BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

In the Matter of	)	
	)	
ATLANTIS HOLDINGS, LLC (Transferor)	)	
VERIZON WIRELESS (Transferee)	)	WT Docket No. 08-95
	)	
Applications for Consent to Transfer Licenses,	)	File Nos. 0003463892, *et al.*
Spectrum Manager and *De Facto* Transfer	)	
Leasing Arrangements, and Authorizations,	)	
and Request for Declaratory Ruling on Foreign	)	
Ownership	)	

To: The Commission, *en banc*

REPLY TO JOINT OPPOSITION

Kenneth E. Hardman
Attorney At Law
2154 Wisconsin Avenue, NW
Suite 250
Washington, DC 20007
Direct Dial: (202) 223-3772
Facsimile: (202) 315-3587
kenhardman@att.net

Attorney for Ritter Communications, Inc.
and Central Arkansas Rural Cellular
Limited Partnership

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SUMMARY

The Joint Opposition incorrectly argues that the Petition to Deny filed by the Arkansas Limited Partners does not establish *prima facie* that grant of the captioned applications would be contrary to the public interest. Inferences of trafficking in violation of Section 1.948(i) of the rules, and misrepresentation or lack of candor in violation of Section 1.17 of the rules, are established not only by the objective facts that Atlantis abruptly negotiated the sale of Alltel to VZW when the ink was hardly dry on the Commission's approval of Alltel by Atlantis and that Atlantis failed to deliver on its promised public benefits from acquiring Alltel, but also by the declarations of John Tisdale and Clinton Orr establishing that Atlantis' behavior post-acquisition was fundamentally inconsistent with expected behavior by private equity investors. The inference is reinforce by published reports, which the Opposition selectively fails to mention, that VZW has been actively seeking to acquire Alltel for the past two to three years.

Contrary to the argument in the Opposition, the offense of "trafficking" is not and should not be confined to the sale of construction permits for unbuilt facilities or transactions by designated entities receiving bidding credits. Public policy should not countenance trafficking by the wealthy, who can afford to buy operating stations, any more than by others who can only afford to buy construction permits for unbuilt facilities.

The "explanation" provided in the Opposition does not survive even superficial scrutiny and actually raises more questions than it answers. The Opposition claims that Atlantis raised enough capital to operate Alltel "for several years," but does not explain why that would not be sufficient to support a private equity investor's plan to exit in five to seven years. Nor does it explain why a vague "concern[]" about what capital markets may be like in "four or five years" reasonably requires flipping Alltel to VZW today.

Moreover, even taking the explanation at face value, the Opposition's reliance on the "credit crunch" over the past year to justify Atlantis' conduct raises the additional question of whether Atlantis violated Section 1.65(a) of the rules by failing to amend its transfer of control applications when it realized that the "credit crunch" would drastically alter its initial plans for acquiring and holding Alltel.

The one part of the Opposition's explanation that may ring true is its statement that the owners of Atlantis had to put more of their own equity than anticipated into the deal in order to close the acquisition. But what they do not admit is that doing so slashed the anticipated return on investment Atlantis would realize from holding and developing Alltel, and thus caused the owners to cut their "losses" by flipping Alltel to VZW. That explanation, however, is inconsistent with the explanation in the Opposition, raising the question of whether the Opposition continues a pattern of lack of candor and misrepresentation.

Finally, the Opposition entirely fails to address the Petition's argument that it would be contrary to the public interest for Atlantis to profit from flipping Alltel to VZW, regardless of whether it is also ultimately found to have trafficked in Alltel's authoriza-

tions and lacked candor or made misrepresentations in its dealings with the Commission. Longstanding public policy counsels that licensed communications facilities are not simply commodities to be bought and sold for profit, but instead are supposed to be operated to serve the public. Atlantis may have miscalculated the credit markets when it made its highly leveraged buyout of Alltel. But the Commission should not bail Atlantis out by allowing it to simply flip Alltel to VZW for a profit, any more than sub-prime mortgage lenders are allowed to profit on deals when the government has to bail them out for miscalculating the real estate market. The same policy should be applied in this case, either by dismissing the application papers at the threshold for failing to demonstrate that Atlantis is not profiting from the sale of Alltel to VZW, or by requiring Atlantis to disgorge its profits from the transaction, if, after an evidentiary hearing, Atlantis ultimately is found qualified to be a licensee and the transaction otherwise is deemed to be in the public interest.

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REPLY TO JOINT OPPOSITION

RITTER COMMUNICATIONS, INC. ("Ritter") and CENTRAL ARKANSAS RURAL CELLULAR LIMITED PARTNERSHIP ("CARCLP") (collectively "Arkansas Limited Partners"), by their attorney, respectfully submit their reply to the Federal Communications Commission to the opposition filed jointly by Cellco Partnership d/b/a Verizon Wireless ("VZW") and Atlantis Holdings LLC ("Atlantis") on August 19, 2008,[1] to the Petition to Deny (the "Petition") by the Arkansas Limited Partners in the captioned proceeding on August 11, 2008. While the Opposition is long on pejoratives on the issues raised by the Arkansas Limited Partners, it is short on meaningful explanation or analysis. In fact, the Opposition raises more questions than it answers. Accordingly, as requested in the Petition, the captioned application should be designated for hearing to resolve trafficking and character qualifications issues.

[1] Joint Opposition to Petitions to Deny and Comments, WT Docket No. 08-95, August 19, 2008 (the "Opposition" or "Opp."). The Petition filed by the Arkansas Limited Partners is discussed in Section IV.A, pp. 83-89, of the Opposition.

Moreover, and of at least equal importance, the Opposition totally fails to address the Arkansas Limited Partners' argument that the application papers should be rejected at the threshold, because they fail to demonstrate that Atlantis is not profiting from its decision to flip Alltel[2] to VZW almost immediately after Atlantis' acquisition of Alltel in late 2007. Longstanding public policy against treating licensed communications facilities simply as commodities to be bought and sold for profit, rather than operated to serve the public, counsels against grant of the applications on the present record. Indeed, the meager explanation Atlantis proffers for its conduct underscores that such policy is relevant and should be applied in this case -- *regardless* of whether Atlantis ultimately is determined to have deceived the Commission or trafficked in Alltel's licenses, as Atlantis appears to have done. The point in any event is that the record before the Commission is woefully inadequate for it to make the determination as to whether the proposed transaction is in the public interest, and therefore the Commission may not approve the transaction in its present form.

As their reply to the Opposition, the Arkansas Limited Partners respectfully show:

Introduction and Background

In their Petition, the Arkansas Limited Partners pointed out that the ink was barely dry on the Commission's approval of Atlantis' acquisition of Alltel before Atlantis was back seeking approval to flip Alltel to VZW. Atlantis did so despite its earlier representations to the Commission that the public would benefit from Atlantis' acquisition of Alltel in three discrete ways: (1) rural areas would get improved service; (2) advanced services would be deployed in rural areas;

[2] The term "Alltel" will be used herein to refer collectively to Alltel Corporation, its direct and indirect subsidiaries, and its affiliated partnerships, control of which is sought to be transferred in the applications before the Commission in this proceeding.

and (3) additional spectrum would be acquired for deployment of additional services to rural areas. Atlantis has done *none* of those things, a fact the Opposition avoids but does not contest.

Nonetheless, Atlantis now seeks the Commission's blessing to flip Alltel to VZW for an undisclosed but presumably substantial profit. The Arkansas Limited Partners therefore requested that the Commission designate the applications for evidentiary hearing to determine whether Atlantis has improperly trafficked in Alltel's licenses and lacks the character qualifications to be a licensee by reason of lack of candor or misrepresentations to the Commission. The Arkansas Limited Partners further requested that, irrespective of the outcome of the trafficking and lack of candor/misrepresentation issues, the transaction be rejected on its present record because the application papers do not demonstrate that Atlantis is not profiting from the proposed transaction.

The Opposition argues that the Petition does not make a *prima facie* showing that grant of the application is contrary to the public interest, and that the claims of the Arkansas Limited Partners are spurious and without factual or legal support.[3] As shown below, the Opposition is wrong on all counts. Moreover, although the Opposition goes on to proffer what it presumes is a benign explanation for the sequence of events in question,[4] the explanation in fact raises more questions than it answers and actually underscores the need for an evidentiary hearing to determine the facts surrounding Atlantis' acquisition of and decision to flip Alltel to VZW. Accordingly, the Opposition should be rejected in all respects and the Petition should be granted.

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[3] *E.g.*, Opposition at p. 84.
[4] *Id.* at pp. 86-88.

Reply Argument

1. Contrary to Opposition Arguments, the Petition Establishes a *Prima Facie* Case that Trafficking and Lack of Candor/Misrepresentation Issues Should Be Designated for Evidentiary Hearing.

The Opposition trumpets that the Arkansas Limited Partners "have not provided a single, specific allegation of fact" in support of their argument that Atlantis appears to have trafficked in Alltel's licenses, as defined by Section 1.948(h)(i)(1) of the rules.[5] The Arkansas Limited Partners emphatically disagree. Apart from Atlantis' objective failure to live up to its promises to the Commission, as discussed in the Petition, the declarations of John Tisdale and Clinton Orr attached to the Petition demonstrate that Atlantis' behavior post-acquisition was fundamentally inconsistent with expected behavior by private equity investors. Equally inconsistent is the objective fact that Atlantis switched from the acquisition to the disposition mode almost immediately after acquiring Alltel, again conduct fundamentally inconsistent with Atlantis' professed intent to hold and develop Alltel. All of these very specific facts raise the strong and unambiguous inference that Atlantis did not in fact intend to hold and develop Alltel, as it represented to the Commission, but rather that Atlantis intended merely to flip Alltel for a profit.[6]

This inference is reinforced by widespread reports that VZW actually has been attempting to buy Alltel for at least the past two or three years,[7] suggesting the possibility that Atlantis knowingly gambled on its ability to flip Alltel to VZW for a profit. While the Opposition con-

5 *Id.* at p. 84.

6 Obviously, the inference raised by these facts is not conclusive; that is why a hearing must be held after appropriate discovery.

7 Attached as Exhibit No. 1 are four examples of articles dated from 2005 until the present making reference to VZW's attempts: Allie Winter, Third time's a charm, RCR News, June 9, 2008 ("Verizon Wireless has wanted to purchase the carrier [Alltel] for sometime, saying no the first time and no the second time (the same time that TBG and GS did go through with the purchase)"); CellPhoneForums.net, "Verizon ready to snatch up Alltel?", February 25, 2007; Dieter Bohn, WMExperts, March 1, 2007 ("Verizon Looking to Buy Alltel?"); *id.*, March 5, 2007 ("Alltel: Won't Somebody Buy Us?"); MobileTracker, May 31, 2005 ("Rumor: Verizon Wireless to buy ALLTEL").

tends that the *most recent* negotiations for the acquisition began in April 2008,[8] it selectively omits to address whether there had been any contact or discussions involving the acquisition of Alltel prior to Atlantis' acquisition, or, if so, the substance of those discussions. The Opposition's selective discussion of the relevant circumstances itself underscores that there is a woefully inadequate record before the Commission for understanding exactly what happened, and therefore being able to intelligently pass on the merits of the captioned applications.[9]

The Opposition does, rather cryptically, proffer what it hopes is a benign explanation for Atlantis' behavior. In substance, the Opposition claims that because of the current credit crunch, (a) Atlantis could not raise as much debt and syndicated equity as it originally intended and thus had to invest more of its own equity to close the acquisition than it originally intended; (b) Atlantis could (only) raise "sufficient capital . . . to finance the growth and operations of ALLTEL *for several years*" (emphasis added) and to "participate in the 700 MHz auction"; and (c) the owners of Atlantis "are concerned that Atlantis Holdings may be constrained in the future (*e.g.,* four or five years from now) in its ability to raise the capital necessary to fund the costly, long-term investments necessary to grow ALLTEL's service in rural markets."[10]

At the risk of vast understatement, the "explanation" in the Opposition does not survive even superficial scrutiny. Given that private equity investors typically have an exit plan in mind over a 5 to 7 year period when they make an acquisition,[11] there is no apparent business need for Atlantis to have raised any more than "sufficient capital at the time of acquisition to finance the

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8 Opposition at p. 87.

