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Fact Sheet for the Chairman, Committee on Commerce, Science and Transportation, U.S. Senate

July 1994

TELECOMMUNICATIONS

Financial Information on 16 Telephone and Cable Companies

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Resources, Community, and
Economic Development Division

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July 8, 1994

The Honorable Ernest F. Hollings
Chairman, Committee on Commerce,
Science and Transportation
United States Senate

Dear Mr. Chairman:

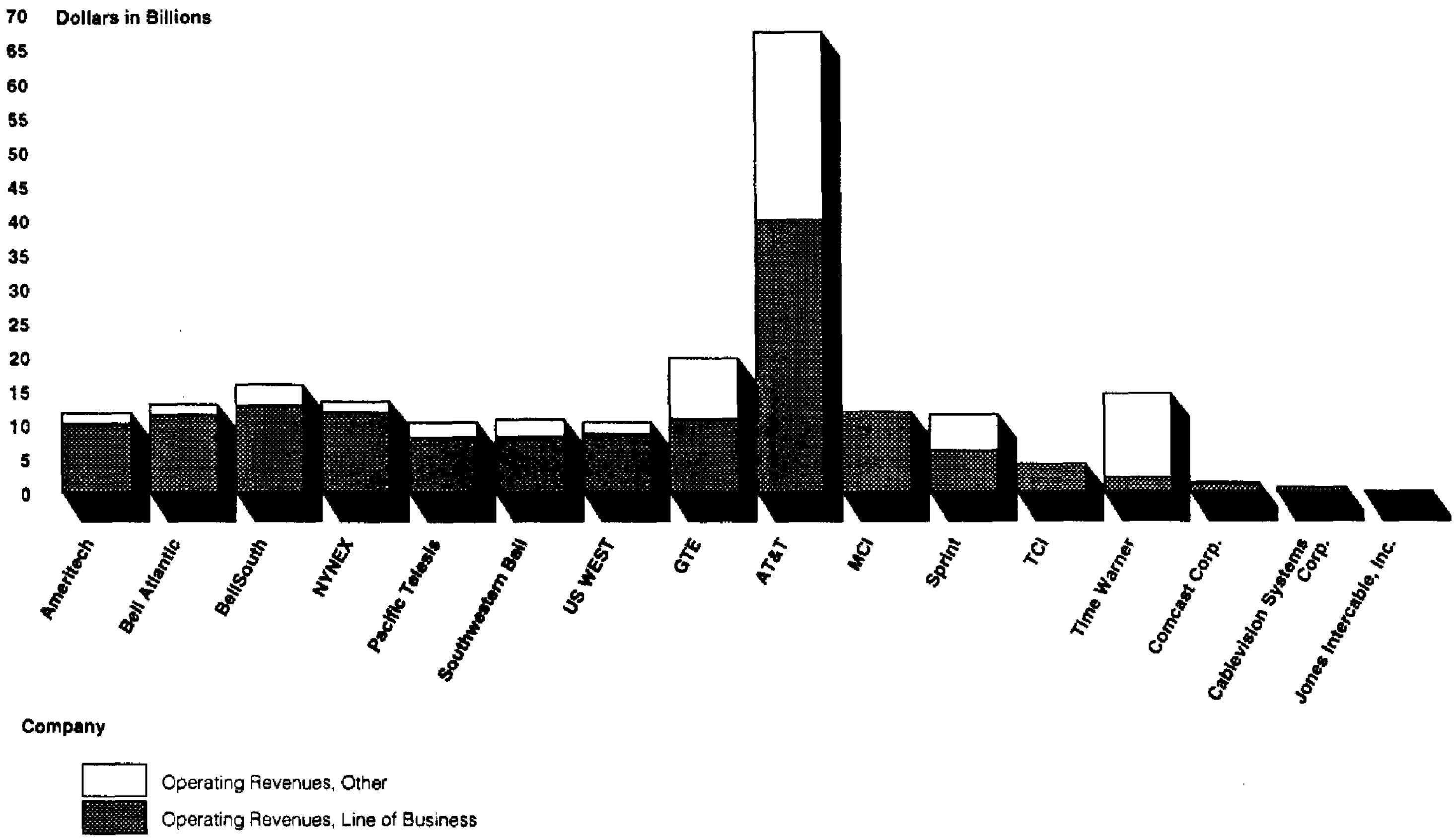
This fact sheet responds to your request for financial information on the seven Regional Bell Operating Companies (RBOC), including Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and US WEST; GTE (the largest independent telecommunications company); AT&T; MCI; Sprint; and the operators of the five publicly owned multiple-system cable television companies with the largest number of subscribers: Tele-Communications, Inc. (TCI), Time Warner, Comcast Corporation, Cablevision Systems Corporation, and Jones Intercable, Inc.

Specifically, for all 16 companies, we are providing information on total operating revenues, cash flow from operations, and profitability. In addition, for the RBOCs and GTE, we are providing more detailed financial information on the uses of cash flow from operations, including the extent to which capital expenditures are made inside and outside of the companies' primary line of business.

Operating Revenues for 16 Companies

Figure 1 shows the 1993 operating revenues for the 16 companies we reviewed. Additionally, this figure shows the portion of operating revenues from the line of business by which we are classifying these companies: For the RBOCs and GTE, the shaded portion represents revenues from local exchange service; for AT&T, Sprint, and MCI, it represents revenues from long distance service; and for the five cable operators, the shaded portion represents revenues from cable operations. A significant proportion of the revenues of AT&T, GTE, Sprint, and Time Warner are derived from sources other than the line of business by which we are classifying these companies; most of the other operating revenues for these companies are derived from communications-related lines of business.

Figure 1: Operating Revenues for 16 Companies, 1993



Note: Operating revenues include receipts from sales of products and services but do not include nonoperating sources of revenue, such as interest. In the case of the 16 companies we reviewed, nearly all revenues are operating revenues.

Source: Securities and Exchange Commission's Forms 10-K, the companies' annual reports, and the Federal Communications Commission's Automated Reporting Management Information System.

Cash Flow From Operations

The cash flow from operations represents the cash received from customers minus the cash paid for operating expenses. Thus, the cash flow from operations represents the cash available for capital expenditures, dividends to shareholders, and other investing and financing transactions. For the companies we reviewed, AT&T had the largest cash flow from operations—$7.1 billion in 1993. GTE followed with $5.3 billion, the RBOCs ranged from $2.7 billion to $4.8 billion, and MCI and Sprint were just over $2 billion each. The two largest cable operators, TCI and Time Warner, had cash flows from operations of $1.3 billion and $1.5 billion, respectively; the other three cable operators' cash flows ranged from $30 million to $350 million.

Profitability

The profitability of a company can be measured in a variety of ways. We used several methods for measuring the profitability, including the rate of return on revenues, two versions of a rate of return on assets, and the rate of return on equity. Depending on the method chosen, a different picture of profitability emerges.

