As explained in Section III, below, the merger will not reduce competition. First, it will have no adverse impact on actual competition after SBC and Ameritech dispose of their overlapping cellular interests. While SBC and Ameritech have competing cellular systems in Chicago and St. Louis, they will be disposing of their overlapping cellular interests. Second, the merger's impact on potential competition is conjectural and extremely limited. To the extent that any such impact would occur, however, it will be overwhelmed by the tremendous pro-competitive and other benefits of the merger described in Section II. In addition to producing a number of merger-specific synergies that will inevitably benefit telecommunications consumers, large and small, this transaction creates a firm with the scale and scope to compete on a global basis and which will inject new competition into scores of local markets across the country.

Thus, as demonstrated in Section IV, below – which applies the Commission's merger analysis and standards to this merger of SBC and Ameritech and shows that the benefits clearly outweigh any speculative adverse effects – this merger will serve and advance the public interest, convenience and necessity, and should be approved.

In Section V, below, we describe the other governmental reviews that are taking place with respect to this merger and, in Section VI, below, we request certain additional authorizations in connection with this merger.

Finally, the narrative contained in this Exhibit is supported by a large volume of additional information and analysis, which are contained in 19 accompanying attachments, including 12 affidavits and various other materials. Each of the tabs at which these attachments appear has been separately labeled for the reader's convenience. All maps and tables that are referred to in the following sections of this Exhibit have been collected at, respectively, the tabs labeled "Maps" and "Tables" (which appear at the end of the attachments). The first four attachments consist of: a description of the proposed merger; a copy of the May 10, 1998 Agreement and Plan of Merger (the "Merger Agreement") between SBC and Ameritech (the "Applicants"); a list of the categories of authorizations covered by this application, and the other applications being submitted simultaneously to the Commission; and a description of the Applicants and their existing businesses. Those attachments are then followed by the affidavits of four SBC and five Ameritech officials, and several leading economists.

II. THIS MERGER WILL TRANSFORM SBC AND AMERITECH INTO A NATIONAL AND GLOBAL COMPANY, THEREBY PROMOTING COMPETITION AND THE U.S. ECONOMY

With this merger, SBC and Ameritech will achieve the critical mass necessary to execute an unprecedented plan to meet the changing demands of the telecommunications marketplace and to serve customers everywhere, without regard to regional constraints. As economist Dennis W. Carlton explains in his accompanying affidavit, the changes in the markets – driven by changes in technology and regulation, but most of all by the changing demands of customers – are promoting consolidation throughout the industry. Carlton Aff. ¶ 12. The merger of SBC and Ameritech is not simply consolidation for consolidation's sake. Indeed, the shared vision of SBC and Ameritech that motivates this merger is apparent in other mergers and alliances, such as WorldCom/MCI/MFS/Brooks/ UUNet, Deutsche Telekom/France Telecom/Sprint, the initial BT/MCI alliance, AT&T/TCG/TCI/World Partners, and others. Id. Like these other mergers, the SBC/Ameritech merger is aimed at growth, increased competitiveness and the achievement of important efficiencies that will benefit consumers. The merger will create a company with the scope, scale, efficiency, drive and focus to compete effectively with other global, national, regional and niche competitors in all telecommunications markets both within and outside of the combined company's traditional territory.

In this Section II, we first describe the specifics of the National-Local Strategy which is a key element of this merger. We then describe the clear public benefits of the merger – increased competition throughout the nation; the creation of another U.S. global carrier that will enhance U.S. competitiveness in international markets; and the synergies that will enable the more efficient delivery of services and benefits to consumers. We then describe the forces that are reshaping the industry and the reasons – including scale, scope, resources and risk – that make this merger vital to the achievement of these unquestionably procompetitive goals.

A. Description of the Nationwide Out-of-Region (the "National-Local") Strategy

Upon completion of the merger, the new SBC will immediately begin to implement its aggressive National-Local Strategy to offer competitive local exchange, long distance and other telecommunications services to businesses and residences in the 30 largest U.S. local markets outside its incumbent service area. This National-Local Strategy, and its integral relationship to this merger, is described in the accompanying affidavit of SBC's Senior Vice President for Corporate Development, James S. Kahan.

The new SBC will begin offering these services in some markets immediately upon consummation of the merger and expects to have switches deployed in all 30 new markets within three years after consummation. Kahan Aff. ¶ 34. It will also expand its competitive foothold in numerous foreign markets. Id. ¶ 67. The overarching objective of the merger is to create a new SBC with a national footprint and global operations, a company able to follow and serve its customers everywhere. Id.

SBC has developed a multifaceted strategic plan for entering these new out-of-region markets. The strategy contains estimates of capital costs, personnel requirements and administrative expenses for each of three distinct customer and service segments (i.e., large/mid-size businesses, small business/residential customers and data). Id. ¶ 29. The strategy sets out realistic revenue and market share targets. Id. ¶¶ 43-44. The strategy recognizes that penetrating out-of-region markets, both nationally and internationally, will be expensive, take time and require substantial experienced managerial resources. Id. ¶¶ 75-85.

