

Testimony of

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Senate Judiciary Committee  
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## Written Testimony

Mr. Chairman and members of the Committee, thank you for the opportunity to be part of this discussion on the state of competition in the restructuring communications industry.

As you are aware, Verizon has announced its intention to acquire MCI to form a strong, stable and secure national communications provider. We recently filed our application for approval with the FCC, we have filed in several of the two dozen or so states where we are required to gain state approvals, and we are actively working with the Department of Justice to provide them with the information they need to complete their review.

In each of these filings, we make the point that I make to you today: that this recent wave of mergers and acquisitions is a response to the dramatically different competitive landscape we face in communications as the industry restructures around new technologies and new markets.

It should be evident to anyone with a cell phone or an e-mail account that the old distinction between local and long distance is obsolete, as is the need for separate companies to provide them. Competing technologies - cable, wireless, satellite, IP, and wireline - now offer consumers a wide range of choices for voice, data and, increasingly, video. And the pace of technological change is accelerating, which makes these markets more dynamic and competitive with each passing day.

What may not be as apparent is that the same forces are transforming the large-business marketplace. Traditional voice services make up a smaller and smaller piece of the pie. Instead, these large, technologically sophisticated customers are demanding a much wider range of services, platforms and applications from a growing universe of suppliers - not just "telephone" companies, but systems integrators, software providers, equipment makers and wireless companies. These companies include some of the biggest names in industry, such as Cisco, IBM, EDS and British Telecom.

A case in point is Microsoft, which earlier this month announced a major foray into the large business marketplace with a software platform that embeds voice and communications as a free application in its Microsoft Office product line, much like Instant Messaging is today. Looking ahead, this approach makes companies like Microsoft, Yahoo and other Internet and software companies legitimate competitors in the enterprise market.

Since our formation five years ago, Verizon's overriding imperative has been to build a company capable of competing in this technology- and market-driven environment. For us, this has meant gaining scale in the growth segments of the marketplace, such as wireless and broadband; reinventing our networks around new digital and fiber technologies; and equipping ourselves to compete as other technology companies do, through investment and innovation.

I stress "investment" because it has been Verizon's willingness to put substantial risk capital into our networks that has differentiated our company and provided more value and choice for customers. We have indicated our intention

to invest substantially in MCI's infrastructure once this transaction closes. It is this ability and willingness to invest in our future that moves the industry forward and strengthens this country's communications assets.

We have followed this path in the wireless business, where we put together a national network and invested in spectrum, digital capabilities and, now, broadband technologies to expand the market and grow through innovation.

We are following this path in the consumer wireline business, where we are transforming our telephone network into a broadband network by deploying DSL and fiber-to-the-premises, over which we are providing voice, data and - as we move forward - video services.

Verizon's acquisition of MCI represents the next logical step in this process, as we transform ourselves around the evolving needs of the large-business, or "enterprise" market.

We have always viewed the large-business marketplace as one of the keys to our long-term growth strategy. As in all network-centric businesses, scale is important in this segment, and while we have a solid presence among local and regional customers, we have no significant market share among national and global customers. In fact, a market analysis of the enterprise long-distance voice and data market performed by Sanford Bernstein puts the market share of Verizon, SBC and Bell South combined at just 3 percent. A Lehman Brothers analysis, using an expanded definition that includes competitors such as Cisco, IBM, EDS and others, lumps Verizon's share in a slice of a pie chart labeled "the highly fragmented rest."

So we knew we needed to add substantially to our product set and network reach to be able to compete for these customers, and we have been investing in these capabilities steadily over the years.

The MCI acquisition accelerates that effort substantially. I should point out that MCI's and Verizon's assets are complementary, not duplicative. One of MCI's core strengths is its global Internet backbone network. Verizon today has no comparable asset. Therefore, by bringing our companies together, we will create a strong new competitor in the enterprise space - one with the advanced products, network reach and capital capacity required to invest in these assets and compete in this technology-intensive and highly competitive market.

I understand that some questioned how this latest phase of restructuring in the communications industry will affect consumers. Let me be very clear. Verizon's acquisition of MCI does not alter the dynamics that are reshaping the consumer market. Nor will it have any impact on the current Universal Service program or its funding.

Long distance and local as stand-alone businesses are on their way to obsolescence, with or without this transaction. Competition from wireless, cable telephony, e-mail, Instant Messaging and VOIP will continue to drive pricing, with or without this transaction. And in any meaningful sense of the word, the consumer marketplace will continue to become less concentrated over time - with or without this transaction - as new platforms and providers vie for the broadband household.

My message to this committee, then, is that to view this deal in terms of the communications business of the past 20 years is to miss the benefits that will accrue in the next 20 years.

Consumers will benefit because MCI's IP network and products, combined with our deployment of fiber directly to homes and business, will be the most advanced broadband platform in the country, capable of delivering next-generation multimedia services in markets across the U.S.

Enterprise customers will benefit because we will create a strong, stable and secure strategic partner for national and global businesses as they prepare for the broadband future.

Federal and state government customers will benefit because they will have a choice of financially stable players that can stay current in technology and invest in the networks that are critical to their public mission.

National security will benefit because we will continue to invest in and strengthen the national and international communications infrastructure that is a critical component of government communications systems, including those used by the Departments of Defense and Homeland Security.

And the U.S. economy will benefit because we are creating a strong, U.S.-based company capable of investing in the new technologies so critical to job creation and leadership in the global marketplace.

This transaction is about the future. Verizon and MCI will be a national, full-service company with the financial strength and technology resources to deliver the broadband, multimedia world of tomorrow to customers and create economic growth for America today.

Thank you. I look forward to your questions.