The return-on-revenues measure showed consistently higher average rates of return for the RBOCs and GTE, which had an average rate of return of 7 percent in 1993, than for the long distance carriers, which had an average rate of return of 6 percent in 1993. However, results from one of the return-on-assets methods and the return-on-equity measure showed greater profitability for the long distance carriers than for the RBOCs and GTE for 4 out of the 5 years we reviewed, while the remaining return-on-assets method showed greater profitability for the long distance carriers for 3 of the 5 years. In 1991, AT&T's restructuring charge of $4.5 billion accounted for the comparatively lower profitability level for the long distance carriers as a group in that year.

Unlike the RBOCs, GTE, and the long distance carriers, the cable companies showed losses for two of the measures we used.[1] The cable operators' losses were driven primarily by interest expense, large depreciation charges, and the amortization of acquisition costs or franchise fees.

As you requested, we also examined the Federal Communications Commission's (FCC) rate-of-return analysis used for regulatory purposes. The FCC calculates a rate of return on net property, plant, and equipment (rate of return on the rate base) for the regulated interstate portions of the RBOCs and GTE. According to FCC's data, these rates of return for the RBOCs ranged from 12.5 to 14.8 percent in 1993.[2] The FCC's local exchange carrier price cap plan, which is mandatory for the largest carriers, the seven

[1]We did not measure the cable companies by the return-on-equity method because many of the cable operators we reviewed had very high debt-to-capitalization ratios (or even negative equity) and, as such, a return-on-equity analysis was inappropriate.

[2]According to an FCC official, these rates of return do not reflect the overall return for these companies; rather, the interstate portion that is regulated at the federal level accounts for up to 25 percent of the regulated portions of these companies.

RBOCs, and GTE, includes sharing and low-end adjustment mechanisms. Under the sharing mechanism, carriers must share profits with customers if their return on the rate base exceeds certain preset thresholds, and under the low-end adjustment mechanism, the price cap index is raised if the rate of return is below certain thresholds.

Since price caps have been in effect, both profit-sharing for some carriers and low-end adjustments for others have been triggered. According to the FCC, from mid-1993 to mid-1994, the net result of both the sharing and low-end adjustment components of price caps for all of the regulated local exchange carriers has been a return of nearly $47 million to customers, and more than 3 times that amount is expected to be returned to customers in the upcoming year. In addition, under the states' price cap formulas or alternative regulation plans, $348 million was returned to consumers as refunds and rate reductions in 1993, according to a State Telephone Regulation Report.

In addition, we looked at the portion of the profitability of the RBOCs and GTE that is related to the unregulated portions of these businesses. We found that the percentage of consolidated company net income[3] that was attributable to unregulated business has grown over the years 1989 through 1993. In 1989, less than 1 percent of net income for the RBOCs was attributable to unregulated ventures, but by 1993 over 19 percent of net income was from unregulated ventures. For GTE, 21 percent and 60 percent of net income was attributable to unregulated ventures in 1989 and 1993, respectively. In part, the 1993 figures reflect costly restructuring charges by most of these companies that, in turn, affected the profitability of their regulated businesses. We found the data for 1992 to be quite different from the data for 1993: In 1992, the portion of net income attributable to unregulated ventures for the RBOCs was 9 percent, and for GTE it was 21 percent.

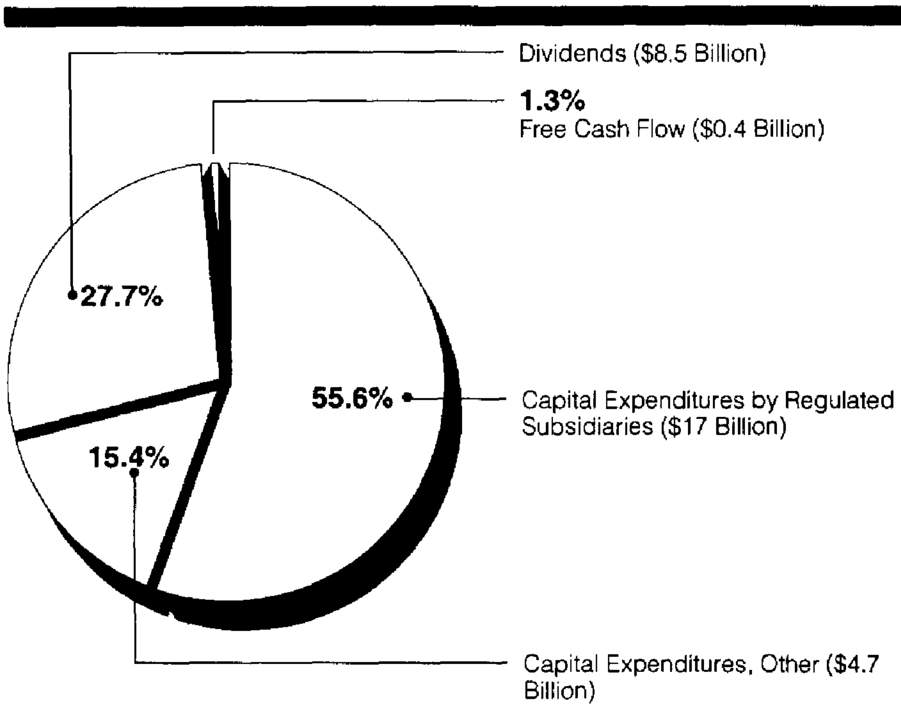
Uses of Cash Flow by RBOCs and GTE

Figure 2 shows the primary uses of cash flow from operations by the RBOCs and GTE in 1993. We also examined the uses of cash flow for these eight companies in 1989 and found that the proportional uses of cash flow 5

[3]For the purposes of this report, net income represents profit derived from all sources, after deductions for expenses, taxes, and fixed charges, but before deductions for any discontinued operations, extraordinary items, and dividend payouts.

years ago were very similar to the uses of cash flow today. In 1993, about $400 million, or 1.3 percent of total cash flow, was "free cash flow."[4]

Figure 2: Uses of Cash Flow From Operations in 1993 for RBOCs and GTE, Totaling $30.6 Billion



Source: Forms 10-K and annual reports and FCC's data.

Capital Expenditures

In 1993, the RBOCs and GTE spent $21.7 billion on capital expenditures, of which $4.7 billion was spent outside of their regulated telephone infrastructure (see table 1). Other capital expenditures represented 8 to 32 percent of the consolidated capital expenditures among the seven RBOCs and 36 percent for GTE. For the RBOCs combined, 16.5 percent of operating revenues came from unregulated ventures and 18.5 percent of capital expenditures was spent on unregulated infrastructure. For GTE, 45 percent of operating revenues came from unregulated ventures, and 36 percent of capital expenditures was spent on unregulated infrastructure.

[4]Free cash flow is the net result of various financing and investing transactions, such as receipts from sales or payments to acquire equity of other companies or the issuance of debt or payments to retire debt.

Table 1: RBOCs' and GTE's Capital Expenditures on Regulated Infrastructure Compared to Total Capital Expenditures, 1993

Dollars in billions

	Capital expenditures		
Company	Regulated infrastructure (percent)	Other (percent)	Total
Ameritech	$1.6 (76)	$0.5 (24)	$2.1
Bell Atlantic	$2.1 (84)	$0.4 (16)	$2.5
BellSouth	$3.0 (88)	$0.4 (12)	$3.4
NYNEX	$2.2 (81)	$0.5 (19)	$2.7
Pacific Telesis	$1.7 (68)	$0.8 (32)	$2.5
Southwestern Bell	$1.7 (77)	$0.5 (23)	$2.2
US WEST	$2.2 (92)	$0.2 (8)	$2.4
GTE	$2.5 (64)	$1.4 (36)	$3.9
Total	**$17.0 (78)**	**$4.7 (22)**	**$21.7**

Note: "Other" includes investments in such areas as domestic cellular telephone, foreign wireline and cellular telephone, and cable television.

