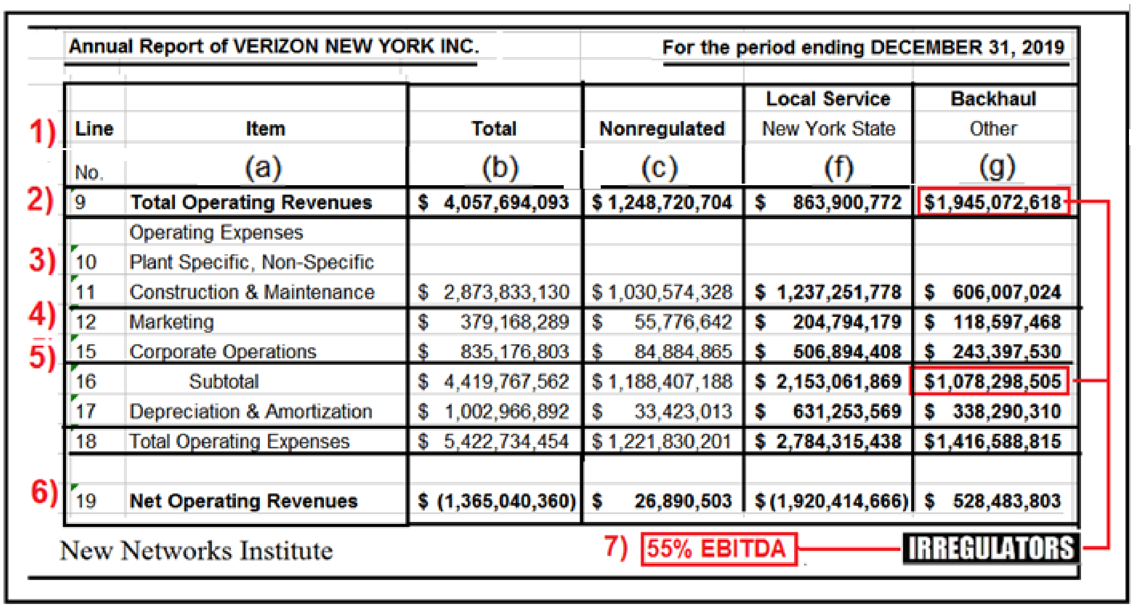

Annual Report of VERIZON NEW YORK INC. For the period ending DECEMBER 31, 2019

	Line	Item	Total	Nonregulated	Local Service	Backhaul
					New York State	Other
1)	No.	(a)	(b)	(c)	(f)	(g)
2)	9	**Total Operating Revenues**	**$ 4,057,694,093**	**$ 1,248,720,704**	**$ 863,900,772**	**$1,945,072,618**
		Operating Expenses				
3)	10	Plant Specific, Non-Specific				
	11	Construction & Maintenance	$ 2,873,833,130	$ 1,030,574,328	**$ 1,237,251,778**	**$ 606,007,024**
4)	12	Marketing	$ 379,168,289	$ 55,776,642	**$ 204,794,179**	**$ 118,597,468**
5)	15	Corporate Operations	$ 835,176,803	$ 84,884,865	**$ 506,894,408**	**$ 243,397,530**
	16	Subtotal	$ 4,419,767,562	$ 1,188,407,188	**$ 2,153,061,869**	**$1,078,298,505**
	17	Depreciation & Amortization	$ 1,002,966,892	$ 33,423,013	**$ 631,253,569**	**$ 338,290,310**
	18	Total Operating Expenses	$ 5,422,734,454	$ 1,221,830,201	**$ 2,784,315,438**	**$1,416,588,815**
6)	19	**Net Operating Revenues**	**$ (1,365,040,360)**	**$ 26,890,503**	**$ (1,920,414,666)**	**$ 528,483,803**

New Networks Institute 7) 55% EBITDA IRREGULATORS

(Excerpt: Verizon New York 2019 Annual Report)

Solve the Digital Divide by Halting Billions in Cross-Subsidies: Verizon NY 2019 Annual Report

NEXT STEP: Halt the Billions in Wireless Cross-Subsidies; Use the Money to Upgrade America with Fiber Optics-to-the Home—Solving the Digital Divide.

New Networks Institute (NNI)

IRREGULATORS

Bruce Kushnick, IRREGULATORS, Managing Director
NNI, Executive Director
bruce@newnetworks.com

August 24th, 2020

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Back Up Documentation:
NNI, IRREGULATORS, Partial List of Reports and Filings Related to NY State

IRREGULATORS

- On March 13th, 2020, our challenge of the FCC, IRREGULATORS v FCC, was a win for the American public. The DC Court of Appeals made it clear that the states are now independent to devise a new set of accounting requirements and not use the FCC's formulas.
- On June 8th, 2020, Verizon also filed a Motion with the NY Public Service Commission to hide, (they call it 'redact'), basic financial and business data.
- On June 30th, 2020, the IRREGULATORS filed comments to block Verizon NY's Motion and are now calling for investigations.
- On July 20th, 2020, NY Department of Public Service determined that the information we requested was confidential.
- On August 5th, 2020 we also filed with the FCC in the $9 billion 5G plan, pointing out that the FCC never examined the wireless cross-subsidies.
- On August 5th, 2020, we also filed with the FCC "The FCC must start serious audits and investigations into the actual expenses for the backhaul services and halt all of the cross-subsidies that are now in place with 5G wireless, and the harms to local service'.

We summarized our filing and what was redacted and why it matters:

- Why are the IRREGULATORS Calling for Investigations? Halting cross-subsidies can supply the billions of dollars to close the Digital Divide
- What Is Verizon Afraid of? REDACTED XXX Opens Pandora's Box. What was 'redacted' -- and what we are asking for.
- NEW REPORT: 15 Quotes: The Wireline-Wireless Bait-&-Switch Overcharged America and Caused the Digital Divide. Here is a collection of executive statements, excerpts from filings and comments by the FCC, the NY Attorney General's office and the state PSC.
- **REFERENCE POINTS:** A Library of Research has been put together covering this area since 2010.

VERIZON NEW YORK: EXAMINING THE FINANCIAL SHELL GAME

- In July 2018, Verizon New York and the NY state Public Service Commission settled and closed the investigation that had started in 2015. Estimated to be worth $300-$500 million, Verizon NY is required to upgrade 32000 lines of fiber in unserved areas as well as maintain the existing copper networks that are not being upgraded, that has been left to deteriorate over the last 2 decades.

- **Verizon NY Settlement Story, July 14th, 2018**
- **NY PSC Proposed Settlement April 16th, 2018**
- **NNI & IRREGULATOR FILINGS, 2017**

DIGITAL DIVIDE BY DESIGN

- FILED WITH COMMENTS: **REPORT 1: Did AT&T, Verizon, CenturyLink & the FCC Intentionally Create the Digital Divide?**
- FILED AS REPLY COMMENTS: **REPORT 2: Verizon New York 2017 Annual Report: An Analysis of Cross-Subsidies and Customer Overcharging**
- DESCRIPTION: This report, based on the Annual Report shows that there is a utility and that it is hemorrhaging money because of the FCC.

