

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In Re Petition of)
U S West Communications, Inc.) **Docket No. UT-980948**
For a Declaratory Order Ending Imputation)
Of Revenue Derived from Transferred)
Directory Publishing Business)

Rejoinder Testimony

of

Harvey S. Perlman

on behalf of

U S West Communications, Inc.

July 16, 1999

1

2 **Q. Please state your name, business address and position**

3 A. My name is Harvey Perlman. I am a Professor of Law at the University of Nebraska

4 College of Law, P.O. Box 830902, Lincoln, Nebraska 68583.

5

6 **Q. Have you previously submitted testimony in this matter?**

7 A. Yes, on April 23, 1999, I submitted rebuttal testimony addressing the question whether a

8 1984 transaction between Pacific Northwest Bell (PNB) and U S West Direct (USWD)

9 effectuated a permanent transfer of the directory business from PNB to USWD.

10

11 **Q. And what is the purpose of your current testimony?**

12 A. I have been asked to respond to the surrebuttal testimony of Michael L. Brosch and Lee

13 L. Selwyn which were submitted in response to my earlier testimony.

14

15 **Q. Have you reviewed the surrebuttal testimony of Mr. Brosch and Dr. Selwyn?**

16 A. Yes.

17

18 **Q. And is there anything in their testimony that has caused you to change or alter in**
19 **anyway your previous testimony?**

20 A. No. After reviewing their testimony I continue to believe that the 1984 transaction was a

1 permanent transfer of the directory business from PNB to USWD.

2

3 **Q. Would you please summarize your earlier testimony and how you arrived at your**
4 **opinion.**

5 A. Principally I examined the 1984 Publishing Agreement which effectuated the transfer of
6 the directory business. I understood that Dr. Selwyn and Mr. Brosch had testified that
7 this agreement resulted in only a temporary transfer of the right to publish the directory
8 because certain intellectual property rights had been retained by PNB. I examined the
9 publishing agreement in the context of the yellow page directory business. Although
10 PNB retained the rights to its own trademarks and logos by licensing them to USWD for
11 use in the directory business, I concluded that the permanent transfer to USWD of the
12 physical assets associated with the directory business and the employees with knowledge
13 of the directory business, as well as other terms of the agreement, clearly evidenced a
14 permanent transfer of the directory business.

15

16 **Q. First, consider the surrebuttal testimony of Mr. Brosch. Could you summarize his**
17 **testimony as it is directed at your own testimony?**

18 A. Yes, Mr. Brosch makes two points that he contends shows the transfer of the directory
19 business was temporary. First he cites paragraph 13.01 of the Publishing Agreement
20 which requires USWD on termination of the agreement to discontinue the use of PNB's

1 trademarks and logos.

2

3 **Q. And what is your response?**

4 A. In my rebuttal testimony I acknowledged that the Publishing Agreement contained a
5 trademark license of PNB's trademarks to USWD for use in the directory business. I
6 explained that this did not in any way suggest that the transfer of the directory business
7 was anything but permanent. The underlying idea behind a trademark license is that a
8 trademark owner allows an independent business to use its trademark for particular
9 purposes. Every rational trademark license would contain a provision that when the
10 licensed use ceased, the licensee could no longer use the trademark.

11

12 These provisions have no bearing whatsoever on whether the underlying directory
13 business was permanently transferred to USWD. There is a distinction between transfer
14 of a business and transfer or license of a trademark. They are separate assets. A
15 transferee may obtain one or the other or both. Moreover, I explained in my earlier
16 testimony the likely purpose of the trademark license in this instance—that it was
17 intended to allow the “first supplier” advantage to be transitioned to USWD.

18

19 **Q. Assume for a moment that you had a wholly independent party who wanted to**
20 **purchase the yellow page directory business from a local exchange carrier and the**

1 **two parties agreed to permanently transfer the directory business from the LEC to**
2 **the independent party. Would you be surprised if that agreement contained**
3 **trademark provisions similar to those in the 1984 Publishing Agreement?**

4 A. I would be surprised if such provisions were not included. The buyer of the directory
5 business would want a window of opportunity to transition the first supplier advantage
6 from the LEC to its own trademark. Thus it would be very useful to be able to use the
7 LEC's trademark for a time while one built up the good will in your own mark.

