

Merger of
SBC Communications Inc.
and
AT&T Corp.

***Description of the Transaction, Public Interest Showing,
and Related Demonstrations***

Filed with the Federal Communications Commission
February 21, 2005

In connection with the proposed transaction, SBC intends to file a registration statement, including a proxy statement of AT&T Corp., and other materials with the Securities and Exchange Commission (the "SEC"). Investors are urged to read the registration statement and other materials when they are available because they contain important information. Investors will be able to obtain free copies of the registration statement and proxy statement, when they become available, as well as other filings containing information about SBC and AT&T Corp., without charge, at the SEC's Internet site (www.sec.gov). These documents may also be obtained for free from SBC's Investor Relations web site (www.sbc.com/investor_relations) or by directing a request to SBC Communications Inc., Stockholder Services, 175 E. Houston, San Antonio, Texas 78258. Free copies of AT&T Corp.'s filings may be accessed and downloaded for free at the AT&T Relations Web Site (www.att.com/ir/sec) or by directing a request to AT&T Corp., Investor Relations, One AT&T Way, Bedminster, New Jersey 07921.

SBC, AT&T Corp. and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from AT&T shareholders in respect of the proposed transaction. Information regarding SBC's directors and executive officers is available in SBC's proxy statement for its 2004 annual meeting of stockholders, dated March 11, 2004, and information regarding AT&T Corp.'s directors and executive officers is available in AT&T Corp.'s proxy statement for its 2004 annual meeting of shareholders, dated March 25, 2004. Additional information regarding the interests of such potential participants will be included in the registration and proxy statement and the other relevant documents filed with the SEC when they become available.

Certain matters discussed in this statement, including the appendices attached, are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, without limitation, the information concerning possible or assumed future revenues and results of operations of SBC and AT&T, projected benefits of the proposed SBC/AT&T merger and possible or assumed developments in the telecommunications industry. Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by SBC with the Securities and Exchange Commission, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of SBC and AT&T or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of AT&T shareholders to approve the merger; (3) the risks that the businesses of SBC and AT&T will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that Cingular Wireless LLC could fail to achieve, in the amount and within the timeframe expected, the synergies and other benefits expected from its acquisition of AT&T Wireless; (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or

enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which SBC and AT&T operate.

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EXECUTIVE SUMMARY

For more than a century, the telecommunications networks and services in this country were the envy of the world. We had the fastest, cheapest, most advanced technology and an infrastructure that reached into just about every home and business in the nation. No other country could boast comparable levels of service and technology.

As a result, our telecom industry has long been a critical engine for domestic economic growth. The telecom sector standing alone accounts for nearly three percent of the U.S. GDP – more than any other high-tech industry. The existing infrastructure reflects literally trillions of dollars in capital investment. At its peak in the year 2000, the sector as a whole was investing about \$110 billion per year, and thus accounted for about 10 percent of all annual capital spending in the United States. Through its impact on productivity, moreover, the telecom sector's capital investment boosts economic output across the board. The Bureau of Economic Analysis estimates that each dollar invested in U.S. telecom infrastructure results in nearly three dollars of economic output. That multiplier is likely to get larger as ubiquitous, low-cost broadband service becomes more widely available.

The telecom sector has had a commensurately large impact on employment. In the year 2000, it employed almost 1.2 million workers. Employment in the telecom sector as a whole grew more than twice as fast as the national average between 1998 and 2000, and, by the year 2000, the telecom sector was paying nearly twice the average U.S. salary.

As we all know, that situation has changed dramatically. We are currently in a period of “creative destruction” that is transforming the industry. New technologies have advanced at a rapid pace to compete with and displace traditional telecommunications services.

Cable television operators are expected to offer telephony – either VoIP or circuit-switched – to two-thirds of American homes by the end of 2005. At the same time, wireline traffic is increasingly moving to wireless networks, as the already ubiquitous wireless carriers overtake wireline carriers in terms of total “lines” served. And the proliferation of broadband networks – while offering a host of new, IP-based services to consumers – likewise is draining traffic off wireline networks at an astonishing clip.

These competitive developments – though of obvious benefit to consumers – pose a direct threat to the nation’s traditional wireline infrastructure. Over the long term, technological transformations cannot be sustained and expanded without extraordinary further investments of capital. Yet just the opposite is happening today. Since 2000, telecommunications service providers, and the equipment manufacturers that supply them, have lost over 700,000 jobs and over \$2 trillion in market capitalization, while annual investment declined by more than \$70 billion, and the United States fell to 11th in the world in deployment of advanced broadband networks. The capital markets have recognized the increased business risks inherent in traditional telecommunications firms – resulting in constrained access to capital and increasing costs.

This is the environment in which SBC and AT&T find themselves today. Both have endured dramatic declines in market capital, revenues, and jobs. Yet both have

significant strengths and resources that are critical to the future of U.S. telecommunications.

The 1984 divestiture of the Bell System and the ensuing 20 years of regulation have segregated the telecommunications industry along artificial local and long distance faults. Companies on both sides of the divide were long precluded from taking advantage of the enormous efficiencies associated with operating an end-to-end network. But the broadband future of our country critically depends on the ability of companies to assemble these separate networks. The maximum potential of broadband can only be achieved where broadband capabilities are implemented at all levels of the network.

That is why the merger of SBC and AT&T provides such an ideal opportunity at this juncture, when intermodal competitors (wireless and cable in particular) are challenging the traditional networks. The existence of separate local and long distance companies no longer benefits consumers. But neither SBC nor AT&T standing alone has the assets and expertise necessary to assemble a true nationwide end-to-end broadband network. Their union will allow beneficial vertical integration without diminishing vigorous horizontal competition. The merger of these two legacy carriers is the most logical and natural outcome to ensure a strong and vibrant industry.

SBC and AT&T have complementary strengths and product sets, and have focused on sales to different groups of customers. SBC is a financially strong provider of voice, data, broadband, and related services to consumers, businesses – especially small and mid-sized businesses – and wholesale customers, primarily on a local and regional basis in its 13-state region. SBC holds a 60% ownership interest in the largest U.S. wireless company, Cingular Wireless, and is one of the leading providers of residential

broadband DSL services. At present, SBC is making a \$4 billion investment to implement its initial roll-out of next-generation video and other IP-based voice and data services to 18 million households within three years.

AT&T has a different focus. It provides a broad array of voice, data, and IP-based services to customers on its global and national IP-based networks. It has a presence in more than 50 countries, allowing it to compete for the business of the largest global enterprises. AT&T has been a leader in the development of innovative products through its AT&T Labs.

The combined SBC and AT&T will be a stronger and more enduring U.S.-based global competitor than either company could be alone, capable of delivering the advanced network technologies necessary to offer integrated, innovative high quality and competitively priced telecommunications services to meet the national and global needs of all classes of customers worldwide. The combined company will have the resources, expertise, and incentive to adapt the sophisticated products that AT&T has developed for its enterprise customers to the needs of small and medium businesses and consumers, and the marketing expertise and infrastructure to reach those customers. The merger will ensure that AT&T, on which the government heavily depends for national security and other needs, remains a strong American company.

Indeed, the merger will produce a flagship U.S. carrier that will offer the most efficient, highest quality capabilities to government, business, and residential customers nationwide. Combining the two companies' core strengths will result in more investment in, and faster deployment, of innovative new technologies and services, and those services will benefit all customers, not just those now served by the legacy companies.

As described above and as demonstrated further in this application, the merger will produce numerous tangible public interest benefits, and it will enhance, not harm, competition in any sector. In the mass market, AT&T's independent, irreversible decision to stop pursuing such customers for either local or long distance wireline telephony means that it is no longer a substantial competitor in that market, and the elimination of AT&T as an independent corporate entity could not harm mass market competition. Moreover, even before AT&T's decision, the Commission had already concluded in the section 271 process that all local markets in SBC's states are open to competition. Far from harming competition, the merger will *enhance* competition outside of SBC's region and will certainly not *reduce* such competition within that region. The enterprise segment is exceptionally competitive. Suppliers include interexchange carriers, systems integrators, equipment vendors and value-added service providers, other network providers, foreign carriers, CLECs, cable operators, and other ILECs. Moreover, because enterprise customers are highly sophisticated, have widely heterogeneous needs, and rely on complicated and detailed bidding procedures, providers cannot successfully engage in anticompetitive conduct. Finally, as explained in the application, the merger raises no concern about diminished competition in the markets for Internet backbone, wireless, or international services.