1. New Facilities-Based Entry Into 30 of the Top U.S. Markets

The list of service areas in which the new SBC will provide local exchange service includes those currently served by Bell Atlantic, BellSouth, US West and GTE, among other ILECs. These 30 areas include 70 million people – 31 percent of the total United States population, and 53 percent of the population outside of the in-region states that will be served by the new SBC. Kahan Aff. ¶ 34. Incumbent local phone companies in those markets currently serve 18 million business lines – 37 percent of the U.S. total and 51 percent of all business lines outside the new SBC's region. Id. Together with the in-region markets that SBC, Ameritech and SNET already serve, the addition of these new markets will establish the new company as a facilities-based, local exchange carrier in 50 of the largest MSAs in the country. See Map 1 at the accompanying "Maps" attachment.

The new SBC strategy is to enter these new markets quickly. SBC believes that it is critical to do so in order to serve the needs of the large and mid-size business customers that will form the base or "anchor" for this entry and establish "first mover" advantages. Kahan Aff. ¶ 40; Carlton Aff. ¶ 22.

2. **Serving Large and Mid-Size Businesses**

There are three main components to the National-Local Strategy. First, the new SBC will target the uniquely demanding requirements of large and mid-size business customers. Kahan Aff. ¶ 30. Most of the top 1,000 companies demand telecommunications services that span much of the globe. Id.; see Carlton Aff. ¶ 12; Schmalensee/Taylor Aff. ¶ 14. A significant number prefer to buy turnkey service from a single supplier to capture economies of scope and scale, to ensure uniformity of service and functionality across the enterprise, and to provide a single point of accountability for keeping the network up and running. Kahan Aff. ¶ 30; Carlton Aff. ¶ 12; Schmalensee/Taylor Aff. ¶ 14. The new SBC will offer these customers integrated national and global packages of local, long distance, high-speed data and other services. Kahan Aff. ¶ 13.

The class of large and mid-size business customers generates a disproportionate share of revenues and profits. Id. In SWBT's territory, the 809 largest businesses represent only 1 percent of SWBT's total business customers, but they account for 18 percent of SWBT's total business revenues. Id. For Ameritech, the top 1 percent of its business customers account for 11 percent of its company-wide revenues. Weller Aff. ¶ 21. The merger will give the new SBC a critical mass of these customers to follow into other markets. Kahan Aff. ¶ 51; Carlton Aff. ¶ 25. Of the Fortune 500 companies, 224 have headquarters in the combined SBC/Ameritech/SNET region. Kahan Aff. ¶ 49. To compete effectively for the business of these large potential customers, SBC must be able to cover 70-80 percent of the telecommunications services that these customers need. Id. ¶ 48; Carlton Aff. ¶16. By implementing the National-Local Strategy, the new SBC will have 70 percent coverage for 178 of these companies. Carlton Aff. ¶ 28.

The new SBC will rely heavily on its own facilities in entering these new markets. It will use a "smart build" strategy by which it will construct the facilities that are most needed, combine them with unbundled elements purchased from the incumbent LEC and, where appropriate, transport networks owned by third parties. Kahan Aff. ¶ 39. It will focus on constructing fiber backbones, installing switches, performing switch upgrades and installing multiplexing, access and office equipment to serve large and mid-size businesses. Id. ¶¶ 37-39.

To that end, the new SBC will also deploy over 60 new switches in the first stage of its plan just to serve large and mid-size businesses. Id. ¶ 37. Within three years of closing the proposed merger, SBC plans to have at least two switches within each of the 30 new markets. Id. ¶ 55. To serve these customers, the new SBC plans to deploy 2,900 route miles of its own fiber – ranging between 75 and 125 miles in each of the 30 out-of-region markets. Id. ¶ 38. All of this fiber will be deployed to provide local transport, not intercity transport; the new SBC will rely on carriers such as Qwest, Williams and others for intercity trunks. Id. ¶ 39.

3. Serving Small Business and Residential Customers

The out-of-region switches and other facilities deployed initially to serve large and mid-size business customers will provide the foundation on which the new SBC will immediately launch the second component of the National-Local Strategy – to provide service to small business and residential customers. The new SBC is equally committed to serve these customers and will begin rolling out competitive small business and residential service simultaneously with its efforts to serve large and mid-size business customers. Id. ¶ 41.

The number of households in the 30 out-of-region markets is expected to grow to 30 million over the next 10 years and the number of small businesses is expected to reach 10 million. Id. ¶ 62. The average number of lines per household and small business will also rise; SBC projects an increase from 1.25 to 1.58 for household lines, and an increase from 3.0 to 4.13 for small business lines. Id. ¶ 62. SBC's ability to capture some of this growth is expected to add to the profitability of the overall strategy.

To that end, the new SBC will deploy an additional 80 switches in the 30 out-of-region markets to serve residential and small business customers. Id. ¶ 55. For connections to these customers, the new SBC will rely primarily on unbundled loops, together with some unbundled network elements. Id. ¶ 39. SBC's strategy anticipates that it will begin to secure small business and residential customers in the first year of the implementation of the strategy. Id. ¶ 14.

4. Provision of Data Services

Data services comprise a third component of the 30-market plan. This part of the plan is primarily directed at business customers, but also contemplates the availability of a nationwide Internet Protocol ("IP")-based network capable of providing advanced data and Internet access capabilities to all types of customers. Id. ¶ 32.

