

have domestic telecommunications needs, the same will be true for customers with transnational requirements.

The global seamless services market is necessarily limited to “only a handful of major competitors world-wide,” the Commission found, because “[c]ompetition in these markets requires significant resources, which must extend throughout the world.”¹⁴³ Indeed, even two of the largest telecommunications companies in the U.S. – MCI and Sprint – had to find equally large international partners in order to be able to enter this market. The Commission approved British Telecom’s investment in MCI, and Deutsche Telekom’s and France Telecom’s investment in Sprint, on the grounds, *inter alia*, that each of these alliances would add an additional player into the global seamless services market.¹⁴⁴

As one of the few competitors that will be capable of serving the large-customer market, the new SBC will certainly increase competition in this market.¹⁴⁵ As described above, only a small number of competitors presently are serving this market, each of which is being assisted by one or more foreign partners. Moreover, the ability of U.S. firms to compete in this market is quite limited due to the need to have an extremely broad geographic presence.

¹⁴³ BT/MCI II at ¶¶ 91, 130.

¹⁴⁴ See BT/MCI I at ¶ 51 (as “arguably . . . first entrant” into the global seamless service market, new BT/MCI alliance will have a “procompetitive effect”); In re Sprint Corporation, Declaratory Ruling and Order, 11 FCC Rcd. 1850, ¶¶ 84, 86 (1996) (The Joint Venture between Sprint, FT and DT will “have a procompetitive effect” as it will “add another significant competitor to this market.”), modified, 12 FCC Rcd. 8430 (1997).

¹⁴⁵ Cf. id. ¶ 87 (“The establishment of a new, viable competitor in [the global seamless services market] should result in more competitive options for U.S. customers, particularly in terms of pricing and variety of services available for large scale, high-end customers such as multinational corporations.”).

More importantly, however, it is by unleashing a new round of competition at the top end of the market that the SBC/Ameritech merger will propel competition throughout local exchange markets generally. That is SBC/Ameritech's own business strategy – to offer voice, long distance and data services to the largest business customers, and to use the infrastructure deployed to serve smaller businesses and residential customers. Kahan Aff. ¶ 41. As described in Section II.A, above the new SBC intends to offer packages of local, long distance, data and other telecommunications services in 30 new markets.¹⁴⁶ Actual and potential competitors for the business of large business customers will have to make competitive responses. Markets throughout SBC's region, and the rest of the U.S, will ride this wave of new competitive entry by the nation's largest carriers. This will spur further competition by the niche players, and in due course unleash incumbent local phone companies to compete in-region in long distance voice and data markets as well.

6. Video Services

The Commission has defined video markets as “local markets in which consumers can choose among particular multichannel or other video programming distribution services.”¹⁴⁷ Some 87 percent of those subscribing to multi-channel video systems are

¹⁴⁶ As the Commission has found, bundled service packages can “have clear advantages for the public,” such as greater convenience and the ability to secure volume discounts by aggregating purchases of different services. See In re Applications of Craig O. McCaw and American Tel. and Tel. Co., 9 FCC Rcd. 5836, ¶¶ 73-75 (1994), aff'd sub nom SBC Communications Inc. v. FCC, 56 F.3d 1484 (D.C. Cir. 1995), recon. in part, 10 FCC Rcd. 11,786 (1995) (“AT&T/McCaw”); see also 142 Cong. Rec. S713 (daily ed. Feb. 1, 1996) (statement of Sen. Harkin) (joint marketing allows “low cost integrated service, with the convenience of having only one vendor and one bill to deal with”); S. Rep. No. 104-23, at 43 (joint offerings constitute a “significant competitive marketing tool”).

¹⁴⁷ See In Re Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶ 11 (1998).

served by traditional cable companies.¹⁴⁸ In its most recent Annual Assessment, the Commission concluded that the main form of competition to incumbent cable operators today is coming from wireless alternatives like DBS, LMDS and MMDS, not wireline cable overbuilders. With over 5 million subscribers, DBS is “the most significant alternative to cable television,”¹⁴⁹ and today more people are signing up for DBS than for cable.¹⁵⁰ An additional 2 million customers use home satellite dishes.¹⁵¹ SMATV systems offer a further competitive alternative for the 25 to 30 percent of the U.S. population that lives in multiple dwelling units.¹⁵² Other terrestrial wireless cable providers offer further competitive options.¹⁵³ And the high-speed Internet data networks discussed in Section IV.C.3, above, will soon be video capable, at which point the video and Internet markets should converge.

This merger will not adversely affect competition in the market for multichannel video programming distribution. For the present, the main competitive alternatives to cable are wireless ones, with the exception of SNET’s and Ameritech’s overbuilds, and the Commission has taken the necessary steps to issue the licenses and promote

¹⁴⁸ See id.

¹⁴⁹ See id.

