

Commission action. Indeed, the Commission explained the basis of its finding in several places in that decision:

- Rejecting calls to “require [AT&T/MediaOne] to divest TWE instead of permitting [AT&T/MediaOne] to choose alternative methods to comply with the horizontal rules,”<sup>7</sup> the Commission held that any harms to the diversity of video programming and competition from concentration among MVPDs were “*sufficiently mitigated* by compliance with the horizontal ownership rules.”<sup>8</sup>
- “We find that the Justice Department’s proposed consent decree with AT&T, requiring it to divest its interest in Road Runner and to obtain prior approval from the Justice Department before entering into certain agreements with Time Warner and AOL, *already has addressed the potential harms* from a combination of Road Runner and Excite@Home.”<sup>9</sup>
- The “nascency of broadband Internet services[,] ... growing competition from alternative broadband access providers, [AT&T/MediaOne’s] commitment to give unaffiliated ISPs direct access to [its] cable systems, and the term of [AT&T/MediaOne’s] consent decree” support a conclusion that it is “unlikely that the merged firm would be able to dominate and threaten the openness and diversity of the Internet.”<sup>10</sup>

This merger warrants no re-examination of these conclusions. In fact, the factors that supported the Commission’s decision in *AT&T/MediaOne* apply here with even greater force. As demonstrated below, the combination of AOL and Time Warner raises no new competitive or “AT&T connection” issues with respect to the provision of video programming, telephony, or broadband Internet access—and has only a positive effect in each arena:

- As to video programming, AOL brings no cable system, attributable MVPD, or video programming interests to the mix—and the merger is fostering the removal of restrictions on ISP video streaming.

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<sup>7</sup> *Id.*, ¶56.

<sup>8</sup> *Id.*, ¶ 59 (emphasis added).

<sup>9</sup> *Id.*, ¶ 116 (emphasis added).

<sup>10</sup> *Id.*, ¶ 5.

- As to telephony, any effect of this merger to facilitate cable telephony competition to incumbent local exchange carriers would only serve FCC goals.
- As to broadband Internet access services, the addition of AOL (driven by its quest for nationwide broadband access) into any AT&T/Time Warner relationships could only serve to expedite the demise of existing exclusive ISP arrangements and the advent of multiple ISP choice over Time Warner and, we hope, AT&T cable systems as well.

#### A. Video Programming

In *AT&T/MediaOne*, the Commission found that AT&T's compliance with the cable cap would resolve any potential harms to the diversity of video programming resulting from AT&T's acquisition of a limited stake in TWE.<sup>11</sup> It went on to find that "[the] divestiture requirement, together with other interim conditions and enforcement mechanisms discussed below, will mitigate sufficiently the merger's potential to frustrate or impair the Commission's implementation or enforcement of the Communications Act or its objectives."<sup>12</sup> As Chairman Kennard observed in his separate statement, commenters urging the FCC to require divestiture of the TWE interest had "*failed to identify specific harms* that would not be sufficiently mitigated by a strict application of our current rules given the state of the marketplace as it exists today."<sup>13</sup>

This conclusion indisputably remains no less valid here because AOL owns no cable systems and has no attributable interest in any multichannel video programming distributor (or video programmer, for that matter). Thus, the merged entity will remain precisely where it stood before the merger—well below the 30% horizontal ownership cap imposed by the Commission to ensure that video programming distribution remains competitive.<sup>14</sup>

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<sup>11</sup> *Id.*, ¶ 59.

<sup>12</sup> *Id.*, ¶ 40.

<sup>13</sup> *AT&T/MediaOne, Statement of Chairman Kennard* (emphasis added).

<sup>14</sup> Moreover, the Commission has found that compliance with the cap resolves concerns about competition in a variety of related arenas as well. In *AT&T/MediaOne*, the Commission concluded that cap compliance "will circumscribe AT&T's purported ability to harm unaffiliated content providers [including interactive service providers], unaffiliated EPGs, and other MVPDs ...." *Id.*, ¶ 90. Given that AT&T serves, and (even assuming a divestiture of cable system interests in order to achieve compliance with the cap) will continue to serve, a far larger portion of MVPD subscribers than will AOL Time Warner, the Commission cannot reasonably find otherwise here.