8
9 **Q. So what is the relevance of the trademark provisions to the issue of whether the**
10 **1984 Publishing Agreement effectuated a temporary or permanent transfer of the**
11 **directory business to USWD?**

12 A. They have no bearing on the issue for one would expect to find these provisions in an
13 agreement whether the transaction contemplated a temporary or a permanent transfer.

14
15 **Q. Does Mr. Brosch cite anything else in rebutting your earlier testimony?**

16 A. Yes, he claims that PNB in its submission to the Commission for approval of the asset
17 transfer reserved the right to consider "more competitive offers" from other publishing
18 companies and that presumably this shows that PNB had retained the directory business
19 for itself.

20

1 **Q. And what is your response?**

2 A. This statement has no bearing on whether the yellow page directory business was
3 permanently transferred to USWD. The publishing agreement with USWD had several
4 aspects. First, it transferred the yellow page directory to USWD. Second, it was an
5 agreement whereby USWD performed the function of producing the white pages for
6 PNB thus allowing PNB to comply with its regulatory obligation to make such a
7 directory available to its subscribers. PNB certainly retained the right after the
8 termination of the 1984 Publishing Agreement to have another publisher publish the
9 white pages directory and could have also permitted that subsequent publisher to publish
10 a yellow pages directory. Such other publisher's directory could have then been
11 designated the "official" directory. But, the fact remains that even if this occurred,
12 USWD would still be in the yellow page directory business based on the business it
13 acquired from PNB. USWD would still have the customer relationships, the know-how
14 and knowledge of customer requirements, the going-concern value of its enterprise, the
15 copyright in its previous directories, and its claim to being the first supplier—all assets
16 that it retains under the Publishing Agreement regardless of whether PNB reenters the
17 directory business itself or in association with another publisher.

18

19 **Q. Assume for a moment that you had a wholly independent party who purchases the**
20 **yellow page directory business from a local exchange carrier on a permanent basis.**

1 **Would the situation be the same?**

2 A. Yes. Consider a context outside the telephone directory business. Assume I want to
3 purchase your automobile repair shop that you've been operating as Sam's Mufflers and
4 Brakes. I want the physical assets, the shop and equipment. I might also want to use the
5 name of the business for a short time to transition to "Harvey's Mufflers and Brakes". I
6 also very definitely want your agreement not to open a competing shop next door. The
7 law in most jurisdictions allows me to get a restrictive covenant from you obligating you
8 to refrain from competing with me for a limited time. However, after that time you are
9 free to reopen a new shop or to find someone else to open a shop with you as the
10 manager. And if you've retained the rights to the trademark "Sam's Mufflers and
11 Brakes" you could use it in your new shop.

12

13 **Q. And how does this relate to the 1984 Publishing Agreement?**

14 A. In my opinion, this is what happened in the 1984 Publishing Agreement. USWD
15 obtained a window of opportunity by purchasing a three year right to be the exclusive
16 official publisher of a directory. It used the PNB mark for a short time to transition to
17 its own mark. Of course, PNB could, after the exclusive right terminated, reenter the
18 directory publishing business. My point is that there is nothing in these provisions that
19 is inconsistent with a permanent transfer of the directory business to U S WEST Direct.

20

1 **Q. Mr. Brosch also observes that since you admit you are unfamiliar with the**
2 **“nuances of telecommunications regulations” that you didn’t understand how to**
3 **characterize the imputed revenues from the directory business. What is your**
4 **response?**

5 A. I was not characterizing the imputed revenues for regulatory purposes. My point was
6 this: that in my opinion the directory business was permanently transferred to USWD in
7 1984 under the Publishing Agreement. However the imputed revenues are
8 characterized, the effect of such revenues was to further compensate telephone
9 subscribers for the transfer of that business.

10

11 **Q. Now please consider the testimony of Dr. Selwyn offered in rebuttal to your own**
12 **testimony. Are you familiar with that testimony?**

13 A. Yes.

14

15 **Q. What is your understanding of that testimony?**

16 A. In summary, Dr. Selwyn argues that there were three crucial elements of the directory
17 publishing business that were retained by PNB and that the retention of these elements
18 purports to demonstrate that the 1984 Publishing Agreement did not permanently
19 transfer the directory business to USWD. The three crucial elements, in his view, are (1)
20 exclusive publishing rights, (2) the right to use PNB’s trademarks, and (3) access to

1 PNB's subscriber listing. He then testifies that retention of these elements "are essential
2 to success in the directory publishing business and that PNB could have reentered the
3 market after the expiration of the first Publishing Agreement." And he concludes that I
4 underestimated the importance of these facts.