Source: Forms 10-K and annual reports and FCC's data.

Dividends

As shown in figure 2, the eight companies paid a total of $8.5 billion in dividends to shareholders in 1993—providing an average dividend yield of 4.7 percent.[5] In the case of the seven RBOCs, the dividends paid by the parent companies to shareholders were less than the amount of dividends paid to the parent companies by the regulated subsidiaries. Table 2 shows the difference between the dividends paid by the regulated subsidiaries of the RBOCs to the parent companies and the amount of dividends paid by the parent companies to shareholders over the years 1989-93. For example, according to FCC's data, in 1993 the regulated subsidiaries of the RBOCs paid $8.1 billion in dividends to their parent companies. At the same time, according to data filed with the Securities and Exchange Commission on Forms 10-K, the parent companies paid $6.8 billion to shareholders. Thus, as shown in table 2, there was a dividend differential of $1.3 billion in 1993. Similarly, the dividends paid by GTE's regulated subsidiaries to the parent company accounted for 76 percent of total dividends paid by GTE to its shareholders in 1993, even though only 55 percent of its operating revenues were generated by these regulated subsidiaries.

[5]Dividend yield is measured as total dividends paid divided by the average market value of outstanding stock.

Table 2: Differential Between Dividends Paid to Parent Companies by Regulated Subsidiaries and Dividends Paid to Shareholders, RBOCs

Dollars in billions

	1989	1990	1991	1992	1993
RBOCs	$1.8	$1.5	$1.2	$1.2	$1.3

Source: FCC's data and Forms 10-K and annual reports.

Dividends that were paid by regulated subsidiaries to holding companies but not paid out by the holding companies as shareholder dividends are available for a variety of uses. Such moneys, along with cash receipts from the operations of unregulated activities, may go toward such items as the operating expenses of the holding companies, capital expenditures in unregulated businesses, and other investing and financing transactions outside of the regulated infrastructure.

Section 1 provides a financial profile of the 16 companies by industry group; sections 2 through 4 provide more detailed information within each industry group. Unless otherwise stated, all analyses are based on the companies' consolidated financial information. When this information was restated because of events such as mergers and acquisitions, we used the restated information. The data we reviewed generally cover the years from 1989 through 1993; some variances from this period were the result of limitations on the availability of the data.

To develop the financial information presented in this fact sheet, we reviewed data from the 16 companies' annual reports and the Securities and Exchange Commission's Forms 10-K for 1989 through 1993. The United States Telephone Association and the National Cable Television Association assisted us in obtaining these documents. We obtained data from the FCC's Automated Reporting Management Information System on the regulated portions of the RBOCs, GTE, and AT&T. Annual reports and Forms 10-K were independently audited by certified public accounting firms. We did not independently verify the accuracy of the FCC's data. We also used other sources of data, such as Moody's Investors Service, March 1994 bond ratings, The Value Line Investment Survey, and Standard and Poor's Compustat Services, Inc.

We discussed our report with FCC officials, who agreed with how we were using the data from the Automated Reporting Management Information System. Our review was performed from March through May 1994, in accordance with generally accepted government auditing standards.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days after the date of this letter. Please contact us—Kenneth Mead at (202) 512-2834 or John Hill at (202) 512-8549—if you or your staff have any questions. Major contributors to this fact sheet are listed in appendix I.

Sincerely yours,

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Telecommunications Issues
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Abbreviations

ARMIS	Automated Reporting Management Information System
CAP	competitive access provider
FCC	Federal Communications Commission
GAO	General Accounting Office
PCS	personal communications systems
RBOC	Regional Bell Operating Company
SEC	Securities and Exchange Commission
TCI	Tele-Communications, Inc.

Financial Profile of 16 Companies, by Industry Group

This section provides data that compare the financial statistics for the 16 companies we reviewed, grouped by industry. The information presented in this section includes data on operating revenues, uses of cash flow from operations, profitability, and bond ratings. Further information about each industry group and the individual companies is provided in sections 2 through 4.

Table 1.1 shows the operating revenues from 1989 through 1993 for the 16 companies, grouped by industry. Of the three industry groups, local exchange revenues grew the slowest, and when adjusted for inflation, actually fell. Growth in revenues for the five cable companies was significant.

Table 1.2 shows the cash flow from consolidated operations for 1993 for each of the 16 companies we reviewed. In addition, table 1.3 shows the uses of cash flow from operations for these companies, aggregated by industry group.

Figures 1.1 through 1.4 compare the profitability across these three industry groups and the Standard and Poor's (S&P) 500 companies using four different measures. Because many of the companies—particularly the RBOCs, GTE, and AT&T—took restructuring charges in recent years, the profitability measures are lower in some cases than they would have been without such restructurings. For example, in 1991, AT&T took a restructuring charge of $4.5 billion. This action substantially lowered AT&T's profitability in that year. Table 1.4 also shows the Federal Communications Commission's (FCC) data on rate of return on the interstate regulated rate base for the RBOCs.

Table 1.5 contains the bond ratings as of March 1994 for the 16 companies, obtained from Moody's Investors Service. These ratings are an indication of the general financial condition of the 16 companies we examined. The range of ratings for the subsidiaries of the RBOCs and GTE indicate that Moody's views all of these companies as very good credit risks. The long distance companies have reasonably high bond ratings, while the five cable television operators generally have lower ratings.[1]

[1]The effects of FCC's recent amendments to its cable rate regulation rules and policies, which implement certain provisions of the Cable Television Consumer Protection and Competitive Act of 1992, may not be reflected in these bond ratings.

Table 1.1: Consolidated Operating Revenues, 1989-93

Dollars in billions

Years	RBOCs and GTE	Three long distance companies	Five cable operators[a]
1989	$94.8	$76.7	$11.2
1990	$98.4	$80.2	$15.7
1991	$99.4	$82.5	$16.7
1992	$101.9	$85.9	$18.4
1993	$104.9	$90.5	$20.9
Percent growth rate 1989-93	**10.7**	**18.0**	**86.6**
Inflation-adjusted percent growth rate 1989-93	**–3.3**	**3.1**	**63.3**

Note: We used the implicit price deflator for gross domestic product to convert dollar amounts into 1993 constant dollar values.

[a]About 85 percent of the operating revenues for Time Warner are from noncable sources.

Source: Forms 10-K and annual reports.

Table 1.2: 1993 Cash Flow From Operations

Dollars in billions

Company	Cash flow from operations
RBOCs and GTE	
Ameritech	$3.2
Bell Atlantic	$4.2
BellSouth	$4.8
NYNEX	$3.7
Pacific Telesis	$2.7
Southwestern Bell	$3.4
US WEST	$3.3
GTE	$5.3
Long distance carriers	
AT&T	$7.1
MCI	$2.0
Sprint	$2.1
Cable operators	
TCI	$1.3
Time Warner	$1.5
Cablevision Systems Corp.	$0.09
Comcast Corp.	$0.35
Jones Intercable, Inc.	$0.03

Source: Forms 10-K and annual reports.

