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KATHLEEN HAYS, CNNfn ANCHOR, MONEY & MARKETS: There could be more consolidation in the telecom industry. Deutsche Telekom (Company: Deutsche Telekom AG ; Ticker: DT; URL: <http://www.dtag.de/>) is reportedly in talks to merge its U.S. wireless unit VoiceStream with Cingular Wireless. Cingular would not comment. Such a deal would help Deutsche Telekom cut its big debt. And if it were to go through it would mark the beginning of what analysts say would be further consolidation in the industry. Separately, Qwest Communications (Company: Qwest Communications International Inc.; Ticker: Q; URL: <http://www.qwest.net/>) is selling its phone book (ph) unit for more than \$7 billion to two private investment firms. Qwest says the deal will cut its debt load. Joining me to talk about today's telecom news and what's ahead for the industry is Craig Clausen, senior vice president and chief operating officer at telecom research and consulting New Paradigm Resources.

Nice to have you on the show. **CRAIG CLAUSEN, NEW PARADIGM RESOURCES GROUP:** Good to be here.

HAYS: So what about this latest story, VoiceStream and Cingular? This is something people have been speculating about for a while. Do you get the feeling this is actually going through?

CLAUSEN: Still got a long ways to go. Other reports are that VoiceStream has spoken with AT&T (Company: AT&T Corporation; Ticker: T; URL: <http://www.att.com/>). In the industry it's felt that VoiceStream feels it needs to be acquired or merge with a bigger player to survive a little longer term. As you noted, their debt is significant. But they are also on the smaller side. By pairing up with a bigger player they have that economies of scale that is so important in the sector.

HAYS: In terms of economies of scale relative to how big the market is going, these - if you merge these two companies you're still going to have \$30 billion - 30 million customers, you still have a sense that, you know, wireless has so much potential but it really hasn't lived up to the potential yet in terms of growth rate that everyone was counting

on in the mid '90s, that's one reason why we have a lot of problems in the telecom sector. So how do you think this will play out?

CLAUSEN: That's a good point. The growth hasn't been there. And that's the feeling that you have to grow by merging, by acquiring the customers. Everyone has this desire to be the biggest player in town and the economies of scale will let the carriers offer services at lower rates today and in the future bank on the whiz-bang stuff that the consumers are hopefully clamoring for, the 3G stuff that's taking off in Europe and in Asia.

HAYS: OK. In terms of some of the big players, SBC (Company: SBC Communications Inc.; Ticker: SBC; URL: <http://www.sbc.com/>), BellSouth (Company: BellSouth Corporation; Ticker: BLS; URL: <http://www.bellsouth.com/>), the co-owners of Cingular, what would a merger like this would mean for them in terms of their competition with the other big telecoms?

CLAUSEN: Not much, it's not going to have a significant impact for those land-line carriers because the boost in revenues, the boost in the bottom line actually will be minimal. By our estimates, it will be in the range of about 150 million in bottom line profits. So what are they really hoping for, it's banking again on the future, that is by acquiring another player, a significant player, VoiceStream is not small, they're on the smaller side but not miniscule, they're hoping that they will take that other step, that second or third step towards being the biggest player in town, which will position them then to take advantage of the future. And that's really where this whole sector lies. And what they are all banking on is what can they sell in the future?

HAYS: In terms of the government's role here, do you think there are regulatory issues that they will raise or do you think they will say, thank goodness, we see some merging that makes sense, something that will help the long term health of the sector?

CLAUSEN: Well, I think certainly there's going to be some stability in the sector. Right now by some counts, six to 10 major wireless players in the space and serving various bigger markets which leads to some customer confusion, some instability, some regulatory problems when it comes to service quality and billing issues. They'd like to see some of that taken care of. And certainly this is a step in that direction.

HAYS: What about Qwest selling its telephone directory business? It looks like it could be at least part of the lifeline this troubled company needs to survive?

CLAUSEN: Well, that's exactly what it is. Unfortunately, their broad, ambitious plans over the past five or six years really got them in a world of trouble. Previously, U.S. West was well run, they had service quality issues but they were a good incumbent local exchange carrier. Qwest stepped in, had these overly ambitious plans and dragged what was a stable RBOC down into all of this mess that Global Crossing is in, that WorldCom (Company: WorldCom Group; Ticker: WCOME; URL: <http://www.worldcom.com/>) is in. So by selling directories they are unfortunately having to sell an important asset that they have used successfully in the past. But it will help them meet some of their covenants.

HAYS: Is the carnage just about over in the telecom industry? Is the dust settling? Are we about to enter a new phase here?

CLAUSEN: Geez, we all hope so. The analogy I've been using, it's like a submarine, the crew is scrambling madly to save the ship but bumping its along the bottom. And it's going to bump along the bottom for the next few quarters. We're estimating between the next two to four quarters. What's going to happen along the way, there's going to be some problems with individual carriers which will affect the entire sector, the overall telecom sector. There's going to be subsectors that will affect positively and negatively but they'll - overall the sector will bounce along the bottom.

HAYS: Craig, who do you think are the top two or three survivors, the top two or three winners in the sector?

CLAUSEN: I think certainly SBC, AT&T, and even in light of all its changes will certainly survive. Verizon (Company: Verizon Communications; Ticker: VZ; URL: <http://www.verizon.com/>) is a big player, and so is BellSouth.

HAYS: OK. Well, that's something for our view viewers to think about if they want to wade into the chill water of telecom. Craig Clauson, thank you so much for joining us.

CLAUSEN: Thank you.

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About New Paradigm Resources Group

New Paradigm Resources Group, Inc. is a research and consulting firm monitoring and analyzing developments in the competitive telecommunications industry. NPRG maintains an extensive array of proprietary databases that support our foundational industry reports, which, in turn, fuel our client-specific expert consulting work. NPRG publishes the *CLEC Report*[™], a semi-annual multi-volume review of the state, trends and future of the competitive local telecom industry, as well as the *ILEC Report*[™], *DSL Report*[™], *ILEC Capital Spending Report*[™], *Utilities in Telecom Report*[™], and the *CIOC Report*[™].