

### Estimated Revenue Growth

7. SBC sees significant potential opportunities for revenue growth as a result of combining SBC with Ameritech. I estimated increased revenue of \$778 million by 2003. In estimating the increased revenues achievable as a result of the merger, we assumed there would be no increases in price. Rather, this growth is attainable through the adoption of the best practices of each company in expanding our opportunities with existing customers and reaching new customers through more effective marketing and sales techniques. This revenue growth is, therefore, an excellent measure of consumer benefits anticipated to be derived from this merger. Without increased prices, the only way a company can significantly increase its revenues is to provide services and packages of services which consumers see as providing value. This in turn results in increased sales and increased revenues. This is what SBC expects to achieve as a result of the SBC/Ameritech merger.

### Vertical Features

8. Our experience since the Telesis merger has shown that by offering customers products and services that they need and want, and by effectively offering customers the opportunity to purchase those products and services, the vertical services purchased per access line will increase. The Pacific experience is that the residence features per line has increased since the merger from about .7 per

line to .9. SBC leads the industry with a penetration of 2.45 vertical features per access line. The Ameritech performance is closer to Pacific's performance and, therefore, provides a significant opportunity for improved penetration through more effective marketing of available products and through the development and marketing of new products, services and features. By utilizing SBC's research and development and marketing capabilities and expertise in developing and marketing attractive packages of services, significant new revenue opportunities can be obtained at Ameritech. I estimated additional revenues of \$230 million from the increased sales of vertical features such as call waiting, call return and voice mail. Caller ID provides an additional \$81 million.

9. Southwestern Bell has demonstrated that caller ID is a product that many customers value tremendously as evidenced by the approximately 50% penetration of this service across the Southwestern Bell region. The product has recently been enhanced significantly by offering caller ID with call waiting along with the previously introduced caller name identification. In the short time since the SBC/Pacific Telesis merger was announced, Pacific has increased Caller ID penetration from less than 1% to over 9%. On July 16, 1998, SBC announced its *second quarter earnings*. In describing the reasons behind another quarter of double digit earnings growth, SBC's employee newsletter, *SBC.dot.Com* stated that, "Pacific Bell, with an enhanced marketing and sales focus based on merger related synergies, added 164,000 Caller ID subscribers during the second quarter and raised Caller ID residential line penetration to 9.4% from 2.6% a year

ago." Ameritech's penetrations are roughly half that of Southwestern Bell and represents, combined with Pacific, a significant continuing opportunity for increased revenue.

### **Additional Lines**

10. I estimated added revenues of approximately \$134 million from the sale of additional lines. Pacific is the industry leader with approximately 28% second line penetration. The penetration rates for both Ameritech and Southwestern Bell are in the range of 15-17%. This presents significant revenue opportunity if by applying Pacific's experience, Ameritech and Southwestern Bell's second line penetration can be moved toward Pacific's.

### **Directory Publishing**

11. The combined directory company resulting from the merger of SBC and Ameritech would likely have total revenues in the range of \$3.5 billion. I estimated increased revenues of \$98 million dollars or about 3% from directory publishing through the application of best practices that produced revenue growth in Telesis' and Southwestern Bell's directory publishing businesses. These best practices included better use of color enhanced, back cover advertising, use of inserts and improved sales methods. I also assumed best practices in Ameritech would be found and applied to the SBC directory

companies.

### **Data Services**

12. I estimated revenue growth of approximately \$65 million in data services for such products as frame relay, ISDN, ADSL, Highcap, and ATM as a result of the combined best practices of all companies in the Southwestern Bell family. This opportunity is enhanced by the explosion of the demand for data products and services.

### **Wireless**

13. Both SBC and Ameritech have been successful wireless carriers as measured by penetration rates. SBC has been successful in bringing its best practices to the Telesis PCS Company, and increasing their revenues as a result of management marketing and sales method. I believe the same opportunity exists for taking the best practices among all of the SBC companies including Ameritech and applying them across the companies. Based on this, I estimated approximately \$50 million in additional revenue growth from our wireless services.