Indeed, by fostering the elimination of existing restrictions on video streaming, the merger of AOL and Time

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## B. Cable Telephony

Similarly, there is no prospect that any future decision by a merged AOL Time Warner to enter into any agreement with AT&T relating to telephony services will produce anything other than much anticipated competition in local exchange service.<sup>15</sup>

Not only has the Commission *not* been concerned about the prospect of a group of cable operators entering into agreements to provide telephony services, the Commission has *relaxed* its cable attribution rules with the specific intent of facilitating such cooperative arrangements: "In circumstances where programming is not affected, the current insulation criteria prevent investments between companies whose combination may bring benefits to the public, such as cable broadband and telephony services and competition to the incumbent local exchange carriers ...."<sup>16</sup> Indeed, in *AT&T/MediaOne*, the Commission looked with favor on the specific prospect of agreements between AT&T and Time Warner relating to the joint marketing of AT&T-branded telephony service and Time Warner's cable services, and the establishment of a joint venture to provide local telephony service using the Time Warner cable systems.<sup>17</sup>

Plainly then, the merger between AOL and Time Warner creates no competitive issues regarding cable telephony. The possibility that AT&T and AOL Time Warner might jointly offer telephony services over Time Warner cable systems would spur local exchange competition in the manner expressly hoped for by the Commission—as facilitated by its horizontal ownership and cable attribution proceedings, and as heralded in its approval of the AT&T/TCI and AT&T/MediaOne mergers.<sup>18</sup>

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Warner will bring new competition—from multiple ISPs—to the video marketplace.

<sup>15</sup> As the record in this proceeding demonstrates, although Time Warner and AT&T have previously explored the possibility of AT&T providing telephony services over Time Warner cable systems (in discussions that long predated the announcement of this merger), no binding agreement has ever been reached and the prospect of a possible telephony agreement is a matter of speculation.

<sup>16</sup> *In the Matter of Implementation of the Cable Television Consumer Protection and Competition Act of 1992. Implementation of Cable Act Reform Provisions of the Telecommunications Act of 1996. Review of the Cable Attribution Rules*, CS Docket Nos. 98-82, 96-85, FCC 99-288, ¶ 63 (rel. Oct. 20, 1999) (Report and Order).

<sup>17</sup> *AT&T/MediaOne*, ¶ 173. In recognition of the public interest benefits of such arrangements, the Commission went on to find that "[t]he foregoing contractual arrangements, which combine AT&T's telecommunications brand name and expertise with the cable operators' infrastructure, ... provide a model to facilitate AT&T's negotiation of contractual arrangements with other cable operators." *Id.*, ¶ 174.

<sup>18</sup> *Applications of AT&T Corp. and Tele-Communications, Inc. for Transfer of Control of Tele-Communications, Inc. to AT&T Corp.*, CC Docket No. 98-178, Memorandum Opinion and Order ("*AT&T-TCI Order*"), 14 FCC Rcd 3160, 3169-

**C. Broadband Internet Access**

The record in this merger provides no basis for departing from the Commission's express rulings in AT&T/MediaOne regarding broadband Internet access and AT&T - Time Warner relationships. There, the Commission found that:

- (1) "there is significant actual and potential competition from both alternative broadband providers and from unaffiliated ISPs that may gain access to the merged firm's cable systems,"<sup>19</sup>
- (2) "harms will be avoided if (a) consumers can choose among various alternative broadband access providers ... or (b) unaffiliated ISPs are permitted access to [AT&T/MediaOne's] cable network,"<sup>20</sup> and
- (3) "[AT&T/MediaOne] have committed to open their cable modem platform to unaffiliated ISPs."<sup>21</sup>

Based on these findings—and noting further that AT&T's consent decree with the Justice Department requires it to divest Road Runner and seek prior approval before entering into certain agreements with AOL and Time Warner<sup>22</sup>—the Commission concluded that "it [is] unlikely that the merged firm would be able to dominate and threaten the openness and diversity of the Internet."<sup>23</sup> Further, the FCC found the merger "will not violate any provision of the Communications Act or Commission rules as they may pertain to the provision of broadband Internet services to residential customers"<sup>24</sup> and "will not frustrate the implementation of the Communications Act and its goals as they pertain to the promotion of

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70 (1999): *AT&T/MediaOne*, ¶ 48.

