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DIRECT TESTIMONY OF JAMES S. KAHAN

**Senior Executive Vice President – Corporate Development
AT&T Inc.**

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1 **DIRECT TESTIMONY OF JAMES S. KAHAN**
2 **Senior Executive Vice President – Corporate Development**
3 **AT&T Inc.***

4 **I. INTRODUCTION**

5 **Q. PLEASE STATE YOUR NAME AND TITLE.**

6 A. My name is James S. Kahan. I am the Senior Executive Vice President for
7 Corporate Development of AT&T Inc. (“AT&T”).

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK**
9 **EXPERIENCE, AND CURRENT JOB RESPONSIBILITIES.**

10 A. I have nearly 40 years of experience in the telecommunications industry. I
11 received a Bachelor’s degree in Electrical Engineering from Purdue University
12 and a Master’s degree in Business Administration from the University of North
13 Carolina. I began my professional career as an engineer with Western Electric in
14 1967. Prior to joining Southwestern Bell Telephone (“SWBT”) in 1983, I was
15 transferred from Western Electric to Bell Laboratories, South Central Bell, and
16 AT&T. In 1984, I moved to SBC Communications Inc.’s (“SBC”) Corporate
17 Development Organization, where I worked on the acquisition of Metromedia’s
18 cellular and paging systems and various other acquisitions. In 1988, I became
19 Managing Director-Corporate Development, and in that position I was responsible
20 for SBC’s mergers and acquisitions activities and international business
21 development. During this time, I was involved in negotiating SBC’s participation
22 in a consortium that purchased an interest in Telefonos de Mexico (“Telmex”). I

* Please see the Cautionary Language Regarding Forward-Looking Statements included as Attachment A to this testimony.

1 was appointed Senior Vice President for Corporate Development and became an
2 Officer of SBC in 1992.

3 From 1993 through the present, I have been principally responsible for all
4 mergers and acquisitions activities and have participated in development of the
5 company's long-term growth strategies. I have been actively involved in and
6 responsible for the negotiation of SBC's acquisitions of Pacific Telesis Group,
7 Southern New England Telecommunications Corporation, Ameritech
8 Corporation, and AT&T Corp. I also was responsible for the negotiation of the
9 Cingular joint venture and Cingular's acquisition of AT&T Wireless.

10 Since SBC's merger in 2005 with AT&T Corp., I have retained my responsibility
11 for the merger and acquisition strategy of the combined company, renamed
12 AT&T Inc. ("AT&T"), and I have been directly involved with AT&T's
13 consideration of its strategic options to remain competitive in the rapidly
14 transforming telecommunications industry. I am familiar with the strategic
15 considerations that prompted AT&T to decide to acquire BellSouth Corporation
16 ("BellSouth"), as well as with the analyses conducted in connection with AT&T's
17 decision to undertake the merger.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. The purpose of this testimony is to support the March 31, 2006 joint filing in
20 support of the merger by AT&T and BellSouth and its certificated subsidiaries.
21 First, I will describe the market developments that led AT&T and BellSouth to
22 agree to the merger. Second, I will explain why the combination of AT&T and

1 BellSouth will benefit consumers in Tennessee. Third, I will describe why the
2 merger will not have a negative effect on either competition or employment in
3 Tennessee.

4 **II. THE REASONS FOR THE MERGER**

5 **Q. PLEASE EXPLAIN THE MARKET DEVELOPMENTS THAT LED AT&T**
6 **TO CHOOSE TO MERGE WITH BELLSOUTH AT THIS TIME.**

7 A. Since the enactment of the Telecommunications Act of 1996, the
8 telecommunications industry has been radically transformed. Many traditional
9 wireline telecommunications services have been supplanted or replaced by
10 wireless or Internet Protocol (“IP”) based services provided by both traditional
11 and new providers.

12 As recently as 1999, telecommunications was still voice-centric. Since that time,
13 the industry has evolved rapidly to become data-centric. In addition, with the
14 growth in IP-based networks, we have seen the rapid rise in Voice over Internet
15 Protocol (“VoIP”) services and, more recently, an evolution towards providing
16 video over IP networks.

