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CHRIS LARSEN, ANALYST, CREDIT SUISSE: We're going to get started here. Hopefully not a lot of introduction is needed for AT&T, the world's largest telephone company, soon-to-be. Very happy to have CFO Rick Lindner with us.

I'm not going to do make a lot of remarks. For those of you who don't know me, I'm Chris Larsen; I'm the telecom services analyst at Credit Suisse. AT&T has been one of the best-performing stocks in 2006. I used to call it the undiscovered mega cap. And with that, I'm going to turn it over to Rick and let him tell you his story.

RICK LINDNER, SENIOR EVP, CFO, AT&T, INC.: Thanks, Chris. Good morning, everyone. It is good to see all of you here this morning, especially this early. We were speculating whether you came to hear about AT&T, or you came for the -- we hear there's really good croissants in the back. We thought that might have been it.

I have got a few slides to share with you this morning, and then we're going to open it up for Q&A? But before I get into the slides, let me just offer you a general comment on the business. Last January, we presented to you a three-year outlook for the new AT&T, postmerger between SBC and AT&T. That outlook included double-digit adjusted earnings per share growth in each of the next three years starting in 2006, along with growing margins in growing free cash flow.

What you have seen in our results this year is we are meeting those targets. As we approach now the end of 2006, the point I want to leave you with is simply this. That based on what we have seen this year and based on what we have accomplished, our confidence in our ability to deliver on that three-year plan is greater today than it was 10 months ago.

We are on or ahead of schedule in merger integration. We have expanded margins this year in both wireline and wireless. We're confident in our ability to compete. Looking ahead, and this is most important, we're confident that the business continues to have significant upside potential.

Before I get started this morning, I do need to cover a Safe Harbor statement which says, as you all know, that we will talk about some forward-looking statements this morning. Those statements are subject to risks and uncertainties; and a description of and details of those items are available in our SEC filings an on our website.

We began this year of 2006 knowing it was going to be a pivotal year for us at AT&T. We were poised to take the first steps in our integration between SBC and AT&T; and it was the second year after Cingular's merger with AT&T Wireless, when a number of initiatives were scheduled to gain traction.

As you see on this slide, as I said before, we delivered what we said we would, and more. In the third quarter, we posted our sixth consecutive quarter of double-digit year-over-year growth in adjusted earnings per share.

When you look at that earnings trajectory, what you see are three things. You see outstanding progress at Cingular; a fast start to merger integration with AT&T; and you also see good wireline results, particularly in the business segment. These components have driven substantial margin expansion in both wireline and wireless.

In the third quarter, Cingular increased EBITDA margins by 300 basis points sequentially. Our consolidated margins, which exclude Cingular, also were up both sequentially and year-over-year. And as you saw in their most recent results, BellSouth, our pending merger partner, also has increased their margins this year.

We have also delivered solid cash flow. We are on track to meet our full-year guidance in the mid $2 billion range for free cash flow after dividends. We have used a considerable amount of cash this year, $5.2 billion through the first three quarters, to return value to shareowners through dividends and through share repurchase. We're on track with the share repurchase target we outlined earlier this year after the BellSouth merger announcement. That is a total of $10 billion in repurchases by the end of 2007, with 2 to $3 billion coming this year.

So that is a quick look back at our results through the first three quarters. Now what I would like to do is take a few minutes and look ahead, and talk about some of the opportunities we have. I'm going to focus on four key areas. In wireless, where after the BellSouth merger we will have 100% ownership of Cingular; in business, where the former AT&T assets give us a premier network and premier set of products; in consumer, where we are a leader in broadband and in bundling; and in our cost structure, where we have the industry's largest set of merger synergies and cost opportunities.

So starting with wireless, well, I will tell you this year there is a lot to make a CFO smile when you look at our Cingular results. Subscriber growth continues to be strong. Cingular has led the industry in gross add flow share. Churn has moved down substantially; and as a result over the past year they have added 6.4 million subscribers. In the third quarter, ARPU was up both sequentially and year-over-year, driven by data growth. As a result, third-quarter service revenues were up 12%.