5. New Entry Into International Markets

The new SBC will also simultaneously extend its networks to follow its large customers into international markets. The company will deploy competitive facilities in numerous foreign cities. Id. ¶ 67. Together, SBC and Ameritech already have direct and indirect investments in Belgium, Denmark, France, Hungary, Israel, Norway, Switzerland, Chile, Mexico, South Korea, Taiwan, South Africa and elsewhere. See Table 15 at the "Tables" attachment. SBC has invested $3.1 billion in these ventures, and the foreign investments by Ameritech have a current value of approximately $8 billion. Kahan Aff. ¶ 66; Weller Aff. ¶ 16. The new SBC plans to deploy new facilities in 14 cities in Europe, South America and Asia within five years after closing, as described below. Kahan Aff. ¶ 67.

* * *

The new SBC will make more than $2 billion in capital investments to accomplish its strategy. Id. ¶ 57. Over 10 years, it will spend in excess of $23.5 billion on the operating expenses of this new competitive venture. Id. ¶ 58. Within 10 years, over 8,000 new SBC employees will be engaged full-time in out-of-region competition. Id. ¶ 59.

The new SBC expects to achieve meaningful penetration of each of the market segments it will enter. In each local out-of-region market, it expects to face competition from major interexchange carriers and other CLEC competitors. SBC anticipates winning between 5 and 10 percent of the addressable business and residential customers in these markets who desire the types of services and service packages the combined company intends to offer.

B. The Implementation of the National-Local Strategy Will Be a Major Catalyst for Realizing Key Goals of the 1996 Act

The SBC/Ameritech merger makes possible the first major effort by any telephone company to compete against incumbent local carriers in major markets across the nation for both business and residential customers. See Carlton Aff. ¶¶ 11, 36; Schmalensee/Taylor Aff. ¶ 16. The National-Local Strategy will thus catalyze local competition and fulfill a central goal of the 1996 Act. Id. ¶ 7; Carlton Aff. ¶¶ 10-11.

Prior to the passage of the 1996 Act, the BOCs and their affiliates were essentially confined to providing local exchange services in their own regions. The regulated monopoly franchise granted to local exchange carriers in most states severely limited any competition in local markets. Indeed, the divestiture decree was first interpreted to prohibit the BOCs from providing any services outside their own regions.[4] Even after that restrictive interpretation was overturned, the continuing prohibition on the provision of long distance service barred the BOCs and their affiliates from offering attractive and profitable packages of local and long distance service. As a consequence, SBC and Ameritech focused their out-of-region efforts on other businesses. SBC built a highly successful, out-of-region wireless business.[5] While SBC made successful acquisitions and added value to the assets it acquired, it did not consider itself capable of competing on a national or global scale and took no steps to do so. Kahan Aff. ¶ 5.[6] Ameritech

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[4] See United States v. Western Elec. Co., 627 F. Supp. 1090, 1106 (D.D.C. 1986) ("it is clear for a number of reasons that the Operating Companies were intended to be limited to their own local areas in furnishing exchange telecommunications services"), judgment aff'd in part, appeal dismissed in part, 797 F.2d 1082 (D.C. Cir. 1986). Until 1986, the Department of Justice interpreted the divestiture decree to forbid Bell Companies from providing even strictly local service outside their regions. In its appeal, the Department argued that "stringent[ly]" confining the Bell Companies to their original territories was needed to protect against the "evils" that led to the antitrust case. Brief for the Appellee United States of America at 48, United States v. Western Elec. Co., No. 86-5118 (D.C. Cir. Apr. 18, 1986).

[5] See W. Vogel et al., Dillon, Read & Co., SBC Communications - Company Report, Investext Rpt. No. 1851859, at *2 (Feb. 3, 1997) (stating that "SBC's cellular operations posted the deepest subscriber penetration of the major U.S. wireless companies, with 10.8 percent at the end of 1996. . . . This reflects a 20.2 percent growth rate off of a very large base.").

[6] The 1996 Act prohibits BOCs and their affiliates from offering alarm monitoring services until February 2001. See 47 U.S.C. § 2759(a)(1). An exception was made for Ameritech, the only BOC to have begun offering alarm monitoring service before the Act. See id. § 275(a)(2).

invested in security monitoring and cable television systems, and had no plans to compete on a national or global scale for telecommunications services. Weller Aff. ¶ 31.

The passage of the 1996 Act radically changed the competitive and regulatory environment and created new challenges and opportunities. That Act, the recent WTO Agreement and the evolution of the market in the two years since passage of the 1996 Act, now make conditions ripe for a competitive venture of the scope set out in the SBC/Ameritech merger plan – a plan to compete nationwide for both business and residential customers, and globally for business customers. The 1996 Act and the WTO Agreement open all local markets for entry and permit the new SBC to offer, for the first time, a package of local, long distance and information services to out-of-region customers on a competitive basis with the ILECs and other CLECs.

At the same time, the basic economics of CLEC competition are being transformed by rapid technological advances, changing cost structures, the rise of data networks and soaring demand for new bandwidth and services. Carlton Aff. ¶ 12. The combination of lowered entry barriers and changing market conditions allow SBC/Ameritech and other carriers to provide customers what they want – the ability to obtain all their telecommunications needs from a single supplier, amid a competitive market of numerous providers offering such services.

