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Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

RECEIVED
JUL 12 2000
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *In the Matter of Applications of America Online, Inc. and
Time Warner Inc. for Transfer of Control - CS Docket No. 00-30*

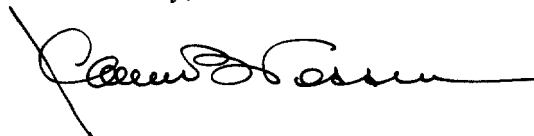
Dear Ms. Salas:

Today, Marc Galonsky, Senior Attorney - Legal, BellSouth Corp., Bill Norton, Senior Director – Public Policy, BellSouth Corp., Eric Schwartz, Vice President – Strategy and Business Alliance and the undersigned met with the following Office of Plans and Policy staff to discuss the above-captioned proceeding: Robert Pepper - Chief, Jerry Faulhaber - Chief Economist and Michael Kende - Director of Internet Policy Analysis. We also met with Douglas Sicker - Chief, Network Technology Division of the Office of Engineering and Technology.

The purpose of the meeting was to discuss BellSouth’s views regarding the proposed merger focusing on three issues: the forces and effects of the converging digital marketplace; the four distinct layers in the provision of integrated digital media services and their particular application to AOL and Time Warner; and, the need to consider the imposition of “deal-specific” safeguards on the merging companies with regard to (i) access to content; (ii) instant messaging interconnection and (iii) market-based network access. Attached to this notification is a copy of the document distributed at the meeting.

Please direct any questions regarding this matter to the undersigned.

Sincerely,



Attachment

cc: Robert Pepper Michael Kende
 Jerry Faulhaber Douglas Sicker


No. of Copies rec'd 0+2
List A B C D E

AOL - TimeWarner Discussion Package

June 14, 2000

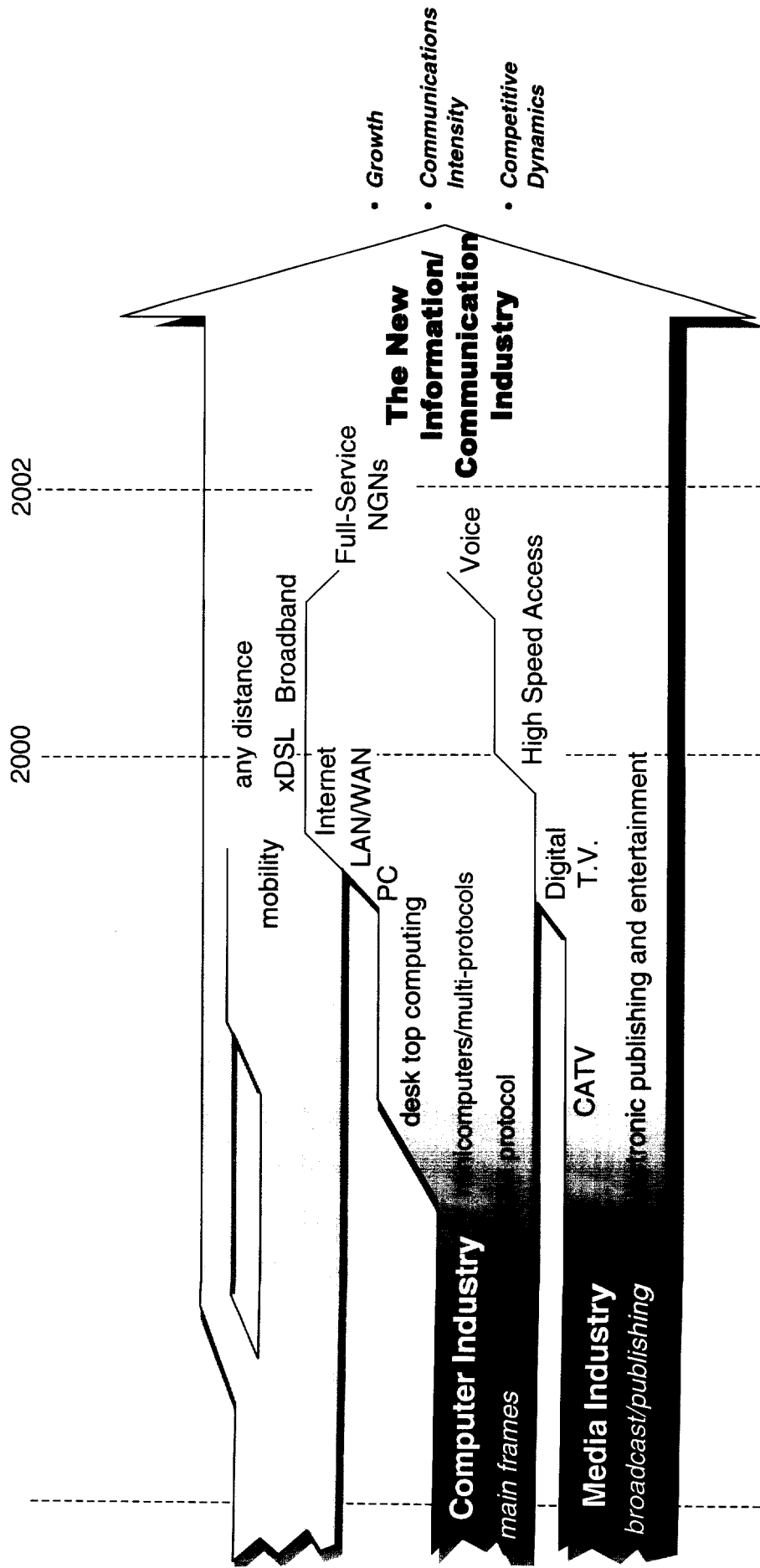
DIGITAL CONVERGENCE IS CAUSING A FUNDAMENTAL RESTRUCTURING OF MULTIPLE, HISTORICALLY INDEPENDENT INDUSTRIES.

