DECLARATION OF

DENNIS W. CARLTON AND HAL S. SIDER

March 29, 2006

I, Dennis W. Carlton, hereby declare the following:

I, Hal S. Sider, hereby do declare the following:

I. QUALIFICATIONS

1. I, Dennis W. Carlton, am Professor of Economics at the Graduate School of Business of The University of Chicago. I received my A.B. in Applied Mathematics and Economics from Harvard University and my M.S. in Operations Research and Ph.D. in Economics from the Massachusetts Institute of Technology. I have served on the faculties of the Law School and the Department of Economics at The University of Chicago and the Department of Economics at the Massachusetts Institute of Technology. I specialize in the economics of industrial organization. I am co-author of the book Modern Industrial Organization, a leading text in the field of industrial organization, and I also have published numerous articles in academic journals and books. In addition, I am Co-Editor of the Journal of Law and Economics, a leading journal that publishes research applying economic analysis to industrial organization and legal matters and Competition Policy International, an international journal specializing in the economics of antitrust. I have also served as an Associate Editor of the International Journal of Industrial Organization and Regional Science and Urban Studies, and on the Editorial Board of Intellectual Property Fraud Reporter. A copy of my curriculum vitae which describes my professional credentials, including my publications and prior testimony experience, is attached as Exhibit A.

2. In addition to my academic experience, I am a Senior Managing Director of Lexecon, an economics consulting firm that specializes in the application of economic analysis to legal and regulatory issues. I have served as an expert witness before various state and federal courts and foreign tribunals and I have provided expert witness testimony before the U. S.

Congress. In 2004, I was appointed to the Antitrust Modernization Commission, a 12- member commission created by Congress to review U.S. antitrust laws. I have previously served as a consultant to the Department of Justice regarding the Merger Guidelines of the Department of Justice and Federal Trade Commission, as a general consultant to the Department of Justice and Federal Trade Commission on antitrust matters, and as an advisor to the Bureau of the Census on the collection and interpretation of economic data. In addition, I have provided economic testimony on telecommunications issues in a variety of matters before the Federal Communications Commission and state public utility commissions. A copy of my curriculum vita is attached in Appendix 1 to this declaration.

3. I, Hal S. Sider, am a Senior Vice-President of Lexecon. I received a B.A. in Economics from the University of Illinois in 1976 and a Ph.D. in Economics from the University of Wisconsin (Madison) in 1980. I have been with Lexecon since 1985, having previously worked in several government positions. I specialize in applied microeconomic analysis and have performed a wide variety of economic and econometric studies relating to industrial organization, antitrust and merger analysis. I have published a number of articles in professional economics journals on a variety of economic topics and have testified as an economic expert on matters relating to industrial organization, antitrust, labor economics and damages. In addition, I have provided economic testimony on telecommunications issues on a variety of matters before the FCC and state public utility commissions. A copy of my curriculum vita is attached in Appendix 1 to this declaration.

II. INTRODUCTION AND OVERVIEW

4. We have been asked by counsel for AT&T Inc. (AT&T) and BellSouth Corp. (BellSouth) to analyze the likely impact of the proposed merger of AT&T and BellSouth on competition.[1] This declaration presents our initial assessment of this issue and is based on our familiarity with the developments in the telecommunications industry, our extensive review of public data, information obtained from the Parties and discussions with officials of AT&T and BellSouth.[2] This declaration also draws on the analysis we presented in our February 21, 2005 Declaration and May 9, 2005 Reply Declaration to the FCC on behalf of AT&T and SBC in support of the companies proposed merger.[3] We also draw on the analysis presented by Carlton (with Gustavo Bamberger and Allan Shampine) in declarations in support of the merger of Verizon and MCI.[4]

5. We will continue to review and analyze additional data and documents from the parties and public sources that become available during the course of this proceeding. We expect to use that information to respond to issues that arise during these proceedings and to supplement the analyses presented below to the extent necessary and appropriate.

6. Like the recent merger of SBC and AT&T, the proposed transaction combines BellSouth, an ILEC operating a local network that focuses primarily on serving mass market and

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1. AT&T Inc. was formed through the merger last year of SBC Communications Inc. (SBC) and AT&T Corp. At various points in this declaration we refer to the operations of "legacy SBC" and "legacy AT&T" in referring to the operations of the companies prior to their merger.
2. We understand that the Parties will be submitting to the Commission additional non-public information when a protective order is in place. This information, when it is available to be reported, will enable us to make more precise several of the statements in this filing.
3. Declaration of Dennis W. Carlton and Hal S. Sider, WC Docket No. 05-65, February 21, 2005; Reply Declaration of Dennis W. Carlton and Hal S. Sider, WC Docket No. 05-65, May 9, 2005.
4. Declaration of Gustavo Bamberger, Dennis Carlton and Allan Shampine, WC Docket 05-75, March 9, 2005, and Reply Declaration of Gustavo Bamberger, Dennis Carlton and Allan Shampine, WC Docket 05-75, May 24, 2005.

small and medium business customers in its nine states, with (i) legacy AT&T, which operates a national and global network that focuses on serving large business customers and (ii) legacy SBC, an ILEC that operates local networks in 13 states. The transaction also merges the two joint venture partners that own Cingular, one of the nation's largest providers of wireless services.

7. We conclude that the proposed transaction will not adversely affect competition for any of the services provided by the merging firms. Instead, the transaction will promote competition by creating a more efficient firm that will achieve significant cost savings and will be better positioned to develop and deploy new products and services for business and residential customers.

8. Our more specific conclusions are as follows:

Efficiencies

9. In combining a regional ILEC (BellSouth) with a firm operating a national network and specializing in the provision of sophisticated business services (AT&T), the proposed transaction is likely to benefit consumers for many of the reasons discussed in our prior declarations on behalf of the SBC/AT&T and Verizon/MCI transactions and recognized in the FCC's Orders approving these mergers.[5] The FCC concluded that these transactions generated a variety of public interest benefits including: (1) improving national security by increasing network reliability; (2) enabling the merged firm to offer new services to a broader range of customers; (3) enabling the merged firm to realize economies of scale and scope; (4) increasing the merged firms' incentive to invest in research and development; and (5) generating cost

5. FCC, Memorandum Opinion and Order 05-183, November 17, 2005 ("SBC/AT&T Order"). The FCC used similar reasoning in approving the merger of Verizon and MCI. See FCC, Memorandum Opinion and Order 05-184, November 17, 2005 ("Verizon/MCI Order").

savings. The Department of Justice (DOJ) also noted in its press release clearing the SBC/AT&T transaction that the merger would result in "exceptionally large, merger specific efficiencies."[6]

10. In similar fashion, the proposed transaction will enable the merged firm to operate more efficiently by integrating the networks and operations of AT&T, BellSouth and Cingular. The transaction also will enable the merged firm to accelerate the deployment of new services such as dual-mode (wireless/wireline) phones, streaming video to multiple platforms, and other converged multi-platform services.[7] By combining Cingular's parents, the proposed transaction will simplify the governance of Cingular and eliminate the conflicts that can characterize a joint venture. The transaction also will facilitate the merged firm's ability to jointly market wireline and wireless services to mass market and business customers.

11. The transaction is also expected to enable the accelerated deployment of Internet Protocol video services (IPTV) in BellSouth's territory, which would benefit consumers by lowering the price and raising the quality of video programming services.

Mass Market Services

12. The transaction raises no significant concerns regarding harm to mass market competition. As the FCC recognized in its SBC/AT&T Order, legacy AT&T no longer constrains pricing of mass market services provided by ILECs such as BellSouth due to AT&T's earlier decision to cease active marketing of its traditional services to mass market consumers. Because this "harvesting" strategy has continued since completion of the SBC/AT&T merger, the proposed transaction does not eliminate competition in the provision of mass market services. Rather, BellSouth will continue to face increasing mass market competition from a variety of

6. DOJ Press Release, "Justice Department Requires Divestitures in Verizon's Acquisition of MCI and SBC's Acquisition of AT&T," October 27, 2005.
7. See generally Declaration of Christopher Rice, ¶¶ 20-21.

sources including cable based voice-over-Internet-protocol (VoIP) services, "over-the-top" VoIP services and wireless services. AT&T continues to offer AT&T CallVantage, which remains a minor over-the-top VoIP service offering.

Retail Business Services

13. The transaction raises no significant concerns regarding harm to competition in the provision of retail services to either large or small business customers. The FCC recognized in the SBC/AT&T Order that a merger between AT&T and a regional ILEC is unlikely to harm competition in the provision of business services. Available data indicate the extent of retail business competition between AT&T and BellSouth is no more extensive than that which existed between AT&T and SBC prior to the firms' merger.

14. In the circumstances in which AT&T and BellSouth compete in the provision of services to business customers, the merged firm will continue to face the wide variety of competitors and the industry conditions that make it unlikely that the transaction will significantly harm competition. In addition, the sophistication of business customers and complexity of business services make it unlikely that the proposed transaction will adversely affect competition.

Special Access Services

15. AT&T is one of many firms that operate metropolitan fiber networks in BellSouth's region. Further, AT&T's deployment of local fiber in the BellSouth region is quite limited. AT&T has deployed local fiber networks in only 11 metropolitan areas and that fiber is connected to fewer than 350 locations, including fewer than 200 buildings that do not include network facilities.[8] This figure is substantially lower than the number of buildings AT&T served

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8. Network facilities include BellSouth local serving offices, AT&T local nodes, regeneration facilities or points of presence for either AT&T or other interexchange carriers.

in the legacy SBC region at the time of the SBC/AT&T merger. Further, the data available to date indicate that other competitive carriers have deployed fiber to about half of these locations. After an extensive analysis of various market facts and circumstances in investigating the SBC/AT&T merger, the FCC and DOJ raised narrow competitive concerns only for a subset of the buildings in which AT&T was the only competitive carrier providing such service. Based on our initial analyses in this proceeding, there are many fewer such buildings in the BellSouth region. Indeed, we believe any impact on competition would be de minimis.