<sup>19</sup> *Id.*, ¶ 116.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*, ¶ 120.

<sup>22</sup> *Id.*, ¶ 122.

<sup>23</sup> *Id.*, ¶ 5.

<sup>24</sup> *Id.*, ¶ 102.

competition and diversity in the provision of [Internet] services.”<sup>25</sup>

These same factors apply even more strongly here.

First, competition in the provision of broadband access continues to grow at a rapid rate, and is much stronger today than it was when the Commission compiled its record in *AT&T/MediaOne*. The ILECs have stepped up their deployment of DSL services, CLECs continue to compete aggressively in the broadband space, and new wireless and satellite alternatives are being introduced almost continuously—as the Commission found only weeks ago in its *Second Report on Broadband Deployment*.<sup>26</sup>

The merger of AOL and Time Warner will do nothing to change this competitive dynamic. Indeed, unlike the early history of Excite@Home and Road Runner, AOL has never envisioned that it would provide broadband service only on a cable operator-specific, exclusive basis. Rather, driven by its core business as a national ISP, AOL consistently has sought to promote broadband across the entire range of technology platforms.<sup>27</sup> As the record demonstrates, this merger will help to advance that goal.

Second, AOL and Time Warner have committed to provide multiple ISPs over their cable systems—in an undertaking that is more definitive and detailed than the AT&T commitment relied upon by the FCC in *AT&T/MediaOne*. Thus, this merger is acting as a powerful catalyst toward the type of marketplace solution to open access that the Commission has clearly envisioned.

Third, this merger in no way diminishes consumer choice of ISPs. The Commission already has found that the Justice Department’s consent decree resolved any competitive issues that might otherwise have been raised by AT&T’s holding interests in both Excite@Home and Road Runner.<sup>28</sup> Neither AOL nor Time Warner has any interest in Excite@Home, and AT&T will be divesting its stake in Road Runner. Moreover, AT&T acquires no attributable interest in AOL through this merger. Accordingly, there will be no AT&T “connection” in ownership of any ISP.

As the foregoing discussion makes clear, there are no relevant “AT&T connection” issues of

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<sup>25</sup> *Id.*, ¶ 102.

<sup>26</sup> See generally *Deployment of Advanced Telecommunications Capability: Second Report*, ¶ 102 (rel. Aug. 2000).

<sup>27</sup> *Response to Document and Information Request of June 23, 2000*, at 12-13 (July 17, 2000).

<sup>28</sup> *AT&T/MediaOne*, ¶ 116.

ownership raised by the merger of AOL and Time Warner.

Where, then, is the hypothesized competitive concern regarding AT&T that would emanate from this merger? The only other conceivable source might be potential contractual relationships between AT&T and the merged company. But upon examination, these concerns are unwarranted as well.

As a threshold matter, any potential contractual arrangements between AOL Time Warner and AT&T are clearly not merger-specific.<sup>29</sup> The prospect of AT&T and Time Warner negotiations clearly exists without regard to this merger, and AOL—as the Commission knows—has been seeking carriage on AT&T cable systems since long before this merger was announced.

Even were there a nexus to the merger, however, there is no reasonable basis for concern. Possible reciprocally exclusive arrangements between AT&T and AOL Time Warner regarding broadband access are laid to rest by the fact that the Commission already has relied upon AT&T's commitment to multiple ISP choice and here has been presented with AOL and Time Warner's demonstrated commitment to their more comprehensive MOU. These preclude reciprocal exclusive arrangements.

