Exhibit No._____ (SES-1T)

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of Verizon Communications Inc. and Frontier Communications Corporation For An Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.	))))))	**Docket No. UT-090842**

REBUTTAL TESTIMONY OF STEPHEN EDWARD SMITH

ON BEHALF OF VERIZON

NOVEMBER 19, 2009

I. INTRODUCTION.

Q. Please state your name, title and business address.

A. My name is Stephen Edward Smith. I am the Vice President of Business Development for Verizon's Telecom Group. My office is located at One Verizon Way in Basking Ridge, New Jersey 07920.

Q. Please describe your educational and professional background.

A. I hold a Bachelor of Science degree in Business Administration from Georgetown University in Washington D.C. I have worked for Verizon or its predecessor companies for my entire professional career. This year I completed 32 years of service. During that time, I have filled roles in accounting, budget planning, financial analysis, strategic planning and business development.

Q. Please describe your current duties for Verizon.

A. In my current position, I identify, evaluate, and – if appropriate – recommend and execute business development for the group of companies that comprise Verizon's Telecom Group. Business development can take many forms, including mergers, acquisitions, dispositions, joint ventures, and strategic partnerships. I have been in my current role for Verizon since 2000. I have direct experience with various transactions involving access line transfers, including the mergers of Bell Atlantic with Nynex and with GTE, and transactions between Verizon and Alltel, CenturyTel, FairPoint, and The Carlyle Group.

Q. Please describe your involvement with the transaction between Verizon and Frontier for which they seek approval in this proceeding.

A. I was Verizon's business team leader for this transaction. I led the Verizon team that conducted Verizon's due diligence on Frontier and negotiated the Merger Agreement and the rest of the transaction documents. I subsequently have been coordinating Verizon's creation and operation of a standalone operating region within Verizon (the "North Central Area") which includes the operations of Verizon Northwest. The personnel, operational support systems, and other assets of the North Central Area will become Spinco assets and will transfer to Frontier when the transaction closes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the portions of the testimony submitted by witnesses for the Commission's Staff, Public Counsel, Comcast, Integra, and the Department of Defense/Federal Executive Agencies ("DoD") that relate to Joint Applicants' plans to transfer replicated versions of Verizon's existing operational support systems to Frontier. I also respond specifically to the unsupported claims one of Public Counsel's witnesses made relating to the financial statements prepared for the Spinco business.

Q. Please summarize your testimony.

A. There is no merit to the concerns some witnesses have about the Joint Applicants' plans for ensuring Frontier will be able to run the transferred operations using replicated versions of Verizon's existing operational support systems. As Mr. McCallion described in his direct testimony, Verizon will take full responsibility for replicating its existing systems and transferring data to the replicated systems – and Verizon will use those systems for its North Central Area (and will remedy any issues that may arise) prior to transferring them to Frontier. Some witnesses attempt to make the Joint Applicants' systems transition plans seem risky, but the reality is that systems transitions are common in the telephone industry, and Verizon has never experienced problems with any systems replication or transition effort for which Verizon has been responsible.

Also, several witnesses incorrectly assert or imply that the systems problems FairPoint and Hawaiian Telcom have experienced since acquiring access lines from Verizon are related to the data transferred from Verizon's systems. In fact, the acquiring companies' subsequent operational problems were related to deficiencies in the new systems they had developed to replace Verizon's systems – an issue not relevant to the present transaction because Frontier will receive systems proven in the real world to work. Indeed, with respect to FairPoint, Verizon, based on the information it had available to it, *warned* that FairPoint's systems did not appear ready to go into production, but Verizon's advice was ignored by FairPoint and not pursued by a third party monitor hired by the commissions to oversee FairPoint's transition to its newly developed systems.

Finally, Section IV of my testimony rebuts Mr. Hill's testimony on behalf of Public Counsel asserting that Verizon may have prepared "misleading" Spinco financial statements. Mr. Hill's *entirely unsupported* suggestions deserve no weight. Verizon's financial statements, including the explicit assumptions and allocation methodology underlying them, were properly prepared and audited by Ernst & Young LLP.

II. SYSTEMS REPLICATION AND TRANSITION ISSUES.

Q. Public Counsel witness Dr. Roycroft points out in his testimony that Frontier's prospectus mentions potential risks associated with systems transition and systems integration issues.[1] Should that form a basis for doubting the ability of Frontier to operate Verizon Northwest with the replicated systems that will transfer to Frontier?

A. No. It is common for firms to identify in SEC filings *potential* business risks that do not affect regulators' assessments of the soundness of proposed transactions. For example, in an SEC filing Embarq made prior to its spinoff from Sprint in 2006, Embarq disclosed the following potential systems replication and transition risks:

> Following the spin-off, Sprint Nextel will provide support to us with respect to certain of these functions, including customer bill printing and mailing services, information technology application and support services, data center services and human resources helpdesk services, on a transitional basis for up to two years. **We will need to replicate certain facilities, systems, infrastructure and personnel to which we will no longer have access after our spin-off from Sprint Nextel.** These initiatives will be costly to implement. We estimate that capital expenditures and other costs associated with developing and implementing our own support functions, including information technology systems and infrastructure, in these areas will be approximately $237 million. In addition, there may be an adverse operational impact on our business as a result of the significant time of our management and other employees and

[1] *See* Roycroft Direct at 27-28.

> internal resources that will need to be dedicated to building these capabilities during the first few years following the spin-off that otherwise would be available for other business initiatives and opportunities. **When we begin to operate these functions independently, if we do not have in place adequate systems and business functions of our own, or obtain them from other providers, we may not be able to operate our company effectively and our profitability may decline.**[2]

Embarq's description of its potential systems risks is similar to what Frontier disclosed in its prospectus because systems replication and transition risks are not uncommon in the telephone industry. Such systems risks can be managed by qualified management, and there is no indication that any of Embarq's potential systems replication or transition risks ever occurred. Notably, the intervenors in the Commission's review of the Embarq spin-off – including Public Counsel[3] – did not raise the sorts of systems issues they seek to press here.

Q. Several witnesses point out that Hawaiian Telcom and FairPoint Communications experienced post-transaction systems troubles that apparently contributed to their operational and financial problems.[4] Is it correct to analogize between those transactions and the present one?

A. No. Significantly, new systems are not being developed. Instead, Frontier will be using replicated versions of Verizon's systems. In fact, while Dr. Roycroft claims this

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[2] *See* Embarq Corp. Form S-1 (Apr. 18, 2006) at pages 11-12 (emphasis added).

