BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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

OPPOSITION TO PETITIONS TO DENY AND REPLY TO COMMENTS BY FRONTIER COMMUNICATIONS CORPORATION AND VERIZON COMMUNICATIONS INC.

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Frontier Communications Corporation ("Frontier") and Verizon Communications Inc. ("Verizon") (jointly "Applicants") oppose the Petitions to Deny their applications to transfer control of certain Federal Communications Commission ("FCC" or the "Commission") licenses from Verizon to Frontier,[1] and reply to those commenters who assert that the transaction is not in the public interest. As the Commission has observed, transactions in which smaller carriers "that specialize in providing service in rural areas" acquire rural exchanges from larger incumbent carriers generally "d[o] not raise public interest issues" and "are unlikely to raise the potential of competitive harm."[2] That is the case here. None of the petitioners or commenters overcomes the Applicants' showing that the transaction will result in significant public benefits or demonstrates

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[1] These include all the applications filed with respect to these transactions, including the incidental Frontier applications.

[2] *See Applications 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.*, Memorandum Opinion and Order, 23 FCC Rcd 514, 522 ¶ 16 (2008) ("FairPoint/Verizon Order"); *Implementation of Further Streamlining Measures for Domestic Section 214 Authorizations*, Report and Order, 17 FCC Rcd 5517 ¶ 33 (2002).

that the transaction will harm the public interest. As a result, the Commission should find that the transaction will serve the public interest and approve the application without attaching any regulatory conditions.

INTRODUCTION AND SUMMARY

In this transaction, Verizon will transfer to Frontier its local wireline operations in the types of rural, suburban, and small city territories that are Frontier's strategic focus. Frontier's business plan in these areas ("new Frontier areas"), as well as the rest of its service territories, is to expand access to innovative products, including broadband, and provide high-quality customer service. The result will be greater investment in the new Frontier areas and increased deployment of and subscribership to next generation services in these communities. In light of these benefits, and the absence of any countervailing harms, the transaction serves the public interest and the applications should be granted.

One of the key public interest benefits of this transaction will be increased broadband deployment and subscribership in the new Frontier areas. As of June 20, 2009, Verizon offered broadband service to approximately 62.5% of the customers in these service areas. By contrast, as of that time, Frontier offered broadband to about 92% of its customer base, even though those areas are on average even more rural than the new Frontier areas. Frontier's business objectives include bringing the level of broadband deployment in the properties it is acquiring here in line with its existing properties over time. Increasing broadband deployment and subscribership in the new Frontier areas will be a critical component of Frontier's business plan. Frontier must do so both to continue to meet the growing competition for traditional telecommunications products and to develop new revenue to offset the continuing decline in access lines and access minutes that incumbent local exchange carriers ("ILECs") have experienced since 2000. In light of these

business imperatives, the Commission need not, and should not, impose any conditions requiring broadband deployment.

Further, contrary to the claims of some commenters and petitioners, this transaction is comparable to many successful prior transactions involving Verizon or its predecessors that raised no material difficulties after closing. Perhaps more importantly, this transaction is fundamentally different from two recent transactions – FairPoint Communications, Inc. and Hawaiian Telcom – in which the acquiring companies have encountered difficulties. Frontier already is a successful operating company with a strong financial position. And this transaction will further *strengthen* Frontier's financial structure and increase its cash flow. Although some petitioners and commenters focus on the additional debt Frontier will incur through this transaction, Frontier's increase in revenues and operating cash flows will be even higher – without factoring in anticipated synergies of $500 million. As a result, based on year-end 2008 results, Frontier's leverage ratio (ratio of net long-term debt to EBITDA) will fall from 3.8x to 2.6x, without synergies. Moreover, to increase cash flow, Frontier's board prudently will trim its dividend at merger close by 25%. Frontier's stronger financial structure and added cash flow will allow it to make the needed investments in the new Frontier areas, including broadband infrastructure, and ensure the presence of a strong, stable competitor in these rural areas and smaller cities.

In fact, Frontier's financial situation will closely parallel that of CenturyLink, the company resulting from the CenturyTel-Embarq transaction recently approved by the Commission and fifteen states. Most significantly, CenturyLink's projected leverage is comparable to Frontier's projected *pre*-synergy leverage, and the leverage ratios including synergies are virtually identical. Although some petitioners and commenters speculate that

Frontier will encounter the same financial troubles as FairPoint after it obtained certain exchanges from Verizon, the two transactions are not financially comparable. FairPoint decided to take on debt that was approximately 4 times the EBITDA generated by the properties in that transaction, while the comparable ratio for the new Frontier properties is 1.7 times. In addition, FairPoint initially projected a dividend payout of 60-70% of free cash flow, significantly higher than Frontier's projected 43% payout ratio. Both Frontier's and Verizon's managements and boards of directors were fully aware of FairPoint's post-transaction struggles and nevertheless concluded that this transaction will be successful. Wall Street has validated that judgment, with two credit rating agencies revising Frontier's standing to "credit watch positive" in light of the transaction. The Commission has repeatedly made clear that it will not second-guess such business judgments, particularly when the second-guessing is based on nothing other than speculative hypotheses and projections.

Comparisons between this transaction and the FairPoint and Hawaiian Telcom transactions are also inapt because the transition for operating systems here will be much simpler. In the cases of FairPoint and Hawaiian Telcom, the acquiring parties chose for their own business reasons to develop and deploy entirely new systems. After closing, they experienced significant problems with these systems, which in turn led to customer disruptions, lost billings, and similar issues, all of which contributed to their financial difficulties. By contrast, Frontier will use existing, proven, and tested systems. In thirteen of the fourteen states, Frontier will use replicas of Verizon's existing systems. As a result, retail and wholesale customers will continue to have access to the same capabilities they have now, and the transition should not cause customer disruption. In the fourteenth state, West Virginia, where such systems duplication is not planned, Frontier will transfer new customers to existing systems that already

serve all of Frontier's current retail and wholesale customers, including existing customers in West Virginia. Frontier has successfully used this same cutover process in prior transactions on a scale at least as large as Verizon West Virginia, including transactions between Verizon's predecessor (GTE) and Frontier (then Citizen's Telephone) during the mid-1990s and the early 2000s.

Commenters and petitioners do not identify any transaction-specific countervailing harms that would undermine the public benefits that will stem from this transaction. No one seriously suggests that it will harm competition given that Frontier and Verizon do not compete for customers in any of the affected exchanges because Frontier does not operate either local exchange or mobile facilities in these areas. The Department of Justice already cleared this transaction under its Hart-Scott-Rodino review. And concerns about the terms and conditions under which Frontier will provide service are based on misplaced conjecture. Frontier is committed to honoring all of its regulatory, tariff and contractual obligations for retail and wholesale customers, including any applicable volume and term discounts. In its application, Frontier pledged to abide by its ILEC obligations, and assume all Verizon retail and wholesale agreements in the new Frontier areas. These commitments encompass Verizon's remaining Section 271 through 276 obligations, and other Bell Operating Company ("BOC") requirements, with respect to the West Virginia lines, as well as collective bargaining agreements.

In the end, this transaction will deliver substantial public interest benefits without resulting in public interest harms. Frontier will invest in broadband pursuant to its historical and successful business plan, and it will be in a stronger financial position to make those investments and ensure high-quality service to retail and wholesale customers in these smaller cities and rural communities. No conditions are warranted to ensure these benefits or to alleviate any harm.

The Commission repeatedly has recognized that any non-transaction-specific, pre-existing harms and industry-wide policy issues are not appropriately addressed in the context of a particular transaction. Consequently, the remedy for parties raising such generalized concerns lies outside of this proceeding. Thus, for example, although there may be genuine obstacles to increased rural broadband deployment as a general matter, it would be affirmatively harmful to use that general concern to saddle this transaction – which will improve broadband deployment to unserved and underserved parts of the new Frontier areas – with unnecessary conditions.

Accordingly, the Commission should deny the petitions and grant the applications.

STANDARD OF REVIEW

The Commission reviews proposed transfers of control and assignments of Commission licenses and authorizations to determine whether they are consistent with the public interest, convenience, and necessity. Because no party contends that the transaction at issue here[3] would result in a violation of the Communications Act ("the Act") or any Commission rule, the Commission's public interest assessment reduces to "a balancing test weighing any potential public interest harms of [the] proposed transaction against any potential public interest benefits

[3] As the parties explained in their applications, under prior Commission precedent, the transaction will not constitute a change of control of Frontier under the Communications Act. *See Verizon and Frontier Consolidated Application for Transfer of Control and Assignment of Authority of International and Domestic 214 Authority*, Exhibit 1, *Description of the Transaction and Public Interest Statement* at 11 n.17, WC Docket No. 09-95 (filed May 28, 2009). Since then, the Commission issued a decision in connection with the CenturyTel-Embarq transaction that suggests a different conclusion without addressing its prior decisions, thereby creating conflicting lines of precedent. *Applications filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, Memorandum Opinion and Order, 24 FCC Rcd 8741 (2009) ("Embarq/CenturyTel Order"). Although the parties remain of the view that the Commission's earlier decisions were correct, the Commission need not resolve this conflict here because the full transaction is before the Commission, and the change of control question has no effect on the issues presented.

to ensure that, on balance, the proposed transaction will serve the public interest."[4] The Commission applies a "sliding scale" approach, so that "where potential harms appear less likely and less substantial,"[5] they are not sufficient to offset clear public interest benefits, and thus cannot be the basis for conditions or denial.

Further, the Commission has made clear that it will not evaluate and weigh all harms that opponents of a transaction might assert. Rather, the Commission's evaluation is circumscribed in five significant respects:

First, as the Commission has emphasized repeatedly, it will not address or weigh harms unless they are *transaction-specific*. Thus, to be a proper subject of consideration on review of a transaction, an alleged harm must directly "arise from the transaction."[6] The Commission will not "impose conditions to remedy pre-existing harms or harms that are unrelated to the transaction."[7] Nor will it "single Applicants out for special treatment unwarranted by any likely

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[4] *See, e.g., Applications of Midwest Wireless Holdings, LLC and ALLTEL Communications, Inc., for Consent to Transfer of Control of Licenses and Authorizations, File Nos. 0002391997, et al. and Application of Great Western Cellular Partners, LLC and ALLTEL Communications, Inc., For Consent to Transfer Control of License*, Memorandum Opinion and Order, 21 FCC Rcd 11526, 11535 ¶ 16 (2006) ("ALLTEL/Midwest Order"); *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18290, 18300-01 ¶ 16 (2005) ("SBC/AT&T Order"); *Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, Memorandum Opinion and Order, 20 FCC Rcd 18433, 18442-43 ¶ 16 (2005) ("Verizon/MCI Order"); *Applications of Nextel Communications, Inc. and Sprint Corporation; For Consent to Transfer Control of Licenses and Authorizations; File Nos. 0002031766, et al.*, Memorandum Opinion and Order, 20 FCC Rcd 13967, 13976-77 ¶ 20 (2005) ("Sprint/Nextel Order").

[5] *See, e.g., AT&T Inc. and BellSouth Corporation, Application for Transfer of Control*, Memorandum Opinion and Order, 22 FCC Rcd 5662, 5761 ¶ 203 (2007) ("AT&T/BellSouth Order"); *Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC; For Consent to Transfer Control of Licenses and Authorizations, and Spectrum Manager and De Facto Transfer Leasing Arrangements and Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17444, 17496-97 ¶ 118 (2008) ("Verizon/ALLTEL Order").

[6] *See, e.g.*, Verizon/MCI Order, 20 FCC Rcd at 18446 ¶ 19; *IT&E Overseas, Inc., Transferor, and PTI Pacifica Inc., Transferee*, Memorandum Opinion and Order and Declaratory Ruling, 24 FCC Rcd 5466, 5474 ¶ 14 (2009); *Applications for Consent to the Assignment and/or Transfer of Control of Licenses; Time Warner Inc. and its subsidiaries, Assignor/Transferor, to Time Warner Cable Inc., and its subsidiaries, Assignee/Transferee*, Memorandum Opinion and Order, 24 FCC Rcd 879, 887 ¶ 13 (2009) ("Time Warner Order"); SBC/AT&T Order, 20 FCC Rcd at 18303 ¶ 20.

[7] *See, e.g.*, Verizon/MCI Order, 20 FCC Rcd at 18445¶ 19; SBC/AT&T Order, 20 FCC Rcd at 18302-03 ¶ 19.

adverse consequences of the transaction" or "leave Applicants in a worse position following the transaction than they are today."[8]

Second, and relatedly, proceedings to review transactions are not the proper forum for resolution of industry-wide policy issues. That is particularly true of "matters that are the subject of other proceedings before the Commission because the public interest would be better served by addressing the matter in the broader proceeding of general applicability."[9] Among other things, the record in a rulemaking or similar proceeding is likely to be more complete and reflect the view of a broader range of parties than in a proceeding to review a particular transaction. Likewise, the Commission can adopt a rule that treats similarly-situated parties in the same manner rather than singling out a party to a transaction. Thus, "[a]n application for a transfer of control of Commission licenses is not an opportunity to correct any and all perceived imbalances in the industry. Those issues are best left to broader industry-wide proceedings."[10]

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[8] *General Motors Corporation and Hughes Electronics Corporation, Transferors and The News Corporation Limited, Transferee, for Authority to Transfer Control*, Memorandum Opinion and Order, 19 FCC Rcd 473, 483 ¶ 131 (2004) ("GM/Hughes Order").

[9] *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations; from Southern New England Telecommunications Corporation to SBC Communications, Inc.*, Memorandum Opinion and Order, 13 FCC Rcd 21292, 21306 ¶ 29 (1998); *Application of GTE Corporation and Bell Atlantic Corporation for Consent To Transfer Control of Domestic and International Sections 214 and 310 and Application to Transfer Control of a Submarine Cable Landing License*, Memorandum Opinion and Order, 15 FCC Rcd 14032 ¶ 432 (2000); *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations by Time Warner Inc. and America Online, Inc., Transferors, to AOL Time Warner Inc., Transferee*, Memorandum Opinion and Order, 16 FCC Rcd 6547, 6633 ¶ 209 (2001) ("[T]he issues raised by [opponents] are already under consideration in pending Commission proceedings of general applicability. The conditional requirements suggested by [opponents] should be addressed in those proceedings, and not within the confines of the merger analysis."); *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation for Consent To Transfer Control of Licenses and Authorizations; File Nos. 0001656065, et al.; Applications of Subsidiaries of T-Mobile USA Inc. and Subsidiaries of Cingular Wireless Corporation; For Consent to Assignment and Long-Term De Facto Lease of Licenses; File Nos. 0001771442, 0001757186, and 0001757204; Applications of Triton PCS License Company, LLC, AT&T Wireless PCS, LLC, and Lafayette Communications Company, LLC; For Consent to Assignment of Licenses; File Nos. 0001808915, 0001810164, 0001810683, and 50013CWAA04*, Memorandum Opinion and Order, 19 FCC Rcd 21522, 21592 ¶ 183 (2004) ("AT&T/Cingular Order") (refusing to address issue that was the subject of existing rulemaking proceedings so that the Commission would be able "to develop a comprehensive approach based on a full record that applies to all incumbent LECs so that the Commission treats similarly-situated incumbent LECs in the same manner").

[10] GM/Hughes Order, 19 FCC Rcd at 483 ¶ 131.

Third, allegations that a party to a transaction previously violated the Act, a Commission rule, or some other binding obligation "are more appropriately addressed via the Commission's complaint process," rather than as part of the review of the transaction.[11] Among other things, transfer-of-control proceedings are ill-suited for resolving detailed factual disputes about past actions.

Fourth, in assessing a transaction's potential harms and benefits, the Commission generally will not second-guess the judgments of investors and the financial community. The Commission "is cognizant that the marketplace has a natural tendency to provide reasonable evaluations of properties' future financial soundness, through the collective judgment of numerous investors," and its "basic predilection [is] not to second-guess these kinds of business judgments, especially where, as here, they must be ratified by a significant segment of the financial community."[12] So, for example, "[t]he Commission's general policy is not to interfere with a company's capital structure or second guess the financial community or investors which believe that the surviving company in corporate takeovers or buyouts will be financially strong enough to repay debt."[13] That is all the more true when the Commission is invited to engage in such inquiries based on little more than "highly speculative hypotheses and projections."[14]

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[11] *See, e.g.*, AT&T/BellSouth Order, 22 FCC Rcd at 5727 ¶ 120 n.342; Verizon/MCI Order, 20 FCC Rcd at 18529 ¶ 191 n.517 (declining to address issues that were the subject of pending complaint proceedings).

[12] *Applications of MMM Holdings, Inc. for Transfer of Control of LIN Broadcasting Corporation*, Memorandum Opinion and Order, 4 FCC Rcd 8243, 8245 ¶ 14 (1989) ("MMM/LIN Order"); *see also id.*, 4 FCC Rcd at 8244 ¶ 10 ("[I]t is the stockholders themselves who are entitled to choose whether or not to sell their stock, however well- or ill-advised their decisions may be.").

