

December 11, 2006

Chairman Kevin Martin
Commissioner Michael Copps
Commissioner Jonathan Adelstein
Commissioner Deborah Taylor Tate
Commissioner Robert McDowell
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Dkt. No. 06-74 (AT&T/BellSouth Merger) (Ex Parte Filing)

Dear Chairman Martin and Commissioners Copps, Adelstein, Tate and McDowell:

Last Friday, 22 telecom manufacturing companies co-signed a letter to you urging that the Commission approve *this month* the application of AT&T and BellSouth for authority to merge their companies - an application that has been on file for nearly nine months. The letter also asked that the merger be approved without imposing new "network neutrality" regulatory requirements on the merger parties. The letter explained that severe economic harm to the high tech manufacturing industry could be caused either by further delay in approving the merger or by granting merger approval subject to new network neutrality regulations. For your convenience, a copy of last Friday's manufacturer letter is enclosed. Our six telecom manufacturers agree with that letter, and we ask that you associate our names with it.

Respectfully submitted,

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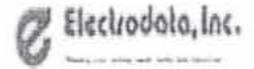
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Enclosure to
Dec. 11 Ltr



December 8, 2006

Chairman Kevin Martin
Commissioner Michael Copps
Commissioner Jonathan Adelstein
Commissioner Deborah Taylor Tate
Commissioner Robert McDowell
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Dkt. No. 06-74 (AT&T/BellSouth Merger) (Ex Parte Filing)

Dear Chairman Martin and Commissioners:

We write as representatives of the high-tech manufacturing industry to encourage the Commission to approve the AT&T/BellSouth merger this month rather than delay further. As both this letter and the enclosed news article make clear, telecom manufacturers and telecom investment analysts alike are concerned that a further delay in approving this particular merger threatens to harm the manufacturing industry by slowing telecom investment.

Not only should the Commission approve the merger this month, it should grant approval without imposing new network neutrality requirements on AT&T and BellSouth. The vast majority of high tech manufacturers oppose network neutrality regulation because they believe that such regulation, just like further delay in approving the merger, could unnecessarily slow the pace of technological innovation and investment. And numerous recent studies concur as comments filed nearly six months ago in this proceeding by a group of telecom manufacturers

showed.¹ Significantly, no commenter, not even those who advocate imposition of new network neutrality regulations on AT&T and BellSouth as a condition to merger approval, has disputed evidence in the record of this proceeding showing that such regulation could threaten innovation and investment.

In sum, we hope the Commission will approve this merger this month and without imposing new network neutrality regulation since doing so will help create an environment that encourages investment in technology for America.

Sincerely,

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¹ "Reply Comments of Ad Hoc Telecom Manufacturer Coalition" (WC Dkt. No. 06-74, filed June 20, 2006) (discussing several recent studies which have concluded that network neutrality regulation would slow innovation and investment)

Chairman Martin and Commissioners
December 8, 2006

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Enclosure

AT&T, BellSouth merger wait vexes vendors By Ed Gubbins
27 November 2006
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Online Exclusive - Telephony
English
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As the pending merger of AT&T and BellSouth awaits approval and completion, the wait is generating anxiety among equipment vendors that supply the two carriers. Until the merger closes, they fear, purchasing decisions could be delayed, and a general uncertainty over future network plans leaves vendors in the dark.

"Everyone supplying AT&T and BellSouth is feeling the impact of the merger not being closed," said Krish Prabhu, chief executive officer of Tellabs, in a speech to investors this month. "That is a big difference between last year and this year."

Tellabs supplies BellSouth with fiber-to-the-curb and fiber-to-the-premises network access equipment. But AT&T gets its fiber-to-the-node and fiber-to-the-premises gear from Tellabs' rival, Alcatel. In September, BellSouth surprised the industry by announcing--despite the impending merger--plans for a VDSL2 upgrade to commence in the second half of next year and occur mostly in 2008. That would presumably include Tellabs gear.

The list of vendors supplying either company is long, of course. Alcatel supplies access equipment to AT&T but not BellSouth. BellSouth gets Sonet multiservice provisioning platforms (MSPPs) from Lucent Technologies, and AT&T gets MSPPs from Fujitsu Network Communications. Avici Systems relies heavily on AT&T as a customer of its core routers and hopes to be deployed in BellSouth's network following the merger. Ciens sells long-haul optical equipment to both carriers and optical crossconnects to AT&T.

Redback Networks could feel a particular pinch from the merger delay in coming months, according to one Wall Street analyst. Redback supplies both carriers with edge routers and is partnered with AT&T's access supplier, Alcatel. BellSouth uses Redback's next-generation product, the SmartEdge, and AT&T uses its legacy product, the SMS. BellSouth has long been one of Redback's most valuable customers, but while revenue from BellSouth sank in the third quarter (to less than \$5 million, from more than \$10 million per quarter in the first half of this year), AT&T became one of Redback's top clients.

"We see a risk that [Redback's] sales to AT&T drop in [the fourth quarter]," Morgan Keegan analyst Simon Leopold wrote in a research note issued today. "Longer term, we are optimistic that Redback can win business for its newer SmartEdge product to upgrade the footprint in the portion of AT&T's network that is not involved in Project Lightspeed. The opportunity could become substantially larger in the unlikely situation that Redback becomes instrumental in Project Lightspeed, too."

However, the delay of the merger closing leaves those questions, and many others, unanswered. When the two carriers announced their proposed merger in March, they said it would take a year to close the deal. A month later, they said it could be done before this year's end. And this summer, they said it might be complete this fall.

Still, more than 200 days have now passed since the Federal Communications Commission began the process to approve or reject the deal, according to the Associated Press--more time than it took the FCC to approve the merger of AT&T and SBC Communications or that of Verizon Communications and MCI. This month's appointment of Bell-friendly FCC Commissioner Kevin Martin as Chairman led many to suspect the AT&T/BellSouth merger would win approval soon without significant concession requirements attached, but that approval hasn't come yet.

"The FCC's delay of the merger with AT&T raises our concerns, because the spending pause exhibited last quarter [from BellSouth] may be extended [in the fourth quarter]," Leopold wrote. "We believe [BellSouth] has ceased discretionary spending, but in the words of a contact, 'We still have a business to run.'"