16. The transaction also raises no significant concerns about harm to competition in the provision of "Type II" special access services (which reflect wholesale special access sales provided in part over the ILEC's facilities). AT&T has de minimis sales of Type II special access services in the BellSouth region. Available data also indicate that a wide variety of CLECs have collocated equipment and have deployed fiber networks in the metropolitan areas served by AT&T. The FCC recognized in its SBC/AT&T Order that, under these circumstances, the merger of an ILEC and AT&T raises no competitive concerns regarding Type II special access services.

Competition Issues raised by ILEC/ILEC Mergers

17. The concerns expressed by the FCC regarding the potential for consumer harm from mergers of large ILECs, including the 1999 mergers of SBC/Ameritech and Verizon/GTE, are not applicable today:

- While the FCC previously expressed concern that mergers of large ILECs would increase the incentive to use the "bottleneck" monopoly to engage in technical discrimination against CLECs, a wide variety of CLECs have entered and expanded their networks in recent years. We are aware of no evidence to support the concern expressed by the FCC in prior years that ILEC mergers lead to greater discrimination. Moreover, the successful opening of local markets and increased intermodal competition from cable, over-the-top VoIP and wireless services, among other factors, undermine even the theoretical rationale for the concern suggested by the FCC over five years ago.

- While the FCC also expressed concerns in earlier mergers that ILEC mergers would reduce regulators' ability to evaluate the ILECs' performance, changes in industry conditions have greatly mitigated any such concerns. As a result of the Section 271 approval process, regulators have developed and implemented a variety of measures of ILEC performance for monitoring issues that were the subject of the FCC's prior concerns. Finally, the increased competition faced by ILECs reduces the economic importance of regulatory benchmarks.
- While the FCC also expressed concern in 1999 that the merger of SBC and Ameritech would eliminate a "potential entrant" into the provision of mass market services in each other's territory, BellSouth has no plans to provide mass market services outside its home region. AT&T also has no plans to deploy additional facilities to serve mass market customers in BellSouth's region and, as discussed later, has only a limited customer base for its over-the-top VoIP service.

Outline of Declaration

18. The remainder of this declaration is organized as follows:

- Section III provides background information on the FCC's evaluation of the impact on competition of the SBC/AT&T and Verizon/MCI transactions, which addressed many of the same arguments opponents may raise in the proposed transaction. We also discuss recent evidence regarding the industry trends identified in the FCC's Orders.

- Section IV summarizes consumer benefits and efficiencies resulting from the proposed transaction.
- Section V analyzes the impact of the proposed transaction on competition in the provision of mass market services.
- Section VI analyzes the impact of the proposed transaction on competition in the provision of retail business services.
- Section VII analyzes the impact of the proposed transaction on competition in the provision of special access services.
- Section VIII evaluates the concerns expressed by the FCC in 1999 that mergers of large ILECs may harm competition.

III. BACKGROUND ON THE PROPOSED TRANSACTION AND COMPETITION IN TELECOMMUNICATIONS

A. BACKGROUND ON MERGING PARTIES

1. AT&T Inc.

19. The "new" AT&T Inc. was created in late 2005 through the merger of AT&T Corp. and SBC Communications Inc. It combines the ILEC operations in SBC's 13-state service territory with legacy AT&T's extensive national and international long distance telecommunications networks and metropolitan area fiber networks in a number of cities both inside and outside BellSouth's territory. AT&T provides a variety of telecommunications services to mass market and business customers nationwide.

20. AT&T offers mass market customers in its ILEC footprint various services including local and long distance voice service and DSL Internet access. Outside of its ILEC territory, including the areas served by BellSouth, AT&T is no longer marketing traditional voice services to mass market consumers. AT&T is offering "AT&T CallVantage," an "over-the-top" VoIP service with a limited customer base.

21. AT&T provides voice and data services primarily to business customers across the United States. AT&T also provides special access services within its ILEC service area to wholesale customers (and to a very limited extent in areas outside its ILEC service territory where it has deployed competitive facilities) as well as to AT&T divisions that provide retail business services.

2. BellSouth

22. BellSouth is an ILEC with service territories in 9 states. It provides wireline voice services to mass market customers (including local and long distance services) as well as mass market data services (including DSL Internet access). BellSouth also provides a variety of voice and data services to business customers throughout its region. Roughly 75 percent of BellSouth's retail wireline revenue is from mass market customers with the remainder coming from business customers.[9] Roughly 68 percent of BellSouth's (non-Cingular) revenue is from voice services, with the remainder coming from data and other services.[10]

3. Cingular

23. Cingular is a wireless joint venture owned by AT&T Inc. and BellSouth. AT&T has a 60 percent ownership interest and BellSouth has the remaining interest. Each company has equal representation on the Cingular board and an equal voting interest.[11]

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9. Deutsche Bank, "The RBOCs' Balancing Act," November 14, 2005, p. 8.
10. BellSouth Corporation Form 10-K, December 31, 2005, p. 28.
11. Cingular Wireless LLC Form 10-K, December 31, 2005, p. 3.

B. COMPETITIVE CONDITIONS AND THE FCC'S REVIEWS OF THE SBC/AT&T AND VERIZON/MCI MERGERS

24. Like the recently completed SBC/AT&T and Verizon/MCI mergers, the proposed transaction combines a regional ILEC (BellSouth) with a major national carrier (AT&T) that operates both inside and outside the ILEC's territory. Thus, the transaction is subject to the same competitive analysis that the FCC applied in the AT&T/SBC and Verizon/MCI transactions. The transaction also has the potential to generate substantial consumer benefits similar to those identified by the FCC in the SBC/AT&T and Verizon/MCI transactions.

25. The FCC conducted full reviews of the AT&T/SBC and Verizon/MCI mergers. The Commission came to conclusions that were very similar to those expressed in our declarations and approved the transactions subject to limited conditions. The FCC's Orders highlighted the increase in recent years of the competitiveness of a variety of telecommunications services. The FCC's Orders also highlighted the public interest benefits that are likely to be generated by mergers of ILECs and national carriers. This section briefly reviews the FCC's evaluation of competitive conditions for the services analyzed in this declaration and provides some information updating trends discussed by the FCC. We also briefly summarize the FCC's conclusions regarding efficiencies likely to be generated by mergers of ILECs and long distance carriers.

26. Additional analysis of efficiencies from the proposed transaction is presented in Section IV below, and additional analysis of the impact of the proposed transaction on competition is presented in Sections V-VIII below.

1. Mass Market Services

27. The FCC's Orders in the SBC/AT&T and Verizon/MCI mergers recognize that ILECs now face significant competition in the provision of local and long distance voice services

from a variety of sources. These include VoIP services provided by cable companies, "over-the-top" VoIP services, and wireless services. As the FCC notes:

> … SBC faces competition from a variety of providers of retail mass market services. These competitors include not only wireline competitive LECs and long distance service providers but also, to at least some extent, facilities-based and over-the-top VoIP providers, and wireless carriers.[12]

28. More specifically, the FCC found that cable companies provide bundles of voice, video and Internet access services and that "SBC … considers the prospect of consumer substitution to cable-based VoIP when devising its strategies and service offers."[13] The FCC also noted that "growing numbers of subscribers in particular segments of the mass market are choosing mobile wireless service in lieu of wireline local services."[14]

29. Foremost, as discussed in more detail in Section V below, the FCC recognized that "prior to the announcement of the merger, AT&T was not exerting significant competitive pressure on SBC within SBC's own region."[15] Noting the growth of competitive alternatives for mass market consumers, the FCC correctly concluded that "the merger will not likely have anticompetitive effects in the mass market."[16] The FCC therefore did not impose any conditions relating to mass market services.

30. Recent comments from analysts highlight the dramatic and continuing increase in competition faced by ILECs.

- As shown in Table 3.1, Deutsche Bank projected in November 2005 that in six years, by 2012, the ILECs' customer base will drop from roughly 67 percent to less than half of households in the United States. Deutsche Bank estimates that in

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12. SBC/AT&T Order, ¶ 100. Also see Verizon/MCI Order, ¶ 101.
13. SBC/AT&T Order, ¶ 87. Also see Verizon/MCI Order, ¶ 88.
14. SBC/AT&T Order, ¶ 90. Also see Verizon MCI Order, ¶ 91.
15. SBC/AT&T Order, ¶ 3.
16. SBC/AT&T Order, ¶ 3. Also see Verizon MCI Order, ¶ 3.

2012 cable VoIP and wireless-only households will each account for roughly 20 percent of all households while non-cable VoIP providers will account for more than five percent of all households.[17]

- In forecasting ILEC line loss, Deutsche Bank in December 2005 also concluded that "…wireless will remain the prime line 'killer' (with 1.5% of [RBOC] households going wireless per quarter)."[18]
- J.P. Morgan forecast in January 2006 that between 2005 and 2010 the number of access lines provided by cable companies would increase 267 percent (to more than 21.5 million) and that the number of access lines served by non-cable VoIP would grow to 4.4 million, an increase of over 200 percent.[19]
- The credibility of "over-the-top" VoIP services is further reflected in market valuations of these services. In September 2005, eBay agreed to acquire Skype, a service now used largely to make computer-based phone calls, for approximately $2.5 billion.[20]

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17. Deutsche Bank, "The RBOCs' Balancing Act," November 14, 2005, p. 17.
18. Deutsche Bank, "2006 Preview: Out with the old, in with the new," December 19, 2005, p. 3.
19. J.P. Morgan, "Telecom Services / Wireline, State of the Industry: Consumer," January 13, 2006, p. 10.
20. Skype Press Release, "eBay Completes Acquisition of Skype," October 14, 2005.