[13] *Applications of Shareholders of GAF Corporation (Samuel J. Heyman), Application for Transfer of Control of GAF Broadcasting Company, Inc. Licensee of Station WNCN(FM), New York, New York, from Shareholders of GAF Corporation to Newco Holdings, Inc.; GAF Corporation Application for Pro Forma Transfer of Control of GAF Broadcasting Company, Inc. from GAF Corporation to Dorset Inc.*, Memorandum Opinion and Order, 7 FCC Rcd 3225, 3229 ¶ 15 (1992) ("GAF Order"); *Motient Corporation and Subsidiaries, Transferors, and Skyterra Communications, Inc., Transferee, Application for Authority to Transfer Control of Mobile Satellite Ventures Subsidiary LLC*, Memorandum Opinion and Order and Declaratory Ruling, 21 FCC Rcd 10198, 10209 ¶ 25 (2006) ("Motient/Skyterra Order") ("[G]iving deference to the business judgments underlying the transaction," including entities' ability to attract financing); *Applications of Stockholders of CBS Inc. (Transferor) and Westinghouse*

Fifth, the Commission does not engage in a comparison of the transferor and transferee in determining whether a transaction is in the public interest. As the Commission has explained, "a general policy of making such comparisons in transfer cases would severely restrict and delay the transferability of licenses, would penalize licensees who have provided exemplary service from making a legitimate transfer, and would serve to encourage licensees to diminish their level of service when anticipating sales of their facilities."[15]

DISCUSSION

I. THIS TRANSACTION WILL PRODUCE TRANSACTION-SPECIFIC PUBLIC INTEREST BENEFITS.

This transaction will deliver significant and verifiable public interest benefits. Frontier focuses on serving rural, suburban and smaller urban territories, and that strategic focus will result in greater investment in these communities, particularly in broadband facilities. This transaction will make Frontier a stronger competitor in all of the areas it serves, increasing both its financial strength and its position as a leading service provider that delivers high-quality and innovative services to consumers in these rural communities and smaller cities. Regulatory conditions for approval of license transfers and assignments are not needed to ensure that the transaction serves the public interest.

Electric Corporation (Transferee), Memorandum Opinion and Order, 11 FCC Rcd 3733, 3746 ¶ 26 (1995) ("CBS/Westinghouse Order") ("[T]he Commission generally refrains from interfering with a company's capital structure or from questioning a lending institution's determination that the merged entity will be financially able to repay the loans."); *Tender Offers and Proxy Contests*, Policy Statement, 59 RR 2d 1536 n.139 (1986) ("Policy Statement") (noting that the Commission has "declined to become involved in making determinations as to the appropriate level of corporate indebtedness").

[14] MMM/LIN Order, 4 FCC Rcd at 8245 ¶ 14.

[15] *Id.* at 8244 ¶ 9.

A. This Transaction Will Enable Frontier to Invest in Broadband in Areas Where Broadband Is Currently Not Available.

This transaction will increase broadband deployment. Such deployment creates a "nationwide 21st-century communications infrastructure, one that encourages economic growth, enhances America's global competitiveness and helps address many of America's most pressing challenges."[16] Broadband draws employers to rural areas to take advantage of lower labor rates and costs of living, enables local businesses to expand, and allows local residents to enhance skills and become more attractive employees.[17] This rural economic development, in turn, creates positive effects that ripple through the national economy – which is precisely what will happen as a result of this transaction. Simply put, over time, this transaction will deliver the concrete, transaction-specific public interest benefit of dramatically increased broadband deployment in the new Frontier areas.[18]

As a principal public interest benefit, Frontier will invest in bringing broadband to the many parts of the new Frontier areas that are unserved or underserved today. Frontier already has implemented business practices, investment strategies, and customer-service initiatives designed specifically for such areas.[19] As the new long-term owner of these facilities and as an owner with a specific strategic focus on wireline services, Frontier will have every incentive to invest in broadband in these areas. Doing so will allow Frontier to better compete with cable and wireless in the marketplace while also providing a new source of revenue to offset declines in

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[16] Press Release, Office of the Vice President, Vice President Biden Launches Initiative To Bring Broadband, Jobs To More Americans (July 1, 2009), http://www.whitehouse.gov/the_press_office/Vice-President-Biden-Launches-Initiative-to-Bring-Broadband-Jobs-to-More-Americans/.

[17] *See* Comments of Calix at 1, WC Docket No. 09-95 (filed Sept. 18, 2009) ("Calix Comments").

[18] *See* Comments of ADTRAN at 1, WC Docket No. 09-95 (filed Sept. 11, 2009) ("This transaction with Verizon can only further Frontier's investment in broadband, which in turn enables new businesses to enter the marketplace and will increase capital spending with equipment vendors, which ultimately results in job creation. Given today's economy, such opportunities are welcome and necessary.").

[19] Declaration of Daniel J. McCarthy ¶ 15, attached as Exhibit 1 ("McCarthy Decl.").

traditional wireline telephony revenues.[20] For all of these reasons, Frontier necessarily will focus its strategy and investment on customers in the new Frontier areas.

Frontier continually has demonstrated a commitment to broadband deployment, and today "stands well ahead of the national average for broadband deployment among communication service providers."[21] Frontier has achieved approximately 92% broadband deployment in its service areas, above the 85% average of other mid-size carriers serving predominantly rural and suburban areas, and well above the 62.5% achieved by Verizon in the affected areas.[22] It has done so, moreover, even though Frontier's existing services areas are more rural on average than the properties in this transaction. Frontier's business objective is to bring the level of broadband deployment in the new Frontier areas more in line with existing properties over time. Indeed, as explained above and in the application, broadband is a key component of Frontier's business strategy and is critical to its competitive success. As the Independent Telephone & Telecommunications Alliance ("ITTA") and as broadband access equipment suppliers explain in their comments, Frontier's "expertise"[23] and "commitment to successful broadband deployment across its rural footprint"[24] give confidence that Frontier's acquisition of Verizon's lines will benefit rural areas.[25] Frontier's achievement of 92% broadband availability in its existing customer base, driven in part by vigorous competition from

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20 McCarthy Decl. ¶¶ 9-11, 23.

21 Calix Comments at 1.

22 *See* Comments of the Independent Telephone & Telecommunications Alliance at 2 n.3, WC Docket No. 09-95 (filed Sept. 21, 2009) ("ITTA Comments") (citing a survey of ITTA members). Frontier and Verizon data as of June 30, 2009. McCarthy Decl. ¶ 21.

23 ITTA Comments at 2.

24 Calix Comments at 1.

25 *See* ITTA Comments at 1, 4-5 ("ITTA supports the transaction and urges the Commission to approve the requested assignments and transfers of control from Verizon Communications, Inc. (Verizon) to Frontier Communications (Frontier) without conditions."); *see also* ADTRAN Comments at 1 ("ADTRAN believes this transaction will move broadband forward in the communities associated with [it]" and "will benefit the telecommunications customers" in those territories, along with "businesses and equipment vendors.").

cable and wireless, and the need to find new sources of revenue in these areas, "demonstrates the company's understanding and effective management of rural markets and assets."[26]

Frontier's commitment to broadband deployment is an essential component of its strategic commitment to local wireline telecommunications in rural areas and smaller cities. Broadband deployment, coupled with high-quality products and services, is critical to Frontier's success and its ability to slow or reverse line loss and maintain or grow revenues.[27] To further this strategy, Frontier has developed a series of innovative broadband-related offerings and bundled packages specifically to meet the desires and needs of customers. Across its business, Frontier emphasizes customer service, value, and ease of use.[28] For example, Frontier's practice is to provide new broadband customers with full-service High-Speed Internet installation and in-home set-up from a Frontier technician so that when the technician leaves, the customer immediately can use his or her broadband service.[29] Frontier also promotes broadband subscribership through promotional offers that provide customers with computers for their personal use.[30] These efforts have borne fruit. Frontier's base of broadband subscribers has grown and its access line loss rate, which was a comparatively low 7.2% in 2008, has slowed even more, to approximately 6.5% for the twelve months ending June 30, 2009.[31]

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26 ITTA Comments at 4; *see also* ADTRAN Comments at 1 ("Frontier has a strong track record of deploying broadband in its primarily rural service areas – which are even more rural than the areas to be acquired from Verizon."); Comments of Arbor Networks at 1, WC Docket No. 09-95 (filed Sept. 15, 2009) ("Frontier has a proven track record of deploying broadband primarily in rural service areas, and making broadband available to a majority of its customers.").

27 McCarthy Decl. ¶ 21.

28 *Id.* ¶ 14.

29 *Id.* ¶ 17.

30 *Id.* ¶ 18.

31 Frontier Communications Corporation, Amendment No. 2 to Registration Statement (Form S-4), at 120 (Sept. 14, 2009) ("Form S-4").

Frontier will bring this same strategic focus and commitment to the properties it is acquiring here. The new Frontier areas, like existing Frontier areas, are subject to significant competitive pressures from cable and wireless, as well as the need to increase revenues. Just as in existing Frontier areas, increasing broadband deployment and penetration will be a critical component of Frontier's strategy to compete more effectively and to stem the rate of access line losses. Indeed, providing broadband to consumers in the new Frontier areas represents a significant business-growth opportunity and is a key driver of this transaction.[32] And because Frontier will continue employing Verizon's installers and technicians, it will gain additional experienced personnel to help ensure continued quality of service.[33]

No petitioner or opposing commenter asserts that additional broadband deployment would occur as quickly without this transaction. Free Press concedes, "[i]t is unlikely that denying the transaction will leave consumers in the affected areas any better off."[34] In the new Frontier areas, nearly 40% of households lack access to broadband from Verizon, and Frontier has both the incentive and capability to reduce that percentage substantially. Nor is a condition requiring broadband deployment appropriate or necessary. As an initial matter, the Commission has long recognized that the relevant question when it reviews license transfers in connection with mergers or other transactions is whether public interest benefits are likely to accrue, not

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32 McCarthy Decl. ¶ 13.

33 *Id.* ¶ 22.

34 Comments of Free Press at 11, WC Docket No. 09-95 (filed Sept. 21, 2009) ("Free Press Comments").

whether they are guaranteed to do so.[35] In any event, as explained at length above, and in the application, the simple fact is that this transaction will increase broadband deployment.

Frontier also already has agreed to honor all of the build-out commitments for the service areas it is purchasing.[36] Consequently, there will be no diminution in committed fiber optic builds in the FiOS systems being transferred.[37] Because Frontier wants to improve, not impair, its ability to compete vigorously over the long term, diminishing its committed fiber optic builds would be irrational.

The Communications Workers of America's ("CWA") and Free Press's comparisons of Verizon's broadband speeds and offerings in the areas where it does offer service – including its FiOS-served areas – with Frontier's current broadband offerings miss the core benefit of this transaction.[38] Consumers cannot buy a service that is not available in their service area. Frontier will deliver broadband to a substantial portion of those households that currently are unserved by Verizon – driving broadband availability much closer to the 92% level achieved in Frontier's current service areas.

The National Association of State Utility Consumer Advocates ("NASUCA") and CWA also complain that the transaction will not improve broadband *enough*.[39] These commenters seek to measure the transaction not against current conditions, or against conditions if the transaction

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35 *See Verizon Communications Inc., Transferor, and America Movil, S.A. DE C.V.; Transferee, Application for Authority to Transfer Control of Telecomunicaciones de Puerto Rico, Inc.*, Memorandum Opinion and Order and Declaratory Ruling, 22 FCC Rcd 6195, 6210-11 ¶ 35 ("Because we do not find substantial public interest harms, we find benefits that are likely to result from the merger are sufficient for us to find that the merger serves the public interest."). In any event, the FCC monitors all broadband providers' deployment through its Form 477 reports.

36 McCarthy Decl. ¶ 50.

37 *Cf.* Comments of Communications Workers of America/International Brotherhood of Electrical Workers at 46, WC Docket No. 09-95 (filed Sept. 22, 2009) ("CWA Comments").

38 *Id.* at 46-47; *see also* Free Press Comments at 12-13.

39 *See, e.g.*, CWA Comments at 35. Illogically, CWA asserts that Frontier "would inherit aging plant that has not received adequate investment in portions of Verizon's service territory" but then objects to the transaction because Frontier might not invest *enough* in infrastructure. *Id.* CWA cannot have it both ways.

does not occur, but rather against a hypothetical world of 100% broadband availability and ever-higher broadband speeds.[40] Putting aside hypothetical scenarios, the transaction will promote additional broadband deployment and subscription, and approval cannot be conditioned or denied simply because Frontier might not be able to offer broadband to 100% of these service territories.[41] On the contrary, the Commission has various other proceedings underway in which it is examining the policy issues relating to broadband deployment in particularly hard-to-serve areas more generally, and it is there that any such issues should be considered or addressed.

Comments by Free Press and others suggest that the Commission should view this transaction as part of what they speculate will be a "larger shift" or "pattern" in the industry in which larger carriers divest wireline lines in predominantly rural areas. These commenters suggest that the Commission should address perceived harms to rural broadband deployment arising from this alleged pattern.[42] The challenges of serving rural areas and increasing rural broadband deployment are real, but they do not in any way "arise from" this transaction.[43] They are rather "pre-existing" conditions that are "unrelated to the transaction."[44] Indeed, as described

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[40] Comments of the National Association of State Utility Consumer Advocates and the New Jersey Division of Rate Counsel at 26-27, WC Docket No. 09-95 (filed Sept. 21, 2009) ("NASUCA Comments") (arguing Frontier should be required to meet 100% broadband offering at a minimum of 768kbps); CWA Comments at 4 (complaining that Frontier does not commit to increasing speeds above 3 mbps).

[41] There will be, for example, some locations that remain too far from a central office or fiber-fed remote terminal to receive wireline broadband service, and that also lack a sufficient view of the southern sky to obtain satellite service. A 100% requirement would be technically unachievable and therefore arbitrary and capricious. *See Nuvio v. FCC*, 473 F.3d 302, 303 (D.C. Cir. 2006) (recognizing that inquiries into "technical and economic feasibility" are "made necessary by the bar against arbitrary and capricious decision-making"); *Alliance for Cannabis Therapeutics v. DEA*, 930 F.2d 936, 940 (D.C. Cir. 1991) ("[I]mpossible requirements imposed by an agency are perforce unreasonable."); *Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto Ins. Co.*, 463 U.S. 29, 43 (1983) ("[A]n agency rule would be arbitrary and capricious if the agency has . . . entirely failed to consider an important aspect of the problem, offered an explanation . . . that runs counter to the evidence before the agency, or is so implausible that it could not be ascribed to a difference in view or the product of agency expertise.").

[42] Free Press Comments at 4, 10-12.

[43] *See, e.g.*, Verizon/MCI Order, 20 FCC Rcd at 18446 ¶ 19; Time Warner Order, 24 FCC Rcd at 887 ¶ 13; SBC/AT&T Order, 20 FCC Rcd at 18303 ¶ 20.

[44] *See, e.g.*, Verizon/MCI Order, 20 FCC Rcd at 18446 ¶ 19; SBC/AT&T Order, 20 FCC Rcd at 18303 ¶ 19.

above, the specific effects of *this transaction* on rural broadband deployment are positive, because the transaction will place lines in the hands of a company whose business plan is more focused on investing in, and serving rural areas, through the expansion of broadband. It is only those transaction-specific effects that the Commission may consider here.

Various other issues raised by Free Press also are industry-wide policy issues that are not proper subjects for consideration on review of a transaction. Indeed, Free Press presents a "greatest hits" catalogue of ongoing proceedings that it suggests the Commission must resolve before approving this transaction, ranging from universal service to special access to intercarrier compensation.[45] But, as the Commission has affirmed repeatedly, "[a]n application for a transfer of control of Commission licenses is not an opportunity to correct any and all perceived imbalances in the industry."[46] Similarly, the Commission should decline Free Press's suggestion to delay consideration of the pending application for months (and likely years) until it resolves the various rulemakings of interest to Free Press. Such an outcome would be unjustified and counterproductive. Whatever rule changes the Commission adopts in those pending proceedings will apply to Verizon and Frontier after this transaction closes. Delay will only postpone Frontier's broadband deployment in the new Frontier areas. And delay here would substantially chill investment and prevent or delay other transactions that would benefit the public interest.

Likewise, Free Press's suggestion that Verizon should be required to make some undefined "financial commitment" to Frontier's last-mile networks to help increase rural broadband deployment is improper.[47] In addition to the fact that any such condition would amount to the Commission renegotiating the terms of the deal, it would inappropriately "single

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45 Free Press Comments at 12-13.

46 GM/Hughes Order, 19 FCC Rcd at 483 ¶ 131.

47 Free Press Comments at 13-14.

[Verizon] out for special treatment unwarranted by any likely adverse consequences of the transaction."[48] Here – as even Free Press concedes[49] – nothing about the transaction will reduce or adversely affect broadband deployment; to the contrary, the transaction will increase broadband deployment. Because the problems Free Press would like to address do not result from the transaction before the Commission, and because the transaction will ameliorate those problems, there is simply no factual basis for requiring payments or commitments from Verizon.

Ultimately, blocking this transaction, as CWA and NASUCA propose, or placing conditions on it, as Free Press suggests, would result in a net public interest loss. CWA, NASUCA, and Free Press do not explain how blocking or placing onerous conditions on this transaction would do anything other than prevent transfer of the new Frontier areas from a company with other significant competing investment priorities to a company for which the properties will be a core strategic focus. For Frontier, investing in these properties to expand broadband best serves its strategic interests. As a result, approving the license transfers and assignments without conditions is the best way to advance the public interest in broadband deployment. Market competition will align – as it already does – Frontier's business with the public interest, and transaction conditions would be counterproductive.[50]

B. The Transaction Strengthens Rural Service and Investment By Strengthening Frontier as a Rural Service Provider.

This transaction strengthens Frontier as a service provider in rural areas and bolsters its ability to continue to invest in these areas. Contrary to the claims of some petitioners and

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48 GM/Hughes Order, 19 FCC Rcd at 483 ¶ 131.

49 Free Press Comments at 11.

50 *See* ITTA Comments at 7 ("[A]pproval of this transaction without conditions will encourage other entities to identify opportunities to create efficiencies and synergies through similar transactions. By contrast, onerous conditions will likely discourage opportunities such as this, thereby preempting opportunities for network and end-user benefits in many rural areas of the Nation.").

commenters, the transaction strengthens Frontier's financial profile and improves its scale. After the transaction, Frontier will have a wider base of operations that will enable it to improve efficiency and enhance purchasing power. Further, the transaction will increase substantially the cash flow from which Frontier can fund network investments, while reducing the amount of debt Frontier will be carrying relative to its earnings.

