

Verizon Communications' Response to
Sen. Kohl's Follow-Up Questions for the Record for Hearing on
"The Verizon/Cable Deals: Harmless Collaboration or A Threat to Competition and
Consumers?"

April 19, 2012

For Randy Milch

1. One very interesting facet of this deal is its timing. Verizon's deals with the cable companies were announced last December, just days before AT&T and T-Mobile announced that they abandoned their proposed merger. Your competitors suspect that these deals were deliberately reached at a time when T-Mobile was not free to bid on this spectrum. T-Mobile's FCC filing states "it is likely no coincidence that Verizon Wireless signed this deal while the AT&T/T-Mobile transaction was still pending, so that T-Mobile was unable to compete to purchase this spectrum." What is your response? Did the timing of the deal have anything to do with your desire to keep this spectrum out of the hands of T-Mobile?

Response:

As we explained in detail in our FCC filings, the traffic on our network continues to grow rapidly as customers continue to use new services, applications and devices. As a result, our customers need access to more spectrum in the near term, and will begin to experience congestion in a number of major markets as early as 2013 and in a number of others by 2015 without it. Since it takes years, not months, to put spectrum to work for our customers, we needed to buy the spectrum as soon as we could negotiate a deal that made sense. Verizon Wireless did this deal to get needed spectrum, not to keep spectrum out of T-Mobile's hands.

There simply is no connection between the AT&T/T-Mobile saga and Verizon Wireless' purchase of AWS spectrum. Deutsche Telekom had made it clear it hoped to exit the U.S. market in public statements and by negotiating a deal to sell T-Mobile to AT&T. As indicated at the hearing, the negotiations to purchase the spectrum were protracted and began well before there was any indication that the Department of Justice would file a lawsuit to block the proposed acquisition. Verizon Wireless had no way of knowing that AT&T and T-Mobile would not proceed with their deal.

2. Verizon Wireless and its cable partners have agreed to establish a joint venture to develop technologies to integrate wireless and wireline services – creating seamless Internet connections between consumers' TVs and their cell phones or iPads. We must be especially cautious here because this means that top executives from both of your companies – competitors for pay TV customers – will meet regularly and work very closely together and in ways that could compromise your current or future competition. Investment in technology is generally good for consumers, but the concern here is that the joint venture will develop proprietary technology, and limit its content to platforms meeting standards set to that proprietary technology. Or, it might eliminate your incentives to compete against each other for future

products and services. Can you give us any assurance that this won't happen with the joint venture?

Response:

Our innovation venture is a procompetitive collaboration among Verizon Wireless and certain cable companies, narrowly targeted at creating new technologies to integrate wireless and wireline. Many companies, including Apple and Google, already have developed technology to integrate wireless and wireline services, and this venture will add to customer choice and spur further innovation.

As I mentioned in my testimony, Verizon's experience is that closed platforms do not typically succeed in the marketplace over the longer term. As for the concern that the joint venture will limit "its content" to proprietary platforms – the joint venture does not own or control any content, and any rights held by the underlying companies to content are determined by the programmers.

3. Verizon most directly competes with the cable companies through its FiOS product, but FiOS is only sold in 14% of the cable companies' footprint, so why not just carve out the FiOS territory from the joint marketing agreements? Would you agree to do that as a condition of the Justice Department permitting this deal?

Response:

Verizon Wireless wants to provide convenient and innovative converged products to the 85% or so of its customers who do not live in FiOS areas. In order to do so, we partnered with some of the cable companies who could give us that reach. To make it worthwhile for Verizon Wireless' partners to invest resources and time into this deal, they needed to know that they could use Verizon Wireless to serve all of their customers, not just those outside of FiOS areas.

There is no need for a condition here, since the deals don't create a harm to competition. Indeed, we're confident that customers will continue to choose FiOS, since FiOS Internet and video are superior products to the offerings from the cable companies – witness all the awards we've won, and the fact that we've taken nearly a third of cable's customers away where we offer FiOS. But, if for whatever reason, a customer prefers the cable service, then we would like them to have a new way to buy Verizon Wireless – which we also believe offers a superior product. Consumers will decide.

4. We understand that FiOS now accounts for over 60% of Verizon's consumer wireline revenues. Yet Verizon decided in November 2009 to halt expanding FiOS into any new markets. Given the growth in the importance of FiOS to Verizon overall, wouldn't we expect Verizon to reconsider this decision in the future, if not for the joint marketing agreement? Put another way, doesn't your wireless subsidiary's agreement with the cable companies substantially reduce the chance you will ever decide to build FiOS in new areas?

Response:

Well before the companies began negotiating the arrangements at issue, Verizon decided to continue building out FiOS only where its franchise agreements require it to do so, an expansion process that won't be completed until 2018 and will require the ongoing expenditure of significant additional capital.

