TECHNOLOGY, TELECOM AND INTERNET BLOG

Jan 13, 2014 / by Paul Barbagallo

In the world of telecommunications, a major anniversary passed quietly this New Year's Day, with little notice or fanfare: The breakup of Ma Bell.

On Jan. 1, 1984, the American Telephone and Telegraph Company split itself up into eight separate companies, creating, as The New York Times wrote in its morning edition that day, "great expectations and great concern for both the telephone industry and the nation as a whole." No company as large and as technologically integrated as AT&T had ever before been dismantled into component parts, the Times observed, not even in the trust-busting era of President Woodrow Wilson.

But such was Ma Bell's fate. The Department of Justice had spent the previous decade building what would be an historic antitrust case against AT&T, believing that the world's richest corporation had become a threat to competition, innovation, and consumer welfare.

District Court Judge Harold Greene, who was hearing the case, seemed to agree. In rejecting a motion to dismiss by AT&T in September 1981, he wrote that the evidence presented by the Justice Department showed that the "Bell System has violated the antitrust laws in a number of ways over a lengthy period of time."

To many, a breakup was inevitable.

In the waning weeks of the trial, and after seven years of litigation and $360 million in legal bills, AT&T agreed to a deal. It would divest the 22 local phone companies that made up its Bell System in the United States, a key source of its economic and political power with $80 billion in assets and telephone lines that extended to nearly every home and business in the country. The 22 companies would become seven "Regional Bell Operating Companies," otherwise known as the "Baby Bells": Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, Southwestern Bell, and US West. They would remain tightly regulated, with virtual monopolies in their markets, while the original American Telephone and Telegraph Company would continue operating as a long-distance provider and equipment manufacturer with ownership of Western Electric and Bell Labs. As part of the settlement, AT&T finally would be free to enter such previously prohibited markets such as computers and data processing.

Now, 30 years later, the telecommunications landscape looks vastly and unfathomably different.

Today, the largest provider of residential wired voice service in the United States is not a Baby Bell or traditional landline telephone company but a cable TV operator: Comcast Corp.

Today, there are also more active mobile phones than there are people, and 40 percent of American households in the United States are wireless only.

And today, only three descendants of the Baby Bells survive: Verizon Communications Inc., AT&T Inc. (yes, that AT&T), and CenturyLink. And less than 10 percent of Americans have only a landline phone.

So what happened?

For one, spectrum auctions.

In 1993, Congress gave the Federal Communications Commission new authority to hold auctions for the right to use the public airwaves.

The FCC's first auction, in 1994, drew multimillion-dollar bids from biggest players in the two-way paging business, including Adelphia Communications, Airtouch Paging, BellSouth Wireless, Mobilemedia Communications, and US West Communications.

Then came the Telecommunications Act of 1996.

One of the obligations imposed on Baby Bells by the Act was to lease out parts of their networks to rivals in an effort to promote competition. In exchange, the Bells were allowed to enter the market for both long-distance telephone services and cable TV services and, for the first time in their history, diversify their businesses.

In 1996, Bell Atlantic acquired NYNEX. In 2000, Bell Atlantic acquired GTE, the largest independent phone company during the Bell System era, and rebranded itself Verizon Communications Inc. That same year, Verizon folded its U.S. wireless unit into a joint venture with Vodafone Air Touch P.L.C. of Britain, naming the new venture Verizon Wireless.

Over the next decade, Verizon would buy two more key assets—MCI, the long-distance carrier, and Alltel, the regional wireless carrier.

Southwestern Bell, meanwhile, was busy with a buying spree of its own, acquiring Pacific Telesis in 1997, Southern New England Telecommunications in 1998, and Ameritech in 1999. No longer ''Southwestern,'' the company changed its name to SBC Communications Inc. In 2000, SBC and BellSouth combined their wireless assets to form the second-largest U.S. mobile phone company, what became Cingular Wireless (At the time, Verizon Wireless was No. 1; AT&T Corp. was No. 3).

Then, in 2005, SBC bought AT&T Corp., its former parent, and (re)assumed the AT&T name. Just one year later, the new AT&T acquired BellSouth outright, giving it complete control of Cingular Wireless.

With such frenzied dealmaking, Verizon and AT&T became more than just phone companies; they became communications companies. With one bill and one provider for three, even four, services—telephone, Internet access, television, and cellphone—the "triple play'' and ''quadruple play'' became the industry's buzzwords du jour, and the ''bundle'' became a household word.

Soon the two companies began waging a lobbying and public relations battle against the country's largest cable TV operators, making the case to both state and federal lawmakers that they, as the newer market entrants, should be granted statewide cable franchises rather than be forced to negotiate separate, individualized agreements with every city, town, and county in every state in the country, much like the cable operators were forced to do years earlier.

The effort paid off. State by state, officials legislated a smoother path of entry for Verizon and AT&T into the pay-TV market. And for several years in the mid-2000s, pay-TV was an almost singular focus of the Bells.

Today? Not so much.

Last fall, Verizon Communications announced plans to buy out Vodafone's 45 percent share of Verizon Wireless for $130 billion.

Verizon Wireless is still the No. 1 wireless carrier in the United States, with 120 million subscribers, and is far and away the industry leader in 4G LTE (fourth-generation, long-term evolution) deployment.

To many Wall Street analysts, the deal, while pricey for Verizon, serves as a tacit acknowledgment that the company is betting on wireless—not wireline—as a central part of its future.

Even though Verizon is and will still be one of the largest providers of wired phone and broadband internet services in the country, wireless is simply more lucrative. In the second quarter of 2013, Verizon Wireless accounted for $20 billion of Verizon Communications' $29.8 billion in revenue.