9 The cases cited in the unnumbered footnote on p. 86 of the Opposition are not to the contrary. Both *In re Thomas K. Kurian, et al.*, 18 FCC Rcd 21949 (WTB 2003) and *In re Manahawkin Communications Corporation,* 17 FCC Rcd 342 (FCC 2001) are readily distinguishable on their facts; and the general proposition that generalized, unfounded and speculative allegations do not constitute a *prima facie* showing, while obviously correct, has no application here. *In re Applications of Celcom Communications Corporation, et al,* 61 R.R.2d (P&F) 353 (FCC 1986), was a comparative hearing case that did not even involve claims of trafficking or deceiving the Commission.

10 Opposition at p. 87.

11 *See* Petition at p. 5 and supporting Declaration of John Tisdale, Esq.

growth and operations of ALLTEL *for several years*."[12] In a similar vein, even if there is a valid (but undisclosed) business reason to raise more capital than needed for the next "several years," the Opposition does not explain why "current market conditions" should dictate that Alltel be flipped to VZW right now.[13]

While predicting the length of a business cycle is obviously hazardous, the Arkansas Limited Partners are not aware and have not heard any forecasts that the current credit crunch will last nearly as long as four or five years, and the Opposition makes no such prediction or other showing that such a concern would be reasonable. Under these circumstances, even taking the Opposition's explanation at face value (which the Commission properly may *not*), the Opposition's vague and generalized references to a "concern" about capital market conditions four or five years in the future plainly is not an adequate explanation for Atlantis' unquestionably abrupt sale of Alltel to VZW.

The Commission also should take official notice that the credit crunch has been happening for approximately the past year or so.[14] Commission approval of the Atlantis acquisition of Alltel did not occur until October 26, 2007, and the closing occurred approximately a month later (according to the Opposition, after the disappointing "road show" by the banks to syndicate their debt financing for the acquisition). Section 1.65(a) of the rules expressly states:

> Each applicant is responsible for the continuing accuracy and completeness of information furnished in a pending application or in Commission proceedings involving a pending application. Whenever the information furnished in the pending application is no longer substantially accurate and complete in all significant respects, the applicant shall

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[12] Opposition at p. 87. (Emphasis added).

[13] The Opposition does not explain what it means by "current market conditions," but the Arkansas Limited Partners assume that it is a reference to the current credit crunch and its effects in the capital markets.

[14] Attached as Exhibit No. 2 are three examples of published reports on the credit crunch dating back to July and August 2007: Ambrose Evans-Pritchard, Telegraph.co.uk, June 26, 2007 (Banks 'set to call in a swathe of loans'); Jay H. Bryson, Wachovia, August 3, 2007 (U.S: Credit Crunch – August 2007); Paul Litchfield, Seeking Alpha, August 12, 2007 (Mortgage Originated Credit Crunch May Just Be Beginning).

> as promptly as possible and in any event within 30 days, unless good cause is shown, amend or request the amendment of his application so as to furnish such additional or corrected information as may be appropriate. Whenever there has been a substantial change as to any other matter which may be of decisional significance in a Commission proceeding involving the pending application, the applicant shall as promptly as possible and in any event within 30 days, unless good cause is shown, submit a statement furnishing such additional or corrected information as may be appropriate, which shall be served upon parties of record in accordance with Sec. 1.47. Where the matter is before any court for review, statements and requests to amend shall in addition be served upon the Commission's General Counsel. For the purposes of this section, an application is ``pending'' before the Commission from the time it is accepted for filing by the Commission until a Commission grant or denial of the application is no longer subject to reconsideration by the Commission or to review by any court. [15]

The Opposition's evident reliance on the credit crunch to justify Atlantis' conduct thus raises the additional issue of whether Atlantis failed to comply with its Section 1.65 obligations to keep the information in its application complete and current, and to disclose "substantial changes . . . which may be of decisional significance". If, as the Opposition professes, TPG and Goldman Sachs were prescient enough to know in April 2008 that they should sell Alltel immediately, based on their prediction of what capital markets would be like in 4-5 years, then it should follow that they likewise knew -- well before Commission approval of their acquisition in October 2007 -- that the credit crunch would require major changes in their announced plans for holding and developing Alltel. At the latest, they surely knew it prior to closing on the Alltel acquisition, when the banks' road show in November 2007 failed to produce the desired results, a date that was still within the Section 1.65's reporting obligation window. Accordingly, again taking the Opposition's explanation purely at face value (which the Commission properly may not do), the issue of when did TPG and Goldman Sachs realize that the credit crunch would cause them to radically change course with their plans for Alltel, thereby potentially triggering a

[15] 47 C.F.R. §1.65(a) ("Substantial and significant changes in information furnished by applicants to the Commission").

Section 1.65(a) reporting obligation, also is a matter that must be explored in an evidentiary hearing before the Commission rationally may pass on the merits of the pending applications.

Moreover, the fact that Alltel filed a short form application for the 700 MHz auction has no probative value in this discussion. The objective fact is that Alltel did not buy any spectrum in that auction, and thus Atlantis did not follow through on its promise that its acquisition of Alltel would result in Alltel acquiring additional spectrum for the deployment of advanced services in rural areas. Beyond the obvious fact that Alltel was outbid in the auction,[16] the Opposition offers no meaningful explanation for Alltel's failure to obtain spectrum; and the detailed information about what happened during the auction is still secret, precluding scrutiny of Alltel's conduct. Accordingly, the mere fact that Alltel filed a short form application does not support an inference that Atlantis intended to hold and develop Alltel.

On the other hand, the part of the explanation in the Opposition that *may* ring true is its statement that "TPG and Goldman Sachs were not able to syndicate as much equity as had been originally anticipated *and thus funded a more significant portion of Atlantis' equity than they initially intended.*"[17] But what the Opposition does *not* admit is that having to invest more of their own equity to close the transaction drastically slashed the return on their investment that TPG and Goldman Sachs would likely realize if they held and developed Alltel. In other words, the most plausible inference from the limited "facts" disclosed by Atlantis (taking them at face value) is that TPG and Goldman Sachs decided to cut their "losses" by flipping Alltel to VZW. That is, the credit crunch drastically reduced the anticipated profitability of the acquisition, so

[16] The Opposition actually states, incorrectly, that "the auction prices proved too high". Opposition at p. 87. In fact, however, if auction theory is correct, the ultimate sales prices were *not* too high at all; rather, Alltel was simply unwilling to pay the necessary price for the spectrum. *Why* Alltel was unwilling to pay the necessary price might be pertinent but is not explained.

[17] *Id.* at p. 87. (Emphasis added).

TPG and Goldman Sachs may have decided – at the time they had to put more of their own equity into the deal or earlier – that they would simply flip Alltel to VZW for an immediate (but undisclosed) profit, rather than hold and develop Alltel for at most a meager (by Wall Street standards) return on their long term investment.

That explanation, however, is inconsistent with the explanation proffered in the Opposition, and raises the issue of whether Atlantis is continuing a pattern of misrepresentation and lack of candor to the Commission.

In this regard, the Commission may not blind itself to the fact that the full disclosure concepts embedded in Sections 1.17 and 1.65(a) of the rules, and which the Commission must rely upon in order to function,[18] too often are alien concepts on Wall Street, as we are reminded almost daily.[19] Under all of these circumstances, the Commission rationally may not simply accept the facile protestations of innocence in the Opposition, but rather must determine the truth via the crucible of an evidentiary hearing with full rights of discovery by interested parties.

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[18] *E.g.*, *San Joaquin Television Improvement Corporation*, 2 FCC Rcd 7004, 7005 & ¶9 (FCC 1987) (In view of the fundamental importance of licensee truthfulness, the fact of a concealment or misstatement may have more significance than the actual fact concealed" and "we have explicitly refused to renounce our authority to consider even the most insignificant misrepresentation as disqualifying"), citing *FCC v. WOKO*, 329 U.S. 223, 227 (1946) and *Character Qualifications Policy Statement*, 102 F.C.C.2d at 1210-11.

[19] Attached as Exhibit No. 3 are three examples of articles concerning Wall Street scandals about failure to disclose material facts to retail investors: Joe Bel Bruno, washingtonpost.com, Three More Banks Settle In Bond Market Probe, August 22, 2008 (numerous financial institutions, including Goldman Sachs Group, settling investigation as to whether banks knowingly misrepresented that auction-rate securities were almost like cash when selling them to investors after the banks knew the market for such securities had collapsed due to the credit crunch); Gretchen Morgenson, nytimes.com, Telecom's Pied Piper: Whose Side Was He On?, November 18, 2001 (Salomon Smith Barney star analyst Jack Grubman publicly touting the virtues of telecom company stocks without disclosing firm's conflict of interest in receiving substantial investment banking fees from stock and bond transactions for the touted companies); Gretchen Morgenson and Patrick McGeehan, Wall Street Star May Face Suit By Regulators, *The New York Times*, January 4, 2003 (Merrill Lynch star analyst Henry Blodget investigated for publicly touting stock while privately disparaging them in email messages to Merrill Lynch colleagues). *See also*, *e.g.*, Heather Landy, After Merrill's Sale of Bad Debt, Few Have Followed, *The Washington Post*, August 26, 2008, pp. D1,D3 (referencing "the famously tight-lipped style of hedge funds and private-equity firms").

2. Contrary to the Opposition, the Offense of Trafficking is not Confined to Speculation in Unbuilt Facilities and Construction Permits.

The Opposition further claims in substance that Atlantis could not have trafficked in Alltel's licenses as a matter of law, because the offense of trafficking is confined to "the speculative acquisition and abusive sale of *unbuilt* licenses *obtained via lotteries or using auction preferences,* such as set-asides, installment payments, and bidding credits".[20] The claim is simply untrue.

The starting point for analysis, of course, is the language of the rule itself, which is controlling. Section 1.948(h)(i)(1) defines the offense of trafficking in relevant part as obtaining an "authorization" for the "principal purpose of speculation or profitable resale of the authorization rather than for the provision of telecommunication services to the public". An operating radio station license is no less of an "authorization" than is a bare construction permit. Moreover, there is no logical reason to confine the offense of trafficking to unbuilt stations, since, as explained in the next section, there is a longstanding public policy against treating licensed communications facilities as mere commodities to be bought and sold for profit. Instead, such profits as may be derived from communications facilities ordinarily are supposed to be derived from providing service to the public and not from buying the properties in order to flip them to new owners.

