

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

ORIGINAL

September 1, 2005

**Ex Parte**

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Washington, DC 20554

RECEIVED

SEP - 1 2005  
Federal Communications Commission  
Office of Secretary

**Re: Applications for Consent to Transfer of Control Filed by Verizon  
Communications Inc. and MCI, Inc., WC Docket No. 05-75 - REDACTED**

Dear Ms. Dortch:

Attached is a white paper addressing issues associated with the impact of this transaction on the mass market. This paper is an effort to collect in one place the points made in a number of previous submissions, including the application and reply, responses to data requests, and responses to ex parte submissions by other parties. We are filing separately a confidential version of this paper.

Please let us know if you require any additional information.

Sincerely,



Dee May  
Verizon



Curtis Groves  
MCI

Enclosure

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

0+4

REDACTED FOR PUBLIC INSPECTION

cc: Julie Veach  
William Dever  
Ian Dillner  
Gail Cohen  
Michelle Carey  
Tom Navin  
Don Stockdale  
Gary Remondino  
Jim Bird

**REDACTED FOR PUBLIC INSPECTION**

**JOINT SUBMISSION OF  
VERIZON COMMUNICATIONS INC. AND  
MCI, INC.**

**MASS MARKET WHITE PAPER**

**September 1, 2005**

**REDACTED  
FOR PUBLIC INSPECTION**

**TABLE OF CONTENTS**

**I. INTRODUCTION..... 1**

**II. THE MERGING COMPANIES' MASS MARKET BUSINESSES ..... 5**

    A. VERIZON ..... 5

    B. MCI..... 6

**III. THE RELEVANT MARKET..... 14**

    A. THE PRODUCT MARKET ..... 15

    B. THE GEOGRAPHIC MARKET ..... 16

**IV. ANALYSIS ..... 17**

    A. MCI IS NOT A SIGNIFICANT COMPETITIVE CONSTRAINT FOR INTEGRATED LOCAL AND  
    LONG DISTANCE SERVICES ..... 17

        1. MCI Activities as a Distributor of Incumbent Service Are Not Competitively  
        Significant ..... 18

        2. MCI Could Not Become a Significant Competitor by Selling Mass Market Services  
        Over Unbundled Incumbent Loops..... 25

        3. MCI Will Not Be a Competitively Significant Retail VoIP Provider. .... 26

        4. Competitive Constraints Now Come From Cable Companies and Other Intermodal  
        Operators, Including Wireless and VoIP ..... 27

    B. THE ACQUISITION OF MCI WILL NOT INJURE COMPETITION IN THE SALE OF  
    STANDALONE LOCAL RESIDENTIAL WIRELINE VOICE SERVICES ..... 52

        1. Lines..... 52

        2. Revenues ..... 54

        3. Marketing..... 55

    C. THE TRANSACTION WILL NOT INJURE COMPETITION IN THE SALE OF STANDALONE  
    LONG DISTANCE SERVICES TO MASS MARKET CUSTOMERS..... 56

        1. The sale of standalone consumer long distance by wireline carriers is diminishing  
        rapidly ..... 57

        2. All-Distance Services, Including From Wireless, Cable, and VoIP, Are Effective  
        Alternatives to Standalone Long Distance..... 60

        3. Verizon's Acquisition of MCI Will Not Harm Remaining Standalone Long Distance  
        Customers ..... 61

    D. MCI DOES NOT SERVE AS A COMPETITIVE CONSTRAINT IN THE MARKET FOR  
    TELEPHONE SERVICES PROVIDED TO MASS MARKET SMALL BUSINESS CUSTOMERS ..... 61

    E. MCI IS NOT A COMPETITIVELY SIGNIFICANT PROVIDER OF WHOLESALE SERVICES TO  
    VOIP PROVIDERS..... 64

## I. INTRODUCTION

The merger of Verizon and MCI will not lessen mass market competition. MCI's mass market business has been, and will continue to be, in a state of inevitable and irreversible decline. Competitive pressures in the mass market now depend on facilities that MCI does not have (fiber connections to homes, cable networks, and wireless networks) or on services in which MCI has no distinctive role (Voice over Internet Protocol). Competition does not depend on the commoditized long distance assets, or the practice of leasing the facilities and reselling the services of incumbent phone companies, that are the hallmark of MCI's mass market offerings. MCI has no ability suddenly to acquire the key assets used to provide the services that are driving mass market competition. MCI is thus no longer one of a small group of significant competitors in the mass market.

