

DECLARATION OF BARRY L. BONIFACE
CHIEF STRATEGY & DEVELOPMENT OFFICER
BELLSOUTH CORPORATION

I, Barry L. Boniface, hereby declare the following:

I. Position and Qualifications

1. My name is Barry L. Boniface. I serve as Chief Strategy & Development Officer of BellSouth Corporation (“BellSouth”). In this position, I am responsible for BellSouth’s strategy, mergers and acquisitions, business development, and intellectual property functions. I have been responsible for BellSouth’s merger and acquisition activities since 2001, and in 2004 I took on the responsibility for BellSouth’s strategy function as well. During my tenure in this position, I led BellSouth’s efforts on (i) Cingular’s acquisition of AT&T Wireless, the largest cash acquisition in history (\$46 billion), (ii) the divestiture of BellSouth’s Latin American operations (operating in 10 separate companies and countries) to Telefonica of Spain for \$5.85 billion, and (iii) BellSouth’s divestitures of its other international assets, which generated total proceeds in excess of \$2.2 billion. I also assisted in the creation of and now sit on the board of YellowPages.com, an Internet joint venture between BellSouth and AT&T.

2. From 1998 through 2001, I worked at Cypress Communications, a publicly traded competitive local exchange company, where I first served as Chief Financial Officer and later became a Board member and Executive Vice President of Network, Product Management and Technology. Before joining Cypress Communications, I spent four years as BellSouth’s executive director of Corporate Development with responsibility for domestic and international

mergers, acquisitions, divestitures and other strategic transactions. I have also held previous positions in merchant banking, investment banking, and software development. I hold a BBA degree from Southern Methodist University and an MBA degree from Emory University.

3. In my current position, I have been principally responsible for BellSouth's merger and acquisition activities and have overseen the development of the company's long-term growth strategies, including its strategies for growth in competing for business customers. I have been directly involved in BellSouth's consideration of its options to succeed in the competitive telecommunications industry and the strategic imperatives that caused BellSouth to undertake this merger with AT&T.

II. Introduction/Synopsis

4. I submit this declaration to explain the dynamic state of competition for business and residential customers in the Southeastern territory of the United States in which BellSouth operates, as well as to discuss the challenges that BellSouth faces in attempting to serve business customer requirements outside our core geographic and product areas of focus.

5. BellSouth is a regional carrier whose core strengths are local voice and local data services. BellSouth does not have a national network for the provision of seamless end-to-end services to national customers outside of our region, and has no plans to build such a network.

6. Because our primary value proposition stems from our extensive local network in our incumbent territory, we principally focus on serving different customer requirements than the full suite of national and international voice and data services for very large customers that is legacy AT&T's competitive focus.

7. BellSouth also faces limitations in our product portfolio that place us at a disadvantage in

attempting to serve the full requirements of large business customers. In particular, we do not have interLATA network capabilities that support a full suite of the sophisticated services demanded by large business customers. We must therefore rely upon wholesale partners for the provision of complex interLATA services. This places us at a disadvantage in competing for customers who prefer to deal with a single carrier capable of offering a full range of services over an integrated network.

8. BellSouth's regional focus and product limitations are a difficult handicap in attempting to compete for contracts to serve as the primary telecommunications provider for large business customers unless their operations are primarily concentrated within the BellSouth territory. Instead, we complement the efforts of the primary carriers for such national and international companies by vying to serve their local access and similar in-region requirements to the maximum extent possible while also pursuing incremental opportunities to provide additional services inside our territory.

9. For those customers with demands for services within the BellSouth territory for which we are able to compete, we face a host of capable and aggressive competitors including national interexchange and data/IP carriers, national and regional competitive local exchange carriers and cable companies, as well as systems integrators, equipment vendors and foreign carriers.

10. BellSouth faces substantial competition for residential customers in our region, particularly from wireless, cable and VoIP competitors. AT&T is no longer a significant competitor for mass market customers in our region.

III. BellSouth's Regional Competitive Focus and Product Limitations

11. BellSouth operates in nine states in the Southeast, and does not operate a national

network (apart from its Cingular wireless joint venture). As a result, we face substantial geographic limitations in the type of business customer that we can effectively serve.

12. Large enterprise customers often seek to contract with a single primary carrier able to serve their full range of telecommunications requirements. These customers tend to demand sophisticated end-to-end network management capabilities across advanced, integrated national and international networks. Because BellSouth has no national wireline network and no international capabilities, it is generally not a viable competitor for contracts to serve as the primary carrier for such large enterprise customers.

