Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications Filed by	)	WC Docket No. 09-95
Frontier Communications Corporation	)	
and Verizon Communications Inc.	)	
for Assignment or Transfer of Control	)	

Comments of
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I. INTRODUCTION AND SUMMARY

The proposed sale by Verizon Communications Inc. ("Verizon") to Frontier Communications, Inc. ("Frontier") (jointly "Applicants") of 4.8 million lines in 14 states, as currently structured, will result in considerable harm to consumers and communities.[1] The proposed transaction raises serious concerns about whether the new Frontier will be able to provide quality telecommunications services and deployment of advanced high-speed broadband services. Frontier will find if difficult to meet its debt obligations while simultaneously investing enough capital to maintain current plant, improve service quality, set up entirely new operational, administrative and billing systems in West Virginia, lease existing computer systems from Verizon in the other 13 states until it integrates those systems, provide video service for the first time, ensure adequate staffing, and expand broadband availability. The financial and operational risks involved in the transaction overwhelm any supposed benefits.

The Communications Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW") represent 1.45 million employees working in communications, media, airlines, manufacturing, utility, construction and maintenance, and public service. CWA and IBEW represent about 6,500 workers employed by Verizon in the areas impacted by the proposed divestiture. (We will refer to these areas as "Verizon's Separate Telephone Operations," or "VSTO.") CWA and IBEW also represent approximately 2,800 workers employed by Frontier.

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[1] The 14 states are Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, and Wisconsin, and a portion of Verizon's local exchange networks in California. *See* Verizon Communications Inc. and Frontier Communications Corporation Application for Consent to Assign and Transfer Control of Authority to Provide Global Facilities-Based and Global Resale International Telecommunications Services and to Assign and Transfer Control of Domestic Common Carrier Transmission Lines, Pursuant to Section 214 of the Communications Act of 1934, as Amended, WC Docket No. 09-95, filed July 20,

The post-sale company will find it difficult to deliver the benefits in improved service and broadband expansion that they promise. Frontier will be burdened with an additional $3.3 billion in debt, and Verizon's transferred properties will experience a six-fold increase in the revenue they must generate to service the higher debt load. Equally disturbing, Frontier has not yet obtained any of the debt financing it requires to complete the transaction.

Further, neither Frontier nor any other company its size has ever taken on a deal of this complexity and magnitude – requiring the integration of 4.8 million lines spread over parts of 14 states stretching from coast to coast. The new Frontier will have to manage a company with triple its current number of access lines and employees. In West Virginia, Frontier will need to integrate all computer systems – including billing, ordering, provisioning, network operations, trouble reporting, dispatch, customer service, among other systems – on the day the deal closes. In the 13 other states, where Frontier will temporarily lease Verizon's systems, Frontier will be under pressure to cut-over to its own systems as soon as possible – and likely before they are ready -- in order to stop paying rent to Verizon and to meet its projected $500 million annual "synergy" targets. It took Frontier seven years to integrate the approximately 500,000 lines it purchased from Rochester Telephone in 2001, and even then there were serious service problems. Frontier will face many challenges as it strives to implement a smooth integration and avoid the disastrous experience that is taking place right now as a consequence of Verizon's landline divestiture in northern New England to FairPoint Communications Inc. ("FairPoint").

While the transaction poses tremendous financial and operational risks of harm, it presents few countervailing public interest benefits. Frontier has not made any definite, verifiable, or

2009 ("Joint Application").

enforceable commitments in terms of broadband build-out or improvements in service to consumers. Frontier projects a 21 percent or $500 million annual cut in operational expenses, which would further limit funds available for investment in plant, customer service, and staffing. Even without such draconian so-called "synergy" savings, Frontier – a more highly leveraged company than Verizon – will struggle to find the resources to expand and upgrade broadband services.

Frontier's business model has been based on a transfer of wealth to shareholders rather than re-investment in its networks. Frontier has historically paid out more in dividends to shareholders than it earns in annual profits, and as a result, has seen its shareholder equity steadily decline. Even with its proposed dividend reduction going forward, Frontier will likely continue this pattern.

Moreover, Frontier's capital expenditures (expressed as a percentage of revenues) trail far behind the level that Verizon actually has been investing in VSTO. And while Frontier claims it has a higher rate of broadband deployment in its service areas than Verizon has in VSTO, Frontier receives higher per-line universal service support for these areas than Verizon. Under the "parent trap" rule, Frontier's universal service support would be the same as Verizon's in the VSTO service areas.[2]

In fact, the proposed Verizon divestiture to Frontier would most likely represent a step backward for high-speed broadband deployment in these states. Verizon has deployed its world-class FiOS fiber-to-the-home ("FTTH") network in parts of four states involved in this deal (Washington, Oregon, Indiana, and South Carolina). Today, Verizon's FiOS network passes

[2] 47 CFR § 54.305

600,000 homes in these states, and serves 140,000 FiOS Internet and 103,000 FiOS TV subscribers.[3] (Verizon sells FiOS Internet in all four states, but does not sell FiOS TV in South Carolina.) While Frontier claims it will continue to provide video programming to current customers, it is not at all clear that the company – which has never operated a video system before – would have the resources to support the inevitable increase in programming and other costs spread over a much smaller viewing audience and revenue base. Further, in some areas where Verizon has not yet deployed FTTH, it is offering a high-speed 7 mbps DSL service.

In stark contrast to Verizon's state-of-the-art FTTH network and its progressive high-speed DSL service, Frontier's customers are limited to DSL at either 768 kbps or 3 mbps. According to Frontier, it has no plans to improve either its existing network or the VSTO network beyond the 3 mbps DSL service.[4]

As the Commission carefully scrutinizes this proposed transaction, it must keep in mind the consumer experience that has followed other Verizon sales. As the *Wall Street Journal* recently reported, three of Verizon's most significant divestitures are either in bankruptcy or near it. Verizon sold Hawaiian Telecom to the Carlyle Group in 2005; Hawaiian Telecom filed for bankruptcy in December 2008. Verizon spun off its yellow pages division to Idearc Inc. in November 2006; Idearc filed for bankruptcy in May 2008. Verizon sold its northern New England properties to FairPoint in March 2008; FairPoint has struggled financially and

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[3] Frontier Corp. Prospectus, Form 424B3, filed with the Securities and Exchange Commission on Sept. 16, 2009 (hereafter "Prospectus"), p. 146; Application p 8

[4] See, e.g., Frontier response to data request IBEW-47 in Joint Application of Verizon Communications Inc. and Frontier Communications Corp., Oregon Public Utilities Commission Docket No. UM 1431(hereafter "Oregon Docket") ("Frontier has no plans to increase speed offerings in its existing Oregon service areas …"); Frontier response to data request IBEW 2.9 in Joint Application of Frontier Communications Corp. et al., Illinois Commerce Commission Docket No. 09-0268 (hereafter "Illinois Docket") ("Frontier has no plans to increase speed offerings in its existing Illinois service areas …").

operationally and appears to be on the verge of a bankruptcy reorganization filing. While the dumping of these properties may have benefited Verizon, consumers suffered as the new owners struggled and eventually failed to service the high debt load that was transferred at the time of the acquisition.

It is now seventeen months since Verizon sold 1.5 million lines in Vermont, New Hampshire, and Maine to FairPoint Communications. Customers there continue to face lengthy service delays, outages, unresolved billing problems, difficulties accessing personal e-mail accounts, and long waits to speak to a FairPoint customer service representative. Recently, FairPoint notified regulators that it will not be able to meet its broadband build-out commitments. FairPoint's Chief Executive Officer has admitted that FairPoint may be headed for bankruptcy.

The northern New England experience demonstrates that regulatory conditions cannot protect consumers when an acquiring company does not have the financial resources and technical and operational expertise to operate the company that it buys. Regulators may condition merger approval upon applicants' commitments to meet service benchmarks, investment timetables, employment levels, cut-over and integration metrics, and other financial and operational standards, and can impose penalties for failure to meet those targets, but if the applicant is fundamentally unfit to meet those metrics, there is little the regulator can do after the fact. Regulators cannot reverse the transaction. Damage done cannot be undone.

The Applicants have provided the Commission scant information regarding this transaction. What information we do know from publicly available sources indicates that this deal, as currently structured, does not serve the public interest. The Commission must conduct an

extensive review and thorough analysis of the proposed transaction. The Commission should obtain the public and proprietary information that it needs to conduct an independent analysis of the post-sale financial and operational viability of the new Frontier. The Commission should create a complete factual record including the testimony and cross examination transcripts from state Commission proceedings. Only after such a thorough review will the Commission be able to determine what conditions, if any, are necessary to ensure that the transaction serves the public interest.

This transaction poses potential harm not only for the almost five million consumers and the hundreds of communities in the 14 states in which landlines will transfer from Verizon to Frontier. It also could potentially harm the 2.3 million current Frontier customers in 24 states that will suffer as the new Frontier diverts financial and human resources from its current operations to meet merger-related debt obligations and operational challenges.

In baseball, there are three strikes and then you're out. A fourth failure is not an option. The Commission must ensure that the proposed transaction serves the public interest in quality service and deployment of advanced broadband services.

II. STANDARD OF REVIEW AND PUBLIC INTEREST FRAMEWORK

Pursuant to sections 214(a) and 310(d) of the Communications Act, the Commission must determine whether the Applicants have demonstrated that the proposed transfer of control of Verizon's licenses and authorizations to Frontier will serve the public interest, convenience, and necessity.[5] The Commission considers whether the proposed transaction could result in public interest harms by substantially frustrating or impairing the objectives or implementation of the Communications Act or related statutes.

The Commission must consider not only the impacts on VSTO and its customers, but also the effects of the transaction on Frontier and its current customers. The Commission has properly determined that a transaction of this nature – where the purportedly "acquiring" company (Frontier, in this case) is transferring a majority interest of its common stock to the "acquired" company's shareholders (Verizon, in this case) – constitutes a jurisdictional change in control of both companies. As this Commission recently stated in the Embarq-CenturyTel transaction (where the Embarq operating companies would be acquired by CenturyTel, but Embarq's shareholders would receive 66% of CenturyTel's common stock):

> Because the current shareholders of Embarq will acquire an approximate 66 percent interest in CenturyTel, the proposed merger involves a "substantial change in ownership" of CenturyTel and its subsidiaries. At the same time, the former Embarq subsidiaries will become wholly-owned subsidiaries of CenturyTel and the former CenturyTel directors will make up a majority of the post-transaction board. Accordingly, the proposed merger involves the transfer of control of the licenses and authorizations held by both companies' respective subsidiaries.[6]

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[5] 47 U.S.C. §§ 214(a), 310(d).

[6] *Applications Filed for the Transfer of Control of Embarq Corporation and CenturyTel, Inc.*, WC Docket No. 08-238, FCC 09-54, 24 FCC Rcd 8741 (June 25, 2009), ¶ 6 (emphasis added).

The public interest standards of sections 214(a) and 310(d) involve a balancing process that weighs the potential public interest harms of the proposed transaction against the potential public interest benefits.[7] The Applicants bear the burden of proving, by a preponderance of the