By every measure, MCI's mass market business has declined dramatically. MCI has been forced to cut back drastically on marketing the original service on which the company made its name—standalone long distance service. MCI's monthly revenues from consumer standalone long distance services have fallen by [BEGIN PROPRIETARY] [END PROPRIETARY]—from [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2003 to less than [BEGIN PROPRIETARY] [END PROPRIETARY] in May 2005. MCI's base of customers dropped [BEGIN PROPRIETARY] [END PROPRIETARY]—from [BEGIN PROPRIETARY] [END PROPRIETARY] to fewer than [BEGIN PROPRIETARY] [END PROPRIETARY]—in the same period. MCI also provides to the mass market a bundle of local and long distance service, with the local service resold from incumbent phone companies and the long distance service provided over MCI's facilities. This business is likewise in decline. MCI's monthly revenues for mass market bundles dropped from a peak of more than [BEGIN PROPRIETARY]

REDACTED  
FOR PUBLIC INSPECTION

[END PROPRIETARY] in July 2004 to less than [BEGIN PROPRIETARY]

[END PROPRIETARY] by May 2005. Nationally, its bundled lines have declined by more than [BEGIN PROPRIETARY] [END PROPRIETARY] since peaking at [BEGIN PROPRIETARY] [END PROPRIETARY] in June 2004. In Verizon's territory, MCI provides bundled service to [BEGIN PROPRIETARY] [END PROPRIETARY], down from a peak of [BEGIN PROPRIETARY] [END PROPRIETARY]. When wireless phones are counted, MCI's share of consumer telephony is only [BEGIN PROPRIETARY] [END PROPRIETARY].<sup>1</sup>

MCI's decline has fed on itself. To contain the costs of its mass market operation, MCI has been forced to cut marketing and customer service. The number of employees in MCI's mass market group has fallen more than [BEGIN PROPRIETARY] [END PROPRIETARY], from approximately [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2002 to fewer than [BEGIN PROPRIETARY] [END PROPRIETARY] in early 2005. MCI has closed [BEGIN PROPRIETARY] [END PROPRIETARY] call centers and [BEGIN PROPRIETARY] [END PROPRIETARY] customer service centers, and it has effectively ceased all broadcast advertising. At the same time, MCI has imposed significant price increases—a practice it will continue as the prices it has agreed to pay for leased local facilities rise over time.

The decline in MCI's mass market business has resulted from a combination of marketplace and regulatory factors that are independent of the proposed transaction.

---

<sup>1</sup> See CTIA, *CTIA - The Wireless Association's Annualized Wireless Industry Survey Results, December 1985-December 2004* (2005) (more than 182 million wireless access lines were in service at the end of 2004).

REDACTED  
FOR PUBLIC INSPECTION

- **Cable telephony.** Cable companies are offering a bundle of local and long distance services using their own facilities. Cable companies are extremely effective competitors because they are able to offer broadband and video services together with telephony, providing a full array of services to customers.
- **Wireless substitution.** With the growth in packages offered by wireless firms, consumers regard wireless minutes as “free.” They use their wireless phones to make both long distance and local calls they previously would have made on landline phones. Wireless phones have displaced millions of wirelines.
- **VoIP and other Internet-based alternatives.** MCI faces additional competition as VoIP attracts more consumers as a low-cost alternative to wireline services. Some Internet-based services allow consumers to make local and long distance calls for free. E-mail and instant messaging also provide means to communicate across any distance at no cost.
- **Commoditization of the standalone long distance business.** The wide availability of these intermodal alternatives, the entry of local incumbents into long distance, and a glut of long-haul network capacity that triggered dramatic price reductions, have caused consumers to regard long distance service as an interchangeable commodity.
- **The end of regulated access to incumbent facilities.** MCI’s mass market business hinged on access to the facilities of incumbent phone companies at rates set by regulators. Decisions by the FCC, Supreme Court, and D.C. Circuit have eliminated MCI’s ability to purchase at regulated rates the full platform of incumbent network elements (known as the unbundled network element platform or UNE-P) that MCI uses to provide local service.
- **“Do-Not-Call” legislation.** Telemarketing is MCI’s main marketing vehicle for mass market services, and the ever-expanding list of households that MCI cannot call has seriously eroded its ability to acquire new customers.