13. Large enterprise customers that rely on advanced IP services often prefer to deal with a single provider able to serve their end-to-end requirements across all locations at specific quality of service levels. As a regional carrier, BellSouth is unable to effectively compete to serve the primary IP requirements for these customers except to the extent that their operations are located predominantly in the Southeast.

14. BellSouth also faces certain disadvantages relating to our legacy product portfolio compared with AT&T and other carriers whose primary focus is on serving very large business customers because BellSouth relies on wholesale agreements to provide some of the complex long distance voice and data services demanded by large business customers.

15. It is my understanding that legacy AT&T focuses principally on serving as the primary telecommunications provider for the type of large “Fortune 1000” customer with national or international telecommunications requirements that BellSouth has only a limited ability to serve on an end-to-end basis. In contrast, BellSouth has determined to focus its competitive efforts on customer segments that draw on our regional strengths: customers whose operations are

exclusively or primarily located within the BellSouth region, as well as the local service requirements in our region and other incremental in-region opportunities of customers primarily based outside our region.

16. BellSouth has traditionally divided customers in our large business segment into three categories: general business (less than 300 lines but total annual spending of at least \$65,000, in general), major (300-700 lines) and enterprise (700 or more lines). Average annual customer spending with BellSouth is approximately \$100,000 in the general business category, approximately \$400,000 in the major category and approximately \$2 million in the enterprise category. We have been in the process of revising our customer segmentation approach in order to better align our sales efforts with the in-region customer groups for which we are best situated to serve, with the intention of devoting a more structured focus to vertical customer segments of particular importance (such as government and health care customers within our region).

17. BellSouth does not operate a national network outside its 9-state region, and had no plans to build such a network absent the pending transaction.

18. BellSouth serves the out-of-region telecommunications requirements of some customers where the operations of such customers are predominantly within our region. These “follow the customer” arrangements rely on the networks of other carriers such as Qwest or Sprint to serve locations outside of our 9-state region.

19. Beginning in 1999, BellSouth entered into a teaming arrangement with Qwest pursuant to which BellSouth sought to provide local and intraLATA voice and data services to customers to whom Qwest would provide complementary interLATA services. BellSouth fundamentally modified its Qwest arrangement in 2002, which since that time has largely been limited to a

wholesale agreement that permits BellSouth to offer its customers access to the Qwest network. Neither the Qwest teaming arrangement nor the Qwest wholesale arrangement allowed BellSouth to compete for customers with substantial out-of-region requirements.

20. BellSouth entered into an agreement in October 2005 with Sprint-Nextel that allows us to offer data services using the Sprint-Nextel MPLS network to our in-region customers that have supplemental out-of-region IP-based requirements, as we announced on March 20, 2006. Like the Qwest arrangements, however, the Sprint internetworking arrangement does not support a full suite of services or allow BellSouth to control the quality of service on the Sprint network. It is our expectation that the availability of the Sprint-Nextel MPLS network will help us to stem losses from large business customers who increasingly demand MPLS service across all of their locations, but will not provide BellSouth with the ability to become a significant competitor for enterprise customers whose locations are not predominantly within our region. As a result, our overall financial expectations for the Sprint interprovider relationship are quite modest.

21. Marketing, technical and economic factors place inherent limitations on the number and type of customers for which BellSouth can compete pursuant to “follow the customer” strategies employing the networks of other carriers. First, large business customers often prefer to deal with integrated carriers that offer a single point of contact when problems arise. Second, internetworking arrangements between two or more carriers entail complexities that can threaten the value proposition offered. For example, different carriers typically employ different Class of Service protocols (e.g., whether to have a separate queue for voice traffic in the network core), which can make it difficult to offer a consistent end-to-end Class of Service. Offering services over multiple networks also requires coordination of service and support functions such as

service activation, service assurance and Service Level Agreement (“SLA”) management. It may be possible to attempt to compensate for these deficiencies by, for example, reserving more bandwidth than anticipated for the customer’s needs in the hopes of avoiding congestion, but these steps necessarily increase our cost to serve and therefore limit the potential return from such out-of-region operations. This raises the third disadvantage of such wholesale arrangements – cost. BellSouth’s costs of using another provider’s network on a wholesale basis are typically higher than the costs at which we could provide services on our own in-region network. The higher a percentage of a customer’s requirements that are outside our region, the more difficult it is for BellSouth to offer a competitive bid for that customer, given our cost structure and circumstances, when compared to national carriers.