[7] *See, e.g. Applications Filed for the Transfer of Certain Spectrum Licenses and Section 214 Authorizations in the States of Maine, New Hampshire, and Vermont from Verizon Communications Inc. and its Subsidiaries to FairPoint Communications, Inc.*, WC Docket No. 07-22, Memorandum Opinion and Order, para 11 (Jan. 9, 2008 rel)("*Verizon/FairPoint Order"); Applications Field for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.,* WC Docket No. 08-238, Memorandum Opinion and Order, para 9 (June 25, 2009)("*CenturyTel/Embarq Orde");AT&T Inc. and BellSouth Corporation Application for Transfer of Control,* WC Docket No. 06-74, Memorandum Opinion and Order, March 26, 2007, para.19 (March 26, 2007 rel)("*AT&T/BellSouth Order"*); *SBC Communications, Inc. and AT&T Corp. Applications for Approval of Transfer of Control,* WC Docket No. 05-65, Memorandum Opinion and Order, 20 FCC Rcd 18300, para 16 (2005) ("*SBC/AT&T Order"*), *Verizon Communications, Inc. and MCI, Inc. Applications for Approval of Transfer of Control,* WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18443, para. 16 (2005) ("*Verizon/MCI Order"*), *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation For Consent to Transfer Control of Licenses and Authorizations*, WT Docket 04-70, Memorandum Opinion and Order, para. 40, Oct. 26, 2004 (rel) ("*Cingular-AT&T Order*"); *Applications for Consent to the Assignment of Licenses Pursuant to Section 310(d) of the Communications Act from NextWave Personal Communications, Inc., Debtor-in-Possession, and NextWave Power Partners, Inc., Debtor-in Possession, to Subsidiaries of Cingular Wireless LLC*, WT Docket 03-217, Memorandum Opinion and Order, 19 FCC Rcd. At 2580-81 para. 24 (2004) ("*Cingular-NextWave Order*"); *General Motors Corporation and Hughes Electronics Corporation, Transferors, and The News Corporation Limited, Transferee*, MB Docket No. 03-124, Memorandum Opinion and Order, 19 FCC Rcd. at 483 para. 15 (2004) ("*GM-News Corp. Order*"); *WorldCom, Inc. and Its Subsidiaries (Debtors-in-Possession), Transferor, and MCI, Inc., Transferee*, WC Docket No. 02-215, Memorandum Opinion and Order, 18 FCC Rcd. 26,484, 26,492 para. 12 (2003) ("*WorldCom-MCI Order*"); *Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee*, MB Docket No.02-70, Memorandum Opinion and Order, 17 FCC Rcd. 23,246, 23,255 para. 26 (2002) ("*AT&T-Comcast Order*"); *Application of EchoStar Communications Corporation (A Nevada Corporation), General Motors Corporation, and Hughes Electronics Corporation (Transferors) and EchoStar Communications Corporation (A Delaware Corporation) (Transferee)*, CS Docket No. 01-348, Hearing Designation Order, 17 FCC Rcd. at 20,574 para. 25 (2002) ("*EchoStar-DirecTV HDO*"); *VoiceStream Wireless Corporation, PowerTel, Inc., Transferors, and Deutsche Telekom AG, Transferee*, IB Docket No. 00-187, Memorandum Opinion and Order, 16 FCC Rcd. 9779, 9789 para. 17 (2001) ("*Deutsche Telekom-VoiceStream Order*"); *GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee*, CC Docket No. 98-184, Memorandum Opinion and Order, 15 FCC Rcd. at 14,045, 14,046 paras. 20, 22 (2002) ("*Bell Atlantic-GTE Order*"); *Applications of VoiceStream Wireless Corporation or Omnipoint Corporation, Transferors, and VoiceStream Wireless Holding Company, Cook Inlet/VS GSM II PCS, LLC, or Cook Inlet/VS GSM III PCS, LLC, Transferees*, Memorandum Opinion and Order, 15 FCC Rcd. 3347 para. 12 (2000) ("*VoiceStream-Omnipoint Order*"); *AT&T Corp., British Telecommunications, PLC, VLT Co. L.L.C, Violet License Co. LLC, and TNV [Bahamas] Limited Applications*, IB Docket No. 98-212, Memorandum Opinion and Order, 14 FCC Rcd. at 19,150 para. 20 (1999) ("*AT&T Corp.-British Telecom. Order*"); *Application of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.*, CC Docket No. 97-211, Memorandum Opinion and Order, 13 FCC Rcd. At 18,031 para. 10 (1998) ("*WorldCom-MCI Order*"); *Applications to Assign Wireless Licenses from WorldCom Inc. (Debtor-in-Possession) to Nextel Spectrum Acquisition Corp.*, WT Docket No. 03-203, Memorandum Opinion and Order, 19 FCC Rcd. at 6241-42 para. 23 (WTB, MB 2004) ("*Nextel-WorldCom Order*"); *Applications of SBC Communications Inc. and BellSouth Corporation*, WT Docket No. 00-81, Memorandum Opinion and Order, 15 FCC Rcd. at 25,464, 25,467 paras. 13, 18 (WTB, IB 2000) ("*SBC-BellSouth Order*"); *Vodafone AirTouch, PLC, and Bell Atlantic Corporation*, Memorandum Opinion and Order, 15 FCC Rcd. 16,512 , 16,517 paras. 13, 25 (WTB, IB 2000) ("*Bell Atlantic-*

evidence, that the proposed transaction serves the public interest.[8] As the harms to the public interest become greater and more certain, the degree and certainty of the public interest benefits must also increase commensurately.[9]

The Commission's public interest evaluation encompasses the "broad aims of the Communications Act"[10] which include, among other things, the preservation and advancement of universal service, the accelerated deployment of advanced services, and whether the merger will affect the quality of communication services.[11]

In its evaluation, the Commission must consider whether the new entity will have the requisite financial, technical, and other qualifications to provide the public interest benefits that

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Vodafone Order").

[8] *See, e.g., Verizon/FairPoint Order* at para 11; *CenturyTel/Embarq Order* at para. 9; *AT&T/BellSouth Order,* at para. 19; *SBC/AT&T Order,* 20 FCC Rcd at 18300, para 16; *Verizon/MCI Order,* 20 FCC Rcd at 18443, para. 16; *Cingular-AT&T Order* 19 FCC Rccd at 21542-44, para. 40*; Cingular-NextWave Order*, 15 FCC Rcd. at 2581 para. 24; *GM-News Corp. Order*, 19 FCC Rcd. at 483 para. 15; *AT&T-Comcast Order*, 17 FCC Rcd. at 23,255 para. 26; *EchoStar-DirecTV HDO*, 17 FCC Rcd. at 20,574 para. 25; *Bell Atlantic-GTE Order*, 15 FCC Rcd. at 14,046 para. 22; *VoiceStream-Omnipoint Order*, 15 FCC Rcd. at 3347 para. 11; *SBC-BellSouth Order*, 15 FCC Rcd. at 25,464 para. 13; *Bell Atlantic-Vodafone Order*, 15 FCC Rcd. at 16,512 para. 13; *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Communications, Inc., Transferor, to AT&T Corp., Transferee*, CS Docket No. 98-178, Memorandum Opinion and Order, 14 FCC Rcd. 3160, 3169 para. 15 (1999) ("*AT&T-TCI Order*"); *WorldCom-MCI Order*, 13 FCC Rcd. at 18,031-32 para.10.

[9] *AT&T/MediaOne Order* para 154 quoting from *SBC-Ameritech Order* 14 FCC Rcd at 14825; *Bell Atlantic-NYNEX Order,* 12 FCC at 20063 para. 157.

[10] *See Cingular-AT&T Order,* at para. 41; GM-*News Corp. Order*, 19 FCC Rcd. at 483 para. 16; *AT&T-Comcast Order*, 17 FCC Rcd. at 23,255 para. 27; *EchoStar-DirecTV HDO*, 17 FCC Rcd. at 20,575 para. 26; *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from MediaOne Group, Inc., Transferor, to AT&T Corp., Transferee*, CS Docket No. 99-251, Memorandum Opinion and Order, 15 FCC Rcd. 9816, 9821 para. 11 (2000) ("*AT&T-MediaOne Order*"); *VoiceStream-Omnipoint Order*, 15 FCC Rcd. at 3346-47 para. 11; *AT&T Corp.-British Telecom. Order*, 14 FCC Rcd. at 19,146 para. 14; *WorldCom-MCI Order*, 13 FCC Rcd. at 18,030 para. 9.

[11] *See Verizon/FairPoint Order,* para. 12; *AT&T/BellSouth Order,* para. 20; *SBC/AT&T Order,* 20 FCC Rcd at 18301, para. 17; *Verizon/MCI Order,* 20 FCC Rcd at 18443-44, para. 17; *Cingular-AT&T Order,* at 19 FCC Rcd at 21544, para. 41; *AT&T-Comcast Order*, 17 FCC Rcd. at 23,255 para. 27; *AT&T-MediaOne Order*, 15 FCC Rcd. at 9821-22 para. 11; *WorldCom-MCI Order*, 13 FCC Rcd. at 18,031 para. 9.

the Applicants claim the transaction will provide.[12] The Commission must subject the Applicants' claims for financial, technical, and other qualifications to its own independent review and analysis. The Commission cannot simply accept Applicants' claims at face value, nor can it simply reject commentators' evidence as "speculative." As Commissioner Michael J. Copps noted in his dissent in the *Verizon/FairPoint Order,* that decision erred because it relied "almost entirely on the assertions of the applicants" and made "no endeavor to get under the hood to confirm that these promises are realistic."[13]

The Commission's public interest authority enables the Commission to impose and enforce narrowly tailored, transaction-specific conditions that ensure that the public interest is served by the transaction.[14] Section 214(c) of the Act authorizes the Commission to attach to the certificate "such terms and conditions as in its judgment the public convenience and necessity may require."[15] Indeed, the Commission's public interest authority enables the Commission to rely

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[12] "Among the factors that the Commission considers in its public interest inquiry is whether the applicant for a license or license transfer has the requisite 'citizenship, character, financial, technical, and other qualifications.'" *Verizon/FairPoint Order,* para. 19. *See also AT&T/BellSouth Order,* para 191. *SBC/BellSouth Order,* para 14; *Sprint-Nextel Order* para 183 and fns. 431– 34.

[13] *Verizon/FairPoint Order,* Statement of Commissioner Michael J. Copps.

[14] *See, e.g.,CenturyTel/Embarq Order* at para.12; *AT&T/BellSouth Order* at para. 22; *SBC/AT&T Order,* 20 FCC Rcd at 18302, para. 19; *Verizon/MCI Order,* 20 FCC Rcd at 184445, para. 19; *Bell Atlantic-GTE Order*, 15 FCC Rcd. at 14,047 para. 24; *AT&T Corp.-British Telecom. Order*, 14 FCC Rcd. at 19,150 para. 15; *WorldCom-MCI Order*, 13 FCC Rcd. at 18,032 para. 10; *Deutsche Telekom-VoiceStream Wireless Order*, 16 FCC Rcd. 9779 (2001); *Cingular-AT&T Order* paras. 251-267 (2004); *Sprint-Nextel Order* at para. 23.

[15] *See e.g. CenturyTel/Embarq Order* at para.12; *AT&T/BellSouth Order* at para. 22; *SBC/AT&T Order,* 20 FCC Rcd at 18302, para. 19; *Verizon/MCI Order,* 20 FCC Rcd at 184445, para. 19;*Cingular-AT&T Order* at 43 (2004); *GM/News Corp,* 19 FCC Rcd at 477 para 477; *Bell Atlantic-GTE Order*, 15 FCC Rcd. at 14,047 para. 24; *AT&T Corp.-British Telecom. Order*, 14 FCC Rcd. at 19,150 para.15; *WorldCom/MCI Order,* 13 FCC Rcd at 18304-35 para 14; *In the Matter of Applications for Consent to the Assignment and/or Transfer of Control of Licenses Adelphia Communications Corporation (and subsidiaries, debtors-in-possession), Assignors to Time Warner Cable In. (subsidiaries), Assignees; Adelphia Communications Corporation, (and subsidiaries, debtors-in-possession), Assignors and Transferors, to Comcast Corporation (subsidiaries), Assignes and Transferees; Comcast Corporation, Transferor, to Time Warner, Inc., Transferee; Time Warner Incl, Transferor, to Comcast Corporation Transferee,* Memorandum Opinion and Order (July 21, 2006 rel.) at para. 28 ("*Adelphia-Comcast-Time Warner*

upon its extensive regulatory and enforcement experience to impose and enforce conditions to ensure that the merger will yield overall public interest benefits.[16]

III. THE COMMISSION SHOULD CONDUCT AN EXTENSIVE REVIEW

The Commission should undertake an extensive, independent review of this transaction to determine whether the Applicants' claims as to Frontier's financial fitness and technical and operational qualifications are verifiable. The Commission should obtain all relevant documents, including those of a proprietary nature, in order to conduct such an examination, and should make these documents available under confidentiality agreements to interested parties. The Commission should require the Applicants to provide all documents, public and confidential, submitted to state regulatory commissions, including discovery, testimony, transcripts, briefs, and state Commission rulings. The Commission discovery should not be limited to those documents, but must include all relevant information so that it and interested parties can conduct their own financial and operational analyses of the proposed transaction, including sensitivity analyses, concerning the range of potential and likely results of the new entities' operations. It is particularly important for the Commission to request additional information from Frontier because some state commissions are constrained in their ability to consider broadband- and video-related issues.

Order"); Sprint-Nextel Order at para. 23.

[16] *See, e.g. CenturyTel/Embarq Order* at para.12; *Cingular-AT&T Order* at 43 (2004); *GM-News Corp. Order*, 19 FCC Rcd. at 477 5; *Bell Atlantic-GTE Order*, 15 FCC Rcd. at 14,047-48 para. 24; *WorldCom-MCI Order,* 13 FCC Rcd. at 18034-35 para. 14; *Schurz Communications, Inc. v. FCC*, 982 F.2d 1043, 1049 (7th Cir. 1992); *Adelphia-Comcast-Time Warner Order* at para. 28; *Sprint-Nextel Order* at para. 23.