MCI cannot stem the decline in its mass market business. MCI cannot provide the two services that are key drivers of mass market growth and retention—broadband and wireless—over its own facilities. MCI has tried to resell these services and failed. None of the avenues open to MCI to continue providing bundled services of local and long distance will permit it to operate at a level that makes MCI one of a small number of significant mass market competitors.

- **Unbundled Loops.** MCI considered a strategy to serve segments of the mass market by leasing unbundled loops (UNE-L). But MCI concluded that the necessary substantial investment would be imprudent in light of the substantial risks—including

REDACTED  
FOR PUBLIC INSPECTION

provisioning difficulties, unavailability of the UNE-P as a transitional device for customers, rising UNE-L prices, declining local service prices, and intensifying competition from intermodal competitors.

- *VoIP.* MCI is currently providing VoIP to residential customers only on a limited trial basis, and there is no reason to believe that this limited consumer activity could stem, much less reverse, the continuing decline in MCI's mass market business. MCI could at best be only one of a large number of companies providing VoIP services. There are already dozens of other VoIP providers, including firms with well-known brands such as AT&T. Other Internet firms, such as Microsoft and Yahoo! are poised to enter this already full market.

Over the last decade, the telecommunications mass market has undergone a basic and fundamental revolution. For more than 100 years, Verizon and its predecessors experienced steady growth in their base of mass market customers, driven by growth in the population and economy, and legal and technological barriers to competition. In 1999, Verizon's mass market growth ceased. While the overall market continued to grow, Verizon's share began steadily to decline.

This decline is attributable almost entirely to technological developments that have allowed intermodal competitors to capture mass market customers. This trend has accelerated dramatically over the past two years, and will only accelerate further in the future. The merger of Verizon and MCI will do nothing to alter this inexorable transformation.

Finally, MCI is not one of a small number of significant providers of wholesale VoIP services to cable operators. MCI only recently began offering this service, which it provides to Time Warner, Bright House, and two other small cable operators in limited parts of the country. Several other competitors offer the same service and serve numerous large cable operators, and many cable operators have elected to provision VoIP services without any wholesale support. MCI does not have any unique assets that are necessary to the provision of this service.

**REDACTED  
FOR PUBLIC INSPECTION**



## II. THE MERGING COMPANIES' MASS MARKET BUSINESSES

### A. Verizon

Verizon provides wireline local telephone service in parts of 28 states and Washington, D.C. In March 2005, Verizon served just under 28.8 million residential access lines. This reflects a significant drop from the peak in 1999, when Verizon served just under 37.5 million residential access lines. Verizon also provides long distance service to its local customers, increasingly as part of a bundle. Verizon markets a bundle of unlimited wireline local and long distance calling under the name "Freedom." Since Freedom's introduction in January 2003, Verizon has expanded its all-distance service plans to nearly its entire footprint. Verizon served 18 million long distance lines at the end of the second quarter of 2005.<sup>2</sup>

Verizon provides wireline local telephone service subject to a host of regulatory requirements. It is obligated to serve every interested customer in its service territory, by virtue of its designation as a "carrier of last resort." The prices it may charge for mass market local service are regulated by state utility commissions. Often, this regulation requires Verizon to charge uniform prices throughout a state, even when it is offering local service as part of a bundle.

In contrast to Verizon's declining wireline business, its wireless business is growing rapidly. Verizon provides wireless telephone service in a partnership with Vodafone almost nationwide. Verizon Wireless serves 47.4 million subscribers and added 6.9 million new subscribers in the 12 months prior to June 2005.<sup>3</sup>

---

<sup>2</sup> See Verizon Press Release, *Verizon Reports Second Quarter Earnings of \$2.1 Billion, With \$18.6 Billion in Revenues*, July 26, 2005 <http://investor.verizon.com/news/view.aspx?NewsID=649> (last visited July 29, 2005) (hereafter "2Q05 Earnings Report").

<sup>3</sup> See *id.*

REDACTED  
FOR PUBLIC INSPECTION

Verizon currently provides broadband Internet connections to consumer and business customers, the majority of which are served over Verizon's copper loops via Digital Subscriber Line technology, or DSL. Verizon's remaining broadband customers are served over the company's new Fiber to the Premises, or FTTP, network. In 2004 and 2005, Verizon has invested \$3 billion building fiber connections directly to homes and small businesses. It has begun building its FTTP network in 14 states: California, Delaware, Florida, Indiana, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Texas, and Virginia. Verizon's FTTP network currently provides broadband services up to 30 Mbps—roughly 10 times faster than most DSL and cable broadband connections. Verizon also plans, in late 2005, to begin offering video service over fiber, in head-to-head competition with incumbent cable companies.