Moreover, the Commission expressly found in *AT&T/MediaOne* that the “consent decree with AT&T ... requiring it to divest its interest in Road Runner and to obtain prior approval from the Justice Department before entering into certain agreements with Time Warner and AOL” would “assure that Road Runner and Excite@Home will not coordinate their actions to the detriment of consumers.”<sup>30</sup> AT&T will hold no cognizable interest in the AOL ISP service and that the existing DOJ prior approval requirements extend to AOL, the same conclusion holds with respect to any potential coordination between Excite@Home and AOL. Thus, there is no more cause for concern over

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<sup>29</sup> See, e.g., *AT&T/MediaOne*, ¶ 143 (“[T]he potential harm alleged by the commenters is not specific to the merger.... [T]he merger is not the cause of this alleged competitive threat, and the merger license transfer proceeding is not the appropriate forum to address this issue.”); *AT&T/TCI*, ¶ 96 (“[O]pen access issues would remain equally meritorious (or non-meritorious) if the merger were not to occur.”).

<sup>30</sup> *AT&T/MediaOne* ¶¶ 116, 122. The DOJ consent decree requires AT&T to divest its interest in Road Runner by December 31, 2001, and “requires the merged firm to obtain prior approval from the Justice Department before entering into certain types of agreements with Time Warner or with AOL .... That requirement, which would remain in place for two years after the merged firm exits Road Runner, would apply to any agreement that proposes joint provision of a residential broadband service or any agreement that would prevent either party from offering a residential broadband service to customers in any geographic region. It also would apply to agreements that would prevent the inclusion of any content in a cable modem service offered by either party, or that would prevent either party from providing preferential treatment to content provided by others.” *AT&T/MediaOne*, ¶ 122.

“preferential agreements” between the parties arising here than there was in *AT&T/MediaOne*.

Nor can arguments that the AOL/Time Warner merger unduly increases the risk of collusion be credited. In rejecting calls to consolidate the AT&T/MediaOne review with the AOL/Time Warner merger also then before it, the Commission held that its *AT&T/MediaOne* decision fully “addressed the threat of anticompetitive action between [*AT&T/MediaOne*] and other large industry players in the MVPD industry in light of recent consolidation activities, as well as the recent trend toward both horizontal and vertical consolidation in the Internet and broadband services industry.”<sup>31</sup>

Even beyond this compelling precedent, the fact is that any arrangements between AOL Time Warner and AT&T would be pro-consumer in any event. AOL Time Warner will continue to seek carriage on AT&T’s cable systems for the AOL service. If it succeeds in expediting such carriage, this result clearly would serve subscribers on AT&T’s cable systems by affording them greater choice in ISPs.

Finally, the FCC’s recent NOI on cable open access provides an existing, open forum for the Commission to examine this inherently industry-wide issue, as the agency determines “what regulatory treatment, if any, should be accorded to cable modem service and the cable modem platform used in providing this service.”<sup>32</sup>

For these reasons, there is no cause for concern that any relationship between AT&T and a merged AOL Time Warner will impede the Commission’s policy goals with respect to broadband Internet access. Rather, the merger unquestionably will advance those goals, and any hypothetical future relationship between AT&T and AOL Time Warner will further enhance the benefits to consumers.<sup>33</sup>

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<sup>31</sup> *Id.*, ¶ 181 (emphasis added). Moreover, the Commission set its horizontal ownership limit at a level which the Commission said, “would ensure that ‘no cable operator or group of cable operators can unfairly impede [competition], either because of the size of any individual operator or because of joint actions by a group of operators of sufficient size....’” *AT&T/MediaOne*, ¶ 53 (emphasis in original, quoting Section 613(f)(2)(A)). The record provides no evidence that any more restrictive cap is required to preclude foreclosure of ISPs, as opposed to video programmers, by a supposed coordinated group of MSOs.

<sup>32</sup> *Inquiry Concerning High-Speed Access to the Internet Over Cable and Other Facilities*, GN Docket No. 00-185, FCC 00-355 (rel. Sept. 28, 2000).

