THE VALUE LINE Investment Survey®

www.valueline.com

Part 3 Ratings & Reports

ISSUE 5

Pages 694-844

File in the binder in order of issue number, removing previous issue bearing the same number.

January 2, 2004

PAGE

ESPECIALLY NOTEWORTHY:

Two one-time high flyers that are once again heading higher make their debuts this week in the Value Line Investment Survey. ***Marvell Technology Group Ltd.*** *(page 763) and* ***Silicon Laboratories Inc.*** *(page 767) both become part of our Telecommunications Equipment Industry.* ***Cisco Systems*** *(page 755) is also joining this group. (It was previously included in the Computer Industry.)*

Magna International *is thriving in a challenging auto parts market. See how the Canadian supplier is managing to defy the odds on page 813.*

Gentex Corp., *a maker of glare-reducing rear-view mirrors, also continues to prosper in a difficult environment. Our thoughts on the company's prospects are reviewed on page 807.*

The stock of wireless service provider ***Nextel*** *has handily outperformed its peers since mid-2002. Turn to page 734 to see if the good times continue.*

AT&T *was unable to work out a deal with suitor* ***BellSouth Corp.*** *See our views on each company on pages 721 and 725.*

★★ Rank 1 (Highest) for Timeliness.
★ Rank 2 (Above Average).

In three parts: Part 1 is the Summary & Index. Part 2 is Selection & Opinion. This is Part 3, Ratings & Reports. Volume LIX, No. 18

Published weekly by VALUE LINE PUBLISHING, INC. 220 East 42nd Street, New York, NY 10017-5891

The Telecommunications Services Industry kept pace with the recovery in the broader stock market during the past three months. Solid third-quarter 2003 revenue and earnings performances supported telecom prices across the long distance, local, and wireless sectors. The final quarter of a year is not usually a stand-out period due to seasonal sales factors. At press time, the telcos began to provide 2004 guidance, which on the whole, so far, has been generally positive. Managements are cautiously optimistic about a recovering U.S. economy, and the potential benefits to service demand, particularly in the business sector. Still, the competitive bar has been raised in most areas.

This year, the long distance carriers and Regional Bell Operating Companies (RBOCs) will face increased competition from Voice over Internet Protocol (VoIP) service offered by cable operators, in addition to ongoing communications substitution. The RBOCs also will continue to deal with the competitive effects of line sharing, as mandated by the Federal Communications Commission (FCC). And the wireless carriers will have to contend with the disruptive influence of phone number portability, another FCC requirement.

Last fall, *BellSouth* walked away from takeover talks with *AT&T Corp.*, but heightened competition might bring these and other service providers to the merger table again. Some on Wall Street still believe that long distance/local hookups are in the offing, and many anticipate wireless telco consolidations. We're much less certain about deals between two large wireline companies because of lingering debt balance considerations.

It seems that the worst is over for the telecom sector, but in all likelihood, it will be a long, hard slog to recovery. Indeed, many of the companies in the industry may well fall short of achieving a complete share-price rebound by 2006-2008. There are a number of selections (especially long distance and wireless equities) for venturesome investors seeking above-average 3- to 5-year gains. Rising dividend payouts may attract interest in the more stable RBOCs among income-oriented market participants.

The Threat from VoIP

For several years now, the long distance majors (i.e., *AT&T Corp., Sprint FON,* and MCI) and RBOCs have had to deal with the substitution of wireless and Internet (instant messaging) communications for traditional wireline service. Both groups are enduring as-yet-unabated sharp voice revenue declines, especially in the consumer segment. Another noteworthy threat is emerging from cable companies offering VoIP service.

INDUSTRY TIMELINESS: 29 (of 98)

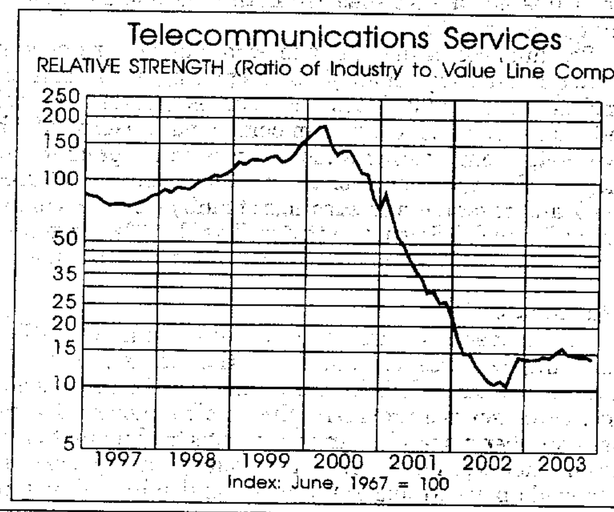
Up until recently, voice service over cable lines has been of poor quality. Lately, though, the technology has improved, with the clarity of digital voice communication now much closer to that of wireline. Too, phone-to-cable modem connections have become simpler. Importantly, cable telephony creates greater flexibility in managing calls and offering a wide array of vertical services.

