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July 23, 2002

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**BY ELECTRONIC DELIVERY**

Marlene H. Dortch, Secretary  
Federal Communications Commission  
236 Massachusetts Avenue, NE, Suite 110  
Washington, DC 20002

Re: Notice of *Ex Parte* Presentation in MB Docket No. 02-70 – In the Matter of Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp. to AT&T Comcast Corporation.

Dear Ms. Dortch:

On June 22, 2002, Neil Bosian and Kevin Lash of Prime Communications, Inc. (“Prime”) and John Kamp, Hugh Latimer and Nicole Rothstein of Wiley Rein & Fielding LLP met with James Bird, Royce Sherlock, John Scott, Roger Holberg, Kimberly Reindl, Patrick Webre and Erin Dozier of the Federal Communications Commission (“FCC” or “Commission”) regarding the above-referenced proceeding. In addition, the following people participated on the telephone on behalf of Prime: Michael Turner of the Information Policy Institute and Jean Pool of MindShare International.

In making this presentation, Prime urged that the merger of Comcast Corporation (“Comcast”) and AT&T Corporation’s broadband business (“AT&T Broadband”) would injure media advertising competition and deprive advertisers of valuable choices. Consequently, Prime advocated that the Commission must grant relief prior to approving this merger; otherwise the parties’ applications must be denied. During this meeting, Prime distributed the attached presentation to each member of the FCC’s staff. Prime also distributed two materials in which it has requested confidential treatment pursuant to Section 0.459 of the Commission’s rules in a letter dated June 23, 2002.

Pursuant to Section 1.1206(b)(2) of the Commission’s rules, this *ex parte* notice is being filed electronically via the Commission’s Electronic Comment Filing System for inclusion in the public record in the above-referenced docket. Should you have any questions, please contact the undersigned counsel for Prime.

Wiley Rein & Fielding LLP

July 23, 2002

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Respectfully,

/s/ John F. Kamp

Enclosures

cc (by email): James Bird  
Royce Sherlock  
John Scott  
Roger Holberg  
Kimberly Reindl  
Patrick Webre  
Erin Dozier

# The AT&T/Comcast Merger: Conditions Necessary

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The Prime  
Communications, Inc.  
Experience

Presented by:  
Wiley Rein & Fielding LLP  
July 22, 2002

# Scope of Presentation

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- What AT&T actions violate the public interest?
- The AT&T/Comcast merger compounds these problems.
- What are AT&T's apparent motives?
- Who Is Prime Communications?
- What did AT&T do to Prime?
- Overview of the online automotive retail industry.
- AT&T's actions pose nationwide dangers for other media, ad agency independence and consumers.
- Two merger conditions are necessary.

# What AT&T Actions Violate the Public Interest?

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- AT&T's tactics in Boston demonstrate that its local cable systems will "take no prisoners" in pursuit of increased cable advertising revenues.
- AT&T engages in exclusionary conduct by offering cable ads to Prime's clients at unsustainable prices.
- AT&T bundles its Vehix web tool with its cable television advertising.
- These unfair tactics harm advertisers, agencies, other media and ultimately raise the cost of cars to consumers.

# The AT&T Comcast/Merger Compounds These Problems

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- Increased concentration of power enables more “leveraged sales.”
- Both AT&T and Comcast use Vehix.
- AT&T/Comcast’s middle management sales forces will remain largely intact after the merger.
- Automobile advertising is just the first local advertising target.

