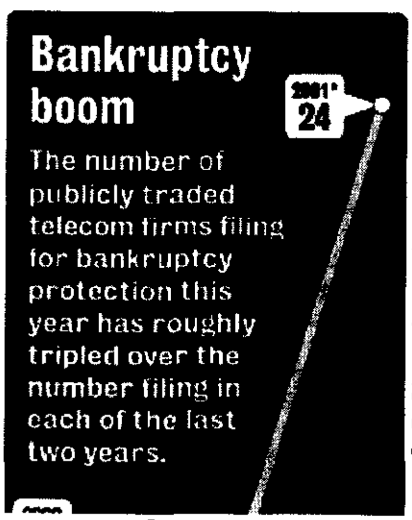
By Michael Martin
Network World, 11/05/01

Banfield Pet Hospitals had planned to rely heavily on DSL for a major network overhaul originally scheduled for completion in July. But when it became apparent that prospective service provider Rhythms NetConnections was struggling financially and possibly headed for Chapter 11 bankruptcy protection, Banfield instead chose frame relay connections from another carrier even though they cost four times as much.

"Running mission-critical applications over a network that could disappear in 30 days is not a good plan," says Lance Harris, Banfield's director of IT operations.

Harris had the foresight and good fortune not to get stuck with a vendor that wound up filing for Chapter 11 - something that the thousands of customers of bankrupt network product and service vendors now wish they could claim.

But is Chapter 11 really the end of the road for the dozens of vendors that have filed for bankruptcy protection this year?



Not exactly, although experts say few will re-emerge looking just like their old selves. Most will be acquired in whole or in parts. Their product development efforts and services won't necessarily be disrupted or discontinued, but customers could be left in limbo for an extended time and should have a solid fallback plan.

Sure, companies as varied as Continental Airlines, Macy's and Texaco have resurfaced after filing for

Chapter 11 protection, but experts say it's tougher for technology companies to bounce back because their businesses tend to rely so much on momentum.

"If you're in Chapter 11, you've probably lost your momentum," says Michael Feinstein, a principal with venture capital company Atlas Venture.

The list of network industry Chapter 11 cases this year is a long one - Comdisco, Covad Communications, Exodus Communications, Metricom and Rhythms are just a few companies that have filed for protection in recent months. It has been an especially cruel year for telecom outfits, with 24 publicly traded ones filing for protection, roughly triple the number from each of the previous two years, according to BankruptcyData.com.

It's tough to draw comparisons between what struggling network companies are going through today and what famous Chapter 11 survivors like Texaco (now ChevronTexaco) experienced.

Texaco, for example, filed for Chapter 11 in 1987 to avoid paying a $10 billion court decision after the oil giant was found to have used illegal activities in trying to acquire Getty Oil. Texaco filed for Chapter 11 despite owning more than $37 billion in assets - a situation any bankrupt technology company would kill to be in.

Most bankrupt technology firms use Chapter 11 protection as a time during which to settle on their best suitor, if there are any, says Robert Keach, chairman of the Business Reorganization Committee of the American Bankruptcy Institute, a group that provides bankruptcy research and education.

In a typical Chapter 11 case, the best interests of the creditors and customers are served by having the business sold as a whole entity, rather than being chopped up and sold piecemeal, Keach says.

"With an ISP, for example, you're likely looking for a quick transaction involving the entire business," he says. "You don't want the network or the customers to go away. If you lose a few pieces, the value of the company disappears quickly."

Many of the cases involving network companies that have filed for Chapter 11 this year remain unresolved. Those that have been resolved show mixed results:

- Rhythms sold most of its assets, including equipment, collocation rights and customers, to WorldCom for $40 million. WorldCom has said it will continue to serve Rhythms' customers.

- Fixed wireless carrier Teligent is set to emerge successfully from Chapter 11 with new equity backers, the same management team and its core markets and customers intact. After going into Chapter 11 in May, with $1.65 billion in debt and $1.2 billion in assets as of Dec. 31, 2000, a newly created venture paid $117 million for Teligent's assets.

• Disaster recovery firm Comdisco is selling its disaster recovery business to Hewlett-Packard for $750 million, leaving rival suitor SunGuard Data Systems empty-handed.