The largest cablers, including Time Warner, Comcast, Cablevision, and Cox Communications, are ramping up the offering to their existing customer bases. Cable company managers realize that they need to market more complete bundled packages, incorporating voice, video, and high-speed data, to better compete against the telcos, which already provide broadband options, via digital subscriber line, and satellite video, by way of partnerships. Also, the added revenues and earnings would help to pay down sizable debt loads. By the end of this year, the cable operators could have as much as a quarter of a million telephony subscribers, which, though not a significant portion of the total voice market, is an impressive start. Time Warner appears to be the most aggressive in this foray. It has tapped *Sprint FON* and MCI to facilitate the movement of wholesale voice traffic over cable systems and phone lines.

The telcos are not going to sit by idly and watch the cablers snatch up market share. *AT&T, Qwest Communications International, SBC Communications,* and *Verizon Communications* have all announced their own VoIP rollouts. *BellSouth* is making a more cautious entry; it will initially focus on expanding coverage of the business market. VoIP will surely pressure voice service revenues going forward. Current unlimited use plans price the offering below $40 a month, versus the traditional phone bill of $50-$60. A few startup companies (e.g., IXTC Corp., Packet8, Vonage Holdings, and Z-Tel Technologies) have been particularly aggressive on pricing. The cost of providing Internet voice service is much cheaper than the traditional switched-network means. *AT&T* points out that VoIP could save it billions of

Composite Statistics: Telecommunications Services Industry

1999	2000	2001	2002	2003	2004		06-08
222364	290293	292421	275753	***278000***	***283500***	Revenues ($mill)	***320000***
19753	24687	10254	17668	***19450***	***21250***	Net Profit ($mill)	***29500***
38.9%	46.2%	42.5%	37.3%	***37.0%***	***38.0%***	Income Tax Rate	***38.0%***
8.9%	8.5%	3.5%	6.4%	***7.0%***	***7.5%***	Net Profit Margin	***9.0%***
35.4%	35.0%	43.4%	51.1%	***49.0%***	***47.0%***	Long-Term Debt Ratio	***35.0%***
59.9%	57.1%	47.6%	39.4%	***46.0%***	***50.0%***	Common Equity Ratio	***62.0%***
332095	516893	484282	379843	***370000***	***400000***	Total Capital ($mill)	***500000***
217047	301060	311760	283432	***300000***	***320000***	Net Plant ($mill)	***350000***
7.1%	6.2%	3.5%	6.5%	***8.5%***	***8.5%***	Return on Total Cap'l	***7.0%***
9.4%	8.0%	4.1%	11.0%	***10.5%***	***10.0%***	Return on Shr. Equity	***9.0%***
9.7%	8.1%	4.1%	11.6%	***11.5%***	***10.5%***	Return on Com Equity	***12.0%***
4.2%	3.5%	NMF	4.4%	***4.5%***	***4.5%***	Retained to Com Eq	***6.0%***
56%	58%	108%	61%	***60%***	***58%***	All Div'ds to Net Prof	***50%***
36.3	67.8	22.1	19.9	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***17.5***
2.36	3.47	1.21	1.09			Relative P/E Ratio	***1.15***
1.6%	1.6%	2.8%	2.9%			Avg Ann'l Div'd Yield	***2.9%***



dollars in annual access fees paid to the RBOCs. VoIP can stay profitable only if the market players can instill pricing discipline, a tough feat for sure. For better or worse, this technology should eventually be a significant force in the telecom market. Customer adoption rates have, thus far, been very positive. The speed with which this market grows depends on upcoming rulings by the FCC and federal courts on access line charges, which help to fund universal service.

At this juncture, state authorities, ever mindful of the flow of tax revenues, are of the opinion that VoIP should be a regulated service. Current FCC rules classify VoIP as a data offering, exempt from the fees paid to the RBOCs. Recent court decisions have upheld this point of view, but the FCC has not yet issued a final order on the matter. Some $25 billion in access charges are at stake for the RBOCs. We believe that a compromise, based on the reliance on the Bell networks to complete a VoIP call, will be reached and phased in over time.

