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June 6, 2000

Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

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JUN - 6 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *In the Matter of Applications of America Online, Inc. and
Time Warner Inc. for Transfer of Control - CS Docket No. 00-30*

Dear Ms. Salas:

Yesterday, Jonathan Banks, General Attorney - Legal, BellSouth Corp., Marc Galonsky, Senior Attorney - Legal, BellSouth Corp., Bill Norton, Senior Director - Public Policy, BellSouth Corp. and the undersigned met with the following Cable Services Bureau staff to discuss the above-captioned proceeding:

- To-Quyen Truong, Associate Bureau Chief
- Andrew Wise, Industry Economist
- Carl Kandutsch, Attorney

The purpose of the meeting was to discuss BellSouth's views regarding the proposed merger. Attached is a copy of the document that was distributed at the meeting.

Please direct any questions regarding this matter to the undersigned.

Sincerely,



Attachment

cc: Carl Kandutsch
To-Quyen Truong
Andrew Wise

No. of Copies rec'd 012
List A B C D E

**A PRECISE DESCRIPTION OF CONVERGENT DIGITAL NETWORKS IS
AS STRAIGHTFORWARD AS IT TENDS TO BE DENSELY COMPLEX**

Digital Network Convergence

- 
- *A Common broadband digital architecture,...*
 - *Employing a common/homogenized protocol,...*
 - *Comprising multiple NB/BB access methods,...*
 - *To more cost-effectively support virtually any voice, data, image or video application*



***Drives increased end-user functionality,
dramatic cost/price reduction and
accelerated inter-industry competition.***

EFFECTIVE CONVERGENT NETWORK STRATEGY REQUIRES A MORE COMPLETE PICTURE OF ITS VARIOUS CAUSES AND EFFECTS

Driving Forces

- ***Growth:***
- ***Technology:***
- ***Productivity:***
- ***Consolidation:***
- ***Public Policy:***



Effects/Recommendations

Convergent Networks are an essential and inevitable centerpiece of the digital economy

Pent-up technical forces/demands can now be unleashed to foster both growth and competition

GDP and U.S. economic prosperity/dominance, in general, turn upon the continuing gains occurring in and around the Internet, e-biz, etc.

4-6 National/Global Mega-Carriers, and a host of technological insurgent Niche players, are emerging naturally.

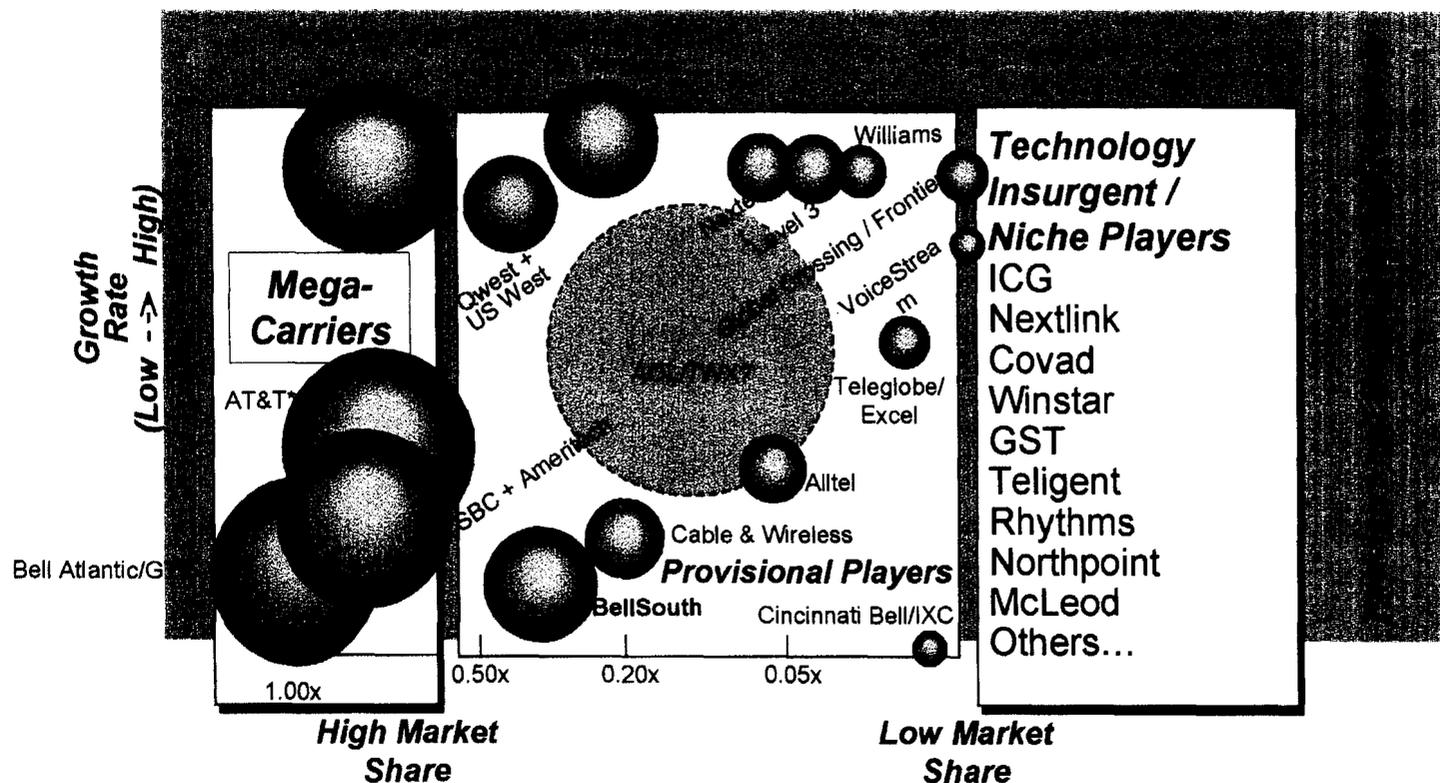
Convergence is inevitable; and, current legal/regulatory frameworks are not adequate. New standards must be developed and, in the interim, deal-specific safeguards should be imposed.

