

DECLARATION OF JAMES S. KAHAN
SENIOR EXECUTIVE VICE PRESIDENT -- CORPORATE DEVELOPMENT
AT&T INC.

I, James S. Kahan, hereby declare the following:

Position and Qualifications

1. My name is James S. Kahan. I am the Senior Executive Vice President for Corporate Development of AT&T. I received a Bachelor's Degree in Electrical Engineering from Purdue University and a Master's degree in Business Administration from the University of North Carolina. I began my professional career as an engineer with Western Electric in 1967. Prior to joining Southwestern Bell Telephone ("SBC") in 1983, I was transferred from Western Electric to Bell Laboratories, South Central Bell and AT&T. In 1984, I moved to SBC's Corporate Development Organization where I worked on the acquisition of Metromedia's cellular and paging systems and other acquisitions. In 1988 I became Managing Director -- Corporate Development and I was responsible for SBC's mergers and acquisitions activities and international business development. During this time I was involved in negotiating SBC's participation in a consortium that purchased an interest in Teléfonos de México, S.A. de C.V. ("Telmex"). I was appointed Senior Vice President for Corporate Development and became an Officer of SBC in 1992.

2. From 1993 through the present, I have been principally responsible for all of SBC's mergers and acquisitions activities and have participated in development of the company's long-term growth strategies. I was actively involved in and responsible for the negotiation of SBC's acquisitions of Pacific Telesis Group, Southern New England

Telecommunications Corporation, Ameritech Corporation, AT&T and BellSouth. I also was responsible for the negotiation of the Cingular joint venture and Cingular's acquisition of AT&T Wireless.

3. Since SBC's merger in 2005 with AT&T, I have retained my responsibility for the merger and acquisition strategy of the combined company (renamed "AT&T"), and I have been directly involved with AT&T's consideration of its strategic options to remain competitive in the rapidly transforming telecommunications industry. I am familiar with the strategic considerations that prompted AT&T to decide to acquire BellSouth, as well as with the analyses conducted in connection with AT&T's decision to undertake the merger, which were performed under my direct supervision.

Purpose of Declaration

4. In this Declaration I will
- Discuss the continuing, consumer-driven transformation of the telecommunications industry;
 - Explain why the combination of AT&T and BellSouth will create a stronger, more competitive company;
 - Describe the benefits of the acquisition for all of our customers;
 - Explain why the combination of AT&T and BellSouth will not have an adverse effect on mass market competition; and
 - Explain why the combination of AT&T and BellSouth will not reduce the ability of regulators to evaluate ILEC performance.

The Transformation of the Telecommunications Industry

5. Since the enactment of the Telecommunications Act of 1996, the telecommunications industry has been radically transformed. The most fundamental change has been that many traditional wireline telecommunications services have been displaced by wireless or Internet Protocol (“IP”) based services provided by both traditional and new providers. That trend is accelerating.

6. As recently as 1999, telecommunications was still voice-centric. Since that time, the industry has evolved rapidly to become data-centric, and with the growth in IP based networks, we have seen the rapid rise in Voice Over Internet Protocol (“VoIP”) services, and more recently an evolution towards IPTV services to provide video over IP networks.

7. Additionally, over the past ten years, mobile wireless communications have grown exponentially, driven by more efficient technologies, added spectrum and intense competition. The price for wireless communications continues to decline dramatically as providers offer large bundles of anytime minutes and nationwide calling. These offers have led to an explosive increase in wireless telephone usage, a concomitant migration of traffic from wireline local and long distance networks onto wireless networks, and increasingly, “cord cutting” as consumers switch to exclusive use of wireless service.

8. Meanwhile, people are using their wireless phones in evolving ways. They increasingly are using mobile devices not just to talk but also as a means of obtaining information by accessing the Internet and email. Wireless service providers have also been launching new mobile services to expand the capabilities of mobile devices such as by introducing video programming onto cell phone screens.

9. At the same time, the increasing penetration of Internet, and especially broadband, access by residential consumers and by businesses of all sizes is enabling the next transformational event in telephony. Broadband Internet connections, which are provided principally through cable modem, DSL, or customer fiber to the premises services, are now estimated at almost 42 million.¹ A wide range of firms now compete to offer VoIP service to business and residential customers as an alternative to traditional local wireline and long distance calling. Multi-system cable operators have been extremely aggressive in rolling out VoIP service and have shown marked success in building subscribership, while at the same time other VoIP providers such as Vonage have also been rapidly expanding. Time Warner Cable alone added 880,000 VoIP subscribers last year and reported having 1.1 million subscribers in total by year-end 2005.² Comcast launched its IP-enabled phone service last year in 25 markets serving 16 million homes, and expects to expand that number to 27 million homes while adding 1.0 million new subscribers by the end of this year.³ Just last month Vonage announced that it had surpassed 1.5 million active VoIP lines in service.⁴ In February 2005, when the Public Interest Statement for the SBC/AT&T merger was filed, Vonage had about 400,000 lines, meaning it has more than tripled its subscribership in a little over a year.⁵ This trend in VoIP adoption is

¹ UBS Investment Research, *Wireline Postgame Analysis 13.0* (Mar. 2006) at 61.