But what made this a watershed quarter for Cingular was a 300 basis point sequential improvement in adjusted margins. That margin expansion is a direct result of a successful merger integration.

Two years ago, shortly after the acquisition of AT&T Wireless, the Cingular team laid out their three-year plan, their plan for winning customers, for growing the business, and expanding margins. What you have seen in Cingular's results this year is the culmination of a lot of hard work as they have integrated and expanded networks, consolidated support systems, rationalized distribution, and improved customer service.

At the end of the third quarter, Cingular's GSM network conversion was complete; and it was on time, on budget, and as planned. We're now operating a single nationwide integrated GSM network. We have also completed GSM billing conversions, and we have sunset the legacy AT&T Wireless prepaid platform. Network performance metrics are up; and correspondingly, as you would expect, churn is down.

We're obviously very proud of all of that the Cingular team accomplished this year, but the good news is there is more yet to come. The most obvious upside opportunity for us in wireless is continued margin expansion. As you saw earlier, margins at Cingular have steadily climbed. We are now in the mid 30% range, and we continue to expect to achieve margins above 40% by 2008.

The drivers of that margin growth are very straightforward. First off, the completion of our GSM network integration will lower costs as we groom our network and continue to reduce churn. We will continue to make progress on the T-Mobile joint venture unwind in California, and costs will come down as Cingular migrates traffic onto its own network. TDMA billing and other IT system conversions are still ahead of us. The TDMA network in its entirety will be turned down in 2008. So this is one clear area of upside potential for AT&T in wireless -- continued margin expansion in a $40 billion per year business.

Even more exciting, I think, is the growth potential we see from wireless data. Data services are the key to future growth in wireless, and that is why we have ramped up the implementation of our UMTS network. Our 3G network is now deployed in 145 cities. We are expanding coverage in many of our previously launched markets. We have an aggressive schedule with new markets launching virtually every week.

Cingular already has an impressive record in terms of data growth. In the third quarter, data revenues were up more than 60% and data ARPU was up $0.55 sequentially. That is our third consecutive quarterly increase of more then $0.50. But to date, and this is the important point, to date that data growth has come most entirely from traditional products on our 2G network.

The 3G revenue opportunities still lie ahead. As we expand our 3G network and as we get attractive 3G devices into the marketplace, like the new ultraslim PDA, the BlackJack, we expect to see continued strong growth in data revenues.

Let me switch gears and talk just briefly about our potential in business markets. Most people equate business opportunity with enterprise; and that makes sense when you look at the assets we added through the AT&T acquisition. Today, we have one of the world's largest IP backbones, 30 premium global data centers offering managed hosting services. We are the leader in global MPLS and IP/VPN services.

As was evident in our third-quarter results, we are seeing some improving trends in enterprise. For the second consecutive quarter, we posted a sequential decline in enterprise revenues of less than 1% and IP services had mid-teen percentage growth. For the second straight quarter, we had sequential and year-over-year growth in data transport. Total enterprise data revenues, which now make up nearly half of all enterprise revenues, grew 1.5% year-over-year. So the momentum and trends are encouraging as we look ahead to next year and beyond.

While enterprise gets a lot of attention, don't overlook our regional business customer base, especially that base of small and medium-sized businesses. Like enterprise, this is a pretty competitive area, but it's also an area where we have innovated and we have led the market. We have introduced more bundles of services. We have launched new products, including services that were originally developed for the enterprise space in areas such as security and managed Internet service. As you see on this slide, over the past year, regional business revenues have increased steadily. In the most recent quarter, the small and medium portion of those revenues grew at a double-digit pace.

Regional business data revenues were up 12%, with solid growth in transport and more than 20% growth and IP services. As we look ahead and these new products and services gain traction, especially in data, and especially in wireless and wireline converged solutions, we believe small and medium-sized business will continue to drive revenue growth for our regional operations.

The other key element of regional wireline operations for us is consumer which, as you know, is also a highly competitive segment of the market. But even as cable competition has ramped in our territory, we have grown both consumer connections and consumer revenues.