Nor do the cases cited in the Opposition help its position. The *Urban Comm* case[21] involved a request for waiver of Section 1.2111 of the rules (requiring payment of any balance due on installment payments, late fees, etc.) as part of a sale of PCS licenses to VZW. All the Wire-

[20] Opposition at p. 89. (Emphasis in original).
[21] *Id.* at p. 89 & n. 284, citing *Applications for Consent to the Assignment of Licenses Pursuant to Section 310(d) of the Communications Act from Urban Comm-North Carolina, Inc., Debtor in-Possession, to Cellco Partnership d/b/a Verizon Wireless,* 21 FCC Rcd 15050, 15059 & ¶22 (WTB 2006) ("*Urban Comm*").

less Bureau said is that the failure to repay the installment debt in full, under the particular facts of that case, is not the type of unjust enrichment that Section 1.2111 was designed to prevent. In other words, preventing unjust enrichment when an applicant avails itself of installment payments is *one example* of conduct the anti-trafficking rules are designed to prevent. But it is an obvious *non-sequitur* to argue, as the Opposition does, that it is the *only* type of conduct the anti-trafficking rules are designed to prevent.

Even more misplaced is the Opposition's citation to the *Commercial Spectrum Enhancement Act* rulemaking.[22] The Commission's reference to anti-trafficking in that case actually was to the Congressional intent in enacting Section 309(j) of the Communications Act, which is the Commission's auction authority. Again, it is a patent *non-sequitur* for the Opposition to argue, as it does, that preventing designated entities from unjust enrichment is the *only* form of trafficking prohibited by the rules. Indeed, from a public policy standpoint, it would be at least odd to say – as the Opposition evidently would have the Commission do -- that large and wealthy entities like TPG and Goldman Sachs may freely traffick in authorizations because they can afford to buy already operating communications facilities, but small, designated entities, who generally can only afford to buy authorizations for unbuilt facilities, may not.

Similarly misplaced is the Opposition's reference to the *2000 Biennial Regulatory Review*.[23] The anti-trafficking rule at issue in that case (Section 22.943) was cellular *service-specific,* had been adopted to deter speculation in licenses awarded by lottery, and had outlived its intended purpose to the extent licenses subsequently were awarded by auctions instead. But

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[22] *Id.*, citing *Implementation of the Commercial Spectrum Enhancement Act and Modernization of the Commission's Competitive Bidding Rules and Procedures (Order on Reconsideration of the Second Report and Order),* 21 FCC Rcd 6703, ¶3 & n. 8 (FCC 2006).

[23] *Id.*, citing *Year 2000 Biennial Regulatory Review – Amendment of Part 22 of the Commission's Rules to Modify or Eliminate Outdated Rules Affecting the Cellular Radiotelephone Service and other Commercial Mobile Radio Services (Report and Order),* 17 FCC Rcd 18401, 18346-48 & ¶¶70-74 (FCC 2002).

in eliminating that rule, the Commission simply relied on the obvious fact that "the cellular service-specific anti-trafficking rule set out in section 22.943 is unnecessary, given the presence of the anti-trafficking provisions of section 1.948(i), which is applicable to all services".[24] That citation thus does no more than beg the question of the applicability of Section 1.948(i) in this case, it does not answer the question.

The Opposition may well be correct that the anti-trafficking rules have never been applied to a transaction of this magnitude. But the unprecedented magnitude of the offense does not alter the underlying character of it. Trafficking is still trafficking, whether in a $28 billion transaction or a $28 thousand transaction.[25]

3. The Opposition Wholly Fails to Address the Petition's Argument that Allowing Atlantis to Profit from this Transaction Would Be Contrary to the Public Interest

Finally, the Arkansas Limited Partners point out that the Opposition entirely ignores the Petition's argument that the captioned applications should be rejected at the threshold because the record does not demonstrate that Atlantis is not profiting from its request for permission to

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[24] *Id.* at ¶73.

[25] The Opposition's suggestion at p. 88 & n. 281, that the public benefits of the transaction are sufficient to make the finding that the transaction is in the public interest, is wrong both in fact and in law. The Arkansas Limited Partners respect both VZW's reputation as an operator and its worthy intentions in acquiring Alltel, but its exaggerated claims of merger-specific public benefits are not, in the end, especially weighty. As the Opposition otherwise acknowledges at p. 10 & n. 31, Alltel has stated it will deploy EVDO to 82% of its served population by the end of 2008 and has already started upgrading to EVDO Rev. A. Given that VZW will have to divest substantial portions of Alltel's network in any event if the acquisition proceeds, there is no way to meaningfully evaluate on this record just how much more quickly, if at all, the post-acquisition Alltel customers would see Rev. A rather than Rev. 0, -- not to mention that VZW overplays the public interest significance of having a Rev. A wireless broadband service rather than a Rev. 0 wireless broadband service. LTE is still "vaporware" as far as the public is concerned; and Alltel could allow ODI devices on its network without being bought by VZW. On the other hand, VZW does not offer, and has not committed to retain, the equivalent of Alltel's very popular "My Circle" plan, which could be eliminated for Alltel customers post-acquisition. In short, while there is little doubt that buying Alltel will result in VZW becoming bigger and more profitable, that does not by itself translate into a public benefit from the acquisition. More to the point here, the Commission has previously held that even substantial public benefits from a proposed license assignment do not obviate the need to resolve basic qualifying issues in an evidentiary hearing. *Northwestern Indiana Broadcasting Corporation*, 60 F.C.C.2d 205, ¶¶13-19 (FCC 1976). As the Commission stated in that case, an assignment proposal, "even one such as here proposed which may effect some worthy public interest," is *not* "an acceptable means of escaping a determination of the licensee's basic qualifications". (*Id.* at ¶18).

flip Alltel to VZW. The Arkansas Limited Partners respectfully submit that the Commission should reject the applications on that basis before the Commission even *reaches* the trafficking and misrepresentation/lack of candor issues, but in any event *regardless* of whether Atlantis ultimately is found to have trafficked in Alltel's authorizations or to have deceived the Commission.

As noted above, there is longstanding public policy against simply treating communications facilities as commodities to be bought and sold for profit, rather than operated (hopefully for a profit) to serve the public. This is reflected in various ways, including, *e.g.,* the traditional rule in the broadcast services and in the Specialized Mobile Radio service against transferring unbuilt facilities, at least for a profit; the current rule in the cellular service requiring the winner of a comparative hearing to operate the station for at least three years before transferring it; and the current rule for authorizations won by designated entities in an auction that they repay the pro rata value of the bidding credits if they transfer the authorization in less than five years.

The notion of preventing unjust enrichment is particularly applicable here. Even taking the Opposition's explanation at face value (which the Commission properly may not), Atlantis is fundamentally no different than a sub-prime mortgage lender that miscalculated what would happen in the real estate market and now has to be bailed out by the government. While the government may indeed agree to bail out the sub-prime lenders, there is no question about the lenders being able to *profit* as a result of the bailout; instead, the only question is how much of a "haircut" the lenders must agree to undergo in order to take advantage of the bailout.

So, here, it may be that TPG and Goldman Sachs miscalculated what would happen in the credit market after they applied for permission to make a highly leveraged buyout of Alltel, and now they want the Commission to bail them out of their miscalculation by simply letting them flip Alltel to VZW for an undisclosed but presumably substantial profit. On its face the request is repugnant to public policy and should be decisively rejected by the Commission. The Commission instead should dismiss the application papers at the threshold.

As an alternative, after determining the relevant facts in an evidentiary hearing, the Commission could require Atlantis to disgorge its anticipated profit from the sale to VZW by, for example, having Atlantis make a "voluntary" contribution of those profits to the United States Treasury, in the same way that "voluntary" contributions to the United States Treasury are an integral part of consent decrees entered into by the Commission to resolve violations of its rules.[26] Before it can do so, however, the Commission must first determine what those profits are, as well as whether, as it appears, Atlantis has trafficked in Alltel's authorizations and has lacked candor in its dealings with the Commission and otherwise deceived the Commission.

Conclusion

For the reasons stated above, the Commission should reject the captioned transfer of control applications at the threshold because it would be contrary to the public interest in the circumstances presented for Atlantis to profit from the proposed sale of Alltel to VZW. The application papers therefore are deficient and should be summarily dismissed, because they fail to demonstrate that Atlantis will not profit from the proposed sale to VZW. Alternatively, after an evidentiary hearing to resolve the trafficking and lack of candor/misrepresentation issues and meting out appropriate punishment for any misconduct that has occurred, should Atlantis still be deemed qualified to be a licensee and the proposed transaction deemed otherwise to be in the public interest, Atlantis should be required to disgorge its anticipated profits from the transaction as a de-

[26] *Cf., e.g., Roy M. Speer*, 11 FCC Rcd 18393, 18428 (FCC 1996) (transfer of control application designated for hearing to determine if transferor had requisite character qualifications by reason of misrepresentations to FCC; an unauthorized transfer of control found but not intent to deceive, so forfeiture imposed for unauthorized transfer of control while consenting to larger transaction).

terrent to future attempts to profit from short-term flipping of operating communications facilities.

Respectfully submitted,

s/Kenneth E. Hardman
Kenneth E. Hardman

Attorney for Ritter Communications, Inc. and Central Arkansas Rural Cellular Limited Partnership

2154 Wisconsin Avenue, NW, Suite 250
Washington, DC 20007
Direct Dial: (202) 223-3772
Facsimile: (202) 315-3587
kenhardman@att.net

August 26, 2008

EXHIBIT NO. 1

Sections

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- Wireless Internet
- FCC Wireless Regulation
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- Mobile Search
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Third time's a charm

June 9 2008 - 12:18 pm EDT | Allie Winter |

Comment on this story

Verizon Wireless's purchase of Alltel Communication L.L.C. is leaving many gasping for breath. The $28.1 billion purchase of the nation's fifth-largest U.S. mobile operator seems to make sense for Verizon Wireless, both strategically and financially. However, for the private-equity investors who purchased Alltel less than a year ago, the payoff isn't as sweet. TPG Capital and GS Capital Partners purchased Alltel for $27.5 billion last November. Verizon Wireless has become some what of the Goldilocks in this ongoing purchase of

Alltel. Verizon Wireless has wanted to purchase the carrier for sometime, saying no the first time and no the second time (the same time that TBG and GS did go through with the purchase). But the third time, the price was juuusst right.

Verizon Communications Inc. CEO Ivan Seidenberg said during a conference call that he had approached Alltel in April regarding a possible deal and that negotiations turned serious a few weeks ago.

When and if the deal closes, Verizon Wireless will end up paying $5.9 billion in equity for Alltel, leaving TPG Capital and GS Capital Partners with around a $1 billion profit. Yes, it is a billion dollars, but it's much lower than the normal profit equity firms receive in these deals. It basically boils down to the equity investors making little or no more than what they paid for Alltel last year.

Seidenberg said the price was similar to what the Verizon was willing to offer for Alltel last year prior to being acquired by private equity, but with the benefit of Alltel having grown its business over the past months.

Where to roam

And equity investors might not be the only group left financially frustrated because of this purchase. Verizon's purchase of Alltel breeds a huge list of potential problems for the other big carriers with roaming issues near the top of the list. The nation's four largest operators as well as a number of small carriers rely on Alltel to fill out their footprints and had established partnerships for roaming across what Alltel proclaimed was the largest geographical network in the country.

