AFFIDAVIT OF DENNIS W. CARLTON

I, Dennis W. Carlton, being duly sworn, depose and say:

I am Professor of Economics at the Graduate School of Business of The University of Chicago. I received my B.A. in Applied Mathematics and Economics from Harvard University and my M.S. in Operations Research and Ph.D. in Economics from the Massachusetts Institute of Technology. I have served on the faculties of the Law School and the Department of Economics at The University of Chicago and the Department of Economics at the Massachusetts Institute of Technology. I specialize in the economics of industrial organization, which is the study of individual markets and includes the study of antitrust and regulatory issues. I am co-author of the book Modern Industrial Organization, a leading text in the field of industrial organization, and I also have published numerous articles in academic journals and books. In addition, I am Co-Editor of the Journal of Law and Economics, a leading journal that publishes research applying economic analysis to industrial organization and legal matters. I have served as an Associate Editor of the International Journal of Industrial Organization and Regional Science and Urban Studies, and have served on the Editorial Board of Intellectual Property Fraud Reporter.

In addition to my academic experience, I am President of Lexecon Inc., an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues. I have served as an expert witness before various state and federal courts, and I have provided expert witness testimony before the U. S. Congress and a variety of state and federal regulatory agencies, including the Federal Communications Commission. I also have served as a consultant to the

Department of Justice on the Merger Guidelines of the Department of Justice and Federal Trade Commission, as a general consultant to the Department of Justice on antitrust matters, and as an advisor to the Bureau of the Census on the collection and interpretation of economic data. I also have provided testimony on telecommunications matters before Congress, Federal Courts, federal and state regulatory agencies and have published academic articles on telecommunications issues.

I have been asked by SBC Communications Inc. ("SBC") to evaluate the competitive consequences of SBC's plan to become a nationwide supplier of local exchange services by merging with Ameritech and entering into the provision of local service in 30 metropolitan areas outside of the home territories of SBC and Ameritech. I conclude that the successful implementation of SBC's "national/local" plan will benefit consumers directly by creating a significant new competitor in the provision of local telecommunications services. I also conclude that the proposed transaction enables SBC to pursue the national/local plan.

The attached report contains the results of my analysis and the bases for my conclusions.

Dennis W. Carlton

Dennis W. Carlton

Subscribed and sworn to before me
this day of July 20, 1998

Margaret J. Kush

Notary Public

"OFFICIAL SEAL"
MARGARET J. KUSH
Notary Public, State of Illinois
My Commission Expires 7-26-99

REPORT OF DENNIS W. CARLTON

July 20, 1998

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I. QUALIFICATIONS AND OVERVIEW

1. I, Dennis W. Carlton, am Professor of Economics at the Graduate School of Business of The University of Chicago. I received my B.A. in Applied Mathematics and Economics from Harvard University and my M.S. in Operations Research and Ph.D. in Economics from the Massachusetts Institute of Technology. I have served on the faculties of the Law School and the Department of Economics at The University of Chicago and the Department of Economics at the Massachusetts Institute of Technology. I specialize in the economics of industrial organization, which is the study of individual markets and includes the study of antitrust and regulatory issues. I am co-author of the book Modern Industrial Organization, a leading text in the field of industrial organization, and I also have published numerous articles in academic journals and books. In addition, I am Co-Editor of the Journal of Law and Economics, a leading journal that publishes research applying economic analysis to industrial organization and legal matters. I have served as an Associate Editor of the International Journal of Industrial Organization and Regional Science and Urban Studies, and have served on the Editorial Board of Intellectual Property Fraud Reporter. A copy of my curriculum vitae is attached as Exhibit 1 to this report.

2. In addition to my academic experience, I am President of Lexecon Inc., an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues. I have served as an expert witness before various

state and federal courts, and I have provided expert witness testimony before the U.S. Congress and a variety of state and federal regulatory agencies, including the Federal Communications Commission. I also have served as a consultant to the Department of Justice on the Merger Guidelines of the Department of Justice and Federal Trade Commission, as a general consultant to the Department of Justice on antitrust matters, and as an advisor to the Bureau of the Census on the collection and interpretation of economic data. I also have provided testimony on telecommunications matters before Congress, Federal Courts, federal and state regulatory agencies and have published academic articles on telecommunications issues.

