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August 19, 2008

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VIA HAND DELIVERY

FILED/ACCEPTED
AUG 1 9 2008
Federal Communications Commission
Office of the Secretary

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Applications of Atlantis Holdings LLC and Cellco Partnership d/b/a Verizon Wireless for Consent to the Transfer of Control of Commission Licenses and Authorizations; WT Docket No. 08-95

REDACTED - FOR PUBLIC INSPECTION

Dear Ms. Dortch:

In accordance with the Order adopting the Protective Order,[1] and the instructions we have received from the staff of the Wireless Bureau, enclosed please find two copies of the redacted version of Reply Declaration of Dennis Carlton, Allan Shampine and Hal Sider (Aug. 19, 2008) ("Redacted Compass Lexecon Declaration"). This document is also being filed today in ECFS as Attachment 1 to the Joint Opposition to Petitions to Deny and Comments by Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC in WT Docket No. 08-95.

Per the Protective Order, Verizon Wireless is filing today, under separate transmittal, one copy of the confidential version of the Compass Lexecon Declaration. In addition, two copies of the Confidential Compass Lexecon Declaration will be hand-delivered to Erin McGrath of the Mobility Division, Wireless Bureau.

Sincerely,

Nancy J. Victory

Nancy J. Victory

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[1] *Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC For Consent to Transfer Control*, Protective Order, WT Docket No. 08-95, DA 08-1718 (rel. July 29, 2008) ("Protective Order").

REPLY DECLARATION OF DENNIS CARLTON, ALLAN SHAMPINE AND HAL SIDER

August 19, 2008

I. INTRODUCTION AND SUMMARY

1. We submitted a declaration in this matter on June 13, 2008 in which we concluded that the proposed merger of Verizon Wireless and ALLTEL Holdings ("ALLTEL") is likely to result in significant benefits to consumers and is unlikely to have a significant adverse effect on competition.[1] Various parties have recently submitted comments to the FCC and we have been asked by counsel for Verizon Wireless and ALLTEL to respond to certain of these comments.[2]

2. This reply focuses on two major issues.

- First, we address claims that the benefits of the proposed transaction are either not fully documented, not merger-related or otherwise are "illusory."[3] We review the savings that Verizon Wireless expects that the transaction will generate and show that these expected savings provide incentives for the merged firm to expand output and lower prices. We also show the projected cost savings are credible and that

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1. Our qualifications are described in our June 13 declaration (hereafter, "Carlton, Shampine, Sider Declaration").
2. Given the limited time available to prepare a response, we focus on the major claims made in the comments recently submitted to the Commission and do not attempt to address all claims. As such, the absence of a response to any particular claim should not be interpreted to suggest that we accept its validity.
3. Petition to Deny of Leap Wireless International, Inc., August 11, 2008, p. 3.

experience from past transactions indicates that these savings are likely to be achieved.

- Second, we address claims that the proposed transaction will reduce competition in the provision of roaming services. We show that Verizon Wireless will continue to face substantial roaming competition in nearly all areas in which it operates; that many customers are protected by long-term contracts; and that technological changes promise to increase the scope of roaming rivals in the future.
- Third, we respond to several miscellaneous issues and comments on our June 13 declaration raised by commenters.

II. THE PROPOSED TRANSACTION IS EXPECTED TO RESULT IN SIGNIFICANT MERGER- SPECIFIC COST SAVINGS.

3. Some parties have claimed that the synergies expected to result from the transaction are "illusory" and have challenged Verizon Wireless to provide additional detail.[4] This section reviews the synergies that Verizon Wireless expects to result from its proposed merger with ALLTEL and evaluates from an economic perspective whether these cost savings are likely to benefit consumers. Our analysis is based on a review of the synergy model prepared by Verizon Wireless and Morgan Stanley prior to the signing of the transaction agreement, discussions with individuals at Verizon Wireless that prepared that analysis, and additional information on related transactions including discussions with Verizon business personnel involved in achieving merger synergies in prior transactions.

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4. See, for example, Petition to Deny of Leap Wireless International, Inc., August 11, 2008, pp. 3, 14-16.

4. We conclude that the proposed transaction is expected to reduce both fixed and variable costs and will provide incentives for the merged firm to expand output and lower prices. We also show, based on Verizon's experience in realizing cost savings in prior transactions, that Verizon Wireless' synergy claims are credible.

A. OVERVIEW OF TRANSACTION AND ANTICIPATED SYNERGIES

5. As discussed in our prior declaration, the proposed transaction combines two carriers that use CDMA technology to provide wireless voice and data services. Verizon Wireless provides services to 67 million subscribers in every state except Alaska, and ALLTEL provides services to roughly 13 million subscribers in 34 states, most in the Southeast, Southwest and upper Midwest. In addition to retail services, both firms provide roaming services as well as services to resellers and mobile virtual network operators ("MVNOs").

6. Verizon Wireless has reported that the proposed transaction will result in synergies with an estimated after-tax present value of $[redacted] (including integration-related costs).[5] This estimate was based on analysis by Verizon Wireless and Morgan Stanley, investment bankers advising on the proposed transaction, and is summarized in Table 1.[6] In all, the expected cost savings are roughly one-third of the purchase price. (For purposes of calculating the savings, Verizon Wireless has assumed that output will be equal to the combined expected output of the two firms.)

5. Our discussion in the section is based on the synergy analysis prepared by Verizon Wireless and Morgan Stanley. The analysis is contained in the file Abraham Synergies_060408 Final.xls (hereafter, VzW Synergies Summary).
6. See VzW Synergies Summary, p. 1.

Table 1

Verizon Wireless' Estimate of Savings
from Verizon Wireless/ALLTEL Transaction
(Present Values in $ Millions)

	Cost Savings	Integration Expenditure	Net Cost Saving
Roaming	[redacted]		
Network Costs			
Network Operating Expenses			
Capital Expenditures			
Total Network			
Headcount (Net of Salary Adjustments)			
Advertising and Promotions			
Information Technology			
Sales and Distribution Overhead			
Customer Care Overhead			
Total Cost Savings			
Less Transaction Fees/ Taxes/ Other Exp.			
Net Cost Savings			

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pg. 1.

7. As the table indicates, Verizon Wireless expects that, net of integration costs, the transaction will result in total net cost savings of $[redacted], of which $[redacted] come from capital expenditure savings. As discussed further below, the major sources of cost savings include reductions in (i) roaming costs, (ii) network costs (including reduced capital expenditures and operating costs), (iii) overhead costs, (iv) advertising costs, and (v) information technology ("IT") expenses.

B. DESCRIPTION OF MAJOR COST SAVINGS RESULTING FROM THE PROPOSED TRANSACTION

8. Verizon Wireless expects to realize significant cost savings related to a wide range of its activities. Each of the major categories is summarized below.

1. Reduced Roaming Costs

9. Due to the increased size of the network footprint resulting from the proposed transaction, the merged firm can reduce its reliance on roaming services provided by third parties. Verizon Wireless is currently a net buyer of roaming services in the U.S., purchasing [redacted] minutes of domestic roaming services from other carriers in May 2008 while selling [redacted] minutes. ALLTEL buys and sells similar volumes of domestic roaming services, purchasing [redacted] minutes in May 2008 and selling [redacted] minutes.

10. ALLTEL currently purchases [redacted] percent of its roaming minutes from Sprint and roughly [redacted] percent of its roaming minutes from Verizon Wireless. Verizon Wireless purchases [redacted] percent of its roaming minutes from [redacted] and roughly [redacted] percent of its minutes from [redacted].[7] In addition to keeping all roaming traffic between Verizon Wireless and [redacted] on the combined firm's network, Verizon Wireless expects that the transaction will enable it to keep on its own network traffic that currently roams on [redacted] and similarly [redacted] traffic that currently roams on [redacted].[8] In total, Verizon Wireless estimates that the transaction would enable it to keep on its own network more than [redacted] minutes of air time annually in 2010 and later years that otherwise would be served by Verizon Wireless' and ALLTEL's roaming partners

7. Data are for May 2008.
8. ALLTEL signed a roaming agreement with [redacted] in 2006. Verizon Wireless signed a roaming agreement with [redacted] in 2004.

(roughly [redacted] currently served by Sprint and U.S. Cellular with the remainder on each other's networks).

