

**VERIZON NEW ENGLAND INC.**  
**d/b/a VERIZON NEW HAMPSHIRE**

**STATE OF NEW HAMPSHIRE**

**DOCKET NO. DT 07-011**

**DIRECT TESTIMONY**

**OF**

**STEPHEN E. SMITH**

**ON BEHALF OF VERIZON NEW ENGLAND INC. d/b/a VERIZON NEW HAMPSHIRE,  
NYNEX LONG DISTANCE COMPANY, VERIZON SELECT SERVICES INC., BELL  
ATLANTIC COMMUNICATIONS, INC.**

**MARCH 23, 2007**

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**Introduction**

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

2 A. My name is Stephen Edward Smith. I am the Vice President of Business Development  
3 for the Domestic Telecommunications group of Verizon Communications Inc.  
4 (“Verizon”). My office is located at One Verizon Way in Basking Ridge, New Jersey,  
5 07920.

6 **Q. Please describe your educational and professional background.**

7 A. I hold a Bachelors of Science degree in Business Administration from Georgetown  
8 University in Washington D.C. I have worked for Verizon or its predecessor companies  
9 for my entire professional career. In May of 2007, I will have 30 years of service.  
10 During that time, I have filled roles in accounting, budget planning, financial analysis,  
11 strategic planning and business development.

12 **Q. Please describe your current duties for VZ.**

13 A. In my current position, I identify, evaluate, and – if appropriate – recommend and  
14 execute business development for the group of companies that comprise Verizon’s  
15 Domestic Telecommunications Group. Business development can take many forms,  
16 including mergers, acquisitions, dispositions, joint ventures, strategic partnerships and  
17 more. I have been in my current role for Verizon since 2000.

18 **Q. Please describe your involvement with the transaction between the Verizon  
19 companies and FairPoint Communications (“FRP”) for which they seek approval in  
20 this matter.**

21 A. I was Verizon’s business team leader for this transaction. In that role, I directed the  
22 preparation of descriptive information about our businesses in Maine, New Hampshire

1 and Vermont, distributed that information to FRP and other interested parties and  
2 negotiated preliminary indications of interest. Thereafter, I organized the compilation of  
3 due diligence information about our businesses and directed Verizon's due diligence  
4 study of FRP. At the conclusion of the due diligence process, I directly negotiated many  
5 of the agreements with FRP and coordinated the negotiation of other contract documents.  
6 At this time, I am coordinating Verizon's transition service preparations, closing-related  
7 activities and cutover planning.

8 **Q. Please describe the purpose of your testimony.**

9 A. The purpose of my testimony is to provide information about the transaction and related  
10 debt financing and describe the proposed transition services and related service cutover  
11 that will occur at the conclusion of transition service delivery.

12 **Description of the Transaction**

13 **Q. Why did Verizon decide to transfer its operations in Maine, New Hampshire and**  
14 **Vermont?**

15 A. Verizon regularly receives expressions of interest from third parties interested in  
16 acquiring its access line properties. When those expressions are credible, Verizon  
17 investigates and evaluates the proposals to satisfy its fiduciary responsibility to  
18 shareowners. The potential transfer of Maine, New Hampshire and Vermont first arose  
19 from this kind of activity.

20 Verizon believes the proposed transaction with FRP provides a fair value for this  
21 property to Verizon's shareowners and allows Verizon to focus more intently on its  
22 operations in other markets. Verizon also believes that this transaction will be a good one  
23 for customers. They will be served by FRP, a company that specializes in providing

1 affordable, high-quality, advanced services to consumers in midsize and smaller markets,  
2 and will focus on northern New England as a core market as of the closing. Verizon also  
3 believes that the transaction agreements ensure fair and equitable treatment of the  
4 employees continuing with the business by FRP, including the honoring of union labor  
5 agreements.

6 **Preliminary Transfers**

7 **Q. Please provide an overview of the proposed transaction between VZ and FRP.**

8 A. The proposed transaction is designed to establish a separate entity as the holding  
9 company for Verizon's local exchange, long distance and related business activities in  
10 Maine, New Hampshire and Vermont, spin-off the stock of that new entity to Verizon  
11 shareholders, and immediately merge it into FRP. The transaction is designed to ensure  
12 that the equity distribution (i.e., the spin-off) and the merger are tax-free to Verizon and  
13 its shareowners under the Internal Revenue Code.

14 On January 15, 2007, FRP, Verizon and a direct, wholly owned subsidiary of  
15 Verizon known as Northern New England Spinco Inc. ("Spinco") entered into an  
16 Agreement and Plan of Merger (the "Merger Agreement," attached hereto as Exhibit  
17 SES-1). On the same date, Verizon and Spinco also entered into a Distribution  
18 Agreement, a copy of which is attached hereto as Exhibit SES-2. Pursuant to the Merger  
19 Agreement and the Distribution Agreement, the following steps will be taken together,  
20 which I address in greater detail later in my testimony:

21 (i) Verizon New England Inc. ("VNE") will transfer its assets, liabilities and  
22 customer relationships relating to its local exchange, intrastate toll and exchange  
23 access operations in Vermont, New Hampshire and Maine to Northern New

1 England Telephone Operations Inc. (“Telco”), a wholly-owned subsidiary of  
2 VNE created for this purpose;

3 (ii) A number of other Verizon companies will transfer their accounts receivable,  
4 customer relationships and related service or contract obligations associated with  
5 their long-distance operations, internet service operations and certain CPE  
6 maintenance operations in Maine, New Hampshire and Vermont to Enhanced  
7 Communications of Northern New England Inc. (“Newco”), a wholly-owned  
8 subsidiary of Spinco created for this purpose;

9 (iii) VNE will transfer the stock in Telco to Spinco through a series of intermediate  
10 transfers, such that Telco will become a direct, wholly-owned subsidiary of  
11 Spinco; and

12 (iv) Verizon will then distribute the stock of Spinco directly to the shareholders of  
13 Verizon, such that Spinco (and therefore Telco and Newco) no longer will be  
14 subsidiaries of Verizon.