Now that Verizon Wireless is in control of those areas, the big question is whether Verizon Wireless will be forced to sell off some of that spectrum or if Verizon Wireless' competitors will have to pay more in roaming charges.

Alltel acquired an established GSM roaming network when it acquired Western Wireless Corp. specifically to serve the needs of AT&T Mobility and T-Mobile USA Inc., so now those carriers may have to pay substantial roaming charges to Verizon Wireless.

Alltel noted in a recent Securities and Exchange Commission filing that it's currently operating under a reciprocal roaming agreement with Verizon Wireless that is set to expire in 2010; and that it signed a 10-year roaming agreement in 2006 with Sprint Nextel Corp. and extended its GSM roaming agreement with AT&T Mobility through 2012.

Spectrum sale

Ken Hyers, senior analyst at Technology Business Research Inc., foresees Verizon Wireless being forced to sell spectrum in those overlapping areas.

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"What it's going to come down to is where exactly those markets are as to who will purchase them," Hyers said.

Hyers said he sees AT&T Mobility as a viable candidate, but believes purchasing certain secondary markets would be a smarter move for T-Mobile USA in its continuing efforts to increase its network reach.

Hyers said a big reason for this purchase is a trend lately for carriers to gain savings through reducing roaming costs and obviously now, Verizon Wireless will rarely rely on other carriers for roaming.

Keith Mallinson, founder of Wise Harbor, agrees Verizon Wireless will be putting some spectrum up for sale in order to make sure everything remains on the up and up in the world of roaming.

"When [a carrier] is dominant in a certain region it becomes the monopoly of wholesale supply for roaming and it might be deemed that they could abuse that position," Mallinson said.

Price plan tweaks

Verizon Wireless will also have to decide what to do with Alltel's pricing plans. While the carriers' current offerings are close enough to require only minor tweaking, Alltel's MyCircle plans could prove a challenge. Alltel has noted the great customer response to the plans that allow customers to make unlimited calls to off-network

Licensing Services Wireless Hall of Fame

numbers without incurring additional charges, and have proven a competitive response to the greater leverage larger carriers have with their own on-network options spread across larger customer bases.

Avi Greengart from Current Analysis said he thinks the MyCircle option will likely be a casualty of the deal.

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Tags: Alltel , Carrier , T-Mobile , Verizon , Wireless Providers

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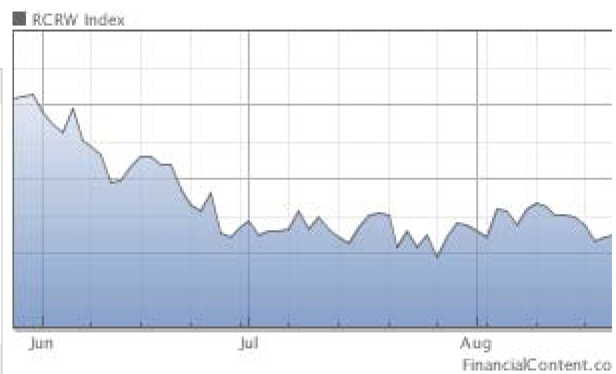

This is a discussion on Verizon ready to snatch up Alltel? in the Cell Phones News forum at Cell Phone Forums

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02-25-2007, 03:00 PM #1

EngadgetMobile
News Bot

Posts: 6,973
Rep Power: 21
CPF $: 635,219.50
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Verizon ready to snatch up Alltel?

Digg submit

Filed under: Alltel, Verizon Wireless
Ahh, the sweet, sweet comfort of the rumor mill. Remember not too long ago when we heard that a certain regional carrier was the talk of a possible buyout? As that rumor is taking shape, it appears that Verizon Wireless as its eyes squarely on ol' Number Five, Alltel. If everything turns out to be on the up-and-up and Big Brother gives the merger a thumbs-up, the happy union will make Big Red the largest national carrier, having enough customers to crush Cingular's base by about 10 million.

[Thanks, HTC Kid]
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Link To Original Article

Quote

02-25-2007, 03:44 PM #**2**

wirelessfan
Phone Maniac

Re: Verizon ready to snatch up Alltel?

Quote:

Posts: 528
Rep Power: 8
CPF $: 23,008.10
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> Originally Posted by **EngadgetMobile**
> *Ahh, the sweet, sweet comfort of the rumor mill. Remember not too long ago when we heard that a certain regional carrier was the talk of a possible buyout? As that rumor is taking shape, it appears that Verizon Wireless has its eyes squarely on ol' Number Five, Alltel. If everything turns out to be on the up-and-up and Big Brother gives the merger a thumbs-up, the happy union will make Big Red the largest national carrier, having enough customers to crush Cingular's base by about 10 million.*

I'd put a LOT of money into this rumor if anyone wants to make a wager with you.

BIG corporations never like being #2. They especially don't like it when they used to be #1. CEO ego and all that stuff.

In days gone by, the focus was once upon being **better** ... now it's all about being *big, bigger, biggest.*

I'd say two things. First the Verizon thing is probably a foregone conclusion but that's probably not the big news story. The big news story is thereafter how AT&T/Cingulbar reacts. They are not likely to gracefully accept that #2 crown. So what becomes their strategy? The answer seems clear.

While Deutsche Telekom probably was serious in the past when they said they had no interest in selling their T-Mobile USA unit, money talks. Offer Deutsche Telekom the right numbers and I'm back as an AT&T customer (my worst nightmare). T-Mobile would be the best fit with AT&T and would give AT&T such a dominant lead over Verizon that they'd never catch up.

Watch this closely. It's gonna be interesting.

Quote

02-26-2007, 08:24 AM #3

indsiderMobile
Newbie

Posts: 1
Rep Power: 0
CPF $: 109.00
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Re: Verizon ready to snatch up Alltel?

Sooooo....you all think that Verizon would buy up Alltel....As an insider at Alltel I would have to say that there is no way that Verizon would buy. If they did they would have to divest (sell off) a lot of their existing locations to competetors due to Anti-trust laws. There is no way they would be in on it. The real contender here is Sprint/Nextel believe it or not. They have wanted to get into the higher frequency cell range for years and this is a perfect way. I guess we will have to wait and see....Alltel expects to make their "strategic" anouncement by May of this year.

Quote

02-27-2007, 12:06 AM #4

wirelessfan
Phone Maniac

Posts: 528
Rep Power: 8
CPF $: 23,008.10
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Re: Verizon ready to snatch up Alltel?

Quote:

> Originally Posted by **indsiderMobile**
> *Sooooo....you all think that Verizon would buy up Alltel....As an insider at Alltel I would have to say that there is no way that Verizon would buy. If they did they would have to divest (sell off) a lot of their existing locations to competetors due to Anti-trust laws. There is no way they would be in on it. The real contender here is Sprint/Nextel believe it or not. They have wanted to get into the higher frequency cell range for years and this is a perfect way. I guess we will have to wait and see....Alltel expects to make their "strategic" anouncement by May of this year.*

LOL. Insider at Alltel? Wow. All that inside stuff may be blinding your vision and judgement.

If you seriously believe the assessment you've written above ... please answer the following: If the Feds didn't stop AT&T/SBC from acquiring Bell South ... or the original Cingular from acquiring AT&T Wireless ... which were mega-mega mergers, what possible reason would they have in stopping Verizon from acquiring pipsqueak Alltel?

The combination of Alltel to Verizon's business operations makes sense because Alltel is a CDMA provider and thus merging them into Verizon is relatively painless.

The concept of merging Sprint (CDMA) and Nextel (iDen) into Verizon would not be anywhere as clean. Plus by your own claim, if anti trust concerns would be so critical to an Alltel acquisition, how could they not be several fold more so with a Sprint/Nextel acquisition which would be a significantly larger scope of a merger and a resulting redesign of the landscape of mobile carrier operations in the USA.

I've been wrong before but I'd put my money on Alltel. With no disrespect intended, I'll also add that "insider knowledge" is frequently not worth much. I've been through three mergers of big businesses in my career and in no case did many upper managers have any clue as to what was truly going on until the ink was dry. I was in a senior management slot in a privately held company that was sold to a major corporation and had no idea who we were being sold to until late into the game. Indeed, neither did the partners of the company because negotiations were intense and continually moving.

Anyone who followed the AT&T Wireless sale know that that sale went down to the wire over a weekend. Claiming "insider knowledge" isn't worth much in M&As (mergers and acquisitions).

Quote

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verizon, ready, snatch, alltel

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25 result(s) displayed (1 - 25 of 35):

Verizon Looking to Buy Alltel?

By Dieter Bohn
March 1, 2007 1:01 PM
File under Articles

Say it ain't so. I have a soft spot for Alltel, though that might just be that they're basically the only wireless carrier I haven't tried so I'm assuming they're better. In any case, I'm tired of phone monopolies and their evil ways.

> *Rumors are flying that the largest rural cell phone provider, Alltel, is being stalked by Verizon like an alley cat on a delicious plump mouse. Is it true? Maybe, but probably not.*

Read: Verizon Wireless To Buy Alltel? - Consumerist

| | **Tags:** alltel industrynews verizon |

Alltel: Won't Somebody Buy Us?

By Dieter Bohn
March 5, 2007 1:38 PM

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Featured Artic

Review: Kinoma Play

Kinoma Play ($29.99) is
new media player we've
hinting at in our series
player reviews this past

File under Articles

We reported earlier that Verizon was considering buying up #5 US carrier Alltel. Apparently that's not going as well as hoped, as Reuters is reporting that Alltel is, in fact, shopping itself around to its big brothers. More specifically, they're talking to AT&T. However, this article points out that it's probably just as likely that it's some sort of negotiation move with their real sweetheart, Verizon. It doesn't make much sense for GSM-using AT&T to pick up (primarily) CDMA-using Alltel anyway, it would be much easier to Verizon to swallow them up.

> *Alltel Corp. (AT.N: Quote, Profile , Research) has stepped up efforts to sell itself to carriers such as AT&T Inc. (T.N: Quote, Profile , Research), Verizon Communications Inc. (VZ.N: Quote, Profile , Research) and Sprint Nextel Corp. (S.N: Quote, Profile , Research), said people familiar with the matter,*

Read: Alltel steps up efforts to sell itself - WSJ | Business News | Reuters.com

| | **Tags:** alltel att industrynews verizon |

Alltel: Now with more Rev. A

By Phil Nickinson
June 24, 2008 9:06 AM
File under Articles

Faster than ~~a speeding bullet~~ 1xRTT, more power than ~~a locomotive~~ mere EVDO, Alltel is rolling out EVDO Rev. A, just in time for its little coming out party with Verizon.

What should you expect, if you're one of the lucky ones?

- Download speeds in the neighborhood of 600 kbps to 1.4 Mbps, with bursts up to 3.1 Mbps. That's increased from an average of 400-700 Kbps.
- Much higher upload speeds, at 1.8Mbps on a really good day, compared to the 50-70 Kbps you're getting now.

Of course, this won't cover everybody at first, with Charlotte, N.C., New Orleans, Phoenix and Tampa first in line for the upgrade. Alltel says the expansion should cover about 82 percent of *potential* customers by the end of 2008.

It's essentially[...]