[3] *Cf.* Direct Testimony of Stephen G. Hill on behalf of Public Counsel, *Sprint-Nextel Merger*, Docket No. UT-051291 (Nov. 30, 2005); Direct Testimony of Michael L. Brosch on behalf of Public Counsel, *Sprint-Nextel Merger*, Docket No. UT-051291 (Nov. 30, 2005).

[4] *See, e.g.*, Alexander Direct at 15-16; Roycroft Direct at 9-12, 15-16; Pelcovits Direct at 25-28; Solis Direct at 26-28; Hill Direct at 19-20; and King Direct at 4-11.

transaction "is more complicated than the FairPoint or Hawaiian Telcom transactions,"[5] the opposite is true. For the systems that will serve customers in Washington, *Verizon* is taking *the responsibility to complete the systems replication and data transfer and correct any issues that might arise* ***before*** the closing of the transaction. Verizon's successful completion of the systems transition process (that is, creating separate instances of existing systems and operating them in full production mode for at least 60 days prior to close so Frontier receives at least the same level of functionality that Verizon provides itself) is a condition precedent to the closing of the transaction. And, just as significantly, Verizon will control the transition process from end to end. Then, prior to close, Frontier will validate and confirm that Verizon's systems transition is successful.

By contrast, Hawaiian Telcom and FairPoint hired outside vendors to create brand new systems to operate the assets they were acquiring from day one after close – and those new systems turned out to be incapable of delivering the functionality needed to run the operations successfully when they were first used.[6] In other words, whereas Hawaiian Telcom and FairPoint tried (unsuccessfully) to create new systems capable of operating

[5] Roycroft Direct at 18.

[6] Also, FairPoint – unlike Frontier – had experienced a substantial systems-related problem prior to the transaction. In Maine in 2005, FairPoint had attempted unsuccessfully to convert its billing systems to a new vendor, and various billing-related problems ensued. Based on those past problems, the staff witness for the Vermont Public Service Department concluded that "FairPoint's past performance in the conversion of billing systems provides a basis for concern for the Department." Surrebuttal Testimony of Tamera Pariseau on Behalf of the Vermont Department of Public Service, *Joint Petition of Verizon New England and FairPoint Communications, Inc. for Approval of an Asset Transfer, Acquisition of Control by Merger and Associated Transactions*, Docket No. 7270, at 16 (Vt. Pub. Serv. Bd. Aug. 10, 2007).

the operations they were acquiring, Frontier will simply make sure that Verizon has successfully replicated its existing systems and that those systems can in fact run the acquired operations and then over time can transition operations to its own existing systems.[7]

Q. Some witnesses imply or say that the systems problems experienced by Hawaiian Telcom and FairPoint are related to the data transferred from Verizon's systems to the new systems the acquiring parties had developed.[8] Is that correct?

A. No. That is a significant misunderstanding or misrepresentation that appears to form the basis for much of their testimony. The transition to Hawaiian Telcom's systems took place in 2005, and the transition to FairPoint's systems took place in January 2009. Yet at least for FairPoint, some of their systems problems continue to this day. Those continuing problems are related to the functionality of their newly developed systems, *not* to the quality of the received data or anything else involving Verizon.[9] In both cases,

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[7] Verizon will take on all of the cost and responsibility for the systems replication. Verizon has provided all parties in this proceeding substantial information about its realignment.

[8] Roycroft Direct at 9-12; Pelcovits Direct at 22-28; Hill Direct at 19; and King Direct at 6, 10.

[9] For example, Hawaiian Telcom has made clear that its post-transaction problems involve the functionality of the new systems:

> On April 1, 2006, we cut over from the legacy Verizon systems to our *new* back-office and IT infrastructure. While the major network operational systems functioned without significant problems, critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in order accuracy, service provisioning, billings and collections, revenue assurance and overall customer service. Despite efforts to improve the functionality of the related systems since 2006, we continued to experience many of these same issues, requiring us to incur significant incremental expenses to retain third-party service providers to provide call center and manual processing services in order to operate our business.

Verizon performed its role in the data transfer process successfully – just like it did in dozens of other access line transfers in which Verizon has been involved.

Q. Dr. Roycroft goes so far as to claim that "The Joint Application places this Commission in a situation similar to the one faced periodically by Charlie Brown" – suggesting that, Verizon has a history of "pull[ing] the ball away" and leaving consumers to face service difficulties like those associated with the FairPoint and Hawaiian Telcom transactions.[10] Is such a comparison fair?

A. No. Dr. Roycroft's comparison ignores the very real differences between this transaction and the FairPoint and Hawaiian Telcom transactions that I have described above. Moreover, it also ignores Verizon's long and successful track record of access line transfers. Verizon has undertaken well over 50 access line transfers. The acquiring companies have ranged from small regional providers to well-established midsized companies, including CenturyTel, Windstream, and Frontier. Of those dozens of access line transfers, there have been post-closing problems in only *two* instances – Hawaiian Telcom and FairPoint. In all other cases, the systems transitions (including the data cutovers) went smoothly and the acquiring company was able to successfully operate the

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Hawaiian Telcom Communications, Inc.'s 10-Q for period ending September 30, 2008 (emphasis added). FairPoint has similarly described the functionality problems associated with its new systems. *See, e.g.*, Prefiled Testimony of Peter G. Nixon, *Petition of Department of Public Service for an investigation and for an Order Directing Telephone Operating Company of Vermont LLC d/b/a FairPoint Communications to Show Cause why its Certificate of Public Good Should not be Revoked*, Docket No. 7540, at 39 (Vt. Pub. Serv. Bd. filed Sept. 17, 2009) (To address customer service issues caused by its systems and procedures post-cutover, FairPoint has sought "to improve its systems and processes and . . . put into place management changes, initiatives and processes that will result in continued customer-service improvements.").

[10] Roycroft Direct at 5.

acquired assets using established, proven operating systems. The fact that *two* companies attempted to create brand-new systems and then attempted to cut over to those systems before they were ready does not undercut the fact that line transfers, systems integrations, and data cutovers happen successfully on a regular basis in the telephone industry.[11]

Q. If Verizon did its part in the transition portion of the Hawaiian Telcom and FairPoint transactions, what went wrong with those companies' systems?