5
6 **Q. And what is your response to this testimony?**

7 A. I think it may be helpful to envision a hypothetical in which PNB set out to enter into a
8 purchase and sale agreement to sell the directory business (on a permanent basis) to an
9 independent third party. What would such a transaction look like and how would it
10 differ from the 1984 Publishing Agreement on these elements that Dr. Selwyn claims are
11 essential to the directory business. As I have indicated in my earlier testimony there is
12 an advantage to being the first supplier of a telephone directory in a given area. Thus our
13 hypothetical buyer would want an exclusive publishing right for at least a few years in
14 order to establish that advantage. Our hypothetical buyer might also want to use PNB's
15 trademark on the directory for a period of time and would find access to PNB's
16 subscriber lists helpful in establishing its own database of customers. Thus, I conclude
17 that nothing in the retention of these three elements by PNB is inconsistent with the full
18 and permanent transfer of the business.

19
20 **Q. Why would such a buyer want an exclusive right?**

1 A. In this context, you first have to consider what “exclusive publishing rights” means.
2 Anyone, with or without PNB’s permission can publish a telephone directory,
3 particularly a yellow page directory. There is no legal way in which a contract between
4 PNB and our buyer could prohibit others from independently publishing a directory. The
5 grant of “exclusive” rights in the 1984 agreement is, in essence, PNB’s commitment not
6 to reenter the directory business during the term of the agreement. It is quite common
7 for a buyer of any business to seek a restrictive covenant prohibiting the seller from
8 reentering the business for a short period of time.

9

10 **Q. What about the trademark rights?**

11 A. Our hypothetical buyer might also want to use the PNB trademark for a period of time in
12 order to transition the directory from PNB to the buyer. No rational firm in PNB’s
13 position would permanently transfer the trademark under these circumstances. PNB still
14 needed the trademark for its own business of supplying local telephone service. To
15 protect its trademark, PNB would have to continue to maintain quality control over the
16 buyer’s use of the mark, a right that would be properly stated in the transfer agreement.
17 If such an agreement terminated, any rational trademark owner would insist that the
18 buyer discontinue the use of the mark. This is what was done in the 1984 Publishing
19 Agreement. But Dr. Selwyn’s claim that the PNB trademark was “essential” to the
20 conduct of the directory business is belied by the facts of this case. While use of the

1 mark may have been very helpful to USWD in transitioning the first supplier advantage
2 to its own account, USWD has used its own trademark in addition to that of PNB and
3 subsequently removed the PNB mark from the directory entirely.
4

5 **Q. How do you respond to Dr. Selwyn's claim that by terminating the 1984 Publishing**
6 **Agreement, PNB could have immediately reclaimed the first supplier advantage**
7 **because it owned the PNB mark?**

8 A. I believe that opinion is flawed for a number of reasons. First, it assumes that the first
9 supplier advantage is entirely captured in the PNB trademark. While the PNB mark is
10 useful for the purpose of transitioning the advantage to USWD it is not the only element.
11 Certainly the personal contacts between USWD personnel and customers regarding
12 entries in the yellow pages would also be significant and this latter element is retained by
13 USWD after the termination of the Publishing Agreement.
14

15 However, let me assume for a moment that the trademark is a very significant feature in
16 identifying the first supplier advantage. Dr. Selwyn attaches to his testimony a series of
17 covers from the yellow page directories published from 1984 through the early 1990s.
18 An examination of those covers is instructive. The April 1984 Directory, although
19 technically included within the Publishing Agreement, was published prior to the signing
20 of the agreement. I assume that its cover was largely dictated by PNB. The PNB