Only after such a thorough investigation can the Commission decide, to the best of its ability, whether Applicants' claims are justified. The Commission cannot simply dismiss as "speculation" third parties' financial projections and operational concerns, as it mistakenly did to disastrous results in the *Verizon-FairPoint Order* and the *MCI-WorldCom Order*.[17]

a. Other Verizon Divestitures Are in or Near Bankruptcy – This Time Around the Commission Must Get It Right

Verizon/FairPoint. In the *FairPoint/Verizon Order,* the Commission majority (over the dissents of Commissioner Michael J. Copps and then-Commissioner Jonathan S. Adelstein) dismissed as "speculative" the considerable evidence provided by CWA and IBEW regarding FairPoint's weak financial position and the operational challenges it would encounter post-merger. Since the Commission declined to take our evidence seriously and failed to undertake its own independent financial analysis, the Commission chose to base its conclusions simply on FairPoint's representation of the facts.[18]

Certainly, no one has a crystal ball. But as Commissioner Michael J. Copps noted in his dissent, speculation can be considered as "engagement in risky business transactions on the

[17] In its 1998 evaluation of the MCI/WorldCom merger, the Commission dismissed as "speculative" commentators' analysis of the weakened financial capacity of MCI WorldCom after the merger. Yet, two years after the Commission granted merger approval, MCI WorldCom chose to deal with its declining financial performance by perpetrating what would become one of the largest corporate frauds in U.S. history, falsifying $11 billion in financial reports to the Securities and Exchange Commission (SEC), which eventually led to a bankruptcy declaration in July 2002. MCI WorldCom's bankruptcy cost tens of thousands of employees not only their jobs, but their retirement savings, while investors lost more than $200 billion in equity and bonds. *See WorldCom/MCI Order* at para. 193; *See* Reply Comments of Communications Workers of America (CWA), CC Docket No. 97-211, March 20, 1998 Shapiro Aff. at 4-5; CWA July 2, 1998 *Ex Parte. See also* SEC First Amended Complaint; "WorldCom Audit May Rise to $11 Billion," *Wall Street Journal,* Apr. 1, 2003; "WorldCom Report Finds Ebbers Played Role in Inflating Income," *Wall Street Journal,* June 6, 2003; First Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, Nov. 4, 2002 ("Thornburgh I"); Second Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, June 9, 2003 ("Thornburgh II").

[18] "We take comfort in FairPoint's representation that this level of investment will serve as a significant step in reaching those goals." *Verizon/FairPoint Order,* para. 21.

chance of quick or considerable profit." "I worry," he warned, "that this transaction falls within this definition and that the Commission has not undertaken the analysis to know for sure." How prescient he was. If the Commission had taken our concerns more seriously and conducted its own independent financial and operational analysis of the transaction, perhaps the current FairPoint disaster we describe below could have been avoided.

FairPoint on the Verge of Bankruptcy. FairPoint chief executive David Hauser recently acknowledged that FairPoint may soon have to seek protection in U.S. bankruptcy court.[19] The company lost $17.8 million in the second quarter of 2009 and its revenues dropped $45 million (13.1 percent) over the same quarter in 2008.[20] In an apparently failed attempt to avoid bankruptcy, the company asked bondholders to exchange some $530 million in high interest notes for newly-issued stock, a move that would certainly dilute its existing shares. FairPoint was successful in convincing only 83 percent of the debt holders to convert their debt into stock.[21]

Service Problems. After preparing for more than a year before closing, FairPoint gave itself an additional 10 months after closing to prepare for computer systems cut-over. Even with that amount of time, it was still not prepared for the cut-over. Since the systems integration took place in January 2009, customers have repeatedly reported 911 outages, e-mail glitches, service outages, delays filling orders, and long waits on calls regarding billing, installation, outages, and other customer service problems. Wholesale customers have reported repeated, lengthy delays

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[19] "CEO Says FairPoint May Be Headed for Bankruptcy Reorganization," *Telecom A.M.*, Sept. 11, 2009; John Downey, "FairPoint faces enduring debt, service headaches: New England regulators growing impatient with technology glitches," *Charlotte Business Journal*, Sept. 11, 2009.

[20] FairPoint SEC Form 10-Q, filed August 5, 2009, p. 6.

in placing orders, provisioning, porting numbers, and other essential functions. Billing mistakes and other problems have led to an unprecedented number of complaints filed with the regulators and consumer advocates. In frustration, regulators from the three states called an unprecedented joint hearing in early September 2009, at which FairPoint CEO Hauser admitted that almost one-quarter of service orders continued to be late. As but one among many examples, in Vermont 2,416 people complained about FairPoint in the first six months of 2009, a 500 percent increase over the prior year's pre-cutover figures.[22]

Customers Abandon FairPoint. Over the past year, FairPoint lost 13.4 percent of its residential lines, 7.5 percent of its business lines, and 1.9 percent of broadband subscribers. These defection rates are higher than in current Verizon service areas.[23]

Reneging on Merger Commitments. As part of the New Hampshire merger settlement, FairPoint agreed to expand broadband access. But due to its financial and operational problems, the company recently announced that it will not meet its October target. Although the company is subject to heavy fines, it is not clear how the state will recover the penalties if FairPoint enters Chapter 11. In Vermont, FairPoint requested (and was denied) exemption from wholesale performance benchmarks, another merger commitment. In Maine, FairPoint asked regulators (who turned them down) to waive more than $845,000 in penalties for failure to meet merger

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[21] FairPoint SEC Form 8-K, filed August 3, 2009, p. 2.

[22] "Maine – FairPoint Ordered to Respond to Service Complaint," *TR's State NewsWire,* Sept. 15, 2009; "FairPoint to Renege on Deal: Broadband Expansion Falls Short," *Concord Monitor,* Sept. 10, 2009; Sam Hemingway, "Phone Customers Frustrated, Still Bills Mounted During Four Months Without Service," *Burlington Free Press,* Sept. 6, 2009; "FairPoint Switch Proves to be a Disaster," *Burlington Free Press,* Sept. 6, 2009.

[23] Chelsea Conaboy, "13.4 percent of homes cut FairPoint," *Concord Monitor,* Aug. 13, 2009.

service commitments.[24]

Employee Morale. Workers are frustrated and concerned about the company's and their own financial future, and about their inability to provide quality service to customers due to management-induced problems.[25]

In summary, the FairPoint experience serves as a cautionary tale as the Commission considers the proposed Verizon-Frontier transaction. A company must have the financial, technical, and other qualifications necessary to operate the business that it acquires. The tragedy in the FairPoint case is that even as state regulators struggle valiantly to hold the company accountable, it may be too late. With bankruptcy imminent, FairPoint is struggling simply to provide basic telephone service and to fix its dysfunctional operating systems.

Other Verizon Divestitures Are in Bankruptcy. As the *Wall Street Journal* recently reported, "three of Verizon's most significant divestitures are in bankruptcy or near it." Verizon sold Hawaiian Telecom to the Carlyle Group in 2005; Hawaiian Telecom filed for bankruptcy in December 2008. Verizon spun off its yellow pages division to Idearc Inc. in November 2006; Idearc filed for bankruptcy in May 2008. As discussed above, Verizon sold its northern New England properties to FairPoint in March 2008; FairPoint now appears to be on the verge of bankruptcy. While the dumping of these properties may have benefited Verizon, consumers suffered as the new owners struggled and eventually failed to cover their high debt load with

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[24] "FairPoint to Renege on Deal: Broadband Expansion Falls Short," *Concord Monitor,* Sept. 10, 2009. "Board denies FairPoint waiver of PAP, C2C Requirements," *TR's State NewsWire*, Aug. 19, 2009; "FairPoint chief grilled about service issues," *Portland Press Herald*, Aug. 11, 2009.

[25] *Ibid.*

revenues.[26]

Some would say that this is the nature of our free market economy. But that is not the issue here.[27] For more than 75 years, since passage of the Communications Act of 1934, the United States has recognized that access to quality communications is vital to public health, safety, economic vitality, and democratic participation. Therefore, the market alone does not control who owns the licenses and authorizations that permit the holder to use the public airwaves to deliver communications services. The Commission has the statutory obligation to determine whether the control of these licenses and authorizations serves the public interest.

Therefore, the Commission must ensure that any transfer of Verizon licenses and authorizations must go to an entity that has the financial, technical, and operational fitness to serve the public interest. At the same time, the Commission also must evaluate the effects of that transfer on existing Frontier customers and service areas, because the transaction also results in a change in control of Frontier.

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[26] Dennis K. Berman, "The Two Sides of Verizon's Deal Making," *Wall Street Journal,* Aug. 10, 2009.

[27] The concerns we have raised regarding Frontier's financial fitness and ability to operate a company three times its size raises a fundamental question. Why is Verizon selling these properties to Frontier? Why did Verizon fail to seek alternative offers for these properties? The answer to this question resides in the realm of tax policy. Verizon has chosen to sell its properties to a smaller company in order to take advantage of a tax avoidance technique called the Reverse Morris Trust. Verizon will receive $3.3 billion tax free money as a result of this tax loophole, while Verizon shareholders will end up as involuntary owners of about 68 percent of the increasingly debt-laden Frontier.

Under a Reverse Morris Trust, a parent corporation can spin-off a subsidiary into an unrelated company, tax free, if the shareholders of the parent end up controlling more than 50 percent of the voting rights and economic value of the resulting merged company. Typically, the parent loads up the properties to be divested ("spinco") with as much debt as it can support, while causing the subsidiary to pay the proceeds of the new debt to the parent immediately prior to the spin-off.

The driving force behind Verizon's decision to sell its northern New England lines to tiny FairPoint Communications – and not a larger, more experienced company -- was the desire to take advantage of this tax provision. In this instant transaction, Verizon appears once again to have been guided by tax avoidance as opposed to the financial and operational efficacy of the purchaser. While this may serve private interests, it most certainly does not serve the public interest.

b. The Commission Must Investigate the Applicants' Many Vague and Unsubstantiated Claims

Verizon and Frontier have provided scant information to the Commission about the proposed transaction. This is a large and complex acquisition. The $8.4 billion deal will transfer 4.8 million access lines across 14 states, impact millions of customers and hundreds of communities in Verizon's transferred exchanges and in Frontier's existing territories. It will also affect the lives and careers of 16,700 employees and their families.[28] Yet, the Applicants to date have provided the Commission only 25 pages of information regarding the transaction.[29]

Many unanswered questions remain. The Commission must seek the documentation to answer and conduct an independent analysis to answer the following questions, and others that will certainly emerge over the course of this proceeding:

- Will Frontier be able to finance the transaction and what will Wall Street demand to provide the financing? Frontier needs to raise $3.3 billion, but it does not have a commitment for the financing.
- How will Verizon realign its operations in the13 former GTE states to provide the same functions that are currently provided centrally?
- How will Frontier integrate Verizon's computer systems and operations in the former GTE states into Frontier's systems and operations centers?
- How will Frontier achieve its promises to expand the level of broadband availability in Verizon's service areas? Frontier has not provided any state-specific plans, budgets, milestones, or even goals; and to our knowledge, it has not even visited central offices or other facilities in many of the states it wants to acquire.
- How will Frontier achieve the projected synergy savings of $500 million per year? Frontier is projecting a 21 percent reduction in VSTO's costs, but we do not know how this can be achieved without adversely affecting the quality, safety, and reliability of service it provides to the public.

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[28] There are 11,000 employees in the Verizon exchanges and 5,700 employees in Frontier's current operation.

[29] Joint Application, Public Interest Statement.

- How will Frontier manage, operate, maintain, and expand VSTO's existing high-speed Internet and video services?
- Does Frontier have the expertise, capability, and desire to maintain and expand the availability of VSTO's DSL service?[30]
- How will the transaction affect Frontier's existing customers and its ability to expand broadband service to current Frontier areas that are underserved?

In summary, there are many unanswered questions about the proposed transaction. The Applicants implicitly ask the Commission to accept their vague, unverifiable claims at face value. "Trust us" is not enough. Given the string of disastrous Verizon spin-offs, it is especially incumbent upon the Commission to conduct an extensive review of this proposed transaction.

IV. THE PROPOSED TRANSACTION WILL RESULT IN A FINANCIALLY WEAKER COMPANY WITHOUT THE RESOURCES TO PROVIDE QUALITY SERVICE AND INVEST IN BROADBAND

While the Applicants claim the proposed transaction will make Frontier stronger, the issue before the Commission is how much weaker it will make the operations in the 14 states to be transferred. The proposed transaction will burden Frontier with heavy debt, at a time when its financial metrics are deteriorating and its business model is not sustainable. Moreover, Frontier's financial projections overstate VSTO revenues and understate expenses. As the deal is currently structure, the new Frontier will not have the resources to deliver on its pledge to provide quality service and invest in broadband expansion.

[30] Frontier response to IBEW 246 in Oregon Docket; Frontier response to IBEW 45 Supplemental in Oregon Docket.

a. The Proposed Transaction Will Burden Frontier with Heavy Debt

Frontier's debt will increase by $3.3 billion to over $8 billion after the proposed acquisition – an increase of $3.45 billion. Frontier argues that the deal will make it finally stronger by reducing Frontier's leverage. But that calculation is based on unsubstantiated and unrealistic assumptions about revenues and expense savings, none of which are certain (or even likely) to occur. What will be certain, however, is that Frontier's debt burden will nearly double and Wall Street lenders will need to be paid out of an ever-shrinking pool of revenues.

