

DECLARATION OF WILLIAM L. SMITH
CHIEF TECHNOLOGY OFFICER
BELLSOUTH CORPORATION

I, William L. Smith, hereby declare the following:

I. POSITION AND QUALIFICATIONS

1. My name is William L. Smith. I am Chief Technology Officer at BellSouth Corporation. I am responsible for setting the technology direction of BellSouth's core infrastructure. My department includes all network and operations technology planning, including Internet Protocol (IP) applications and next generation network deployment strategy at the incumbent local exchange company, BellSouth Telecommunications, Inc., as well as BellSouth Entertainment, LLC.

2. I have been employed by BellSouth since 1979, and involved in BellSouth's advanced technology efforts since returning from an assignment at Bell Communications Research in New Jersey in 1987. Since that time, I have held responsibility for a number of assignments dealing with a variety of issues including technology, operations, marketing, and public policy. I was also an active participant in National and International Telecommunications Standards. Prior to becoming Chief Technology Officer, I was responsible for BellSouth's DSL, Internet and wholesale business units.

II. PURPOSE

3. The purpose of my declaration is to explain some of the benefits that BellSouth's customers will experience as a result of the merger between AT&T and BellSouth. The benefits that I will describe fall into five broad categories: (a) improvements in the ability to provide

IPTV; (b) improvements in disaster recovery capabilities; (c) improvements in efficiencies and service quality from network integration; (d) deployment of new services to new markets; and (e) additional innovation and market investment. There are other benefits of the merger, which I do not address in my declaration. These benefits include the ability of the combined company to offer a wider variety of services to a wider variety of customers than either BellSouth or AT&T could on its own; the ability to make better use of existing capital; and the ability for customers to enjoy new service availability and service efficiency that will result from bringing Cingular's wireless services under the unitary control of the combined entity.

III. IMPROVEMENTS IN IPTV EFFORTS

4. The merger with AT&T will allow customers in the BellSouth region to receive IPTV service more quickly and more efficiently than would otherwise occur if BellSouth remained a stand-alone entity. The merger will generate important scale economies in the operation of IPTV service and will accelerate robust competition in the market for multi-channel video programming services, which has been dominated for decades by incumbent cable companies.

A. BellSouth's Current Broadband Services

5. BellSouth has approximately 2.8 million Digital Subscriber Line (DSL) customers. BellSouth's FastAccess DSL is available to business and residential customers and provides connection speeds of up to 6 Mbps downstream and up to 512 Kbps upstream. It includes unlimited access to the Web, e-mail, 10 MB of space for a personal web page, as well as a wide variety of security features.

6. In addition to DSL, BellSouth offers Direct Internet Access service to business customers, which provides a constant connection between a customer's location and the Internet

over several underlying transport technologies, including frame relay, private line, ATM, and Metro Ethernet, at a number of speeds, such as T1, fractional and full DS3/OC3/OC12. This service also includes burstable and tiered billing options, diverse routing, and connection alternatives.

7. BellSouth also offers a wholesale DSL transport service, which is used by Internet service providers (ISPs) and enterprise customers. BellSouth's wholesale DSL transport service provides connection speeds of up to 6 Mbps downstream and up to 512 Kbps upstream, which allows connection through BellSouth's ATM or IP network to the ISP or enterprise customer-specified server location.¹

B. BellSouth's Existing IPTV Initiative

8. For several years, BellSouth has recognized the importance of being able to provide high quality competitive video service to residential customers in order to compete with the "triple play" offering that cable companies were planning and have now implemented across its region. As described later in my Declaration, BellSouth experimented with its own cable service, wireless delivery of video, and a satellite video service, but none of these approaches has proven to be competitively feasible on a region-wide basis. BellSouth currently is in the second year of a five-year program to upgrade substantially its broadband access network and core network infrastructure to meet the needs of a rapidly changing broadband market place. The general purpose of this project is to increase the bandwidth of the network to support advanced

¹ In addition to broadband, BellSouth also offers Retail Dial Internet Service, which is available to residential and business customers and provides access at speeds at up to 56 kbps. BellSouth does not provide mass market Internet access, including dial-up and DSL services, to homes or businesses outside of its territory.

broadband services. While BellSouth's current network can support a maximum speed of 6 Mbps, the current initiative will allow BellSouth to achieve speeds of 24 Mbps and higher. This network upgrade will permit BellSouth to offer a wide range of IP-based interactive services, including potentially IPTV, over a single infrastructure. The project will cost approximately \$2.2 billion over a five-year period. The increased bandwidth will be available to approximately 50% of the households within the BellSouth region by the end of 2007, and to approximately 75% of households by the end of 2009.

