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May 9, 2005

VIA ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: REDACTED – FOR PUBLIC INSPECTION IN WC DOCKET NO. 05-65 BEFORE THE FEDERAL COMMUNICATIONS COMMISSION

Dear Ms. Dortch:

In accordance with the Order Adopting Protective Order,[1] an anticipated order adopting a Second Protective Order in this proceeding, and the instructions we have received from the Staff of the Wireline Competition Bureau, enclosed please find the redacted narrative response of AT&T Corp. ("AT&T") to the Staff's Initial Information and Document Request of April 18, 2005.[2]

Per the direction of the Staff, AT&T is filing today, under separate transmittal, one complete unredacted response of AT&T with the Secretary. Also at the Staff's direction, AT&T will file tomorrow with the Wireline Competition Bureau Staff, under separate transmittal, one copy of its complete unredacted response on paper, five sets of the CD-ROMs containing its complete unredacted response, and fifteen sets of the CD-ROM(s) containing its unredacted narrative response.

The redacted portions of AT&T's complete response will be made available for inspection, pursuant to the terms of the Protective Order or the Second Protective Order, as applicable, at the offices of Sidley Austin Brown & Wood LLP. Counsel for parties to

[1] *In re Applications of SBC Communications Inc. & AT&T Corp.*, WC Dkt No. 05-65, Order Adopting Protective Order, DA 05-635 (rel. Mar. 10, 2005).
[2] *See* Letter of 4/18/05 from Michelle Carey, Deputy Chief, WCB, to Patrick J. Grant, Arnold & Porter LLP, and David L. Lawson, Sidley Austin Brown & Wood LLP (transmitting the Initial Information and Document Request).

this proceeding should contact Nirali Patel of that firm at 202-736-8048 to coordinate access to the redacted portions of AT&T's response as well as the nonconfidential documents being produced as part of the complete response.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Lawrence J. Lafaro
Lawrence J. Lafaro
AT&T Corp.

Enclosures

In the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
SBC Communications, Inc. and	)	WC Docket No. 05-65
AT&T Corp. Applications for	)	
Approval of Transfer of Control	)	

RESPONSE OF AT&T CORP.
TO THE COMMISSION'S APRIL 18, 2005
INFORMATION AND DOCUMENT REQUEST

May 9, 2005

To the extent that the following responses contain information not required by the Initial Information and Document Request, as modified, AT&T is providing such information on a voluntary basis.

A. ENTERPRISE SERVICES

Specification 1:

On page 97 of the Public Interest Statement, SBC states that it considers any business that spends more than $48,000 per year to be an enterprise customer, while AT&T considers any business that is expected to spend more than $1 million per year to be an enterprise customer. In addition, throughout the Public Interest Statement's discussion of enterprise services, the applicants refer to different classes of business customers, including small business customers, medium-sized business customers, and large business customers.

a. Define "enterprise market" and "mass market," as well as "small business customer," "medium-sized business customer," and "large business customer." Explain the specific characteristics that distinguish each class of business customers from the others (*e.g.*, revenue size; employee size; telecom needs; other criteria).

Response to Specification 1(a):

AT&T defines "mass market" to include both residential customers and those small business customers who purchase simple, basic retail voice or data lines in small quantities.

AT&T also has a sales category entitled Small Business that is served by AT&T's consumer division. This category is divided between Premier Customers, with average monthly billing between $251 and $2,500, and Classic Customers, with average monthly billing of $250 or less. As with consumer wireline services, AT&T is no longer actively competing for Small Business customers.

AT&T considers all other business customers to be enterprise customers. For purposes of its marketing, sales, and service support activities for its commercial customers, AT&T serves its business customers through the following sales categories described below. Each succeeding category excludes customers assigned to one of the prior categories.

Signature Customers – Signature Customers comprise a defined list of approximately 300 business customers that are typically AT&T's largest customers and generate the highest level of revenue. There is no single criterion or revenue threshold for designation as a Signature Customer, but among the criteria considered are the following: amount of customer purchases of telecommunications services and other information technology; the customer's earnings before interest and taxes; the cost of serving the customer; the customer's use of leading edge services (*e.g.*, call centers, managed services); the customer's global reach; and the customer's industry.

Enterprise Customers – Enterprise Customers are customers that do not satisfy the criteria for Signature Customers, but nonetheless generate a substantial volume of telecommunications revenue. An Enterprise Customer generally has either current AT&T service billing of more than $1 million annually or has the potential to generate more than $1 million in annual revenue. The Enterprise category, which comprises more than 6,000 customers, includes qualifying local government customers and all state government customers (except the state of Hawaii, which is addressed as a Government customer, and Alaska, which is served by Alascom).

Select Customers – Select Customers include all remaining commercial customers (except Wholesale, Federal Government, Global and Small Business Customers) and generally satisfy the following criteria: more than $6,000 in AT&T annual billing on average, more than 85 employees on average, and at least limited use of managed or data services. AT&T currently serves approximately 130,000 Select Customers. AT&T further subdivides the Select category into Gold and Silver Customers. Gold Customers generally have annual AT&T billings exceeding $18,000 (or total sales in excess of $10 million with potential purchases of AT&T services of $60,000 annually), data and related service requirements in multiple locations, and

significant IT requirements. Select customers that do not meet those criteria are designated as Silver Customers. AT&T no longer actively markets to customers that do not meet its Gold Customer criteria.

AT&T's category of Small Business Customers, mentioned above, includes all business customers who do not satisfy the criteria for any of the other groups described above, and are not Wholesale, Federal Government, or Global customers. As noted above, AT&T considers Small Business customers to be mass market customers, and AT&T serves these customers through its consumer division.

Global Customers – Global Customers include primarily multinational accounts headquartered in non-U.S. locations with annual purchases of AT&T's international services in excess of $100,000 annually (or potential purchases of services provided by AT&T in excess of $500,000 and operations in more than one AT&T international region). Global Customers are generally served by AT&T account teams located outside the U.S. This category also includes Japanese domestic customers with potential purchases of $100,000.

Government Customers – These customers consist of federal government departments and agencies and include both defense/security and non-defense customers. Government customers also include the District of Columbia government; the state of Hawaii; foreign government embassies, missions and consulates; quasi-governmental agencies (*e.g.*, Tennessee Valley Authority, American Red Cross); and services provided to Government customers when AT&T is a member of a consortium or a sub-contractor.

Wholesale – AT&T's wholesale customers include common carriers (including long distance carriers, local exchange carriers, and wireless carriers), Internet service providers (including cable system operators), and systems integrators.

Nearly all customers are categorized according to the foregoing characteristics. For specific customers that do not clearly fit within a particular category or that present strategic issues that require particular assessment, an internal AT&T team assesses and categorizes them according to their specific situation. This individualized assessment process applies to a very small percentage of all customers.

It should be noted that while AT&T has organized its sales and support resources generally according to the size and revenues of its customers – with large business customers primarily in its Signature and Enterprise segments and medium-sized business customers primarily in its Select and Enterprise segments, the types of services that AT&T provides do not correlate strongly with a customer's size. AT&T offers and sells a wide range of voice, data and IP services to all of these enterprise customers. Although larger customers tend to purchase more complex services more often than smaller customers, that is not always the case – some very large customers purchase very basic voice and data services and some smaller customers purchase managed services. The one unifying characteristic is that AT&T faces intense competition across all segments and customer classes.

b. Explain whether there are similar distinctions among classes of wholesale customers based on particular characteristics (*e.g.*, size; type of wholesale services; other criteria). If so, define those classes of wholesale customers.

Response to Specification 1(b):

AT&T does not distinguish between wholesale customers in the manner contemplated by the Request. As noted, AT&T treats wholesale customers as a distinct but unitary group for marketing, sales, and service support activities. AT&T thus serves all of these customers out of the same wholesale channel. AT&T serves more than 500 customers through this wholesale channel, and the vast majority of its wholesale sales to these customers are basic voice and data

services that these customers use for the transport and termination of their customers' calls or as inputs in their own telecommunications or information services.

c. Separately for AT&T and SBC, list the number of your customers to which you provided $5 million or more in services during 2004 and the percentage of your revenues accounted for by these customers, and the number of your customers to which you provided $1 million - $4,999,999 in services during 2004 and the percentage of your revenues accounted for by these customers.

Response to Specification 1(c):

The response to this specification is provided in Confidential Exhibit 1 (redacted).

Specification 2:

The Public Interest Statement, at pages 71-88, identifies a variety of types of domestic services that can be provided to various types of enterprise and wholesale customers, including: (1) local voice; (2) local data; (3) interexchange voice; (4) interexchange data; (5) converged voice and data; (6) systems integration/managed services; and (7) equipment (including, but not limited to, value-added resellers). The application appears to claim that providers of these services are all competitive alternatives for business and wholesale customers to varying extents, but does not clearly demonstrate which services are in the same product market.

a. Using the Merger Guidelines methodology for defining product markets, explain which of these services are in the same product market as one another (*i.e.*, which services are reasonable substitutes for one another in the eyes of customers).

Response to Specification 2:

In the Public Interest Statement, the Applicants relied on product market definitions from prior Commission proceedings, namely telecommunications services offered to enterprise and mass market customers. We also indicated our view that even viewing markets more narrowly would not affect the competitive analysis because there are numerous suppliers and rapid technological developments in every category. That remains the fundamental reality.

Specification No. 2 notes this point from our discussion of services offered to business customers in the PIS, and interprets it as an apparent "claim" that providers of seven enumerated services and products "are all competitive alternatives . . . to varying extents." It is worth clarifying at the outset that the PIS states explicitly that "not all competitors offer all services to all customers in all locations," but goes on to underscore the key point that all types of customers have a "wide variety of choices." PIS at 72.

Specification 2 seeks a more specific delineation of which services are in the same product market "using the Merger Guidelines methodology." The DOJ/FTC *Horizontal Merger Guidelines* set forth a methodology for defining product markets that, in essence, asks whether a "hypothetical monopolist" could sustain a "small but significant and non-transitory increase in

prices." As such, the test can be difficult to apply in practice with any precision, particularly for private parties who lack the investigative powers of the government to gather relevant data from third parties.

As the Commission has recognized, it is not necessary to determine whether each specific type of telecommunications service is a separate "product market" because there are generally no meaningful differences in the competitive supply of groupings of these services. In particular, the Commission has identified (1) local exchange and exchange access service and (2) long distance service as separate markets, but has not sought to distinguish further between different voice and data services. *See, e.g.*, *Bell Atlantic-NYNEX Merger Order*, 12 FCC Rcd. 19985, ¶ 50 (1997). Further, the Commission has determined that it is appropriate to consider medium-sized and large businesses as grouped together for product market purposes. *See, e.g.*, *MCI-WorldCom Merger Order*, 13 FCC Rcd. 18025, ¶¶ 24-29 (1998); *SBC-SNET Merger Order*, 13 FCC Rcd. 21292, ¶ 20 (1998); *Ameritech-SBC Merger Order*, 14 FCC Rcd. 14712, ¶ 100 (1999). Indeed, the FCC has expressly *rejected* the argument that it should "distinguish between medium-sized business customers and large business/government customers." *MCI-WorldCom Merger Order* ¶ 165. The FCC found that "both sets of customers share many relevant characteristics"; "both sets of customers face contract-type tariffs [are] typically served by 'face-to-face' sales and customer service representatives" and that "both require switched and dedicated access services." *Id.*; *see also AT&T-TCG Merger Order*, 13 FCC Rcd. 15236, ¶ 50 (1998) ("We find nothing in the record that suggests a need to analyze medium-sized businesses as a separate customer group."). These findings apply with even greater force today. The on-going and rapid changes in the telecom industry — including for example the increasing demand by business customers for "all distance" voice service, the convergence of voice and data services onto IP networks and

the enhanced functionality of equipment — all argue for the common sense approach of continuing to look at the broader market for telecom services offered to business customers.

These technological changes also mean that the Commission must, for competition analysis purposes, reflect the growing importance of system integrators and equipment manufacturers. Enterprise customers requiring "managed" services can either purchase the basic telecommunications services from a carrier and self-supply the additional services; can purchase both the basic and managed services from a carrier; or can obtain managed services from a third-party system integrator that in turn resells the underlying telecommunications services obtained from carriers. The ability of system integrators to resell services clearly exerts competitive pressure on carriers that supply those services, and system integrators compete directly with carriers with respect to providing the "value added" portion of managed services. With the advent of VoIP, equipment manufacturers are now bundling their equipment with resold transport services to offer business customers an array of local and long distance voice services. Again, such services compete directly with those retail services offered by carriers.

In all events, even were the Commission to view each of the seven enumerated services as separate product markets, the result would not be different. Business customers have numerous alternatives to SBC and AT&T today for each of these "products." And technology developments will continue to create even more alternatives.

Specification 3:

The Public Interest Statement, at pages 73-88, cites a number of companies that the applicants contend compete for enterprise customers in various geographic regions with respect to some or all of the services listed in specification 2.

a. Provide the revenues and number of customers, separately for AT&T and SBC, separately for each type of service identified in specification 2, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within SBC's region.

Response to Specification 3(a):

Under agreement with the Commission, AT&T is responding to this specification by providing AT&T's revenues and customer counts separately for (i) each MSA in SBC's region and (ii) each state outside of SBC's region, and separately for each business customer segment and separately for each service family. AT&T's response is contained in Highly Confidential Exhibits 3(a)-I and 3(a)-II (redacted). AT&T notes that it may provide service to a single business customer in multiple MSAs or states, and that it has assigned such customers to particular MSAs and states based upon billed addresses.

b. Provide the number of DS0 equivalent lines, separately for AT&T and SBC, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within SBC's region.

Response to Specification 3(b):

Under agreement with the Commission, AT&T is responding to this specification by providing the number of switched DS0 equivalents separately for (i) each MSA in SBC's region and (ii) each state outside of SBC's region, and separately for each business customer segment and each service family. AT&T's response is contained in Confidential Exhibits 3(b)-I and 3(b)-II (redacted). AT&T notes that it may provide service to a single business customer in multiple

MSAs or states, and that it has assigned such customers to particular MSAs and states based upon billed addresses.

Exhibit 3(b)-I is a spreadsheet that contains the relevant information for AT&T's local switched services for each quarter from March, 2004 through March 2005. The spreadsheet includes two tabs (or "worksheets") for each month. The first tab identifies the number of DS0 equivalent switched lines, separately for each customer segment, outside the SBC region by state, and the second tab identifies, separately for each customer segment, the number of DS0 equivalent switched lines within the SBC region by MSA. AT&T may provide service to a single customer in multiple MSAs or states. The service family associated with Exhibit 3(b)-I is local voice service.

Exhibit 3(b)-II is a spreadsheet that contains the relevant information for AT&T's non-local switched services for each quarter from March, 2004 through March 2005. The spreadsheet includes two tabs (or "worksheets"). The first tab identifies the number of DS0 equivalent switched lines outside the SBC region by state. The second tab identifies the number of DS0 equivalent switched lines within the SBC region by MSA. The Exhibit further identifies the number if DS0 equivalents purchased by each customer segment. The service family associated with Exhibit 3(b)-II is LD voice service.

c. Provide the number of data lines by capacity, separately for AT&T and SBC, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within SBC's region.

