

48. The need to be in these fifty markets can best be illustrated by an example. One of our most fundamental assumptions is that, in order to compete effectively for the business of our largest customers, we must have "coverage" of approximately seventy to eighty percent (70% - 80%) of the telecommunications expenditures made by those customers. We believe our rivals will certainly be able to offer such coverage. Any lesser coverage by SBC will, we believe, disqualify SBC from consideration by such customers as their prime contractor for telecommunications services.

49. We have identified 224 Fortune 500 companies that are headquartered in the 13 states served by SBC, Ameritech and SNET. Utilizing information derived from data available from WEFA, which describes a company's expenditures for local and long distance services, we calculated the number of these Fortune 500 companies for whom we could meet our 70% - 80% coverage standard. This data also allows us to determine the percentage of these customers' sites or locations which we could serve.

50. We analyzed this coverage assuming that SBC (together with SNET) acted alone. We assumed that SBC would attempt to serve these 224 customers with facilities in its home region and in the 15 largest MSAs outside of SBC's region – the maximum out-of-region expansion that we thought was feasible for SBC alone. We did the same comparison assuming we close this merger with Ameritech and execute our National Local Strategy. The difference in these calculations conclusively demonstrates why this merger and the National-Local Strategy are critical to the success of SBC's plans.

51. If SBC alone enters the 15 largest MSAs, it will reach its goal of having 70-80% coverage for only 36 of the 224 companies studied on the basis of revenues and only 13 companies on the basis of sites covered. By comparison, when the combined

SBC/Ameritech completes its National-Local Strategy, it will meet the desired 70-80% coverage for 131 companies based on revenues and 86 companies based on sites.

52. Phoenix, Arizona is an excellent example of how this "follow our customer" strategy will work. In Phoenix, we have identified 2,126 locations owned or operated by businesses that are headquartered in the Ameritech, SNET or SBC territory. We know that these businesses spend \$70 million on local and long distance services annually.

53. However, sixty (60%) of these business locations belong to customers whose headquarters are in Ameritech's region -- absent the combination of our companies, neither SBC nor Ameritech would have a sufficiently large customer base to follow into Phoenix. Together, however, the base of customers followed can become the anchor tenants for our entry into that market.

54. Not only must SBC be in each of these markets, we must enter them promptly. We cannot be competitive in responding to requests for proposals from multi-location customers by promising a customer that we will be in a certain market a few years from now. Customers want service where they are today and they want service now. As a result, SBC is compelled to promptly enter each of these 30 markets in order to effectively implement this strategy.

#### Extensive Facilities-Based Entry

55. SBC will first focus on the deployment of switches, switch upgrades, multiplexing equipment, access equipment and office equipment to serve large and medium-sized businesses. As I mentioned previously, the plan contemplates the placement of at least 60 switches out-of-region to serve large and mid-size business customers, and an additional 80 switches to serve residential and small business accounts. The

architecture of each network, and the facilities used, will vary from market to market – SBC will build, buy, partner with another CLEC or combine elements of each of those approaches. We also intend to rely on interexchange carriers for the wholesale provision of long distance transport. Our current strategy contemplates that we will have at least two switches located in each of these 30 markets within three years of the closing of the SBC/Ameritech merger. Indeed, in some of the largest markets, we will have three or more switches operational within three years of the closing of this merger. In addition, our current planning contemplates that we will place switches in international markets within five years of the closing the SBC-Ameritech merger. These national and international markets will be linked primarily through transport facilities leased from third parties.

56. In addition, once we have these switches in place and as we implement our "smart build" strategy, we will have assets in place that will allow us to serve small business and residential customers. In doing so, we will offer packages of local exchange and long distance along with vertical features that our residential and business customers most want. Furthermore, as we provide new services and new capabilities to our large corporate customers, we will market these services to medium size businesses as well, creating even more opportunities for SBC to utilize this base of assets and take advantage of the potential economies of scale and scope made possible through this merger.