17 During this same period, mobile wireless communication has grown
18 exponentially, driven by more efficient technologies, added spectrum, and intense
19 competition. The price for wireless communications continues to decline
20 dramatically as providers offer large bundles of anytime minutes and nationwide
21 calling. These offers have led to an explosive increase in wireless telephone
22 usage, a concomitant migration of traffic from wireline local and long-distance

1 networks onto wireless networks, and, increasingly, “cord cutting,” as consumers
2 switch to exclusive use of wireless service.

3 At the same time, the increasing penetration of Internet and especially broadband
4 access by businesses of all sizes and by residential consumers is enabling the next
5 transformational event in telephony. A wide range of firms are now competing to
6 offer VoIP service to business and residential customers as an alternative to
7 traditional local wireline and long-distance calling. Cable operators have been
8 extremely aggressive in rolling out VoIP service and have shown marked success
9 in building subscribership, while at the same time other VoIP providers such as
10 Vonage have also been rapidly expanding.

11 Similarly, the rapid growth in wireless broadband technology – perhaps best
12 demonstrated by the now expanded presence of Wi-Fi “hot spots” across the
13 country – has also dramatically changed the marketplace, increasingly enabling
14 individuals to stay connected via their cellular phone, PDA, or laptop to voice,
15 video, and data wherever they are. This trend is expected to accelerate further
16 with the deployment of new WiMax technology, which enables wireless
17 broadband connectivity over far greater distances than Wi-Fi. Similarly, wireless
18 providers such as Sprint and Verizon Wireless have expanded their network
19 capability from voice-only, to be able to provide nearly ubiquitous high-speed
20 access to major metropolitan areas. Indeed, Verizon Wireless recently touted its
21 service as creating a city-wide “hotspot.” Wireless broadband is increasing
22 consumer demands for always-on network access and for products that will
23 operate seamlessly to provide voice, video, and data access in any location.

1 These trends and others have produced a fiercely competitive telecommunications
2 industry, which grows more competitive with each passing year. AT&T, for
3 example, has been losing thousands of access lines every day to alternative
4 competitors that did not even exist just a few years ago.

5 **Q. WHY DID THESE FACTS LEAD AT&T TO MERGE WITH**
6 **BELLSOUTH?**

7 A. The rapid pace of change in the telecommunications industry has required AT&T
8 to continually reinvent itself, and invest for the future, in order to remain an
9 effective competitor. This merger will allow AT&T to become a more efficient
10 and effective competitor by, among other things, integrating the IP networks of
11 AT&T, BellSouth, and Cingular, and giving the combined company enhanced
12 economies of scale to support research and development of new products.

13 **Q. PLEASE EXPLAIN HOW INTEGRATING IP NETWORKS WILL MAKE**
14 **THE MERGED ENTITY A MORE EFFICIENT COMPETITOR.**

15 A. As we review the vast changes in our business over the last decade, we believe
16 that the same trends that have affected wireline communications also will have a
17 profound effect on future wireless networks, which also will evolve to IP. Today,
18 wireless networks use a significant amount of wireline network services to
19 connect their cell sites to their switches, wireless switches to each other, as well as
20 to the larger public switched network. However, today's wireline and wireless
21 networks have not been designed, engineered, or operated on an integrated basis.
22 Integration of IP wireline and wireless networks not only creates capital and
23 operational efficiencies, but also allows for deployment of new integrated service
24 offerings that will offer significant benefits to mass-market and business

1 customers alike. Such integration will result in capital and operational
2 efficiencies and new integrated services that will provide enormous consumer
3 benefits.

4 **Q. HOW WILL THE MERGER ASSIST IN THE INTEGRATION OF THESE**
5 **NETWORKS?**

6 A. Today, Cingular is a joint venture owned 60% by AT&T and 40% by BellSouth,
7 with shared (50/50) operational control. While Cingular has been an
8 extraordinarily successful joint venture, the sharing of ownership and managerial
9 control by two companies, each with potentially different priorities, has impeded
10 its ability to react quickly to changes in marketplace conditions. This is a natural
11 consequence of any joint venture, which obviously creates delay and
12 inefficiencies in the decision-making process. AT&T therefore reached the
13 conclusion that Cingular must be brought under unified ownership through the
14 BellSouth acquisition in order to be able to most effectively offer consumers
15 converged wireless-wireline products.