• The most notorious Chapter 11 case this year was the dismantling of national DSL provider NorthPoint Communications. After failing to find a buyer for its business, NorthPoint sold its collocation rights and equipment to AT&T. However, the deal did not include NorthPoint's 100,000 customers, who were forced to scramble to find new service providers.

Of the companies still in Chapter 11, it appears that DSL provider Covad may emerge as an independent company.

However, Covad entered Chapter 11 with a specific plan, after agreeing to terms with holders of the majority of the company's debt, which would have creditors receive a fraction of what they were owed in cash and the remainder in stock. The deal would leave Covad with a much lighter debt load and a better chance to survive.

None of the other remaining Chapter 11 cases is as clear-cut.

Service provider Cable & Wireless has mentioned ISP PSINet as a possible takeover target.

Rumors have also linked bankrupt hosting giant Exodus, saddled with $3.5 billion in debt, to Cable & Wireless.

In a September conference call with customers, shortly after filing for Chapter 11, Exodus CEO William Krause said the company was looking to restructure - a process that would take between four and eight months. But he didn't rule out an acquisition.

"If we have somebody that wants to buy our company that is deemed by creditors and shareholders to have value, we will absolutely bring that forward," he said. "However, it's our intent to operate as an independent company, and I am confident given the assets and resources that we have that we can do that."

Fixed wireless provider Winstar is looking for investors, and officials say interested parties include other carriers, as well as private equity firms.

In a recent interview with *Network World,* Winstar CEO Bill Rouhana said the company would be best served to get out of Chapter 11 as quickly as possible.

"Even though we are now quite vibrant - we're actually growing - if you're a customer you have to take a deep breath to jump into the Winstar pool today," he said.

Chapter 11 roll call
Here's a sampling of network companies that have filed for bankruptcy protection this year:

- **Jan. 16** - NorthPoint Communications
- **April 18** - Winstar Communications
- **May 21** - Teligent
- **June 1** - PSINet
- **July 2** - Metricom
- **July 16** - Comdisco
- **Aug. 2** - Rhythms NetConnections
- **Aug. 8** - Covad Communications
- **Aug. 16** - FutureLink
- **Sept. 10** - Breakaway Solutions
- **Sept. 26** - Exodus Communications

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News Release

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

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

January 31, 2002

Media contact: Peter Thonis, 212-395-2355
Bob Varettoni, 212-395-7726

2001 HIGHLIGHTS

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

2002 GUIDANCE

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

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

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

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

Expense Control

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

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

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

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

Verizon President and Co-CEO Ivan Seidenberg said, "Verizon's focus is on operational execution. In 2001, we moved early and aggressively to head off the effects of the economy with cost-reduction efforts. At the same time, we had the management discipline and skilled workforce to respond effectively to Sept. 11, remain focused on operational metrics, and accelerate our merger integration and transition efforts. The solid foundation we built in 2001 will lead to continued quality growth and continued customer-service improvements in 2002."

Reported Results

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

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

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

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

2002 Guidance

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

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

Fourth Quarter and 2001 Operational Highlights

Long Distance:

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

- Approximately 40 percent of the long-distance customer base comes from three states where the service has been most recently introduced. There are nearly 2.3 million customers in New York, 600,000 in Massachusetts and nearly 250,000 in Pennsylvania.

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

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

DSL, Data and Telecom:

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

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

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

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

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

Verizon Wireless:

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

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

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

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

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

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

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

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

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

Information Services:

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

percent for the year, as Verizon Information Services carried out its strategy to bundle print and online services.

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

International:

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

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

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

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

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

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

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

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

Press Room

■ **Press Release**

SBC Reports Fourth-Quarter Earnings

Diluted Earnings Per Share Increase 12.3 Percent to $0.64 Versus $0.57 a Year Ago, Before One-Time Items

Data Transport and Wireless Revenues Register Double-Digit Growth; 4.9 Million Long-Distance Lines Served

San Antonio, Texas, January 24, 2002

Fourth-Quarter Earnings Package
Our newest Investor Briefing

SBC Communications Inc. (NYSE:SBC) today said that fourth-quarter earnings before one-time items were $0.64 per diluted share, up 12.3 percent from $0.57 in the year-ago quarter. Fourth-quarter net income before one-time items was $2.2 billion, compared with $2.0 billion in the fourth quarter a year ago. For the full year 2001, SBC earnings before one-time items were $2.35 per diluted share, up from $2.26 per share in 2000.