11. The ability to keep additional minutes on the merged firm's network results in a marginal cost savings because roaming services are priced on a per minute basis at a rate that exceeds the incremental cost of providing that traffic. Verizon Wireless' analysis of merger-related cost savings projects that the merger results in a net cost reduction of more than $[redacted] per minute for each minute shifted from these roaming partners onto the merged firm's network.[9] As we discuss later, these variable cost savings are likely to benefit consumers.

12. As summarized in Table 2, Verizon Wireless estimates that the present value of after-tax roaming synergies is approximately $[redacted].[10]

9. VzW Synergies Summary, pp. 11-12. Average costs reflect airtime and toll charges in 2010.
10. See VzW Synergies Summary, p. 12.

Table 2

Verizon Wireless' Estimate of Roaming Expenditure Savings from Verizon Wireless/ALLTEL Transaction ($ Millions)

	2009	2010	2011	2012
ALLTEL Savings (Shift Roaming from [redacted])				
Traffic Moved				
Voice (minutes)	[redacted]			
Voice -- Long Distance (minutes)				
1X Data Roaming (megabytes)				
Cost Savings				
Voice				
Voice -- Long Distance				
Cost Savings on 1X Data Roaming				
Total Pre-Tax Cost Savings				
After-Tax Savings from Alltel's Roan				
Present Value of Savings				
Verizon Savings (Shift Roaming from [redacted])				
Traffic Moved				
Voice (minutes)	[redacted]			
Voice -- Long Distance (minutes)				
1X Data Roaming (megabytes)				
Cost Savings				
Voice				
Voice -- Long Distance				
Cost Savings on 1X Data Roaming				
Pre-Tax Cost Savings				
After-Tax Savings from Alltel's Roan				
Present Value of Savings				
Total Present Value of Savings from Reduction in Roaming				

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pgs. 11, 12.

2. Reductions in Network Costs

13. Verizon Wireless estimates that the proposed transaction will lower network costs by consolidating cell sites, filling in coverage gaps, and by reducing the cost of new network equipment. The transaction also is expected to reduce network operating expenses by reducing costs for transmission capacity and rent and lease expenses.

a. Network-Related Capital Expenditures

14. The combined firm expects to consolidate duplicative cell sites in certain overlap areas. In addition, the proposed transaction reduces the number of cell sites required for network expansions relative to those needed in the absence of the merger. The increased coordination resulting from the merger results in savings both for expansions of the firms' existing cellular/PCS networks as well as the planned build outs related to deployment of services using the 700 MHz spectrum. In total, the merged firm will be able to serve current and projected future demand expected for each firm on a standalone basis at a lower cost than would be realized if the firms operated independently.

15. More specifically:

- Verizon Wireless expects that the proposed transaction will enable it to redeploy and/or consolidate greater than [redacted] cell sites between 2009 and 2012. While these constitute a relatively small share of the total cells operated by the two companies – Verizon Wireless operates approximately [redacted] cells and ALLTEL operates more than [redacted] – the annual savings resulting from these reductions are significant.

- The transaction is expected to enable the combined firm to reduce the number of new cell sites required for future network expansion in overlap areas. Verizon Wireless expects that the merger will reduce the number of new cell towers required in overlap areas by [redacted] with additional reductions of [redacted].
- The transaction is also expected to enable the combined firm to reduce the number of cell sites required for the deployment of services using the 700 MHz spectrum by [redacted] cells per year between 2011 and 2014, and another [redacted] cells per years through 2018.
- The consolidation results in savings of roughly $[redacted] per new cell built out in the cellular/PCS network, savings of $[redacted] per cell for redeployed cells, and savings of $[redacted] per cell for the 700 MHz build out.

16. As discussed further below, these reductions in network costs lower the merged firm's cost of both expanding its network footprint and deploying new services, thereby creating incentives to expand output.

17. In addition, Verizon Wireless expects that the combined firm will be able to reduce capital expenditures by enabling it to negotiate lower prices for network equipment. Based on its past experience, Verizon Wireless expects that the transaction will enable it to lower equipment prices by [redacted] relative to the level that the firms would expect to pay on a stand alone basis. This reduction in price will likely lead to an expansion in investment since it lowers the cost of expansion.

18. Overall, Verizon Wireless expects that the transaction will reduce capital expenditures by [redacted] percent between 2011 and 2014 and by [redacted] percent in later

years relative to expenditures expected for both firms on a standalone basis. Net of integration costs, the projected merger-related reduction in capital expenditures has an after-tax present value of $[redacted].

b. Network-Related Operating Expenses

19. The proposed transaction also is estimated to generate significant reductions in network operating expenditures. These operating expenses relate principally to dedicated circuits used to transport traffic generated by the wireless network. The reduction in the required number of cell sites reduces the number of transport circuits required and, together with the increased size of the customer base, enables greater utilization of DS-3 circuits. The DS-3 circuits have higher capacity and lower cost per unit than DS-1 circuits. In addition, the proposed transaction is expected to result in cost reductions relating to cell site-related rent and lease expenses. In total, Verizon Wireless expects that on an after-tax net present value basis the proposed transaction will reduce network related operating expenses by $[redacted].

20. In addition, Verizon Wireless also expects that the proposed transaction will reduce headcount expenses related to network operations. More specifically, the consolidation of duplicative cell sites, including those currently in operation and those relating to planned build outs, will reduce the number of network engineers and technicians required, and will result in additional after-tax net present savings of $[redacted].

21. Project network-related cost savings, including capital expenditure and operating cost reductions, are summarized in Table 3.[11]

11. See VzW Synergies Summary, p. 29.

Table 3

Verizon Wireless' Estimate of Savings in Network Costs
from Verizon Wireless/ALLTEL Transaction
($ Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital Expenditure Savings	[redacted]									
Lower Pricing from Vendors										
Capex Savings from Equipment Redeployment										
Elimination of Duplicate Expansion Plans + 700 MHz										
Total										
Less Additional Spend to Achieve Savings										
Less Increase/(Decrease) in Taxes										
Net Capital Expenditure Savings										
Present Value of Savings from Network Capex										
Network Operating Expense Savings	[redacted]									
Direct Network Operating Expenses										
Rent and Lease										
Total										
Less Integration Cost										
Net Operating Expense Savings										
After-Tax Savings from Network Operating Expenses										
Present Value of Savings from Network Operating Expenses										

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pgs. 14, 15, 19, 20, 29.

3. Reduced Overhead Headcount Expenses

22. The proposed transaction is also expected to result in significant reductions in overhead costs such as accounting, finance and legal expenses. Verizon Wireless expects to reduce general and administrative (G&A) headcount by over [redacted] in 2009 and by over [redacted] by 2012. More specifically, Verizon Wireless projects that the merger will enable the combined firm to reduce its IT support staff by over [redacted], marketing support staff by over [redacted], operations support staff by more than [redacted] and human resources staff by more than [redacted].

23. The estimated savings attributable to headcount reductions are summarized in Table 4. After accounting for integration costs, including severance and early retirement expenses, overhead headcount reductions are expected to result in cost

savings with a net present value of roughly $[redacted]. Verizon Wireless also anticipates salary increases for other employees that make the headcount savings, net of such adjustments, roughly $[redacted].[12]

Table 4

Verizon Wireless' Estimate of Headcount Cost Savings from Verizon Wireless/ALLTEL Transaction

($ Millions)

	2009	2010	2011	2012
Headcount Reduction	[redacted]			
G&A (Corp., Finance, HR, Legal, etc.)				
Network				
Sales and Distribution				
Customer Care				
Total Headcount Reduction				
Cost Savings				
Headcount Reduction Synergy				
Integration Costs				
Headcount Synergy -- Net of Int. Cost				
After-tax Network Headcount Synergy				
Present Value of Savings				

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pgs. 22 - 28.

12. See VzW Synergies Summary, pp. 26, 28.

4. Reduced Advertising and Promotions Expenses

24. Verizon Wireless estimates that the combined firm will be able to reach the same customers with lower advertising expenditures relative to those that would be incurred by the firms in the absence of the proposed transaction. In light of the existing competition discussed below and in our prior declaration, along with the proposed divestitures, the reduction in advertising expenditures should not significantly affect competition.