Response to Specification 3(c):

Under agreement with the Commission, AT&T is responding to this specification by providing the number of dedicated DS0 equivalents separately for (i) each MSA in SBC's region and (ii) in each state outside of SBC's region, and separately for each business customer segment and separately for each service family.

AT&T uses dedicated facilities to provide local private line services and long-haul private line services. These services are described in detail in the response to Specification 5, *infra*. AT&T's response to Specification 3(b) with respect to local private line services is contained in Highly Confidential Exhibit 5(c)-I (redacted). Specifically, Exhibit 5(c)-I sets forth, for local private line services, the number of each type of circuit (the Exhibit refers to circuits as "ckts") provided by AT&T by state (for non-SBC region circuits) and by MSA (for SBC region circuits). The DS0 equivalent count is equal to the DS1, DS3, OC3, OC48, and OC192 circuit counts multiplied by 24, 672, 2016, 32,256, and 129,024, respectively. The Exhibit also identifies the business segment associated with various levels of circuit purchases. Note that the local private line services designated in the Exhibit as "Type I" are provided exclusively using AT&T facilities. The local private line services designated as "Type II" rely, at least in part, on leased facilities.

Confidential Exhibit 3(c)-I (redacted) applies to long-haul private line services. The information in Exhibit 3(c)-I reflects the data from AT&T's principal long-haul private line billing systems for services associated with long-haul private line services. Specifically, the data in Exhibit 3(c)-I was collected using the "PLUSS" system, which provides more than 95% of the relevant data. The only other long-haul private line billing system, the Universal Biller, is used primarily to bill some packet-based services that are bundled with voice services. The Universal

Biller is used to bill a negligible amount of DS0, DS1 and DS3s (PLUSS has the remainder). AT&T could not obtain information responsive to this Specification from the Universal Biller, because the normally captured and retained data does not possess the necessary detail to permit a response. Furthermore, the "upstream" datasets that feed the Universal Biller – which are not directly used to bill customers – also lacked the necessary information and often contain unreliable data. Thus, the circuit counts and revenues in Exhibit 3(c)-I may be understated by approximately 5%, primarily at the DS1 level and to a lesser extent the DS0 level circuits.

Column A of Exhibit 3(c)-I identifies the state associated with the relevant circuits.[1] Column B identifies whether the circuit location is in an MSA (as established in the 2000 Census Bureau Statistics) or not in an MSA (denoted as "non-MSA"). Column C identifies the name of the MSA (if applicable). Column D identifies whether each serving wire center in the states SBC serves is in SBC territory (denoted "SBC") or not in SBC territory (denoted not "non-SBC"). In some instances, AT&T was unable to determine from its records whether a particular circuit associated with a serving wire center was located in an SBC MSA. That is because AT&T does not maintain that information in the ordinary course of business. Rather, AT&T had to map its circuits to an MSA. To do this, AT&T used zip code information in the Telcordia Local Exchange Routing Guide ("LERG") to identify the zip code associated with the CLLI codes listed for the 13 SBC states. AT&T then used the zip code to map the serving wire center and, in turn, the circuit passing through the serving wire center, to an MSA. In some instances, the zip code data were invalid (based on current USPS zip code lists), *e.g.*, because the

[1] In ten instances (of the 4,989 dedicated lines) the data lacked sufficient information to assigned a state.

incumbent LEC that provided the zip code mis-enters the data. AT&T identified these instances in Column D of Exhibit 3(c)-II as "Unknown." In other instances, the serving wire center could be identified as being in an SBC state but a matching CLLI was not found in the LERG-based list of wire center CLLIs. These wirecenters were treated as non-MSA (because no zip code was available for mapping to MSA), and were treated as non-SBC if the seventh character of the CLLI code was "X" (which is a typical indicator that the serving wire center is not an RBOC wire center).

Column E identifies the segment associated with the customer that purchases the relevant circuits. AT&T's data billing systems use a Master Customer Number ("MCN") to identify each of its customers. AT&T's Chief Financial Officer (CFO) organization provided a mapping of unique MCNs (6 digit) to the predominant sales segment (*e.g.*, Select, Enterprise, and Signature strata) as it currently exists. PLUSS also possesses a segment definition, but that definition reflects the segment existing at the time the data set was originally produced (*e.g.*, January 2004). Customer segment names, classification criteria and customer sizes change over time. To better assure consistency across the data sets, AT&T first sought to match the MCN to the CFO cross-reference table in order to establish the sales segment. If a match was found, the CFO-provided segment was used. If no match was found, then the PLUSS segment definition was used.

Column F identifies the service family. Columns G-K identify the number of physical connections for the end of each quarter from March 2004 through March 2005. And Columns L through P identify the number of circuits associated with the physical connections for each quarter from march 2004 through March 2005.

d. Provide the market shares analyzed by any appropriate metric separately for AT&T, SBC, and each of the competitors cited in pages 73-88 of the Public Interest Statement, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA.

Response to Specification 3(d):

Under agreement with the Commission, AT&T is responding to this specification by providing market share reports maintained in the ordinary course of business (either prepared internally or external reports in AT&T's possession).

AT&T's response consists of two sets of documents. The first set consists of reports prepared either by AT&T's Competitive Assessment Group or for that group by outside vendors. These documents are numbered ATTFCC01973-ATTFCC03048. The second set consists of independent analyst reports in the possession of AT&T's Information Research Center. These documents are numbered ATTFCC00001-ATTFCC01972.

e. Provide all competitive analyses or studies prepared expressly for AT&T or SBC (whether prepared internally or by outside advisors) that discuss competition between AT&T and SBC for business or wholesale customers in the possession of AT&T custodians Clayton Lockhart, Thomas Horton, Virasb Vahidi, Pradeep Crasto, Douglas Ranck, Robert Olson, Peter Schaffer, John Mills, Gary Smith, Judi Hand, Michael Heath, Ronald Spears, Kathleen Flaherty, Daniel Nugent, Marcus Melloy, A.H. McGrath, Regina Egea, Donna Henderson, Cathy Martine-Dolecki, Kathryn Morrissey, John Polumbo, and David Krantz and SBC custodians William McCullough, Susan Johnson, Jose Gutierrez, Scott Helbing, Christine Urbanek, James Carter, Greg D'Anna, Jon Ramsey, Amy Bruns, Hunt Kingsbury, Edward Cholerton, Donna Harrison, Steven Mitchell, Debra Moore, Yno Gonzalez, Norma Buss, Daniel T. Walsh, John Nordberg, Thomas Wilson, Margaret Moschetto, Randall Porter, Mark Fishler, Howard Irgang, Dan Walsh, Randy Tomlin, Rick Moore, and Brad Bridges.

Response to Specification 3(e):

The documents responsive to this Request are numbered ATT500000001-ATT599009410.

Specification 4:

According to page 91 of the Public Interest Statement, "[m]any business telecommunications customers (and particularly large businesses) . . . employ rigorous competitive bidding processes." For situations since October 1, 2004 in which AT&T or SBC has submitted a proposal to provide any service to a business customer and in which AT&T or SBC is aware or believes that the other applicant also submitted a proposal identify:

a. The service(s) which was or were the subject of the proposal;

b. The month the proposal was submitted;

c. The class of customer as defined in response to specifications 1.a and 1.b;

d. The revenues that would have been generated, separately within SBC's region and outside SBC's region, under the proposal;

e. Any other person which your company is aware or believes also submitted a proposal;

f. The location(s) in which the service was or is scheduled to be provided; and

g. The person awarded the contract to provide the relevant service(s).

Response to Specification 4:

Under agreement with the Commission, AT&T is responding to this specification by providing the information that it maintains in the ordinary course of business in its web-based customer relationship manager ("eCRM") sales database. Several general characteristics of that database are relevant to an understanding of the limited usefulness of that information for purposes of assessing the range of supplier options available to customers, and several specific aspects of the database's use and limitations are relevant for an understanding of responses to particular elements of the specification.

The eCRM database is principally a sales management and tracking tool rather than a tool designed to assess overall competition or market share information. Its data are the product of the incentives created for self-reporting by sales representatives, who themselves may possess very limited information regarding the competition they face, and are thus significantly underinclusive in many respects. For example, business customers frequently use formal or

informal confidential bid processes in purchasing communications services and do not generally advise AT&T of the details (or even existence) of all of the other bids or bidders. Sales representatives often have to guess regarding the competition they face, but they are required by the eCRM system to list a "primary competitor" (and, at times, a "secondary competitor") even when they are unsure of what companies they are competing against. Especially in the SBC region, SBC may thus be listed in situations where in fact it is not an active competitor at all. And because sales representatives have recently been instructed – in order to better populate the eCRM database – to provide at least one secondary competitor (even where there is no known secondary competitor), a common practice among sales personnel in such circumstances has been to re-list the primary competitor as a secondary competitor as well. Thus SBC may be listed as a secondary as well as a primary competitor even though that listing is based on a speculative conclusion that SBC is the primary competitor in a particular situation.

The sales use of the database also results in significant under-reporting of the scope of competition. While a sales representative has an incentive to open a situation report when there is a business lead, there are often limited successive entries and updating of information – especially when the prospect does not measure up to initial expectations. There is thus a tendency for the reports to overstate successes and to understate losses or unrealized business opportunities. The burden associated with establishing a situation report and updating that report also means that, beyond the few required data fields, there is often no reporting at all regarding many potential data fields for many if not most situations. This is particularly true with respect to the listing of secondary competitors. At one time, no reporting of secondary competitors was required. Only recently has AT&T provided additional incentives for sales representatives to list at least one secondary competitor. A natural result of these requirements is that sales

representatives often do not list more than one secondary competitor, even where they are aware of multiple competitors. For competitive situations in the SBC region, this leads to a dramatic understatement of competitors other than SBC, where SBC is included as a primary competitor.

As to the particular elements of the specification, the response is shaped by the peculiarities of the database and entry practices. The specification requests information with respect to "situations since October 1, 2004 in which AT&T or SBC has submitted a proposal to provide any service to a business customer and in which AT&T or SBC is aware or believes that the other applicant also submitted a proposal." AT&T's response has used the data entered with respect to when a commercial opportunity is expected to close, and thus includes competitive situations defined by the existence of an AT&T proposal for service in circumstances where a decision was or is anticipated to be completed on or after October 1, 2004 (as well as including situations where such opportunities have already closed since that date). The response will thus likely be somewhat overinclusive in this respect. Situations where AT&T believes SBC to be a competitor are derived from those entries where a sales representative entered SBC as the primary competitor or as one of the secondary competitors.

Similarly, sales representative reports for those competitive situations were used as the basis for the response addressing the relevant services subject to competition, the customer name (and an address and name of a contact person), and the name and title of the AT&T employee principally involved in the proposal. Neither the "revenues that would have been generated, separately within SBC's region and outside SBC's region, under the proposal," nor "location(s) in which the service was or is scheduled to be provided" is included in the database: the closest entries address the location to which the proposal is directed, which is often a procurement site or management office far from the locales where the service is to be provided (as noted above,

however, the response does provide the customer address). Information regarding the "person awarded the contract" is not collected directly. AT&T has provided information regarding the sales representative's most recently entered "win probability," which upon closure of the situation is entered as 100 percent (for wins) or zero percent (for losses), and, as noted, AT&T's response sets forth the primary competitor listed by the sales person.

Confidential Exhibit 4-I (redacted) identifies all instances in which AT&T has submitted a proposal to provide serve to a business customer since October 1, 2004 and in which the AT&T sales person designated SBC as the primary competitor. The date of deal closure, services, primary and secondary competitors, term, and opportunity identifier number are provided. There are multiple entries where there are multiple secondary competitors listed for a particular competitive situation.

Confidential Exhibit 4-II (redacted) sets forth similar information for each situation where the AT&T sales person identified a primary competitor other than SBC but where SBC is listed as a secondary competitor. Confidential Exhibit 4-III (redacted) supplements Exhibit 4-II by setting forth additional, identified secondary competitors other than SBC for those situations identified in Exhibit 4-II (correlated according to the opportunity number set forth in both Exhibits).

SPECIAL ACCESS AND PRIVATE LINE SERVICES

Specification 5:

Pages 102-03 of the Public Interest Statement assert, in general terms, that SBC faces growing competition in the special access market.

a. For each incumbent LEC franchise area and MSA where AT&T or SBC provide special access service, provide the special access revenues billed and number of circuits for AT&T and SBC, separately for each type of special access service, and separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b. Provide definitions for each type of special access service (which, cumulatively, should encompass all special access services offered by the company).

Response to Specification 5(a):

"Special access" is a term derived from tariff nomenclature that is generally applied to a particular kind of point-to-point, incumbent LEC local service. AT&T does not provide that service. As detailed below in AT&T's response to Specification 5(c), AT&T does provide both local and long-haul private line services between customer specified locations that some customers view as an alternative to purchasing "special access" from the incumbent LEC.

b. For each incumbent LEC franchise area and MSA within SBC's region where AT&T or SBC provide special access service, identify the five major special access competitors (based on market share), and provide an estimate of the special access revenues billed and number of circuits for each competitor, separately for each type of special access service identified in response to specification 5.a. Provide an explanation of how this estimate was determined, and provide supporting documentation.

Response to Specification 5(b)

Under agreement with the Commission, AT&T is responding to this specification by identifying, for each MSA within SBC's thirteen states, companies that provide alternatives to SBC's special access services as determined from information that AT&T maintains in the ordinary course of business. Specifically, AT&T maintains in the ordinary course of business

some (although incomplete) information from providers of alternatives to SBC's special access services, including commercial buildings that these other providers serve. In Highly Confidential Exhibit 6(d) (redacted), *infra*, AT&T provides an SBC region building list that lists buildings served by the fiber of the subset of CLECs from whom AT&T purchases special access alternatives.

c. For each incumbent LEC franchise area where AT&T or SBC provide private line service, provide the private line revenues billed and number of circuits for AT&T and SBC, separately for each type of private line service, and separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b. Provide definitions for each type of private line service (which, cumulatively, should encompass all private line services offered by the company).

Response to Specification 5(c):

Under agreement with the Commission, AT&T is responding to this specification by providing the number of circuits and revenue for AT&T's private line services in SBC's thirteen states and by state outside of SBC's region, and separately for each business customer segment, with the exception of domestic long-haul private line services which, by definition, are not necessarily confined to a single state. Accordingly, AT&T is providing information for long-haul private lines separately for three categories: (i) circuits for which both end points are in SBC's service areas (with circuits with both end-points in the same state separately identified by state), (ii) circuits for which neither end point is in SBC's service areas, and (iii) circuits for which one end point is in SBC's service areas. The data are being provided separately for AT&T's two private line services (i) local private line service, and (ii) domestic and international private line service. AT&T does not maintain data in the ordinary course of business that allocate revenues in this manner. As a result, AT&T had to develop new computer code and "mine" multiple databases to obtain these data.