3. I have been asked by SBC to review and evaluate the competitive consequences of SBC's plan to become a nationwide supplier of local exchange services by merging with Ameritech and entering into the provision of local service in 30 metropolitan areas outside of the home territories of SBC and Ameritech.

4. My principal conclusions are as follows:

- The successful implementation of SBC's "national/local" plan will benefit consumers directly by creating a significant new competitor that provides local, long distance and data telecommunications services for business and residential customers in a large number of metropolitan areas. Such entry would significantly increase competition in the provision of local exchange services, both within and outside SBC's and Ameritech's territories, and for both business and residential customers.
- SBC's national/local plan responds to rapid and dramatic changes in this industry. These include the growing demand for long distance data and voice services, the development of competition for traditional circuit-

switched networks from Internet Protocol and other data communications technologies, and the growing demand among large multilocation customers for a single supplier to provide a bundle of local, long distance and data services. Absent this plan to deploy service outside their home regions, SBC and Ameritech have been hampered in competing for multilocation customers.

- The transaction enables SBC to pursue the national/local plan. SBC and Ameritech each had concluded that it could not deploy a strategy of providing facilities and services in a broad number of areas outside of its home region by itself, and that a transaction like the merger of SBC and Ameritech was necessary. The combination of the proposed transaction and out-of-region deployment of facilities and services together yields broad geographic coverage for many large business customers. Successful deployment of this strategy for large business customers gives SBC/Ameritech the economic base on which services to smaller businesses and residences can be built.
- Even if one were to conclude, contrary to the evidence, that either SBC or Ameritech would have pursued some type of out-of-region strategy in the absence of this (or a similar) transaction, this transaction still would benefit consumers by enabling new facilities and services to be deployed more rapidly than otherwise would be possible.
- There are a number of other firms deploying local services using a variety of different strategies. The SBC/Ameritech strategy is only one of many. The transaction will not interfere with the ability of others to

pursue these strategies. It is precisely these circumstances in which regulators must be most cautious about interfering with new entry and deterring investments that are aimed at benefitting consumers.

5. The remainder of this report provides the basis for these conclusions: Section II presents a brief overview of SBC's national/local plan and describes how it creates a new competitor which will benefits consumers. Section III reviews major industry trends and discusses how SBC's national/local strategy responds to these trends. Section IV show that the proposed transaction enables SBC to pursue the national/local plan. Section V briefly reviews other strategies now being deployed by other firms and shows that the proposed transaction leaves many firms competing to establish market positions as competitive local exchange carriers.

II. THE NATIONAL LOCAL PLAN CREATES A NEW LOCAL EXCHANGE COMPETITOR IN MANY AREAS AND BENEFITS CONSUMERS

6. SBC has stated publicly, and confirmed in its testimony here, that its national/local plan will establish a new facilities-based provider of local telecommunications services in 30 large metropolitan areas:[1]

- The plan anticipates the deployment of switches in the 30 largest MSAs outside of SBC's and Ameritech's home region over the next three years and the addition of roughly 2,900 miles of new fiber optic cable. SBC plans to begin deploying facilities and services in the largest out-of-

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1. See Affidavit of James Kahan, SBC's Senior Vice-President for Corporate Development, ¶ 27-45, for an overview of the national/local plan.

region metropolitan areas (including New York, Washington, Philadelphia, and Atlanta) in 1999.

- SBC plans to provide local exchange, long distance and data services to large business, small business and residential customers. Network design and data integration services for large business customers will also be provided.
- Within three years, SBC will have facilities and other services in each of the 50 largest metropolitan areas in the U.S. Outside of its 13 state home region,[2] SBC will offer services in nearly as many areas as either WorldCom or AT&T/Teleport, the most widespread of the competitive local exchange carriers (CLECs).

7. SBC has made a significant and serious commitment to the national/local strategy, repeatedly stressing that both the merger with Ameritech and 30-city entry plans are essential elements of its future success. This commitment has been made in representations to investors, analysts, the Congress, the Securities and Exchange Commission, the Department of Justice, the Federal Communications Commission and state regulators. SBC also has emphasized that this strategy needs to be implemented quickly in order to respond to rapid changes in demand and competitive conditions in the industry now occurring. Indeed, I understand that

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2. This includes SBC's seven current states (Texas, Missouri, Oklahoma, Arkansas, Kansas, California and Nevada) plus Connecticut, as well as the five states in Ameritech's home region (Illinois, Indiana, Wisconsin, Michigan and Ohio).