25. Verizon Wireless estimates the merger-related savings in advertising expenses based on the difference between (i) ALLTEL's current expenditures and (ii) the incremental costs of reaching target customers in areas served by ALLTEL but not Verizon Wireless. As summarized in Table 5, Verizon Wireless projects that the proposed transaction will result in advertising related cost savings with an after-tax present value of $[redacted].[13]

13. See VzW Synergies Summary, p. 13.

Table 5

Verizon Wireless' Estimate of Advertising and Promotional Expense Savings from Verizon Wireless/ALLTEL Transaction
($ Millions)

	2009	2010	2011	2012
Estimated Standalone ALLTEL Wireless Advertising Costs	[redacted]			
Total Incremental Expense to Cover ALLTEL Pops				
Additional Advertising Required for ALLTEL Pops				
ALLTEL Contractual Commitments				
Additonal Marketing Costs				
Total Additional Advertising Required for Alltel Pops				
Cost Synergy				
Integration Cost				
Cost Synergy -- Net of Integration Costs				
After-Tax Cost Synergy Net of Integration Costs				
Present Value				

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pg. 13.

5. Reduced Information Technology Costs

26. Verizon Wireless also estimates that the proposed transaction will reduce information technology (IT) costs. These costs relate to IT used in providing customer service (such as workstations used by call center staff), support of billing services, and in point-of-sale and other retail functions.

27. Verizon Wireless estimates that ALLTEL's IT expenses are higher than Verizon Wireless' on a subscriber basis. Verizon Wireless expects that after the merger, as a result of adoption of common technology platforms and expanded use of Verizon Wireless's customer service and billing methods, ALLTEL's technology expenses related to these functions will be reduced by $[redacted] per subscriber per month by 2010,

even as the combined firms' number of subscribers and total customer service expenditures increase. These estimates also reflect Verizon Wireless' assumption that, in the absence of the proposed transaction, ALLTEL would be able to improve its own IT platforms and thus decrease expenditures if it operated on a standalone basis. More specifically, Verizon Wireless assumes that IT-related savings will decrease from $[redacted] per ALLTEL subscriber per month in 2010 to $[redacted] per subscriber per month by 2014. In total, Verizon Wireless expects that the present value of IT savings is $[redacted].[14]

Table 6

Verizon Wireless' Estimate of IT Cost Savings from Verizon Wireless/ALLTEL Transaction
($ Millions)

	2009	2010	2011	2012
Pre-tax Synergy	[redacted]			
Integration Costs				
IT Synergy Net of Integration Costs				
After-tax Sales IT Synergy				
Present Value of IT Savings				

Source: VzW Synergy Summary (Abraham Synergies_060408 FINAL.xls), pg. 16.

14. See VzW Synergies Summary, p. 16.

6. Reduced Sales Overhead and Distribution Headcount Expenses

28. Verizon Wireless expects that the proposed merger will reduce the number of retail stores needed to serve current and prospective customers' needs. For current ALLTEL and Verizon Wireless retail locations that are in close proximity, Verizon Wireless will evaluate the best location to retain. The proposed transaction also will reduce sales and distribution costs by reducing the number of retail outlets planned by each firm in areas where network expansions are planned. In total, Verizon Wireless expects that overhead savings relating to distribution costs have a net present value of $[redacted], and related headcounts savings of $[redacted].[15]

7. Reduced Customer Care Expenses

29. The proposed transaction is expected to enable the combined firm to expand use of Verizon Wireless' best practices with respect to customer care, which is expected both to reduce the cost and to improve the quality of customer care services received by ALLTEL customers.

30. More specifically, Verizon Wireless expects it will serve a larger portion of ALLTEL's customer care functions for post-pay customers with U.S.-based facilities currently used by Verizon Wireless. [redacted] In total, Verizon Wireless expects that the expanded use of its best practices will enable the combined firm to reduce total personnel required to provide customer services. As discussed further below, there is no basis conclude that these savings come at the expense of the quality of

15. See VzW Synergies Summary, pp. 18, 22.

customer service as Verizon Wireless is widely recognized as providing high quality service.

31. Overall, Verizon Wireless estimates that the proposed transaction will result in customer care headcount savings with a net present value of roughly $[redacted] as well as customer care overhead savings with a net present value of $[redacted].[16]

C. THE PROPOSED TRANSACTION PROVIDES INCENTIVES FOR THE MERGED FIRM TO EXPAND OUTPUT AND REDUCE PRICE.

32. The previous section outlined the likely savings from the proposed merger. As the Merger Guidelines recognize, merger-related efficiencies can enhance a firm's "ability and incentive to compete."[17] This section discusses in more detail the effect of the expected cost savings on the incentives of the merged firm and shows that the proposed transaction is likely to benefit consumers by providing incentives to expand output and lower price.

1. The anticipated cost savings are merger-specific.

33. As a starting point, each of the efficiencies identified by Verizon Wireless and Morgan Stanley appear to be merger-specific. That is, neither company would be able to achieve these savings in the absence of the proposed transaction. For example, it is highly unlikely the savings attributable to network integration, elimination of duplicative facilities and plans, overhead cost reductions and the coordination of purchases required to achieve greater volume-related discounts could be achieved

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16. See VzW Synergies Summary, pp. 17, 23.

17. *Merger Guidelines* at § 4, which states that cost savings provide the combined company with "ability and incentive to compete, which may result in lower prices, improved quality, enhanced service, or new products."

through contract alone or through a joint venture. Similarly, reductions in roaming costs resulting from reduced reliance on third-party suppliers of roaming services are the direct consequence of the expansion of the footprint resulting from network integration.

2. The proposed transaction results in significant reductions in variable costs.

34. The Merger Guidelines note that efficiencies which enable firms to realize reductions in marginal cost are most likely to benefit consumers by increasing incentives to compete. While, as discussed further below, many merger-related reductions in fixed costs are also likely to benefit consumers, the proposed transaction results in significant reductions in marginal costs. Some specific examples are discussed below.

a. Roaming

35. As discussed above, the proposed transaction is expected to generate reductions in roaming fees that have an after-tax net present value of $[redacted]. Due to the increased geographic scope of the combined firm's network, the transaction enables roaming traffic between Verizon Wireless and ALLTEL to be kept on the combined firm's network and Verizon Wireless' roaming traffic currently sent to U.S. Cellular and ALLTEL's roaming traffic current served by Sprint to be kept on the merged firm's network.

36. Roaming services are priced on a per minute basis. As discussed above, this rate exceeds the incremental cost of providing such traffic. Thus, the proposed transaction lowers the marginal cost faced by the Verizon Wireless and ALLTEL with respect to both roaming traffic shared between the companies as well as ALLTEL's roaming traffic served by [redacted] and Verizon Wireless' traffic served by [redacted]. The reduction in these incremental costs faced by Verizon Wireless and ALLTEL creates

an incentive for the merged firm to reduce prices charged to both existing and new customers through lower per minute rates and/or expanded "bundles" of minutes.[18]

b. Customer service related expenses

37. The proposed transaction also reduces the merged firm's cost of providing customer service including, for example, customer questions related to billing and service quality. We understand that the scale of customer service operations is related to the number of subscribers served by the carrier. As a result, substantial increases in the number of subscribers served by a carrier require increases in customer service personnel. Thus, customer service costs vary with the number of subscribers and have an important variable dimension.

38. As discussed above, Verizon Wireless provides customer service at a lower cost per subscriber compared to ALLTEL and the transaction enables Verizon Wireless to expand the use of its best practices. Verizon Wireless estimates that the transaction will result in significant savings in expenses relating to customer service, including customer care and IT expenses, which includes savings related to customer-oriented functions such as billing and retail operations as well as IT expenses for customer service representatives.

18. Note that although shifting roaming traffic shared between Verizon Wireless and ALLTEL does not change the firms' combined revenues or costs (since the firms pay each other), the transaction lowers the marginal cost faced by each firm for each roaming minute and thus provides an incentive to lower price. That is, the firms' economic incentives change in a way that is expected to benefit consumers.

3. Reductions in "fixed costs" resulting from the proposed transaction are also likely to benefit consumers.

39. The proposed transaction will result in a variety of additional cost reductions that, while not directly related to output, will benefit consumers by reducing the cost of upgrading the network and offering new services.

40. As discussed above, the proposed transaction is expected to result in net savings in capital expenditures of roughly $[redacted]. Much of these savings relates to consolidation of duplicative sites for cellular/PCS networks as well as deployment of facilities to utilize the 700 MHz spectrum. In addition, the transaction is expected to reduce equipment acquisition costs by roughly [redacted] percent.

41. By reducing the cost of network expansion, these projected savings increase the merged firm's incentive to accelerate and expand the deployment of new equipment and services. While network-related costs may be "fixed" in the short-run, the merger-related reductions in these costs benefit consumers by enabling them to realize consumer surplus associated with accelerated or expanded network deployment.