9. IPTV is a service that uses advanced Internet technologies and telecommunications capabilities to deliver an integrated package of broadcast and non-broadcast video content and interactive subscriber functionality. However, in order to offer such a service, BellSouth would have to undertake substantial additional investments to develop IPTV-specific technology (in addition to its \$2.2 billion investment to upgrade substantially its broadband network).

BellSouth had taken initial steps to explore the feasibility of offering an IPTV service, in the form of technical and marketing trials, at the time of its merger agreement with AT&T.

However, BellSouth has not yet decided whether to launch IPTV service commercially.

10. In considering whether to offer IPTV, BellSouth conducted a limited technical trial of the service from August 2005 to November 2005. This trial involved the provision of a "service" consisting of 3 channels of video programming to a group of approximately 30 BellSouth employees.

11. An expanded technical trial began in December 2005 and is scheduled to continue until mid-2006. This trial involves the provision of a 50-channel service, with approximately 20 hours of available VOD ("Video on Demand") programming, to approximately 290 BellSouth

employee households. The expanded technical trial will also test the capabilities for simultaneously delivering up to four different channels of programming (for viewing in different rooms) to a single household.

12. BellSouth is planning to conduct a market trial in Cobb County, Georgia after completing the current technical trial. Although the details for this market trial are not yet finalized, it is currently scheduled to take place from August 2006 until July 2007, and is designed to test the provision of a service offering approximately 225 channels of video programming, 45 music channels, and 500 hours of available VOD programming to approximately 1000 households.

13. BellSouth planned to make a decision about whether to launch an IPTV service after: (a) evaluating the results of the trials (including both technical performance capabilities and the level of customer satisfaction with the service); (b) considering the additional startup costs that would be incurred to roll out a commercial service, and (c) considering whether such an investment would be feasible in light of the expected costs and revenue associated with the ongoing provision of the service.

C. IPTV Startup Requirements and Costs

14. Without the AT&T merger, BellSouth would have to incur approximately \$100 million of additional start-up costs (over and above the costs already incurred) in order to launch a commercial IPTV service. (As I explain later, in excess of \$50 million of these startup costs will be unnecessary as a result of the merger with AT&T.) Indeed, because of these high costs, it is not assured that BellSouth, if it remained a stand-alone entity, would decide to commit the resources necessary to undertake this project.

15. One of the major startup costs for a reliable and robust IPTV service is the cost of developing, testing, and implementing a wide array of business and network provisioning and operating systems, including systems to handle product provisioning and management, order processing, billing, customer service support, trouble monitoring, and service management. Preliminary development efforts are now underway, and BellSouth estimates that in 2006 it will spend \$25-\$30 million to develop these IT capabilities. However, an additional \$25-\$30 million would be required in order to implement the capabilities necessary to support an initial commercial launch of IPTV, and tens of millions of additional dollars would be required to integrate fully BellSouth's systems if BellSouth were to decide to proceed with an IPTV offering.

16. BellSouth would also need two "super headend" facilities in order to offer IPTV service on a commercial scale. The super headends would receive, encode, and process national and regional programming for secure distribution over fiber links to multiple video hub offices ("VHOs"), with each hub serving one or more metropolitan areas. One of the super headends would be for primary use; the second would serve as an essential backup facility, available for use in case of problems with the primary facility. The cost of constructing and equipping these super headends is approximately \$50-60 million (\$25-\$30 million each). While BellSouth has started construction of the primary facility in Atlanta, no electronic equipment will be installed in that facility until BellSouth makes a decision about whether to offer IPTV service.

17. Another critical startup requirement would be the need to negotiate carriage agreements with providers of video programming. Although BellSouth currently has agreements to carry programming on its legacy cable systems, most content providers have taken the position that those agreements will not permit BellSouth to distribute programming over a new IPTV

platform. The content providers' position requires BellSouth to negotiate numerous new carriage agreements in order to offer the programming as part of a new IPTV service. (BellSouth has negotiated agreements with some programmers to permit delivery of programming as part of the trials described above, but those agreements generally do not authorize carriage of the programming for a commercial service.)