Table 3.1

US Telecom Households
(Millions)

	2006		2009		2012	
	HH	**Share**	**HH**	**Share**	**HH**	**Share**
Non-ILECs						
Wireless Only	16.2	15%	21.6	19%	24.6	21%
Cable Telephony	8.5	8%	20.3	18%	24.4	21%
Non-Facilities VoIP	3.0	3%	5.7	5%	7.3	6%
Other	8.5	8%	3.5	3%	3.5	3%
Non-ILECs Total	**36.2**	**33%**	**51.1**	**45%**	**59.8**	**50%**
ILECs	**74.4**	**67%**	**63.4**	**55%**	**58.8**	**50%**
Total	**110.6**	**100%**	**114.5**	**100%**	**118.6**	**100%**

Source: Deutsche Bank, November 14, 2005, p.17

31. These projections are consistent with the reality that AT&T and BellSouth are continuing to lose large numbers of access lines. In the second half of last year alone, AT&T's ILEC operations lost more than 1,600,000 access lines while BellSouth lost over 750,000 lines.[21]

2. Retail Business Services

32. The FCC's decisions in the SBC/AT&T and Verizon/MCI transactions also correctly recognized the increasing competition in the provision of telecommunications services to business customers. In the FCC's words:

> We find that competition for medium and large business customers should remain strong after the merger because medium and large enterprise customers are sophisticated, high-volume purchasers of communications services that demand high-capacity

21. Based on "total switched access lines" for AT&T, and "total access lines in service" for BellSouth. SBC 10-Q, 2nd Quarter 2005; AT&T 2005 Annual Report; http://www.bellsouth.com/investor/xls/Financial_Statements_by_Quarter_012506.xls.

> communications services, and because there will remain a significant number of carriers competing in the market.[22]
>
> [T]here are numerous categories of competitors providing services to enterprise customers. These include interexchange carriers, competitive LECs, cable companies, other incumbent LECs, systems integrators, and equipment vendors.[23]

33. While recognizing that SBC and AT&T competed for some business customers, the FCC concluded that "the merger will not likely have anticompetitive effects for enterprise customers."[24] This same analysis and conclusions are applicable to this transaction.

34. Recent comments from analysts highlight the continuing competitiveness of the provision of business services.

- Deutsche Bank, for example, noted in December 2005 that "… the market still contains a robust group of demand-hungry competitors in the long-haul space and among systems integrators, such as Cisco, IBM, EDS, Sprint, [Level 3] and a re-invigorated [Qwest]."[25]
- CIBC World Markets noted in October 2005 that, "on the wireline front, the main question that we get is on the enterprise side and what's going on with the pricing and volume growth there. […] [W]e've been in a very difficult pricing environment for much of the enterprise markets for the last four or five years. There was way too much supply on hand, particularly long distance…"[26]

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22. SBC/AT&T Order, ¶ 56. Also see Verizon/MCI Order ¶ 3.
23. SBC/AT&T Order, ¶ 64. Also see Verizon/MCI Order ¶ 64.
24. SBC/AT&T Order, ¶ 3. Also see Verizon/MCI Order, ¶ 3.
25. Deutsche Bank, "2006 Preview: Out with the old, in with the new," December 19, 2005, p. 16.
26. The Wall Street Transcript, "Special Focus: Telecom Services," October 10, 2005.

3. Special Access

35. Legacy AT&T had deployed local fiber networks in 19 SBC metropolitan areas that connected to about 1,700 commercial buildings (in addition to roughly 750 non-commercial locations). Ultimately, the DOJ required divestiture, via the granting of indefeasible rights of use to certain lateral connections, with respect to about 380 of these buildings, where AT&T and SBC were "the only firms that own or control a direct ["Type I"] wireline connection to the building"[27] and where CLEC entry was deemed unlikely. The FCC concurred with the DOJ consent decree which required that AT&T divest rights in fiber in a subset of buildings where AT&T "was the sole CLEC with a direct connection to the building and where DOJ found entry unlikely."[28] We understand the DOJ's evaluation of the likelihood of entry was based in part on the proximity of numerous other fiber providers to a building and estimates of bandwidth demand in the building.[29]

36. More generally, the FCC recognized that only limited divestiture was required in light of the widespread deployment of metropolitan fiber rings and other facilities by CLECs in recent years. Based in part on a review of the extent of CLEC collocations and maps of fiber networks deployed by CLECs, the FCC concluded that the proposed transaction did not harm competition in the provision of "Type II" special access services (in which CLECs make some use of ILEC facilities in providing service). The FCC did not impose any conditions relating to Type II special access services. The FCC concluded:

> In summary, within SBC's region, we find that, collectively, other competing carriers have more fiber and many more collocations than does AT&T. In the limited number of MSAs where AT&T has local facilities in the SBC region, AT&T represents less than **[REDACTED]** percent of the competitive collocations. Moreover,

27. SBC/AT&T Order, ¶ 40. Also see Verizon/MCI Order ¶ 40.
28. See SBC/AT&T Order, ¶ 40; DOJ Competitive Impact Statement, USA vs. SBC and AT&T, November 16, 2005, pp. 7-8.
29. DOJ, Tunney Act Comments, 1:05CV02102 (EGS), March 21, 2006, at 23.

> the record clearly shows that AT&T's collocations are located exclusively in MSAs with many other competitive collocations. Therefore, we conclude the elimination of AT&T as a provider of Type II wholesale special access services should not have an appreciable effect on the price or availability of Type II wholesale special access services.[30]

37. Recent analyst comments demonstrate the increased competition faced by ILECs today in the provision of special access services. Deutsche Bank concluded that "[t]his market is wrecked by continuing price erosion, caused not only by bankrupt or newly emerged-from-bankruptcy CLECs, but also increasing product shift away from private lines and towards broadband and metro ethernet."[31] This conclusion reflects the economic reality that, despite CLEC reorganizations or other ownership changes, "sunk" investments in fiber capacity remain available and competitively significant.

4. Efficiencies

38. The FCC concluded that the SBC/AT&T merger is likely to generate a wide variety of public interest benefits, including: (i) improving national security; (ii) enabling the merged firm to offer new services to a broad range of customers; (iii) enabling the merged firm to realize economies of scale and scope; (iv) increasing incentives to invest in research and development; and (v) generating cost savings. In the FCC's words:

> We take considerations of national security extremely seriously, and we feel that the merger has the potential to generate benefits arising from more efficient routing. Additionally, we believe that the combined, nonoverlapping, IP networks can provide the government with additional security and routing efficiency for vital and sensitive government communications.[32]
>
> We find that the merger will permit the integration of the complementary networks and assets of SBC and AT&T, giving each carrier facilities it previously lacked. We further find that this

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30. SBC/AT&T Order, ¶ 47. Also see Verizon/MCI Order, ¶ 47.
31. Deutsche Bank, "The RBOCs' Balancing Act - Finding Enough Cash to Pay Dividend," November 14, 2005, p. 28. This trend is confirmed in studies performed for BellSouth.
32. SBC/AT&T Order, ¶ 186. Also see Verizon/MCI Order, ¶ 197.

> network integration will permit the merged entity to offer a wider range of services to its broad range of customers. Moreover, customers will benefit not only from new services, but also from the improvements in performance and reliability resulting from the network integration.[33]
>
> We find that the merger of SBC and AT&T is likely to give rise to significant economies of scope and scale, as well, although these are difficult to quantify.[34]
>
> We agree with the Applicants that, by broadening its customer base, the merged entity will have an increased incentive to engage in basic research and development.[35]
>
> [W]e credit certain cost reductions as benefits resulting from the merger. […] We reject commenters' assertions that the cost savings of headcount reductions will produce no cognizable benefits.[36]

39. As discussed further below, the FCC's analysis of the public interest benefits from integration of an ILEC with a national carrier also applies to the merger of AT&T and BellSouth.

IV. THE PROPOSED TRANSACTION IS LIKELY TO GENERATE SIGNIFICANT CONSUMER BENEFITS.

40. The FCC concluded in its SBC/AT&T and Verizon/MCI orders that mergers between ILECs and national network operators that provide complex business services can generate significant consumer benefits. As noted in Section III, the FCC concluded that these transactions likely benefit the public by: (1) improving national security by increasing network reliability; (2) enabling the merged firm to offer new services to a broader range of customers; (3) enabling the merged firm to realize economies of scale and scope; (4) increasing the merged firms' incentive to invest in research and development; and (5) generating cost savings.[37]

33. SBC/AT&T Order, ¶ 191. Also see Verizon/MCI Order, ¶ 203.
34. SBC/AT&T Order, ¶ 193. Also see Verizon/MCI Order, ¶ 205
35. SBC/AT&T Order, ¶ 195. Also see Verizon/MCI Order, ¶ 207.
36. SBC/AT&T Order, ¶¶ 196, 201. Also see Verizon/MCI Order, ¶¶ 208, 211.
37. SBC/AT&T Order, ¶¶ 182-204. Verizon/MCI Order, ¶¶ 193-214.

