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Latest Acquisition In Telecommunications Industry

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With the flurry of media attention directed toward the telecommunications industry since last week's announcement of the acquisition of AT&T by SBC, the number of truly good opportunities for quick witted pundits have been, to quote an over-caffeinated local car salesman, "huge."

The fact a corporate acquisition of this magnitude that will not close until at least 2006 has relevance to the average residential or corporate consumer. While SBC is the first of the Ma Bell's offspring to successfully acquire a major player in the national — as opposed to regional — telecommunications marketplace, it is anticipated that deals involving the two largest remaining players, MCI and Sprint, may be completed sooner rather than later.

Telecommunications Act Of 1996

Aside from the fact that such acquisitions make sense from many different perspectives, this newest consolidation in telecommunications may ultimately yield some of the results the drafters of the Telecommunications Act of 1996 actually intended.

This wasn't the circuitous route that the drafters envisioned, but in the end, there may, in fact, be competition on the local level as the four surviving Regional Bell Operating Companies (RBOCs) — and I include Qwest in that group because of its size (and dominance based upon its early acquisition of original RBOC USWest) — are finally forced to compete with each other in territory that has traditionally been viewed as not theirs.

One of the goals of the Telecommunications Act of 1996 was to create meaningful competition on the local level. By allowing the RBOCs to sell services in their competitors' states, it was hoped that consumers would have more options for the critical "last mile" of service. However, rather than compete with each other, the large local providers simply acquired each other, thus eliminating the opportunity for the competition that had been originally envisioned.

As the RBOCs that were big to begin with acquired each other and largely consolidated the market for the last mile, and as the technology made the role of the long distance provider less powerful in the telecommunications marketplace (evidence of this is found in the many providers who currently offer a flat rate "all you can eat" long distance), the power has really shifted from the parent to the child. The long distance providers who were in the driver's seat have now been relegated to the trunk in favor of their better positioned, more mature, and savvy offspring.

Impact Of AT&T Acquisition

Contrary to popular belief, at least in this part of the world, the most powerful RBOC is not Verizon, but SBC. There is no question that the traditional long distance market has changed dramatically in the past few years, as a result of technological and regulatory changes, as well as market forces of competition fueled by MCI's incredibly aggressive (read: fraudulent and felonious) conduct.

Like all of the traditional long distance carriers who have taken a hit on the bottom line, AT&T has still remained one of the most visible players with an enviable international data network and an impressive list of satisfied corporate clients. And until recently, it also had one of the most effective lobbies in

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Washington which helped to keep its competitors at bay for a long, long time.

However, as skier and race car driver Denise McCluggage once wisely said, "Change is the only constant. Hanging on is the only sin." With the technology of Voice over Internet Protocol (VoIP) breathing down the neck of more traditional technologies and challenging the common long distance and data communications business models, AT&T has found its base shrinking. The entities that were stalwart customers have been lured away by better technology, pricing or both.

From SBC's perspective, acquisition of a brand like AT&T is more like an expensive dream come true. What San Antonio-based SBC lacks in geographic coverage, nationwide branding and an impressive array of large corporate customers, AT&T brings to the table in spades. SBC also has virtual stockpiles of cash with which to "spread the good word" about one stop telecommunications shopping.

My friend and colleague Joe Webb, president of Webb & Associates, a consulting firm in the Boston area said last week, "Isn't it amazing that the smallest Bell company (Southwestern Bell Co.) ended up not only swallowing up a larger Bell (Pacific Bell) but is now buying Ma Bell back. It's like a dysfunctional family reunion."

From my perspective, when this round of the telecommunications shakeout is complete, unlike in the original Bell System, there will not be one provider, but rather two or three very strong competitors in most major markets.

Other Consolidation Factors

Other factors in the consolidation include the rise of both wireless and cable-based telephony products.

While I strongly discourage people that I know from abandoning their landlines for wireless phones (the time will come for that, but it is not yet here), many have taken the plunge to save money and improve convenience. (I have written about this issue before and will not belabor those points. Suffice it to say that abandoning a wireline phone at home at this time is penny wise and pound foolish.)

The other challenging technology is that of VoIP, which can, technologically-speaking, be provided by cable companies. Whether — and how — such service can be provided legally is another matter entirely. What was once viewed as wireline-only competition has morphed into competing technologies with wireless and cable jumping, with both feet, into the fray.

Finally, while MCI has not responded to the offer made in early February by Qwest, and while, as of press time, no one had made a visible play (yet) for Sprint, you can be sure that more consolidation will follow.

With a plot that would make any daytime drama writer proud, the saga of the telecommunications industry never ceases to be interesting and full of unanticipated twists and turns. We used to call it "As the Rotary Dial Turns." That's very old technology. Now perhaps it should be called simply "Telecommunications General Hospital."

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