15 Immediately following the distribution of Spinco, Spinco will be merged with and into  
16 FRP. FRP will be the surviving company (under its existing name), and will own all of  
17 the stock of Telco and Newco.

18 **Q. Let’s walk through that step-by-step. Please explain the purpose of creating Telco**  
19 **and what assets, liabilities and business get transferred to it.**

20 A. Telco was created to hold the assets and liabilities of VNE in Maine, New Hampshire and  
21 Vermont (the “Territory”) and to operate VNE’s local exchange, intrastate toll and  
22 exchange access businesses in the Territory that are subject to regulations applicable to  
23 local exchange carriers promulgated by one or more of the Vermont Public Service

1 Board, the Maine Public Utilities Commission or the New Hampshire Public Utilities  
2 Commission. Under the Distribution Agreement, among these assets (the “Telco  
3 Assets”) would be accounts and notes receivable (whether current or non-current), rights  
4 under leases (including real property leases), contracts, licenses, permits, distribution  
5 arrangements, sales and purchase agreements, joint operating agreements, other  
6 agreements and business arrangements, owned real property, leased real property,  
7 fixtures, trade fixtures, telephone plant assets, equipment, tools, furniture, supplies,  
8 inventory, and other tangible property of any kind, including all antennas, apparatus,  
9 cables, electrical devices, fixtures, equipment, furniture, office equipment, broadcast  
10 towers, motor vehicles and other transportation equipment, special and general tools, test  
11 devices, transmitters and other tangible personal property, computers and other data  
12 processing equipment and software, prepayments or prepaid expenses, rights under  
13 express or implied warranties, goodwill as a going concern and other intangible  
14 properties, licenses and authorizations issued by any governmental authority, and Real  
15 Property Interests, as defined in the Distribution Agreement. *See* Definitions of “Assets,”  
16 “ILEC Spinco Assets,” “Real Property Interests” and “Telephone Plant” in the  
17 Definitions section (Section 1.1) of the Distribution Agreement.<sup>1</sup>

18 The liabilities to be transferred to Telco are those liabilities of VNE that arise  
19 from or relate to the Telco Assets but exclude certain tax, employee and debt obligations.

20 **Q. How does the ownership of Telco change prior to the merger with FRP?**

21 A. Prior to the merger, the ownership of Telco changes as follows:

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<sup>1</sup> The Distribution Agreement refers to Telco as the “ILEC Spinco Subsidiary” and to Newco as the “Non-ILEC Spinco Subsidiary.”

- 1 • VNE has already formed Telco and will contribute to Telco the assets and liabilities
- 2 currently held by VNE that are related to the Maine, Vermont and New Hampshire
- 3 business (the “Telco Business”).
- 4 • VNE will distribute the stock of Telco to VNE’s parent, NYNEX Corporation
- 5 (“NYNEX”).
- 6 • NYNEX will distribute the stock of Telco to its parent, Verizon.
- 7 • Verizon has already formed Spinco and will contribute to it the stock of Telco.
- 8 • Verizon will distribute all of the stock of Spinco to Verizon’s shareholders.

9 **Q. What is the role of Newco?**

- 10 A. Newco was formed by Spinco to hold the assets and liabilities being contributed to the
- 11 transaction by Verizon companies other than the ILEC, VNE, which relate to the
- 12 interstate long distance and related business of those companies in Maine, New
- 13 Hampshire and Vermont. The business to be operated by Newco includes the following:
- 14 (a) consumer and small business switched and certain dedicated long distance service
  - 15 to customers located in the Territory;
  - 16 (b) large business switched and dedicated long distance service currently offered by VZ
  - 17 Select Services Inc. (“VSSI”) to customers located in the Territory;
  - 18 (c) the delivery of dial-up, DSL and fiber to the premises (a/k/a FiOS) data and
  - 19 dedicated internet access services to customers located in the Territory;
  - 20 (d) customer premise equipment sales, and installation and maintenance services
  - 21 currently offered by VSSI to customers located in the Territory; and
  - 22 (e) private line service to current customers of VSSI where the line originates and
  - 23 terminates in the Territory.



1        *See* the definition of “Spinco Business” in Section 1.1 of the Distribution Agreement.  
2        The assets and liabilities to be held and used by Newco are currently held by various  
3        Verizon affiliates. They will transfer those assets and liabilities to Verizon, Verizon will  
4        contribute them to Spinco and Spinco will contribute them to Newco immediately prior  
5        to the transaction closing.

6        **Q. Which Verizon companies have assets and liabilities that will be contributed to the**  
7        **Newco business?**

8        A. The following VZ companies are contributing to Newco:

- 9        (a) NYNEX Long Distance Company (“NYNEX LD”),  
10       (b) Bell Atlantic Communications, Inc. (“BACI”),  
11       (c) VSSI,  
12       (d) Verizon Internet Services Inc. (“VOL”),  
13       (e) GTE.net LLC (“GTE.net”) and,  
14       (f) any subsidiary of Verizon that employs a Spinco Employee (as defined in the  
15       Employee Matters Agreement). (*See* further discussion below.)

16       *See*, definition of “Contributing Companies” in Section 1.1 of the Distribution  
17       Agreement.<sup>2</sup>

18       **Q. What assets, business and/or liabilities will go to Newco?**

19       A. Under the Distribution Agreement, Newco will receive all contracts and customer  
20       relationships with Maine, New Hampshire and Vermont customers of NYNEX LD,  
21       BACI, VSSI, VOL and GTE.net, including related accounts receivable but excluding  
22       contracts and relationships associated with voice over internet protocol (“VoIP”) service

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<sup>2</sup> The Distribution Agreement inadvertently fails to name GTE.net as a Contributing Company. The parties intend for GTE.net to contribute assets to Spinco as part of the transaction, however, and intend to amend the Distribution Agreement to that effect.