Including all one-time items, SBC's fourth-quarter 2001 net income was $1.2 billion, or $0.37 per diluted share, versus $1.3 billion, or $0.38 per diluted share, in the fourth quarter of 2000. Full-year 2001 reported net income was $7.2 billion, or $2.13 per diluted share, versus $8.0 billion, or $2.32 per diluted share, in 2000. *(For a listing listing of one-time items, see the "Results including one-time items" section and the associated table.)*

Despite an economy in recession, during the quarter SBC:

- Grew data revenues (excluding CPE) 14.9 percent
- Added 146,000 DSL Internet customers for a total of 1.3 million at year-end
- Added 277,000 long-distance lines in the six states where the company is now authorized to provide the service
- Achieved a consolidated EBITDA margin of 41.4 percent, up 250 basis points from the year-ago period

Fourth-quarter normalized revenues, including proportional results from Cingular, totaled $14.0 billion, up 1.2 percent on a comparable basis, excluding assets sold and acquired during the past year. On a reported basis, fourth-quarter 2001 revenues were $11.9 billion compared with $12.2 billion in 2000; reported revenue comparisons with 2000 were primarily affected by the contribution of SBC's wireless operations to Cingular in October 2000. All fourth-quarter 2001 revenue comparisons with the year-ago period were impacted by the weak U.S. economy, regulatory uncertainty and competition in local phone markets.

"SBC's financial discipline and commitment to its major growth drivers has enabled the company to respond well to a challenging economic environment," said Edward E. Whitacre Jr., chairman and CEO. "SBC delivered solid results in today's environment because the company took decisive action in cutting capital spending and operating expenses while continuing to focus on further strengthening SBC's data, long-distance and wireless businesses.

"Though we are trimming capital expenditures in 2002, we will continue to invest capital in the right places, namely our major growth drivers," Whitacre said. "It is critical that SBC continue to provide excellent customer service and invest smartly to grow our data, long-distance and wireless revenues."

Whitacre noted that SBC achieved the best residential customer service record in its history during the fourth quarter.

Whitacre said that SBC's financial goals for 2002 include maintaining the company's industry-leading credit rating and generating solid free cash flow. Because of its strong cash flow, SBC has been able to take several steps to enhance shareowner value, including paying shareowners $3.5 billion in dividends during 2001, repurchasing more than 47 million shares of its common stock during 2001 through a previous repurchase program, and authorizing in November 2001 an additional repurchase program enabling SBC to buy back up to 100 million shares of its common stock.

2002 Outlook
In 2002, SBC targets significant expansions in its growth platforms, including expected double-digit data revenue growth, anticipated long-distance approval in California, Cingular's service launch in New York City and substantial progress in its nationwide deployment of GSM and EDGE network technology. At the same time, the company expects to continue its disciplined management of expenses.

SBC expects that two special factors will impact 2002 performance. First, SBC estimates that implementation of FAS 142, which changes how companies account for amortization of goodwill and certain other intangibles, will add $0.13 to $0.15 to full-year earnings per share, on both a reported and normalized basis. Second, SBC anticipates that expense pressure from its pension and retiree benefits plans will negatively impact full-year 2002 earnings in the range of $0.10 to $0.12 per share, on both a reported and normalized basis.

Including these two factors, significant investments in its growth initiatives and continued impacts from the economy, SBC targets:

- Five percent to 7 percent growth in earnings per share (including FAS 142) before one-time items and the cumulative effect of accounting changes.
- A quarter-to-quarter earnings trajectory in 2002 that mirrors 2001 results, with first-quarter earnings per share in the $0.49 to $0.51 range (including the effects of the special factors discussed above) and higher earnings in later quarters. This reflects the economy and shifts in directory publication dates.
- Total revenue growth of 1 percent to 3 percent, including proportionate results from Cingular. Consistent with economic forecasts, SBC anticipates continued pressure from the economy through the first quarter, followed by stabilization and some improvement later in the year.
- Disciplined expense management to sustain full-year EBITDA margins in the 40 percent to 41 percent range.
- Full-year capital expenditures of $9.2 billion to $9.7 billion, down from $11.2 billion in 2001.
- $1.5 billion to $2.0 billion in free cash flow after dividends, up significantly from 2001.

