

Merger of
AT&T Inc. and
BellSouth Corporation

**Description of Transaction,
Public Interest Showing and
Related Demonstrations**

Filed with the Federal Communications Commission
March 31, 2006

EXECUTIVE SUMMARY

In 1984, at the time of the Bell System divestiture, the principal telecommunications technology was the narrowband, circuit-switched wireline network, and the principal competitive issue was whether the separation of local service (considered to be a natural monopoly) from interexchange service would allow the latter to flourish as a separate competitive market. Today, the nation's voice, data and video needs are met by numerous competing wireless and wireline networks. No one thinks of local service as a natural monopoly. And no one thinks long distance is a separate, standalone market. Business and mass market customers alike want mobility and broadband, and they have an increasing array of choices for both.

In approving the SBC/AT&T and Verizon/MCI transactions, this Commission concluded that “the proposed transaction is likely to generate several significant merger-specific public interest benefits,”¹ including provision to the government of “additional security and routing efficiency for vital and sensitive government communications,”² efficiencies related to “vertical integration of the largely complementary networks and facilities,”³ significant economies of scale and scope,⁴ and substantial cost savings.⁵ This

¹ *In re Applications of SBC Commc'ns Inc. & AT&T Corp.*, Memorandum Opinion and Order, WC Dkt. No. 05-65, FCC 05-183, ¶ 182 (Nov. 17, 2005) (“*SBC/AT&T Merger Order*”); *In re Applications of Verizon Commc'ns Inc. & MCI, Inc.*, Memorandum Opinion and Order, WC Dkt. No. 05-75, FCC 05-184, ¶ 193 (Nov. 17, 2005) (“*Verizon/MCI Merger Order*”).

² *SBC/AT&T Merger Order* ¶ 186; *Verizon/MCI Merger Order* ¶ 197.

³ *SBC/AT&T Merger Order* ¶ 191; *Verizon/MCI Merger Order* ¶ 203.

⁴ *SBC/AT&T Merger Order* ¶¶ 193-95; *Verizon/MCI Merger Order* ¶¶ 205-07.

⁵ *SBC/AT&T Merger Order* ¶¶ 196-204; *Verizon/MCI Merger Order* ¶¶ 208-14.

transaction will bring these benefits to the customers of BellSouth, which is the only BOC without long distance facilities of national scope. It also will bring additional unique benefits in the areas of wireless, video and public safety.

Wireless. AT&T's and BellSouth's wireless operations already are jointly owned through Cingular, which is operated as a separate company with separate management. Although Cingular has been successful, it faces increasing challenges due to its tripartite management structure, particularly as it addresses critical technology choices and invests in new services that merge traditional landline and wireless services. For example, AT&T, BellSouth and Cingular are at various stages in constructing IP-based networks to enable advanced capabilities. This merger will permit integration of those separate networks into a single IP network to carry local and long distance voice, data and wireless traffic, making it possible to offer "follow me" converged wireless/wireline services that will provide voice, data and video content to residential, business and government customers seamlessly across wireless and wireline telephones, personal computers, televisions and myriad other devices.

Video. Although BellSouth is in the midst of deploying a fiber-rich network that is capable of providing IP video services, it has no present plans to provide such services over that network. AT&T, by contrast, is committed to providing a broad array of video programming and other services on an integrated IP platform and already has completed much of the work that will make such services possible. By combining BellSouth's fiber-rich network with AT&T's investments in IPTV technology and content, the combined company will have the resources to deploy video services more quickly in the

BellSouth region than would have occurred absent the merger, reduce the per-subscriber costs of IPTV, spur broadband adoption, and increase the amount and diversity of programming available to the public.

National Security/Disaster Recovery. The Commission found that the SBC/AT&T merger would enhance service to U.S. government agencies and promote national security by creating a “strong, full-service, facilities-based provider capable of delivering integrated end-to-end services to the government on a national or international basis.”⁶ Likewise, by enabling network integration and more efficient routing on a broader scale and across a broader geographic scope, this merger will both improve the merged company’s ability to respond expeditiously and effectively to the government’s evolving needs and enhance communications security and reliability. As the Commission recognized in the *SBC/AT&T* and *Verizon/MCI Merger Orders*, these efficiencies must be taken “extremely seriously.”⁷

The merger also will enhance the ability of the combined company to prepare for, and respond to, natural disasters, acts of terrorism and other emergencies. As the White House recently observed in a comprehensive review of the federal response to Hurricane Katrina, disaster preparedness has become a national imperative.⁸ The merger will enable the combined company to respond more effectively to disasters that affect the

⁶ *SBC/AT&T Merger Order* ¶ 187.

⁷ *Id.* ¶ 186; *Verizon/MCI Merger Order* ¶ 197.

⁸ *See The Federal Response to Hurricane Katrina: Lessons Learned*, at 3 (Feb. 2006), available at <http://www.whitehouse.gov/reports/katrina-lessons-learned.pdf> (“*Federal Response to Hurricane Katrina*”).

communications infrastructure than could either company standing alone by combining AT&T's unique disaster recovery capabilities and assets developed to meet the needs of government and enterprise customers that demand extraordinary reliability and responsiveness for their networks with BellSouth's experience in responding to hurricanes and other disasters. The merger also will permit joint planning in advance of catastrophes, enabling faster deployment of personnel and equipment after disasters occur, more rapid restoration of critical communications capabilities, and more effective coordination with the Commission's newly established Public Safety and Homeland Security Bureau, the National Communications System and other key government agencies.