² See Press Release, Time Warner Inc., Time Warner Inc. Reports Results for 2005 Full Year and Fourth Quarter (Feb. 1, 2006), available at <http://ir.timewarner.com/downloads/4Q05earnings.pdf>.

³ See SEC Form 10-K for Year-Ended 2005, Comcast Corp.; Press Release, Comcast Corp., Comcast Reports Fourth Quarter and Year End 2005 Results (Feb. 2, 2006), available at <http://www.cmcsk.com/phoenix.zhtml?c=147565&p=irol-newsArticle&ID=811813&highlight=>.

⁴ See Press Release, Vonage, Vonage Crosses 1.5 Million Line Mark (Mar. 1, 2006), available at http://www.vonage.com/corporate/press_index.php?PR=2006_03_01_1.

⁵ See Press Release, Vonage, Vonage Crosses 400,000 Line Mark (Jan. 5, 2005), available at http://www.vonage.com/media/pdf/pr_01_05_05.pdf.

expected to continue at a rapid pace, with J.P. Morgan estimating that by 2010 cable-based and other VoIP providers will have captured 28% of primary residential access lines.⁶ On the business side, to cite a couple of examples, Level 3, a wholesale VoIP provider, reports adding 100,000 new VoIP subscribers in the last six months.⁷ Cbeyond Communications - an Atlanta-based CLEC - recently announced having over 20,000 customers in the SMB segment using its converged VoIP voice and data service.⁸

10. Similarly, the rapid growth in wireless broadband technology - perhaps best demonstrated by the seemingly ubiquitous presence of Wi-Fi “hot spots” across the country - also has dramatically changed the marketplace, increasingly enabling individuals to stay connected via cellular phone, PDA or laptop to voice, video and data wherever they are. This trend is only expected to accelerate with the deployment of new WiMax technology, which enables wireless broadband connectivity over far greater distances than Wi-Fi. Wireless broadband is increasing consumer and business demands for always-on network access and for products that will operate seamlessly to provide voice, video and data access in any location.

11. These trends and others have produced a fiercely competitive telecommunications industry, which grows more competitive with each passing year. AT&T, for example, has been losing thousands of access lines every day to alternative competitors that did not even exist just a few years ago.

⁶ J.P. Morgan North American Equity Research, *Telecom Services/Wireline, State of the Industry: Consumer* (Jan. 13, 2006), at 4.

⁷ See Press Release, Level 3, Level 3 Accelerates VoIP Adoption Through Partnering Model (Mar. 15, 2006), available at <http://www.level3.com/press/6858.html>.

⁸ See Press Release, Cbeyond Communications, Cbeyond Communications Driving Rapid Growth of Managed IP Communications Solution Among Small Businesses: More Than 20,000 Small and Medium Businesses Find Clear Benefits in Cbeyond's Cost-Effective, Converged Data and Voice Offering Delivered Over Cisco IP NGN (Mar. 20, 2006), available at <http://ir.cbeyond.net/ReleaseDetail.cfm?ReleaseID=190657>.

Reasons for the Transaction

12. The rapid pace of change in the telecommunications industry has required AT&T to continually reinvent itself, and invest for the future, in order to remain an effective competitor. AT&T has embarked on a significant project to transform its wireline network from circuit-switched to IP technology in order to compete in the rapidly evolving telecommunications market. This undertaking is called Project Lightspeed.

AT&T's Substantial Investments in IPTV Service

13. As part of Project Lightspeed, AT&T will be offering consumers television over an IP network ("IPTV") under the U-versesm brand. By using a highly-interactive, two-way switched network that delivers only the programming requested by the subscriber, Lightspeed conserves bandwidth and will enable AT&T to offer consumers a broad menu of programming choices and content controls.

14. We have already spent three years on planning and development of the Lightspeed IP video service and its implementation, and expect to spend more than \$4 billion in network-related deployment costs and capital expenditures beginning in 2006 through 2008. We have spent several hundred million dollars more on the business and office support systems that are essential to move IPTV service to broad scale deployment. We will add approximately 40,000 miles of new fiber to our existing communications network as part of Lightspeed's initial deployment.