¹⁵⁰ See D.H. Leibowitz et al., Donaldson, Lufkin & Jenrette Securities, Direct Broadcast Satellite (DBS) Industry - Industry Report, Investext Rpt. No. 2601562, at *2 (Nov. 21, 1997).

¹⁵¹ See Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶ 11 (1998).

¹⁵² See D.H. Leibowitz et al., Donaldson, Lufkin & Jenrette Securities, Direct Broadcast Satellite (DBS) Industry - Industry Report, Investext Rpt. No. 2601562, at *2 (Nov. 21, 1997).

¹⁵³ See Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, Fourth Annual Report, 13 FCC Rcd. 1034, ¶11 (1998).

competition in that segment of the market. With respect to Ameritech's overbuild systems within its region, this merger would simply replace SBC for Ameritech as the party with ultimate control over those competitive systems.

7. **Alarm Monitoring**

Markets for alarm monitoring services are regional in scope, often comprising several metropolitan areas or states. Major alarm monitoring providers like ADT, Borg Warner and Ameritech use centralized operations centers to provide service. Some 11,500 local regional and national companies provide alarm monitoring services.¹⁵⁴ The largest player, ADT, has less than an 8 percent market share; the top 10 firms serve just 18 percent of the market.¹⁵⁵

SBC currently does not participate in alarm monitoring and, if this merger is approved, Ameritech will simply continue its alarm monitoring business. The merger should have little if any impact on this market, and can have no possible adverse effect.

D. CONCLUSION: The Merger Will Advance the Policies of the Communications Act and Provide Substantial Net Benefits to Competition and the Public Interest

The merger of SBC and Ameritech, more than any transaction in recent memory, will advance the policies of the Communications Act. The National-Local/Global Strategy enabled by the merger will inject new competition into scores of domestic and international markets. This will stimulate a new era of competitive telecommunications and dismantle any remaining impediments to competition. The merger will also enhance

¹⁵⁴ See B.K. Langenberg, Credit Suisse First Boston, Tyco International Company Report, Investext Rpt. No. 2601367 (Nov. 17, 1997).

¹⁵⁵ See The 1998 SDM 100, Security Distributing and Marketing (SDM) Magazine, (visited July 16, 1998) <<http://www.sdmmag.com/list.htm>>; Insider Report, Security

the international competitiveness of the U.S. telecommunications industry. In addition, it will enhance the merged company's efficiency and facilitate the delivery of new and upgraded services to consumers.

There is no doubt that each of these results of the merger is a substantial benefit to the public interest. Any ultimate reckoning of net benefits would find the merger overwhelmingly in the public interest.

V. RELATED GOVERNMENTAL FILINGS

In addition to the filings with the Commission, SBC and Ameritech are taking steps to satisfy the requirements of other governmental entities with respect to the merger.

First, the Department of Justice will conduct its own review of the competitive aspects of this transaction pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18A, and the rules promulgated under that Act. On July 20, 1998, SBC and Ameritech each submitted to the Department of Justice and the Federal Trade Commission a pre-merger notification form and an associated documentary appendix.

Second, the Illinois Commerce Commission and the Public Utility Commission of Ohio will review the merger under the laws of those states, and filings will be made shortly.

Third, the approval of certain state public utilities commissions may be required in connection with Ameritech's authorizations to provide intrastate interexchange service

Distributing and Marketing (SDM) Magazine (visited July 20, 1998)
<<http://www.sdmag.com/98stats.htm>>.

in 45 states and local exchange service in eight out-of-region states. SBC and Ameritech also may need to surrender certain authorizations as required by state and federal law.

Fourth, the local franchising authorities in the majority of jurisdictions in which Ameritech has received franchises for competitive cable systems will review the transfer of control effected by this merger.

Finally, SBC and Ameritech will make certain notifications to or filings with regulatory authorities in one or more European countries in which SBC or Ameritech holds direct or indirect investments in telecommunications companies.

The Applicants fully expect that these reviews by the Department of Justice, the Illinois and Ohio Commissions and other governmental entities will confirm that the merger of SBC and Ameritech is not anticompetitive and is in the public interest.

VI. ADDITIONAL AUTHORIZATIONS

In addition to seeking the Commission's approval of the transfers of control of the FCC authorizations covered in these applications, the Applicants are also requesting the additional authorizations described below, and they are simultaneously filing an application for a declaration by the Commission, under Section 212 of the Communications Act and Part 62 of the Commission's Rules, that, upon consummation of the merger, all of SBC's post-merger carrier subsidiaries (including SWBT, Pacific Bell, Nevada Bell, Illinois Bell Telephone Company, Indiana Bell Telephone Company, Inc., Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.) will be "commonly owned carriers." The Applicants are also simultaneously filing applications to transfer control to SBC of certain Section 214 authorizations controlled by Ameritech.