SBC came to recognize that the changing demands of the marketplace required greater scale, scope and geographic diversity than the company had achieved, even after its merger with Pacific Telesis. Kahan Aff. ¶ 10. SBC analyzed various ways of achieving the needed critical mass and rejected both de novo entry and joint ventures as both insufficient and unworkable. Id. ¶ 11. Ameritech reached similar conclusions concerning its ability to strengthen its services and relationships through expanded scale. Weller Aff. ¶ 24. The merger between SBC and Ameritech, and the implementation of the new strategy made possible by the merger, are logical and necessary steps toward realization of the companies' objectives and the competitive and public interest benefits the merger will provide.

While incumbent LECs have borne the burdens of universal service obligations and the distortions of rate regulation, niche players have been among the first to prosper in the new environment. Carlton Aff. ¶ 39. They offer differentiated, specialty services, although only to a select, high-profit segment of the market. The 1996 Act's interconnection, resale, unbundling and other requirements have significantly reduced entry barriers. Schmalensee/Taylor Aff. ¶¶ 37-41. Newcomers have no responsibility (or at least none comparable to that of incumbents) to offer universal service. Thus, the majority of the CLECs are focusing their competitive energies on the very largest business customers, while ignoring smaller businesses and less profitable residential customers.[7] See Carlton Aff. ¶ 36. But their competitive strategy is defined by how selectively they choose their customers and how few customers they actually serve. They leave the mass market, particularly the residential market, to others. Kahan Aff. ¶ 64.

This is partly because regulators traditionally have set business rates considerably above residential rates, even though the cost of providing business service is generally

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[7] Even those CLECs that choose to pursue residential customers, like RCN, focus only on a small percentage of customers who purchase an above average level of vertical services. RCN, for example, typically bundles its local service with cable, internet access and long distance services to high-density, multiple dwelling units in urban markets. See RCN, Bundling (visited July 19, 1998) <http://www.rcn.com/services/bundling/ index.html>.

lower.[8] It is also due to the fact that existing CLECs (especially the IXCs) recognize that they can postpone regulatory approval of Bell Company entry into long distance markets and seek other regulatory concessions, by declining to compete for residential customers.

Major IXCs like AT&T/TCG/TCI and WorldCom/MCI/MFS/Brooks/UUNet, which dominate the residential long distance market, currently have the strongest disincentives to compete in local residential service markets because the potential profit from entering these markets is outweighed by the potential losses they would incur from the type of competition that would occur if the Bell Companies were free to compete with them. Other CLECs know that their most profitable opportunity is to sell bundled services to business customers, and thus have almost equally strong incentives to postpone the day when their main rivals, the Bell Companies, can offer comparable packages. These CLECs' calculated strategies, most of which ignore residential markets, help them preserve a unique ability to bundle services – a vital competitive edge in business markets – while keeping SBC and Ameritech out of the long distance business.

The new SBC will jump-start local exchange competition. Carlton Aff. ¶¶ 10-11; Schmalensee/Taylor ¶ 7. Like other CLECs, the new SBC certainly intends to serve business customers. Indeed, these business customers will provide the base or "anchor tenants" from which SBC can expand to serve other customers. Kahan Aff. ¶ 40. Unlike most CLECs, however, the new SBC also intends to compete to serve residential

[8] Residential rates are pegged some 30 to 80 percent lower than business rates everywhere in the country. See FCC Industry Analysis Division, Reference Book app. 2 (March 1997), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/ref96.pdf>.

customers, and it has no regulatory incentive not to do so. Id. ¶¶ 62-64. No other national provider has yet announced a comparable strategy to serve residential customers nationwide. See Table 18 at the accompanying "Tables" attachment.

In addition, the new SBC's strategy calls for the deployment of competitive facilities equal to or greater than all but a handful of carriers have deployed so far. See Table 19 at the "Tables" attachment. As noted above, the new SBC plans to deploy approximately 140 switches in the 30 new markets. WorldCom/MCI/MFS/Brooks/UUNet, the largest CLEC, appears to have a comparable number of switches, although AT&T/TCG appears to have fewer CLEC switches.[9] It is too early to tell what type of facilities Sprint's Integrated On-Demand Network ("ION") will ultimately involve, although initial announcements indicate that Sprint's plan is geared primarily towards the provision of high-speed data services, not basic local telephone service.[10]

SBC's new facilities-based entry will shake up competition throughout the nation. See Carlton Aff. ¶¶ 10-11. Indeed, no other company has yet made any comparable commitment to compete. No other major CLEC currently provides service in each of the 30 markets that the new SBC plans to enter, and the local service offerings of these other CLECs, large and small, are primarily aimed at business customers. See Table 17 at the

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[9] See S. Oakley et al., Cowen & Company, WorldCom - Company Report, Investext Rpt. No. 2646885, at *4 (Feb. 23, 1998). See also WorldCom Press Release, WorldCom and MCI Announce $37 Billion Merger (Nov. 10, 1997), available at <http://www.wcom.com/about_worldcom/press_releases/archive/1997/111097.shtml>.

[10] See Sprint Press Release, Sprint Unveils Revolutionary Network (June 2, 1998), available at <http://www.sprint.com/sprint/press/releases/9806/9806020584.html> ("[A]pplications such as high-speed online interactive services, video calls and telecommuting will be readily accessible and less costly. . . ION allows businesses to expand dramatically their local and wide area networks and dynamically allocate bandwidth, thus paying only for what they use rather than having to purchase a set high-bandwidth capacity that often sits idle.").