15. AT&T is undertaking a controlled launch of the U-versesm video service in San Antonio, Texas, and is moving towards a roll out to multiple geographic areas reaching approximately 2.7 million households this year, which includes 2.5 million households served by fiber to the node and a forecasted 175,000 households served by fiber to the premises. By the

end of 2008, AT&T expects that U-versesm will be available to approximately 18 million households in its 13-state region as part of its initial deployment, provided that local franchising authorities do not delay or effectively prevent us from deploying the service.

16. These substantial investments in Project Lightspeed will enable AT&T to deliver an advanced suite of voice, data and video services over a single network. As we review the vast change in our business over the last decade, we believe that the same trends that have affected wireline communications will have a profound effect on future wireless networks, which also are evolving to IP.

Integration of Wireless and Wireline Services and Facilities

17. Today, wireless networks use a significant amount of wireline network services to connect their cell sites to their switches, wireless switches to each other, as well as to the larger public switched network. However, today's wireline and wireless networks have not been designed, engineered or operated on an integrated basis. But integration of wireline and wireless networks not only creates capital and operational efficiencies, but also allows for deployment of new integrated service offerings that will offer significant benefits to mass market and business customers alike. Such integration will thus be necessary for firms to remain competitive going forward.

18. The ability to achieve such wireline-wireless integration is one of the primary motivations for AT&T's acquisition of BellSouth. Today, AT&T and BellSouth jointly own Cingular, but it is important to emphasize that Cingular operates as a standalone company. Under the joint venture structure, AT&T and BellSouth each appoint three directors to the Cingular Board of Directors, and all key strategic decisions of Cingular must be approved by a Strategic Review Committee, which is also composed of three members from AT&T and three

from BellSouth. With shared control of Cingular, AT&T would not be able to fully achieve the efficiencies of wireline-wireless integration in a timely manner. Indeed, our ability to move quickly to compete effectively in the rapidly changing telecommunications environment is impeded today by Cingular's joint venture structure.

19. Cingular has been an extraordinarily successful joint venture. But as a joint venture with two parents, each with potentially different priorities, its ability to act quickly can sometimes be impeded by its structure. We have thus reached the conclusion that Cingular must be brought under unified ownership through the BellSouth acquisition in order to be able to effectively offer consumers converged wireless-wireline products.

20. The three companies -- AT&T, BellSouth and Cingular -- have been motivated by different priorities dictated by changing technologies and other factors. Indeed, Cingular is limited by its charter to offering mobile wireless voice and data services. As a result, Cingular has naturally been focused on developing mobility services, and lacks the same motivation as AT&T to develop converged wireless-wireline products and services.

21. These different priorities have rendered the joint decision-making process required by the Cingular joint venture more cumbersome and time-consuming than would be the case with a single point of control. Decisions relating to technology choices, utilization of multiple networks, control of and access to information, and timing of investments of resources are made more difficult and result in time-consuming delays. There are a number of specific examples.

22. *First*, AT&T, BellSouth and Cingular have all announced that they will be converting their networks to IP Multimedia Subsystems ("IMS") as they shift their networks to be IP-based, and this conversion is an essential component of our ability to deliver converged

wireless-wireline products in the future. However, as described more fully in the Declaration of Christopher Rice, the joint venture structure has resulted in each of the three companies - AT&T, BellSouth and Cingular - embarking on a separate IMS implementation effort, which will result in networks that will lack the deep interoperability required for delivery of next-generation services.

23. *Second*, the companies have been working on development of a “dual-mode” phone that will seamlessly shift between wireless and broadband VoIP networks. For example, when a user is on a call outdoors and walks into his house, the handset would automatically transition the call from Cingular’s GSM wireless network to AT&T’s broadband Wi-Fi connection in the user’s home. Among the decisions that need to be made are who builds and controls the network architecture, what vendors should be used, and other important matters. While AT&T (then SBC) began working on this project in late 2002, there is still no handset commitment in place and no scheduled date when the “dual-mode” service will become commercially available.

24. The ability to introduce the advanced features that wireless-wireline integration will permit also requires sufficient scale and scope to make the requisite investments financially feasible. The acquisition of BellSouth not only will eliminate the inefficiencies of the joint venture discussed above, but also will provide a broader base of customers to whom we can market the results of our investments.

