AT&T Completes BellSouth Takeover
FCC Approves $85 Billion Deal

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The Federal Communications Commission yesterday overcame a seven-month deadlock and approved AT&T's $85 billion purchase of BellSouth, creating a new corporate giant that will stand astride the telecommunications industry like none other in the generation since the old AT&T empire was broken up in 1984.

The acquisition, which closed yesterday, reunites large parts of AT&T's former domain by folding BellSouth's nine-state territory into AT&T's existing operations spanning the Midwest, Southwest and West Coast. It gives AT&T complete control of Cingular Wireless, the country's largest mobile-telephone provider, at a time when wireless is the newest frontier for reaching the Internet. Cingular is jointly owned by AT&T and BellSouth.

Unequaled in capital and geographic reach, the new AT&T could be a tough adversary for cable companies by offering television service over the Internet, possibly lowering rates for customers in its service area. Several conditions imposed on the acquisition to protect consumers could encourage the availability of affordable broadband. AT&T agreed to offer high-speed Internet for $19.95 a month over the next 30 months without requiring customers to purchase phone service from the company.

AT&T's size could also give it more power to set prices for telephone and other services -- although it agreed temporarily not to impose new charges on Web companies that use its lines -- and to influence political debate over telecommunications well beyond its service area. In the Washington area, where Verizon Communications is the primary phone company, the immediate impact of the merger is likely to be limited, FCC officials said.

"AT&T will be an engine for innovation, competition, and growth for our customers at home and abroad," chief executive Edward E. Whitacre Jr. said in a written statement. "In the Southeast, we will build on BellSouth's excellent record of serving customers and communities. And we are ready to lead the way in a new era of integrated wireless services nationwide."

The FCC had long been deadlocked over AT&T's purchase of BellSouth as Republican and Democratic commissioners sparred over what conditions to impose on the deal. But in the past 10 days, AT&T redoubled its efforts to break the impasse, pressing for a resolution before the end of the year. On Thursday, the company offered significant concessions to protect consumers and ensure competition and, with only minutes remaining before the close of the year's business, the board's two Democrats set aside their objections to join with two Republicans to approve the acquisition.
Kevin J. Martin, the FCC chairman and the deal's principal advocate on the commission, said it would help realize his goal of extending broadband Internet service across the nation by fostering competition. "This deployment is critical to our nation's competitiveness in the global economy and to our national security," Martin and fellow Republican commissioner Deborah Taylor Tate said in a joint statement. "All consumers should expect to benefit from this technology."

AT&T's last-minute commitments include a two-year pledge to abide by "net neutrality" -- agreeing not to discriminate against Web companies in pricing or in access to lines. That was an about-face for the company, which has argued that it should be allowed to give priority to Internet firms such as Google, Yahoo and Microsoft if they pay for it. Whitacre said last year that anyone expecting to use the phone lines free was "nuts."

Besides offering to sell stand-alone Internet service for $19.95 a month, AT&T also agreed to give up some wireless licenses suitable for high-speed Internet so that other companies could compete. The company also said it would freeze the rates for "special access" lines that serve some large businesses and move 3,000 BellSouth jobs to the United States from overseas.

"A historic merger warrants historic conditions," said Jonathan S. Adelstein, a Democrat on the commission who had refused to support the deal without consumer protections. "We won far more concessions to benefit the public than anyone predicted when this deal was announced."

With a market capitalization of $225 billion, the new AT&T will vastly outgun its leading competitor, Verizon, which was born six years ago in a $52 billion merger between GTE and Bell Atlantic.

But while the merger creates a new AT&T behemoth, the combined company is far different from the one that reigned for 70 years as a government-regulated monopoly and architect of the world's most advanced, comprehensive and affordable telephone system. That corporation, at the time the largest in the United States, had so cornered the market on communications that many Americans referred to it simply as the phone company.

Even as the new AT&T faces limited competition from other telephone operators, it is challenged by cable and computer companies playing in a far larger, more complicated marketplace encompassing television, broadband and wireless, as well as local and long-distance land-line telephone service. In recent years, cable companies have been more successful at poaching the phone business -- bundling it with TV and broadband and selling it to subscribers -- than traditional telephone operators have been in crossing over to television.

Earlier this month, a divided FCC approved a measure aimed at helping telephone companies move into cable television markets by significantly limiting what local officials can demand in return for franchises.

Gary Arlen, president of Arlen Communications, a Bethesda research firm, said AT&T's acquisition of BellSouth "reflects a natural oligopoly." In the early days, "public utilities were a natural monopoly. In our digital era today, competition is now not between the Bell companies, but between Bell and cable operators and some wireless [companies] in there."

Gigi B. Sohn, president of the Public Knowledge advocacy group, praised the FCC for approving the merger with strong conditions, especially on net neutrality, and urged the commission make sure that AT&T complies. In particular, she said the company might try to evade part of its net-neutrality commitment by
claiming that the television service it provides over the Internet is akin to cable television and thus not subject to the condition.

Though the merger represents a landmark in U.S. telecommunications, it would be misleading to cast the corporate takeover as an epic tale of AT&T reconstituting itself from the wreckage of the 1984 breakup and its disastrous business decisions. The decline began with the divestiture, when AT&T gambled that it would be more lucrative to keep its long-distance business and cut loose the regional phone companies. But that meant jettisoning the huge number of employees and customers who gave the company political clout. In 1996, the regional companies and others won the right in Washington to compete for long-distance and the tide started turning against AT&T.

As intense competition forced prices for long-distance to fall, AT&T struggled to find a new calling and looked to cable. It again splintered six years ago, into four separately traded companies for broadband, wireless, business services and consumer services.

AT&T today is an utterly different corporation than the old Ma Bell, sharing little more than the name. The company that now flies the AT&T flag was until last year known as SBC Communications Inc. SBC, one of the original Baby Bells, gobbled up the relatively meager, sickly remains of the old AT&T, then took its venerated name before turning its appetite earlier this year to BellSouth.

Staff researcher Richard Drezen contributed to this report.

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