Fourth-quarter and full-year highlights include:

- 4.9 million long-distance lines at year-end 2001, up from 3 million a year ago. SBC launched long-distance service in Missouri and Arkansas during the fourth quarter, bringing to six its total in-region long-distance states covering more than 19 million access lines.
- A more than $1.3 billion increase in total data revenues to $8.8 billion for the year. During the fourth quarter, SBC's data revenues, excluding equipment sales, increased 14.9 percent, and data transport revenues grew 16.9 percent.
- 1.3 million DSL Internet customers at year-end, up from 767,000 at the end of 2000. During 2001, SBC expanded its DSL-capable footprint by more than 6.7 million customer locations, or 37 percent, to reach 25 million customer locations by year's end. In the fourth quarter, SBC recorded a net gain of 146,000 DSL Internet subscribers and announced a first-of-its-kind alliance with Yahoo! to introduce cobranded, customized high-speed DSL Internet services for consumers in SBC's 13-state region, in mid-2002.
- 21.6 million wireless subscribers at Cingular Wireless at year end, up from 19.7 million a year ago. During the fourth quarter, Cingular achieved revenue growth of 12.0 percent, EBITDA growth of 22.7 percent and operating income growth of 42.2 percent, and had a net addition of 325,000 new customers.

Results including one-time items
Reported net income for the fourth quarter of 2001 includes the following one-time items: pension settlement gains of $96 million related to management employees, primarily resulting from a year 2000 voluntary retirement program net of costs associated with that program; a charge of $262 million indicated by a transaction pending as of December 31, 2001 to reduce the direct and indirect book value of SBC's investment in Telecom Americas; a charge of $197 million of costs related to TDC's decision to discontinue non-wireless operations of its Talkline subsidiary and our impairment of the goodwill we allocated to Talkline; a charge of $128 million representing a proposed merger savings settlement agreement in Illinois; and combined charges of $425 million associated with our comprehensive review of operations which resulted in decisions to reduce workforce, terminate certain real estate leases and shut down certain operations.

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

SBC Communications Inc. (www.sbc.com) is one of the world's leading data, voice and Internet services providers. Through its world-class network and its subsidiaries' trusted brands — **SBC Southwestern Bell, SBC Ameritech, SBC Pacific Bell, SBC Nevada Bell, SBC SNET** and **Sterling Commerce** — SBC companies provide a full range of voice, data, networking and e-business services, as well as directory advertising and publishing. A Fortune 15 company, America's leading provider of DSL high-speed Internet service, and one of the nation's leading Internet Service Providers, SBC companies currently serve nearly 60 million access lines nationwide. In addition, SBC owns 60 percent of America's second-largest wireless company — **Cingular Wireless** — which serves more than 21 million wireless customers. Internationally, SBC has telecommunications investments in 28 countries.

For more detailed information on SBC's fourth-quarter results, visit our Web site at http://www.sbc.com/Investor/earnings.html.

SBC Communications Inc.
Financial Summary and Comparisons
(dollars in millions, except per share amounts)
(unaudited)

-- FOURTH-QUARTER RESULTS --

EXCLUDING ONE-TIME ITEMS[1]:	**2001**	**2000**	**CHANGE**
Operating revenues	$14,047	$14,045	-
Operating expenses	$10,724	$11,067	(3.1)%
Income before extraordinary item	$2,161	$1,954	10.6%
Net Income	$2,161	$1,954	10.6%
Diluted earnings per share before extraordinary item	$0.64	$0.57	12.3%
AS REPORTED			
Operating revenues	$11,903	$12,208	(2.5)%
Operating expenses	$9,573	$10,385	(7.8)%
Income before extraordinary item	$1,245	$1,295	(3.9)%
Extraordinary item, net of tax	-	-	-
Net Income	$1,245	$1,295	(3.9)%
Diluted earnings per share	$0.37	$0.38	(2.6)%
Weighted average common shares outstanding (in millions)	3,359	3,389	(0.9)%
Weighted average common shares outstanding with dilution (in millions)	3,385	3,436	(1.5)%

[1] Includes proportionate share of Cingular Wireless revenues.