* * *

For all of these reasons, this merger will decisively advance the public interest, it will not harm competition, and the transfer applications should be approved expeditiously.

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Attachments:

- Description of Applicants
- Description of Competitors
- Declaration of James S. Kahan
- Declaration of Christopher Rice
- Declaration of Thomas Horton
- Declaration of John Polumbo
- Declaration of Hossein Eslambolchi
- Declaration of Dennis W. Carlton and Hal S. Sider
- Declaration of Marius Schwartz

**DESCRIPTION OF TRANSACTION,
PUBLIC INTEREST SHOWING,
AND RELATED DEMONSTRATIONS**

I. INTRODUCTION

These applications seek the Commission's approval for the transfer of control of authorizations held by AT&T Corp. ("AT&T") and its subsidiaries to SBC Communications Inc. ("SBC").¹ The merger of SBC and AT&T will serve the public interest, creating a new company for a new era. It responds to a new, dynamic communications marketplace, shaped by profound technological, marketplace, and regulatory changes, by bringing together two companies with complementary strengths to serve both residential and business customers better. Together, the combined company will be a more competitive U.S.-based carrier with global reach, poised to accelerate the deployment of advanced next-generation Internet Protocol ("IP") networks and services.

A. The Merger Responds to Dramatic Technological, Marketplace, and Regulatory Changes.

This merger is a response to the dramatic changes unleashed by the Telecommunications Act of 1996² (the "1996 Act"), which removed barriers to competitive entry in the local exchange and long distance businesses. No longer are providers restricted to specific lines of business or geographic territories, and the result

¹ SBC, AT&T and, where applicable, their subsidiaries, will be referred to collectively as the "Applicants."

² Pub. L. No. 104-104, 110 Stat. 56 (codified at scattered sections of 47 U.S.C.).

has been lower prices, expanded output, and a wide diversity of suppliers of a multitude of products and services.³

At the same time, new technologies have advanced at a rapid rate to challenge and displace traditional communications services. Wireline and wireless networks have grown faster and more robust, and provide vastly greater bandwidth, than was possible just a few years ago.⁴ The growth of national wireless networks and the development of new wireless technologies have increasingly provided alternatives for consumers of voice and data services.⁵ The shift from dial-up to broadband Internet access – first via cable modems, then through massive investment in DSL – has unleashed an expansion of the content and service available to tens of millions of Americans.⁶ The widespread adoption of broadband connections to the Internet has led to the next logical and inexorable step – voice over Internet Protocol (“VoIP”).⁷ Cable operators and others are rapidly exploiting this technology to compete more aggressively for voice services, including in packages with video and high-speed Internet access.⁸ Indeed, all of the major cable operators have either already begun offering or are about to offer VoIP on a nationwide basis.⁹

³ Declaration of James S. Kahan (“Kahan Decl.”) ¶¶ 5-10; Declaration of Dennis W. Carlton and Hal S. Sider (“Carlton & Sider Decl.”) ¶¶ 17-29.

⁴ Carlton & Sider Decl. ¶¶ 17-19; Kahan Decl. ¶ 6. *See generally* Roger O. Crockett, *The Merger Is the Message; Net Technology Is Replacing Old Methods, Ushering in an Era of Souped-Up Services*, Bus. Week, Jan. 10, 2005; Ken Brown & Almar Latour, *Heavy Toll: Phone Industry Faces Upheaval As Ways of Calling Change Fast*, Wall St. J., Aug. 25, 2004, at A1.

⁵ Carlton & Sider Decl. ¶ 17; Kahan Decl. ¶¶ 6-7.

⁶ Carlton & Sider Decl. ¶¶ 23-24; Kahan Decl. ¶ 10.

⁷ *See generally*, Craig Ellison, *Talk Is Cheaper; VoIP Consumer Services Are Ready For the Masses. Are You Ready For Them?*, PC Magazine, Feb. 8, 2005; *The Phone Call Is Dead; Long Live the Phone Call*, The Economist, Dec. 4, 2004.

⁸ Communications Daily (Feb. 16, 2005) available at 2005 WL 62275992 (the number of U.S. households using cable-delivered telephony services will grow from 3.3 million

The continuing entry of new competitors and the introduction of new technologies has pushed carriers to accelerate investment in their networks, not only to support traditional voice and data services, but also to introduce and deploy widely the full suite of IP-platform voice, data, and video services of the packetized age.¹⁰

A decade of regulatory and technological changes also have led to financial reversals and a shakeout in the industry. Business failures, retrenchments, and product shifts have led to the elimination of hundreds of thousands of jobs and the loss of more than \$2 trillion in market value. And since the dot-com and tech meltdowns, the capital markets have recognized the increased business risks inherent in the communications industry, which has constrained access to capital while increasing its costs.¹¹

This transaction responds to these contrasting developments by bringing together SBC and AT&T to create a more competitive and more enduring U.S.-based global competitor than either company alone. The combined company will be capable of delivering the advanced network technologies necessary to offer integrated, innovative, high-quality and competitively priced telecommunications and information services to meet the evolving needs of customers worldwide.¹²

Footnote continued from previous page
today to nearly 5.5 million by the end of 2005, according to a report by Strategy Analytics. This will, according to Strategy Analytics, give the MSOs an early edge in the race to deliver the “triple play” of video, telephony and high-speed Internet access).

⁹ Peter Grant, *Here Comes Cable ... And It Wants A Big Piece of the Residential Phone Market*, WALL ST. J. at R4, Sept. 13, 2004.

¹⁰ Kahan Decl. ¶ 13.

¹¹ *Id.* ¶¶ 15-16.

¹² Carlton & Sider Decl. ¶¶ 31-32; Kahan Decl. ¶ 21.

B. Significant Public Interest Benefits Will Flow from the Merger.

The public will benefit from the merger's creation of a vigorous U.S. carrier with global reach. AT&T's network, which spans more than 50 countries, and AT&T Labs' technological prowess will be combined with SBC's financial strength and local exchange, broadband, and wireless capabilities.¹³ The transaction thus will maintain American leadership in communications and allow the combined company to continue to compete successfully for global business.¹⁴ The telecom sector has been a driving force in the American economy, with a significant impact on investment, employment and productivity. By perpetuating American leadership in telecommunications, the merger will benefit all Americans.¹⁵

The merger will strengthen national security. AT&T in particular is a significant provider of telecommunications and information services to government customers, including the White House, the Department of Homeland Security, the Department of State, the Department of Defense, and numerous states, from Alaska to New York.¹⁶ This transaction will result in a robust, U.S.-owned carrier with the financial resources and technical expertise necessary, not only to continue to provide those services, but also to improve them through even greater investment in innovation that produces cost savings, more reliable services, and more robust capabilities to meet future needs.¹⁷

¹³ Kahan Decl. ¶¶ 28, 29, 32.

¹⁴ *Id.* ¶¶ 28, 31.

¹⁵ *See id.* ¶ 31.

¹⁶ *See id.* ¶ 31.

¹⁷ Carlton & Sider Decl. ¶¶ 38-39; Kahan Decl. ¶ 34.

The merger will increase innovation and investment, which will make existing services more efficient, lead to the more rapid introduction of those services to customers who might otherwise wait years for them, and prompt the development of new services that would otherwise not exist.¹⁸ The combined company will have greater incentives and ability to invest in research and development and to make available the fruits of those efforts to *all* customers. Because of the merger, residential and small business customers will start to enjoy capabilities that once were available only to the largest business and government customers.¹⁹ And once the two companies' networks are combined, transport will be more efficient, reliability will increase, and the quality of service will be higher.²⁰

C. The Merger Will Enhance and Not Reduce Competition.

The merger will enhance and not reduce competition. That is so regardless of how the Commission analyzes the merger. To be sure, it is by no means clear that the market definitions the Commission has traditionally applied in merger proceedings are still valid in this era of rapidly converging services. In an IP world, voice and data services are both merely the transmission of bits over the same network. These IP-based services are rapidly becoming available to mass market and larger business customers.²¹ Likewise, with wireless communications becoming increasingly widespread, assessment

¹⁸ Carlton & Sider Decl. ¶¶ 35-37; Kahan Decl. ¶ 32.