1 as provided by any Verizon company and the prepaid card products, payphone dial  
2 around services and dedicated Internet access (“DIA”) services of VSSI. See the  
3 definitions of “Spinco Business” and “Spinco Assets” in Section 1.1 of the Distribution  
4 Agreement.

5 **Q. Are the customer relationships to be transferred to Newco strictly limited to**  
6 **business not regulated by the Commission?**

7 A. No. NYNEX LD and BACI currently offer intrastate toll services as a convenience to  
8 their customers, though that service is not the primary focus of those companies.  
9 Relationships with some customers who purchase such service will be included in the  
10 transaction such that Newco will provide such service following the merger. Of course,  
11 those services are subject to the regulation of the Commission without regard to which  
12 company offers them.

13 **Q. What assets and businesses of NYNEX LD, BACI, VSSI, VOL and GTE.net in the**  
14 **Territory will *not* be transferred?**

15 A. Aside from customer relationships and related accounts receivable assets and service  
16 obligation liabilities, no other assets or business activities of NYNEX LD, BACI, VOL or  
17 GTE.net will be transferred to Spinco. Due to the nature of some of the products that it  
18 sells, VSSI cannot transfer all of its customer relationships to Spinco. For example,  
19 customers who purchase prepaid cards outside of the Territory could travel into the states  
20 and use the cards during their visit. Similarly, customers who are knowledgeable of  
21 VSSI’s payphone dial-around number can use the number at any payphone, including  
22 payphones in the Territory.

23 **Q. What liabilities of the Verizon companies will be transferred to Telco and Newco?**

1 A. Except for liabilities specifically excluded by the transaction agreements such as  
2 Verizon's obligations under the transaction agreements and liabilities under various  
3 contracts, the transferred liabilities will include, pursuant to the Distribution Agreement:

4 (a) all liabilities of Verizon or any of its subsidiaries to the extent relating to or  
5 arising from the Spinco Business, as defined in the Distribution Agreement;

6 (b) all liabilities to the extent relating to or arising from any Spinco Assets; and

7 (c) all liabilities of the Spinco Business with respect to the Transferred Affiliate  
8 Arrangements. Transferred Affiliate Arrangements are defined in the Distribution  
9 Agreement to include obligations and contract arrangements between VNE and  
10 other Verizon affiliates that relate to the Spinco Business, such as leases, affiliate  
11 interconnection agreements, inter-company trade accounts and obligations owed  
12 under prorate agreements. For the most part, Affiliate Arrangements consist of  
13 contracts between VNE and the former MCI companies.

14 **Q. Please describe the steps by which these assets will be transferred from each**  
15 **contributing company ultimately to Newco.**

16 A. The steps for the transfer of the Newco Business assets are expected to occur as follows:

17 • NYNEX LD, BACI, VSSI, VOL and GTE.net each transfer their relevant customer  
18 relationships and associated accounts receivable, as described above, to Verizon, their  
19 parent company. Where any of these Contributing Companies is not directly owned  
20 by Verizon, its assets will be transferred to each intermediate subsidiary in turn, such  
21 that the assets are eventually transferred to Verizon. (For example, NYNEX LD is  
22 wholly owned by Bell Atlantic Worldwide Services Group, Inc., which is wholly  
23 owned by NYNEX Corporation, itself wholly owned by Verizon.)

- 1 • Verizon contributes those assets to Spinco
- 2 • Spinco contributes to Newco the Newco Business.

3 The various transaction steps (including the steps by which the stock of Telco is  
4 transferred to Spinco) are designed to ensure that the Spinco equity distribution is tax-  
5 free to Verizon shareowners under Internal Revenue Code regulations.

6 **Q. Are Telco and Newco receiving any other assets or liabilities from any Verizon**  
7 **entities, such as Verizon Wireless or Verizon Business?**

8 A. No. In fact, the Distribution Agreement specifically provides, in the definition of Spinco  
9 Assets, that in no event will Spinco assets include:

- 10 (a) any intellectual property assets (except to the extent specified in a transaction  
11 agreement);
- 12 (b) certain assets such as Verizon's rights associated with the transaction, Verizon  
13 assets specifically excluded from the transaction (such as the pension assets  
14 required to fund obligations to employees in the Territory who retire prior to the  
15 close of the transaction), defenses and counterclaims relating to any liability  
16 retained by Verizon, and the capital stock of each Verizon subsidiary;
- 17 (c) any assets of Verizon Business Global LLC, which is the successor to the business  
18 of MCI, Inc., and direct and indirect subsidiaries of Verizon Business Global LLC;
- 19 (d) any assets of Verizon Network Integration Corp.;
- 20 (e) any assets of Verizon Federal Inc.;
- 21 (f) any assets of Federal Network Systems LLC;
- 22 (g) any assets of Verizon Global Networks Inc.;

1 (h) any assets of VSSI, other than assets that constitute customer relationships or  
2 contracts that relate solely to the Spinco Business;

3 (i) any assets of Cellco Partnership (d/b/a Verizon Wireless);

4 (j) any Cash Equivalents or short term investments; or

5 (k) any Cash, unless required to satisfy the Target Working Capital amount as defined  
6 in the Distribution Agreement.

7 **Q. Please describe the status of Spinco and its assets once the transfers discussed above**  
8 **are performed.**

9 A. Upon completion of the transfers, Spinco will be a direct, wholly-owned subsidiary of  
10 Verizon and will wholly own Telco and Newco, the operating companies that will own  
11 the assets and liabilities included in the transaction. Of course, this state of affairs will  
12 exist only momentarily, because the spin-off of Spinco and the merger with FRP will  
13 follow immediately.