Table 1.3: Uses of Cash Flow From Operations, by Industry Group, 1993

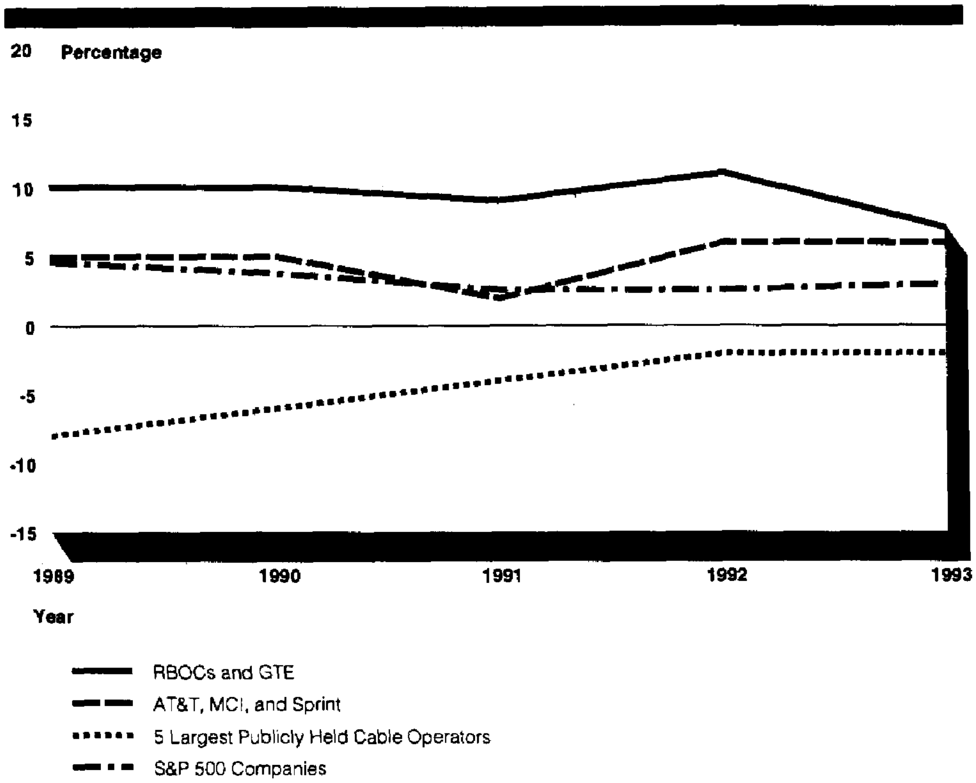
Group	Percent dividends	Percent capital expenditures	Percent free cash flow
RBOCs and GTE	28	71	1
Three long distance companies	19	63	18
Five cable operators	10[a]	66	24

Note: Free cash flow represents investing and financing transactions, not including those that fall under capital expenditures (investing) and payment of dividends (financing).

[a]The dividends paid by cable operators are nearly all attributable to Time Warner, which earns approximately 85 percent of its operating revenues from noncable sources. None of the other four cable operators paid substantial dividends.

Source: Forms 10-K and annual reports.

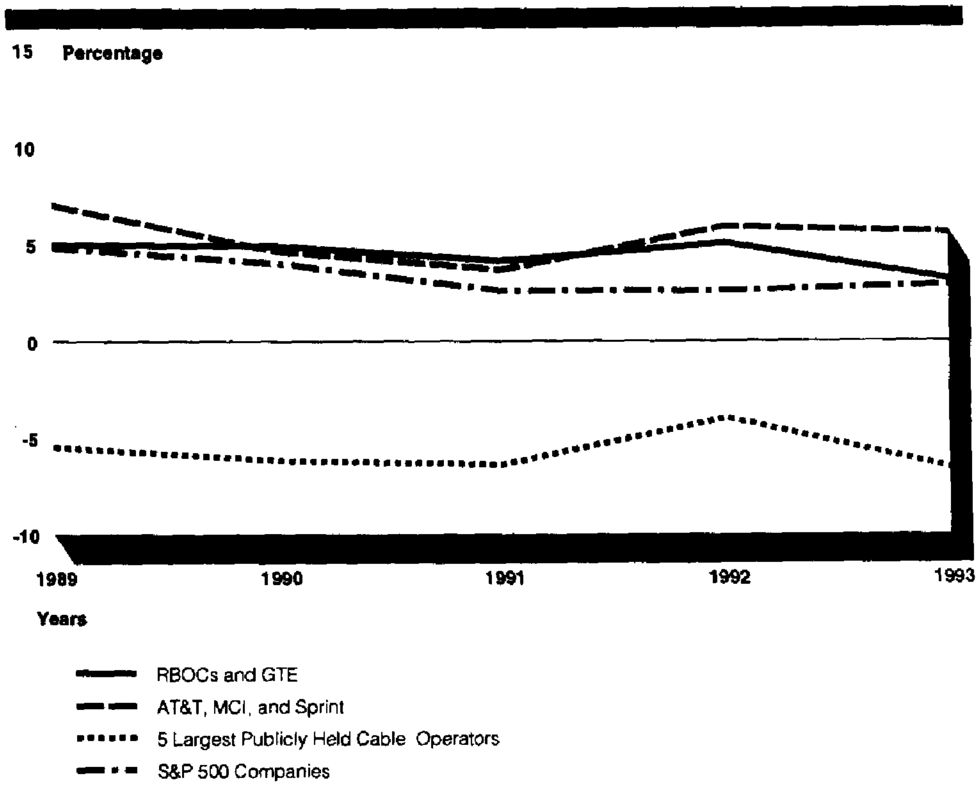
Figure 1.1: Return on Operating Revenues for 16 Companies, by Industry Group, 1989-93



Notes: Return on revenues was calculated as net income before cumulative effects of accounting changes as a percentage of operating revenues on a consolidated basis. To derive an average return on revenues for each industry group, we used a weighted average of each company's return level within each industry group where the weights were based on company operating revenue.

Source: Standard and Poor's Compustat Services, Inc. and Forms 10-K and annual reports.