MANIPULATION OF THE ACCOUNTING OF ACCESS LINES: THE USTELECOM PETITION FOR FORBEARANCE

- FILED AS COMMENTS: **REPORT 3: Bell Access Line Accounting Manipulation 1984-2018**
- **Description:** Verizon, AT&T, CenturyLink, and their association, USTelecom, with the help of the FCC, have manipulated the basic accounting of access lines, and have removed or hidden 80% of all lines.

FIXING TELECOM REPORTS:

- Report 1: Exec Summary: Verizon's Manipulated Financial Accounting & the FCC's Big "Freeze"
- Report 2: Full Data Report
- Report 3: SPECIAL REPORT How Municipalities and the States can Fund Fiber Optic Wireline and Wireless Broadband Networks.
- REPORT 4: Data Report Proving Verizon's Wireline Networks Diverted Capex for Wireless Deployments Instead of Wiring Municipalities, and Charged Local Phone Customers for It.
- Report 5: The Hartman Memorandum proves that the FCC's own cost allocation rules created massive financial cross subsidies between and among the state-based wired utilities, and the companies' other lines of business, such as special access, or the wireless service.
- Report 6: The History & Rules of Setting Phone Rates in America —The FCC's 'Big Freeze' details that the FCC has set basic cost accounting expenses to based on the year 2000 and the FCC has never audited or investigated the impacts for 18 years.
- Report 8: Full Report: Verizon NY 2016 Report Analyzed, June 2017.

Reports and Filings, 2010-

- Verizon's State-Based Financial Issues & Tax Losses: The Destruction of America's Telecommunications Utilities
- In 2010, NNI started an investigation of the financial books of five Verizon's state-based utility phone companies, including Verizon New York and Verizon New Jersey and the ties to Verizon Communications affiliate companies, (subsidiaries) including Verizon Wireless, Verizon Online, Verizon Services, among others. Published in 2012
- Verizon Wireless and the Other Verizon Affiliate Companies Are Harming Verizon New York's (The State-based Utility) Customers & the State. Examining Verizon NY's Phone Rate Increases, Income Tax Benefits,

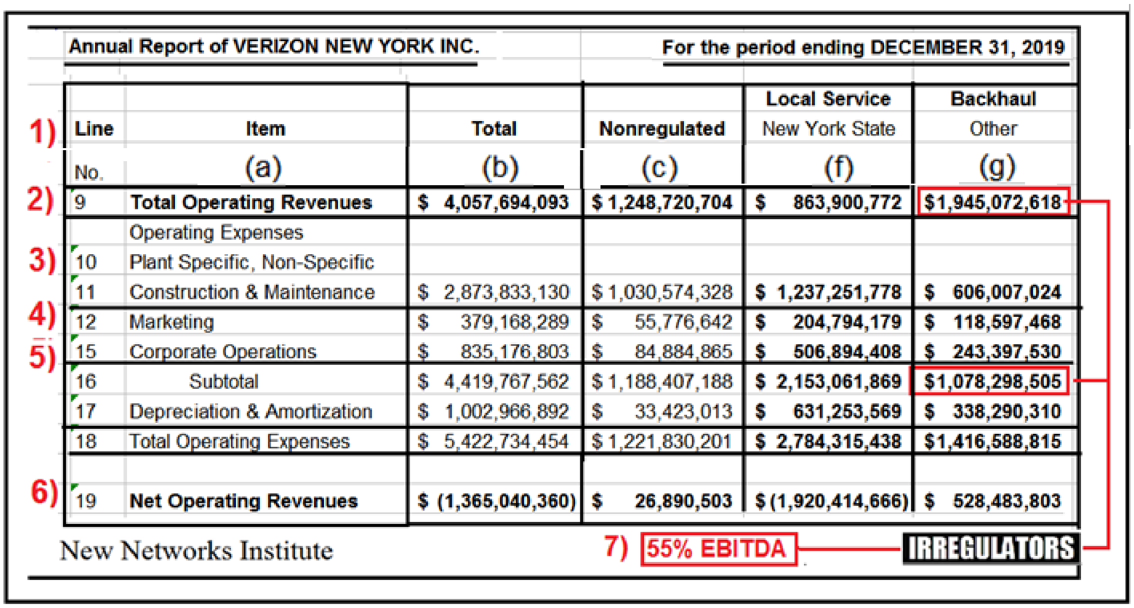
Lack of Network Upgrades, Service Quality and Pushing Voice Link Wireless Deployment

- Verizon Wireless and the Other Verizon Affiliate Companies Are Harming Verizon New York's (The State-based Utility) Customers & the State. In September 2013, our next report focused on Verizon New York and was the centerpiece of a filing by Common Cause, Consumer Union, CWA, and the Fire Island Asc., which called for an investigation of Verizon's financials and business practices, Alexander Goldman, Esq. co-authored the report.
- "It's All Interconnected", In May 2014, Public Utility Law Project, (PULP) published "It's all Interconnected", written by New Networks (with assistance by David Bergmann, Esq.) and it relied on unexamined data from Verizon New York using different Verizon supplied financials books.
- The Connect New York Coalition, filed a Petition with the NY State Public Service Commission to do a formal investigation of Verizon New York. July 1, 2014. The Petition is based, in part, on NNI's continuing research.
- Coalition members include AARP, Consumer Union, Common Cause, CWA, NY state politicians.

INTRODUCTION

Want to know why there is a Digital Divide or how to fund a fiber optic-to the-home future, even in rural areas, without government subsidies and handouts?

This is an excerpt from the Verizon NY 2019 Annual Report which was published on June 8th, 2020.



Annual Report of VERIZON NEW YORK INC. **For the period ending DECEMBER 31, 2019**

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New Networks Institute 7) 55% EBITDA IRREGULATORS

Verizon NY is NY State's (which includes NY City) primary public telecommunications utility, just like other state-based utilities, such as water, gas or electric. We will be referencing the excerpt above, taken directly from page 25. (It has been simplified for this discussion, but nothing was changed.)

We estimate that Verizon NY Local Service was overcharged an estimated $1.1-$1.6 billion, in just 2019, for just three expense items; Construction & Maintenance, Corporate Operations expenses and Marketing. (This is the low number.) Nationwide, this equates to Local Service being overcharged in America an estimated $16-$23 billion in just 2019.

We will go through our calculations based on this Verizon NY 2019 Annual Report and the previous 5 years, as well as using this as a model for the rest of America.

Follow the Money: The Basics in the Era of the Pandemic

First, virtually no one knows that there are still state telecommunications utilities in every state and virtually no one has actually examined the financial books — the revenues and expenses. Yet, it is now more critical and relevant than ever because the pandemic has exposed that there are massive holes in broadband deployment, mostly impacting low income urban areas as well as rural areas.

Moreover, these networks are not just the legacy copper wires, but also include almost all of Verizon’s fiber optic wires, such as the Fiber to the Premises, FTTP, wires used for FiOS, as well as the fiber going to the cell sites or to the ATM machines.

But, also unknown is the fact that over the last decade, these public telecom utilities have been and are continuing to be dismantled — and it has been done through the manipulation of the FCC’s cost accounting rules. These federal accounting formulas have been applied to the state utility financials and were supposed to divide up the costs to the different lines of business fairly to protect the utility phone customers. Instead, they now make the entire wired infrastructure of America appear unprofitable by diverting the majority of expenses into one category—basic wired local service.