"Tables" attachment. For example, AT&T (through TCG) currently serves 22 of those 30 markets, although it may enter others after its planned merger with TCI, and it has indicated that it will upgrade TCI's cable plant to serve as the platform for providing local phone service. Schmalensee/Taylor Aff. ¶ 51.[11] WorldCom/MCI/ MFS/Brooks/UUNet currently serves 23 of the 30 markets. Sprint does not currently serve any of them except as an incumbent, although its recent proposal to build an ION will ostensibly reach nationwide.[12]

Other CLECs provide service in select markets or on a regional basis.[13] See Carlton Aff. ¶¶ 36-37; Tables 17 and 18 at the "Tables" attachment. Several large incumbent LECs (e.g., BellSouth, US West and GTE) thus far appear to have opted to stay focused on their current geographic regions. Many other CLECs remain focused on

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[11] TCI has completed 30 percent of a $1.8-billion network upgrade to give all of TCI's cable customers 2-way capability by 2000 and AT&T's acquisition is expected to accelerate that process. AT&T-TCI Merge in $68 Billion Deal for Local Entry Using Cable, Communications Daily (June 25, 1998). According to AT&T's CEO, the acquisition should "begin[] to answer a big part of the question about how [AT&T] will provide local service to U.S. consumers." David Kalish, AT&T Agrees To Buy TCI for $32B, Associated Press, June 24, 1998.

[12] See Sprint Press Release, Sprint Unveils Revolutionary Network (June 2, 1998), available at <http://www.sprint.com/sprint/press/releases/9806/9806020584.html> (stating that "[With ION, Sprint's] reach will be extended through metropolitan broadband networks (BMAN) available in 36 major markets nationwide in 1998 and in a total of 60 major markets in 1999. . . . For smaller business locations, telecommuters, small/home office users and consumers who may not have access to BMANs, ION supports a myriad of the emerging broadband access services, such as DSL.").

[13] Intermedia, the largest independent CLEC, provides service in 12 of the 30 markets. New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 9 (9th ed. 1998). ICG, the second largest independent CLEC serves 8 of the 30 markets. Id. at Carrier Profile: ICG at 16-17. Time Warner and Winstar each serve 9 markets, and Hyperion and NEXTLINK both serve 4. Id. at Carrier Profiles: Time Warner at 8, WinStar at 9, Hyperion at 16-17, NEXTLINK at 14.

niche services, including: RCN (multiple-dwelling units),[14] Intermedia (government end users),[15] NEXTLINK (small and medium-sized businesses),[16] WinStar (long distance and Internet access),[17] Williams (video transport),[18] Teligent (microwave access for small and medium-sized businesses),[19] and Qwest (high-speed data services for other carriers).[20] In contrast to these others, the new SBC will inject broad and deep competition into all of the Top 50 markets. Carlton Aff. ¶¶ 8-9; Gilbert/Harris Aff. ¶ 26.

Not only will consumers benefit directly from the competition the new SBC will provide in its new markets, but this entry should stimulate competitive responses by other carriers. Kahan Aff. ¶ 86; Carlton Aff. ¶10; Gilbert/Harris Aff. ¶ 28. Encouraging Bell Companies and other ILECs to compete against each other is certain also to impel AT&T/TCG/TCI, MCI/WorldCom/MFS/Brooks/UUNet, and other CLECs to compete on similar terms for the same customers. Kahan Aff. ¶ 87. SBC's National-Local Strategy will put the company in direct competition with all major IXCs, incumbent

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[14] See RCN News Release, RCN-Pepco "Starpower" Joint Venture Launches Competitive Local Phone Service in District of Columbia (Apr. 2, 1998), available at <http://www.rcn.com/investor/press/04-98/04-02-98.html>.

[15] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 2 (9th ed. 1998).

[16] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: NEXTLINK at 2 (9th ed. 1998).

[17] See WinStar, The Business (visited July 16, 1998) <http://www.winstar.com/index The Buiss.htm>.

[18] See Williams Communications, Network Services (visited July 16, 1998) <http://www.wilcom.com/2networkservices.html>.

[19] See Conversation: Teligent Inc.'s Alex J. Mandl, Wash. Post, Feb. 2, 1998, at F10.

[20] See Qwest, Qwest Vision (visited July 16, 1998) <http://www.qwest.com/Vision. html>.

LECs and other CLECs outside its region. This should also cause these competitors and others to compete within SBC's region, in order to maintain their large business customers, thereby further increasing local competition throughout the country. Id. ¶ 90; Carlton Aff. ¶ 10; Schmalensee/Taylor Aff. ¶ 16; Gilbert/Harris Aff. ¶ 28. Customers will buy packages of services if they can, and as soon as one provider begins offering fully bundled local and long distance service in any major market, other providers will have to follow. Kahan Aff. ¶ 86. They will have no choice but to match the competition if they wish both to protect their customer base and grow their business. Id. ¶ 86; Schmalensee/Taylor Aff. ¶ 7; Gilbert/Harris Aff. ¶ 28. Thus, consumers will be the direct beneficiaries of both SBC's entry and of other providers' responses to that entry.