16 For example, AT&T, BellSouth, and Cingular have all announced that they will
17 be converting their networks to IP Multimedia Subsystems (“IMS”) as they shift
18 their networks to be IP-based. As explained in more detail in the testimony of
19 Christopher Rice, IMS architecture will enable the development of the integrated
20 wireless-wireline devices and services that consumers are demanding. Given the
21 structure of the Cingular joint venture, however, each of the three companies –
22 Cingular, AT&T, and BellSouth – has had no choice but to begin its own

1 independent efforts in implementing IMS. The merger will create a combined
2 entity that will avoid such problems.

3 **Q. PLEASE EXPLAIN HOW THE MERGER WILL ENHANCE**
4 **INVESTMENT IN RESEARCH AND DEVELOPMENT.**

5 A. Investments in such things as wireless-wireline integration require sufficient scale
6 and scope to make the requisite investments financially feasible. The acquisition
7 of BellSouth will not only eliminate inefficiencies but also provide a broader base
8 of customers to which we can market the results of our investments.

9 Accordingly, one of the chief benefits of the merger to AT&T and BellSouth –
10 and, importantly, to the public – is the increased research and development that
11 will be made possible by the greater scale of the combined company. The
12 combined company will be able to draw upon a larger pool of human capital and
13 intellectual property to perform research and development than would the AT&T
14 or BellSouth entities by themselves.

15 In this instance, moreover, AT&T will be able to utilize the innovations of AT&T
16 Laboratories, which, as described in Mr. Rice's testimony, has long been at the
17 leading edge of technological innovation, to provide new and better products for
18 customers of the BellSouth entities. Many significant innovations developed by
19 AT&T Laboratories for AT&T's large business "enterprise" customer base could
20 be applied to residential and business services offered by the BellSouth
21 subsidiaries. AT&T Laboratories' unrivaled expertise in such areas as IP
22 innovation, text-to-speech engines, and advanced telecommunications network

management software could thus be put to the service of BellSouth customers in Tennessee.

III. THE MERGER WILL BENEFIT CONSUMERS IN TENNESSEE

Q. HOW WILL THE MERGER AFFECT CUSTOMERS SERVED BY THE BELL SOUTH SUBSIDIARIES THAT OPERATE IN TENNESSEE?

A. In the short term, the transaction will be seamless and transparent to BellSouth customers in Tennessee. After the merger, these customers will continue to receive the same high-quality service that they have long received from BellSouth's operating subsidiaries, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc.

In this regard, it is important to emphasize that this merger is purely a holding company transaction between AT&T and BellSouth, the parent company of BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. As a result of the merger, BellSouth will become a first-tier, wholly owned subsidiary of AT&T. There will be no transfer of assets or certificates of BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. in Tennessee (or anywhere else), nor will there be any need to amend or adopt the tariffs of those operating subsidiaries.

Q. WILL THE MERGER AFFECT THE TRA'S REGULATORY AUTHORITY?

A. No. I understand that the TRA will have the same authority to regulate the rates, terms, and conditions of BellSouth's operating subsidiaries as it does today. Moreover, as it has done in prior mergers involving a holding company with

1 incumbent local exchange carrier (“ILEC”) operating subsidiaries, AT&T intends
2 to retain a significant local presence and ILEC operations in each of the BellSouth
3 States, including Tennessee. In fact, Mr. Whitacre, Chairman and CEO of AT&T,
4 wrote to Mr. Ackerman, Chairman and CEO of BellSouth, and committed that
5 “AT&T Inc. will . . . (i) maintain Atlanta as AT&T Inc.’s regional telco
6 headquarters and maintain state headquarters in each of BellSouth’s traditional
7 nine-state area.”¹

8 **Q. WILL THE MERGER NEGATIVELY AFFECT THE FINANCIAL,**
9 **TECHNICAL, AND MANAGERIAL ABILITIES OF THE BELL SOUTH**
10 **OPERATING SUBSIDIARIES IN TENNESSEE?**

11 A. No, it will not. As I have explained, after the merger, those operating subsidiaries
12 will function just as they do now. Over the longer term, those subsidiaries will
13 benefit from access to the substantial resources and human capital of AT&T,
14 which, as the successor to SBC, unquestionably has the financial, technical, and
15 managerial capacity to provide high-quality local exchange service.