Digital Convergence

- 
- *A Common broadband digital architecture,...*
 - *Employing a common protocol,...*
 - *Comprising multiple access methods,...*
 - *To more cost-effectively support virtually any voice, data, image or video application*

- 
- ***New Industry Definitions***
 - ***Significant Consolidation***
 - ***New Customer Services***

DIGITAL SIGNAL PROCESSING, STORAGE AND TRANSMISSION ARE NOW CREATING THE OFTEN REFERRED TO MEDIA CONVERGENCE.



DIGITAL CONVERGENCE AND ITS EFFECTS ARE INEVITABLE. THE QUESTIONS SURROUND HOW BUSINESSES AND REGULATION DEAL WITH IT.

Driving Forces

- **Growth:**
- **Technology:**
- **Productivity:**
- **Consolidation:**
- **Public Policy:**

Effects

Convergent Networks are an essential centerpiece of the digital economy












Technical forces can now facilitate both growth and competition

Economic growth, in general, turn upon the continuing gains occurring in and around the Internet, e-biz, productivity, etc.

Convergence is inevitable. New standards must be developed and, in the interim, deal-specific safeguards should be imposed.

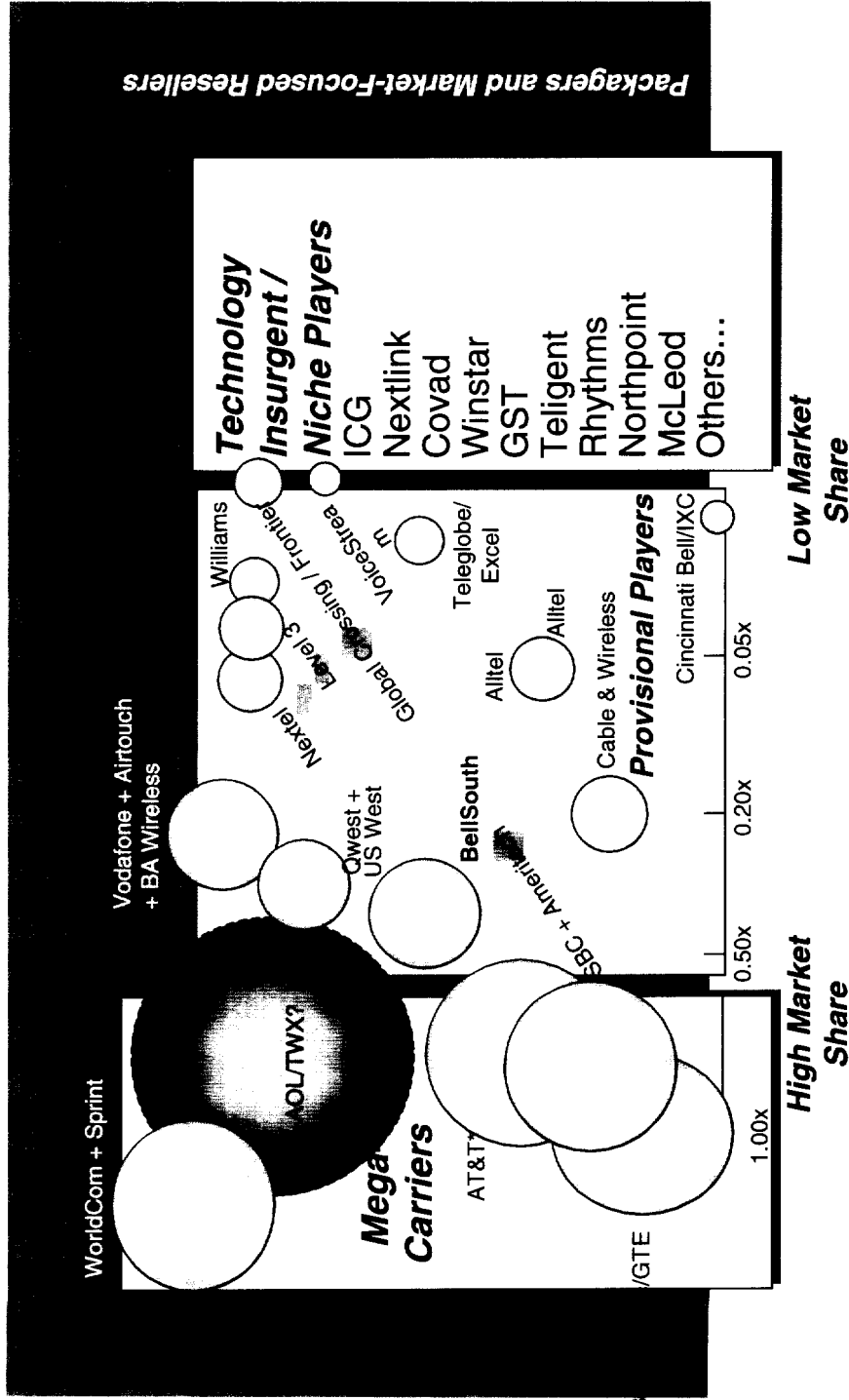
Convergent Networks are an essential centerpiece of the digital economy