A. Verizon does not know everything that happened on the acquirer's side of those transactions. But each of those transactions involved the creation of entirely new operational and back-office systems by the acquirer and a third party systems integrator. In the case of FairPoint, it elected to replace over 500 Verizon systems with 60 newly developed systems. Before they cut over to those systems from the Verizon systems, the new systems had only been used in a test environment with some limited live network testing. When those new systems encountered problems after cutover, a backlog of problems mounted and despite manual handling, the companies were not able to handle all of the orders that were submitted. It is now clear that these companies (and/or their software consultants/vendors) underestimated the challenge of attempting both to acquire

[11] Of course, every one of these access line transfers involved the transfer of customer data. Verizon also transfers customer data among its internal systems on a regular basis in the normal course of managing its internal IT operations. Yet one of Dr. Roycroft's many unsupported assertions is that the Commission should be concerned about risks relating to Verizon's populating the replicated systems with customer data. (Roycroft Direct at 36, 95-96.) Dr. Roycroft, who has no demonstrated background in engineering, telecommunications networks, or information technology, offers no basis for that assertion. In fact, Dr. Roycroft acknowledges in response to Joint Applicants Data Request No. 90 that "he has never been personally involved in the replication of a telecommunications system for a telecommunications firm." There is nothing unique about the customer data that will transfer to Frontier, or the techniques Verizon will use to ensure that the replicated systems are appropriately populated with customer data.

lines and develop new systems to run the business and chose to cut over to their new systems before those systems were ready.

The issues identified in Hawaiian Telecom and FairPoint cannot occur here because, as discussed above, after closing Frontier will run the acquired operations in Washington with fully-tested and already live replicas of Verizon's existing systems. Indeed, for *all* of the replicated customer-facing systems that will transfer to Frontier, Verizon will actually use the systems in the real world to run the operations of its North Central region for at least 60 days prior to the closing of the transaction. Then Frontier will use those same proven systems – with the same personnel operating them – to continue to run Verizon Northwest and the rest of the former GTE operating companies involved in the transaction. Moreover, Verizon is required to provide maintenance services to the replicated systems for at least a full year – and, if Frontier wants, for at least up to four and possibly five years. There will be no urgency for Frontier to do anything other than run the acquired operations using the fully functional systems that will come with the operations.

Q. You mention above that Frontier will operate the replicated systems using the same personnel that Verizon uses to operate the systems prior to closing. Dr. Roycroft

raises questions about that based on a portion of a deposition of Mr. McCallion in Ohio.[12] Please respond.

A. Dr. Roycroft attempts to make a simple issue seem complicated. The Verizon employees operating the replicated systems prior to the closing of the transaction will be part of the North Central region and continue employment with Frontier after the transaction closes.[13] Those Verizon employees are already trained on the replicated systems. Their training and knowledge demonstrate that Frontier can operate the systems after closing.

Q. Public Counsel witnesses assert that there is something unique and risky about the replication Verizon is undertaking and that the Commission should be wary of whether it will work.[14] Does Verizon have experience creating separate instances of existing systems, and then operating those systems successfully?

A. Yes, Verizon has substantial experience replicating and/or establishing new standalone systems. For example, Verizon was required to replicate systems for its own use as part of the Hawaiian Telcom transaction. During the year following the closing, during which systems operated smoothly, Verizon continued to manage its legacy operating systems for Hawaii prior to The Carlyle Group's transition to its new systems. To do so, Verizon replicated (i.e., created separate instances of) its Carrier Access Billing Systems and its ARBOR billing systems (used for high-speed internet), and then Verizon extracted and

[12] Roycroft Direct at 35.

[13] Naturally, normal attrition and related matters are applicable.

[14] Roycroft Direct at 29-33; Alexander Direct at 27-28. In contrast, Mr. Williamson of the Commission's Staff notes that the use of replicated systems poses fewer risks than a cutover to new systems, as occurred in the FairPoint and Hawaiian Telcom transactions. (Williamson Direct at 18.)

transferred the existing data to those replicated systems. These separate instances of Verizon's systems operated smoothly, and there were no difficulties until Hawaiian Telcom (under the control of Carlyle) transitioned to and began operating its new *third-party systems*.

Verizon has successfully completed substantially more complex data extractions and systems replication in other circumstances. For example, starting in 2000, Verizon established a separate data affiliate, Verizon Advanced Data Inc. ("VADI") to handle the provision of DSL services in the eastern portions of Verizon's territories. This involved extracting data from legacy systems and moving it to more modern systems, working to replicate the multiple systems, and then integrating the various cross-links between those systems. The scale of this conversion was roughly five times larger than what is contemplated in the system replication at issue in Frontier and yet Verizon met each deadline and successfully operated the systems for many years, serving nearly 6 million customers with the replicated systems.

Q. Dr. Roycroft also asserts that Frontier suffers from "an asymmetric information problem with regard to the Verizon systems," which he says raises questions about Frontier's ability to validate and confirm that the replication is successful.[15] Please respond.

[15] Roycroft Direct at 34.

A. Dr. Roycroft suggests that the process the parties have negotiated is akin to the owner of a car who attempts to replicate his car and then lets the purchaser perform a cursory "test drive" that may not uncover major problems.[16] That is an inapplicable analogy because it misstates Frontier's experience as an acquirer, the extensive testing that will be undertaken, and the fact that Verizon will use the replicated systems for its operations for *60 days or more* prior to the closing of the transaction. The process to which the parties have agreed is not akin to a cursory "test drive."

Q. Please describe the systems testing and validation process to which the Applicants have agreed.

A. First, Verizon will develop a plan for testing the replicated systems in a pre-production environment. That plan will involve sample data to be flowed through a test environment, including large "production-level" batch testing of systems to perform system stress-test and end-to-end flow testing. The results will be checked against production environment results. Frontier will have the opportunity to provide feedback on the test plan, to review the results of Verizon's testing, and to request that other tests be run. Once the pre-production testing results confirm the replication has been successful, Verizon will put all replicated customer-facing systems into full production. Verizon will use the replicated systems in the real world to operate its North Central region (which includes Washington) for at least 60 days prior to the closing of the transaction. During that period of time, wholesale and retail customers will receive the

[16] Roycroft Direct at 30-32.

same services from Verizon on the replicated systems that they receive today, and any issues will be identified and remedied. While the replicated systems are being used to provide service to Verizon's North Central region, the parties will again coordinate to review the functionality and operation of the systems. As with pre-production testing, Verizon will share all test results with Frontier, and Frontier will have the opportunity to request additional tests. Successful completion of the realignment is a condition precedent to closing; thus, unless and until Frontier confirms and validates that the systems are working, the transaction will not close.[17]

Q. Mr. Solis testifies that Comcast purportedly has concerns about the replication of wholesale systems. Does the extensive testing and validation process you described above apply to wholesale systems?