SBC Communications Inc.
Financial Summary and Comparisons
(dollars in millions, except per share amounts)
(unaudited)

-- ANNUAL RESULTS --

EXCLUDING ONE-TIME ITEMS[1]:	2001	2000	CHANGE
Operating revenues	$54,301	$53,211	2.0%
Operating expenses	$41,869	$40,818	2.6%
Income before extraordinary item	$7,972	$7,746	2.9%
Net Income	$7,954	$7,746	2.7%
Diluted earnings per share before extraordinary item	$2.35	$2.26	4.0%
AS REPORTED			
Operating revenues	$45,908	$51,374	(10.6)%
Operating expenses	$35,020	$40,631	(13.8)%
Income before extraordinary item	$7,260	$7,967	(8.9)%
Extraordinary item, net of tax	$(18)	-	-
Net Income	$7,242	$7,967	(9.1)%
Diluted earnings per share	$2.13	$2.32	(8.2)%
Weighted average common shares outstanding (in millions)	3,366	3,392	(0.8)%
Weighted average common shares outstanding with dilution (in millions)	3,396	3,433	(1.1)%

SBC Communications Inc.
Details on One-Time Items Affecting Fourth-Quarter Comparisons
(dollars in millions)

-- FOURTH-QUARTER --

4Q 2001 NORMALIZED EARNINGS	$2,161
Illinois merger savings settlement agreement	(128)
Pension settlement gains from voluntary retirement program for management employees	96
Workforce reductions following comprehensive review of operations	(425)
Charges related to directly and indirectly held international investments	(459)
4Q 2001 REPORTED NET INCOME	$1,245
4Q 2000 NORMALIZED EARNINGS	$1,954
Gains from international transactions	123
Pension settlement gains from voluntary retirement program for management employees	68
Gains primarily related to required disposition of overlapping wireless properties in connection with contributing operations to Cingular	99
Ameritech merger initiatives	(272)

Valuation adjustments of SecurityLink, certain cost investments accounted for under FAS 115 and the restructure of agreements with Prodigy	(677)
4Q 2000 REPORTED NET INCOME	$1,295

About Qwest

Qwest Press Release

January 29, 2002

View printable

Qwest Communications Reports Fourth Quarter, Year-End 2001 Resul

GAAP loss per share of ($0.31) reflects slowing economy, restructuring charge of ($0.22)

Results affected by continued weakness in the economy and reduced optical capacity asset sales; accordin 2002 capital budget further reduced to $4.0 to $4.2 billion

Investors: Please see definitions of terms used in the "Note to Investors" below.

DENVER, January 29, 2002 - Qwest Communications International Inc. (NYSE: Q) today announced its financial results for the fourth quarter and the full year of 2001. For the quarter, the company recorded a ($0.07) pro forma normalized loss per diluted share compared with pro forma normalized earnings per dilu share of $0.16 for the same period last year. For the year, it recorded pro forma normalized earnings per d share of $0.05 compared with pro forma normalized earnings per diluted share of $0.59 for 2000.

For the quarter, on a reported basis, prepared in accordance with Generally Accepted Accounting Principles (GAAP), the company reported a net loss of ($516) million or ($0.31) per diluted share, compared to a net of ($116) million or ($0.07) per diluted share in the fourth quarter of 2000. The loss in the fourth quarter o 2001 reflects an after-tax charge of $367 million or ($0.22) per diluted share due primarily to previously announced restructuring actions that include personnel reductions, real-estate consolidation and other initi designed to streamline operations (see note 4 on Attachment B). In addition, reported results include non-operating restructuring charges and other one-time items associated primarily with KPNQwest (see note 5 Attachment B) and write-downs for certain equity investments. The after-tax impact of these non-operating expenses in the fourth quarter was $26 million or ($0.02) per diluted share.