More surprising, New York appears to be the only state that still requires and makes public the state-based incumbent telecommunications utility financials. The last available data from the FCC for America was for the year 2007.

Putting this Report and Next Steps in Context

Unfortunately, Verizon has been slowly removing (“redacting”) information from these financial reports. The IRREGULATORS and New Networks Institute filed to block this removal of basic information and we are now calling for investigations.

- On March 13th, 2020, IRREGULATORS v FCC, was a win for the American public. The IRREGULATORS had filed since 2015 to have the FCC fix their accounting or acknowledge, in writing, that they do not apply – or that there were no other ‘strings attached’. The DC Court of Appeals made it clear that the states are now independent to devise a new set of accounting requirements and not use the FCC’s formulas.

- On June 8th, 2020, Verizon also filed a Motion with the NY Public Service Commission to hide, (they call it ‘redact’), basic financial and business data.
- On June 30th, 2020, the IRREGULATORS filed comments to block Verizon NY’s Motion and are now calling for investigations.

We summarized our filing and detailed what was redacted and why it matters:

- Why are the IRREGULATORS Calling for Investigations? Halting cross-subsidies can supply the billions of dollars to close the Digital Divide.

- What Is Verizon Afraid of? REDACTED XXX Opens Pandora's Box. What was 'redacted' -- and what we are asking for.

The 5G Wireless & WiFi Knee-Jerk Reaction: The immediacy of solving the newly-exposed Digital Divide — and the uncertain future of families being stuck at home — has now generated knee-jerk reactions to roll out wireless and WiFi even though these statements never mention or examine that wireless requires fiber optic wires and it is not profitable once the costs of the fiber optic wires required for these services are incorporated; it is like giving a heart attack patient some aspirin and a band-aid, vs fixing the underlying problems. But the subplot has been that Verizon et al. have been force-feeding wireless because it makes them more money, not because it is better for the communities they serve.

1) Summary: The State Telecommunications Utility Financial Reports

Using the opening chart, (based on Page 25 in the PDF reader), let us go through it by the numbers. (We removed some columns and line items for simplicity.)

The Line Items are Numbered:

1) Verizon NY and the state telecommunications utilities have traditionally used 3 primary lines of business, which were established as part of the FCC's "USOA", "Uniform System of Accounts". Going back to the opening chart:

- **"Local Service":** ("NY State", Column F) are the "intrastate" revenues. These are mainly the copper-based basic residential and business local phone service.
- **"Backhaul":** ("Other", Column G) are also called "Special Access" and "Business Data Services". These can be the wires to the bank ATM machines and data services or they can be the fiber optic wires to the cell sites and 5G.
- **"Nonregulated"** services ("Column C") is a catchall for VoIP or FiOS video, and other services that were never regulated.

Highlights of the Findings: (rounded)

2) **Total Operating Revenues:** Verizon NY had $4.1 billion in revenues, with Backhaul having the majority at $1.9 billion, followed by Nonregulated with $1.2 billion and Local Service at $864 million.
    - NOTE: Local Service is 21% revenues; Backhaul 48%; Nonregulated is 31%.

3) **Construction & Maintenance** (known as “Plant” and “Plant Non-Specific”) shows that Local Service was charged $1.2 billion, **(3F)** while Backhaul only paid $606 million **(3G).**
    - (Expenses to maintain the existing wired network or to upgrade them to fiber.)

4) **Marketing:** Local Service paid 54% of this expense, $205 million (**4F**); Verizon stopped selling Local Service in many parts of the country. Nonregulated paid less than 15%, but that is FiOS video and VoIP.
    - (Expenses incurred with the selling of products and services.)

5) **Corporate Operations Expense**: (Sometimes called “General and Administrative”) Local Service is paying $507 million (**5F**) in Corporate Operations expenses, 61% of the total, while Backhaul paid only $243 million **(5G)**, 29%; Nonregulated is only paying 10% **(5C)**.
    - (Everything from executive pay, lawyers, lobbyists, or the corporate jets.)

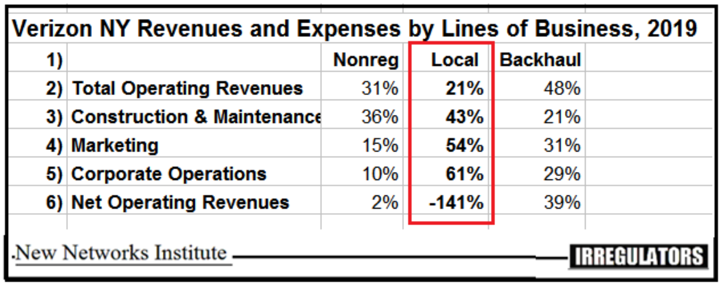
6) **Net Operating Revenues:** Backhaul has $528 million in profits **(6G)** while Local Service shows a loss of $1.9 billion **(6F).**
    - (These are the “profits” after most of the expenses have been paid.)

This, of course, makes no sense. Local Service, with $864 million in revenues, ended up paying $1.2 billion in Construction and Maintenance, over $507 million in Corporate Operations expense and over $205 million in Marketing—over $1.9 billion in expenses, which is more than double the revenues, (126%) and almost none of these expenses are related to offering local service.

7) **Profit Margin:** Backhaul’s “EBITDA”, “Earnings Before Taxes, Depreciation and Amortization” is 55% — (Calculated from ‘Column G’, “Subtotal” divided by “Revenues”.)

Local Service Pays the Majority of All Expenses.

This is the percentage of revenues, expenses and profits for the three lines of business, and it should stand out like a sore thumb that Local Service pays the majority of all of the expenses, making it show a net revenue loss of 141%. Conversely, how can “Backhaul” have the majority of the revenues but pay about ½ of Local Service for these expenses, like Corporate Operations expense?

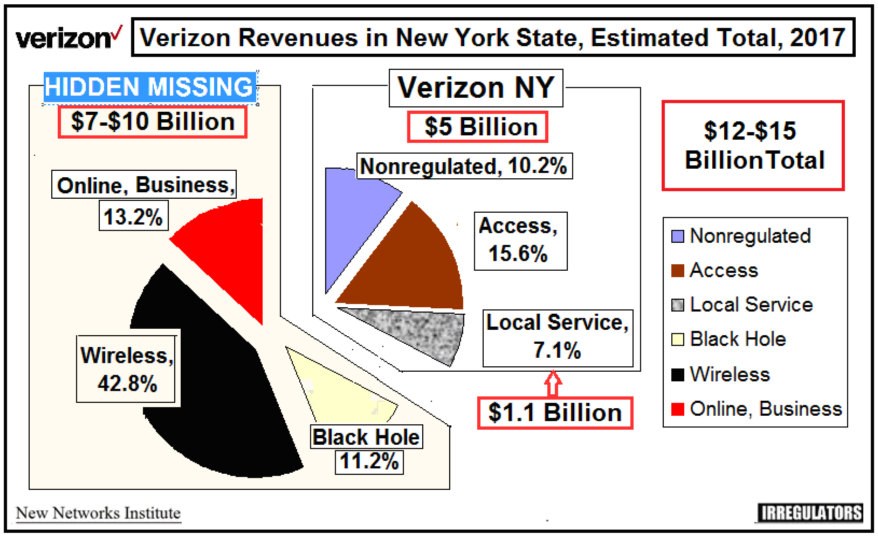


Verizon NY Revenues and Expenses by Lines of Business, 2019

1)		Nonreg	Local	Backhaul
2)	Total Operating Revenues	31%	**21%**	48%
3)	Construction & Maintenance	36%	**43%**	21%
4)	Marketing	15%	**54%**	31%
5)	Corporate Operations	10%	**61%**	29%
6)	Net Operating Revenues	2%	**-141%**	39%

New Networks Institute IRREGULATORS

Important: Additional Revenues: Verizon, in New York, has an additional estimated $7-$10 billion in revenues which do not appear in these financial reports. However, the expenses for much of this revenue from Verizon Wireless, Verizon Online or Verizon Business appear to be contained within these expenses.