Local private line service is a local service between two points in the same area. While this service is, in most cases, provided entirely over AT&T's own facilities, it is sometimes provided through a combination of AT&T's owned facilities and facilities leased from another carrier (most commonly, a "tail", *i.e.*, a portion of the service that establishes a connection to an end-user location). Highly Confidential Exhibits 5(c)-I through 5(c)-V (redacted) (each covering one quarter) identify the number of circuits and revenue for AT&T's local private line service, by MSA in SBC's thirteen states and by state outside of SBC's region, separately for each class of business and wholesale customers. The local private line services designated as "Type I" are provided exclusively using AT&T facilities. The local private line services designated as "Type II" rely, at least in part, on leased facilities.

Domestic and International private line services are long-haul private line services that may be purchased either as a "bring your own access" service between customer-designated AT&T POPs (with the customer separately obtaining access to the commercial building or other endpoints of the service) or as an end-to-end private line service from locations specified by the customer. In the latter case, AT&T provides a single private line circuit, often by leasing local access from another carrier. This situation applies to the vast majority of cases in which AT&T's network does not connect to the service endpoints. Highly Confidential Exhibit 5(c)-VI (redacted) identifies the number of circuits and revenue for AT&T's domestic and international private line services, separately for each class of business and wholesale customers, in three categories: (i) circuits for which both end points are in SBC's service areas (with circuits having both end-points in the same state separately identified by state), (ii) circuits for which no end point is in SBC's service areas, and (iii) circuits for which at least one end point is in an SBC service area.

The first Column in Exhibit 5(c)-VI identifies whether the circuits are domestic or international. The letter D indicates domestic circuits, and the letters C, M and O indicate Canadian, Mexico, and Overseas circuits, respectively. The second column identifies the customer segment, *e.g.,* Select, Enterprise, Signature, Wholesale, etc.[2] The third column identifies the circuit type, *e.g.,* LSPL, T1.5, OC3, OC12 and so on. Note that LSPL indicates a "low speed" private line where the speed of the circuit is less than T1.5 Mbps. The LSPL circuits constitute over 90% DS0 circuits. The rest are "fractional T1.5 circuits" that have various speeds up to a 768kpbs. The next column indicates the geographic location of the end points of the circuit. For domestic circuits, that column states (1) an SBC state name (for which the end-points of the circuit are within an SBC state); (2) the phrase "Interstate/Intra-region (for which the end-points of the circuit are in different SBC states); (3) the phrase "SBC to Others" (for which one end-point of a circuit is in an SBC state and the other end-point of the circuit is in a non-SBC state; or (4) "Out of Region" (for which the end-points of the circuit are in non-SBC states). For international circuits, only the latter two categories are used (because, by definition, the end-points of an international circuit cannot all be in an SBC state).

The next five columns identify by quarter from March 2004 through March 2005, the number of circuits for each of the customer segments and geographic locations of the circuits. And the next five columns identify by quarter from March 2004 through March 2005, the revenues associated with those circuits.[3] These quarterly revenue figures are estimates equal to

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[2] The customer segments were assigned using the same approach described in response to Specification 3(c).

[3] These revenues reflect recurring charges, non-recurring charges, and partial billing charges (*i.e.,* charges related to a partial month of service). The revenues do not reflect other charges or

the revenue for the relevant end-of-quarter month, *e.g.*, March 2004, multiplied by 3 (the number of months in each quarter). AT&T adopted this approach as the best estimate it could provide within the time frame for responding to this Specification. To obtain this information, for each quarter, AT&T had to develop new computer code which was used to "mine" multiple databases comprising of more than a Terabyte of data. Then, AT&T had to develop additional computer code to sort the data (again, hundreds of gigabytes or more). The new computer code had to be debugged and validated by running the code against the massive data sets and then manually examining the results to make sure they are consistent with information known to be correct. Only then could AT&T again run the code against the multiple data sources to obtain the information responsive to this request.

The information in Exhibit 5(c)-VI was drawn from multiple billing databases using the "PLUSS." The "PLUSS" is an AT&T product record management system that draws from AT&T's principal billing systems that relate to dedicated circuits that include information relating to over 95% of dedicated service terminations or "customer loops" associated with non-local private line, packet and nodal services. As explained above, the other system, the Universal Biller, is used primarily to bill packet-based services bundled with some voice services. AT&T could not obtain information responsive to this Specification from the Universal Biller, because the relevant data sources are corrupted, miscoded or otherwise unreliable.

d. For each incumbent LEC franchise area within SBC's region where AT&T or SBC provide private line service, identify the five major private line competitors (based on market share), and provide an estimate of the private line revenues

(footnote continued)

credits that may have been manually implemented outside of the ordinary billing cycles and mechanisms.

billed and number of circuits for each competitor, separately for each type of private line service identified in response to specification 5.c. Provide an explanation of how this estimate was determined, and provide supporting documentation.

Response to Specification 5(d):

Under agreement with the Commission, AT&T is responding to this specification by identifying, for each MSA within SBC's thirteen states, competitive information that AT&T maintains in the ordinary course of business. AT&T's response, contained in Highly Confidential Exhibit 6(d) (redacted), is the same as the information that is being provided in response to Specification 5(b).

Specification 6:

According to page 105 n.347 of the Public Interest Statement, AT&T owns only limited local facilities within SBC's region, which AT&T "uses primarily in connection with its own provision of retail business service." In addition, the Public Interest Statement states that competitors have deployed "comparable" facilities.

a. Separately for each MSA within SBC's franchised territory in which AT&T owns facilities used to provide telephone exchange or exchange access service, provide in the form of lists and network maps of sufficiently precise detail a description of AT&T's faculties, including the capacity of lit and number of strands of unlit fiber and the geographic area that practically can be reached by the network, via either (1) direct fiber connection of (2) special access loops of EELs.

Response to Specification 6(a):

AT&T's SBC-region local facilities are described in accompanying Highly Confidential Exhibits 6(a)-I, 6(a)-II, 6(a)-III, 6(a)-IV, and 6(a)-V (redacted).

Exhibit 6(a)-I provides the location of each AT&T switch in SBC's region (including CLLI, street address, city, zip code, and MSA) in Columns A through F. The type of switch deployed at each location is provided in Columns G through J. As noted in the spreadsheet, AT&T has deployed four different types of switches in SBC's region: 4ESS switches are manufactured by Lucent and are primarily used for long distance telephone voice services (although they can also be used to provide a limited form of local service); 5ESS switches are manufactured by Lucent and are used to provide local telephone voice services; DMS switches are "class 5" switches manufactured by Nortel and can be used to provide both local and long distance telephone voice services; SMX switches are manufactured by Siemens and provide switching for inbound ISP traffic. The number of each type of switch at each location is also indicated.

Exhibit 6(a)-II provides the location of each AT&T collocation in SBC's region (including CLLI, street address, city, zip code, LATA and MSA) in Columns A through G. The

classification of the type of collocation is provided in Columns H through J. "FB" stands for facilities-based collocations where AT&T has deployed local fiber. "NFB" stands for non-facilities-based collocations where AT&T has typically collocated multiplexing equipment but has not collocated local fiber. "Rifle Shot" collocations are collocations used in connection with AT&T's long distance services and/or AT&T's Digital Link service that allow AT&T to use its 4ESS switches to provide limited local telephone service but otherwise do not allow AT&T to access local network facilities or connect to its local metro fiber.

Exhibit 6(a)-III provides the list of all AT&T "on net" commercial buildings in SBC's franchised territory. These are the buildings in which AT&T either has a retail or wholesale customer. The information provided is based on data as it existed in AT&T's database on April 17, 2005. Because customer level detail is provided, and AT&T can have more than one customer in a building, a building can be listed multiple times.

Where available, AT&T provides the building's location (including CLLI code, street address, city, zip code, LATA and MSA). This information is provided in Columns A through E. The customer's name is provided in Column F. Column G notes whether the customer is a possible wholesale customer. This determination was made by matching AT&T's building record information with locations where AT&T believes an IXC has established a POP. In addition, AT&T examined whether a building location was associated with a service product that can be used for wholesale service. The list of customers generated by this process then was manually reviewed by AT&T employees to determine whether the customer was likely purchasing wholesale service at the location in question.

Exhibit 6(a)-IV provides for each of the customers listed in Exhibit 6(a)-III the switched voice lines provided to the customer (in DS0 equivalents) and the "other" voice lines (integrated

voice/data services) provided to the customer (in DS0 equivalents). This information is listed in Columns H and I, respectively.

Exhibit 6(a)-V provides information regarding the capacity of data services provided to each building location. Specifically, where available, AT&T provides the building's location (including CLLI code, street address, city, zip code, LATA and MSA). This information is provided in Columns A through E. The customer's name is provided in column F. Column G contains a flag indicating whether the customer at the building location may be wholesale customer.

Columns J through K contain information regarding the DS0 equivalents provided to each building. Specifically, AT&T's records of services provided to a specific customer location ordinarily contain product codes that can be mapped to voice services, data services, and integrated voice and data services. However, AT&T's records are not universally populated with such product codes and, in such instances, it is not possible to distinguish between the types of services being provided to the customers. Thus, AT&T provides the number of DS0 equivalents for the following three categories: data, integrated voice/data, and undefined. (DS0 equivalents of voice services are provided in Exhibit 6(a)-IV).

Columns K through W provide the actual type and capacity of the circuit to each building (DS0, DS1, DS3, OC3, OC12, OC48, OC192, and broadband wireless ("BBW")) and indicate whether the service provided to the customer is "Type I" or "Type II." Type I service is service that is provided entirely over AT&T's facilities. Type II service is service is provided at least in part through leased facilities (*e.g.*, special access). Even where AT&T has deployed facilities into a building, AT&T may serve some customers in the building by leasing facilities from another carrier. Similarly, in some instances, AT&T may provide service to a single customer,

providing some services entirely over its own facilities and some services over facilities leased directly or indirectly from another carrier.

AT&T distinguishes between circuits used to provide voice service and circuits used to provide data services. However, as noted above, in some instances AT&T's records do not indicate whether the circuit is used to provide voice or data service. Also, in some instances, the facilities in question are used to offer integrated voice and data services. AT&T believes such circuits are predominantly used for data services. Thus, in order to provide the information in the form requested by the specification, AT&T has treated as data circuits those circuits that are classified in its records as integrated voice and data or circuits that were not classified.

Maps detailing AT&T's local metro fiber facilities in the 19 markets where it has deployed metro fiber in SBC's region are being provided in Highly Confidential Exhibit 6(a)-VI (redacted).

Finally, with respect to the question seeking an assessment of the geographic scope of AT&T's local network facilities, there is no specific geographic area that can be addressed by AT&T's local network in the sense requested. When leasing special access loops or EELs, AT&T can physically reach almost any building in the incumbent telephone company's service area (as can any other CLEC). However, the question whether such a connection is economically viable can only be addressed on an individual case basis that incorporates a review of all of the costs (including the costs of special access or EELs) needed to serve a location and the anticipated revenues that could be earned from customers in that location.

When deploying its own direct fiber connections, there is also no defined geographic area that AT&T can serve. AT&T determines whether to deploy a dedicated fiber connection to a building on a case-by-case basis. And in making that determination, AT&T compares the

committed revenues that it has at the building with the costs of deployment and leasing special access. The costs of deployment turn on numerous factors, including: i) the hurdle rate; ii) the distance between existing network facilities and the building; iii) access to existing conduit; and iv) the costs associated with building access.

Of course, these factors will not necessarily be the same in all situations or for all carriers. A building that AT&T has determined that it cannot economically serve by an AT&T direct fiber connection may be in closer proximity to another carrier's network. Other carriers may also, for example, have different hurdle rates or building access costs. Unlike many other competitive carriers, AT&T focuses on deploying local facilities to serve its own retail customers rather than constructing fiber to buildings on the hopes of "wholesaling" special access services to other carriers.

b. Describe the retail and wholesale services that AT&T provides using the facilities identified in response to specification 6.a.

Response to Specification 6(b):

AT&T provides a wide range of retail local and long distance voice, data, and IP services where it has local network facilities. By major product category, these are: data, domestic LD, headquarters service, international LD, IP and enhanced service, local voice, outsourcing and professional services, and specialized federal government LD voice services. AT&T also provides private line services that are purchased at wholesale by carriers as described in response to specification 5.

AT&T's revenues for each category of service for each MSA in SBC's franchised territory is set forth in Confidential Exhibit 6(b) (redacted).

c. Separately for each MSA identified in response to specification in response to specification 6.a and separately for each service identified in response to specification 6.b identify the types of customers to which AT&T offers any of the services described in response to specification 6.b separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b.

Response to Specification 6(c)

AT&T generally offers a wide range of retail local and long distance voice, data, and IP services to all classes of customers. The revenues that AT&T earns from these services by customer class and by MSA are provided in Exhibit 6(b), *supra*.

d. With respect to AT&T, for each MSA identified in response to specification 6.a, and with respect to SBC, for each MSA within SBC's franchise area where AT&T is collocated, identify and describe the facilities deployed by carriers that compete with SBC and/or AT&T. Describe the retail and wholesale services that each competing carrier provides using those facilities, and identify the types of customers to which each service is provided separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b.

Response to Specification 6(d):

Under agreement with the Commission, AT&T is responding to this specification by providing competitive information that it maintains in the ordinary course of business. AT&T provides in Highly Confidential Exhibit 6(d) (redacted) a list of the building locations in SBC's region that CLECs from which AT&T purchases special access substitutes serve with fiber. This information was provided to AT&T by competitive carriers seeking to sell AT&T dedicated access services and is retained by AT&T for purposes of ordering such service. As such, AT&T's data do not reflect the entirety of available competitive special access supply because the data do not reflect carriers that do not actively market special access services to AT&T as well as carriers from whom AT&T does not purchase special access services. For example, AT&T's competitive building inventory data do not reflect the buildings served by Sprint.

Exhibit 6(d) provides the address location (including, where available, the CLLI and MSA for the building) for each of these buildings in SBC's service areas. In Column A, AT&T provides information regarding the vendor and whether the building is currently served by competitive facilities. The designation "lit" indicates instances where AT&T believes that the carrier has deployed fiber to the building and can currently provide service. The designation "inactive" indicates instances where AT&T believes the carrier has deployed fiber to the building, but not the associated electronics to "light" the fiber. Such buildings can ordinarily be lit quickly. Finally, "near net" indicates instances where a competitive carrier has advised AT&T that it can economically extend its network to the building in question. In this regard, AT&T does not have complete data on "near net" capabilities, as it has only recently received "near net" building inventories from some competitive carriers (and only from a few carriers).

e. Provide the address of each building within SBC's region that is "on net" for AT&T, *i.e.*, connected to AT&T's local network by facilities owned by AT&T. Provide the address of each additional building that AT& plans to bring "on net" within the next two years (by May 1, 2007).

Response to Specification 6(e):

The information requested about AT&T's "on-net" buildings is contained in Exhibit 6(a)-III (discussed above). Highly Confidential Exhibit 6(e) (redacted) provides a list of the buildings (by street address) for which AT&T has approved funding to place "on-net" within the next two years. AT&T determines whether to place a building "on-net" on a case-by-case basis.

Specification 7:

For each state in which SBC operates as an incumbent LEC, describe the state regulation, if any, that applies to special access and private line services.

Response to Specification 7:

In accordance with the Instruction 20(a), no response is required from AT&T.