Efficiencies/Consumer Benefits. In approving the SBC/AT&T merger, the Commission recognized that there would be significant efficiencies in combining the complementary operations of the two companies.⁹ The new AT&T is already significantly ahead of schedule in recognizing those efficiencies and bringing those benefits to its customers. The efficiencies from combining AT&T's and BellSouth's complementary wireless and wireline operations are equally significant. The Applicants estimate that this merger will produce total efficiencies of \$18 billion, after accounting for the costs of integration and other implementation costs. Those cost savings will allow a stronger network, enable more research and development, enhance service quality and lower costs for consumers.

⁹ *SBC/AT&T Merger Order* ¶¶ 190-92.

Lack of Competitive Harms. While the merger will bring clear and specifically identifiable public interest benefits, it will not harm competition or consumers in any market. There is little competitive overlap between the two companies and, as the Commission concluded in the *SBC/AT&T Merger Order* and intervening market developments confirm, competition is well established in the markets where AT&T and BellSouth traditionally have operated. Indeed, the merger of AT&T and BellSouth involves virtually no increase in horizontal concentration in any relevant market.

Mass Market. The merger will in no way reduce mass market competition for the same reasons that underlay the Commission's conclusion that the merger of AT&T and SBC would not adversely affect mass market competition. Mass market competition in BellSouth's region has taken hold and is growing exponentially. Rapid advances in IP technology permit cable companies to offer voice services to their customers. By bundling telephone services with their dominant video and data services, cable companies have won approximately 5.5 million telephone customers, and their telephone subscribership is growing by more than 50 percent per year. Meanwhile, the number of wireless subscribers exceeds the number of wireline customers, wireless carriers have become leading long distance providers, many wireless customers are "cutting the cord" and giving up their landline phones altogether, and competitive local exchange carriers ("CLECs") also continue to compete for mass market customers.

AT&T is not an active competitor in BellSouth's region. Before its merger with SBC, AT&T Corp. made a unilateral business decision to dismantle its legacy mass market business, a process that has continued since the merger. In the last three years,

two-thirds of the legacy AT&T's mass market customers have found another provider. Thus, as the Commission found, "[r]egardless of what role AT&T played in the past, we conclude that AT&T's actions to cease marketing and gradually withdraw from the mass market mean it is no longer a significant provider (or potential provider) of local service, long distance service, or bundled local and long distance service."¹⁰

The only arguable overlap between AT&T and BellSouth in the mass market involves the AT&T CallVantage VoIP service, and that overlap is not competitively significant. AT&T CallVantage is one of dozens of over-the-top VoIP services that can be provided interchangeably over DSL, cable modem or other broadband connections. The AT&T CallVantage service has less than one-tenth of the leading VoIP provider's customer base nationwide and fewer than 14,000 customers in BellSouth's region.

Retail Enterprise Services. There is likewise limited horizontal overlap in the provision of enterprise services. In BellSouth's region, AT&T focuses mainly on serving the largest retail business customers. For its part, BellSouth lacks a national network and other assets required to provide integrated nationwide service to this market segment and has little organic ability to become a more serious competitor. In any event, as the Commission recently found in the *SBC/AT&T Merger Order*, the enterprise segment is populated by sophisticated customers and a wide and growing range of competitors that now includes national interexchange carriers, international carriers, CLECs, IP/data network providers, cable companies, VoIP providers, equipment vendors and systems

¹⁰ *SBC/AT&T Merger Order* ¶ 103.

integrators. There is no prospect that the merged company could dominate the fiercely competitive enterprise space.

Wholesale Dedicated Access Services. AT&T is a fringe supplier of wholesale dedicated access services in the BellSouth region. Its focus is almost entirely on serving retail commercial customers. The incidental wholesale local services that AT&T provides are declining and could readily be replaced by other facilities-based providers. AT&T has local fiber connections to more than ten buildings that are not already served by other CLECs in only two metropolitan areas in BellSouth's ILEC territory. Those dense urban areas (Atlanta and Miami/Fort Lauderdale) are served by many other facilities-based CLECs, and in each of those MSAs, all but about 25 of AT&T's fiber-connected buildings are competitively insignificant under criteria accepted in the SBC/AT&T and Verizon/MCI mergers.

Internet. In the *SBC/AT&T Merger Order*, the Commission concluded that the merger would not cause anticompetitive effects in the Internet backbone market. That analysis applies with at least equal force here. BellSouth is not a Tier 1 backbone competitor. Furthermore, as with the SBC/AT&T merger, the presence of numerous other Tier 1 providers, together with the ability of Internet service providers to switch backbone providers, dispel any competitive concerns.

Size and Scope of Local Operations. Finally, the combination of AT&T's local telephone operations in the legacy SBC region, and BellSouth's local operations in its region, raises no legitimate concerns. Regulatory conditions imposed on mergers in the immediate aftermath of the 1996 Act have proved unnecessary and costly and, in any

event, could not be justified in today's environment in which local markets are irreversibly open to competition and VoIP, cable, and wireless companies now provide vigorous intermodal competition across all services and market segments. Combining the non-overlapping local operations of AT&T and BellSouth will have straightforward results – efficiencies that better position the merged company to compete.

* * *

The full “Description of Transaction, Public Interest Showing and Related Demonstrations” may be found in the Commission’s Electronic Comment Filing System at <http://www.fcc.gov/cgb/ecfs/> under WC Docket Number 06-74 and is incorporated herein by reference.