Centrex and other services

14. I estimated revenue growth of \$120 million from all of the other products and services that the companies offer. In particular, Ameritech is an industry leader in Centrex and provides the opportunity to transfer best practices to both Pacific Bell and Southwestern Bell to improve the penetration of Centrex services in their respective markets. Ameritech has had considerable success in selling Centrex, and it can bring resources and know-how to help increase Centrex penetration in SBC's traditional service territory. Similarly, Southwestern Bell is a leader in public pay phone revenues. The combination of best practices in the marketing of inside wire maintenance plans has led to improved revenues in both Pacific Bell and Southwestern Bell.
  
15. The calculation of each of these new estimated revenue enhancements is based on our past experience in successfully integrating Pacific Bell and Southwestern Bell and reasonable estimates of the result of applying that experience to the merger of SBC and Ameritech. Applying this experience also suggests that these estimates are reasonable and achievable, but no one can predict with 100 percent certainty when or if all the estimated synergy benefits will occur.
  
16. These estimated revenue gains do not reflect any benefits which may be derived from the implementation of the National-Local Strategy made possible by this merger as described in the affidavit of Mr. Kahan. Over the long term, by expanding SBC's reach into many major markets across the country and around

the world, permitting SBC to serve millions of new customers and expanding the relationship with SBC's existing customers, the merger will be a tremendous engine for additional revenue growth not reflected in these estimates.

### **Estimated Projected Cost Savings**

17. I also expect the merger with Ameritech to reduce the combined costs of the two companies and to produce substantial efficiencies that will make the combined company a more effective competitor better able to serve customers and provide new and improved services to its customers. I estimated total cost savings at \$1.43 billion, which includes \$1.17 billion in expense savings and \$260 million in capital savings. Gross savings, i.e. savings before investment, begin the first year after closing. Net savings, i.e. savings after investment, begin the second year after closing. Based on our Pacific Telesis experience, I estimated the investment necessary to achieve these savings as being in excess of \$1.45 billion. These investments must be made before the full savings can be realized. In general, the efficiencies will come from increased economies of scale; the ability to combine a variety of administrative, support functions and businesses that can more efficiently be provided on a combined basis such as holding company functions, procurement and the wireless business; the avoidance of duplicative expenditures on new initiatives where combined efforts will be more efficient; and the adoption and implementation of the best practices of each company.

18. My analysis of estimated cost savings was undertaken using the same categorization as we used in analyzing the Pacific merger. I broke the business functions down between Support Functions, Administrative Functions, Telephone Company Operations, and Other Lines Of Business. These four categories were then further broken down into various smaller units to provide the estimates on a unit-by-unit basis which were then rolled-up to the total estimated savings. The following paragraphs provide the explanations for how the various estimates were calculated.
19. All of these estimates are based on my experience in the Telesis merger, my understanding of the Ameritech and SBC operations and my general understanding of our business. Each specific estimate was based on the available data -- some of which was pulled directly from FCC ARMIS Reports, my own experience gained in leading Pacific Bell's re-engineering efforts prior to the SBC/PTG merger and significant experience gained in planning for and ultimately implementing the integration of SBC and PTG. This last point is of particular value since I was personally involved in planning these efforts for PTG and in planning and carrying out the implementation of these plans for SBC. This activity has resulted in the generation of significant savings for SBC following the Telesis merger.

**Support**

20. I estimated a reduction of the combined company's expenditures on support functions of totaling approximately \$771 million due to improved economies of scale, elimination of redundancy and the adoption of best practices. These support functions include:
- a) Purchasing: The increased scale of the combined company should provide additional opportunities for savings in procurement. I estimated savings of \$381 million in this area of, which about \$260 million was expected to be derived from reduced capital expenditures and \$121 million from expense reductions. In the SBC/Telesis merger, we estimated \$500 million of savings in procurement, nearly 40% of which are already reflected in contracts which have been negotiated since the merger and another 30% of which are pending completion. While the additional procurement savings from the Ameritech merger will not be as large, overall we still expect to derive significant savings from total SBC/Ameritech purchasing expenditures that I estimated to be in the range of \$11 billion a year.
  - b) Information Technology: SBC and Ameritech spend about \$2.5 billion annually on information technology on a combined basis. These expenditures relate to the maintenance and development of billing systems, operating support systems, other management information

systems and the printing, issuance and receipt of bills from customers.