As Verizon has noted publicly, it is focusing its resources on increasing its market share against the cable and DBS companies in existing franchise areas, while generating necessary free cash flow by cutting back on capital expenditures. Verizon has no plans to expand FiOS into new franchise areas. A future decision to reverse the current course and invest substantial new capital in FiOS won't be governed by the possibility of gaining small, one-time commissions from any customers VZW can sign up for cable companies.

5. We have heard reports that Verizon is "slow walking" the build out of FiOS in its local franchise areas. Will you commit today to fully complete your buildout in an expeditious manner in areas you have already obtained franchise authority?

Response:

Verizon is making investments in its consumer wireline network that are unmatched by any other wireline carrier. Verizon is complying with its franchise build requirements and will continue to do so.

6. Do the commercial agreements between the cable companies and Verizon Wireless have any term or time limit? If so, what is that term?

Response:

The terms of the agreements confidential. We have said publicly that after four years, the cable companies may elect to become resellers of Verizon Wireless service.

7. It has been reported in the media, and was alluded to at the hearing, that the commercial agreements between Verizon Wireless and the cable companies were exclusive. In what sense are the agreements exclusive? What does the exclusivity cover?

Response:

The terms of the agreements are confidential, but any exclusivity arrangements in the agreements are necessary to ensure that the parties commit sufficient resources to the commercial arrangements to bring new products to market and offer competitive bundles of telecommunications services. The agreements do not constrain Verizon Telecom's ability to market its services or work with other partners.

8. Under the commercial agreements, what is the amount of commission payment that Verizon Wireless will receive from the cable companies for selling Verizon Wireless services? Can this amount change during the life of the agreements?

Response

The commercial terms are confidential. As I noted during the hearings, when Verizon Wireless sells cable services, it receives the payment of a small one-time commission for qualified sales. The compensation amount could vary in future years based on market conditions.

9. At one point during the hearing, you noted that the deals we are examining are with Verizon Wireless, not Verizon, implying that Verizon's incentive to compete will be unaffected by these deals. But Verizon owns 55% of Verizon Wireless, Verizon appoints five members of Verizon Wireless's nine-member board of directors, including Verizon Wireless's Chairman and CEO, and its Executive Vice President and Chief Financial Officer, and Executive Vice President and Chief Marketing Officer. I also understand that Verizon Wireless links long-term compensation to performance of its parent company, Verizon. It has also been reported that Verizon Wireless and Verizon share a single Political Action Committee, the so-called "Verizon /Verizon Wireless Good Government Club." And Verizon Wireless accounted for 63% of Verizon's aggregate revenues in 2011. Under these circumstances, you don't contest the fact that Verizon and Verizon Wireless are distinct companies whose interest are not, at the very least, intertwined and closely aligned with one another, do you?

Response:

As I noted in my testimony, Verizon's wireline Telecom unit is not a party to the agreements and is not subject to any restrictions under the commercial agreements. This fact is directly relevant here because Verizon has every incentive to aggressively market its FiOS services in competition with the cable companies in order to earn a return on the billions of dollars it has invested in FiOS. The potential to earn a few hundred dollars in a one-time commission cannot possibly offset the incentive to market FiOS aggressively in order to earn potentially thousands of dollars in recurring revenues. In addition, Verizon owns only 55% of Verizon Wireless, which means that only 55% of any commission payments paid to Verizon Wireless via the agency agreements actually accrue to the benefit of Verizon Communications, whereas 100% of the benefits from FiOS do so.

10. Under current FCC rules, The SpectrumCo spectrum licenses that Verizon Wireless seeks to acquire have a partial build out requirement of 15 years, with a complete build out required in 25 years, from date of issuance of the spectrum licenses. Thus a complete build out won't even be required for this spectrum until the latter half of the 2020s. Your competitors have accused Verizon Wireless of seeking to "warehouse" this spectrum in order to keep it away from Verizon Wireless's competitors. You testified at the hearing that Verizon Wireless needs this spectrum today to meet the burgeoning demand for spectrum caused by consumers' use of

smartphones. In light of this, would you agree to build out this spectrum much sooner, say in 5 years? If your answer is no, why not?

Response:

We don't believe that additional conditions need to be placed on this spectrum. As I said in my testimony, Verizon Wireless is the most efficient user of spectrum, and has invested heavily in making efficient use of that spectrum by using technologies such as cell splitting. But based on intensive engineering analysis, we've determined we'll reach capacity constraints in key major markets as early as 2013 and many more by 2015 – even with continued planned intensive investment in cell-splitting, small cells, and the like. We have provided extensive documentation to the FCC explaining why our existing spectrum assets are insufficient to meet the exploding growth for data. We have no choice but to put this new spectrum to work quickly.