A. After-Acquired Authorizations

As set forth in the relevant exhibit to each of these transfer of control applications, Ameritech controls entities which hold a number of FCC authorizations, all of which would be affected by this proposed transaction. While the applications for approval of the transfer of ultimate control of these authorizations are intended to be complete, the licensees involved in this proposed transaction may have on file, and may file for, additional authorizations for new or modified facilities, some of which may be granted during the pendency of these transfer of control applications.

Accordingly, the Applicants request that the grant of the transfer of control applications include authority for SBC to acquire control of:

- (1) any authorization issued to Ameritech's subsidiaries and affiliates during the Commission's consideration of the transfer of control applications and the period required for consummation of the transaction following approval;
- (2) construction permits held by such licensees that mature into licenses after closing and that may not have been included in the transfer of control applications; and
- (3) applications that will have been filed by such licensees and that are pending at the time of consummation of the proposed transfer of control.

Such action would be consistent with prior decisions of the Commission.¹⁵⁶

¹⁵⁶ See, e.g., SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 93; In re Applications of Craig O. McCaw and American Tel. & Tel., 9 FCC Rcd. 5836, ¶ 137 n.300 (1994), aff'd sub nom. SBC Communications Inc. v. FCC, 56 F.3d 1484 (D.C. Cir. 1995), recon. in part, 10 FCC Rcd. 11786 (1995) ("AT&T/McCaw").

B. Blanket Exemptions to Cut-Off Rules

Pursuant to Sections 22.123(a), 24.423(g)(3), 24.823(g)(3), 25.116(b)(3), 90.164(b) and 101.29(c)(4) of the Commission's Rules, the Applicants request a blanket exemption from any applicable cut-off rules in cases where Ameritech's subsidiaries or affiliates file amendments to pending Part 22, Part 24, Part 25, Part 90 and Part 101 or other applications to reflect the consummation of the proposed transfer of control. The exemption is requested so that amendments to pending applications to report the change in ownership would not be treated as major amendments requiring a second public notice period. The scope of the transaction between SBC and Ameritech demonstrates that any ownership changes are not made for the acquisition of any particular pending application, but are part of a larger merger undertaken for legitimate business purposes. The grant of such an exemption would be consistent with previous Commission decisions routinely granting a blanket exemption in cases involving large transactions.¹⁵⁷

C. Unconstructed Systems/Antitrafficking Rules

The overwhelming majority of the FCC authorizations that are the subject of the proposed transfer of control applications consist of constructed facilities. However, certain facilities in the point-to-point microwave service are authorized but not yet constructed. Under Section 101.55(d) of the Commission's Rules, the transfer of control of such facilities does not implicate the Commission's antitrafficking restrictions because the transfer of these unconstructed facilities is incidental to the larger transaction

¹⁵⁷ See, e.g., In re Applications of PacifiCorp Holdings, Inc. and Century Tel. Enterprises, Inc., 13 FCC Rcd. 8891, ¶ 45 (1997); SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 91; AT&T/McCaw, 9 FCC Rcd. 5836 ¶ 137; In re Applications of Centel Corp. and Sprint Corp. and FW Sub. Inc., 8 FCC Rcd. 1829, ¶ 23, review denied, 8 FCC Rcd. 6162 (1993).

involving the transfer of control of an ongoing, operating business.¹⁵⁸ Pursuant to Sections 1.2111(a), 24.439(a), 24.839(a) and 101.55(d), this Exhibit and the Plan demonstrate that the proposed transaction is a stock-for-stock exchange based upon the valuation of Ameritech as a whole. No separate payments are being made with respect to any individual FCC authorizations or individual facilities.¹⁵⁹

VII. CONCLUSION

For the foregoing reasons, the Commission should conclude that the merger of SBC and Ameritech serves the public interest, convenience and necessity and should grant the applications to transfer control of Ameritech's FCC authorizations to SBC.

¹⁵⁸ In addition, Ameritech holds authorizations for unconstructed cellular and PCS facilities; however, no restrictions exist against transferring control of these authorizations. The cellular authorizations are not unserved area systems and were not initially obtained by Ameritech through a comparative renewal proceeding. See 47 C.F.R. § 22.943(b)-(c) (1997). Likewise, Ameritech did not receive the PCS authorizations through the use of set-asides, installment financing, bidding credits or bidding preferences. Thus, there are no restrictions on their transfer pursuant to 47 C.F.R. §§ 1.2111, 24.439, 24.839 (1997).

¹⁵⁹ See, e.g., SBC/Telesis, 12 FCC Rcd. 2624 at ¶ 91.

Description of Transaction

DESCRIPTION OF THE TRANSACTION

On May 10, 1998, SBC and Ameritech entered into an Agreement and Plan of Merger, under which Ameritech would become a first-tier, wholly-owned subsidiary of SBC. A copy of the Merger Agreement follows this attachment. The Applicants plan to consummate the merger within a year, after the necessary federal and state regulatory approvals have been received* and certain other preconditions have been met.