The Pacific and Southwestern Bell companies run their own data centers on a very efficient basis, while Ameritech outsources its data centers to a third party. SBC will benefit from the best of these approaches.

Additionally, by consolidating these functions, eliminating duplication of overhead, adopting one approach to new applications, standardizing existing ones and many other best practices, I estimated annual savings of \$227 million.

- c) Marketing, Product Development and Advertising: I estimated a reduction in cost of approximately \$85 million by combining the marketing efforts of the two companies. Additionally, combining research and testing of new products will spread development costs across a broader base of access lines and accelerate the delivery of new services to the market. SBC has a subsidiary called Technology Resources Inc. ("TRI"). TRI has, for example, helped SBC solve many of the problems encountered in deploying DSL technology. Ameritech does not have such an affiliate. Currently both Ameritech and Southwestern Bell are offering DSL services in test markets while Pacific is in full scale offering in 200 cities. A combined company would avoid duplicative costs of testing and technical consulting for the development of this service by relying on TRI, at no incremental cost to SBC. In general, TRI conducts laboratory tests on new services and features, prepares engineering design specifications

and other related efforts to develop a new products as well as evaluate new technologies. TRI can and will fulfill the same role for SBC/Ameritech after the merger for network enhancements that might be considered by either company.

- d) Real Estate: I estimated savings of \$54 million from real estate operations. On a combined basis, SBC and Ameritech occupy about 125 million square feet of building space. By consolidating functions and implementing best practices, we will be able to reduce our space needs and overall expenditures. Along with our experience in the Pacific Telesis merger, and considering the huge volume of space to work with, the opportunities to reduce real estate costs are substantial.
- e) Other Support Savings: I estimated approximately \$24 million in additional savings from more efficient motor vehicle operations and the administrative component of procurement operations.

### **Telephone Company Operations**

- 21. I estimated cost savings of \$313 million from the combined operations of the SBC and Ameritech telephone operating companies. These savings will result largely from adoption of best practices with some elimination of duplication. It is important to note that both Pacific and Ameritech are considered industry leaders

in cost performance which is reflected in my estimates. These savings will be derived from:

- a) Provisioning and Maintenance: I estimated \$115 million in savings from provisioning and maintenance. Pacific has had substantially fewer trouble reports and field dispatches than either Ameritech or SWBT. By Ameritech and Southwestern Bell adopting best practices developed at Pacific Bell, we expect to reduce trouble reports and field dispatches at both of these companies. We expect to improve technician productivity, reduce dispatches and implement other best practices to generate cost savings. A reduction in trouble reports and field dispatches plus enhanced technician productivity will also produce better customer service. In the SBC/Pacific merger, we expect to produce about \$250 million in expense savings for SBC from similar improvements.
  
- b) Switching Operations and Network Engineering: SBC has over 2,700 local switches and 81 tandem switches, while Ameritech has about 1,435 switches and 47 tandems. Ameritech outsources its switch capacity engineering. SBC performs this work internally. By adopting the best practices such as in capacity management, consolidating appropriate functions such as architecture planning and how we operate networks, SBC can achieve substantial efficiencies and cost savings which I estimated to be about \$45 million.

### National-Local Implementation

22. As SBC implements the National-Local Strategy, and applies the combined experience of Ameritech, Southwestern Bell and Pacific Bell in network operations and engineering, SBC will have significant capabilities to effectively manage the deployment of SBC's networks in these new territories. Additionally, SBC's procurement scale will enable it to make very economical investments in the network facilities purchased for these territories. These synergies are not included in the calculations described in this Affidavit.