#### Resource Commitment

57. As one would expect when constructing 2,900 miles of fiber and placing into operation 140 switches, SBC's National-Local Strategy will require extensive capital

investment and the commitment of extensive financial and managerial resources. The National-Local Strategy calls for the investment of more than \$2 billion in capital expenditures. This capital requirement is in addition to the capital requirements the new SBC must bear as it continues to enhance and maintain its local exchange networks in those markets where it is an in-region provider.

58. Over the next ten years, the operating expenses involved in these out-of-region operations will be in excess of \$23.5 billion. In addition, these capital requirements and operating expenses are heavily weighted towards the early years of the business plan -- a return on this investment does not occur until the later years. Indeed, the magnitude of the investment required to sustain this venture is demonstrated by the fact that these operations are expected to generate negative cumulative cash flow until the ninth year of the National-Local Strategy.

59. Nor can you undertake such a significant business operation without a substantial number of highly skilled employees. Indeed, we anticipate that at the end of 10 years we will have over 8,000 new employees devoted solely to this out-of-region business plan. By way of comparison, MFS, one of the largest and oldest CLEC's in the country, has been in business nearly 12 years and has less than 4,000 employees today.

60. The employees for this new venture will receive compensation and benefits commensurate with the skill level required to be a successful provider of telecommunications services. The total employee-based selling, general and administrative expense for the large business segment ranges from over \$8 million in 1999 to nearly \$370 million in calendar year 2008. When you consider all of the other sales and marketing expenses and network operating expenses, the total selling,

general and administrative expenses in this segment of the business plan range from \$8 million in 1999 to \$460 million in 2008.

61. Such a vast undertaking clearly requires significant management resources and talent, extensive and sophisticated training capabilities and a large body of support personnel at the corporate level to provide the benefits and programs required to effectively place and maintain these employees in 30 markets around the country. Neither SBC nor Ameritech alone has the management resources to undertake such an ambitious program.

#### Penetration of Small Business and Residential Segments

62. As I described above, our small business/residential strategy is built from the bottom up. By that I mean we worked from anticipated service offerings, customer demands, and market share penetrations to determine the switching and other requirements which we will need in those markets. Within the next ten years, the 30 out-of-region markets will have 30 million households and 10 million small businesses. We project that the average number of lines will rise from 1.25 to 1.58 per household, and from 3.0 to 4.13 for small businesses.

63. SBC will begin offering service to residential customers within one year of the closing with Ameritech, and plans to offer service to a majority of the households in the 30 out-of-region markets within four years of closing. We anticipate that we will achieve an overall penetration rate of 4 percent of the residential customers in all of these 30 markets. These customers will be offered packages of services that will include local, long distance, and other features in a single offering. We anticipate achieving similar results in the small business segment. To achieve these results, SBC anticipates

spending approximately \$500 per line ultimately served on customer acquisition, product development and marketing expenses related to residential and small business customers – a total of approximately \$1.4 billion.

64. There is significant competition for the large and mid-sized business customers -- for whom prices have been maintained at artificially high levels through regulatory mandates. No company, however, has announced plans to attempt to serve residential and small business customers on such a broad geographic basis as SBC will undertake with its National-Local Strategy. For example, CAPs have focused on business customers with the largest business customers being their first choice for service. Companies such as MFS, ICG and others, all of whom are constructing facilities and have a limited number of switches in place, have as their primary focus serving business customers. Indeed, doubts have been raised about MCI/WorldCom's commitment to serving even its existing residential customer base for long distance service, much less its commitment to providing local exchange services to residential customers on a competitive basis.

#### Global Expansion

65. With the rapid globalization of business and of the telecommunications industry, stimulated by recent initiatives such as the landmark World Trade Organization agreements, it is increasingly important that the U.S. develop truly international telecommunications competitors. Otherwise, the U.S. risks being relegated to a supportive role in the growth of the global digital economy.

66. SBC believes that, in order to be fully competitive in this global telecommunications market, we must ultimately be able to provide facilities-based

services in other markets around the world. The proposed merger will combine Ameritech's existing international operations in Belgium, Denmark, Norway, and Hungary which it undertakes directly (a complete description is available at [www.ameritech.com/corporate/international](http://www.ameritech.com/corporate/international)) or indirectly through TeleDanmark (described more fully in Attachment B) with SBC's current international operations in France, Switzerland, Asia, South Africa and Mexico (described more fully in Attachment C). SBC invested over \$3.1 billion in making its initial investment in these countries. These investments by SBC have provided significant social and economic benefits in those countries. A brief description of SBC's activities in South Africa is contained in Attachment G to this Affidavit.