18. The negotiation of carriage agreements is a long, uncertain and arduous process. In order to offer a competitive service that will deliver a wide variety of content to subscribers, BellSouth would need to negotiate scores of carriage agreements, covering hundreds of channels of video programming and hundreds of hours of video-on-demand content. As explained in the Declaration of James Kahan, IPTV content agreements are complex and can require lengthy negotiation because they involve acquiring rights to use content in numerous applications over multiple forms of communication.

19. In fact, programmers are unlikely to even begin serious negotiations with BellSouth until BellSouth can demonstrate a firm commitment to launching a robust IPTV service, and it will likely take many months, perhaps even a year or longer, to obtain carriage agreements for a complete slate of video programming. I understand that AT&T already has a substantial head start in negotiating these types of arrangements. The combined company would be able to utilize these existing and pending agreements to provide service in the BellSouth territory before BellSouth, standing alone, could conclude the requisite content agreements.

D. The Operating Costs of Providing IPTV Service

20. Beyond the up-front costs described above, the operating cost of providing an IPTV service (assuming BellSouth decided to launch such a service) will determine whether such a

service is successful in competing against the incumbent providers of multi-channel video services. Many of those costs are correlated with the scale of the service, i.e., the cost per subscriber is lower if the service has many subscribers, and higher if the service has few subscribers. For this reason, one of the most important challenges confronting BellSouth, when it contemplates the potential launch of an IPTV service, will be the cost disadvantage it would face as a distributor that has a small geographically limited subscriber base and that would be unable to achieve important economies of scale.

E. BellSouth's IPTV Capabilities As A Standalone Company

21. As indicated above, BellSouth had not decided whether to launch an IPTV service at the time it agreed to merge with AT&T. Put simply, without the AT&T merger, it is unclear whether BellSouth would offer an IPTV service at all. BellSouth would face in excess of \$50 million in additional startup costs in order to offer a service that would require tens of millions in additional investment and substantial operating costs for programming, equipment, and application development, among other things.

22. Without the merger, if BellSouth were to decide to undertake the risks of an IPTV rollout, BellSouth would be able to start a limited commercial launch in a single metropolitan area in the second half of 2007 at the very earliest, with launches in other areas over time. Even that timeframe would be contingent on: (a) successful completion, on schedule, of all remaining technology development projects; (b) successful completion of the current technical trial, on schedule and without the discovery of any serious deficiencies in the technology that is being tested, (c) successful completion of the planned market trial, on schedule, and without the discovery of serious deficiencies in the IPTV technology, supporting IT systems, or in customers' satisfaction with the service, (d) construction, on schedule, of the super headend

facilities and the requisite VHOs; (e) successful completion of negotiations with the myriad equipment and content providers whose equipment and programming are essential to a viable video service, and (f) successfully dealing with any attempts by local authorities to impose franchise requirements. Problems or delays in achieving any one of those entry requirements could delay the initial offering.

F. The Competitive Benefits Of The Merger With AT&T

23. AT&T has publicly announced that it is investing over \$4 billion in its “Project Lightspeed” and is scheduled to roll out IPTV service in certain areas within its 13-state ILEC territory. It is my understanding that AT&T plans a rollout that will introduce service within its ILEC region reaching approximately 2.7 million customers by the end of 2006, with additional expansion scheduled in 2007 and 2008. Because AT&T has already incurred most or all of the startup costs associated with IPTV service, and because the incremental costs of extending that service to the BellSouth region will be relatively modest, the combined company will be able to deploy IPTV service to BellSouth’s customers faster than BellSouth would have been able to accomplish absent the merger, were it to decide to deploy IPTV.

1. Startup Cost Savings

24. AT&T’s IPTV platform will be compatible with the platform that BellSouth is now evaluating. More specifically, the super headends AT&T would use to provide service within its own ILEC region can also be used to provide the same service in the BellSouth region. Because AT&T will necessarily have developed the requisite business and operations support systems in connection with the rollout of its IPTV service, the time and cost required for BellSouth to develop such systems will be greatly reduced. Moreover, before offering IPTV service, AT&T presumably will have completed the requisite pre-launch trials to test its systems and made

whatever modifications are necessary to ensure a high level of customer satisfaction with the service. Thus, the merger will eliminate the need for BellSouth to invest in excess of \$50 millions to construct and equip its own super headend facilities, to develop business and operations support systems, and to complete trials of that new technology. Additional avoided costs after launch would be in the tens of millions of dollars.