25. In addition, the acquisition of BellSouth will enable us to speak with one voice to the numerous new partners with whom we will need to work to develop and deliver content and applications for the new IP-based voice, data and video environment. This will speed up our ability to deliver the integrated wireline-wireless devices and services that consumers want.

Benefits of the Transaction

Enhanced Wireless-Wireline Convergence

26. The wireline-wireless integration that will result from the merger of AT&T and BellSouth, and the resulting single ownership of Cingular, will permit us to be far more responsive to consumer demands. Customers, from the largest enterprise to a single household, want to be able to access needed information and applications from any connected device in an easy, intuitive and reliable manner. What they want is *integrated* services, not a bundle of separate services. Consumers want -- and we want to provide -- services that work together seamlessly, with integrated support.

27. These demands for integrated services will only increase as the computing power of mobile devices increases, transforming the cell phone into a platform for a variety of applications which were previously only available on a computer. AT&T's goal is to meet customer demands from businesses and individual consumers for *seamless mobility* by removing technological barriers between types of services and bringing truly integrated products to market. These integrated services promise remarkable benefits to business customers, transforming the very concept of the "workplace" by effectively integrating the mobile phone with the work phone and office computer applications, enabling employees to be connected and more productive wherever they are located. But these next generation services are not feasible, or are much more difficult to offer, given the current Cingular ownership structure.

28. With this merger, we will be able more rapidly and effectively to develop integrated business solutions that will bring the benefit of seamless mobility to the workplace by integrating wireless devices more fully with office applications. This will in turn enable businesses to be more productive and efficient as their workers will be able to perform a wider

array of functions wherever they are located through mobile devices, facilitating flexible work environments and telecommuting.

29. In an increasingly globalized economy, the ability to successfully integrate employees seamlessly into international communications and business systems - erasing the barriers of distance - is no small benefit. We will enable business customers to use a single device that functions as office phone, home phone and mobile phone with the full range of office features including four-digit dialing, business email and unified voicemail, and calendar and contacts. Combining networks into a single IP-based environment will enable us to develop further integrated VoIP services to facilitate the deployment of high-bandwidth applications such as advanced video teleconferencing, customer relationship management applications integrated with voice services, and unified voicemail and e-mail messaging. Similarly, by creating a unified, intelligent MPLS network, our business customers will be able to select, provision, modify and change their services with far greater efficiency and economy than they are able to today.

30. Business customers will also benefit from our enhanced ability to offer network security services to protect their business networks from viruses, worms, spam and denial of service attacks. Finally, business customers will benefit from our ability to offer one-stop-shopping and a single-point-of-contact for both wireless and wireline services, including customized wireless and wireline rate plans, as well as consolidated ordering and provisioning systems which will enable faster and more efficient delivery of services. In sum, the acquisition of BellSouth will enable us to meet business demands for integrated services, as well as to compete more effectively with a range of competitors -- a number of which are also developing similar integrated wireless-wireline devices for enterprises.

31. The merged firm also will provide the benefits of convergence to retail consumers. We will be able to offer programming available on television receivers to wireless handsets, and the ability to use those handsets to control digital video recorders and other home appliances. One potential application is in home security - where a user could link her cell phone to a security camera in her home so she could use her cell phone to check on things while away at dinner or on vacation. By integrating cellular devices with our IP-based Lightspeed network, we can enable a consumer to adjust parental control settings remotely or stream U-versesm programming content onto their cell phone screen. We can develop new convergence devices, with the ultimate goal of integrating the full range of consumer electronics devices onto the cell phone platform. And we will be able to offer consumers the convenience of a single bucket of minutes to use across all access devices with a single monthly bill.

32. Government customers will share in the benefits enjoyed by enterprise customers. Indeed, the merger of AT&T and BellSouth will enhance both national security and government services through the combined entity's creation of an integrated end-to-end IP-based network. This network will provide government customers with more efficient routing for their communications, while at the same time improving end-to-end security for classified communications due to the integration of BellSouth's and AT&T's separate local and long-distance networks. The combined network will also have more alternative routing available, thus increasing reliability and recoverability in case of a catastrophic natural or man-made disaster. In addition, the increased scale and scope of the combined network will enable more rapid and efficient deployment of advanced network capabilities, and commensurate rapid reduction in unit costs. We will also have greater resources available to invest in upgrading facilities and networks, as well as in advanced IT and telecommunications research. And, as with our business

customers, the government can also expect the benefits of even better service including end-to-end project management support.

