

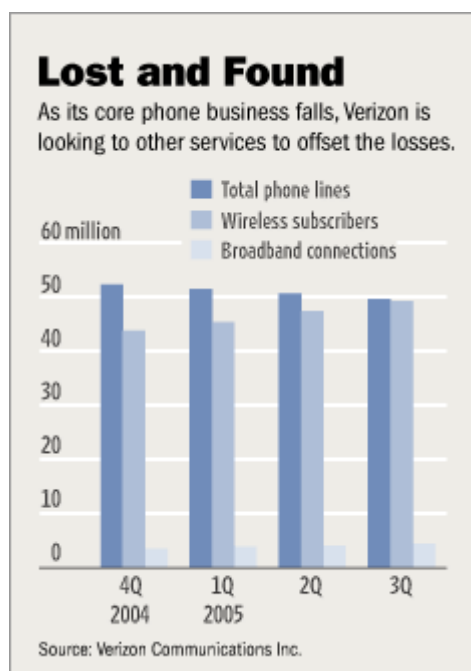
Spotty Reception As Verizon Enters Cable Business, It Faces Local Static

**Telecom Giant Gets Demands
As It Negotiates TV Deals;
Cameras for Santa's Visit
Lining Up 10,000 Contracts**
By DIONNE SEARCEY
Staff Reporter of THE WALL STREET JOURNAL
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Last year Verizon Communications Inc. lawyers went to city hall in Tampa, Fla., for permission to offer television service over the phone company's new high-speed network. City officials presented them with a \$13 million wish list, including money for an emergency communications network, digital editing equipment and video cameras to film a math-tutoring program for kids.

Frustrated, Verizon officials suspended their talks and decided to try another tack. The company soon persuaded Temple Terrace, a small neighboring community, to roll out the new technology. It began running radio and newspaper advertisements in Tampa, arguing that if residents want more television choices, they should move to Temple Terrace.

All over the country, Verizon is squaring off against local governments, as it embarks on a high-stakes upgrade of much of its network. Aiming to offer Internet, phone and television services, Verizon plans to spend up to \$20 billion to lay thousands of miles of fiber-optic wires across its East Coast service area from Maine to Florida and into parts of Texas, California and elsewhere.



Budget-strapped local officials, who have the final say over granting cable-TV-service franchises, are greeting the phone giant with expensive and detailed demands. In New York state, Verizon faces requests for seed money for wildflowers and a video hookup for Christmas celebrations. Arlington County, Va., wants fiber strung to all its traffic lights so it can remotely monitor traffic flow. Holliston, Mass., is seeking free television for every house of worship and a 10% video discount for all senior citizens. Others want high-speed Internet for sewage facilities and junk yards, flower baskets for light poles, cameras mounted on stop lights and Internet connections for poor elementary students.

The battle is crucial for Verizon, which is rapidly losing its traditional customers in a new telecommunications free-for-all. The rivals include wireless phone companies, cable companies offering low-priced phone service, and Web companies such as Google Inc. offering voice services via the Internet.

Verizon is betting that its new fiber network, which it dubs "FIOS," will help it turn the tables on competitors.

Not since the 1960s and '70s, when the cable-TV industry began marching across America, has the U.S. seen such a massive new cable-television system built from scratch.

Verizon has launched negotiations in about 300 communities, but secured just 14 franchise agreements allowing it to offer television service within municipal borders. The slow pace is making investors nervous, considering that the company serves some 10,000 localities. Verizon's stock was at \$30.76 in 4 p.m. New York Stock Exchange composite trading yesterday, well below its 52-week high of \$42.27, which it hit last November.

"They know if they don't get this process done they're going to be in big, big trouble, so we feel we're in a very good position," says Lynbrook, N.Y., Deputy Mayor Thomas Miccio, who has asked Verizon for cameras to film a holiday visit from Santa Claus. "We're going to get what we think our residents need."

Rival phone company, [SBC Communications](#) Inc., is also launching a new video technology. But it is gambling that its Internet-based system won't require approval in each locality. Verizon, which is using a technology similar to cable television, decided it wouldn't risk a big fight with the cities and is seeking approval from each one.

Other Strategies

While it dances with countless city halls, Verizon is pursuing other strategies. It is spending millions of dollars to lobby state governments to require only a single statewide franchise. It teamed up with SBC in Texas, which passed the first such law this summer. And the company is hoping for broader federal relief.

Verizon's FIOS project started in August 2004 in Keller, Texas, a fast-growing suburb. With free hot dogs, T-shirts and autographs from a Dallas Cowboy, the phone company wooed the city, which is located near the company's equipment facilities.

Keller officials liked the idea of bringing more competition to their cable market and of being the first in the nation to offer Verizon's television. In February, after eight months of negotiating, a franchise deal was sealed. In September Verizon, with its separate deals with programmers already sewn up, rolled out its cable package offering more than 330 channels as well as 600 on-demand movies, all at a lower price than the current cable provider was offering then.