**B. MCI**

Along with AT&T and Sprint, MCI was one of the leading providers of long distance voice services in the United States in the 1980s and early 1990s. The 1996 Telecommunications Act, as implemented by now-void FCC regulations, permitted MCI and other carriers to offer local service using leased incumbent facilities at regulated rates. By mid-2002, MCI was selling to consumers and small businesses standalone long distance over its own facilities, a small amount of standalone local service provided over incumbent facilities, and combinations of these services in all-distance bundles. MCI offered these combinations principally through its "Neighborhood" program (introduced in April 2002), the most popular option providing

**REDACTED  
FOR PUBLIC INSPECTION**

unlimited local and long distance calling for a flat rate.<sup>4</sup> MCI was also selling standalone local and long distance transactional services (such as 10-10-987), calling card services (such as MinutePass), and collect calling services (1-800-Collect).

In 2000, MCI's mass market business, including its provision of residential, small business, dial-around, and prepaid services, generated over [BEGIN PROPRIETARY] [END PROPRIETARY] in annual revenues and annual EBITDA of [BEGIN PROPRIETARY] [END PROPRIETARY]. At the end of 2000, MCI served nearly [BEGIN PROPRIETARY] [END PROPRIETARY] standalone residential long distance customers, and over [BEGIN PROPRIETARY] [END PROPRIETARY] integrated residential customers. At that time, MCI met several of the criteria the FCC had then identified as important for a firm to be a significant local service competitor, including:

- A substantial existing base of residential customers purchasing long distance service;
- An established brand name resulting from the marketing of long distance services;
- Customer care, billing, and other operational infrastructure;
- Regulated access to incumbent facilities to provide local service, and expertise in negotiating interconnection agreements to use incumbent networks.<sup>5</sup>

One by one over the past five years, these pillars underpinning MCI's operations in the mass market have crumbled.

---

<sup>4</sup> Other products, such as "Neighborhood Connect 500" and "Neighborhood Connect 200" offer unlimited local calls and a bucket of long distance minutes, with a per minute charge for additional minutes.

<sup>5</sup> See Memorandum Opinion and Order, *GTE Corporation, Transferor and Bell Atlantic Corporation, Transferee For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License* GTE/Bell Atlantic Order, 15 FCC Rcd 14032, ¶ 107-08, 118 (June 16, 2000).

**REDACTED  
FOR PUBLIC INSPECTION**

*Collapse of Standalone Long Distance Service.* MCI's original core business, the sale of standalone long distance service to consumers and small business customers, has shrunk dramatically. In the past three years, MCI's base of standalone long distance customers has declined by [BEGIN PROPRIETARY] [END PROPRIETARY], down to [BEGIN PROPRIETARY] [END PROPRIETARY] customers in May 2005. This rapidly declining base of customers—to which MCI has already tried to sell local service—represents a dry reservoir of potential local customers for MCI.

[BEGIN PROPRIETARY]

[END PROPRIETARY]

*A Massive Decline in Advertising.* Business conditions in the mass market have significantly curbed the power of MCI's brand. As part of an effort to contain costs and manage the decline of its business, MCI has effectively halted television advertising, cutting its media spending from [BEGIN PROPRIETARY] [END PROPRIETARY] per month in

REDACTED  
FOR PUBLIC INSPECTION

2003 to just [BEGIN PROPRIETARY] [END PROPRIETARY] per month in January 2005.<sup>6</sup> MCI has slashed its spending on direct mail and print advertising by [BEGIN PROPRIETARY] [END PROPRIETARY]—from [BEGIN PROPRIETARY] [END PROPRIETARY] per month in early 2003 to [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2005.<sup>7</sup>