C. The Merger Will Create a Major New U.S. Participant in the Global Telecommunications Marketplace

1. SBC and Ameritech Currently Hold Substantial Complementary Investments in International Telecommunications Markets

The combined resources of the new SBC will enable it to continue to expand SBC's and Ameritech's international operations, make improvements in its existing international telecommunication business, and actively compete in international telecommunications markets. Kahan Aff. ¶¶ 65-68. The Commission has recognized that "[a]n efficient and cost-effective global telecommunications marketplace is essential to an emerging information economy,"[21] and both Ameritech and SBC are committed to playing a key role together in that market. This strategy is unparalleled because of its broad geographic scope, scale of operations and depth of services and customers.

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[21] See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Order, 13 FCC Rcd. 6219, ¶ 1 (1997) ("Foreign Participation Order").

SBC and Ameritech each have already made substantial investments in foreign markets, have experienced personnel overseas and understand the requirements to operate successfully in these markets. See Table 15 at the "Tables" attachment; Kahan Aff. ¶ 66; Weller Aff. ¶ 16. Moreover, their investments represent a variety of complementary strategies – such as wireline and wireless, developed and developing countries, and controlling positions and portfolio investments.

In 1990, SBC and Ameritech were among the first U.S. companies to invest in foreign local exchange companies, buying into incumbent carriers in Mexico and New Zealand, respectively.[22] SBC has invested $3.1 billion in telecommunications companies in Mexico, Europe, Asia, Africa and South America. Kahan Aff. ¶ 66. Through its investments in Telmex and Telkom SA, SBC is the largest U.S. telecommunications investor in Mexico and South Africa, respectively. Ameritech has interests in Europe valued at approximately $8 billion. Weller Aff. ¶ 16. Ameritech's investments in European markets make it the largest U.S. telecommunications investor on that continent. Id.

2. The New SBC Will Expand Its International Presence

The merger of SBC and Ameritech includes a plan by the combined company to make further investments in Europe, Asia and South America in order to follow its customers to those areas, and to dramatically accelerate its level of international activity through competitive entry into new markets. Kahan Aff. ¶ 67. Specifically, the new

[22] SBC holds a 9.6 percent interest in Telmex, the national telephone company operating in Mexico, and has held as much as an 11 percent interest in Telmex. In 1990, Ameritech and Bell Atlantic purchased a 100 percent share (Ameritech 50 percent; Bell Atlantic 50 percent) in Telecom Corporation of New Zealand ("TCNZ") for $2.5 billion dollars. TCNZ provides local, long distance and international telecommunications services as well as cellular and satellite television services.

SBC plans to enter 14 major foreign local markets once the merger with Ameritech is completed.

SBC's plan with respect to these 14 cities calls for:

- one switch in each city by 2001, ultimately expanding to 27 switches;
- installation of 1,400 km of fiber within two years, expanding to more than 2,000 km of new fiber; and
- 3,500 new employees.

Kahan Aff. ¶ 67.

3. U.S. Businesses and Consumers Will Receive Significant and Increasing Benefits From International Activities of the Combined SBC/Ameritech

U.S.-based companies that do business overseas will be the direct beneficiaries of foreign investments by the new SBC as a result of its enhanced ability to provide additional services to large U.S. companies conducting business in foreign countries. The new SBC will also be able to provide cost-effective services to smaller businesses. Schmalensee/Taylor Aff. ¶ 23. This will allow these firms to limit their cost of doing business. Id.

Foreign investments by U.S. telecommunications companies make it easier for U.S. companies to reach their foreign facilities, as well as their customers and suppliers in these countries, with many if not all of the same features and functions that are available to these companies in the U.S. These investments also permit the U.S. telecommunications companies to expand the number of customers and suppliers they serve and increase the quality (e.g., reliability, availability of advanced services, technical and customer support, etc.) of the communications services that are delivered.

By way of example, in each of Hungary, Belgium and Mexico, the recent investments by Ameritech and SBC have served to increase both the availability of communications services and the quality of service provided to customers. Prior to Ameritech's 1993 investment in MATÁV, applicants waited an average of 15 years for a phone; today there is no backlog. Weller Aff. ¶ 18. Between 1996 and 1998, with assistance from Ameritech personnel, Belgacom -- the largest telephone company in Belgium, in which Ameritech has a 17% investment – improved both customer care (e.g., an increase of over 60% in the number of customer calls answered, and customer satisfaction more than doubled) and operator service (e.g., speed of answer improved by 70%, customer handling time decreased 18% and calls handled per month increased by over 50%). Id. Since 1990, when SBC made its investment in Telmex, that company has invested $12 billion in modernizing and expanding its local and long distance network. Telmex now has a 100% digital long distance network, and the local network is 90% digital. Trouble reports have fallen to 3.7 per 100 lines per month from 13.5 in 1990. Clearly, the reliability and availability of these networks has made it easier for U.S. companies to do business in these countries.

The Commission has recognized that "significant consumer and economic benefits" generally will result from opening foreign markets to competition.[23] One such direct benefit to "consumers and carriers in all countries, including businesses and others who rely on global telecommunications services" is lower international accounting

[23] See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Report and Order and Order on Reconsideration, 1997 WL 735476, ¶ 12 (1997) (addressing global competition resulting from implementation of the WTO Basic Telecom Agreement).

rates.[24] In 1996, the U.S. settlement deficit totaled $5.4 billion, double what it was in 1990.[25] Facilities-based competition of the kind the new SBC intends to provide on a global basis will, over time, push settlement rates down, as well as lower the cost of doing business in foreign countries.[26]

Ameritech and SBC understand the need to position their international investments for the long term. This means driving down historical subsidies and repricing historically subsidized services. For U.S.-based companies, this means lower international termination rates and, therefore, lower overall telephone bills and reduced barriers to conducting export businesses. Weller Aff. ¶ 22. Two of three European companies in which Ameritech had invested today are already within the FCC's target pricing guidelines for international settlement rates, and the third – MATÁV – has among the lowest average rates of Central European telephone companies. Id.

