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LOCAL 4250

## Workers of America

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Friday, April 24, 2009

*A Message from AT&T Employees*

## **AT&T Workers Have Built a Strong Company for Tough Times**

**AT&T employees are proud of our company, the 7th largest in the world, with \$12.9 billion in profits in 2008.**

AT&T's first quarter 2009 profit of \$3.13 billion beat expectations because of strong growth in video and data services and wireless, keeping the company on track for continued solid gains. That was the consensus of industry observers, analysts and the company's top executives. "For this economy, it was an outstanding performance," one analyst commented.

***AT&T's strength is its integrated 3G wireless, fiber, and copper networks. Communications will continue to "go mobile," but the backbone wireline network remains fundamental to the company's operation, and its success. In the first quarter of 2009:***

- AT&T increased revenue from wireline IP data revenues by 16.4%, driven by U-verse and business IP services.
- AT&T increased wireline broadband and TV connections by 673,000 in the first quarter, including a net addition of 284,000 U-verse TV subscribers.
- 60% of U-verse TV subscribers switched to AT&T from one of its competitors.
- AT&T increased average wireline revenue per household by 2% percent despite access line losses.

Compare AT&T's positive financial outlook with cable companies that have yet to develop effective wireless strategies or mobile data options like wi-fi hotspots and laptop cards. AT&T, a company based on integrated offerings and transitioning from voice alone to voice, video, broadband connectivity, is far better positioned as an industry leader.

In the emerging telecommunications landscape where wireless and wireline technologies are thoroughly interconnected, so are all the workers who build and support them. But in the current atmosphere of economic crisis, AT&T is pursuing shortsighted goals. The company wants to shift more health care costs to employees—a move that will save only a fraction of one percent of operating costs and one that has a great cost to AT&T in terms of employee morale, because it lowers workers' standard of living at a time when the company posted a \$3 billion profit this quarter.

Since 1983, the Communications Workers of America and AT&T have negotiated path-breaking health care cost containment and cost sharing agreements. This year, we have the opportunity to continue to work together for real health care reform. That's a much better solution than a short-sighted approach based on increased cost shifting to workers.

First, national health care coverage will save AT&T some \$600 million and increase shareholder value by \$5 billion at AT&T's current price-to-earnings ratio. Second, this is the next logical step in a long history of management and CWA working together to control health care costs. Today, with the U.S. spending twice as much of its GDP as other developed nations on health care, the need for change couldn't be clearer. Workers and management must unite to make health care reform happen now. AT&T is well-positioned to lead the industry and help move our nation out of economic crisis and back to prosperity.

Employees are looking to AT&T to set the right priorities so that working together, we can continue to build the digital economy that is so critical to the economic growth and future of our country.

*Hundreds of CWA activists will distribute copies of CWA's report to shareholders at the annual meeting. Below is an excerpt. Read the full report at [WeAreTheNetwork.org](http://WeAreTheNetwork.org)*

# We Are the Network

## AT&T Workers Have Built a Strong Company for Tough Times

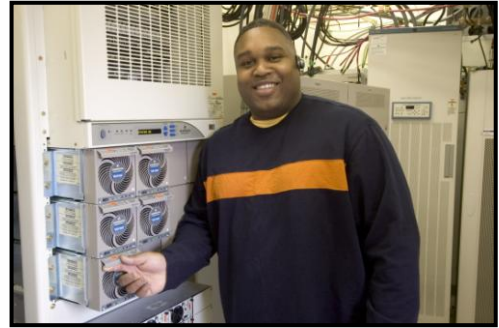
AT&T, the 7th largest company in the world, is in a strong position to weather the current economic storms because of its bedrock strength: 180,000 union members.

But the union workers who built the company's powerfully integrated wireless, fiber optic, and copper networks now face contract negotiations in which wages and benefits negotiated over decades are threatened.