11. (a) In response to concerns expressed at the hearing about consumers' privacy and possible sharing of consumer information between Verizon Wireless and the cable companies, you stated that Verizon Wireless would keep consumers' bills separate even if Verizon Wireless sold a cable service (and vice versa). But if the bills are separate, where is the convenience in a "quad play" (i.e., video, internet access, landline phone, and wireless service)? Wouldn't consumers paying for all of these services on one bill be a key part of the consumer convenience of a quad play?

Response:

I believe I said in the hearing that both Verizon Wireless and the cable companies have robust privacy policies and significant legal obligations that serve to protect our customers' information. The convenience of a single bill is the ability to pay that bill once – an arrangement that can be accomplished without inappropriately sharing customer information. Providing one bill certainly would be a customer convenience; providing customers with the easy ability to buy services with promotions and/or discounts also is a convenience.

(b) In a December 7, 2011 investor call with UBS Securities, Verizon CEO Lowell McAdam stated that consumers don't want separate bills for each service because it "drives them crazy." He added that "getting to one bill and having account-level pricing is the right way to go." So is it possible that the idea that consumers get separate bills from Verizon Wireless and the cable companies for services they cross-sell as you stated in your testimony change in the future?

Response:

Verizon Wireless and the cable companies are not offering a consolidated billing option now, and have yet to decide whether to do so going forward. This may change, but whether it does will depend on a variety of factors as the agency relationships develop over time.

12. You testified that consumers prefer a quad play and that consumers like to buy wireless together with the other services. Could you provide marketing research or other studies that support this?

Response:

I actually testified that Verizon Wireless wants to offer convenient bundles of services “to those customers across the United States who want them.” Some customers prefer to buy a bundle, and some don’t. There certainly are recent reports by analysts that seem to indicate demand for bundled services including wireless is beginning to accelerate. *See, e.g.,* MIKE JUDE & GINA VILLANUEVA, FROST & SULLIVAN, CONSUMER COMMUNICATION PREFERENCES: 2012 13 (Feb. 2012). But it is also fair to say that, to date, Verizon has not seen great demand specifically for bundled wireless and wireline services, although it obviously believes, as do many analysts, that demand will accelerate, particularly if the innovation joint venture can create a wireline/wireless product that our customers want to purchase.

13. (a) In your March 22, 2012 letter to Senator Lee and me correcting your testimony at the hearing that Verizon Wireless does not sell FiOS in its stores today, you stated that “in a number of Verizon Wireless stores, Verizon Telecom has placed FiOS kiosks, which are manned by representatives of Verizon’s wireline business.” Can you be more specific – how many Verizon Wireless stores have these FiOS kiosks, and what percentage of the FiOS footprint do these stores represent?

Response:

Verizon Wireless has 1700 store fronts. Verizon Wireless has 306 store fronts in Verizon Telecom’s FiOS footprint. In 96 of these store fronts Verizon Telecom uses a third-party contractor to operate a FiOS fixture, sometimes known as a “kiosk.” In four of these stores Verizon Telecom uses a third party contractor to conduct FiOS business in the Verizon Wireless store with a tablet computer through which they can receive customer orders. Verizon Telecom thus has kiosks today in roughly 1/3 of Verizon Wireless stores within the FiOS footprint.

(b) In your letter, you state that “[n]o decision has been made as to maintaining these kiosks once the cross-marketing agreements are implemented in the FiOS footprint.” If in fact these kiosks are withdrawn, won’t this represent a real example of a loss of competition between Verizon and the cable companies? Why won’t you commit to keeping these kiosks in place?

Response:

Kiosks in Verizon Wireless stores have not been a substantial source of sales for Verizon Telecom, and indeed Verizon Telecom has decreased the number of FiOS kiosks in Verizon Wireless stores by over 40% over the last two years for reasons unrelated to the deals with the cable companies. FiOS market share gains have continued unabated even as kiosks have been withdrawn.

Precisely because – independent of these deals and for good business reasons – Verizon Telecom has been decreasing its kiosk presence, any commitment to force Verizon Telecom to keep particular kiosks open would more likely harm FiOS than help it.

(c) In defending this deal, you have pointed to the consumer benefit of having wireline representatives in your wireless stores. If they provide such a consumer benefit, why did you not have any Verizon wireline representatives in your Verizon wireless stores, at the very least within your FIOS footprint?

Response:

I don't believe we have defended this deal by noting the customer benefit of having wireline representatives in VZW stores.

We have had representatives for FiOS services in some Verizon Wireless stores. As noted above, Verizon Telecom has reduced its presence in Verizon Wireless stores independently of the deals with these cable companies, so the benefit of having these kiosks is not always clear. And some stores simply are not suited for having a staffed Verizon Telecom presence: There are logistical considerations such as the minimum allowable square footage of a Verizon Wireless store that must be met before Verizon Telecom can have a presence in the store.

14. How will your commercial agreements with the cable companies affect your pricing, marketing or promotion of FiOS in areas where you compete with the cable companies that are parties to these agreements? If your answer is that there will be no such effect, how do we know that will be the case? Are you willing to make a commitment to the DOJ on this point?