### Other Savings:

23. The balance of the Telco savings (approximately \$153 million) comes from virtually all other aspects of the telephone companies' operations and were estimated as follows:

- Telemarketing - \$10 million
- Outside Sales - \$15 million
- Demand Sales - \$35 million
- Collections - \$10 million
- Network Administration - \$17 million
- Operator Services - \$22 million
- Public payphone operations - \$13 million

- Industry Markets - \$31 million.

24. *Administration:* I also studied the savings that can result from combining holding company and related business unit operations administrative functions such as accounting and finance, external affairs, human resources, corporate development and strategy, legal and executive management. For example, in business development and strategic planning, elimination of duplication results in annual savings of \$20 million a year by 2003. Based on my own analysis of each of these functions and SBC's experience with Pacific Telesis I estimated annual savings of \$201 million from the merger of SBC and Ameritech.
25. *Other Business:* Adopting best practices and where appropriate, combining the two companies' activities in other lines of business, including Yellow Pages, wireless services, Internet service, international operations and long distance are estimated to produce an additional \$146 million in cost savings. Once again, in calculating these estimates savings, I relied on experience gained as a result of the integration of SBC and Pacific Telesis and all other available information about these businesses.

### *Long Distance*

26. As SBC and Ameritech jointly enter the long distance business out-of-region and, in the future, we estimated \$300 million of synergies from combining our

operations, both in terms of increased revenues and reduced costs. These synergies result from three factors. First, there will be increased intra-region traffic over our own network thus reducing costs. Second, through larger scale purchases due to anticipated increased volumes of traffic, we assumed that wholesale interexchange services purchased for out of region operations would result in larger wholesale purchase discounts. Third, with more large business customer volume resulting from combining the existing customer base of SBC and Ameritech along with our National Local Strategy, we expect to generate increased market share for our business market, thus, increasing long distance revenue compared to what either SBC or Ameritech could obtain on their own.

### **National-Local Strategy**

27. The approximately \$2.5 billion in estimated synergies described above (\$1.43 billion in expense and capital savings, \$778 million in revenue synergies and \$300 million from long distance) does not include any potential additional synergies from the implementation of the National-Local Strategy. SBC will be able to combine the best practices of the entire SBC family of companies and apply new skills to customer service delivery, network design and deployment, operations, and sales and marketing. SBC will realize even greater benefits of economies of scale, given our very large purchasing base. All of this will benefit customers by enhancing our ability to more quickly provide the most robust set of high quality voice and data products and services at competitive prices.

28. As discussed in the affidavit of James Kahan, the combination of the companies is critical to the successful implementation of the National-Local Strategy. The merger will provide the scale and scope necessary to pursue such a strategy. The combined company will likely start with about 190,000 employees. SBC, SNET and Ameritech currently provide wireline service in 13 states and wireless service in 17 states with a presence in 11 of the top 20 markets. The new SBC's combined service areas will include the headquarters of almost 50% of the Fortune 500 Companies. As discussed in the affidavit of James Kahan, without the merger, neither SBC nor Ameritech would have the scale, scope, resources, employees, or customer base to expand into the top 30 U.S. out-of-region markets.

**Benefits to Consumers**

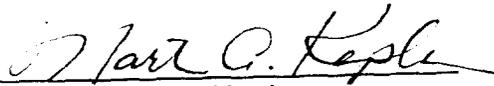
29. The realization of the National-Local Strategy will benefit customers inside and outside Ameritech's states and fulfill the goals of the Telecommunications Act of 1996 to foster competition.
30. With the merger, the combined company will be a more effective entrant into the long distance market. The application of best practices, elimination of duplicate functions and increase in purchasing efficiencies will enable the company to better serve customers and to reduce the cost of long distance carriage. As a

result, the company will be able to offer lower priced long distance prices, making it a more effective competitor in the market.

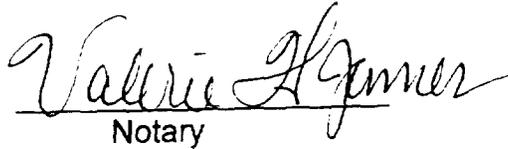
31. After the merger, local exchange customers of the combined company, including in the top 50 MSAs in the United States will benefit from an expanded product line and improved services. By combining our applied R&D, technology and network investment capabilities, the combined company can benefit from TRI to share funding for technical consulting in domestic and international operations. By spreading costs and network investments across a larger base of customers, such improvements will be less costly. By sharing best practices, and having the resources to build and maintain an integrated 21st century network, consumers will benefit in all aspects of product offerings, customer care, installation and repair services and network performances and reliability.