2. More Rapid Rollout

25. Moreover, the merger with AT&T will enable a more rapid rollout of IPTV service within the BellSouth region than BellSouth could possibly have achieved as a standalone company (even assuming that BellSouth were to decide to launch a new service and assuming that franchise related issues can be resolved in a manner that permits such a deployment). It is my understanding that AT&T will complete the arduous process of negotiating programming carriage agreements in the coming months and will have widespread rollout of the service later this year, which puts AT&T far in advance of the time that BellSouth could be ready to provide service. In order to provide IPTV in the BellSouth region, it will still be necessary to deploy VHOs in metropolitan areas throughout the region, but, assuming that appropriate franchise arrangements can be made, BellSouth could begin to plan for those deployments so that the VHOs can be in place shortly after consummation of the merger. In short, the merger will permit the rollout of IPTV service in the BellSouth region to begin far sooner than the service could possibly be introduced by BellSouth as a standalone company.

3. Lower Operational Costs

26. The IPTV service that will be offered by AT&T in its territory after the merger will also benefit from the cost savings that can result from a larger base of subscribers. I believe that the larger subscriber base will generate substantial cost savings in the acquisition of programming, in

the acquisition of consumer equipment, licensing fees (software and hardware) and in the development of new applications for the IPTV platform.

27. Assuming that local governments either do not seek to impose, or are prohibited from imposing, franchising requirements on the combined entity's offerings, these cost savings will allow the merged company to provide more effective competition against cable companies in both regions and to introduce additional features and capabilities for the IPTV service over time.

28. In sum, while BellSouth has taken limited steps toward providing IPTV service, it has not yet made the decision to deploy this service commercially and faces substantial cost and risk if it were to decide to do so as a standalone company. The merger will allow the combined company to leverage AT&T's existing plans and investments in the BellSouth territory, and thus bring IPTV to this area much more quickly and efficiently than BellSouth could do on its own.

IV. ENHANCED DISASTER RECOVERY AND NATIONAL SECURITY CAPABILITIES

29. The merged AT&T and BellSouth would have an even stronger emergency response capability than what exists for either company today. This enhanced ability to plan for and respond to disasters and national security threats will greatly benefit the combined company, its customers, and Federal, State and local governments. The combined company would have a common incident management system and emergency response capability, which would leverage existing skill sets and provide a wider range of resources to address an emergency in a timely and coordinated fashion.

30. While AT&T, BellSouth, and Cingular all have standard operating procedures and processes for a disaster response, the companies have different areas of expertise and

experiences. For example, AT&T has a strong history of dealing with wildfires, tornadoes, and was critical in restoration efforts after the terrorist attacks of September 11, 2001. By contrast, hurricane and flood response are BellSouth's strong suits, while Cingular is a leader in wireless response needs. All these experiences have led to standard operating procedures for emergency responses that are specially tailored to the particular needs of each company. However, a common response model would enable the merged AT&T and BellSouth to respond to a much wider range of incidents using personnel, equipment, and other assets from across the combined company, which would constitute a broader resource and skill set than is currently available to either individual company.

31. Currently, when a natural or man-made disaster occurs, AT&T and BellSouth can obtain or share necessary resources through mutual aid agreements; all other support is typically provided in a customer-vendor relationship. Despite industry-wide cooperation and coordination in disaster response, mutual aid agreements take time to implement. For example, mutual aid typically is invoked after the incident has occurred and the scope of the disaster is known. This can present logistical challenges among companies that are trying to respond to a particular emergency. Once the requesting company has identified the number and skill sets of technicians or the assets it requires (e.g., generators, trucks, switches), commercial terms must be negotiated between the companies, the supporting company must identify appropriate personnel, canvass its equipment inventory, and then begin the process of moving personnel and resources into the impacted area. Once personnel and resources have been relocated, they must be integrated into the requesting party's operation. Differences in systems, procedures, tools and equipment can make the integration of personnel for other companies quite challenging. For example, the systems used to dispatch technicians and test facilities are different between

companies, and therefore manual processes are often used in these situations. This process takes time and can delay coordinated response efforts. By contrast, after the merger, more personnel and resources for a combined AT&T and BellSouth would already be in-house and would be available for deployment without the need for mutual aid agreements.