It's worth noting that Internet congestion, caused by capacity bottlenecks in certain locations, may well determine how prevalent VoIP will become in the $300 billion telecom market. Before this limiting factor comes into play, though, wireless and instant messaging will be the primary threats to wired voice service.

Culling the Ranks

With service substitution and competition pressuring pricing, the largest established telcos have seen little revenue growth, if any. The long distance companies and RBOCs have not yet completely pulled down the size of their work forces from the days when they owned regional monopolies. As 2003 drew to a close, *AT&T* announced that it was expanding planned layoffs from 10% to 12% (8,500) of overall employment. The telco estimates yearly savings of up to $650 million. *Sprint* is cutting 3% (2,000) of its staff this year, which should yield some $120 million in annual benefits. Similar reductions are in the offing at *AT&T Wireless, SBC Comm.*, and *Verizon Comm.* Substantial, related restructuring costs are likely. Notably, *BellSouth* has been able to turn year-to-year quarterly share-net matchups positive through such measures.

Falling employment levels and lower capital spending should result in improved net cash flows in the quarters ahead. These funds are already going to pull down debt balances. Indeed, *AT&T* probably cut its total obligations to $9 billion at the end of 2003, versus more than $50 billion in 2001. *Sprint* may well lop $7 billion off its consolidated balance sheet (from the yearend 2002 total) by the end of 2004.

The finances of the major telecom players are now in much better shape than at the beginning of the market meltdown in 2000. These companies possess several billion in cash and short-term borrowing capacity, which will help them weather almost any serious uptick in the degree of competition over the next few years. If all goes well, and revenues and earnings steadily rise, we will lift their Financial Strength ratings. The RBOCs are generously raising dividends to keep investors on the line.

No Loyalty

Last November 24th, federal rules went into effect allowing wireless customers in the nation's top 100 markets to take their phone numbers with them when switching service providers; this is also known as wireless number portability. In the months leading up to this event, not willing to rely on customer loyalty, carriers stepped up marketing and promotional efforts. Consumers got better deals on rates, minutes of use, and phones, as the telcos locked them up for longer terms, usually two years. 2003 September-quarter results showed marked increases in selling, general, and administrative costs, as well as account churn.

In the weeks immediately following the effective date of number portability, most customers were able to change service within a reasonable time period. *AT&T Wireless*, however, stood out in having difficulty porting phone numbers. The telco blamed lengthy delays on an outside vendors' computer software. These difficulties have now largely been resolved. The nation's leading carriers, Verizon Wireless, a joint venture between *Verizon Comm.* and Vodafone Group, and Cingular, operated by *BellSouth* and *SBC Comm.*, fared quite well, and stand to gain share in the quarters ahead, thanks to their extensive market coverage. *Sprint PCS*, providing good service quality, has, so far, performed better than we expected in retaining customers. We look for churn to return to more modest, stable levels in the second half of 2004.

Going forward, the wireless carriers will continue to aggressively compete for the most profitable post-pay customers by offering new services and improving network quality. Though managements can probably continue to control the monthly average cost to serve a customer (now $20 to $30), it will be no easy task to lift monthly average revenue per user ($50-$60) and reduce the cost to acquire an account ($300-$400). *AT&T Wireless*, Cingular, *Sprint PCS*, and Verizon Wireless, for example, are beginning to offer push-to-talk communications to better compete with *Nextel Comm.'s* service, which has proved popular with business customers. Too, *AT&T Wireless* is wrapping up its transition from a Time Division Multiple Access network to a Global Standard for Mobile Communications/General Packet Radio Service system to enhance capacity, lower operating costs, and deliver advanced third generation services. Cingular and *Sprint PCS* are also utilizing efficient packet networks. In addition, some of the telcos are still experimenting with different business models to go after a larger share of the narrow-margin prepaid market and still earn a profit. *AT&T Wireless* is meeting with a good degree of success in marketing its GoPhone product through major retailers, such as Target. (It's also worth noting that *American Tower* and *Crown Castle International* stand to gain from carriers' plans to add cell towers to enhance network service quality.)