Total connections -- that is retail access lines plus high-speed data plus video -- were up 376,000 over the past year. We now have 8.2 million high-speed Internet connections, up 26%. 42% of our consumer DSL base subscribe to a higher-speed service; and that is virtually double where it was a year ago.

So the first thing to know about consumer is that we have delivered consistent revenue growth over several quarters now, despite increasing voice competition; and we have done it with broadband and with bundling.

But again, the exciting thing for us in consumer, as we look forward, is the next generation of services which combine and integrate wireless, broadband, and video. Our strategy here is to give customers the ability to access content across three screens -- their handheld device, their PC, and their TV. There is a great deal of potential ahead as we develop our suite of video services.

As you know, we have worked with DISH to combine their all-digital satellite TV service with our DSL to create an innovative new service called Homezone. Homezone gives customers access to 12,000 titles of video on demand plus AT&T Yahoo! services. We're now rolling out Homezone across our entire local wireline footprint.

We have also made good progress with deployment of AT&T U-verse services, which is based on switched IP video. We have now launched U-verse with high-definition capability in both San Antonio and Houston. We will continue to roll markets out through the month of December. We are encouraged with the progress that we are seeing.

When you look out 12 to 18 months from now, with a new generation of integrated services we believe we will be strongly positioned under a single AT&T brand, with extensive broadband coverage and a broad set of video options.

As we make this transition, we have the industry's largest set of merger synergy and cost reduction opportunities. Those opportunities will drive not only earnings and cash flow growth, but they will help fund the investments we're making elsewhere in the business.

If you look at all three major transactions -- Cingular's acquisition of AT&T Wireless; our acquisition of AT&T; and our pending merger with BellSouth -- plus other operational cost initiatives, the expected annual savings from those sources in 2008 totals more than $9 billion. These opportunities are clearly identified. They are all on the cost side, and they are very achievable.

Our record of delivering merger synergy targets is solid, based on what we have accomplished at Cingular and with AT&T integration this year. As we drive cost out of the business, the important thing is that we are also building a business that will grow revenues and create value through both productivity gains as well as organic growth.

So in closing this morning, let me say I believe there are a number of things that set AT&T apart. We have a premier set of assets. Following the BellSouth merger we will have 100% ownership of a tremendous wireless business with significant upside potential. We are a leader in broadband and IP. We have a high potential, but financially sensible, consumer strategy. And our merger cost reduction opportunities are unmatched.

The other thing I think that sets us apart is a strong three-year outlook. We will continue to deliver double-digit adjusted earnings per share growth; and after our BellSouth merger we expect a return to overall revenue growth in 2007 as versus pro forma 2006 results.

We expect to continue to generate strong and growing free cash flow after dividends -- in the mid $2 billion range this year, $4 billion or more next year, and more than $6 billion in 2008. We used that cash to return value to shareowners through share repurchase and a growing dividend.

As I said at the outset, AT&T is a Company that has demonstrated we can deliver on our targets. Looking ahead, I think the business offers tremendous opportunities in both cost reduction and long-term growth. So it's an exciting time and it's a great time to be part of AT&T.

That concludes my prepared remarks. Chris, if you would like to come up and join me, I would be happy to take some questions.

CHRIS LARSEN: Let me ask a couple of questions that I know are going to get asked. First, the BellSouth merger; it seems to be probably the number-one topic that I hear these days. Can you give us an idea of what maybe the regulatory hangups are; the fifth commissioner; and maybe your sense for what the timing is at this point?

RICK LINDNER: I never thought that question would get asked this morning, Chris; I'm surprised it took this long. As you know, we -- I'm going to move up a little bit; I feel like I can't see that side of the room. There we go.

As you know, we have received approval from 19 different states, the Department of Justice, several foreign countries. All those approvals for the merger were received without any conditions. We had those approvals in hand two to three months ago. The last approval before we can close the transaction is with the FCC. Unfortunately, over the last couple of months the FCC has been unable to reach a consensus and unable to bring the issue to a vote.

