Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of:	)	
	)	
Verizon Communications Inc. and MCI, Inc.	)	WC Dkt. No. 05-75
Applications for Approval of Transfer of Control	)	

COMMENTS OF AD HOC TELECOM
MANUFACTURER COALITON IN SUPPORT OF APPLICATIONS

These comments, by an ad hoc coalition of telecommunications manufacturing companies, urge approval of the application requesting authority for Verizon to acquire MCI. We believe that the grant of this authority will serve the public interest since Verizon then is likely to invest far more heavily in both the Verizon and MCI telecom networks than the two companies would invest if the acquisition did not occur. Sections 214 and 310(d) of the Communications Act require the Commission to approve a proposed acquisition of this sort if benefits outweigh risks.[1] And in weighing benefits and risks, these Sections require that the Commission consider the acquisition's impact on network investment.[2]

DISCUSSION

There is substantial evidence that Verizon will make a larger capital investment in both the Verizon and MCI networks if it is permitted to acquire MCI than either company would make in its existing networks if authority to acquire MCI were denied. First,

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[1] *See* Time Warner/AOL Merger Order at ¶¶ 19-22, FCC 01-12 (rel. Jan. 22, 2001).

[2] *See,* e.g., Sec. 706(a) of Telecom Act of 1996, reproduced under the notes to 47 U.S.C. § 157 (stating that Commission shall "encourage deployment of advanced telecommunications capacity to all Americans" using methods that "remove barriers to infrastructure development"); *Puerto Rico Telephone Authority/GTE Merger*, 14 FCC Rcd. 3122 at ¶ 58 (1999) (finding that the proposed merger at issue in that case was in the public interest in part because it was likely to result in additional infrastructure investment).

Verizon's historic commitment to aggressive capital spending is itself evidence that investment is likely to increase in the MCI network if Verizon acquires MCI. For example, Verizon reduced capital spending far less than any other large carrier following the economic collapse of the telecom industry in 2000.[3] Moreover, capital spending represents a far larger percentage of Verizon's gross revenues than does the capital spending of any of the other largest U.S. carriers.[4]

A second reason why we believe network investment will increase substantially in the MCI network if Verizon is permitted to buy MCI is that the Wall Street analysts who follow Verizon closely reportedly have concluded as a group that they "expect[] to see a flurry of new [capital] spending after Verizon acquires MCI."[5] Verizon's capital spending track record discussed above undoubtedly contributes to the analysts' optimism as does the fact that very few capital spending synergies are created by the proposed acquisition since there is little overlap between the Verizon and MCI networks.[6]

The most concrete reason why network investment will increase in the MCI network if the Commission permits Verizon to buy MCI is the fact that Verizon has

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[3] The following chart, derived from Forms 10-K, shows the percentage change in capital spending year-over-year by each of the seven largest U.S. carriers:

	VERIZON	SBC	BELLSOUTH	QWEST	AT&T	SPRINT	MCI
Dec '01 - Dec. '02	-24.8	-39.3	-36.7	-65.8	-30.4	-46.7	-87.3
Dec.'02 - Dec. '03	-0	-23.5	-15.8	-23.9	-12.8	-20.8	-20
Dec.'03 - Dec. '04	+2.8	-1.9	-3.1	-17.6	-47.0	+4.7	+20

[4] R. Saunders, "Critical Implications of the Proposed Qwest MCI Merger: An Industry White Paper" at 6, The Eastern Management Group, 2005 (reporting Verizon capex as roughly 19% of revenue in 2004 and 18% in 2003 while the large carrier with the next best capex as a percentage of revenue was BellSouth in 2004 (roughly 15%) and Qwest in 2003 (roughly 14%)).

[5] Id. at 5.

[6] *See, e.g.*, J. Halpern, Bernstein Research Call at 12, Feb. 14, 2005.

promised to upgrade the MCI network to state-of-the art, a commitment which financial analysts estimate will require between $2.5 and $3 billion more capital spending within the next three years than MCI would be likely to make if the acquisition did not occur[7] and which Verizon itself estimates in its application will require at least $2 billion beyond what MCI is likely to commit on its own:

> "The marriage of the two companies promises immediate efficiencies and long-term innovations that neither company could achieve on its own. Verizon will invest substantially to produce these benefits, and has already committed to an investment of $2 billion in MCI's network and information technology platforms."[8]

Adding $2-3 billion to the amount that MCI otherwise would spend on capital improvements in the next few years will permit substantial modernization of MCI's network infrastructure. This is evidenced by the fact that although MCI's capital spending averaged slightly less than $1 billion for each of the last three years, the company recently reported that even that level of spending is sufficient both to maintain the MCI network and to undertake some "new projects in furtherance of our IP-based strategies."[9] If an average capital expenditure of slightly less than $1 billion per year is enough both to maintain and make some improvements to the existing MCI

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7 *Id.* at 2-3; Fulcrum Global Partners LLC Morning Meeting Notes, Feb. 28, 2005; Critical Implications of the Proposed Qwest MCI Merger, *supra*, at 5.

8 Application, Exh. 1 (Public Interest Statement) at 11. *See also* Application, Att. 3 (Bruno/Murphy Declaration) at ¶ 51.

9 MCI Form 10-K at 18 (filed March 16, 2005). It is not clear that MCI would be able to maintain even its existing yearly investment program of $1 billion if the present request for merger authority were rejected, let alone increase its investment program as Verizon has promised to do if the merger is permitted. For example, MCI reported two months ago that although it hopes to make roughly $1 billion in capital expenditures again this year (*id.* at 56), actual capital spending might not reach that level because "we continue to seek ways of . . . limiting capital expenditures" due to the company's continuing dramatic decline in year-over-year gross revenues (e.g., $28.5 billion in 2002 and $20.7 billion in 2004). *Id.* at 18.

infrastructure, the additional improvements that will be possible by roughly doubling existing spending over the next two or three years should be substantial.

Yet another reason why Verizon's purchase of MCI will result in increased capital spending is that it is likely to produce not only increased investment in the MCI network as discussed above but also more spending than otherwise would occur in Verizon's existing local and regional networks. This is because after acquiring MCI, Verizon almost certainly will feel more pressure than otherwise to invest in its local and regional networks in order to compete effectively with SBC/AT&T, a brand new enterprise and one that will be a formidable competitor in areas where Verizon's local and regional networks are located. While Verizon already competes with AT&T (and to a lesser extent with SBC) in areas where Verizon's local and regional networks are located, the new SBC/AT&T enterprise will be a much stronger competitor in these areas than either SBC or AT&T acting alone because it will have substantially greater resources available to it than would SBC and AT&T acting alone.

CONCLUSION

The Commission should grant the application authorizing Verizon to acquire MCI since the acquisition is likely to promote more rapid investment in telecom infrastructure.

Respectfully submitted,

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