1 trademark is used on the cover but not prominently. The April 1985 cover is
2 dramatically different. This is most likely the first cover fully designed by USWD. It
3 establishes a consistent design, the most prominent feature being a stylized version of the
4 phrase “The Yellow Pages” with the geographic area in the upper left-hand corner, the
5 PNB trademark in much smaller type and the date. By April 1987 the USWD trademark
6 is placed adjacent to the phrase “The Yellow Pages”. More significantly, the same
7 design is used consistently from 1985 through at least 1997. If PNB would have
8 reentered the directory business it would have been able to use the PNB mark but it is
9 likely it would have been prohibited from using the stylized phrases “The Yellow
10 Pages,” “The White & Yellow Pages” or the overall design of the cover. Absent use of
11 the same designs by others, the consistent use of the stylized phrase and the cover design
12 by USWD during the period covered by the publishing agreement should have been
13 sufficient to create trademark and trade dress protection in these elements.¹ The fact
14 that the Publishing Agreement did not contain provisions to prevent USWD from
15 establishing its own brand identity on the directory suggests that the parties envisioned

¹The term “trademark” originally referred to words used to identify the source of goods or services. In the context here, PNB would be the trademark associated with the local telephone company. But protection of identifying symbols extends beyond just the word marks to any symbol or device that is identifies the source of goods or services. Often the overall image or appearance of goods or services is referred to as “trade dress” and this, too, can function as a trademark and obtain protection. In the context here, the overall image and appearance of the cover of the directory could constitute the “trade dress” of the directory, could identify the source of the directory, and could be protected from similar uses by other than the owner.

1 the transfer of the directory business to be permanent. This is confirmed by the fact that
2 during the term of the Publishing Agreement, PNB took no steps to prevent USWD from
3 establishing its own separate identity on the directory. Thus, both the provisions of the
4 Publishing Agreement and the conduct of the parties pursuant to that agreement
5 demonstrate that there is nothing in the retention of the PNB trademark by PNB that
6 helps characterize the 1984 Publishing Agreement as a temporary transfer. Indeed, the
7 provisions as well as the parties' conduct suggest just the opposite was true—that the
8 directory business was transferred permanently to USWD.

9
10
11 **Q. Dr. Selwyn contends that the advertised name change beginning in 1988 from PNB**
12 **to U S West somehow retained the first supplier advantage for PNB. What is your**
13 **response to that contention?**

14
15 A. I do not fully understand the contention or its relevance to who owns the first supplier
16 advantage. If the first supplier advantage is represented wholly by the PNB trademark,
17 then the cessation of use of the PNB mark would destroy any first supplier advantage for
18 PNB. As I have further testified, the first supplier advantage is not wholly attributable to
19 the trademark, but is facilitated by the customer relationships and the know-how of the
20 on going directory business. These latter elements were permanently transferred to
21 USWD and were not required to be returned to PNB if and when the Publishing

1 Agreement was terminated.

2

3 **Q. Dr. Selwyn testifies that you were in error in your original testimony in stating that**
4 **the 1984 Publishing Agreement “did not prohibit USWD from developing its own**
5 **trademark nor did it require that PNB’s trademark be used.” He argues that §**
6 **3.08 of the Publishing Agreement permitted PNB to require the use of the PNB**
7 **mark and that § 13.02 prohibited USWD from using its own trademark. How do**
8 **you respond?**

9 A. First, there is no provision that expressly requires USWD to use the PNB mark on the
10 cover of the directory. If the 1984 Agreement was a temporary transfer, I would have
11 expected to see that issue made very clear. It is true that § 3.08 could be interpreted to
12 permit PNB to argue it was “essential” to use the mark on the cover but this is not the
13 type of clear unequivocal statement one would expect in the context of a temporary
14 transfer. Second, § 13.02 is a standard term of a trademark license designed to assure
15 that the actual use of the licensor’s trademark by the licensee does not undermine the
16 distinctiveness of the licensed mark, such as by misspelling the mark. I doubt that this
17 section would allow PNB to prevent USWD from using its own trademark on the
18 directory. Significantly, there is no evidence that PNB at anytime during the term of the
19 Publishing Agreement objected to USWD’s use of its own trademark even though it is
20 clear that PNB knew of the cover design. Thus, both the provisions of the Publishing

1 Agreement and the contemporaneous practice of the parties under these provisions are
2 relevant in attempting to determine whether the 1984 transfer was intended by the parties
3 to be temporary or permanent. In my opinion, a temporary transfer contemplating return
4 of the directory business to PNB would have contained more detailed and focused
5 provisions assuring that PNB's mark would be the only mark on the cover of the
6 directory and that PNB would have been more vigilant in policing the use of its mark by
7 USWD.