Heeding this trend, in 2012, the company acquired big chunks of radio spectrum from four of the nation's largest cable operators and signed agreements with them to sell each other's services to consumers around the country—a "strategic masterstroke" for Verizon, industry analyst Craig Moffett noted at the time.

Verizon has already sold off all or part of its local landline phone businesses in Arizona, California, Hawaii, Idaho, Illinois, Indiana, Maine, Michigan, Nevada, New Hampshire, North Carolina, Ohio, Oregon, South Carolina, Washington, Vermont, West Virginia, and Wisconsin. The company, however, still maintains its landline businesses in states that have (for the most part) higher population densities and predictably better take rates: Connecticut, Delaware, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Virginia, and parts of California.

It should be noted that with FiOS, Verizon was the first major U.S. phone company to extend fiber all the way to the customer's home (fiber-to-the-premises, or FTTP), a costly, time- and labor-intensive strategy which drew skepticism from Wall Street and awe around the world; with FiOS, Verizon could offer broadband speeds rivaling that available in Japan and South Korea. AT&T, in contrast, took a different tack: The company chose to lay fiber cables in the ground only within 4,000 feet of homes and deliver the last part of the signal over conventional copper wires (called fiber-to-the-node, or FTTN).

Thus, in early 2010, Verizon opted to focus its FiOS expansion only in states, cities, and towns where the company had already negotiated and signed a cable franchise.

As for AT&T? The future is a wireless one as well—at least in part.

In an effort to supplant Verizon as the No. 1 wireless carrier, in 2011 AT&T bet big, striking a $39 billion deal to acquire the No. 4 carrier, T-Mobile USA Inc. Though the Department of Justice sued to block the deal, the company has since rebounded nicely, and has quietly pursued other smaller acquisitions, such as Atlantic Tele-Network's wireless assets and Leap Wireless International Inc.

In the third quarter of last year, AT&T's total wireless revenues were up 5.1 percent, as the company added 363,000 contract subscribers, about double what it added the year before.

In the same quarter, AT&T also reported the first-ever billion-dollar U-verse wireline revenue month; total U-verse revenues were up 28.1 percent year over year.

''We're seeing excellent growth across our major platforms—mobility, U-verse, and strategic business services,'' AT&T's Chairman and CEO Randall Stephenson proclaimed.

But in December, less than two months after its Q3 earnings release, AT&T made a move to shed some less profitable wireline operations, announcing a deal to sell its landline telephone, broadband, and TV operations in Connecticut for $2 billion in cash to Frontier Communications Corp.

The proceeds of the sale, AT&T explained, will help the company expand its 4G LTE network and also roll out U-verse high-speed internet and video services to more customers (businesses, especially) in 21 other states, part of a three-year, $14 billion investment strategy.

And much like with Verizon, AT&T is thinking strategically: In Connecticut, AT&T's operations were inherited from SBC and the Southern New England Telecommunications Corp. (see above); today, these operations represent roughly $1.2 billion in annual revenue for AT&T, less than 1 percent of its total.

All told, the money AT&T gets from Frontier will not only allow the company focus on its more lucrative wireless business, but also to potentially make overseas deals.

''The picture being painted is one of AT&T (like other firms trying to adapt to economic/market realities and technological advances) with several balls in the air insofar as U.S. wireless deals, mobile broadband network investment, contemplation of foreign transactions (think Vodafone mobile), possible sale of tower assets and stock buybacks,'' Jeff Silva, an analyst at Medley Global Advisors, wrote in a research note last September.

At the Federal Communications Commission, meanwhile, AT&T has been the loudest advocate for what has been termed the ''IP Transition,'' the migration of the nation's telephone network to all-Internet protocol technology.

AT&T petitioned the FCC in November 2012 to begin this transition by setting up trials around the country where the company would stop selling certain unprofitable (but mandated by law) landline telephone services and begin offering unregulated IP-based or wireless versions.

Both AT&T and Verizon have been slowly scrapping billions of dollars of their Baby Bell network equipment that is still based on an old technology called time division multiplexing, or TDM, and replacing it with newer, Internet protocol technology, which has proven itself a far cheaper and more efficient means of moving digital information of all kinds, especially phone traffic.

But for both AT&T and Verizon and also CenturyLink, this transition is as much about regulation as it is about technology.

As descendants of the Baby Bells, AT&T and Verizon must still must provide a quick dial tone, a sure connection, and resiliency during storms and power outages. By law, they are still "Carriers of Last Resort," which means that they must offer service to every residence in their territories. Comcast, Vonage Holdings Corp., and Skype Communications, as VoIP providers, bear none of these social responsibilities. And today, in some markets, AT&T's landline phone service is seeing a sub-20 market share.

This month, FCC Chairman Tom Wheeler plans to seek a full commission vote on an order to advance the IP Transition, a move AT&T was quick to hail as a "significant step forward for the industry."

Whatever happens, the Bells are not likely to completely exit the wireline business anytime soon. Their wires in the ground are just too valuable—for broadband, if for no other reason.

In the third quarter of 2013, CenturyLink, which can trace its history back to the Baby Bell US West, added 33,000 high-speed Internet subscribers and now has more than 5.94 million and a record 17,000 broadband-dependent Prism TV subscribers.

Glen Post, Century Link's president and CEO told investors in November that the company is focusing on GPON (short for Gigabit Passive Optical Network) technology in targeted business districts to enable broadband speeds of up to 1 gigabits per second.

After all, Ma Bell's progeny were among the first companies to enable consumers' use of the internet.

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