Moreover, the rapid spread of “Do-Not-Call” legislation dramatically increased the costs and reduced the efficiency of MCI’s marketing. At one time, MCI was the largest telemarketer in the world, relying far more heavily on this method of customer acquisition than other telecommunications companies. “Do-Not-Call” legislation—which led quickly to millions of households closing themselves to telemarketing<sup>8</sup>—made telemarketing much less effective for MCI. The company has cut its telemarketing from [BEGIN PROPRIETARY] [END PROPRIETARY] hours of calls per month in October 2002 to less than [BEGIN PROPRIETARY] [END PROPRIETARY] hours in May 2005—a drop of more than [BEGIN PROPRIETARY] [END PROPRIETARY].<sup>9</sup> Lines sold per hour of telemarketing dropped from a high of [BEGIN PROPRIETARY] [END PROPRIETARY] in 1999 to [BEGIN PROPRIETARY] [END PROPRIETARY] in 2005—a drop of more than [BEGIN PROPRIETARY] [END PROPRIETARY]. MCI is

---

<sup>6</sup> See Huyard Decl. ¶17.

<sup>7</sup> *Id.*

<sup>8</sup> *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Annual Report on the National Do-Not-Call Registry, 19 FCC Rcd 24002, ¶ 4 (2004) (“Within the first three days of the registry’s operation, consumers registered more than 10 million telephone numbers.”); *Rules and Regulations Implementing the Telephone Consumer Protection Act of 1991*, Consolidated Statement of Chairman Michael K. Powell at 1, attached to Second Order on Reconsideration, 20 FCC Rcd 3788 (2005) (“The do-not-call registry now contains over 80 million telephone numbers.”).

<sup>9</sup> *Id.* ¶ 16.

REDACTED  
FOR PUBLIC INSPECTION

thus engaged in little, if any, of the advertising and marketing necessary to sustain its mass market brand.

*Cuts in Customer Care and Other Services.* To reduce costs, MCI has cut the number of its employees in its mass market group by over [BEGIN PROPRIETARY] [END PROPRIETARY]—from approximately [BEGIN PROPRIETARY] [END PROPRIETARY] in January 2002 to fewer than [BEGIN PROPRIETARY] [END PROPRIETARY] in early 2005. As part of this effort, MCI has closed [BEGIN PROPRIETARY] [END PROPRIETARY] out of [BEGIN PROPRIETARY] [END PROPRIETARY] customer service centers. MCI's spending on customer care has thus declined significantly, at the same time numerous wireless, cable, and other intermodal competitors have invested in enhancing their customer support capabilities.

*The End of Regulated Access to Incumbent Facilities.* MCI does not own the facilities necessary to provide local service to mass market customers. Its mass market offerings have always depended, and continue to depend, on the ability to lease a complete platform of the incumbent's facilities and thereby resell its service. For eight years, the FCC and state regulators guaranteed MCI and other carriers' access to the UNE-P at low regulated rates. The FCC's rules mandating this access were vacated three times—once by the Supreme Court, and twice by the D.C. Circuit.<sup>10</sup> In February 2005, the FCC eliminated the obligation of incumbents to provide regulated access to the UNE-P.<sup>11</sup>

---

<sup>10</sup> See *United States Telecom Ass'n v. FCC*, 290 F.3d 415, 424 (D.C. Cir., 2002); see also, *Verizon Communs. Inc. v. FCC*, 535 U.S. 467 (2002); *United States Telecom Ass'n v. FCC*, 359 F.3d 554 (D.C. Cir., 2004).

<sup>11</sup> See Order on Remand, *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 20 FCC Rcd 2533 (Feb. 4, 2005).

REDACTED  
FOR PUBLIC INSPECTION

MCI must now pay commercial rates, not regulated rates, to secure the platform of incumbent facilities required to provide local service. [BEGIN PROPRIETARY]

[END PROPRIETARY] Far from having unique access to the facilities required to provide local service, MCI owns none of those facilities, and now serves merely as a distributor of incumbent services.

Having lost its competitive advantages—and facing intense competition from a new and growing group of competitors with their own facilities—MCI's mass markets business is in a state of irreversible decline. MCI's consumer revenues declined by 20 percent from 2003 to 2004.<sup>12</sup> For the first quarter of 2005, MCI reported mass market revenues of \$1.1 billion—down 17.6% from the same period one year earlier. MCI's domestic standalone long distance revenue, which had decreased from [BEGIN PROPRIETARY] [END PROPRIETARY] for the month of January 2003 to [BEGIN PROPRIETARY] [END PROPRIETARY] [BEGIN PROPRIETARY] for the month of January 2005, decreased by another [BEGIN PROPRIETARY] [END PROPRIETARY] [BEGIN PROPRIETARY] [END PROPRIETARY] by the end of April 2005.<sup>13</sup> Revenues from MCI's integrated local and long distance bundles hit a peak of [BEGIN PROPRIETARY] [END PROPRIETARY] in July 2004, dropped to [BEGIN PROPRIETARY]

---

<sup>12</sup> See Huyard Dec. ¶ 2.