8
9 **Q. How do you respond to Dr. Selwyn's testimony regarding the importance of the**
10 **subscriber listings?**

11 A. Dr. Selwyn claims that access to PNB's subscriber listing was essential to publication of
12 a directory and that this access was guaranteed only through the period of the Publishing
13 Agreement. It is my understanding that LEC's are obligated to provide subscriber
14 listings on comparable terms to any firm desiring to publish a directory. Dr. Selwyn
15 fails to explain why the access accorded to USWD under the publishing agreement was
16 so essential.

17
18 **Q. Do you recall Dr. Selwyn's testimony to the effect that even though PNB might be**
19 **obligated to provide the subscriber listings to other firms, you failed to take into**
20 **account the fact that entry into the directory business is very difficult. I believe he**

1 **said the difficulty of entry undermines the application of your “textbook theory” to**
2 **“conditions ‘on the ground’”. How would you respond?**

3 A. I do not recall suggesting that entry into the directory business was easy. Indeed I do not
4 think so. He is correct that apparently it is a very lucrative business and that in many
5 areas there is only one provider. This does not of course mean that the barrier to entry is
6 the inability to obtain subscriber lists. I pointed out in my earlier testimony that the first
7 supplier advantage makes entry by newcomers very difficult. Indeed, it seems it is Dr.
8 Selwyn who thinks that entry is easy for he assumes that even after having transferred
9 the physical assets, the customer relationships, and the copyrights on the directory, and
10 after having allowed USWD to establish its own distinctive identity on the directory, that
11 PNB at any time could easily and successfully reentered the directory business in
12 competition with USWD.

13
14 **Q. What about Dr. Selwyn’s claim that PNB could reenter the directory business at**
15 **the termination of the 1984 Publishing Agreement? Do you agree and does that**
16 **affect your earlier testimony?**

17 A. First, I have some difficulty in understanding Dr. Selwyn’s position. He initially claims
18 that it would have been easy for PNB to terminate the Publishing Agreement and reenter
19 the directory business and then he indicates because of the relationship between PNB
20 and USWD that it would be “unthinkable” for PNB to do so. If it is “unthinkable” for

1 PNB to terminate the agreement (which is exclusive) then it seems like the transfer of
2 the directory business was about as permanent as life allows.

3
4 Nonetheless, concentrating on the agreement itself, I agree that after the termination of
5 the Publishing Agreement PNB could have reentered the directory business. I do not
6 understand how this fact in any way helps characterize the 1984 Publishing Agreement
7 as a temporary transfer. Unless there is a restrictive covenant by which a seller has
8 agreed to refrain from doing so, the seller of any business may reenter the market after
9 permanently transferring its existing business to a buyer. That is why in most contracts
10 the buyer insists on a restrictive covenant. And the law in most jurisdictions says that
11 such covenants must be reasonably limited as to time because they are actually restraints
12 of trade.

13
14 **Q. Dr. Selwyn at least implies that on the termination of the 1984 agreement PNB**
15 **could have easily and successfully reentered the directory business in competition**
16 **with USWD. That since the transfer was temporary it presumably would return to**
17 **PNB intact. Do you agree?**

18 A. I agree that appears to be the implication of Dr. Selwyn's testimony. However, he
19 chooses to ignore the aspects of the transferred business that clearly remain with USWD.
20 These are the physical assets necessary to publish a directory, the knowledgeable

1 employees and their relationship with customers and suppliers, the copyrights on the
2 directories published by USWD. If PNB wished to reenter the directory business it
3 would have had to start from scratch. It would have had, as Dr. Selwyn observes, its
4 own trademark and its list of subscribers. It could claim it was publishing the “official”
5 directory. But, it would have had to build a facility, acquire the physical assets, recruit
6 and organize a staff of employees, attempt to establish relationships with customers and
7 suppliers, and reformulate the directory and the individual entries so as not to violate
8 USWD’s copyright.

9

10 **Q. And what is your conclusion from this analysis?**

11 A. My conclusion is that there is nothing in the facts that Dr. Selwyn emphasizes that in any
12 way helps characterize the 1984 transaction as a temporary as opposed to a permanent
13 transfer of the directory business. One could imagine a clearly permanent transaction
14 with an independent buyer containing the same provisions.