14 **Q. How are employees supporting the Telco and Newco businesses treated in this**  
15 **transaction?**

16 A. Employees who are Spinco Employees, as defined in Section 1.1 of the Employee  
17 Matters Agreement between Verizon and FRP,<sup>3</sup> will as part of the transaction continue  
18 their employment with Telco and Newco after the spin-off and merger. A Spinco  
19 Employee is defined in Section 1.1 of the Employee Matters Agreement to mean any  
20 individual who (i) is either actively employed (whether on a full or part-time basis) by, or  
21 is on a leave of absence or layoff with right of recall from, Verizon or a Verizon  
22 subsidiary (including Spinco), whose primary duties on the transaction closing date (or,

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<sup>3</sup> The Employee Matters Agreement is filed herewith as Exhibit SES-3.

1 in respect of an individual on a leave of absence or layoff with right of recall, on his or  
2 her last date of active employment) were related to the Spinco Business, and (ii) is not an  
3 employee otherwise determined to be retained by Verizon. The Employee Matters  
4 Agreement provides for Verizon and FRP to develop a list identifying all Spinco  
5 Employees by name, which list will be finalized shortly before the transaction closing.  
6 Current retirees from Verizon companies in the three northern states and employees who  
7 retire prior to the close of the transaction will remain a Verizon company responsibility  
8 with respect to pension and health and welfare obligations.

9 **Q. The Application filed in this proceeding states that Verizon may elect to have VNE  
10 create a new Spinco as a direct subsidiary of VNE, rather than of Verizon, and that  
11 the new company would ultimately merge with FRP. Please explain that alternative  
12 structure and its purpose.**

13 A. Section 2.4(e) of the Distribution Agreement gives Verizon the right to elect to use a  
14 slightly different transaction structure than that described above. Under the alternative  
15 structure as noted, VNE may create a new Spinco as a direct subsidiary of it, rather than  
16 of Verizon. In that event, Telco would be established as a Delaware limited liability  
17 company rather than as a Delaware corporation. VNE would transfer its membership  
18 interest in Telco directly to Spinco. VNE would take the place of Verizon with respect to  
19 certain of the debt financing steps discussed below. Then VNE would transfer the stock  
20 of Spinco to VNE's parent company, NYNEX Corporation, and then to Verizon. Under  
21 either alternative, Telco and Newco will be wholly-owned subsidiaries of Spinco, and  
22 Spinco will be a wholly owned subsidiary of Verizon Communications, just prior to the  
23 distribution of Spinco shares to Verizon shareholders.

1 Whether Verizon will elect to use the alternative structure depends on the tax  
2 consequences of using that structure or the primary structure. Verizon will seek a ruling  
3 from the IRS on these issues and expects that it will decide which structure to use well in  
4 advance of the hearings in this matter.

5 **Debt Financing**

6 **Q. Exhibit 4 to the Application states that FRP and Spinco will receive cash proceeds**  
7 **from lenders pursuant to a debt financing. Please explain the debt financing.**

8 A. FRP has secured \$2.08 billion in debt commitments, including \$200 million in a 6-year  
9 revolving credit facility, \$1.68 billion in an 8-year term loan and \$200 million in an 8-  
10 year 12-month delayed draw term loan. The lead arrangers for this debt package are  
11 Lehman Brothers Inc., Morgan Stanley and Bank of America. FRP will receive cash  
12 proceeds, and Spinco will also receive cash proceeds from this debt financing at the time  
13 it receives the Newco assets and the Telco stock.

14 Spinco will use the cash proceeds that it receives (which the parties expect may  
15 approximate \$900 million) to declare and pay a Special Dividend to Verizon (or, if  
16 Verizon elects the alternative structure discussed above, to VNE). This amount will be  
17 equal to the estimated tax basis Verizon has in the Spinco stock, prior to distribution to  
18 Verizon's shareholders. (The parties chose to limit the amount of the Special Dividend to  
19 the estimated tax basis in light of IRS rules that would disqualify any excess from tax-  
20 free treatment.)

21 Approximately \$640 million of the remaining cash proceeds from the debt  
22 financing will be used by FRP after the merger to refinance its pre-merger debt. FRP  
23 expects to use the remainder of the cash proceeds, the \$200 million delayed draw loan

1 and the \$200 million revolving credit facility for post-closing, back-office construction  
2 and ongoing working capital purposes.

3 **Q. Spinco will also issue debt securities to Verizon as part of the transaction. Please**  
4 **explain what securities will be issued, the amount and terms.**

5 A. At the time it declares and pays the Special Dividend, Spinco is required by Section  
6 2.4(b) of the Distribution Agreement to issue Spinco Securities (i.e., bonds) to Verizon  
7 (or in the event that Verizon elects to use the alternate structure under Section 2.4(e) of  
8 the Distribution Agreement, to VNE) in the principal amount of \$1.7 billion less the  
9 amount of the Special Dividend. Assuming a \$900 million Special Dividend, then the  
10 amount of the Spinco Securities will be approximately \$800 million. The Spinco  
11 Securities are to be senior, unsecured notes, with a 10-year term, payable on the tenth  
12 anniversary of their issuance and which FRP cannot call for early redemption during the  
13 first five years after they are issued. The Spinco Securities will rank equally with all  
14 existing and future senior unsecured indebtedness and senior to all existing and future  
15 subordinated indebtedness.

16 **Q. How was the \$1.7 billion amount determined?**

17 A. The parties negotiated the \$1.7 billion as part of their overall negotiations of the value of  
18 Spinco. The amount was deemed appropriate for the business based upon its current and  
19 expected cash flows. FRP and its advisors and Verizon and its advisors each conducted  
20 their own independent evaluation of the values of FRP and Spinco.

21 **Q. Who are the lenders committed to participating in this transaction?**



1 A. The lead arrangers for the debt financing are Lehman Brothers Inc., Morgan Stanley and  
2 Bank of America. These lenders have the right to syndicate the financing, and Deutsche  
3 Bank, Wachovia, Merrill Lynch and CoBank have also agreed to participate.

4 **Q. Please summarize the debt structure of FRP upon closing.**

5 A. Upon closing the transaction, FRP will have outstanding approximately \$2.35 billion in  
6 debt and have another \$400 million in debt available to it, either in the form of un-drawn  
7 revolver or delayed draw term loan.