<sup>13</sup> See Huyard Reply Decl. ¶ 3.

REDACTED  
FOR PUBLIC INSPECTION

[END PROPRIETARY] in January 2005, and decreased by another [BEGIN PROPRIETARY] [END PROPRIETARY] by April 2005.<sup>14</sup>

MCI's base of local customers has likewise contracted substantially. For standalone local customers, MCI suffered a drop in lines from [BEGIN PROPRIETARY] [END PROPRIETARY] to [BEGIN PROPRIETARY] [END PROPRIETARY] between January 2003 and January 2005.<sup>15</sup> Declines among customers buying bundled service were steep as well. MCI's number of lines sold to customers buying an all-distance bundle fell to just over [BEGIN PROPRIETARY] [END PROPRIETARY] in April 2005, a decrease of approximately [BEGIN PROPRIETARY] [END PROPRIETARY] lines from its peak in June 2004.<sup>16</sup> During the second half of 2004, MCI's net losses of bundled lines averaged [BEGIN PROPRIETARY] [END PROPRIETARY] per month.<sup>17</sup> Overall minutes on those lines fell more than [BEGIN PROPRIETARY] [END PROPRIETARY], from [BEGIN PROPRIETARY] [END PROPRIETARY] in January of 2004 to [BEGIN PROPRIETARY] [END PROPRIETARY] by May 2005. The net change in the number of MCI's bundled lines nationwide went from more than [BEGIN PROPRIETARY] [END PROPRIETARY] net *additions* per month in February of 2003 to net *losses* of more than [BEGIN PROPRIETARY] [END PROPRIETARY] in August 2004. In May 2005, MCI's net losses were running more than [BEGIN PROPRIETARY] [END PROPRIETARY] lines per month.

---

<sup>14</sup> *Id.*

<sup>15</sup> *See* Huyard Dec. ¶ 2.

<sup>16</sup> *See* Huyard Reply Dec. ¶3.

<sup>17</sup> *See* Huyard Dec. ¶ 2.

REDACTED  
FOR PUBLIC INSPECTION



MCI's provision of service to small business customers also continues to decline. MCI has eliminated its small business direct sales force. New installations fell [BEGIN PROPRIETARY] [END PROPRIETARY] between 2002 and 2004. The number of small business customers that purchase long distance service from MCI has declined by nearly a quarter in the last year alone. Between January 2004 and January 2005, the number of MCI small business lines (both local and standalone long distance) declined by over [BEGIN PROPRIETARY] [END PROPRIETARY], from [BEGIN PROPRIETARY] [END PROPRIETARY] to [BEGIN PROPRIETARY] [END PROPRIETARY].<sup>18</sup> MCI estimates that [BEGIN PROPRIETARY] [END PROPRIETARY] of these [BEGIN PROPRIETARY] [END PROPRIETARY] remaining lines are in Verizon states.

Revenues from MCI's non-subscription services (such as calling cards, dial-around, and prepaid plans) have likewise collapsed. While MCI's transactional brands brought in [BEGIN PROPRIETARY] [END PROPRIETARY] in 1999, they brought in only [BEGIN PROPRIETARY] [END PROPRIETARY] by 2004. Within the transactional brands product suite, the 10-10 dial-around product line revenues fell from over [BEGIN PROPRIETARY] [END PROPRIETARY] in 1999 to [BEGIN PROPRIETARY] [END PROPRIETARY] in 2002 and to [BEGIN PROPRIETARY] [END PROPRIETARY] by 2004, reflecting a drop in minutes of use from a peak of [BEGIN PROPRIETARY] [END PROPRIETARY] in 1999 to [BEGIN PROPRIETARY] [END PROPRIETARY] in 2002 with further declines to [BEGIN PROPRIETARY] [END PROPRIETARY]

---

<sup>18</sup> *Id.* ¶ 22. As explained below, MCI's definition of small business includes businesses up to 99 employees, many of which are sufficiently large to be served with special access, a topic not addressed in this white paper.