15

16 **Q. In your earlier testimony you stated that one of the aspects of the 1984 Publishing**
17 **Agreement that was “starkly inconsistent” with a temporary transfer was the fact**
18 **that the copyrights to the directories produced under the Publishing Agreement**
19 **belonged to USWD. I believe you also testified that this would make it more**
20 **difficult for PNB to reenter the directory business. How would you respond to Dr.**

1 **Selwyn’s testimony that PNB could obtain access to the advertisements in USWD’s**
2 **directory under the terms of the agreement USWD used with its advertisers?**

3 A. First, let me emphasize that the 1984 Publishing Agreement in § 3.09 expressly provides
4 that USWD shall copyright the directory in its own name. That provision by itself is
5 inconsistent with the idea that the directory business was only temporarily transferred to
6 USWD. That provision means that PNB could not copy any original content from a
7 USWD directory without USWD’s permission. PNB would have to start from scratch.

8
9 **Q. What about the terms of the contract between USWD and its advertisers cited by**
10 **Dr. Selwyn that appears to provide that the advertisers grant authority for all**
11 **USWC’s affiliates to use the advertisements in the USWD directory? Wouldn’t**
12 **that allow PNB, as a USWC affiliate, to use any of the advertisements from a**
13 **USWD directory?**

14 A. Dr. Selwyn misreads the provision of that agreement. For ease of reference, I have
15 attached a copy of that provision to my testimony as Exhibit 1 (HSP - 1). Actually the
16 provision supports my view. The provision begins by stating that any content of the
17 directory including “text, illustrations, artwork, photographs, video and audio content
18 and recordings, codes, maps, and other advertising and informational content” created by
19 USWD will be the “sole and exclusive property of” USWD. The only exception to this
20 right is specific preexisting content supplied by the Advertiser to USWD. This would

1 include the Advertisers trademark and any content already subject to the Advertiser's
2 copyright. It is only this latter material, owned by the Advertiser, that is licensed for
3 use by all affiliates of USWC. Assuming that PNB could assert rights under a contract
4 to which it was not a party, the only right it would have in developing its own directory
5 would be the right to acquire material from advertisers that were subject to the
6 advertiser's copyright. It would have no right and indeed would infringe the copyright of
7 USWD if it sought to copy any advertising created by USWD. Moreover, because
8 USWD's rights are "exclusive", an Advertiser could not authorize the use of its own
9 advertising by PNB if it had been originally produced by USWD.

10
11 One also must take into account the copyright that USWD would have in the directory
12 itself, distinct from the copyright in individual display advertisements. The organization
13 and structure of the directory as well as any features original with USWD would, by the
14 terms of the Publishing Agreement, belong to USWD and would not be available to
15 PNB. This is hardly the outcome one would expect if, in fact, the 1984 Publishing
16 Agreement was only intended as a temporary transfer of the directory business to
17 USWD. A firm that intended to temporarily assign to another firm the right to publish a
18 directory would have clearly insisted that the copyright on the directory remain in its
19 own name.

20

1 **Q. I refer you to Dr. Selwyn’s testimony at page 19 where he advocates his “leasehold**
2 **improvement” analogy. There he states: “Indeed, the 1984 Publishing Agreement**
3 **makes explicit provisions for the return of PNB-provided listings and other**
4 **confidential data in the event of termination; to the extent that a portion of the**
5 **growth in value of the directory is a result of the use by USWD of PNB proprietary**
6 **information, it is PNB—and distinctly not USWD—that maintains the ownership**
7 **interest in that gain.” He is referring at this point to § 4.06 of the Publishing**
8 **Agreement. Is Dr. Selwyn correct in this statement?**

9 **A.** To the extent that he is drawing a legal conclusion about the gain attributable to use of
10 another’s confidential information he is misinformed. Even if any of USWD’s success
11 in the directory business is attributable to the use of PNB’s proprietary information, PNB
12 has no legal claim of ownership to that gain. Such a ruling would be quite extraordinary.
13 Let me provide an illustration. I discover a process for reducing the costs of producing
14 widgets that I regard as my trade secret. I come to you, a manufacturer of widgets, and I
15 agree to license my process to you for use in your business. We agree that I will disclose
16 the process to you and exclusively license you to use it as long as you agree to keep it
17 confidential. You also must agree that if you ever stop making widgets you will return
18 the documents associated with the process and will continue to keep the process
19 confidential. You pay me \$1 million for the license. You use my process for 5 years
20 and you are very successful since you are able to underprice the competition. The value

1 of your business increases ten-fold. At the end of the 5th year, I come to you and say that
2 I am entitled to all of the gain in the value of your business because it is the result of
3 your use of my confidential process. My claim is preposterous, but it is the same claim
4 that Dr. Selwyn asserts can be made by PNB in this case. There is no basis in fact or in
5 law for such a claim.