22. As a result of these factors, BellSouth competes to serve the out-of-region operations of these large customers only in cases where the customers’ operations are predominantly located within our region. In general, before we can effectively compete to serve the customer’s out-of-region locations, in addition to its in-region locations, with suites of voice and data products, the bulk of a customer’s locations (including the customer’s headquarters and other customer locations with heavy bandwidth demand) must be within the BellSouth region.

IV. Competition for Business Customers Based Primarily in the BellSouth Region is Intense

23. BellSouth’s competitive focus for business customers is on customer segments whose requirements align well with BellSouth’s capabilities, such as regionally focused medium-to-large customers (regional banks, state governments), as well as on smaller business customers. Competition for these customers is intense, and we face a host of aggressive competitors at all

levels of the market in which we compete.

24. The competitors we face for business customers in the BellSouth territory are not only large in number but extremely diverse in terms of their size, product and geographic offerings, marketing strategies and target customers. All major national carriers compete in the BellSouth territory, including both the traditional Inter-Exchange Carriers (“IXCs”) and newer national (and in some cases international) data/IP carriers. The long-haul networks operated by such carriers allow them to offer superior breadth of geographic coverage to BellSouth outside BellSouth’s region using integrated networks, and their advanced networks often allow them to offer a broader range of complex voice and data products as well, both inside and outside the BellSouth region.

25. We also compete with a host of both national and regionally focused Competitive Local Exchange Carriers (“CLECs”). These CLECs employ a wide range of strategies, and collectively are a major competitive presence in the BellSouth territory. Some CLECs have deployed advanced fiber networks allowing them to offer highly competitive quality and service, while others rely on BellSouth’s wholesale services to pursue a primarily price-based marketing strategy.

26. Non-traditional competitors like systems integrators and equipment vendors have become a significant factor, particularly in competition for large business customers. Such firms have often been successful in parlaying their expertise and customer relationships in related fields such as IT systems or IT equipment into the telecom arena as well.

27. Cable companies are increasingly using their fiber networks to compete for business

customers located in or near their service areas,¹ and the major cable operators in our territory such as Comcast, Cox and Time Warner Cable are beginning to aggressively target the business market.² Cable companies have employed a strategy of selling business broadband services to businesses in the hopes that they can subsequently convince them to take other products, such as VoIP, once they have their foot in the door. BellSouth has identified cable competitors as a key emerging threat to our business.

28. Over the last two years, BellSouth has faced at least 100 different competitors in the course of approximately 400 formal competitive solicitations for bids involving various telecommunications services for large business customers³ in our region in which BellSouth has participated. In general, customers tend to employ such Request for Proposal (“RFP”) procedures for larger and more complex telecommunications requirements. Accordingly, these RFPs are generally representative of the situations where customers within our region demand

¹ See, e.g., Duffy Hayes, CED, *Pickers’ Dilemma*, <http://www.cedmagazine.com/ced/2002/0902/09a.htm> (Cox Business reaches “more than 90 percent of Cox’s overall footprint nationally, marketing basic data and video services aggressively to small- and medium-sized businesses the company can easily serve with current network connections”); Andrea Figler, *Turning Businesses into Customers*, *Cable World* (Dec. 9, 2002) (Ken Fitzpatrick, Senior Vice President, Commercial Services, Time Warner Cable: “We’ve got an infrastructure there that is just ripe for commercial services. . . . We pass 1.2 million businesses”); Jessica Reif-Cohen, *et al.*, Merrill Lynch, *Cox Communications: Chasing Profits and the 4 Million Non-Video Homes*, at 6 (July 30, 2004) (Cox Business Services has “over 100,000 customers in over 18 markets” and “could continue to scale in 2004 as it expands its network to reach more than 25% of businesses within its franchise.”).

² For example, Comcast states that it “has been delivering service to commercial organizations since 1995 and has thousands of customers leveraging the Comcast network for critical business applications.” Comcast Commercial, *Services*, at <http://www.comcastcommercial.com/index.php?option=content&task=view&id=6&Itemid=27> (last checked March 21, 2006).

³ For internal purposes, BellSouth uses the term “large business” to include all customers with spending of \$65,000 or more, whether they would be included in our enterprise, major or general business categories described above.

higher-end services for which BellSouth is able to compete and where AT&T is among the competitors we might encounter. (Many other customers solicit RFPs in circumstances where BellSouth is not invited to participate or chooses not to participate because the RFP solicits proposals that BellSouth is poorly suited to win, such as an RFP with predominantly out-of-region or international service requirements.)

