



## >> **SAVVIS FCC Presentation**

Jack Finlayson, President & COO



Washington, DC  
October 3-4, 2005

- Corporate Overview
- The Evolution of SAVVIS
- The SAVVIS Business Model
- Concerns about the SBC/AT&T and Verizon/MCI Mergers

Leading global IT utility delivering integrated infrastructure services, including hosting, network, application, and consulting services

- » #2 hosting provider worldwide; #2 network-based IP VPN provider worldwide
- » “Leader” in Gartner North American Hosting Magic Quadrant 2004

Strong growth opportunities

- » Increasing trend toward IT outsourcing
- » Growing markets
  - In-Stat Research projects global IP VPN revenues will grow from \$2.9 billion in 2004 to \$8.1 billion in 2009
  - Gartner Dataquest forecasts North American hosting markets will grow from \$6.9 billion in 2003 to \$32.2 billion in 2008.

## IPO: February 2000

- » US-based ISP founded 1995
- » Global IP network with 17,000 end points
- » 1,000 customers
- » 80% of revenue from one customer
  - 88% of all other revenue from Internet access services
- » 2000 total revenue of \$187 million
- » Operating cash flow negative: \$(80 mm.)

## Today: July 2005

- » 24 hosting facilities worldwide
- » Global IP network with 21,000 end points in 45 countries
- » Over 5,000 customers
- » 16% of revenue from top two customers
  - Revenue diversified among multiple products
- » Q2 2005 revenue \$167.2 million
- » Operating cash flow positive in Q2 2005



# SAVVIS Network Maps North America



## CONTINENTAL U.S.

<b>ARIZONA</b>	Phoenix 2	<b>NEW YORK</b>	New York City 2 1 2, White Plains 2, Buffalo 2
<b>CALIFORNIA</b>	Irvine 2, Los Angeles 2 1 2, San Diego 2, San Francisco 2 1, Santa Clara 2 5, Sunnyvale 2	<b>NORTH CAROLINA</b>	Charlotte 2, Greensboro 2, Raleigh Durham 2
<b>COLORADO</b>	Denver 2	<b>OHIO</b>	Cincinnati 2, Cleveland 2, Columbus 2, Miamisburg 2
<b>CONNECTICUT</b>	Stamford 2	<b>OKLAHOMA</b>	Oklahoma City 2, Tulsa 2
<b>FLORIDA</b>	Jacksonville 2, Miami 2 1 1, Orlando 2, Tampa 2	<b>OREGON</b>	Portland 2
<b>GEORGIA</b>	Atlanta 2 1	<b>PENNSYLVANIA</b>	Pittsburgh 2, Philadelphia 2
<b>ILLINOIS</b>	Chicago 2 1 1	<b>RHODE ISLAND</b>	Providence 2
<b>INDIANA</b>	Indianapolis 2	<b>TENNESSEE</b>	Nashville 2
<b>KENTUCKY</b>	Louisville 2	<b>TEXAS</b>	Dallas 2 1 1, Houston 2, San Antonio 2, Austin 2
<b>MASSACHUSETTS</b>	Boston 2 2	<b>UTAH</b>	Salt Lake City 2
<b>MICHIGAN</b>	Detroit 2	<b>VIRGINIA</b>	Herndon 2, Richmond 2
<b>MINNESOTA</b>	Minneapolis 2	<b>WASHINGTON, D.C.</b>	Washington, D.C. 3 1 3
<b>MISSOURI</b>	St. Louis 3 1 1, Kansas City 2	<b>WASHINGTON</b>	Seattle 2
<b>NEVADA</b>	Las Vegas 2		
<b>NEW JERSEY</b>	Newark 2		

## CANADA

Calgary 2
Montreal 2
Toronto 2
Vancouver 2

## BURMUDA

Hamilton 2
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## Special Access

- Prior to the announcement of these mergers, SAVVIS had no intention of participating in any regulatory proceedings relative to special access services.
- SAVVIS purchases special access circuits as an essential input connecting our end-user customers to SAVVIS' Internet backbone PoPs.
- We are convinced that these mergers will: (1) reduce competition in the market for special access services; and (2) likely lead to discriminatory pricing, provisioning, and maintenance of these crucial inputs.

## Internet Backbone

- We are concerned that the mergers of two significant Internet backbone providers (AT&T and MCI) with two of the largest providers of high-speed Internet access (SBC and Verizon) will result in two “mega-peers” with the potential to de-peer competitors such as SAVVIS and dominate the market with resulting increased prices for consumers

- These mergers will have an adverse effect on competition in the market for special access services.
- These mergers will give SBC and Verizon a motive and opportunity to discriminate against companies like SAVVIS that serve business customers.
- SAVVIS purchases the vast majority of its special access circuits from the large interexchange carriers with national footprints because it obtains better rates and better service than it could from the BOCs.
- The Applicants have provided no evidence that the competitive industry is in any position to replicate the AT&T and MCI local networks to connect to enterprise buildings at the DS-1 and DS-3 levels.

- Contrary to their assertions otherwise, AT&T and MCI are significant suppliers of special access circuits and their presence in the market has allowed SAVVIS to offer innovative services to its customers.
- As with any market, the presence of effective competitors disciplines all suppliers by driving down prices and improving performance, allowing customers to benefit from declining prices with improved performance.
- With the removal of these vital competitors from the marketplace, our customers will face higher prices and slower innovation in the information technology marketplace.
- Given the critical importance of special access as an input in our services, if the merger is approved without conditions on pricing, provisioning, and maintenance SAVVIS' ability to remain competitive will be impeded.

- **Retain and Honor Existing Contracts:** Require the Applicants to honor existing contracts for five years, with an expectation, for example, that the treatment of Type 2 circuits will convert to Type 1 circuits, in region, upon close of the respective mergers. Require annual price reductions because telecom is a declining cost industry.
- **Impose a Temporary Separate Affiliate Requirement:** Keep the acquired IXC separate from the BOC for a short period – they won't be able to integrate immediately anyway. Require the BOC to treat other companies like the acquired IXC with respect to special access pricing and provisioning, but without volume requirements.

- The newly-created BOC-IXC “mega peers” will have the ability and incentive to threaten existing Tier 1 providers such as SAVVIS with de-peering or degradation of traffic.
- Buying transit is ruinous for a Tier 1 provider because large wholesale customers only buy services from Tier 1 providers because there is less latency and hops.
- Moreover, in today’s marketplace there is no demonstrated economic reason for a ratio requirement in a peering policy. Indeed, SBC’s policy expressly disclaims a ratio requirement.

- **Prohibit De-Peering Based on Traffic Ratios:** Post-merger, the Applicants are likely to use traffic ratios as a pretext for de-peering. Traffic ratios do not have a legitimate cost basis – for example, a party requesting a large download usually obtains as much or more benefit than the party supplying the download.
- **Maintain the Same Number of Peers:** Require the Applicants to continue to peer with the same number of companies as they peer with now. This will prevent the destruction of the competitive Internet backbone market without the need for detailed regulations.

>> Thank You