1. The Transaction Will Strengthen Frontier.

Frontier is already a financially strong company. Its annual Free Cash Flow, which is the cash generated by the business *after* funding all operating expenses, capital expenditures, and interest on the company's debt, ranged from $493 million to $562 million from 2005 through 2008.[51] Significantly, Free Cash Flow does not include loan or other financing proceeds. Moreover, Frontier achieved these levels of Free Cash Flow while simultaneously investing more than $1.1 billion from 2005 to 2008 in its network and operations to, among other things, bring broadband deployment up to approximately 92%.[52] Frontier's historical data demonstrate a financially sound business approach that strikes a prudent balance between funding operations, investing in the network, and providing required returns to capital providers – all while continuing to generate sufficient amounts of cash flow to provide the board and management with the financial flexibility to respond to market forces and opportunities.[53] In other words, Frontier's robust Free Cash Flow demonstrably is not the result of minimizing investment and "harvesting" profits or distributing loan proceeds through dividends to shareholders, as some commenters erroneously suggest.[54]

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51 McCarthy Decl. ¶ 31 Table 2.

52 *Id.* ¶¶ 31-32.

53 *Id.* ¶ 33.

54 *See, e.g.*, CWA Comments at 25.

This transaction will further strengthen Frontier financially. Adding the over 4.5 million lines across 14 states that are the subject of this transaction, the Free Cash Flow for Frontier based on pro forma 2008 results would nearly triple to over $1.4 billion even without any synergies.[55] If Frontier achieves its anticipated synergies, annual Free Cash Flow based on 2008 results would increase to over $1.7 billion.[56] Post-transaction, Frontier's 2008 pro forma Free Cash Flow *after dividends* would more than triple, increasing from $175 million to $681 million without synergies, and to $991 million including synergies.[57] This incremental Free Cash Flow will benefit consumers and investors.

2. The Hard Numbers Refute Concerns Raised by Petitioners and Commenters.

Claims that this transaction is nevertheless somehow financially unsound are misguided, speculative, and unpersuasive. Petitioners and commenters, particularly CWA and NASUCA,[58] make much of the fact that Frontier will take on approximately $3 billion in debt as a result of this transaction, and argue that because Frontier's debt will increase, its ability to pay must fall. But that analysis is simply wrong. Just as with an ordinary consumer, an increase in debt by itself does not indicate a reduced ability to pay or increased financial risk. When a consumer gets a new job with a substantial pay raise, and then buys a newer, more expensive car, the consumer's relative ability to pay is not judged by the size of the new car loan as compared to the old car loan, but by the size of the new car loan as compared to the consumer's new cash flow (revenue less expenses). If the cash flow increases proportionately more than the car loan, the consumer will be more financially stable and judged to be at lower financial risk. That is

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55 McCarthy Decl. ¶ 32.

56 *Id.*

57 *Id.* ¶ 33.

58 *See, e.g.*, CWA Comments at 25.

essentially what is happening in this transaction. Although Frontier will take on about $3.3 billion in debt, based on pro forma 2008 results, its annual revenues will increase from $2.37 billion to $6.49 billion, and its EBITDA (revenues less cash operating costs) correspondingly will increase from $1.2 billion to over $3.1 billion, without including any anticipated synergies.[59] With synergies, the combined EBITDA will increase to over $3.6 billion (based on pro forma 2008 results). As explained in greater detail below, the transaction actually strengthens Frontier's financial position because Frontier will have less debt relative to cash flow than it does today.

CWA argues that Frontier must rely on synergies to make this transaction work financially, but the facts show otherwise. Frontier's reduction in leverage and thus in financial risk can be seen in the change in net debt to EBITDA ratio, also known as the leverage ratio. Before the transaction, Frontier's ratio of 2008 net debt to EBITDA was 3.8x. After the transaction, Frontier's net debt to EBITDA ratio falls to 2.6x without synergies, heading toward 2.2x if all synergies are realized, based on 2008 financial results.[60] Consequently, Frontier will be substantially less leveraged after the transaction, even without the benefit of synergies.

Despite hyperbolic claims to the contrary, this transaction is very similar to other successful recent transactions. This transaction closely resembles the CenturyTel-Embarq transaction, which this Commission and fifteen states recently approved.[61] As Table 1 shows, the two transactions are similar in size, with the CenturyLink transaction slightly larger in terms of total dollar value, target access lines acquired, and number of states involved (18 to Frontier's

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[59] McCarthy Decl. ¶ 30. The net debt figure has been revised to $3.4 billion as of June 30, 2009. Form S-4 at 8.

[60] McCarthy Decl. ¶ 27. The same improvement can be seen in Frontier's pro forma Debt to Free Cash Flow and Debt to Free Cash Flow after Dividends.

[61] Embarq/CenturyTel Order, 24 FCC Rcd 8741; *see also* McCarthy Decl. ¶¶ 28-30.

14).[62] However, CenturyTel acquired a proportionately larger company: Embarq was 2.9 times larger than CenturyTel, whereas the number of access lines in the new Frontier areas is only 2.1 times larger than the number Frontier serves today. CWA's contention that "neither Frontier nor any other company its size has ever taken on a deal of this complexity and magnitude"[63] is plainly wrong: it ignores the strikingly similar CenturyTel-Embarq transaction, which the Commission just approved in the face of similar objections from CWA.[64]

Table 1

Transactional Comparison—Frontier-Verizon and CenturyTel-Embarq

($s in millions)	CTL-EQ	FTR-VZ
Transaction Size		
Dollar Value	$ 11,600	$ 8,583
Target Access Lines	5,853	4,791
Target States Involved	18	14
Relative Size (Target:Acquirer Ratio)		
Access Lines	2.9x	2.1x
Revenues	2.4x	1.9x
EBITDA	2.1x	1.6x
Pro forma Leverage		
Excluding Synergies	2.3x	2.6x
Including Synergies	2.1x	2.2x
Pro forma Payout Ratio	50%	43%

Sources: New Frontier Presentation (data as of December 31, 2008); CenturyTel-Embarq Presentation (October 27, 2008) (data as of September 30, 2008); CenturyTel-Embarq Merger Press Release (October 27, 2008).

The similarities between this transaction and the CenturyTel transaction extend beyond transaction size to financial strength. CenturyLink's projected leverage is comparable to Frontier's projected *pre*-synergy leverage (2.3x versus 2.6x, respectively), and the target

62 *Id.* ¶ 28 Table 1.

63 CWA Comments at 2. NASUCA (quoting CWA) objects to this transaction because "[n]o one has ever attempted a large divestiture of access lines from the former Bell Atlantic network." NASUCA Comments at 22. NASUCA makes no showing as to why the identity of the transferor is relevant, especially when, as here, the transferee has handled numerous transactions and systems conversions.

64 *See* Reply Comments of Communications Workers of America at 9-18, WC Docket No. 08-238 (filed Jan. 23, 2009).

leverage ratios including synergies are virtually identical (2.1x versus 2.2x, respectively).[65] Moreover, the CenturyTel transaction shows the irrelevance of absolute debt levels: CenturyTel increased its net debt load by around $5.8 billion in absolute dollar terms, for a total of approximately $8.8 billion, but retained an investment grade credit rating.[66] Here, Frontier has a smaller increase in total debt, but ends with a similar leverage ratio and a similar dividend payout ratio – again demonstrating that this transaction strengthens Frontier financially and that absolute dollar amounts of debt, by themselves, have little meaning.

Contrary to the suggestion of some parties, this transaction is materially different from the FairPoint transaction. Frontier enters this transaction nine times larger than pre-transaction FairPoint in terms of access lines and EBITDA, and nearly nine times larger than pre-transaction FairPoint in terms of revenues.[67] Frontier's post-transaction financial profile will be significantly more conservative than FairPoint's. Frontier's post-transaction pro-forma 2008 leverage ratio is 2.6x (excluding synergies) versus 4.1x for FairPoint (at announcement, based on pro forma 2005 results).[68] The ratio of additional net debt to additional EBITDA for the new Frontier areas is 1.7x, as compared to 4.0x in the FairPoint transaction.[69] In addition, FairPoint initially was projecting a dividend payout of 60-70% of free cash flow, significantly higher than

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65 McCarthy Decl. ¶ 29 and ¶ 28 Table 1.

66 The irrelevance of absolute debt levels is also shown by the fact that at the end of second quarter 2009, AT&T had just over $69 billion in net debt, and Verizon had approximately $64 billion. McCarthy Decl. ¶ 30. Nevertheless, both companies are solidly investment grade. AT&T, Quarterly Earning – 2Q 2009, http://www.att.com/gen/investor-relations?pid=282; Press Release, Verizon, Verizon Reports Revenue Growth and Continued Improvement in Cash Flow in 2Q (July 27, 2009), http://investor.verizon.com/news/view.aspx?NewID=1000.

67 McCarthy Decl. ¶ 60.

68 *Id.* ¶ 62 Table 4.

69 *Id.* ¶ 64.

Frontier's projected after-synergies 43% payout ratio.[70] For all of these reasons, the financial effects of this transaction and the FairPoint transaction simply are not comparable.

3. Frontier Will Have the Opportunity to Grow Even Stronger by Reducing Costs.

In addition to the financial benefits detailed above, the transaction produces opportunities to reduce costs through synergies, primarily in the areas of executive management, legal, information systems, finance and accounting, and increased purchasing power with vendors.[71] To be clear, Frontier derives these cost savings estimates from the non-customer-facing areas of the business that Frontier believes can be operated more efficiently on an integrated basis. By 2013, Frontier estimates its annual savings from synergies to be $500 million, based on 2008 pro forma results.

Frontier successfully has increased efficiency in its other acquired properties, and there is no reason to believe that it will not enjoy the same success here, as independent analysts have observed.[72] When compared with Frontier's past experience and other transactions in the industry, Frontier's expected level of cost savings is reasonable and achievable. For example, in

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[70] *Id.*

[71] CWA and NASUCA on the one hand call the synergies unlikely and, on the other hand, say that they will result in substantial labor cuts. CWA Comments at 28-48; NASUCA Comments at 21, 37. These cannot both be true. In any event, the Commission does not have the jurisdiction to consider labor or pension issues, particularly in the absence of any final, adjudicated legal violation. *See, e.g.*, *Policy Regarding Character Qualifications in Broadcast Licensing; Amendment of Part 1, the Rules of Practice and Procedure, Relating to Written Responses to Commission Inquiries and the Making of Misrepresentations to the Commission by Applicants, Permittees, and Licensees, and the Reporting of Information Regarding Character Qualifications*, Policy Statement and Order, 5 FCC Rcd 3252, 3252-53 ¶ 7 (1990); *see also 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 Inc. (subsidiaries), Assignees; Adelphia Communications Corporation (and subsidiaries, debtors-in-possession), Assignors and Transferors, to Comcast Corporation (subsidiaries), Assignees and Transferees; Comcast Corporation, Transferor, to Time Warner Inc., Transferee; Time Warner Inc., Transferor, to Comcast Corporation, Transferee*, Memorandum Opinion and Order, 21 FCC Rcd 8203, 8305-06 ¶¶ 237-240 (2006). Moreover, Frontier has already committed that it will honor existing labor union agreements. The Commission should not intrude on the collective bargaining process.

[72] McCarthy Decl. ¶ 44 (citing Stifel Nicolaus, *Frontier Communications Corporation: Transformational Acquisition With Verizon at 4.5x EBITDA* (May 13, 2009)).

March 2007, Citizens Communications (now Frontier) acquired Commonwealth Telephone Enterprises ("Commonwealth"), a sizeable local telephone company with over 450,000 total lines. Frontier completed the successful integration of the Commonwealth operations into Frontier's existing operations eight months ahead of the announced plan. Frontier also exceeded expectations for cost savings. The realized cost savings were approximately 29% of Commonwealth's cash operating expenses, more than ten percentage points higher than Frontier's original 18% target, and well above the synergies projected for the pending Verizon acquisition.[73]

Critically, Frontier achieved these cost savings *while growing revenues and expanding products and services in the Commonwealth territories.*[74] Frontier successfully transitioned Commonwealth's business and made the combined operations more efficient, all in a manner that supported increasing levels of service to customers. Further, Frontier's success in realizing and exceeding cost savings targets ahead of schedule demonstrates both the company's expertise in managing transitions and management's commitment to reasonable estimates of potential cost savings.[75] This transaction will benefit from, and build on, Frontier's prior successful integrations. CWA's claim that by saving money Frontier will somehow reduce funds available for investment in plant, customer service, and staffing makes no sense.[76] Increasing efficiency and reducing costs will make more money, not less, available for needed investments.

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73 McCarthy Decl. ¶ 42.

74 *Id.* ¶ 43.

75 *Id.* ¶ 43.

76 CWA Comments at 3.

4. The Marketplace Has Validated the Transaction.

Some commenters and petitioners seek to have the Commission substitute its judgment for that of Frontier's and Verizon's managements, boards of directors, and shareholders. But, as discussed above,[77] the Commission does not second-guess the business judgments of investors and the financial community about issues such as the "appropriate level of corporate indebtedness."[78] As the Commission has explained, "the marketplace has a natural tendency to provide reasonable evaluations of properties' future financial soundness, through the collective judgment of numerous investors," and its "basic predilection [is] not to second-guess these kinds of business judgments," particularly based on "speculative hypotheses and projections" of the type CWA offers here.[79]

Disregarding the Commission's precedent, CWA demands that the Commission undertake an extensive review of Frontier's financial fitness, including issuing a document request that would allow other interested parties to conduct their own financial analyses of the transaction.[80] This demand is as breathtaking as it is unjustified. Unsurprisingly, CWA cites no authority or precedent for such an action. Section 310(d) of the Communications Act requires that the Commission, as part of its public interest review, consider the qualifications of proposed

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[77] *See supra* at 9.

[78] Policy Statement, 59 RR 2d at 1566 n.139 (cited in *Applications of Macfadden Acquisition Corp. for Commission Consent to a Transfer of Control of John Blair & Company*, 104 FCC 2d 545, 566 ¶ 41 (1986) ("Macfadden")); *see also* Macfadden, 104 FCC 2d at 567 ¶ 41.

[79] MMM/LIN Order, 4 FCC Rcd at 8245 ¶ 14.

[80] CWA Comments at 11-18.

transferees as if the transferees were applying for a license directly under section 308.[81] Where the Commission finds "no evidence to suggest" that the applicant lacks "the requisite financial, technical, legal or other basic qualifications," Section 308 is satisfied.[82]

Both Verizon and Frontier management bear fiduciary responsibilities to their shareholders. Accordingly, the Commission may and should decline commenters' invitation to "back-seat drive" or "second-guess" whether this transaction will be in the shareholders' best interest. As the Commission has explained, "it is not the objective of the character qualifications inquiry to evaluate applicants' business acumen, scrutinize their business plan for safety and soundness, or judge their every business decision against other alternatives."[83] Similarly, the "public interest standard does not entitle [the FCC], nor would [the FCC] seek, to control or manage" a company's day-to-day business operations, or "undertake any action of a corporate governance nature" that would affect the rights of shareholders, the current board of directors or

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[81] 47 U.S.C. §§ 308, 310(d); *see also Applications of Cellco Partnership d/b/a Verizon Wireless and Rural Cellular Corporation; For Transfer of Control of Licenses, Authorizations, and Spectrum Manager Leases and Petitions for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 12463, 12477-78 ¶ 27 (2008); *Applications of AT&T Inc. and Dobson Communications Corporation; For Consent to Transfer Control of Licenses and Authorizations; File Nos. 0003092368 et al.*, Memorandum Opinion and Order, 22 FCC Rcd 20295, 20302 ¶ 11 (2007); ALLTEL/Midwest Order, 21 FCC Rcd at 11536 ¶ 17; Sprint/Nextel Order, 20 FCC Rcd at 13979 ¶ 24; *Applications of Western Wireless Corporation and ALLTEL Corporation; For Consent to Transfer Control of Licenses and Authorizations; File Nos. 0002016468, et al.*, Memorandum Opinion and Order, 20 FCC Rcd 13053, 13063 ¶ 18 (2005); AT&T/Cingular Order, 19 FCC Rcd at 21546 ¶ 44.

[82] *See Applications of XO Communications, Inc. for Consent to Transfer Control of Licenses and Authorizations Pursuant to Section 214 and 310(d) of the Communications Act and Petition for Declaratory Ruling Pursuant to Section 310(b)(4) of the Communications Act*, Memorandum Opinion, Order and Authorization, 17 FCC Rcd 19212, 19217 ¶ 14 (2002).

[83] Verizon/ALLTEL Order, 23 FCC Rcd at 17467-68 ¶ 39. More "appropriate forums" are available for a company to "redress its alleged grievances." Motient/Skyterra Order, 21 FCC Rcd at 10209 n.75 (quoting *Comsat Corporation*, Memorandum Opinion and Order, 13 FCC Rcd 2714, 2729 ¶ 33 (1998)).

management. Simply put, "[t]he Commission's general policy is not to interfere with a company's capital structure or second guess the financial community or investors."[84]

5. Frontier's History of Investment and Ability to Secure Financing Weigh in Favor of Approval.

The West Virginia Attorney General's Office expresses concerns that (1) Frontier's credit costs will be higher than Verizon's because its credit rating is lower, and that (2) an increased debt load will mean less money for infrastructure investment.[85] These concerns are both misplaced and irrelevant. *First*, the evidence shows that Frontier will be able to fund continued infrastructure investment given its substantial Free Cash Flow as a result of the transaction. *Second*, the issue here is not what Verizon's cost of debt may or may not be, or how it might compare to that of Frontier. The Commission has made clear that it does not compare the transferee to the transferor as part of its public interest analysis.[86] Instead the Commission considers whether approving the license transfers at issue is in the public interest. In this case, the answer to that question is clear – the transaction will improve broadband deployment and serve the public interest. Frontier has demonstrated that it has both the financial strength and strategic focus to deliver these benefits, and that should be the end of the matter. Finally, because Verizon has made a strategic decision to exit the wireline local telephone business in

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[84] GAF Order, 7 FCC Rcd at 3229 ¶ 15; *see also* Motient/Skyterra Order, 21 FCC Rcd 10198 ¶ 25 n.76; MMM/LIN Order, 4 FCC Rcd at 8245 ¶ 14 (noting "the Commission's basic predilection not to second-guess [the] kinds of business judgments" that "must be ratified by a significant segment of the financial community."); *cf.* CBS/Westinghouse Order, 11 FCC Rcd at 3746 ¶ 26 (noting "the Commission generally refrains from interfering with a company's capital structure").