SBC's Board of Directors approved this transaction based on the deployment of the out-of-region strategy.[3]

8. Although SBC plans to start by marketing a broad range of telecommunications services to large businesses, this strategy will have much broader competitive benefits. Large businesses are intended to be the "anchor tenants" of the 30-city out-of-region business. Significant investments in switching technology and transport facilities are planned to serve these customers. Because, by definition, these investments are being made in 30 of the most populated areas of the country, the facilities will be proximate to many other potential customers. SBC believes that it will be able to serve these additional customers effectively, given the presence of its "anchor tenants."

9. SBC intends to market services to residential customers, as well as business customers. SBC believes that state regulators have required incumbent LECs to serve some customers at capped regulated rates without regard to the profitability of doing so.[4] Yet, SBC has concluded that there are many residential customers who are interested in purchasing a bundle of local exchange, long distance, Internet access, and other services (such as wireless services in some areas) that SBC should be able to serve profitably.

10. Successful implementation of this strategy will benefit consumers within SBC's and Ameritech's region as well. If SBC is successful, others will likely mimic the strategy within SBC's and Ameritech's region. Similarly, increased competition

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3. Kahan Affidavit, ¶ 84-85.

4. Kahan Affidavit, ¶ 21.

will spur innovation and higher levels of customer services, as well as reductions in price for customers in all areas.

11. While many CLECs have established facilities and services throughout the United States, the provision of many local exchange services remains concentrated. SBC's entry into the provision of local exchange services outside its home territory creates a significant new competitor that promises to bring significant benefits to a wide range of consumers. To understand the magnitude of the potential benefits, note that even a one percent decline in local service rates in the 30 cities where SBC intends to deploy facilities and services would result in annual savings to consumers of roughly $175 million.[5]

III. THE NATIONAL/LOCAL PLAN RESPONDS TO CHANGES IN INDUSTRY CONDITIONS

A. Changes in Demand and Supply Conditions

12. The telecommunications industry is in the midst of fundamental changes in demand, supply and regulatory conditions.[6] These trends include:

- Demand for long distance voice services, and to a greater extent, data services has been growing rapidly. In comparison, demand for the local

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5. This figure is based on the year 2000 values for the estimated number of lines and revenue per line used in SBC's financial modelling of the national/local plan. This figure does not reflect either long distance savings that consumers may realize as the result of the transaction or savings to in-region customers.

6. The FCC recognized in its Bell Atlantic/NYNEX decision that "the Commission may consider the trends within and needs of the industry ... and the complexity and rapidity of change in the industry" in evaluating the competitive impact of a merger. (FCC, Memorandum Opinion and Order in Bell Atlantic/NYNEX, August 14, 1997, ¶32.)

exchange services that the Regional Bell Operating Companies (RBOCs) provide has grown much more slowly. For example, revenue earned by the RBOCs has grown by less than 5 percent annually in recent years.[7] At the same time, data revenue is forecast to grow nearly 25 percent annually in coming years.[8]

- Technologies for providing voice and data services are rapidly converging. This is reflected in part in the current deployment of Internet Protocol (IP) and other data technologies for voice service. Circuit-switched networks, such as those operated by the major incumbent local and long-distance providers, are now subject to competitive pressure from data networks. In recent months, Qwest, Level 3, Frontier, Sprint and others have announced deployment of IP or data networks for voice communications.[9] These announcements promise significant increases in capacity and reductions in costs relative to traditional telecommunications networks.
- The growth in the variety and complexity of telecommunications services has led to increasing demands among large multi-location business customers for a single or primary supplier to provide a bundle of local, long distance and data services on a national and even international

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7. Decision Resources, December 5, 1995, p. 1.

8. Yankee Group estimate, cited in JP Morgan, Industry Update, Nov. 14, 1997, p. 4.

9. http://www.qwest.com/press/041398.html; http://www.l3.com/technology.html http://www.frontiercorp.com/about/news/1998429-839862952.html; http://www.sprintbiz.com/ion/press.html

basis.[10] This preference is revealed in requests for proposals (RFPs) that many large multi-location customers have issued requesting a "single point of contact" in managing nationwide voice and data services. Similarly, many residential customers have expressed preferences for "one-stop" shopping for local, long distance and data services.