67. In addition, SBC plans a global expansion in order to become a U.S.-based global carrier capable of competing for U.S. and other multi-national companies with global operations. As we follow our largest customers domestically to out-of-region markets, the realities of the marketplace will also require that we follow them to their foreign locations as well. As a result, SBC has developed plans (which, due to a lack of regulatory clarity, are somewhat preliminary) to place switches in 14 major foreign markets within five years after closing the SBC/Ameritech merger. These plans include European markets such as Berlin, Hamburg, Frankfurt, and London; South American markets such as Rio de Janeiro and Sao Paulo; and Asian markets including Tokyo, Hong Kong and Singapore. SBC's international plans contemplate having at least one switch in each city by 2001, ultimately expanding to 27 switches by the end of the plan. As is true in our National-Local Strategy, SBC also plans to construct fiber in these cities, with 1,400 km. of fiber to be in place within two years of closing and more than

2,000 km. of fiber by the end of the plan. We estimate employing 3,500 employees in these cities by the end of the plan.

68. Just as it is necessary for SBC to be present in all of the top 50 United States MSAs in order to be the principal supplier of telecom services for major United States companies, so also are these international operations critical to SBC's ability to compete in the global market to provide telecommunication services to large multinational corporations. This strategy will place SBC in direct competition with such global providers as British Telecom, Deutsche Telekom/France Telecom/Sprint, AT&T/Teleport/TCI, NTT, MCI/WorldCom/MFS/Brooks Fiber/UUNet, and Cable and Wireless. Many of these companies have significant advantages in providing service to large corporations around the world. Cable and Wireless' capabilities will be significantly enhanced by its proposed acquisition of MCI's Internet business. Only through this merger with Ameritech, and the resulting ability to implement this nationwide and global strategy, can SBC hope to be competitive with such large international competitors.

#### Benefits of SBC and Ameritech Experience with Out-of-Region Competition

69. SBC and Ameritech have significant experience in competing out-of-region. SBC has been an effective competitor out-of-region in the wireless market since 1987. Ameritech, while having less domestic out-of-region experience in the telecommunications business, has a nationwide alarm monitoring business, which is a highly competitive market. The companies' combined experience in such competitive markets is of tremendous value to SBC in implementing this plan and provides evidence of our ability to compete vigorously as we implement the National-Local Strategy.

70. In 1986, SBC owned a relatively small wireless company with cellular licenses in parts of only four states -- Texas, Missouri, Oklahoma and Kansas. In September of 1986, SBC announced its acquisition of the cellular assets of Metromedia and immediately transformed a small geographically limited wireless company into a potential market leader.

71. But, this acquisition was met with widespread skepticism. Indeed, SBC was soundly criticized by analysts who claimed that we had paid too much for these assets. Critics questioned SBC's ability to compete with the wireless affiliates of incumbent local exchange carriers in Washington/Baltimore, Boston and Chicago. They pointed out that the systems we were acquiring were not fully constructed and that we would have to invest large sums just to develop a suitable network. Our ability to market our service once we had a network was questioned.

72. We proved our critics wrong. Today our wireless networks in Chicago, Washington, Baltimore and Boston are robust and fully developed. We have nine switches and 708 cell sites in place in Chicago alone. We have 292 cell sites in Washington, D.C., 121 in Baltimore and 190 sites in Boston. Of these 1,311 cell sites, 1,293 are digital sites using TDMA technology.

73. While we do not publicly disclose our penetration on a market-specific basis, our current overall cellular penetration of 12.2 percent puts SBC among the market leaders. Since nearly two-thirds of our traditional cellular POPs are in our out-of-region markets, we could not have obtained such a high overall presentation level without being very effective in these out-of-region markets. We market cellular service through over 6,000 sales outlets throughout our cellular service areas. Most of this distribution is located in our out-of-region markets.