[85] Comments of the State of West Virginia Office of the Attorney General at 2-3, WC Docket No. 09-95 (filed Sept. 21, 2009) ("WV OAG Comments").

[86] *See* MMM/LIN Order, 4 FCC Rcd at 8244 ¶¶ 8-10 (holding that "in order to avoid possible future confusion, any holding ... to the effect that the Commission must engage in a transferee/transferor comparison in considering a transfer application is hereby expressly overruled").

these areas and focus instead on wireless, FiOS and global enterprise services, Verizon's theoretical capabilities had it made a different decision are simply not relevant.[87]

The numbers refute the allegation that Frontier is simply engaging in a "transfer of wealth" to shareholders and failing to invest in its network.[88] In the first instance, Frontier has invested over $1.1 billion in its network and operations since 2005, increasing broadband deployment so that it now reaches approximately 92% of its customer base. For 2007 and 2008, Frontier's capital expenditures were approximately $126 and $123 per access line, respectively, as Frontier invested to expand broadband deployment within its existing territories, among other things.[89] By contrast, Verizon has expended approximately $85 per line in core, non-FiOS, capital investments in the new Frontier areas.[90] Moreover, with a 25% reduction in the dividend per share, this transaction substantially reduces the proportion of Free Cash Flow that goes to dividends, leaving Frontier with more money, both in absolute dollar and percentage terms, to reinvest in its business. Thus, this transaction will *increase* – not decrease – the funds available for network investment in unserved and underserved areas, enabling Frontier to increase broadband deployment.[91]

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87 *Id.* (rejecting the situation in which "owners would be required to keep facilities against their collective will").

88 CWA Comments at 3, 21-22.

89 McCarthy Decl. ¶ 23. Excluding non-recurring investment in information technology systems related to customer care and the conversion of back-office systems to a single platform, in 2007 and 2008, Frontier invested $112 and $113, respectively, in capital expenditures per access line. *Id.* ¶ 23 n.2. CWA's reliance on capex as a percentage of revenues, CWA Comments at 43 & n.70, is misleading both because CWA fails to account for the differential impact of FiOS investment and because CWA does not account for inflation in capex as a percentage of revenues as a result of line loss and accompanying declining revenues.

90 Declaration of Stephen E. Smith ¶ 22, attached as Exhibit 2 ("Smith Decl.").

91 CWA's comparisons of dividends to net income are a red herring. CWA Comments at 22 Chart 2. Book net income does not include capital investment, but includes a number of other non-cash items. Free Cash Flow is a better metric for evaluating a company's ability to meet its obligations, to reinvest in its network, and to provide shareholders with an appropriate return on investment. McCarthy Decl. ¶ 34. Similarly, contrary to CWA's suggestion, CWA Comments at 23-24, book depreciation is not an appropriate yardstick for necessary network investment, especially where, as in the telecommunications business, the cost of new network benefits from falling electronics prices, and the number of access lines, is also decreasing.

Frontier is not edging toward default due to its current net debt to EBITDA ratio, as CWA suggests.[92] Frontier has covenants on a very small portion (approximately 10%) of its debt that require that its net debt to EBITDA ratio will not exceed 4.5x. As Fitch Ratings recently noted, however,

> Although Frontier's debt to EBITDA ratio may have edged up, default of any kind is highly unlikely. Although [Fitch's] special report stated a 12.6% decline in Frontier's EBITDA would lead to a covenant breach[,] a decline of that degree is highly unlikely in the near term given the stability of its local exchange operations, and that, moreover, the successful completion of the Verizon transaction will materially delever the company (on a 2008 pro forma basis, the post-merger company would have had leverage of 2.6 times [x]).[93]

Moreover, the market validated Frontier's creditworthiness yet again when, in September 2009, Frontier successfully completed a new note offering to retire higher-interest, early maturing debt.[94] Frontier arranged new debt financing to raise net proceeds of $577.6 million (gross proceeds of $600 million), through 8.125% (8.375% yield to maturity) Senior Notes due in 2018, on the basis of its *current* credit quality even before the consummation of the Verizon transaction.[95] In addition, completing this proposed transaction actually would reduce Frontier's net debt to EBITDA ratio and further distance Frontier from any covenant thresholds – again underscoring that the transaction makes Frontier stronger and serves the public interest.

Finally, contrary to the claims of some, there is no indication that Frontier will be unable to complete the required financing for the transaction. It would be imprudent for Frontier to enter into financing commitments now, when the final closing is months away, especially in the

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92 CWA Comments at 21.

93 Press Release, Fitch Ratings, Fitch Issues Additional Comment on Frontier Communications 'BB' Rating on Watch Positive (Sept. 30, 2009) ("Fitch Press Release").

94 McCarthy Decl. ¶ 37.

95 *Id.* ¶¶ 37, 39.

current credit markets.[96] A commitment letter obtained at this time would be very costly, creating unnecessary expense, and likely would contain a wide range of possible interest rates, providing very little certainty as to actual interest rate cost.[97] Moreover, the Merger Agreement will provide a shield if an annual rate above 9.5% would be unduly burdensome, though such a rate is not expected (for example, Frontier just completed a note offering at well below the rate referred to in the Merger Agreement).[98] In any event, the Merger Agreement's provisions ensure that Frontier need not accept burdensome rates and corresponding costs in the event of any major disruption in credit markets. This prudent limit on debt cost is not a sign of financial trouble; instead, it ensures that the economics of the transaction stay within the reasonable range contemplated by the parties. And no petitioner has shown that a theoretical increase in interest rates above this 9.5% level would cause any harms necessitating Commission action.

The hard numbers demonstrate again and again that this transaction will benefit Frontier and enable greater investment in broadband for the benefit of customers in unserved and underserved areas. The Commission should move quickly to grant the applications and enable Frontier to begin delivering the concrete public interest benefits that will result from the proposed transaction.

II. THE TRANSACTION WILL NOT RESULT IN HARM TO COMPETITION OR CUSTOMERS.

A. The Transaction Will Not Reduce Competition.

The Commission previously has recognized that transactions in which smaller carriers "that specialize in providing service in rural areas" acquire rural exchanges from larger

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96 The Merger Agreement does not require Frontier and Verizon to begin to solicit funding proposals until February 13, 2010. Merger Agreement § 7.18(b).

97 McCarthy Decl. ¶ 40.

98 *Id.* ¶ 39.

incumbent carriers "are unlikely to raise the potential of competitive harm."[99] That is true here. None of the local exchanges being acquired by Frontier from Verizon overlap with any of the local exchanges already served by Frontier. Frontier and Verizon currently do not compete for customers in any of the affected exchanges because Frontier does not operate either local exchange or mobile facilities in these areas.[100] Moreover, this transaction merely transfers exchanges from one ILEC to another. Therefore, the transaction will not reduce the number of competitors in any region – or even nationally.[101] Notably, the Department of Justice already has cleared this transaction under its Hart-Scott-Rodino review, confirming that this transaction presents no adverse impacts on competition.[102]

Several commenters allude to the so-called "Big Footprint" theory under which, in the context of mergers between two large and substantially vertically integrated ILECs, the merged entity is said to have greater incentives to discriminate against rivals in the provision of wholesale inputs.[103] Even if that were correct as a matter of economic theory, it would not apply to the Frontier-Verizon transaction. Here, Verizon – the larger of the two entities and the most vertically integrated entity – will become *smaller*. While Frontier will become larger, it will still be significantly smaller than LECs such as Verizon, AT&T, and Qwest. Further, because

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99 *See, e.g.*, FairPoint/Verizon, 23 FCC Rcd at 522 ¶ 16 (citing *Implementation of Further Streamlining Measures for Domestic Section 214 Authorizations*, Report and Order, 17 FCC Rcd 5517 ¶ 33 (2002)).

100 McCarthy Decl. ¶ 20.

101 One commenter suggests in passing that the transaction reduces *potential* competition on the theory that Frontier might someday have started to provide service in some of the affected exchanges in West Virginia. WV OAG Comments at 5. But such speculation – which, among other things, does not explain why Frontier would enter those exchanges in the future when it has not to this point – does not come close to showing that the transaction will adversely affect competition. *See, e.g.*, AT&T/Cingular Order, 19 FCC Rcd at 21543-44 ¶ 40 (relevant inquiry is not whether a merger would result in any theoretical loss of potential competition).

102 *See* Federal Trade Commission, Transaction Granted: Early Termination, http://www.ftc.gov/bc/earlyterm/2009/09/et090901.pdf (early terminations for September 1, 2009).

103 *Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, Memorandum Opinion and Order, 14 FCC Rcd 14712, 14797-98 ¶¶ 192-93 (1999); *see also, e.g.*, NASUCA Comments at 32.

Frontier does not operate a nationwide mobile network or a large enterprise communications business, the transaction does not raise the discrimination concerns presented by *SBC-Ameritech*. In any event, the increase in size of Frontier will be offset by the decrease in size of Verizon. The Commission, moreover, requires "rigorous" and "empirical" data to support a "Big Footprint" claim.[104] As the Commission has recognized, the "Big Footprint" theory does not "raise[] the same concerns" in the case of a transfer of exchanges from a large LEC to a much smaller one.[105]

B. The Remaining Issues Raised by Petitioners/Commenters Offer No Basis for Finding that the Transaction Will Result in Harm to Customers.

1. Operations Support Systems

Several petitioners and commenters speculate that Frontier will experience problems and failures in connection with its operations support systems ("OSS") following the transaction.[106] But Frontier and Verizon have in place a plan for a seamless transition of OSS and operations so that neither retail nor wholesale customers should experience disruptions in service, ordering, or billing. In particular, as set forth in more detail below, in all of the affected states but one, Frontier will use the same back-office support and network systems used by Verizon prior to closing to serve its customers – and those systems will be operated by Verizon personnel who continue as employees with Frontier entities after the closing of the transaction.[107] In the remaining state, West Virginia, the parties have a formal cutover plan in place under which

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104 AT&T/BellSouth Order, 22 FCC Rcd at 5734 ¶ 185.

105 *See* Embarq/CenturyTel Order, 24 FCC Rcd at 8755 ¶ 33 n.106; *see also* FairPoint/Verizon Order, 23 FCC Rcd at 523 ¶ 17 ("[W]e find that, because FairPoint has a much smaller footprint than Verizon, it will have a smaller incentive to discriminate."). Embarq/CenturyTel does not require a contrary conclusion. That was not a case in which exchanges were transferred from a larger LEC to a smaller one.

106 *See, e.g.*, CWA Comments at 31; Comments of EarthLink, Inc. and New Edge Network, Inc. at 6-7, WC Docket No. 09-95 (filed Sept. 21, 2009) ("EarthLink Comments"); Petition to Deny of tw telecom Inc., One Communications Corp., Integra Telecom, Inc., and Cbeyond, Inc. at 24-25, WC Docket No. 09-95 (filed Sept. 21, 2009) ("tw telecom Petition").

107 Smith Decl. ¶ 2; McCarthy Decl. ¶ 56.

Verizon will transfer to Frontier all relevant customer data in an agreed-upon format, which Frontier can then use in its existing and proven systems to provide service just as successfully as in several prior transactions.[108] Contrary to the overwrought claims of some parties, this transaction is fundamentally different from those involving FairPoint and Hawaiian Telcom. The post-transaction disruptions in those transactions arose from the creation and operation by the acquiring companies of entirely *new* operational and back-office systems, a condition that is not present here.[109]

a. Transition Plan

Frontier and Verizon are working together to ensure a seamless transition of the billing, customer account, plant record, and other operational support and network systems. Verizon has created a new organization, the "North Central Area," which is devoted exclusively to the sales, service, and network operations activities of the ILECs and ILEC assets being transferred to Frontier.[110] As part of this process, the relevant operations already have been identified and are being separated from those that will remain with Verizon. This new organization already is performing many of the service and operational activities in the affected states.[111]

In thirteen of the fourteen affected states (the exception is West Virginia, as discussed below), Frontier will use the same systems used by Verizon prior to closing, and no new system development will be necessary. This includes all ordering interfaces, e-bonding, and application programming interfaces ("APIs").[112] To accomplish this, Verizon will create a replica of the systems used today, loaded with all customer-related data, so that the systems may be transferred

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108 Smith Decl. ¶¶ 14-16; McCarthy Decl. ¶¶ 57-59.

109 *Id.* ¶ 66.

110 Smith Decl. ¶ 5.

111 *Id.*

112 *Id.* ¶ 7; McCarthy Decl. ¶ 55.

to Frontier as physically separate functional systems that are substantially identical to the existing systems.[113] The hardware supporting the replicated systems will be located in a Fort Wayne, Indiana, data center, which will be devoted exclusively to the replicated systems and will be transferred to Frontier at closing.[114] This data center will control substantially all of the systems needed to operate successfully the assets that are being transferred, including those necessary to manage wholesale and competitive local exchange carrier ("CLEC") relationships.[115] Thus, for example, wholesale customers (including competitors) in these states will not have to change their existing systems interfaces to process orders, track provisioning, or manage troubles, nor otherwise have their existing OSS arrangements substantively disrupted.[116]

Speculation by some parties that this transition will occur without adequate testing or will lead to disruptions for customers is unwarranted. Verizon has an obligation under the parties' agreement to deliver replicas of its existing operating systems to Frontier and will do its own testing and validation during the replication process.[117] Just to take one example, prior to migrating data from its existing systems to the replicated systems, Verizon will create and run validation scripts to baseline the data records. Once the data migration process is completed, Verizon will execute those validation scripts in the replicated systems and check the results against the pre-migration statistics to verify the successful completion of the data migration.[118] Verizon also will coordinate with Frontier as it undertakes the replication process. Frontier will be able to validate and confirm that the principal operating systems have been replicated properly

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113 Smith Decl. ¶ 8.

114 *Id.*

115 *Id.*

116 A small proportion of wholesale customers will need to change their point of interconnection with Frontier if not currently at the Fort Wayne data center. Smith Decl. ¶ 8; McCarthy Decl. ¶ 56.

117 Smith Decl. ¶ 9.

118 *Id.*

in advance of closing, including seeing Verizon operate these systems separately from the rest of its operations for at least 60 days.[119] These replicated OSS are a condition precedent to closing the transaction.

On closing, Frontier will take over the existing functional systems and will use them to provide its products, bundles, and pricing without disrupting service to either retail or wholesale customers.[120] Frontier will benefit from the continuing employment of the Verizon employees who today are involved in operating these systems and have the skill and knowledge to use them.[121] In addition, Verizon will continue to provide system support for at least a year after close. Frontier will have the option to use these duplicate Verizon systems for as long as it wishes, and over time can consider on a system-by-system basis which systems it may want to merge with its existing operations.[122]

The process in West Virginia will be different because Verizon's ILEC in West Virginia uses a combination of systems that support Verizon's legacy BOCs, and it would not make sense to create a replication of those systems for a single state, particularly since Frontier already has fully operable, scalable systems serving customers in West Virginia.[123] Instead, the parties will follow a cutover process like that used in most successful consolidations within the industry today, and that Frontier itself has used successfully in connection with a number of previous transactions, including with Verizon. In particular, Verizon will identify the relevant customer data from its systems and furnish Frontier with data descriptions, data formats and layouts, and a

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119 *Id.* ¶ 10; McCarthy Decl. ¶ 55.

120 *Id.* ¶ 56.

121 *Id.*

122 Smith Decl. ¶ 11; McCarthy Decl. ¶ 56.

123 Smith Decl. ¶ 14; McCarthy Decl. ¶ 57.

series of full test data extracts from the Verizon systems which hold the data.[124] Frontier will receive the test data, map them to its own comparable systems, and then load and test its systems to confirm that the data have been mapped properly.[125] Frontier's tests will be independent of Verizon's, covering not just the data, but also enhancements that Frontier has made to its systems to support the West Virginia requirements for this new area.[126] Before closing, Verizon will extract final data from its information systems and deliver those data to Frontier for use on Frontier's systems. This process is the same one that both Verizon and Frontier have used in previous successful acquisitions, including transactions between Verizon's predecessor (GTE) and Frontier (then Citizen's Telephone) during the mid-1990s and the early 2000s.[127] In each of these cases, the transferring company merely was extracting data and transferring that data to existing, tested, operational systems of the acquiring company. Similarly, here, the data from Verizon's systems will be transferred to Frontier's existing systems that serve West Virginia and the rest of Frontier's retail and wholesale customers nationwide.[128]

The concerns expressed about the scalability of Frontier's systems in West Virginia are unwarranted.[129] Frontier's systems are fully scalable, and Frontier has prior experience integrating acquired lines.[130] In the case of West Virginia, Frontier will be adding approximately 600,000 lines to systems that already support about 2.2 million lines – a significant but manageable increase.[131] Frontier recently completed two comparable systems conversions: one

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124 Smith Decl. ¶ 14.

125 McCarthy Decl. ¶ 57.

126 *Id.*

127 Smith Decl. ¶ 16; McCarthy Decl. ¶ 52.

128 *Id.* ¶ 56.

129 *See, e.g.*, NASUCA Comments at 27-29, 37; tw telecom Petition at 21-22.