<sup>33</sup> Given the lack of possible harms in video programming, cable telephony, or broadband Internet access resulting from AT&T’s interest in TWE (or AOL Time Warner’s possible acquisition of that interest), there is no risk of harm in the provision of bundled services. As the Commission has stated on several occasions, if the elements of a bundle are competitive, there is no need to be concerned about a merged company’s ability to provide that bundle. *See, e.g., AT&T/TCI*, ¶ 126; *AT&T/MediaOne*, ¶ 141. In fact, precluding such bundling “might well prevent competitively harmless

**III. THIS MERGER WILL HAVE NO INCREMENTAL EFFECT ON ANY COMMERCIAL NEGOTIATIONS BETWEEN AOL TIME WARNER AND AT&T REGARDING AT&T'S STAKE IN TWE.**

As demonstrated above, this merger does nothing to affect the public interest analysis of AT&T's FCC-granted right to retain its limited interest in TWE (subject to cable cap compliance). In turn, this merger does nothing to alter the public interest analysis of a possible AT&T determination to divest that TWE interest. Indeed, as demonstrated below, the relative strengths and weaknesses of AT&T and AOL Time Warner should AT&T decide to divest its interest in TWE are: (1) strictly a product of the specific contractual terms of AT&T's limited interest in TWE understood by AT&T when it willingly acquired it; (2) wholly unaffected by this merger; and (3) in any case, a private negotiation matter of no public concern. As such, the merger of AOL and Time Warner will have no anticompetitive impact on any potential private transaction between the parties and raises no issues of possible concern to the Commission.

As an initial matter, this merger does nothing to affect the nature or value of AT&T's interest in TWE, which it acquired through its purchase of MediaOne. AT&T knew that the interest in TWE it was obtaining would be devoid of management rights. Under the clear terms of the TWE partnership agreement, AT&T's acquisition resulted in the forfeiture of MediaOne's pre-existing management rights in TWE's cable division. AT&T's acquisition thus surely diminished the value of the preexisting MediaOne interest in TWE, but, just as surely, this fact was considered by AT&T and MediaOne in setting the terms of their merger.

As to the potential need for AT&T to divest its interest in TWE, this too is a product of AT&T's own knowing actions. Because the acquisition of MediaOne (and the attributable interest in TWE that came with it) placed AT&T in violation of the horizontal ownership rules, the Commission—as a condition for granting its consent to that transaction—required AT&T to come into compliance with the agency's horizontal ownership rules. In so doing, the Commission provided AT&T with three separate options to achieve compliance—thereby granting AT&T the flexibility it expressly sought.<sup>34</sup> Of course, when AT&T consented to these conditions, it knew that it would face a compliance deadline.<sup>35</sup> Therefore, as AT&T said publicly and as was widely reported, the

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transactions," *AT&T/TCI* at ¶ 125, and "could have the unintended effect of denying consumers substantial benefits." *AT&T/MediaOne* at ¶ 141.

<sup>34</sup> See, e.g., *Ex Parte Letter to Deborah Lathen from AT&T*, CS Docket No. 99-251, May 24, 2000.

<sup>35</sup> In fact, AT&T convinced the Commission to give it a significantly greater period of time to achieve compliance than the 60 days originally contemplated when the Commission stayed the enforcement of the horizontal ownership rules.

Commission's decision "granted both of AT&T's requests—to have [the] 'full range of options' and [the] 'necessary time' to implement them."<sup>36</sup>

In any event, the effect of AT&T's acquisition of MediaOne both on the valuation of the minority TWE interest and on the need for AT&T to take actions to come into compliance with the horizontal ownership cap is absolutely irrelevant to the Commission's deliberations in this proceeding. Rather, any negotiations between AOL Time Warner and AT&T that might result from AT&T's decision to divest the TWE interest will entail consensual marketplace discussions. Absent some demonstrable impact on matters of legitimate concern to the Commission—and, as discussed above, there is none—the agency has no interest that warrants injecting itself into (much less attempting to influence) private, commercial negotiations.<sup>37</sup>