- The regulatory environment continues to change, with a reduction in barriers to entry into the provision of local exchange services established as a principal goal of the Telecommunications Act of 1996.
- RBOCs (and other incumbent LECs) are increasingly subject to competitive pressures, particularly for services to business customers. For the first time, CLECs are adding more business lines than the RBOCs. Nationally, in the first quarter of 1998, the estimated number of net business line additions for RBOCs was 460,000, down from 700,000 the previous year. CLECs added an estimated 500,000 business lines.[11]
- The telecommunications industry is now undergoing rapid restructuring. Significant examples include WorldCom's acquisitions of MCI, MFS and Brooks Fiber, and AT&T's acquisition and Teleport Communications Group (TCG) and Tele-Communications Inc. (TCI). Such restructuring reflects, in part, various firms' evaluations and strategic responses to the rapid changes now occurring in the industry.

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10. SBC, for example, has establised a national accounts group to serve multilocation customers. (Kahan Affidavit, ¶ 13).

11. Salomon Smith Barney, May 6, 1998, p. 1.

B. SBC's Evaluation of Industry Changes

13. SBC's national/local plan reflects its attempt to respond to these fundamental changes in industry conditions.[12] In particular, SBC's plan is based on its conclusions that:

- Taking advantage of opportunities for entry into the provision of local exchange services outside of SBC's home territory is important to its continued growth and success. The value of these opportunities is reflected in the success of CLECs in raising capital for new investment projects. If SBC fails to take advantage of these opportunities, it risks losing profitable customers.
- Due to their established relationships with large business customers with headquarters in their home regions, SBC and Ameritech could be in a strong position to compete to provide nationwide services to out-of-region locations operated by these companies. Because each of these large business customers has operations in different groups of cities, entry on a national scale may be required to be competitive. A strategy of "following" these customers by providing service to their out-of-region sites requires deployment of facilities and services in a large number of major metropolitan areas.
- CLECs that succeed in competing against incumbent suppliers of local exchange services will be those that are able to enter rapidly and

12. See generally, Kahan Affidavit, ¶ 27-45.

achieve "first mover" advantages in winning customers.[13] These circumstances create a "race" in which firms that are among the first to deploy facilities and services have the greatest likelihood of long-run success. The provision of services in a particular geographic area to small business and residential consumers can build on the facilities and services deployed to serve large business customers.

C. SBC and Ameritech have concluded that they currently cannot adequately respond to large customers' demand for broad geographical coverage

14. SBC and Ameritech have concluded that they now cannot adequately respond to these changing conditions as regionally limited suppliers of local services. In particular, the regional structure of SBC and Ameritech leaves them poorly situated to provide national (or near national) coverage to large business customers. It is important to remember that the regional structure of the RBOCs is a result of the AT&T settlement and consent decree 15 years ago, not the result of current or even historical patterns of economic efficiency.

15. I have analyzed the ability of SBC and Ameritech to use their own facilities to serve multilocation customers using estimates of telecommunications expenditures by MSA for each of the Fortune 500 companies.[14] These data were

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13. Kahan Affidavit ¶ 54.

14. Implicit in SBC's "smart build" strategy is the fact that portions of its "own facilities" are in fact leased from others, while other portions belong to SBC. SBC has concluded that the "smart build" approach enables SBC to efficiently construct a network and at the same time monitor network performance and service quality. However, ownership of a significant part of the network remains a key element in SBC's smart build strategy. (Kahan Affidavit, ¶ 39.)
(continued...)

prepared at the direction of SBC, and reflect estimates of expenditures for local and long distance services.[15] These data indicate that SBC's eight home-state region[16] is headquarters to 129 Fortune 500 companies.[17]

16. SBC recognizes that it is important that it be able to provide a significant majority of the telecommunications services these customers need -- as a sort of prime contractor -- but that it is not essential that it be able to provide all of such facilities and services. The ability to provide most services is necessary, from SBC's perspective, to provide overall management and quality control of the services desired by customers. SBC believes that it can successfully market "national" services to customers for which it directly provides roughly 70 percent or more of their national expenditures.[18]

17. However, the available data indicate that SBC can now provide broad geographic coverage for only a small share of these firms. Specifically, I calculate the number of firms for which SBC can provide local exchange services in MSAs that account for at least 70 percent of these companies' total telecommunications expenditures. I define such firms as having "near national" coverage from SBC. Today,

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14.(...continued)
The remainder of this affidavit uses the term "owned facilities" to include those operated under the "smart build" approach.