As you heard in press reports starting at the end of last week and continuing yesterday, chairman Martin has started the process of unrecusing commissioner McDowell. Hopefully that process and the ability to bring in a fifth commissioner into the voting will help break the logjam and move this forward.

The FCC has a meeting scheduled for December 20. Certainly from our standpoint, it would be our hope that the merger would get approved, and we could close and move on at that point. The time frame is pretty tight. So I can't give you a good estimate of likelihood for that. But that is certainly our goal, would be to have an approval on the 20th. If it does not happen on the 20th, potentially it could slip into January.

But I think at the end of the day, we do believe the merger will get approved. We will get this closed and we will move on. It is a good transaction. It is a transaction that doesn't have significant competitive impacts. That is why, after months of study, it was approved by the Department of Justice. That is why it was approved by 19 separate states.

It is a good transaction for the shareowners. We think there are terrific opportunities for our Company by owning all of Cingular and terrific opportunities by owning the BellSouth assets. At the same time, this would be a good transaction for customers, and it will be a good transaction for the industry.

So we will get it done, hopefully, in December; if not, I think it should be approved shortly after that.

CHRIS LARSEN: I will just point out that at 10.30 today we are fortunate enough to have that fifth commissioner speaking, McDowell, upstairs. So maybe we will see some of you there at 10.30.

RICK LINDNER: Ask some really hard questions.

CHRIS LARSEN: Can you walk through the integration and maybe some of the challenges that you might have to face as you move into the BellSouth transaction?

RICK LINDNER: I think we have been working since the merger was announced in teams. Certainly as much as legally we can, working with our counterparts at BellSouth and Cingular to put together a merger plan. I feel very good about the stage we are in, in terms of planning. I think we are at a point where, frankly, everyone just wants to get closed so we can get on with it.

I think what you should expect to see is similar to what you saw with AT&T. We will very quickly name the leadership organization for the company, cascade that down through the organization. You will see the BellSouth wireline southeast territory be integrated like an additional wireline region for us. You will see integration of some of the key organizations within Cingular, where we will have an opportunity for the first time to have a very close linkage in areas like network planning, product development, and marketing between our wireline and wireless businesses. So you will see some integration there.

You won't see a lot of change from the standpoint in wireless of the local market operations. Because I think we have got a lot of good momentum there, and so we are very sensitive about not doing something that would change the direction that that business is in right now.

We have merger plans that are specific by organization and detailed in terms of what areas we will focus on first. Detailed in terms of what the organizations will look like, what headcount will look like. Those targets are in place, and we are ready to go.

Similar to the AT&T merger, this is one where a large portion of the synergies are expense related. Of those expense synergies, a fair portion of those are force and headcount consolidation related. Then secondly, we have got benefits coming in terms of nonemployee costs, particularly in network and in IT.

Finally, we are going to have the benefit of having a consistent brand across the entire organization, which is very powerful in terms of the kind of messaging and advertising weight we can generate with, frankly, smaller dollars than we're spending today across all three organizations.

CHRIS LARSEN: One of the things you mentioned was brand. Cingular, besides the brand, what [are] plans to integrate that? Is there much that is going to change? Or is that something that is working, and we don't want to mess with success right there?

RICK LINDNER: Well, I think what you will see, certainly we will transition the brand. We want to be able to offer all services under the common AT&T brand. But in addition to that, we are going to look to integrate wireless in a much closer fashion into a number of aspects of the business.

Distribution being one. For example, you should expect to see that we will have single consolidated sales account teams that are calling on all of our enterprise accounts, our largest business customers, that are going to be offering and selling and servicing both wireline and wireless products in a single suite.

You should expect to see in our Cingular stores -- and we are already trialing some of this today. You will see in our retail stores selling wireless, also selling AT&T U-verse services, selling DSL services all out of the same store.

I think the real benefit of this, and it will take a little bit of time, but you will see the benefits of consolidating the organizations that are involved in developing and bringing to market new services. Those being in IT, network planning, product development and marketing. By combining some of those organizations, I think we will have a much better opportunity to move converged wireline and wireless products forward.