The merger of SBC and Ameritech will also serve the public interest by facilitating international trade and improving U.S. competitiveness.[27] As countries

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[24] See In re International Settlement Rates, Report and Order, 12 FCC Rcd. 19806, ¶ 7 (1997). See also id. at ¶ 10 ("At a minimum, the increased competition in the global IMTS market that will result from this [WTO] trade agreement will exert downward pressure on accounting rates in competitive markets as new entrants compete to terminate foreign traffic.").

[25] Id. at ¶ 13.

[26] See In re Regulation of International Accounting Rates, Fourth Report and Order, 11 FCC Rcd. 20063, ¶ 16 (1996) ("The introduction of effective facilities-based competition in some foreign markets creates the option of an international carrier acquiring control of both the international transport circuit and the international gateway switching facility. That carrier could then terminate an international call at domestic interconnection rates, a potentially far more efficient arrangement than the current settlements process.").

[27] President Clinton recently remarked that: "The test of all these mergers ought to be this: Does it allow them to become more globally competitive in ways that don't unfairly raise prices or cut the quality of service to consumers in America?" Jackie Calmes, Administration to Study Business Concentration, Wall St. J., May 13, 1998, at A2

develop economically and socially, they become more stable, which in turn makes them attractive markets for international investments – not only in the telecommunications sector, but also in other lines of business as well.[28] In addition, as a country's economy grows, the demand for U.S. exports will grow, especially where U.S. businesses have established a presence.

SBC's and Ameritech's investments and influence in foreign markets have opened, and will continue to open, these markets to other U.S. businesses, particularly those businesses supplying the many products and services that are required to develop a modern telecommunications infrastructure. Weller Aff. ¶ 23.[29] In Hungary, for example, U.S. vendors have sold such services as: data warehousing systems (HP), testing equipment (Teradyne), automated directory assistance platforms (IBM), network monitoring systems (Digital), wireless local loop technology (Motorola), workforce

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(quoting an interview by Al Hunt of The Wall Street Journal and CNBC with President Bill Clinton in Washington, D.C. (May 4, 1998)). See also Prepared Statement of Kelly R. Welsh, Executive Vice President and General Counsel, Ameritech Corporation, To the House Committee on the Judiciary (June 24, 1998), available at 1998 WL 347389; Prepared Testimony of Edward E. Whitacre, Jr., Chairman and Chief Executive Officer SBC Communications Inc., Before the Antitrust, Business Rights and Competition Subcommittee, Senate Judiciary Committee (May 19, 1998), available at 1998 WL 257699. See also 1997 Trade Policy Agenda under 1996 Annual Report of the President of the United States on Trade Agreement Program, March 1997, at 1, 5 ("Trade is more important than ever to the U.S. economy . . . President Clinton has designed a fair trade policy that seeks to take advantage of the increasingly global economy" in a manner that benefits U.S. business and families.).

[28] Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994) (discussing results of various surveys conducted on telephone communications in developing countries).

[29] The Commission has recently initiated a rulemaking to, among other things, implement the Mutual Recognition Agreement ("MRA") between the United States and the European Community ("EC"). When the MRA is fully implemented, it will be easier for U.S. manufacturers to market their products in Europe without obtaining additional equipment authorizations. See In re 1998 Biennial Review, Notice of Proposed Rulemaking, GEN Dkt. No. 98-68, FCC 98-92, 1998 WL 244623, ¶ 1 (May 14, 1998).

management software (Silicon Graphics) and fault tolerant computers (Tandem/Compaq). Sales by these companies have been estimated at over $200 million over the life of the collective contracts. Id.

As the combined SBC/Ameritech expands its foreign operations into newly liberalized countries, in ways made possible through this merger, it will continue its past practice of using the best firms to supply goods and services, many of which are U.S.-based suppliers. This practice serves not only the interests of U.S. companies (small and large), but will contribute to the overriding U.S. goal of reducing the U.S. trade deficit. In addition, by exporting world-class purchasing economies, the new SBC will be able to reduce affiliates' costs of acquiring telecommunications equipment, thereby expanding the scope of investments and new infrastructure/capabilities available in these foreign countries. This investment, as discussed above, will drive improved cost structures and greater availability and quality of telecommunications services in these countries.

4. Significant Benefits Result from U.S. Investments in Foreign Telecommunications Markets

Significant social and economic benefits in the foreign country result from the types of international investments made by SBC and Ameritech. It is clearly in the public interest to support long term economic development in developing countries.[30] And, in all countries, universal access to high-quality telecommunications services facilitates social and economic development. The end result is a better quality of life for its citizens

[30] There is a rich literature demonstrating the linkage between telecommunications investments and economic development and how such investments benefit both the U.S. and international markets. See, e.g., Robert Z. Lawrence and Robert E. Litan, Brookings Policy Brief No. 24, Globaphobia: The Wrong Debate Over Trade Policy 6 <http://www.brook.edu/es1policy/polbrf24.htm>; Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994).

since, by improving its telecommunications infrastructure, the country is better able, among other things to: (i) unify its economy (by facilitating better communications and commerce in remote areas); (ii) participate in the global economy; (iii) increase efficiencies in economic production and distribution; and (iv) improve emergency and other services.