42. For example, the projected merger -related efficiencies lower the cost to Verizon Wireless of deploying wireless high speed data services using EV-DO Revision A technology. Verizon Wireless has upgraded its entire EV-DO network to EV-DO Revision A, which provides downstream speeds to 600 kbps – 1.4 million Mbps and uplink speeds of 350-800 kbps. In most areas, however, ALLTEL uses the older version of the EV-DO technology which has typical downstream data transfer speeds of 400-800 kbps. In some areas ALLTEL continues to use the older and slower 1xRTT technology. Thus, by lowering network-related costs, the proposed transaction increases Verizon Wireless' incentive to rapidly expand deployment of EV-DO Revision A technology to areas served by ALLTEL (but not Verizon Wireless).

43. In dynamic industries such as wireless telecommunications, reductions in fixed costs are equivalent to reductions in (forward looking) costs relating to new investments. This in turn benefits consumers by lowering the cost of expanding output.[19] In recent years, antitrust policymakers have increasingly stressed the importance to consumers of reductions in fixed costs.

44. As noted our prior declaration, the importance for accounting for fixed cost reductions in merger analysis has been recognized by in the report of the Antitrust Modernization Commission,[20] by antitrust enforcement officials[21] and academics.[22]

4. There is no basis to conclude that cost savings will be achieved at the expense of reduced service quality.

45. Verizon Wireless expects the proposed merger to result in significant savings in network expenses and customer service costs. There is no basis to conclude that expected savings come at the expense of reductions in the quality of service provided by Verizon Wireless. Indeed, by lowering the cost of providing quality, one would expect service quality to improve.

46. The high quality of Verizon Wireless service is reflected in its high levels of customer loyalty, responses to consumer surveys and awards received for service quality. More specifically:

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19. See our June 13 declaration ¶¶24-27.
20. Report and Recommendations of the Antitrust Modernization Commission, April 2007, p. 58.
21. Ken Heyer, "Welfare Standards and Merger Analysis: Why Not the Best?" Competition Policy International, Autumn 2006, pp. 37, 40.
22. Dennis W. Carlton, "Does Antitrust Need to be Modernized?" 21 Journal of Economic Perspectives 155 (2007). Also see Separate Statement of Dennis W. Carlton, Report and Recommendations of the Antitrust Modernization Commission, April 2007, p. 401.

- Verizon Wireless has consistently achieved the lowest rate of customer turnover ("churn") in the wireless industry.[23]
- Verizon Wireless was named "Carrier of the Year" for the last three years, J.D. Power and Associates, Vocal Laboratories, POPAI, the National Retail Federal Foundation and the Customer Respect Group.[24]
- A September 2007 Consumer Reports survey rated Verizon Wireless highest in 16 of the 20 metropolitan areas surveyed.[25] (ALLTEL was rated highest in three of the four areas in which Verizon Wireless was not the highest rated carrier.)
- J.D. Powers recently ranked Verizon Wireless highest in four of six regions among wireless contract customers in a survey that measured customer satisfaction with call quality, customer service and other factors.[26] Verizon Wireless also was ranked highest in a recent a J.D. Powers survey of business customers' satisfaction with call quality, customer service, billing, and other factors.[27]

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23. Merrill Lynch, "US Wireless Matrix 4Q07," April 14, 2008, Table 8.
24. See http://aboutus.vzw.com/awards.html.
25. http://www.consumerreports.org/cro/electornics-computers/ph...ngs-service/latest-ratings/cell-service-rate.htm (accessed 6/25/2008).
26. Verizon Wireless Ranks Highest in Wireless Contract Customer Satisfaction in Four Regions; ALLTEL and T-Mobile Each Rank Highest in a Region, J.D. Power Press Release, April 24, 2008; Verizon Wireless Ranks Highest in Wireless Customer Care Performance, J.D. Power Press Release, August 14, 2008.
27. Verizon Wireless Ranks Highest in Satisfying Business Customers in Both Large Enterprise and Small/Midsize Segments, J.D. Power Press Release, May 22, 2008.

D. THE MERGER-RELATED COST SAVINGS ESTIMATED BY VERIZON WIRELESS ARE CREDIBLE.

47. Some parties have claimed that the synergies resulting from the transaction are not credible.[28] This section addresses the credibility of the merger-related cost savings claimed by Verizon Wireless. We show: (i) that analysts recognize that the proposed transaction will result in significant cost savings and other consumer benefits; and (ii) that Verizon, the joint venture co-parent of Verizon Wireless, has realized efficiencies in excess of those claimed in prior transactions.

1. Analysts recognize that the proposed transaction will result in significant cost savings.

48. The credibility of the transaction-related cost savings projected by Verizon Wireless is reflected in investment analysts' comments about the proposed transaction. A variety of these comments highlighted cost savings that the transaction is expected to generate and the impact of the transaction on the merged firm's incentive to expand output.

49. For example, Oppenheimer Securities noted that:[29]

> Positively, the deal would likely help lower combined churn and make VZ a more powerful competitor versus T and Sprint. We also see tax benefits from the additional leverage. Negatively, the transaction will likely have a modest impact on tower companies, as network optimization initiatives will result in the elimination of duplicate facilities.
>
> We believe the transaction is positive financially and strategically due to: (1) Expected $9-plus billion NPV of synergies, of which approximately $1 billion is expense savings expected by year 2; (2) Complementary network footprints that will drive roaming benefits and expanded reach; (3) Identical technology platforms suggest seamless integration; (4) Benefits from scale, as the combined customer base is approximately 80 million subscribers.

28. Petition to Deny of Leap Wireless International, Inc., August 11, 2008, p. 15.
29. ALLTEL Acquisition Positive Strategically and Financially, Oppenheimer Securities; June 6, 2008.

50. Wachovia Equity Research reached a similar conclusion, stressing opportunities for Verizon Wireless to expand utilization of high speed data services to ALLTEL's customers:

> Valuation [of proposed merger] attractive given expected high synergies. Synergies will be driven by lower G&A, cap-x, marketing, advertising, etc. [...]
>
> Large opportunity with wireless data—ALLTEL has lagged Verizon in wireless data. At the end of Q1, data revenue as a percent of ARPU was only 14% (about $7.50). This is significantly below VZ's level of over 20%. As a result, we believe VZ has much opportunity to improve AT's top-line performance on this metric alone.[30]

2. Verizon has successfully achieved and exceeded savings claimed in prior transactions.

51. While Verizon Wireless has not undertaken acquisitions comparable in size to the proposed transaction, Verizon – one of Verizon Wireless' two joint venture parents – has undertaken other large mergers and has successfully integrated the operations of the merging firms. In each case, Verizon has been successful in realizing (and exceeding) efficiencies claimed at the time of these transactions.

52. The Department of Justice's press release approving the merger of MCI and Verizon noted that "the transactions are likely to generate substantial efficiencies that should benefit consumers."[31] Available data indicate that Verizon met this objective and, in fact, achieved cost savings well in excess of those estimated at the time. Based on discussions with Verizon financial analysts responsible for tracking synergies generated by prior transactions, we understand that when the Verizon/MCI transaction was

30. Verizon Communications Company Report, Wachovia Equity Research, June 6, 2008.

31. Department of Justice Press Release, October 27, 2005, Justice Department Requires Divestitures in Verizon's Acquisition of MCI and SBC's Acquisition of AT&T.

announced, Verizon expected to generate savings of $[redacted] in the first year following the transaction, $[redacted] in the second year, and $[redacted] annually thereafter. By March 2006, shortly after the merger was consummated, Verizon increased its estimate of cost savings for each of the first three years.[32] In January 2007, Verizon again increased its estimate of merger-related cost savings for 2007.[33] Table 7 summarizes the history of these projections of cost savings.

Table 7

Estimated and Realized Cost Savings from Verizon / MCI Transaction ($Millions)

	Date of Announced Savings Projection:			
Post-Merger Period	**Feb. 2005**	**Mar-06**	**Jan. 2007**	**Realized Savings**
Year 1 (2006)	[redacted]			
Year 2 (2007)				
Year 3 (2008)				

Note: Year 3 figure for realized savings annualized but based on Q1 only.