41. This proposed transaction likewise combines an ILEC (BellSouth), with AT&T's national network and expertise in providing complex business services. Thus, much of the FCC's analysis of the benefits of the previous transaction would be expected to apply to the current transaction. This section summarizes significant additional efficiencies that the merger of AT&T and BellSouth is expected to yield that are specific to the proposed transaction and merging parties.

A. THE TRANSACTION UNIFIES THE OWNERSHIP OF CINGULAR AND MAKES IT A MORE EFFECTIVE COMPETITOR.

42. Cingular is a joint venture between AT&T and BellSouth. AT&T has a 60 percent equity interest but AT&T and BellSouth have equal voting interests in Cingular. Cingular's operations are not integrated with those of either AT&T or BellSouth, rather it is maintained as a separate, stand alone entity with its own networks, headquarters and staff.[38]

43. While Cingular has been highly successful, its structure as a joint venture requires that a wide variety of strategic and operational decisions be approved by both AT&T and BellSouth.[39] The increased complexity of the decision making process attributable to the joint venture structure increases the complexity and timing for Cingular to respond to the rapid changes in the technological and business environment faced by wireless carriers.

44. While joint ventures can have efficiency enhancing effects, a variety of studies have noted that divergent interests in joint ventures commonly create conflict and other organizational inefficiencies. For example:

38. Declaration of James S. Kahan, ¶ 44.
39. Declaration of James S. Kahan, ¶ 18.

> Since the interests of parent firms do not fully overlap and are often in conflict, JV managers live a precarious existence, trying to represent the interests of their respective parent firms while attempting to make the complex relationship of a JV work.[40]

45. Despite its success, Cingular has not been immune from such issues. For example, as explained in the Declaration of Christopher Rice, coordination problems have slowed the development of IMS-based "dual mode" services, where a handset can seamlessly access a broadband IP connection and home and transfer to the Cingular network outside the home. As a result, T-Mobile is rolling out this service before Cingular, although T-Mobile's development efforts began after Cingular's.[41]

46. AT&T also estimates that integration of Cingular's IP network and the IP networks of AT&T and BellSouth are expected to generate significant cost savings.[42] The inability of SBC and BellSouth to realize these efficiencies in the absence of the proposed merger is another aspect of this coordination problem.

47. From its formation, Cingular has operated as a standalone enterprise, with staff and networks that are fully independent of its parents. As explained in the Declaration of James S. Kahan, Cingular's history of operating independently from its parents has complicated the process of implementing even significant cost savings measures that could be achieved through closer integration with its parents.[43]

48. The economics literature recognizes that improved coordination is a frequent impetus for vertical integration and mergers.[44] The desire to achieve such results at Cingular and

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40. Mike Peng and Oded Shenkar, "Joint Venture Dissolution as Corporate Divorce," 16 Academy of Management Executive 92 (2002) 92.
41. Declaration of Christopher Rice, ¶ 28.
42. Declaration of Christopher Rice, ¶¶ 18-19.
43. Declaration of James S. Kahan, ¶¶ 18, 21.
44. See, for example, Dennis Carlton and Jeffrey Perloff, Modern Industrial Organization, (4th edition, 2005), p. 403 ("The fourth transaction-cost reason to vertically integrate is to facilitate extensive coordination …").

to realize cost savings is a significant factor motivating this proposed transaction, which enables the three firms to more fully integrate their networks, staff, and marketing efforts.

B. THE TRANSACTION WILL BENEFIT CONSUMERS BY ACCELERATING THE DEPLOYMENT OF NEW SERVICES.

49. As discussed in the Declarations of James S. Kahan and Christopher Rice, the proposed transaction will enable AT&T, Cingular and BellSouth to integrate the three networks that the firms now operate. Such integration further will enable the combined company to implement new technologies based on a common standard. For example, AT&T, Cingular and BellSouth are all in the process of implementing the IP Multimedia Subsystem (IMS), a new technology that integrates the transmission of voice, data and video traffic. Each firm, however, is implementing a different version of IMS and, in the absence of the transaction, further time and cost will be necessary to make them fully interoperable.[45] The transaction will enable the merged firm to integrate the networks with a common infrastructure that will better support integrated services.

50. As a result, the transaction is expected to enable or accelerate the roll-out of new and advanced services, particularly those that rely on IMS. For example, as explained in the Christopher Rice declaration, the integrated IMS-based networks will be able to deliver streaming video content to each of “three screens” – television, personal computer and wireless handset.[46]

45. Declaration of Christopher Rice, ¶¶ 24-27.
46. Declaration of Christopher Rice, ¶ 21.

C. THE PROPOSED TRANSACTION ENABLES THE MERGED FIRM TO MORE EFFECTIVELY MARKET WIRELESS SERVICES

51. The proposed transaction is also expected to facilitate the marketing of wireless services to both mass market and business customers, and AT&T's plans to integrate marketing of wireless services with other mass market and business offerings.[47]

52. For the mass market, the merged firm will also be better able to offer bundles of wireless, wireline, Internet and eventually video services. These would include service plans with a single bucket of minutes and a flat monthly charge covering multiple access devices, such as a wireless handset and a landline. The proposed transaction eliminates impediments to developing innovating marketing strategies involving wireless services. Such bundles enable customers to have a single point of contact for a broader range of services. The FCC has recognized that such types of joint marketing and "one stop shopping" can result in benefits to consumer.[48]

53. The transaction will also result in large savings in wireless marketing expenses.

D. THE TRANSACTION WILL BENEFIT CONSUMERS BY ENABLING THE ACCELERATED DEPLOYMENT OF IPTV IN BELLSOUTH'S REGION.

54. As explained in the accompanying Declarations of James S. Kahan and William L. Smith, the proposed transaction will also enable the accelerated deployment of IPTV services in BellSouth's region. AT&T has been working actively both (i) to deploy fiber more deeply into its network and (ii) to use this infrastructure to provide IPTV services.[49] BellSouth, by contrast, has been working actively to deploy fiber more deeply into its network, but has not

47. Declaration of James S. Kahan, ¶ 43.
48. See Bell Atlantic/NYNEX Order, August 14, 1997, ¶112. "[There is a] consumer benefit associated with bundling – a form of one-stop shopping – which is considered desirable by many customers."
49. Declaration of James S. Kahan, ¶ 14.

made a decision as to whether or when to offer video services.[50] Absent the merger, it is not certain that BellSouth would choose to offer video services at all.[51]

55. The merger would enable the combined company to accelerate the deployment and reduce the costs that BellSouth would have faced had it ultimately decided to go forward with IPTV services.[52] More specifically, the merged firm would avoid the time and expense necessary to develop a variety of equipment and services related to IPTV provision that AT&T has already developed or is well along in developing. These include operations support systems, "super hub" facilities, and the negotiation of carriage agreements with providers of video programming.[53] AT&T has already spent a year and a half negotiating with video programming suppliers contracts for content, considered by analysts to be a complicated and time consuming process for a new entrant into video services.[54] It is also well along in developing operations support systems and other technology that can be applied directly to BellSouth systems.[55]

56. The evidence is clear that additional competition in video services can provide substantial consumer benefits. For example, a variety of studies have found entry by a second wireline cable franchise (an "overbuilder") and satellite services result in higher quality and lower prices and encourages innovation and investment by cable operators.[56] Currently, however, the vast majority of cable consumers do not have access to service by an overbuilder, and the academic evidence indicates that the principal beneficiaries of direct broadcast satellite (DBS) entry have been consumers purchasing premium services. We understand that IPTV will

50. Declaration of William L. Smith, ¶ 9.
51. Declaration of William L. Smith, ¶ 14.
52. Declaration of William L. Smith, ¶ 4.
53. Declaration of William L. Smith, ¶¶ 15-19. Declaration of James S. Kahan, ¶¶35-36.
54. Bernstein Research Call, "Telecom, Cable and Satellite Operators Brace for the Couch Potato Wars," June 2005, p. 29. See also Declaration of James S. Kahan, ¶ 36.
55. Declaration of James S. Kahan, ¶ 35.
56. FCC, "Report on Cable Industry Prices," MM Docket No. 92-266, 2005, ¶ 12, which reported that cable rates were lower in geographic markets with "overbuilders" present.

target subscribers to both basic and premium services and thus promises to bring significant consumer benefits to both groups.

57. We briefly summarize the results of various studies of these issues below.

1. Early evidence based on IPTV rollouts

58. Although companies are only beginning to deploy IPTV, there is evidence that video prices are already falling in those areas where IPTV has been deployed. For example, a recent survey by Bank of America found that incumbent cable companies were offering price cuts of 28 to 42 percent in areas where Verizon was rolling out its fiber-to-the-home IPTV service.[57]

59. Analysts have further noted Verizon's early success in attracting customers to its new video service. As one analyst noted, "[i]n its initial Keller, TX market, Verizon's video service has reached 21 percent [video] penetration after only four months of availability."[58]

2. Evidence based on entry by "overbuilders"

60. Several studies have analyzed the impact of head-to-head competition between terrestrial cable companies in the limited number of areas in which there are "overbuilds."