16 **Q. WILL GOVERNMENT CUSTOMERS SHARE IN THE BENEFITS OF**
17 **THE MERGER?**

18 A. Yes. The merger of AT&T and BellSouth will enhance both national security and
19 government services through the combined entity’s creation of an end-to-end
20 integrated IP-based network. This network will provide government customers
21 with more efficient routing for their communications, while at the same time

¹ Letter from Edward E. Whitacre Jr., Chairman and Chief Executive Officer, AT&T Inc., to F. Duane Ackerman, Chairman of the Board and Chief Executive Officer, BellSouth Corporation, at 1 (Mar. 4, 2006) (“Whitacre Letter”) (attached as Exhibit D to the Joint Filing).

1 improving end-to-end security for classified communications. The combined
2 network will also have more alternative routing available, thus increasing
3 redundancy, reliability, and recoverability in the event of disaster. In addition, the
4 increased scale and scope of the combined network will enable more efficient and
5 rapid deployment of advanced network capabilities and commensurate reductions
6 in cost.

7 **Q. PLEASE DESCRIBE THE EFFECT OF THE MERGER ON CONSUMERS**
8 **IN THE VIDEO MARKET.**

9 A. There will be significant consumer benefit in that market. The combined
10 company will have the resources to deploy video services to the BellSouth region
11 more rapidly than might otherwise occur and thus will significantly enhance
12 competition in that market.

13 AT&T has embarked on a significant project to transform its wireline network
14 from circuit-switched to IP technology in order to compete in the rapidly evolving
15 telecommunications market. This undertaking is called Project Lightspeed. We
16 have already spent three years planning, developing, and implementing this
17 project, and expect that the cost to deploy the Project Lightspeed fiber network
18 will be approximately \$4.8 billion. As part of this multibillion dollar initiative,
19 AT&T is undertaking a controlled launch of its IPTV video service called U-
20 versesm in San Antonio, Texas, and is moving towards a widespread roll-out to
21 multiple geographic areas reaching 2.5 million households this year. By year end
22 2008, AT&T projects that U-versesm will be available to approximately 19 million
23 homes in its traditional 13-state region as part of its initial build, provided that

1 local franchising authorities do not delay or effectively prevent us from deploying
2 the service.

3 Hundreds of AT&T employees have spent the last three years on support and
4 development of the video elements of Project Lightspeed, including: (1)
5 identifying and purchasing video-specific network facilities and equipment; (2)
6 managing construction activities across a 13-state region, including, among other
7 things, the construction of a “super hub” facility and the on-going construction of
8 video hub offices; (3) developing and modifying an in-region deployment
9 schedule; (4) working out the technical aspects of IP-based platform and
10 associated middleware; (5) acquiring a full range of video content; (6) developing
11 marketing materials and an overall marketing strategy; (7) training employees in
12 video sales, marketing, and customer service; (8) entering into contracts for
13 network and customer premises equipment; and (9) developing scalable back-
14 office activities and business support systems, including billing, ordering, and
15 customer service and support necessary to provide IPTV services to millions of
16 customers. In sum, launching a large-scale commercial video service involves
17 many complex tasks, and, over the past three years, AT&T has accomplished
18 nearly all of them.

19 It is my understanding that BellSouth, on the other hand, has not yet made a
20 decision whether to invest in an IP video project, but has been building out a fiber
21 network in its region. The merger will therefore give the combined company the
22 ability to more rapidly deploy high-quality video content in the BellSouth region
23 than could have occurred without the merger.