74. A great deal has been learned from these efforts. The numbers speak for themselves. Stan Sigman notes in his affidavit, also attached to this application, that we have also learned lessons about certain activities that will not work well. This knowledge too is critical as we begin an aggressive implementation of our National-Local Strategy.

### **The Ameritech Merger is Essential to the National-Local Strategy**

75. In the absence of the merger with Ameritech, the National-Local Strategy will not work. The problem is not primarily that SBC, on a stand-alone basis, is incapable of raising the capital necessary to fund the National-Local Strategy. The more important constraints are (a) customer base, (b) personnel, and (c) earnings dilution and market reaction.

76. As I have previously discussed, the combination of SBC and Ameritech creates a company with a broader geographic customer base to be "followed" and in turn will be the base for the entry into the related customer segments. On its own, SBC lacks a sufficiently broad customer base to allow SBC to be competitive when faced with the onslaught of competition from companies such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks Fiber/UUNet, Sprint/France Telecom/Deutsche Telekom and other global competitors -- each of whom have a nationwide/global network, customer base and brand name recognition.

77. Equally important, the merger creates a much deeper pool of management and employee talent that is essential to carrying out this National-Local strategy. The necessity for extraordinary management and employee depth is particularly compelling when you consider the training and hiring demands that will be placed on a company to

generate over 8,000 broadly dispersed, highly skilled jobs on such a rapid basis. On a stand-alone basis, SBC simply does not have a strong enough bench to undertake anything as ambitious as the National-Local Strategy.

78. The merger creates a far larger pool of employees on which to draw in implementing the strategy. Even with Ameritech, we will be challenged to meet the personnel requirements of the strategy. It will still be necessary to hire significant numbers of new employees. However, the merger creates a larger cadre of managerial and technical talent on which we can draw. It has generally been our experience that staffing new ventures with a significant number of existing managers is preferable to relying extensively on newly hired managers.

79. Furthermore, the investment community measures SBC's performance by its ability to deliver earnings growth. This constraint is in stark contrast to start-up firms that the stock market evaluates on the basis of various factors other than earnings. SBC will experience significant earnings dilution and increased risk as a result of the start-up costs and losses during the earlier years of the National-Local Strategy. This dilution cannot be borne by SBC alone. By spreading that dilution and risk across a broader base of shareholders, the combined SBC/Ameritech can continue to provide investors with appropriate returns notwithstanding the costly National-Local Strategy. SBC would not, on its own, expose its smaller base of shareholders to the dilution and extensive risk of the National-Local Strategy.

80. Indeed, the business plan contemplates having a cumulative negative cash flow for nearly ten years. The remaining business operations of the new SBC must carry these negative cash flows while we continue to grow our existing business, grow our customer base, compete in the market where we are the incumbent, maintain and

enhance our existing networks and fund dividends. In fact, a significant percentage of the projected positive net present value in the business plan is a result of favorable results in the later years of the plan. Again, SBC on a stand-alone basis could not reasonably accept those short-term and medium-term losses, particularly given the rapidly changing nature of the industry that makes more distant gains less certain.

81. In contrast, however, the combined SBC/Ameritech can better absorb, reduce and manage those losses and the attendant risks. With the expanded base of customers to follow and expanded management/employee pool, and the scale and scope efficiencies which can be derived from combining these two companies, the new SBC can and will undertake this National-Local Strategy and make it a winning proposition for shareholders.

82. Inevitably, some pundits and industry rivals have characterized SBC's National-Local Strategy as a regulatory carrot that SBC has dangled in front of the FCC and other agencies in order to obtain approval of the Ameritech merger. In other words, they suppose that the National-Local Strategy is a means in order to achieve the objective of acquiring Ameritech.

83. SBC's perspective is exactly the opposite. We regard the Ameritech merger as the means and the National-Local Strategy as the objective. In view of the substantial premium paid by SBC's current shareholders to acquire Ameritech (approximately \$13 billion), the Ameritech merger on its own is certainly not a compelling business opportunity for SBC. From SBC's perspective, the real upside for our current shareholders results from our ability, as a result of the merger, to preserve and create value for our shareholders by pursuing the National-Local Strategy.