CHRIS LARSEN: Shifting gears a little bit, video, which is a very small part of your business, but certainly not a small part of your effort right now. Can you give us a progress report on the U-verse, where that stands?

High-definition, you mentioned you just rolled that out. Are all the pieces starting to work together? Microsoft had been a delay. Then what are the challenges ahead for that service?

RICK LINDNER: I think we are at the point where the pieces have come together for U-verse. That is why we have gone forward with the launch in Houston and the upgrade of the San Antonio system for HD. By saying the pieces have come together, talking about the Microsoft software, the new set-top boxes, the operating support systems; and so we are ready now to go forward, launch additional markets, and we are ready to expand the launches in the markets, San Antonio and Houston, where we have launched.

So far, it is going as planned. In fact, I have U-verse service at home while I am here at the conference this week. The San Antonio system has already been upgraded for HD. A technician is coming out, I think, today or tomorrow. They are replacing the set-top boxes, and I will be ready to go with HD.

So we feel good about the progress. I think the challenges going forward are just like any new service. In fact, in many respects, it is similar to DSL from the standpoint of the network building components are in place, we have got to bring the service to market now and bring it in scale. So now the gears are shifting a little bit towards marketing, penetrating the market with the product, installation, service provisioning, bringing customers on board, customer service. So I think those are -- I think the challenges now are going to be more operational in nature.

CHRIS LARSEN: You want to roll it out to 18 million homes. What is the gating factor going from, say, the 2 or 3 million homes that you will have in Houston to the 18? Is it the grooming of the network, the installation of the head-ends? What is the long [pull in the ten]?

RICK LINDNER: Well, certainly, building out the local network infrastructure. When you look at Lightspeed, that is where the bulk of the capital is going. Video infrastructure is a smaller component of it. It is really building out the local network to provide the bandwidth to the home. That is one of the things -- that is something you shouldn't lose sight of.

Because that is one of the things that, over the last couple of years, has made me very comfortable with the investment we're making -- the capital expenditures we are putting in Lightspeed -- is that when you step back from it, what we are really doing is facilitating in our network the ability to drive more bandwidth to the home.

So, that is going to be valuable to us for a long, long time into the future, irrespective of how services change and how products develop.

So I would say that is certainly a piece of this. There's a lot of pieces that work together. Getting regulatory approvals to launch in markets. We currently have, if I have got my counts right, we have got regulatory approval to launch video over about 60% of our territory. So we are in pretty good shape there. We continue to make progress every single month in terms of work we are doing both at the state level and at the local municipality level. So we are in good shape there.

I think the build is progressing on schedule. The technology is coming together. Now it is just a matter of bringing it to market and scaling it.

CHRIS LARSEN: Rick, one of the things you mentioned was bandwidth. Verizon, one of your peers, has done a fiber to the home strategy. There is a lot a speculation the DSL or the twisted copper will never give you enough bandwidth. What are your thoughts on -- do you eventually have to go fiber to the home? Is there enough bandwidth in the twisted pair?

RICK LINDNER: Our view at this point is that we're not going to have to go fiber to the home. We are pleased with the bandwidth that we're seeing over copper. In fact, I can tell you, at my house I am getting 55 megabits over a single twisted copper pair, which is pretty extraordinary when you think about it.

We do have opportunities going forward. By the second half of next year, we are going to be able to pair bond in locations where we need more bandwidth. Obviously, the further you are from the central office, the further you are from fiber, the more of the challenge it is to provide the bandwidth.

So in some locations that are further away from the node, and in locations there where customers may require additional bandwidth for multiple HD streams or for higher speed data services, we are going to have the option of pair bonding in those locations.

So, on average, at this point, we are producing about 25 megabits. But in many, many locations, we are producing substantially more than that. Even at 25 megabits, as you start to pair bond, you get into 40 megabits plus; that is a lot of bandwidth to provide both multiple HD streams as well as a robust data service.