8 Of the total \$2.35 billion, nearly \$640 million will be used to refinance FRP's pre-  
9 merger debt and approximately \$900 million is expected to be used to pay the special  
10 dividend to Verizon. Also, the parties anticipate that approximately \$800 million of  
11 FRP's debt will take the form of the Spinco Securities issued to Verizon. Thereafter,  
12 Verizon may use the Spinco Securities in a debt-for-debt exchange to retire Verizon debt  
13 held by other parties.

14 **Q. Please explain the potential debt exchange of Spinco Securities for Verizon debt.**

15 A. Verizon has a right to exchange the Spinco Securities for debt of Verizon that is held by  
16 third-party creditors. *See* Distribution Agreement, Section 2.4(d). The exchange would  
17 be facilitated through an unaffiliated third party which would acquire from creditors of  
18 Verizon debts owed by Verizon in the approximate amount of the Spinco Securities. The  
19 acquired Verizon debt could consist of bonds, commercial paper, short or long term debt  
20 obligations, bank debt or trade payables. The intermediary would then exchange that  
21 debt with Verizon in return for the Spinco Securities. Thereafter, the intermediary would  
22 re-market those Securities. (In the event that Verizon elects to use the alternative

1 structure discussed above, a similar debt exchange may take place using VNE external  
2 debt or internal affiliate debt instead of Verizon debt.)

3 **Q. What effect, if any, would consummation of the debt exchange have on FRP and its**  
4 **operations in Maine, New Hampshire and Vermont?**

5 A. The debt exchange will not have any effect on FRP or its operations in the Territory.

6 **The Distribution and Merger**

7 **Q. Upon issuance of the Special Dividend and the Spinco Securities, what are the next**  
8 **steps in the transaction?**

9 A. Verizon will then distribute all stock of Spinco to Verizon's shareholders. At that time,  
10 Spinco will no longer be a subsidiary of Verizon or an affiliate with other Verizon  
11 subsidiaries. Immediately upon the distribution of Spinco stock and pursuant to the  
12 Merger Agreement, Spinco will merge with and into FRP, with FRP surviving and the  
13 Spinco Securities becoming the debt obligations of FRP.

14 **Q. What happens to the shares in Spinco that had been distributed to Verizon**  
15 **shareholders?**

16 A. At the time of the merger, Verizon shareholders who hold Spinco shares will exchange  
17 them for FRP shares through an exchange ratio yielding one share of FRP common stock  
18 for every 55 shares of Verizon stock.

19 **Q. How was that ratio determined?**

20 A. The ratio was determined as a result of arms length negotiations as part of the valuations  
21 of Spinco and the relative value of the ownership interests each company's shareholders  
22 would hold in the combined company after the merger. In order to qualify as a tax-free  
23 event under the Internal Revenue Code and regulations, the merger must result in

1 shareholders of Verizon owning a majority of FRP. Based on the relative value of Spinco  
2 and FRP, the parties agreed that Verizon shareholders will own approximately 60% of the  
3 surviving company post-merger. The number of new shares to be issued to Verizon  
4 shareholders to represent approximately 60% of the surviving company bears a 1:55 ratio  
5 to the number of currently outstanding shares in Verizon.

6 **Pension Issues**

7 **Q. How do the Agreements address Verizon's current pension obligations?**

8 A. Under the terms of the Employee Matters Agreement, Article V, new FRP pension plans  
9 will accept pension assets from Verizon's plan and will assume the pension liability  
10 associated with employees of Telco and Newco who are active at the time of the closing.  
11 Verizon's pension plans will retain the pension obligations associated with employees  
12 who retire prior to the closing.

13 **Q. How have the parties provided for FRP's financial ability to fund its new**  
14 **obligations?**

15 A. For both active management and union-represented employees who are included in the  
16 transaction, Verizon will transfer assets from the Verizon plans in an amount that will  
17 fully fund the FRP pension plans at closing. *See* Employee Matters Agreement, Section  
18 5.2.

19 Following the closing, FRP will be responsible for any future funding of the FRP  
20 pension plans, if required.

21 **Q. What is the current funding status of Verizon's pension plan?**

22 A. The Verizon plan for management participants is currently fully-funded. The Verizon  
23 plan for union participants is currently slightly under-funded.

1 **Circumstances Immediately After Closing**

2 **FRP**

3 **Q. Upon the closing of the merger, who will own FRP?**

4 A. Immediately following the closing of the merger, the outstanding shares of FRP will be  
5 owned approximately 60% by Verizon shareholders and approximately 40% by FRP  
6 shareholders.

7 **Q. At that point, will Verizon own any part of FRP?**

8 A. No. After the merger, Verizon shareholders will own stock in FRP, but Verizon itself  
9 will not.

10 **Q. Please describe the structure of FRP and the operating companies at that time.**

11 A. Immediately following the merger, FRP will wholly own Telco and Newco, the operating  
12 companies, as direct subsidiaries. In addition, FRP will own directly or indirectly other  
13 subsidiaries that pre-existed the merger transaction, which Mr. Walter Leach of FRP  
14 refers to in his testimony as “existing FairPoint.” My understanding is that FRP intends  
15 to maintain its pre-merger subsidiaries in Maine, New Hampshire and Vermont as  
16 distinct entities, separate from Telco and Newco.

17 **Q. Please describe the make-up of the FRP Board of Directors after the merger.**

18 A. After the merger, FRP will have a nine-member Board of Directors. Under Section 7.19  
19 of the Merger Agreement, six of the nine Board members will be nominated by Verizon.  
20 None of the Verizon nominees may be employees of Verizon, Verizon Wireless or their  
21 affiliates. Thus, Verizon will have no control over the operations of FRP post-merger.  
22 FRP’s existing Chairman of its Board, Gene Johnson, will continue in that position post-  
23 merger.