53. In January 2007, at the same time that Verizon increased its estimate of Verizon/MCI 2007 cost savings, Verizon announced that it had achieved its cost savings target for 2006 relating to the Verizon/MCI transaction.[34] Subsequent internal analysis by Verizon indicates that merger-related cost savings for 2007 were $[redacted], more than $[redacted] more than its January 2007 target.[35] Internal Verizon analysis also

32. Statements by Verizon executives at March 30, 2006 Bank of America "Securities Media, Telecommunications and Entertainment" Conference.
33. Verizon 4Q06 Earnings Conference Call, January 29, 2007.
34. Verizon 4Q06 Earnings Conference Call, January 29, 2007.
35. Based on discussions with Verizon financial analysts.

indicates that the "run rate" for the first quarter of 2008, the most recent data available, also substantially exceeds the announced target.[36]

54. Verizon also succeeded in meeting its estimates of cost savings in prior mergers. In support of the proposed merger of Verizon and MCI, Verizon submitted a report to the Department of Justice that summarized the cost savings projected and realized from the Bell Atlantic/GTE and Bell Atlantic/NYNEX mergers. As detailed in that report, the savings realized from the Bell Atlantic/GTE merger exceeded those projected in each of the first three years following the merger.[37] In total, the projected savings for 2000-02 were $[redacted] and the realized savings were $[redacted].[38] Similarly, the savings realized from the Bell Atlantic/NYNEX merger in August 1997 exceeded the projected level. As summarized in the Verizon submission in the Verizon/MCI matter, Verizon officials testified before the New Jersey Board of Public Utilities that Bell Atlantic realized savings of $[redacted] in 1997-2000 compared to projected savings of $[redacted].

36. Based on discussions with Verizon financial analysis.
37. Submission of Verizon Communication, Inc., Verizon's Acquisition of MCI Will Lead to Substantial Efficiencies and Benefits for Customers (undated).
38. This is based in part on an estimate of 2002 merger-related cost savings.

III. THE PROPOSED MERGER DOES NOT RAISE SIGNIFICANT COMPETITIVE CONCERNS RELATED TO ROAMING SERVICES.

55. Several parties have raised concerns that the proposed merger will reduce competition in the provision of roaming services.[39] None of these parties, however, has submitted any analysis or data to support their claims that the proposed merger will adversely affect roaming competition. This section addresses this claim with evidence from a variety of sources and shows that the proposed merger will not have a significant adverse effect on competition in the provision of either CDMA or GSM roaming services. Available information instead indicates that Verizon Wireless will continue to face substantial roaming competition in nearly all areas in which it operates; that many customers are protected by long-term contracts; and that technological changes promise to increase the scope of roaming rivals in the future.

A. BACKGROUND

1. Verizon Wireless and ALLTEL roaming services

56. Verizon Wireless provides CDMA-based service in more than 2,300 counties (out of more than 3,000 in the U.S.) covering 94 percent of the U.S. population.[40] Verizon Wireless also recently became a supplier of GSM-based service through its acquisition of RCC and now provides GSM roaming in approximately 138 counties covering 1.8 percent of the U.S. population.

39. See, for example, Petition to Deny of Cellular South, August 11, 2008, pp. 21-22; Centennial Communications Corp. Petition to Deny, August 11, 2008, pp. 4-8; Petition to Deny of Leap Wireless International, Inc., August 11, 2008, pp. 18-20; Petition of MetroPCS Communications Inc. and Ntelos Inc. to Condition Consent or Deny Application, August 11, 2008, pp. 6-7, 20-25.

40. Based on data from American Roamer / Verizon Wireless. The same network is used to provide retail and roaming CDMA services by Verizon Wireless and ALLTEL so roaming service is available where retail services is provided.

57. ALLTEL provides CDMA-based roaming service in more than 1,600 counties covering 28 percent of the U.S. population. It also operates a GSM-based "roaming only" network in nearly 600 counties covering 3.5 percent of the U.S. population.

58. Purchases and sales of roaming minutes for May 2008, the most recent month available for both firms, are summarized in Table 8. As the table indicates, both Verizon Wireless and ALLTEL are net purchasers of CDMA roaming minutes. However, as discussed above, the proposed transaction enables Verizon Wireless and ALLTEL to reduce reliance on roaming by moving some roaming traffic now provided by Sprint and U.S. Cellular back onto the combined firm's network. As a result, the combined firm is expected to become a net seller of CDMA roaming minutes following the proposed transaction.

Table 8

Verizon Wireless and ALLTEL Net Domestic Roaming Minutes
May 2008
(MM Minutes)

	Verizon Wireless			ALLTEL		
	CDMA	GSM	Total	CDMA	GSM	Total
Roaming Sales	[redacted]					
Roaming Purchases						
Net Roaming Minutes						

Note: VzW GSM Minutes are for RCC, exlcuding areas divested due to RCC-VzW transaction.
Negative minutes reflect payable minutes exceeding receivable minutes;
Positive minutes reflect receivable minutes exceeding payable minutes.

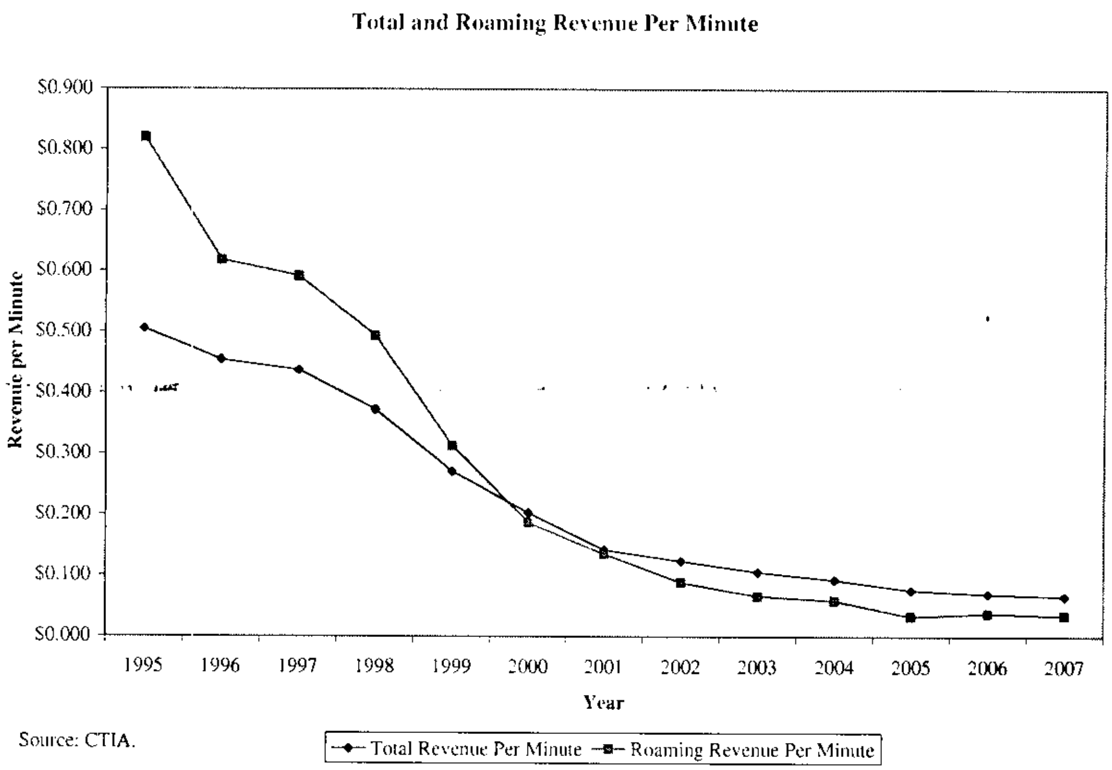
Source: Verizon Wireless; ALLTEL.

2. Roaming trends

59. While some parties commenting on the proposed transactions have expressed concern about the "recent dramatic trend toward oligopoly in the wireless market,"[41] roaming prices have fallen dramatically over time. As shown in Figure 1, data from the CTIA indicate that roaming prices per minute have fallen from roughly $0.80 per minute in 1995 to roughly $0.05 per minute in 2007.[42] The decline in roaming fees in recent years is similar to the dramatic decline in average retail revenue per minute earned by wireless carriers discussed in our prior declaration.[43] As discussed above, the parties' reduced reliance on roaming services purchased from both third parties and from each other that results from the proposed merger provides further incentives for the combined firm to reduce rates to retail customers.

41. Petition to Dismiss or Deny of the Ad Hoc Public Interest Spectrum Coalition, August 11, 2008, p. ii.
42. The reported roaming fee is based on airtime only and excludes toll charges and taxes. These data are reported in nominal terms and do not incorporate any adjustment for inflation over this period. Thus, the decline in real terms is larger than the reported nominal decline.
43. Carlton, Shampine, Sider Declaration, Figure 4.