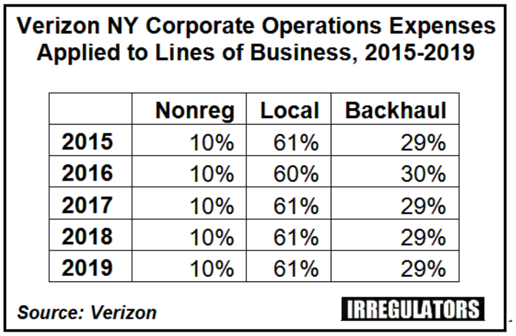


5-Year Analysis of Verizon New York Revenues and Expenses

We have decided to show that this pattern of cross-subsidies did not start in 2019, but has been a constant theme with identical deformed financial FCC formulas being applied. In fact, this pattern started in 2001, so the issues extend back for 2 decades.

2) Corporate Operations Expense – and Seeing the Pattern of Harms

Local Service in 2019 paid 61% of the Corporate Operations expense because it has been doing that since 2001. This is the percentage of expenses allocated for Corporate Operations expense for the last 5 years. Even when the total amount varies by a billion dollars, the percentage is set to reflect the year 2000. See a pattern?



Verizon NY Corporate Operations Expenses Applied to Lines of Business, 2015-2019

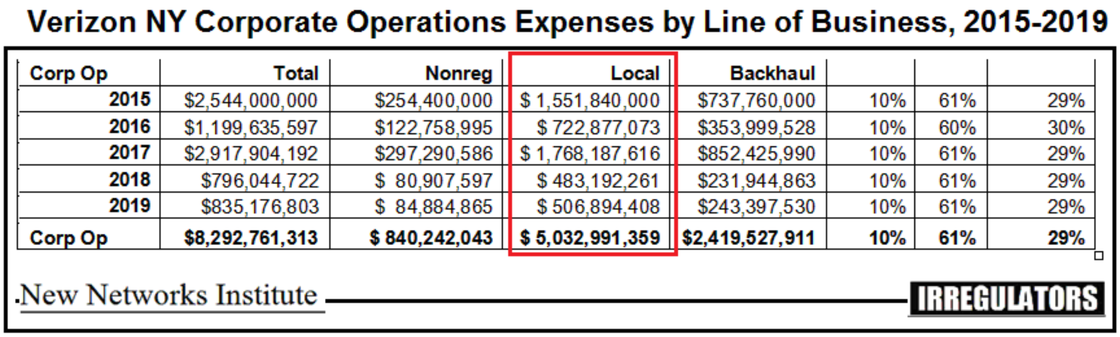
	Nonreg	Local	Backhaul
2015	10%	61%	29%
2016	10%	60%	30%
2017	10%	61%	29%
2018	10%	61%	29%
2019	10%	61%	29%

Source: Verizon IRREGULATORS

Corporate Operations expenses are a garbage pail which can include public relations and corporate advertising.

As we uncovered, for whatever the reasons, (which are never mentioned), the Corporate Operations per year can change dramatically. While Local Service always paid the same percentage, the total varied by $1.2 billion.

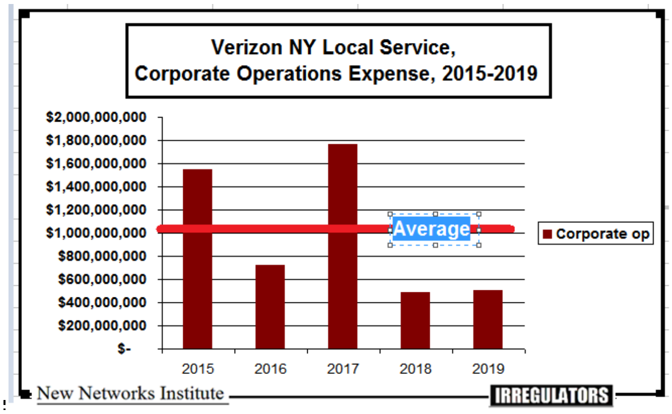
Over the last 5 years, Local Service paid a whopping $5 billion, over $1 billion annually, in Corporate Operations Expenses, regardless of what the revenues were.



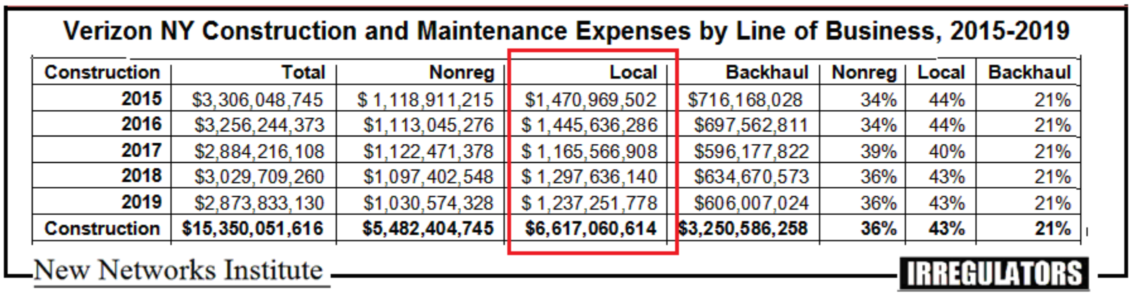
Verizon NY Corporate Operations Expenses by Line of Business, 2015-2019

Corp Op	Total	Nonreg	Local	Backhaul			
2015	$2,544,000,000	$254,400,000	$ 1,551,840,000	$737,760,000	10%	61%	29%
2016	$1,199,635,597	$122,758,995	$ 722,877,073	$353,999,528	10%	60%	30%
2017	$2,917,904,192	$297,290,586	$ 1,768,187,616	$852,425,990	10%	61%	29%
2018	$796,044,722	$ 80,907,597	$ 483,192,261	$231,944,863	10%	61%	29%
2019	$835,176,803	$ 84,884,865	$ 506,894,408	$243,397,530	10%	61%	29%
Corp Op	**$8,292,761,313**	**$ 840,242,043**	**$ 5,032,991,359**	**$2,419,527,911**	**10%**	**61%**	**29%**