Review: Pocket Playe

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In the News

Rumor: Verizon Wireless to buy ALLTEL

May 31 2005 - 11:32 PM ET | Verizon Wireless

Verizon Wireless may be in merger negotiations to buy competitor ALLTEL according to a report filed on *Engadget*. Rumors surrounding a buyout by Verizon Wireless are nothing new--earlier this year there was word Sprint PCS was a likely candidate--but this deal would put Verizon Wireless back as the #1 US wireless carrier. Cingular took that title from Verizon Wireless after the merger with AT&T Wireless was completed.

Telecom pundit Om Malik doesn't see this deal happening because of parent Verizon's merger with MCI and potential approval problems.

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EXHIBIT NO. 2

Banks 'set to call in a swathe of loans'

By Ambrose Evans-Pritchard
Last Updated: 7:25am BST 26/06/2007

The United States faces a severe credit crunch as mounting losses on risky forms of debt catch up with the banks and force them to curb lending and call in existing loans, according to a report by Lombard Street Research.

The group said the fast-moving crisis at two Bear Stearns hedge funds had exposed the underlying rot in the US sub-prime mortgage market, and the vast nexus of collateralised debt obligations known as CDOs.

Bear Stearns headquarters in New York

"Excess liquidity in the global system will be slashed," it said. "Banks' capital is about to be decimated, which will require calling in a swathe of loans. This is going to aggravate the US hard landing."

Charles Dumas, the group's global strategist, said the failed auction of assets seized from one of the Bear Stearns funds by Merrill Lynch had revealed the dark secret of the CDO debt market. The sale had to be called off after buyers took just $200m of the $850m mix.

"The banks were not prepared to bid over 85pc of face value for CDOs rated "A" or better," he said.

"God knows how low the price would have dropped if they had kept on going. We hear buyers

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ACTIVITY PLANNER

were lobbing bids at just 30pc.

"We don't know what the value of this debt is because the investment banks shut down the market in a cover-up so that nobody would know. There is $750bn of dubious paper out there in the form of CDOs held by banks that have a total capitalisation of $850bn."

US property writer Paul Muolo described the Bearn Stearns crisis as the “subprime Chernobyl”, saying the bank had created a “cone of silence”.

Abandoned by fellow banks, Bear Stearns has now put up $3.2bn of its own money to rescue one of the funds, a quarter of its capital.

This is the biggest bail-out since the Long-Term Capital Management crisis in 1998, which Bear Stearns refused to join at the time. Bear Stearns is now alone, a case of rough justice being served.

Lombard Street’s warning comes as fresh data from the US National Association of Realtors shows that the glut of unsold homes reached a record of 8.9 months supply in May. Sales of existing homes slid to an annual rate of 5.99m.

The median price fell for the 10th month in a row to $223,700, down almost 14pc from its peak in April 2006. This is the steepest drop since the 1930s.

The Mortgage Lender Implode-Meter that tracks the US housing markets claims that 86 major lenders have gone bankrupt or shut their doors since the crash began.

The latest are Aegis Lending, Oak Street Mortgage and The Mortgage Warehouse.

“There isn’t a recovery about to happen,” said Ara Hovanian, head of the building group Hovanian Enterprise.

Nouriel Roubini, economics professor at New York University, said there were now concerns about “systemic risk fall-out” from the Bear Stearns debacle as investors look more closely at the real value of CDOs.

“These highly illiquid securities have been priced so far on unrealistic and distorted credit ratings as the ratings industry has been complicit,” he said.

“They have not been rerated in a way that is consistent with rising subprime default rates. “That is why Wall Street is in a panic. “Losses will be massive once these assets are correctly priced to market.”

Lombard Street said the Bear Stearns fiasco was the tip of the iceberg. The greatest risk lies in the “toxic tranches” of lower grade securities held by the banks.

Much-trumpeted claims that banks had shifted off the riskiest credit exposure on to the asset markets was “largely a fiction”, said Mr Dumas

. The worst of the US property crisis has yet to hit since there is an overhang of $2,000bn of mortgages with adjustable rates which have yet to be reset. Many borrowers could see payments jump by half, or even double.

At the same time, a spike in 10-year US bond yields by 0.65 percentage points over the last six weeks has drastically repriced the cost of fixed mortgages, knocking away a key prop for the US housing market.

“With defaults at their highest in the 37 years that records have been kept, it could be a long hot summer,” said Mr Dumas.

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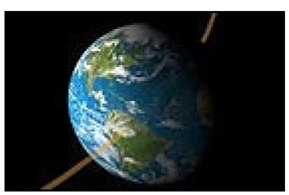
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U.S: Credit Crunch – August 2007

Fri, Aug 3 2007, 07:00 GMT
by Jay H. Bryson

Wachovia

Executive Summary

Financial markets have been rocked over the past few weeks, leading to a sharp widening of corporate bond spreads. Although it is still premature to characterize the current conjuncture as a credit crunch, we think there is value in posing the following hypothetical question: which economies would suffer the most should full-blown credit restriction transpire?

Even under the relatively benign scenario of a U.S.-specific credit crunch, most foreign economies would be negatively affected via reduced exports. A credit crunch likely would throw the U.S. economy into recession, which would lead to a downturn in foreign exports to the United States. Under this scenario, Canada and Mexico would be the foreign economies most affected by credit restriction in the U.S. economy. Latin America and Asian economies (excluding Japan) also would feel the fallout of lower exports to the United States. Europe would seem to be least exposed to a U.S.-specific credit crunch.

What would happen if generalized credit restriction became more global? Not only would foreign economies experience the negative effects of reduced exports to the United States, but they also would be adversely affected by the direct effects of reduced credit availability in their own financial systems. However, the preponderance of bank lending (as opposed to capital markets financing) in Europe and many developing countries may shield those economies somewhat from the most pernicious effects of a credit crunch. In sum, Canada would probably be hurt the most from reduced credit availability and Europe the least, especially if it were confined to the United States. Although the dollar has strengthened somewhat versus some major currencies recently, it likely would depreciate more broadly if a credit crunch transpired.

Is A Credit Crunch In The Works?

Financial markets have been rocked over the past few weeks. Continuing troubles in the U.S.

subprime mortgage market, which is starting to creep into more highly rated mortgages, has led investors to a wholesale rethinking of the pricing of risk. As shown in Exhibit 1, spreads on “B” rated U.S. corporate bonds, including those with little direct exposure to the subprime mortgage market, have pushed out about 150 basis points since mid-June. Exhibit 1 also illustrates the turmoil in private bond markets has not been confined to the United States only. Indeed, spreads on comparable corporate bonds in the Euro-zone have widened by about the same amount as in the United States. Is a full-blown credit crunch looming?

We do not believe so, but admit there is significant risk that credit availability could become seriously impaired. Financial markets are very volatile at present, and it is nearly impossible to predict how periods of risk aversion will play out. Although spreads have pushed out very rapidly, they do not seem to be abnormal when viewed in a longer-term perspective (see Exhibit 1). On the other hand, anecdotal evidence suggests there is ill-liquidity in many parts of the bond market, especially in the riskier segments. These stories of ill-liquidity leave us somewhat concerned. So, let’s proceed under the worse-case scenario that a credit crunch develops. What countries would lose from a prolonged period of credit restriction?

Scenario I: A U.S.-Specific Credit Crunch

Let’s start under the assumption that credit restriction is confined to the U.S. economy only. After all, the current turbulence in financial markets had its origins in the U.S. sub-prime mortgage market. In theory, there should be little reason why lenders in, say, Europe should be less willing to extend credit to European firms simply because the U.S. sub-prime mortgage market has imploded. However, even under this relatively benign scenario, most foreign economies would still lose.

A full-blown credit crunch in the United States would likely throw the U.S. economy into recession, which would reverberate around the world via a downturn in exports.2 Exhibit 2 shows that Canada would be the biggest loser among major foreign economies. Indeed, more than 80% of Canada’s exports, which is equivalent to 25% of Canadian GDP, are destined to its southern neighbor. Mexico would also be hit very hard, and other Latin countries would suffer from a downturn in exports to America, albeit not to the same extent as Mexico.

The United States accounts for nearly one-fourth of Japan’s exports. However, other Asian economies probably would suffer more than Japan due to their relative small size and their export orientation. European economies, which are relatively large and which have very extensive trade ties among themselves, would appear to be the least affected by a hypothetical U.S. recession. That said, growth in Europe clearly would slow, at least somewhat, due to direct and indirect trade effects. The bottom line is that if growth in the United States, which accounts for 25% of global GDP, turns negative, everybody else will feel the downdraft as well.

Scenario II: A Global Credit Crunch

Let’s now turn to a more troublesome scenario. What happens if credit availability is reduced on a global basis? After all, Exhibit 1 showed that corporate spreads in the Euro-zone have risen in line with spreads in the United States, although worries about sub-prime mortgages are concentrated in the latter. Thus, there clearly are financial linkages through which financial market volatility in America could spill over to major foreign economies. Could corporate bond markets in other major economies grind to a halt? If so, what would be the implications for those economies?

As in the case of the United States, we do not believe full-blown credit crises will hit major foreign economies but we acknowledge the risks. Exhibit 3 sheds some light on the countries that may be more adversely affected than others should credit restriction become global. The financial system in America is more dependent on the corporate bond market, where the current risk shock is centered, than are financial systems in other major economies. Private debt securities comprise about 40% of total financing in the U.S. economy, and adding in the stock market brings total U.S. financing via the capital markets to 80%. No other major economy comes close to that percentage.

The Euro-zone’s corporate bond market accounts for roughly 25% of economy-wide financing, but the stock market represents a much smaller proportion of the financial system. Indeed, Exhibit 3 shows the financial systems of the Euro-zone and the United Kingdom are much more dependent on bank lending than the United States. The same statement applies to most developing countries. The Canadian and Japanese economies are roughly as dependent on capital markets financing as they are on bank financing.

Although lending terms from banks clearly will be affected by recent volatility in financial markets, bank lending probably won’t shut down to the same extent that some segments of the bond market have. For example, in the third quarter of 1998, when U.S. capital markets essentially ground to a halt, new issuance in the corporate bond market plummeted 67%. Total U.S. bank lending was down only 5% during that quarter. Therefore, in the current environment, economies that are more dependent on financing via capital markets may be more adversely affected by widespread credit restriction than economies that are financed primarily via bank lending. In other words, the United States appears to be the economy that would be most negatively impacted by the direct financial effects of a credit crunch centered in the bond markets. The Euro-zone, the United Kingdom and many developing economies would also be negatively affected, but probably to a lesser degree than the United States. The direct financial effects of a credit crunch in Canada and Japan would likely be more negative than in the Euro-zone, but not as severe as in the United States.

Implications For The Dollar

We noted in a previous report that the dollar has weakened recently versus the yen, but that it has actually strengthened vis-à-vis most other major currencies.3 In our view, this performance is more related to yen carry trades than to anything related to the dollar per se. For example, if market participants decide to unwind their yen carry trades versus, say, the Australian dollar, they sell Aussie dollars and buy yen. The subsequent excess demand for yen causes the Japanese currency to generally appreciate, even against the U.S. dollar. Likewise, the excess supply of Aussie dollars causes that currency to weaken vis-à-vis the greenback. However, if a credit crunch should transpire, which would lead to much weaker, if not negative, U.S. economic growth, then the dollar likely would depreciate versus most major currencies. Thus, modest appreciation of the greenback that we have witnessed over the past week or so versus many major currencies should prove to be temporary if credit restriction becomes widespread.