C. INTERNET SERVICES

Specification 8:

On page 108 of the Public Interest Statement, SBC is described as a "new entrant" with respect to Internet backbone services that "does not control a significant share of traffic or revenue, as compared to AT&T, which is a "Tier 1" backbone provider. Table 2 of the Schwartz declaration (page 10) cites shares of the Internet backbone market and paragraph 20 of the Schwartz declaration states that SBC is not a Tier 1 Internet backbone provider, but calculates SBC's market share based on a national market, including Tier 1 Internet backbone providers.

a. Identify when SBC began providing Internet backbone services in each state where SBC currently provides Internet backbone services.

Response to Specification 8(a):

In accordance with the Instruction 20(a), no response is required from AT&T.

b. Separately for AT&T and SBC, and separately for each state where that carrier provides Internet backbone services, provide the following information regarding the amount and type of traffic that traverses SBC's and AT&T's existing Internet backbones:

(1) The number, type, and size of the customers obtaining access to the Internet backbone.

Response to Specification 8(b)(1):

AT&T offers a set of services that provide access to its Internet backbone at many different speeds and bandwidths, ranging from dial-up and DSL connectivity to dedicated connections ranging from 56 Kbps to OC48 speeds. AT&T offers these services to all customers, and does not differentiate its services based on the type of customer. AT&T sells these Internet services to many different types of customers, including other backbone providers, cable companies, ISPs, large businesses, and many others. These customers vary greatly in size; for example, AT&T's managed dial Internet services are sold to very small businesses with only a few user IDs as well as large enterprise businesses with up to 1,000,000 registered user IDs.

The number of dial-up business Internet service customers is provided in Confidential Exhibit 8(b)(1)-I (redacted).

The number of dedicated business DSL customers, expressed in line counts, is provided in the attached spreadsheet (Confidential Exhibit 8(b)(1)-II (redacted)). The line counts are provided for each speed and for each month since January 2004. The line counts in Exhibit 8(b)(1)-II include DSL offered to business customers as an additional feature of VPN.

The number of managed Internet service customers (MIS) is provided in Confidential Exhibit 8(b)(1)-III (redacted).

The number of consumer DSL customers for each month beginning with January 2004 is provided in Confidential Exhibit 8(b)(1)-IV (redacted).

The number of consumer dial-up Internet access customers, by month for each month beginning with January 2004, is also provided in Exhibit 8(b)(1)-IV.

(2) The number and type of circuits provided by AT&T or SBC connecting those customers to the Internet backbone.

Response to Specification 8(b)(2):

AT&T maintains trunking facilities that are used to connect all of AT&T's dial-up Internet service customers, consumer and business, to the Internet backbone. The number and type of circuits used for these purposes are listed in Confidential Exhibit 8(b)(2)-I (redacted).

AT&T also uses separate dedicated facilities to connect individual consumer DSL and managed Internet service (MIS) customers to the Internet backbone. The number and type of those circuits are provided in Confidential Exhibit 8(b)(2)-II (redacted).

(3) Each person with which AT&T or SBC has a peering relationship.

Response to Specification 8(b)(3):

Highly Confidential Exhibit 8(b)(3) (redacted) lists (1) the persons with whom AT&T has had a peering agreements throughout the relevant time period; (2) the persons with whom AT&T had peering arrangements during the relevant time period but with whom, under their agreements with AT&T, were required to pay fees at least temporarily because they were not in compliance with AT&T's Peering Guidelines; and (3) persons with whom AT&T had paid peering agreements during recent portions of the relevant time period.

This response excludes (1) "peering" with government agencies, such as NASA, which are not backbone carriers; (2) "peering" at public NAPs such as MAE-East or MAE-West, from which AT&T expects to have completely withdrawn by May 2005; and (3) SIP (or VoIP) "peering" which is a bilaterally negotiated interconnection agreement between VoIP providers to carry each other's VoIP traffic. AT&T's response is limited to the United States.

(4) The volume of traffic exchanged with each person with whom the carrier peers on a paid or settlement-free basis.

Response to Specification 8(b)(4):

The response to this specification is provided in Exhibit 8(b)(4) (redacted). The numbers provided in that Exhibit are average traffic rates for the week ending on the date shown, stated separately for traffic coming into the AT&T network from peers, and leaving the AT&T network bound for peers. These average rates are computed by taking the total bits transmitted over the week and dividing by the number of seconds in a week. AT&T is providing a Highly Confidential version of Exhibit 8(b)(4) (containing the names of the relevant peers) and a Confidential version containing traffic information but with the peers' names removed.

(5) The volume of traffic exchanged with each person for whom the carrier provides transit service, or who provides transit services to the carrier.

Response to Specification 8(b)(5):

Under agreement with the Commission, AT&T is responding to this specification by providing the total volume of traffic exchanged with all of AT&T's more than 18,000 customers, and individual totals only for each of AT&T's twenty largest customers. AT&T's response is attached as Confidential Exhibit 8(b)(5) (redacted).

(6) The total number of routes announced or advertised on your Internet backbone network, and the number of IPv4 addresses associated with those routes.

Response to Specification 8(b)(6):

The number of routes announced or advertised on AT&T's Internet backbone constantly changes based on customer and provisioning activity. In addition, it is difficult to make meaningful comparisons between ISPs or Internet Backbone Providers using these numbers, since all "routes" are not equal: for example, the route advertised by the network AS3356, Level 3's U.S. network, provides access to many thousands of customer connections because Level 3 is a large Internet service and backbone provider, whereas the route to AS6949, Charles Schwab, the financial services provider, only provides access to one entity, yet within the global Internet routing table each of these autonomous system numbers counts as one "network."

On January 1, 2004, AT&T announced 128,000 routes to its full-routes customers. In other words, AT&T believed at that time that those 128,000 routes provided connectivity to the entire global Internet. On that same date AT&T announced 28,000 routes to AT&T's peers, representing routes needed for connectivity to AT&T's customers. The numbers for April 17, 2005 are 160,000 and 38,000, respectively.

The number of IPv4 addresses is provided below. However, the number of IPv4 addresses being advertised via a backbone provider's routes is not meaningful as a measure of a backbone provider's size or share, because not all host IDs may be in use within any given IP address space and some ISPs practice better address aggregation than others. As an example, AT&T uses a Class A address, Net12, for many of its dedicated customers, and thus this single advertisement can contain potentially many customers. Within the Internet community at large it is considered a best practice to reduce the number of IP addresses that are advertised, so as not to add to the general overuse of the overall Internet routing tables.

DATE	**Class C Equivalent Addresses Announced By AT&T**
January 1, 2005	1,536,505
September 2, 2004	1,566,447
June 1, 2004	1,435,956
March 1, 2004	1,320,000
January 1, 2004	1,342,141

c. With respect to SBC, separately for each state where SBC provides non-Tier 1 Internet backbone services: (1) identify SBC's non-Tier 1 Internet backbone provider competitors, (2) provide SBC's share of Internet backbone revenues, (3) provide the estimated revenue shares of SBC's Internet backbone provider competitors, (4) provide SBC's share of Internet backbone traffic, (5) provide the estimated shares of traffic of SBC's Internet backbone provider competitors. With respect to AT&T, separately for each state where AT&T believes that SBC provides non-Tier 1 Internet backbone services, respond to (1,) (3), and (5) above. Provide an explanation of how the estimates in subsections (3) and (5) above were determined.

Response to Specification 8(c):

AT&T has no independent information concerning the identity, revenue shares, or traffic shares of SBC's non-Tier 1 Internet backbone competitors.

d. Provide any engineering capacity planning documents or marketing analyses that discuss the anticipated change in the number of transit customers and/or the volume of associated traffic for the years 2005 and 2006.

Response to Specification 8(d):

The IP Capacity Management organization performs capacity planning for the AT&T US IP Network, known internally by the name CBB or Common BackBone. This network functions as a converged IP network within the United States and is MPLS-enabled, thus enabling it to support all IP-based services, including general Internet traffic, virtual private networks, Voice over IP, web-hosting, content distribution, and any other IP-based service that AT&T may develop.

The Capacity Management organization takes product forecasts for ports and traffic volumes for all IP-based services and integrates them into one consolidated capacity plan for the entire network. Thus anticipated port growth (obtained from Product Management) is incorporated into the information provided here.

The document called "2005 Network Volume Submission" (ATTFCC03248-ATTFCC03266) is an internal capacity management and planning document that shows AT&T's overall U.S. IP network forecast for ports and traffic for 2005, as it was estimated as of October 4, 2004. This consolidated forecast is for all services, not only Internet-related services. Internet-only projects are described related to the specific services that are Internet services. Among the specific services that are Internet services which ride on this network are Managed

Internet Service (MIS--dedicated Internet connectivity sold to businesses), web hosting (shown as IDC or Internet Data Centers), and Intelligent Content Distribution Service (ICDS).

The document called "US L3 IP Network CBB MPLS" (ATTFCC03267-ATTFCC03290) provides an updated (as of April 2005) view into the 2005 capacity planning process and forecasts for ports and traffic.

The document called "2004-2005 Capex Breakout and Bridge" (ATTFCC03291-ATTFCC03302) provides a more detailed view of the projected spending outlook separated out by major functional areas.

These outlooks are merely planning documents and AT&T has not committed to them at this time. AT&T reserves the right to modify these outlooks (*i.e.*, to increase, reduce, eliminate, modify or redirect spending) at any time.

AT&T Capacity management has not yet begun the capacity planning process for 2006.

Specification 9:

Paragraph 20 of the Schwartz declaration states that SBC expects to obtain settlement-free peering fairly soon with several Tier 1 Internet backbone providers, but does not expect to achieve settlement-free peering status with others.

a. Describe the varying kinds of peering arrangements, interconnection agreements, or transit agreements that AT&T and SBC have with other Internet backbone providers. Explain the differences, if any, between private interconnection to a backbone versus interconnection at a public network access point (NAP) (*e.g.*, the quality or capacity of interconnections, etc.).

Response to Specification 9(a):

Peering is one relationship that allows an ISP to gain access to AT&T's IP backbone. The relationship has physical, operational, financial, and contractual aspects.

Physically, there was a time when AT&T participated in public peering at Network Access Points (NAPs), where an ISP would share transmission facilities to exchange its traffic with several of its peers. AT&T no longer uses NAPs, and plans to be off of NAPs entirely by the end of May. Today all AT&T peering with ISPs is direct – there is a private transmission facility linking the AT&T network with the peer's network. In some cases the connection is made in one of the new carrier hotels (Equinix, NAP of the Americas, etc.) and in some cases the connection is a direct private line between the two ISPs' networks, but it is always private.

Operationally, peering involves restricted routing. A peer will receive only "on-net" route advertisements from AT&T, and so is able to send traffic only to on-net locations – *i.e.*, to customers of AT&T. A peer is not able to send traffic through AT&T to a customer of, say, MCI or Sprint, even though AT&T peers with both of those carriers. (This is in contrast to a regular customer or "transit" relationship, in which AT&T offers its customers the ability to communicate with the whole Internet world via AT&T's peering relationships with others.) With respect to real-time routing, each peer is assumed to practice "hot-potato routing" – as soon

as a peer realizes that it is handling a packet bound for a peer network, it will hand off that packet to the peer at the earliest opportunity.

Financially, peering is generally settlement free as between the two peering carriers. The two carriers will each have to deal with some costs of interconnection. The cost of cross-connects in a carrier hotel, for example, is often assigned on an alternating basis to AT&T and then to the peer. Also each peer must provide a router port to terminate the interconnection. But no money is exchanged between AT&T and the peer in a settlement-free peering relationship. The theoretical basis for this relationship is an assumption that each of the peers is benefiting from the interconnection, and that each is assuming a fair share of the cost of the communication.

Contractually, AT&T sets requirements for the peering relationship in order to ensure a fair sharing of the costs. These requirements, described in detail in the AT&T peering policy attached as Confidential Exhibit 9(a) (redacted), include, for example, a restriction that the peer's ratio of traffic into the AT&T network to its traffic outbound should generally remain less than 2. This requirement reflects the need to balance costs since hot-potato routing implies that AT&T will be responsible for nationwide distribution of inbound traffic, while the peer will cover nationwide distribution of traffic outbound from AT&T.

In the paid peering option, routing is handled as in regular peering, but the peer provides AT&T some financial consideration because, for example, an imbalance in traffic results in an unbalance in costs. Paid peering contracts are rare at AT&T and are written on an individual case basis. Usually they contain much of the language of an MIS customer "transit" contract, with additional terms describing, for example, peering routing and conditions under which the paid peer may shift to free peering.

At one time it was common for carriers to have another relationship possibility then known as "transit," involving the transporting of one partner's traffic across the offerer's network to a third party's network. AT&T has no such transit relationships today. AT&T's use of the term "transit" refers to a paid offering to connect a customer to the whole Internet, via dialup access or DSL or dedicated access (AT&T's managed Internet service).

b. As a non-Tier 1 Internet backbone provider, explain whether SBC provides settlement-free peering with Internet backbone providers. List SBC's annual payments to other Internet backbone providers by Internet backbone provider separately for 2004 and year-to-date 2005.

Response to Specification 9(b):

In accordance with the Instruction 20(a), no response is required from AT&T.

c. Describe SBC's plans to obtain settlement-free peering. Identify the providers with which SBC is negotiating peering agreements. Explain why SBC does not expect to achieve peering status with its current provider of paid transit.

Response to Specification 9(c):

In accordance with the Instruction 20(a), no response is required from AT&T.

d. As a Tier 1 Internet backbone provider, list AT&T's annual payments from other Internet backbone providers by provider separately for 2004 and year-to-date 2005.

Response to Specification 9(d):

Many of AT&T's arrangements with other backbone providers are peering arrangements, in which the carriers exchange no payments. Moreover, AT&T does not make any effort to determine or track which of its paid service customers are "backbone providers," a label that is not consistently used in the industry, but which generally is applied to large ISPs. Accordingly, under agreement with the Commission, AT&T is responding to this specification by taking a list

of the top 50 Internet providers (identified by a public third party report) as determined by autonomous system numbers (Exhibit 9(d)-I (attached as a public exhibit)), and providing the annual payments to AT&T from all of the entities on that list that are customers of AT&T (and not peers), which is attached as Confidential Exhibit 9(d)-II (redacted).

e. Specify the fees AT&T and SBC charges for transit, separately for 2004 and year-to-date 2005, and describe the competitive consequences associated with changes (decreases or increases) in such transit arrangement charge(s). Indicate whether AT&T or SBC assesses different transit charges for ISPs and comparable enterprise customers.

Response to Specification 9(e):

The response to this specification is provided in the spreadsheet attached as Exhibit 9(e). As noted above, AT&T does not provide "transit" services, only services connecting customers to the entire Internet. AT&T typically gives customers significant discounts off of its list prices for these managed transit-type services. Accordingly, in order to provide an accurate description of the fees that AT&T actually charges for "transit," AT&T has provided the attached spreadsheet, which shows the average revenue per unit for each of AT&T's transit services. The data is provided separately for 2004 and year-to-date for 2005. The fees shown do not include charges for local access, which is often provided by a carrier or provider other than AT&T.