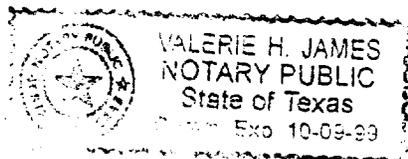
Conclusion

32. The merger of SBC and Ameritech has the potential for significant cost savings and revenue enhancements. These benefits in turn offer the potential for significant consumer benefits which can be derived from the availability of new and improved innovative product services and packages of products and services being made available to marketplace faster and more cheaply. Significant revenue opportunities exist as well. This too will bring significant consumer benefits to the customers of Ameritech as revenue enhancements can only be derived as a result of Ameritech offering services and features that its customers want at competitive prices. In addition to providing substantial benefits to Ameritech's customers in its five states, the synergies will benefit SBC's other customers and help provide the financial base to support the investments required to implement the National-Local Strategy.

  
Martin A. Kaplan

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

  
Notary



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.



**AFFIDAVIT OF STAN SIGMAN**

STATE OF TEXAS                    )  
  )     SS  
COUNTY OF BEXAR                )

STAN SIGMAN, being duly sworn, deposes and says:

1.     My name is Stan Sigman. I am President and CEO of SBC Wireless, Inc. ("SBCW"). In that capacity, I am responsible for managing all of the wireless services of SBC Communications Inc. These services include the cellular services offered within SBC's traditional five-state territory (which are marketed under the Southwestern Bell brand name), the PCS services offered in California (which are marketed under the Pacific Bell Mobile Services brand name), and cellular services offered in other parts of the country (which are operated under the Cellular One brand name).

2.     The purpose of this affidavit is to explain that SBC does not plan, and at the time of the merger agreement with Ameritech Corporation had no plans, to provide local exchange service in Chicago or any other location in Ameritech's traditional five-state territory through the wireless platform or otherwise. SBC had looked at the possibility of such entry but decided in mid-1997 not to pursue it.

**Consideration of Potential Local Exchange Entry Through Wireless Platforms**

3.     In late 1995, SBC began to consider the possibility of offering local exchange service in the areas in which Cellular One operates. Those areas include

Boston, Chicago, Washington/Baltimore, and upstate New York including the "Rochester" area). We had successfully developed and marketed cellular service in those areas and thought selling additional services to our wireless customers would be a profitable business strategy. Specifically, we had long sought relief from the Modification of Final Judgment ("MFJ") to permit us to offer our customers long distance services, and thought that packaging wireless, long distance, and local exchange services would be a powerful service offering. We thought this offering would be useful in attracting new wireless customers and in reducing churn among existing customers. We also thought that customer acquisition costs could effectively be reduced, as those costs would be allocable to multiple services. This was in line with SBC's long established corporate strategy of expanding out-of-region only where we have facilities, name recognition and customer base.

4. Regulatory developments were also permitting us to consider this type of service offering. Many states, including New York and Illinois, were reducing local exchange entry barriers even prior to enactment of the Telecommunications Act of 1996.

5. Thus, senior SBC management asked us in 1996 to examine the possibility of offering local exchange services through our wireless business in the four major out-of-region territories we serve (Boston, Chicago, Rochester, and Washington/Baltimore). We decided that the best way to see whether this strategy would work was to try it.

6. Rochester was chosen as the test market for two main reasons. First, Rochester was the smallest of our out-of-region markets. We did not want to try this untested strategy in our larger markets. We wanted to learn whatever lessons we could in Rochester before deciding whether and how to deploy the strategy in our larger markets. Second, regulatory developments favoring entry were further along there than in any of our other out-of-region markets, (for example, resale rates were established in tariffs which eliminated the need to engage in time consuming efforts to negotiate an interconnection agreement and order flows) so we expected that entry would be easier in Rochester at that time than it would be in the other out-of-region markets.