Moreover, another critical issue for the Commission is how much weaker the transaction will make the operations in the VSTO exchanges being transferred. Right now, VSTO has only about 34 cents in debt for every dollar of operating cash flow. After the Frontier deal closes, these same properties (previously owned by Verizon) will be responsible for at least $2.60 in debt for every dollar of operating cash flow, an increase of over 600 percent. (*See* Chart 1). The divested Verizon properties will be tied to a company with much lower profits and much higher debt service requirements – a combination that results in a much lower margin for error. Specifically, during the first quarter of 2009, Frontier reported profit margins of 6.7 percent compared to a 16.5 percent profit margin for VSTO.[31]

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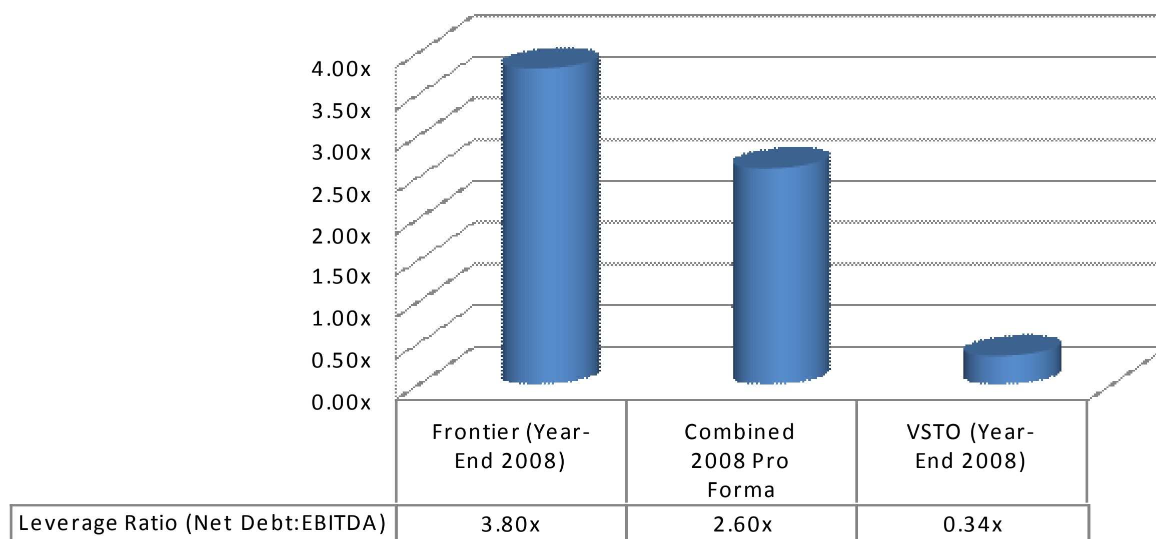
[31] Frontier SEC Form S-4, filed July 24, 2009, pages 16 and 19.



In addition, Frontier has not yet obtained any of the approximately $3.3 billion in debt financing for the proposed transaction. The merger agreement permits Frontier to walk away from the deal if it cannot obtain that financing at an annual average interest cost of 9.5 percent or less (including the original issue discount).[32] Frontier's recent debt has high interest rates. The most recent debt was issued on April 9, 2009, and carries an annual interest cost of 10.375 percent. Frontier's bonds have been trading in the range of 7.51 percent to 12.56 percent, with most in the 9 to 11 percent range.[33] In the current unstable economic environment combined with Frontier's recent cost of debt, it is not clear that the company will be able to finance this

[32] Agreement and Plan of Merger between Verizon and Frontier, dated as of May 13, 2009, § 7.18(e)(ii).

[33] Frontier response to Staff data requests 77 and 79 in the Oregon Docket.

transaction on reasonable terms. It is possible that Frontier – and the public it serves – may be saddled with extraordinarily high debt costs or other onerous conditions that lenders may require. Frontier's Chief Financial Officer has stated that he does not expect even to begin the process of obtaining this financing until January 2010 and that he does not expect to have financing in place until March or April 2010.[34] Certainly, the Commission should require Frontier to obtain financing before it reaches any conclusion on the financial fitness of Frontier.

Frontier's financial metrics have deteriorated sharply in recent years. Its leverage ratio (net debt to EBITDA) was 3.8x at the end of 2008. Annualizing its reported second quarter 2009 performance would result in a leverage ratio of 4.2x (3.9x year-over-year).[35] It is unlikely that performance of this level would give much comfort to prospective lenders or result in the type of interest rate that would make this transaction financially less risky. Further, some of Frontier's existing debt carries escalation provisions (that is, higher interest costs) if the leverage ratio exceeds 4.0x, which appears likely to happen this year.[36]

b. Frontier's Financial Metrics Are Deteriorating and Its Business Model Is Not Sustainable

Frontier's business model is based on high dividend pay-outs, financed by reducing the value of its assets. A company can support this business model over the short-term by adding assets through new acquisitions. But such a model is not sustainable over the long-term, particularly if

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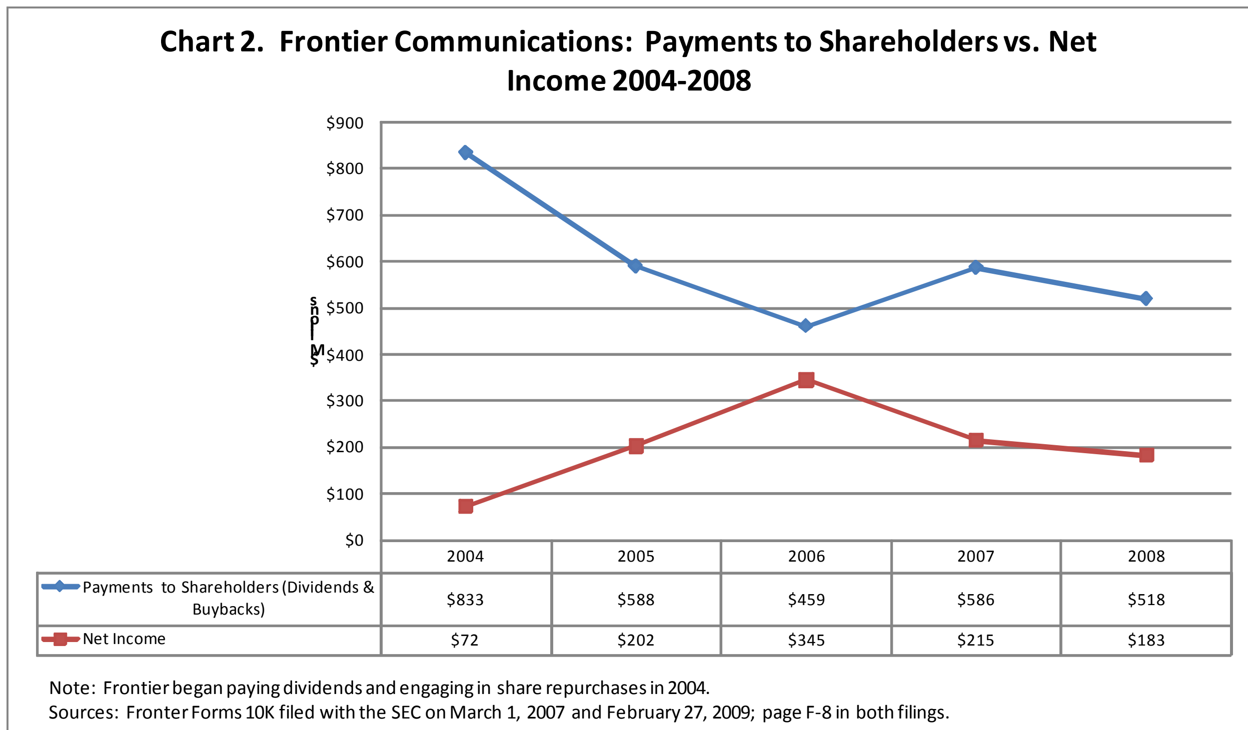
[34] Transcript of Frontier analysts' conference call, Aug. 4, 2009, p. 12.

[35] Frontier SEC Form 10K, filed February 27, 2009, p. F-6; Frontier SEC Form 10Q, filed August 4, 2009, pp. 2, 3, and 4.

[36] Frontier Credit Agreements with Deutsche Bank, dated as of May 18, 2007, p. 2; COBANK ACB, dated as of March 10, 2008, p. 2; and, Rural Telephone Finance Cooperative, Amendment 2, dated as of May 6, 2009, p. 1.

the company takes on large debt to finance the purchase. This is precisely what Frontier is doing in this transaction.[37]

Frontier has consistently paid out much more to shareholders than it has earned in net income. During 2008, Frontier paid out dividends equal to 173 percent of net income. In the first two quarters of 2009, the payout has been 240 percent of profits ($156 million in dividends, $65 million in net income). (*See* Chart 2) The result is that Frontier's shareholders' equity has declined steadily. It stood at almost $2 billion in 2001, but is now less than $450 million (as of June 30, 2009).[38]



	2004	2005	2006	2007	2008
Payments to Shareholders (Dividends & Buybacks)	$833	$588	$459	$586	$518
Net Income	$72	$202	$345	$215	$183

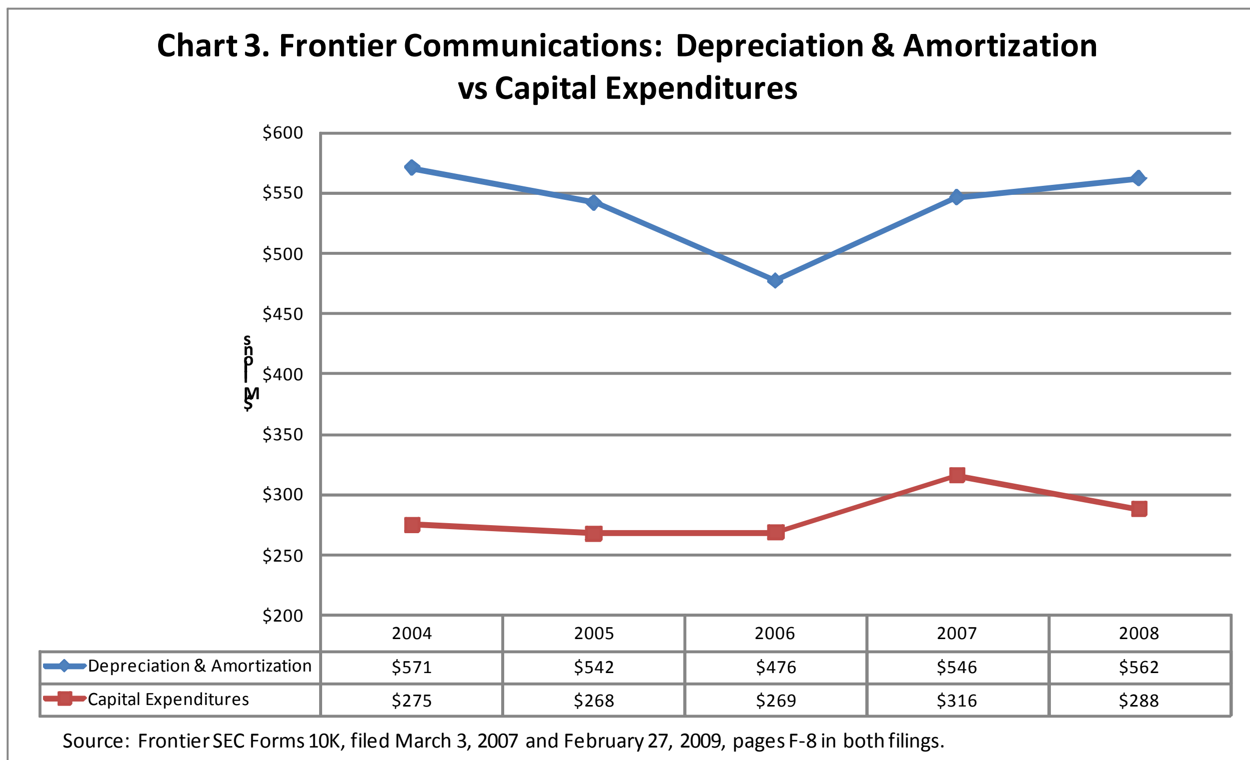
Note: Frontier began paying dividends and engaging in share repurchases in 2004.
Sources: Fronter Forms 10K filed with the SEC on March 1, 2007 and February 27, 2009; page F-8 in both filings.

If a company pays out more in dividends than it earns in profits, there are basically two other sources from which such dividends can be paid: retained earnings and non-cash charges to the

[37] It also is the same model FairPoint followed, with disastrous results.

income statement. By far the largest non-cash charge for most companies, including Frontier, is depreciation and amortization (D&A). As can be seen in Chart 3, Frontier's D&A has been roughly double its capital expenditures.

A fundamental result of Frontier's practice of using depreciation-based cash flows to fund dividends is an inevitable decline in its property, plant, and equipment. Even with the 2007 Commonwealth Telephone acquisition of 434,000 access lines, Frontier's net property, plant, and equipment has declined by more than $1.2 billion dollars since its peak in 2001. (*See* Chart 4) Frontier's business model is based on failing adequately to reinvest in its network – in essence, cannibalizing its network assets – to pay high dividends to shareholders.