32. Government, commercial, and residential customers in BellSouth's region also stand to benefit greatly from the merger through the ability of the merged AT&T and BellSouth to offer a single point of contact by which complete end-to-end services could be provided during and after an emergency. For example, during an emergency a government agency may require rapid installation of a telecommunications service, utilizing the Telecommunications Service Priority (TSP) program to get priority for the service installation. However, in many cases in BellSouth's region today, the agency must work through a primary vendor, which then must coordinate with other companies in order to provision the end-to-end service. By contrast, the combined company would have the ability to install circuits or deploy services "on net" – entirely on the merged AT&T and BellSouth's network – without going through multiple parties. This single point of contact would be particularly beneficial in meeting the needs of customers supporting National Security and Emergency Preparedness, such as the Federal Emergency Management Agency ("FEMA"). FEMA also would benefit from the capabilities of the combined company by being able to turn to one point of contact to obtain end-to-end services for itself, in support of a Joint Field Office or Regional Response Coordination Center, or in connection with a FEMA mission assignment for a hospital, state facility, or other critical location.

33. Customers in BellSouth's region also would benefit from the ability of the combined company to utilize unique AT&T resources that complement BellSouth's expertise in disaster recovery. For example, AT&T has an extensive supply of mobile communications units that can

be quickly deployed on-site in an emergency and can serve as mobile communications centers in areas where landline service is disrupted. Similarly, AT&T has access to microwave towers that can facilitate emergency point-to-point contacts. In addition, with its experience as a service provider to the Federal government, AT&T is extremely well-prepared to address classified issues of national security, and the facilities to allow for coordination and response to classified incidents or issues. BellSouth does not have the same scale of equipment or expertise, and the merger would make them available to customers in BellSouth's region.

34. At the same time, the merger would bring enhanced disaster recovery and national security benefits to AT&T's customers. For example, BellSouth has unique training and experience in responding to hazardous material disasters. BellSouth's Service Assurance Brigade for Emergency Response ("SABER") team has been operating for more than two years and was instrumental in responding to two major hazardous material incidents including the Graniteville, South Carolina train derailment, which was the deadliest train derailment involving hazardous materials in the United States in more than 25 years, and Hurricane Katrina. BellSouth's SABER team was the first private sector entity and is the only telecommunications hazardous material unit to receive training at the Department of Homeland Security's Weapons of Mass Destruction COBRA training facility, upon completion of which all SABER team members received high marks. BellSouth's SABER team also has developed relationships with many fire departments, local and state emergency management agencies, and National Guard Civil Support Teams in the BellSouth region, many of which participate in regular SABER team drills.

35. As a result of its formal training and real life experiences in hazardous material/emergency response, BellSouth's SABER team is considered to be one of the premier

hazardous material teams in the telecommunications industry. SABER personnel have highly specialized skills in the operation of network central office and outside plant, wireless/cellular networks, IT/data center operations, building mechanical and electrical systems, and other capabilities. The SABER team has a complete inventory of hazardous material response gear, emergency response trailers, towing vehicles, and advanced communications equipment that could be deployed by the combined company in the event of a hazardous material event anywhere in the combined company's service area.

36. BellSouth also brings unique experience providing and restoring service in hurricane-prone areas, some of which are located in AT&T's service territory. BellSouth has responded to 22 major hurricanes over the past 10 years, which has led to the enhancement and further development of procedures and capabilities that facilitate a very strong emergency response capability. During Hurricane Katrina, for example, BellSouth operated an Emergency Operations Center, which was made available to wireline and wireless service providers in the impacted area and which facilitated restoration of all types of connectivity. These procedures and capabilities would allow the combined company to better assist AT&T customers affected by a hurricane or other disaster.

37. BellSouth's microwave experience, which was put to use in connection with BellSouth's Hurricane Katrina response efforts, also would complement AT&T's emergency response capabilities. BellSouth's microwave radio restoration team was formed in 1989 to provide an alternate type of facilities in the event of an emergency, utilizing point-to-point microwave technology that has a range from 1 mile to 13+ miles. This team responded to such incidents as the ValuJet crash site in the Florida Everglades and floods in Kentucky and Tennessee, as well as supporting the 1996 Olympic Games in Atlanta, Georgia. After Hurricane Katrina, BellSouth

deployed microwave technology, which remains in use today in and around the New Orleans area, providing backhaul for cellular and wireline connectivity.

38. BellSouth's crisis experience also would promote innovation in emergency response efforts to the benefit of customers of the combined company. For example, in responding to Hurricane Katrina, BellSouth used wireless broadband in New Orleans to provide up to 1.5 Mbps of connectivity in the impacted areas. Wireless broadband technology uses radio frequency licensed spectrum to provide a non-line-of-site service to customers. The radio waves travel from the base station to the modem, and a base station can sit on top of water towers or tall buildings, and most frequently on cell towers. Each base station can support up to 300 customers. Three base stations are currently in operation in New Orleans and a fourth base station will be added in April 2006, providing alternate connectivity to those in need and offering broadband coverage to New Orleans customers in some of the most heavily damaged areas.