New Networks Institute IRREGULATORS



3) Construction & Maintenance



Verizon NY Construction and Maintenance Expenses by Line of Business, 2015-2019

Construction	Total	Nonreg	Local	Backhaul	Nonreg	Local	Backhaul
2015	$3,306,048,745	$ 1,118,911,215	$1,470,969,502	$716,168,028	34%	44%	21%
2016	$3,256,244,373	$1,113,045,276	$ 1,445,636,286	$697,562,811	34%	44%	21%
2017	$2,884,216,108	$1,122,471,378	$ 1,165,566,908	$596,177,822	39%	40%	21%
2018	$3,029,709,260	$1,097,402,548	$ 1,297,636,140	$634,670,573	36%	43%	21%
2019	$2,873,833,130	$1,030,574,328	$ 1,237,251,778	$606,007,024	36%	43%	21%
Construction	**$15,350,051,616**	**$5,482,404,745**	**$6,617,060,614**	**$3,250,586,258**	**36%**	**43%**	**21%**

New Networks Institute IRREGULATORS

Local Service also paid $1.2 billion in construction in 2019, which is the majority of this expense. This has been going on for decades, but it is all based on the “75%-25% rule that is in place that put the majority of all construction into this one category. This rule has 75% of the network components being put into the ‘intrastate’ wire utility local service financial bucket, while only 25% of these expenses are put into the ‘interstate’ side.

4) Secrets of “Backhaul” (Also Called “Special Access”, or “Business Data Services”)

In the opening chart, Backhaul, had over $1.9 billion dollars, more than double the revenues of Local Service, and it shows a 55% profit margin, (while ironically, Local Service lost the same amount, $1.9 billion).

This is a very important point because all of America’s communications prices have been jacked up by this profit of the critical infrastructure, the guts of the networks.

The price of America’s wireless and broadband services are now 3–14 times more expensive than other countries worldwide. The Digital Divide, at its core, is created because low income families can’t afford broadband and wireless services, even if it is available.

Historically, this service should have had profit margins of 11.25%, but this profit margin kept going up continually. Now, in 2019, we see that Verizon NY backhaul has a profit margin, EBITDA, of 55%, for a service that is using the existing utility networks

The Art of Miss-Classifying

One must realize that this has all been a shell game. What is also unknown to most is that besides the FCC’s accounting formulas that are manipulating the books, there has been an additional shell game of ‘classification’, where one wire that was for phone service and classified as ‘intrastate’ is suddenly reclassified as an ‘information service’ or ‘interstate’ service, and different regulations are applied, but also different accounting formulas.

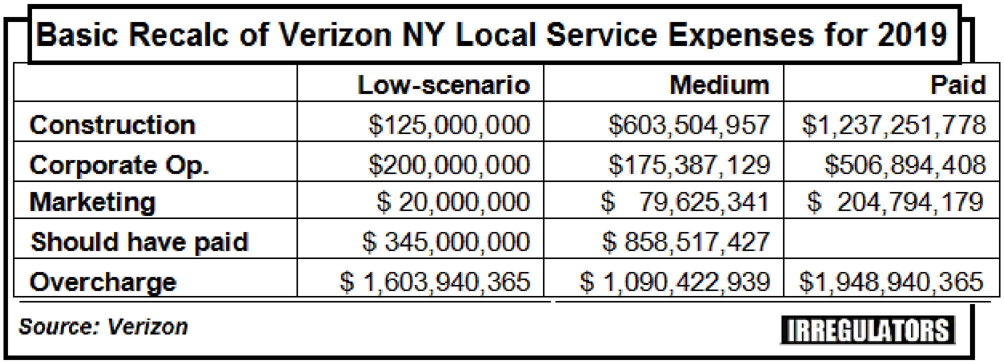
Making an ‘interstate’ service be highly profitable, while ‘intra-state’ Local Service has been artificially made highly unprofitable, has been underway for the last decade and this has helped to inflate the price of ALL telecommunications services in America.

At the core— the price of backhaul to all wireless and broadband companies who rent these wires has been inflated, which means that the bottom-line profitability is set based on this inflated price; thus all services that relies on these wires, which includes wireless, have an inflated base controlled by just 3 companies— AT&T, Verizon and CenturyLink.

Add to this the twist that Backhaul is subsidized by low-income families and rural customers via excess rate increases, this creates a circle, a wheel of harms, of which each of the spokes has their own digs.

PART II: Overcharged America: Solve the Digital Divide by Halting Billions in Cross-Subsidies

We estimate that Verizon NY Local Service was overcharged an estimated $1.1-$1.6 billion, in just 2019, in just New York (which includes NY City) and this includes overcharges created by the wireless cross-subsidies. (This is the low number.) Nationwide, this equates to Local Service being overcharged in America an estimated $16-$23 billion in just 2019.



Basic Recalc of Verizon NY Local Service Expenses for 2019

	Low-scenario	Medium	Paid
Construction	$125,000,000	$603,504,957	$1,237,251,778
Corporate Op.	$200,000,000	$175,387,129	$506,894,408
Marketing	$ 20,000,000	$ 79,625,341	$ 204,794,179
Should have paid	$ 345,000,000	$ 858,517,427	
Overcharge	$ 1,603,940,365	$ 1,090,422,939	$1,948,940,365

Source: Verizon

IRREGULATORS

The Verizon NY 2019 Annual Report was published on June 8th, 2020. Verizon NY is NY State's (which includes NY City) primary public telecommunications utility, just like other state-based utilities, such as water, gas or electric.

This chart details the estimated overcharge of Verizon NY Local Service for just three specific expense areas; Construction & Maintenance, Corporate Operations expenses and Marketing, for just the year 2019.

This is PART II. PART 1 went through some of the basic components of this state-based telecom public utility, detailing how the accounting has been manipulated so that the majority of all expenses have been put into one category, Local Service.

Putting this in Context

Over the last decade, New Networks Institute and the IRREGULATORS uncovered a massive financial accounting shell game using the Verizon New York, state-based telecommunications public utility financial reports. It took us years to understand the multiple layers that are in place. In 2014, our report "It's All Interconnected", published by Public Utility Law Project, became the foundation for an investigation of Verizon New York, led by the Connect NY Coalition that resulted in a settlement in July 2018. Estimated at $300-$500 million, our research helped to get 30,000 lines of fiber optics to unserved areas and the maintaining of the copper networks that were deteriorating in areas the were never properly upgraded. But, this still left billions in cross-subsidies.

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- What Is Verizon Afraid of? REDACTED XXX Opens Pandora's Box. What was 'redacted' -- and what we are asking for.

5) How Much Was Overcharged in Just New York, in Just 2019?

In order to fully determine how much money is owed to customers and how much has been cross-subsidized and needs to be halted and redirected so it can be used to build out the fiber to the home networks and solve Digital Divide, here is the starting point, based on the Verizon NY 2019 Annual Report.