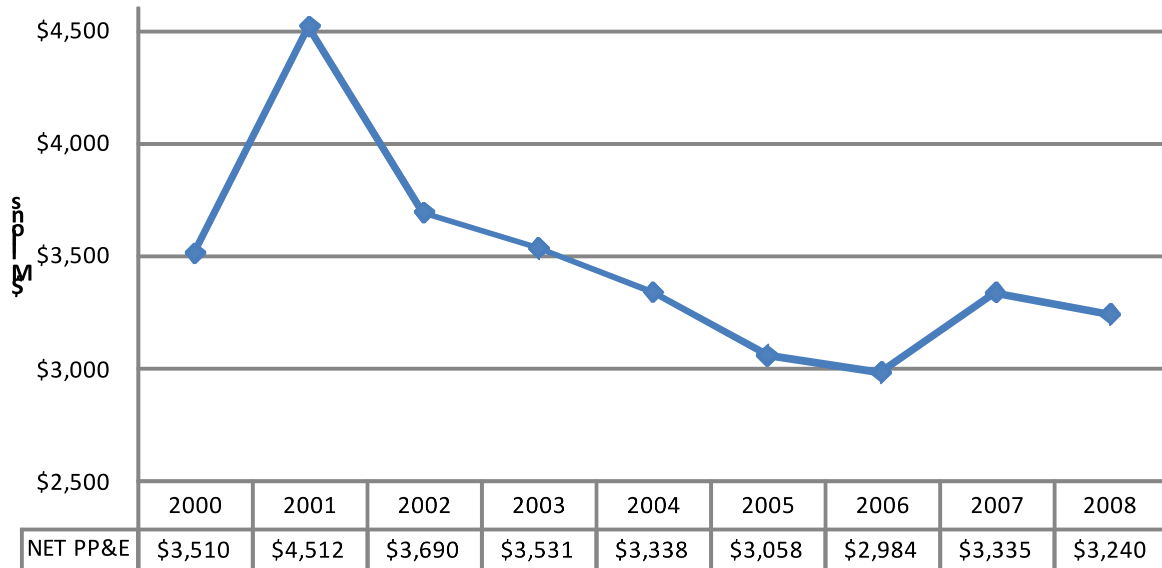


	2004	2005	2006	2007	2008
Depreciation & Amortization	$571	$542	$476	$546	$562
Capital Expenditures	$275	$268	$269	$316	$288

Source: Frontier SEC Forms 10K, filed March 3, 2007 and February 27, 2009, pages F-8 in both filings.

[38] Frontier SEC Form 10K, filed March 12, 2002, p. F-3 and Frontier SEC Form 10Q, filed August 4, 2009, p. 2.

Chart 4. Frontier Communications
Net Property, Plant & Equipment
2000-2009



	2000	2001	2002	2003	2004	2005	2006	2007	2008
NET PP&E	$3,510	$4,512	$3,690	$3,531	$3,338	$3,058	$2,984	$3,335	$3,240

Frontier SEC Forms 10K, filed March 9, 2001, March 24, 2003, March 14, 2005, March 1, 2007 and February 27, 2009; pages F-3, F-3, F-5, F-5, and F-5, respectively.

It is simply not sustainable for a public utility consistently to pay out more to its shareholders than it earns in net income. In rejecting a proposed acquisition in 2007, the Montana Public Service Commission explained the reasons why a utility's dividend payments should be less than the utility's net income. In *NorthWestern Corp.*,[39] the Montana PSC rejected a proposed merger and acquisition, primarily because of the acquiring company's plan to pay out more in dividends than it would earn. The Montana PSC explained why this was so problematic for a public utility: "In normal utility operations, retained earnings provide a vital source of financial strength for capital investment and as reserves that are available during unexpected financial strains.

[39] 2007 Mont. PUC LEXIS 54 (Mont. PSC July 31, 2007) The order is also available on the Montana commission's web site at: < http://www.psc.state.mt.us/eDocs/eDocuments/pdfFiles/D2006-6-82_6754e.pdf >. Citations are to the numbered paragraphs in the order, which are the same in either the Lexis or web site versions of the order.

Regularly paying out dividends in excess of net earnings by a utility is inappropriate and risky because having insufficient reserves on hand could adversely affect the utility's ability to provide adequate service."[40]

In other words, cash recovered through customers' rates for depreciation is supposed to be reinvested in the business, not paid out to shareholders to pump up the stock price. But that is precisely what Frontier has been doing, and, based on its public filings, plans to continue to do after the transaction.

Frontier asserts that it has voluntarily – and prudently – agreed to reduce its dividend pay-out by one-fourth, from $1 to a "sustainable" 75 cents a share.[41] As a first matter, Frontier could take such action absent the proposed acquisition. This is not a merger-related benefit. As a second matter, even with this dividend reduction, it is likely that Frontier would still end up paying about one-third more in dividends than it earned in profits. Depending on the price at which Frontier's stock is issued to Verizon's shareholders, this represents between 125 percent and 142 percent of the company's 2008 net income. (*See* Chart 5)

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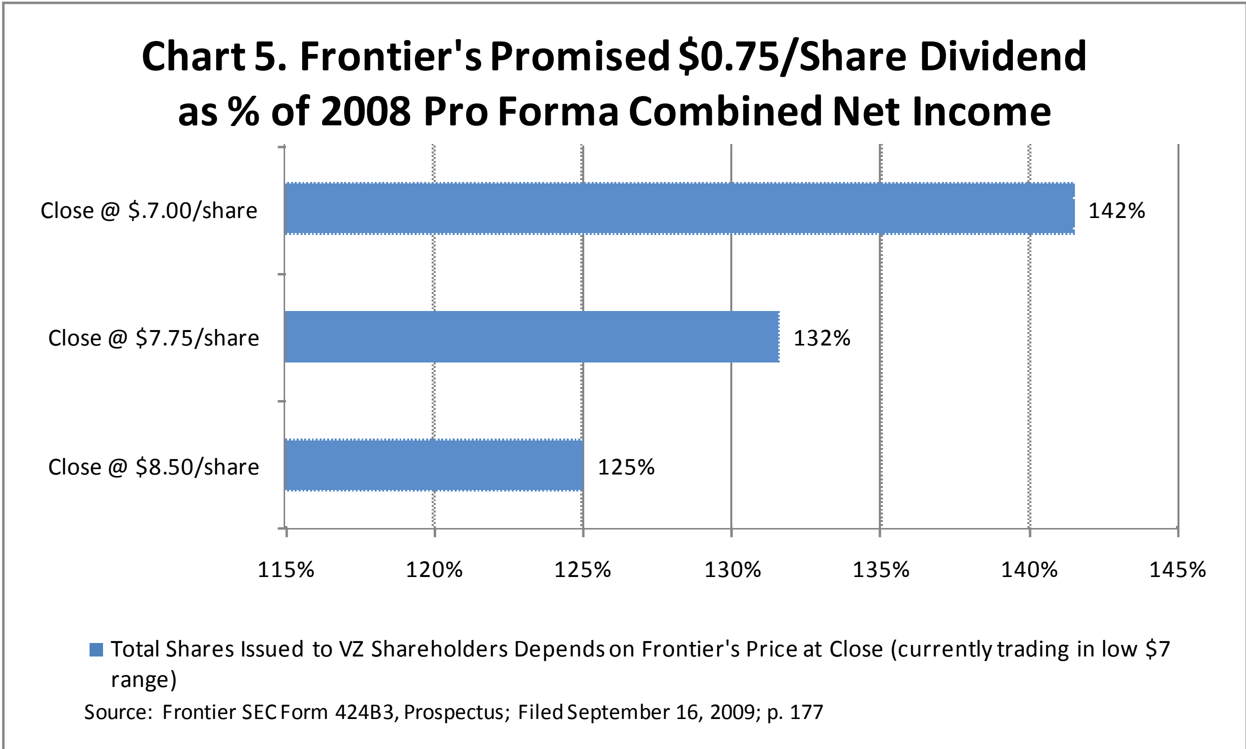
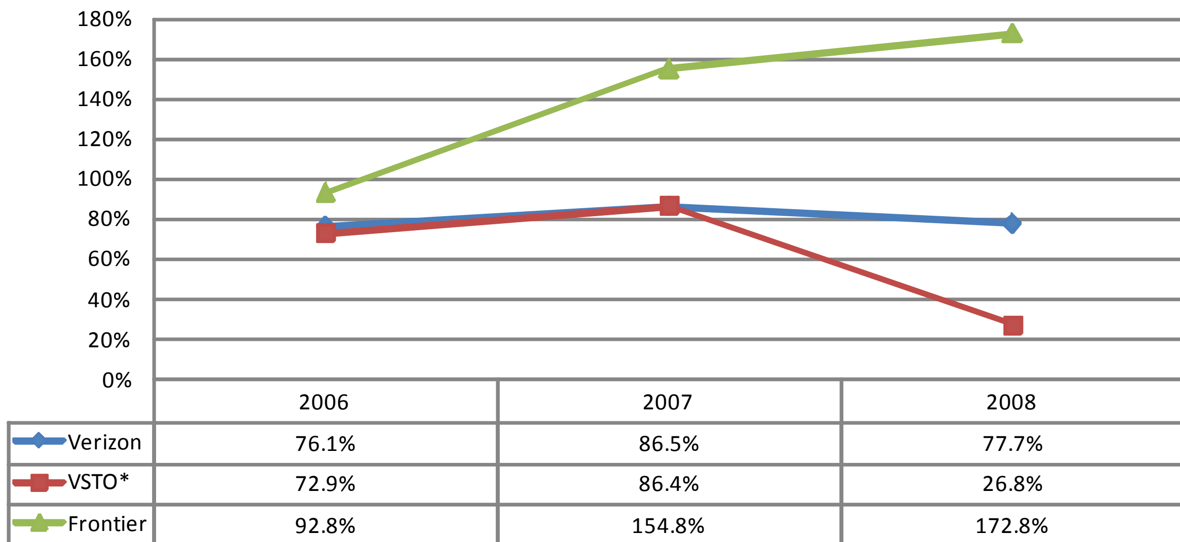
[40] *Ibid.,* para 149.

[41] Frontier SEC Form 425, filed May 13, 2009, p. 7.



While Frontier has consistently paid out dividends that exceed earnings, both Verizon and VSTO have paid dividends that are well below their profit levels.[42] (*See* Chart 6)

[42] Since VSTO has only recently been created, it obviously did not pay dividends directly to Verizon shareholders. We use VSTO's reported "parent funding, allocations, intercompany reimbursement" as the closest measure available for VSTO's dividend-like "upstream" payments.



	2006	2007	2008
Verizon	76.1%	86.5%	77.7%
VSTO*	72.9%	86.4%	26.8%
Frontier	92.8%	154.8%	172.8%

c. Frontier's Financial Projections Overstate Revenues and Understate Expenses

Frontier's financial projections are based on inflated revenue projections, overly optimistic expense savings, and interest costs that are well below Frontier's current interest rates. Thus, the Commission should not accept these projections as an accurate baseline to evaluate the Applicants' pro forma financial projections.

Overstated revenues. Frontier's so-called "pro forma" projections rely on Verizon's year-end 2008 results. But Frontier recently acknowledged (in its second quarter conference call with investment analysts) that VSTO lost 136,000 access lines (2.9 percent of all its lines) during just the second quarter of 2009. Since June 30, 2008, VSTO has lost more than 11 percent of its

access lines, resulting in a significant decline in revenues, cash flow, and net income.[43] Even Frontier stated in its Prospectus filed with the Securities and Exchange Commission, "The combined company will likely face further reductions in access lines, switched access minutes of use, long distance revenues and federal and state subsidy revenues, which could adversely affect it."[44]

Understated expenses. It is unprecedented to have expense savings of the magnitude projected by Frontier for a transaction of this size. Frontier projects that it will be able to cut annual expenses by $500 million (21 percent of total VSTO expenses) by 2013. In order to achieve savings of this magnitude, Frontier will need to reduce its workforce and cut deeply into other costs. By comparison, when FairPoint purchased Verizon's access lines in Maine, New Hampshire, and Vermont, FairPoint projected reducing costs by 8 percent to 10 percent (and FairPoint has not been able to achieve even those savings). The most recent major merger involving rural landline operations, CenturyTel's acquisition of Embarq, entailed projected synergy savings of 9 percent of Embarq's expenses. (*See* Table 1). Frontier's so-called synergy savings are either wishful thinking, or will require such draconian reductions in service, workforce, and maintenance that Frontier will not be able to deliver on its promises to improve service and broadband deployment.

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[43] Prospectus, p. 146.

[44] Prospectus, p. 29.