CHRIS LARSEN: You also expanded your Homezone with the DISH satellite. But you expanded it throughout your footprint as opposed to just outside the Lightspeed. What is the thought? Is there a signal there that we're going to use DISH more?

RICK LINDNER: I think the signal there, Chris, is number one, most importantly, we want to have a video product we can offer across our footprint, and we want to have a video product we can offer across our footprint now. Now in a location, take San Antonio or Houston for example, where we have got U-verse up or in areas where we expect to have U-verse up shortly, we will focus more of our efforts there.

But in areas where it will be difficult to reach with U-verse or where it may be a year or two before U-verse is available, we want to have a product now; and Homezone is a terrific product for that. It gives you all the digital broadcast stations; 12,000 titles of video on demand. It integrates in some nice and interesting ways with your AT&T Yahoo! portal. Allows you to access music you have downloaded. It allows you to access your picture library on your portal, and do it all through your TV set. So it is an interesting product. We have rolled it out now across the footprint, and early results have been good, so we are pleased with it.

CHRIS LARSEN: Pricing has been one of the key drivers of the telecom outperformance in '06. What are you seeing now in terms of -- we can all see the retail trends. What are you seeing on the business side -- whether it is enterprise, small business, wholesale -- in terms of pricing? Have we seen any changes over the last year? Has it gotten better, gotten worse on the margin?

RICK LINDNER: I don't know if pricing has been a key of performance of this year. Pricing continues to be, I think, very competitive. From our standpoint, we have driven a lot of costs out of the business. We are moving to cost structures that will enable us to be very, very competitive in the marketplace. I think that is a key.

On the pricing front, I think you're going to continue to see very competitive markets in every segment. You are going to have four national wireless companies competing as we do today. In consumer on the wireline side, you're going to have in every market two facilities based providers competing head-to-head.

By the way, in that regard, cable, for example, at this point or by the end of this year, about 80% of the cable subscribers in our territory will have access to voice services through their cable company. So the rollout there by the end of this year is largely complete. So active competition there.

The enterprise market, the business market, is always very competitive.

But I do think what you are seeing is a couple of factors occurring. One is -- and this is important. When you have facilities based competitors -- as opposed to some of the more artificial schemes we had earlier with UNE-P and resale arrangements -- when you have facilities based competitors, those competitors have to earn a return on those investments over time. So that creates attention in pricing and it creates attention with respect to the financials and how all of that fits together with the investments you're making to provide the services. So I think that helps to stabilize pricing somewhat.

You have got another factor, where in some areas we are seeing exploding demand. We are seeing exploding demand for bandwidth, we're seeing exploding demand in our backbone networks to carry traffic. So, as supply and demand start to even up a little bit, it drives all companies -- it forces companies to a little bit more rational pricing environment.

But still at the end of the day, it is going to be very competitive on pricing. As a result, driving to the best cost structure is extremely important. That is where you see us taking lots of costs out of our business, deploying new technologies. We are the first company to deploy OC-768 in our backbone network, which brings us about a fourfold capacity increase there. So, you will continue to see us drive towards a better cost structure.

I think, pricing, while it will be competitive, I think we're going to be able to earn a return in that environment.

CHRIS LARSEN: Rick, in your opening comments you mentioned you have increased confidence in the ability to drive double-digit earnings growth in the next three years. If we look back to '06, one of the big drivers was the SBC AT&T merger synergies. As we look into '07 one of the big drivers will be the BellSouth AT&T merger synergies. Plus, not to forget Cingular.

But as we look into '08, what do you see as the big driver of that earnings growth? At that point, have we returned in this industry to real top-line growth? Not 1%, not just marginally better than last year, but are we really talking about GDP or better top-line growth in '08?

RICK LINDNER: Chris, I think that is a key point. When we look at the opportunities going forward in terms of earnings and cash flow, it really comes down to the things I talked about this morning.

First of all, don't forget wireless, because wireless is a big component of this. When you are talking about going from 35% margins to margins that are in the lower 40s, over a $40 billion revenue stream, which will make up 35% of our business starting next year, that is a huge, incremental upside that we are going to see over 2007 and 2008.