The company sent an army of about 100 lawyers to start negotiations elsewhere in Texas and to communities in California and Florida where fiber was already in the ground and on poles. In New York, Virginia, Pennsylvania and elsewhere, Verizon geared up for its franchising effort by placing FIOS ads on pizza-box tops and dry-cleaner bags. It dispatched a fleet of Hummers wrapped in red, green and yellow FIOS banners to towns in Texas and Florida.

Some cities proved tough sells. In Hillsborough County, Fla., adjacent to Tampa, the company entered talks with a municipality scarred from Verizon's fiber deployment, which had flooded city streets and opened a sinkhole from workers' errant digging.

In Massapequa Park, N.Y., residents were hypersensitive to the placement of boxes that house some of the fiber components and wanted them high on polls, out of sight from the street level, said Mayor James Altadonna Jr. Verizon eventually agreed to move them. The company also complied with the village's request for a \$27,000 grant -- the same amount the current cable company had paid -- to be used to plant wildflowers on the median of a four-lane highway that cuts through town and hanging flower baskets to decorate old-fashioned street lights in the village center. In September, the village board voted unanimously to let Verizon roll out its video. The main cable provider, Cablevision Systems Corp. has since sued the village over the deal.

Among the most troublesome so far has been Tampa, a key market with nearly 330,000 potential viewers. Verizon's corporate lawyers, who handle all the negotiations for the company, arrived in June 2004 with a PowerPoint presentation explaining its fiber-based cable system and a copy of its dream franchise proposal. Negotiations didn't go well from the start, with the two sides unable to agree on the very definition of what constitutes a cable-television system. Verizon argued its fiber didn't fall under local regulations until it sent a light pulse of video through it; city officials disagreed.

Tampa officials turned to Nicholas Miller, a Washington-based attorney who had through the years handled complicated legal issues for Florida cities and who had butted heads with Verizon attorneys negotiating video agreements elsewhere.

Mr. Miller was concerned that Verizon didn't want to offer video immediately to everyone in the city limits, something the cable company there had done. He said he was troubled by lawyers' demands that the company could pull out of a multiple-year franchise after just three years if the business wasn't going well.



Ivan Seidenberg

Meanwhile, Verizon dispatched the first Hummers wrapped in FIOS banners to the streets of Tampa.

As talks progressed through the months, Bright House Networks LLC, the sole provider of cable TV to the city, got wind of Verizon's negotiation points. Worried Verizon was getting a better deal, Bright House asked to renegotiate its own franchise with the

city, which is bound by a state law designed to ensure fairness in the cable-franchising process.

City officials began worrying about lawsuits from the cable company. They demanded Verizon include a clause in its franchise agreeing to pick up the tab for any lawsuits related to the deal. Verizon refused.

About the same time, Mr. Miller urged Tampa officials to put together a list of needs the city wanted Verizon to fulfill. Bright House's 15-year franchise included a \$6 million payment to Tampa. But the city detailed \$13 million in television studio equipment and services.

"You've got a very special privilege using public property for your network. There ought to be a substantial benefit to the tax-paying public," says Mr. Miller.

Flabbergasted Lawyers

Verizon lawyers were flabbergasted. Fulfilling the city's requests could send a signal to other communities that Verizon would pay millions of dollars for simply switching on its service. City officials say the list wasn't a demand, but was meant to demonstrate the needs the community still had, above and beyond what Bright House had provided them. Verizon lawyers saw it as a demand.

Frustrated with the slow progress and the high price tag in Tampa, company lawyers turned their attention across the city border to Temple Terrace, a small community that is home to hundreds of Verizon employees. Negotiations were already under way for a franchise, and Verizon intensified the pace of talks, sending more lawyers for meetings with city officials and Alan Ciamporcerro, the region's top executive, to speak before the city council. He told residents Verizon wanted to make Temple Terrace the "showplace for the next generation of video programming and for video competition."

In May, Temple Terrace granted Verizon the franchise. The company almost immediately started running ads in Tampa. "Want more choice for TV? You should live in Temple Terrace."

Verizon turned on the marketing charm, sponsoring an outdoor concert in suburban Tampa headlined by local teenage boy band DC North and shooting video footage of the floppy-haired performers singing their pop song, "Heartbeat." Attendees were invited to visit a nearby "FIOS lounge" where they could edit the footage to make their own video using fiber technology.

At the lounge, which looked like a space-age Internet café decorated in funky orange furniture, customers could try out games and other services delivered by Verizon's fiber. The strategy apparently paid off: Tampa and Verizon are talking again.

Today Verizon says it's confident any outstanding issues will be resolved and that its video plans eventually will get the city council's blessing. Verizon has also adopted its Tampa strategy in its battle for statewide approvals. It is trumpeting all the investments it is making in Texas to show politicians in New Jersey what they might be missing if they were to give a thumbs down to FIOS.

"Any place it's come to a vote, we win," says Verizon CEO Ivan Seidenberg.