130 McCarthy Decl. ¶ 58.

131 *Id.*

of approximately 450,000 lines in connection with its acquisition of Commonwealth in 2007, and a second of approximately 400,000 access lines in its 2008 conversion of the former Rochester Telephone ("Rochester") systems.[132]

Finally, the proposals by some parties that the Commission appoint a third party to monitor and test the transition of systems, or require service-quality reporting, are wholly unnecessary and would only add to the cost of the transaction.[133] First and foremost, these are not new systems. They are proven and battle-tested systems – Verizon systems in thirteen states and Frontier's in the fourteenth.[134] In thirteen states, Verizon will put these systems into use before closing and will operate the customer-facing systems in full production mode for at least 60 days prior to closing, during which time Frontier will validate and confirm the results before closing the transaction.

The parties have every incentive to get it right. Moreover, they have the necessary experience to do so. As noted above, Verizon (including GTE) has undertaken numerous transactions in which access lines were transferred successfully to Frontier or others with their own existing OSS: none of these transactions involved a third-party monitor for systems replication and transition issues.[135] Frontier likewise has a highly successful track record of acquiring, operating, and investing in telecommunications properties nationally, including over

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132 *Id.* ¶¶ 42, 53.

133 *See* NASUCA Comments at 27-33; *see also* EarthLink Comments at 9.

134 All these factors distinguish the current transaction from the FairPoint transaction, in which FairPoint, as part of a settlement, agreed to a form of third-party monitor. *Verizon New England, Inc., Bell Atlantic Communications, Inc., Nynex Long Distance Co., Verizon Select Services, Inc. and Fair-Point Communications, Inc., Petition for Authority to Transfer Assets and Franchise*, Order Approving Settlement Agreement with Conditions, DT 07-011; Order No. 24823, New Hampshire Public Utilities Commission (Feb. 25, 2008). For these same reasons, EarthLink's demand that the Commission "require Frontier to implement on a permanent basis the real-time, up-to-date Verizon OSS," also is not only inappropriate, but unnecessary. EarthLink Comments at 5-6. In any event, requiring perpetual use of a specific system or technology would substantially chill an enterprise's ability to operate and to innovate.

135 Smith Decl. ¶ 16.

750,000 access lines purchased from Verizon/GTE between 1993 and 2000 in eleven different states, its acquisition of Commonwealth in 2006, which involved some 450,000 access lines, and its cutover of approximately 400,000 lines from Rochester.[136]

CWA's comments alleging substantial service problems stemming from the Rochester cutover are incorrect and misleading.[137] Notably, the trouble report data cited by CWA *predates* the Rochester cutover, which did not occur until September 2008. Moreover, Frontier's slight increase in reported outages in the fourth quarter of 2008 (by a total of two, compared with the fourth quarter of 2007), was not due to Rochester, which had the same number of reported outages (three) as in the fourth quarter of 2007 – all of which were due to central office equipment problems – not to billing and ordering systems conversion.[138] And customer complaints during this same period fell.[139] Additionally, the fact that there was an $18,000 billing issue with tw telecom is indicative of nothing.[140] Disputes of this size are common in the industry, and in any event, tw telecom does not allege that it experienced any ongoing problems. While no systems conversion will ever proceed without any minor hiccups, Frontier's past system conversions have not caused ongoing or systemic problems.[141]

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136 McCarthy Decl. ¶¶ 42, 52-53.

137 CWA Comments at 32-33. CWA also erroneously states that Frontier took seven years to integrate Rochester Telephone. CWA Comments at 31-32. In fact, the conversion began in January 2008 and was completed in September 2008. McCarthy Decl. ¶ 53.

138 N.Y. Dep't of Pub. Serv., Case 08-C-0405 – In the Matter of Quality of Service provided by Local Exchange Companies in New York: Frontier Communications Fourth Quarter 2008 Service Quality Report, at 6 (Jan. 22, 2009) ("2008 NY Service Quality Report") (FTR is the NY Department of Public Service's abbreviation for Rochester); N.Y. Dep't of Pub. Serv., Case 07-C-0473 – In the Matter of Quality of Service provided by Local Exchange Companies in New York: Citizens Communications Fourth Quarter 2007 Service Quality Report, at 5 (Jan. 25, 2008).

139 2008 NY Service Quality Report at 7.

140 *See* tw telecom Petition at 26-27. tw telecom's petition does not provide sufficient detail for Frontier to identify or determine the resolution of this dispute.

141 McCarthy Decl. ¶ 54.

In sum, Verizon and Frontier expect to have a seamless transition without disruptions caused by systems issues.[142]

b. Systems Issues with FairPoint and Hawaiian Telcom

Commenters point to two prior Verizon transactions – the transfer of control of Hawaiian Telcom to The Carlyle Group and the transfer of Verizon's New England operations to FairPoint – as support for the claim that Frontier is likely to experience post-closing systems-related problems.[143] But this transaction is very different. The Hawaiian Telcom and FairPoint transactions involved the creation of entirely new operational and back-office systems, a lengthy post-closing "transition" period in which Verizon continued to use its own systems to operate much of the acquirer's business while the new systems were developed,[144] and, finally, a cutover from Verizon systems to those new systems that had only been used in a test environment. None of those complications will be present in this transaction.

Unlike this transaction, the FairPoint transaction involved a cutover to a completely new set of systems that were not serving any customers prior to the transaction and that FairPoint developed specifically for the acquired properties. Indeed, FairPoint was still developing and testing these systems well past closing and right up to the cutover. FairPoint replaced hundreds of Verizon systems with wholly new systems newly developed by FairPoint to support its new business.[145] The transition challenges were magnified because FairPoint had a small customer

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142 This confidence is shared by independent analysts. As Stifel Nicolaus analysts noted, for example, "Frontier has a long track record of managing these acquisitions in the past, including the acquisition of significant numbers of RBOC access lines." Stifel Nicolaus, *Frontier Communications Corporation: Deal Appears To Be a Win-Win for Both Companies* (May 13, 2009).

143 *See, e.g.*, CWA Comments at 4-5; EarthLink Comments at 5; tw telecom Petition at 5-8.

144 Indeed, there were no operational problems associated with acquirer's use of the Verizon systems during these post-closing transition periods. The problems surfaced when the newly developed systems were used. *See* Smith Decl. ¶¶ 17-18.

145 Smith Decl. ¶ 18.

base and was acquiring operations many times larger than its own: FairPoint acquired Verizon operations that were, in terms of access lines, 6.1 times larger than FairPoint. The ratio for this transaction is 2.1 times.[146] Based on publicly available information, FairPoint encountered operational problems with the new systems it had designed and built to completely replace Verizon's systems and to run the business it acquired – primarily problems relating to billing processes, order flow, and call center response for both retail and wholesale operations. Those operational problems have translated into increased costs for manual processing of orders, lost billing cycles for customers whose service orders were delayed, and possibly some customer attrition.[147]

The Hawaiian Telcom transaction suffered from similar problems. The Carlyle Group is an investment management company with extremely limited experience in the telephone business, and its business plan was based on building brand new systems and expeditiously ending its lease of the Verizon systems to reduce costs.[148] Moreover, Hawaiian Telcom's first system developer was replaced, and its systems issues continued long after the transaction closed. Hawaiian Telcom has described its post-transaction problems as follows:

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

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146 *Id.*

147 *Id.*; Ashley Smith, *Signs Pointing to FairPoint Bankruptcy*, Nashua Telegraph, Oct. 11, 2009, *available at* http://www.nashuatelegraph.com/apps/pbcs.dll/article?AID=/20091011/BUSINESS/910119988.

148 Smith Decl. ¶ 19.

> significant incremental expenses to retain third-party service providers to provide call center and manual processing services in order to operate our business.[149]

As a result of the operational problems and costs described above, and other business challenges, Hawaiian Telcom eventually filed for bankruptcy in 2008.

In contrast, the Frontier transaction does not involve newly developed systems that might suffer from the design and integration problems experienced by FairPoint and Hawaiian Telcom. As described above, in thirteen of the fourteen states at issue, Frontier will take possession at closing of tested and proven replicas of Verizon's OSS that have been in full operating mode for at least 60 days, and Frontier can continue to use the systems indefinitely. And in West Virginia, Frontier will utilize its own existing, proven systems, which are fully scalable and already are being used to serve 2.2 million lines. Moreover, unlike, for example, The Carlyle Group, Frontier is an experienced and sophisticated telephone company with significant experience in acquiring and in providing services to rural, suburban, and smaller urban service areas across the country, including having in place the operations support and other systems necessary to provide services. Unlike FairPoint or Hawaiian Telcom, Frontier has a proven track record of successful acquisitions, including successfully transitioning customers to its own existing OSS.

Independent analysts have acknowledged the significant differences between this and prior transactions. For example, on June 12, 2009, Raymond James and Associates, Inc. reported:

> We note several significant differences between [this transaction and the FairPoint transaction]: Frontier is de-levering (not re-levering) significantly through the transaction, should be solidly in investment grade range, is proactively cutting its dividend, and plans on driving broadband penetration and availability much higher than current levels, (Verizon properties have 60% availability, Frontier's have 92%)....

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149 *See* Hawaiian Telcom Communications, Inc., Quarterly Report (Form 10-Q) (Nov. 14, 2008).

> Frontier will acquire GTE's entire legacy IT systems in 13 of the 14 states, giving it the ability to run parallel systems for all products in those 13 states. This is different from a forced cutover or new systems development, which actually requires a hastened time frame and can be fraught with peril. Effectively, these are stand-alone systems with a general manager overseeing them and won't require any new systems development on the part of Frontier until management is ready to move them over....[150]

In addition, following the announcement of the proposed transaction, Moody's Investors Service observed that "VZ-Spinco will be operating under independent management and operating systems prior to the merger effectiveness and will not require a timed cutover, which is expected to materially reduce the transition issues that other carriers have experienced."[151]

2. No Disruption or Other Harm to Retail or Wholesale Customers

After completion of the transaction, existing retail and wholesale customers will continue to receive substantially the same services on the same terms and conditions under their existing contracts, agreements, and tariffs. As a result, customers will not be harmed by the transaction.

a. Retail Customers

Frontier will continue to provide local exchange and domestic interstate and international interexchange telecommunications and information services after the closing of the transaction without any material reduction, impairment, or discontinuance of service to any customer. Frontier will honor existing tariffs and contracts to make the transition seamless for retail customers. With respect to presubscribed long distance customers who reside in the service areas subject to the transaction, they simply will be transferred in accordance with the Commission's rules to a newly established long distance company that will become a subsidiary

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150 Raymond James & Assocs., *FTR: Notes From the Road* (June 12, 2009).

151 Moody's Investors Serv., *Global Research Rating Action: Frontier Communications Corporation* (May 13, 2009).

of Frontier and an affiliate of Frontier's existing long distance operating company, Frontier Communications of America, Inc.[152]

For retail enterprise customers with volume and term agreements, following the transaction the parties will adjust revenue commitments and volume thresholds so that customers that maintain the volumes they currently purchase in the new Frontier areas and Verizon's remaining states, respectively, will continue to qualify for the same volume discounts in their respective areas. Frontier will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier, without any change in rates and charges or other terms and conditions, so that such volume pricing terms will in effect exclude volume requirements from states outside of the affected states. Verizon will do the same with respect to service it will continue providing outside of the new Frontier areas. Both parties will amend their tariffs or satisfy other filing requirements and amend customer agreements as may be necessary to restate the applicable volume commitments. As a result, retail customers will receive the same benefits in the aggregate following the transaction as those provided pursuant to the existing Verizon volume discount arrangement.

b. Wholesale Customers

Wholesale arrangements will remain the same as a result of this transaction. Frontier will assume those interconnection agreements between Verizon and other carriers that relate to service wholly within the new Frontier areas. Verizon interconnection agreements relating in part to service outside of those states will need to be modified to apply to Frontier and the other party in the respective states only, or those agreements will be replicated by Frontier with respect to one or more of the affected states, following discussion with, and required notice to, the

[152] The West Virginia Attorney General raises a concern about whether Frontier would abide by the Retail Service Quality Plan to which Verizon has been subject. WV OAG Comments at 1-2. Frontier will abide by that Plan. McCarthy Decl. ¶¶ 45-48.

affected parties. In the latter cases, Frontier stands ready to put in place new interconnection agreements on substantially the same terms and conditions, so as not to disrupt existing arrangements. With respect to concerns raised regarding whether Frontier will alter rates for Unbundled Network Elements,[153] Frontier plans to continue to adhere to Verizon's Statement of Rates for Unbundled Network Elements as part of its commitment to honor Verizon's obligations under interconnection agreements and other wholesale arrangements. Further, the parties will abide by volume and term agreements for wholesale customers in the same manner as described above for retail enterprise customers.

This transaction also does not alter the applicability of Section 271 or any other Bell Company-specific requirements to Verizon West Virginia. Frontier will abide by all the Section 271 requirements applicable to Verizon West Virginia (the successor or assignor of the former Chesapeake and Potomac Telephone Company of West Virginia property). This includes continued compliance with those parts of the competitive checklist that have not been the subject of forbearance, as well as being subject to Section 271's complaint procedures and the threat of withdrawal of the authorization to provide interLATA services. Frontier also will be subject to the West Virginia Performance Assurance Plan ("PAP") and Carrier-to-Carrier ("C2C") Guidelines.

Speculation by several commenters that Frontier might seek to take advantage of the Section 251(f) exemption from interconnection and related obligations for certain rural carriers is both premature and outside the scope of review of this transaction.[154] As an initial matter, Frontier has said it will abide by all its existing interconnection agreements, including those in

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153 *See, e.g.*, tw telecom Petition at 33-34.

154 *See, e.g.*, Comments of Kentucky Data Link at 5-11, WC Docket No. 09-95 (filed Sept. 21, 2009) ("Kentucky Data Link Comments").

rural and non-rural areas.[155] In addition, whether Frontier would qualify for the rural exemption in any of the relevant exchanges is not even an issue until and unless Frontier seeks such an exemption. Moreover, nothing about the rural exemption is transaction-specific: the rural exemption applies to all rural properties, regardless of the identity of the owner, and this transaction does not convert any non-rural lines into rural lines. Further, under the terms of Section 251(f), the authority to continue or terminate such an exemption lies with state commissions, not the Commission, based on specific statutory criteria. Notwithstanding assertions that this assignment of authority is an "absurd result,"[156] it is the decision Congress has made, and any Commission attempt to impose conditions related to eligibility for the rural exemption would both trample the authority Congress delegated to the states and prejudge underlying statutory criteria with no record basis.

Contrary to the claims of some commenters, the transaction will not result in deterioration of wholesale service quality or capabilities.[157] As to the thirteen states other than West Virginia, the replicated systems will include all OSS, APIs, and applications that are used by Verizon today to provide wholesale service. Further, Verizon personnel engaged in wholesale support who operate and use these systems today will continue employment with Frontier at the close of the transaction. Thus, wholesale customers in those states will continue to have access to the same services and capabilities in connection with ordering, provisioning, and billing for wholesale services.

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155 McCarthy Decl. ¶ 47. *See* FairPoint/Verizon Order, 23 FCC Rcd at 537 ¶ 37 (declining to impose such a condition because "FairPoint already has agreed to honor all existing Verizon obligations under section 251, including inter-carrier agreements entered into pursuant to section 251 for interconnection, transport and termination of local telecommunications, traffic exchange, resale, access to unbundled network elements, and collocation").

156 Kentucky Data Link Comments at 10.

157 *See, e.g.*, EarthLink Comments at 5-7.

As to West Virginia, Frontier will make changes to its existing systems as necessary to meet the obligations of its interconnection and other agreements, as well as West Virginia's PAP and C2C Wholesale Guidelines. Among other things, Frontier already has purchased a synchronous gateway for e-bonding for access service requests, local service requests, pre-order information, and trouble ticket submission.[158] Frontier also will have in place industry standard APIs, which, among other things, will permit electronic receipt of firm order confirmations, validation of orders, and design layout records.[159]

Finally, one group of CLEC petitioners raises a grab bag of complaints about Verizon's past wholesale performance.[160] As an initial matter, the complaints are unfounded. But, leaving aside their lack of merit, these complaints are entirely irrelevant to this proceeding because they predate the transaction and thus, by definition, do not raise transaction-specific harms. That is all the more so given that the transaction involves the transfer of exchanges *from Verizon* to another carrier and consequently will eliminate any opportunity for any alleged shortcomings in Verizon's wholesale performance to affect the transferred exchanges. In any event, as previously noted, allegations about past violations of the Act or Commission rules "are more appropriately addressed via the Commission's complaint process," or in state proceedings, but certainly not as part of the review of a transaction.[161]

3. Existing Video Build-Out Commitments

Frontier is also acquiring Verizon's fiber-to-the-home broadband ("FiOS") business in Oregon, Washington, Indiana, and South Carolina, including its existing video business in

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158 McCarthy Decl. ¶ 48.

159 *Id.*

160 tw telecom Petition at 28-29, 31-33.

161 *See, e.g.*, AT&T/BellSouth Order, 22 FCC Rcd at 5727 ¶ 120 n.342; Verizon/MCI Order, 20 FCC Rcd at 18529 ¶ 191 n.517 (declining to address issues that were the subject of pending complaint proceedings).

Oregon, Washington, and Indiana.[162] Frontier will continue to provide video services in affected areas after the completion of the merger. In addition, Frontier will honor Verizon's existing service availability requirements in Oregon and Washington.[163] Although some commenters question whether Frontier has the capability to provide and support video service,[164] in fact, Frontier has offered a television service in conjunction with DISH network since 2005, and as of March 31, 2009, had approximately 146,000 customers buying a package of telephone and video services. Frontier has added executives with video experience, and created a team specifically to address programming that is headed by individuals with twenty-two and twenty-eight years of experience, respectively, in the technology and media sectors. Moreover, Verizon operational personnel who support FiOS service in the affected areas will continue with Frontier after the close of the transaction, giving Frontier their expertise to continue meeting customer needs. While Frontier will have to ensure that all of its programming agreements are in place before close, this is no different than any other multichannel video transaction. Finally, this issue is not a proper subject of the Commission's review. The acquisition of Verizon's FiOS business does not involve the transfer of any FCC licenses, but rather local video franchises; the FCC conducts no review of multichannel video transactions in and of themselves. Thus, the relevant local franchising authorities are the appropriate bodies for consideration of any issues related to video service.