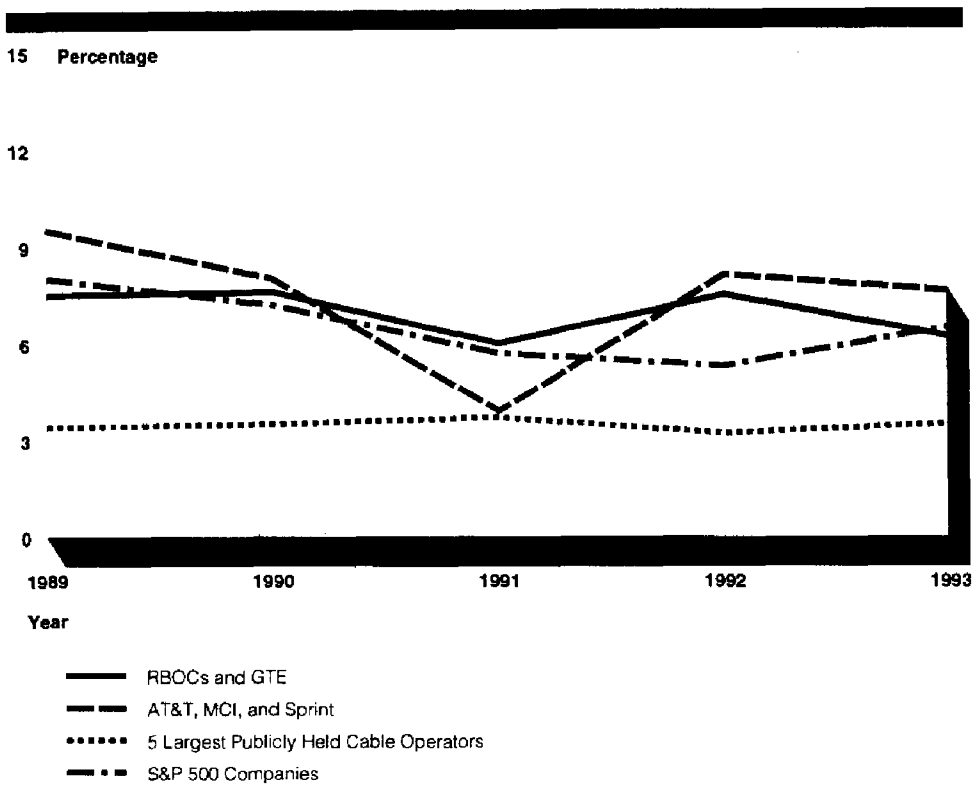
Figure 1.2: Net Return on Assets for 16 Companies, by Industry Group, 1989-93



Note: Net return on assets was computed as net income divided by the average of beginning and ending assets for the year.

Source: Standard and Poor's Compustat Services, Inc.

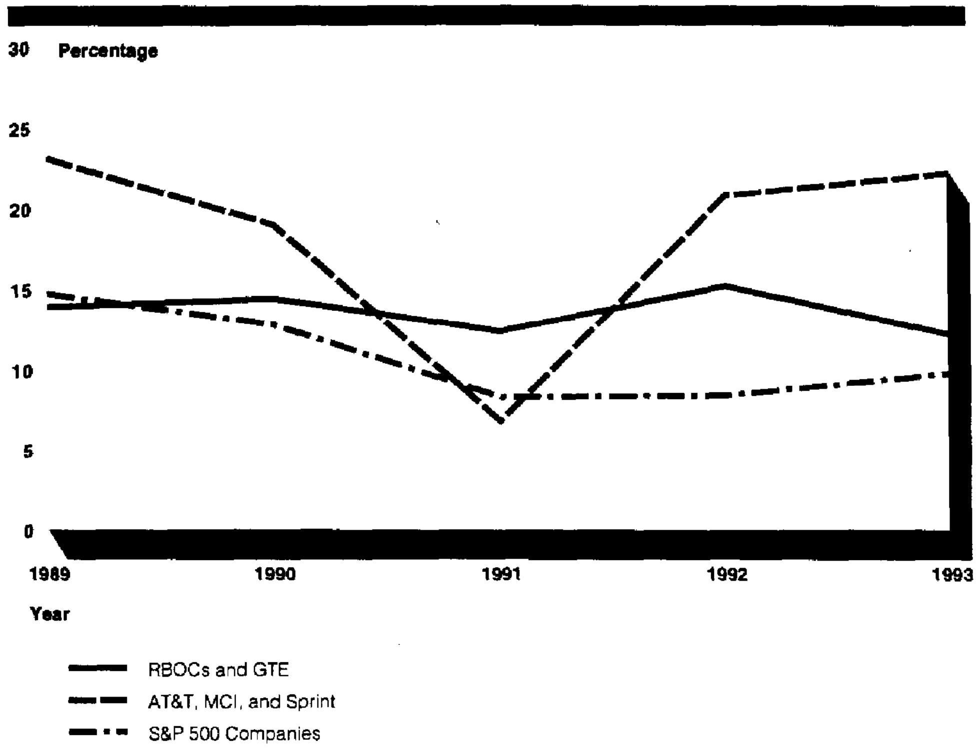
Figure 1.3: Return on Assets for 16 Companies, by Industry Group, 1989-93



Note: Return on assets was computed as net income plus interest expense divided by ending assets. To derive an average return on assets for each industry group, we used a weighted average of each company's return within each industry group where the weights were based on company operating revenue.

Source: Standard and Poor's Compustat Services, Inc.

Figure 1.4: Return on Equity for 16 Companies, by Industry Group, 1989-93



Notes: Return on equity was calculated as net income divided by average common shareholders' equity. To derive an average return on equity for each industry group, we used a weighted average of each company's return within each industry group where the weights were based on company operating revenue.

We excluded the cable companies from this analysis because many of the cable operators we reviewed had very high debt-to-capitalization ratios (or even negative equity) and, as such, a return on equity analysis was inappropriate.

Source: Standard and Poor's Compustat Services, Inc.

Table 1.4: Percent Return on the Interstate Regulated Rate Base, RBOCs

Company	1989/1990	1993
Ameritech	12.2	14.8
Bell Atlantic	11.1	13.9
BellSouth	12.1	13.7
NYNEX	11.1	12.5
Pacific Telesis	12.7	13.1
Southwestern Bell	11.7	12.8
US WEST	12.8	12.8

Source: FCC.

Table 1.5: Bond Ratings

Industry	Highest bond rating	Lowest bond rating
Local exchange	Aaa	A3
Long distance	Aa3	Baa3
Cable	Baa3	B2

Note: The bond ratings are indicators of investment quality. Bonds are rated as follows: Aaa: best quality investments; Aa: high quality; A: upper-medium grade; Baa: medium grade; Ba: speculative elements; B: lack characteristics of a desirable investment. Bonds rated C, Ca, and Caa are considered of poor standing. The numeral at the end of the code—1, 2, or 3—is a further indication of investment quality. For example, a bond rated Aa1 is considered a better investment than a bond rated Aa2 or Aa3.

Source: Moody's Investors Service, March 1994.

Financial Profile of Seven RBOCs and GTE

This section provides information on the RBOCs and GTE, whose subsidiaries are primarily involved in providing local exchange service. Specifically, we provide additional information on the (1) market structure, (2) operating revenues, (3) uses of cash flows from operations, and (4) financing structure.

Market Structure

The local exchange market, regulated by state public regulatory commissions and the FCC, is generally characterized by monopoly providers. In many states, entry into local exchange service is not allowed, although some states are currently reviewing such rules. In some large cities where entry is allowed, competitive access providers (CAP), which are companies building and operating fiber optic networks, generally in downtown business areas, are beginning to provide competition to the local exchange. Still, CAPs are a very small part of the entire local exchange market.