Specification 10:

Describe AT&T's and SBC's current policies, including any typical contractual requirements, for permitting unaffiliated Internet service providers to access that carrier's Internet backbone or other broadband transmission facilities or services (such as peering, transit, and xDSL).

Response to Specification 10:

The policies for permitting unaffiliated Internet service providers to access AT&T's Internet backbone through peering or paid peering arrangements are discussed in the response to specification 9(a) above. Typical contracts for managed Internet services – the current versions of the AT&T Master Service Agreement, the Comprehensive Service Order Attachment, MIS Pricing Schedules (standard and custom), the MIS Service Guide, and the ABN Service Guide – are provided as the documents numbered ATTFCC03049-ATTFCC03247.

Specification 11:

In paragraph 13 of the Schwartz declaration, Schwartz states that SBC controls only one "active" public interconnection facility. Explain what "control" involves in this context, including whether SBC "controls" inactive facilities.

Response to Specification 11:

In accordance with the Instruction 20(a), no response is required from AT&T.

Specification 12:

Separately for each state in which SBC and AT&T both own facilities used to provide Internet backbone services, and separately for SBC and AT&T, provide in the form of lists and network maps of sufficiently precise detail a description of each company's Internet backbone facilities, including the capacity of the lit or unlit fiber, and each NAP (whether active or inactive) controlled by SBC or AT&T. Identify and describe SBC's and AT&T's partner(s), if any, for each NAP and their relative interests in the AP and the relative amounts of traffic traversing the NAP.

Response to Specification 12:

Under agreement with the Commission, AT&T is responding to this specification by providing maps that it maintains in the ordinary course of business.

AT&T has a multi-layered network infrastructure within the United States. At the physical layer, AT&T has a fiber network within the United States, comprised of over 77,000 route miles of AT&T-owned fiber facilities.

The physical layer fiber network functions as a core inventory of facilities that are used (1) to supply direct private line services to end-customers; (2) to connect the nodes of AT&T's layer 2 (frame/ATM) network; and (3) to connect the nodes of AT&T's voice network, and (4) to connect to the nodes of AT&T's layer 3 (IP) network.

There is no meaningful sense in which AT&T could identify the lit and unlit capacity in AT&T's "Internet backbone facilities" because none of AT&T's fiber facilities are dedicated to supporting only the layer 3 IP (Internet) network. AT&T's Internet backbone facilities do not constitute a separate physical network independent of AT&T's long-haul network. AT&T provides all of its services over the same physical network, and AT&T's Internet backbone network is merely one of a number of "networks" that share capacity on that physical network. The extent to which capacity is lit or unlit on AT&T's underlying physical interexchange network is unrelated to the IP network specifically as this capacity is used across the functions described above.

Highly Confidential Exhibit 12 (redacted) contains two maps responsive to this specification. The first map, Exhibit 12-I, shows the private line capacity that is currently dedicated to AT&T's U.S. IP Backbone and serves the 18 major nodes in the United States.

In addition to the capacity shown in the first map, AT&T also serves more than 100 smaller cities with small nodes with smaller links. There is no internal capacity management map, however, that shows connectivity to these smaller nodes. Exhibit 12-II is the marketing version of the IP network map and shows these additional connections. Each node called an Remote Access Router (RAR) is connected with at least two OC3 (155 Mbps) facilities. Many cities have more than one RAR co-located in the same AT&T POP; this level of detail is not provided as part of marketing since the existence of additional nodes in the same building does not increase the "reach" of the network. The nodes called R-GARs (Remote GSR access routers) are interconnected with other nodes via two OC48s – either to the same backbone node or to two different ones as shown in the map.

AT&T does not own or operate any NAPs.

Specification 13:

The Public Interest Statement and Schwartz Declaration identify a variety of Internet services, and note that AT&T and SBC provide certain of these services. Paragraphs 20-32 of the Schwartz declaration provide some traffic and revenue data for Internet backbone services, but do not provide market share information for other Internet services.

a. Identify and describe each type of Internet service and Internet-related product (excluding Internet backbone services) – *e.g.*, broadband Internet access services, narrowband Internet access services, voice over IP services (VoIP) – provided by AT&T and/or SBC.

Response to Specification 13(a):

Internet services: AT&T provides three types of Internet services to business customers: (1) narrow-band, consisting of dial-up services, called AT&T Business Internet Service (informally known as BIS or Business Dial); (2) DSL services; and (3) dedicated Internet connectivity services. Dedicated Internet services, called Managed Internet Service, are primarily provided via dedicated private line connections from the customer's site to the AT&T IP node and range from 56 Kpbs in capacity to OC48 (2.488 Gbps) in capacity.

AT&T provides two types of Internet services to mass market consumers: (1) narrow-band, consisting of dial-up services and (2) DSL service (provided over facilities and services supplied by Covad, New Edge, and MegaPath).

VoIP services: AT&T Business provides Internet-based VoIP services as an optional for-fee feature on top of its Managed Internet Service (described above).

AT&T provides VoIP service to mass market consumers via its AT&T CallVantage service.

b. For each service identified in response to specification 13.a, using the Merger Guidelines methodology, define the relevant geographic market, identify the competitors within that geographic market, and calculate SBC's, AT&T's, and each competitor's market shares analyzed by subscribership and revenue.

Response to Specification 13(b):

Under the *Merger Guidelines*, the DOJ and FTC will "delineate the geographic market to be a region such that a hypothetical monopolist that was the only present or future producer of the relevant product at locations in that region would profitably impose at least a small but significant and nontransitory increase in price, holding constant the terms of sale for all products produced elsewhere." *Merger Guidelines* § 1.21. The Commission has recognized that strict application of this principle would require that all telecommunications markets be treated as "point-to-point" markets. *Bell Atlantic-NYNEX Merger Order*, 12 FCC Rcd. 19985, ¶ 54 (1997); *MCI-WorldCom Merger Order*, 13 FCC Rcd. 18025, ¶ 30 (1998). However, the Commission has recognized that for purposes of analyzing the competitive effects of a merger, "groups" of "point-to-point markets" can be aggregated where "consumers face[] the same competitive conditions." *Bell Atlantic-NYNEX Merger Order* ¶ 54; *see also LEC Classification Order* ¶¶ 66-67. In the *AOL-TW Merger Order* (¶ 74), the Commission concluded that the geographic market for broadband Internet access services is local.

These principles are applied in turn to narrowband Internet access; broadband Internet access and VoIP services.

Narrowband Internet Access. Narrowband, or "dial-up" Internet access, is provided by a large number of Internet service providers ("ISPs") who provide customers with connectivity to the Internet using the customer's telephone lines, whether provided by an ILEC or a CLEC. Although there are many local and regional ISPs, the ISPs that AT&T believes to be the largest suppliers of Internet access services (*e.g.*, America Online, MSN, EarthLink, NetZero, Juno, Verizon, BellSouth, People PC, and Walmart Connect) provide nationwide service. Thus, examining the merger's impact on competition in narrowband Internet access on a local basis

would show even greater competition than considering just those that provide service on a national basis.

SBC and AT&T both provide narrowband Internet access. AT&T provides two versions of this service – one targeted at businesses and one targeted at consumers. The consumer version of this service (known as WorldNet) is available on a nationwide basis. The business version, called Business Dial, is also marketed on a nationwide basis but includes access to remote dial infrastructure outside the US and includes features, billing and usage options that are attractive to business customers. However, as part of AT&T's decision to cease actively marketing mass market services, AT&T has discontinued actively marketing its narrowband Internet access service to mass market consumers. AT&T understands SBC provides narrowband Internet access primarily to consumers in its local telephone service territory.

Some of AT&T's competitors for business Internet services (remote access) include Fiberlink, iPass, MCI, Sprint, GoRemote, Equant, Megapath, BTInfonet, SBC, Qwest, Netifice, and Virtela.

Broadband Internet Access. Broadband Internet access is most commonly provided over cable television lines or over telephone lines using DSL technology. Other platforms such as fixed wireless, satellite, and broadband over power lines can be used to provide broadband Internet access. Incumbent local exchange carriers and others are also deploying facilities to offer fiber-based broadband Internet access services to mass market customers. As noted, the Commission has previously found that the relevant geographic markets for residential high-speed Internet access service are local. *AOL-TW Merger Order* ¶ 74.

SBC provides broadband Internet access using DSL lines. AT&T also offers DSL-based broadband Internet access service. AT&T does so by entering into line splitting/sharing

arrangements with Covad, New Edge, and Megapath. As part of its decision to cease actively marketing to mass market customers, AT&T has ceased actively marketing its consumer DSL service. Although AT&T does not offer DSL service in every state, it provides this service in many locations throughout the country. AT&T understands that SBC provides broadband Internet access primarily to consumers in its local telephone service territory.

Some of AT&T's competitors for business IP DSL include BellSouth, Qwest, Verizon, SBC, Covad, Megapath, CoxBusiness, Charter Communications, Comcast, DSR, Hughes Satellite, Time Warner, Earthlink, Megapath, DSL.net, MCI, McLeod, New Edge, XO, and Speakeasy.

Voice Over Internet Protocol (VoIP). VOIP is another form of voice telephony provided using the Internet as a transmission medium. Unlike traditional circuit-switched telephony, however, VoIP providers do not need their own facilities to connect to the customer's premises. Rather, they provide a service that utilizes the consumer's existing broadband Internet connectivity. Thus, any VoIP provider located anywhere in the world can serve any consumer with a broadband connection. If VoIP were a relevant product market, therefore, the geographic market would be at least nationwide. AT&T further understands that many VoIP providers offer service on a national basis.

AT&T has a VoIP service. A large number of other providers, including Vonage, 8x8, Z-Tel, Covad, Net2Phone, BroadVoice, BroadVox, deltathree, Primus Lingo, VoicePulse, America Online, and various cable television operators including Time Warner, Comcast, Cox and Cablevision, provide VoIP services.

Under agreement with the Commission, AT&T is required only to provide market share information that it maintains in the ordinary course of business, and AT&T has provided those materials in response to specification 3(d), above.

c. Separately for each service identified in response to specification 13.a, and separately for each geographic market identified in response to specification 13.b, identify: (1) the wholesale services that AT&T or SBC, respectively, lease from an unaffiliated provider to offer each Internet or Internet-related service; (2) the percentage of the total cost of providing each Internet or Internet-related service attributable to such leased element; and (3) the unaffiliated provider of each such element.

Response to Specification 13(c):

AT&T's DSL service is provided by leasing wholesale services from unaffiliated DSL providers. AT&T leases service from Covad, New Edge, and MegaPath. An estimate of the percentage of the total cost of these arrangements associated with inputs purchased from these companies is provided in Confidential Exhibit 13(c) (redacted). In a small number of MSAs, AT&T CallVantage Service is provided in part through leased wholesale services from a CLEC. AT&T also relies on Intrado for 911-related services. An estimate of the percentage of the total cost of these arrangements associated with inputs purchased from these companies is provided in Exhibit 13(c).

d. Describe AT&T's and SBC's plans with respect to VoIP service offerings if the merger is approved, including future marketing plans within SBC's region, and plans with respect to existing AT&T CallVantage customers within and outside of SBC's region.

Response to Specification 13(d):

The AT&T CallVantage offering has attracted a relatively small number of customers, and AT&T has a very small share of total VoIP customers served by all providers. AT&T's

development and marketing of its AT&T CallVantage offering has been considerably curtailed since its introduction. Once the merger is approved, SBC's management will determine future marketing and support plans for this service, both within and beyond SBC's local service region. As AT&T's CEO David Dorman has noted, AT&T anticipates that the combined company will continue to market the AT&T CallVantage service and to support current AT&T CallVantage customers, but SBC's management will determine specific plans in this respect.

D. WHOLESALE INTEREXCHANGE SERVICES

Specification 14:

According to pages 63-64 of the Public Interest Statement, there are multiple long haul providers with substantial fiber networks, including AT&T, MCI, Spring, Qwest, Level 3, Global Crossing/Frontier, and WilTel, among others.

a. Using the Merger Guidelines methodology for defining geographic markets, explain what the proper geographic market is for long haul service.

Response to Specification 14(a):

Under agreement with the Commission, the request is limited to long-haul voice traffic. The geographic market for wholesale long distance services is national, as the Commission recognized in its *MCI-WorldCom Merger Order* (¶¶ 30, 67-76).

Under the *Merger Guidelines*, the DOJ and FTC will "delineate the geographic market to be a region such that a hypothetical monopolist that was the only present or future producer of the relevant product at locations in that region would profitably impose at least a small but significant and nontransitory increase in price, holding constant the terms of sale for all products produced elsewhere." *Merger Guidelines* § 1.21.

The Commission has recognized that strict application of this principle would require that all telecommunications markets be treated as "point-to-point" markets. *Bell Atlantic-NYNEX Merger Order* ¶ 54; *MCI-WorldCom Merger Order* ¶ 30. However, the Commission has recognized that for purposes of analyzing the competitive effects of a merger, "groups" of "point-to-point markets" can be aggregated where "consumers face[] the same competitive conditions." *Bell Atlantic-NYNEX Merger Order* ¶ 54; *see also LEC Classification Order*, 12 FCC Rcd. 15756, ¶¶ 66-67 (1997). Indeed, the DOJ itself recognized this point in the Sprint-WorldCom Merger. There, it alleged in its Complaint against the merger that the relevant retail

long distance product markets it was challenging were geographically "national" in scope. *United States v. WorldCom and Sprint*, Complaint ¶¶ 31, 124, 143, 156 (filed June 26, 2000).

The competitive conditions facing "consumers" of wholesale long distance transport are similar throughout the United States. Multiple carriers have deployed nationwide fiber networks and offer long haul transport throughout the country. Wholesale customers frequently purchase transport for all of their needs from a single supplier rather than breaking up purchases between multiple wholesale carriers on the basis of geography. The Commission's rate averaging and rate integration policies further limit the extent to which wholesale providers can vary rates on the basis of geography (although termination costs may, of course, vary given the variation in local access charges).

b. For long haul service provided to competitive LECs, interexchange carriers, and wireless providers, provide the revenues that AT&T and SBC billed and an estimate for each long haul competitor identified in the Public Interest Statement, separately by the following geographic categories: (1) incumbent LEC franchise area and (2) the geographic market identified by the applicants in response to specification 14.a. Identify which geographic markets are within SBC's region. Provide an explanation of how the estimate was determined, and provide supporting documentation. For purposes of this specification, revenues including amounts received for handling foreign originated traffic if another carrier brings that traffic into the United States before handing the traffic off to the long haul service provider.

c. For long haul service provided to competitive LECs, IXCs, and wireless providers, provide the number of wholesale minutes for 2004 that AT&T and SBC wholesaled and an estimated for each long haul competitor identified in the Public Interest Statement, separately by the following geographic categories: (1) incumbent LEC franchise area and (2) the geographic market identified by the applicants in response to specification 14.a above. Identify which geographic markets are within SBC's region. Provide an explanation of how the estimate was determined, and provide supporting documentation.