29. The approximately 100 bidders faced by BellSouth in the RFPs discussed above include national interexchange and IP carriers (including AT&T, Broadwing, Global Crossing, Level 3, Qwest, Sprint and Verizon/MCI), national CLECs (including Cbeyond, Granite, PAETEC, Time Warner Telecom and XO), regional CLECs (including ITC^DeltaCom, NuVox, Southern Light, TelCove, US LEC and Xspedius), systems integrators (including EDS and IBM), equipment vendors (including Avaya, Cisco, Nortel and Siemens), cable companies (including Charter, Comcast, Cox and Knology) and international carriers (including BT and Equant). These 100 competitors do not come close to the entire competitive universe faced by BellSouth, as many smaller competitors focus their efforts on smaller customers that are less likely to employ a formal RFP process.

30. For medium to small customers who are less likely to employ a formal bidding process, we compete with a variety of aggressive CLECs in addition to the carriers listed above, such as Access Integrated Networks, Birch, Supra and Trinsic. VoIP firms such as Vonage have also begun to target business customers. Our experience is that AT&T is much less active in competing for these smaller customers than it is in competing for larger business customers.

31. Because of the wide range of customer choices described above, and BellSouth's current geographic and product limitations, it is my belief that BellSouth's customers will be pleased by

our combination with AT&T, and will be excited about the increased capabilities we will be able to provide after the merger by having AT&T, BellSouth and Cingular under one roof. And customers will remain able to turn to dozens of other aggressive and well-qualified competitors to fill any competitive needs in the event they prefer not to work with the combined company after the transaction.

V. Competition for Residential Customers in the BellSouth Region is Intense

32. BellSouth also faces intense competition for residential customers in its region. With the fundamental changes in telecommunications technologies, such as the growth of wireless and VoIP, demand for traditional wireline local and long distance services continues to decline, with competitors taking an ever larger share of the market. Between 2004 and 2005, BellSouth alone lost over 1.3 million access lines, including 4.8% of its retail residential access lines.

33. In addition to competitive local exchange providers, BellSouth now competes with cable companies providing phone service over their own facilities, wireless providers, and VoIP providers. As noted above, cable companies have aggressively entered the local market using both circuit-switched facilities and VoIP. For example, the following markets in BellSouth's region are served by cable operators offering either circuit switched or IP telephony:

Birmingham, Alabama; Asheville, Charlotte, Greensboro, Raleigh, and
Wilmington/Monroe/Salisbury, North Carolina; Johnson City and Memphis, Tennessee;
Columbia, Florence, and Greenville, South Carolina; Baton Rouge, New Orleans, and
Shreveport, Louisiana; Jackson, Mississippi; Daytona Beach, Ft. Lauderdale, Gainesville/Ocala,
Jacksonville, Miami, Pensacola/Ft. Walton, Orlando, and West Palm Beach, Florida; Atlanta and
Macon, Georgia; and Lexington and Louisville, Kentucky.

34. VoIP providers and cable operators have targeted customers throughout the United States and have also made significant inroads in the market in BellSouth's region. BellSouth estimates that as of the end of 2005, VoIP providers have approximately 5 percent of the residential market in BellSouth's region, up from 3 percent in 2004.

35. BellSouth and AT&T are not significant competitors in the mass market. BellSouth does not sell wireline telephone services to mass market customers outside of its nine-state region and has no plans to do so. BellSouth has a limited non-exclusive arrangement with 8x8 to resell its VoIP service within the BellSouth region only, and currently has no plans to develop its own VoIP offering for the mass market. As noted in the Declaration of James S. Kahan, AT&T does not compete in the circuit-switched local market in BellSouth's territory and has no intention of entering that market. AT&T does offer its over-the-top VoIP product, CallVantage, in BellSouth's territory, but it has achieved only limited success and it competes with numerous other facilities-based and over-the-top providers. Although AT&T does provide some mass-market long distance and resale services in BellSouth's region, it is no longer a price constraining force in the mass market because, as explained in the Kahan Declaration, AT&T has ceased its marketing and customer care activities for mass market services outside its region and is no longer competing actively in that market.

VI. Conclusion

36. In sum, the competitive emphasis for BellSouth in serving business customers is very different from that of AT&T. BellSouth focuses on regional services while AT&T focuses on very large national and international customers and customer requirements. The merger will not reduce competition for any business or residential customer segment, but will enhance the merged firm's services and capabilities.

I declare under penalty of perjury that the foregoing is true and correct.

/s/ Barry L. Boniface

Barry L. Boniface
Chief Strategy & Development Officer
BellSouth Corporation

Dated: March 29, 2006