Under the Merger Agreement, SBC Delaware, Inc., a wholly-owned SBC subsidiary formed to accomplish the merger, will merge into Ameritech, with Ameritech as the surviving corporation. The stockholders of Ameritech will receive, on a tax-free basis, newly-issued shares of SBC. The Merger Agreement provides for a fixed exchange ratio of 1.316 shares of SBC common stock for each share of Ameritech common stock.**

Following the merger, SBC will own all of the stock of Ameritech. SBC itself will be owned approximately 56% by the pre-merger stockholders of SBC and 44% by the pre-merger stockholders of Ameritech.*** Ameritech will continue to own the stock of its subsidiaries, which will continue to hold all of the FCC authorizations they currently hold. While SBC will become the new parent of Ameritech, there will be no

* A description of these regulatory approvals, in addition to this Commission's review, is set forth in Section V of the Exhibit to which this description is attached.

** On May 8, 1998, the last trading day before the public announcement of the merger, the closing prices of SBC common stock and Ameritech common stock, as reported on the NYSE Composite Transactions Tape, were \$42 3/8 per share \$43 7/8 per share, respectively.

*** Following the consummation of SBC's pending merger with SNET, the combined entity will be owned approximately 42.5 percent by the pre-merger shareholders of Ameritech.

transfer of direct control of the FCC authorizations since the current licensees will continue to hold their authorizations. Ameritech's headquarters will remain in Chicago, and its state headquarters will remain in each of its five states. It will continue to use the Ameritech name in each of those states, and five additional SBC board seats will be created for current members of the Ameritech board.

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

Among

AMERITECH CORPORATION

SBC COMMUNICATIONS INC.

and

SBC DELAWARE, INC.

Dated as of May 10, 1998

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter called this "Agreement"), dated as of May 10, 1998, among Ameritech Corporation, a Delaware corporation (the "Company"), SBC Communications Inc., a Delaware corporation ("SBC"), and SBC Delaware, Inc., a Delaware corporation and a wholly-owned subsidiary of SBC ("Merger Sub," the Company and Merger Sub sometimes being hereinafter together referred to as the "Constituent Corporations").

RECITALS

WHEREAS, the respective Boards of Directors of each of SBC, Merger Sub and the Company have approved this Agreement and the merger of Merger Sub with and into the Company (the "Merger") upon the terms and subject to the conditions set forth in this Agreement;

WHEREAS, it is intended that, for federal income tax purposes, the Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code");

WHEREAS, for financial accounting purposes, it is intended that the Merger shall be accounted for as a "pooling-of-interests;" and

WHEREAS, the Company, SBC and Merger Sub desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I

The Merger; Closing; Effective Time

1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3) Merger Sub shall be merged with and into the Company and the separate corporate existence of Merger Sub shall thereupon cease. The Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and

shall continue to be governed by the laws of the State of Delaware, and the separate corporate existence of the Company with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger except as set forth in Article III hereof. The Merger shall have the effects specified in the Delaware General Corporation Law, as amended (the "DGCL").

1.2. Closing. The closing of the Merger (the "Closing") shall take place (i) at the offices of Sullivan & Cromwell, 125 Broad Street, New York, New York 10004 at 9:00 A.M., local time, on the second business day after the date on which the last to be fulfilled or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) shall be satisfied or waived in accordance with this Agreement or (ii) at such other place and time and/or on such other date as the Company and SBC may agree in writing (the "Closing Date").

1.3. Effective Time. Immediately following the Closing, the Company and SBC will cause a Certificate of Merger (the "Certificate of Merger") to be executed, acknowledged and filed with the Secretary of State of Delaware as provided in Section 251 of the DGCL. The Merger shall become effective at the time when the Certificate of Merger has been duly filed with the Secretary of State of Delaware or such other time as shall be agreed upon by the parties and set forth in the Certificate of Merger in accordance with the DGCL (the "Effective Time").

ARTICLE II

Certificate of Incorporation and By-Laws of the Surviving Corporation

2.1. The Certificate of Incorporation. The certificate of incorporation of the Company as in effect immediately prior to the Effective Time shall be the certificate of incorporation of the Surviving Corporation (the "Charter"), until duly amended as provided therein or by applicable law, except that (i) Article Fourth of the Charter shall be amended to read in its entirety as follows: "FOURTH. The aggregate number of shares that the Corporation shall have the authority to issue is 1,000 shares of Common Stock, par value \$1.00 per share."; (ii) Article Fifth of the Charter shall be deleted in its entirety and shall read as follows: "FIFTH. Reserved."; (iii) Article Eighth, Section B of the Charter shall be amended to read in its