Response to Specifications 14(b) & (c):

AT&T's response to Specifications 14(b) and 14(c) are set forth in Confidential Exhibits 14(b)-I and 14(c)-I (redacted). These Exhibits identify for the five quarters from January 2004 through March 2005: (1) AT&T's wholesale minutes and revenues for competitive LECs, interexchange carriers and wireless providers; (2) wholesale minutes and revenues individually for Global Crossing, MCI, Qwest, Sprint, and Williams; and (3) the state in which the minutes originated for wholesale services provided to AT&T's competitive LEC, interexchange and wireless wholesale customers.

The information in these Exhibits is derived from an analysis of the AT&T Network Connection ("ANC") service. The ANC service is a long distance service designed for use by wholesale carriers. ANC customers include competitive LECs with interexchange operations, interexchange carriers and wireless providers. Customers may, of course, resell any of AT&T's retail long-haul services, but AT&T cannot track such resale other than services provided through its wholesale channel.

The minute and revenue information associated with AT&T's competitive LEC, interexchange and wireless customers is maintained in the ordinary course of business in AT&T's ANC billing records. To allocate originating minutes to each state (the information in Exhibit 14(c)-I), AT&T used the following procedures.

Wholesale customers access AT&T's ANC service at the network level, through one of the following 4 methods:

(1) IXC-to-IXC connection, by which the ANC wholesale customer delivers traffic from its own interexchange ("IXC") switch to AT&T's IXC switch;

(2) Carrier Identification Code ("CIC") based routing for non-facilities-based services using the Carrier Identification Parameter ("CIP"). CIP is an indicator that some, but not all,

LECs send to long distance carriers in the SS7 Initial Address Message that notifies the applicable long distance carrier of the CIC associated with the call. AT&T issues orders to the Local Serving Offices (LSOs) to load the wholesale customer's CIC(s) in all serving areas/end offices authorized by the customer and routes originating calls using the authorized CIC(s) to the AT&T Feature Group D access trunk group that also carries AT&T 1+ switched traffic from the LEC end offices and LEC access tandems;

(3) CIC-based routing for non-facilities-based services using the Direct Trunk Group Option ("DTO"). LECs have not implemented CIP in all areas, and therefore they are unable to send CIC information to AT&T in all circumstances. In those cases, LECs can send traffic to long distance carriers on separate dedicated Feature Group D trunks, which AT&T calls "DTO." DTO trunks are engineered to carry a specific ANC customer's traffic only; there is no sharing of these facilities by other traffic or customers. The Access ID assigned by AT&T to the DTO trunks at the AT&T LD switch is matched with the TRN1 provided by the Carrier. The TRN1 along with call information is captured by the AT&T LD switch for billing and routing purposes; and

(4) Nodal access, which is used for DS1 nodal connection capability to a carrier's customer at the PBX level. This capability will support DTMF, MF, and ISDN signaling. The APN (routing number) allows AT&T's biller to map traffic to a specific carrier.

AT&T is able to identify the originating state only for outbound traffic originated to the ANC Service via IXC-to-IXC connections and DTO trunks. As discussed above, ANC uses the APN (internal routing number) to identify the wholesale customer in a Nodal access situation. Since the routing number is an internally assigned number, it does not map to a specific state. As a result, AT&T is not able to identify the originating state for outbound minutes originated via

Nodal Access. AT&T is also not able to identify the originating state for outbound minutes originated to AT&T via CIP-based access because the summary information provided by the ANC biller does not provide information about the call origination point. However, as set forth on Exhibit 14(c)-I, AT&T estimates that traffic originated via Nodal Access and CIP-based access represents less than 5% of overall originating outbound minutes of use.

In addition, each ANC customer (including wireline and wireless customers) using IXC-to-IXC connections and DTO trunks are responsible for originating the traffic and delivering it to AT&T. AT&T determines the originating location of the traffic for ANC purposes based on the location at which the ANC customer delivers the traffic to AT&T, which may not always be the point of actual call origination.

Also, the information provided by AT&T in Exhibit 14(c)-I does not include (a) ANC usage by wholesale customers for their own internal applications (such as call centers to provide customer support to their own end user customers), or (b) termination of calls using retail (non-ANC) AT&T long distance services, even if such calls are resold by AT&T's customer.

d. Identify each state where, respectively, AT&T, SBC, and each long haul competitor identified in the Public Interest Statement owns long haul facilities. Explain whether AT&T or any long haul competitor offers long haul services in state(s) where it does not own long haul facilities, and if so, how it does so.

Response to Specification 14(d):

AT&T owns long haul facilities in all fifty states. AT&T does not in the ordinary course of business track the location of other carriers' long haul facilities. AT&T notes, however, that many long haul competitors rely upon the significant excess capacity in the long haul market to provide long haul service in states where they do not own facilities.

Specification 15:

The Public Interest Statement, at pages 59-67, cites cable telephony providers and wireless carriers as retail mass market competitors, and at page 64 the Public Interest Statement notes that such provides rely on wholesale long haul services.

a. Describe the plans of AT&T and SBC with respect offering long haul capacity, including with respect to offering wholesale minutes, if the merger is approved.

Response to Specification 15:

The provision of wholesale long distance service is a significant component of AT&T's current business, and revenues from wholesale services constitute a significant contribution to the recovery of the sunk costs of AT&T's extensive national and global long distance network. AT&T currently provides wholesale long distance service to many of its most significant retail competitors, and the highly competitive nature of the market ensures that it would be irrational for AT&T to deny, degrade, or otherwise discriminate in the provision of service to its wholesale customer base – customers that have any number of capable, facilities-based competitors that they could turn to if AT&T failed to provide the highest level of service at competitive prices. AT&T anticipates that these commercial and competitive considerations will lead the combined entity to continue to compete in this market. However, SBC's management will control the operations of the combined entity, including its determinations regarding the structuring and offerings of long haul capacity.

E. RESIDENTIAL AND SMALL BUSINESS SERVICES

Specification 16:

According to pages 59-67 of the Public Interest Statement, significant local competition will remain following the merger.

a. For each SBC franchise area provide: (1) the number of residential resold lines; (2) the number of residential UNE-P lines; (3) the number of residential UNE-L lines; (4) an estimate of the number of competitively deployed access lines used to serve residential customers by a competitive local exchange carrier (including, but not limited to, cable telephony providers)(*i.e.*, using E-911 listings); (5) an estimate of the number of residential customers that exclusively subscribe to wireless service instead of wireline local exchange and long distance service; and (6) an estimate of the residential customers relying upon VoIP for all of their voice telecommunications needs. Of the residential customers identified in response to specification 16.a(5)-(6) identify the number of customers of AT&T and SBC. Provide an explanation of how the estimates for the responses to specification 16.a(4)-(6) were determined.

Response to Specification 16(a):

Under agreement with the Commission, AT&T is responding only to the sixth request in this specification, concerning the estimate of residential customers relying upon VoIP for all of their telecommunications needs. AT&T does not have any reliable information on the total number of residential customers that rely on VoIP for all of their telecommunications needs. AT&T did conduct a limited survey of about 200 of its VoIP customers in August 2004, which revealed that 73 percent of those surveyed used AT&T CallVantage to replace another telephone line in their homes. The fact that these customers used AT&T CallVantage to replace a telephone line, however, does not necessarily mean that those customers rely on VoIP for all of their wireline telecommunications needs (*i.e.*, the replaced line could have been a second line).

b. For each incumbent LEC franchise area, provide: (1) the number of residential presubscribed interstate carrier access lines regardless of whether AT&T or SBC is the residential customer's local exchange carrier; (2) the number of residential originating intrastate toll minutes and originating domestic interstate toll minutes, separately for AT&T, SBC, and an estimate for all minutes; (3) total revenues for

> intrastate toll and domestic interstate toll services provided to residential customers separately for AT&T, SBC, and an estimate for all revenues; and (4) the total number of residential access lines for which AT&T or SBC is a local exchange carrier, and the number of these lines for which the presubscribed interstate long distance carrier is AT&T, SBC, MCI, Spring, Verizon, BellSouth, Qwest, or another long distance carrier.

Response to Specification 16(b):

Under agreement with the Commission, AT&T is responding to this specification by providing information concerning its own lines.

Highly Confidential Exhibit 16(b)-I (redacted) provides the total number of residential lines presubscribed to AT&T in each of SBC's thirteen states for each month beginning in January 2004, regardless of whether AT&T is that customer's local exchange carrier.

Confidential Exhibit 16(b)-II (redacted) provides the total number of residential originating intrastate toll minutes and originating domestic interstate toll minutes for AT&T in each of SBC's thirteen states.

Confidential Exhibit 16(b)-III (redacted) provides the total revenues for intrastate toll and domestic interstate toll services provided to residential customers for AT&T, for each of SBC's thirteen states.

Highly Confidential Exhibit 16(b)-IV (redacted) provides the total number of residential access lines for which AT&T is a local exchange carrier in each of SBC's thirteen states, and Highly Confidential Exhibit 16(b)-V (redacted) provides the number of these lines for which the presubscribed interstate long distance carrier is an interexchange carrier other than AT&T. If the presubscribed interexchange carrier is a carrier other than AT&T, AT&T does not know the identity of the other carrier.

c. For each state in which SBC operates as an incumbent LEC, describe the state regulation, if any, that applies to a residential local and long distance service bundle.

Response to Specification 16(c):

In accordance with the Instruction 20(a), no response is required from AT&T.

d. For each incumbent LEC franchise area, state separately for AT&T and SBC the number of residential customers that subscribe to a combined local and interexchange plan at a flat monthly rate, separately for plans with unlimited interexchange minutes and plans with a bucket of interexchange minutes.

Response to Specification 16(d):

Under agreement with the Commission, AT&T is responding to this specification by state. Confidential Exhibit 16(d) (redacted) provides the number of residential customers that subscribe to a combined local and interexchange plan at a flat monthly rate, separately for plans with unlimited interexchange minutes and plans with a bucket of interexchange minutes, by state.

Specification 17:

According to paragraph 54 of the Carlton & Sider Declaration, "SBC does not plan to exit from the provision of local or long distances services."

a. While SBC might not be planning to completely exit the local and long distance lines of business in all markets, as is planned by AT&T, describe in greater detail SBC's plans with respect to residential customers that currently subscribe to AT&T's services outside of SBC's region if the merger is approved. Provide documentation to support the response.

Response to Specification 17(a):

In accordance with the Instruction 20(a), no response is required from AT&T.

b. Explain how the merged entity would comply with applicable rate integration and geographic rate averaging requirements of section 254 if the merger is approved.

Response to Specification 17(b):

In accordance with the Instruction 20(a), no response is required from AT&T.

c. Explain how AT&T will be operated in those states within SBC's region where section 272 obligations have no yet sunset, if the merger is approved.

Response to Specification 17(c):

In accordance with the Instruction 20(a), no response is required from AT&T.

Specification 18:

According to page 65 n.212 of the Public Interest Statement, long distance prepaid calling cards should be viewed as being in a separate market than long distance service, there are many competitors for prepaid calling cards, and barriers to entry are low. For prepaid calls sold to residential customers, provide separately for SBC, AT&T, intrastate toll and domestic interstate toll resellers of AT&T or SBC, and an estimate for all providers: (a) originating intrastate toll and domestic interstate toll minutes and (b) revenues. For purposes of this specification, revenues should represent the amounts paid by the end-user customers and should correspond to amounts reported to the IRS for federal excise tax purposes.

Response to Specification 18:

The response to this specification is provided in Confidential Exhibit 18 (redacted). AT&T's prepaid minutes are sold both to residential customers and to other providers who then sell them to end users. Exhibit 18 provides the number of minutes that AT&T sold for each quarter of 2004 and the first quarter of 2005, separated by intrastate toll minutes and domestic interstate toll minutes, and the corresponding revenues.

For minutes sold to retailers for resale, the revenues provided are not end user revenues because AT&T does not set the price of cards sold to end users in such cases, and has no knowledge of end user revenues associated with these cards. AT&T receives and tracks its revenues from the sale of minutes to wholesale customers. Thus, the revenue numbers shown in Exhibit 18 represent a mix of wholesale and end-user revenues.

The amounts reported to the Internal Revenue Service for federal excise taxes are not actual end user revenues. In its reports to the IRS for Federal Excise Tax purposes, AT&T uses the estimates and formulas set forth in the appropriate IRS Regulation (IRS REG. §49.4251-4, Prepaid telephone cards), as appropriate for each of AT&T's different cards and each different sale or resale scenario.

This question also requests an estimate of the prepaid minutes and revenues for all providers for the periods corresponding to those set forth above. AT&T has no hard data on

minutes or revenue for the industry as a whole. A report in December 2004 by Atlantic-ACM put domestic prepaid minutes at approximately 25 billion for 2004, with overall revenue of $2.25 billion. AT&T cannot independently verify this data.

F. INTERNATIONAL SERVICES

SBC Relationship With Telmex

Specification 19:

Please describe the relationship between SBC and Telefonos de Mexico, S.A. de C.V. ("Telmex"). In particular, please describe:

a. Any direct or indirect ownership that SBC has in Telmex. Please describe the type of ownership (*e.g.*, shares of common stock, shares of preferred stock, membership or partnership interests) and what if any voting or other rights are conferred with that ownership.

Response to Specification 19(a):

In accordance with the Instruction 20(a), no response is required from AT&T.

b. Any direct or indirect ownership that Telmex has in SBC. Please describe the type of ownership (*e.g.*, shares of common stock, shares of preferred stock, membership or partnership interests) and what if any voting or other rights are conferred with that ownership.

Response to Specification 19(b):

In accordance with the Instruction 20(a), no response is required from AT&T.

c. Any rights that SBC has to appoint members to the board of directors of Telmex. If SBC has such rights, have they exercised them? If so, please provide the name(s) and the terms of the directors that SBC has appointed to the Telmex board as well as their citizenship.

Response to Specification 19(c):

In accordance with the Instruction 20(a), no response is required from AT&T.

d. Any rights that Telmax has to appoint members to the board of directors of SBC. If Telmex has such rights, have they exercised them? If so, please provide the name(s) and the terms of the directors that Telmex has appointed to the SBC board as well as their citizenship.

Response to Specification 19(d):

In accordance with the Instruction 20(a), no response is required from AT&T.

e. Any restrictions placed on SBC or any members of the board of Telmex appointed by SBC to information about the operations, revenues and other business practices of Telmex.

Response to Specification 19(e):

In accordance with the Instruction 20(a), no response is required from AT&T.

f. Any restrictions placed on Telmex or any members of the board of SBC appointed by Telmex to information about the operations, revenues and other business practices of SBC.

Response to Specification 19(f):

In accordance with the Instruction 20(a), no response is required from AT&T.

AT&T Service in Mexico

Specification 20:

Please describe the telecommunications services provided by AT&T and its affiliates in Mexico. In particular:

a. Please identify any affiliates of AT&T that provide service in Mexico and describe the relationship between AT&T and those affiliates.

Response to Specification 20(a):

AT&T has three affiliates that provide service in Mexico.

Alestra: AT&T owns 49% of Alestra S. de R.L. de C.V. ("Alestra"). The majority owner of Alestra is the Onexa Group, which, in turn, consists of two Mexican corporate groups: Grupo Alfa and BBVA Bancomer. Alestra's services are described in the response to Specification 20(b). The specifics of AT&T's relationship with Alestra are described in Confidential Exhibit 20(a) (redacted).