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162 The FiOS system in South Carolina does not provide video service.

163 McCarthy Decl. ¶¶ 6-7.

164 *See, e.g.*, CWA Comments at 45-46.

CONCLUSION

For the foregoing reasons, the petitions to deny should be denied, and the applications should be granted. The proposed transaction manifestly will benefit the public interest, and there is no showing of any likely public interest harm.

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Date: October 13, 2009

EXHIBIT 1

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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

DECLARATION OF DANIEL J. MCCARTHY

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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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

DECLARATION OF DANIEL J. MCCARTHY

I, Daniel J. McCarthy, hereby declare and state as follows, under penalty of perjury:

1. My name is Daniel McCarthy. I am Executive Vice President and Chief Operating Officer of Frontier Communications Corporation ("Frontier"). My business address is 3 High Ridge Park, Stamford, Connecticut 06905. I have been employed by Frontier and its predecessor companies[1] since 1990.

2. As Chief Operating Officer, I am responsible for Frontier's operations including engineering, network operations, installation and maintenance and customer service in the 24 states where Frontier currently operates. I am responsible for reviewing Frontier's investments and expenses for both facilities and operations, and I closely monitor its revenues and profitability. Each of Frontier's Regional Senior Vice Presidents and General Managers reports to me. In my present position, I am also responsible for all of Frontier's regulatory affairs and compliance requirements at the federal, state, and local levels.

[1] On May 18, 2000, Citizens Utilities Company changed its name to Citizens Communications Company to reflect the fact that the company was divesting its non-communications utility operations and focusing its operations on communications services. On July 31, 2008, Citizens Communications Company changed its name to Frontier Communications Corporation.

3. The proposed transaction between Frontier and Verizon Communications, Inc. ("Verizon") will serve the public interest. The purpose of this declaration is (1) to provide background on Frontier, its strategy and efforts to increase broadband deployment and adoption; (2) to explain why, given Frontier's strategic approach and focus on smaller markets, Frontier will invest in substantial additional broadband deployment in the areas it is acquiring ("new Frontier areas"); (3) to demonstrate how the proposed transaction will strengthen Frontier as a rural universal service provider; (4) to review the steps that Frontier will take to honor existing regulatory obligations, tariffs and agreements; (5) to outline the steps Frontier and Verizon will take to ensure a smooth operational transition; and (6) to delineate why this transaction is not at all similar to the FairPoint Communications, Inc. ("FairPoint") or Hawaiian Telcom transactions.

I. BACKGROUND ON FRONTIER

4. Frontier, a publicly traded Delaware corporation (NYSE: FTR), is a highly regarded, full-service communications service provider and is currently one of the largest local exchange telephone companies in the country. Frontier offers telephone, television, and Internet services, as well as bundled service offerings, wireless internet data access, data security solutions, and specialized bundles for businesses and home offices, to customers in 24 states. Frontier's current service territories are located in Alabama, Arizona, California, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, Ohio, Oregon, Pennsylvania, Tennessee, Utah, West Virginia, and Wisconsin.

5. Frontier provides services predominantly to small and medium-sized rural markets, as well as mid-sized communities and suburban areas such as Rochester, New York, the west and south metropolitan area of Minneapolis/St. Paul, Minnesota, and Elk Grove, California

(a suburb of Sacramento). During the last ten years, Frontier has grown to become a substantial presence in the rural local exchange carrier segment of the telecommunications industry through targeted acquisitions of communications companies, and the successful integration of operations and support functions. During this timeframe, Frontier effectively and efficiently has grown its operations three-fold.

6. In its markets, Frontier is typically the incumbent carrier and provider of last resort for "last-mile" telecommunications services to residential and business customers. We believe that the key to Frontier's continued success is focus on its core mission:

> *...to be the leader in providing communications services to residential and business customers in our markets.*

Frontier's revenues are derived principally from:

- Local exchange services;
- Network access services;
- Data and Internet services;
- Long distance services; and
- Television services (in conjunction with DISH Network).

As of June 30, 2009, Frontier's incumbent local exchange carrier ("ILEC") subsidiaries served approximately 2.8 million voice and broadband connections, including 2.19 million telephone access lines in 24 states.

7. Frontier has taken significant steps to increase the value delivered to its customers by providing new products and enhancements to its traditional offerings through a strategy emphasizing network improvements, broadband products, bundled services, and targeted promotions. Frontier has undertaken extensive customer analysis to create residential and business offerings that provide feature and cost benefits across all socio-economic demographics.

These offerings have been successful in our existing markets, and we plan to bring this same level of attention and wide range of service options to customers in the service areas being acquired from Verizon. Some of the Frontier product offerings include:

Residential Services Options

- Voice only – basic service with or without additional features.
- Digital Phone Essentials – unlimited local calling with 100 rollover minutes per month of nationwide long distance voice calling.
- Digital Phone State Unlimited – unlimited local calling, Caller ID, Call Waiting and certain other features with unlimited statewide long distance voice calling.
- Digital Phone Unlimited National – unlimited local calling, Caller ID, Call Waiting and certain other features with unlimited nationwide long distance voice calling.
- High Speed Internet Lite.
- High Speed Internet Max.
- Television – Digital satellite TV in an agency relationship with DISH Network.

Small Business Service Options

- Voice only or Voice and Internet bundles on one bill at a discounted rate.
- Business Essentials – unlimited local calling, Caller ID, Call Waiting, voice mail and 100 minutes nationwide long distance voice calling.
- Business Metro – unlimited local calling, Caller ID, Call Waiting and other features, business High Speed Internet with "Frontier Service Connections" security software, wireless router, and unlimited statewide long distance voice calling.
- Business Unlimited – unlimited local calling, Caller ID, Call Waiting and certain other features, business High Speed Internet with "Frontier Service Connections" security software, wireless router, and unlimited nationwide long distance voice calling.
- Business High Speed Internet.
- Television – Digital satellite TV in an agency relationship with DISH Network. All channels are 100% digitally delivered and commercial accounts are available

in two categories: public (which includes customers that charge an admission or rely on selling food or beverages for immediate consumption as a primary source of revenue) and private (which do not charge as public).

A. Frontier's Strategy

8. The communications industry has entered the information age—delivering voice, data, and video at ever-increasing speeds and in an increasing number of ways. The ILEC—once the monopoly provider of local voice services—has been facing a growing number of competitors. Competition now comes in many different forms from wireless providers and cable companies to facilities-based competitive local exchange carriers ("CLECs") and resellers. Customers have an expanded view of what telecommunications means, and today cable and satellite constitute an increasing portion of the product spectrum. As a result, customers have been the primary beneficiaries of this competition. They have seen a growth in service provider options, the introduction of new technologies and services, and the ability to purchase their voice, data, and video services from a single provider.

9. The most significant competition facing ILECs today is not the small start-up that was so frequently seen immediately following the enactment of the Telecommunications Act of 1996 (the "Act"). Today, the primary competition is coming from national wireless providers and established cable television providers, each of which is subject to significantly less regulation and many of which have significantly greater resources than Frontier. As of June 30, 2009, approximately 68% of households in Frontier's territories had VoIP as an available voice service option from cable operators. The most formidable residential competition appears to be from wireless carriers that continue to take advantage of their national networks to create calling plans allowing unlimited calling without usage-based charges for long distance calling, moving from an "add-on" to local wireline service to a vigorous telecommunications alternative to traditional wired services. Indeed, many customers are disconnecting landline service and

relying only on wireless. This is increasingly true with the younger generation of customers. In fact, today, there are more wireless subscribers in the U.S. than there are traditional phone lines.

10. Thus, ILECs like Frontier and Verizon are faced with growing competition. Frontier's access line loss rate was a comparatively low 7.2% in 2008, and its line losses diminished to 6.5% for the twelve months ending June 30, 2009. In contrast, the new Frontier areas experienced 10.2% access line losses in 2008, which increased to 11.2% for the twelve months ending June 30, 2009.

11. The increase in competition and wireless substitution for landlines has required ILEC managements to reevaluate how they operate their businesses. Competition has forced ILECs to introduce new services, operate more efficiently, and find ways to deliver greater value to customers. Customer retention and value creation are now part of the everyday strategy for Frontier and for all ILECs. With these market changes, size, scope, and strategic clarity regarding the markets that a company will target and where it can deploy its resources most productively become critical for a company to provide high-quality services, maintain financial health, and generate appropriate returns for shareholders.

12. As a result, large carriers are asking themselves whether to maintain or divest non-strategic assets, and potentially how to rededicate scarce financial resources to more focused strategic objectives, such as enterprise, national wireless platforms, broadband, and new video services, all of which are capital intensive.

13. Wireline telecommunications carriers serving rural or smaller markets often require specialized investment, targeted products, local presence within communities, careful assessment of networks and costs to achieve relatively higher penetration of broadband in less-dense regions, and collaboration with local policymakers. However, what may be deemed as a

small or secondary market (attracting relatively low investment priority) to a nationally diversified provider can be an important growth market for a more specialized provider which is focused on smaller market operations and is more willing to dedicate capital and operating attention. That is the case here. Providing broadband and related services to underserved or unserved consumers in the new Frontier areas represents a significant business growth opportunity for Frontier and is a key driver of this transaction.

14. Frontier is dedicated to relatively lower density regions, and employs a number of strategies to respond to competitive pressures and consumer behavior in these lower-density, higher-cost-to-serve territories. Frontier's strategies are focused on customer retention, upgrading and up-selling services to its existing customer base, new customer growth, win-backs of former customers, new product deployment, operating expense reductions, community relations initiatives, and efficient use of capital resources. Among other things, Frontier seeks to achieve its customer retention goals by bundling services around the local access line and providing exemplary customer service. Bundled services include high-speed Internet, unlimited long distance calling, extended area calling, enhanced telephone features, and video offerings. Frontier tailors these services to the needs of its residential and business customers in the markets it serves and continually evaluates the introduction of new and complementary products and services, which can also be purchased separately.

B. Frontier's Broadband Deployment and Services

15. As part of its efforts to serve its customers better, Frontier has adopted business practices, investment strategies, and customer-service initiatives designed specifically for unserved and underserved areas in order to expand broadband deployment. As of June 30, 2009, across the country, Frontier was able to serve over 92% of its local exchange customer base with

High-Speed Internet broadband capacity. In its existing territories, Frontier owns and operates 330 host and 695 remote switches. Digital Subscriber Line ("DSL") service (referred to as High-Speed Internet or "HSI" in the Frontier product set) has been deployed in 1,017 (99.2%) of the 1,025 Frontier host and remote switches.

16. However, Frontier understands that simply deploying broadband infrastructure is not enough; customers must still subscribe. To enhance the value delivered to customers and encourage greater broadband adoption, Frontier provides innovative complementary services through programs such as the following:

Frontier Secure Connections

Frontier and Computer Associates (a market leader in PC-based protection) have partnered to provide PC-based security services that include Anti-Virus, Personal Firewall, Pop-Up Blocker, Anti-Spam, and Anti-Spyware. The entire security suite of services is made available to Frontier residential High-Speed Internet subscribers and allows customers to manage their networks and protect their PCs against viruses, hacking and other network threats. Frontier Secure Connections security software is available at no additional charge to Frontier High-Speed Internet residential customers who currently subscribe to at least a one-year term plan and is also available to others for a nominal monthly fee.

Frontier Portal

- Search engine from Yahoo ensuring users get comprehensive search results.
- Content from over 75 content providers for news, weather, sports, and entertainment, so users can stay current.
- Personalization of the home page, including layout, background, fonts, colors, pictures, and content so the page looks the way our users want.
- Tools to help users lead a more informed, and in some cases, more fun, digital lifestyle (e.g., reminders, dictionaries, and daily diversions).
- Pop-up ad blocking is available so users can avoid third-party marketing clutter to get to the content they want.
- Customer privacy tools along with Frontier Secure Connections to ensure users can participate online in a safe environment.

Frontier also created its "Peace of Mind" services that provide computer backup and restoration services to customers. There are three different tiers of service available:

- *Hard Drive Backup* – Unlimited storage for one PC or laptop, files are encrypted before leaving the computer, automatic backup every time a file is added, updated or edited, and remote storage.

- *Hard Drive Backup and Unlimited Tech Support* – In addition to the Hard Drive Backup option, this tier includes wireless network set up, diagnostic and repair, printer and most other peripheral setup and troubleshooting, full PC tune-up and security check for PC or laptop using Hard Drive Backup, iTunes installation and training, and experienced, domestic U.S.-based support staff available to answer questions and provide support.

- *Hard Drive Backup, Unlimited Tech Support and Inside Wire* – Available to Frontier local exchange customers only, this bundle adds the additional protection of inside wire repair to Hard Drive Backup and Unlimited Tech Support.

17. Frontier also takes a customer-friendly approach to delivering broadband services to its subscribers, which can be particularly important for consumer acceptance and convenience. Instead of mailing an installation kit to a customer's home, a Frontier technician will go to the customer's location and perform a full installation of the High-Speed Internet service. The technician will also set up the PC for Internet access, and show the customer how to access and use the Internet and email.

18. Frontier's strategy is to create promotions that increase adoption and moderate access line loss by enabling all segments of the customer base to experience the benefit of Frontier's broadband offerings. Frontier determined that a sizeable percentage of its customer base (up to 40% of Frontier's customers in some rural areas) did not have a PC in the household. Obviously, access to a PC is a key factor in bridging the digital divide and opening the home to broadband services. With this concern in mind, in 2006, Frontier created "Free Ride," which is a program that provides a free Dell-brand PC for customers who purchase Frontier's voice and HSI package during a promotional period at a bundled discounted rate based on a 2-year

commitment. Frontier subsequently offered similar promotions in 2007 and early 2009, providing free PCs or laptop computers. As a result of these offerings, Frontier has provided over 85,000 computers to its customers and has increased the ability of a much larger percent of its customers to use broadband services. This type of innovative approach is good for business, reflects an emphasis on customer service, and promotes broadband public policy goals.

II. THE MARKETS AND COMPETITION WILL DRIVE FRONTIER'S BROADBAND DEPLOYMENT IN THE NEW FRONTIER AREAS.

19. Frontier, in the acquired areas, will face the same competitive challenges it faces in its existing service areas. Pursuing the same, focused strategy and innovative approaches in the new Frontier areas, Frontier expects that in time the product and service penetration rates in the acquired areas will be much closer to the levels achieved in its current service areas, stemming line loss, improving revenues and resulting in more services for customers.

20. The transaction does not reduce competition. None of the local exchanges being acquired by Frontier from Verizon overlaps with any of the local exchanges already served by Frontier. Frontier and Verizon currently do not compete for customers in any of the affected exchanges because Frontier does not operate either local exchange or mobile facilities in these areas. This transaction merely transfers exchanges from one ILEC to another.

21. The success of this transaction from the perspective of Frontier's key stakeholders, including shareholders, depends in part on Frontier's ability to increase broadband availability in the new Frontier areas. As of June 30, 2009, Verizon had deployed broadband services to approximately 62.5% of its customer base in the new Frontier areas. Achieving broadband deployment closer to the approximately 92% of its customer base to which Frontier makes broadband available in its existing territory (as of June 30, 2009) will allow Frontier to increase the services and bundles of services for customers.

22. In addition, after the closing of the proposed transaction, subject to compliance with applicable rules, Frontier plans to introduce in the new Frontier areas promotions similar to those described above, including the provision of a laptop or PC with a Frontier phone and High-Speed Internet bundle. Similarly, it is Frontier's intention that, over time, it will implement the same process it utilizes in the existing Frontier territories to send technicians to homes to install newly acquired High-Speed Internet service. And, because Frontier will continue employing Verizon's installers and technicians, it will gain additional experienced personnel to help ensure continued quality of service.

23. To accomplish its broadband expansion goals, Frontier will have to invest more, not less, in the network, particularly in unserved and underserved areas. For 2007 and 2008, Frontier's capital expenditures were approximately $126 and $123 per access line, respectively, as Frontier invested to expand broadband deployment within its existing territories, among other things.[2] In addition, Frontier will continue to honor Verizon's FiOS buildout and service commitments in the applicable new Frontier areas in Oregon and Washington.

24. The financial markets will pay close attention to how well Frontier is able to operate the acquired properties. Frontier's investors concentrate primarily on the performance of its ILEC operations and how well Frontier is able to perform in serving ILEC customers. Each quarter, these investors will evaluate Frontier's progress in the former Verizon properties, encouraging Frontier to execute its strategy of increasing broadband deployment and revenues. In this way, the interests of Frontier and its key stakeholders will be aligned for the benefit of customers.

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[2] Excluding non-recurring investment in information technology systems related to customer care and the conversion of back-office systems to a single platform, in 2007 and 2008, Frontier invested $112 and $113, respectively, in capital expenditures per access line.

III. THE NEW FRONTIER WILL BE A FINANCIALLY STRONGER SERVICE PROVIDER.

25. Although Frontier is already a financially strong service provider, the proposed transaction will strengthen it further, thus providing an even better platform over which to fulfill the Commission's universal service goals. A foundational rationale of the pending transaction is to strengthen the financial position of the pro forma combined Frontier. In fact, credit rating agencies and analysts have gone on record that this is a major positive result of this combination. The direct result of that financial strength is expected to be improved services for Frontier's customers.