While the cellular industry has developed as an adjunct, rather than an alternative, to the local exchange carrier, the soon-to-be-auctioned 160 megahertz of electromagnetic spectrum for personal communications services (PCS), a new generation of cellular technology, will provide significantly more capacity for wireless communications that could bring greater competition to the local exchange market in the next few years. The potential for cable operators to restructure their networks to allow interactivity also poses the possibility of entry into the local exchange market.

Operating Revenues

The RBOCs and GTE had combined total operating revenues in 1993 of $105 billion. The majority (84 percent in 1993) of operating revenues for the seven RBOCs are generated from the provision of local exchange service. GTE generated almost half of its operating revenue from other sources, including equipment sales and service, long distance, and cellular telephone.

Uses of Cash Flows From Operations

Table 2.1 shows the 1993 total cash flow from operations for each of the eight companies. The table also highlights the portion of cash flow from operations that is going toward dividends and capital expenditures. Since these data are reported at the consolidated company level, capital expenditures include both expenditures inside and outside of the local exchange infrastructure.

Table 2.1: 1993 Local Exchange Carriers' Uses of Cash Flow From Consolidated Operations

Billions of dollars

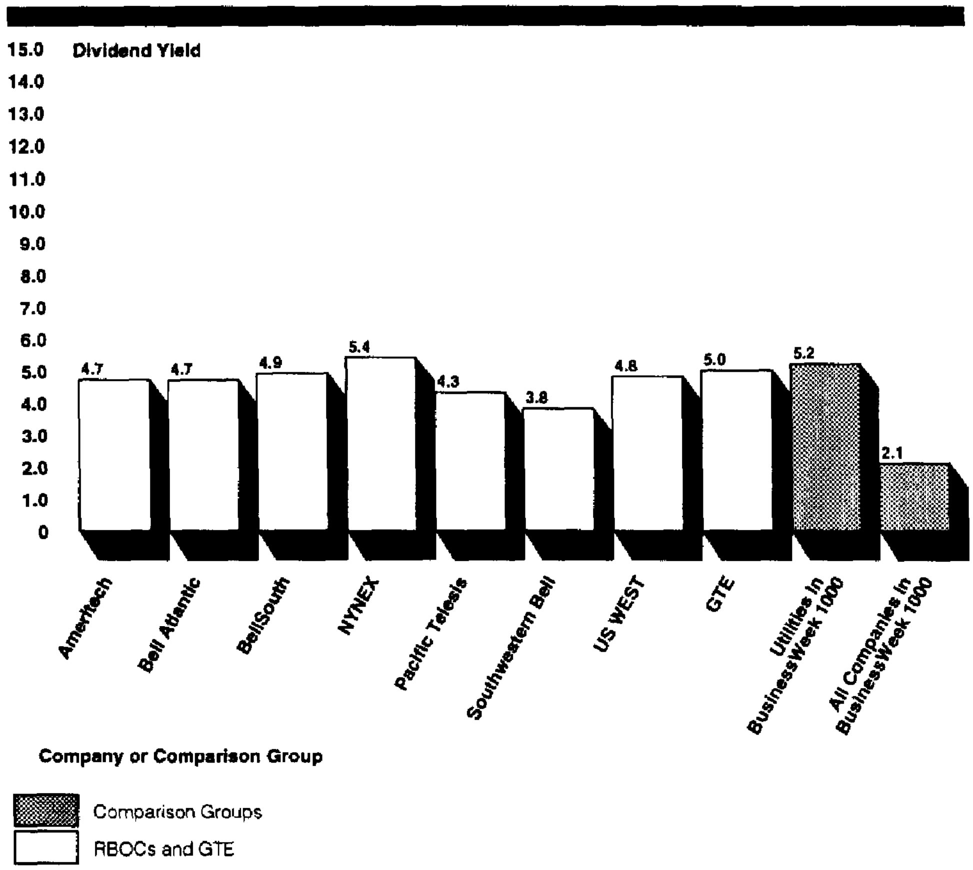
Company	Total cash flow from operations	Dividends	Dividends as a percent of cash flow	Capital expenditures	Capital expenditures as a percent of cash flow
Ameritech	$3.2	$1.0	31	$2.1	66
Bell Atlantic	$4.2	$1.2	29	$2.5	60
BellSouth	$4.8	$1.1	23	$3.4	71
NYNEX	$3.7	$1.0	27	$2.7	73
Pacific Telesis	$2.7	$0.9	33	$2.5	93
Southwestern Bell	$3.4	$0.8	24	$2.2	65
US WEST	$3.3	$0.8	24	$2.4	73
GTE	$5.3	$1.7	32	$3.9	74

Note: Percentages in this table do not add to 100 percent because we do not include free cash flow, which may be either positive or negative. Therefore, the percentage of cash flow spent on capital expenditures and dividends may add to more than or less than 100 percent.

Source: Forms 10-K and annual reports.

Dividends for these companies are high relative to many other industries. Figure 2.1 shows the dividend yields for these eight firms compared to an average of dividend yields of utility stocks in the BusinessWeek 1000 and all companies in the BusinessWeek 1000. The yields for the RBOCs and GTE are similar to those of utility firms. Shareholders of local telephone companies expect high dividends.

Figure 2.1: 1993 Dividend Yield



Notes: For the Utility companies in the BusinessWeek 1000, data are for 1992.

Dividend yield is measured as total dividends paid divided by the average market value of outstanding stock.

Source: The Value Line Investment Survey; BusinessWeek, 1993 Special Bonus Issue; and BusinessWeek, March 28, 1994.

Investment Activity

In terms of investments outside of their in-region telecommunications infrastructure, most of the companies are involved in ventures both in and outside of the United States. Although these outside investments are extensive, the majority are in the communications sector. A recent financial analyst's report stated that most of these companies view the need to diversify their operations into a broad range of telecommunications services as essential for maintaining their competitiveness in the future. Table 2.2 shows examples of some of the more significant investments over the past few years for each of the eight companies.

Table 2.2: Outside Investments of the RBOCs and GTE

Company	Outside investments
Ameritech	Purchased part of telephone companies in New Zealand and Hungary; joint venture with General Electric
Bell Atlantic	Purchased part of telecommunications systems in New Zealand and Mexico; merged with Metro Mobile CTS
BellSouth	Bid for Paramount; joint venture with QVC to provide interactive video; joint venture with Prime Management (cable and programming company)
NYNEX	Alliance with Liberty Cable and Time Warner to provide interactive video
Pacific Telesis	Plans to bid on PCS licenses and integrate voice, data, and video applications and to invest $16 billion in information superhighway in California
Southwestern Bell	Operates Combined Cable TV and telephone network in U.K. with Cox Cable; controlling interest in Mexico Telephone Company
US WEST	Purchased part of Time Warner Entertainment; joint venture in largest cable TV and telephone network in the U.K.
GTE	Investing in Venezuelan Telephone Co.; also has cellular networks in Canada and the Dominican Republic

Source: Forms 10-K and annual reports.

Financing Structure

Table 2.3 shows the debt-to-capitalization ratio at the consolidated company level as well as the range of bond ratings of the operating companies owned by each of the eight firms. Moody's bond ratings for the operating companies are high, indicating strong financial condition.