AGNS Mexico: AT&T Global Network Services Mexico S. de R.L. de C.V. ("AGNS Mexico") is a 100% indirect subsidiary of AT&T.

AT&T Mexico: AT&T de Mexico S.A. de C.V. ("AT&T Mexico") is a 100% indirect subsidiary of AT&T.

b. Please describe the nature of the operations of any affiliates in Mexico of AT&T (*e.g.*, in which markets, geographic (within Mexico) and product, do the affiliates participate). Do the affiliates compete directly with Telmex in any markets?

Response to Specification 20(b):

Alestra: Alestra provides competitive telecommunications services in Mexico under the AT&T brand name and offers domestic and international long distance services, local services, and data and internet services. Alestra´s network consists of over 3600 miles of high-capacity fiber optic lines that interconnect with 198 of the 400 local areas in Mexico. The company also

has wireless concessions to provide point-to-point connectivity nationwide and point-to-multipoint connectivity primarily in Mexico City, Guadalajara, Monterrey and surrounding regions.

Alestra provides services to multinational corporations, large Mexican corporations, small and medium-sized businesses, and residential customers. Alestra also targets particular segments such as government, call centers and hotel chains.

Alestra's *Servicio AT&T de Larga Distancia* offers business and residential customers in Mexico domestic and international long distance calling to every country and region in the world. Alestra also offers advanced voice services like operator services, home country direct services, calling card services, 800 services, virtual network services and global virtual network services.

Alestra began providing local services in the first quarter of 2001 in Mexico City, Monterrey and Guadalajara. Alestra was authorized in 2002 to offer a full range of local services throughout Mexico and now offers local services in 15 cities.

Alestra's primary data and internet services are comprised of Internet access and transport, direct access, AT&T frame relay, AT&T virtual private network services, AT&T Global Services, and VoIP.

Alestra competes with Telmex in all of these markets. Alestra also competes with many other Mexican carriers in some or all of these markets, including: Avantel, Axtel, Bestel, Grupo Telefonica Mexico, Iusatel, Marcatel, Maxcom, Protel, and Tele Reunion. All of these carriers are authorized to provide international and domestic long distance services in Mexico, and some also provide local services.

AGNS Mexico and AT&T Mexico: AGNS Mexico and AT&T Mexico provide certain Global Telecommunications Services ("GTS") to multi-national corporate customers, including value-added services and network outsourcing professional services. Neither AGNS Mexico nor AT&T Mexico provide any service that would be classified as basic telecommunications service under either Mexican or U.S. regulation.

Within Mexico, these AT&T affiliates compete directly with many other suppliers of value-added GTS, including Telmex, MCI, BT, Equant, and Telefonica.

c. Please provide the revenue and traffic data for any affiliates in Mexico of AT&T.

Response to Specification 20(c):

The revenue and traffic data requested is provided in Exhibits 20(c)-I, 20(c)-II, and 20(c)-III. With regard to the information provided regarding Alestra, as explained above, AT&T does not have direct operational control over Alestra. Nonetheless, AT&T has worked cooperatively with Alestra to obtain information that is responsive to the FCC's request. That information is set forth in Highly Confidential Exhibit 20(c)-I (redacted).

Confidential Exhibits 20(c)-II and 20(c)-III (redacted), respectively, contain responsive information for AT&T's other two Mexico affiliates, AGNS Mexico and AT&T Mexico. The GTS service categories include:

Network Outsourcing Professional Services: These are highly customized individual customer offerings, typically involving the design, installation and management of LAN/WAN communications requirements. Due to the nature of these bundled services (i.e., because they include non-telecommunications services), traffic data is unavailable.

Managed Data Network Services and Managed Internet services: Because of the "any-to-any" connectivity capability of these services, traffic data is represented as the number of sites.

SBC International Telecommunications Services

Specification 21:

Please describe the international telecommunications services provided by SBC or any of its affiliates (but not Cingular). In particular:

a. Whether SBC or any of its U.S. affiliates (but not Cingular) provide international telecommunications service as a facilities-based carrier. Please include any "local" exchange services to Mexico or Canada. If so, please provide the revenues and minutes for the most recent year on a route-by-route basis.

Response to Specification 21(a):

In accordance with the Instruction 20(a), no response is required from AT&T.

b. Provide the resale minutes and revenues of SBC and its U.S. affiliates (but not Cingular) for the most recent year on a route-by-route basis for all routes to foreign countries.

Response to Specification 21(b):

In accordance with the Instruction 20(a), no response is required from AT&T.

c. Do SBC and its U.S. affiliates (but not Cingular) provide international service through prepaid calling cards? If so, please provide information on the revenues and minutes associated with the calls placed using those prepaid calling cards. Also, please describe how SBC and its U.S. affiliates market those prepaid calling cards. For purposes of this specification, revenues should represent the amounts paid by the end-user customers and should correspond to amounts reported to the IRS for federal excise tax purposes.

Response to Specification 21(c):

In accordance with the Instruction 20(a), no response is required from AT&T.

d. Which carriers does SBC and its U.S. affiliates (but not Cingular) use to provide its international resale services? If more than one, please provide the relative percentage of international resale minutes carried for SBC and its U.S. affiliates (but not Cingular) for each of the underlying carriers.

Response to Specification 21(d):

In accordance with the Instruction 20(a), no response is required from AT&T.

G. Asserted Public Interest Benefits

Specification 22

Paragraphs 16-20 of the Eslambolchi Declaration, paragraphs 38-39 of the Carlton & Sider Declaration, and pages 43-44 of the Public Interest Statement discuss the general benefits, savings, and efficiencies that will result from the merge, including from (1) SBC's greater financial strength; (2) SBC's local network technical expertise and personnel; (3) economies of scale in procurement and deployment; (4) improving network operation by reducing the number of hand-offs and peering points; (5) making use of excess network capacity; (6) the more efficient use of capital; (7) the accelerated retirement of earlier-generation network facilities; and (8) increased research and development (R&D).

a. Separately describe each of these asserted benefits or efficiencies, as well as any efficiencies, as well as any efficiencies from any and all other sources arising from the integration of AT&T's and SBC's network and operations not specifically identified above, including:

(1) The steps that AT&T and SBC anticipate taking to achieve the benefit or efficiency, the risks involved in achieving the benefit or efficiency, any conditions for achieving it, and the time and costs (to your company or to any other person) required to achieve it;

(2) A quantification of the benefit or efficiency and a detailed explanation of how that quantification was calculated;

(3) A detailed explanation of how the proposed transaction would allow the merged company to achieve the benefit or efficiency;

(4) A description of why the merger is necessary to achieve this benefit or efficiency.

Response to Specification 22(a):

SBC's management will, if and after the merger is approved, control the combined companies and is and will be responsible for identifying potential efficiencies, taking steps to achieve the benefits of the identified synergies, and using and directing the resources of both companies to enable the transaction to achieve the efficiencies. Because the synergies related to network operation (including use of network capability and retirement of facilities) are particularly dependent upon SBC's operational and network management strategies, AT&T must defer to SBC's responses with respect to these particular matters.

AT&T is, however, familiar with many of the particular efficiencies identified in the specification and had itself identified or analyzed many of the efficiencies and their related benefits. While SBC's response to this specification should be viewed as authoritative in light of SBC's control of the combined company after the merger closes, AT&T can address certain of the circumstances surrounding the efficiencies it identified and why it believes the merger is necessary to achieve the efficiency and their related benefits.

SBC's Financial Strength and Efficient Use of Capital

Essential to development and provision of advanced services and related network capabilities is the financial capability both to undertake research and development and to deploy and maintain the infrastructure embodying those developments. While AT&T's facilities are entirely capable of meeting current requirements, AT&T has been under expenditure constraints that have led to reductions in capital expenditures, which inevitably means that certain projects are not developed, are deferred, or are implemented in a more limited manner or scope than a capital-rich environment would permit.

In contrast, as a result and a reflection of its financial capabilities, SBC has recently demonstrated its commitment to undertaking very significant broadband, DSL, and other infrastructure development projects on relatively accelerated schedules, and in the course of this transaction has announced its intention to increase expenditures on advanced services infrastructure very significantly over the levels that would otherwise exist.

SBC's relatively strong financial position is also reflected in the cost of capital and the resulting efficiency of the combined company's use of capital relative to AT&T's use of capital in the absence of a transaction. When the transaction was announced, Standard & Poor's assigned AT&T a long term investment rating of BB+. This below-investment grade rating

imposes upon AT&T a higher cost of capital than the considerably higher, investment grade rating that the combined entity is anticipated to be assigned. SBC's financial strength, and the combined company's resulting increased cashflow and debt ratios relative to AT&T's on an ongoing basis, also ensure that the combined company will have a superior ability to raise capital while maintaining any particular debt rating.

Further, unit costs decrease as network improvements are undertaken on a broader scale, and the combined entity can be expected to achieve substantial procurement efficiencies beyond that achievable by an entity of AT&T's size. Both of these factors lead to further efficiencies in the use of capital, separate from the cost or scale of acquisition of capital, which in turn leads to more efficient and accelerated development and deployment of services and network infrastructure.

Unless AT&T were to merge with a company equivalent to SBC in financial scale and capability, these benefits of the merger could not be achieved in the absence of the transaction.

SBC's Local Network Technical Expertise and Personnel

As a result of the focus of SBC's business and network operations, SBC possesses local network expertise that is more extensive than AT&T's own expertise. That additional expertise will further support the accelerated and robust development of advanced services and related network capabilities that the combined company will undertake based on work already underway at AT&T. 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. In addition, the system integration that must take place to support and deliver advanced services encompasses functions currently performed by local and backbone network operations. SBC's local network expertise and

resources will significantly complement AT&T's network and system design and development capabilities, enabling the accelerated and more robust development of advanced services and networks.

It would be expensive and slow for AT&T to seek to develop local network expertise approaching that possessed by SBC, and indeed it is doubtful that AT&T could on its own generate or acquire the expertise possessed by SBC as a result of its daily development, maintenance, and operation of one of the world's largest aggregations of local network facilities. Because this synergy can arise only through the combination of AT&T's capabilities with those of an entity with local network expertise and personnel of the scope and quality of SBC's, this efficiency can be achieved only through and as a result of the transaction.

Economies of Scale In Procurement and Deployment

In briefings and materials provided following the announcement of the merger, SBC extensively addressed its impressive history of achieving price and expense reductions as a result of the scale and efficacy of its bargaining position and processes, relative to providers of inputs to SBC's services. Only SBC can address the particular scope of anticipated procurement and deployment efficiencies to be secured as a result of this transaction, and the steps that the combined company will take to secure them, but AT&T can offer a few relevant observations.

In contemplation of this transaction, AT&T identified, on a very preliminary basis, several sources of efficiencies related to procurement and deployment efficiencies that AT&T expected to arise as a result of combining with SBC. The particular elements of this analysis have been superseded and, as to detail, rendered irrelevant by SBC's ongoing business planning efforts. SBC's response to its Specification 22 should be viewed as authoritative and as setting forth the scope and value of efficiencies that the transaction should be expected to produce.

Even so, these synergies included a variety of economies of scale. AT&T anticipated that the combined company would be able to use a more extensive local and national presence to win more contracts and to more successfully cross-sell existing services to AT&T's existing customer base. AT&T anticipated that, with the addition of SBC's local service and networking capabilities, as well as other services and capabilities that AT&T did not have, AT&T would be able to secure more business from its current customer base and to do so across a broader range of services than would occur if it continued to operate as an independent entity.

Second, AT&T anticipated that the transaction would produce cost savings related to its provision of services to large business customers. These synergies were to be derived from the integration of the information technology platforms of AT&T and SBC, together with related operational costs; from the rationalization of overlapping network facilities and network operational costs; and from the elimination of duplicative sales and marketing expenses.

Third, AT&T anticipated that the transaction would produce cost savings related to the provision of services to residential and small business customers. These synergies were related to reductions in duplicative costs for billing and customer care.

Fourth, AT&T identified corporate cost savings that were likely to result from the transaction. These cost savings were expected to arise from the elimination of duplicative corporate center functions, property, and personnel. These cost savings, like certain of the cost savings in the categories noted above, were anticipated to be offset in part by integration costs related to personnel separation payments, as well as by retention payments that would not be required in the absence of the transaction. AT&T also identified corporate cost savings in the form of lower interest payments that would result from the higher credit rating of the combined entity, compared to AT&T's credit rating as an independent entity.

Fifth, AT&T identified savings in the form of reduced capital expenditures. These savings were anticipated to arise from the reduced network facilities requirements due to the higher utilization of the combination of network facilities of both AT&T and SBC and the price reductions on materials secured to support ongoing expenditures, as a result of the improved purchasing patterns and lower negotiated rates achievable by the combined companies, compared to the higher prices that AT&T would secure as a stand-alone entity. As noted above, the form of these savings are particularly dependent upon the particular strategies adopted and implemented by SBC's management after the completion of the merger.

These types of revenue and cost synergies discussed above arise from the combination of AT&T's operations with the operations of an entity of SBC's network scope and service capabilities. AT&T has sought aggressively to reduce costs and increase revenues in the ordinary course of its business, and the identified synergies were limited to those that AT&T would not be able to achieve as an independent entity. Thus, the identified synergies could not be achieved in the absence of the transaction or through other means.

Research and Development

The nature of the combined company's increased incentive and ability to undertake research and development, and why those benefits arise only as a result of the merger, are discussed in response to Specification 22(b), *infra*. The particular service and network benefits that AT&T expects to result from the anticipated increase in research and development are discussed in detail in the Public Interest Statement, pp. 21-43, and the Eslambolchi Declaration. The steps necessary to achieve these benefits after the completion of the merger, and their identification and quantification, are within the control of SBC's management.

b. Explain whether the R&D spending by the combined company will be at least as large as the sum of R&D spending of the applicant firms before the merger, and whether the combined output from the combined R&D programs of the merged firm will be increased or unreduced.

Response to Specification 22(b):

While the implementation of synergies related to research and development (and particularly the post-merger spending related to R&D) will be within SBC's control, and thus cannot be quantified by AT&T, AT&T anticipates that the merger will lead to greater research, development and innovation – especially regarding advanced and IP-based services and network capabilities – and that the proposed transaction will create greater incentives to invest in innovation than either company would have on its own. SBC has already indicated that it intends to invest substantial amounts in network development related to advanced services in excess of what AT&T would have spent on those services and network facilities in the absence of the merger.

AT&T anticipates that the merger will promote and widely distribute the benefits of innovation in two principal ways. First, combining the two companies creates scale and brings together complementary strengths that can be expected to lower the costs and increase the benefits of pursuing research and development initiatives – and thus increase the pace and breadth of innovation. AT&T's research and development capabilities – reflected in AT&T Labs' and the company's ongoing initiatives to develop advanced services and related network capabilities – will be combined with SBC's financial strength, capacity to capitalize on transformative opportunities, and its local network opportunities. The combined companies will have the scale that provides increased benefits for pursuing particular innovations and that makes developing them more efficient.