A. Yes. The extensive testing and validation procedures in the pre- and post- production environment described above apply to all replicated systems, including wholesale systems. Mr. Solis says Comcast's "main concern" is that Comcast supposedly will not know "if the replicated systems are capable of processing wholesale orders at required

[17] Dr. Roycroft also asserts that there are additional risks associated with the fact that under the Merger Agreement Verizon is permitted to provide some systems functionality to Frontier on a firewall basis to the extent not all systems are fully replicated prior to closing. (*See* Roycroft Direct at 33.) That is yet another red herring. Verizon negotiated that "safety valve" provision to mitigate the unlikely possibility Verizon might encounter a small number of systems that for some reason could not be replicated and made available at the Fort Wayne data center prior to closing. However, Verizon has not identified a single system that it will not be able to replicate and host at the Fort Wayne data center, so Dr. Roycroft's observation is likely moot. In any event, providing functionality from behind firewalls is common in the IT business, and Verizon has extensive experience doing so successfully. For example, Verizon provided transition services to Hawaiian Telcom and FairPoint from behind firewalls until those companies chose to cut over to their newly developed systems and problems then began. There were no problems associated with the provision of the functionality.

volumes."[18] That concern is unfounded as the extensive testing to be conducted prior to putting the systems into production will include large "production-level" batch testing to ensure that the replicated wholesale systems Verizon uses prior to closing will be capable of handling production level volumes. And Verizon will actually *use* the replicated wholesale systems to process CLEC orders and provision service to CLECs in its North Central region *for at least 60 days* prior to closing. So CLECs will have ample opportunity to see that there is no change in the wholesale systems' functionality prior to close.

Mr. Solis also claims there are questions about whether Verizon can procure the necessary hardware to run the replicated systems.[19] In fact, Verizon will have the hardware in place well in advance of close, and Mr. Solis offers no evidence to the contrary. Obviously, Verizon must install successfully the hardware on which the replicated systems will run before Frontier can validate that the replicated systems are functioning properly. Verizon has already installed significant hardware in the new Fort Wayne data center and has ordered other hardware for delivery well in advance of the cutover. Moreover, to the extent Verizon's North Central region is not providing at least the same level of systems functionality as Verizon currently provides to itself, the deal will not close.

[18] Solis Direct at 17.

[19] Solis Direct at 22-23.

Similarly, Mr. Solis's argument that there are questions about how Verizon will handle planned software upgrades for the replicated wholesale systems is a red herring.[20] The replicated wholesale systems used by Verizon's North Central region prior to closing (and by Frontier after closing) will receive *the same* patches and upgrades that Verizon will apply to the former GTE systems in the Verizon territories that are not part of the transaction. To the extent CLECs need to be notified of software releases, and to the extent any testing with CLECs of the software releases is necessary, Verizon expects that Frontier will make such notifications and business-as-usual testing procedures will be implemented – *just as Verizon does today*. Further, Frontier will conduct such testing in the CLEC test center that Verizon is establishing for the North Central region and that will transfer to Frontier at closing. Mr. Solis is attempting to make simple, commonplace software upgrades seem complicated to give the unsupported appearance of potential risk.[21]

Q. Public Counsel's final criticism of the replicated systems is that supposedly there may be risks associated with modifications that Frontier may choose to make to the replicated systems.[22] Please respond.

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[20] Solis Direct at 23.

[21] Mr. Solis also claims to be concerned about the fact that the replicated systems will only provide functionality "substantially" similar to what Verizon provides itself. He readily acknowledges that Verizon is contractually obligated to provide Frontier with functionality that is *no less favorable* than what Verizon provides itself, but he argues that the Merger Agreement "provides no assurance that CLECs (and their customers) will not receive less favorable functionality." Solis Direct at 17. That is frivolous. The "functionality" from a CLEC point of view is a mirror image of the functionality for the ILEC.

[22] Roycroft Direct at 35.

A. Dr. Roycroft makes the unsupported statement that "Frontier's ability to modify the replicated systems may create difficulties in the support of the replicated systems."[23] Dr. Roycroft provides no basis for the notion that Frontier's ability to modify its own systems creates an unacceptable level of new risk. Frontier will own the systems, and it is extremely common for firms to make modifications to their systems as their operational or regulatory requirements evolve.

Q. Dr. Roycroft suggests that even if the replicated systems work well, there may be systems problems in future years because Frontier may shift over to its own systems to avoid paying Verizon the maintenance fee of $94 million that the parties negotiated.[24] Please respond.

A. That speculation is unfounded. In fact, Frontier waited *seven years* before transitioning away from the systems it acquired along with Rochester Telephone. Moreover, Frontier will have no pressure to shift to its own systems because Frontier is receiving from Verizon a royalty-free license to use the replicated systems and a fixed price for their maintenance. If anything, Frontier may have an incentive to continue using the replicated systems for an extended period of time rather than shifting to the systems it currently uses – just as Verizon has done with the systems it received with the GTE transaction more than 10 years ago.[25]

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[23] *Id.*

[24] Roycroft Direct at 36-38; *see also* Alexander Direct at 28 (expressing same purported concern).

[25] Indeed, where Verizon has established national systems for all of its operations, the GTE systems (not the former Bell Atlantic or Nynex ones) have usually been the ones that have formed the basis for Verizon's national systems.

In any event, even if Frontier does decide to shift from some or all of the replicated GTE systems to its own existing systems, there is no reason to expect the dire consequences some intervenors predict. There is no dispute about the fact that Frontier will have no urgency to shift to its own systems, and as I discuss above, systems integrations and associated data cutovers are extremely common in the telephone industry – and Frontier has demonstrated the capability of shifting functionality to its own existing, proven systems if it were to decide to do so in the future.