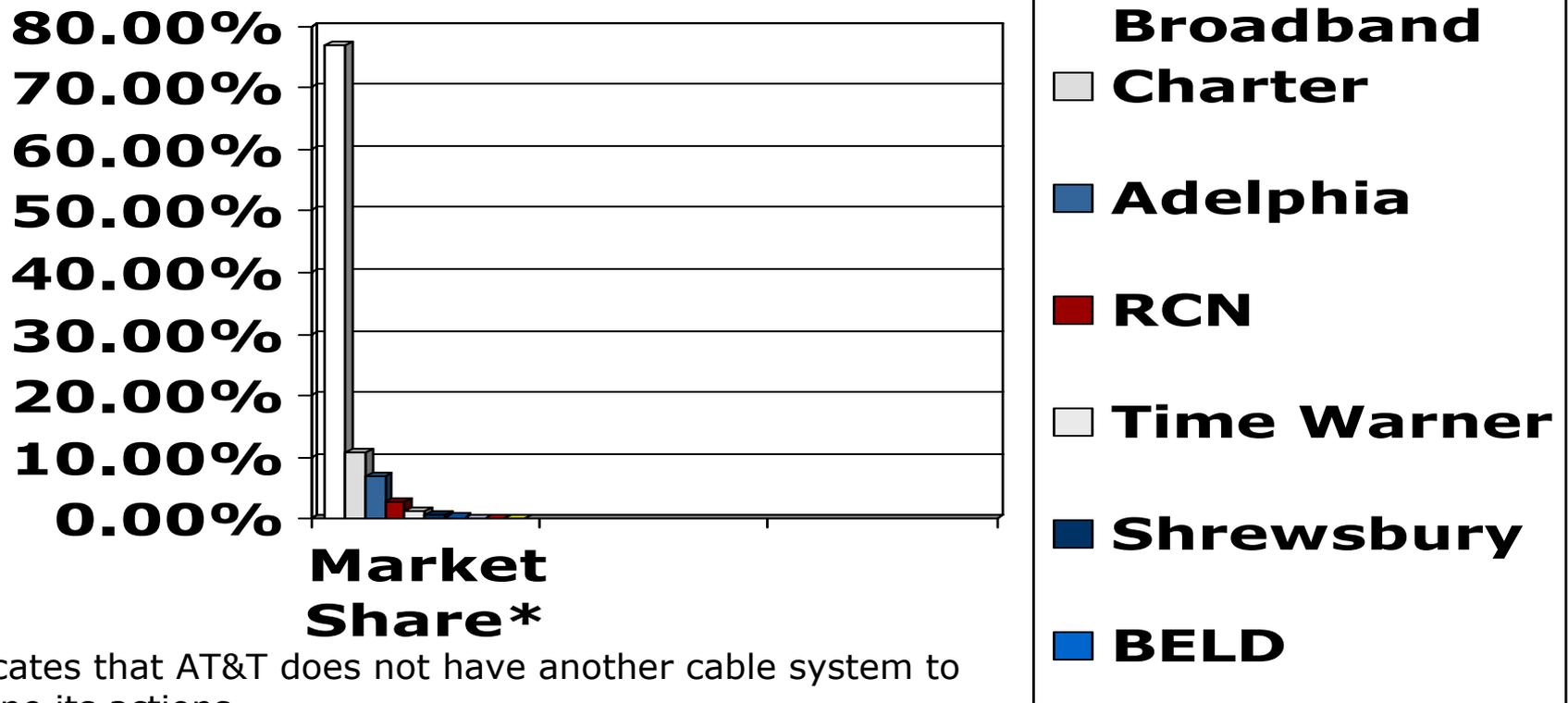
# The Merger Will Enable AT&T Comcast to Control 10 of the Top 10 Markets

Market Rank	DMA <sup>1</sup>	AT&T	Comcast
1	New York, NY		X
2	Los Angeles, CA	X	
3	Chicago, IL	X	
4	Philadelphia, PA		X
5	San Francisco, CA	X	
6	Boston, MA	X	
7	Dallas, TX	X	
8	Washington, DC		X
9	Atlanta, GA	X	X
10	Detroit, MI		X
18	Denver, CO	X	X
28	Hartford, CT	X	X
46	Harrisburg, PA	X	X
52	Wilkes Barre, PA	X	X
58	Richmond, VA	X	X
63	Mobile, AL	X	X
68	Toledo, OH	X	X
76	Ft. Myers, FL	X	X

**The merger will eliminate competition between AT&T and Comcast in 9 of the top 100 markets.**

<sup>1</sup> Designated Market Areas are defined by Nielsen Media Research.

# AT&T Has Over 77% Market Share In Massachusetts (and over 87% in cable advertising)



- Indicates that AT&T does not have another cable system to discipline its actions
- AT&T and Charter have an agreement whereby AT&T purchases all cable advertising for Charter, giving AT&T an effective 87% share in cable advertising.