26. The improved financial position of the combined company is based, first, on the deleveraging of post-transaction Frontier's balance sheet, which could result in an investment grade rating for the company's debt. Second, Frontier believes that it will be able to generate relatively higher and more predictable cash flows through the combined business. Third, Frontier believes that it will have better access to the capital markets and more cost-effective pricing for financial resources in the wake of this transaction, in addition to being able to secure the financing necessary to complete this transaction. Fourth, the transaction will enable Frontier to operate more efficiently, both in its existing service areas and in the new Frontier areas, taking advantage of increased scale and purchasing power.

A. *Deleveraging the Balance Sheet.*

27. One of the benefits of the proposed transaction is that it deleverages Frontier. The parties agreed that the leverage ratio (net debt divided by Earnings before Interest Expense, Taxes, Depreciations and Amortization or "EBITDA") to be placed on the divested Verizon operations would be only 1.7 times EBITDA of those operations (which is below Verizon's year-end 2008 consolidated level of leverage ratio of 1.8 times EBITDA). This will result in a

conservative capitalization for the combined company. Specifically, Frontier's leverage ratio is estimated to decrease from a pre-transaction 3.8 times (based on year-end 2008 financial results) to 2.6 times after the combination, before considering the benefit of expected cost savings (the 2008 pro forma leverage ratio after accounting for expected synergies is estimated to be approximately 2.2 times). As such, the transaction is expected to strengthen Frontier's balance sheet materially. And, although Frontier's leverage ratio has increased slightly to approximately 3.9 times as of June 30, 2009, that does not materially change the deleveraging effect of the proposed transaction.[3]

28. The recent communications transaction that is most comparable to Frontier's acquisition of these Verizon territories is the combination of CenturyTel and Embarq that formed CenturyLink. Table 1 highlights key statistics drawn from the announcement day investor presentations for each transaction:

[3] This excludes costs related to this transaction, which are one-time in nature and were not present in the 2008 pro forma combined company leverage ratios.

Table 1

Transactional Comparison—Frontier-Verizon and CenturyTel-Embarq

($s in millions)	CTL-EQ	FTR-VZ
Transaction Size		
Dollar Value	$ 11,600	$ 8,583
Target Access Lines	5,853	4,791
Target States Involved	18	14
Relative Size (Target:Acquirer Ratio)		
Access Lines	2.9x	2.1x
Revenues	2.4x	1.9x
EBITDA	2.1x	1.6x
Pro forma Leverage		
Excluding Synergies	2.3x	2.6x
Including Synergies	2.1x	2.2x
Pro forma Payout Ratio	50%	43%

Sources: New Frontier Presentation (data as of Dec. 31, 2008); CenturyTel-Embarq Merger Presentation (Oct. 27, 2008)(data as of Sept. 30, 2008); CenturyTel-Embarq Merger Press Release (Oct. 27, 2008).

As Table 1 indicates, the two transactions are similar in size, with the CenturyLink transaction slightly larger in terms of total dollar value, target access lines to be acquired, and the number of target states involved. In addition, on a pre-transaction basis, CenturyTel, with approximately 2.0 million access lines,[4] was slightly smaller than Frontier. On a relative basis, therefore, comparing the size of the target operations to the size of the acquirer, CenturyTel acquired a proportionately larger company.

29. Comparing the pro forma leverage ratios, again the data are similar, with CenturyLink's targeted leverage slightly lower than Frontier's projected pre-synergy leverage, but with leverage ratios that are virtually identical when synergies are included. Frontier's pro forma dividend payout ratio post-transaction including anticipated synergies is expected to be

[4] CenturyTel, Merger of CenturyTel and EMBARQ 8 (Oct. 27, 2008), http://www.centurytelembarqmerger.com/pdf/presentations/CenturyTel_EMBARQ_IR_Presentation.pdf; hereafter "CenturyTel-Embarq Presentation."

somewhat lower than that of CenturyLink, but again the ratios are close. While CenturyLink's debt currently is rated investment grade, the data indicate that pro forma post-transaction Frontier will possess characteristics that make it a candidate for an upgrade to investment grade in the near future, which is a perspective supported by the Moody's and Fitch ratings actions, as discussed below.

30. In assessing leverage, the absolute dollar amount of the increase in Frontier's debt ($3.3 billion) and the total debt for the pro forma combined company (over $8 billion) are not relevant metrics in and of themselves.[5] Although Frontier is taking on just over $3.3 billion in net debt, its annual revenues will increase from $2.37 billion to $6.49 billion, and its EBITDA (revenues less cash operating costs) correspondingly will increase from $1.2 billion to over $3.1 billion, without including any anticipated synergies.[6] With synergies, the combined EBITDA will increase to $3.6 billion.[7] As such, the dollar amount of debt provides very little insight into the credit quality of the combined company and does not provide any meaningful predictive value regarding a company's ability to maintain any given level of debt. For example, CenturyLink retained an investment grade credit rating even though CenturyTel increased its net debt load by around $5.8 billion as a result of the Embarq acquisition, to a total of over $8.8 billion.[8] In addition, at the end of the second quarter of 2009, AT&T had net debt of

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[5] Frontier Communications, Frontier Communications: Welcome to the New Frontier 15 (May 13, 2009), http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzM3NTc4fENoaWxkSUQ9MzIyMTk3fFR5cGU9MQ==&t=1 ("New Frontier Presentation").

[6] *Id.* at 16. The net debt figure has been revised to $3.4 billion as of June 30, 2009. Frontier Communications Corporation, Amendment No. 2 to Registration Statement (Form S-4), at 8 (Sept. 14, 2009).

[7] New Frontier Presenation at 16.

[8] CenturyTel-Embarq Presentation at 8.

approximately $69.4 billion[9] and Verizon, just over $64 billion[10] in net debt; nevertheless, both of these companies are solidly investment grade.

B. *Improved Cash Flows and Prudent Dividends.*

31. The post-transaction Frontier also will increase substantially its cash flows both before and after dividend payments. Table 2 summarizes Frontier's historical Free Cash Flow generation, as well as pro forma Free Cash Flow expectations for the new Frontier. Free Cash Flow here is cash generated after funding all cash operating expenses to run the business, cash taxes, cash interest expense on the company's debt, and all capital expenditures, including the network investments to expand Frontier's broadband service availability to over 92% of its current customer base in its national service territory. Free Cash Flow does not include funds derived from financing activities, such as loan proceeds or other borrowings.

Table 2

Frontier Free Cash Flows—Historical and Pro Forma Combined

						2008 Pro Forma	
($s in 000s)	2005	2006	2007	2008	4-yr. Total	Pre-Syn	Post-Syn
FCF Generation							
Free Cash Flow [1]	$ 527,971	$ 561,784	$ 528,005	$ 493,197	$ 2,110,957	$ 1,423,000	$ 1,733,000
Dividends Paid [2]	338,364	323,671	336,025	318,437	1,316,497	742,000	742,000
Payout Ratio	***64%***	***58%***	***64%***	***65%***	***62%***	***52%***	***43%***
Free Cash Flow after Dividends	**$ 189,607**	**$ 238,113**	**$ 191,980**	**$ 174,760**	**$ 794,460**	**$ 681,000**	**$ 991,000**

[1] Post-Synergies Pro Forma Free Cash Flow reflects the after-tax impact of $500 million in synergies and a 38% tax rate.

[2] Assuming Frontier issues shares at the mid-point of the collar.

Sources: Frontier 10-Ks 2006-2008; New Frontier Presentation.

[9] AT&T, Strong Wireless Growth, Continued Cost Discipline, Solid Free Cash Flow Highlight AT&T's Second-Quarter Results, Investor Briefing 3 (July 23, 2009), http://www.att.com/Investor/Financial/Earning_Info/docs/2Q_09_IB_FINAL.pdf.

[10] Verizon, Q2 Investor Quarterly 2009 15 (July 27, 2009), http://investor.verizon.com/financial/quarterly/vz/2Q2009/2Q09Bulletin.pdf?t=633904300284080415.

32. Historically, from 2005 through 2008, Frontier generated Free Cash Flows that ranged from approximately $493 million to $562 million annually. Notably, Frontier achieved these levels of Free Cash Flow while simultaneously investing over $1.1 billion in its network and operations. The proposed transaction, however, is expected to increase Frontier's annual Free Cash Flow based on pro forma 2008 results to over $1.4 billion, without synergies, and over $1.7 billion after estimated synergies are included.

33. Importantly, the company's post-transaction's higher Free Cash Flow will not simply be paid out to shareholders in higher dividends in lieu of capital investment. In recent years, as reflected in Table 2, Frontier consistently generated Free Cash Flow after Dividends at annual levels ranging from $175 million to $238 million. Post-transaction, even excluding synergies, dividends will represent a significantly smaller percentage of Frontier's Free Cash Flow, with the result that post-transaction Frontier will generate meaningfully greater annual Free Cash Flow after Dividends—$681 million without synergies, and $991 million with synergies based on the 2008 pro forma figures. Frontier is currently financially sound and is expected to be stronger still as a result of this transaction. Frontier's historical data demonstrate a financially sound business approach that strikes a prudent balance among funding operations, investing in the network, and providing required returns to capital providers—all while continuing to generate sufficient amounts of cash flow to provide the board and management with the financial flexibility to respond to market factors.

34. Frontier also has exhibited a prudent approach to its historical dividend policy. Despite what certain petitioners and commenters contend, dividends are in no way tied to net income, nor should they be. The appropriate financial analysis, and the analysis required by the financial markets, evaluates dividend payments in relation to Free Cash Flow. Book net income

contains numerous non-cash entries, like depreciation, amortization, pension expense and income taxes (which can be positive or negative in any given year). In addition, booked net income excludes capital expenditures, a major utilization of cash in the ILEC business. Free cash flow, which is calculated after all cash outflows including capital expenditures, better reflects a company's ability to return cash to its shareholders while maintaining a sustainable business. The proposed transaction increases Free Cash Flow after Dividends, which improves, rather than decreases, Frontier's ability to fund additional capital investments.

35. As noted, Frontier's Free Cash Flow is after capital investment. In terms of judging the amount of necessary capital investment (and thus whether Free Cash Flows appear sustainable), book depreciation is not the appropriate yardstick by which to determine the appropriate level of capital expenditures needed to maintain and improve ILEC networks. In fact, replacement cost does not correlate strongly with historic cost in the telecommunications business. Depreciation is representative of the "periodic charge" for prior capital investments. Capital investments are today lower than depreciation levels because of the contraction in access lines served and because of the falling cost of new network that benefits from declining electronics and other equipment prices. Thus, the majority of ILECs report that their annual capital expenditures are between 50% and 80% of their annual depreciation levels. As a result, consistent with industry practice, Frontier is investing sufficient capital in its network for the future, allowing for sustainable cash flow generation.

C. *Ability to Raise Additional Capital.*

36. To fund any ILEC's operations, a carrier requires ready access to capital. Frontier generates significant cash flows from internal operations, as outlined above, but also at times must seek debt capital from lenders and equity capital from the financial markets in order to

maintain a properly balanced capital structure. All indications are that this transaction will improve Frontier's access to capital.

37. One indicator of the likelihood of future funding availability is Frontier's announcement on September 17, 2009, that it had arranged new debt financing to raise net proceeds of $577.6 million (gross proceeds of $600 million), through 8.125% (8.375% yield to maturity) Senior Notes due in 2018. Frontier announced that the proceeds would be used, together with cash balances, to fund the proposed repurchase ("Tender") of certain of its outstanding earlier-maturity debt. On October 1, 2009, Frontier announced the completion of the debt offering.[11]

38. Furthermore, on October 1, 2009, Frontier announced that it had accepted for purchase approximately $564 million aggregate principal amount of the debt securities due in 2011, which were tendered as of 5:00 p.m. on September 30.[12] Taking into account the new note offering and the early results of the Tender, Frontier has reduced its aggregate principal amount of debt maturing in 2011 to approximately $280 million, or an amount that could be refinanced primarily through surplus cash on hand or its existing $250 million undrawn credit facility, if necessary.[13]

39. These recent financing activities are significant for two reasons. First, the successful debt offering in which Frontier was assigned effective rates of 8.375% took place on the basis of its *current* credit quality even before the consummation of the Verizon transaction. With its improved credit and financial profile at the completion of the combination, it is

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[11] Press Release, Frontier Communications, Frontier Communications Corporations Announces Successful Completion of Notes Offering and Acceptance for Purchase of Certain 9.250% Senior Notes Due 2011 in Cash Tender Offer (Oct. 1, 2009), http://phx.corporate-ir.net/phoenix.zhtml?c=66508&p=irol-newsArticle&ID=1337615.

[12] *Id.* In addition to these early repurchases, the Tender will remain in effect until its expiration at 9:00 a.m., Eastern Standard Time, on October 16.

[13] *Id.*

reasonable to assume that the rates and terms the combined company will attract at the time of the transaction closing will be more favorable than the terms that Frontier achieved in its recent financing or that it could attract at that time if the merger were not completed. Second, the recent financing was completed at a rate well below 9.5% (weighted average annual cash interest rate, including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount, payable on the aggregate); the Merger Agreement will provide a shield if an annual rate above 9.5% would be unduly burdensome.[14] This recent successful debt offering indicates that Frontier likely will be able to finance the closing obligations at a rate below 9.5%, assuming equivalent or improved conditions in credit markets generally, and in view of Frontier's flexibility in the timing of obtaining the financing.

40. Frontier has not yet obtained commitments for the $3.2 billion in debt that will be raised in connection with this transaction. It would not be practical or cost-efficient to secure funding many months in advance of the consummation of the transaction. A commitment letter would be very costly, creating unnecessary expense, and would contain a wide range of interest rates which would not be capped, providing very little certainty as to interest costs. Frontier's recent debt offering and Tender, however, are positive market-based indications that make Frontier confident that the required financing will be available on reasonable terms. In addition, Frontier has received informal indications from bankers that its future offering will be well received.

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[14] Frontier Communications Corporation, Proxy/Prospectus (Form 424B3), at 90 (Sept. 16, 2009) ("Additionally, Frontier is not obligated to accept or execute documentation relating to the special cash payment financing or the Spinco debt securities if as a result thereof the weighted average annual cash interest rate (including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount) payable on the aggregate of the special cash payment financing, the Spinco debt securities and any distribution date indebtedness would exceed 9.5%, unless Frontier reasonably determines in good faith that these coverage costs would not be unduly burdensome.").

D. *Capturing Available Synergies.*

41. Frontier expects to realize on a consolidated basis by 2013 approximately $500 million in annual pre-tax synergies through this transaction.[15] Frontier estimated the level of synergies by comparing the total expenses in the fourteen states (based on 2008 financials) with the expense levels it estimated were required to support the business, based on Frontier's organizational requirements and cost structure. The major sources of synergies will be from executive management, legal, information systems, finance and accounting, and increased purchasing power with vendors.[16] The cost savings estimate, to be clear, is derived from the non-customer-facing areas of the business that Frontier believes, over time, can be operated more efficiently on an integrated basis. By 2013, Frontier estimates its annual savings from synergies to be $500 million compared with 2008 pro forma results.

42. Frontier has a long history of integrating acquired companies and achieving cost-reducing synergies through combined operations. Frontier's acquisition of Commonwealth Telephone Enterprises ("Commonwealth") is a good example of Frontier's ability to eliminate overlapping and redundant costs in integrating an acquired business. Citizens Communications (now Frontier) acquired Commonwealth, a sizeable local telephone company with over 450,000 total lines (ILEC lines plus edge-out competitive lines), in March 2007. Frontier then completed the smooth integration of the Commonwealth operations into Frontier's existing operations eight months ahead of the announced plan and exceeded expectations for cost savings. The realized

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15 New Frontier Presentation at 14.

16 New Frontier Presentation at 18.

cost savings were approximately 29% of Commonwealth's cash operating expenses, more than ten percentage points higher than Frontier's original 18% target.[17]

43. Critically, Frontier achieved the cost savings indicated above *while growing revenues and expanding products and services in the acquired Commonwealth territory*. Thus, Frontier successfully transitioned the Commonwealth business and made the combined operations more efficient, all in a manner that supported increasing levels of service to its customers. Further, Frontier's success in realizing and exceeding cost savings targets ahead of schedule demonstrates both the company's expertise in managing transitions and management's commitment to reasonable estimates of potential cost savings.

44. Industry analysts have concluded that Frontier's anticipated synergies are achievable. On May 13, 2009, independent research analysts at Stifel Nicolaus issued a report stating, "Frontier is guiding to annual synergies of approximately $500 million, or roughly 21% of cash opex, in-line with other synergy guidance levels given in similar transactions."[18] Later that same day, the Stifel Nicolaus analysts issued a more detailed follow-up report in which they stated:

> Frontier has a long track record of managing these integrations in the past, including the acquisition of significant numbers of RBOC access lines. As such, we expect very little in the way of operational challenges surrounding the closing of the transaction.
>
> The company believes it can achieve $500 million in annual synergy savings over time, within a couple of years of closing.

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[17] When it sponsored its call with financial analysts on September 18, 2006, Frontier estimated that it expected to achieve annual synergies of $30 million (18% of targeted cash operating expenses) (as found on slide 4 of the slide deck provided to the financial community); Frontier later, in a financial analysts' call on May 13, 2009 discussing the pending Verizon transaction, confirmed a larger 29% savings as a percentage of targeted cash operating expenses realized a full eight months ahead of schedule. *See* Thomson Street Events, *FTR - Frontier Communications to Acquire Verizon Assets Creating Nation's Largest Pure Rural Communications Services Provider* 4 (May 13, 2009).

[18] Stifel Nicolaus, *Frontier Communications Corporation: Transformational Acquisition With Verizon at 4.5x EBITDA* (May 13, 2009).

> This represents approximately 21% of the cash operating expenses of the acquired assets—a synergy number that seems achievable to us, given what we know of the properties and corporate overhead allocations.[19]

In addition, on May 14, 2009, research analysts at UBS Investment Research issued a report stating, "Management expects annual synergies of $500M, representing 21% of cash operating expenses. . . . From December 2005 to July 2007, synergies from telco consolidations have come in between 17% and 29% of operating expense."[20] These independent professional perspectives provide unbiased support for the view that Frontier's cost savings expectations are reasonable, achievable, and within the range of industry experience.