Video Benefits

33. The merged firm will also be able to deploy IPTV services to the BellSouth region more rapidly than would otherwise occur. As noted above, AT&T has made the commitment to commercially deploy IP video services, and has actively been engaged in deployment activities for three years. Hundreds of AT&T employees have spent the last three years on support and development of the video elements of Project Lightspeed, including: (1) identifying and purchasing video-specific network facilities and equipment; (2) managing construction activities across a 13-state region, including, among other things, the construction of a “super hub” facility and the on-going construction of video hub offices; (3) developing and modifying an in-region deployment schedule; (4) working out the technical aspects of IP-based platform and associated middleware; (5) acquiring a full range of video content; (6) developing marketing materials and an overall marketing strategy; (7) training employees in video sales, marketing and customer service; (8) entering into contracts for network and customer premises equipment; and (9) developing scalable back office activities and business support systems, including billing, ordering, customer service and support necessary to provide IPTV services to millions of customers.

34. I have reviewed the Declaration of William Smith, Chief Technology Officer at BellSouth, and am aware that BellSouth is in the process of an extensive fiber upgrade to provide more bandwidth for broadband services such as DSL. The merger will accelerate the ability of BellSouth to roll out competitive IPTV service in its region and at lower cost than could have

occurred without the merger - assuming local franchising authorities do not create barriers to such deployment.

35. Launching a large scale commercial video service involves many complex tasks, and over the past three years AT&T has accomplished nearly all of them.

- AT&T already has completed trials of IP video service and is undertaking a controlled launch in San Antonio that will lead to a scheduled rollout to multiple markets reaching 2.7 million households this year, which includes 2.5 million households served by fiber to the node and a forecasted 175,000 households served by fiber to the premises. AT&T's trials and controlled launch have helped to resolve operational and technical issues that inevitably arise when new technology is introduced. BellSouth is still conducting trials to evaluate the feasibility of IP video service.⁹
- AT&T has entered into contracts with equipment suppliers, including Motorola, Alcatel and Scientific Atlanta, to provide network electronics, set top boxes, and other equipment. I anticipate that AT&T would work through the same vendors to supply the necessary electronics, set-top boxes and other equipment to provide IP video service to BellSouth customers. As a result of the merger, BellSouth would not have to negotiate long-term contracts to cover these items.¹⁰
- AT&T has negotiated with multiple vendors to provide scalable business and operational support systems for a widespread commercial IP video roll-out. These systems -- generally referred to as operational support systems/business support

⁹ See Smith Decl. ¶ 13.

¹⁰ See Smith Decl. ¶ 22.

systems or “OSS/BSS” -- deal with such items as customer ordering and provisioning; customer web interfaces; billing; customer service and support; and complaint resolution, among other things. To put these systems in place, AT&T has spent several hundred million dollars. I believe these systems can be applied to the BellSouth region and would save BellSouth significant additional costs.¹¹

36. Another of the key AT&T accomplishments that will facilitate the deployment process in BellSouth’s region is the negotiation of IPTV programming contracts. Over 18 months ago, AT&T hired an expert with extensive experience in programming development, distribution and negotiation. For more than a year, he and his team of seven executives have been working full-time to acquire content that would enable AT&T to offer consumers an IP video service competitive with cable and DBS. IPTV program negotiations are quite complex and time consuming, particularly because the feature-rich experience of U-versesm involves acquiring rights to use content in numerous applications over multiple forms of communication. After eighteen months we have much, but not all, of the content we need for scaling and marketing an IP video product. I anticipate that over the next few months we will finalize most of the remaining contracts needed for widespread video deployment. AT&T can bring its IPTV product to the BellSouth region, and BellSouth can avoid the lengthy process of negotiating IPTV rights from programmers.

37. The merger will enable AT&T to become a more effective wireline video competitor, lower its costs, and increase competition and diversity in the programming marketplace.

¹¹ See Smith Decl. ¶ 15.

- The merged company expects that with the potential for a higher volume of subscribers from a broader service area, it will be a more attractive partner for content providers. At present, AT&T's cost of programming is higher than most cable operators and DBS providers, which have very large existing customer bases and which therefore have an advantage over a new entrant such as AT&T. The merger gives the combined entity the opportunity to obtain programming on more favorable terms than the individual companies on their own.
- In addition, because Cingular is now offering video content over its 3G wireless network, the combined company will have the ability to offer content over "three screens" (cell phone, television and computer). This will likely make AT&T a more attractive partner for content companies and enable creative new deals. Given that programming expenses represent a substantial portion of the cost of entering the video business and operating as a video provider, these benefits are extremely important to the long-term ability of the combined entity to compete against the cable incumbents and DBS.
- A broader customer base of more potential subscribers creates more opportunities for the development of foreign language, ethnic and other niche programming. When geographically separate communities with a shared heritage or background are consolidated within a single service area, there is a greater demand for programming to meet those communities' needs and interests, and such programming becomes more viable for both the distributor and the programmer. For example, when the markets in California, Texas and Florida are combined, the combined company will be able to work with content providers for more Spanish language programming.