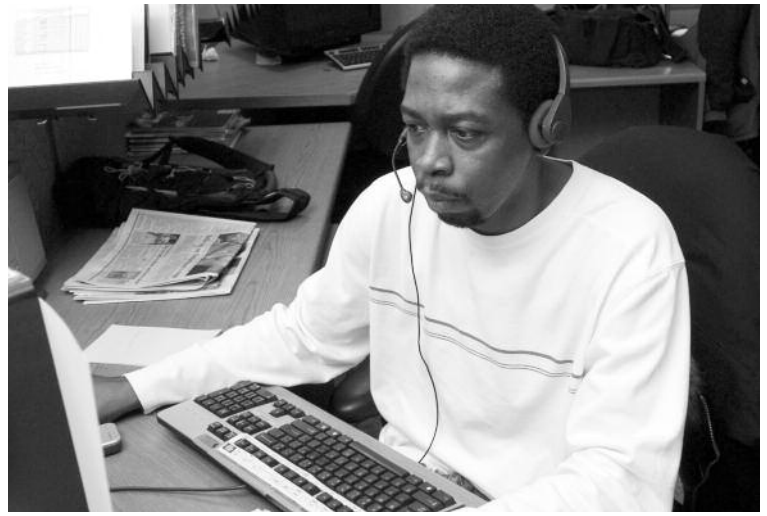
The future of the company depends on the workers who build and support the networks. Especially in this period of crisis for working families and the nation, we cannot retreat from a commitment to a growing economy and stable communities. We must move forward by rewarding the people behind AT&T's success—success that resulted in \$12.9 billion in profit in 2008.

This is no time for cutting our standard of living; it is time for expansion and rewarding workers. Why?

- The company is in a strong position relative to competitors—and workers put it there.
- Analysts are optimistic about the future of the company—and workers' futures should be positive as well.
- AT&T's telecom networks are interdependent—with wireline and wireless workers equally important to the company's success.



- Prosperity in the 21st century depends on unlocking the power of telecommunications—and workers hold the key.
- A fair contract is critical for retention and productivity.



# We Are the Network

*AT&T Workers Have Built a Strong Company for Tough Times*

*Annual Report to AT&T Shareholders 2009*



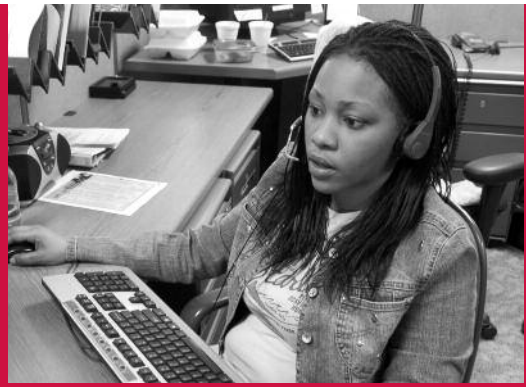
Updated report  
available 4-22-09 on  
[www.WeAreTheNetwork.org](http://www.WeAreTheNetwork.org)  
following AT&T earnings  
release





[www.cwa-union.org](http://www.cwa-union.org)

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### **AT&T Remains Highly Competitive**

During the continuing market decline of the past six months, AT&T's stock values outperformed the Dow Jones average. Even more important, the company bested its cable competitors, who are losing more and more customers to AT&T and Verizon and have yet to develop an effective wireless strategy. The labor and ingenuity of the workers who built an unrivaled integrated system put AT&T on top.

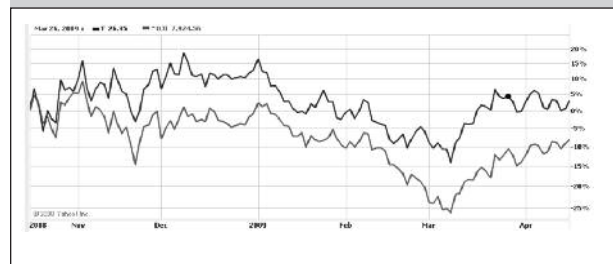
In addition to strong stock values, AT&T's cash position is sound, and its debt-to-equity ratio is the second best in the telecom industry. Six of AT&T's competitors (Cablevision, Cincinnati Bell, Charter Communications, DISH, Embarq, and Qwest) have negative shareholders' equity. Charter is currently in bankruptcy proceedings.