Response:

As I mentioned in my testimony, Verizon Telecom has every incentive to continue to compete vigorously with the cable companies on pricing, marketing and promotion of FiOS, and plans to spend hundreds of millions of dollars this year to market FiOS. The Department of Justice has inherent authority to investigate if it comes to believe that Verizon is acting in a manner that harms competition.

15. (a) Beyond its FiOS service, Verizon also competes with the cable companies for Internet service via DSL using traditional copper landline phone wires. Will the commercial agreements affect in any respect this competition, and the pricing, marketing, or promotion of DSL in the areas where you compete with the cable companies that are parties to these agreements?

Response

The commercial agreements will not affect the pricing, marketing or promotion of DSL, which faces a variety of broadband competitors.

(b) Some analysts and industry observers believe that Verizon will abandon or sell off its DSL services in the future. What are your plans for your DSL service in the future? Will you continue to offer it to the same extent you do now?

Response:

Verizon Telecom intends to offer DSL services so long as its DSL service remains competitive in the marketplace and earns a return for shareholders. In some areas where Verizon offers FiOS services, it does plan to sign up new stand-alone Internet customers for FiOS only, and hopes to upgrade existing customers to FiOS over time. In addition, Verizon may upgrade DSL customers who experience significant customer service issues to FiOS.

16. Our subcommittee has heard concerns that the commercial agreements between Verizon Wireless and the cable companies could contain provisions allowing the parties to jointly negotiate for programming content, or might lead to such agreements in the future. The concern is that, if so, the parties to these deals could obtain lower rates for content because of volume discounts that competitive pay TV services would not be able to obtain. Do the commercial agreements contain any provisions allowing Verizon Wireless and the cable companies to jointly negotiate for programming? If so, won't this disadvantage competitive pay TV providers? If not, does the agreement allow for such joint negotiations, or do you anticipate such negotiations to occur in the future?

Response:

None of the commercial agreements has provisions relating to the joint negotiation of programming or the acquisition of content. Thus, while it is true that the programmers are the ones who hold all the cards and who have been increasing content costs every year, these agreements do not address creating a counterweight to their power.

17. One of the key ways of increasing capacity on wireless networks is to offload demand onto WiFi networks, such as those the cable companies and Verizon have built into consumers' homes. Will you commit to offer WiFi offload on an open, non-discriminatory basis to other carriers not parties to the commercial agreements? If not, why not?

Response:

Tens of millions of people have put a WiFi hotspot in their homes. FiOS subscribers, for example, have the ability to make their homes a personal WiFi hotspot using their FiOS router or use an off-the-shelf base station product from companies such as Cisco and

Apple. Verizon Wireless has not built its own WiFi network, but Verizon Wireless smartphones and tablets allow customers to choose whether to use the Verizon Wireless network or a WiFi hotspot at any point in time. Whether customers choose to use a hotspot to offload traffic from the wireless network is up to them.

18. Do you have any response to the suggestions of Prof. Wu, and Mr. Kelsey and Berry given at the hearing as to possible conditions the Justice Department or FCC ought to place on your deals with the cable companies, should the deals be approved?

Response:

Verizon does not believe such conditions are justified since the agreements do not lessen competition or harm the public interest. And in addition to being substantively flawed, the proposed conditions reflect those parties' separate regulatory agenda and the issues they raise are the subject of separate industry wide proceedings under consideration at the FCC and in the courts.

Verizon Communications' Response to
Questions for the Record from Senator Charles E. Schumer
Hearing of the Senate Judiciary Committee,
Subcommittee on Antitrust, Competition Policy, and Consumer Rights:
"The Verizon/Cable Deals: Harmless Collaboration or a Threat to Competition and
Consumers?"

April 19, 2012

Questions for Randal Milch, EVP & General Counsel, Verizon Communications, Inc.

FiOS is the most advanced broadband delivery platform, making Verizon the only major U.S. telecommunications company to draw fiber all the way to homes, and the only one to offer broadband speeds approaching those available in Japan and South Korea. Verizon has touted the importance of broadband deployment for job creation, economic development, and improvements in education, health care, and public safety.

I have been a strong supporter of FiOS's buildout of its fiber-optic network in New York, and believe that Verizon should be applauded for its great work in bringing both jobs to communications workers and meaningful competition to cable customers in many of the major population centers of the state. However, I am interested in how this deal will affect FiOS in New York. Specifically,

1. I understand that under the terms of the commercial agreements, Verizon Wireless stores can sell Comcast or Time Warner cable services including in markets where FiOS is offered.
 - a. How does this agreement affect Verizon's marketing strategy for FiOS?

Response:

The agreements at issue are between Verizon Wireless and the various cable companies, and do not bind in anyway Verizon Telecom, which markets FiOS. These agreements do not affect our marketing strategy for FiOS. As I said in my testimony, Verizon Telecom is spending hundreds of millions of dollars marketing FiOS this year, and New York in particular is a critical market for us.