Q. Please describe Frontier's systems-related fees. How do they compare to fees paid by FairPoint and Hawaiian Telcom?

A. Frontier will not pay an upfront or an ongoing right-of-use fee for using the replicated systems, and Verizon is bearing the entire cost for the replication process. By contrast, FairPoint and Hawaiian Telcom paid tens of millions of dollars to third party consultants and vendors for their brand new systems not to mention fees paid for the software and maintenance of that software.[26] With respect to Frontier's $94 million annual fee for necessary ongoing maintenance of the replicated systems, Frontier is free to test the market after the first year – it can choose to take maintenance from a third party vendor if it can negotiate a better price, or it can choose to continue to take maintenance services

[26] Ironically, Dr. Roycroft claims that the fact that Frontier will not pay a separate fee (apart from the merger consideration) for the use of the replicated systems "adds another dimension to the risks associated with the process" because Verizon supposedly will have an incentive to "minimize the costs that it incurs in replicating its systems." (Roycroft Direct at 39.) It defies logic to say that Frontier is made worse off by the fact that it will pay nothing for the use of Verizon's proven, sophisticated systems. As discussed above, there is no merit to Dr. Roycroft's assertion that the replicated systems may not work properly.

from Verizon.[27] As with the price for the systems themselves, Frontier's fee for maintenance services contrasts sharply with the transition service fees paid by Hawaiian Telcom and FairPoint for the use of Verizon's systems and other services until they were ready to cut over to their own new systems: On a monthly basis Frontier's maintenance fee amounts to less than $2 per line, compared to the approximately $9 per line paid by FairPoint and Hawaiian Telcom.[28]

In other words, while FairPoint's and Hawaiian Telcom's decisions to cut over from Verizon's systems were made when the companies were both incurring substantial costs for developing their new systems and were paying ongoing monthly transition service fees, Frontier will face only a monthly maintenance fee of less than $2 per line for ongoing use of the replicated systems.[29]

[27] The fact that Frontier can "shop around" for maintenance services undercuts Dr. Roycroft argument that it is supposedly "troubling" that Frontier will "depend on" Verizon to support the replicated systems (Roycroft Direct at 16). Moreover, as illustrated by the Embarq/Sprint transaction, it is not uncommon for spun-off companies to depend on former affiliates for post-closing support services. Indeed, Frontier's "dependence" on Verizon for software maintenance is much narrower than Embarq's dependence on Sprint for "customer bill printing and mailing services, information technology application and support services, data center services and human resources helpdesk services." *See* Embarq Corp. Form S-1 (Apr. 18, 2006) at pages 11-12. Similarly, subsequent to its spin-off from Alltel, Valor Telecom depended on a far-ranging outsourcing contract with its former affiliate for several years. *See, e.g.*, "Alltel, Valor Telecom Extend Outsourcing Contract," Wireless News, Sept. 9, 2004 (reporting that Alltel agreed to provide its former wireline affiliate with outsourcing for "all production operations servicing Valor Telecom's customer care, end-user billing, carrier access billing, operational support services and print/stuff/mail requirements").

[28] Moreover, the maintenance fees are well within industry benchmarks. IT costs are often measured by industry analysis in terms of costs to "maintain and operate the organization, systems and equipment" or "MOOSE." On average, U.S, mid-tier telephone companies incur MOOSE representing 2.6% of revenues, while global large telephone companies incur MOOSE representing 3.8% of revenues. Taking into account Spinco's operating costs, facilities costs, and the maintenance fee, the MOOSE for Spinco is 2.8% of revenues. Accordingly, the maintenance fee is well within industry benchmarks.

[29] I am not arguing that Frontier's maintenance fee is analogous to the transition services fees paid by FairPoint and Hawaiian Telcom (which involved more than IT services). The point is that the maintenance fee will be the *only* ongoing fee associated with the replicated systems, and it will not create financial pressure for Frontier to transition.

Q. Dr. Roycroft acknowledges that there will be no cutover in Washington, but then argues that the state of West Virginia – where there will be a cutover to Frontier's existing systems – should be a concern for the Washington Commission.[30] Please respond.

A. Dr. Roycroft acknowledges that the West Virginia portion of the transaction is beyond the jurisdiction of the Washington Commission. The Public Service Commission of West Virginia is examining the proposed transaction, and Verizon will address all concerns raised there about the specific cutover that will take place in that state. In any event, Dr. Roycroft's predictions about possible problems associated with the cutover of data to Frontier's systems in West Virginia is based on faulty analysis. First, as discussed above, the systems problems FairPoint and Hawaiian Telcom have experienced are unrelated to the cutover process, which was successful in both cases. Indeed, Verizon is not aware of *any* significant post-transaction systems problems that have occurred as a result of the cutover process in *any* of the dozens of access line transfers it has performed. Second, in West Virginia Frontier will mainly use the same proven, fully scalable systems it already uses to successfully run its existing operations.

Q. Dr. Roycroft also asserts that there is a "cutover process" associated with separating the physical network that will transfer to Frontier from other network facilities used

[30] Roycroft Direct at 46-47.

for long distance and Internet backbone services.[31] Is there any merit to that argument?

A. Absolutely not. I will let Frontier's witnesses primarily address Frontier's plans for obtaining services from (and interconnecting with) long distance and Internet access providers. However, I would note that Dr. Roycroft's argument is based on fundamental misunderstandings regarding some very basic network engineering concepts. First, Verizon's long distance facilities are interconnected with Verizon Northwest's local facilities at established demarcation points, and that interconnection will remain unchanged following the transaction. Thus, there will be no "cutover" or "network separation" with respect to those demarcation points. With respect to data connectivity, Frontier, like any other ILEC that purchases Internet backbone services, will either negotiate such services with Verizon (in which case no network rearrangement would be necessary) or establish a relationship with a different backbone provider. If Frontier chooses a new backbone provider, it would need to establish connectivity with that provider, which would involve straightforward rearrangement – something done on a regular basis by network engineers throughout the industry. In other words, Dr. Roycroft once again attempts to paint a straightforward engineering task as though it involved something risky or complicated. Moreover, he does not even attempt to describe any potential "downside" associated with the purported risks he identifies; instead, he vaguely

[31] Roycroft Direct at 42-45. Staff witness Mr. Applegate seems to raise similar concerns when he notes that Verizon's wholesale service system will undergo a "modification . . . when Verizon begins operations on replicated systems" and that, as a result, "it is conceivable that the replicated systems will not provide the same level of wholesale service quality." (Applegate Direct at 6-7.)

asserts that "physical separation of network facilities" is grounds for "careful monitoring of Frontier's performance."[32]

Q. You testified before several New England commissions regarding the FairPoint transaction. Mr. Solis suggests that the Commission should be concerned because of the difficulties associated with the FairPoint transaction.[33] Please respond.