- In a 2005 study, the FCC found that monthly cable rates in January 2004 were 15.7 percent lower in geographic markets where incumbent cable operators faced

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57. Bank of America Equity Research, "Battle for the bundle: consumer wireline services pricing," January 23, 2006 (cited in Phoenix Center Policy Bulletin No. 13, George Ford and Thomas Koutsky, January 2006, at 3). See also, "Verizon fires first shot in battle with Charter for TV customers," St. Louis Post-Dispatch, September 24, 2005, which reported that the incumbent cable company (Charter) lowered its digital cable and high-speed Internet subscription prices after Verizon began providing IPTV service in Keller, Texas.
58. SG Cowen & Co., "RBOC Rally: Signs of a Brighter Future, or Path to Inevitable Decline?" March 17, 2006, p. 9.

competition from a wireline overbuilder relative to geographic markets defined by the FCC to be "non-competitive."[59]

- A 2005 study of video services industry prices by the GAO "did not find that DBS companies' provision of local broadcast stations is associated with lower cable prices." But they did find "that cable prices were approximately 16 percent lower in areas where a second cable company – known as an overbuilder – provides service."[60]

3. Evidence based on DBS entry

61. Austan Goolsbee and Amil Petrin (2004) examine the effect of competition from DBS on basic and premium cable TV prices and quality. They also estimate the demand for alternative TV services (antenna-only, expanded basic cable, premium cable, and satellite TV) and find that DBS entry resulted in a total gain in consumer welfare due to lower prices and higher quality of about $4 billion for the consumers that stay with cable.[61] In addition, they estimate that DBS entry also results in significant welfare gains to consumers that purchased DBS services. Finally, they find that DBS is a closer substitute for premium cable than for the most popular "expanded basic" cable packages.

59. FCC, "Report on Cable Industry Prices, In the Matter of Implementation of Section 3 of the Cable Television Consumer Protection and Competition Act of 1992," MM Dkt. No. 92-266 (2005), ¶ 12.
60. GAO, "Direct Broadcast Satellite Subscribership has Grown Rapidly, but Varies across Different Types of Markets," Report to the Subcommittee on Antitrust, Competition Policy and Consumer Rights, Committee on the Judiciary, U.S. Senate, GAS-05-257 (2005), ¶ 33..
61. A. Goolsbee and A. Petrin, "The Consumer Gains from Direct Broadcast Satellites and the Competition with Cable TV," 72 Econometrica 351 (2004) 377.

4. Summary

62. Currently, only 2 percent of communities have access to more than one wireline video provider (in addition to access to DBS services).[62] The available research indicates that the deployment of IPTV will lead to further decreases in price and increases in service quality for consumers of both basic and premium video services. Thus, the acceleration in the deployment of IPTV benefits consumers by bringing these benefits to consumers more quickly than would occur in the absence of the proposed transaction.

63. Furthermore, AT&T's Lightspeed network will enable it to offer a video service that is new and substantially different from cable TV and DBS. As described in the Declaration of James S. Kahan, IPTV service will not face the same capacity limitations on the amount of programming it can make available to consumers that cable has. As a result, IPTV is expected to enable AT&T to offer new niche services such as foreign language and ethnic programming.[63]

E. THE MERGER IS EXPECTED TO RESULT IN SIGNIFICANT COST SAVINGS.

64. The parties have estimated cost savings to be more than $2 billion annually.[64] These savings are similar in nature to those resulting from the SBC/AT&T merger, except that the transaction enables three organizations and networks (AT&T's, BellSouth's and Cingular's)

62. GAO, "Wire-Based Competition Benefited Consumers in Selected Markets," GAO-04-241, February 2004, p. 7.
63. Declaration of James S. Kahan, ¶ 37.
64. Declaration of James S. Kahan, ¶ 42.

to be integrated instead of two. In total, AT&T estimates that the proposed merger will generate savings with a present value in excess of $16 billion.[65]

65. As summarized in the Declaration of James S. Kahan, these savings reflect both personnel savings (on headquarters operations, network and operations staff, including network planning and engineering, network support, billing, and network operations); reductions in operating costs by moving traffic from third parties networks onto the integrated company's network; and other reductions in network expenses.[66]

66. AT&T has had initial success at achieving cost savings and other integration benefits from the SBC/AT&T merger.[67] Most recently, AT&T informed investors that the expected cost savings from the SBC/AT&T merger will exceed those originally forecasted by $3 billion.[68]

F. OTHER EFFICIENCIES

1. Disaster Relief

67. The transaction combines the disaster recovery capabilities of AT&T and BellSouth. For example, BellSouth has developed expertise in dealing with hazardous materials, while AT&T has developed develop disaster recovery teams with mobile emergency

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65. In its SBC/AT&T decision, the FCC concluded that benefits that "occur in the distant future may be discounted or dismissed because, among other things, predictions about the more distant future are inherently more speculative than predictions about events that are expected to occur closer to the present." (¶ 198) However, AT&T's synergy analysis here, as before, already discounts estimates of future cash savings and thus yields economically appropriate estimate of the present value of savings associated with the proposed transaction. Limiting the synergy calculation to a fixed time horizon will systematically understate the savings expected from the transaction.
66. Declaration of James S. Kahan, ¶ 45.
67. Declaration of James S. Kahan, ¶ 40.
68. "[T]he net present value of AT&T merger synergies is now expected to be approximately $18 billion, versus its January 2005 estimate of $15 billion." AT&T press release, "AT&T Updates Outlook on Merger Synergies," January 31, 2006.

communications capabilities.[69] Placing all disaster recovery resources under one management is expected to allow the merged company to respond more effectively in such circumstances.[70]

2. Research and Development

68. The FCC's SBC/AT&T Order, as well as our prior declarations, concluded that the SBC/AT&T merger would create greater incentives for the merged firm to invest in research and development.[71] This is due in part to the ability of the merged company to reap the rewards of innovation over a larger customer base. Indeed, as reflected in the Declaration of Christopher Rice, AT&T has accelerated various research and development projects, helping make innovative services available sooner.[72] The same types of efficiencies are present in this transaction as well.[73]

V. THE TRANSACTION WILL NOT HARM COMPETITION IN THE PROVISION OF MASS MARKET SERVICES

A. DESCRIPTION OF SERVICES

69. AT&T and BellSouth provide a variety of voice and data services to mass market customers, which include both residential as well as very small business customers. While AT&T still provides mass market services in BellSouth territory to its legacy customer base, legacy AT&T ceased active marketing of traditional mass market services in mid-2004. As discussed below, this strategy has not changed since the SBC/AT&T merger closed. The FCC recognized in its SBC/AT&T Order that, as a result of these actions, AT&T no longer constrains the pricing of mass market services.[74]

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69. Declaration of William L. Smith, ¶ 34. Declaration of Christopher Rice, ¶ 38.
70. Declaration of William L. Smith, ¶¶ 29-30.
71. SBC/AT&T Order, ¶ 195; Carlton/Sider Declaration (February 12, 2005), ¶¶ 35-37.
72. Declaration of Christopher Rice, ¶ 29.
73. Declaration of Christopher Rice, ¶ 30.
74. SBC/AT&T Order, ¶ 3.

70. This section updates the analysis presented in our declarations on behalf of SBC/AT&T and Verizon/MCI regarding mass market competition. We show that the early experience following the merger of SBC and AT&T confirms the FCC's conclusions, as well as those we previously expressed, that neither those transactions nor the pending BellSouth transaction will harm mass market consumers.

1. AT&T Mass Market Services

71. Mass market services accounted for roughly 23 percent of legacy AT&T's revenues in the third quarter of 2005.[75] Roughly 62 percent of AT&T consumer services revenue in the third quarter of 2005 is from "stand alone long distance" (SALD) customers that do not obtain local service from AT&T while 38 percent is from subscribers that purchase a local/long distance bundle.[76] The local component of such bundles reflects ILEC network elements or services that are resold by AT&T.

72. AT&T has an "over-the-top" VoIP service called "AT&T CallVantage." The service is provided over a broadband Internet connection, with calls transmitted through the public Internet which then interconnects with the public switched network. AT&T CallVantage currently has fewer than 80,000 subscribers, of which fewer than 14,000 are located in states serviced by Bell South.[77]

2. BellSouth

73. BellSouth provides local and long distance voice services as well as broadband Internet access services to in-region mass market consumers. Consumer and small business services account for 57 percent of BellSouth's traditional wireline revenues.[78]

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75. AT&T 10-Q, September 30, 2005, p. 16.
76. AT&T 10-Q, September 30, 2005, p. 16.
77. Declaration of James S. Kahan, ¶ 51.
78. BellSouth, 10-K for 2005, p. 4.

- BellSouth's provision of local voice services remains subject to price regulation in each of the nine states in which it operates.
- BellSouth won permission to provide long distance service in each of its states in 2002.[79]
- BellSouth provides DSL service throughout most of its territory. FCC data indicate that DSL accounts for 42 percent of broadband subscriptions in BellSouth's 9 state region.[80]

74. BellSouth offers each of these services on a standalone basis or in various bundles, including "all-distance" bundles that include both local and long distance services. BellSouth also recently announced plans to offer to residential customers a "private label" VoIP service in conjunction with 8x8 (a national VoIP provider).[81]

B. THE FCC HAS RECOGNIZED THAT MERGERS BETWEEN ILECS AND AT&T ARE UNLIKELY TO HARM COMPETITION FOR MASS MARKET CUSTOMERS.

75. The FCC recognized in its SBC/AT&T Order that legacy AT&T had ceased its marketing of traditional services to mass market consumers prior to the announcement of the firms' merger. AT&T had determined that it could no longer offer bundled local/long distance service at prices competitive with services offered by other cable companies, wireless carriers, VoIP providers and ILECs, and thus commenced plans to withdraw from the provision of mass market services.