1        **Verizon Companies**

2        **Q.    After the closing, which Verizon companies will still have business in Maine, New**  
3        **Hampshire and Vermont, and what operations and businesses will they have?**

4        A.    After the closing, the following Verizon companies will continue to conduct business in  
5        these states:

6            – Verizon Business Global LLC, which is the successor to the business of MCI, Inc.,  
7            and direct and indirect subsidiaries of Verizon Business Global LLC will market, sell  
8            and deliver local, long distance and enhanced telecommunications services  
9            principally to enterprise and government customers over owned or resold networks;

10          – Cellco Partnership (d/b/a Verizon Wireless) will market, sell and deliver wireless  
11          services;

12          – Verizon Network Integration Corp. will market, sell and deliver non-LEC network  
13          integration services to commercial and government customers;

14          – Verizon Federal Inc. will provide customized communication systems integration and  
15          converged solutions to federal civilian and defense government agencies, state and  
16          local government, and education customers;

17          – Verizon Federal Network Systems LLC will provide federal government customers  
18          with enterprise-wide communication solutions and professional services, including  
19          network integration, information security, professional services and operations and  
20          maintenance;

21          – Verizon Global Networks Inc. will maintain long distance networks used by Verizon  
22          affiliates and third parties;

- 1           – NYNEX LD and BACI will retain their state and federal long distance authority in  
2           order to terminate long distance traffic in the three states; and  
3           – VSSI will offer prepaid card, payphone dial-around services and dedicated internet  
4           access.

5           The transaction agreements do not include any non-compete provisions. Accordingly, all  
6           parties are free to pursue business in the Territory, given appropriate state authorizations.  
7           While VNE will terminate its authority to conduct business in Maine, New Hampshire  
8           and Vermont, all Verizon affiliates will retain the right to offer Voice over Internet  
9           Protocol services to customers in those markets.

10    **E-911 Service**

11    **Q.    As part of this transaction, will FRP assume VNE’s contract in New Hampshire to**  
12    **provide E911-related services?**

13    A.    Yes.

14    **Q.    Given that the E911 database for New Hampshire is in Massachusetts, how will the**  
15    **parties address this issue?**

16    A.    Under its 911 contract with the State of New Hampshire, the New Hampshire Bureau of  
17    Emergency Communications (the “NHBECC”) has assumed responsibility for database  
18    management and Automatic Location Identification (“ALI”) services. Verizon is  
19    responsible for the delivery of the 911 call and associated Automatic Number  
20    Identification (“ANI”). On a transitional basis, however, Verizon is continuing to  
21    provide both database management and ALI services, pending the Bureau’s assumption  
22    of those responsibilities.

1           The ALI database is supported by mated database systems located in Burlington,  
2 MA and Pearl River, NY. The mated system means that a 911 query is sent to both  
3 locations and a response then returned from either of the two locations. The first  
4 response is used and the second is discarded. The database information in the two  
5 locations is identical and supports Verizon service areas in Maine, New Hampshire,  
6 Massachusetts, Rhode Island and New York. At the closing of the transaction, FRP will  
7 assume the 911 network and associated responsibilities of the New Hampshire 911  
8 contract. During the period of the Transition Services Agreement, Verizon will provide  
9 the 911-related services to FRP. At Cutover, FRP will assume those 911-related  
10 activities going forward.

11 **Q. Likewise, Verizon currently monitors its E911 system performance in New**  
12 **Hampshire, Massachusetts, Rhode Island and New York from mated database**  
13 **systems located in Massachusetts and New York. How will this be addressed after**  
14 **the merger?**

15 A. Because of the important redundancy function that the mated database systems perform,  
16 the systems cannot be separated. Instead, at Cutover, FRP will assume the going forward  
17 E911 activities.

18 **Verizon Treatment of Wholesale Relationships**

19 **Q. What effect will the transaction have on VNE's wholesale arrangements and**  
20 **obligations?**

21 A. The transaction will have no effect on interconnection agreements and other contracts  
22 that address geographic areas wholly outside of Maine, New Hampshire and Vermont. If  
23 contracts address areas wholly within the three states, the contracts will be assigned to

1 FRP, pursuant to customer consent where required. For contracts that address areas both  
2 within and outside the three states, Verizon is willing to amend the contracts to exclude  
3 service within the three states, and FRP will seek to negotiate replacement contracts on  
4 substantially the same terms.

5 **Q. What portion of VNE's current interconnection agreements and other wholesale**  
6 **arrangements address areas both within and outside of the Territory?**

7 A. A review of the contracts maintained by Verizon as of February 15, 2007, show that 22%  
8 of its wholesale arrangements (70 of 312 arrangements) that provide for service in Maine,  
9 New Hampshire or Vermont also provide for service in other states.

10 **Q. How do the parties intend to address volume commitments in wholesale agreements**  
11 **that depend on volume both within and outside the Territory?**

12 A. Verizon and FRP are already communicating with Verizon's existing wholesale and  
13 carrier customers in Maine, New Hampshire and Vermont to explain the pending  
14 transaction and its implications for existing customer agreements. As part of these  
15 discussions, Verizon and FRP will re-negotiate and amend volume commitments to  
16 reflect the change in the scope of service post-closing.

17 **The Transition Services Agreement**

18 **Q. Please explain the purpose of the Transition Services Agreement ("TSA").**

19 A. For purposes of quality, consistency and economy, Verizon delivers many administrative  
20 and operating support services to its local exchange and non-LEC affiliates from  
21 centralized Verizon support service groups and systems. These groups deliver  
22 accounting and tax services, provide legal and regulatory support, administer human  
23 resource programs, engineer and remotely monitor networks, provide product



1 management, support enterprise and wholesale relationships, perform customer billing,  
2 support customer bill and service inquiries, manage receivables and payables, maintain  
3 fleet and logistics operations, develop and maintain information systems, and perform  
4 other support-related activities.