### **AT&T Is the 7th Largest Company in the World**

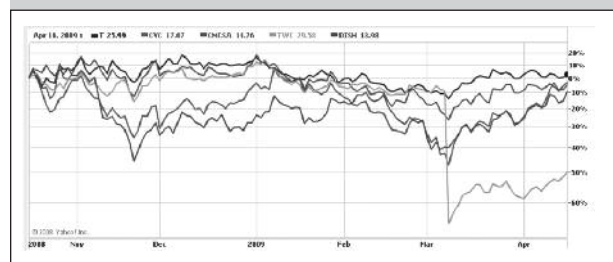
Rank	Company	Market Cap
1	Exxon Mobil	\$345 B
2	Wal-Mart	\$198 B
3	Industrial & Commercial Bank of China	\$188 B
4	China Mobile	\$177 B
5	Microsoft	\$175 B
6	PetroChina Co	\$155 B
7	AT&T	\$154 B
8	Procter & Gamble	\$144 B
9	Berkshire Hathaway	\$144 B
10	China Construction Bank	\$143 B

Source: [www.corporateinformation.com](http://www.corporateinformation.com)

### **AT&T Has Outperformed the Dow throughout the Crash**



### **AT&T Has Outperformed its Cable and Satellite Competition**

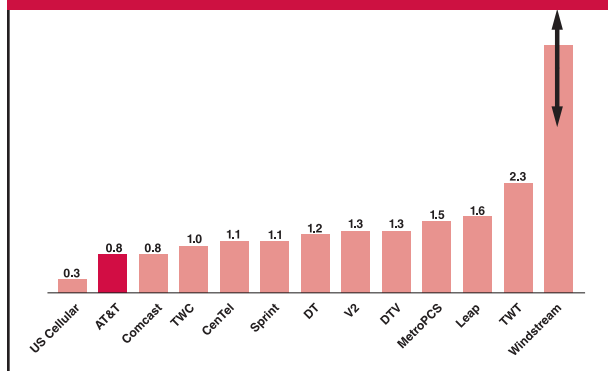


Fitch rated AT&T's most recent debt issuance an 'A', reflecting the company's

*"... diversified revenue mix, its significant size and economies of scale as the largest telecommunications operator in the U.S., as well as Fitch's expectation that AT&T will benefit from continued growth in wireless operating cash flows."*

— Fitch press release, "Fitch Rates AT&T's Proposed Debt Issuance 'A'; Outlook Stable" (1/29/09)

### Total Debt-to-Equity Ratio Year End 2008



Source: Company Information

### Insiders and Outsiders Agree on a Prosperous Outlook

Outside observers and AT&T executives both predict a winning position for AT&T. AT&T's Chairman and CEO Randall Stephenson offered his assessment:

*"So bottom-line, during a very tough stretch for the economy, we've delivered solid results. We've returned substantial value to the share owners. And most important, we've improved our competitive position and expanded AT&T's growth potential."*

— AT&T 4Q 2008 earnings call

Adding AT&T to his Conviction Buy List, Goldman Sachs analyst Jason Armstrong said:

*"We believe an aggressive estimate reset, a safe dividend, and positive trends in upcoming IQ results fortify AT&T as a relatively safer investment at this point."*

— "AT&T Added to Goldman Conviction Buy List," Barron's Online (3/2/09)

Days later, UBS upgraded AT&T from Neutral to Buy.

### AT&T's Integrated Networks Are Its Advantage

**Workers are the strength behind voice, broadband, video, and wireless**

The telecom industry is evolving toward "fixed mobile convergence," in which voice, data, and video are all moved among a multitude of devices via highly integrated 3G wireless, fiber, and copper networks. **In this scenario wireline workers and wireless workers don't operate independently — they are as connected as their technologies.**

AT&T recognized this convergence by reorganizing to put former AT&T Mobility CEO Ralph de la Vega at the head of a **combined consumer wireline and wireless division**. As explained by AT&T Chief Financial Officer Rick Lindner,

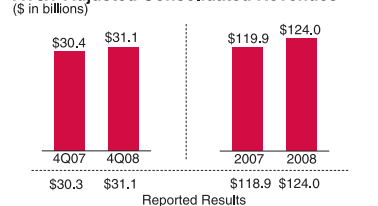
*"The wired consumer [services are] going through a transformation from a dependence on voice to a world driven by broadband connectivity and access to a variety of content and video. That's why we've made organizational changes to make sure wireless and wired consumer work together closely, particularly in the development of new integrated services."*

— AT&T 4Q 2008 earnings call

Revenues from different segments of the business now offset and complement one another, so that even as wireline voice revenue declines, wireline data, wireless, video, and business services "more than offset expected pressures in wireline voice," according to the company's presentation to investors in January 2009.