That any private negotiations regarding the sale of AT&T's interest in TWE are entirely unrelated to the Commission's public interest analysis in this proceeding is only to the good. There is no relief that could address these issues in this proceeding. AT&T may choose to divest its stake in TWE, but there is no way for either Time Warner or AOL to force AT&T to do so. Commission precedent clearly mandates that divestitures necessary to achieve compliance with FCC rules are properly the responsibility of the party causing the violation.<sup>38</sup> Here, of course, it is AT&T—not Time Warner or a merged AOL Time Warner—that has been found to be in violation of the cable horizontal ownership cap. It is appropriate, therefore, for the Commission to look to AT&T to cure that violation. Indeed, there would be no lawful basis to look to the Applicants here to eliminate AT&T's interest in TWE.<sup>39</sup>

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<sup>36</sup> See, e.g., *FCC Approves AT&T-MediaOne Deal With Conditions*, Communications Daily, June 6, 2000.

<sup>37</sup> Even if the bargaining strength of AOL Time Warner *vis-a-vis* AT&T were of some relevance to the Commission, the combination of AOL and Time Warner in no way enhances Time Warner's preexisting position in any negotiations over TWE. Thus, as the Commission repeatedly has recognized, the lack of merger-specific effects compels a determination that conditions are inappropriate and unwarranted. *AT&T/MediaOne*, ¶ 143.

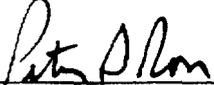
<sup>38</sup> In cases involving enforcement of its media ownership rules, for example, the Commission consistently focuses its enforcement actions on the entity holding the interest that violates the rules. See, e.g., *Mario Gabelli*, 7 FCC Rcd. 5594 (1992); *Baltimore Broadcasting Corp.*, 1 RR 2d 798 (1963).

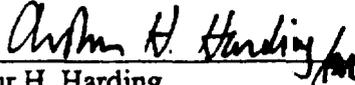
<sup>39</sup> It is well-established law that remedial measures are not to be directed against a party that has had competitive concerns "thrust upon it." *U.S. v. Alcoa*, 148 F.2d 416, 429 (2d Cir. 1945); see also *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985). Any curative measures therefore must properly be directed exclusively against AT&T. For the Commission to do otherwise, particularly given the Commission's ruling in *AT&T/MediaOne*, would, at a minimum, constitute an arbitrary and capricious act under the Administrative Procedures Act.

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October 5, 2000  
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For the foregoing reasons, the record provides no basis for Commission concern—much less Commission action—as to possible inter-relationships between AT&T and AOL Time Warner. Please feel free to contact us if you have any further questions in this regard.

Respectfully submitted,

  
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# Exhibit 4



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November 8, 2000

Ms. Kathryn C. Brown  
Chief of Staff  
Office of the Chairman  
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Re: In the Matter of Applications of Consent to the Transfer of Control of Licenses and Section 214 Authorizations from MediaOne Group, Inc. to AT&T Corp., CS Docket No. 99-251; In the Matter of Applications for Transfer of Control to America Online, Inc. ("AOL") of Licenses and Authorizations Held by Time Warner Inc. ("Time Warner"), CS Docket No. 00-30.

Dear Ms. Brown:

In an October 13, 2000 *ex parte* letter submitted by Catherine R. Nolan, Vice President, Law and Public Policy of Time Warner, Inc., Time Warner suggests that there is no obstacle to AT&T's divestiture of its minority interest in the Time Warner Entertainment Limited Partnership ("TWE") within the time periods contemplated by the AT&T/MediaOne Order. That suggestion ignores both the terms of the TWE Agreement and Time Warner's steadfast refusal to take even the most basic steps to facilitate AT&T's timely withdrawal from TWE.

Foremost, all three of the exit alternatives that Time Warner suggests are "unilaterally" available to AT&T under the TWE partnership agreement are heavily dependent on the cooperation of Time Warner. Time Warner controls all of the important detailed financial, prospective and operating information regarding TWE. AT&T, in contrast, does not have (and has not had access to) much of the critical and basic information, such as budgets, strategic plans, back-up financial data and other information that is typically provided, and must be reviewed, as part of the due diligence associated with any large transaction. Although TWE files certain historical financial information publicly, only Time Warner has access to the detailed information necessary for any party, including any underwriter, to perform a proper valuation analysis of TWE.