1 Moreover, the combined company will experience significant cost savings in
2 rolling out video. For instance, the combined company will not need to develop
3 two sets of ordering, billing, customer care, trouble shooting, and other systems to
4 support video. Similarly, in some instances, they will not need to deploy
5 duplicative equipment such as very expensive “super hub” facilities.

6 Importantly, the combined company likely will be a more attractive partner for
7 content providers than either company could have been but for the merger. For
8 example, the combined company will have access to approximately 50 million
9 households for video services, which is approximately 17 million more than
10 AT&T would have alone and approximately 33 million more than BellSouth
11 would have (even assuming it were to decide to offer its own IPTV product). A
12 more competitive video market should result in more choice and higher quality
13 service for consumers. At present, AT&T’s costs of acquiring programming are
14 generally higher than the costs faced by most cable operators and satellite
15 providers, which have very large existing customer bases and which therefore
16 have an advantage over new entrants such as AT&T.

17 In addition to the fiber-based IPTV customers that the combined company can
18 reach, Cingular is now offering video content over its 3G wireless network. The
19 combination of the companies, and the ability to offer content over “three
20 screens” (cell phone, television, and computer), likely will make AT&T a more
21 attractive partner for content companies and enable creative new deals. Given
22 that programming expenses represent a substantial portion of the cost of entering

1 the video services market and operating as a video provider, this could be a key
2 benefit of the merger.

3 Additionally, as a new video provider with a large potential subscriber base, the
4 combined company will look to increase the demand for programming, which
5 should increase programming diversity, especially for new, smaller, and/or
6 regional programmers, including foreign language, ethnic, and other niche
7 programming. The new company, moreover, will be able to take risks on new
8 technologies and invest in research and development relating to IP-enabled
9 services because of the ability to spread costs over a larger subscriber base and
10 realize potentially greater benefits from such expenditures.

11 **IV. THE MERGER WILL NOT HARM COMPETITION IN TENNESSEE**

12 **Q. WILL THE MERGER ADVERSELY AFFECT COMPETITION FOR**
13 **MASS-MARKET CUSTOMERS?**

14 A. No, it will not. Most basically, this is the case because AT&T is not actively
15 marketing wireline service to mass-market customers in Tennessee. In 2004, well
16 before it merged with SBC, AT&T Corp. made a unilateral and irreversible
17 decision to cease actively marketing wireline local and long-distance service to
18 residential customers. For this reason, as the FCC explained when it reviewed
19 SBC's merger with AT&T Corp., "[r]egardless of what role AT&T played in the
20 past . . . AT&T's actions to cease marketing and gradually withdraw from the
21 mass market mean it is no longer a significant provider (or potential provider) of

1 local service, long distance service, or bundled local and long distance service to
2 mass market consumers.” *SBC/AT&T Merger Order*² ¶ 103 (emphasis added).

3 **Q. ASIDE FROM AT&T, DO MASS-MARKET CONSUMERS HAVE**
4 **SIGNIFICANT CHOICES FOR TELEPHONE SERVICE?**

5 A. Absolutely. Mass-market competition has never been as vigorous, or from as
6 many varied and sustainable choices, as it is today. Rapid advances in IP
7 technology have permitted cable companies to offer voice services to all of their
8 customers, and they are aggressively marketing attractive bundles of telephony,
9 video, and high-speed data services. Time Warner, for example, deployed its
10 Digital Phone service in Tennessee at year-end 2004.³ By late 2005, Time
11 Warner reported that it had already garnered over 1 million VoIP customers
12 nationwide, including 12,000 in Tennessee.⁴ For its part, Charter recently
13 deployed VoIP service to Blount, Loudon, Sevier and Knox counties.⁵ In
14 addition, wireless carriers are now, by some measures, the predominant providers
15 of long-distance services, and mass-market consumers are increasingly “cutting
16 the cord” altogether. The FCC has reported that, as of June 2005, at least 13

² See Memorandum Opinion and Order, *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, 20 FCC Rcd 18290 (2005) (“*SBC/AT&T Merger Order*”).