A. Mr. Solis omits the central fact that Verizon warned FairPoint and the Vermont commission that FairPoint's newly developed systems may not have been ready to be put into production. However, Verizon's advice was not accepted by FairPoint and not pursued by a third party monitor hired by the commissions to oversee FairPoint's transition to its newly developed systems.

Verizon *raised concerns that FairPoint's systems did not appear ready for full production mode and that key aspects of the wholesale systems were not working properly*. In the FairPoint transaction (unlike for the replication in this transaction), Verizon had no control over when the transition would take place, and Verizon had only limited visibility into the new systems FairPoint was developing. However, Verizon saw enough to conclude that FairPoint's new systems may not have been ready. For example, prior to FairPoint's decision to transition to its new systems, I made the Vermont Public Service Board aware that:

[32] Roycroft Direct at 46.

[33] Solis Direct at 25.

> We do believe that FairPoint has made terrific progress towards its readiness and we believe that, you know, as best we can tell they are ready except for a few areas. **We have concerns about billing, we have concerns about their product catalog completeness, and the ability of the business to flow through high volume transactions without the potential need for manual intervention, and we have some concerns about some of the TSA services, their ability to capture and take on some of the TSA services that we are currently providing for them. Those are very few, but potentially significant.**[34]

Likewise, I communicated in detail with FairPoint as to their system deficiencies. The concerns I articulated about problems with FairPoint's systems turned out to accurately describe some of their key deficiencies. However, the shift to FairPoint's newly developed systems was entirely a FairPoint decision – supported by the conclusions of a third party monitor appointed to assess FairPoint's readiness – and FairPoint made the decision to go forward despite Verizon's concerns.

As discussed above, in *this* transaction *Verizon* will have both responsibility for and control over both the replication of the systems and the transition to the replicated systems. And Verizon has every incentive to ensure that the replicated systems will work properly because those systems will support our operations for at least 60 days prior to closing and that is a condition precedent to the closing of the transaction itself.

[34] See Tr. of Status Conference of Nov. 14, 2008, *Joint Petition of Verizon New England Inc. d/b/a Verizon Vermont, Certain Affiliates Thereof, and FairPoint Communications, Inc. for Approval of an Asset Transfer, Acquisition of Control by Merger, and Associated Transactions*, Docket No. 7270 (Vt. Pub. Serv. Bd. dated Nov. 14, 2008), at 85 (emphasis added).

Q. Dr. Roycroft testifies that "Frontier should not be allowed to be given the sole sign-off on whether 911 systems are properly functioning." (Roycroft at 40.) Is that accurate?

A. No. As with respect to Verizon's other systems realignments, Dr. Roycroft appears to fundamentally misunderstand the process, which leads him to a faulty conclusion. While Frontier's validation and confirmation are important, the fact is that Verizon realigns its network on a fairly regular basis to meet the needs of the business, including its 911 systems, facilities, and processes. In this instance, the 911 network rearrangements will be in place and in production prior to close. It appears that Dr. Roycroft understands this, since he devotes three pages of his testimony to repeating the detailed information the parties have provided regarding the 911 systems replication. Yet, while expressing his "concern," Dr. Roycroft does not find fault or dispute any aspect of Verizon's highly detailed plans for the systems replication – he is simply "concerned." Indeed, Dr. Roycroft takes great pains, elsewhere in his testimony, to insist that the Commission ensure Verizon has appropriate incentives. Here, Verizon has the most direct incentive possible, for these are the systems and arrangements that Verizon will be using to serve its customers. In sum, Dr. Roycroft's testimony regarding the 911 systems offers nothing additional to his general view that replication is "risky." But Verizon and Frontier both treat their 911 obligations with the utmost seriousness; Verizon will ensure that its 911 systems will be fully operable prior to close in a way that is transparent and seamless; and Dr. Roycroft offers no basis to believe otherwise.

III. PROPOSED SYSTEMS-RELATED CONDITIONS.

Q. Some witnesses propose that the Commission appoint a third-party auditor to review Verizon's systems prior to close of the transaction.[35] Do you agree?

A. No, the proposals by some parties, including Mr. Solis, that the Commission appoint a third party to monitor and test the transition of systems are unnecessary and would only add to the cost of the transaction and delay closing and Frontier's ability to bring public benefits to Washington.[36] The audit in the case of FairPoint was required in response to the FairPoint development of new and unproven systems and to the fact that FairPoint had experienced problems with its own billing system in the past. But here the Verizon systems to be replicated and transferred to Frontier are not new but are proven to be reliable. In addition, the systems transition is an internal Verizon restructuring for which Verizon is taking full responsibility and paying all costs and will be done before the closing of the merger. When Verizon succeeds in standing up replicated versions of its existing systems, then the closing can occur sixty days later (assuming satisfaction of all other conditions). In the unlikely event that it does not, then the parties can defer closing until the systems have operated successfully. Verizon fully expects to meet its contractual obligation to provide a set of replicated systems with at least the same functionality Verizon provides to itself – and no party has a greater interest in confirming and validating Verizon's success than does Frontier. No third-party monitor would be

[35] Solis Direct at 33.

[36] Solis Direct at 33-34.

more capable, or better incented, than Verizon to complete the replication or Frontier to fully validate and confirm whether Verizon has complied with its obligations.

Given that Frontier and Verizon have a very strong interest in correctly assessing the systems issues, and that third party monitors are obviously capable of making mistakes, it would be unhelpful to insert a third party monitor into the process. Frontier is best positioned to ensure it obtains the benefit of its bargain, and its interests thus align with any concerns the Commission may have about Verizon's ability to complete its internal realignment. This paradigm is precisely the opposite of that presented in the FairPoint transaction, in which, all things being equal, FairPoint's incentive was to transition sooner rather than later given that FairPoint was both paying an ongoing transition services fee and paying to deploy and operate its new systems.

But again, the significant point is that Verizon's systems are not new systems. They are proven and battle-tested systems.[37] As noted, in thirteen states, including Washington, Verizon will put these systems into use before closing and will operate the customer-facing systems in full production mode for at least 60 days prior to closing, during which time Frontier will validate and confirm the results before closing the transaction.