REDACTED  
FOR PUBLIC INSPECTION

**PROPRIETARY] [END PROPRIETARY]** in 2004. MCI's prepaid calling card revenues dropped from approximately **[BEGIN PROPRIETARY] [END PROPRIETARY]** in 2002 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in 2004. The drop in MCI's revenues from its post-paid calling card services has been even more precipitous. From a high of **[BEGIN PROPRIETARY] [END PROPRIETARY]** in revenues in 1999, it fell to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in 2004.<sup>19</sup>

### **III. THE RELEVANT MARKET**

Precise definition of the relevant product market does not matter here because, under any conceivable market definition, MCI has ceased to be one of a small group of significant competitors. Nonetheless, the facts strongly support a definition of a single market for all-distance telephone services provided to residential and small business customers. The prevalence of all-distance telephone services offered by a wide range of intermodal competitors has largely if not completely erased the competitive distinction between local and long distance services. Wireless services, near-uniformly provided on an all-distance basis, are ever-closer substitutes for wireline services—in decisions whether to add or drop lines, how many minutes to buy in different flat-rate plans, how many metered minutes to buy, and so on. As the FCC opened its recent report on competition: “At the end of 2004, end-user customers obtained local telephone service by utilizing approximately 145.1 million incumbent local exchange carrier

---

<sup>19</sup> Unlike revenues from MCI's prepaid calling card services, revenues from these calling card services are included in MCI's estimates of its long distance revenues from its subscription customers.

**REDACTED  
FOR PUBLIC INSPECTION**

(ILEC) switched access lines, 32.9 million competitive local exchange carrier (CLEC) switched access lines, and 181.1 million mobile wireless telephone service subscriptions.”<sup>20</sup>

#### **A. The Product Market**

The movement to all-distance product offerings accelerated when wireless providers erased the distance distinction by offering consumers fixed quantities of minutes that they could use to call anywhere in the country for the same price. The effect was to induce wireless subscribers to use wireless services for long distance; that in turn reduced demand for wireline long distance services. As consumers became more accustomed to all-distance services, they became increasingly intolerant of extra charges for long distance calls from wireline providers. For this and other reasons, long distance minutes in particular shifted dramatically toward wireless.

With its revenues heavily dependent on wireline long distances services while wireless phones were proliferating, MCI has been acutely aware of the siphoning of long distance minutes. As MCI manages the decline of its mass market business, MCI no longer proactively markets either standalone local or standalone long distance services in Verizon’s footprint; its low level of marketing is limited to all-distance plans. All-distance services currently account for [BEGIN PROPRIETARY] [END PROPRIETARY] of MCI’s residential subscription customers and [BEGIN PROPRIETARY] [END PROPRIETARY] of its residential subscription revenues.

More recent entrants—cable companies and VoIP providers—have never distinguished between local calls and long distance calls and instead offer consumers all-distance bundles.

---

<sup>20</sup> FCC News Release, *Federal Communications Commission Releases Data on Local Telephone Competition*, at 1 (July 8, 2005).

**REDACTED  
FOR PUBLIC INSPECTION**

Cable companies and VoIP providers routinely offer telephone service only in all-distance plans. One of VoIP's unique advantages is the ability to give consumers phone numbers with various area codes from any number of domestic or international locations.

With providers of every telephony technology no longer distinguishing local from long distance, and consumers increasingly buying from a wide range of all-distance services, formerly separate markets have converged. The option of all-distance service is available to consumers who elect to buy standalone long distance and local services and thus constrains prices offered for those standalone services. There is thus no reason to believe that a hypothetical monopolist of local-only offerings, or of standalone long distance offerings, could profitably exercise market power without also controlling all-distance offerings.

**B. The Geographic Market**

No matter how the geographic market is defined, there is no area of the country (or in Verizon's region) where the key competitive forces are lacking or where MCI is distinctively significant. Intermodal competitors are national in scope. As traditional regional companies like Verizon add VoIP services, they become national providers. In addition, although wireless providers including Cingular, Sprint Nextel, and T-Mobile have slightly different geographic coverage, each competes nationally. Moreover, any customer with a broadband connection can purchase VoIP services from a number of competitors including Vonage, Packet8, Lingo, and AT&T. Although individual cable companies operate regionally, cable networks themselves span close to the entire country and are already, or imminently, being used to offer consumer voice services.