39. In addition, the merged AT&T and BellSouth would support, at the Federal, State and local level, the use of Wireless Priority Service ("WPS") and Government Emergency Telecommunications Service ("GETS"), which are priority programs sponsored by the Department of Homeland Security's National Communications System to facilitate the ability of first responders to make wireless and wireline calls into impacted areas experiencing network congestion in a crisis. During September 11th, GETS had a 95-97% call completion rate. During Hurricane Katrina, GETS and WPS also facilitated the ability of first responders to communicate in the impacted areas. The merger would allow the combined company to have an increased reach in the ability to promote these priority programs.

40. The merger will benefit GETS in two primary ways. First, GETS is provided over AT&T's backbone, so customers using BellSouth's network to access the GETS feature will have a higher likelihood of call success, because of the reduced number of hops to get to the AT&T network. Second, legacy AT&T has a larger government sales team and a stronger history of involvement with GETS than does BellSouth. This merger will enable the combined company to tap into their expertise to ensure that critical infrastructure and government customers are adequately supported from a GETS perspective.

41. The merger will enhance WPS (a technology embedded in Cingular's network) because the combined company will have the resources to fully support WPS and develop its future evolutions to support data and next generation wireless capabilities. Moreover, selling Cingular bundled service will allow seamless integration of wireless WPS priority and GETS wireline priority.

V. BENEFITS OF NETWORK INTEGRATION

42. BellSouth's network efficiently meets the needs of those of its current customers who do not require significant out-of-region connectivity. However, like AT&T and Cingular, BellSouth is in the process of deploying a unified, IP-based network, which would enhance the effectiveness of its network and enable BellSouth to provide many advanced capabilities to its existing and future customers. Because BellSouth does not have its own long-distance facilities with a national reach, the company by itself will not be able to realize and deploy for its customers the full measure of benefits that spring from an integrated IP-based network. By allowing BellSouth to integrate its network with AT&T's long-distance and IP facilities, and by bringing Cingular's network under the umbrella of the combined company, the merger will allow

the combined company to realize more efficiencies and take advantage of an IP-based network faster and more efficiently than AT&T, BellSouth, or Cingular could standing alone.

43. The merged entity's combined IP-based network will be able to distribute traffic more efficiently than currently can be accomplished using three separate networks, by taking advantage of excess capacity in the three networks and by reducing the number of traffic hand-off (or "peering") points. With three separate networks, inter-network traffic flowing from points on, for example, BellSouth's network to points on Cingular's or AT&T's network often has to be routed inefficiently, as it is exchanged through a number of peering points that does not always make the best use of network capacity or utilize the most direct route between two points. With a single, integrated IP network, a number of the peering-points for handing off traffic will be eliminated, allowing traffic to be routed in a way that maximizes network capacity.

44. Perhaps just as significant will be the cost savings that come from eliminating the fee-based transiting and backbone access arrangements BellSouth currently has with third parties. These transiting and backbone access arrangements will be rendered unnecessary once BellSouth's and AT&T's IP-based networks are integrated.

45. Moreover, moving off-network traffic onto an integrated network will decrease the off-network mileage charges that BellSouth must currently pay in order to utilize other networks. Within BellSouth's region, the density of the existing BellSouth network will reduce mileage charges for the combined company, while outside of BellSouth's region the density of the AT&T network will have the same effect.

46. Network integration also will result in improvements in quality and reliability that will allow the combined company to guarantee its customers a higher quality of service ("QoS") and,

thus, offer improved Service Level Agreements (“SLAs”). SLAs are service warranties that specify service performance, provide clear rules for measuring that performance, and specify precise consequences should the service provider fail to meet the required QoS. SLAs typically include such performance metrics as network latency (the time it takes a data packet to travel roundtrip between two points in the network), network uptime (the percentage of a given measure of time, such as a month, that the network will be available without problems), and mean time to restore (how long it will take to remedy a problem). Compared to BellSouth standing alone, the combined entity will be able to offer enhanced QoS and improved SLAs because it will have a larger and more robust network over which it exercises control. When traffic has to flow between networks, it is difficult or impossible to offer strict QoS provisions in SLAs, because the carrier offering the SLA must build in to its QoS calculations the latency and packet loss that stem from peering, hand-offs, and the utilization of a third-party network. These QoS improvements can be translated into better products and services for the applications critical to the healthcare, education, financial services, and national security industries.