[37] All these factors distinguish the current transaction from the FairPoint transaction, in which FairPoint, as part of a settlement, agreed to a form of third-party monitor. *Verizon New England, Inc., Bell Atlantic Communications, Inc., Nynex Long Distance Co., Verizon Select Services, Inc. and Fair-Point Communications, Inc., Petition for Authority to Transfer Assets and Franchise*, Order Approving Settlement Agreement with Conditions, DT 07-011; Order No. 24823, New Hampshire Public Utilities Commission (Feb. 25, 2008).

The parties have every incentive to get it right, and have the necessary experience to do so. As noted above, Verizon (including GTE) has undertaken numerous transactions in which access lines were transferred successfully to Frontier or others with their own existing OSS; none of these transactions involved a third-party monitor for systems replication and transition issues. Frontier likewise has a highly successful track record of acquiring, operating, and investing in telecommunications properties nationally, including over 750,000 access lines purchased from Verizon/GTE between 1993 and 2000 in eleven different states, its acquisition of Commonwealth in 2007, which involved some 450,000 access lines, and its cutover of approximately 400,000 lines from Rochester without interference from third party monitors.

And Comcast's concerns that the systems transition, absent a monitor, will result in deterioration of wholesale service quality or capabilities are unfounded. The replicated systems will include all OSS, APIs, and applications that are used by Verizon in Washington today to provide wholesale service. Further, Verizon personnel engaged in wholesale support who operate and use these systems today will continue employment with Frontier at the close of the transaction. Thus, wholesale customers in Washington will continue to have access to the same services and capabilities in connection with ordering, provisioning, and billing for wholesale services.

Q. Staff witness Williamson proposes that Verizon should be required to use the replicated systems for at least 90 days prior to closing, rather than the 60 days negotiated by the parties.[38] Please respond.

A. As discussed above, Verizon and Frontier have agreed to a sixty-day period for confirming the validating the success of the realignment while the replicated systems are in production. That period is sufficient for Frontier to confirm the success of the realignment, and for other parties, including CLECs, to see that the systems are functioning properly in real life. Mr. Williamson provides no evidence to conclude that the sixty-day period is insufficient. Moreover, there is a "safety valve" built into the Merger Agreement: to the extent Frontier does not confirm and validate the success of the realignment during the sixty-day period, the merger will not close, and the closing can be delayed. Accordingly, this condition is not needed.

Q. Mr. Williamson also proposes that Frontier, within 90 days after the replication is complete but prior to closing, "complete system testing and validate that the OSS are operational in accordance with the terms of the merger agreement and notify the Commission in writing of such validation."[39] Is that condition necessary?

A. No. As discussed above, there is no reason to extend the negotiated sixty-day period to ninety days, and Frontier *will* be validating the success of Verizon's systems replication during that sixty-day period. Given that the merger will not close if Frontier has not

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[38] Williamson Direct at 19.

[39] *Id.*

confirmed that the systems replication has been successful, a requirement that Frontier "notify the Commission in writing" would be superfluous.

Q. Mr. Williamson also proposes that Verizon be required to meet – during the period the replicated systems are in production – certain service quality metrics that Ms. Russell proposes be applied to Frontier after the transaction.[40] Is it appropriate to require Verizon to meet a heightened level of service quality metrics for that short period of time?

A. No. As discussed above, the transaction will not close if the functionality of the replicated systems is not at least as good as the functionality of Verizon's existing systems – so there is no reason to expect the systems replication process to affect service quality. Moreover, Verizon will be using the replicated systems to provision service during the sixty-day period, and thus performance under those replicated systems will already be measured under the Commission's existing stringent service quality standards.[41]

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[40] *Id.*

[41] Mr. Williamson also states that "[w]holesale quality of service should not show substantial degradation under the JPSA reporting structure referred to in Staff witness Rick Applegate's testimony." *Id.* That proposal is unnecessary and inappropriate for the same reasons it makes no sense to apply Ms. Russell's proposed heightened retail metrics to Verizon during the sixty-day period.

Q. Staff witness Williamson and Public Counsel also propose that Verizon should be required to maintain an archive of customer data.[42] Is there any rationale for such an archive?

A. No. As discussed above, there is nothing unique about the customer data that will transfer to Frontier, or the techniques Verizon will use to ensure that the replicated systems are appropriately populated with customer data. Customer records will transfer to Frontier along with the replicated systems, and the integrity of those data will be confirmed during the sixty-day period when the systems are in production. The replicated systems, like all sophisticated operational support systems, include systems to back up all data that needs to be backed up, including customer records – so there is already redundancy in the systems that will transfer to Frontier.

There are various different systems containing data, with distinct retention policies, and creating a single "archive" for "all data transferred to the replicated systems" would both be highly burdensome and of very limited utility. Importantly, neither witness articulates why he believes requiring a separate "archive" of customer data (above and beyond the backup systems that will transfer to Frontier) would achieve any additional security.

Q. Mr. Solis testifies that the Commission should require that the Applicants provide notice to CLECs of any OSS changes "at least four months prior to the scheduled cut-over date for the replicated OSS".[43] Do you agree?

[42] Williamson Direct at 19; Roycroft Direct at 94.

A. No, because I believe Mr. Solis has fundamentally misunderstood the timing of events. Verizon will be using the same systems prior to close that it uses today, and Frontier will be using those same systems after close. As discussed earlier, the only difference is that Verizon is making separate instances of the same systems. And Verizon will have those replicated versions actually in production mode well prior to close. To the extent that there are any notices necessary to Verizon's wholesale customers, they would occur in the normal course of business, consistent with the parties' ICAs, regulatory requirements, and industry standards, as Verizon has done for many years, including during the course of this transaction. Those notice requirements exist independent of any transaction, and there is no reason that a transaction occurring some months after the replicated OSS are in production mode should trigger exceptional notice obligations. Comcast and other CLEC customers, to the extent that any communication changes are required as a result of Verizon's replication, will receive them just as they always have.

Q. Mr. Solis also suggests that the Commission should condition approval of the transaction on a requirement that CLECs are able to test the replicated OSS prior to closing.[44] Is that appropriate?

A. No. There is no more need for CLECs to test functionality than for retail customers to test for functionality. As discussed in detail above, Verizon will perform extensive pre-production tests to ensure that the systems can handle production level volumes, and then

[43] Solis Direct at 35.

[44] Solis Direct at 33-34.

the systems will be in *production* for at least two months prior to closing and CLECs will be able to see that the functionality has not changed.