Any meaningful third party sale process would necessarily require the full cooperation of Time Warner, including provision of the information that a prospective buyer, and AT&T as the seller, would need to arrive at a fair price. Time Warner however, has no incentive to cooperate. Indeed, AT&T has specifically requested due diligence information customary for determining valuation for an asset of this type, but has not, to date, been given that information. This may well be because Time Warner has a right of first refusal to buy AT&T's interest at the price offered by a third party, and Time Warner thus benefits from artificially suppressing that price.

With respect to the registration rights provided in the TWE partnership agreement, Time Warner claims that there is "nothing in the TWE Agreement" that could prevent AT&T from completing a public sale of its interest in TWE through the registration rights process prior to May 19, 2001. This is simply not true. An initial public offering of the equity of a company as large and complex as TWE would typically take at least four to six months, assuming full cooperation by the issuer and its controlling party (in this case Time Warner) with the selling shareholders and underwriters.<sup>1</sup> In this case, however, as Time Warner noted in its letter, certain steps that are presumptions to the public registration process are required by the TWE partnership agreement to be completed by or about March 16, 2001. That leaves only two months to complete the SEC registration process, go on "road shows" and price and close the offering, even assuming no delays by Time Warner in drafting and filing the registration statement, selecting the managing underwriter, or preparing the underwriting agreement. Moreover, Time Warner has a "black-out right" to freeze the registration for up to six months under certain circumstances (which are largely under its control).

Even assuming an initial public offering could as a practical matter be effected by May 19, 2001, the partnership agreement requires an investment banker's determination not only of an appraised value for TWE, but also of the "Registrable Amount" - i.e., the banker's determination of how much of AT&T's investment could be sold in the public markets in a single offering. Depending upon market conditions, the banker could determine that only a small portion of AT&T's TWE investment could be sold (a likely conclusion given the fact that a public offering at fair value of AT&T's entire TWE investment would be the largest IPO in U.S. history). In that event, it would likely be significantly after May 19, 2001 before a complete divestiture through the registration process could be completed, even with Time Warner's full cooperation.

Time Warner ultimately recognizes as much, but claims that AT&T could nonetheless comply with the AT&T/MediaOne Order by placing its TWE interest in an irrevocable trust for "orderly" disposition by the trustee over the course of several years. But this completely ignores the central flaw in Time Warner's position, and in the efficacy of the procedures that Time Warner claims are available to AT&T. It is clear that any such trustee would be as dependent on Time Warner's cooperation to facilitate a sale transaction at fair value as AT&T or a potential third party purchaser would be. Because Time Warner

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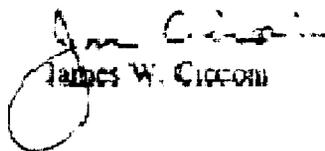
<sup>1</sup> An initial public offering could take much longer, but because TWE already files reports with the SEC it is likely that Time Warner could meet the timetable if it so desired.

not only has the ability to withhold that cooperation, but also controls the information flow to the appraising banker and potentially stands to benefit from a low valuation through certain put and call rights in the TWE partnership agreement. It has every incentive to be uncooperative and to artificially suppress the price.

There should be no confusion on this matter. AT&T prefers to divest the TWE interest, but absent Commission action to give Time Warner the necessary incentives to accommodate a timely disposition of AT&T's TWE interest at fair value, it is likely that AT&T and Time Warner (and, if the Commission approves the pending merger, AOL) will remain partners. Good public policy requires that, to the extent possible, the Commission should be consistent in its treatment of investments such as TWE that come before the Commission as part of more than one transaction. To do otherwise, will inevitably result in one party bearing a greater share of the burden than another similarly-situated party, and will impair the ability of the parties to implement Commission requirements in a fair and feasible manner.