Conclusion

As we noted a number of times in this report, we do not believe a generalized restriction of credit will transpire. The underlying fundamentals of the U.S. economy, not to mention most major foreign economies, appear to be solid at present. Perhaps markets will soon stabilize, leaving economic growth rates in most countries little affected. In that event, this report would have been a waste of time.

However, we are also very cognizant of the risks that credit restriction could become more severe. Clearly, the U.S. economy would suffer even if a credit crunch were just confined to it. In addition, Canada and Mexico would also take a hit due to the extensive trade ties between those countries and America. Many European countries should be less affected under this scenario because exports to the United States account for a relatively small proportion of those economies. Even under the more troublesome scenario of a global credit restriction, many European countries may suffer the smallest losses due to the bank-financed nature of their economies. Taking both scenarios into account, it seems that Canada would be the most negatively affected county (other than the United States) by a credit crunch. European countries may be the least affected.

Download full Credit Crunch - August 2007

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Wachovia Corporation | P.O. Box 025383 Miami, FL 33102-5383
http://www.wachovia.com | sam.bullard@wachovia.com

Seeking Alpha α

Mortgage Originated Credit Crunch May Just Be Beginning

by: Paul Litchfield

posted on: August 12, 2007 | about stocks: SPY

Wall Street has been telling us for the past year that the new financial world, where banks only process mortgages and lending is done by fixed interest fund managers, is a much safer one. We don't need to worry about credit crises because they are nearly impossible under the new market structure. Banks have been taken out of the equation and there are no reserving limitations, or balance sheet restrictions to concern ourselves with. Fund managers do all the lending now, and so what if a fund looses 25% of its value? The damage will stop there.

In contrast, a couple of decades ago when securitization was new, and banks did most of the mortgage lending, we had good old fashioned credit crunches. Credit would deteriorate, banks would tighten up their credit standards, and be forced to cut back on lending due to their deteriorating reserves. The credit crunch would soon ripple through the entire economy.

Now I'm beginning to wonder if Wall Street, in its exuberance, might have overlooked a crucial point, and failed to recognize that this new market structure could actually cause worse credit crunches than the old one. In the old structure, credit would tighten severely, but banks were still banks. They were in the business of lending, and so they would always keep lending to good quality borrowers no matter how bad it got. In addition, when liquidity really got tight, the Fed would get involved, strongly encouraging them to keep the lending engines turning and offering them dirt cheap borrowings from the discount window to entice them to do so with low risk profits.

Now here is the key point. Under the new market structure today, fixed interest fund managers are not in the mortgage lending business like the banks were. They have no compelling business or other persuasive reasons to remain in this market when the going gets tough. Cheap loans from the discount window are irrelevant to them. They don't have to buy mortgages. They could just as soon hold treasuries. Envision what would happen if most of the world's big fixed interest fund managers suddenly decide to go risk adverse, and sharply slow, or even stop purchasing mortgage securities. The entire global mortgage market would seize up. This would be a credit crunch of a higher order than has ever been seen.

Could this happen? Of course it could. Having been a fund manager for many years, I have often seen similar situations. A fund holds a particular type of asset which suffers from extremely large deteriorations in price. The Chief Investment Officer, ever mindful of the financial health and reputation of their firm, comes down and announces, "We are not buying any more of these until the dust settles". End of story.

Even if not all fund managers, but just a large percentage of them react this way, a severe credit crunch will ensue. Can you image any CIO telling their traders to buy more mortgage securities in this environment today? There is just no one out there who is going to be willing, let alone big enough, to take up all the slack.

The very nature of the financial engineering which Wall Street has created in the mortgage backed market is contributing to the crisis. Whilst it is true these new structures have added great efficiencies to the market and lowered the cost of credit, it is also true that the resultant products are complex and opaque. In times of stress it is impossible to go out and "kick the tires" with these types of securities to determine whether true value exists. In addition, the way mortgages are packaged up and sliced into traunches that distribute losses primarily to the lower tiers, weakens over all mortgage sector liquidity. Sure, most managers would be willing to purchase the high credit quality upper tiers of a newly created security, but who wants to touch the lower quality tiers in this type of market environment? The whole structure of the security presumes there will be ready and willing buyers of the low quality tiers. When the low end of the market dries up, you can't sell the higher quality tiers either. So the entire market just shuts down when the lower end fails.

Just this morning we had BNP Paribas suspend three funds because they couldn't get any prices for the securitized mortgage pools they own. And why aren't there prices in existence for such securities? The reason is that there are no transactions taking place. The secondary markets in these securities have completely dried up.

Consider the BNP news further. If you can't even get a price for these securities who is going to buying them? How could any financial firm with fiduciary responsibilities to its investors and shareholders prudently invest in these sorts of securities at all? And furthermore, if BNP can't get prices for its mortgage pools, how can anyone else get prices for theirs? Why isn't every fund around the world holding mortgages shutting their doors as well? Can they really be far behind doing exactly what BNP just did?

Just look around and you will see the mortgage contagion spreading, even to completely unrelated markets on the other side of the world. Last week one of the major Australian mortgage securitizers, Members Equity, was forced to abandon a $500m issuance of prime credit mortgages in a booming market where sub primes aren't even a factor. They were quoted as saying "There is a buyers strike."

AIG also came out this morning and said that mortgage defaults are spreading to non sub prime areas of the mortgage market. How long will it be before buyers begin questioning whether any perceived value is worth the risk in this area of the market either? Further liquidity contraction is inevitable. The credit crunch has begun, and the new financial world model will be given a serious testing. Let's hope the Fed is able to influence the results.

T Muller
Aug 13 01:56 AM
I worked on the trading desk for a top-15 largest bank since 2004 which was only prime and Alt-a and other non-conforming mortgages. In a sense, some of it's just as risky as the de-facto "Sub-prime" due to the extreme lax credit standards. Our mortgage company didn't set those, neither did our parent bank. Wall Street would knocking down our doors for Alt-A and jumbo 103% interest only investor property etc and would offer premium money for them. We would originate those loans because they could be sold. We sold our ARMs to the Bank, Fixed Rates were securitized into agency MBS, and Alt-a and Jumbo etc would be bulked up and sold to whichever wall street firm. When they got aggressive on the ARMs, treasury (bank) saw a drop off in loan sales to them because we could offer better pricing on loan programs that would be sold to these firms. Who were the usual suspects in the news now. That prompted treasury to step up on some loan programs but passed on others with too much risk. Wall street didn't care. It's funny looking back how these guys would try to squeeze us on agency MBS trades which is such a liquid market and I have 10 bids sitting in front of me. Sometimes they may fade you a plus (1/64th) on FNMA etc., just to turn around and pay a 1/2pt to 1pt through the market or the cover on jumbo paper or Alt-A package. I think the attraction is to the slow prepay qualities of the high risk loans. After experiencing the refi boom and having all mtge's pay off, Wall Street is looking for some slow pre-pay speeds. Especially if they are creating all these structures, they have to predict the speeds of the underlying securities so they can set the tranches / classes up to get disired yield / maturity. Sub-prime borrowers are the least likely to pre-pay or refinance-slow speed. They carry a high yield. Which with mortgages, high yield means faster speed and shorter life. Sub-prime can offer high yield and a longer life. The fact of the matter is Sub-prime speeds are very fast due to the high level of defaults. Several years ago, default rates were very tame, I think making some investor's more complacent. Home values were rising rapidly, thus borrowers were focused and more disciplined in staying current since one doesn't want to lose an investment that is quickly appreciating due to its potential future value. But, what happens when home values fall? Owners' have negative equity in their home. They're a lot less disciplined to make payments for an asset that's worth less than what they owe. If they sell they still come up short on the balance owed. So, many just let it go into default, and that's probably the best option they have. Additionally, banks can't save the mortgage by doing the whole REO thing - (Real-Estate Owned) when home values fall. If they are rising and a borrower can't make payment the bank will find a warm body to occupy the house and make payments on the borrower's mortgage. Essentially the bank assumes the mortgage instead of foreclosing on the property to use sale proceeds to pay off the mortgage balance owed to the investor. But, that's hard to do in a housing recession. One way or another, somebody is going to eat the loss.

EXHIBIT NO. 3

washingtonpost.com

Three More Banks Settle In Bond Market Probe

By Joe Bel Bruno
Associated Press
Friday, August 22, 2008; D02

NEW YORK, Aug. 21 -- Merrill Lynch, Goldman Sachs Group and Deutsche Bank on Thursday joined other major financial companies in settling with regulators over their roles in selling risky auction-rate securities to retail investors.

The agreements bring to eight the number of global banks that have settled the five-month probe into claims that they misled customers into believing the investments were safe. New York Attorney General Andrew M. Cuomo, leading the investigation on behalf of state and federal authorities, has now reached deals for banks to buy back more than $50 billion worth of auction-rate securities.

Cuomo said Thursday that he is far from finished examining both large and small players in the market, and said the investigation will intensify against Bank of America. He also warned that the probe might shift to individual brokers and bank employees who sold the investments. Cuomo has already named Charles Schwab, Fidelity Investments and E-Trade Financial as companies also under investigation.

"This has been a great day of progress," Cuomo said during a conference call with reporters. "We have a number of banks that are still under investigation, and we are obviously having conversations about resolution. The one thing the people want is their money back quickly."

He had been in talks with Merrill Lynch chief executive John Thain through most of the afternoon before reaching a deal. Cuomo had set a deadline of Thursday for Merrill, the nation's largest brokerage, to reach an agreement or face a lawsuit.

Thain said the brokerage, which last week agreed to repurchase the debt on a voluntary basis, would "accelerate the plans" by buying back $10 billion to $12 billion of the securities from investors by Jan. 2 and pay a fine of $125 million.

Separately, Deutsche Bank, which must buy back about $1 billion of auction-rate securities, has been fined $15 million. Goldman Sachs has $1.5 billion in securities to buy back, and will be fined $22.5 million.

The investigations are examining how brokerages sold auction-rate securities before the $330 billion market collapsed in February. Federal and state authorities think that banks pitched the investments as safe.

UBS, Citigroup, Morgan Stanley, J.P. Morgan Chase and Wachovia had previously agreed to buy back their auction-rate securities.

Also Thursday, Massachusetts Secretary of State William Galvin said Merrill Lynch agreed to settle a similar dispute. The investment bank agreed to repurchase the securities starting Oct. 15.

The global settlement being led by Cuomo's office will eventually divide the fines among all states that are involved.

Regulators are expected to soon begin on-site inspections of about 40 brokerages involved in sales of auction-rate securities, Cuomo said. Federal and state investigators have said they obtained e-mails in which employees of the companies said they knew the investments had soured.

The auction-rate securities market involved investors buying and selling instruments that resembled corporate debt, but the interest rates on the investments were reset at regular auctions, some as frequently as once a week. A number of companies and retail clients invested in the securities because they could treat their holdings almost like cash.

But the market for them collapsed in February amid the downturn in the broader credit markets. Regulators have been investigating the collapse in the market to determine who was responsible for its demise and whether banks knowingly misrepresented the safety of the securities when selling them to investors.

The New York Times
nytimes.com

November 18, 2001

Telecom's Pied Piper: Whose Side Was He On?

By GRETCHEN MORGENSON

Covad Communications: Jan. 2, 1999-Aug. 15, 2001.
ICG Communications: Oct. 18, 1994-Nov. 14, 2000.
Northpoint Communications: May 6, 1999-Jan. 16, 2001.
PSINet Inc.: May 1, 1995-May 31, 2001.
Rhythms Netconnections: Apr. 6, 1999-Aug. 1, 2001.