Table 2.3: 1993 Financing Structure and Bond Ratings, RBOCs and GTE

Company	Percent debt to capitalization, 1993	Bond ratings for local exchange companies[a]
Ameritech	34	Aa2
Bell Atlantic	47	A1 to Aaa
BellSouth	35	Aa1 to Aaa
NYNEX	45	A3 to Aa2
Pacific Telesis	40	Aa3
Southwestern Bell	42	A1
US WEST	48	Aa3
GTE	58	A3 to Aa3

Note: Debt to capitalization is measured as long-term debt divided by total capitalization, which consists of long-term debt and stockholders' equity.

[a]The bond ratings are indicators of investment quality. Bonds are rated as follows: Aaa: best quality investments; Aa: high quality; A: upper-medium grade; Baa: medium grade; Ba: speculative elements; B: lack characteristics of a desirable investment. Bonds rated C, Ca, and Caa are considered of poor standing. The numeral at the end of the code—1, 2, or 3—is a further indication of investment quality. For example, a bond rated Aa1 is considered a better investment than a bond rated Aa2 or Aa3.

Source: Forms 10-K; annual reports; and Moody's Investors Service, March 1994.

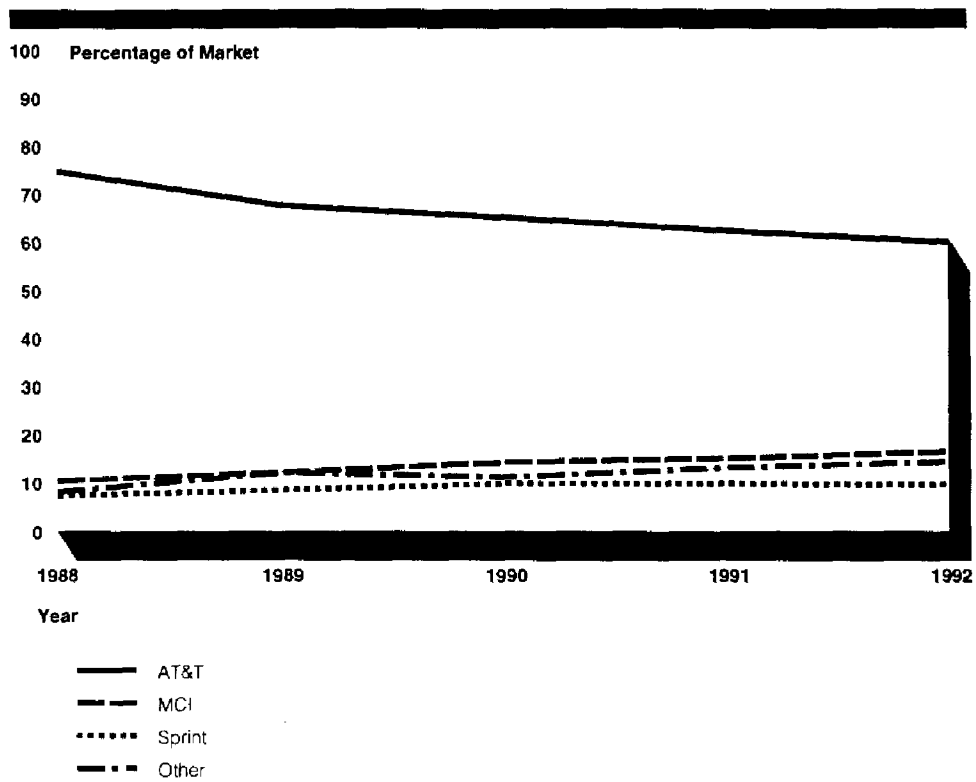
Financial Profile of Three Largest Long Distance Companies

This section provides information on the three largest companies in the long distance market: AT&T, MCI, and Sprint. Specifically, we provide information on the (1) market structure, (2) operating revenues, (3) uses of cash flows from operations, and (4) financing structure.

Market Structure

Since AT&T's divestiture in 1984, the long distance industry has grown increasingly competitive. AT&T has continually lost market share to MCI, Sprint, and other smaller interexchange carriers. Figure 3.1 shows that AT&T's market share, measured by its share of long distance revenues, has slowly declined from 1988 through 1992.

Figure 3.1: Long Distance Market Shares, by Revenues, 1988-92



Source: FCC, Statistics of Communications Common Carriers, 1992/1993.

Operating Revenues

MCI generated nearly all of its revenue from long distance service; AT&T and Sprint each generated somewhat more than half of their operating revenue from such service. In the case of AT&T, other operating revenue came primarily from manufacturing and leasing telecommunications equipment and from financial services. Sprint derived other revenues primarily from local exchange service.

Uses of Cash Flows From Operations

Table 3.1 shows the 1993 total cash flow from operations for each of the three long distance companies. The table also highlights the portion of cash flow from operations that is used for dividends and capital expenditures. While both AT&T and Sprint paid dividends, MCI paid almost no dividends. All three companies had cash investing and financing activities that did not fall into the dividend or capital expenditure categories. AT&T's proposed purchase of McCaw Cellular Communications and MCI's proposed purchase of Nextell show the keen interest these firms have in entering the wireless market.

Table 3.1: 1993 Long Distance Carriers' Uses of Cash Flow From Consolidated Operations

Dollars in billions

Company	Total cash flow from operations	Dividends	Dividends as a percent of cash flow	Capital expenditures	Capital expenditures as a percent of cash flow
AT&T	$7.1	$1.8	25	$3.7	52
MCI	$2.0	$.03	2	$1.7	85
Sprint	$2.1	$.35	17	$1.6	76

Note: Percentages in this table do not add to 100 percent because we do not include free cash flow, which may be either positive or negative. Therefore, the percentage of cash flow spent on capital expenditures and dividends may add to more than or less than 100 percent.

Source: Forms 10-K and annual reports.

Financing Structure

Table 3.2 shows the debt-to-capitalization ratio for each of the three companies as well as the bond ratings from Moody's Investors Service. AT&T, the largest of these companies, has the highest bond rating. Sprint is more leveraged than MCI and AT&T. Sprint has a considerably higher debt-to-capitalization ratio than the other long distance carriers, which may have affected its bond rating relative to the other companies.

Table 3.2: 1993 Financing Structure and Bond Ratings, Long Distance Carriers

Company	Percent debt to capitalization	Bond ratings[a]
AT&T	33	Aa3
MCI[b]	33	A2
Sprint	54	Baa3 to A1

Notes: Debt to capitalization is measured as long-term debt divided by total capitalization, which consists of long-term debt and stockholders' equity.

[a]The bond ratings are indicators of investment quality. Bonds are rated as follows: Aaa: best quality investments; Aa: high quality; A: upper-medium grade; Baa: medium grade; Ba: speculative elements; B: lack characteristics of a desirable investment. Bonds rated C, Ca, and Caa are considered of poor standing. The numeral at the end of the code—1, 2, or 3—is a further indication of investment quality. For example, a bond rated Aa1 is considered a better investment than a bond rated Aa2 or Aa3.

[b]MCI's debt-to-capitalization ratio dropped from 52 percent in 1992 to 33 percent in 1993, primarily due to an equity infusion from British Telecom, which is acquiring a 20 percent interest in MCI. This equity infusion resulted in MCI's bond rating increasing to A2 in March 1994.