84. In seeking approval for the SBC/Ameritech merger, SBC management reviewed with its Board of Directors the significant changes occurring in the telecommunications market today – the same changes that I have described in this Affidavit. We told the Board that it was our judgment that the market is characterized by rapid technological changes, globalization and continuing trends towards both additional consolidation of large carriers and fragmentation of the market by niche and regional competitors. SBC's competitive viability will be profoundly affected by both trends, but especially by the creation and expansion of a relatively limited number of large, well financed, fully integrated national and global providers that are well positioned to serve the needs of the largest users of telecommunications services.

85. A key component of the strategy behind the SBC/Ameritech merger, as well as a key component of the approval of this merger by SBC's Board, is the belief that the National-Local Strategy and the global expansion of SBC are critical to SBC's success. Indeed, SBC's senior management advised the SBC Board that, without the growth opportunities enabled by this national and global strategy, the premium paid and risk assumed in connection with the merger would not be justified. In approving this merger, the SBC Board also approved the National-Local and global strategies as a critical component of SBC's future. In the absence of the merger, SBC does not believe these strategies are viable and does not contemplate out-of-region entry into local exchange markets.

#### **The Effects of SBC's Strategy on the Public Interest**

86. By implementing the National-Local Strategy, SBC believes that its actions will accelerate the development of competition in all market segments. There should be no

question that the National-Local Strategy will have pro-competitive effects in the 30 new markets that SBC will enter. However, SBC also projects that the National-Local Strategy will stimulate competition in the 13 states that are currently the in-region market for SBC, Ameritech and SNET. At the outset, this will occur largely because other carriers will be motivated to take measures to compete for the lucrative business of major national accounts by offering a comprehensive package of services, including the all-important advanced data services, and including services within the SBC/Ameritech home region. In the same way that the consolidation of MCI/WorldCom/MFS/Brooks/UUNet was a "wake-up call" for SBC, we fully expect that our acquisition of Ameritech and the launch of our National-Local Strategy will compel a similarly aggressive response from our rivals.

#### Enhanced In-Region Competition

87. Absent the SBC/Ameritech merger and the implementation of the National-Local Strategy's significant out-of-region expansion, companies such as AT&T/Teleport/TCI, MCI/WorldCom/MFS/Brooks/UUNet, Sprint/France Telecom/Deutsche Telekom, and other CLECs do not face significant competition for the bundle of local exchange and long distance services. Their existing customer base, while exposed to competition, is not being contested by an ILEC that can package local and long distance services in a single offering. As the new SBC implements its National-Local Strategy these companies' incentives will be changed. Companies such as AT&T/Teleport/TCI will find their existing customer base in all market segments under challenge by SBC and its out-of-region entry. These interexchange carriers must, in our judgment, respond and

begin to compete aggressively in SBC's in-region local exchange markets in order to remain competitive by offering a full range of services.

88. In addition, the other incumbent BOCs must naturally respond to defend their business in their own regions and in ours, and we prepared the National-Local Strategy based on that assumption. The expanded competition in our region may result from those companies attempting to follow select customers, or as a result of their undertaking efforts to achieve similar economies of scale, scope and geographical diversity as the new SBC. As companies such as Bell Atlantic, BellSouth, US West, GTE, and other CLECs enter SBC's in-region markets, which we believe they must and will, their actions will have a corresponding competitive effect not only on SBC but on all of the other competitors in the market.

89. Moreover, the regional and niche providers, who have significant pricing flexibility in the absence of a large embedded customer base and little or no capital requirements due to the provisions of the 1996 Act, can continue to compete in these markets as well. This is particularly true since they can also provide the full bundle of local exchange and long distance services in those markets. These niche competitors, who can focus on high-end, small and medium sized business customers, have very high revenue potential and pose a correspondingly high revenue risk for the incumbents. The regional and niche providers have ample opportunity to survive in this competitive market place.

#### Enhanced Long-Distance Competition

90. Outside its own region, SBC can, of course, provide long distance service immediately and will be in a position to provide bundles of goods and services including

local and long distance service. As SBC expands its base of large corporate customers around the country and goes deeper into the marketplace for small business and residential customers, the existing long distance providers and CLECs who have an embedded base of long distance and full service customers must compete in order to preserve that base. This added competitive impetus will also generate competitive responses from other BOCs, IXCs and CLECs, who will attempt to follow their customers into SBC's territory.