- b. Can FiOS continue to increase its market share if Verizon Wireless stores are marketing services that compete directly against FiOS?

Response:

I am confident that in any side-by-side comparison, customers will choose FiOS over cable, just as they have to date. Additionally, FiOS has continued to increase market share against cable even though it has decreased by more than 40% the number of kiosks in Verizon Wireless stores over the last two years.

- c. How do the Joint Marketing Agreements affect Verizon's incentives to build out its fiberoptic pipe to compete?

Response:

The agreements with the cable companies do not change Verizon Telecom's incentives to build or not build FiOS. Well before the companies began negotiating these arrangements, Verizon decided to continue building out FiOS only where its franchise agreements require it to do so, an expansion process that won't be completed until 2018 and will require the expenditure of significant additional capital. As Verizon has noted publicly, it is focusing its resources on increasing its market share against the cable and DBS companies in existing franchise areas. Verizon has no plans to expand FiOS into new franchise areas. A future decision to reverse the current course and invest substantial new capital in FiOS won't be governed by the possibility of gaining a few hundred dollars in commissions from any customers VZW can sign up for cable companies.

2. The 1996 Telecommunications Act reduced regulation based on the assumption that cross-platform competition would drive innovation, lower prices, and new services to benefit consumers. Just two years ago, Verizon touted the importance of the "competitive rivalry between cable companies and telcos" resulting in benefits to consumers of "better broadband services and lower prices."
- a. What is your view of that rivalry now?

Response:

The "competitive rivalry between cable companies and telcos" – Verizon Telecom is a "telco" – continues vigorously. Both the cable companies and Verizon have made tens of billions of dollars in capital investments to compete with each other, and the quantum leap from dial-up Internet services in 1996 to FiOS today is evidence that the rivalry has yielded – and continues to yield – great consumer benefits.

- b. How do the joint marketing agreements affect that view?

Response:

They do not. The agreements are between Verizon Wireless and the cable companies. Verizon Telecom has every incentive to grow its business.

3. In recent years Verizon has sold off many of its rural lines, first to FairPoint in Maine, New Hampshire, and Vermont, and later to Frontier in 14 states. Does this deal affect Verizon's plans for its wireline business in the future?

Response:

These deals do not affect Verizon's plans for its wireline business.

4. After this deal was announced, I understand that Verizon announced the end of its relationship with DirecTV.

- a. Was this announcement related to the spectrum deal?

Response:

As a clarification, Verizon Telecom continues to sell a bundle of DSL, DirecTV and voice services.

As we've noted publicly, Verizon Wireless did do trials with DirecTV for a technology using LTE. We completed those trials as scheduled and determined after careful evaluation not to move forward with DirecTV – all *before* the deals at issue were completed.

- b. Do the Joint Marketing Agreements contain exclusivity provisions that require the parties to terminate similar agreements with other companies?

Response:

While the terms of the agreements are confidential, Verizon Wireless and Verizon Telecom have not terminated any commercial relationships pursuant to the commercial agreements with the cable companies.

- c. Would exclusivity provisions be consistent with vibrant competition for telecommunications or satellite firms?

Response:

Yes. Exclusivity provisions can under the right circumstances permit parties to commit greater resources to going to market together with innovative bundled products, secure in the knowledge their partners will not be working with other parties.

Verizon Communications' Response to
Questions for the Record from U.S. Senator Al Franken
for Randal Milch, Executive Vice President and General Counsel, Verizon
Communications, Inc.

April 19, 2012

1. Please provide a list of locations where Verizon has a video franchise; where FiOS TV is available; where Verizon is still in the process of deploying FiOS; and locations where there is no existing plan to deploy FiOS.

Response:

Verizon Telecom has video franchises in 1,357 franchise areas, including franchise areas in California, Connecticut, District of Columbia, Delaware, Florida, Massachusetts, Maryland, New Jersey, New York, Pennsylvania, Rhode Island, Texas, and Virginia. Of these video franchises, Verizon offers FiOS TV in 1,321 franchise areas, and is still in the process of deploying the FiOS network in 379 franchise areas. Verizon currently passes about 16.5 million premises and plans to pass approximately 18 million premises.

2. Verizon has previously stated that wireless and FiOS represent the two greatest engines for growth and increased revenue per customer. On March 25, 2012, Citi Investment Research & Analysis wrote: "We believe Verizon's lower wireline margin relative to most of its peers represents an opportunity for improvement partly by increasing FiOS scale with time..." Given this positive financial assessment of FiOS, it seems unusual that Verizon would not contemplate continuing to build out FiOS in currently unserved areas, especially if there is adequate demand. Can you please explain (a) why Verizon has no further plans to build out FiOS based on demand; and (b) why Verizon has decided not to build out FiOS to cities such as Baltimore, Boston, Buffalo, Albany, Syracuse and other urban, metropolitan areas where there is high population density?