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79. See http://www.fcc.gov/Bureaus/Common_Carrier/in-region_applications/. The FCC grants such authority after determining that the ILEC has "taken the statutorily required steps to open its local exchange markets to competition." See, for example, FCC, SBC Kansas and Oklahoma 271 Order 01-29, January 22, 2001, ¶ 1.
80. FCC, High-Speed Internet Access Services, July 2005, Tables 9 and 10 (based on households using cable and DSL). The comparable figure for legacy SBC is 47 percent.
81. BellSouth Press Release, "BellSouth Teams with 8x8, Inc. to Deliver VoIP Phone Service to Residential Customers," December 12, 2005 and Piper Jaffray, "Industry Note," February 13, 2006.

76. The FCC concluded that AT&T has ceased being a competitive constraint on mass market prices and, as a result, concluded the SBC/AT&T merger did not harm mass market competition in SBC's ILEC territory. The FCC also cited the rapid growth in intermodal competition for mass market services.

77. More specifically, the FCC concluded:

> … we find that SBC's acquisition of AT&T is not likely to result in anticompetitive effects for mass market services due to AT&T's actions to cease marketing and gradually withdraw from providing local service, long distance service and bundled local and long distance service to the mass market. We also conclude that competition from intermodal competitors is growing quickly, and we expect it to become increasingly significant in the years to come.[82]
>
> Thus, we agree with the Applicants that AT&T ceased being a significant participant in this market. We note that the record evidence further indicates that SBC's current and future pricing incentives are based more on likely competition from intermodal competitors and the remaining competitive LECs.[83]
>
> [O]nce AT&T determined that [its] mass market services were no longer a viable business opportunity, it implemented steps to close down its mass market operations in an orderly fashion, and there is no indication that, absent the merger, AT&T would reverse this decision.[84]

78. The FCC's analysis and conclusion apply to the proposed transaction, which again combines an ILEC with legacy AT&T. As summarized below, data on recent events and the early post-merger experience confirm the FCC's conclusion.

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82. SBC/AT&T Order, ¶ 101.
83. SBC/AT&T Order, ¶ 103.
84. SBC/AT&T Order, ¶ 103.

C. POST-MERGER EVENTS CONFIRM THE FCC'S COMPETITIVE ANALYSIS

1. BellSouth continues to experience significant loss in access lines to intermodal competitors.

79. As noted in Section III, ILECs face rapidly growing competition from intermodal competitors, including VoIP services provided by cable operators, over-the-top VoIP services and wireless carriers. Recent data indicate that these trends are continuing, if not accelerating:

- Total residential lines provided by BellSouth, including those provided under wholesale arrangements, fell by 735,000 lines between year-end 2003 and 2004 and by 1.2 million lines between year-end 2004 and 2005. Over this two-year period, the total residential line loss was approximately 2 million lines.[85]
- BellSouth is losing lines to wireless and VoIP services. According to a recent analyst report, BellSouth "indicated that wireless substitution was the primary driver of residential line losses … with 15-20% of the losses attributed to cable and VoIP competition."[86]

2. AT&T continues to execute its "harvesting strategy."

80. Since completing the SBC/AT&T merger, AT&T has continued to exercise its strategy of "harvesting" its base of mass market customers.[87] We understand that AT&T also has plans in place to implement additional elements of this strategy, which will have the effect of further eroding its customer base. These events confirm the FCC's conclusion that AT&T's decision to cease marketing of traditional services to residential customers was irreversible and that AT&T can no longer be considered a constraint on mass market pricing of other carriers.

81. Available data indicate that the number of AT&T mass market subscribers continues to decline rapidly.

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85. BellSouth, 2005 Annual Report, p. 34.
86. Baird/U.S. Equity Research, "BellSouth Corporation (BLS)," January 26, 2006, p. 4.
87. Declaration of James S. Kahan, ¶ 47.

- A January 2006 analyst report projected that residential voice revenue from legacy AT&T customers would fall by more than 50 percent between 2005 and 2007 (from $2.6 billion in 2005 to $1.3 billion in 2007) and would fall another 40 percent by 2009 (to less than $750 million).[88]
- The number of AT&T SALD mass market subscribers fell 29 percent between year-end 2004 and 2005 (from 20.4 million to 14.5 million).[89] Analysts project that overall SALD subscriber counts for all interexchange carriers will continue to fall by more than 15 percent annually from 2006 to 2010.[90]
- The number of AT&T mass market subscribers receiving bundled services fell 29 percent between year-end 2004 and 2005 (from 4.2 million to 3 million).[91] Analysts project that this figure will fall another 31 percent by year end 2006.[92]

82. We noted in our February 2005 declaration in support of the SBC/AT&T merger that the transaction would likely benefit AT&T consumers because SBC would have strong incentives to retain those customers.[93] The SBC/AT&T merger appears to be having such an effect, as 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.[94]

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88. JP Morgan North America Equity Research, "Telecom Services / Wireline," January 13, 2006, p. 60.
89. AT&T Corp. Form 10-K, December 31, 2004, p. 8; and FD Wire Transcript, "Q4 2005 AT&T Earnings Conference Call," p. 8.
90. JP Morgan North America Equity Research, "Telecom Services / Wireline," January 13, 2006, pp. 101-102.
91. AT&T Corp. Form 10-K, December 31, 2004, p. 8; and FD Wire Transcript, "Q4 2005 AT&T Earnings Conference Call," p. 8.
92. JP Morgan North America Equity Research, "Telecom Services / Wireline," January 13, 2006, p. 50.
93. See Declaration of Dennis W. Carlton and Hal S. Sider on behalf of SBC and AT&T, February 21, 2005, ¶ 54.
94. Declaration of James S. Kahan, ¶ 49.

3. AT&T is not a competitively significant provider of over-the-top VoIP services

83. As noted above, AT&T has AT&T CallVantage, an over-the-top VoIP service formerly marketed principally to mass market consumers. The service was introduced in 2004 and was evaluated by the FCC as part of its review of the SBC/AT&T merger. As noted above, BellSouth recently announced plans to utilize the capabilities of 8x8, a national VoIP provider, in providing residential VoIP services but has not yet launched this service.[95]

84. The FCC concluded that the merger of AT&T VoIP service with legacy SBC's mass market service would not harm competition due, in large part, to the small number of AT&T CallVantage subscribers. The AT&T/SBC Order states:

> AT&T has few VoIP subscribers ([REDACTED] nationwide); thus we cannot find that AT&T is a significant provider of this service. […] Given the limited significance of AT&T's provision of mass market VoIP services, we reject the concerns of commenters that the merger increases SBC's incentive or ability to discriminate against competitive VoIP offerings using its wireline and wireless facilities and operations.[96]

85. Available data indicate that AT&T CallVantage is one of many suppliers of over-the-top VoIP services. It has far fewer subscribers and is growing less quickly than Vonage. AT&T CallVantage currently has fewer than 80,000 subscribers nationally.[97] In contrast, Vonage reported on March 1, 2006 that it had exceeded 1.5 million lines in service.[98]

- While the number of AT&T CallVantage lines has grown by less than 40,000 in the past year,[99] Vonage lines grew by nearly 500,000 over the last five months

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95. BellSouth Press Release, "BellSouth Teams with 8x8, Inc. to Deliver VoIP Phone Service to Residential Customers," December 12, 2005. We understand BellSouth intends only to offer 8x8's VoIP service in BellSouth's region and that the agreement does not prevent 8x8 from offering its own service in BellSouth's territory.
96. SBC/AT&T Order, footnote 263.
97. Declaration of James S. Kahan, ¶ 51.
98. http://vonage.com/corporate/press_index.php?PR=2006_03_01_1.
99. Declaration of James S. Kahan, ¶ 51.

alone, from 1.06 million on September 30, 2005 to 1.5 million in March 1, 2006.[100]

- AT&T CallVantage is one of a large number of VoIP providers. Other firms offering over-the-top VoIP or similar services include, among others, Skype, Truevoice (Earthlink), Lingo, Voiceglo, Broadvoice, 8x8, Verizon VoiceWing, Broadfone, Broadvox Direct, VoicePulse, Net2Tel and ZingoTel.

86. In sum, recent evidence confirms that AT&T CallVantage remains a minor provider of telephony services and is just one of many firms attempting to provide over-the-top VoIP services. While BellSouth has recently announced plans to develop a service with 8x8,[101] it has not yet done so, and the merger would in any event not eliminate 8x8 as an independent VoIP provider in BellSouth's region.[102] The minor roles played by both AT&T and BellSouth as over-the-top VoIP providers provide no basis to conclude that the proposed transaction creates any potential competitive harm.

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100. SEC Form S-1 for Vonage Holdings Corp., February 8, 2006.
101. BellSouth Press Release, "BellSouth Teams with 8x8, Inc. to Deliver VoIP Phone Service to Residential Customers," December 12, 2005.
102. Declaration of Barry L. Boniface, ¶ 35.

VI. THE PROPOSED TRANSACTION WILL NOT HARM COMPETITION IN THE PROVISION OF RETAIL BUSINESS SERVICES

A. DESCRIPTION OF SERVICES

87. AT&T and BellSouth provide a variety of voice and data services to business customers in BellSouth's territory. However, there are substantial differences in the mix of services each provides and in the customers that are the focus of each company's efforts. The firms compete outside of BellSouth's region only to a very limited extent.