Scale is important to the wireless operators in their ambition to turn a profit. Rumors of an industry consolidation have persisted for a couple of years. Number portability may well drive these telcos to the bargaining table, especially when it begins to cover all markets this coming May 24th. Indeed, at press time, unconfirmed reports surfaced that Cingular was making serious overtures to *AT&T Wireless*. The two companies would probably work well together, since both their networks run on similar technology. (Note: Cingular may well make an initial public offering this year to better fund expansion plans.) Further considering scale, number portability likely will lend an additional boost to wireless revenues and earnings, since wireline customers can now port their numbers on to wireless networks. A growing number of people are considering cutting off their traditional wireline service, a significant threat that the long distance majors and RBOCs are monitoring very closely and trying to combat with bundled offerings.

David M. Reimer

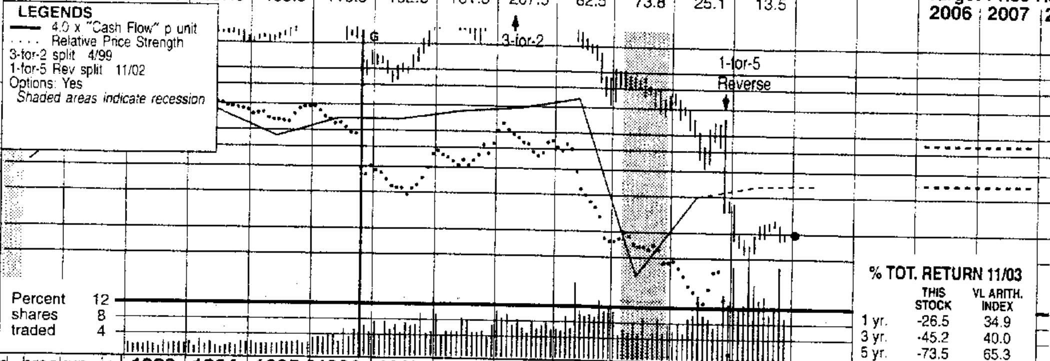
AT&T CORP. NYSE-T

RECENT PRICE **19.75** | P/E RATIO **8.9** (Trailing: 17.3 Median: 20.0) | RELATIVE P/E RATIO **0.46** | DIV'D YLD **5.1%** | **VALUE LINE** **721**

TIMELINESS — E
SAFETY 3 New 1/3/03
TECHNICAL — E
BETA NMF (1.00 = Market)

High:	177.1	216.7	190.4	228.3	229.6	213.3	263.3	320.4	304.1	125.8	96.3	27.9
Low:	122.1	167.5	157.5	158.8	110.8	102.5	161.3	207.5	82.5	73.8	25.1	13.5

Target Price Range
2006 | 2007 | 2008



2006-08 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+180%)	29%
Low	35	(+75%)	15%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	3
Options	0	0	0	0	1	1	0	1	0
to Sell	0	0	0	0	0	0	0	1	1

Institutional Decisions

	1Q2003	2Q2003	3Q2003
to Buy	240	235	220
to Sell	297	246	229
Hld's(000)	498246	520502	531345

% TOT. RETURN 11/03

	THIS STOCK	VL ARITH. INDEX
1 yr.	-26.5	34.9
3 yr.	-45.2	40.0
5 yr.	-73.5	65.3

Following the court-ordered breakup in 1984, creating the regional Bell operating companies, long distance major AT&T commenced another reorganization of its own in 1996. In that year, Lucent Tech. (equipment) and NCR (computers) were spun off to stockholders; and AT&T Capital was sold to a leasing consortium. Then, in 1998, Citicorp purchased the Universal Card unit. In 2001, two other spinoffs, of AT&T Wireless and Liberty Media, were completed. Lastly, AT&T Broadband was spun off and sold to Comcast in November 2002. AT&T currently focuses on consumer and business long distance, local, data, and Internet services.