This holds true for other ethnic groups and foreign language speakers as well. The Lightspeed IP network is particularly well suited to increasing the amount of programming available because it can store vast amounts of programming, and programs are transmitted only on subscriber request, which will allow AT&T to offer far more varied and diverse programming than traditional cable systems. Moreover, as a new video service provider with a large potential subscriber base and broad geographic reach, the combined company will provide vigorous competition to the incumbent providers of video programming.

- The merged company can attract more national advertisers because its combined service area will include more important large markets. Advertising is an important source of revenue for AT&T and the programmers it carries.
- The merger also will enable the combined company to promote programming diversity and availability by making available AT&T's IPTV service to BellSouth customers. AT&T's IPTV service will entail a switched, two-way, client server architecture designed to send each subscriber only the programming the subscriber chooses to view at a particular time. Unlike the all-at-once broadcast model of traditional cable systems, AT&T's IPTV service will provide subscribers with maximum flexibility in customizing what they see and when they see it by untethering subscribers from the confines of a programmer's pre-set schedule. And, while the ultimate breadth and scope of such capabilities will be a function of a number of factors, including arrangements with content owners and other programming vendors, AT&T's IPTV service will utilize an architecture designed to give customers additional choices in video programming that are not available today.

To be clear, the programming that a distributor offers, and the manner in which it can be viewed, is not just a function of technology; it is also a function of the rights of and business relationships with broadcasters and other programming vendors. Like any other distributor, AT&T will be bound by these rights and relationships, as well as copyright rules. Nonetheless, the architecture that AT&T is deploying is designed to offer consumers – as well as the programmers and content owners – maximum flexibility.

38. The merger will also generate additional cost savings for both parties related to IPTV service.

- Absent the merger both AT&T and BellSouth each would have to build two “super hub office” facilities. Only two facilities will be necessary for the merged company because the two super hub offices that AT&T will use to provide service in its region can be used to provide service in the BellSouth region, resulting in a cost savings of tens of millions of dollars.
- AT&T is already well along in the construction of video hub offices (VHOs). VHOs are regional centers that contain equipment to receive, process and distribute programming at the request of the subscriber. AT&T has developed procedures, protocols and controls to govern VHO construction. These practices can also be applied to construction of VHOs in the BellSouth region.¹²

The larger merged entity will be in a position to achieve savings from certain economies of scale. For example, the merged entity should be able to negotiate volume discounts for equipment

¹² See Smith Decl. ¶ 25.

vendor contracts, reducing the per unit cost of these items overall. The company may also obtain better prices from other vendors and service providers.

39. AT&T has also made significant investments in the development and deployment in its territory of HomeZone, an innovative offering that integrates DSL, satellite television, Internet, and home electronics capabilities to enable the delivery of advanced video, data, and voice services that will be comparable to those provided over Project Lightspeed facilities. A commercial trial is currently underway for HomeZone. Together, Project Lightspeed and HomeZone will enable AT&T to provide advanced video services to nearly 80% of the consumers served by AT&T's local telephone facilities.

Integration Benefits

40. The acquisition of BellSouth also will permit us to bring to BellSouth's customers all of the benefits of vertical integration that we have achieved -- and will continue to achieve -- in the merger of SBC and AT&T. Indeed, as described in the Declaration of Christopher Rice, network integration activities between SBC and AT&T have been moving forward more quickly than anticipated, and as we reported publicly on January 31st, we now expect *greater* synergies realized *sooner* than we originally forecasted.¹³

41. Therefore, we have confidence that we will be able to use our positive experience in integrating the SBC and AT&T networks and achieve the benefits of vertical integration in bringing together the networks of AT&T and BellSouth. As described more fully in the Declaration of Christopher Rice, consumers residing in the BellSouth region will get the benefit of the merged firm's ability to offer:

¹³ See AT&T Analyst Meeting Presentation (Jan. 31, 2006) at 51 *available at* http://library.corporate-ir.net/library/11/113/113088/items/181348/analyst06_b.pdf.

- a more efficient and cost-effective distribution of network traffic as well as reduced network handoffs, latency and packet loss, translating into greater reliability and less delay in traffic handling;
- a guarantee of higher quality of service to consumers through our SLAs;
- AT&T's network security functionalities including anti-virus, anti-spam, anti-spyware, and anti-denial of service attack protections; and
- holistic customer service and technical support by enabling us to see "all of the pieces" of a customer's business.

