

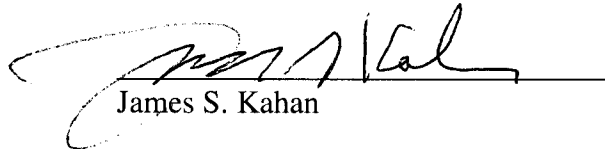
AFFIDAVIT

STATE OF TEXAS

COUNTY OF BEXAR

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared James S. Kahan, who being by me first duly sworn deposed and said that:

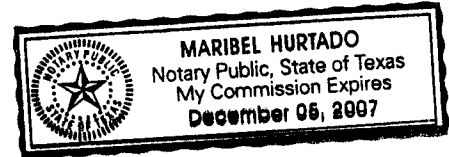
He is appearing as a witness before the Kentucky Public Service Commission in Case No. _____, (Joint Application for Approval of the Indirect Transfer of Control Relating to the Merger of AT&T Inc. and BellSouth Corporation), and if present before the Commission and duly sworn, his direct testimony would be set forth in the annexed testimony consisting of 20 pages.


James S. Kahan

SWORN TO AND SUBSCRIBED BEFORE ME
THIS 27 DAY OF MARCH, 2006

 Notary Public

My Commission Expires: 12/05/07



COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

JOINT APPLICATION FOR APPROVAL)
OF THE INDIRECT TRANSFER OF)
CONTROL RELATING TO THE)
MERGER OF AT&T INC. AND)
BELLSOUTH CORPORATION)

Case No. _____

DIRECT TESTIMONY OF JAMES S. KAHAN

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

March 31, 2006

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 joint application filed with this
20 Commission on March 31, 2006, by AT&T and BellSouth and their certificated
21 subsidiaries. First, I will describe the market developments that led AT&T and
22 BellSouth to agree to the merger. Second, I will explain why the combination of

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

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

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

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

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

18 During this same period, mobile wireless communication has grown
19 exponentially, driven by more efficient technologies, added spectrum, and intense
20 competition. The price for wireless communications continues to decline
21 dramatically as providers offer large bundles of anytime minutes and nationwide
22 calling. These offers have led to an explosive increase in wireless telephone
23 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 high-speed access to major
20 metropolitan areas. But, unlike Wi-Fi, the coverage is nearly ubiquitous. In fact,
21 Verizon Wireless recently touted its service as creating a city-wide “hotspot.”
22 Wireless broadband is increasing consumer demands for always-on network

1 access and for products that will operate seamlessly to provide voice, video, and
2 data access in any location.

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

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

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

15 **Q. CAN YOU PLEASE EXPLAIN HOW INTEGRATING NETWORKS WILL**
16 **MAKE THE MERGED ENTITY A MORE EFFICIENT COMPETITOR?**

17 A. Yes, AT&T has embarked on a significant project to transform its wireline
18 network from circuit-switched to IP technology in order to compete in the rapidly
19 evolving telecommunications market. This undertaking is called Project
20 Lightspeed. We have already spent three years on planning and development of
21 this project and its implementation, and expect that the cost to deploy the Project
22 Lightspeed fiber network will be more than \$4 billion.

1 As part of this multibillion dollar initiative, AT&T is undertaking a controlled
2 launch of its IPTV video service called U-versesm in San Antonio, Texas, and is
3 moving towards a widespread roll out to multiple geographic areas reaching 2.5
4 million households this year. By 2008, AT&T projects that U-versesm will be
5 available to approximately 18 million subscribers in its 13-state region, provided
6 that local franchising authorities do not delay or effectively prevent us from
7 deploying the service.

8 These substantial investments in Project Lightspeed will enable AT&T to deliver
9 voice, data, and video services over a single wireline network. But, as we review
10 the vast change in our business over the last decade, we believe that the same
11 trends that have affected wireline communications also will have a profound
12 effect on future wireless networks, which also will evolve to IP. Today, wireless
13 networks use a significant amount of wireline network services to connect their
14 cell sites to their switches, wireless switches to each other, as well as to the larger
15 public switched network. However, today's wireline and wireless networks have
16 not been designed, engineered, or operated on an integrated basis. Integration of
17 IP wireline and wireless networks not only creates capital and operational
18 efficiencies, but also allows for deployment of new integrated service offerings
19 that will offer significant benefits to mass-market and business customers alike.
20 Such integration will result in capital and operational efficiencies and new
21 integrated services that will provide enormous consumer benefits.

1 **Q. HOW WILL THE MERGER ASSIST IN THE INTEGRATION OF THESE**
2 **NETWORKS?**

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

13 For example, AT&T, BellSouth, and Cingular have all announced that they will
14 be converting their networks to IP Multimedia Subsystems (“IMS”) as they shift
15 their networks to be IP-based. As explained in the testimony of Christopher Rice,
16 IMS architecture will be essential to develop the integrated wireless-wireline
17 devices and services that consumers are demanding. However, given the structure
18 of the Cingular joint venture, each of the three companies – Cingular, AT&T, and
19 BellSouth – has had no choice but to begin its own independent efforts in
20 implementing IMS. The merger will create a combined entity that will avoid such
21 problems.