1993	1994	1995	D1996	1997	1998	1999	2000	F2001	H2002	2003	2004	© VALUE LINE PUB., INC.	06-08
165.52	159.54	166.27	107.14	105.32	101.17	97.59	87.74	74.17	48.31	*43.75*	*41.25*	Revenues per sh	*42.35*
19.43	18.95	14.02	17.14	17.03	18.75	19.76	22.08	3.05	7.47	*8.45*	*8.55*	"Cash Flow" per sh	*9.25*
10.50	10.43	3.93	11.57	9.13	9.70	8.70	8.85	d6.65	1.26	*2.35*	*2.45*	Earnings per sh A	*3.00*
4.40	4.40	4.40	4.40	4.40	4.40	4.40	3.50	.75	.75	.80	*1.00*	Div'ds Decl'd per sh B ■	*1.04*
9.12	10.31	12.53	13.02	14.66	14.86	22.38	20.64	13.13	4.95	*3.75*	*3.75*	Cap'l Spending per sh	*3.95*
34.14	38.07	36.08	41.67	46.48	48.51	123.46	137.23	72.94	15.72	*17.20*	*18.20*	Book Value per sh	*21.65*
405.72	470.70	478.80	487.05	487.26	526.08	639.29	752.03	708.48	783.04	*795.00*	*800.00*	Common Shs Outst'g C	*815.00*
18.5	17.0	47.0	15.2	15.1	21.3	30.5	20.6	--	21.6	*8.5*		Avg Ann'l P/E Ratio	*15.0*
1.09	1.11	3.15	.95	.87	1.11	1.74	1.34	--	1.17	*.50*		Relative P/E Ratio	*1.00*
2.3%	2.5%	2.4%	2.5%	3.2%	2.1%	1.7%	1.9%	.7%	2.8%	4.1%		Avg Ann'l Div'd Yield	*2.3%*
67156	75094	79609	52184	51319	53223	62391	65981	52550	37827	*34800*	*33000*	Revenues ($mill)	*34500*
15.4%	16.1%	10.8%	22.1%	21.0%	27.5%	31.7%	32.7%	29.7%	28.2%	*26.0%*	*27.0%*	Operating Margin	*28.0%*
3626.0	4039.0	4845.0	2740.0	3827.0	4629.0	7439.0	10267	9338.0	4888.0	*4850*	*4900*	Depreciation ($mill)	*5100*
4258.0	4879.0	1866.5	5608.0	4472.0	5235.0	5450.0	6630.0	d6842	963.0	*1870*	*1955*	Net Profit ($mill)	*2445*
36.5%	37.0%	46.2%	36.7%	37.8%	37.0%	37.4%	70.1%	--	56.0%	*36.0%*	*36.0%*	Income Tax Rate	*38.0%*
6.3%	6.5%	2.3%	10.7%	8.7%	9.8%	8.7%	10.0%	NMF	2.5%	*5.4%*	*5.9%*	Net Profit Margin	*7.1%*
4404.0	6681.0	137.0	1992.0	d763.0	d1324	d14323	d33780	d2899	3879.0	*d2000*	*550*	Working Cap'l ($mill)	*2200*
6812.0	11358	11635	7883.0	6826.0	5556.0	21591	33092	40527	18812	*10000*	*9500*	Long-Term Debt ($mill)	*8000*
13850	17921	17274	20295	22647	25522	85253	107908	56400	12312	*13700*	*14550*	Shr. Equity ($mill)	*17625*
21.8%	17.9%	7.6%	20.4%	15.5%	17.4%	5.7%	5.2%	NMF	5.0%	*10.0%*	*9.5%*	Return on Total Cap'l	*10.5%*
30.7%	27.2%	10.8%	27.6%	19.7%	20.5%	6.4%	6.1%	NMF	7.8%	*13.5%*	*13.5%*	Return on Shr. Equity	*14.0%*
17.9%	16.8%	NMF	17.2%	10.3%	11.9%	3.1%	3.2%	NMF	3.3%	*9.0%*	*8.0%*	Retained to Com Eq	*7.5%*
42%	38%	112%	38%	48%	42%	54%	50%	NMF	58%	*34%*	*41%*	All Div'ds to Net Prof	*47%*

CAPITAL STRUCTURE as of H9/30/03
Total Debt $17,406 mill. **Due in 5 Yrs** $6,825 mill.
LT Debt $12,759 mill. **LT Interest** $750 mill.
(LT interest earned: 3.4x
total interest coverage: 2.5x) (49% of Cap'l)
Pension Assets- 12/02 $17.3 bill. **Oblig.** $20.8 bill.
Pfd Stock None

Common Stock 789,873,024 shs.
as of 10/31/03
MARKET CAP: $15.6 billion (Large Cap)

CURRENT POSITION ($MILL.)	2001	H2002	9/30/03
Cash Assets	10592	8014	6751
Receivables	9381	5459	4525
Other	2555	2430	1726
Current Assets	22528	15903	13002
Accts Payable	4744	3819	3297
Debt Due	12958	3762	4647
Other	7725	4443	4065
Current Liab.	25427	12024	12009