Response:

Verizon's wireline margins are precisely the issue being addressed by Verizon's current FiOS strategy, publicly announced well before this set of deals with this group of cable companies. In particular, beginning in mid-2009, Verizon Telecom announced that it had no present plans to expand the FiOS footprint. On a July 27, 2009 earnings call, for example, Verizon Telecom CFO John Killian stated that Verizon Telecom was "on track to be substantially finished with [FiOS] deployment by the end of 2010, which has positive implications for both capital spending and free cash flow." And in October 26, 2009, Mr. Killian again stated that Verizon Telecom would "substantially complete [its] FiOS build program by the end of 2010, which alone should result in about \$2 billion of capital savings each year." As Mr. Killian noted, Verizon needed to generate free cash flow, and has done so by continuing its FiOS build only where necessary to meet

franchise obligations and focusing instead its resources on market share gains against cable and DBS in areas where capital had been spent.

Specifically as to your question (b): Verizon began offering FiOS services in 2005 with a plan to pass a certain number of premises. To meet this goal, Verizon started negotiating with many local franchising authorities in urban, suburban, and rural areas (a time-consuming and expensive process in and of itself). Negotiations with some local franchising authorities proved slow to reach fruition. Once franchise agreements had been reached covering the number of premises in Verizon's plan, Verizon ceased seeking additional franchise agreements where it had yet to build any FiOS network.

3. During your testimony, you stated that Verizon Wireless stores do not sell FiOS. We have received reports to the contrary. Can you please verify that is indeed correct? Do these stores market FiOS products or offer other information about FiOS to customers seeking wireless services?

Response:

The day after the hearing, I sent a letter to the Committee clarifying my remarks. A copy of that letter is attached.

4. Will Verizon Wireless commit to not market or sell the cable company's broadband and video products in locations where Verizon FiOS is available to customers?

Response:

Verizon Wireless does not believe it is necessary or appropriate to make such a commitment.

5. During an October 21, 2011 earnings call, Verizon's Chief Financial Officer Francis Shammo said: "By further penetrating existing [FiOS] markets, we will enhance our capital and operating efficiency and improve overall returns." Please explain how the joint marketing agreements do not alter or reduce Verizon's incentives to continue to maintain and build out FiOS and other wireline services.

Response:

Mr. Shammo's remark is consistent with the earlier statements from two years ago by former Chief Financial Officer John Killian noted above. Verizon will generate improved returns by further market share gains against cable and DBS in areas where Verizon already has spent capital. The joint marketing agreements don't alter that incentive.

Verizon's shareholders have invested \$23 billion into FiOS, and those shareholders are only now beginning to see a return on that massive investment. FiOS now makes up 61%

of Verizon landline consumer revenues, and FiOS revenues grew 18.2% year over year. In just two years, we've grown video penetration in existing FiOS areas from 25.4% to 31.5%, and our Internet penetration from 29% to 35.5%. We've no intention of slowing down in our competitive efforts – indeed our shareholders have every economic incentive for us to push ahead.

6. Verizon has touted the importance of broadband deployment for job creation, economic development, and improvements in education, health care, and public safety.

- a. Doesn't this deal create further incentives for Verizon to sell off more rural lines, reducing vital broadband services in underserved areas?

Response:

No. I would note, however, that there is no basis for equating the sale of lines with a reduction of broadband services. Indeed, purchasers with greater focus on rural markets may more effectively provide broadband in underserved areas.

- b. By reducing Verizon's incentives to build out its FiOS network to cities with significant low-income and minority populations, doesn't this transaction increase the digital divide?

Response:

No. As I previously stated, Verizon determined to stop expansion of FiOS to new, unbuilt areas in 2009, long before these deals were contemplated.

7. Do the joint marketing agreements contain exclusivity provisions that require the parties to terminate similar agreements with other companies?

Response:

While the terms of the agreements are confidential, Verizon Wireless and Verizon Telecom have not terminated any commercial relationships pursuant to the Joint Marketing Agreements.

8. During the hearing, I asked you whether Verizon would commit to opening up any of the technology and intellectual property that your companies create as part of your joint venture to your competitors at fair, reasonable, and non-discriminatory rates. Can you please explain in detail why you do not think this would be an appropriate condition to place on this transaction?

Response:

As I mentioned at the hearing, all of the Joint Innovation Venture (“Venture”) members get a license to the Venture’s products, as does FiOS. Other companies are welcome to negotiate licenses with the Venture if they want to use the Venture’s innovations. We don’t know yet the terms on which such licenses will be negotiated. The Venture doesn’t have a single patent yet, and we don’t know if it ever will generate significant intellectual property (although we quite obviously hope it does). Many other players – Apple, Google, patent aggregators, others – hold patents that read on wireless/wireline integration technology, so we’re a new entrant into the patent market. To the extent we create something new, we deserve protection for it, and the same freedom enjoyed by those other players to figure out the optimal terms of any licenses.