1 In sum, under the unified ownership and managerial control of AT&T, Cingular
2 will be better able to fully achieve the efficiencies of wireline-wireless integration
3 in a timely manner.

4 **Q. PLEASE EXPLAIN HOW THE MERGER WILL ENHANCE**
5 **INVESTMENT N RESEARCH AND DEVELOPMENT.**

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

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

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

1 speech engines, and advanced telecommunications network management software
2 could thus be put to the service of BellSouth customers in Kentucky.

3 **III. THE MERGER WILL BENEFIT CONSUMERS IN KENTUCKY**

4 **Q. HOW WILL THE MERGER AFFECT CUSTOMERS SERVED BY THE**
5 **BELLSOUTH SUBSIDIARIES THAT OPERATE IN KENTUCKY?**

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

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

19 **Q. WILL THE MERGER AFFECT THIS COMMISSION'S REGULATORY**
20 **AUTHORITY?**

21 A. No, it will not. I understand that this Commission will have the same authority to
22 regulate the rates, terms, and conditions of BellSouth's operating subsidiaries as it
23 does today. Moreover, as it has done in prior mergers involving a holding

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

8 **Q. WILL THE MERGER NEGATIVELY AFFECT THE FINANCIAL,**
9 **TECHNICAL, AND MANAGERIAL ABILITIES OF THESE**
10 **BELLSOUTH OPERATING SUBSIDIARIES IN KENTUCKY?**

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, also has a long history of having the financial,
15 technical, and managerial capacity to provide high-quality local exchange service.

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

18 A. Yes, they will. The merger of AT&T and BellSouth will enhance both national
19 security and government services through the combined entity’s creation of an
20 end-to-end integrated IP-based network. This network will provide government

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 Corp. (Mar. 4, 2006) (“Whitacre Letter”) (attached as Exhibit C to the Joint Application).

1 customers with more efficient routing for their communications, while at the same
2 time improving end-to-end security for classified communications. The combined
3 network will also have more alternative routing available, thus increasing
4 redundancy, reliability, and recoverability in cases of natural or man-made
5 disasters. In addition, the increased scale and scope of the combined network will
6 enable more efficient and rapid deployment of advanced network capabilities and
7 commensurate reductions in cost.

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

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

14 One of the most notable benefits of the multi-billion dollar Project Lightspeed
15 will be AT&T's ability to deliver an IP-based video service to consumers that will
16 be able to stream more high-definition and video-on-demand content than is
17 possible over traditional cable. As noted above, AT&T has already spent three
18 years on development of Project Lightspeed. Hundreds of AT&T employees have
19 spent the last three years on support and development of the video elements of
20 Project Lightspeed, including: (1) identifying and purchasing video-specific
21 network facilities and equipment; (2) managing construction activities across a
22 13-state region, including, among other things, the construction of a "super hub"
23 facility and the on-going construction of video hub offices; (3) developing and

1 modifying an in-region deployment schedule; (4) working out the technical
2 aspects of IP-based platform and associated middleware; (5) acquiring a full range
3 of video content; (6) developing marketing materials and an overall marketing
4 strategy; (7) training employees in video sales, marketing, and customer service;
5 (8) entering into contracts for network and customer premises equipment; and
6 (9) developing scalable back-office activities and business support systems,
7 including billing, ordering, and customer service and support necessary to provide
8 IPTV services to millions of customers. In sum, launching a large-scale
9 commercial video service involves many complex tasks, and, over the past three
10 years, AT&T has accomplished nearly all of them.

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

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

21 Importantly, the combined company likely will be a more attractive partner for
22 content providers than either company could have been but for the merger. For

1 example, the combined company will have access to approximately 50 million
2 households for video services, which is approximately 17 million more than
3 AT&T would have alone and approximately 33 million more than BellSouth
4 would have (even assuming it were to decide to offer its own IPTV product). A
5 more competitive video market should result in lower prices, more choice, and
6 higher quality service for consumers. At present, AT&T's costs of acquiring
7 programming are generally higher than the costs faced by most cable operators
8 and satellite providers, which have very large existing customer bases and which
9 therefore have an advantage over new entrants such as AT&T.

10 In addition to the fiber-based IPTV customers that the combined company can
11 reach, Cingular is now offering video content over its 3G wireless network. The
12 combination of the companies, and the ability to offer content over "three
13 screens" (cell phone, television, and computer), likely will make AT&T a more
14 attractive partner for content companies and enable creative new deals. Given
15 that programming expenses represent a substantial portion of the cost of entering
16 the MVPD market and operating as a video provider, this could be a key benefit
17 of the merger.

18 Additionally, as a new video provider with a large subscriber base, the combined
19 company will look to increase the demand for programming, which should
20 increase programming diversity, especially for new, smaller, and/or regional
21 programmers, including foreign language, ethnic, and other niche programming.
22 The new company, moreover, will be able to take risks on new technologies and
23 invest in research and development relating to IP-enabled services because of the

1 ability to spread costs over a larger subscriber base and realize potentially greater
2 benefits from such expenditures.