TAKEN separately, the rise and fall of five once-highflying telecommunications concerns, all in bankruptcy, is hardly remarkable. But together, along with other recent telecom failures and those still likely to occur, they represent one of the most spectacular investment debacles ever. Bigger than the South Sea bubble. Bigger than tulipmania. Bigger than the dot-bomb. The flameout of the telecommunications sector, when it is over, will wind up costing investors hundreds of billions of dollars.

The telecommunications mess stands out for another reason: One man is at its center -- Jack Benjamin Grubman.

No single person can be responsible for the entire debacle, of course, and investors must take responsibility for some of their losses. But as resident guru on telecommunications at Salomon Smith Barney and one of Wall Street's highest-paid analysts, Mr. Grubman, 48, was surely the sector's pied piper. During the height of the mania, in 1999 and 2000, he had buy recommendations on 30 companies, considerably more than most analysts. Mr. Grubman lured more investors into securities of nascent and risky telecom companies than perhaps any other individual.

Anyone can make mistakes, but Mr. Grubman's cheerleading epitomizes the conflict-of-interest questions that have dogged Wall Street for two years: Even as he rallied clients of Salomon Smith Barney, a unit of Citigroup, to buy shares of untested telecommunications companies and to hold on to the shares as they lost almost all their value, he was aggressively helping his firm win lucrative stock and bond deals from these same companies.

Since 1997, Salomon has taken in more investment banking fees from telecom companies than any other firm on the Street. Because of Mr. Grubman's power and prominence, and because his compensation is based in part on fees the company generated with his help, a part of those fees went to him. The firm declined to discuss Mr. Grubman's compensation on the record.

But one critic was blunt about the star analyst. "Jack Grubman is the king of conflicted analysts," said Jacob H. Zamansky, a securities lawyer who represents investors against Wall Street firms. "A strong case can be made that he used his picks to generate investment banking business for his firm and abused investor trust in his picks. He personifies the blurring of lines between investment banking and objective analysis." Mr. Zamansky recently won a settlement in an arbitration case against another star analyst, Henry Blodget, the Internet analyst at Merrill Lynch who decided to leave the firm last week.

It is impossible to tell how many investors profited from Mr. Grubman's advice on the way up. But those who stuck with him until the end, heeding his advice and holding on to the stocks, have fared dismally. In one telecom arena that Mr. Grubman dominated, among the so-called competitive local exchange carriers, some $140 billion in stock market value has vanished -- 95 percent of the cash raised.

The money raised for telecom companies through the sale of debt -- notes, bonds and convertible issues -- was even larger, with bigger losses. From 1997 to 2000, according to Lehman Brothers, telecom companies borrowed close to a half-trillion dollars. This year alone, telecom companies that issued high-yield debt have defaulted on $21.4 billion of it, according to Bear, Stearns & Company. That amount accounts for 56 percent of all defaults, across all industries, in 2001. More defaults in the industry are expected.

Wall Street's role as enabler in the telecom binge, and Salomon Smith Barney's part in particular, is undeniable. Since 1997, the firm has collected $809 million underwriting telecom stocks and bonds and $178 million providing merger advice, according to Thomson Financial -- 43 percent more than the fees made by Merrill Lynch, its closest rival in the sector.

Despite repeated requests for an interview, Mr. Grubman declined to comment for this article. Maryellen Hillery, a spokeswoman for Citigroup, said: "We stand behind the quality and integrity of our research department and management, and believe the overwhelming recognition from objective third-party surveys speaks for itself. The firm strictly adheres to or surpasses industry and regulatory requirements designed to foster and preserve the integrity of research. Suggestions to the contrary made by anonymous sources are baseless and without integrity."

The Beginnings of a Craze

To some degree, the telecommunications crash is a case study in how Wall Street goes overboard in a bull market, raising capital for start-ups that should never have left the gate.

The craze had its roots in the Telecommunications Act of 1996, which deregulated the industry and swept out rules limiting competition. Soon, entrepreneurs saw a chance to build huge networks crisscrossing the globe to serve the big jumps in demand for data transmission.

Hundreds of new and established companies thronged Wall Street, looking for capital. Some, like Metromedia Fiber Network, hoped to build high-capacity transmission systems in American cities. Others, like McLeodUSA, sought money to compete with the entrenched regional Bell companies. Still others, like Global Crossing, planned to wrap the globe in fiber optic networks.

All that stood between the hope of these networks and the glory of their completion was money -- lots of it, because laying fiber networks, unlike starting Internet companies, required big purchases and laborious installation of costly equipment.

Some companies raised cash by issuing stock. But most network operations loaded up on what they thought would be a cheaper source of capital: debt. From 1996 to 2000, telecom companies raised $240 billion in the high-yield, or junk, bond market. When bank debt, money raised in convertible bonds and loans from vendors eager to sell equipment is added, the total raised by the sector climbs to $500 billion.

"A great number of these companies should never have been funded," said Alexi Coscoros, a high-yield analyst at Bear, Stearns. "As long as the market was prepared to buy them, Wall Street was quite happy to bring these companies to market. But high-yield investors were buying paper for companies that were not fully funded and that carried much higher risk than anyone understood."

Wall Street, of course, is not known for scaring off investors with too much talk of risk. But Mr. Grubman clung to his rosy view long after it became obvious to his counterparts that the telecom financing binge was going to end badly. On April 4, a year after most telecom stocks had begun steep descents, Mr. Grubman wrote a report titled "Don't Panic -- Emerging Telecom Model Is Still Valid" and recommended seven stocks: Allegiance Telecom, Broadwing, Global Crossing, Level 3 Communications, McLeodUSA, Metromedia Fiber Network and XO Communications. Since then, the stocks have fallen 58 percent, on average.

It wasn't until a few weeks ago that Mr. Grubman threw in the towel on three of his favorites. On Nov. 2, he downgraded to neutral, from buy, the shares of McLeod -- then selling at 60 cents each, down from a peak of $34.83 last year. He did the same for XO Communications, whose shares were trading at 85 cents, down from $66, and expressed caution on Williams Communications Group, whose shares were valued at $1.39, down from a high last year of $59.

Since then, the shares of all three companies are up by an average of 48 percent.

Mr. Grubman went pessimistic on McLeodUSA, a company that Salomon helped to expand through an initial stock offering in June 1996 and later with several other debt and equity issues, because he expected its third-quarter revenue to fall 4 percent from the previous quarter. "It will no longer be considered a growth stock," Mr. Grubman wrote, "and with free cash flow not expected until '06, it is still far from a value stock label, so investor interest is expected to be low."

Emmett Ryan, a former fund manager in Southport, Conn., who specialized in telecommunications investments, said that for Mr. Grubman, "everything was based on a model."

"They would project revenues, expenses and net cash flow out into the distant future and come up with a price target," Mr. Ryan said. "But when these things started going down, they would not adjust their projections until the thing was at zero."

What pushed these promising companies into the abyss? In short, the enormous demand for data transmission networks predicted by Mr. Grubman and others never materialized. Nor did the cash flows on which these companies depended to pay their interest costs. At least four companies recommended by Mr. Grubman have filed for Chapter 11 bankruptcy protection. More than half of the companies that he tracks are the equivalent of penny stocks, trading at less than $5 a share.

But back in the heady days of 1999 and 2000, analysts were saying the sky was the limit on telecommunications and were telling investors to climb aboard for the ride of their lives. Nobody pounded the table quite as assiduously, or as effectively, as Mr. Grubman.

From AT&T to Wall Street

Mr. Grubman, an only child, grew up in a family of modest means, living in a Philadelphia row house. His father was a carpenter for the city; his mother worked in a dress shop. He received a bachelor of science degree in mathematics from Boston University in 1975 and a master's in probability theory from Columbia in 1977. Then he went to work for AT&T.

At first, he analyzed the demand for long-distance services, using computer models. He later worked in corporate planning for the company's breakup in 1984. In January 1985, he left for Wall Street, joining Paine Webber as a telecommunications analyst.

His Wall Street beginnings were inauspicious. In May 1986, according to regulatory filings, Mr. Grubman failed the exam, called the Series 7, that anyone who wants to be an investment professional must pass.

He subsequently passed. But even more important, he figured out how to stand out from the crowd of analysts covering telecommunications, which in those days meant analyzing AT&T and its recently freed regional Bell offspring. Mr. Grubman's knowledge of the company's internal operations gave him an edge. According to an analyst who is no longer in the business, Mr. Grubman regularly beat out competitors with information on AT&T that nobody else had.

"Jack had information that was never made public," said this person, who like most others interviewed about Mr. Grubman asked for anonymity for fear of ruining relationships on Wall Street. "I covered the company like a rug, and it was extremely concerned about leaks at the time."

Mr. Grubman gained attention from investors by being cautious about AT&T in a crowd that was mostly positive. He may also have recognized that the advent of competition after the AT&T breakup meant that there would be many more stocks to take public and bonds to issue than there were in the one-company era.

"By being negative on AT&T, Jack was able to gain the ear of other telco C.E.O.'s," the former analyst said. In 1988, for example, Mr. Grubman met Bernard J. Ebbers, the entrepreneur who eventually built WorldCom into a telecom colossus. Mr. Grubman parlayed the information he gleaned from small players in the business to become an expert in the sector.

Finding Fame and Fortune

In 1994, Mr. Grubman, well on his way to becoming a star analyst, left Paine Webber for Salomon Brothers. By the time the firm was taken over by Smith Barney in 1998, Mr. Grubman had toppled rivals and gained the top ranking in his industry on the All-American Research Team, as listed by Institutional Investor magazine.

Fortune followed fame. In 1998, Goldman Sachs tried to woo Mr. Grubman from Salomon Smith Barney, but he stayed put. Telecom deals were pouring in, and Mr. Grubman became the go-to guy. He ended up earning an estimated $20 million from the firm in 1999.

In January of that year, he and his wife, Luann, bought a town house on the Upper East Side of Manhattan for $6.2 million in cash. Soon, they were renovating the entire house.

As the number of telecom deals ballooned, and as Mr. Grubman's picks ascended, his hegemony in the industry and the firm took hold. That attracted still more business from executives who knew both how positive he was on the sector and how powerful his buy recommendations could be. In March 2000, for instance, when he raised his price target for Metromedia Fiber Network, the stock jumped 16 percent in one day. Companies deluged Salomon Smith Barney for their capital needs, and Mr. Grubman churned out glowing research reports, annually collecting a multimillion-dollar pay package.

Increasingly, that was the way Wall Street worked. "Equity research is a loss leader in most firms," said

Philip K. Meyer, a money manager in Rowayton, Conn., who worked as an analyst on Wall Street for 18 years. "What it does is oil the pipeline so you have a good relationship with clients, so when you do deals you have a good distribution channel. Because the money you make on I.P.O.'s is so much greater, the increased pressure from investment banking makes research dysfunctional."

Clearly, Mr. Grubman was very good at oiling the pipeline. Besides issuing securities, many telecom companies -- primed for growth -- were eager for advice on takeovers or mergers.