**REDACTED  
FOR PUBLIC INSPECTION**

#### IV. ANALYSIS

Verizon's acquisition of MCI will not injure competition in the mass market, no matter how the market is defined. Verizon's share of telephone services provided to mass market customers in its footprint, including lines served by Verizon Wireless, is roughly 50%; its wireline share is only about 35%, and it is declining. MCI's share in Verizon's footprint is just over 1%, and it is shrinking rapidly.<sup>21</sup>

##### A. MCI Is Not A Significant Competitive Constraint for Integrated Local and Long Distance Services

Ever since it began to provide local service, MCI has done so by distributing the incumbent's local service. That business—which by its nature makes MCI an unimportant competitive force when its relationship with the incumbent is governed by market terms—is in a state of inexorable decline. MCI's other potential avenues for serving the mass market—providing circuit switched telephony through a combination of the company's own switches and unbundled incumbent loops, and offering VoIP service over the Internet—cannot revive MCI's deteriorating business.

---

<sup>21</sup> While it is difficult to find precise apples-to-apples figures, an estimate is possible. The FCC's most recent data on local competition identified 112,246,949 residential and small business switched access lines served by ILECs, and 19,812,922 served by CLECs, nationwide. See FCC Industry Analysis and Technology Division, Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2004*, at Table 2 (July 2005). Because Verizon's footprint covers roughly one-third of the wireline access lines in the country, these totals were divided by one-third to yield estimated totals in Verizon's footprint. At the end of 2004, there were 182,140,362 wireless lines in service. See CTIA, *CTIA - The Wireless Association's Annualized Wireless Industry Survey Results, December 1985-December 2004* (2005). Again, this total was divided by one-third to get an estimated total for Verizon's footprint. The three results for Verizon's footprint were summed to create the denominator (104,666,914). Verizon's numerator is the number of its ILEC switched access lines (37,415,650), plus one-third of the total number of Verizon Wireless lines at the end of 2004 (43,800,000 in total, for an estimated 14,585,400 in Verizon's footprint), yielding an estimated total of 52,001,050. MCI's numerator is [BEGIN PROPRIETARY] [END PROPRIETARY]—the number of local lines it served in Verizon's footprint at the end of 2004.

REDACTED  
FOR PUBLIC INSPECTION

**1. MCI Activities as a Distributor of Incumbent Service Are Not Competitively Significant**

Simply put, UNE-P competition is yesterday's news. Since the FCC eliminated the obligation for incumbents to provide the UNE-P, the competitive force of AT&T, MCI, IDT, Z-Tel, and other UNE-P carriers has decreased significantly. As these carriers churn off the installed bases they built using UNE-P, the number of customers served via the UNE-P in Verizon's footprint is declining rapidly.

**[BEGIN PROPRIETARY]**

**[END PROPRIETARY]**

For its part, MCI has suffered a net loss of lines in Verizon's footprint for every month since July 2004.

**[BEGIN PROPRIETARY]**

**REDACTED  
FOR PUBLIC INSPECTION**

**[END PROPRIETARY]**

Significantly, a far larger number of UNE-P lines lost by carriers such as MCI leave the Verizon network entirely than return to Verizon as retail customers. While some of these losses are attributable to moves and other non-competitive disconnections, a large percentage are attributable to gains from intermodal competitors.<sup>22</sup>

**[BEGIN PROPRIETARY]**

---

<sup>22</sup> These losses do not sum to 100%. The remainders are instances where customers switch from one CLEC to another.

**REDACTED  
FOR PUBLIC INSPECTION**

**[END PROPRIETARY]**

Even on a gross basis, the number of MCI customer additions is declining rapidly. MCI's residential UNE-P orders are down more than **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** from their peak in early 2003. The lion's share of MCI's UNE-P activity has been focused in the former Bell Atlantic footprint, where MCI's gross orders have fallen from roughly **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** in May 2003 to just over **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** in May 2005.

**[BEGIN PROPRIETARY]**

**REDACTED  
FOR PUBLIC INSPECTION**



**[END PROPRIETARY]**

MCI did not submit a significant number of UNE-P orders in the former GTE footprint until early 2004. Nonetheless, this pattern of decline in MCI's gross orders prevails across all of Verizon's territory.

**[BEGIN PROPRIETARY]**

**REDACTED  
FOR PUBLIC INSPECTION**