9. Has Verizon entered into similar commercial marketing agreements with Cablevision, Charter, or other major cable operators?

Response:

No.

10. Several Verizon employees have reported that Verizon has ceased hiring engineers and technicians to work on its copper lines. They think this means Verizon has already abandoned its copper infrastructure—and they are worried that this means their jobs are at risk and that Verizon is quickly shifting its resources to wireless and away from wireline. Please explain what impact you think this transaction will have on jobs in the next year, two years, and five years. Do you anticipate laying off any Verizon employees?

Response:

These transactions do not affect Verizon Telecom’s business plans with respect to its copper infrastructure.

Verizon Communications' Response to
Questions for the Record for Verizon-Spectrum Co. Hearing
From Senator Lee

April 19, 2012

Randal S. Milch, Verizon (Executive Vice President & General Counsel)

1. At the hearing there appeared to remain some degree of confusion about Verizon Communication's incentives to continue marketing FiOS in light of Verizon Wireless's agreements with the cable companies.

- Could you please explain the incentives Verizon Communications has to market FiOS and whether the portion of a commission Verizon Communications would receive from the sale of cable contract would affect those incentives?

Response:

Basic economics explain why the Commercial Agreements will have no discernible impact on Verizon Telecom's incentives to market FiOS.

First, Verizon has invested over \$23 billion in capital into its FiOS buildout, and grown the FiOS business from nothing in 2004 to an \$8.2 billion annual revenue business today. Verizon Telecom currently has approximately 4.2 million FiOS TV and 4.8 million FiOS Internet subscribers. FiOS revenues now represent sixty-one percent of Verizon Telecom's wireline consumer revenues, and grew 18.2% over the last year alone. And FiOS is growing by taking market share from its cable competitors – FiOS increased its market penetration in both TV and Internet by nearly 4% over the last year alone.

Furthermore, any commissions received by Verizon Wireless for sales of MSO services represent a fraction of the net present value of a Verizon Telecom FiOS subscriber. It is highly unlikely that the gain of these commissions (only 55% of which would flow to Verizon Communications) would offset the loss of thousands of dollars of recurring revenue that Verizon could earn from a FiOS customer. Indeed, there's no guarantee that Verizon Wireless would be the party signing up new cable customers to bundles, and it only receives a commission if it drives the sale.

- In what ways, if any, will this agreement increase FiOS's ability to compete with the cable companies?

Response:

FiOS will have access to the Joint Innovation Venture's technology, if it chooses to use it, and thus can get access to technologies it might otherwise have a hard

time developing on its own. FiOS also is free to use other wireless/wireline technology if it proves superior.

2. At the hearing, I understand Professor Wu to have suggested that Verizon Wireless's agreements with the cable companies might decrease Verizon Wireless's incentives to compete with cable for high speed internet offerings.

- Is Verizon's Wireless's internet offering a viable competitor to wire line internet?

Response:

Customers will continue to determine for themselves the communications services that they want. There is no "one size fits all" model. For some consumers, a wireless device is all they want and need, and the speeds delivered by wireless broadband services are adequate for their needs. Other customers may want or need to have even higher speeds obtainable over certain wireline broadband products and may use these products as their primary means of voice and data communications, with wireless as a supplement. Every company in the communications space needs to be nimble and responsive to customers or risk losing these customers to competitors. It will be consumers, not companies, who will decide the way products are used.

- How will your agreements with Comcast impact your incentives with respect to your internet service offerings?

Response:

They will have no impact. Verizon has increased its FiOS Internet penetration to 35.5% at the end of last year, up from 29% two years earlier. Verizon anticipates continuing to win customers with its superior fiber-based offering, and will reap financial benefits by doing so.

3. Some have expressed concerns that Verizon Wireless does not need additional spectrum. These arguments include assertions that because Verizon Wireless is efficient with its spectrum, currently has spectrum it is not using, and can make its current spectrum even more efficient by means of technologies such as cell-splitting, the company is in fact well positioned on spectrum for the foreseeable future. Mr. Berry, who was at the hearing, has stated that Verizon holds as much as 44 MHz of unused spectrum in many markets and would hold up to 72 MHz of unused spectrum in those markets after this transaction.

- What is your response to these claims, and what is Verizon Wireless doing to ensure that excess spectrum is put to good use in areas where it has a surplus?

Response:

It is true Verizon Wireless is the most efficient user of spectrum, and has invested heavily in making efficient use of that spectrum by using technologies such as cell splitting. But based on intensive engineering analysis, we've determined we'll reach capacity constraints in key major markets as early as 2013 and many more by 2015 – even with continued planned intensive investment in cell-splitting, small cells, and the like. We have provided extensive documentation to the FCC explaining why our existing spectrum assets are insufficient to meet the exploding growth for data. We have no choice but to put this new spectrum to work quickly.