3 **IV. THE MERGER WILL NOT HARM COMPETITION IN KENTUCKY**

4 **Q. WILL THIS MERGER ADVERSELY AFFECT COMPETITION FOR**
5 **MASS-MARKET CUSTOMERS?**

6 A. No, it will not. Most basically, this is the case because AT&T is not actively
7 marketing wireline service to mass-market customers in Kentucky. In 2004, well
8 before it merged with SBC Communications Inc., AT&T Corp. made a unilateral
9 and irreversible decision to cease actively marketing wireline local and long-
10 distance service to residential customers. For this reason, as the FCC explained
11 when it reviewed SBC’s merger with AT&T Corp., “[r]egardless of what role
12 AT&T played in the past, . . . AT&T’s actions to cease marketing and gradually
13 withdraw from the mass market mean *it is no longer a significant provider (or*
14 *potential provider) of local service, long distance service, or bundled local and*
15 *long distance service to mass market consumers.” SBC/AT&T Merger Order²*
16 ¶ 103 (emphasis added).

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

19 A. Absolutely. Mass-market competition has never been as vigorous, or from as
20 many varied and sustainable choices, as it is today. Rapid advances in IP
21 technology have permitted cable companies to offer voice services to all of their

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*”).

1 customers, and they are aggressively marketing attractive bundles of telephony,
2 video, and high-speed data services. Wireless carriers are now, by some
3 measures, the predominant providers of long-distance services, and mass-market
4 consumers are increasingly “cutting the cord” altogether. Traditional CLECs also
5 remain competitors.

6 **Q. WILL THE MERGER ADVERSELY AFFECT BUSINESS CUSTOMERS?**

7 A. No, it will not. In Kentucky, the operating subsidiaries of AT&T and BellSouth
8 generally compete for different customers within the Commonwealth of
9 Kentucky. AT&T’s subsidiaries focus mainly on the largest retail business
10 customers, while BellSouth’s subsidiaries focus predominantly on small- and
11 medium-sized businesses. Their core customer segments are thus largely
12 complementary, and the combination of these companies will not limit the many
13 choices available to business customers.

14 Beyond that, business customers have an enormous range of choices and will
15 continue to do so after the merger.

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

18 A. Yes, business customers have an enormous number of competitive choices.
19 Those choices include interexchange carriers, systems integrators, data/IP
20 providers, competitive LECs, and equipment vendors. Moreover, as the FCC
21 explained in finding that the closely analogous merger between SBC and AT&T
22 Corp. would not harm competition in the business market, “market share data
23 does not reflect the rise in data services, cable and VoIP competition, and the

1 dramatic increase in wireless usage. Foreign-based companies, competitive
2 LECs, cable companies, systems integrators, and equipment vendors and value-
3 added resellers are also providing services in this market.” *SBC/AT&T Merger*
4 *Order ¶ 73* (footnote omitted).

5 In sum, given the extent of competition and the complementary customer
6 segments, the merger will not adversely affect competition. On the contrary, if
7 anything, it will enhance it, by permitting us to provide high-quality, efficient
8 service at competitive rates to the benefit of business customers.

9 **V. THE MERGER WILL NOT HAVE AN ADVERSE EFFECT ON**
10 **EMPLOYMENT IN KENTUCKY**

11 **Q. WILL THE MERGER ADVERSELY AFFECT THE EMPLOYMENT**
12 **PICTURE IN KENTUCKY?**

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

19 Crucially, however, prior to its merger with AT&T, SBC alone lost approximately
20 1,200 employees *per month* through normal attrition (voluntary departures and
21 retirement). It is my understanding that BellSouth also experiences significant
22 natural attrition every month, a topic that is addressed in Mr. Roberts’ testimony.

1 AT&T thus expects that the headcount reduction that will result from the merger
2 can be accomplished through normal attrition.

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

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

8 In fact, there are numerous examples of management employees from the
9 acquired companies whose careers were enhanced as a result of the merger
10 through promotions and expanded job responsibilities in network, marketing and
11 sales, external affairs, information technology, and procurement.

12 Management employees whose jobs are eliminated as a result of merger synergies
13 have typically been offered positions in other departments or locations. Union
14 employees are offered other positions within the company in accordance with
15 their contracts.

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

17 A. Yes, I do. In the end, the combined company – AT&T and BellSouth – will be a
18 more viable and vibrant competitor in the consumer, enterprise, wireless, IP, and
19 video marketplaces with the result that there will be more exciting opportunities
20 for its employees, both management and union. As Mr. Whitacre told Mr.
21 Ackerman in his letter, “[i]n the light of the needs and requirements of AT&T Inc.
22 and its subsidiaries, the value we attach to a high quality workforce, and the

1 experience and skills of the management and employees of BellSouth, I want to
2 assure you that we intend to broadly utilize the services of the management and
3 employees of BellSouth following the closing of the Merger.” Whitacre Letter
4 (attached as Exhibit C to Joint Application).

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

6 **A. Yes, it does.**

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.