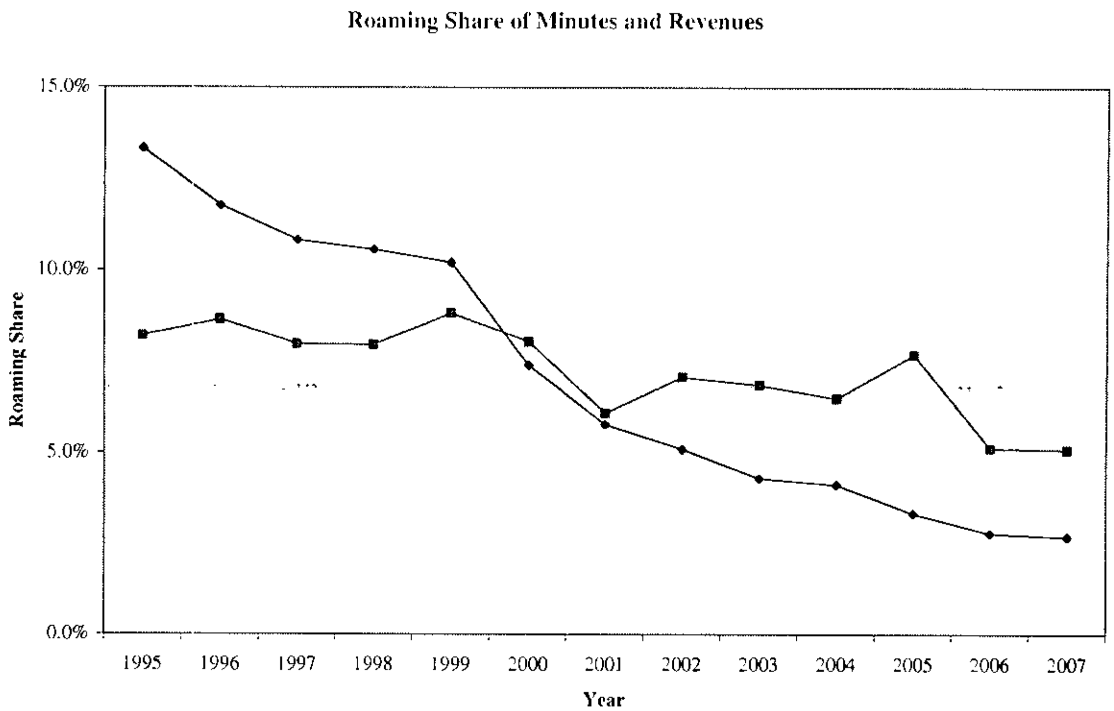
Figure 1



Source: CTIA.

60. At the same time, roaming accounts for a declining share of all wireless minutes and revenue. (See Figure 2.) This results in part from the expansion of network footprints and implies that roaming plays a substantially smaller role in the costs faced by the average carrier than in the past, thus reducing roaming-related competitive concerns.

Figure 2



Source: CTIA.

3. Characteristics of typical roaming arrangements[44]

61. Roaming agreements between carriers are bilateral contracts that enable a carrier's subscribers to access another carrier's network in areas and at times when the carrier's network cannot be accessed. The contracts establish a per-minute rate for services provided although the contract may establish differential rates for services purchased for each party.

62. Carriers typically establish relationships with multiple carriers that cover the same territories. Generally, a contract specifies the same price for all geographic areas covered by the contract, although there are two exceptions. First, contracts can establish priority among multiple potential roaming partners in a given area in exchange

44. This summary is based on our review of the terms of Verizon Wireless and ALLTEL roaming agreements.

for better roaming rates.[45] Second, contracts may set higher rates in "home roaming" areas (in which the purchaser of roaming services owns spectrum but does not have facilities) than in areas in which the purchaser does not own spectrum. However, contracts do not distinguish fees between areas with many and fewer roaming alternatives. Finally, contracts may incorporate volume discounts and are often multiple years in duration.

B. ALTERNATIVE ROAMING OPTIONS EXIST IN NEARLY ALL OVERLAP AREAS.[46]

63. Data that identify carriers offering CDMA service on a county-specific basis in the United States have been used to identify the counties in which both Verizon Wireless and ALLTEL offer service as well as the number of other carriers that offer services in each of these areas.[47]

64. These data indicate that there are alternative roaming options in nearly all overlap areas and that the scope of any potential competitive concern is limited. As summarized in Table 9, the merged firm's network will provide service (including roaming service) in counties that account for all but 1.6 percent of the U.S. population.

45. Thus, the subscriber's phone has the ability to obtain service from multiple roaming providers as necessary. Carriers configure handsets and (in the case of GSM) networks to establish priority among potential roaming partners.

46. Our analysis takes into account Verizon Wireless' proposal to divest spectrum and assets in 85 CMAs served by both Verizon Wireless and ALLTEL. In these areas, the merged firm will divest the spectrum, customers and other assets used by that property. We assume for present purposes that these divestitures also remedy the Commission's concerns regarding the potential impact of the proposed merger on competition for retail subscribers to wireless services.

47. These data were provided by Verizon Wireless and are based on information from American Roamer. The data file includes supplemental information obtained by Verizon Wireless. These data are used in the ordinary course of Verizon Wireless' business for the purpose of identifying particular roaming partners in different areas. These data identify whether a carrier provides service in any part of a county and thus include some counties in which carriers provide service but do not have facilities.

However, there is no overlap in Verizon Wireless and ALLTEL service areas in counties that account for 75 percent of the U.S. population (= 70.5 + 4.5) and thus the transaction does not alter the number of CDMA carriers in these areas. Overlap areas that Verizon Wireless currently expects to divest account for 2.9 (=0.4 + 1.7 + 0.8) percent of the U.S. population.

65. Thus, the proposed transaction results in a reduction in the number of CDMA roaming providers in counties that account for 20.6 percent (= 13.4+ 7.1+ 0.1) of the U.S. population. Following the transaction, the merged firm will be the only CDMA roaming provider in only 20 counties which together account for 0.1 percent of the U.S. population. In overlap counties that account for another 7.1 percent of the population, there will be one roaming carrier in addition to the merged firm and there will be at least two other carriers in overlap areas which account for 13.4 percent of total U.S. population.

Table 9

Number of CDMA Providers in VzW and ALLTEL Service Areas

Type of Area	Number of Other Carriers	Number of Counties	Percent of Population
Areas with Neither Verizon Wireless or Alltel		211	1.6%
Verizon Wireless Only Areas		1,239	70.5%
ALLTEL Only Areas		575	4.5%
Overlap Areas / Divestiture Areas (85 CMAs)	2+	48	0.4%
	1	223	1.7%
	0	184	0.8%
Overlap Areas / Non-Divestiture Areas	2+	317	13.4%
	1	310	7.1%
	0	20	0.1%
Total		3,127	100.0%

Source: American Roamer Data; Census Bureau.

66. These data indicate that the scope of potential competitive concerns is limited. We limit our analysis of potential competitive concerns in the following sections to areas in which the number of CDMA roaming providers is reduced from either 3 to 2 or from 2 to 1 as a result of the proposed merger. This approach is perhaps overly inclusive given the Commission's prior conclusions about the state of competition in the provision of roaming services. In particular, the Commission has previously concluded that "competition in the retail market is sufficient to protect consumers against potential harm arising from intercarrier roaming arrangements and practices."[48] While roaming-

48. Federal Communications Commission, Memorandum Opinion and Order and

related competitive concerns have been raised in past mergers of wireless carriers, we understand that the Commission has not ordered any remedy based on such concerns beyond those ordered relating to concerns about the impact of wireless mergers on retail competition.