15. These data are based on information from WEFA, ABI, and Claritas.

16. Although SBC's acquisition of SNET has not been completed, for current purposes we treat Connecticut as part of SBC's home region.

17. We exclude from the analysis three Fortune 500 telecommunications companies with headquarters in SBC's home region: SBC, GTE, and Sprint.

18. Kahan Affidavit, ¶ 48.

SBC can provide "near national" coverage for only 33, or 26 percent, of the Fortune 500 companies with headquarters in its home territory.

18. Similarly, Ameritech's five home states (Illinois, Michigan, Ohio, Wisconsin and Indiana) are headquarters to 91 Fortune 500 companies.[19] However, Ameritech today can provide "near national" coverage to only 19, or 21 percent, of these companies.

19. These data confirm SBC's and Ameritech's view that each is poorly situated to use its own facilities to respond successfully to RFPs issued by multi-location customers for a nationwide telecommunications provider. The following examples identify a few instances in which SBC was unable to successfully respond to RFPs due to its limited geographic coverage:[20]

- JCPenney issued an RFP in April 1998 for a single source supplier of end-to-end telecommunications of T1 services nationwide for routing data to and from their data centers in Milwaukee, Lenaxa, Columbus, Dallas, Atlanta and Manchester. SBC was unable to bid on this project.

- JCPenney issued an RFP in July 1997 to evaluate different network transport architectures for their Eckerd Stores. SBC did not have a solution that could address the nationwide single point of contact for end-to-end connectivity requirements of the bid.

- Kerr-McGee requested bids in May 1998 to provide local, national and international access for voice and private line and ATM and Frame Relay data services. The bid required a single point of contact and a single responsible party responsible for service level. SBC did not re-

19. Ameritech is excluded from these tabulations.

20. The examples are based on information received from SBC.

spond to the RFP because it could not meet the customer's requirements.

- ARCO issued an RFP in December 1997 for nationwide point-of-sale telecommunication service in more than 1500 locations. SBC's bid relied on use of other carriers outside of SBC's territory. SBC's was rejected due to ARCO's preference for dealing with a single carrier.

IV. THE AMERITECH TRANSACTION ENABLES SBC TO PURSUE A NATIONAL/LOCAL STRATEGY

20. This section shows that the SBC/Ameritech transaction combined with the out-of-region plan creates merger-specific efficiencies.[21, 22] SBC decided it could not pursue the out-of-region plan on its own and that a transaction along these lines was necessary. However, even if one thought that SBC might have undertaken such a plan by itself, the Ameritech transaction enables SBC to more rapidly deploy out-of-region facilities and services and thus benefits consumers.

A. SBC had no plans to pursue an out-of-region strategy absent the Ameritech transaction

21. As described in the accompanying Affidavit of SBC's James Kahan, SBC had decided it could not deploy this strategy by itself.[23] As he relates, SBC decided in late 1997 and early 1998 that it needed to expand geographically in order

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21. This affidavit does not examine the many specific assumptions used in SBC's financial model.

22. I focus only on efficiencies associated with the out-of-region plan and do not address other efficiencies, such as operating efficiencies and efficiencies in R&D, that result from the transaction.

23. Kahan Affidavit, Section ¶ 75-85; Similarly, Ameritech also decided not to pursue out of region entry on a significant scale. (Weller Affidavit, ¶ 31-38).

to respond to the changes in industry demand and supply conditions discussed above. SBC pursued the Ameritech merger precisely because it allows SBC to implement this national/local strategy and the 30-city out-of-region plan. This provides simple and powerful evidence that the Ameritech transaction is an essential element to the implementation of the out-of-region strategy and that the 30-city plan is a "merger-specific" efficiency.