Because there is no change in functionality, Mr. Solis's demand for the Commission to condition approval on extensive CLEC testing is unnecessary. The only change for CLECs is that they will need to establish connectivity with the wholesale systems that will be hosted in the Fort Wayne data center. Verizon has already sent out notices to CLECs regarding the need to establish such connectivity, and Verizon will perform bilateral tests with each CLEC to ensure connectivity (which for most CLECs is simply a new URL site). In sum, the systems will be working prior to close of the transaction, so the fact of the transaction should not trigger any concern that the CLECs will not have functionality after the closing.

Q. Dr. Roycroft contends that "Verizon should be required to notify interested parties regarding its plans for the replication and cutover of 911 systems, test results, and the date[s] of system cutovers."[45] Is that necessary?

A. No. Verizon agrees with Dr. Roycroft that "911 systems provide critical public safety services, and the performance of these systems must not be negatively affected by the replication and cutover process." However, Dr. Roycroft never bothers to connect that statement to his proposed condition, nor define "interested parties." The transaction with Frontier will not close until long after Verizon's realignment is complete and fully in

[45] Roycroft Direct at 95.

production, and Verizon's communications with 911 stakeholders are independent of the transaction. In fact, Verizon maintains constant communication with its PSAP customers and other 911 stakeholders, and provides them regular notification of any relevant systems changes. That will remain the case here. Accordingly, there is no basis for Dr. Roycroft's proposed condition.

IV. <u>PUBLIC COUNSEL'S ALLEGATIONS REGARDING SPINCO FINANCIAL STATEMENTS.</u>

Q. Public Counsel's witness Mr. Hill makes certain statements regarding how the Spinco financial statements were prepared and his inference that Verizon has the incentive to "shape" Spinco's valuation. (Hill Direct at 25-29.) Please respond.

A. I strongly disagree. Mr. Hill makes inflammatory inferences without any evidence, which should be given no weight. The testimony, which borders on accusing Verizon of improper behavior, is inappropriate. Verizon does not "shape" financial information, and Mr. Hill's premise is fundamentally flawed, as Verizon would not benefit from preparing misleading financial statements for Verizon's Separate Telephone Operations ("VSTO").

As a starting point, Verizon is a publicly-traded company with internal and external controls governing the preparation of financial statements, whether they are prepared for the parent company or for subsidiaries, including VSTO. Verizon's executive management makes assertions quarterly and annually as to the adequacy of Verizon's internal controls over financial reporting and the strength of its internal control environment, and Verizon's internal controls are tested annually by its independent registered public accounting firm, Ernst & Young LLP ("E&Y"), in compliance with the provisions of the Sarbanes-Oxley Act of 2002. The company's very close attention to its internal control environment is driven by its executive management team's commitment to maintaining a highly ethical culture throughout the company. This includes establishing accounting policies and practices that are not only consistent with generally accepted accounting principles, but benchmarked with best practices within the telecommunications industry as well as across industries.

Verizon management prepared the carve-out, stand-alone financial statements of VSTO using the same accounting policies and practices employed in preparing the consolidated financial statements of Verizon as well as the separate company financial statements of several of the operating telephone companies, including Verizon North, Verizon Northwest, Verizon California and Verizon West Virginia. The financial statements of these operating telephone companies and the VSTO financial statements for the annual periods are audited, and quarterly periods are reviewed, by E&Y. Furthermore, since the VSTO financial statements were used in registration statements filed with the United States Securities and Exchange Commission ("SEC"), they were also reviewed by E&Y's national office, and the SEC provided no comments to Verizon on those financial statements.

Q. Were any special procedures used in creating the Spinco financials?

A. No. Verizon follows a similar process when preparing operating telephone company financial statements for investors. Over 60 percent of the expenses are directly booked. To the extent allocations were used, Verizon's normal allocation process was used.

Q. Does Mr. Hill present any factual basis to support his testimony that the Spinco financial statements are allegedly inaccurate?

A. None whatsoever. That is perhaps the most striking aspect of Mr. Hill's testimony. While Mr. Hill raises the specter of "higher revenues, lower operating expenses" (Hill Direct at 27), he does not explain or present any evidence that this occurred. The fact is that revenues are *not* allocated, but rather are reported based on state specific information and billing system data. Similarly, operating expenses are also reported based on state specific data wherever possible. Such expenses include salaries and wages and related expenses of employees located in VSTO states and depreciation expenses of fixed assets located in VSTO states. This methodology has been employed by Verizon in creating the external financial statements for the operating telephone companies for many years (including commission filings), including when (until recent years) several of the operating telephone companies were SEC registrants, as a result of external debt. If Mr. Hill perceives ambiguity regarding these allocation methodologies, he need look no farther than VSTO's financial statements themselves, where they are clearly disclosed in the footnotes.

As his sole "example" of the "uncertainty embedded in the Spinco financial statements," Mr. Hill asserts there is no rationale for the allocation of debt between the operating companies and the parent company. (Hill Direct at 27.) However, the debt of VSTO is either existing debt issued by the operating companies to third parties, whose principal amount is clearly known and verifiable, intercompany indebtedness that will be *cancelled* prior to closing, or new debt that will be incurred prior to closing at the parent level. Indeed, Mr. Hill himself acknowledges that the debt allocation issue "does not directly impact the valuation" of Spinco. (Hill Direct at 28.)

None of the numerous sophisticated groups that have examined the VSTO financial statements – including Frontier's management, Frontier's shareholders, the financial analyst community, the banks that wrote Frontier's fairness opinions, and the SEC– has joined Mr. Hill in his assessment. That is because VSTO's financial statements were properly prepared, and they are in line with those of other similar operating companies, including with the rest of Verizon's wireline operations.

Q. Mr. Hill asserts that Verizon "would benefit monetarily from making assumptions or allocations … that lead to a higher valuation" of the Spinco assets. (Hill Direct at 27.) To use Mr. Hill's term, does Verizon have an incentive to "shape" Spinco financial statements?

A. No. As discussed above, Verizon does not, and has not, "shaped" financial information of any kind, including VSTO's financial statements. In addition, Verizon has no incentive to "shape" its financial statements or use improper allocations. Verizon has provided representations and warranties to Frontier that the VSTO financial statements "fairly present in all material respects" the financial position and results of operations of the Spinco business. If Mr. Hill is correct, Frontier could avoid closing the merger, if it so desired. And that outcome, of course, would not be in the interest of Verizon's management or shareholders (who will end up owning more than 65% of shares in the new Frontier).

Q. Does this conclude your rebuttal testimony?

A. Yes.