For the year, on a reported basis, Qwest reported a net loss of ($2.41) per diluted share, compared to a los ($0.06) per diluted share in 2000.

DSL, wireless and Internet services continue to be key growth products. Total DSL customers at the end of year increased nearly 74 percent from the end of 2000 to 448,000. Wireless services revenues for the quar grew approximately 42 percent to $211 million with 1.11 million customers at year-end. For the quarter, recurring Internet services revenue increased 30 percent to $287 million compared with the same period la year.

"Our overall performance continues to be impacted by economic conditions nationally and in our local servi region, but we are encouraged with the progress made in some of our key growth areas, including global enterprise, DSL and wireless," said Joseph P. Nacchio, Qwest chairman and CEO.

Reported revenue for the quarter was down approximately six percent to $4.70 billion, down $314 million f $5.02 billion in the same period last year. The decrease in revenues for the quarter was mainly due to redu optical capacity asset sales and certain Internet equipment sales. For the full year, reported revenue increa approximately four percent to $19.74 billion compared with pro forma normalized 2000 revenues of $18.95 billion, or approximately 19 percent compared to 2000 reported revenues of $16.61 billion.

Recurring revenue for the quarter of $4.68 billion declined slightly as compared to $4.70 billion in the fourt quarter of 2000. Recurring revenue for Internet services grew 30 percent, or $67 million in the fourth quar 2001, compared with the same period last year. Wireless revenues grew 42 percent, or $62 million in the f quarter of 2001, compared with the same period last year. These strong growth rates were offset by weakn local and traditional data services, reflecting continued slowing of the regional economy. Internet and data services recurring revenue of $1.03 billion for the quarter grew three percent over the same period last yea now represents approximately 22 percent of recurring revenue for the company. For the full year, recurring revenue increased five percent to $18.44 billion compared with recurring pro forma normalized 2000 reven

For the quarter, pro forma normalized earnings before interest, taxes, depreciation and amortization (EBIT was $1.61 billion compared with pro forma normalized EBITDA for the same period last year of $1.99 billio decline was mainly due to reduced optical capacity asset sales and certain Internet equipment sales. In add

EBITDA was also impacted by continued investments in new product platforms and 271 re-entry, changes i product mix and an increase in uncollectible accounts due to continued weakness in the economy. For the y Qwest recognized pro forma normalized EBITDA of $7.40 billion compared with pro forma normalized EBITD $7.37 billion in 2000.

"Our substantial recent investments in service improvements and new product platforms, such as Internet and virtual private networks, have positioned us to better meet the needs of our customers and take advan of the economic recovery when it occurs," said Robin R. Szeliga, Qwest executive vice president of finance CFO. "We remain focused on reducing costs and becoming free cash-flow positive as we gain scale and streamline operations."

The workforce reduction of 7,000 jobs that was previously announced is expected to be completed by mid- The job reductions come as Qwest continues to streamline its business. Qwest expects to achieve this work reduction through attrition and continued business process improvements. The company does not expect th reductions to impact the delivery of service to customers.

For the quarter, capital expenditures were $752 million, down from $2.24 billion in the same period last ye For the year, capital expenditures were $8.54 billion compared with $8.99 billion (on a pro forma normalize basis) for 2000.

As a result of continued economic weakness, Qwest is also modifying its expected capital expenditures for to a range of $4.0 to $4.2 billion, from previous guidance of $4.2 to $4.3 billion. Qwest's resulting 2002 ca to revenue ratio is expected to be in the same range as other large communications companies. Qwest exp to be free cash flow positive in the second quarter of 2002 and beyond.

LOCAL REVENUES; LONG-DISTANCE VOICE, DATA AND INTERNET REVENUES

For the quarter, local services revenue was down $75 million, or two percent compared with the fourth qua 2000. For the year local services revenue grew $345 million or 2.4 percent compared with pro forma norma 2000.

