

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of: )  
)  
Applications of SBC )  
Communications and AT&T Corp. )  
Pursuant to Section 214 of the ) WC Docket No. 05-65  
Communications Act of 1934, As )  
Amended, for Approval of the )  
Transfer of Control to SBC of )  
Licenses and Authorizations Held )  
Directly and Indirectly by AT&T )

**COMMENTS OF AD HOC TELECOM  
MANUFACTURER COALITION IN SUPPORT OF APPLICATIONS**

These comments, by an ad hoc coalition of 33 medium and small telecommunications manufacturing companies, ask that the Commission approve the proposed SBC/AT&T merger since we believe the combination is in the public interest. The merger is in the public interest because, for reasons discussed below, we think a combined SBC/AT&T is likely to invest more heavily in telecom infrastructure than the two companies would invest separately. Sections 214 and 310(d) of the Communications Act require the Commission to approve a merger if the benefits outweigh risks.<sup>1</sup> In weighing benefits and risks, the Commission must consider a variety of factors, including the merger's impact on telecom investment.<sup>2</sup>

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<sup>1</sup> See Time Warner/AOL Merger Order at ¶¶ 19-22, FCC 01-12 (rel. Jan. 22, 2001).

<sup>2</sup> See, e.g., Sec. 706(a) of Telecom. Act of 1996, reproduced under the notes to 47 U.S.C. § 157 (stating that Commission shall "encourage deployment of advanced

## DISCUSSION

Although the SBC/AT&T merger's likely impact on telecom investment was controversial in some quarters at the time it was announced,<sup>3</sup> more recently there appears to be a growing consensus that the merger is more likely to produce increased investment than otherwise would occur.<sup>4</sup> We agree with this growing consensus for several reasons.

First, despite early analyst predictions that Lightspeed, the three-year FTTN /FTTP network deployment program that SBC announced late last year, might be slowed as a result of the planned merger,<sup>5</sup> it now appears that

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telecommunications capacity to all Americans" using methods that "remove barriers to infrastructure development"); *Puerto Rico Telephone Authority/GTE Merger*, 14 FCC Rcd. 3122 at ¶ 58 (1999) (finding that the proposed merger at issue in that case was in the public interest in part because it was likely to result in additional infrastructure investment, a prediction that proved to be accurate according to Paradyne, one of the signers of the present comments).

<sup>3</sup> See, e.g., "Merger Wave Could Leave Telecom Gear Makers At Sea", CNet News.com, Feb. 8, 2005 (stating that when the merger was announced analysts were split over the merger's impact on telecom service provider capex).

<sup>4</sup> See, e.g., "The Benefits of Carrier Consolidation", published Mar. 1, 2005 by The Heartland Institute, a non-profit research organization, and avail. at [www.heartland.org/Article.cfm?artID=16535](http://www.heartland.org/Article.cfm?artID=16535), in which the author, Steven Titch, senior fellow for IT and telecom policy at Heartland, concludes that the merger "will fuel greater investment in the supply chain for consumer entertainment and information technology . . . by creating a larger market for . . . [this] technology;" Letter dated April 18, 2005 to FCC from Coalition of Texans with Disabilities, stating its view that the SBC/AT&T merger will have the effect of "ramping up . . . technology investment . . . [that benefits] citizens with disabilities in rural areas and small communities"; Letter dated April 14 to FCC from Northern Nevada Network, stating that it believes the merger "will produce major leaps forward in wireless, cable . . . and [will result in] other [technological] advances not yet anticipated;" Letter to FCC dated April 21, 2005 from the United Neighborhood Organization, concluding that the merger "will result in more investment in, and faster deployment of, innovative new technologies."

<sup>5</sup> See, e.g., "Merrill Lynch: SBC, AT&T Merger Could Squeeze Capex", Telephony Online, Jan. 28, 2005 (quoting a Merrill Lynch research note as stating that while "we do not

Lightspeed deployment actually may be sped up. Whereas SBC had announced last fall that it hoped to make Lightspeed available to 18 million households within three years, SBC's Sr. V.P. of IP Operations and Services, Lea Ann Champion, reportedly stated during a March 1 keynote presentation to a meeting of the DSL Forum that SBC now plans to make Lightspeed available to 19 million households within that time period, a deployment increase in the first three years of nearly six percent.<sup>6</sup> Testifying before the Telecommunications Subcommittee just last week, moreover, Ms. Champion re-iterated SBC's intention not to slow the pace at which Lightspeed is deployed.<sup>7</sup>

AT&T's leadership in consumer VoIP phone service combined with SBC's substantial financial resources means that the planned merger also is likely to produce more rapid deployment of technology to provide VoIP service

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foresee a complete cancellation of Lightspeed, we do think there is a chance the project could be delayed and/or become less ambitious").

<sup>6</sup> "Inside SBC's IPTV Factory", Light Reading, March 7, 2005, available at [www.lightreading.com/document.asp?doc\\_id=69194&site=ofc](http://www.lightreading.com/document.asp?doc_id=69194&site=ofc).