³ Time Warner Cable, *Time Warner Cable Digital Phone: E911 Services* at 2, presentation to the Tennessee Regulatory Authority (Dec. 12, 2005), available at <http://www.state.tn.us/tra/VoIPE911/TWCE911.ppt#272,1>, Time Warner Cable Digital Phone E911 Services.

⁴ *Id.*

⁵ L. Brass, *Charter Rolls Out Telephone Service*, Knoxville News Sentinel (Apr. 22, 2006), available at http://www.knoxnews.com/kns/business/article/0,1406,KNS_376_4641778,00.html.

1 wireless carriers provided service in Tennessee to a total of more than 3.8 million
2 subscribers, a more than 20 percent increase from the year before.⁶ The number
3 of wireless subscribers now outnumbers the total end-user switched access lines
4 in the state.⁷ And, of course, traditional CLECs also remain competitors.
5 According to the April 2006 *FCC Local Competition Report* on wireline/wireless
6 competition, as of June 2005, CLECs served nearly 200,000 residential end-user
7 switched access lines in Tennessee.⁸

8 **Q. WILL THE MERGER ADVERSELY AFFECT COMPETITION FOR**
9 **BUSINESS CUSTOMERS?**

10 A. No, it will not. In Tennessee, the operating subsidiaries of AT&T and BellSouth
11 generally compete for different business customers. AT&T's subsidiaries focus
12 mainly on the largest retail business customers with a national and international
13 presence, while BellSouth's subsidiaries focus predominantly on small- and
14 medium-sized businesses. Their core customer segments are thus largely
15 complementary, and the combination of these companies will not limit the many
16 choices available to business customers.

17 Beyond that, the enormous range of choices available to business customers will
18 remain after the merger. According to the *FCC Local Competition Report*, as of
19 June 2005, CLECs served nearly 300,000 business switched access lines, or

⁶ FCC, *Local Telephone Competition: Status as of June 30, 2005* at Table 14 (WCB April 2006) ("*FCC Local Competition Report*").

⁷ See *FCC Local Competition Report* at Tables 7, 14.

⁸ See *id.* at Tables 7, 11, 12.

1 nearly 29 percent of all business switched access lines, in the state.⁹ The major
2 competitors operating in the business market in Tennessee include Birch
3 Telecom,¹⁰ Deltacom,¹¹ Memphis Networkx,¹² NuVox Communications,¹³
4 TelCove,¹⁴ and XO Communications.¹⁵

5 **Q. CAN YOU DESCRIBE THE KINDS OF COMPANIES THAT COMPETE**
6 **FOR BUSINESS CUSTOMERS?**

7 A. Yes. Business customers have an enormous number of competitive choices.
8 Those choices include interexchange carriers, systems integrators, data/IP
9 providers, competitive LECs, and equipment vendors. Moreover, as the FCC
10 explained in finding that the closely analogous merger between SBC and AT&T
11 Corp. would not harm competition in the business market, “market share data
12 does not reflect the rise in data services, cable and VoIP competition, and the
13 dramatic increase in wireless usage. Foreign-based companies, competitive
14 LECs, cable companies, systems integrators, and equipment vendors and value-
15 added resellers are also providing services in this market.”¹⁶

⁹ See *FCC Local Competition Report* at Tables 7, 11, 12.

¹⁰ Birch Telecom, *Business Products: Tennessee*,
http://www.birchtelecom.com/products/business/biz_tn_products.shtml.

¹¹ Deltacom, *Our Network*, <http://www.deltacom.com/network.asp>.

¹² Memphis Networkx, *Services*, <http://www.memphisnetworkx.com/services.htm>.

¹³ NuVox, *NuVox Markets*, <http://www.nuvox.com/index.php/15>.

¹⁴ TelCove, *TelCove Market Coverage*,
<http://www.telcove.com/network/maps/market-map.pdf>.

¹⁵ XO, *Voice Assets: XO Communications*,
http://www.xo.com/about/network/maps/voice_normal.html.

¹⁶ *SBC/AT&T Merger Order* ¶ 73 (footnote omitted).