5 Because these Verizon support groups are centralized and perform activities for  
6 many Verizon affiliates, including VNE, their activities will not be conveyed to FRP as  
7 part of the transaction. The purpose of the Transition Services Agreement, Exhibit SES-4  
8 hereto, is to provide FRP with major support services until such time as FRP develops its  
9 own support systems and groups to provide these services.

10 **Q. Please summarize the key terms of the TSA.**

11 A. The basic terms of the TSA include the following:

- 12 1. Verizon will commence providing services as of the transaction closing and will  
13 continue until FRP sends a notice of cutover. The parties expect that the cutover  
14 will occur within 15 months after closing, but Verizon will continue to provide  
15 the transition services until FRP is prepared to assume that responsibility. *See*  
16 *TSA Section 13, 13.2.*
- 17 2. The services to be provided, described in more detail below, support local  
18 exchange, long distance and internet service provider (“ISP”) operations, general  
19 and administrative needs, and human resource administration.
- 20 3. Service fees are fixed and scheduled, as discussed below, with respect to services  
21 delivered directly by Verizon or its affiliates.
- 22 4. Third-party vendor fees associated with the delivery of most support services will  
23 be borne by Verizon, but such fees associated with the delivery of employee

1 benefit services or ISP services, described in more detail below, will be borne by  
2 FRP. *See* TSA Section 2.2.

3 5. The functionality of each service is limited to such functionality as is provided to  
4 VNE or any of the Verizon Contributing Companies, as applicable, on the date  
5 immediately preceding the closing. *See* TSA Section 3.1. Under Section 3.2,  
6 changes to services will be permitted as required by law or as mutually agreed by  
7 the parties.

8 6. Likewise, Verizon and its affiliates will perform the transition services: (a) in a  
9 manner that is in compliance with law; and (b) with the same overall standards as  
10 now being provided to VNE. *See* TSA Section 7.1.

11 **The Transition Services**

12 **Q. What services will be provided under the TSA?**

13 A. There are four schedules of services that will be provided under the TSA. (*See* Exhibit  
14 SES-4.) They are:

15 Schedule A Services - A schedule of 81 services, including accounting, human  
16 resource, interconnection support and related settlements,  
17 engineering, network provisioning and support, repair operations  
18 support, performance assurance, retail markets support,  
19 wholesale support, information systems support, and financial  
20 operations including billing and distribution, remittance  
21 processing, credit and collections, accounts receivable and  
22 payable management, payroll and time reporting, and logistics  
23 support.



1 environmental and safety management, risk management, investor relations, benefit  
2 design, compensation planning, diversity compliance, labor relations, staffing, workforce  
3 and leadership development, and credit and collections. These services are also not  
4 included in the TSA.

5 Under its existing agreements with certain third parties, Verizon cannot provide  
6 certain services, such as purchasing inventory, from third parties for non-affiliates.  
7 Therefore, FRP will need to assume responsibility for the planning of handling purchases  
8 from third-party vendors.

9 **Q. What changes will there be for CLECs ordering wholesale services when Verizon**  
10 **commences providing transition services in place of Verizon services as of the**  
11 **closing of the transaction?**

12 A. None. The wholesale ordering and provisioning systems, including CLEC interfaces, as  
13 well as the other administrative systems, will not change with the shift to transition  
14 services. I cannot say, however, whether the shift off of transition services to the new  
15 systems being developed by FRP and Capgemini U.S. LLC will result in changes in the  
16 wholesale ordering and provisioning process.

17 **Q. Does the TSA allow the parties to modify its scope?**

18 A. Yes, Section 3.2(a) of the TSA authorizes Verizon to modify the transition services it  
19 provides if it determines that changes are necessary or desirable to conform to the manner  
20 in which similar services are being provided to VNE or the Contributing Companies after  
21 the closing, provided that the changes comply with law and Verizon reimburses FRP for  
22 the reasonable out-of-pocket costs FRP incurs in connection with such change. In  
23 addition, Section 3.2(b) of the TSA authorizes FRP to request a change in the transition

1 services if necessary to comply with law or requirements of a governmental authority,  
2 and Section 3.2(c) obligates Verizon to provide the modified service and requires FRP to  
3 pay for such changes.

4 **Cutover Planning**

5 **Q. Please explain the terms of the TSA regarding the eventual transfer of services from**  
6 **Verizon under the TSA to FRP, Telco and Newco?**

7 A. As part of the TSA, the parties have agreed to establish a comprehensive planning and  
8 management structure to ensure a smooth and seamless transition from reliance on  
9 Verizon support service to FRP's own support systems. *See* TSA Article IV.

10 First, under Section 4.1 of the TSA, Verizon and FRP have established a Cutover  
11 Planning Committee to discuss and plan cutover activities and formulate a detailed  
12 schedule of cutover steps with related timeline. The Cutover Planning Committee meets  
13 weekly. In addition to myself, my transition and cutover team includes two dedicated  
14 members from my staff and over 30 specialists and subject-matter experts spanning our  
15 Telecom, Enterprise, Wireless and Corporate Support groups.

16 Second, the TSA establishes speedy timelines for the parties to develop cutover  
17 planning documents. By April 15<sup>th</sup>, Verizon will provide FRP with a Preliminary  
18 Cutover Plan for activities and tasks that will be completed prior to and immediately  
19 following the cutover date, including matters related to ISP service cutover. Also by  
20 April 15<sup>th</sup>, FRP will provide Verizon with a Preliminary FRP Cutover Preparation Tasks  
21 plan for the activities and tasks related to pre-cutover acceptance, testing and processing  
22 of Verizon's data extracts, and the plan to establish FRP systems and processes in order

1 to allow FRP to function independent of Verizon. The parties will then review and  
2 discuss the plans in order to finalize them by June 15<sup>th</sup>.

3 **Q. What have the parties done to date to implement the cutover provisions of the TSA?**

4 A. On February 12<sup>th</sup> and 13<sup>th</sup>, the parties met for an initial planning session. At the session,  
5 Cutover Planning Committee members and other key planning personnel were  
6 introduced, major cutover activities were identified and a broad cutover timeline was  
7 discussed.