C. CONTRACTS LIMIT POTENTIAL COMPETITIVE HARM.

67. As noted above, roaming contracts are typically multiple years in duration and Verizon Wireless and ALLTEL's major customers have contracts that set prices and extend for multiple years. For example:

- Sprint, which is currently the largest third-party purchaser of roaming minutes from Verizon Wireless and ALLTEL, recently reached an agreement with Verizon Wireless that would extend the (low) rates in its current ALLTEL agreement through [redacted]. The agreement also lowers rates, provides volume discounts and extends the contract in Verizon Wireless served areas.
- AT&T's (GSM) contract with ALLTEL extends through [redacted].
- T-Mobile's (GSM) contract with ALLTEL extends through [redacted].
- Larger regional carriers also have long term contracts with Verizon Wireless. Cellular South's contract extends to [redacted], U.S. Cellular and

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Declaratory Ruling in WT Docket No. 07-208 (Application of Cellco Partnership d/b/a/ Verizon Wireless and Rural Cellular Corporation), August 1, 2008, ¶88. Also see FCC, Memorandum Opinion and Order, AT&T / Cingular, FCC 04-255, October 26, 2004, ¶180 and FCC, Report and Order and Further Notice of Proposed Rulemaking, FCC 07-143, August 16, 2007, ¶ 13. As noted above, we assume that Verizon Wireless' proposed divestitures in this matter also will satisfy the Commission's competitive concerns regarding retail competition.

MetroPCS have contracts to [redacted] and Bluegrass Cellular's contract runs to [redacted].

68. Finally, Verizon Wireless has made further commitments to non-national carriers which enable them to continue to maintain their current rate structure through the full contract term notwithstanding change in control provisions in existing contracts. In addition, all non-national carriers with agreements with both ALLTEL and Verizon Wireless can choose either agreement to govern all roaming traffic with the merged firm post-merger, and carriers with roaming agreements with ALLTEL may maintain those existing agreements for at least two years following the close of the merger.

69. As discussed further below, technological migrations planned by leading CDMA and GSM carriers promise to expand the range of roaming alternatives available at the same time or even before current long-term contracts expire.

D. CARRIERS PROVIDE SERVICE OR CAN READILY EXPAND INTO OVERLAP AREAS.

70. Carriers can also expand service in the relatively few areas where the proposed transaction reduces the number of CDMA roaming providers, as indicated by the fact that major wireless carriers operate tens of thousands of cell sites across a wide variety of areas. Our June 13 report noted, for example, that Verizon Wireless operates more than [redacted] cell sites while ALLTEL operates more than [redacted].

71. As shown in Table 10, Sprint already provides service in 298 of the 310 counties in which the number of CDMA providers is reduced from 3 to 2 as a result of the proposed transaction and has spectrum in the remaining areas. Sprint also currently owns spectrum in each of the 20 areas in which the proposed merger reduces the number

of CDMA carriers from 2 to 1. Similarly, a variety of other carriers possess spectrum in the counties where only one other CDMA provider would remain after the transaction.

Table 10

Spectrum Holdings of Other Carriers in Post-Divestiture 2-1 or 3-2 Areas

	Number of Counties		Population Coverage	
Type of Area	**2-1 Areas**	**3-2 Areas**	**2-1 Areas**	**3-2 Areas**
Total	20	310	344,605	21,327,235
Sprint				
Provides CDMA Service		298		99.2%
Has Spectrum	20	310	100.0%	100.0%
Other Spectrum Holders				
AT&T	19	307	98.8%	99.7%
T-Mobile	20	291	100.0%	96.6%
Leap/Cricket	7	73	36.0%	15.3%
Cook Inlet	1	40	4.7%	20.7%
Centennial		35		17.1%
US Cellular		20		5.4%
Vista	1	13	1.2%	2.7%
Metro PCS	1	7	8.0%	3.1%
Long Lines Wireless		7		0.8%
Cellular South	1	7	6.4%	0.6%
Ntelos	2	6	4.8%	0.9%
Comnet ATC/Syringa		2		0.8%
Pine Belt Wireless		1		0.1%

Source: American Roamer Data; Verizon Wireless Property File.

72. The major GSM carriers (AT&T and T-Mobile) can also expand service in the areas served by the combined company's GSM footprint. While we do not currently have information that identifies firms providing GSM services on a county-specific data, available data indicate that AT&T and T-Mobile own spectrum in all areas where Verizon Wireless and ALLTEL provide GSM service. As shown in Table 11, there are

419 counties in which the merged firm will offer GSM service following the proposed transaction. (This includes 17 counties covering 0.2 percent of the population in which both provide service.) Available data indicate that either AT&T or T-Mobile own spectrum in each of these counties and that both own spectrum in fully 414 of the 419 counties in the combined firm's GSM footprint.

Table 11

Spectrum Holdings of AT&T and T-Mobile in ALLTEL and RCC GSM Footprint

Type of Area	Number of Counties	Percent	Population	Percent
AT&T and T-Mobile Present	414	98.8%	10.98	99.6%
AT&T but not T-Mobile Present	2	0.5%	0.03	0.2%
T-Mobile but not AT&T Present	3	0.7%	0.02	0.1%
Neither AT&T Nor T-Mobile Present	0		0.00	
Total	419	100.0%	11.02	100.0%

Source: Verizon Wireless Property File; RCC License Data; ALLTEL; Census Bureau.

Note: Excludes counties in divestiture areas (85 CMAs).

E. CARRIERS' ACTIVE MANAGEMENT OF ROAMING RELATIONSHIPS LIMITS POTENTIAL EFFECTS OF A REDUCTION IN THE NUMBER OF ROAMING PROVIERS.

73. The potential adverse effect on roaming competition resulting from the proposed merger is limited by the ability of carriers to manage their multiple roaming relationships and shift traffic between roaming carriers. For example, attempts by carriers to raise price due to a reduction in the number of suppliers in a given area can be deterred by purchasers' ability to divert traffic from a roaming carrier in other areas.

74. Recent actions undertaken by AT&T highlight the ability of carrier customers to reduce their reliance on a particular roaming provider. More specifically,

AT&T has been a significant purchaser of ALLTEL's GSM roaming services and ALLTEL was a preferred provider of roaming services to AT&T over parts of ALLTEL's network. Beginning in late 2006, however, AT&T undertook a variety of actions to reduce its reliance on ALLTEL. These include expansion of its own network footprint; promoting expansion of non-preferred competitors (which has the effect of reducing purchases from ALLTEL),[49] and switching its preferred roaming provider in favor of carriers other than ALLTEL in areas where their ALLTEL contract enabled AT&T to take such actions.

75. As a result of these actions, [redacted] purchases of minutes from ALLTEL have fallen by roughly [redacted] percent in a year and a half, and the share of ALLTEL roaming minutes as a fraction of [redacted] total wireless traffic has fallen from [redacted] percent to [redacted] percent between 3rd quarter 2006 and 1st quarter 2008. (See Table 12.) [redacted] achieved this reduction in its reliance on ALLTEL despite having a preferential relationship with ALLTEL in parts of its network. This contractual preference expires at the end of 2008.

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49. We understand based on discussions with ALLTEL that ALLTEL's roaming-only GSM network offers a relatively low level of coverage. As a result, ALLTEL may fail to serve all roaming requests even in areas where it is a preferred provider. AT&T-sponsored network expansions of non-preferred GSM partners thus may divert roaming traffic from ALLTEL to other carriers.

Table 12

[redacted] Roaming Minutes on ALLTEL's GSM Network As a Share of [redacted] Total Minutes of Use

(Million)

	AT&T			T-Mobile		
Quarter	Minutes of Use	ALLTEL-Provided Roaming Minutes	Share	Minutes of Use	ALLTEL-Provided Roaming Minutes	Share
06Q3	[redacted]					
06Q4						
07Q1						
07Q2						
07Q3						
07Q4						
08Q1						

Source: Merrill Lynch, US Wireless Matrix 1Q08, July 9, 2008 Tables 5 and 21; ALLTEL Wholesale Roaming FOAR, May 2008.

F. THE PROPOSED TRANSACTION DOES NOT ADVERSELY AFFECT THE MERGED FIRMS' INCENTIVE TO MAINTAIN ITS GSM ROAMING NETWORKS.

76. Some parties have claimed that ALLTEL will have an incentive to cease providing GSM roaming service after the transaction or otherwise to degrade such services.[50] These parties claim that the merger increases such incentives by enabling the merged firm to capture a larger share of any customers that abandon GSM services in response to degradation of the GSM network.

77. While parties raising such claims present no evidence to support their view, available data indicate that the merger does not adversely affect the merged firm's incentive to maintain its GSM roaming network.

50. Petition to Deny of the Rural Telecommunications Group, Inc., August 11, 2008, p. 16; Petition to Deny of Palmetto Mobilenet, L.P., August 11, 2008, pp. 18-19.