¹⁹ Kahan Decl. ¶ 32; Declaration of Thomas Horton ("Horton Decl.") ¶¶ 11, 13.

²⁰ Carlton & Sider Decl. ¶¶ 31-32; Kahan Decl. ¶ 32.

²¹ Carlton & Sider Decl. ¶¶ 17-29; Kahan Decl. ¶ 34.

of the effect of the merger on competition cannot ignore the growing substitution of wireless for wireline service by both consumers and businesses. Indeed, in 2005, for the first time, there will be more wireless than wireline connections in the United States.²² Substitution of wireless minutes for wireline usage has been growing at a rapid pace, and an increasing number of consumers are pulling their second lines or even completely “cutting the cord.”²³ The introduction of 3G wireless services will intensify this trend. In an environment where wireline carriers compete with cable operators, other VoIP providers, wireless carriers and others, this transaction will not reduce competition. Rather, by pairing the complementary strengths of the two companies, it will enhance competition and benefit all types of customers.²⁴

That same conclusion results from applying the market definitions the Commission has used in past transactions. The operations of the two companies are largely complementary – AT&T is focused primarily on serving national and global enterprise customers with sophisticated needs, while SBC chiefly addresses the needs of residential customers and smaller and regional businesses whose operations are primarily inside SBC’s 13 state region.²⁵ Moreover, in each segment in which the companies compete, there are numerous other competitors and no likelihood of either unilateral or coordinated anti-competitive effects.²⁶

²² Frost & Sullivan, “U.S. Communication Services Market Overview and Future Outlook,” at 89 (2004).

²³ Carlton & Sider Decl. ¶¶ 19-22; Kahan Decl. ¶¶ 6-7.

²⁴ Carlton & Sider Decl. ¶¶ 30-39.

²⁵ Carlton & Sider Decl. ¶¶ 6, 31-32; Kahan Decl. ¶¶ 18, 27.

²⁶ Carlton & Sider Decl. ¶¶ 96-106.

The merger will not diminish competition for mass market customers. AT&T made an irreversible pre-merger decision to discontinue actively marketing local and long distance service to residential and small business customers.²⁷ AT&T has already dismantled infrastructure required to recruit new mass market customers by shutting call centers, dismissing marketing personnel, and terminating vendor contracts.²⁸ Not only will AT&T no longer be an active competitor for mass market customers, but increasingly the competition for such customers is coming from cable operators, VoIP providers, and wireless carriers, in addition to traditional competitors such as ILECs and CLECs.²⁹ For all these reasons, the merger will have no adverse effect on mass market competition. Rather, increased investment and innovation and broader deployment of new services made possible by the merger will benefit mass market customers.³⁰

Nor will the proposed transaction adversely affect competition in the provision of services to large and medium-sized businesses. This segment of the communications industry has long been vigorously competitive, with numerous competitors and sophisticated customers.³¹ Coordinated interaction is unlikely because (1) customer requirements are largely heterogeneous; (2) many competitors with different strategies and competitive strengths are competing, making coordination virtually impossible; and

²⁷ Carlton & Sider Decl. ¶ 8; Kahan Decl. ¶ 20; Declaration of John Pumbo (“Pumbo Decl.”) ¶¶ 2,9; Horton Decl. ¶¶ 2, 7.

²⁸ Carlton & Sider Decl. ¶¶ 12-13; Pumbo Decl. ¶¶ 18, 21.

²⁹ Carlton & Sider Decl. ¶¶ 41-42.

³⁰ Carlton & Sider Decl. ¶¶ 33-37; Horton Decl. ¶ 13, 16.

³¹ *In re Motion of AT&T Corp. To Be Reclassified as a Non-Dominant Carrier*, Order, 11 FCC Rcd. 3271, 3306, ¶ 65, 3308 ¶ 71 (1995) (“AT&T Non-Dominance Order”).

(3) bids are often for large contracts of relatively long duration.³² Additionally, unilateral effects are unlikely because SBC and AT&T are not each other's closest competitors for a significant segment of these customers.³³ Moreover, other competitors could replace either SBC or AT&T in the competition for any business customer.

Indeed, SBC and AT&T typically sell different services to business customers and typically succeed with different types of business customers. SBC's strength is in the sale of services to small and medium-sized businesses with a high percentage of their facilities in SBC's 13 in-region states.³⁴ AT&T's strength is in the sale of services nationwide and globally to large multi-location businesses with generally more sophisticated telecommunications requirements.³⁵ The combined company will be better able to offer a portfolio of services suitable for any customer.³⁶

The merger also raises no competitive issues for Internet, wireless, or international services. With respect to Internet services, where the companies compete against each other (the Internet backbone and retail narrowband sector), the level of concentration is low today, and the increase in concentration that would result from this transaction will not be material.³⁷ AT&T does not compete in the provision of retail broadband mass market services.³⁸ Likewise, AT&T has no present or planned facilities-

³² Carlton & Sider Decl. ¶¶ 65-95.

³³ *Id.* ¶¶ 96-106.

³⁴ *Id.* ¶ 14.

³⁵ *Id.* ¶ 8; Horton Decl. ¶ 3; Polumbo Decl. ¶ 9.

³⁶ Kahan Decl. ¶ 36.

³⁷ Declaration of Marius Schwartz ("Schwartz Decl.") ¶¶ 29, 33.

³⁸ Carlton & Sider Decl. ¶¶ 45-55.

based mobile wireless service operations and resells wireless services to only a few thousand residential consumers under a legacy arrangement with AT&T Wireless that was terminated last year.³⁹ Finally, SBC has only very limited, resale-based retail international operations. Therefore, the combination of SBC and AT&T will not significantly increase concentration in the retail provision of service on U.S. international routes, which are, in any event, today served by numerous large facilities-based and resale providers.

II. DESCRIPTION OF THE APPLICANTS AND THEIR EXISTING BUSINESSES

A. AT&T

AT&T provides domestic and international voice and data communications services to residential, business, and government customers in the United States and around the world. AT&T operates sophisticated global communications networks that support IP as well as other data and voice traffic. AT&T's network operations are supported by AT&T Laboratories, a world-leading source of research and development. In 2004, AT&T's revenues were approximately \$30.5 billion, compared to \$34.5 billion in 2003. AT&T's capital expenditures for 2004 were approximately \$1.77 billion, compared to \$3.4 billion in 2003, \$3.9 billion for 2002, and \$5.6 billion for 2001. A more detailed description of AT&T's business is provided in Appendix A hereto.

³⁹ Carlton & Sider Decl. ¶¶ 56-57; Polumbo Decl. ¶ 12.

B. SBC

SBC is a voice, data, and Internet services provider for residential, business, and government customers, mostly in a 13-state region. SBC serves 52.4 million access lines and has 5.1 million DSL lines in service. SBC holds a 60 percent economic and 50 percent voting interest in Cingular Wireless, which serves 49.1 million wireless customers. Through alliances with GSM-based providers, Cingular offers coverage in 170 countries worldwide. A more detailed description of SBC's business is provided in Appendix A hereto.

C. SBC Is Qualified To Control These Authorizations, and There Is No Issue with Respect to AT&T's Character or Qualifications.

There can be no question that SBC has the qualifications necessary to control AT&T's authorizations. The Commission recently found SBC qualified to control licensees⁴⁰ and repeatedly has made similar findings over the years.⁴¹ Likewise, the Commission repeatedly has found AT&T qualified to be a licensee,⁴² and "the Commission does not, as a general rule, re-evaluate the qualifications of the transferors unless issues related to basic qualifications have been designated for hearing by the

⁴⁰ *In re Applications of AT&T Wireless Servs., Inc. & Cingular Wireless Corp. et al.*, Memorandum Opinion and Order, 19 FCC Rcd. 21522, 21550-52 ¶¶ 52-56 (2004) ("AWS/Cingular").