\* Information taken from MA Department of Telecommunication & Energy website

# AT&T Has a Complete Monopoly in 196 Towns in Massachusetts

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- AT&T operates cable systems in 214 towns in Massachusetts.
- Out of those 214, AT&T faces competition in only 18 towns.
- Except in one town where AT&T faces competition, its minimum market share in competitor's market is 63% (and the average market share in these areas is 79%)

# What Are AT&T's Apparent Motives?

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- (1) Increase and maintain its cable monopoly; and
- (2) Eliminate independent media buying advice from full-service advertising firms by:
  - Suppressing businesses and products that threaten its cable monopoly advertising revenues
  - Promoting Vehix to “leverage cable ad” sales
  - Denying Prime the ability to buy cable and disrupting its customer relationships

# Who Is Prime Communications?

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- A small, regional, full-service advertising firm for auto dealers in parts of Massachusetts, New Hampshire, Rhode Island and Connecticut.
- Provides independent advertising advice for its clients.
- Produces and purchases ads for cable, broadcast and print and provides an automotive website portal.
- Has purchased ads on cable systems now controlled by AT&T at “agency discount” rates for 15 years.

# What Did AT&T Do to Prime?

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- Accused Prime of being the reason AT&T cable systems did not get more revenue.
- Offered to purchase Prime's Internet products as part of its campaign to increase cable advertising sales.
- After Prime declined, AT&T refused to accept any further cable ads directly from Prime.

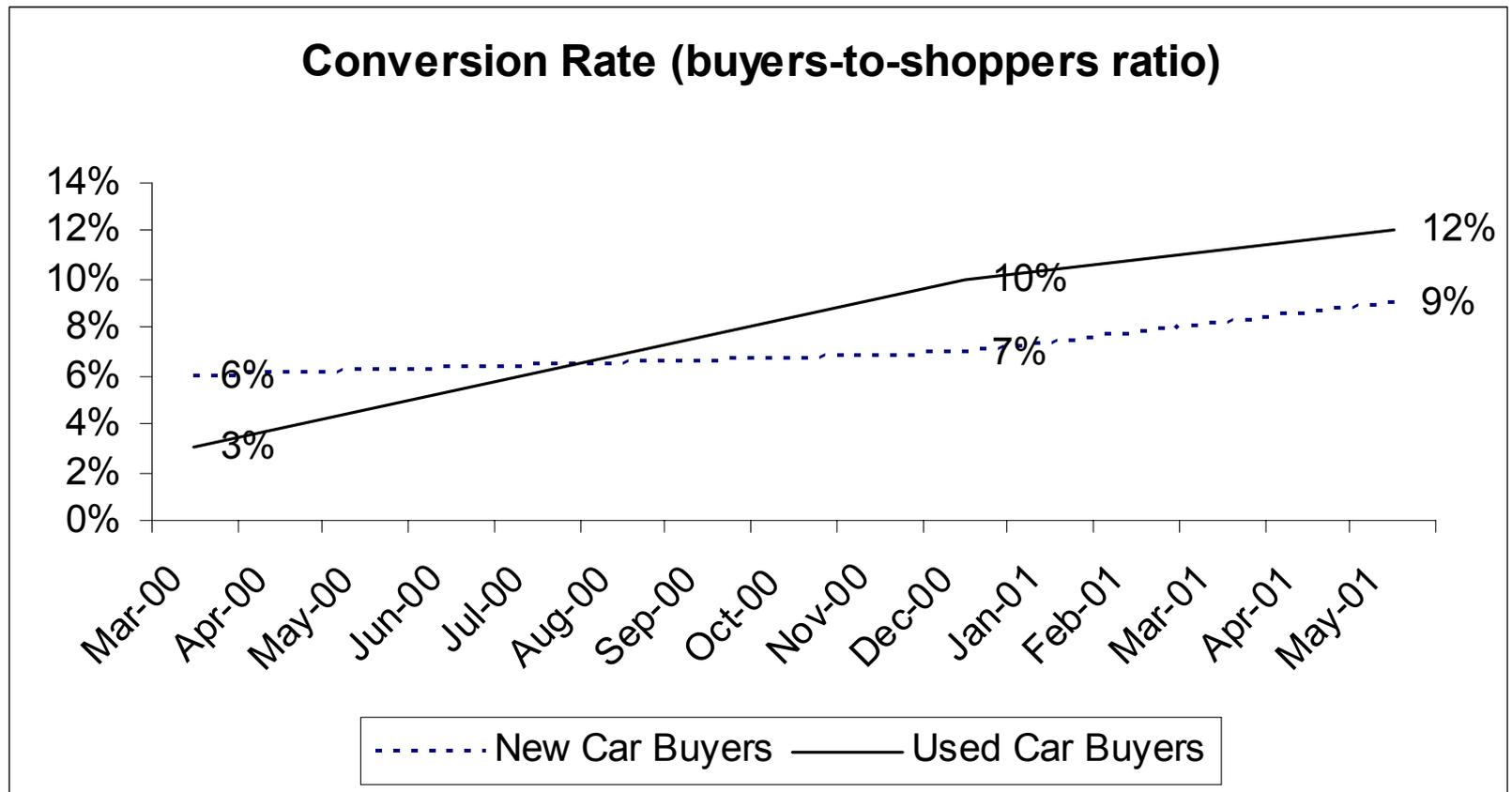
# Overview of the Online Automotive Retail Industry