#### Local Exchange Entry in Ameritech Region Not Planned or Feasible

91. As described in more detail and reflected in the affidavit of Stan Sigman, the President and CEO of SBC Wireless, SBC had no plans to enter the local exchange market in Ameritech's region on its own. SBC determined that its existing asset base out-of-region was not sufficient to sustain a viable local exchange entry and generate the returns necessary to warrant the commitment of the required assets and resources. SBC's experience also taught it that its best utilization of its existing wireless management is to focus on the highly competitive wireless markets. Furthermore, large corporate customers tend to focus more on the availability of local exchange and long distance service than they do on wireless service. As a result, wireless assets are not as strategically important to efforts to provide local exchange service to this segment of the market. Obviously other providers who might focus on different segments of the market could utilize wireless assets as a base for doing so. These assets simply do not, on their own, form a sufficient base from which SBC would consider entering the local exchange business on a national/global basis. This is particularly true in light of the

relatively limited geographic coverage of our out-of-region wireless properties when compared to the 30 market National-Local Strategy.

### **A Record of Success: The Effects of SBC's Merger with Pacific Telesis**

92. When SBC first announced the SBC-PacTel merger in 1996, a number of fundamental questions were raised about the potential impact of that merger. Will it increase productivity and jobs, or result in less employment and lower wages and benefits? Will service quality be adversely affected? Will it promote or impede competition? The same basic questions are now being raised about the SBC-Ameritech merger: Is the SBC-Ameritech merger about growth, improving service, increasing investment in the network and expanding competition, or will it lead to lost jobs, increased prices, poorer quality service and disinvestment in Ameritech's network?

93. Fortunately, we have a track record and real-life case study which helps answer these questions. We can look at the facts rather than the rhetoric when assessing the actual impact of the SBC-PacTel merger. When SBC proposed the PacTel merger, some critics claimed that it would result in higher prices, lower quality service, a decrease in investment in California, a loss of jobs and a setback for competition. More than a year has passed since the SBC-PacTel merger closed, and none of these negative predictions have come true. In fact, since the merger closed in April of 1997, jobs have increased, overall service quality has improved, prices for local service have remained unchanged, investment has increased and competition in California is flourishing. While these mergers are different in some respects, understanding what has really happened since SBC merged with PacTel helps put in context what is likely to occur when SBC merges with Ameritech.

### Increase in Employment

94. Jobs in California have increased and benefits to PacTel employees have improved since the SBC-PacTel merger closed. Pacific Bell and its affiliates have created 2,869 net jobs (as of May 8, 1998) in California since the merger closed, a 5.8% increase in jobs. Most of the new employees hired by Pacific Bell since the merger closed were hired to improve service and met the increased demand for service and new installations. For example, more than 1,100 new service technicians and maintenance splicers and about 500 new service representatives (who are responsible for answering phones and responding to customer issues) were hired. Moreover, SBC did not create jobs in California by exporting those jobs from its out-of-California operations. In fact, SBC's employment outside California and Nevada also increased by an additional 2,900 jobs since the merger closed. Hence, from the closing of the merger in April 1997 until May 8, 1998, SBC's total employment increased from 113,228 to 119,015 (5.1% increase).

95. Existing PacTel employees have also benefited from the merger. Since SBC merged with PacTel, employees in California have received increased pay and benefits. California employees received pay increases in 1998 and more than 15,000 California employees now receive stock options (prior to the merger only a limited number of employees received that benefit). The company match to the employee savings plan in California was also increased from 67% to 80%. Pacific Bell and Southwestern Bell were also the first Bell Operating Companies in the nation in 1998 to reach early contract agreements with the Communications Workers of America.

### Improved Service Quality

96. The quality of service has been maintained and improved, new services and products have been introduced and prices for local service have remained unchanged in California since the SBC-PacTel merger closed. A review of available indicators of service quality demonstrates that the quality of service has been maintained and improved during that period. For example, for the second year in a row, J.D. Power and Associates has recognized Pacific Bell as one of the top (ranked second) residential local telephone companies in the country with regard to customer satisfaction.