78. First, as shown in Table 12 above, only about [redacted] percent of minutes provided by [redacted] and [redacted] to retail customers are provided by ALLTEL's roaming network. As a result, degradation of the ALLTEL network would not affect the vast majority of AT&T and T-Mobile customers and would likely have only a small effect on others. Under these circumstances, it is unlikely that degradation of the GSM network would succeed in causing a significant number of customers to abandon their GSM service.

79. Second, the ALLTEL GSM network is profitable and abandoning the network would result in significant opportunity costs.

80. Third, ALLTEL's GSM carrier customers have alternatives for the vast majority of traffic carried on the ALLTEL GSM network. ALLTEL estimates that it faces at least one other GSM rival in counties that account for [redacted] percent of ALLTEL GSM roaming traffic. In other areas, AT&T's recent actions demonstrate that GSM roaming customers can readily increase their reliance on other carriers or expand deployment of services. As noted above, AT&T and T-Mobile own spectrum in nearly all areas where ALLTEL and Verizon Wireless provide GSM service.

G. NEW TECHNOLOGY PROMISES TO EXPAND ROAMING OPTIONS.

81. GSM and CDMA are incompatible technologies so subscribers to CDMA carriers cannot roam on GSM networks and vice-versa. However, Verizon Wireless, the largest CDMA provider, and AT&T, the largest GSM provide have indicated that they intend to migrate their networks to "Long Term Evolution" (LTE) technology.[51] This

51. See http://news.vzw.com/news/2007/11/pr2007-11-29.html and http://www.wirelessweek.com/at-t-to-run-with-lte.aspx (reporting statements by AT&T at a 2007 industry conference).

migration is expected to begin in or around 2010 and is expected to take place over a number of years. However, once completed firms that adopt this technology will be able to provide roaming services to each other.

82. Comments from a variety of analysts confirm these trends:

> One of the important characteristics of LTE technology is its interoperability with existing wireless networks, regardless of what wireless technology (e.g., GSM, CDMA, UMTS/HSPA, etc.) the legacy network operates on.[52]

> With Verizon's, Vodafone's and now AT&T's adoption of LTE as the 4G standard of choice we appear to be heading into the uncharted territory of technological agreement.[53]

> The Long Term Evolution (LTE) Initiative Feels Real: Considering the timing and implications of LTE [...] We think initial spending could begin in 2009, at least a year earlier than we imagined.[54]

IV. RESPONSE TO OTHER ISSUES RAISED BY COMMENTERS

1. Leap's claim that data presented in our June 13 declaration show "very high substitutability" between Verizon Wireless and ALLTEL.

83. Leap Wireless suggests that the number porting data summarized in our earlier declaration show "very high substitutability" between ALLTEL and Verizon Wireless.[55] This appears to reflect Leap Wireless' misunderstanding of our analysis and data.

84. Our analysis showed that:

> ...less than 20 percent of new Verizon Wireless subscribers are drawn from ALLTEL and less than 20 percent of subscribers leaving Verizon Wireless go to ALLTEL. If flows into and from Verizon Wireless

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52. Bear Stearns, February 4, 2008, p. 9.
53. Mike Burton, Think Technology: Wireless Components and Enabling Tech, ThinkEquity Partners LLC, February 8, 2008, p. 1.
54. Simon Leopold, et al., Technology: Insights from Verizon's Network and Technology Organization, Morgan Keegan, June 12, 2008, p. 1.
55. Petition to Deny of Leap Wireless International, Inc., August 11, 2008, p. 18.

> occurred prorate based on market shares alone in these overlap areas, roughly 22 percent of such churn would involve ALLTEL. These data indicate that new customers moving to or from Verizon Wireless to ALLTEL do so less often than would be suggested based on ALLTEL's share of subscribers.[56]

85. The Leap petition mischaracterizes these data. If the customers leaving Verizon Wireless have similar preferences to the average consumer (as reflected in market shares) then one would expect that customers leaving Verizon Wireless would go to those other carriers proportionally to those carriers' overall subscriber shares (excluding Verizon Wireless). In fact, Verizon Wireless customers go to ALLTEL less often than expected based on ALLTEL's share alone. Moreover, Verizon Wireless customers go to other carriers (individually and collectively) more often than to ALLTEL. This suggests that other carriers are closer substitutes with Verizon Wireless than ALLTEL.[57]

86. Leap presents no data or analysis that is inconsistent with that presented in our June 13 declaration.

2. Leap's claim that movement to national pricing is not documented.

87. In our June 13, 2008 declaration we discussed how the pricing of wireless voice services has become increasingly national in scope. Leap Wireless claims, in response, that we "do not document the claim that Verizon 'increasing[ly]' engages in national pricing."[58]

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56. Declaration of Dennis Carlton, Allan Shampine and Hal Sider, June 13, 2008, ¶ 43.
57. Other carriers identified in the underlying data include Sprint, AT&T, T-Mobile and "others."
58. Petition to Deny of Leap Wireless International, Inc., August 11, 2008, p. 16.

88. There is no basis for Leap's assertion. Our prior declaration noted that while "Verizon Wireless historically established separate pricing schedules by geographic area and region," today:

> … roughly 90 percent of current Verizon Wireless subscribers have service plans based on national pricing and that close to 100 percent of new subscribers are enrolled in national pricing plans. These plans offer customers in all areas the same rate and do not include roaming charges. In addition, Verizon Wireless sets handset pricing and subsidies on a national basis.[59]

Leap and other commenters do not present any data or analysis that is inconsistent with the data we cited.

3. Commenters advocate a variety of remedies that are unrelated to competitive issues raised by the proposed transaction.

89. Commenters ask that the Commission impose a variety of remedies that appear to be wholly unrelated to competitive issues raised by the proposed transaction. These requests are more appropriately made in the context of the Commission's regulatory proceedings, not merger review proceedings.

90. For example, the *Ad Hoc* Public Interest Spectrum Coalition has suggested that the "Commission must mandate the extension of [Verizon Wireless'] Open Development Initiative."[60] The Open Development Initiative, or ODI, is a Verizon Wireless program intended to allow customers to use any device that meets the company's published technical standards and applications of the customer's choice on those devices.[61] As noted in our June 13 declaration, the transaction expands the number

59. Declaration of Dennis Carlton, Allan Shampine and Hal Sider, June 13, 2008, ¶¶ 37-38.
60. Petition to Dismiss or Deny of the *Ad Hoc* Public Interest Spectrum Coalition, August 11, 2008, p. iv.
61. See http://www.verizonwireless-opendevelopment.com/.

of potential subscribers affected by ODI because ALLTEL has not participated in this effort to date.[62] There is no competition-based rationale for the Commission to mandate extension of ODI.

91. Similarly, the *Ad Hoc* Public Interest Spectrum Coalition argues that that:

> [T]he Commission should clarify that the Internet Policy Statement applies to wireless networks as well as wireline networks; that Verizon may not block or degrade content or applications running over its wireless broadband networks; and that parties may bring complaints in the event a wireless carrier does so.[63]

Again, there is no relationship apparent between the Commission's application of the Internet Policy Statement to wireless networks and the transaction, and the Coalition does not suggest that the transaction would have any effect on the parties' ability or incentives to block or degrade Internet content.

92. Some parties have suggested that the merger be conditioned on a waiver of exclusivity rights to handsets.[64] Again, this issue appears to be wholly unrelated to competitive issues raised by the proposed transaction and Commenters do not present any analysis or data to suggest that the merger affects incentives related to handset exclusivity or that handset exclusivity is anticompetitive.

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62. Carlton, Shampine, Sider Declaration, p. 10
63. Petition to Dismiss or Deny of the *Ad Hoc* Public Interest Spectrum Coalition, August 11, 2008, p. iv.
64. See Centennial Communications Corp. Petition to Deny, August 11, 2008, p. 8; Petition to Deny of the National Telecommunications Cooperative Association, August 11, 2008, p. 8; Comments of the Rural Cellular Association, August 11, 2008, p. 14; Petition to Deny of the Rural Telecommunications Group, Inc., August 11, 2008, p. 28; Petition to Dismiss or Deny of the *Ad Hoc* Public Interest Spectrum Coalition, August 11, 2008, p. 12.

REDACTED – FOR PUBLIC INSPECTION

I declare under penalty of perjury that the foregoing is true and correct.

Dennis W. Carlton

Dennis W. Carlton

Executed August 19, 2008

I declare under penalty of perjury that the foregoing is true and correct.

Allan S. Shampine

Executed August 19, 2008

I declare under penalty of perjury that the foregoing is true and correct.

Hal Sider

Hal S. Sider

Executed August 19, 2008