IMPORTANT

- First, the underlying revenue and expense numbers presented were not created by the IRREGULATORS by are directly from actual financial reports from Verizon that were given to the NY Public Service Commission.
- Second, the numbers presented are NOT the total overcharging or the amount that could be recovered, but only recalculating the results of the Verizon NY Annual Report for 2019 and five years of annual reports.
- Third, this overcharging only covers 3 expense areas: Marketing, Construction and Maintenance, and Corporate Operations expenses. This means that excessive cell phone bills, customer overcharging for local service via cross-subsidies or a collection of miscellaneous charges, like not fully paying property taxes, are still on the table to be exposed.
- We apply the term "cross-subsidy" to mean that the wireline public telecom utility's assets, infrastructure, construction budgets, etc. have been used by a different line of business without adequate payment or reimbursement. Moreover, these other lines of business or subsidiaries are not paying expenses that should have been allocated and paid for by these other entities. Worse, many of these items had a direct impact on customer rate

increases and pricing, as well as public policy decisions such as who got upgraded and who didn't, and with what technology and at what cost.

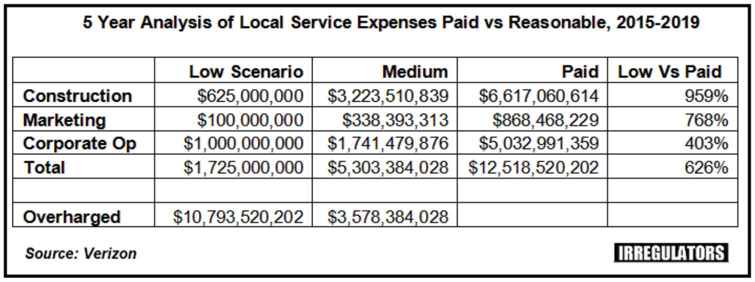
- IMPORTANT: Local Service is a line of business of Verizon NY; this is not direct overcharging of local phone customers, which is actually much higher. As we discussed elsewhere, local phone customers paid over $3,100.00 per line as of 2018 if they had the service since 2005.

6) If the expenses were reset to pay the actual expenses incurred, we estimate that Verizon NY 2019 Local Service was overcharged:

SEE THE OPENING CHART: We created a "low" and "medium" scenario. The "low" is based on historical models of expenses (or best guesstimates), while the "medium" is created based on the expenses being allocated using the % of the revenues (as was the case in 2001). The "paid" column represents the actual expense charged to that specific line of business. However, without full audits it is impossible to determine the full extent of the overcharging.

- **$1.1-$1.6 billion was overcharged to Local Service**, in just 2019, using a limited number of factors. Again, we base the overcharging on Construction & Maintenance, Marketing and Corporate Operations expenses, only
- **"Marketing"** was charged $205 million, 54%, to Local Service. We estimate that the expense for the "low" scenario should have been less than $20 million, tops. When was the last time you saw an advertisement for basic copper phone service?
- **"Construction & Maintenance"** paid $1.2 billion. Historically, Local Service, based mostly on the existing, aging copper networks, had expenses of $75-$125 million. We used the high range of $125 million for the 'low' scenario. This represents a potential of $1 billion in overcharging as the construction appears to have been diverted to wireless.
- "**Corporate Operations"** was charged at 61%, over $½ billion dollars. We estimate that it should have been $200-300 million based on the historical record. In 2017, it paid $1.8 billion, which would be a $1.5 billion overcharge.

7) 5 Year Analysis of Overcharging



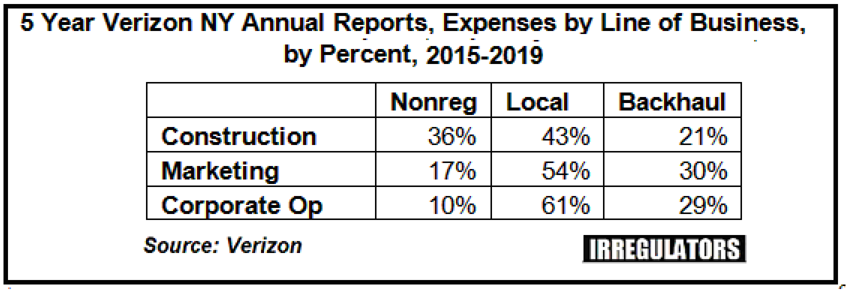
5 Year Analysis of Local Service Expenses Paid vs Reasonable, 2015-2019

	Low Scenario	Medium	Paid	Low Vs Paid
Construction	$625,000,000	$3,223,510,839	$6,617,060,614	959%
Marketing	$100,000,000	$338,393,313	$868,468,229	768%
Corporate Op	$1,000,000,000	$1,741,479,876	$5,032,991,359	403%
Total	$1,725,000,000	$5,303,384,028	$12,518,520,202	626%
Overharged	$10,793,520,202	$3,578,384,028		

Source: Verizon

- Local Service, over the last 5 years, was charged over $12.5 billion in Construction and Maintenance, Marketing and Corporate Operations expenses.
- Using historical expenses, we estimate that it should have paid $1.7 billion; an overcharge of $10.8 billion.
- If Local Service paid the percentage of expenses based on the percentage of revenues, than Local Service (at 21%) was overcharged $3.6 billion.
- Local Service was charged almost $868 million dollars in just 5 years for MARKETING while the other lines of business, like FiOS video paid 15%.
- Local Service paid the majority of construction and maintenance which was double what 'Backhaul' paid.

Because of the FCC deformed accounting formulas, the pattern of cross-subsidy is evident and unchanged as the percentage that was applied year by year to each expense category for each line of business was unchanging.



5 Year Verizon NY Annual Reports, Expenses by Line of Business, by Percent, 2015-2019

	Nonreg	Local	Backhaul
Construction	36%	43%	21%
Marketing	17%	54%	30%
Corporate Op	10%	61%	29%

Source: Verizon

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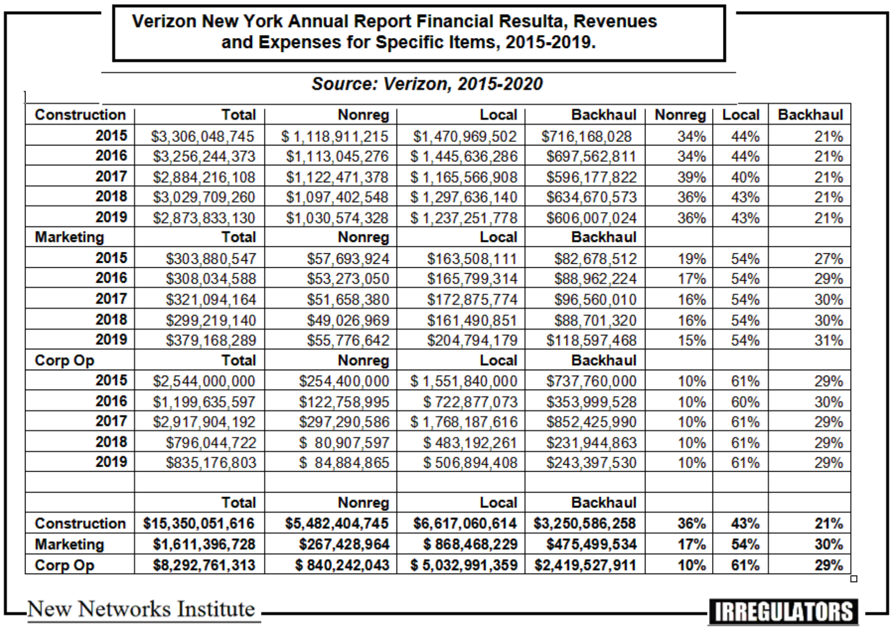
Wireless Overcharge: If, as the research suggests, that 80% of the construction budget was improperly used for wireless, then Wireless construction from Local Service was $5.3 billion.