#### The Rochester Experience

7. We began reselling local exchange service from the ILEC, Frontier in Rochester in early 1997. As a part of our Rochester entry efforts, we hired and trained installation personnel and purchased two vans to allow SBC personnel to make customer premise visits. We established an internal order flow process and trained our internal sales and other personnel on how to interact with both the customers and the ILEC to activate customers and undertook all other efforts necessary to enter the local exchange business in Rochester. Even with all of this effort, the results were not what we anticipated. Although we marketed our local exchange services only to our existing or new cellular customers, most of our local exchange customers were neither existing Cellular One customers nor were they new customers signing up for both our cellular and local exchange services. We therefore did not achieve the critical objective of our

plan: selling more services to our wireless customers. This development meant that local exchange entry had no measurable effect on reducing our wireless churn rate and did not help us in attracting new wireless customers. It also meant that customer acquisition costs were not effectively reduced because those costs were not being allocated among multiple services per customer.

8. There were many other disappointments. Many of our customers were individuals who had been disconnected from or unable to obtain service from the incumbent local exchange carrier because of non-payment or bad debt histories. We, too, had difficulty collecting payments from these customers. Moreover, the customers we attracted were not generating the long distance and vertical service revenues that we had forecasted.

9. For these reasons, we determined that local exchange entry in Rochester was not profitable. Although we expected that local exchange entry would not be profitable in the short-run, we had expected it to become profitable within a few years. Our actual experience, however, led us to believe that local exchange service in Rochester would not become profitable in the foreseeable future.

#### Other Lessons Learned from Rochester and Other Studies

10. While the experiment in Rochester was on-going, SBCW staff in our other out-of-region markets were studying local exchange entry in their areas. These efforts

never reached the point of being approved business plans and were quite embryonic. For example, although SBCW obtained local exchange certifications from the Illinois regulatory commission, SBCW never commenced interconnection negotiations with Ameritech or took any other concrete steps toward entry.

11. As a result of these experiences, we learned that the wireline and wireless businesses are very different. For starters, the networks are configured differently. Our wireless networks are configured for wireless traffic patterns, not the very different traffic patterns of local exchange service. While we had never contemplated using our cellular spectrum for local exchange purposes, we did anticipate using the backbone network to carry local exchange calls. The local exchange networks carry many more calls and calls of much longer duration than wireless networks, even on a per subscriber basis. As a result, we found that our wireless backbone networks (such as our microwave and leased facilities) simply did not have the excess capacity necessary to handle the greater volume and call length of local exchange traffic.

12. We also learned that the sales distribution channels were entirely different. The sales agents used in the wireless business (for example, car audio equipment dealers) are well situated to sell mobile service; they are not well situated to sell basic local exchange service.

13. We discovered that our wireless brand name, which we thought would be a strength, did not help in selling wireline service. People associated Cellular One with

mobile service, and not with wireline local exchange service. While our market research conducted in connection with our Rochester experiment indicated that at least a third of our own customers would consider buying local exchange service from us, the results did not substantiate this. Given our plan to market local exchange service only to these customers, these results were devastating.

14. These differences between wireline and wireless service and the nontransferability of our cellular brand name had important consequences for management. Entering the local exchange through the wireless business would not be easy, and the people running our local wireless businesses were experts in the wireless business. The differences we were recognizing meant that the wireless managers were not necessarily the right people for this task. What was even of greater concern to me, their performance of this task would distract them from what they do best – running what we view as the premier wireless business in the country.

15. Moreover, it was not a good time for this type of distraction. With PCS coming on board, our cellular businesses were under new competitive attacks. Our local wireless management needed to stay focused on the core wireless business.

16. These same considerations led SBC management in late 1997 to reverse a decision made a year earlier about the organizational structure for SBC's wireless operations. In the fall of 1996, SBC decided to put the in-region cellular operations in the same corporate chain of command as SBC's wireline operations. (The in-region properties were then taken out of SBCW.) At the time, SBC thought that this step would