### Consolidated Revenue Growth

#### AT&T Adjusted Consolidated Revenues



2007 revenues adjusted to exclude merger-related directory accounting impact.

#### 4Q08 Customer Revenue Mix



**Total adjusted consolidated revenues grew 3.4% for the full year, up 2.2% in 4Q08. Fourth-quarter highlights:**

- 13.2% wireless revenue growth
- Wireless represented 41.4% of total 4Q08 revenues, up from 37.4% a year earlier
- 14.2% growth in wireline IP data revenues, which include business services and AT&T U-verse services
- These drivers more than offset expected pressures in wireline voice

Source: AT&T 4Q08 Earnings Information

## Solid Cash Generation, Sound Balance Sheet

AT&T Cash Summary (\$ in billions)		
	4Q08	2008
<b>Cash From Operations</b>	\$10.9	\$33.7
<b>Capital Expenditures</b>	\$5.5	\$20.3
<b>Free Cash Flow</b>	\$5.4	\$13.3
<b>Cash Returned To Shareowners</b>	\$2.4	\$15.6

Totals may not foot due to rounding.

Solid cash flow provides financial flexibility for continued investments in growth drivers while returning substantial value to shareowners

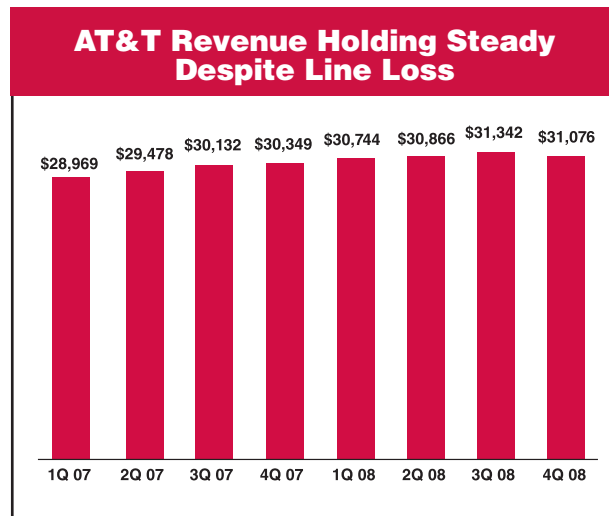
- Continued strong balance sheet and credit ratings
- Current focus on debt reduction and dividends ahead of share repurchases
- Total debt reduced by \$5.2 billion in second half of 2008

**Wireline** still provides the majority — 53 percent — of AT&T's operating revenue. Broadband and video services are providing new revenue as well as slowing access line loss, as customers subscribe to multiple services. AT&T CFO Rick Lindner:

*"U-verse continues to pull through with voice. We are seeing clear improvements in access-line retention when consumers subscribe to U-verse, and the broadband attach rate for U-verse is greater than 90%."*

— "AT&T slows U-verse buildout, remains committed to video," *Telephony Online* (1/28/09)

Source: AT&T 4Q08 Earnings Information



Source: Company Information

Goldman Sachs specifically named U-verse's contribution to access line retention as a factor in its upgrade. Further, wireline service bundles produce higher average revenue per user (ARPU). Again, CFO Lindner:

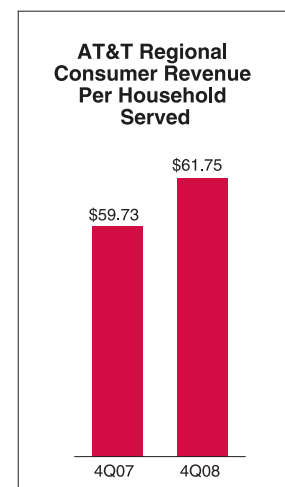
*"So, while our year-over-year consumer revenues are down about 5% driven by pressure on wired voice lines, U-verse and broadband are driving steady growth in consumer ARPU."*