1. AT&T Business Services

88. In BellSouth's region, AT&T provides local and long distance voice services (including domestic and international long distance), data services (including IP-VPN, frame relay, ATM, and private lines), and managed services (including network design, maintenance, security, web hosting and desktop implementation). AT&T has become much more selective in its approach to small businesses, focusing instead on serving large business and government customers.[103]

2. BellSouth Business Services

89. BellSouth also offers a variety of services to business customers, including local voice and data service and long distance voice and data services. In contrast with AT&T, BellSouth focuses on serving smaller and medium size business customers.[104]

90. BellSouth provides business services outside its service territory on only a limited basis. BellSouth's 10-K filing with the SEC stresses its in-region focus, stating that "[o]ur business strategy is to solidify BellSouth as the leading choice of customers in the southeast for an expanding array of voice, data and Internet services."[105] BellSouth recently announced an

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103. SBC/AT&T Order, ¶ 56.
104. Declaration of Barry L. Boniface, ¶¶ 15, 23.
105. BellSouth Form 10-K, March 1, 2006, p. 4.

agreement with Sprint designed to increase its provision of business services outside of its nine-state region. As discussed below, this venture has limited goals and is not expected to make BellSouth a significant provider of business services outside of its home region.

B. THE FCC RECOGNIZED THAT MERGERS BETWEEN ILECS AND NATIONAL CARRIERS ARE UNLIKELY TO HARM COMPETITION FOR RETAIL BUSINESS CUSTOMERS.

91. Like the SBC/AT&T and Verizon/MCI transactions, the proposed merger of AT&T and BellSouth combines an ILEC and a major national carrier that compete, to at least some extent, in the provision of business services to certain customers. After a full review, the FCC concluded that those transactions did not raise significant concerns about harm to competition in the provision of business services.

92. The FCC identified a variety of competitive factors and changes in industry conditions in recent years in support of its conclusion that the AT&T/SBC and Verizon/MCI mergers will not harm competition in the provision of retail business services.[106] With respect to large enterprise customers with locations predominantly in SBC's region, the FCC concluded:

> … we find that myriad providers are prepared to make competitive offers. We further find that market share data does not reflect the rise in data service, cable and VoIP competition, and the dramatic increase in wireless usage. Foreign-based companies, competitive LECs, cable companies, systems integrators, and equipment vendors and value-added resellers are also providing services in this market.[107]

93. With respect to medium-sized and large enterprise customers with national, multilocation operations, the FCC concluded:

> Although we find [such customers] do not have as many competitive options, we nevertheless conclude that this merger is unlikely to cause competitive harm to this market. First, SBC's

106. As the FCC notes, SBC and AT&T classify both private businesses and government as retail customers. (SBC/AT&T Order, footnote 176)
107. SBC/AT&T Order, ¶ 73; also see Verizon/MCI Order, ¶ 74.

> pre-merger presence in this market is nascent, and thus, the post-merger market will have virtually as many competitors as before. Second, […] given their size and geographically-dispersed operations, these customers are highly sophisticated and negotiate for significant discounts.[108]

94. With respect to smaller business customers, the FCC concluded:

> … although small enterprise customers may not possess the same level of sophistication as their larger counterparts, we nonetheless find that the merger is not likely to result in anticompetitive effects for this group of customers. We base our conclusion largely on the fact that AT&T has ceased to market to these customers and has reduced its small enterprise business operations.[109]

95. The FCC's analysis and conclusions regarding the effect of the proposed transaction on retail customers (including businesses and governments) apply to the proposed transaction, which also combines an ILEC with AT&T. As discussed below, the extent of competition between AT&T and BellSouth in BellSouth's region is no more extensive than that between AT&T and SBC prior to its merger.

C. RETAIL BUSINESS COMPETITION BETWEEN AT&T AND BELLSOUTH IS NO MORE EXTENSIVE THAN THAT WHICH HAD EXISTED BETWEEN LEGACY AT&T AND SBC.

96. Available data confirm that retail business competition between BellSouth and AT&T in BellSouth's region is no more extensive than that observed between SBC and AT&T in SBC's region, prior to the firms' merger. Our review of data maintained by AT&T from July 2004 through September 2005 (prior to the SBC/AT&T merger) indicates that BellSouth was identified as a principal rival on AT&T opportunities in BellSouth's region with about the same frequency that SBC was identified as a rival on AT&T opportunities in its region.

97. Thus, the FCC's analysis and conclusions that the extent of competition between AT&T and SBC was not a competitive concern also apply to the proposed transaction.

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108. SBC/AT&T Order, ¶ 74; also see Verizon/MCI Order, ¶ 75.
109. SBC/AT&T Order, ¶ 76; also see Verizon/MCI Order, ¶ 77.

D. BELLSOUTH IS NOT A SIGNIFICANT PROVIDER OF RETAIL BUSINESS SERVICES OUTSIDE OF ITS REGION AND HAS NO PLANS TO SIGNIFICANTLY EXPAND ITS ROLE.

1. BellSouth rarely bids to provide retail services outside of its region

98. As noted above, BellSouth has a limited presence in the provision of business services to customers outside its nine-state region.[110] Analysts also bluntly note that BellSouth is not a significant provider of business services outside of its nine-state region. For example, in evaluating the proposed transaction, Stifel Nicolaus & Co. notes that "BellSouth has negligible out-of-region enterprise market penetration."[111]

99. While BellSouth now plays a very limited role in providing business services outside of its home region, it has no plans to significantly expand such activities.

- BellSouth recently confirmed with investment analysts that its primary focus is serving customers in BellSouth's territory. Pat Shannon, BellSouth's CFO, stated in a recent conference call with analysts that BellSouth has "a very strong network capability and product capability set in the southeast, and our goal is to focus heavily on customers that are located in the southeast."[112]
- As discussed in the Declaration of Barry L. Boniface, BellSouth is a regional carrier whose core strengths are local voice and data services. BellSouth has no plans to extend its focus beyond its region.[113]

100. While BellSouth has recently entered an agreement with Sprint to resell certain advanced data services, this is not expected to significantly increase BellSouth's ability to serve large business customers outside of its region. More specifically, BellSouth announced in

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110. Declaration of Barry L. Boniface, ¶¶ 8, 11.
111. Stifel Nicolaus & Co., "AT&T to Buy BLS," March 2006, p. 3.
112. Thomson Street Events, "BellSouth Corporation Earnings Conference Call Transcript," January 25, 2006, p. 6.
113. Declaration of Barry L. Boniface, ¶¶ 17-18.

October 2005 that it had signed an agreement with Sprint to "enable seamless connectivity for BellSouth's next generation data customers across both providers' networks" using multi-protocol label switching (MPLS).[114] As discussed in the Declaration of Barry L. Boniface, this arrangement will not provide BellSouth with the ability to compete for enterprise customers whose locations are not primarily within its region, and the financial expectations associated with the relationship are quite modest.[115]

101. Moreover, analysts have downplayed the competitive significance of this agreement. For example, Legg Mason evaluated the offering, noting that BellSouth "plans to launch MPLS [multiprotocol label switching] service in 2006 through Sprint, and likely eventually Qwest. While this helps, the company will remain deficient in offering for enterprise customers versus what [Verizon] and [AT&T] can deliver, in our opinion."[116] Legg Mason expressed doubts about the competitive significance of BellSouth's retail business operations, believing that it had "limited capabilities to win enterprise business."[117]

102. In sum, the proposed transaction raises no significant concerns regarding harm to competition in the provision of retail business services. The conditions that led to the FCC's conclusion that the SBC/AT&T and Verizon/MCI transaction did not harm competition for business customers hold with respect to the proposed transaction. Indeed, the proposed transaction appears to raise fewer concerns given BellSouth's relatively smaller role in the provision of business services compared to that of legacy SBC prior to its merger with legacy AT&T.

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114. BellSouth Press Release, "BellSouth to Launch National Business Data Service," October 10, 2005.
115. Declaration of Barry L. Boniface, ¶ 20.
116. Legg Mason, "BellSouth," October 25, 2005, p. 2.
117. Legg Mason, "BellSouth," October 25, 2005, p. 2.

VII. THE PROPOSED TRANSACTION DOES NOT HAVE A SIGNIFICANT ADVERSE EFFECT ON COMPETITION IN THE PROVISION OF SPECIAL ACCESS SERVICES.

A. THERE ARE MANY PROVIDERS OF SPECIAL ACCESS SERVICES IN AREAS SERVED BY AT&T'S LOCAL NETWORKS IN BELLSOUTH'S TERRITORY.

103. AT&T operates metropolitan fiber networks in 11 metropolitan areas in BellSouth's territory.[118] AT&T provides "Type I" local fiber connections to fewer than 350 buildings in BellSouth's territory over these networks.[119] As noted earlier, Type I connections are fully provided over a CLEC's own facilities.

104. Available data indicate that there are many CLECs providing service in each of the areas in which AT&T operates local fiber networks. Table 7.1 identifies the number of CLECs that operate fiber networks in each of these 11 overlap metropolitan areas from two sources:

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118. These areas include: Atlanta, GA; Birmingham, AL; Charlotte, NC, Chattanooga, TN; Greensboro, NC; Jacksonville, FL; Knoxville, TN; Miami, FL; Nashville, TN; Orlando, FL; and Raleigh-Durham, NC.

119. This figure includes both buildings served by legacy AT&T and legacy SBC. AT&T also provides Type I service to additional buildings through broadband fixed wireless or "rifle shot" connections to AT&T's backbone network outside these 11 areas. The DOJ and FCC did not require remedies for such buildings in the SBC/AT&T merger after concluding that in most cases other CLECs could duplicate such services or that no remedy was necessary or feasible. As a result, we exclude these building from the remainder of the analysis below. The AT&T buildings in the BellSouth area include fewer than 200 locations that were constructed to serve commercial customers.