Source: Forms 10-K; annual reports; Moody's Investors Service, March 1994.

Section 4

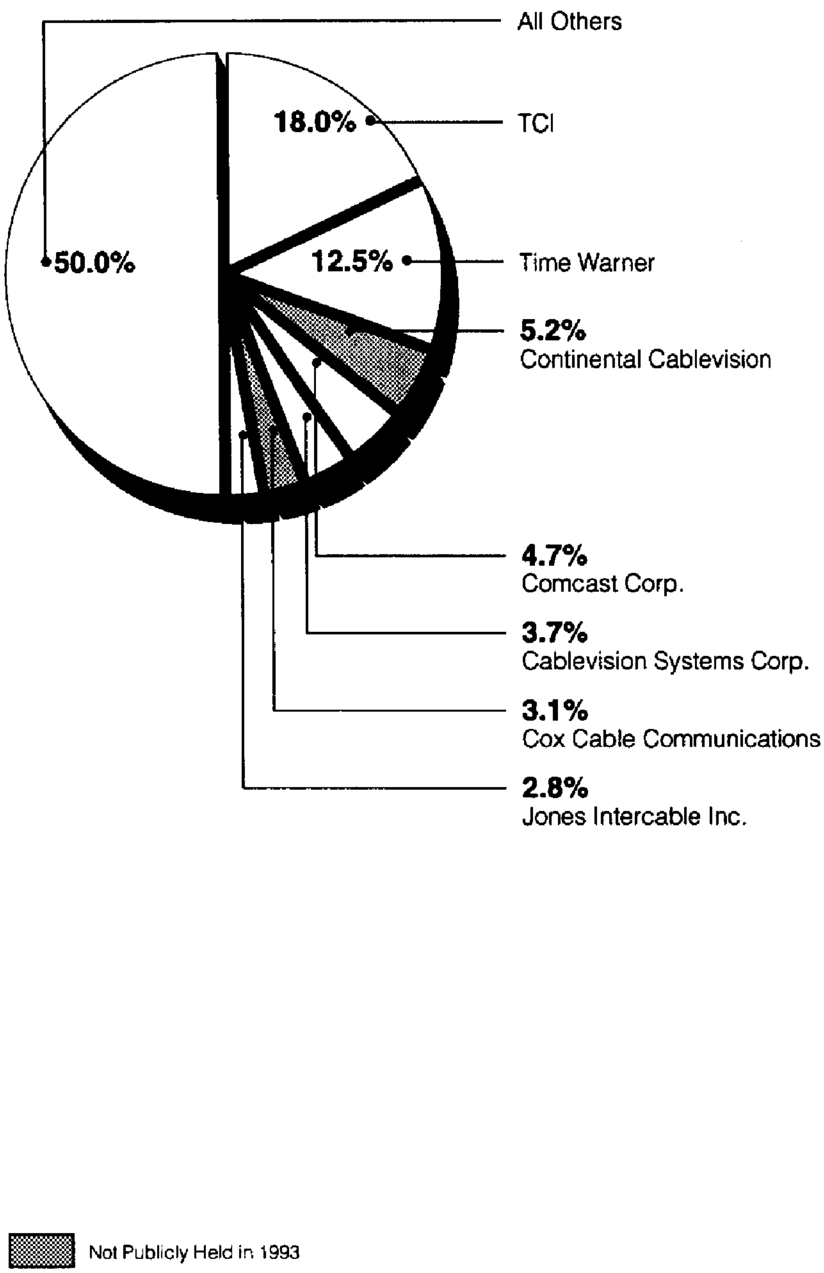
Financial Profile of Five Largest Publicly Held Cable Operators

This section provides information on the operators of the five largest publicly held cable system companies: TCI, Time Warner, Comcast Corporation, Cablevision Systems Corporation, and Jones Intercable, Inc. Specifically, we provide information on the (1) market structure, (2) operating revenues, (3) uses of cash flows from operations, and (4) financing structure.

Market Structure

Local communities generally provide franchise authority to one cable provider. There are many cable companies operating in the United States, but only a few are very large and own or control a large number of systems. Figure 4.1 shows the national market share of the seven largest multiple-system cable operators, two of which are privately held.

Figure 4.1: Cable Market, National Market Shares Based on Subscribership, May 1993



Note: We used subscribership to derive market share data because revenues for all cable companies were not readily available.

Source: National Cable Television Association; data are estimates from Paul Kagan Associates. The estimated number of basic cable subscribers was taken from an August 1993 report; the estimated number of subscribers for each operator was taken from May 1993 data.

Operating Revenues

Except for Time Warner, the cable operators we reviewed derived most or all of their operating revenues from the provision of cable television. About 85 percent of Time Warner's revenues came from noncable sources, primarily entertainment services and publishing.

Uses of Cash Flows From Operations

Table 4.1 shows the 1993 total cash flow from operations for each of the five cable operators. The table also highlights the portion of cash flow from operations that is going toward dividends and capital expenditures. Of these companies, only Time Warner paid significant dividends.

Table 4.1: Cable Operators' Cash Flow From Consolidated Operations, 1993

Dollars in billions

Company	Total cash flow from operations	Dividends	Dividends as a percent of cash flow	Capital expenditures	Capital expenditures as a percent of cash flow
TCI	$1.25	$0.01	1	$0.95	79
Time Warner	$1.53	$0.30	20	$0.81	53
Comcast Corp.	$0.35	$0.02	6	$0.16	46
Cablevision Systems Corp.	$0.09	$0	0	$0.22	244
Jones Intercable, Inc.	$0.03	$0	0	$0.02	67

Note: Percentages in this table do not add to 100 percent because we do not include free cash flow, which may be either positive or negative. Therefore, the percentage of cash flow spent on capital expenditures and dividends may add to more than or less than 100 percent.

Source: Forms 10-K and annual reports.

Financing Structure

Table 4.2 shows the debt-to-capitalization ratio for each of the five companies as well as the bond ratings from Moody's Investment Services. Debt to capitalization for most of these companies is very high. Moreover, the bond ratings suggest that some of these companies are considered speculative investments by analysts. Financial analysts told us that some cable companies may have difficultly raising additional capital.

Table 4.2: 1993 Financing Structure and Bond Ratings, Consolidated Cable Operators

Company	Percent debt to capitalization	Bond ratings[a]
TCI	82	Baa3
Time Warner	69	Ba3 to Baa3
Comcast Corp.	127	B1
Cablevision Systems Corp.	337	B2
Jones Intercable, Inc.	90	B2

Note: Debt to capitalization is measured as long-term debt divided by total capitalization, which consists of long-term debt and stockholders' equity.

[a]The bond ratings are indicators of investment quality. Bonds are rated as follows: Aaa: best quality investments; Aa: high quality; A: upper-medium grade; Baa: medium grade; Ba: speculative elements; B: lack characteristics of a desirable investment. Bonds rated C, Ca, and Caa are considered of poor standing. The numeral at the end of the code—1, 2, or 3—is a further indication of investment quality. For example, a bond rated Aa1 is considered a better investment than a bond rated Aa2 or Aa3.

Source: Forms 10-K; annual reports; and Moody's Investors Service, March 1994.

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