— AT&T 4Q 2008 earnings call

**Residential broadband** continues to grow as part of AT&T's mix. According to Ben Piper, director of Strategy Analytics:

*"Despite a weak economy, consumer broadband [for all companies] has shown some surprising resilience. While . . . broadband growth is certainly not what it was a year ago, subscriber numbers are still quite healthy."*

— "AT&T and Verizon Fiber Subscribers to Grow 60% in 2009," *Strategy Analytics press release* (4/9/09)



Source: AT&T 4Q08 Earnings Information

With the rise of bundled services, **telcos are taking a bigger share of new customers** than cable companies. Although Comcast remains the largest residential broadband provider, AT&T and Verizon led in new broadband customer acquisition in the fourth quarter of 2008. This should continue, as Strategy Analytics expects subscriptions to AT&T's U-Verse and Verizon's FiOS to grow more than 60 percent in 2009.

**Video** services are also shifting from cable companies to telcos. According to Fitch:

*"Video subscriber addition momentum during 4th quarter of 2008 clearly shifted away from the large cable companies to AT&T, Verizon and DirecTV."*

— "Video Subscriber Addition Momentum Shifts to Telephone Companies in 4Q '08," Fitch press release (4/7/09)

### Telcos Leading in Broadband Customer Acquisition

Broadband customers acquired in 4Q08:

- Telecom: 568,000, including
  - AT&T: 242,000
  - Verizon: 212,000
- Cable companies: 431,000, including
  - Comcast: 184,000
  - Time Warner: 124,000

Collectively, the largest cable companies lost approximately 427,000 basic video subscribers during the fourth quarter of 2008, a subscriber loss almost twice as high as in the same period of 2007. AT&T, Verizon, and DirecTV together added approximately 868,000 new video subscribers.

Again, it is the bundle of wireline and wireless services that AT&T can offer over its networks that makes it strong, as CEO Stephenson explains:

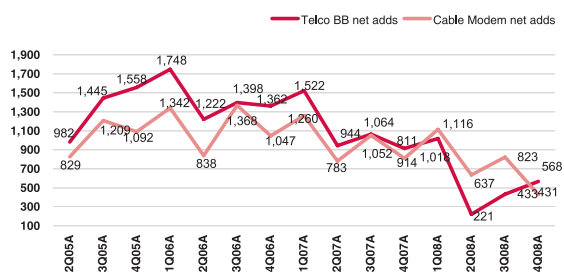
*"You think about customers, how they buy TV and broadband, they buy together. We're seeing that bundle is very important in the marketplace. . . . [W]hen somebody buys U-verse TV, the attach rate for broadband is approaching 90%. So broadband attached to TV is very critical to us. We're also seeing broadband attached to wireless. Our standalone broadband with wireless is proving to be very, very important to us in the marketplace."*

— AT&T 4Q 2008 earnings call

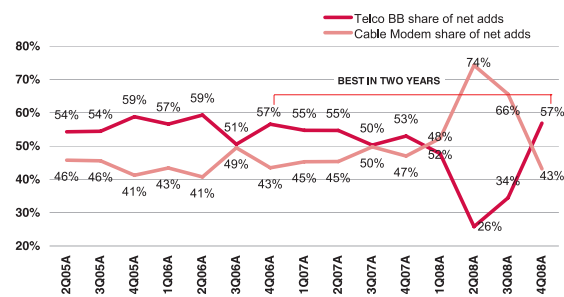
### Broadband Adds Skewed Back Towards Telco

Sequential Broadband Net Adds Down Annually:  
Telco Recovers Share Relative to Cable in 4Q

TELECOM VERSUS CABLE BROADBAND NET ADDS



TELECOM VERSUS CABLE SHARE OF BROADBAND NET ADDS



Source: Telecom Services 4Q Tracker: Stable FCF Supports Sector, Morgan Stanley (3/16/09)

**Wireless** growth is slowing but will continue despite the economic downturn. While high levels of wireless penetration also will slow revenue growth, customers are adding second or third mobile devices, such as Kindles, broadband cards for laptops, and extra phones — one for work and one for home.