⁴¹ *See, e.g., In re Applications of Ameritech Corp. & SBC Communications Inc.*, Memorandum Opinion and Order, 14 FCC Rcd. 14712, 14950 ¶¶ 571-73 (1999) (subsequent history omitted) ("SBC/Ameritech"); *In re Applications of SBC Communications Inc. & BellSouth Corp.*, Memorandum Opinion and Order, 15 FCC Rcd. 25459, 25466 ¶ 17 (2000) ("SBC/BellSouth").

⁴² *See, e.g., In re Applications for Consent to Transfer of Control from Tele-Communications, Inc. to AT&T Corp.*, 14 FCC Rcd. 3160, 3227-28 ¶ 143 (1999).

Commission or have been sufficiently raised in petitions to warrant the designation of a hearing.”⁴³ No such issues exist, and so AT&T is qualified to transfer its authorizations.

III. DESCRIPTION OF THE TRANSACTION

SBC will acquire AT&T. At closing, a wholly-owned subsidiary of SBC will be merged with and into AT&T, and each share of common stock of AT&T will be converted into 0.77942 shares of SBC common stock. In addition, at that time, AT&T will pay its shareholders a special dividend of \$1.30 per share. AT&T thus will become a wholly owned subsidiary of SBC. AT&T will continue to own the stock of its subsidiaries, and AT&T and its subsidiaries will continue to hold all of the FCC authorizations that they hold prior to the merger. While SBC will become the new parent of AT&T, there will be no assignment of licenses or transfer of direct control of the FCC authorizations, since the current licensees will continue to hold their authorizations.

IV. THE STANDARD OF REVIEW

In deciding whether to grant these applications under Sections 214(a) and 310(d) of the Communications Act of 1934, as amended,⁴⁴ and Section 2 of the Cable Landing License Act,⁴⁵ the Commission must determine whether or not doing so is in the public

⁴³ *In re WorldCom, Inc. and Its Subsidiaries (Debtors-in-Possession) and MCI, Inc.*, Memorandum Opinion and Order, 18 FCC Rcd. 26484, 26493-94 ¶ 13 (2003) (“*MCI Bankruptcy Exit*”).

⁴⁴ 47 U.S.C. §§ 214(a), 310(d) (2000).

⁴⁵ 47 U.S.C. § 35 (2000). *See generally* An Act Relating to the Landing and Operation of Submarine Cables in the United States, 47 U.S.C. §§ 34-39 (2000) (“Cable Landing License Act”).

interest.⁴⁶ Specifically, Section 214(a) requires the Commission to find that the “present or future public convenience and necessity require or will require” SBC to operate the acquired telecommunications lines and that “neither the present nor future public convenience and necessity will be adversely affected” by the discontinuance of service from an independent AT&T.⁴⁷ Similarly, Section 310(d) mandates that the Commission decide whether “the public interest, convenience and necessity will be served thereby.”⁴⁸

The Applicants bear the burden of demonstrating that the transaction is in the public interest. In *SBC/Ameritech*, the Commission described “four overriding questions” it considers in applying the public interest test:

(1) whether the transaction would result in a violation of the Communications Act or any other applicable statutory provision; (2) whether the transaction would result in a violation of Commission rules; (3) whether the transaction would substantially frustrate or impair the Commission’s implementation or enforcement of the Communications Act, or would interfere with the objectives of that and other statutes; and (4) whether the merger promises to yield affirmative public interest benefits.⁴⁹

In answering these questions, the Commission “weigh[s] the potential public interest harms [of the proposed transaction] against the potential public interest benefits to ensure

⁴⁶ As a threshold matter in this review, the Commission must determine whether SBC has the requisite qualifications to hold and transfer control of licenses. 47 U.S.C. § 310(d). As discussed in Part II.C above, there can be no question on this score.

⁴⁷ 47 U.S.C. § 214(a).

⁴⁸ *Id.* § 310(d). The Cable Landing License Act contains different language – providing that approval may be granted “upon such terms as shall be necessary to assure just and reasonable rates and service in the operation and use of cables so licensed.” *Id.* § 35. However, the Commission has equated that language with its public interest test. *See, e.g., MCI Bankruptcy Exit*, 18 FCC Rcd. at 26492 ¶ 12.

⁴⁹ *SBC/Ameritech*, 14 FCC Rcd. at 14737 ¶ 48 (notes omitted).

that, *on balance*, the proposed transaction will serve the public interest, convenience, and necessity.”⁵⁰ Among other factors, this balancing requires “an analysis of the potential competitive effects of the transaction, as informed by traditional antitrust principles.”⁵¹

It is clear that this transaction does not violate any law or rule, or interfere with implementation of the objectives of the Communications Act. Thus, in the remainder of this public interest statement, we show that this transaction will benefit the public interest and, accordingly, should be approved by the Commission expeditiously.

V. THE MERGER WILL HELP TO RENEW AMERICAN LEADERSHIP IN COMMUNICATIONS

The combination of SBC and AT&T, with their complementary capabilities and experiences and a shared tradition of innovation and world class service, will propel America’s communications industry forward, harnessing IP technology to help renew America’s leadership in a new era of communications. The merger will accelerate and expand the delivery of advanced technologies, services, and features to *all* classes of customers, large and small. It will improve the security and reliability of the communications services and networks upon which American consumers, businesses, and government agencies rely. It will speed the transition from legacy networks and technologies to advanced, next-generation broadband and IP-enabled networks and

⁵⁰ *MCI Bankruptcy Exit*, 18 FCC Rcd. at 24692 ¶ 12 (emphasis added); *accord*, *Cingular/AWS*, 19 FCC Rcd. at 21542 ¶ 40; *In re Applications of Tele-Communications, Inc. and AT&T Corp.*, Memorandum Opinion and Order, 14 FCC Rcd. 3160, 3168 ¶ 13 (1999) (“*AT&T/TCP*”); *SBC/Ameritech*, 14 FCC Rcd. at 14737-38 ¶ 48.

⁵¹ *SBC/Ameritech*, 14 FCC Rcd. at 14738 ¶ 49; *accord*, *MCI Bankruptcy Exit*, 18 FCC Rcd. at 24692 ¶ 12; *In re Applications of NYNEX Corp. & Bell Atl. Corp.*, Memorandum Opinion and Order, 12 FCC Rcd. 19985, 20003 ¶ 32 (1997) (“*Bell Atlantic/NYNEX*”).

services. And it will greatly improve the ability of the U.S. telecommunications industry to compete against foreign carriers.

A. The Combined Company Will Be a World Leader in Communications.

The United States was once the undisputed world leader in communications, with leading U.S. companies consistently developing and bringing to market in both America and throughout the world the best, the most innovative and most efficient technologies, services, and features. The nation's economic growth and ever-improving standard of living have directly rested in part on that leadership.⁵² Now, there is a growing perception that this nation has lost ground over the past decade.⁵³ European and Asian-Pacific carriers and technology companies have grown rapidly, and the U.S. now lags other countries in broadband deployment and penetration.⁵⁴ The proposed merger will create a premier U.S. global communications provider with the ability and incentives to

⁵² See Bureau of Economic Analysis, *Input-Output Accounts Data: 1999 Annual I-O Table Two Digit*, available at <http://www.bea.doc.gov/bea/dn2/i-o.htm#annual> (each dollar invested in U.S. telecom infrastructure has resulted in nearly three dollars of economic output). Unless, otherwise noted hereafter, all websites were last visited on February 19, 2005.

⁵³ See, e.g., *Availability of Advanced Telecommunications Capability in the United States*, FCC 04-208, GN Dkt No. 04-54, Fourth Report to Congress, at 40 (Sept. 9, 2004) (stating that the United States was ranked 11th in the world on broadband penetration); *Petition For Forbearance of the Verizon Telephone Co.* FCC 04-254, at 21 (Oct. 27, 2004) (reporting the United States fell to 13th in the world in broadband penetration).