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- During 2001 6% (\$25 billion) of all new cars and 4% (\$17 billion) of used cars were sold online.
- New car purchasers influenced by information on the Internet increased from 62% in 2001 to 72% in 2002.

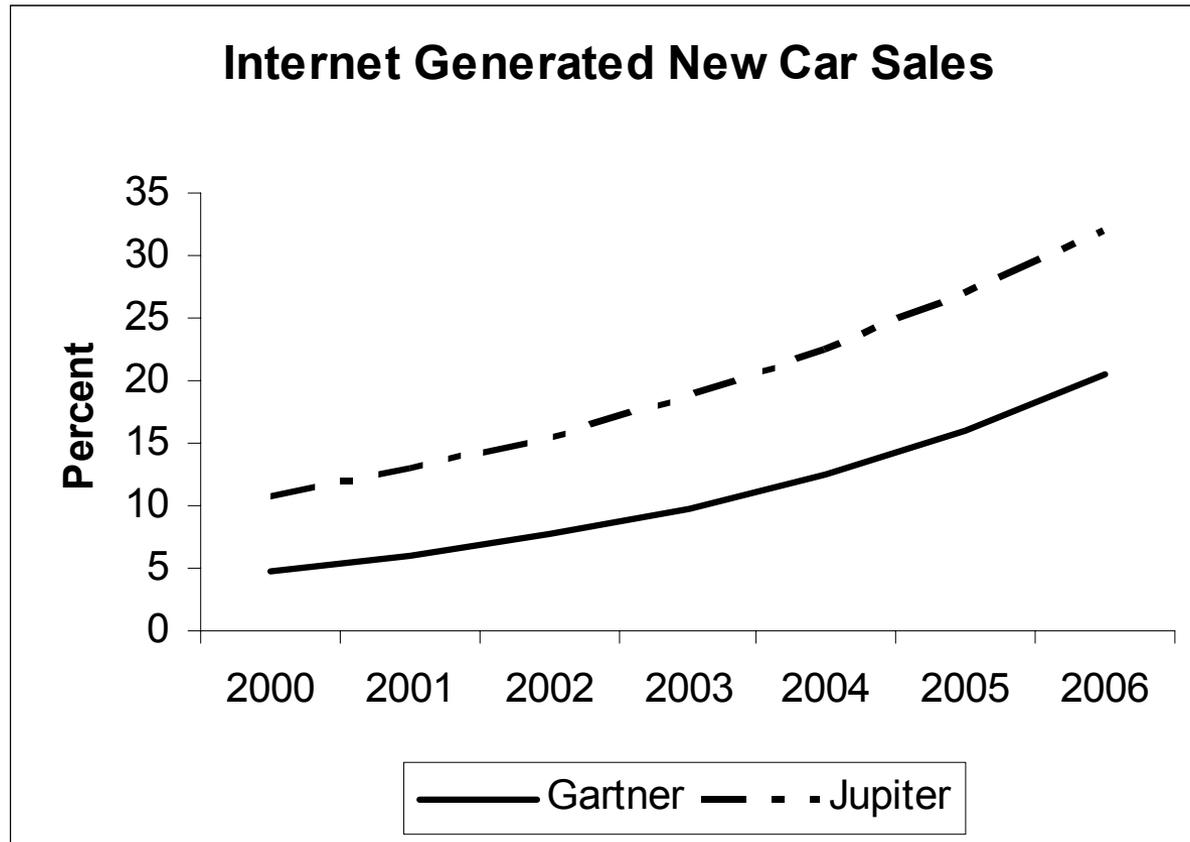
\* The above information is available from Gartner 2002, J.D Powers and Vividence.

# Online New Car Buyers Increased 30% And Used Car Buyers Increased 400% During 2000 – 2001



\* Information available from [Gartner](#).