These benefits will result in higher quality, security and reliability for BellSouth's consumers; just as we are achieving those results for the legacy SBC consumers today.

Operational Efficiencies

42. The proposed transaction will yield significant merger specific operational efficiencies, as well. While it is not possible to calculate all of the synergies at this stage with absolute certainty, we estimate the net present value of the synergies, after costs to achieve, will be approximately \$18 billion. The annual run rate of cost savings will exceed \$2 billion by 2008, increasing to an annual run rate of greater than \$3 billion in 2010. We expect that cost reductions will make up over 90 percent of the total synergies. In calculating these savings, we employed a similar financial model to the one that we used in calculating the efficiencies projected to be achieved from the SBC/AT&T merger, and as noted earlier, we now expect to realize greater synergies more quickly than we projected in SBC/AT&T, resulting in a 20% increase in the net present value of synergies net of costs to obtain. These savings are over and above the benefits of each company's ongoing productivity initiatives in the absence of a transaction.

43. First, the proposed transaction will permit us to make the best use of the consumer awareness of, and goodwill that attaches to, the AT&T brand. AT&T is the most respected brand in the telecommunications industry -- yet Cingular spends over \$1 billion annually promoting an entirely separate brand and has no ability to capitalize on AT&T's reputation and brand equity. When ownership of Cingular is consolidated under AT&T, we will be able to create and execute a unified marketing and advertising campaign that will enhance brand loyalty and awareness for the whole range of our products. We also believe that considerable cost savings will result from advertising a single brand. Today, AT&T, BellSouth and Cingular spend approximately \$2.5 billion annually on advertising. With only one brand to advertise, we believe that expenditure can be reduced at the same time that we increase brand awareness. We preliminarily estimate an annual run-rate cost saving in the range of \$400 - \$500 million due to combining advertising from three brands to one.

44. Second, the merger of AT&T and BellSouth will result in significant savings in costs of operations. It is important to remember that this transaction will result in the integration of *three* companies -- AT&T, BellSouth, and Cingular. Cingular alone has tens of thousands of employees, including a full headquarters staff that handles finance, HR, tax, legal, IT and network engineering functions, and a large number of personnel in the field carrying out sales and network maintenance activities. AT&T has implemented a hiring freeze, and 1,200 people leave our business through attrition every month. I understand that BellSouth has implemented a hiring freeze as well. Because of the hiring freezes and natural attrition, we expect to be able to minimize the impact on job losses.

45. The merged firm will achieve cost savings through a combination of measures including elimination of duplicate facilities; elimination of overlapping staff and related

expenses; consolidation of billing and support systems; greater utilization of existing assets; greater scalability from business process improvements; improved pricing from equipment and service providers; and reduction of third party network expenses, network center costs, network planning and engineering costs, and overhead. For example, because there is sufficient capacity available on AT&T's network to accommodate the addition of BellSouth's traffic, the consolidation of traffic will lead to reduced transport costs. The combined company will also achieve lower costs from the standardization and automation of IT systems and the elimination of duplicative IT projects, including operational and business support systems such as billing and order flow platforms. Reductions in procurement, network and IT expenses are preliminarily estimated to result in cost-savings in the range of \$700 - \$800 million alone by 2009. By streamlining network operations among the three companies, we preliminarily estimate that we will be able to achieve reductions in capital expenditures in the range of \$400 - \$500 million by 2009. We preliminarily estimate savings in the range of \$1.0 - \$1.1 billion through organizational consolidation including reductions in headcount by 2009.

The Merger Will Not Have an Adverse Effect on Mass Market Competition

46. As the Commission is aware, legacy AT&T made a unilateral decision in June 2004 to cease actively marketing its traditional wireline services to mass market customers and to carry out a "harvesting" strategy to maximize the profitability of its eroding mass market customer base. The Commission correctly concluded in SBC/AT&T that because of these steps, the merger would not harm competition in the mass market.

47. Since the SBC/AT&T merger, the new AT&T has continued the harvesting strategy of legacy AT&T with respect to mass market wireline customers outside our ILEC

territory. Since June 2004, AT&T has not actively marketed to those mass market wireline customers and we have no plans to do so in the future.