B. Even if SBC could have pursued an out-of-region entry strategy on its own, the Ameritech transaction speeds its deployment

22. Rapid deployment of new services benefits consumers, but also is essential to firms attempting to respond to changes in industry conditions and attempting to establish "first-mover" advantages. For example, in pursuing the logic of SBC's national/local plan in attracting anchor tenants, it is important that SBC be in as many different cities as quickly as possible. It is unlikely that SBC would have as much success in marketing to its "anchor tenants" if it could only promise that a near national footprint would be available in ten years.

23. There are several ways in which the Ameritech transaction helps SBC speed the deployment of services and facilities.

1. The transaction reduces the number of out-of-region cities that SBC must enter in order to gain broad geographic coverage

24. At the most basic level, the proposed transaction speeds deployment of the out-of-region plan by reducing the number of out-of-region cities in which SBC must build facilities in order to gain a nationwide footprint. For example, the

Ameritech merger obviates the need for SBC to deploy new facilities in top-50 metropolitan areas already served by Ameritech, including Chicago, Detroit, Cleveland, Milwaukee, Columbus, Indianapolis and Dayton. If SBC alone were to attempt to achieve coverage in the 50 largest metropolitan areas, it would need to deploy facilities and services in 37 metropolitan areas; Ameritech would need to deploy facilities and services in 43 out-of-region areas.

2. The transaction increases the number of large business customers to "follow"

25. The transaction speeds the establishment of a national/local footprint by increasing the number of large in-region businesses with headquarters in SBC/Ameritech's home territories. As mentioned above, "following" these customers is at the core of SBC/Ameritech's expansion strategy. Many of these firms are already significant customers of SBC and Ameritech. With a national/local footprint, SBC's and Ameritech's existing relationships increase the likelihood that the merged firm could successfully compete to become a nationwide supplier of services for such customers. As noted above, SBC estimates that there are 129 Fortune 500 companies with headquarters in SBC's 8-state home territory (again assuming that SBC's acquisition of SNET is approved). Another 91 Fortune 500 companies have headquarters in 5-state Ameritech's home region.

3. The merger and out-of-region plan together enable SBC to offer broad geographic coverage to many firms

26. The proposed merger and out-of-region plan are both essential elements in enabling SBC to rapidly and effectively generate a national/local footprint that provides broad geographic coverage for large business customers. The extent to which these two elements combine to generate broad geographic coverage for many large business customers is observed in the data that identifies telecommunications expenditures by MSA for the Fortune 500 customers. These data are described in Section III.C above.

27. First, the proposed transaction alone, without the 30 city plan, fails to generate a substantial increase (relative to current circumstances) in the number of Fortune 500 customers that can be offered "near national" coverage. Again, near-national coverage is defined to mean that 70 percent of a firm's estimated telecommunications expenditures are generated in MSAs served by SBC/Ameritech. Today, SBC and Ameritech together offer "near national" coverage for only 52 (or 24 percent) of the 220 Fortune 500 companies with headquarters in either company's home territory. A merger between SBC and Ameritech that did not also encompass an out-of-region strategy would enable the firm to offer "near national" coverage to only 73 (or 33 percent) of these customers. (See Table 1.)

28. However, the combination of the SBC/Ameritech merger plus deployment of out-of-region facilities to 30 areas enables the combined firm to offer "near national" coverage to fully 178 (or 81 percent) of the Fortune 500 companies with headquarters in either SBC's or Ameritech's home territories.

Table 1

The National Local Strategy Expands SBC/Ameritech's Coverage of Fortune 500 Firms' Telecommunications Expenditures

Strategy		Number of Fortune 500 Firms With Headquarters In-Region	Firms with 70 Percent of Expenditures in Supplier Footprint	
			Number	Percent
Non-Merger	Ameritech (current)	91	19	20.9%
	SBC (current)	129	33	25.6%
	Total	*220*	*52*	*23.6%*
	Ameritech + 15 out-of-region	91	28	30.8%
	SBC + 15 out-of-region	129	72	55.8%
	Total	*220*	*100*	*45.5%*
Merger	Ameritech + SBC only	220	73	33.2%
	Ameritech + SBC + 30 out-of-region	220	178	80.9%

Source: Claritas/ABI/WEFA

Notes: Based on estimated local and long distance expenditures by firm and MSA.