Table 1. Projected "Synergies" from Three Transactions			
	FairPoint-Verizon	CenturyTel-Embarq	Frontier-Verizon
Projected "Synergy" Savings as a % of the Target's Operating Expense	8-10%	9%	21%
Sources: FairPoint SEC Form 8-K, January 16, 2007, 3rd page of press release; CenturyTel SEC Form 8-K, October 27, 2008, 2nd page of press release; Frontier SEC Form 8-K, May 13, 2009, p. 15.			

V. THE PROPOSED TRANSACTION PRESENTS SERIOUS OPERATIONAL CHALLENGES THAT COULD OVERWHELM FRONTIER AND CAUSE HARM TO CONSUMERS, EMPLOYEES, AND COMMUNITIES

This transaction is unprecedented in scope and size. Neither Frontier nor any other company its size has ever taken on a deal of this complexity and magnitude which includes integrating approximately 4.8 million access lines spread over parts of 14 states stretching from coast to coast. As a result of this transaction, the new Frontier will have three times as many access lines (from 2.2 million access lines now to 7 million after the sale) and employees (from 5,400 employees now to approximately 16,000 after the sale).[45]

This deal is at least four times larger than any other Frontier acquisition. Frontier's biggest deal prior to this one was the 2001 acquisition of Global Crossing's telephone landline assets, including Rochester Telephone. That acquisition totaled approximately one million lines but about 70 percent of those lines were located in one state.

It does not appear that Frontier has engaged in rigorous due diligence of the service areas it is acquiring. The period between Frontier's initial meeting with Verizon to the signing of the merger agreement was only two months.[46] That is an extremely short period of time to evaluate

[45] Prospectus, pp. 11, 32, and 112.

[46] See Prospectus, pp. 46-54. It is also instructive to evaluate the context in which the Verizon transaction unfolded.

and plan for a transaction of this complexity and magnitude. It is not at all clear that Frontier understands the condition of the networks that it proposes to purchase, the reason broadband deployment lags behind levels in other locations, the quality of Verizon's equipment and facilities, the availability of spare parts for Verizon's aging equipment, and numerous other factors that will affect Frontier's ability to offer quality service and deploy broadband throughout the 14-state territory.

According to the transfer agreement, Frontier receives no working capital from Verizon at closing.[47] From day one, Frontier has to be able to provide all its own funds necessary to run the new company – invest in capital, pay employees, improve customer services, advertise to try to retain customers, restock inventory.

Frontier plans to integrate VSTO's West Virginia operations into the Frontier systems on day one. This is an unprecedented challenge. No one has ever attempted a large divestiture of access lines from the former Bell Atlantic network. This deal includes 600,000 access lines in West Virginia that will have to be cut over from those Bell Atlantic systems to Frontier's systems at closing. Ensuring a proper transition in West Virginia (which will be Frontier's largest state) could become the primary focus of company management and investments, potentially

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Approximately one month prior to the first meeting between the CEOs of Frontier and Verizon, Frontier received an offer to be acquired by "Company A," which Frontier appears to have rebuffed. During the period that Frontier and Verizon were negotiating the present transaction, Company A's CEO periodically contacted Frontier's CEO, seeking to recommence discussions about a potential acquisition of Frontier by Company A. Three days before the Verizon deal was completed, Company A reasserted its offer to purchase Frontier and did so again on the day the Verizon transaction was agreed upon. It is difficult to avoid the conclusion that Frontier rushed into the VSTO transaction in order to escape the clutches of Company A.

[47] Distribution Agreement, Section 1.1 and 5.1

jeopardizing the viability of the entire transaction. Unlike the cutover from Verizon's to FairPoint's operations in northern New England, the terms of the proposed Verizon-Frontier transaction require Frontier to step in and operate its own systems in West Virginia on the day the deal closes. Even with months of preparation, the FairPoint cutover has been an unmitigated disaster, causing major disruptions. The Applicants have not demonstrated how Frontier will be prepared to complete a cutover in an even shorter period of time than in northern New England. Although Frontier purportedly has scalable systems, no one has ever attempted a total flash-cut of a former Bell Atlantic property.

The Applicants have also failed to demonstrate that, in the other thirteen states, Frontier's replication of Verizon's systems will go as planned. Although, under the terms of the agreement, Frontier has the option to rely on Verizon for support after the closing, such reliance is costly, and could be as much as $94 million per year.[48] Furthermore, the longer that it takes Frontier to integrate the systems of its newly acquired operations with the systems of its existing operations, the longer that Frontier will delay its anticipated synergies from the proposed transaction. Frontier will be under enormous pressure to make the transition as soon as possible in order to meet its unrealistic $500 million annual "synergy" targets.

Although Frontier touts its success in integrating the operations of the companies that it acquires, in fact the integration of operating systems in Frontier's largest acquisition to date -- the approximately 500,000 Rochester Telephone lines that Frontier purchased as part of its 2001

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[48] Frontier will pay Verizon $94 million per year to maintain the former GTE computer systems until Frontier transitions to its own systems. Oregon Docket, Frontier response to Oregon Staff-192.

purchase of Global Crossing -- took seven years, and coincided with spikes in service quality problems.[49]

If Frontier required seven years to convert 500,000 lines in just a single state, it is entirely unclear how long it would take Frontier to convert more than four million lines in thirteen separate states while also seeking to deploy broadband, improve "customer focus," and provide basic service at acceptable levels of service quality.[50] There is a significant risk that management will be distracted and have to focus its attention on the integration and transition process, rather than on improving customer service, increasing broadband penetration, enhancing preventive maintenance activities, and all of the other things that are needed to provide high-quality service to the public.

Even having given itself seven years to plan for and implement the Rochester Telephone systems integration, Frontier Rochester customers experienced considerable service problems after the computer systems' cutover took place in 2008.[51] According to Commission ARMIS data, Rochester Telephone's initial trouble reports increased 37 percent after systems integration, rising from 17.5 initial trouble reports per 100 lines in 2006 to 24.1 in 2007 and again in 2008.[52] The average time required to restore service – which remained steady in 2005, 2006, and 2007 at about 18.8 hours -- increased by approximately 40 percent to 26.8 hours in 2008.[53] Further,

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[49] Oregon Docket, Joint Applicants response to IBEW-191.

[50] Frontier claims that it wants to complete the conversion and transition within two to three years after closing. Its projected "synergy" savings are based on meeting this timetable. Transcript of Frontier's May 13, 2009 conference call with analysts call, pp. 8 and 15.

[51] Frontier Telephone of Rochester CARS (Customer Accounts Record System) was converted to DPI (Data Products Incorporated) in September 2008. Oregon Docket, Joint Applicants response to IBEW-191.

[52] ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

[53] ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

according to data submitted to the New York Department of Public Service, Frontier's major service outages increased dramatically in the third quarter of 2008, which corresponds to the time of the customer service and billing system transfer.[54] (Although the NY PSC data are aggregated over all of Frontier's New York ILECs, Frontier Rochester accounts for nearly 80 percent of Frontier's ILEC lines in New York.)[55]

Other Verizon divestitures have not been able to achieve a smooth replacement of Verizon's computer, billing and operating systems, notably the FairPoint transaction in northern New England two years ago and the 2005 Hawaiian Telecom sale. In both instances, as the (New Hampshire) *Concord Monitor* recently reported, "Failures of the new computers in Hawaii and northern New England have increased the cost of operations and have required outside experts to fix them." Customers of both FairPoint and Hawaiian Telecom experienced massive problems, including billing errors, delays in service requests, skyrocketing customer complaints, customer defections in the face of poor service, and the need to hire multiple vendors to fix the failed computer systems. The focus on solving the computer problems detracted from the roll-out of new services and contributed to already shaky finances.[56]

The Commission should proceed with an abundance of caution as it evaluates Applicants' claims that this time there will be a "smooth" transition. Indeed, two years ago, Verizon Vice

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[54] NY DPS Case 08-C-0405 - In the Matter of Quality of Service provided by Local Exchange Companies in New York State, Frontier Communications, Third Quarter 2008 Service Quality Report, November 6, 2008, at 6; Fourth Quarter 2008 Service Quality Report, January 22, 2009, at 7.

[55] Frontier Rochester had 315,891 switched access lines as of the 4th quarter of 2008. The total access lines of all the other Frontier ILECs in New York was 87,504. NY DPS Case 08-C-0405 - In the Matter of Quality of Service provided by Local Exchange Companies in New York State, Frontier Communications, Fourth Quarter 2008 Service Quality Report, January 22, 2009, at 2.

[56] Chelsea Conaboy, "In Hawaii, Echoes of FairPoint: Company Bought Verizon Lines, Faltered," *Concord Monitor,* Sept. 20, 2009.

President Stephen E. Smith, in testimony filed on behalf of Verizon, predicted a "smooth" cutover from Verizon to FairPoint.[57] Mr. Smith repeatedly told state regulators at that time that FairPoint was different than the Carlyle Group that purchased Hawaiian Telecom, and therefore would be able to avoid the serious cutover problems that customers experienced there.[58] Mr. Smith's reassurances were wrong then. Now, the same Stephen Smith, in testimony filed on behalf of Verizon in West Virginia, once again predicts a "smooth" cutover in the Frontier transaction, this time asserting that Frontier is not FairPoint.[59] Given Mr. Smith's track record, the Commission should be deeply skeptical of the Applicants' statements that this time around the acquiring company will be able to avoid the many pitfalls involved in the integration of complex computer systems.

In summary, systems integration is a complicated process, subject to many errors, including billing mistakes, missed and delayed installations, technicians dispatched to wrong locations, and many other problems similar to those that customers continue to experience in northern New England and Hawaii. If the cutover doe not go smoothly, it is likely the transaction will lead to customer defections, further eroding Frontier's revenues and jeopardizing its financial stability. The stakes for this transaction are high, and, therefore, the Commission should seek detailed

[57] New Hampshire Docket No. DT 07-111, 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, at 27 stating: "As part of the TSA, the parties have agreed to establish a comprehensive planning and management structure to ensure a smooth and seamless transition from reliance on Verizon support services to FRP's own support systems."

[58] Rebuttal Testimony of Stephen E. Smith, On Behalf of Verizon Communications, Before the State of New Hampshire Public Utilities Commission, Docket No.DT 07-011, Sept. 10, 2007.

[59] West Virginia Public Service Commission Case No. 09-0871-T-PC, Direct Panel Testimony of Stephen E. Smith and Kathy L. Buckley on behalf of Verizon. *See e.g.*. at 14 stating "There are numerous reasons to expect this transition to go much more smoothly" and see other references to a "smooth" transition at *id*., 15, 16, 18.

descriptions of the cutover plans, systems integration schedules, contingency plans, and the cost to Frontier under various scenarios. The Commission should not rely on the Applicants' unsubstantiated predictions.

VI. THE PROPOSED TRANSACTION WILL RESULT IN DETERIORATION OF SERVICE

Despite Frontier's professed interest in providing increased customer focus, we have serious concerns about Frontier's ability to provide reasonable service quality. As a threshold matter, Applicants have not demonstrated that Frontier is sufficiently familiar with the condition of the networks that it would be acquiring from Verizon in each of the 14 states. Only two months elapsed between the initial discussion between the Verizon and Frontier CEOs. As discussed above, severe financial constraints on Frontier could jeopardize its ability to invest in the maintenance of the infrastructure and adequate staffing to ensure quality service in the exchanges it proposes to acquire.

In some instances, Frontier would inherit aging plant that has not received adequate investment in portions of Verizon's service territory. For example, the West Virginia Public Service Commission (PSC) is currently investigating the poor quality of service provided by Verizon to its customers.[60] In other instances, Frontier would acquire Verizon's state-of-the-art FTTH network, which Frontier has absolutely no experience operating, maintaining, or expanding. Further, Frontier would acquire video networks in three states, but it has no experience operating a modern cable system.[61]

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[60] West Virginia Public Service Commission, Investigation into Quality of Service of Verizon West Virginia, Inc., A Public Utility, Case No. 08-0761-T-GI.