Finally, Verizon Wireless has been an active seller on the secondary spectrum market where we thought we could efficiently rationalize our spectrum holdings. Verizon Wireless announced on Wednesday, April 18, 2012 that it will conduct an open sale process of its 700 MHz A and B spectrum licenses in order to rationalize its spectrum holdings. The licenses cover dozens of major cities across the country, as well as a number of smaller and rural markets. Molly Feldman, Verizon Wireless vice president of Business Development, said that “[p]rovided our acquisition of AWS spectrum is approved, our open sale process will ensure these A and B spectrum licenses are quickly and fairly made available for the benefit of other carriers and their customers.”

4. At the hearing, in regards to the research and development joint operating entity, Senator Franken asked, “Will you commit to opening up the technology and intellectual property that your companies create to your competitors so that they can obtain the technology at fair reasonable and non-discriminatory rates?”

- If the members of the joint operating entity were forced to license and sell any newly developed products or technologies, how would this change your decision to invest capital in the research and development joint operating entity?

Response:

Any government-imposed sharing mandate would make it less attractive to invest capital in the Joint Innovation Venture, since it would reduce the flexibility of the Venture to most efficiently determine how to license any innovations. The Venture doesn't have a single patent yet, and we don't know if it ever will generate significant intellectual property (although we quite obviously hope it does). Many other players – Apple, Google, patent aggregators, others – hold patents that read on wireless/wireline integration technology, so we're a new entrant into the patent market. To the extent we create something new, we deserve protection for it, and the same freedom enjoyed by those other players to figure out the optimal terms of any licenses.

5. At the hearing, there was some discussion about the Federal Communications Commission's ("FCC") spectrum screen and whether such a screen could or should be changed while reviewing a specific transaction and whether there is any precedent for such a change.

- What is your view of FCC precedent for changing spectrum screens during a transaction and the propriety of such a change?

Response:

Since 2004, the Commission consistently has used one-third of the total spectrum the Commission has concluded is available for mobile use as the threshold for its spectrum screen, providing all concerned with some measure of certainty as they consider transactions and formulate business plans. Use of a consistent one-third threshold has meant that the amount of spectrum included in the screen in past transactions has increased over time as the Commission has made available more spectrum for mobile services, thus allowing the screen to essentially self-correct for the availability of additional spectrum.

But some parties have asked the Commission to radically revise this long-established view of the screen in this transaction by valuing different bands differently or by imposing an actual cap on spectrum holding. Such extensive proposed changes should not be taken up in the context of an individual transaction, particularly where, as here, only a very limited number of post-transaction holdings would exceed the current screen. Not only do these radical and sweeping changes to the Commission's long-established policy lack merit, but they would have broad ramifications for the industry as a whole. For example, proposals to weight certain spectrum holdings in the screen (by spectrum characteristics, auction prices, book value, or other metrics) seek to achieve a pre-desired outcome, but would be fundamentally unworkable and would invite gamesmanship by parties trying to manipulate the Commission's review of a transaction.

6. At the hearing, you explained that if the spectrum screens were recalculated, it would decrease Verizon's share of spectrum holdings because the size of the denominator would increase as new spectrum is included in the screens.

- Can you please elaborate on this answer?

Response:

There is spectrum that is suitable even for broadband use that is not included in the spectrum screen. In our filings at the FCC, we noted several bands of spectrum that are suitable for wireless services that are not included in the current spectrum screen. In our filings at the FCC, we noted several bands that are suitable for broadband use and thus could be added. For example, there is the 10 MHz PCS G Block, which Sprint has announced it will use for LTE. Similarly,

there is at least 104.5 MHz of BRS/EBS spectrum (in addition to the 55.5 MHz of BRS currently included in the screen) which Clearwire uses. There also is 50 MHz of MSS ATC spectrum which is not included in the screen which the FCC has said “could potentially enhance competition in the provision of mobile terrestrial wireless services.” And, there is 25 MHz of WCS spectrum, which is not currently included in the screen even though the FCC changed its technical rules to “immediately” make this spectrum available for mobile broadband services. Adding any or all of these bands to the spectrum screen would increase the “denominator” of the screen. But because Verizon Wireless holds none of these bands, the amount of spectrum it holds compared to the total amount of suitable spectrum would decrease.

- Do you believe the spectrum screens are fair and proper as presently calculated?

Response:

The spectrum screen does what it’s supposed to do, which is to provide a clear threshold under which aggregations of spectrum will not be considered to cause competitive harm. This allows businesses to plan in light of a consistent regulatory structure, and it makes the regulatory review process shorter, because of the pre-determination by the regulator of where further inquiry is necessary, and where it is not. In a future proceeding, if the Commission relooks at the spectrum available for mobile use, we’ll advocate for including new spectrum in the screen.