1 V. **THE MERGER WILL NOT HAVE AN ADVERSE EFFECT ON**
2 **EMPLOYMENT IN TENNESSEE**

3 Q. **WILL THE MERGER ADVERSELY AFFECT THE EMPLOYMENT**
4 **PICTURE IN TENNESSEE?**

5 A. No. AT&T expects merger synergies to lead to a headcount reduction of
6 approximately 10,000 jobs *nationwide* across *all* companies (AT&T, BellSouth,
7 and Cingular, whose combined workforce will be more than 300,000 employees)
8 over three years between 2007 and 2009. These synergies are expected to result
9 from consolidation and the elimination of duplication in corporate headquarters
10 functions, network and sales operations, information technology support,
11 procurement, and advertising.

12 Crucially, however, prior to its merger with AT&T, SBC alone lost approximately
13 1,200 employees *per month* through normal attrition (voluntary departures and
14 retirement). It is my understanding that BellSouth also experiences significant
15 natural attrition every month, a topic that is addressed in Marty Dickens'
16 testimony. AT&T thus expects that much of the headcount reduction that will
17 result from the merger can be accomplished through normal attrition.

18 Q. **HOW HAVE MANAGEMENT EMPLOYEES BEEN AFFECTED BY**
19 **PRIOR MERGERS INVOLVING WHAT IS NOW AT&T?**

20 A. In each of its previous major mergers involving holding companies with
21 incumbent local exchange operations, most management employees retained their
22 current positions or were offered new opportunities within the new company.

23 In fact, there are numerous examples of management employees from the
24 acquired companies whose careers were enhanced as a result of the merger

1 through promotions and expanded job responsibilities in network, marketing and
2 sales, external affairs, information technology, and procurement.

3 Management employees whose jobs are eliminated as a result of merger synergies
4 have typically been offered positions in other departments or locations.

5 **Q. HOW HAVE UNION EMPLOYEES BEEN AFFECTED BY PRIOR**
6 **MERGERS INVOLVING WHAT IS NOW AT&T?**

7 In connection with prior mergers, AT&T has honored and complied with existing
8 collective bargaining agreements. In connection with those agreements, union
9 employees whose positions have been eliminated as a result of merger synergies
10 have been offered other positions within the company in accordance with their
11 contracts.

12 **Q. DO YOU EXPECT THE SAME RESULTS HERE?**

13 A. Yes, I do. In the end, the combined company will be a more viable and vibrant
14 competitor for mass market and enterprise customers in the wireless, IP, and
15 video marketplaces with the result that there will be more exciting opportunities
16 for its employees, both management and union. As Mr. Whitacre told Mr.
17 Ackerman in the letter I quoted earlier, “[i]n the light of the needs and
18 requirements of AT&T Inc. and its subsidiaries, the value we attach to a high
19 quality workforce, and the experience and skills of the management and
20 employees of BellSouth, I want to assure you that we intend to broadly utilize the

1 services of the management and employees of BellSouth following the closing of
2 the Merger.”¹⁷

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, it does.

¹⁷ Whitacre Letter, at 1.

ATTACHMENT A

Cautionary Language Concerning Forward-Looking Statements

We have included or incorporated by reference in this document financial estimates and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These estimates and statements are subject to risks and uncertainties, and actual results might differ materially from these estimates and statements. Such estimates and statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T Inc. and BellSouth Corporation and are subject to significant risks and uncertainties and outside of our control.

Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by AT&T with the SEC, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of AT&T and BellSouth or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of BellSouth shareholders to approve the merger; (3) the risks that the businesses of AT&T and BellSouth will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that any savings and other synergies relating to the resulting sole ownership of Cingular Wireless LLC may not be fully realized or may take longer to realize than expected; (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which AT&T and BellSouth operate. Additional factors that may affect future results are contained in AT&T's, BellSouth's, and Cingular Wireless LLC's filings with the Securities and Exchange Commission ("SEC"), which are available at the SEC's website (<http://www.sec.gov>). Neither AT&T nor BellSouth is under any obligation, and expressly disclaim any obligation, to update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

This document may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's website at www.sbc.com/investor_relations.