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May 5, 2000

**NOTICE OF EX PARTE PRESENTATION**

Magalie Roman Salas, Esq.  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> St., S.W.  
Washington, D.C. 20554

Re: *In the Matter of Applications for Transfer of Control to AT&T Corp. of Licenses and Authorizations Held by MediaOne Group Inc., CS Docket No. 99-251; In the Matter of Applications of America Online Inc. and Time Warner Inc. for Transfers of Control, CS Docket No. 00-30*

Dear Ms. Salas,

Please be advised that on May 4, 2000, Sandra Wagner, Vice President, Federal Regulatory, and Cindy Mahowald, Vice President and General Counsel met with David Goodfriend, Legal Advisor to Susan Ness, in connection with the above referenced matters. Attached is a copy of the printed materials that were discussed at this meeting.

In accordance with the Commission's rules concerning ex parte presentations, one copy of this notice is provided. Should you have questions concerning this matter, please do not hesitate to contact me.

Respectfully submitted,

Attachments

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## AT&T / MediaOne and AOL / TW Mergers: Adding Up the Pieces

### Links in Cable and Internet Broadband World

- AT&T cable interests includes AT&T, its cable affiliates, and the cable affiliations of Excite@Home (Cox, Comcast, and others).
- Combined with the cable interests of MediaOne and Time Warner, the consortium of the merged companies will reach 83 million US households.
- AT&T has controlling interest in largest broadband ISP, Excite@Home.
- MediaOne and Time Warner own second largest broadband ISP, RoadRunner.
- Result: more than 80% of US homes under the cable / broadband umbrella of AT&T/MediaOne and Time Warner.
- AOL is poised to become the largest broadband ISP by migrating its more than 20 million subscribers from narrowband to AOL Plus. Applicants themselves believe AOL will successfully migrate subscribers to broadband.

### Links in the Programming / Content World

- AT&T is sole owner of Liberty Media, which owns 9% of Time Warner, Inc., the parent company of TBS and Time Warner Cos.
- TBS owns an array of entertainment and content assets including CNN, TNT, TBS cable network, etc.
- TW Cos. (which includes Time Warner Entertainment) own vast programming assets, vast library of movies and other content, music, publishing, cable networks such as HBO, Cinemax, Warner Bros., Time Inc., Sports Illustrated, etc.
- MediaOne has 25.5% equity in TWE, which includes marquis cable networks, entertainment, and cable systems.
- AOL owns proprietary Internet content; boasts most heavily visited sites on the Internet.
  - ...77% of all Internet subscribers visit AOL sites.
  - ...38% of Internet time on AOL.

### Sum of the Parts:

- Even without equity interests in each other, the interests and incentives of AT&T/MediaOne and AOL/TW are aligned.
  - AT&T's Chairman C. Michael Armstrong: "Between our alignment in cable and our alignment in terms of our investment and our interest in being on each other's infrastructure, I do anticipate that we ought to be able to work out a relationship."
  - AT&T's Armstrong: "[T]he AOL/Time Warner deal is going to be positive. First of all, it now aligns AOL as a major cable owner, and that means our interests are common. Number two, we have been working with Time Warner to do a telephony deal. This is going to enhance the prospect of getting that done."
  - AOL's Steve Case and Time Warner's Gerald Levin: "AT&T certainly is a preeminent communications company, and they are the leading cable company, and they have a lot of relationships now with Time Warner through Road Runner and MediaOne and Time Warner Entertainment and things like that. So we look forward to a good dialogue with Mike Armstrong."
- These are not the kinds of things a competitor says about its competitors' deals.
- Alignment goes well beyond cable and cable telephony. It's about the future of the broadband Internet.

### Concerns

- Between them, the merged companies effectively control cable and broadband Internet access for 80 % of US homes.
- Between them, these companies own 8 of the top 15 video programming services, including 4 of the top 5; the majority of the most popular Internet content; marquis cable networks; movie and television entertainment studios; and other premiere assets.

Concerns (con't)

- With their combined interests in access, content, and programming, these companies would have the incentive and ability to act collectively and exert undue control.
  - ...leverage dominance on homes reached to programming.
  - ...leverage programming and content to distribution.
  - ...slow development of new applications such as streaming video.
  - ...incent development of broadband specific applications and hardware to favor cable.
  - ...limit consumer choices and access to content.
- Commitment to “open-ness” is vague at best. For example:
  - AOL/TW MOU is non-binding and glaringly devoid of application to content, programming, etc.
  - AT&T has acquired full control of Excite@Home.<sup>1</sup> Preferential arrangements have been extended to AT&T through 2008, and to the other cable partners through 2006. Among the features of the new agreement are
    - ...AT&T and the cable partners will feature Excite@Home's portal.
    - ...platform and content alignment among the partners.
    - ...longevity of Excite@Home “business model”.
    - ...cable partners will forfeit warrants to purchase stock if they terminate the exclusivity or the new distribution arrangement early.
  - Excite@Home's partnership with Rhythms NetConnections for DSL access outside its cable footprint includes preferential treatment for the ISP.<sup>2</sup>
  - AOL is widely speculated to be discussing alliances with AT&T.

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<sup>1</sup> AT&T Ex Parte filed March 29, 2000.

<sup>2</sup> Communications Daily, April 12, 2000, page 11.

### Mergers Should be Considered Together

- If consummated, these mergers would clearly marry the interests of AT&T/MediaOne and AOL/TW.
- The potential harms go well beyond today's cable TV and even today's Internet.
- Unless considered together, the risk of insufficient remedy is heightened.
- Divestiture is a complicated remedy, especially in the unique circumstance that is before the Commission.

### Remedies

- The announcement of the AOL/TW merger thwarts the Commission's ability to remedy, in isolation, a merger between AT&T and MediaOne.
- A set of conditions which the Commission might once have considered sufficient are no longer adequate in the face of the potential for collective action between two giant media companies.
- If approved, these two mergers should be structured to prevent the companies from leveraging their dominance in transport into content and vice versa.
- AT&T/MediaOne and AOL/TW should be prohibited from equity relationships or any form of preferential business dealings with each other.

