- Affidavit of Robert Jason Weller *(Ameritech Director of Corporate Strategy discusses how the SBC/Ameritech merger advances Ameritech's strategic objectives and improves its ability to serve its customers)*

- Affidavit of Paul G. Osland *(Ameritech Director of Corporate Strategy explains the background and current status of Ameritech's test involving the resale of local service to residential cellular customers in St. Louis)*

- Affidavit of Francis X. Pampush *(Ameritech Director of Economic and Policy Studies describes the nature and extent of local service competition in Ameritech's region)*

- Affidavit of Wharton B. Rivers *(President of Ameritech Network Services discusses customer service quality objectives)*

- Affidavit of Richard J. Gilbert and Robert G. Harris *(Economists address the consumer effects of the SBC/Ameritech merger)*

- SBC Communications Inc. 1997 Audited Financial Statements

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DESCRIPTION OF TRANSACTION, PUBLIC INTEREST SHOWING AND RELATED DEMONSTRATIONS

I. INTRODUCTION

This application seeks the Commission's consent to the transfer of control of FCC authorizations held by subsidiaries of Ameritech Corporation ("Ameritech") to SBC Communications Inc. ("SBC"), which would enable SBC and Ameritech to consummate their proposed merger.

This proposed merger of two of America's leading telecommunications companies is both a logical and a necessary next step in the rapidly evolving telecommunications market. The Telecommunications Act of 1996 (the "1996 Act") has completely reshaped the telecommunications landscape and unleashed powerful forces that have irrevocably altered both the demand and the supply sides of the market, particularly in the major sector dominated by large and mid-size business customers. In response to these changes, SBC and Ameritech concluded they could no longer remain as regionally-based providers, but rather, had to pursue a new direction in order to meet the current and future needs of their customers, shareholders and employees. This merger, and the implementation of the bold new strategy that is made possible by the merger, will produce numerous synergies, result in unprecedented pro-competitive effects, and lead to substantial benefits for the combined company's current and future customers, both inside and outside of the companies' traditional service areas. While SBC and Ameritech believe that there is an important and profitable role that will continue to be served by regionally-based and "niche" companies in the future, particularly by start-up companies and others that do not bear the costs and obligations of large-scale ILECs, they do not believe that such a course is in the best interests of their customers, shareholders and employees.

There are several fundamental market forces driving this merger. First, we are seeing an unprecedented move toward globalization of the marketplace. By marketplace, we mean both the telecommunications market and virtually all other types of markets. In recent months, there have been numerous announcements of mergers aimed at creating companies with global presence and capabilities, including Daimler Benz/Chrysler, Alcatel/DCS Communications, Northern Telecom/Bay Networks and Teleglobe/Excel. Each of these mergers involved the acquisition by a foreign company of a U.S. company, and each merger involved two companies seeking geographic expansion to provide them access to global markets. These mergers demonstrate the risks faced by incumbent telephone companies which confine themselves to their current markets or regions, as purchasing decisions regarding telecommunications services move from U.S. to foreign cities. In the case of each of these mergers, the acquired U.S. company was headquartered in a state served by either SBC or Ameritech. We need to be able to follow these customers and to have the facilities, employees and other capabilities to serve them everywhere they are located. While SBC and Ameritech individually do not currently have those assets, other companies and alliances – including those involving

AT&T/TCG/TCI/World Partners, Sprint/Deutsche Telekom/France Telecom and MCI/WorldCom/MFS/Brooks/UUNet – currently have them or are acquiring them.

Second, what is happening on a global scale is a mirror of what is happening in the U.S. itself. Just three or four years ago, local telephone companies in the U.S. were generally not focused on the need to be able to serve, in particular, their large and mid-size customers on a nationwide (not to mention global) basis. The local exchange monopolies then still existed and companies generally were confined to individual market segments. The 1996 Act has eliminated the historical franchises and removed the barriers to entry at all levels of the market, just as such barriers are now coming down overseas. Along with these changes, there has come a dramatic shift in the ability of certain carriers, particularly the large interexchange carriers and international companies, to respond to the demands of the major telecommunications customers who desire to obtain all or substantially all of their national and international telecommunications services from a single source. The nature of these service demands has also changed, as a result of the convergence of voice and data services.