8 Since the February meeting, teams at Verizon and FRP and Capgemini have  
9 continued to work, separately and together, to develop their various cutover plans. In  
10 addition, the Cutover Planning Committee has been meeting weekly since February 26<sup>th</sup>.

11 **Q. Please describe the kinds of issues that you expect to be addressed in the Cutover**  
12 **Plan.**

13 A. The Cutover Plan will describe the data and business information that Verizon will  
14 provide to FRP to enable FRP to manage the business post-closing. This includes the  
15 cutover of Internet services, which is specifically addressed in Schedule E of the TSA.  
16 The plan will also provide a timeline for data and business delivery, including a series of  
17 test extracts from Verizon information systems. The Preliminary FRP Cutover  
18 Preparation Tasks will describe the testing of this extract data by FRP in the new FRP  
19 systems.

20 **Q. What is Verizon's anticipated role in the cutover?**

21 A. In the cutover, Verizon will extract final Spinco data from its information systems and  
22 deliver that data to FRP for use in its new systems. Verizon will also provide record  
23 counts and other system extract tests to confirm that the data being provided to FRP is

1 complete. In addition, Verizon will staff a 24-hour service desk seven days a week to  
2 assist FRP with data-related cutover issues, should they arise. Verizon will staff this  
3 service desk for as long as needed.

4 **Pricing**

5 **Q. Please explain the fees and pricing terms of the TSA.**

6 A. There are separate fee provisions for each schedule of services:

7 Schedule A - For the first 8 months after the closing date, Verizon will provide the  
8 administrative, "back-office" services in Schedule A for \$14.2 million per  
9 month. In months 9 through 12, the fee is reduced by \$500,000 each  
10 month. For the 13<sup>th</sup> month, however, the fee will be \$14.7 million, and  
11 following that until termination of Schedule A services, the fee will  
12 increase by \$500,000 each month. FRP negotiated for the decreases in  
13 months 9 through 12 to provide financial incentives for Verizon to help  
14 FRP complete the cutover at the earliest possible time.

15 Schedule B - FRP will pay \$41.5 million for information systems isolation if Cutover of  
16 Schedule A and Schedule D (i.e., ISP) services occurs at any time within  
17 three months of the closing date. If Cutover of those services occurs at  
18 any time thereafter, then services will be provided for \$34.0 million. FRP  
19 negotiated for the different level of reimbursement to provide a financial  
20 incentive for Verizon to help FRP complete the cutover at the earliest  
21 possible time.

22 Schedule C - Verizon will provide the employee benefits services for a fee of \$52,000  
23 per month.

1 Schedule D - Verizon will provide the ISP services for the fee stated in Schedule D.

2 **Q. What other amounts are payable by FRP under the TSA?**

3 A. All Schedule A, B, C and D fees are exclusive of any transaction taxes. If such taxes are  
4 assessed against Verizon for transition service delivery, then the tax amounts will be  
5 added to the fees associated with the service which gave rise to the tax. Also, as noted  
6 above, FRP will reimburse Verizon for third-party costs incurred in delivering the  
7 employee benefits and ISP services under Schedules C and D respectively. In addition,  
8 FRP may request consultation service from Verizon as described in Section 2.3 of the  
9 TSA, which will carry a fee rate of \$125 an hour after the first 500 hours.

10 **The Term of the TSA**

11 **Q. Please explain the provisions of the TSA governing its duration and term.**

12 A. Under Article 13 of the TSA, Verizon will cease providing transition services within 60-  
13 90 days following written notice from FRP that it is ready to cutover. The 60-90 day  
14 period is intended to insure that there is sufficient time to perform final cutover staging  
15 and that the cutover will not be done during a month when Verizon performs its routine  
16 system maintenance, modifications and/or upgrades. The parties envision a 15-month  
17 TSA term, but FRP can extend the term if it needs additional time to develop its own  
18 systems and support groups. The parties also envision that the transition services will  
19 terminate simultaneously, but Verizon has also given FRP the options to terminate the  
20 employee benefit services under Schedule C ahead of or after termination of Schedule A  
21 (administrative) and D (ISP) services.



1 **VZ Performance under the TSA**

2 **Q. During the period of the TSA, will it be apparent (or transparent) to customers that**  
3 **Verizon companies continue to provide services, such as billing, employee benefits**  
4 **management and the rest?**

5 A. Verizon's continued role under the TSA after the closing will be no secret, but any direct  
6 customer contact, such as billing, will be in the name of FRP.

7 **Q. What performance criteria does the TSA impose on Verizon?**

8 A. Under Article 7 of the TSA, entitled "Service Level Commitments," Verizon's  
9 performance must comply with applicable law and regulatory requirements and meet the  
10 same overall standards of quality, timeliness and efficiency as such services are then  
11 being provided to VNE and the Contributing Companies, taking into account reasonable  
12 fluctuations that occur from month to month. Essentially, this means that Verizon must  
13 perform as well for FRP as it performs for its own similarly-situated affiliates, like VNE,  
14 and also enable FRP to meet its legal and regulatory obligations with respect to the  
15 transition services.

16 **Q. Will Verizon's performance under the TSA be subject to either the Performance**  
17 **Assurance Plan or the Carrier to Carrier Guidelines?**

18 A. Yes. It will be subject to both.

19 **Q. What happens under the TSA if Verizon fails to satisfy its service level**  
20 **commitments?**

21 A. If the parties have disputes regarding service levels, the TSA provides for the  
22 identification of a Single Point of Contact from each side to investigate the matter and  
23 meet to resolve it. See TSA Article 11. If the Single Points of Contact cannot resolve the

1 matter, then it is referred to Senior Executive Officers within each company. If the  
2 parties are still unable to resolve the dispute, the TSA provides for arbitration. The  
3 arbitrators could assess damages if Verizon fails to satisfy its service level commitments.

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

5 A. Yes.