⁵⁴ See, e.g., *Broadband By The Numbers: A Visit To Hong Kong*, Broadcast Business Forecast, Sept. 7, 2004, available at 2004 WL 24767816 (stating Hong Kong has claimed a household broadband penetration rate of 54.9%); Robert La Franco, *On The Verge: The Digital Media Revolution Is Winning Key Battles In Markets Around the World. Now It's Targeting America*, Hollywood Reporter, Dec. 7, 2004, available at 2004 WL 95650381 ("South Korea's online market now tops \$4.5 billion annually."); *In re Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion*, 19 FCC Rcd. 5136, 5150 ¶ 43 (noting the "relatively high broadband penetration rates in some foreign nations").

deliver customers a full suite of best-in-class IP-enabled and broadband communications solutions.⁵⁵

By combining firms that are recognized leaders in both enterprise and mass market services and in the design and engineering of both local and long distance networks, the merger will create an American carrier that again will set the global standard for technology leadership. The companies' complementary strengths ensure that the combined company can rapidly complete the transformation of legacy networks to IP. That in turn will spur competitors to speed their own network and service transformations, and it will accelerate the transition to a true "services over IP" environment in which customers will be offered the full range of voice, data, and video services over IP by a range of competing providers. These same synergies will drive the achievement of end-to-end service quality standards that previously have been unobtainable and will restore the United States' preeminence in communications – without having any adverse effect on competition in any relevant market.⁵⁶

B. Business, Government, and Residential Customers Will Benefit from the Combined Company's World Class Network and Services.

U.S. businesses and government customers of both companies will benefit from the combined company's enhanced network and global service capabilities. The more rapid deployment of a unified IP network, with an expanded footprint, will enable enterprise customers to place more of their operations on a secure standard-based

⁵⁵ Declaration of Hossein Eslambolchi ("Eslambolchi Decl.") ¶¶ 18-20.

⁵⁶ Eslambolchi Decl. ¶¶ 18-19; Horton Decl. ¶ 14.

technology with accompanying improved efficiencies – efficiencies that will allow them, in turn, to compete more effectively in both global and domestic markets.⁵⁷ Business and government customers will have the choice to build their business and operational plans around a financially strong, highly reliable, and customer-driven partner. And the combined company's enhanced capability to develop and deploy IP-based services on an end-to-end basis will provide business customers with a crucial competitive edge in the development of integrated supply chains, sophisticated tracking systems, and competitive cost structures, even as it triggers additional investment and innovation by competing service providers.⁵⁸

The transaction's assurance of a financially stable, globally competitive telecommunications service provider for the 21st century likewise holds great promise for residential and smaller business customers. While the United States has lagged in the international rankings of broadband penetration and provision of advanced broadband services to mass market customers, the merger brings together complementary capabilities to reverse that trend. SBC has embarked upon a massive program of broadband facilities development and is aggressively seeking to integrate voice, data, and video services into offerings for residential and small business consumers in its region.⁵⁹ AT&T, in turn, is a specialist in the creation of platforms and systems for the delivery of integrated, advanced services and has developed a range of IP-based services targeted to larger business customers that can be extended to enhance and accelerate the

⁵⁷ Eslambolchi Decl. ¶ 18.

⁵⁸ Kahan Decl. ¶ 35.

⁵⁹ *Id.* ¶ 18.

development of services designed for residential consumers.⁶⁰ This combination not only will decrease the cost of deploying advanced networks and services, but also accelerate the deployment of services that increase Internet security and detect fraud, enable residential users to select and manipulate integrated text, voice, and video information, and deliver emerging services with almost unimaginable speed and capabilities.⁶¹ And by ensuring that the combined company can do more with less, delivery of advanced facilities and services will be faster and more widespread than would be possible in the absence of the merger.⁶²

VI. THE MERGER WILL ENHANCE SERVICE TO U.S. GOVERNMENT CUSTOMERS AND STRENGTHEN U.S. NATIONAL SECURITY

This transaction will provide significant benefits to government customers and will strengthen U.S. national security. In today's world, these factors are an important public interest benefit.

A. Both AT&T and SBC Provide Important Services to Government Customers.

AT&T is a significant provider of telecommunications and information technology services to the federal government. AT&T provides network services, systems integration and engineering, and software development services to a broad range of government agencies, including those involved in national defense, intelligence, and

⁶⁰ Eslambolchi Decl. ¶ 10; Horton Decl. ¶¶ 11, 13.

⁶¹ Eslambolchi Decl. ¶¶ 8-12; Horton Decl. ¶¶ 11, 14.

⁶² Declaration of Christopher Rice ("Rice Decl.") ¶ 4; Carlton & Sider Decl. ¶ 35.

homeland security. AT&T's federal customers include the White House, the State Department, the Department of Homeland Security, the Department of Defense, the Department of Justice, and most branches of the armed forces. AT&T's support of the intelligence and defense communities includes the performance of various classified contracts. To undertake this work, AT&T employs thousands of individuals who hold government security clearances, and it maintains special secure facilities for the performance of classified work and the safeguarding of classified information.

SBC also provides telecommunications and information technology services to the federal government, particularly in its 13-state region. Although SBC's activity in this area is less extensive than AT&T's, SBC provides substantial telecommunications and information technology services to federal agencies involved in national security, and its employees likewise perform work on classified government programs, including classified government contracts at our country's most sensitive military and intelligence sites.

In addition to providing services to critical government agencies responsible for national security, both AT&T and SBC support the national security infrastructure through their participation in all of the key fora for supporting U.S. government national security objectives. For example, both companies participate in the activities of the National Coordinating Center for Telecommunications and the Network Security Information Exchange, two bodies designed to help assure network integrity and security. Senior officials from both companies serve as members of the National Security Telecommunications Advisory Committee, a committee of major communications and network service providers and information technology, finance, and aerospace companies

who provide advice and expertise to the President of the United States on issues related to implementing national security and emergency preparedness (“NS/EP”) communications policy. NS/EP communications enable the government to make an immediate and coordinated response to all emergencies, such as those caused by natural disasters, terrorism, or other security challenges (*e.g.*, a cyber attack). NS/EP communications allow the President and other senior officials to be continuously accessible, even under the most difficult conditions.

B. The Merger Will Create a Stronger, More Innovative, More Efficient U.S.-Owned Carrier That Will Provide World Class Service to Government Customers.

The combined company will be a stable, reliable, U.S.-owned company that will provide improved service to government customers.⁶³ As noted in Section V.D below, SBC’s and AT&T’s separate networks will be transformed into a unified IP-based network, which will be more reliable, robust, and resilient.⁶⁴ The increased scale and scope of the combined network will provide the government with readier and more efficient implementation of advanced network capabilities, with reductions in unit costs as broad scale network improvements are made.⁶⁵ This will allow the combined company to support more fully the Federal Enterprise Architecture (“FEA”) program, a government-wide network architecture being developed for improved communications and data sharing among federal agencies and federal, state, and local governments.

⁶³ Kahan Decl. ¶ 31.

⁶⁴ *Id.* ¶ 34.

⁶⁵ *See id.* ¶ 21.

Similarly, the combined networks will provide the government with more efficient routing for government communications, with fewer transfer points, as discussed in Section VI.A.2. below. The combined network also will have added diversity and redundancy, producing greater reliability, and recoverability.⁶⁶ In the past, many classified networks often were designed with separate long distance and local components. Greater security and reliability can be achieved with a single, integrated end-to-end network than with multiple networks.⁶⁷ Thus, as the Defense Department's need for integrated, worldwide networks increases, a combined AT&T-SBC will be better positioned than the individual companies to provide these networks on a secure, end-to-end basis.⁶⁸

The government also can expect better overall service from the combined company, whose sales and service functions will have a broader geographic reach. The combined company should have the scale and scope to provide end-to-end project management support that will ensure timely and accurate deployment of network services.⁶⁹

Moreover, the government will benefit from the increased investment in research and development that will result from this transaction.⁷⁰ The combined company's work

⁶⁶ Rice Decl. ¶ 12.