As devices for accessing broadband content proliferate, broadband access itself is becoming a single product, with or without a wire. In fact, AT&T now combines results from wireline broadband and wireless access cards for laptops because,

*"increasingly as the wireless product becomes more robust, it's very much the same type of experience when you connect via your laptop on a strong wireless network. . . . It's how customers, I think, buy and use the services."*

— Lindner, AT&T 4Q 2008 earnings call

Helped by its exclusive iPhone deal, **AT&T is leading Verizon**, its nearest competitor, in the important area of wireless data. In the fourth quarter of 2008, wireless data revenue per user was up 35% at AT&T and only 28% at Verizon. Goldman Sachs points out that:

*“The rate of data ARPU growth actually accelerated this quarter for AT&T, a rarity in this economic climate.”*

— Morgan Stanley (3/16/09)

AT&T expects improvements not only in revenue but also in profit margins for wireless:

*“We’re winning at the high end. We lead in wireless data, which is the industry’s best growth area. And the iPhone’s short-term margin pressure is proving to be just that. It’s short term. In the fourth quarter, our postpaid data ARPU moved up sharply, and we saw sequential margin expansion as well. We expect to deliver more wireless margin expansion as we move forward.”*

— Stephenson, AT&T 4Q 2008 earnings call

## **AT&T’s Investment in Its All-IP Network Is Paying Off**

AT&T’s investment in U-verse and its IP network transformation are helping it compete now and build for the future. While ramping up, U-verse has been dilutive on AT&T’s earnings because of buildout and customer acquisition costs. Now that U-verse has scaled up to more than 1 million customers, dilution will decrease in 2009 and reverse in subsequent years, and according to Lindner, U-verse will be less dilutive on an EBITDA basis in 2009.

*“That’s where we’ll have opportunities to retain and support the margins in the wireline business and see some scale on the video side so we can better cover programming costs and fixed costs and see less customer acquisition costs as a percentage.”*

— AT&T 4Q 2008 earnings call

As an all-IP network, U-verse is a platform for all of the voice, video, and data services AT&T currently offers and “gives us a lot of opportunities in terms of new services down the road.”

## **The telecommunications industry is vital to our economic future**

### ***AT&T can lead the way by recognizing workers’ value***

The telecommunications industry provides the backbone infrastructure for the digital economy and the more globally connected society of the future. Yet we are now lagging behind, with a network that ranks 15th in the world in speed — behind our economic competitors, including Canada, Germany, Japan, and South Korea.

Clearly, to maintain our position as a world leader, we must invest in a network that functions at the highest level — **and that means investing in the people who build, maintain, service, and operate the network.**

Investing in people must include investing in health care, which is a major cost for AT&T, as it is for so many companies. Rather than working with AT&T workers and their union, the Communications Workers of America, to reform the system, management wants to shift hundreds of millions of dollars in costs to employees. This is a short-sighted and unfair strategy.

By supporting real health care reform, AT&T could reduce its expenses by \$600 million, which would enhance shareholder value by \$5 billion at AT&T’s current price-to-earnings ratio. An approach that improves the company’s bottom line in this way is far better and more forward-looking than the retrogressive approach of demanding more sacrifice from workers whose well-being is essential to AT&T’s success.

Since the 1980s, CWA has led the way with innovative bargaining on health care, including consumer innovations and cost-saving measures. We understand that the health care crisis cannot be resolved at the bargaining table because workers and companies also bear the burden of subsidizing the costs of the uninsured and underinsured. For that very reason, we must unite to support an employer mandate. Leadership from AT&T and CWA could be crucial to the success of real health care reform in this time of national crisis. At the same time, efforts to obscure the issue risk prolonging and deepening the crisis.

We should not minimize the challenges that AT&T and the entire country are facing now, but we cannot pursue a policy of retreat. **Healthy companies like AT&T can lead the country toward better times by maintaining good jobs in U.S. communities and bringing work back from contractors and overseas.**

***Cuts in wages and benefits are not the way out of this recession.***

***Quality jobs that reward workers who build the company are.***



**Communications Workers of America**

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