6
7 **Q. So you do not believe that § 4.06 of the Publishing Agreement is evidence of a**
8 **temporary transfer?**

9 A. No I do not for several reasons. First, it is unclear to me what is actually covered by the
10 section. Although the provision specifically mentions the return of the “listing data”,
11 certainly once the listing data was made public by publication in a directory it would no
12 longer qualify as confidential and practically could not be “returned”. There might be
13 information about unlisted numbers but that hardly seems important to USWD in
14 publishing a yellow page directory where businesses tend not to want their numbers
15 unlisted. So, at most the provision would apply only to new listings not yet published.
16 Although there may be confidential information about how to conduct a yellow page
17 directory business that was originally disclosed to USWD at the outset of the Publishing
18 Agreement, such information would hardly be confidential to USWD at the expiration of
19 the Publishing Agreement after it had itself produced a directory for three years. So it
20 does not appear to me that this provision is very important in protecting any of PNB’s

1 rights.

2

3 More importantly, the question is whether the existence of § 4.06 is evidence that the
4 transfer of the directory business to USWD was temporary. On the contrary, the terms
5 of § 4.06 strongly suggest that the transfer was indeed permanent. The provision
6 requires USWD to return PNB's confidential information. At the same time it
7 specifically exempts from this provision any confidential information that "is
8 independently developed by" USWD. If the transaction was "temporary" I would have
9 expected to see a provision that required USWD to return all confidential information of
10 any kind to PNB so it could resume the directory business.

11

12 **Q. Do you continue to disagree with Dr. Selwyn's "leasehold improvement" analogy?**

13 A. Yes, I do. It assumes that the transaction was a lease. If you assume a lease, then you
14 can come up with all kinds of theories about who is entitled to the gain in the business.
15 But these characterizations of gains as "leasehold improvements" does not help you
16 answer the primary question which is whether there was a "lease" in the first instance.

17

18 **Q. And was it a lease?**

19 A. I continue to believe it was not. In arriving at my opinion I examined the 1984
20 Publishing Agreement in the context of the yellow page directory business. I understood

1 that the transaction was between affiliated enterprises and arose in a regulated context.

2 However, I also understood that there was no per se prohibition against agreements

3 between affiliated firms nor was there a prohibition against transferring the yellow page

4 directory business to an unregulated affiliate. In fact, I have read the Washington

5 Supreme Court's decision in *US West Communications, Inc. v. Washington Utilities and*

6 *Transportation Commission*, 134 Wash.2d 74, 949 P.2d 1337 (1998) and it appears to

7 me that at that time the parties involved and the Supreme Court assumed the 1984

8 transfer was permanent.

9
10 Nonetheless I have not relied on the Supreme Court's decision or any of the prior

11 decisions of the Commission or prior positions of any of the parties here involved.

12 Rather, I have formulated my opinion by accepting the assumptions of Mr. Brosch and

13 Dr. Selwyn that it is the Publishing Agreement alone that characterizes the 1984 transfer.

14 Thus, the question for me was what do the terms of the 1984 Publishing Agreement tell

15 us about the nature of the transaction. Does it contain terms one would expect to find if

16 the parties intended a temporary transfer of the business or are the terms consistent with

17 a permanent transfer? Did PNB obtain in the agreement the kind of protections a

18 rational firm would insist upon if it contemplated a temporary lease of a business

19 followed by its own resumption of the same business? In my opinion the 1984

20 Publishing Agreement in its treatment of the intellectual property interests and the other

1 intangible values clearly reflects an agreement that contemplated the permanent transfer
2 of the directory business from PNB to USWD.

3

4 **Q. Does that conclude your testimony?**

5 A. Yes.