These developments have naturally forced companies like SBC and Ameritech to completely rethink their businesses and to determine how to respond in a manner which best serves their customers, preserves value for their shareholders, and protects the interests of their many employees. SBC and Ameritech faced a choice. As our customers expand, both domestically and internationally, and begin to focus on securing all or substantially all of their telecommunications services from a single source, we could either stand pat and run the risk of losing our large and mid-size customers, who though small in number represent a very large portion of our revenues, or we could expand and compete for the opportunity to follow and serve our customers wherever they might be. We have chosen to compete – as the 1996 Act seeks all companies to do. We have decided that we need to be everywhere our customers are, and be able to provide them with the latest technologies, features and common suites of services at all of their locations.

In analyzing how best to accomplish this objective, both companies have independently considered several options and strategies. Ultimately, as described in detail in this Exhibit and the accompanying affidavits of several officials of both SBC and Ameritech, we concluded that a new strategy was necessary – a strategy that would create a national and global company capable of meeting the full range of our customers' telecommunications needs, wherever those customers are located and whatever their needs may be. This comprehensive new strategy includes in-region, out-of-region and international elements.

In the in-region markets where SBC and Ameritech are the incumbent carriers, we must continue to provide our customers with the first-rate products and services they expect and demand. In that regard, it is particularly important for us to be able to compete to retain our large and mid-size customers – who are the most attractive customers for all competitors – in order to sustain our revenues and to secure the resources needed to maintain, enhance and expand our networks for all of our customers. To accomplish this, and to generate revenues needed to expand out-of-region, we must combine our companies. This combination is absolutely necessary to achieve the scale and scope efficiencies that the merger will produce, and that will enable us simultaneously to: (a) continue to bring to each of our in-region states the innovative products and services our customers expect, the high quality jobs our employees desire, and our participation in the economic development of the communities we serve; (b) continue and complete the opening of our local markets to competition; and (c) effectively compete with the myriad highly-visible, technically-proficient and well-financed competitors who are in our markets today.

Out-of-region, the new strategy – called the "National-Local Strategy" – involves the essentially-simultaneous, facilities-based entry of the combined company into each of the Top 30 major U.S. markets outside of the area in which it would be the incumbent carrier. This element of the new strategy is designed to follow large and mid-size, in-region customers wherever they may be and to provide them with a full range of local, long distance, data and other services. At the same time, these customers will be the foundation or "anchor tenants" for the provision of service to small business and residential customers out-of-region, whom SBC and Ameritech are equally committed to serve. Indeed, in addition to installing over 60 switches and 2,900 fiber miles to serve large and mid-size customers, we plan to install approximately 80 more switches to serve small business and residential customers out-of-region. The strategy contemplates that the combined company will begin serving all of these various types of customers within the first year following consummation of the merger.

In addition to installing new facilities in these 30 out-of-region markets, SBC will also connect these markets and those in which the combined company is the incumbent, by leasing or otherwise acquiring transport from third parties. This will enable the new SBC to create a nationwide network capable of providing high quality service to all of its customers wherever they may be throughout the country.

The final component of this new strategy involves combining the existing international activities of both SBC and Ameritech and entering into 14 individual cities around the world – on a facilities basis – to complete the transformation of SBC and Ameritech from regional companies to a global competitor providing the full range of telecommunications services. With this transformation, the new SBC will be positioned to compete with other global competitors to serve large and mid-size national and international customers based in our territory and to follow these customers around the globe.

SBC and Ameritech believe that, absent such a widespread, simultaneous, facilities-based, out-of-region and global entry, they will not be able to compete effectively with the other major companies that can now provide a full range of telecommunications services to the large and mid-size business customers located within SBC's and Ameritech's in-region areas. Frankly, SBC and Ameritech have found that, if they remain confined to their regions and engage in only incremental out-of-region expansion, they will be able to compete less effectively for the large and mid-size business customers that are looking to have all (or substantially all) of their service needs met by a single carrier.

This merger will enable the combined company to accomplish these critical objectives, which could not be accomplished but for the merger. Similarly, but for the ability to accomplish these objectives and to implement this new strategy, this merger would not be taking place.

As described in detail in this Exhibit and its attachments, this merger will result in significant synergies, in the form of revenue enhancements and cost savings. It will provide the volume of revenues necessary both to address the needs of the combined company's in-region customers and to launch the out-of-region and global elements of this new strategy. At the same time, it will greatly expand the number of in-region customers that the combined company can "follow" out-of-region, and it will spread the costs and risks of that expansion over a larger base of customers and shareholders. Equally important, the merger will provide the resources, particularly human resources, that are needed to implement this new strategy. That, in turn, significantly increases the likelihood of success of the entire undertaking.