⁶⁷ Rice Decl. ¶ 11; Kahan Decl. ¶ 35.

⁶⁸ See Kahan Decl. ¶ 35.

⁶⁹ See *id.*

⁷⁰ Rice Decl. ¶ 16; Horton Decl. ¶¶ 13, 15; see also Carlton & Sider Decl. ¶¶ 35-37.

in such areas as security services, speech/text technologies and IP-based video could be particularly valuable to government customers.⁷¹

Simply put, the combined company will be a well-managed, well-financed, U.S.-owned company with the resources to make capital investments in facilities and networks both in the United States and overseas, as well as to spur innovation in cutting-edge areas of telecommunications and information technology.⁷² The combination of more vigorous competition, sustained investment in new technologies, and an integrated service, end-to-end IP-based network will provide better services and products for the government, under both the normal and emergency conditions.⁷³

VII. THE MERGER WILL BENEFIT CUSTOMERS THROUGH INCREASED RESEARCH, DEVELOPMENT, AND INNOVATION AND OTHER SIGNIFICANT SYNERGIES

The merger will increase research, development, and innovation, as well as create other significant synergies, including enhanced network performance and cost savings. Customers will benefit as existing services become more efficient, new services are introduced, and the combined company becomes a more effective competitor.

A. Both AT&T and SBC Aggressively Pursue Research and Development.

Both AT&T and SBC strive to become stronger competitors through research, development, and innovation. AT&T benefits from the work of AT&T Labs, a direct

⁷¹ Eslambolchi Decl. ¶¶ 10-12.

⁷² Kahan Decl. ¶ 28.

⁷³ *See id.* ¶¶ 31, 34-35.

descendant of the legendary Bell Telephone Laboratories, which was responsible for the basic inventions that led to the computer, cellular service, the transistor, various transformative video and voice transmission technologies, and countless other fundamental innovations that revolutionized communications and American life.⁷⁴

AT&T retained Bell Labs under the 1984 divestiture and, when AT&T spun off Lucent in 1995, Bell Labs was split into two entities. The portions of Bell Labs devoted to research, development, and design of telecommunications networks and advanced services were reconstituted as AT&T Labs.⁷⁵

Since that time, AT&T Labs has continued in the tradition of Bell Labs. It is comprised of some of the world's leading scientists, engineers, and IT specialists, including experts in advanced data networking, software engineering, systems integration, speech technology, and all aspects of the provision of service over IP.⁷⁶ These experts are integrating software and network components, developing processes to manage networks, developing new products and services, and ensuring that network capabilities can deliver services on both the smallest and largest scales. AT&T Labs is also leading AT&T's efforts to transform its existing communications networks from multiple, legacy systems, processes, and facilities to a uniform, advanced network supported by a single set of integrated systems, designed using IP capabilities that will enable delivery of the next generation of advanced communications services.⁷⁷ AT&T

⁷⁴ Eslambolchi Decl. ¶¶ 4-6.

⁷⁵ *Id.* ¶ 4.

⁷⁶ *Id.* ¶ 5; Horton Decl. ¶ 10.

⁷⁷ Horton Decl. ¶ 14.

Labs' researchers apply worldwide for new patents at a rate of nearly two per business day.⁷⁸

SBC's research and development arm is SBC Labs. It is organized into four key technology areas: broadband Internet, wireless systems, network services, and enterprise information technology. SBC Labs' current research focuses on several technologies that have the potential to enhance dramatically communications capabilities, including VoIP, Wi-Fi, fiber optic technologies, wireless/wireline integration, and network optimization. SBC Labs' milestone contributions include the development and deployment of packet technologies – a foundational building block in Internet transport for the exchange of traffic between Internet carriers.⁷⁹

B. The Merger Will Facilitate a Wider and Swifter Diffusion of Innovation.

The merger will make AT&T Labs' innovations available to SBC's mass market and medium-sized business customers.⁸⁰ Similarly, SBC Labs has developed products and services that can be applied for the benefit of AT&T's enterprise customers.⁸¹ In the absence of the merger, AT&T Labs' research and development efforts would continue to be devoted largely to developing capabilities designed to be implemented in services provided to global and other large enterprise customers.⁸² That is because AT&T has ceased actively marketing traditional local and long distance services to mass market

⁷⁸ Eslambolchi Decl. ¶ 5.

⁷⁹ Rice Decl. ¶¶ 27-28.

⁸⁰ Kahan Decl. ¶ 32; Horton Decl. ¶¶ 11, 13.

⁸¹ Rice Decl. ¶¶ 27-28.

⁸² Horton Decl. ¶ 12.

customers.⁸³ Likewise, SBC Labs' efforts would be devoted largely to developing products for SBC's mass market and medium-sized business customers.⁸⁴

The potential benefits of research and development, however, are not so limited. Breakthroughs that AT&T achieves in research and development aimed at developing new enterprise services, or providing those services more efficiently, often will have relevance to mass market services.⁸⁵ The same is true for SBC and its research and development aimed at services for mass market and medium-sized business customers, which often have relevance to enterprise services.⁸⁶ By combining the complementary businesses of SBC and AT&T, the merger should lead to the development of an array of new services and capabilities.⁸⁷

1. New Products and Services for Mass Market and Medium-Sized Business Customers.

Examples of AT&T Labs technologies originally designed for and provided only to enterprise customers that can be made available to the combined company's mass market and medium-sized business customers include: (1) AT&T's fraud reduction and security solutions; (2) AT&T's network storage solutions; and (3) Internet Data Centers that host and distribute IP-based services for enterprise customers.⁸⁸

⁸³ Kahan Decl. ¶ 20; Horton Decl. ¶¶ 2, 7; Polumbo Decl. ¶¶ 2, 9.

⁸⁴ Rice Decl. ¶ 32.

⁸⁵ Kahan Decl. ¶ 32.

⁸⁶ Rice Decl. ¶¶ 27-28.

⁸⁷ Horton Decl. ¶¶ 10, 14.

⁸⁸ Rice Decl. ¶ 23; Eslambolchi Decl. ¶¶ 12-14; Horton Decl. ¶ 11.

In addition, there is a broad array of IP-based and other technologies that AT&T Labs is developing for enterprise customers, many of which can provide the basis for products and services made available to mass market and medium-sized business customers. Examples of the types of initiatives under development by AT&T Labs that could be extended to smaller business customers and residential customers include the following:

a. Speech/Text Technologies.

AT&T Labs is a global leader in the development of text-to-speech engines, synthesized voice capabilities, automatic speech recognition, and natural language speech recognition systems. These technologies have the potential to allow real-time translation of written text to spoken speech (and vice versa), simultaneous foreign language translation, and highly proficient customer care and relationship management capabilities. Intelligent language systems will be a crucial component of the next generation of services that enable customers – of all types – to select, alter, and manage their communications purchases, as well as to remedy service and billing problems. Furthermore, the accelerated deployment of these capabilities into residential and small business offerings holds the potential for enormous benefits for visually, hearing, and speech-impaired customers.⁸⁹

⁸⁹ Eslambolchi Decl. ¶ 11.

b. Fraud Reduction and Security Services.

AT&T Labs is a leader in the development of fraud reduction and network security services for business customers. It is developing the capability to detect unauthorized use of communications services and customer information, as well as to safeguard e-commerce traffic and other sensitive communications services. AT&T was a leader in providing online application security monitoring services that can actively block and quarantine anomalous behaviors detected within applications. More rapid detection of the unauthorized communications services permits customers and providers to flag potential identity theft situations quickly, before significant damage is done. Similarly, secure capabilities will also allow customers to transact business over the Internet with less concern about identity theft – benefiting both buyers and sellers. AT&T Internet ProtectSM illustrates the security capabilities that the combined company make available to small businesses and residential consumers as a result of the transaction. That service offers advanced notice regarding potential real-time attacks (viruses, worms and distributed denial of service – or DDoS – attacks) that are in the early formation stages. Similarly, AT&T’s network firewall solutions could be expanded to enable personal firewalls.⁹⁰ As demand for anti-fraud and security services among mass market and small business customers continues to grow, very significant public interest benefits can be

⁹⁰ Frost & Sullivan’s recent analysis, *World Managed Security Services Markets* (Oct. 11, 2004) selected AT&T as the recipient of the 2004 Customer Solutions Excellence Award for having the broadest scope of services among all Managed Security Service Providers or MSSPs. Frost & Sullivan, “World Managed Security Services Markets,” at 2-61 (2004).

realized by additional innovation the combined company will undertake to adapt and develop these capabilities for all customer segments.⁹¹

c. E-commerce Capabilities.