For the quarter, revenues for long-distance voice, data and Internet services decreased $238 million, or approximately 19 percent compared with the fourth quarter of 2000 as a result of a decline in optical capac asset sales and certain Internet equipment sales. For the quarter, recurring revenues for these services gre more than six percent, or $57 million, compared with the same period last year. For the year, revenues for distance voice, data and Internet services increased nearly 10 percent, or $445 million, as compared to pro forma normalized 2000. For the year, recurring revenue for these services increased approximately 15 perc or $506 million, versus pro forma normalized 2000.

For the quarter, recurring revenues for long-distance data and Internet services grew 20 percent over the s period last year.

COMMERCIAL MARKETS

Commercial services revenue declined approximately 14 percent, or $396 million, compared with the fourth quarter of 2000, primarily due to a decline in optical capacity asset sales and certain Internet equipment sa Recurring commercial services revenue declined four percent compared with the fourth quarter of 2000. St growth in Internet services, including dedicated Internet access (DIA), virtual private network (VPN) servic and dial-up Internet access was offset by declines in local service revenues and delays in major customer installations and acceptances during the quarter.

Following a realignment of the business market unit to focus on the top 1000 global business and national accounts, Qwest continued to capture new market share among enterprise customers and federal and state government accounts.

CONSUMER MARKETS

Consumer revenues increased more than three percent, or $48 million, compared with the fourth quarter o 2000, with continued growth in DSL and wireless services offset by a decline in access lines of three percen

At the end of 2001, approximately 35 percent of Qwest consumer customers subscribed to a package or bu of services that may include Internet access, DSL, wireless, voice messaging, caller identification or additio lines. That is an improvement of 25 percent over 2000.

WIRELESS AND DSL SERVICES

Qwest wireless had approximately 1.11 million customers at the end of 2001. For the quarter, wireless serv revenue grew approximately 42 percent to $211 million compared with the fourth quarter of 2000. Average revenue per user decreased approximately one percent to $54.30 compared with the third quarter of 2001

Qwest continues to leverage its infrastructure by offering broadband services for fast Internet connections. DSL customers, which includes in-region and out-of-region DSL customers, increased to 448,000 at the end

2001, which is a nearly 74 percent increase from the end of 2000. Total DSL revenues increased approxima 85 percent for the quarter and 66 percent for the year.

SERVICE IMPROVEMENT

Qwest made strong customer service improvements in 2001 in key areas of installation and repair for resid and small-business customers across its 14 Western states. The number of customers who had been waitin more than 30 days for the installation of their first telephone line reached the lowest level on record. In 20 Qwest met nearly 99 percent of the more than 22 million installation commitments on time and nearly 95 percent of total repair commitments. Additionally, 89 percent of service outages were repaired in less than hours, the best annual customer service results since 1995.

The results mark the sixth consecutive quarter that Qwest has improved customer service and follow a rep the Federal Communications Commission (FCC) that found that Qwest leads the industry in service quality. December 2001, the FCC issued its "Quality of Service of the Local Operating Companies" report, which sho that Qwest was first among the major local service providers in four of the seven critical customer service categories measured by the FCC and that Qwest improved in six of the seven.

RE-ENTERING IN-REGION LONG-DISTANCE SERVICE

The company is continuing to make progress toward receiving federal approval to re-enter the long-distanc market. On December 21, 2001, Qwest completed a critical and comprehensive operational support system (OSS) test in Arizona. Qwest is also nearing completion of an OSS test covering 13 other local service state

In addition to the OSS tests, 12 states have completed workshops on all 14-point checklist items. Of those states, five (Colorado, Idaho, Iowa, Nebraska and Wyoming) have issued orders completing review of all checklist requirements subject to completion of the multi-state OSS test. The remaining seven states have issued final orders on most checklist items and are expected to complete their reviews in January and Febr

Qwest's actual performance in serving wholesale customers is better than Verizon's and SBC's at the time t applied, and successfully received, approval to offer long-distance services in New York, Texas, Missouri an Arkansas.

The company plans to file for long-distance approval with the FCC for all states by mid-2002. The FCC is expected to approve all applications within 90 days.

NOTE TO INVESTORS

"Reported" results are prepared in accordance with generally accepted accounting principles in the United S (GAAP). Recurring and pro forma normalized results are not prepared in accordance with GAAP.