<sup>7</sup> "How Internet Protocol-Enabled Services Are Changing the Face of Communications: A Look at Video and Data Services", hearing before Subcomm. on Telecom and the Internet, April 20, 2005. A recording of this April 20 hearing is available for replay at <http://energycommerce.house.gov/108/Hearings/04202005hearing1483/hearing.htm>. Two other announcements within the last month further support a conclusion that SBC does not intend to slow the pace of Lightspeed deployment due to the SBC/AT&T merger. See "SBC Commun. Chooses Scientific-Atlanta as IP Video Equip. Supplier for Project Lightspeed", SBC news release dated Mar. 31, 2005 (announcing award of a \$195 million contract to Scientific-Atlanta to supply IP video equipment for the Lightspeed video operations center, two national video super hub offices, and 41 regional video hub offices); "SBC Commun. Announces Project Lightspeed IPTV Appointments", SBC news release dated Mar. 22, 2005 (announcing appointment of five senior Lightspeed executives to manage sports programming, video on demand, local programming, content strategy, and ethnic programming).

than otherwise would occur. Although both companies had made clear before the proposed merger was announced that they intended to transition the provision of telephone service from legacy circuit switched networks to packet switched IP networks, AT&T is far ahead of SBC in deploying IP networks and in providing consumer IP telephony. SBC has deployed some IP transmission and had begun testing a consumer VoIP offering shortly before the merger was announced,<sup>8</sup> but AT&T already operates the largest IP transmission network in the country, is one of the nation's leading consumer IP telephony providers, and within the last few weeks announced that it intends to be providing VoIP to one million phone lines by the end of this year.<sup>9</sup> Given SBC's substantial financial resources and expressed interest in providing consumer VoIP and AT&T's leadership role in consumer VoIP, investment in consumer VoIP under a merged SBC/AT&T is likely to be greater than the aggregate VoIP investment the two companies would undertake if the merger did not occur.<sup>10</sup>

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<sup>8</sup> See "SBC Communications Announces Launch of Residential VoIP Service", SBC Press Release, Nov. 16, 2004.

<sup>9</sup> "Vonage Seen as Vulnerable to VoIP Competitors," Networking Pipeline, April 13, 2005, avail. at [www.networkingpipeline.com/showArticle.jhtml?articleID=160702039](http://www.networkingpipeline.com/showArticle.jhtml?articleID=160702039).

<sup>10</sup> Some industry observers have indicated that they too believe a merged SBC/AT&T could produce increased investment in VoIP technology as compared to the investment that would be expected in the absence of the merger. *See e.g.*, "Uncovering Some Opportunities in the SBC and AT&T Merger", online blog by Ronald Gruia, Senior Strategic Analyst with Frost & Sullivan, Feb. 9, 2005, avail. at <http://gruia.blogware.com/blog/archives/2005/2/9/311280.html>. These predictions are consistent with statements by an AT&T Labs vice president who was quoted last month as stating that there "is going to be much more investment [by AT&T and SBC in VoIP] beyond what has already been announced individually by the two companies." "SBC Merger Won't

The fact that there is little overlap in the AT&T and SBC networks since AT&T's network is long haul whereas the SBC networks are local and regional is another reason that infrastructure investment is likely to increase if the merger occurs. Although a merger of companies with substantially overlapping networks sometimes leads to investment declines in the short term as duplicating networks are combined,<sup>11</sup> several telecom financial analysts have noted that the absence of significant overlap in this case reduces this concern.<sup>12</sup>

Another reason why infrastructure investment should increase as a result of the SBC/AT&T merger is the fact that SBC has announced publicly that it intends to

incorporate into its local networks several technologies that AT&T already has begun to incorporate into its nationwide network:

“One current innovation is AT&T's development of an all-optical network that allows for remote “click-through” service provisioning . . . SBC . . . plans to adopt this [technology] . . . as broadly as possible across . . . [the] existing [SBC] networks. . . . There are additional [AT&T] innovations [that] . . . SBC will make available throughout the service reach of the combined network . . . . These . . . include

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Derail AT&T's Plans”, eWeek, March 9, 2005, avail. at [www.eweek.com/article2/0,1759,1774678,00.asp](http://www.eweek.com/article2/0,1759,1774678,00.asp).

<sup>11</sup> See, e.g., “SBC/AT&T: How Painful for Vendors?”, Light Reading, Feb. 2, 2005; “Qwest/MCI Could Chill Gear Sales”, Heavy Reading, Feb. 8, 2005.

<sup>12</sup> “SBC/AT&T: How Painful for Vendors?”, *supra* (quoting Pacific Growth Equities analyst Joe Neal); “Merger Wave Could Leave Telecom Gear Makers At Sea”, *supra* (quoting RBC Capital Markets analyst Mark Sue and Pacific Growth Equities analyst Erik Suppiger)

Storage Area Network, enhanced security solutions, and Internet Data Centers.”<sup>13</sup>

Investment in these particular technologies should increase not just because they will be deployed in local and regional networks after the merger occurs rather than continuing to be deployed in AT&T’s long haul network alone, but also because SBC has indicated that it intends to use these technologies to serve both large enterprises and smaller businesses whereas heretofore AT&T has used them to serve large enterprise customers alone.<sup>14</sup>

### CONCLUSION

The Commission should grant the application to approve the proposed SBC/AT&T merger since the merger is likely to promote more rapid investment in telecom infrastructure.

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<sup>13</sup> Christopher Rice, SBC Exec. VP-Network Planning and Engineering, Declaration attached to App. of SBC and AT&T for FCC Consent to Transfer Control at 8-11 (WC Dkt. No. 05-65, filed Feb. 22, 2005).

<sup>14</sup> *Id.*

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\* Communications Systems, Inc. is the holding company for two telecom manufacturing companies, Transition Networks, Inc. and Suttle Apparatus Corp.