When you look to the AT&T merger, we have made really good progress with AT&T merger synergies this year. We think we're going to have synergies this year in the $900 million range for that merger. But keep in mind, we are only one year into it. We are going to have a full year of some of the reductions we have made this year; we're going to have a full year of those benefits next year. So it is going to increase substantially in 2007 and incrementally again in 2008.

Then, we put BellSouth on top of it. We will have some synergies from BellSouth in 2007, we think 4 to $600 million. But eventually, cost synergies in BellSouth of over $2 billion. So again, you have got a lot of upside there into '08.

But a key factor for us and what I think can really make this into a home run is using this window over the next couple of years to get back to and drive top-line growth. We will have, we believe, top-line growth next year on a pro forma basis. But as we get into '08, and then we have the opportunity to get enterprise, for example, back positive, that is a huge revenue stream for us; $4.4 billion in revenues for us in enterprise last quarter. We get that back to positive.

Wholesale, we believe, will be by mid next year when a lot of the movement of traffic that is going on right now has settled down, wholesale will become flat to positive going forward from about mid '07 on. So those are two large revenue streams where we have got opportunities to move the needle on revenues.

Then you put the video opportunity on top of it. I think we will see some impact from video in 2007, but we will see a much bigger impact as we move into 2008.

So I think that is the key to it, Chris, is we have got to use this a window over the next year or two. We need to make some investments on a very targeted basis that will drive revenue growth for us as we get into 2008 and beyond.

CHRIS LARSEN: We have got just a minute or two. Let me open it up if there's any questions in the audience. You are the guest; I will let you pick.

UNIDENTIFIED AUDIENCE MEMBER: How much do you worry about accelerating sub loss and accelerating price competition in the consumer area? I noticed in Verizon regions, people that have switched to cable are just astounded at the price savings. Verizon has come back at some of these people and said, hey, we were just making really substantive mistakes on your bill; come back and we will make it like $30 a month cheaper.

A real problem in Verizon regions. My sense is that sub losses are just going to balloon. I think we have hit a tipping point. I'm just interested in your (inaudible).

RICK LINDNER: We are not seeing that, I think, to that degree in our local territories. It is not to say -- we are concerned about subscriber or customer loss in consumer. But as I said before, first of all, think about the trajectory there. We have got three large cable companies that are involved selling voice services in our territory -- Cox, Time Warner, Comcast. Cox has been in the voice market for some time. Time Warner rolled out their voice services in 2005. Comcast has been rolling out in 2006. So by the end of this year, we will have cable competition pretty much fully rolled out in our territory. We will see a little bit of incremental increase in 2007, but not much.

What we are seeing in access line loss is we are starting to see access line loss in total kind of plateau. We will see how things move forward. But as we have followed kind of the trajectory of the cable companies that have entered the voice market, the first year into the market they obviously had the opportunity to make the most in terms of penetration gains; and then it becomes more difficult to further penetrate the market and it does start to level off a little bit. I think that is some of what we are seeing right now. Our expectation would be in 2007 that we don't see a worsening access line loss situation.

In terms of pricing, what we are seeing is that our prices for bundles in the marketplace are very competitive. In particular, over this next year, as we roll out video services, our video services are priced for U-verse, for example, pretty much on top of where dish is, which gives us a little bit of a pricing advantage there versus cable.

So what you see is, if you are a cable customer looking at our pricing, you're going to say -- hey, I can save on the video portion. Cable, because of the large video base, has priced telecom services more competitively; they priced those lower. But their video services are higher.

When you put the whole bundles together, I think we are very competitive with any of the cable companies in the market. So the key for us is to get the video product out there, get it out on a ubiquitous basis.

CHRIS LARSEN: Rick, if I let this go on we're going to actually back up the rest of the day. So, I apologize, but we're going to cut the Q&A there. I want to thank you for the time you spent here. Everybody else, the rest of the meetings will begin upstairs. We have got another meeting that begins in about three minutes upstairs. Thanks a lot, Rick.

RICK LINDNER: Thank you, Chris.

and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

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