"Recurring" results reflect adjustments made for optical capacity asset revenue, certain Internet equipmen and other items, such as contractual settlements in the periods presented. The Internet equipment sales fo which our results have been adjusted to derive "recurring" results primarily include individually large and infrequent wholesale sales. For the three months ended December 31, 2001 and December 31, 2000, the recurring revenue adjustments were $23 million and $319 million, respectively. For the years ended Decem 31, 2001 and December 31, 2000, the recurring revenue adjustments were $1.30 billion and $1.37 billion, respectively.

Additionally, "pro forma normalized" information regarding Qwest's results from operations is provided as a complement to reported or GAAP results. The condensed consolidated pro forma normalized statements giv retroactive effect as though the merger of Qwest and U S WEST, Inc. had occurred as of the beginning of t periods presented. Shares outstanding and earnings per share have been restated to give retroactive effec the exchange ratio resulting from the merger. In addition, pro forma normalized results have been adjuste eliminate the impact of non-recurring items such as merger-related and one-time charges, restructuring ch asset write-offs and impairments, a depreciation adjustment on access lines returned to service, gains/loss the sale of investments and fixed assets, change in the market value of investments, the write-down of investments, elimination of in-region long-distance activity, and a tax true-up on merger-related and restructuring charges. For additional detail on these adjustments readers should refer to Attachments C an Certain reclassifications have been made to prior periods to conform to the current presentation.

The term "local services" refers to our estimate of the classic U S WEST business (including wireless). The t "long-distance voice, data and Internet services" refers to our estimate of the classic Qwest business. We h worked to integrate the businesses and operations of Qwest and U S WEST since the completion of the mer on June 30, 2000. Because we do not operate the two as separate businesses, we have attempted to approximate the revenues attributable to the major lines of business of each company, as they existed prio the merger. Our estimates do not necessarily reflect the actual results that would have been generated by two businesses as standalone entities.

CONFERENCE CALL TODAY

As previously announced, Qwest will host a conference call for investors and the media today at 9 a.m. (ES with Joseph P Nacchio, Qwest chairman and CEO, Robin R. Szeliga, Qwest executive vice president of finan and CFO, and Afshin Mohebbi, Qwest president and COO. The call may be heard on the Web at www.qwest.com/about/investor/meetings.

ABOUT QWEST

Qwest Communications International Inc. (NYSE: Q) is a leader in reliable, scalable and secure broadband voice and image communications for businesses and consumers. The Qwest Macro Capacity(r) Fiber Netwo designed with the newest optical networking equipment for speed and efficiency, spans more than 190,000 globally. For more information, please visit the Qwest Web site at www.qwest.com.

Attachments

- Attachment A
- Attachment B
- Attachment C
- Attachment D
- Attachment E
- Attachment F
- Attachment G

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This release may contain projections and other forward-looking statements that involve risks and uncertain These statements may differ materially from actual future events or results. Readers are referred to the documents filed by Qwest Communications International Inc. (together with its affiliates, "Qwest", "we" or with the Securities and Exchange Commission, specifically the most recent reports which identify important factors that could cause actual results to differ from those contained in the forward-looking statements, inc but not limited to: potential fluctuations in quarterly results; volatility of Qwest's stock price; intense comp in the markets in which we compete; changes in demand for our products and services; the duration and e of the current economic downturn, including its effect on our customers and suppliers; adverse economic conditions in the markets served by us or by companies in which we have substantial investments; depend on new product development and acceleration of the deployment of advanced new services, such as broadb data, wireless and video services, which could require substantial expenditure of financial and other resour excess of contemplated levels; higher than anticipated employee levels, capital expenditures and operating expenses; rapid and significant changes in technology and markets; adverse changes in the regulatory or legislative environment affecting our business, delays in our ability to provide interLATA services within our state local service area; failure to maintain rights-of-way; and failure to achieve the projected synergies an financial results expected to result from the acquisition of U S WEST, and difficulties in combining the opera of the combined company. This release may include analysts' estimates and other information prepared by parties for which we assume no responsibility. We undertake no obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect e or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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