There are a number of other foreign-country economic benefits that flow from investments in telecommunications infrastructure. For example, as the telephone company becomes more operationally efficient and profitable, the government receives more revenues, as a shareholder, and more taxes – both directly from the telephone company itself and indirectly from the employees and businesses that supply goods and services to the telephone company. For example, when Ameritech held a substantial strategic investment in Telecom New Zealand, the company transitioned from being a subsidized government-owned company to the largest taxpayer in New Zealand.[31] Moreover, the telephone company often provides liquidity and both reduces volatility and becomes the leading market-capitalized firm in the country's stock market, as in Brazil, Canada, Denmark, France, Greece, Hungary, Japan, New Zealand, Spain and Singapore.[32] Since Ameritech invested in MATÁV, it has become the first central European telephony company to be listed on the New York Stock Exchange and it has the highest market capitalization of any Hungarian corporation.[33]

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[31] Telecom New Zealand paid $219 million in U.S. dollars in taxes in respect of the fiscal year ending March 31, 1998. See Telecom New Zealand 1998 Annual Report at 39.

[32] Business Week, July 13, 1998, at 52-91; see also Forbes, July 27, 1998, at 120-154.

[33] Business Wire, Inc., Nov. 19, 1997, <http://www.businesswire.com>.

Ameritech and SBC have demonstrated their commitment to providing investment capital, personnel and expertise in foreign markets. They have helped build out the public networks in Hungary, Mexico and South Africa, which has resulted in improvement in the quality of life in those countries. For example, in South Africa, through its investment in Telkom SA, SBC has committed to an aggressive universal service and build-out obligation to increase the availability of telephone service to all of South Africa, with a particular emphasis on rural and other underdeveloped portions of that country. SBC is actively working to add 2.5 million access lines in South Africa within five years. In that country, where only 10 percent of the nonwhite households — which comprise 87 percent of the population — have telephone service, SBC's commitment to constructing 2.5 million access lines in five years offers tremendous opportunities. In addition, SBC is working to align the employee workforce more closely with South Africa's demographics. See Attachment G to Kahan Aff. In Hungary, where Ameritech has invested in MATÁV - Hungary's largest telephone company - 900,000 new lines have been added in the last 4-5 years, a 60 percent increase.

5. The Telecommunications Sector Is a Strategic Asset Requiring Experienced, Well-Capitalized U.S. Companies To Compete Effectively

Telecommunications has long been recognized as a strategic asset, essential to U.S. national and international interests. Few nations will produce even a single global, facilities-based carrier.[34]

Other U.S. companies have entered these markets through means other than direct investments or facilities-based entry. Schmalensee/Taylor Aff. ¶ 22. For example,

[34] See In re the Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351, ¶¶ 57, 91, 130 (1997).

AT&T and Sprint are both already members of global alliances – WorldPartners and Global One, respectively.[35] Global One teams Sprint up with incumbent monopoly carriers in more than 65 countries.[36] On the other hand, the combined WorldCom/MCI has facilities in 21 foreign cities and clearly plans to compete worldwide.[37] The new SBC will have the resources and commitment to project U.S. telecommunications services and marketing expertise throughout the world. Weller Aff. ¶ 12.

Around the globe, "liberalization and the introduction of facilities-based competition" is "accelerating a shift from single national champion carriers, whether government- or privately-owned, to multiple carriers and more diverse markets."[38] By the year 2000, open telecommunications markets will be the norm in countries that

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[35] One other global alliance (Unisource) unites incumbents in the Netherlands, Sweden, and Switzerland. A fourth "alliance," Cable & Wireless, has ownership interests in over 25 foreign local incumbents and at least 10 other foreign long distance and wireless carriers. Virtually every major incumbent foreign carrier is now a member of one of these alliances. "Such alliances are truly global when they are aimed at the provision of global products (i., e., seamless provisioning of worldwide services) through single points of contact with global reach (i.e., multinational carrier groups) to global markets (i.e., international requirements of multinational customers)." See FCC International Bureau, Global Communications Alliances 2 (Feb. 1996), available at <http://www.fcc.gov/ib>.

[36] See Global One, Key Facts About Global One (visited July 15, 1998) <http://www.globalone.net/en/press/facts.html>.

[37] See WorldCom, Building the Right Networks (visited July 16, 1998) <http://www.wcom.com/investor_relations/annual_reports/1997/networks/europe.html>. WorldCom/MCI will have offices in 65 countries. See WorldCom Press Release, WorldCom and MCI Announce $37 Billion Merger (Nov. 10, 1997), available at <http://www.wcom.com/about_worldcom/ press_releases/archive/1997/111097.shtml>.

[38] FCC International Bureau, Global Communication Alliances 1 (Feb. 1996), available at <http://www.fcc.gov/ib>. See also K. Wallace, Lehman Brothers, Inc., Controlled Chaos Of Telecommunications -Industry Report, Investext Rpt. No. 3312108 at *1 (Dec. 22, 1997) (finding that "the deregulatory process is providing new, potentially advantageous investment opportunities.").