48. AT&T's mass market wireline customer base has continued to erode. As of February 2006, AT&T had only about 285,000 all-distance customers in the BellSouth franchise territory. Further, as of February 2006, AT&T had less than 2 million stand-alone long distance customers in the BellSouth franchise territory. AT&T's customer base continues to dwindle each month. Since January 2006, AT&T has lost nearly 16,000 all-distance customers, and more than 125,000 stand-alone long distance customers - in other words, AT&T continues to lose customers at a rate of approximately 3% *each month*.

49. In our ILEC region, however, we have taken a different approach and are actively marketing to some of the legacy AT&T's mass market customers to respond to aggressive competition from cable and other providers. In region, we have actively pursued AT&T customers to try to sell them a bundle of services, including local and long-distance voice, DSL, wireless and video, at competitive prices. Indeed, AT&T is making efforts to retain certain legacy AT&T customers in SBC's region by enrolling them in more competitively priced plans than had been offered by legacy AT&T.

50. AT&T offers three basic forms of Internet access services: (a) residential and small business DSL broadband service; (b) dial-up services; and (c) dedicated Internet access services for business and ISPs. DSL residential and small business services are offered primarily within our local exchange territory. Consumers may purchase varying levels of access speed, ranging from 384 Kbps to 6.0 Mbps downstream and 128 Kbps to 608 Kbps upstream. Through our AT&T Yahoo! arrangement, customers also obtain a variety of services and security, including pop-up blocker software, spam filtering, and storage space. Outside AT&T's territory,

AT&T's DSL services is paired with Covad through a wholesale agreement. Such out of region DSL business, however, is very limited, and AT&T is not a significant competitor to cable and DSL broadband providers outside of its region. Dial up services are offered also primarily within AT&T's region, and are also part of the AT&T Yahoo! arrangement. Customers obtain access at speeds up to 56 Kbps in both directions, and enjoy a similar range of benefits as are provided to DSL customers (e.g., pop-up blockers, spam filters, firewall software). Out of region, AT&T has provided dial up ISP access through its AT&T Worldnet service, but no longer actively markets that service. For ISPs and business customers, AT&T provides dedicated connections of varying capacities between the customer's premises and the AT&T global network. Depending on the customer's requirements, the bandwidth provisioned can range up to OC-192.

51. With respect to AT&T CallVantage, our over-the-top VoIP service, our marketing is limited to Internet and indirect channels - specifically, via our website and through "big box" retailers such as Best Buy. In other words, AT&T does not have an active sales channel for AT&T CallVantage. We currently have fewer than 14,000 AT&T CallVantage customers in the nine states served by BellSouth, and less than 80,000 customers nationwide. The rate of increase in AT&T CallVantage subscribers has been well under 50% in the past year.

52. Very recently, we have begun exploring options for expanding our AT&T CallVantage offerings both in-region and nationally. Outside our ILEC region, those options have included bundling AT&T CallVantage service with WiMax and/or resold dry-loop DSL, video or wireless offerings. Thus far, we have only decided to increase our marketing efforts for AT&T CallVantage by targeting existing broadband customers with limited on-line marketing

messages. We have not made any other decisions about expanding our AT&T CallVantage marketing efforts, either in-region or out-of-region.

The Merger Will Not Reduce the Ability of Regulators To Evaluate ILEC Performance

53. In my opinion, the merger of AT&T and BellSouth will not have an adverse impact on the ability of regulators to monitor ILEC performance due to concerns over the loss of regulatory benchmarks. As I understand it, since 1999, the Commission and state regulators, together with ILECs and CLECs, have successfully developed and implemented a set of performance metrics to ensure that ILECs had complied with interconnection obligations under the Telecommunications Act and state laws.

54. I'm told that AT&T and other ILECs today report a large number of performance metrics on a routine basis. In its role as an ILEC, AT&T tracks between 35 and 128 performance metrics per state, for a total of 1,001 state-level performance metrics each month over its 13 state region. These measures are also calculated by local area and CLEC. In total, AT&T reports 2.3 million performance measures on a monthly basis.

* * *

Conclusion

55. The merger of AT&T and BellSouth will result in substantial benefits for all consumers -- businesses, governments, and individuals -- by enabling us to respond more quickly to business, government and consumer demands while at the same time enabling us to compete more effectively in a dramatically changed telecommunications environment. We will be able to bring to consumers seamless mobility by developing products that break down the barriers between wireline and wireless. We will be able to bring high-quality video content to consumers wherever they are - at home, at work, or on their cell phones - by breaking down the barriers

between video, data, and voice. As a result of this merger, we will be able to achieve these benefits faster and more effectively than would otherwise be the case.

I declare under penalty of perjury that the foregoing is true and correct. Executed on
March 29, 2006.

/s/ James S. Kahan
James S. Kahan