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd 2002 to '06-'08
RevenuesA	-7.0%	-11.0%	*-2.5%*
"Cash Flow"	-3.5%	-7.5%	*4.5%*
Earnings	-16.0%	-32.5%	*19.0%*
Dividends	-9.5%	-17.5%	*7.0%*
Book Value	5.5%	12.5%	*6.5%*

Calendar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	15901	16221	16975	16884	65981
2001	13551	13326	13087	12586	F52550
2002	9548	9580	9409	9290	H37827
2003	8986	8795	8649	*8370*	*34800*
2004	*8300*	*8200*	*8275*	*8225*	*33000*

Calendar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2000	2.70	2.65	1.75	2.20	8.85
2001	d.85	d.50	d3.45	d1.95	Fd6.65
2002	.60	.80	.67	d.79	H1.26
2003	.67	.68	.58	*.42*	*2.35*
2004	*.56*	*.65*	*.66*	*.58*	*2.45*

Calendar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.188	.188	.188	.188	.75
2002	.188	.188	.188	.188	.75
2003	.188	.188	.188	.238	.80
2004					

BUSINESS: AT&T Corporation (formerly American Telephone and Telegraph), which resulted from a court-ordered breakup of the Bell System in 1984, received about 23% of the former company's assets. AT&T operates in the global telecommunications and information management industry. 2002 revenues: business services, about 70%; consumer services, 30%. Acquired MediaOne in '00; Tele-Communications, Inc. and Vanguard Cellular in '99; Teleport in '98; LIN Broadcasting in '95; McCaw Cell. in '94. Sold AT&T Broadband in '02. 2002 depreciation rate: 8.6%. Has about 62,500 employees, 3.1 million stockholders. Chairman & CEO: David W. Dorman. Inc.: NY. Address: One AT&T Way, Bedminster, NJ 07921. Telephone: 908-221-2000. Internet: www.att.com.

AT&T Corp.'s share price again came under pressure in recent months. Last fall, speculation intensified that BellSouth was in takeover talks with the company. But when it became apparent that a deal was out of reach, AT&T's valuation fell. Though the long distance carrier owns a desirable business customer base, it seems as if the other regional Bells (i.e., SBC Comm. and Verizon) are unwilling to pay a premium. Also responsible for the stock's decline were dour remarks made by Chairman David Dorman. He said that pricing pressures have accelerated the revenue slide at the Business unit. Specifically, the Bells are offering small and mid-tier businesses discounts traditionally given to large corporations. Too, MCI and Sprint have cut service charges for big customers. Furthermore, the likes of EDS and IBM are taking away network management business. Separately, Consumer unit revenues continue to fall precipitously.

Aggressive cost measures augur well for 2004 results. Despite the unfavorable revenue situation, there is cause for optimism, as indicated by Mr. Dorman's declaration that net margins are strengthening. Originally, management had planned to shed 6% of employees in 2003, but it's likely that a total 8,500 positions, or 12%, of the work force was eliminated. This should result is yearly savings of about $650 million. The introduction of Internet voice service will markedly reduce network costs as well. Also, we suspect that the telco made good on its promise to reduce total debt, net of cash, to $9 billion, one billion dollars more than previously intended. Annual interest expense should be below $1 billion this year, versus over $3 billion in 2001. AT&T's free cash flow and financial health are improving.

All but the most venturesome of investors should await a stabilization of revenues and earnings before committing here. The stock offers wide total return potential to 2006-2008. This assumes that the telco can eventually stabilize revenues and restore growth (via the successful marketing of bundled telecom services), while lifting earnings (with the support of cost cuts), and in turn, further raise the dividend. A likely continuation of intense competition still poses much risk, though.

David M. Reimer *January 2, 2004*

(A) Diluted egs. Excl. unusual items: '98, $2.15; '00, d$4.45; '01, $19.15; '02, d18.34; 1Q, '03, 6¢. Incl. restruct'g chg in '98, $2.95; '00, 60¢; '01, $1.77; '02, $1.65. Nxt egs rpt late Jan. Qtrly eps may not add due to change in share count. (B) Div'ds historically paid early Feb., May, Aug., and Nov. ■ Div'd reinvest. plan avail. (C) In mill., adj'd for splits. (D) Excl. Lucent, NCR, and AT&T Cap'l after '95. (E) No ranks due to breakup. (F) Excl. AT&T Wireless. (G) Plot beyond 10/96 excl. Lucent, NCR, and AT&T Cap'l. (H) Excl. AT&T Broadband.

Company's Financial Strength	B+
Stock's Price Stability	NMF
Price Growth Persistence	NMF
Earnings Predictability	NMF