The merger should also foster increased research and development of advanced services for the benefit of all customers because, by combining the complementary businesses of SBC and AT&T, the merger will create a single entity that provides the full range of telecommunications services across all customer classes over local as well as long distance networks. The broader scope of the combined entity will increase the likelihood that R&D will pay off in some segment of the industry, reducing the risk of R&D investment. In analyzing the costs and benefits of engaging in R&D today, AT&T is able to capture only the benefits of the R&D with respect to a fraction of the services that could be potentially provided over its network. Post-merger, the combined entity's increased scope will increase the likelihood that it will be in the economic self-interest of the company to undertake research that is socially beneficial because the benefits of developing advanced capabilities will be spread across a far broader network and customer base.

Second, the combined company can be expected to seek to develop and deploy, for smaller business and residential customers, the storehouse of existing and ongoing innovations produced by AT&T Labs for large enterprise customers. This increased innovation and service development effort will result directly from the incentives produced by combining AT&T's advanced services capabilities with SBC's focus on all customer segments.

The merger should thus increase the incentives and ability of the combined company to invest in innovations to make the advanced services that emerge from AT&T Labs available to medium-sized business and mass market customers. In the absence of the transaction, 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. That is because AT&T has ceased actively marketing traditional local and long

distance services to mass market customers. 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. By combining the complementary businesses of SBC and AT&T, the merger should lead to the development of an array of new mass market services and capabilities. The combined entity would have the incentive to undertake the developments and other additional work necessary to take the advancements AT&T has incorporated into enterprise services and to apply them to mass market offerings.

c. On a year-by-year basis, provide the estimated annual cost savings to be realized from the merger (*i.e.*, the time path of cost savings) assuming the acquisition of AT&T by SBC is approved. Provide an explanation of how this estimate was determined, and provide supporting documentation.

Response to Specification 22(c):

SBC's management will control the operations of the combined company after the merger, assuming that the merger is approved, and will be responsible for identifying and achieving the estimated annual cost savings to be realized from the merger. SBC's response to this specification should be viewed as authoritative.

d. Provide the documents in the possession of SBC custodians Rick Moore, Jose Menchaca, Louis Rubiola, James Callaway, Randy Tomlin, and Dan Walsh and an electronic copy of all data directly used in calculating SBC's $15 billion estimate of the net present value of the synergies which would be achieved through the merger, as stated at page 44 of the Public Interest Statement. Explain the extent to which the $15 billion estimate is dependent upon the transition of AT&T's and SBC's current network architectures to a converged, IP-based broadband network as discussed, *e.g.*, in paragraph 18 of the Eslambolchi Declaration.

Response to Specification 22(d):

The custodians identified in this specification are SBC personnel, and the documents used in calculating SBC's estimate of the value of synergies are within SBC's control. AT&T is not responsible for that calculation of synergies and is not familiar with the documents and data used to support it. Because the calculation of synergy value is SBC's, AT&T cannot address the extent to which the resulting value depends upon network transformation.

Specification 23

On pages 15-17 of the Public Interest Statement, the Public Interest Statement asserts that the merged company will "rapidly complete the transformation of legacy networks to IP" to enable the deployment of IP services on an end-to-end basis. The Public Interest statement claims that this will result in more rapid and extensive deployment of advanced facilities and services to residential and small business customers, and will allow the improved provision of service to government customers.

a. Quantify the benefits to residential, small business, and government customers and provide a detailed explanation of how the quantifications were calculated.

b. Describe why the merger is necessary for AT&T or SBC to achieve these benefits for residential, small business, and government customers.

Response to Specification 23:

SBC's management will control the operations of the combined company if the merger is approved, including control of network development, capital spending, and strategic decisionmaking regarding technological issues. Because AT&T will not control these decisions, it cannot estimate or quantify the benefits to residential, small business or government customers of the resulting choices that SBC has made or will make.

Even so, the benefits of an advanced, IP-based network are clear. The Commission's own broadband policies have repeatedly relied upon the public interest benefits anticipated from the delivery of advanced services over this next generation of networks, and those benefits are described at length in the Declaration of Hossein Eslambolchi, at ¶¶ 7-25. Briefly, 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 unimaginable 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. Both AT&T and SBC are developing a rich customer environment for the delivery and manipulation of all communications services through the implementation of a single, unified system and operational process designed to support the efficient delivery of those services. The resulting improvements in the manipulation, integration, and delivery of services, in turn, is the basis for the next generation of IP-based services.

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 voice over Internet Protocol ("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 shared. 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. A

more detailed description of some of the resulting advanced services and related public benefits is set forth in the Eslambolchi Declaration.

Quicker and more effective delivery of the public benefits of the enhanced, IP-based network – and the resulting benefits for residential, small business, and government customers – is also clearly dependent upon the merger. While AT&T does not control the steps that the merged entity will take to develop the advanced network, it is clear to AT&T that the merger provides a unique opportunity to accelerate and buttress AT&T's own network development efforts. As described at length elsewhere, SBC's financial strength, local network expertise, and commitment to developing broadband infrastructure are very important components to accelerating and delivering upon the IP-based network evolution, and economies of scale and scope will further support and accelerate that network development. SBC's financial strength, its 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 will also have the financial scale that will provide it with a substantially lower cost of capital than AT&T would have in the absence of the transaction. And as discussed in response to Specification 22(b), *supra*, the combined customer base and scope of the combined company will increase the incentives, and decrease the risks, associated with research of these advanced facilities – which in turn will lead to faster and more efficient network development.

SBC's focus on residential and small market customers ensures that those customer groups will particularly benefit from the combined entity's network development efforts. In the absence of the merger, AT&T's own network development efforts would focus on delivering

services and related network supporting capabilities for the large business customers that its business is now focused upon serving. Many of the economies of scale and increased incentives for research and development, discussed above and in the Public Interest Statement, arise from the extension of the current AT&T's focus on business customers to the combined company's focus on both large business customers and mass market customers (which, for AT&T, includes small businesses) – ensuring that all customer segments will benefit from the evolution of IP-based, integrated network capabilities.

The strengths and capabilities of SBC and the combined company described above would be unavailable to AT&T in the absence of a merger or acquisition, and AT&T is unaware of any other plausible transaction that would result in comparably increased capabilities to undertake and accelerate research and development related to advanced networks and related IP-based service capabilities.

Specification 24:

Please explain how the asserted synergies resulting from the merger are likely to affect national security and homeland defense.

Response to Specification 24:

The synergies resulting from the merger will clearly and unambiguously improve and strengthen the nation's national security and homeland defense. The reason for this is straightforward: AT&T is an important provider of the most advanced communications, security, and professional services to the nation's most important federal departments and agencies responsible for national security and homeland defense, and the merger will enhance and improve the level of services provided to those departments and agencies, as well as the network capabilities supporting those services.

AT&T is an important provider of services used by national security departments and agencies. Many of the most critical national security and homeland defense functions require extensive professional service capabilities that may extend to information security, knowledge management, systems integration, network management, data mining, and signal processing. AT&T has extensive capabilities in these areas, which account for approximately 60 percent of its sales to federal government customers. AT&T also has extensive capabilities to undertake classified projects, principally through its National Information Systems division – which has approximately 1500 employees, 98 percent of whom have top secret or higher security clearances. Even for network service contracts, important government contracts usually require global or national service provision of advanced data, voice, and even video services, integrated and maintained through complex network and systems management capabilities. As a result, more than 40 percent of AT&T's government services revenues are derived from intelligence agencies and projects, more than 40 percent from defense customers, and less than 20 percent

from civilian agencies.[4] The Defense Intelligence Systems Agency, which manages the global information grid that enables advanced intelligence and warfare capabilities, is the single largest of AT&T's government customers. (The Army, Air Force, Navy, and Department of Defense are, respectively, the second through fourth and the fifth largest government customers.) And the most sensitive and important government contracts require global and national network capabilities, capable of providing the highest levels of security, and AT&T is a leading provider of such services.

The merger will clearly improve AT&T's ability to support the government's most important national security and homeland security functions. The transaction will ensure that the nation's leading global and domestic communications provider is financially stronger and remains subject to the control of a U.S. company. Indeed, the merger establishes a more robust and capable flagship national carrier able to provide superior services to a range of customers with global and national telecommunications requirements – not least the agencies and departments of the federal government. *See* Public Interest Statement, at 13-20. As described at length in the Public Interest Statement, the transaction will enable the combined entity to develop advanced services and advanced network capabilities faster and more efficiently than AT&T could do in the absence of SBC's financial capabilities, commitment to infrastructure development, lower cost of capital, and local network capabilities. *See id.*, at 21-43. And the transaction can be expected to enhance the scope and capabilities of AT&T's global network and end-to-end network functionalities. And as noted above, the federal government's national

[4] These figures exclude revenues for services provided to Alascom, which are accounted for by AT&T within the same government business unit.

security and homeland security departments and agencies are particularly important consumers, on a national and global basis, of the advanced services and network capabilities currently provided by AT&T. As those capabilities improve and become more efficient as a result of the transaction, these federal government customers – along with other large customers of advanced services – will be principal beneficiaries of the transaction.

H. General Information

Specification 25:

Provide all documents cited in the Public Interest Statement and the Kahan, Rice, Horton, Polumbo, Eslambolchi, Carlton & Sider, and Schwartz declarations, as well as any data or competitive analyses relied upon in preparing those documents, grouped by declaration/Public Interest Statement.

Response to Specification 25:

Under agreement with the Commission, AT&T has provided responsive documents numbered ATTFCC03303-ATTFCC03452 relating to the Horton, Polumbo and Eslambolchi declarations.

Specification 26:

a. Submit the following AT&T documents; market studies, procurement strategies, pricing strategies, competitive strategies, product strategies, merger integration strategies, and marketing strategies (whether prepared internally or by outside advisors) relating to services sold to business, wholesale, and residential customers in the possession of Clayton Lockhart, Thomas Horton, Virasb Vahidi, Pradeep Crasto, Douglas Ranck, Robert Olson, Peter Schaffer, John Mills, Gary Smith, Judi Hand, Michael Heath, Ronald Spears, Kathleen Flaherty, Daniel Nugent, Marcus Melloy, A.H. McGrath, Regina Egea, Donna Henderson, Cathy Martine-Dolecki, Karthryn Morrissey, John Polumbo, and David Krantz.

Response to Specification 26:

AT&T has provided the responsive documents, numbered ATT500000001-ATT599009410.

b. Submit the following SBC documents: market studies, procurement strategies, pricing strategies, competitive strategies, product strategies, merger integration strategies, and marketing strategies (whether prepared internally or by outside advisors) relating to services sold to business, wholesale, and residential customers in the possession of William McCullough, Susan Johnson, Jose Gutierrez, Scott Helbing, Christine Urbanek, James Carter, Greg D'Anna, Joh Ramsey, Amy Bruns, Hunt Kingsbury, Edward Cholerton, Donna Harrison, Steven Mitchell, Debra Moore, Yno Gonzalez, Norma Buss, Daniel T. Walsh, John Nordberg, Thomas Wilson, Margaret Moschetto, Randall Porter, Mark Fishler, Howard Irgang, Dan Walsh, Randy Tomlin, Rick Moore, and Brad Bridges.

In accordance with the Instruction 20(a), no response is required from AT&T.

Figure 4. Top 50 Internet Providers by Autonomous System Rank, 1999-2004

Rank	Provider	Number of AS Connections 1999	2000	2001	2002	2003	2004	Change 2002-2003	Change 2003-2004
1.	MCI	1,528	2,242	3,129	3,212	3,276	3,034	2%	-7%
2.	AT&T	362	694	1,197	1,423	2,052	1,966	44%	-4%
3.	Sprint	649	1,036	1,417	1,603	2,333	1,842	46%	-21%
4.	Level 3	332	658	1,048	1,009	1,388	1,167	37%	-16%
5.	Qwest	88	418	644	973	1,007	1,074	4%	7%
6.	InterNAP	45	211	362	437	554	668	27%	21%
7.	Savvis	133	210	296	270	275	664	2%	141%
8.	NTT Communications	277	379	445	475	553	636	17%	15%
9.	Global Crossing	90	217	432	551	601	616	9%	3%
10.	AboveNet	75	207	547	569	488	590	-14%	21%
11.	Cogent	60	105	202	196	323	544	65%	68%
12.	Globix	12	45	520	411	457	530	11%	16%
13.	SBC	57	90	155	243	337	514	38%	53%
14.	Swisscom	38	51	79	87	97	477	12%	391%
15.	Time Warner Telecom	10	38	84	207	314	452	51%	44%
16.	XO Communications	370	385	338	329	377	441	15%	17%
17.	COLT Telecom	9	20	30	62	273	394	342%	44%
18.	TeliaSonera	116	115	195	226	333	375	47%	13%
19.	Cable & Wireless	835	1,150	1,230	1,118	1,222	359	9%	-71%
20.	KPN	106	148	236	406	174	357	-57%	105%
21.	France Telecom	51	94	219	275	291	348	6%	19%
22.	DACOM	32	97	143	147	259	319	76%	23%
23.	KDDI	57	82	111	230	261	308	13%	18%
24.	Tiscali	58	70	335	335	306	295	-9%	-4%
25.	Hurricane Electric	9	15	38	30	145	289	376%	100%
26.	REACH	44	71	122	187	241	285	29%	18%
27.	Broadwing	6	26	120	194	251	284	29%	13%
28.	WilTel	6	23	32	116	249	280	115%	12%
29.	Korea Telecom	12	102	183	184	250	278	36%	11%
30.	Teleglobe	176	270	392	391	185	244	-53%	32%
31.	Group	3	4	45	116	171	239	47%	40%
32.	BT	70	83	138	161	215	230	33%	7%
33.	Deutsche Telekom	28	45	74	87	131	229	51%	74%
34.	Telefonica	2	5	25	98	197	227	102%	15%
35.	TDC	15	30	46	48	57	223	18%	294%
36.	Telenor	18	19	29	30	35	222	18%	537%
37.	Net Access	10	15	36	40	215	222	435%	3%
38.	VBCnet	12	13	15	7	31	217	325%	590%
39.	Microsoft	22	28	36	33	154	209	368%	36%
40.	IIJNET	110	109	123	149	169	200	13%	18%
41.	SingTel	62	100	170	204	211	183	3%	-13%
42.	Electric Lightwave	55	92	165	169	166	178	-2%	8%
43.	Telecom Italia	53	80	126	143	141	161	-1%	14%
44.	Song	1	3	15	14	197	156	1309%	-21%
45.	RTComm	43	66	87	101	107	154	5%	45%
46.	Powernet Global	32	32	39	36	82	142	127%	74%
47.	Yipes!	2	5	38	87	104	138	19%	33%
48.	RCN	12	16	106	116	122	131	5%	7%
49.	Transtelecom	-	-	2	33	76	125	129%	65%
50.	LambdaNet	-	1	9	41	135	125	229%	-8%

Notes: Connections is equal to the total number of autonomous systems (ASs) directly connected to a provider as of June of year listed. Where a provider operates multiple ASs, the totals for each AS are aggregated while eliminating duplicated connections between the provider's ASs. Historical numbers represent that companies current operated ASs, excluding the recent purchase of Cable and Wireless's U.S. AS by Savvis (represented only in the 2004 numbers).

Source: TeleGeography research and University of Oregon Route Views Project