[61] See Request for Information from the Metropolitan Area Communications Commission (Beaverton, Oregon) to Verizon and Frontier, dated June 25, 2009 ("It appears the only technical experience Frontier has to operate

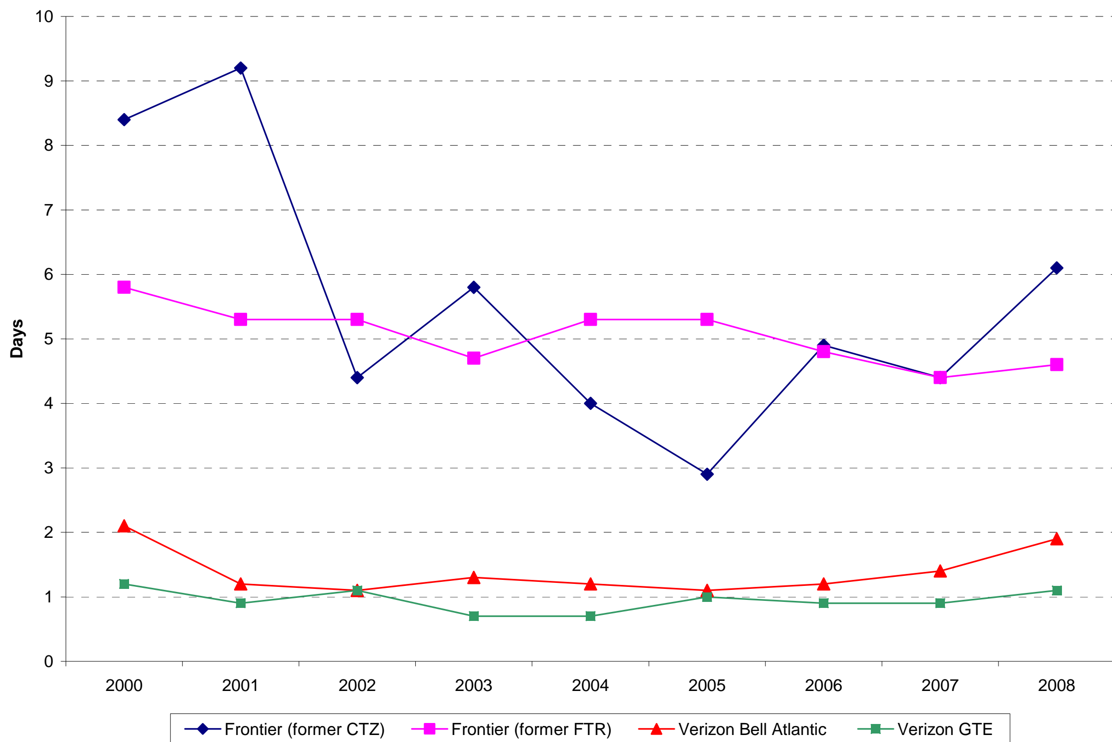
Unfortunately, Frontier's performance as measured by the Commission's ARMIS data is even worse than Verizon's. In 2008, for example, Frontier's installation time averaged between 4.5 and six days compared to Verizon's one to two day average. The progress that Frontier appeared to have made in the period from 2000 through 2007 reversed in 2008.[62] (*See* Chart 7 below.)

Verizon's sophisticated all-fiber cable system is the local Verizon staff that Frontier hopes will continue to work in that capacity under Frontier management." [emphasis in original]).

[62] ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

Chart 7[63]

Average Installation Interval for Verizon and Frontier: 2000-2008



Frontier also experienced far more trouble reports per 100 lines than Verizon, an indicator of the condition of outside plant. In 2008, Frontier had 60 percent more initial trouble reports per 100 lines than Verizon (28 for Frontier compared to 17 for Verizon 17).[64] (*See* Chart 8)

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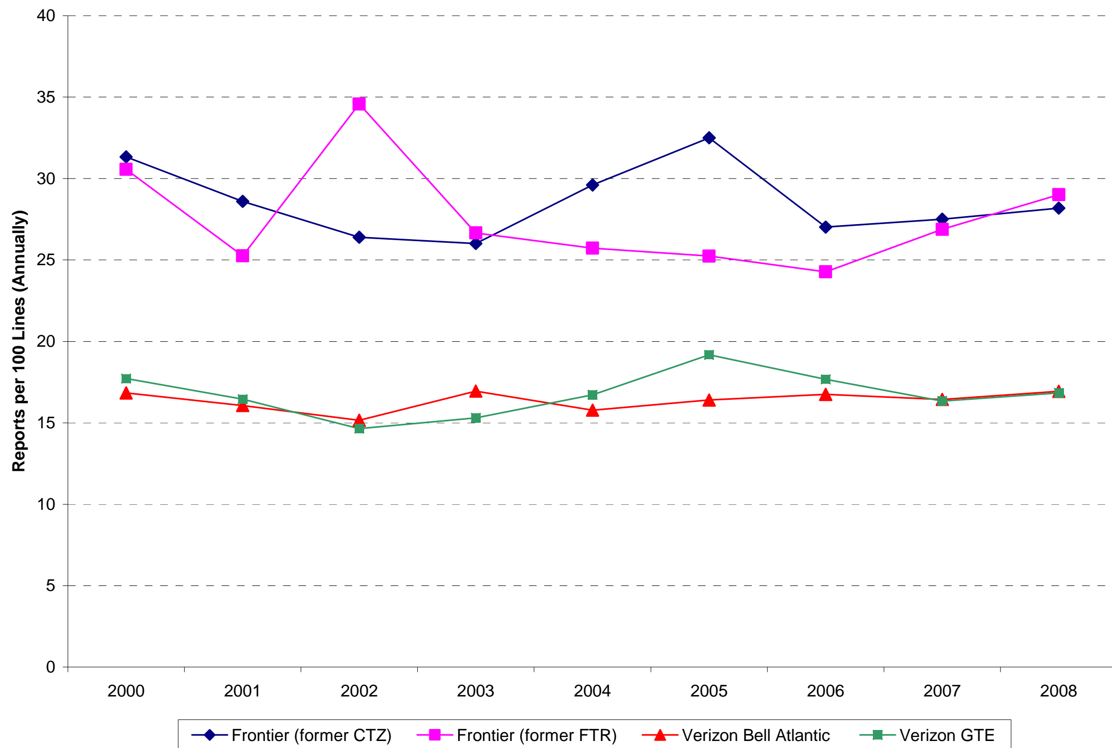
[63] *Id.*

[64] *Id.*

Chart 8.[65]

Initial Trouble Reports per 100 Lines for Verizon and Frontier: 2000-2008



Frontier clearly does not have a good track record on service quality. As we discussed earlier, Frontier's business model is based on high dividend pay-outs, financed by reducing the value of its assets rather than making sufficient investment in plant and equipment. We are concerned that Frontier will not have resources it needs to improve on Verizon's service problems while simultaneously meetings its debt obligations, addressing systems integration challenges, and investing in broadband upgrades.

[65] ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

Lack of Staffing. A major reason for Frontier's poor service quality has been the reduction in employees to repair and maintain the existing network. In West Virginia, for example, Verizon's technician workforce was been reduced by 22 percent from 2005 to 2008, and was cut even more since the announcement of the proposed sale.[66] Without adequate trained employees, Frontier will not be able to provide quality telephone and broadband service.

VII. THE PROPOSED TRANSACTION DOES NOT INCLUDE VERIFIABLE AND ENFORCEABLE COMMITMENTS FOR BROADBAND EXPANSION

Although the Applicants claim that the transaction will lead to accelerated broadband deployment, they have made no concrete, verifiable, and enforceable broadband commitments. In fact, the transaction could entrench consumers and communities in outdated broadband capabilities. In those four states where Frontier would acquire Verizon's fiber to the home ("FTTH") networks, it is not evident that Frontier would possess the corporate know-how and the financial capability to expand and deliver these services. Furthermore, if Verizon has not yet determined that it is profitable to serve those areas in its VSTO footprint that lack broadband, it seems unlikely that Frontier will have the financial and technical wherewithal to connect unserved regions in the 14-state territory.

a. Frontier Will Not Have Sufficient Resources to Invest in Broadband Expansion

As we have already discussed, Frontier will face significant challenges simultaneously running a significantly larger company, integrating multiple operating systems, meeting its larger debt obligations, making substantial dividend payments to shareholders – all in the midst of a major recession. On top of those commitments, Frontier promises "over time" to invest in

[66] Responses of Verizon West Virginia, Inc. To Consumer Advocate Division's August 6, 2008 First Request For

broadband in the acquired areas where Verizon has not yet deployed broadband so that availability and subscribership is "more nearly approximate" those in Frontier's territory today.[67]. FairPoint likewise promised broadband expansion, but has reneged on those commitments in the face of its financial and operational challenges.

Frontier claims that it provides broadband to 92 percent of consumers in its territory compared to an average of approximately 60 percent of access lines in the VSTO acquired areas.[68] The Commission should request data to verify the accuracy of these statistics.

Although we are skeptical of Frontier's ability to deliver broadband at downstream and upstream speeds as fast as or faster than Verizon now offers, if the Commission nonetheless intends to consider the purported benefit of Frontier's broadband deployment, we urge the Commission to seek detailed data from Frontier on this aspect of the proposed transaction. At a minimum, the Commission should seek detailed deployment plans and costs from Frontier, including Frontier's assumptions about the condition of Verizon's network. Information that has been provided thus far in regulatory proceedings falls far short of actual detailed, enforceable commitments with milestones.

Moreover, it is not clear how Frontier will have the capital resources to fulfill its broadband promises. In fact, in recent years Frontier's capital expenditures have fallen far below those that Verizon spent in its VSTO areas. Frontier would need to increase significantly its historic level of capital expenditures in order to expand broadband to VSTO's unserved areas.

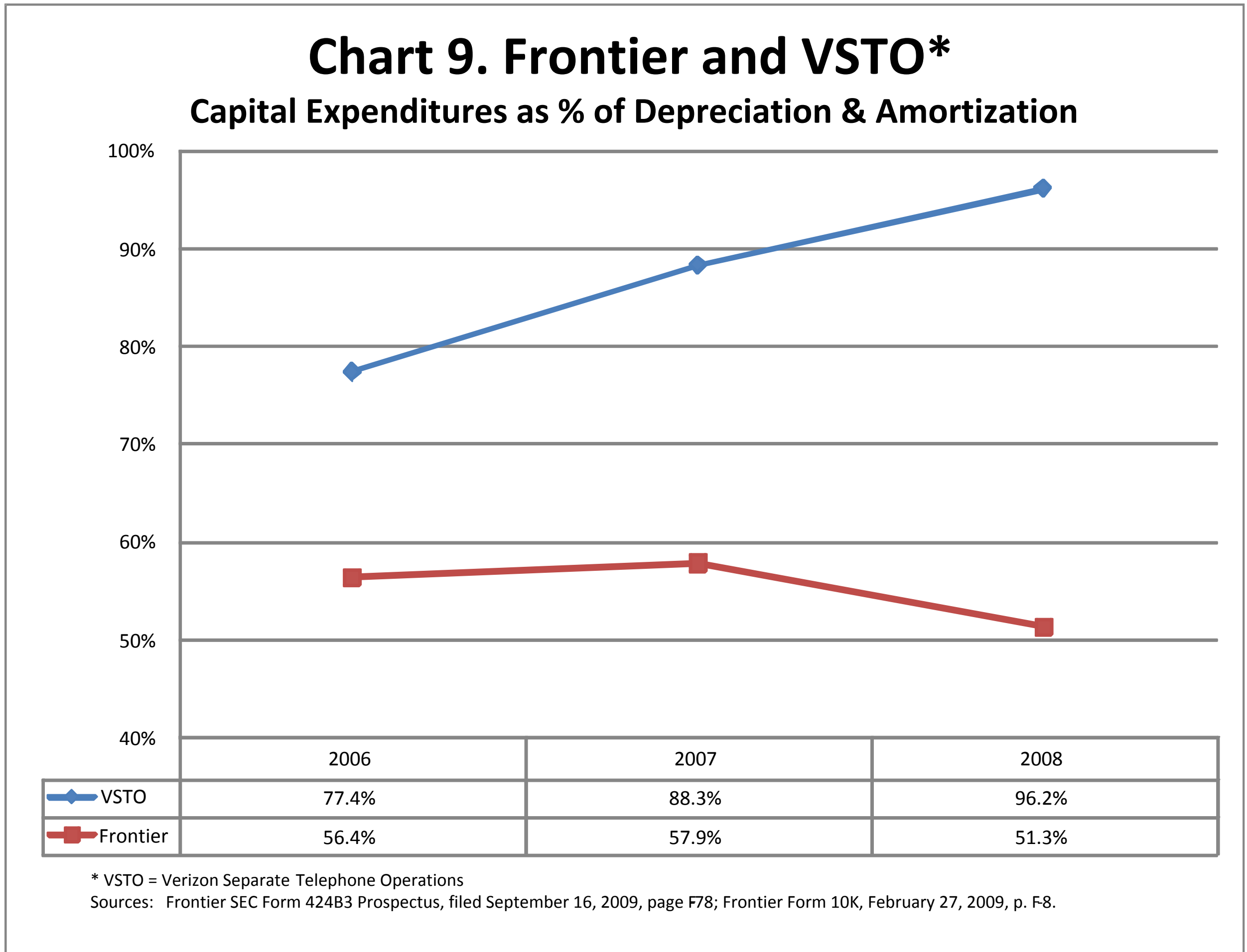
Information, WV PSC Case No. 08-0761-T-GI filed on August 27, 2008, Response to Request for Information #10.

[67] Application, page 15.

[68] *Id.*

Several financial measures capture the amount of cash flows that a company re-invests in capital projects. One measure evaluates the proportion of depreciation and amortization (D&A) cash flows that are reinvested as capital expenditures. Using this measure, VSTO has invested a significantly greater percentage in new capital expenditures than Frontier every year since 2006. In 2008, VSTO invested twice as much of its D&A derived cash flows in capital expenses (96.2 percent for VSTO compared to 50 percent for Verizon). In 2007, VSTO capital expenditures were one-third larger than Frontier's (88.3 percent for VSTO's compared to 57.9 percent for Frontier), and in 2006, they were 25 percent greater (VSTO's 77.4 percent compared to Frontier's 56.4 percent). (*See* Chart 9.)[69]

[69] Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, page F-78; Frontier SEC Form 10K, February 27, 2009, page F-8.