8) A Litany of Other Expenses and Overcharges

- These inflated expenses created losses for Local Service which were used as an excuse for rate increases since 2006.
- This lowered the tax payments as well as gave Verizon tax benefits.
- Rate increases were also granted for "massive deployment of fiber optics", which were later diverted to fund the wireless networks instead.
- The other lines of business, like wireless, have been underpaying, and should be paying $750 million to $1 billion more, annually, for use of the networks as well as for the construction of their wireless networks.
- Some charges, like charging Local Service $868 million for "Marketing" over the last 5 years, when there is virtually no marketing for local phone service, is one of many areas that should be investigated.

9) Now Multiply This by America.

The 2019 Annual Report Is Indicative of the Verizon New York's Financials Over the Last 5 Years. The next chart proves beyond a shadow of a doubt that the 2019 Annual Report is a continuation of the previous reports. This is a 5-year breakout of the expenses by line of business, as well as the percentage paid by each line of business on the right.



Verizon New York Annual Report Financial Resulta, Revenues and Expenses for Specific Items, 2015-2019.

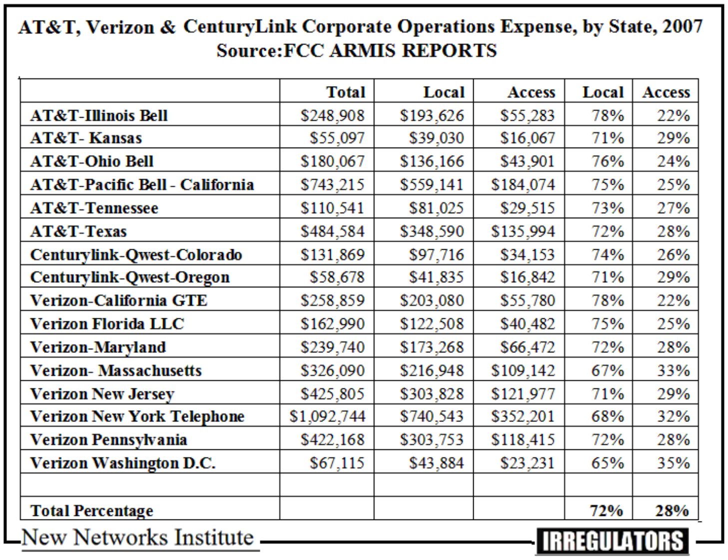
Source: Verizon, 2015-2020

Construction	**Total**	**Nonreg**	**Local**	**Backhaul**	**Nonreg**	**Local**	**Backhaul**
2015	$3,306,048,745	$ 1,118,911,215	$1,470,969,502	$716,168,028	34%	44%	21%
2016	$3,256,244,373	$1,113,045,276	$ 1,445,636,286	$697,562,811	34%	44%	21%
2017	$2,884,216,108	$1,122,471,378	$ 1,165,566,908	$596,177,822	39%	40%	21%
2018	$3,029,709,260	$1,097,402,548	$ 1,297,636,140	$634,670,573	36%	43%	21%
2019	$2,873,833,130	$1,030,574,328	$ 1,237,251,778	$606,007,024	36%	43%	21%
Marketing	**Total**	**Nonreg**	**Local**	**Backhaul**			
2015	$303,880,547	$57,693,924	$163,508,111	$82,678,512	19%	54%	27%
2016	$308,034,588	$53,273,050	$165,799,314	$88,962,224	17%	54%	29%
2017	$321,094,164	$51,658,380	$172,875,774	$96,560,010	16%	54%	30%
2018	$299,219,140	$49,026,969	$161,490,851	$88,701,320	16%	54%	30%
2019	$379,168,289	$55,776,642	$204,794,179	$118,597,468	15%	54%	31%
Corp Op	**Total**	**Nonreg**	**Local**	**Backhaul**			
2015	$2,544,000,000	$254,400,000	$ 1,551,840,000	$737,760,000	10%	61%	29%
2016	$1,199,635,597	$122,758,995	$ 722,877,073	$353,999,528	10%	60%	30%
2017	$2,917,904,192	$297,290,586	$ 1,768,187,616	$852,425,990	10%	61%	29%
2018	$796,044,722	$ 80,907,597	$ 483,192,261	$231,944,863	10%	61%	29%
2019	$835,176,803	$ 84,884,865	$ 506,894,408	$243,397,530	10%	61%	29%
	Total	**Nonreg**	**Local**	**Backhaul**			
Construction	**$15,350,051,616**	**$5,482,404,745**	**$6,617,060,614**	**$3,250,586,258**	**36%**	**43%**	**21%**
Marketing	**$1,611,396,728**	**$267,428,964**	**$ 868,468,229**	**$475,499,534**	**17%**	**54%**	**30%**
Corp Op	**$8,292,761,313**	**$ 840,242,043**	**$ 5,032,991,359**	**$2,419,527,911**	**10%**	**61%**	**29%**

10) The 2019 Annual Report Should Match All of the Other States: The FCC Accounting Financial Anomalies Are Nationwide.

We know that the last available data from the FCC for the other state utilities was from 2007, but we've obtained info on other states that shows that the FCC formulas are still in play; no state ever upturned these rules publicly and it appears the telcos never changed their accounting practices.

This chart supplies a collection of AT&T, Verizon and CenturyLink's state utilities' Corporate Operations expenses, using the Backhaul (here called "Access") and Local Service lines of business. (In 2007, the Nonregulated category was nominal in revenues and thus expenses.) As you can see from the chart, while there is a range for the Corporate Operations expenses, the overall average was—Local Service was charged 72% of the total, while Backhaul only paid 28%.



AT&T, Verizon & CenturyLink Corporate Operations Expense, by State, 2007
Source:FCC ARMIS REPORTS

	Total	Local	Access	Local	Access
AT&T-Illinois Bell	$248,908	$193,626	$55,283	78%	22%
AT&T- Kansas	$55,097	$39,030	$16,067	71%	29%
AT&T-Ohio Bell	$180,067	$136,166	$43,901	76%	24%
AT&T-Pacific Bell - California	$743,215	$559,141	$184,074	75%	25%
AT&T-Tennessee	$110,541	$81,025	$29,515	73%	27%
AT&T-Texas	$484,584	$348,590	$135,994	72%	28%
Centurylink-Qwest-Colorado	$131,869	$97,716	$34,153	74%	26%
Centurylink-Qwest-Oregon	$58,678	$41,835	$16,842	71%	29%
Verizon-California GTE	$258,859	$203,080	$55,780	78%	22%
Verizon Florida LLC	$162,990	$122,508	$40,482	75%	25%
Verizon-Maryland	$239,740	$173,268	$66,472	72%	28%
Verizon- Massachusetts	$326,090	$216,948	$109,142	67%	33%
Verizon New Jersey	$425,805	$303,828	$121,977	71%	29%
Verizon New York Telephone	$1,092,744	$740,543	$352,201	68%	32%
Verizon Pennsylvania	$422,168	$303,753	$118,415	72%	28%
Verizon Washington D.C.	$67,115	$43,884	$23,231	65%	35%
Total Percentage				72%	28%