Neither SBC nor Ameritech could or would undertake the implementation of such a significant out-of-region and global expansion as a stand-alone company, notwithstanding their belief that such an undertaking is essential and that it will produce demonstrable synergies and pro-competitive benefits. Neither company, standing alone, has the breadth of experienced management and skilled technical personnel that such an undertaking requires, and it is simply not possible or feasible for either company alone to rapidly secure such personnel. Moreover, neither company individually could bear the financial risk and earnings dilution that the implementation of this strategy entails. Together, however, they can and will implement it.

In addition to providing distinct benefits for the combined company's existing customers, shareholders and employees, this merger and the corresponding implementation of this new out-of-region and global strategy will jump start competition for business and residential customers throughout the country. Unquestionably, this is a distinct, merger-specific benefit. Of equal significance, however, SBC and Ameritech believe that the implementation of this new strategy will impel other carriers, including the IXCs, other ILECs and CLECs, to compete vigorously in their own regions and in the new SBC's in-region areas – for both business and residential customers – in order to protect their customer base. This is a further, and equally clear, merger-specific benefit. These clearly pro-competitive effects, and the other synergies the merger will produce, have been recognized by several leading economists whose affidavits accompany this Exhibit.

Together, these initiatives – which neither SBC nor Ameritech could undertake but for the merger – will transform competition within the telecommunications market in the U.S. and be a significant catalyst to realizing many of the key policy objectives of the 1996 Act for the benefit of all U.S. customers, including those within and outside of the combined company's traditional regions. The merger will also enable the new company to be a major international competitor, further promoting U.S. participation in the increasingly global telecommunications marketplace. Thus, applying the standards the Commission has articulated in its review of similar mergers, this merger should be approved.

Under Sections 214 and 310 of the Communications Act of 1934, as amended, the Commission is to approve proposed license transfers under a public interest test. In its decision approving the merger of Bell Atlantic and NYNEX, the Commission declared that, in applying the public interest standard, it examines whether the transfer "is consistent with the policies of the Communications Act, including, among other things, the transfer's effect on Commission policies encouraging competition and the benefits that would flow from the transfer."[1] This analysis is informed, but not constrained, by

[1] In re Applications of NYNEX Corp. and Bell Atlantic Corp., Memorandum Opinion and Order, 12 FCC Rcd. 19985 at ¶ 32 (1997) ("BA/NYNEX").

the antitrust laws. Id. The Commission may consider "trends within and needs of the industry, the factors that influenced Congress to enact specific provisions for a particular industry, and the complexity and rapidity of change in the industry."[2] The Commission's public interest authority "encompasses the goals of promoting competition and deregulation." BA/NYNEX ¶ 31.

In assessing whether a merger is in the public interest, the Commission balances the benefits of the merger, including both the increases in competition and the efficiencies to be derived from the transaction, against any potential reduction in competition. The framework for competitive analysis focuses on potential horizontal market power concerns. Id. ¶ 37.[3] If the pro-competitive benefits of the merger outweigh any harm to competition, the merger will be found to serve the public interest, convenience and necessity. Id. ¶¶ 48, 157.

As summarized above and discussed in detail in Section II, below, the merger of SBC and Ameritech will substantially advance the goals of the Telecommunications Act by enabling the most significant increase in local competition that the industry has seen. It will stimulate competition locally, nationally and globally, advance the competitiveness of the U.S. in international telecommunications markets and permit the more efficient delivery of a wider variety of services to existing and future consumers.

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[2] Id.; see also, e.g., FCC v. RCA Communications, Inc., 346 U.S. 86, 94-95, 98 (1953); United States v. FCC, 652 F.2d 72, 88 (D.C. Cir. 1980).

[3] "In the appropriate case," the Commission may examine whether the proposed merger has vertical effects that enhance market power. BA/NYNEX at ¶ 37. This merger does not present such a case. As in BA/NYNEX, the only arguable competitive issues here are horizontal in nature.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Serving Large and Mid-Size Businesses

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

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

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

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

3. Serving Small Business and Residential Customers

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

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

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

4. Provision of Data Services

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

5. New Entry Into International Markets

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

* * *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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