**LEADING TELECOM INDUSTRY PLAYERS ALONE HAVE INVESTED
OVER HALF A TRILLION DOLLARS IN CONVERGENCE STRATEGIES**

| | | | |
|---|---|---|--|
|  | <p>Aggressively acquiring last mile and bundling them in a vertically integrated fashion. Has telephony access to 67% of cable HHs and seeks to deploy fixed wireless for the rest</p> |  | <p>\$62B in acquisitions \$2.5B in TCI upgrade</p> |
|  | <p>Heavily investing in high speed DSL roll-out in its expanded service area and adding LD and data services to its portfolio</p> |  | <p>\$500M in Williams \$6B in DSL rollout</p> |
|  | <p>Aggressively expanding local access through the acquisition of USWest and connecting high- end residential and business customers to its state-of-the-art IP backbone with DSL</p> |  | <p>\$49B</p> |
|  | <p>Bundling television, telephone and internet services into one bundle that consumers can pay for on one bill</p> |  | <p>\$166B</p> |
|  | <p>To offer complete bundle of high-growth communications services nationwide, Bell Atlantic made significant investments in LD, enhanced data, and IP-based products through purchase of GTE</p> |  | <p>\$53B</p> |
|  | <p>Planning to merge with Sprint who already invested \$1.2bn in fixed wireless properties and has a national PCS network. In addition investing in MMDS licenses</p> |  | <p>\$129B</p> |

DIGITAL CONVERGENCE, COUPLED WITH STRATEGIC GROWTH DYNAMICS, IS RAPIDLY CONVERTING THE TELECOM LANDSCAPE INTO A 4-6 FAMILY AFFAIR

ILLUSTRATIVE



○ = \$50B Market Capitalization

*AT&T includes revenue and market cap for TCI and MediaOne

**Bell Atlantic / GTE wireless revenue have been moved to the Vodafone bubble

- **Current and Future Affiliations Among "Mega" Players Must Be Limited**

Four to six national competitors each providing the full scope of services and having the full set of capabilities, such as network infrastructure, will deliver positive competitive outcomes. However, collusion or other marketing relationships that divide markets and reduce competition, joint ownership of assets, or substantial business arrangements which create a quasi-affiliate relationship among mega players will remove incentives to invest or develop a full range of capabilities, especially expensive infrastructure, and must be eliminated as anticompetitive. For example:

- **The joint ownership of Time Warner Entertainment and Roadrunner by AOL/TW and AT&T/TCI/MediaOne should be eliminated.**
- **Any significant business arrangement between these same parties, for example, one in which AT&T provides to AOL access to its customers on a preferential basis for ISP services in exchange for AT&T access, for telephony purposes, to the cable customers of Time Warner, should be prohibited.**

Conceptually, there are four distinct layers in the provision of these bundled services. They apply specifically to AOL/TW as follows:

| <u>Layer</u> | <u>Name</u> | <u>Examples</u> |
|--------------|--|---|
| 4 | Content | TV Programming, Movies, Sports Illustrated on-line, Streaming A/V |
| 3 | Aggregation of Content or Applications | Portals, e.g. AOL, AOL.com Messaging/Chat, e.g. ,AOL Instant Messaging, ICQ, AOL chatrooms |
| 2 | Internet Access | AOL ISP, TW Roadrunner |
| 1 | Physical Infrastructure | Time Warner cable distribution |

AOL/TW merger requires review at several layers.

- **Access to content**
- **Instant messaging**
- **Network access**

• CONCLUSIONS

- AOL/Time Warner can be approved, but will require deal-specific safeguards
- Current and future competition- affecting linkages between AT&T/MediaOne and AOL/Time Warner should be totally prohibited. Discussions between these two parties are already occurring e.g., AOL on AT&T networks in return for AT&T Telecom on AOL/Time Warner networks.
- Content and network access safeguards must be clearly and absolutely dealt with in the AOL/Time Warner case given the magnitude of retail market control and vertical content ownership. This should also apply at the instant messaging level which is the functional equivalent of telephony signaling and call handoff.