97. Reports submitted to the California Public Utilities Commission ("CPUC") document improvements in almost every "service quality" standard tracked by the CPUC since the SBC-PacTel merger closed. For example:

- Repair times at Pacific Bell have been reduced by an average of 60%, from as much as 4-7 days to 1-2 days.
- Service installation times have been reduced by an average of 80%, from as much as 2 to 3 weeks to about 3 to 4 days.
- Attached D compares service quality measures for Pacific Bell for the month before the merger closed (March 1997) compared to the month one year after the merger closed (March 1998). This Chart demonstrates that service quality one year after the merger closed improved for 6 of the 8 service measures, remained the same for one measure and declined for only one measure compared to one month before the merger closed.
- Attachment E compares the 12-month averages for service quality before and after the merger. This chart demonstrates that service improved for 6 categories

of service and remained the same for 2 categories in the 12 months after the merger closed.

- Attachment F identifies the percentage of months that Pacific Bell met or exceeded the service goals established by the California PUC in the 12 months after the merger closed. This Chart demonstrates that for 6 of the 7 service quality measures, Pacific Bell met the CPUC's service goal in each and every one of the 12 months after the merger closed.
- In summary, as a subsidiary of SBC, Pacific Bell's service quality and customer satisfaction are now among the best in the industry. These service improvements have occurred despite the effects of El Nino and the record demand for new telephone lines in California.

98. Not only has service been maintained or improved in California since the SBC-PacTel merger, but a variety of new products and services have been introduced. Examples of some of the new products include: Caller ID with name delivery; on-demand features such as pay-per-use Three-Way Calling; enhanced Internet service with lower ISDN fees and extra e-mail boxes; home packs with ISDN/Internet service; managed frame relay service; web hosting and an ADSL rollout announced in more than 200 California communities (the broadest rollout of this high-speed Internet service anywhere in the country). Finally, rates for basic residential and business local service have remained unchanged since the merger.

#### Increased Investment

99. Investment in Pacific Bell and California has increased since the SBC-PacTel merger. Contrary to the predictions of some critics, SBC has continued to invest in and

improve the Pacific Bell network since the SBC-PacTel merger closed. For example, between 1996 and 1997, spending increased for network capital expenditures from \$1.9 billion to \$2.05 billion (an 8% increase); and outside plant capital expenditures from \$413 million to \$523 million (a 27% increase). Moreover, between 1996 and 1997, digital switches increased by 8%; SONET fiber rings increased by 150%; miles of fiber strands increased by 84%; ISDN lines increased by 66% and frame relay ports in service increased by 91%.

100. An examination of spending in Pacific Bell in the 12 months before and after the merger also demonstrates that investment in California increased after the SBC-PacTel merger. For example, Pacific Bell actually increased operating and capital spending by \$283 million (a 4.4% increase from \$6.87 billion to \$7.16 billion) in the post-merger period.

101. SBC's investment in California's communities and its support of minority vendors also increased after the merger. To illustrate, total corporate giving in California has continued to increase (i.e., 1996 giving: \$7.6 million; 1997: \$9 million; 1998: \$5.8 million in the first quarter of 1998 alone). Pacific Bell has continued its ambitious goals for contracting with vendor business owned by minorities, women and disabled veterans, and in 1997 25% of its procurement dollars went to these firms.

#### Local Competition has Continued to Grow

102. Since the merger, Pacific Bell has continued to open its local markets to competition – and competitors are actively competing with, and taking customers from Pacific Bell. For example, as of the end of May 1998, 117 carriers were certified to provide competitive local service in California; 46 CLECs were operational and passed

local orders in California in 1998; and Pacific Bell has entered 35 interconnection agreements with CLECs. Moreover, in California alone, Pacific Bell has provisioned approximately 200,000 trunks to CLECs; it has processed more than 700,000 service orders from CLECs, and it has exchanged more than 3.4 billion minutes of local traffic with CLEC networks. Finally, Pacific Bell has lost more than 635,000 access lines to local competitors, losing more than 254,000 customer lines to resale competitors and more than 380,000 lines to facilities-based competitors. More Pacific Bell resale and facilities-based lines have been lost to competitors in California than in any other state. The evidence is clear that competition in California has been promoted, not impeded, since SBC merged with PacTel.