AT&T Labs continues to develop and enhance advanced e-commerce support technologies for use in rich interactive, secure network environments. Translating these innovations from enterprise-focused services into services designed to meet the needs of smaller businesses and residential customers is another source of significant public interest benefits.⁹²

d. Service Provisioning and Repair.

AT&T Labs has developed, and is enhancing, systems that use artificial intelligence overlays and speech recognition to condense and simplify the ordering, provisioning, and repair of network equipment and services. These capabilities were originally developed for enterprise customers, providing them with more responsive customer support at lower cost. As described below, network intelligence enables customers to have “click through” online ordering capability.⁹³

⁹¹ Eslambolchi Decl. ¶ 12.

⁹² *Id.* ¶ 14.

⁹³ *Id.* ¶ 13.

e. Applications Support and Network Efficiency.

AT&T Labs is developing a platform that will allow enterprise customers to deploy applications rapidly and on a global basis through AT&T's secure IP network. So-called applications aware networks ("AANs") will allow computing capacity to be purchased on an "as needed" basis – with computing power allocated based on customer-specific rules. Similarly, with AT&T's hosted storage solutions, customers can use AT&T's network as a primary means to store or back up data without having to purchase and maintain complex storage systems. The combined company will be able to make these capabilities more readily available to smaller businesses and other mass markets readily and rapidly.⁹⁴ More broadly, AANs represent an acceleration of the convergence of the networking and IT industry, which likely will spawn a whole new generation of technological innovation, leading to better service and lower costs for customers.⁹⁵

f. Click-Through Provisioning.

AT&T Labs is developing an optical network that allows for remote "click-through" service provisioning. With this new capacity, customers will be able to secure bandwidth on demand through "point and click provisioning" rather than waiting months for a high-speed circuit to be provisioned.⁹⁶

⁹⁴ Rice Decl. ¶ 24.

⁹⁵ Eslambolchi Decl. ¶ 14.

⁹⁶ *Id.* ¶ 20.

g. IP-Based Video.

AT&T Labs is developing an IP environment that can support the delivery and use of video services far more effectively than what is currently achievable. AT&T Labs' innovations include diagnostic tools that allow network operators to fine tune their video delivery capabilities to produce higher quality and far more efficient video transmission. Other tools developed by AT&T Labs will allow individuals to search, collect, review, and manipulate video images – and to use video services in conjunction with voice and data services. AT&T Labs also continues to develop and refine video compression technology and QoS capabilities, with the goal of delivering ever improving video conferencing capabilities to enterprise customers. AT&T's ongoing innovations in developing general broadband platform capabilities will provide various advanced services for smaller business and residential customers.⁹⁷

2. New Products and Services for Enterprise Customers.

Similarly, SBC Labs has developed products and services for its mass market and medium-sized business customers that can be applied for the benefit of AT&T's enterprise customers. Among the innovations developed by SBC Labs that will benefit AT&T's customers are the following:

⁹⁷ Eslambolchi Decl. ¶ 10.

a. Security for VoIP Services.

SBC Labs had developed a secure architecture for its VoIP platform that complies with rigid corporate security requirements and ensures that the VoIP platform and the related customer network interface are secure from intrusion and computer-based attacks, such as viruses and worms. This is crucial for making VoIP services as secure as the PSTN. This security architecture protects transactions at the soft switch level, complementing the security features developed by AT&T Labs for the network itself. The work by SBC Labs focuses on the security of SBC's VoIP platform and customer network interface. Neither the soft switches currently offered by suppliers, nor the soft switches deployed by AT&T, have the level of security offered by SBC Labs' solution. By combining these two complementary efforts, the combined company will enhance security for the totality of VoIP services.⁹⁸

b. Integration of Wireless and Wireline Communications.

SBC Labs' development of soft switch technology directed to its next generation IP Multimedia Services ("IMS") will facilitate wireless/wireline integration. This technology will make it possible for a single handset to receive VoIP calls at home via WiFi and VoIP calls away from home via a GSM cellular network. SBC Labs also has developed software for laptops and PDAs that integrates Cingular's GPRS/EDGE (and soon UMTS) cellular data services with SBC's Freedomlink WiFi service. The next release of this software will facilitate seamless roaming between SBC's Freedomlink

⁹⁸ Rice Decl. ¶ 27.

service and the Cingular cellular data services without the end user having to log back into either the Freedomlink service or the Cingular cellular data service when the user crosses between the two networks. These features will enhance the services AT&T offers its enterprise customers.⁹⁹

C. The Combined Company Will Invest More in Research, Development and Innovation Than Either Company Alone.

The combined company will invest more in research and development than either SBC or AT&T would have on its own. The reasons for this are quite straightforward. By combining the complementary businesses of SBC and AT&T, the merger will create a single entity that focuses on providing the full range of telecommunications and information services across all customer classes and over the full range of networks.¹⁰⁰ Because technical innovations are generally applicable to a broad range of services, the incentive to invest in research and development is greatest when the resulting innovation can be offered across multiple services and to the broadest range of customers, allowing the innovator the maximum opportunity to earn the full benefits of the innovation. And even where an innovation has a limited market, the chance that innovation will yield returns is increased when the range of potential markets is expanded.¹⁰¹ Thus, as Professor Carlton and Dr. Sider point out, the merger will “enable[] the firm to deploy innovations more rapidly to a broader base of customers”; “increase[] the incentive . . . to

⁹⁹ Rice Decl. ¶ 28.

¹⁰⁰ Kohan Decl. ¶ 34; Horton Decl. ¶ 13.

¹⁰¹ Rice Decl. ¶ 19; Eslambolchi Decl. ¶ 16.

invest in network features that reduce cost and increase productivity, by enabling the benefits of such improvements to be realized over a wider network”; and creates “the incentive and ability to market” AT&T’s current and future innovative services “to a wider customer base, including smaller businesses and consumers.”¹⁰²

Today, AT&T focuses its service offerings primarily on enterprise customers and its innovations are accordingly not aimed at other customer groups. And while SBC strives to serve a variety of customers, SBC is primarily confined to only a portion of the country and is not focused on the largest business customers, reducing the scope over which it can realize the benefits of innovation – and its research and development efforts tend to focus primarily on its core customers, products, and services. Once the transaction is completed, the combined company will be able to realize the benefits of innovation across the entire country and across all customer groups. The broader scope of the combined entity will increase the likelihood that research and development will earn an adequate return in one or more segments of the industry, reducing the risk of investment.¹⁰³

Further, as a direct result of this transaction, the benefits of developing advanced capabilities will be spread across a broader network and customer base, reducing the unit costs of research and development investment and increasing the effective returns derived from the prompt and full development of advanced capabilities. As costs decrease, implementation of advanced network capabilities and services becomes more efficient,

¹⁰² Carlton & Sider Decl. ¶¶ 35-36.

¹⁰³ Rice Decl. ¶ 9.

and the combined entity can realize returns on an accelerated basis that in turn provide it with an incentive to execute those plans more expeditiously.¹⁰⁴

SBC's greater financial strength, local network technical expertise and personnel, and the resulting economies of scale in procurement and deployment can be expected to lower the cost, increase the returns, and increase the efficiency – and thus the pace and breadth – of innovation, including deployment of advanced networks and services. The combined entity's ability to invest in and deploy innovations also will be strengthened by a substantially lower cost of capital than AT&T would have in the absence of the transaction. Standard & Poor's currently assigns AT&T a long term investment rating of BB+. This below-investment grade rating imposes upon AT&T a much higher cost of capital than the considerably higher, investment grade rating than the combined entity is anticipated to be assigned. The combined company's increased scale also affords it considerably increased latitude to raise capital while maintaining any particular debt rating.¹⁰⁵

D. Increased Research, Development, and Innovation Should Lead to a Unified IP-Based Network, Whose Capabilities Will Benefit All Customers.