VI. DEPLOYMENT OF NEW SERVICES TO NEW MARKETS

47. BellSouth is already deploying fiber optic facilities deeper into its local networks to enable delivery of IP-based voice and ultra-high-speed data services. However, the transaction will allow AT&T, BellSouth, and Cingular to combine existing assets (and integrate the deployment of new assets) including providing BellSouth seamless access to AT&T’s advanced Multi-Protocol Label Switching (“MPLS”) network. AT&T’s MPLS network is capable of supporting all the features and classes of service BellSouth’s customers rely upon and delivering the full range of voice, data, and video services to an ever-expanding array of personal and business devices. By exploiting each of the three parties’ strengths to the greatest practical

extent, the transaction will create a seamless, high-quality, and cost-effective end-to-end IP network to support next-generation applications that can be more broadly and more rapidly deployed than would otherwise occur absent the merger.

48. The synergies from the merger extend beyond the physical network and include the skills, software, and other capabilities necessary to extend and support AT&T's MPLS network. By migrating to a single platform, the combined company can overcome the difficulties created by the existing multitude of legacy software and hardware systems, the shortcomings of interprovider network agreements that BellSouth is currently forced to rely upon, the artificial divisions of applications and systems, and the limitations of traditional switch-based networks. As a result, the merger will enable the combined company to provide consumers of all types with the ability to choose, provision, change, and maintain their services with a vastly greater degree of speed, efficiency, and efficacy.

49. The resulting ability to provide services over an IP network will permit customers to access quickly the full capabilities of an integrated, intelligent network that is capable of providing an almost unlimited array of services, including services that are heavily dependent on interactivity. For example, the transaction will enable the merged company to roll out IP video services more rapidly, as further discussed above. The advantage of an ability to provide services over an IP network is not limited to the wireline assets, but also applies to Cingular's capabilities. An integrated IP network will provide an avenue for the integration of wireline and wireless services and will result in offers of advanced features and convenience to consumers.

50. IP services offer the customer the benefits of a converged data and voice network, which reduce the operating costs and inefficiencies that are associated with having separate physical

networks and allow bandwidth to be shared efficiently. By further developing a single, unified platform for voice and data services, the combined company will be able to deploy high bandwidth services more efficiently and more broadly. Such services include VoIP, advanced video conferencing; customer relationship management applications integrated with voice services; and unified voice mail and e-mail messaging. Moreover, IP services such as VoIP and video conferencing are key elements in allowing remote workers to be productive regardless of physical location. These IP services will thus lead to critical policy benefits, such as allowing more flexible work environments, reducing the need to commute, and integrating global workers into key business and communications systems, thereby allowing U.S.-based companies to do business overseas more effectively.

51. The merger also will allow the combined company to make available to medium and small businesses in BellSouth's region the benefits of AT&T's class-leading managed network services. Some of the most significant of these services include anti-fraud and security services, such as AT&T's Internet Protect, which allow customers to transact business over the Internet with less of a concern about identity theft. These services are increasingly in demand among mass-market and small-business customers. As this demand grows, the combined company will be better positioned than BellSouth standing alone to develop, adapt, and deploy these services for all of the customer segments in BellSouth's region.

52. The merger also will allow BellSouth's customers to benefit from AT&T's extensive research and development efforts. Although BellSouth's R&D division has over 200 employees and has taken a leading role in deploying a number of new and emerging technologies for BellSouth's mass market and small business customers, BellSouth has not undertaken research on a comparable scale to AT&T. Nor does BellSouth have the capability or capacity standing

alone to do so because BellSouth's research and development efforts as well as resource allocation are focused on the consumer and small business market. For BellSouth to engage in such broad research and development efforts as AT&T on its own would require a level of capital investment that could not be justified by the nature of BellSouth's customer base.

VII. ADDITIONAL INNOVATION AND NETWORK INVESTMENT

53. While BellSouth has a solid record of innovation in terms of applications of telecommunications technology, the company's research and development efforts into new technologies, along with its basic research, have been hampered by resource limitations.

54. There are a number of areas where additional resources would have allowed BellSouth to conduct research, but have simply not been possible for the company to undertake. These areas include network security, e-commerce, hosting, and vertical industry applications.