Days of Telecom Mania

McLeodUSA's rise, and crashing fall, is typical of the stocks Mr. Grubman favored. Based in Cedar Rapids, Iowa, McLeodUSA began as a provider of local and long-distance telephone service to small markets in the Upper Midwest. Advised by Salomon Smith Barney from the outset, McLeodUSA bought and resold local service from regional Bells and long-distance service from WorldCom. The company was run by Clark E. McLeod, who in the 1980's built a long-distance business called Teleconnect that he later sold to MCI.

Salomon led the offering that brought the company public on June 11, 1996, raising $240 million. The firm made $10 million in fees on the deal, which priced the stock at $20 a share, not adjusted for subsequent splits. (Adjusting for splits, the deal came at $3.33 a share.)

Five weeks later, with the stock at $24.25, Mr. Grubman began covering McLeod with a buy recommendation and a 12-month price target of $40. "McLeod represents one of the truly great business models that will be executed in the new era of telecom," Mr. Grubman wrote, predicting that it would be "one of the best return vehicles in what will be a high-return segment of the telecom industry."

Almost immediately, McLeod began buying other companies, like Telecom USA Publishing, a phone book publisher, at $74 million, and, in 1997, Consolidated Communications at $420 million. But McLeod also needed hefty amounts of cash to build a network. Since November 1996, when the stock traded at $28, the company has gone to the stock or debt markets eight times, raising $3.5 billion. Salomon led all the offerings, pulling in almost $100 million in fees over the period, according to Thomson Financial. It also collected advisory fees for the acquisitions, normally about 1 percent of each deal's price for transactions worth more than $1 billion. The total is unclear, but Salomon pocketed $7 million for advice on McLeod's acquisition, in January 2000, of Split rock Services, a small telecom company in Texas.

According to a former analyst at the firm, Mr. Grubman's pay was tied specifically to the deals that the firm did in telecommunications. "I remember meeting with these guys and they would have a list of deals and they would say, 'Here's how much we're paying you deal by deal,' " this person said. "There was a formula."

Salomon Smith Barney also generated fees in other ways from the deals Mr. Grubman helped foster. Often, it executed stock trades for the executives of the companies, for which it was paid commissions. At McLeod, for example, Mary E. McLeod, the chairman's wife, sold $50 million in stock through Salomon on Feb. 8, 2000. Some companies, like WorldCom, hired Salomon to run their corporate stock-option plans for company employees, generating fees and luring new brokerage customers in general. Finally, Mr. Grubman's ability to move markets meant that Salomon's trading desk probably made a good deal of money executing buy and sell orders for its customers.

In all, Salomon's earnings from McLeod over the years far outpaced McLeod's profits. As the company's revenue rose to $1.4 billion in 2000 from $267 million in 1997, it lost almost $1 billion over that period. So far this year, it has lost an additional $2.6 billion.

The losses, however, did not keep McLeod's stock from soaring. Every few months, Mr. Grubman would reiterate his enthusiasm for the company, coming out with a higher price target or another reason to own the stock. In January 1998, for example, just days after the company raised $225 million in bonds for McLeod, he increased his price target on the stock to $53 from $50.

By March 2000, McLeod shares reached a split-adjusted peak of $34.83, up almost tenfold from the initial offering price.

And Mr. Grubman, at the top of his game, was scoffing at anyone who questioned the propriety of having an analyst, whose job is to provide investors with objective investment advice, work closely with the firm's investment bankers. "What used to be a conflict is now a synergy," he told Business Week in May 2000. "Objective? The other word for it is uninformed."

Soon, however, the bottom fell out of McLeod and the telecom sector.

It was not until August, with McLeod's stock at $2.44, down 93 percent from its 2000 peak, that Mr. Grubman allowed in a report that the company "had some missteps in the last year and a half, most notably the ill-advised acquisition of Splitrock." He made no mention that Salomon Smith Barney had advised McLeod that the acquisition was worth the $2.1 billion it paid. Nor did he acknowledge that in both January and April 2000, he wrote reports praising the Splitrock purchase as a "smart strategic merger" that dramatically enhanced McLeod's "position on the national stage."

McLeodUSA, to the chagrin of its investors, no longer finds itself on the national stage. Its stock sells for 73 cents a share, and its market capitalization, $455 million, represents 13 percent of the money it raised from investors. On Thursday, McLeod wrote off $2.9 billion, most of it related to the Splitrock acquisition.

An Unflinching Optimist

In the months since the telecom mania began to dissolve, it has become clear that Mr. Grubman remained too optimistic far too long. Many companies he favored are defunct or are trading for pennies a share or have been delisted from the Nasdaq market.

Many other highly paid analysts also made the mistake of staying too long at the technology stock party that ended abruptly last year. But Mr. Grubman's reports show a particular disregard for the dangers of heavy debt piled on unproven companies. Debt, though not a big factor in the Internet debacle, was the 800-pound gorilla in telecommunications.

Nevertheless, Mr. Grubman continually swatted away speculation that debt might become a problem for his companies -- talk that began creeping into the market a year ago when Ravi Suria, then a convertible-bond analyst at Lehman Brothers, warned of looming debt problems in telecommunications. One money manager said Mr. Grubman often played down risk. "If a company comes out and doubles its debt-to-equity ratio, you would say the risk is greater," the manager said. "But he was always writing positive reports around times when his companies were raising debt."

Reality may be catching up with Mr. Grubman. Last month, he dropped to third place from first on the Institutional Investor rankings for the wireline services sector. (He still ranks No. 1 in the competitive local exchange carriers sector.) His 2001 paycheck will undoubtedly reflect the desert in telecom deals. And according to regulatory filings, he has been named in two arbitration cases and one lawsuit brought by customers of Salomon Smith Barney, who claim breach of fiduciary duty or misrepresentation in his stock picks.

Mr. Grubman's reputation has also been tarnished inside Salomon Smith Barney, where the sales force used to treat him with deference. In the old days, on the morning call to brokers, listeners would hang on the analyst's every utterance, according to several witnesses. He would speak expansively about his favorite companies, taking 20 minutes to get through all his points.

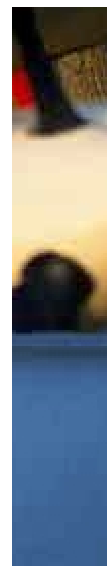
Today, brokers say, Mr. Grubman is more often than not cut short by others on the call. One longtime salesman at the firm said recently: "Jack Grubman? His name is mud around here."

Wall Street Star May Face Suit By Regulators

By GRETCHEN MORGENSON AND PATRICK MCGEEHAN
Published: January 4, 2003

Securities regulators have advised Henry Blodget, the former Internet stock analyst at Merrill Lynch, that he will probably be sued for fraud and other violations of securities regulations, according to someone involved in the investigation and a lawyer who has been briefed on it.

Mr. Blodget received the notice alerting him to possible action by NASD, the nation's largest securities regulator, in the final weeks of 2002, these people said. The activities that regulators have identified as questionable relate to Mr. Blodget's public support of companies that he was deriding in e-mail messages to associates at Merrill Lynch. In addition, these people said, regulators will argue that Mr. Blodget's research reports were inappropriately influenced by Merrill Lynch's investment bankers.



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Mr. Blodget would be only the second top analyst to be sued in the aftermath of a stock market mania that was fueled in large part by overly optimistic Wall Street research and that has resulted in trillions of dollars of losses to investors. NASD has also sued Jack B. Grubman, the former telecommunications analyst at Salomon Smith Barney, a subsidiary of Citigroup.

In an e-mail message, Mr. Blodget declined to comment. Samuel J. Winer, a Washington lawyer who represents Mr. Blodget, did not respond to calls seeking comment. A spokeswoman for NASD, a private-sector regulatory group for the securities industry, declined to comment.

A Merrill Lynch spokesman said he did not know the status of regulators' investigations into Mr. Blodget. Merrill Lynch and Mr. Blodget have contended that the analyst did nothing wrong, and Merrill Lynch intends to defend itself against roughly 100 lawsuits filed by investors who contend they were harmed by Mr. Blodget's recommendations, the firm spokesman said.

Mr. Blodget has two weeks from the date of the notice to convince regulators that a suit is meritless. If he cannot, NASD will sue him. He could also reach a settlement.

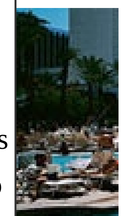
The notice to Mr. Blodget, one of the most famous and highly paid stock analysts on Wall Street during the bull market -- he made as much as several million dollars a year -- comes just two weeks after the nation's biggest brokerage firms agreed to pay almost $1 billion to settle actions brought by securities regulators relating to tainted research on Wall Street. That deal, announced Dec. 20, was limited to 10 brokerage firms and excluded individuals at the firms. Merrill Lynch paid $100 million last year as the first firm to settle with state regulators who led the investigation.

The basis for a case against Mr. Blodget emerged last April when Eliot Spitzer, the New York attorney general, released Merrill Lynch e-mail messages in which Mr. Blodget and his colleagues ridiculed companies that they were recommending to the firm's clients. The messages also showed how influential investment bankers were in securing positive research reports for companies that were either clients of the firm or potential customers.

For example, in one e-mail message Mr. Blodget referred to InfoSpace, an Internet company that he favored publicly, as ''a piece of junk.'' And in a 1999 memo entitled Managing the Banking Calendar for Internet Research, Mr. Blodget spelled out his schedule for the coming week as 85 percent banking, 15 percent research. ''Every day I get a call or two from bankers I don't yet know with interesting opportunities,'' he wrote.

Mr. Blodget was perhaps best known for his December 1998 prediction that shares of Amazon.com, a money-losing online retailer trading then at $240, would reach $400 a share. The stock surpassed that level less than three weeks later, largely because of Mr. Blodget's prediction. It retreated soon afterward but then rebounded toward Mr. Blodget's predicted price before sliding with other technology shares in 2000. It now trades at $20.52.

Although Mr. Spitzer filed an affidavit accusing Merrill Lynch of publishing tainted research that harmed investors, he never filed suit against Mr. Blodget. Mr. Blodget left Merrill Lynch in November 2001 and has said he is writing a book about his Wall Street experience.



BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

In the Matter of	)	
	)	
ATLANTIS HOLDINGS, LLC (Transferor)	)	
VERIZON WIRELESS (Transferee)	)	WT Docket No. 08-95
	)	
Applications for Consent to Transfer Licenses,	)	File Nos. 0003463892, *et al.*
Spectrum Manager and *De Facto* Transfer	)	
Leasing Arrangements, and Authorizations,	)	
and Request for Declaratory Ruling on Foreign	)	
Ownership	)	

Certificate of Service

I hereby certify that I have this 26th day of August, 2008, served the foregoing Reply to Joint Opposition upon the applicants in the captioned proceeding by causing true copies thereof to be mailed to their attorneys, priority mail postage prepaid, and addressed as shown on the following list:

Kathleen Q. Abernathy, Esq.
Tom W. Davidson, Esq.
Akin Gump Strauss Hauer & Feld LLP
1333 New Hampshire Avenue, NW
Washington, DC 20036
Attorneys for Transferor

Richard E. Wiley, Esq.
Nancy J. Victory, Esq.
Wiley Rein LLP
1776 K Street, NW
Washington, DC 20006
Attorneys for Transferee

John T. Scott, III, Esq.
Vice President and Depute General
Counsel – Regulatory Law
Verizon Wireless
1300 Eye Street, NW, Ste 400 West
Washington, DC 20005

s/Kenneth E. Hardman
Kenneth E. Hardman