While AT&T's and SBC's respective networks meet current needs efficiently, both networks will be transformed over periods of years into unified IP-based networks, whose numerous advanced capabilities will benefit customers. Through the merger, SBC

¹⁰⁴ Rice Decl. ¶ 19; Horton Decl. ¶ 15.

¹⁰⁵ Eslambolchi Decl. ¶ 17; Horton Decl. ¶ 15.

will bring to the combined entity the scale, greater financial strength, and network capabilities to ensure that the combined entity will have an increased incentive and ability to develop advanced network capabilities and related services faster than AT&T would do on its own. SBC has a demonstrated commitment to deploying capital and personnel to ensure that such opportunities are fully realized. SBC's multi-billion dollar initiatives to develop IP-based platforms and networks for the delivery of advanced services to consumers and its massive program of development and deployment of DSL services are only the most recent examples of this commitment and capability. SBC has indicated that the combined company plans to increase capital spending on advanced network capabilities by approximately \$2 billion in the first few years following the completion of the transaction beyond what would have occurred without the merger.¹⁰⁶

SBC also possesses local network expertise that will further support the accelerated and robust development of advanced services and related network capabilities. Deploying the innovative networks developed by AT&T requires not only the transformation of the backbone network, but also a comparable transformation of the local network and related systems to a unified, IP-based capability.¹⁰⁷ SBC's local network expertise and resources will significantly complement AT&T's network and system design and development capabilities, resulting in the accelerated and more robust development of advanced services and networks.¹⁰⁸

¹⁰⁶ Rice Decl. ¶ 19.

¹⁰⁷ Horton Decl. ¶ 14.

¹⁰⁸ Eslambolchi Decl. ¶ 17.

The network transformation that will be accelerated and enhanced as a result of the transaction will serve to put in place the necessary building blocks for providing public benefits associated with the next generation of advanced, IP-based broadband services. By exploiting both SBC's and AT&T's strengths to the greatest practical extent, the transaction will enable consumers to realize the benefits of a unified, advanced telecommunications network capable of delivering the full range of voice, data, and video services to an ever-expanding array of personal and business devices. Once telecommunications service providers can surmount the difficulties created by the multitude of legacy software and hardware systems, the artificial divisions of applications and systems, and the limitations of traditional switched-based networks, they can provide consumers of all types with the ability to choose, provision, change, and maintain their services with an almost unimaginably greater degree of speed, efficiency, and efficacy. The resulting ability to offer "services over IP" will permit customers to quickly access the full capabilities of an integrated, intelligent network that is capable of providing a vast array of voice, data, and video services that include interactive capabilities.¹⁰⁹

The enhancement of the network's capabilities is an important component of this broader, advanced services strategy and will provide important public benefits. Already, increased deployment of VoIP services in the business environment allows customers to have the benefits of a converged data and voice network. VoIP allows a sharing of network and access facilities for multiple services, eliminating the operating costs and inefficiencies associated with separate networks and allowing bandwidth to be efficiently

¹⁰⁹ Eslambolchi Decl. ¶ 19; Horton Decl. ¶ 14.

shared.¹¹⁰ Further development of VoIP to produce a single, unified environment for voice and data services will serve as the basis for more widespread and efficient deployment of high bandwidth services such as advanced video teleconferencing; customer relationship management applications integrated with voice services; and unified voice mail and e-mail messaging.¹¹¹ VoIP and other IP services like video conferencing are important elements in enabling remote workers to be productive regardless of physical location. These services will produce important public policy benefits including enabling more flexible work environments, allowing workers to be productive regardless of physical locations, and reducing the need to commute to distant offices. It also allows U.S.-based companies to do business overseas more effectively, with their global workers integrated into critical business and communications systems.¹¹²

As part of this network transformation and related innovations, the complementary aspects of the merger should lead to the following, more specific benefits.

1. Broadband Platform and Services.

Many AT&T solutions rely on the end-users having broadband access. Given SBC's extensive DSL footprint, AT&T can bring its considerable technological resources to support the efforts of SBC Labs and to enable those customers to gain many more

¹¹⁰ Eslambolchi Decl. ¶ 20.

¹¹¹ Horton Decl. ¶ 14.

¹¹² Eslambolchi Decl. ¶ 20.

robust services, as well as greater quality of services through AT&T's MPLS and QoS capabilities. Because the merged company will be able to direct Internet traffic and dynamically allocate bandwidth, customers can expect to receive enhanced broadband services. In fact, the combined company's experience in broadband, wireless and wireline uniquely positions the new company to drive the convergence of these various platforms to the benefit of all customers.¹¹³

2. RFID (Radio Frequency ID).

AT&T has been partnering with some of the nation's leading retailers to develop a scalable standards-based implementation of an RFID solution. Providing a network-based RFID solution will accelerate the standardization of technologies and operations across suppliers and retailers. Ultimately, RFID could significantly increase the capabilities of US manufacturers and retailers to respond to changes in supply and demand more rapidly. Customers would benefit from greater product availability, lower costs, and products more tailored to their needs.¹¹⁴

3. Intelligent Optical Network.

AT&T's initiative to develop a nationwide intelligent optical network is designed to increase the speed of data transmission between major U.S. cities, and enhanced intelligence built into the network also provides the basis for improvements in the features and services offered to customers. AT&T is moving to a new, all-optical

¹¹³ *Id.* ¶ 22.

¹¹⁴ *Id.* ¶ 23.

network by doubling and then quadrupling the amount of information that can be sent over optical fiber each year. Among other advanced capabilities, the new network is designed to carry signals without regeneration over much longer distances, to restore service faster in the event of a failure or disaster, and to shorten dramatically the provisioning time for new high-speed circuits for business customers that have direct access to the network. Increased intelligence of the network comes from the use of advanced multiplexing technology and intelligent optical switches, which enable quick recovery from failure through use of automatic re-routing and support automatic provisioning. Rather than waiting months for a high-speed circuit to be provisioned, customers will be able to secure bandwidth on demand through “point and click provisioning.” Through the combined company’s investments in MPLS data networks and QoS technologies, the global AT&T IP network will continue to enhance the combined company’s ability to deliver IP traffic efficiently and effectively. These and other AT&T initiatives will enable customers of both companies to build a greater part of their business on an integrated basis – with linkages between suppliers, distributors, manufactures and customers, thereby reducing costs and taking advantage of a secure global IP environment.¹¹⁵

4. Integrated, Online Processes.

Related innovations designed to streamline and automate operations are focused on developing an integrated, on-line system to support multiple services, enabling

¹¹⁵ *Id.* ¶ 24; Rice Decl. ¶¶ 20-22.

customers to manage their communications needs on-line – from “quote to cash.” Ordering, provisioning, billing, continued maintenance, and revision of service requirements will all be executed with greater speed, enhanced flexibility, and lower costs by customers of all types.¹¹⁶

E. The Network Integration That Will Result from the Merger Will Benefit Customers.

The combined IP network described above will distribute traffic more efficiently by making use of the excess capacity and facilities of the new networks and by reducing the number of hand-off, or peering, points and improving service quality. Improved use of the existing facilities of both companies thus will save the cost of augmenting many existing facilities while simultaneously allowing the combined company to re-deploy otherwise redundant network equipment and facilities. Unifying the two networks also will make more efficient use of capital, and permit the accelerated retirement of earlier-generation network facilities, thereby saving the recurring costs of maintaining and operating those facilities.¹¹⁷ In addition, the unified IP network will permit the faster deployment of VoIP and other advanced services.

1. Network Integration Will Result in Increased Efficiency and Reduced Costs.

Network integration will increase the efficiency of traffic handling and routing and thus assure a high quality of service. Previously, traffic flowing between the

¹¹⁶ Eslambolchi Decl. ¶ 25.

¹¹⁷ Rice Decl. ¶¶ 6-7.