	2006	2007	2008
VSTO	77.4%	88.3%	96.2%
Frontier	56.4%	57.9%	51.3%

One can also measure a company's level of capital expenditures as a percentage of its revenues. Frontier makes much of the fact that it dedicates about 12 percent of its revenues to new capital expenditures.[70] However, an examination of the capital expenditures in VSTO

[70] See, for example, Transcript of Don Shassian comments at the Barclay's Capital Wireline and Wireless Conference, May 27, 2009, page 9. "The CapEx number was up there on the SpinCo column was $413 million. [Frontier CEO] Maggie [Wilderotter]'s comment -- we have sort of looked at it and said we spent about 12 percent of revenue today and we think that 12 percent is going to enable us to do just about everything we need to do. There could be more capital we have to spend above that to reach some high speed and we have some FiOS commitments which will be required. That will be several hundred million dollars over a couple of years, several years. But it's still within that 12 percent, maybe a little bit higher but it's not a huge hump…We do believe that once we have been able to deploy high-speed over a number of years that we could drive the CapEx as a percentage of revenue down. Today you know we spend a lot on IT, a lot on new products and on a bigger scale basis we will be able to absorb that. So we think we might be able to drive that CapEx down on this property from 12 percent maybe down to 11 percent and maybe get down to 10 percent based pure on scale."

reveals a materially higher ratio of capital expenditures in recent years. For the period 2004 through 2008, Frontier dedicated between 12.8 percent and 13.9 percent of its revenues to capital expenditures (It was 12.9 percent in 2008). VSTO, on the other hand, invested 13.5 percent of its revenues in capital expenditures in 2004, increased that proportion to 15 percent or more during 2005 through 2007, and further increased it to 16.8 percent in 2008.[71] (*See* Chart 10)

Most disturbing, Frontier has clearly indicated that it intends to scale back VSTO's capital expenditures significantly. In the announcement day presentation that Frontier distributed to financial analysts and others, it provided "pro forma" and "key financial characteristics" data as if the companies had already been combined in 2008. In this presentation, Frontier reflects spending $317 million or 43 percent less in VSTO capital expenditures than VSTO actually spent in 2008. While VSTO spent $730 million in capital expenditures in 2008, these "pro forma" financials indicate only $413 million in capital expenditures. A footnote to the presentation indicates that the VSTO amounts were "adjusted for certain matters," but does not explain why VSTO's 2008 capital expenditures were reduced from $730 million to $413 million, while Frontier's 2008 capital expenditures were reflected in their totality. Moreover, these pro forma financials reflect $29 million less in capital expenditures for the combined company than VSTO alone actually spent in 2008.[72] To our knowledge, Frontier has not made public any other details or projections with respect to its "run-rate" capital expenditure plans for the VSTO

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[71] Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, page 19.

[72] Prospectus, p. F-78; "Welcome to the New Frontier" presentation, Frontier SEC Form 425, filed May 13, 2009, page 17. Also, according to the "Welcome to the New Frontier" presentation, page 21, the combined Frontier pro forma revenues for 2008 would have been $7.05 billion, meaning that the adjusted $700 million in capital expenditures would only have been 10 percent of revenues.

properties.[73]

Furthermore, Frontier will receive much less in federal Universal Service Fund ("USF") subsidies in the acquired areas than it presently receives in its current service area. For example, in 2008, in West Virginia, Frontier obtained $104 per line in USF support while Verizon obtained only $46 per line.[74] Frontier's receipt of $58 more per line in federal subsidies relative to Verizon may explain why Frontier is able to expand its broadband to more of its territory than Verizon. However, for any acquired properties, Frontier will only be able to utilize the same formulas used by Verizon and therefore will receive less in federal subsidies than in its current service area.[75]

In summary, it is not at all evident how Frontier will be able to expand broadband services and meet its other obligations, given that it projects lower levels of capital investment than VSTO currently spends, and will not be able to capture the higher levels of USF subsidies that is receives in its current territories.

b. Frontier Will Not Be Able to Maintain and Expand Verizon's Current FiOS Service

Frontier also has not demonstrated that it possesses the requisite experience to operate the fiber-to-the-home ("FTTH") properties it would acquire in portions of Indiana, Oregon, Washington, and South Carolina. Verizon's FiOS networks in the VSTO footprint passes

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[73] Prospectus, p. F-78; "Welcome to the New Frontier" presentation, Frontier SEC Form 425, filed May 13, 2009, page 17. According to the "Welcome to the New Frontier" presentation, page 21, the combined Frontier pro forma revenues are $7.05 billion, meaning that the projected $700 million in capital expenditures is actually only 10 percent of revenues.

[74] West Virginia Public Service Commission Case No. 09-0871-T-PC, Direct Testimony of Billy Jack Gregg on behalf of Frontier Communications Corporation, pp. . 4-5, 8-9.

[75] 47 CFR § 54.305

600,000 homes in these states, and serves 140,000 FiOS Internet and 103,000 FiOS TV subscribers. (Verizon sells FiOS Internet in all four states, but does not sell FiOS TV in South Carolina.)[76] Frontier has no experience providing video services, which involve not only technical capabilities (operating and maintaining video head end and numerous other facilities), but also the capability to negotiate contracts for video content, hardware, and software. Frontier has not explained when and how it will acquire the necessary FTTH and video expertise. Further, it is not clear how Frontier, with just 100,000 "eyeballs" to deliver to video programmers and advertisers, would have the resources to support the inevitable increase in programming and other costs spread over a much smaller viewing audience and revenue base.

While Frontier claims it will continue to provide video programming to current customers, it is not at all clear that the company – which has never operated a video system before – will be able to fulfill this pledge. FairPoint offered a similar promise to continue Verizon's transferred FiOS service in southern New Hampshire, but within months after closing, FairPoint eliminated its FiOS TV service.

High speed broadband is now an economic necessity enabling such activities as economic development, telemedicine, e-commerce and interactive distance learning. These benefits can only be fully realized with high-speed Internet access. Speed Matters on the Internet. However, the operations that Verizon is selling are woefully lacking in slow copper based technologies such as DSL, much less high-capacity fiber networks. Fiber networks enable speeds up to 100 megabits per second (mbps) while DSL typically enables just 1.5 to 7 mbps, and with much slower upstream capabilities. The Frontier transaction, as currently structure, will not bring

[76] Frontier Corp. Prospectus, Form 424B3, filed with the Securities and Exchange Commission on Sept. 16, 2009 (hereafter "Prospectus"), p. 146; Application p 8

consumers any closer to the high speeds needed to take full advantage of the telecommunications super highway.

c. Frontier Only Provides a Slow DSL Product

Not only will some consumers in the VSTO acquired areas lose out on the opportunity to benefit from Verizon's world-class fiber network, but the majority of consumers who rely on Frontier's DSL broadband service receive a slower DSL service than Verizon offers in some of its VSTO areas. In many areas, Verizon offers broadband at lower prices than Frontier does.

On its website, Verizon advertises DSL at three different levels:

- Starter Plan: 1 mbps download and 384 kbps upload, priced between $17.99 and $19.99
- Power Plan: 3 mbps download and 768 kbps upload at $29.99
- Turbo Plan: 7.1 mbps download and 768 kbps upload, at prices ranging between $39.99 and $42.99[77]

Verizon's FiOS is currently available at three speed tiers. Tier 1 (15 mbps down/5 mbps up) is priced at $49.99 (or $54.99 without Verizon home phone); Tier 2 (15 mbps down/15 mbps up) is priced a $64.99 ($69.99 without Verizon home phone); Tier 3 (50 mbps down/20 mbps up) is priced at $139.85 ($144.95 without Verizon home phone).[78]

In contrast, Frontier offers "Frontier*Fast* High Speed Internet" at speeds "up to 10 mbps"

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[77] Verizon further describes its DSL offering as follows: "Speeds and service availability vary. High Speed Internet will be provisioned based on Verizon line qualification requirements at 768 Kbps or up to 1 Mbps (1 Mbps service); at 1.5 Mbps or up to 3 Mbps (3 Mbps service); or at 5 Mbps or up to 7.1 Mbps (up to 7.1 Mbps service). Availability subject to final confirmation by Verizon."http://www22.verizon.com/residential/highspeedinternet/?CMP=KNC-CONSCHSIB, site visited September 20, 2009.

[78] http://www22.verizon.com/Residential/FiOSInternet/, site visited September 20, 2009.

with prices "starting at" $44.95 in some locations.[79] In other words, for only $5.00 more, customers can purchase Verizon's FiOS with significantly higher upload and download speeds.[80] Frontier's standard 768 kbps service is offered with prices "starting at" $39.99,[81] which significantly exceeds the under-$20 price for Verizon's standard DSL offering.

Therefore, many DSL consumers in VSTO transferred areas could be worse off with Frontier's more expensive and slower broadband offerings.

d. Frontier Has Made No Verifiable and Enforceable Commitment to Create and Preserve Jobs, and Provide Adequate Staffing to Ensure Quality Service

Although the Applicants claim that the proposed transaction will preserve and create jobs, Frontier has not made any concrete, verifiable, and enforceable commitments regarding jobs. Moreover, as we have already discussed, we have serious concerns that Frontier will not have the resources to maintain, much less to grow, its workforce to ensure adequate staffing levels to provide quality service to customers and career opportunities for employees.

VIII. CONCLUSION

The Commission should conduct a comprehensive, independent analysis of the proposed Verizon-Frontier transaction. There are serious concerns about Frontier's financial strength, its ability to pull off such a complex transaction, the many challenges involved in cutting over West

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[79] Information about the precise locations where companies offer broadband and the speeds of such offerings is not generally available. Customers can enter individual telephone numbers on company websites to research availability, but need to confirm actual availability with companies. With grants provided by the National Telecommunications and Information Association ("NTIA"), states will be mapping this type of information. "NTIA's Broadband Mapping Initiative Off to Strong Start, All U.S. States, Territories, and D.C. Apply to Participate in Program, September 9, 2009, http://www.ntia.doc.gov/press/2009/BTOP_mappingtotals_090909.html.

[80] Although Frontier's website does not specify download speeds, we assume that the upload speed parallels the 768 kbps upload speed of Verizon's comparable "Turbo Plan."

[81] http://www.frontier.com/products/ProductOverview.aspx?type=1&p=2, site visited September 20, 2009.

Virginia's operating systems on day one of closing and integrating computer systems in the 13 other states at some later date. There are important questions regarding the company's ability simultaneously to meet its debt obligations, focus on the integration challenges, improve service quality, and expand broadband investment.

This divestiture could represent a giant step backward in the provision of broadband to rural America. Frontier has never operated an all fiber-network and a video system, and would be hard-pressed to maintain much less expand Verizon's FiOS service in the areas to be acquired. Since Frontier's historic and projected capital expenditures trail those of VSTO, it is not clear how Frontier will be able to expand broadband throughout the acquired areas.

In the FairPoint transaction, regulators in northern New England put in place several safety mechanisms, including additional infusions of capital from Verizon and penalties on FairPoint for non-compliance. But within the 18 months after the transaction closed, regulators already back-tracked on some of those protections just to keep FairPoint out of bankruptcy. As the Verizon-Frontier deal is currently structured, there is no safety net. Verizon gets to walk away with its check for more than $3 billion; it bears no responsibility for anything that happens to Frontier, its customers, or employees after closing.

The Commission cannot allow a repeat of Verizon's most recent failed divestitures. The Commission must ensure that Frontier has the financial and organizational capability to protect the public interest in quality service and expansion of advanced broadband technology, or the Commission should reject the Application.

Respectfully Submitted,

George Kohl
Senior Director
Communications Workers of America

Edwin D. Hill
President
International Brotherhood of Electrical Workers

Dated: September 21, 2009

DECLARATION OF DEBBIE GOLDMAN

My name is Debbie Goldman. I am Research Economist with the Communications Workers of America. My business address is 501 Third Street N.W., Washington, D.C. 2001.

The Communications Workers of America is a labor organization representing 700,000 workers, half of whom work in the communications industry, including wireline, wireless, Internet access, cable, broadcasting, and publishing.

The International Brotherhood of Electrical Workers is a labor organization representing 750,000 workers in a wide variety of fields, including utilities, construction, broadcasting, telecommunications, manufacturing, railroads and government.

Together, CWA and IBEW represent about 6,500 workers employed by Verizon in the areas impacted by the proposed divestiture and about 2,800 workers employed by Frontier.

I am familiar with the contents of the foregoing Comments. The factual assertions made in the petition are true to the best of my knowledge and belief.

I declare under penalty of perjury that the foregoing is true and correct.
Executed on September 21, 2009.

Debbie Goldman