Fortunately, the remedy for this situation is straightforward. Ms. Nolan's letter suggests that Time Warner is interested in purchasing AT&T's minority interest in TWE. The Commission can provide the appropriate incentive to AOL/Time Warner to complete that transaction within the time period contemplated by the AT&T/MediaOne Order by requiring as a condition of its approval of the merger of AOL and Time Warner that in the event AT&T and AOL/Time Warner fail to reach agreement on the price Time Warner will pay for AT&T's interest by December 1, 2000, the matter will be submitted to binding arbitration pursuant to a customary appraisal process, with a requirement that the parties enter a definitive agreement to effect disposition of AT&T's TWE interest, at the arbitrated price, before the compliance date set in the MediaOne merger order. To ensure that any arbitrator has the ability to make an informed and timely valuation decision, the Commission should also require that AOL/Time Warner grant AT&T and the arbitrator full access to the books, records and personnel of TWE in the arbitration proceeding. This simple condition should remove the existing impediment to AT&T's withdrawal from the TWE partnership.

Very truly yours,

  
James W. Ciccotti

cc: Deborah Lathan  
Michelle Ellison  
Jim Bird

# Exhibit 5

ORIGINAL

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August 31, 2000

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12th Street, SW – The Portals  
TW-B204  
Washington, D.C. 20554

Re: In the Matter of Applications of America Online, Inc. and Time Warner,  
Inc. for Transfers of Control (CS Docket No. 00-30),  
Notice of *Ex Parte* Presentation

Dear Ms. Salas:

On August 30, 2000, Johnny Scarborough of iCast, Jon Englund of Excite@Home, Marilyn Cade of AT&T, Marc Berejka of Microsoft, Gerry Waldron and Erin Egan of Covington & Burling for Microsoft, and the undersigned, counsel to AT&T, met with Royce Dickens and Darryl Cooper with the Cable Bureau, John Berresford with the Common Carrier Bureau, Jim Bird and Joel Rabinowitz with the OGC; and Messrs. Scarborough, Englund, Berejka and Waldron met with Robert Pepper and Michael Kende of OPP. On August 31, 2000, Messrs. Englund, Berejka, Waldron and the undersigned met with David Goodfriend of Commissioner Ness' office. The purpose of each meeting was to discuss the interoperability of instant messaging (IM) networks, the impact of the proposed AOL/Time Warner merger on the IM industry, and the need for Commission action to ensure interoperability of this service which will be a platform for dynamic business and consumer applications in the near future.

Specifically, during the three meetings we informed the staff about the progress that IMUnified has made in developing an interim protocol for exchange of IM among the nine companies participating in the project. The companies also emphasized how IM will serve as a platform for a range of applications, including weather and traffic alerts, news and entertainment distribution, communications by the deaf community, voice-over-the-Internet, and interactive television. We then discussed the jurisdictional basis for Commission action to promote interoperability in the context of the merger review, specifically discussing the public interest standard, the pro-competitive provisions in the 1996 Act and Section 230, and title VI. We also explained how the concerns about IM interoperability are specific to this proposed merger. In particular, we discussed how, absent appropriate interoperability conditions, such cessation of

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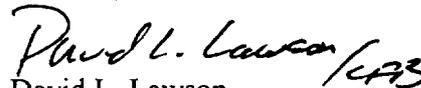
August 31, 2000

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blocking, the combination of AOL's dominant IM service with Time Warner's vast content and cable holdings would harm the public interest.

If you have any questions, please contact the undersigned.

Sincerely,

  
David L. Lawson

CC: James Bird  
To-Quyen Troung  
Royce Dickens  
Linda Senecal

## CERTIFICATE OF SERVICE

I, Harold Feld, do hereby certify that I caused one copy of the attached *Supplement to Petition to Deny* to be served by U.S. mail upon the parties listed below.

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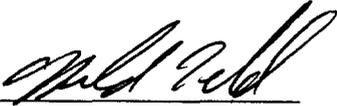
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Harold Feld

November 9, 2000  
Date