- Lists of buildings in which CLECs provide Type I connections. These lists are maintained by AT&T in the ordinary course of business and are based on information provided by CLECs for marketing purposes.[120] Available data indicate that AT&T does not have building lists from a number of other CLECs that serve these areas.[121]
- Fiber route data obtained from GeoTel, which maintains a database on the geographic coverage of fiber routes for reporting CLECs. GeoTel, which reports information on both lit and dark networks, acknowledges it does not include comprehensive route information and thus understates total fiber deployed.

Both these sources were used in our analysis in support of the SBC/AT&T and Verizon/MCI mergers.

120. We utilize two such lists, one maintained by legacy SBC, and one maintained by legacy AT&T. These lists identify buildings in which CLECs report they currently provide Type I service. These building lists were provided to AT&T by access vendors in the ordinary course of business as part of CLECs' wholesale marketing efforts. In addition, AT&T undertook a physical inspection of buildings to determine the extent of CLEC fiber that is in or near the buildings served by AT&T's fiber network. AT&T network personnel and consultants have visited and examined nearly two hundred "on net" AT&T buildings in the metropolitan areas where AT&T has more than 10 fiber-connected buildings. Both an "internal" and an "external" survey were conducted at each building. The "internal" survey attempted to identify additional CLECs that have direct fiber connections to the building. The "external" survey attempted to identify fiber optic networks that operate in the vicinity of surveyed buildings. We have incorporated these data into our analysis.

121. For example, the NPRG data (which are discussed below) and internal/external surveys identify CLECs for which AT&T does not have building lists.

Table 7.1

Number of Non-AT&T CLECs with Fiber

Metropolitan Area	Lit Building Lists	GeoTel
Atlanta, GA	14	17
Miami, FL	8	15
Orlando, FL	6	13
Jacksonville, FL	6	7
Birmingham, AL	3	5
Charlotte, NC	8	5
Nashville, TN	9	5
Raleigh, NC	7	5
Chattanooga, TN	4	3
Greensboro, NC	9	3
Knoxville, TN	4	1
Average	7.1	7.2

Sources: GeoTel; AT&T.

105. Each of these various measures indicates that there are many CLECs that operate fiber networks in the metropolitan areas in BellSouth's territory in which AT&T has a fiber optic network. AT&T's lit-building lists identify an average of 7.1 firms providing Type I connections, and GeoTel identifies an average of 7.2 fiber networks per metropolitan area in the 11 overlap areas.[122]

106. Available data indicate that AT&T is not uniquely positioned as a supplier of Type I local fiber connections in any area in BellSouth's territory.

122. A third source, NPRG, reports on fiber deployment only for CLECs with a Class 5 switch. NPRG reports information only for the subset of these CLECs for which it could determine whether or not fiber had been deployed. NPRG identified an average of 3.7 CLECs in the overlap metropolitan areas.

- Calculations based on fiber deployment data from GeoTel and AT&T indicate that AT&T accounts for only 24 percent of network fiber-miles deployed for the 11 overlap areas as a whole. AT&T has deployed more fiber miles than any other CLEC in only two of the 11 overlap metropolitan areas (Atlanta and Miami). In five of the metropolitan areas (Birmingham, Chattanooga, Greensboro, Jacksonville and Orlando), at least two other CLECs have deployed more fiber than AT&T, and in all of the overlap metropolitan areas except Atlanta, AT&T's share of fiber miles is below 30 percent.
- AT&T's lit building lists further indicate that in each of the overlap metropolitan areas other than Miami, there is at least one CLEC other than AT&T that has more building connections than AT&T. In seven of these metropolitan areas, at least two other CLECs provide connections to more buildings than AT&T. For example, these data indicate that five CLECs provide more connections than AT&T in Raleigh, and seven CLECs provide more connections than AT&T in Greensboro.

B. MOST AT&T-SERVED BUILDINGS IN BELLSOUTH'S TERRITORY ARE SERVED BY OTHER CLECS TODAY OR ARE LOCATED CLOSE TO OTHER CLECS' FIBER.

107. As discussed in Section III above, in the SBC/AT&T merger, the FCC and DOJ required a divesture remedy only in AT&T fiber lit buildings where they concluded that no other CLEC would constrain price should the combined AT&T-SBC try to raise price to that building. The agencies recognized that such a constraint existed when another CLEC had deployed fiber to

the building *and* when another CLEC was sufficiently close to an AT&T-only building that it could economically extend fiber to the building to serve known demand at the building.[123]

108. Our preliminary analysis indicates that there are a small number of buildings in BellSouth's area served by AT&T alone and that most of these are located very close to other CLECs' fiber networks.[124] Overall, these data indicate that only a de minimis number of buildings face a potential reduction in competition for Type I services as a result of the proposed merger based on the criteria the Department of Justice applied in evaluating the SBC/AT&T merger.[125]

109. More specifically, there are fewer than 330 buildings served by AT&T's "on net" local facilities in BellSouth's territory.[126] Of these:

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123. The Department of Justice explained the general criteria it used to determine whether there was actual or potential price constraining competition for a particular building in the Tunney Act Comments it filed on March 21, 2006 in the United States District Court for the District of Columbia in Civil Action no: 1:05CV02102 (EGS). In evaluating potential competition, DOJ's conclusion reflected a combination of distance and building-specific demand factors, with more distant CLECs being considered potential entrants only when known demand at a building was greater. More generally, the DOJ did not require a divestiture remedy for buildings "where circumstances suggested that there was no competitive problem. For instance, DOJ did not require a remedy for buildings "where circumstances suggested that there was no competitive problem. For instance, because where there is no likely customer, there is probably no harm, the United States eliminated vacant buildings, buildings where a subsidiary of the merging firm was the only customer, and buildings with zero current demand for Local Private Line or related services." DOJ Comments at 22.

124. These initial results are based on data available to date. We are continuing to investigate and confirm the data on building characteristics used in this analysis.

125. We expect to provide a more complete area by area analysis once a protective order is in place.

126. Excluding buildings with network locations, there are less than 200 "on-net" buildings served by AT&T in BellSouth's territory.

- More than 200 buildings are served by a CLEC other than AT&T and thus are excluded by the DOJ criteria;[127]
- More than 35 of the remaining buildings meet the DOJ potential entry criteria based on (i) known building demand and (ii) distance to known CLEC fiber;[128]
- More than 5 of the remaining buildings are either vacant, solely occupied by AT&T or an affiliate, or have a repeater or local node, and thus are excluded from a potential remedy by the DOJ criteria.[129]

110. In total, our preliminary analysis indicates that there are fewer than 70 buildings in BellSouth's territory that could potentially raise concerns based on the criteria used by the Department of Justice in the SBC/AT&T transaction.[130] After all of these criteria are considered, 25 or fewer buildings remain in each of Atlanta and Miami. There are fewer than 10 remaining buildings in each of the other overlap metropolitan areas.

111. Repeating the above analysis for Atlanta and Miami, which together have less than 215 total buildings served by AT&T:

- More than 130 are served by a CLEC other than AT&T and thus are excluded by the DOJ criteria;
- More than 25 of the remaining buildings meet the DOJ potential entry criteria;

127. Excluding buildings with network locations, the comparable figure is more than 95. AT&T has local fiber connections to ten or fewer buildings that are not already served by other CLECs in the following nine metropolitan areas: Birmingham, AL; Charlotte, NC, Chattanooga, TN; Greensboro, NC; Jacksonville, FL; Knoxville, TN; Nashville, TN; Orlando, FL; and Raleigh-Durham, NC.
128. Excluding buildings with network facilities, the comparable figure is more than 25.
129. Excluding buildings with network facilities, the comparable figure is more than 2.
130. Excluding buildings with network facilities, the comparable figure is fewer than 65.

- More than 5 of the remaining buildings are either vacant, solely occupied by AT&T or an affiliate, or have a repeater or local node, and thus are excluded from a potential remedy by the DOJ criteria.

112. Overall, the number of such potential problems must be considered de minimis in the context of the 219,000 buildings in BellSouth's territory that are estimated to have sufficient demand to warrant special access services.[131]

C. THE PROPOSED TRANSACTION RAISES NO COMPETITIVE CONCERNS RELATING TO TYPE II SPECIAL ACCESS CIRCUITS.

113. As discussed in Section III above, the FCC and DOJ concluded that the SBC/AT&T merger did not harm competition in the provision of Type II special access services.[132] Type II special access services are provided in part over an ILEC's facilities.[133] The FCC concluded that the SBC/AT&T merger did not harm competition in the provision of Type II special access services because (i) AT&T had very limited sales of Type II special access in SBC's region and (ii) AT&T had no special advantage relative to other suppliers of Type II services. The similar factual circumstances in BellSouth's region imply that competition in the provision of Type II special access services will not be harmed by the proposed transaction.

114. Available data indicate that AT&T does not actively compete to supply Type II special access services on a wholesale basis in BellSouth's territory or elsewhere. We understand that in 2005, AT&T had wholesale sales of Type II special access services of less than $2.5 million in BellSouth's territory. In contrast, BellSouth had special access sales in 2004

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131. AT&T estimate based on data from Dunn & Bradstreet. This figure reflects estimates of the number of buildings with more than 10 voice-grade equivalent lines.
132. SBC/AT&T Order, ¶ 41-55.
133. We understand that when AT&T offers Type II wholesale local private line service in the BellSouth territory, it typically uses its own network for the entrance facility and transport portion of the service, but leases the last-mile "tail" from BellSouth (or another CLEC).