55. At the same time, the merger also stands to benefit customers of AT&T by allowing the combined company to take advantage of areas in which BellSouth has substantial experience. The first is wireless broadband, which BellSouth has been developing for more than ten years. BellSouth owns large amounts of spectrum, primarily Broadband Radio Service ("BRS") and Wireless Communications Service ("WCS") spectrum. In addition, BellSouth has acquired several Broadband Radio Service ("BRS") and Educational Broadband Service ("EBS") leases.

56. Although BellSouth originally used this spectrum to provide wireless cable, in recent years it has determined that these licenses could be used to provide wireless broadband. BellSouth is now using the technology extensively in disaster areas where wireline DSL services are not functional. For example, after Hurricane Katrina, BellSouth utilized its WCS spectrum to provide wireless broadband service to customers in New Orleans, Louisiana, and Gulfport and

Biloxi, Mississippi. BellSouth also is utilizing its WCS spectrum to provide wireless broadband in rural areas. In Palatka, Florida, BellSouth tested how far its broadband service could extend beyond its DSL footprint through the use of wireless broadband antennas using WCS spectrum. This trial also tested the use of wireless systems for providing backhaul and connectivity services. The trial included local business, residences and educational institutions and built on results of earlier trials. BellSouth also is utilizing WCS spectrum to provide wireless broadband service in Deland, Florida and is offering wireless broadband service utilizing BRS spectrum at the University of Georgia in Athens, Georgia.

57. Wireless broadband is a particularly attractive vehicle to reach rural areas that would otherwise not have access to DSL. BellSouth currently is limited in its ability to deploy DSL cost effectively to rural areas, which make up approximately 15 percent of the households in BellSouth's region. Despite BellSouth's substantial deployment efforts, more than 200,000 households in rural areas of BellSouth's serving area still lack access to a cost effective high-speed broadband connection (either DSL or a cable modem). BellSouth has extended DSL service into its in-region area using current technology as far as it believes is economical. However, the combined company would be able to more rapidly deploy wireless broadband, across a broader swath of customers, than BellSouth could by itself. Thus, the merger should help spur the further development of wireless broadband, particularly with the addition of Cingular's substantial wireless assets, including towers and RF engineering capabilities, which may provide a natural way in which to market the service.

58. The second area in which BellSouth has substantial experience that will benefit AT&T customers is Ethernet over copper. This technology development allows the provision of standard Ethernet data services over copper wire. Once deployed, this solution will allow

Ethernet to be provided to customers who are not served by fiber facilities, thus expanding the availability of high-speed data services without requiring costly facility upgrades. This technology has proven very useful, for example, in ensuring that all branches of a school system can be connected via an integrated Ethernet service. The combined entity will be able to apply BellSouth's research in this area to existing copper facilities throughout the combined company's region, in order to more quickly deploy this capability across a broader geographic market.

59. Finally, while BellSouth has not made the decision whether to proceed with IPTV, as discussed in Section III, BellSouth does have extensive experience offering video service to end users. Since 1996 BellSouth has obtained 20 cable franchises to provide cable "overbuild" service in local markets throughout its telephone service area, representing approximately 1.4 million potential cable households. BellSouth currently provides cable service to approximately 40,000 customers in 14 markets. In addition, because of the obstacles inherent in the local franchising process, in early 1998, BellSouth began providing video service using its BRS spectrum. The service was offered in a small number of markets and attracted approximately 120,000 customers. Because of technical and operational hurdles, however, BellSouth discontinued the terrestrial wireless video service in December 2000. BellSouth replaced the terrestrial wireless video offerings with Direct Broadcast Satellite ("DBS") services that it now markets in conjunction with its voice, broadband, and wireless services. BellSouth has a strategic marketing alliance with DIRECTV, Inc. to offer DIRECTV digital satellite television service to BellSouth residential customers. BellSouth currently has over 500,000 DBS customers from these marketing efforts. While changes in technology mean that there are more efficient ways for the combined entity to deliver video to its customers, BellSouth's experience with providing video service to customers could be an asset to the combined company.

60. By combining BellSouth's resources with those of AT&T and Cingular, and by providing BellSouth's research and development personnel with access to the advanced technologies that AT&T has been developing, and vice versa, the merger will enhance the combined entity's financial resources and ability to develop new services, along with its ability to exploit those services. This will benefit all of the combined entity's customers, including its present and future government customers. Indeed, as is generally true for all customers with respect to research and development, the combined entity will undertake research for the benefit of government customers that neither AT&T nor BellSouth alone would have undertaken or been able to undertake.

I declare under penalty of perjury that the foregoing is true and correct. Executed on March 28, 2006.

/s/ William L. Smith

William L. Smith