CONSOLIDATION IS REAL. LEADING INDUSTRY PLAYERS HAVE INVESTED OR MERGED INVOLVING OVER HALF A TRILLION DOLLARS MARKET VALUE

Player	Convergence Strategy	Acquisition/Partnership	Investment
	<p>Aggressively acquiring last mile and bundling them in a vertically integrated fashion. Has telephony access to 67% of cable HHs and seeks to deploy fixed wireless for the rest</p>	 	<p>\$62B in acquisitions \$2.5B in TCI upgrade</p>
	<p>Aggressively expanding local access through the acquisition of USWest and connecting high- end residential and business customers to its state-of-the-art IP backbone with DSL</p>		<p>\$49</p>
	<p>Bundling television, telephone and internet services into one bundle that will be integrated around AOL service</p>		<p>\$166B</p>
	<p>To offer complete bundle of high-growth communications services nationwide, Bell Atlantic made significant investments in LD, enhanced data, and IP-based products through purchase of GTE</p>		<p>\$53B</p>
	<p>Planning to merge with Sprint who already invested \$1.2bn in fixed wireless properties and has a national PCS network. In addition investing in MMDS licenses</p>		<p>\$129B</p>

DIGITAL CONVERGENCE, COUPLED WITH STRATEGIC GROWTH DYNAMICS, IS RAPIDLY CONVERTING THE TELECOM LANDSCAPE INTO A 4-6 MEGA PLAYER AFFAIR

ILLUSTRATIVE



○ = \$50B Market Capitalization

*AT&T includes revenue and market cap for TCI and MediaOne
 **Bell Atlantic / GTE wireless revenue have been moved to the Vodafone bubble

WHILE CONSOLIDATION AT SOME LEVELS WILL CONTINUE, COMPETITION NOT AFFILIATIONS/ALLIANCES BETWEEN "MEGA" PLAYERS IS ESSENTIAL

- **Any joint ownership of Time Warner Entertainment, Time Warner Cable and Roadrunner by AOL/TW and AT&T/CI/MediaOne must be eliminated.**
- **Any significant business arrangement between these same parties, for example, one in which AT&T provides to AOL access to its customers on a preferential basis for ISP services in exchange for AT&T access, for telephony purposes, to the cable customers of Time Warner, must be prohibited.**

THERE ARE FOUR DISTINCT LAYERS IN THE PROVISION OF INTEGRATED DIGITAL MEDIA SERVICES THAT MUST BE REVIEWED WHEN ASSESSING ANY MEGA MERGER BUT ESPECIALLY THE VERTICAL INTEGRATION OF TWO DOMINANT PLAYERS LIKE AOL/TW

They apply specifically to AOL/TW as follows:

<u>Layer</u>	<u>Name</u>	<u>Examples</u>
4	Content	TV Programming, Movies, Magazines, Music, etc.
3	Aggregation of Content Applications	Portals, e.g. AOL, Yahoo, etc Messaging/Chat, e.g. ,AOL Instant Messaging, ICQ, AOL Chatrooms, Video On Demand
2	Internet Access	AOL, @Home, TW Roadrunner
1	Physical Infrastructure	Time Warner Cable, AT&T, Telco...

Content Access

Messaging Access

Network Access

THE AOL/TW MERGER REQUIRES CLOSE REVIEW AT SEVERAL LAYERS ON ITS OWN MERITS AND THEN IT MUST ALSO BE REVIEWED IN TERMS OF ANY POTENTIAL RELATIONSHIP TO AT&T/MEDIAONE.

- **Open Access to Content**
- **Clear Instant Messaging Interconnection**
 - **Market Based Access to AOL Environment**
- **Market Based Network Access**

• CONCLUSIONS

- AOL/Time Warner might well be approved, but will require multiple deal-specific safeguards
- Market based content and network access safeguards must be clearly and absolutely dealt with in the AOL/Time Warner case given the magnitude of combined retail market control and the significance of their vertical content ownership.
- Current and future linkages between AT&T/MediaOne and AOL/Time Warner must be totally prohibited.