SBC 15 out-of-region markets are: Chicago IL, Washington DC, Boston MA, Minneapolis-St. Paul MN, Atlanta GA, Phoenix AZ, Detroit MI, Philadelphia PA, New York-Newark NY-NJ, Seattle WA, Portland OR, Denver-Boulder CO, Milwaukee WI, Baltimore MD and Las Vegas NV.

Ameritech 15 out-of-region markets are: Dallas TX, Phoenix AZ, Los Angeles CA, Atlanta GA, Washington DC, Louisville KY, Houston TX, Philadelphia PA, St. Louis MO, Minneapolis-St. Paul MN, Boston MA, Orange County CA, Pittsburgh PA, Kansas City MO, and New York-Newark NY-NJ.

National-local 30 out-of-region markets are: Albany NY, Atlanta GA, Baltimore MD, Birmingham AL, Boston MA, Buffalo NY, Cincinnati OH, Denver-Boulder CO, Greensboro NC, Honolulu HI, Las Vegas NV, Louisville KY, Memphis TN, Miami-Ft. Lauderdale FL, Minneapolis-St. Paul MN, Nashville TN, New Orleans LA, New York-Newark NY-NJ, Norfolk VA, Orlando FL, Philadelphia PA, Phoenix AZ, Pittsburgh PA, Portland OR, Providence RI, Rochester NY, Salt Lake City UT, Seattle WA, Tampa FL and Washington DC.

29. Second, deployment of separate out-of-region plans by both SBC and Ameritech separately would not yield "near national" coverage for nearly as many large business customers as can be achieved by SBC's national/local plan, including both the proposed transaction and the deployment of facilities in 30-city out-of-region cities. For example, if Ameritech and SBC did not merge but each deployed facilities in 15 out-of-region MSAs, then the two firms would be able to provide "near national" coverage for a total of only 100 (or 46 percent) of the 220 Fortune 500 companies with headquarters in either SBC's or Ameritech's region.[24] In contrast, as noted above, SBC's national/local plan (including both the Ameritech transaction and the 30-city plan) extends "near national" coverage to fully 178 of these companies. (See Table 1.)

30. If SBC and Ameritech were each to deploy facilities in 15 out-of-region cities in order to "follow" their large home region customers, it is likely that each would be building facilities in many of the same locations (such as New York Washington, Boston and Atlanta). The merger, in effect, permits coordination of the two out-of-region plans and avoids duplicating facilities. This enables the combined firm to reach more markets and makes the firm more attractive to large business customers. In the absence of significant harm to competition -- which, as discussed in Section V below, I do not anticipate to result from this merger -- there is no reason to interfere with one firm's decision on how to compete efficiently.

24. These calculations are based on the assumption that both SBC and Ameritech would deploy facilities in the 15 out-of-region MSAs that generated the greatest telecommunications revenue for their in-region Fortune 500 customers.

4. The transaction permits more effective utilization of scarce managerial resources

31. The transaction also increases the combined firm's ability to deploy facilities in a large number of out-of-region areas by allowing more effective utilization of scarce managerial resources. Deployment of facilities and services in 30 regions in three years reflects an enormous managerial and logistical undertaking. By combining the managerial and engineering resources of SBC and Ameritech, the merger substantially increases the pool of human resources that can be drawn upon. At the same time, as described above, the transaction limits the number of areas that must be entered in order to obtain a broad national footprint.

32. While not all managers for the out-of-region venture would be drawn from SBC or Ameritech, firms often prefer to staff new ventures using existing employees whose skills are known and who understand the corporate parent's goals.[25] This does not imply that a firm would pursue such a strategy without regard to its current businesses. I understand that much of the senior staff of SBC's past new ventures have been drawn from SBC and that SBC intends to rely to a significant extent on managers from SBC and Ameritech to staff the 30-city venture.[26]

33. A sense of the magnitude of the managerial resources required to undertake the out-of-region entry project is summarized in Table 2. A comparison of the number of managers required to deploy out-of-region services with the current

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25. See, for example, A. Campbell, Michael Goold, and Marcus Alexander, "Corporate Strategy, The Quest for Parenting Advantage," Harvard Business Review (March-April, 1995); and A. Chandler, Jr., "The Functions of the HQ Unit in the Multibusiness Firm," 12 Strategic Management Journal 31 (1991).

26. Kahan Affidavit, ¶ 78.