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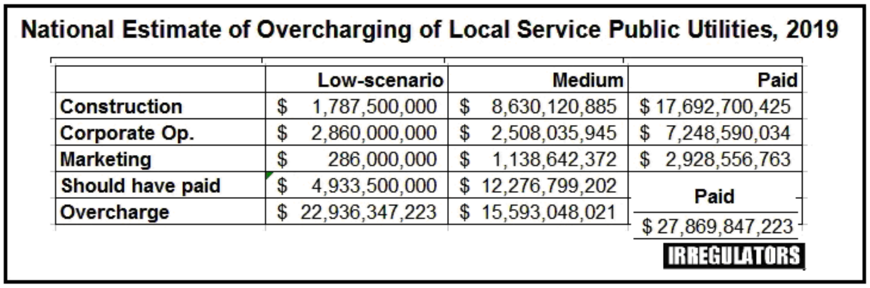
We use this set of data as an indicator of the state-based overcharging coming up.

To create a model of nationwide overcharging, we used our New York analysis. More importantly, having tracked the state utilities for the last 2 decades, we know that New York historically represented 6–7% of the US wireline networks from time immemorial. We used 7% for this calculation.



National Estimate of Overcharging of Local Service Public Utilities, 2019

	Low-scenario	Medium	Paid
Construction	$ 1,787,500,000	$ 8,630,120,885	$ 17,692,700,425
Corporate Op.	$ 2,860,000,000	$ 2,508,035,945	$ 7,248,590,034
Marketing	$ 286,000,000	$ 1,138,642,372	$ 2,928,556,763
Should have paid	$ 4,933,500,000	$ 12,276,799,202	Paid
Overcharge	$ 22,936,347,223	$ 15,593,048,021	$ 27,869,847,223

Since the accounting formulas were the same and we can find no evidence that the rules are not in use, even when the state commissions or companies or advocates don't realize this has been happening, we estimate that:

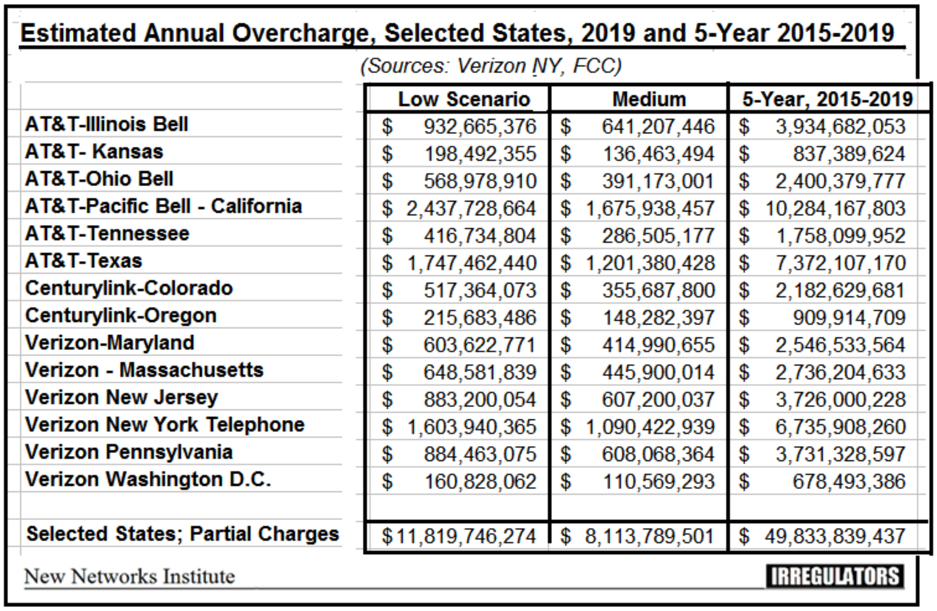
Nationwide:
- Local Service category has paid $28 billion in these 3 expense areas.
- Should have paid between $4.9 billion to $12.3 billion.
- Overcharged $15.6 to $22.9 billion dollars in just 2019.

Rough 5 Year Calculation:
- Local Service category has paid $140 billion in these 3 expense areas
- Should have paid between $24.5 billion to $61.5 billion
- Overcharged $78 to $114.5 billion dollars from 2015-2019

If this is even partially happening, the amount of money to close the Digital Divide is there and has been for the last decade, but the regulators never stopped to examine the cross-subsidies, much less stopped them.

11) Overcharging by State Utilities Controlled by AT&T, Verizon & CenturyLink.

We offer up the break out of various states utilities we have been covering for the last decade+. Using New York as the model as well as examining the expenses in each state for Construction, Corporate Operations and Marketing, we developed this chart. It does not cover most states nor would we consider it accurate until we had the actual state-based data and details.



Estimated Annual Overcharge, Selected States, 2019 and 5-Year 2015-2019

(Sources: Verizon NY, FCC)

	Low Scenario	Medium	5-Year, 2015-2019
AT&T-Illinois Bell	$ 932,665,376	$ 641,207,446	$ 3,934,682,053
AT&T- Kansas	$ 198,492,355	$ 136,463,494	$ 837,389,624
AT&T-Ohio Bell	$ 568,978,910	$ 391,173,001	$ 2,400,379,777
AT&T-Pacific Bell - California	$ 2,437,728,664	$ 1,675,938,457	$ 10,284,167,803
AT&T-Tennessee	$ 416,734,804	$ 286,505,177	$ 1,758,099,952
AT&T-Texas	$ 1,747,462,440	$ 1,201,380,428	$ 7,372,107,170
Centurylink-Colorado	$ 517,364,073	$ 355,687,800	$ 2,182,629,681
Centurylink-Oregon	$ 215,683,486	$ 148,282,397	$ 909,914,709
Verizon-Maryland	$ 603,622,771	$ 414,990,655	$ 2,546,533,564
Verizon - Massachusetts	$ 648,581,839	$ 445,900,014	$ 2,736,204,633
Verizon New Jersey	$ 883,200,054	$ 607,200,037	$ 3,726,000,228
Verizon New York Telephone	$ 1,603,940,365	$ 1,090,422,939	$ 6,735,908,260
Verizon Pennsylvania	$ 884,463,075	$ 608,068,364	$ 3,731,328,597
Verizon Washington D.C.	$ 160,828,062	$ 110,569,293	$ 678,493,386
Selected States; Partial Charges	$11,819,746,274	$ 8,113,789,501	$ 49,833,839,437

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(For low and medium and paid definitions, see Verizon NY overcharging section)

- AT&T California has a range of $1.7 billion going to $2.4 billion in just 2019 for Local Service overcharging, and that comes to over $10.3 billion on average for 5 years.
- CenturyLink Colorado has $356 million to $517 million going to $2.1 billion for the last 5 years.

NOTE:) These overcharging calculations have many caveats, as it will require actual audits of the financial books in other states to determine the extent of the problem. But we have a set of 2 decades of financial reports from Verizon New York as well as our analysis. We also demonstrated that the other states matched NY using the last available FCC data, as well as FOIL requests and other state documents to realize this is a national problem.