# 32% Of All New Car Sales In 2006 Will Be Internet-Generated.



\* Information available from [Jupiter Media Metrix](#).

# The Online Auto Industry's Fledgling Market is Fragile

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- Autobyte's operating expenses are 170% of its total revenue.
- Autobyte's revenues increased from \$15 million in 1997 to \$71 million in 2001.
- Despite impressive revenue growth, all significant players in the market are operating at a loss.

\* Data available from Autobyte's 2001 Annual Report.

# The Mechanics of “For Fee” vs. “For Free”

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Providers offer individualized services, including: web hosting, design, and development; lead tracking; and database and lead management) for a fee.

- Autobytel = \$2,300 per month for lead generation and lead tracking.
- Prime = \$1,000 per month for web hosting, maintenance and \$250 per month for Prime IQ.
- AT&T and Comcast bundle distinct online retailing services and tie them to the purchase of cable ads = **no fee**.

# Vehix = Monopoly Maintenance

Vehix Sales Support Toolbox - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Search Favorites History Print

Links Windows Customize Links RealOne Player Overnight averages for mortgages Fidelity Investments

Address http://toolbox.vehix.com/

vehix.com road map to the automotive world

Welcome to the sales support toolbox. [Manager Reports](#)  
Log in for access to the latest sales reports.

Vehix has combined the massive reach of Cable TV with the incredible power of the Internet, creating a new weapon in the fight for local automotive ad dollars.

FIRST TIME HERE? This site is designed to provide a valuable tool for your business. If you are a new affiliate, you can learn how to use the powerful sales tools. Click on the links below to learn more.

**Phase I**  
[Introduction](#)  
You will receive a personal introduction from the Vehix team. You will also receive a personal introduction from the Vehix team. You will also receive a personal introduction from the Vehix team.

**Phase II**  
[Close the Sale](#)  
Phase II tools walk the dealer through the benefits and functionality of the Vehix technology and lead delivery system. The goal? Close the sale and hand off to the Vehix customer support team for implementation.

**Phase III**  
[Dealer Activation](#)  
The dealer has signed a contract and is ready to be activated on the Vehix system. What is your role in Phase 3? Provide us with some key information we'll need to ensure a smooth "hand-off" for technical implementation.

[Contact Us](#)

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Internet

- Auto dealers cannot obtain Vehix without first purchasing cable ads at AT&T specified minimums.
- Even if auto dealers do not want Vehix, it is included "for free" with the purchase of cable ads.
- Question: Why would AT&T buy a 49% stake in a service such as Vehix and endorse its use throughout the industry and among its largest competitors?

# The Impact of Vehix

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- Online auto retailing exhibits distinct network externalities: consumers value sites with the most inventory/listings and dealers value sites with the most prospective buyers.
- No existing ad firm can match a merged AT&T Comcast in terms of advertising.
- Autobytel – the largest online auto retailer - did not advertise during 2001 (2001 Annual Report).
- A massive advertising cross-subsidy plus “for-free” pricing will “tip” the market allowing AT&T to easily dominate the fragile fledgling online auto retailing industry.

# Can the Market be Tipped?

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- Autobytel 3,800 dealer relationships US/CAN after 5 years.
- AutoWeb 1,800 dealer relationships US/CAN after 5 years.
- CarSmart 700 dealer relationships US/CAN after 5 years.
- Vehix 1,400 dealer relationships in US in just 2 years.

# What Is At Stake?

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- Customers of an online service pay on average 2% less for their car (\$450 for the average car).
- A consumer receiving the mean online price does better than 65% of offline consumers, conditional on the car being purchased. (Gartner)
- If dealers must buy cable television, costs passed on to consumers, negating savings from online advertising.

# AT&T's Actions Pose Nationwide Dangers For Other Media, Ad Agency Independence and Consumers

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- AT&T is bundling Vehix in every AT&T market; Comcast already uses Vehix.
- AT&T's behavior is designed to eliminate independent media buyers.
- Merged entity will hurt advertisers, agencies, other media.
- Consumer car purchasers will be the ultimate losers through increased car prices.
- Auto dealers cannot get or keep Vehix unless they purchase cable ads at levels specified by AT&T (even if dealers do not want it).

# Two Merger Conditions Are Necessary

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- AT&T/Comcast must permit all independent advertising agencies to purchase cable television advertising on a direct and nondiscriminatory basis; and
- AT&T/Comcast must unbundle its Vehix Internet-based product from its cable television advertising.