103. The facts clearly demonstrate that as a result of the SBC-PacTel merger, consumers have benefited, employees have benefited, California has benefited and competition has benefited. Based on SBC's experience with the SBC-PacTel merger, there is every reason to believe that the same positive, procompetitive benefits will result from the SBC-Ameritech merger. SBC lived up to the commitments and promises it made related to the SBC-PacTel merger and this positive track record bodes well for the commitments and promises SBC has made regarding the SBC-Ameritech merger.

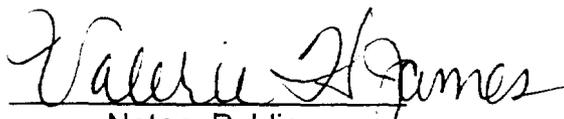
**Conclusion**

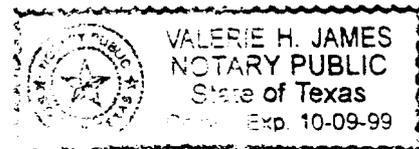
104. The telecommunications industry today is no place for those who are faint of heart. In the midst of wrenching technological, regulatory and economic change, the industry offers both dazzling rewards and daunting risks. The placid environment of a regulated monopoly is gone forever.

105. Despite the challenges, at SBC we are unreservedly enthusiastic about the prospects for the industry and our company. We want to be at the head of the pack in bringing local exchange competition to domestic markets, and we aspire to become one of America's flagship carriers worldwide. The foundation of our business plan and of our proposed merger with Ameritech is our conviction that the future holds nearly boundless opportunities to better serve our customers, expand our business, and create value for our shareholders. As we implement this plan, the competitive forces unleashed by our efforts will be overwhelmingly beneficial to the public interest.

  
James S. Kahan

Subscribed and sworn to before me this 20<sup>th</sup> day of July, 1998.

  
Notary Public



Pursuant to 47 C.F.R. §§ 1.743(c), 1.913(c), 5.54(c), the preceding document is a copy of the original signed affidavit, which was filed as an attachment to Exhibit 2 to the Form 490 applying for the Commission's consent to transfer control of Part 22 licenses held by Detroit SMSA Limited Partnership from Ameritech Corporation to SBC Communications Inc. That Form 490 was filed concurrently with this application.

## ATTACHMENT A

### *New Markets for the New SBC*

*Below are the markets where the new SBC plans to compete under the "National-Local" strategy, ranked by size.*

1. New York
2. Philadelphia
3. Boston
4. Washington
5. Miami-Ft. Lauderdale
6. Atlanta
7. Minneapolis - St. Paul
8. Phoenix
9. Baltimore
10. Seattle-Everett
11. Denver - Boulder
12. Pittsburgh
13. Tampa - St. Petersburg
14. Portland
15. Cincinnati
16. Salt Lake City - Ogden
17. Orlando
18. Buffalo
19. New Orleans
20. Nashville - Davidson
21. Memphis
22. Las Vegas
23. Norfolk - Virginia Beach
24. Rochester
25. Greensboro - Winston - Salem
26. Louisville
27. Birmingham
28. Honolulu
29. Providence - Warwick
30. Albany - Schenectady - Troy

*Below are the markets in which SBC and Ameritech currently offer services, ranked by size:*

1. Los Angeles (SBC)
2. Chicago (AIT)
3. Detroit (AIT)
4. Dallas-Ft. Worth (SBC)
5. Houston (SBC)
6. San Francisco/Oakland (SBC)
7. San Diego (SBC)
8. St. Louis (SBC)
9. Cleveland (AIT)
10. San Jose (SBC)
11. Kansas City (SBC)
12. Sacramento (SBC)
13. Milwaukee (AIT)
14. San Antonio (SBC)
15. Indianapolis (AIT)
16. Columbus, OH (AIT)
17. Hartford/New Britain (SBC)
18. Oklahoma City (SBC)
19. Austin (SBC)
20. Dayton (AIT)