IV. FRONTIER WILL HONOR ALL LEGAL REQUIREMENTS AND CONTRACTS.

45. Upon completing the transaction, existing retail and wholesale customers will continue to receive substantially the same services on the same terms and conditions under their existing contracts, agreements, and tariffs, and the transfer will be coordinated closely to ensure a smooth transition of billing and ordering systems. As a result, customers should not be harmed by the transaction.

46. Frontier will assume or honor the rights and obligations of Verizon in the new Frontier areas. With respect to retail customers, Frontier will continue to provide local exchange and domestic interstate and international interexchange telecommunications and information services after the closing of the transaction. Frontier will honor existing tariffs and contracts to make the transition seamless for retail customers. With respect to presubscribed long distance customers who reside in the service areas subject to the transaction, they simply will be

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[19] Stifel Nicolaus, *Frontier Communications Corporation: Deal Appears to Be a Win-Win for Both Companies* (May 13, 2009).

[20] UBS Investment Research, *Frontier Communications Corp: Frontier to more than triple access lines* (May 14, 2009).

transferred in accordance with the Commission's rules to a newly established long distance company that will become a subsidiary of Frontier and an affiliate of Frontier's existing long distance operating company, Frontier Communications of America, Inc. This process will ensure that the transaction will be largely transparent in the new Frontier areas to current customers in the new Frontier areas, who generally will continue to receive substantially the same services on the same terms. This includes the Section 271 and other Bell Operating Company ("BOC") requirements applicable to the former Chesapeake and Potomac Telephone Company of West Virginia. For avoidance of doubt, after the transaction closes, Frontier will continue to comply with its obligations under the West Virginia Carrier-to-Carrier Wholesale Guidelines ("C2C Guidelines") and Performance Assurance Plan ("PAP") unless and until the West Virginia Commission orders otherwise.

47. Wholesale arrangements will remain the same as a result of this transaction. Frontier will assume those interconnection agreements between Verizon and other carriers that relate to service wholly within the new Frontier areas. Interconnection agreements of Verizon relating in part to service outside of those states will need to be modified to apply to Frontier and the other party in the respective states only, or those agreements will be replicated by Frontier with respect to one or more of the affected states, following discussion with and required notice to the affected parties. In the latter cases, however, Frontier stands ready to put in place new interconnection agreements on substantially the same terms and conditions, so as not to disrupt existing arrangements.

48. In West Virginia, Frontier will make changes to its existing systems as necessary to meet the obligations of its interconnection and other agreements, as well as West Virginia's PAP and C2C Guidelines. Among other things, Frontier already has purchased a synchronous

gateway for e-bonding for access service requests, local service requests, pre-order information, and trouble ticket submission. Frontier also will have in place industry standard application programming interfaces ("APIs"), which, among other things, will permit electronic receipt of firm order confirmations, validation of orders and design layout records.

49. For both retail enterprise and wholesale customers with volume and term agreements, following the transaction the parties will adjust revenue commitments and volume thresholds so that customers that maintain the volumes they currently purchase in the new Frontier areas and Verizon's remaining states, respectively, will continue to qualify for the same volume discounts in the respective areas. Frontier will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier, without any change in rates and charges or other terms and conditions. Through this approach, such volume pricing terms will in effect exclude volume requirements from states outside of the new Frontier areas. Verizon will do the same with respect to service it will continue providing outside of those regions. Both parties will amend their tariffs or satisfy other filing requirements and amend customer agreements as may be necessary to restate the applicable volume commitments. As a result, retail and wholesale customers will receive the same benefits in the aggregate following the transaction as those provided pursuant to the existing Verizon volume discount arrangement.

50. Frontier is also acquiring Verizon's fiber-to-the-home FiOS business in Oregon, Washington, Indiana, and South Carolina, including its existing video business in Oregon, Washington, and Indiana.[21] Frontier has committed to honoring all of the FiOS build-out commitments for the new Frontier areas, and there will be no diminution in committed fiber optic builds in the FiOS systems being transferred. Frontier will continue to provide video

[21] The FiOS system in South Carolina does not provide video service.

services in the relevant new Frontier areas after the completion of the merger. Frontier will honor Verizon's FiOS-related existing service availability requirements in Oregon and Washington.

51. While not a regulatory issue, Frontier and Verizon will provide a smooth transition for the Verizon employees who primarily support the local phone business and who are transferred to Frontier. Verizon will transfer pensions for employees moving to Frontier, and Verizon will remain responsible for employees who retire from the new Frontier areas before closing. Frontier will honor the union labor agreements in the acquired states and expects to work constructively with union leaders. In addition, Frontier will operate a regional operations headquarters in Charleston, West Virginia, creating and preserving jobs in what will become Frontier's largest single state service area.

V. FRONTIER AND VERIZON WILL HAVE AN ORDERLY AND MANAGEABLE TRANSFER OF OPERATIONS SYSTEMS THAT MINIMIZES THE POSSIBILITY OF DISRUPTION.

52. Frontier is confident that it can transition these properties successfully from Verizon without any significant disruption to retail or wholesale customers. Frontier has a history of successfully executing acquisitions and seamlessly integrating the acquired operations into its existing business. Frontier has completed numerous acquisitions and systems conversions throughout the company's history, while continuing to grow through the addition of new operations. In 1993 and 1994, Frontier (known as Citizens Utilities at that time) acquired approximately 500,000 access lines from GTE Corp. ("GTE") in Arizona, California, Idaho, Montana, New York, Tennessee, Utah and West Virginia. In 1995 and 1996, Frontier absorbed more local exchange lines in West Virginia, Oregon, Tennessee, Utah, New Mexico, and California, all of which were purchased from Alltel. After the Telecommunications Act of 1996, Frontier made additional local exchange carrier investments, including the acquisition of

approximately 1.6 million lines in 2000 and 2001 from GTE/Verizon (Illinois, Minnesota, and Nebraska), U.S. West and Global Crossing. In 2007, Frontier acquired 316,000 ILEC lines and 138,000 edge-out CLEC lines when it purchased Commonwealth.

53. As a result of its historical transaction activity, Frontier has established a proven track record of converting and integrating financial systems, systems for order taking, billing, maintenance, and other operational support systems. Frontier converted and integrated five billing systems successfully over the past five years, converting approximately 1.7 million access lines onto a single scalable company-wide platform, including the over 450,000 Commonwealth lines and most recently approximately 400,000 lines served by the former Rochester Telephone ("Rochester"). The Rochester conversion began in January 2008 and was completed by September 2008.

54. While no systems transition is ever flawless, there were no significant ongoing, systemic problems related to Frontier's systems conversions in general, or with the Rochester conversion specifically. The ARMIS trouble report data cited by the Communications Works of America ("CWA")[22] *pre-dates* the Rochester cutover. Moreover, Frontier's slight increase in reported outages in the fourth quarter of 2008 (by a total of two, compared with the fourth quarter of 2007), was not due to Rochester, which had the same number of reported outages (three) as in the fourth quarter of 2007 – all of which were due to central office equipment problems– not to billing and ordering systems conversion.[23] During this same period, customer

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[22] Comments of Communications Workers of America and the International Brotherhood of Electrical Workers at 32, WC Docket No. 09-95 (filed Sept. 22, 2009).

[23] N.Y. Dep't of Pub. Serv., Case 08-C-0405 – In the Matter of Quality of Service provided by Local Exchange Companies in New York: Frontier Communications Fourth Quarter 2008 Service Quality Report, at 6 (Jan. 22, 2009) ("2008 NY Service Quality Report") (FTR is the NY Department of Public Service's abbreviation for Rochester); N.Y. Dep't of Pub. Serv., Case 07-C-0473 – In the Matter of Quality of Service provided by Local Exchange Companies in New York: Citizens Communications Fourth Quarter 2007 Service Quality Report, at 5 (Jan. 25, 2008).

complaints fell.[24] In addition, tw telecom's claim that it suffered an $18,000 billing dispute in connection with the Rochester systems conversion is also unremarkable.[25] There is no suggestion that these billing problems were ongoing, and in any event, the magnitude of that dispute was small.

55. Frontier and Verizon are working together to ensure a seamless transition of the billing, customer account, plant record, and other operational support and network systems. In thirteen of the fourteen affected states (the exception is West Virginia, as discussed below), Frontier will use the same systems used by Verizon prior to closing, and no new system development will be necessary. This includes all ordering interfaces, e-bonding, and APIs. As a result, wholesale customers (including competitors) in these states will not have to process orders using new systems nor have their existing Operating Support System ("OSS") arrangements disrupted. These replicated Verizon systems will be operating separately from the rest of Verizon's wireline operations well in advance of close, as the terms of the Merger Agreement require the systems to be separated at least 60 days before close. Frontier will be able to validate and confirm in advance of closing that the principal operating systems have been replicated properly and will have every incentive to do so.

56. On closing, in the thirteen states, Frontier will take over the existing functional systems and will use them to provide its products, bundles, and pricing without disrupting service to either retail or wholesale customers. Frontier will retain the Verizon employees who today are involved in operating these systems and who have the experience, skill, and knowledge to use them. In addition, as described more fully in the Smith Declaration, Verizon will continue

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[24] 2008 NY Service Quality Report at 7.

[25] Petition to Deny of tw telecom Inc., One Communications Corp., Integra Telecom, Inc., and Cbeyond, Inc. at 26-27, WC Docket No. 09-95 (filed Sept. 21, 2009). tw telecom's petition does not provide sufficient detail for Frontier to identify or determine the resolution of this dispute.

to provide system support for at least a year after close, and the $94 million fee is for maintenance services, and is not a lease of systems.[26] Frontier will own the replicated Verizon systems and, therefore, will have the option to use the systems for as long as it wishes. Over time, Frontier can consider on a system-by-system basis which systems it may want to merge with its existing operations.

57. The process in West Virginia will be different because Verizon's ILEC in West Virginia uses a combination of systems that support Verizon's legacy BOCs, and it would not make sense to replicate all of those systems for a single state. West Virginia, therefore, will migrate to Frontier's fully operable, scalable systems currently serving customers in West Virginia as well as all of Frontier's other existing customers nationwide. Mr. Smith describes the cutover plan more fully, which I will not repeat here. Frontier's tests of Verizon's data and systems will be independent of Verizon's, covering not just the data, but also enhancements that Frontier has made to its systems to support the West Virginia requirements for this new area. Before closing, Frontier will receive final data from Verizon for use on Frontier's systems. As Mr. Smith describes, this process is the same one that both Verizon and Frontier have used in previous successful transactions.

58. Frontier's systems are fully scalable. In the case of West Virginia, Frontier will be adding approximately 600,000 lines to systems that already support about 2.2 million lines – a significant, but manageable increase. The West Virginia systems transition will be comparable to the Commonwealth and Rochester conversions. In the thirteen states other than West

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[26] Frontier Proxy at 107 ("Subject to the payment of an annual maintenance fee of $94 million, Verizon will provide maintenance services to the licensee during the maintenance term. At any time after six months after the closing, the licensee, upon six months' written notice, may terminate all or a portion of such maintenance services. If a portion of such services are terminated, the annual maintenance fee will be reduced by an appropriate amount, unless Verizon can reasonably demonstrate that the cost of providing maintenance services will not be reduced, in which case the parties will discuss any adjustment to the annual maintenance fee.").

Virginia, Frontier will be able to scale up its systems gradually. Using two different sets of operations systems is similar to the approach employed in the CenturyTel-Embarq transaction, in which the new CenturyLink is likewise maintaining multiple systems, at least initially. The fact that CenturyTel's acquisition of Embarq was proportionately larger than this transaction should also engender further confidence that the systems conversion issues here will be manageable and orderly for an experienced acquirer of local telephone operations.

59. In terms of system performance, Frontier recognizes that it will have to modify its existing systems to meet all of the regulatory and interconnection agreement requirements, as well as West Virginia's PAP and C2C Guidelines, which currently are applicable to Verizon West Virginia. As discussed above, to do this, Frontier already has purchased a synchronous gateway for e-bonding and will have in place industry standard APIs, which, among other things, will permit electronic receipt of firm order confirmations, validation of orders and design layout records.[27]

VI. THE PROPOSED FRONTIER-VERIZON TRANSACTION IS NOT SIMILAR TO THE FAIRPOINT OR HAWAIIAN TELCOM TRANSACTIONS.

60. Frontier's transaction with Verizon bears nothing more than a superficial resemblance to the FairPoint-Verizon transaction. To start with, the scope and capabilities of pre-transaction Frontier far exceed those of pre-transaction FairPoint.

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[27] *See supra* ¶ 48.

Table 3

Company Comparison—Frontier and FairPoint (pre-transaction)

($s in millions, lines in 000s)	Frontier	FairPoint	Ratio FTR : FRP
Access Lines	2,254	252	9.0x
Avg. Lines per State	94	14	6.7x
Ranking Among U.S. ILECs	6th	14th	
States Served	24	18	
Largest State	NY	ME	
Lines in Largest State	684	61	11.2x
Revenues	$ 2,237	$ 263	8.5x
EBITDA	$ 1,214	$ 135	9.0x
Net Debt / EBITDA	3.8x	4.5x	
Dividend Payout Ratio	65%	87%	
Scalable Systems Platform	Yes	No	

Sources: FairPoint Presentation (January 16, 2007) (access line data as of September 30, 2006, financial data as of December 31, 2005); FairPoint 2006 10-K; 2006 USAC Appendix HC-05 (2006 Maine lines); New Frontier Presentation.

At the time of the announcement of the Frontier transaction, Frontier was serving approximately 2.254 million access lines in 24 states across the U.S.,[28] while pre-transaction, FairPoint operated only approximately 252,000 access lines[29] in 18 states, one-ninth the size of Frontier. Similarly, Frontier's revenues are about 8.5 times greater than pre-transaction FairPoint ($2.2 billion[30] versus $263 million[31]).

61. Frontier's pre-transaction leverage ratio was 3.8 times,[32] considerably lower than FairPoint's pre-transaction leverage of 4.5 times.[33]

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28 New Frontier Presentation at 27.

29 Lines as of September 30, 2008. FairPoint Communications, Inc., Presentation to Investors at 15 (Jan. 16, 2007) ("FairPoint Presentation").

30 New Frontier Presentation at 16.

31 FairPoint Presentation, at 12.

32 New Frontier Presentation at 16.

33 FairPoint Presentation at 12.

62. The post-transaction Frontier will also bear no resemblance to the post-transaction FairPoint. The table below provides relevant statistics from the FairPoint transaction compared to the same data for the Frontier transaction.[34]

Table 4

Transactional Comparison—Frontier-Verizon and FairPoint-Verizon

($s in millions)	FTR-VZ	FRP-VZ
Transaction Size		
Dollar Value	$ 8,583	$ 2,715
Target Access Lines	4,791	1,531
Target States Involved	14	3
Relative Size (Target:Acquirer Ratio)		
Access Lines	2.1x	6.1x
Revenues	1.9x	4.6x
EBITDA	1.6x	3.2x
Pro forma Leverage		
Excluding Synergies	2.6x	4.1x
Including Synergies	2.2x	3.7x
Pro forma Payout Ratio	43%	60.0%-70.0%
PF Investment Grade Ratings	Near	No
Dual Systems Capabilities	Yes	No

Sources: FairPoint Presentation; New Frontier Presentation.

63. On a relative basis, assessing the size of the acquirer by access lines in comparison to the target operations, FairPoint acquired a significantly larger company than the properties that Frontier will be acquiring. The FairPoint transaction accomplished only a slight deleveraging of the combined company: prior to the northern New England transaction, FairPoint's leverage ratio was approximately 4.5 times, and at closing, FairPoint's leverage was

[34] For ease of reference and to avoid confusion, the data are drawn from the announcement day investor slide presentations prepared (and presented to the financial community) by Frontier and FairPoint, respectively. Those documents were also filed with the Securities and Exchange Commission in the form of an 8-K. *See* FairPoint Communications, Inc., Current Report (Form 8-K) (Sept. 28, 2009); *see also* Frontier Communications Corporation, Current Report (Form 8-K) (Oct. 1, 2009).

to decline slightly to a still high 4.1 times,[35] excluding synergies, and 3.7 times after expected synergies. In contrast, on the basis of 2008 figures, Frontier's leverage ratio starts pre-transaction near where FairPoint expected to end, and falls significantly from there.[36]

64. Viewed another way, relative to the debt it is taking on, Frontier is acquiring significantly greater cash flows than those acquired by FairPoint (related to the debt FairPoint was assuming), which is the appropriate financial view of these comparisons. FairPoint took on debt that was approximately 4.0 times the EBITDA of the operations it was acquiring,[37] while Frontier's new debt would be only 1.7 times the EBITDA of the acquired operations.[38]

65. As important, or possibly even more important given FairPoint's struggles, the Frontier combination also involves significantly less operational risk than did the FairPoint transaction. Unlike both the pending Frontier merger and the CenturyTel-Embarq transaction, FairPoint had to develop a comprehensive set of new operating systems. These systems are needed to control key operational functions, which include order-taking, provisioning those orders through the company's systems, billing, maintenance and repair. The newly developed FairPoint systems performed poorly due to design and integration problems, and the result was a loss of customers and subsequent financial problems. By contrast, Frontier will avoid the significant expense and huge risk associated with developing new systems, as it is using Verizon's existing systems in thirteen states, and its own existing systems in the fourteenth. This tactical approach of maintaining dual systems capabilities at closing appears fundamentally similar to the CenturyTel-Embarq transaction where parallel systems are being used.

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35 FairPoint Presentation at 12.

36 *See supra* ¶¶ 60-62.

37 FairPoint Presentation at 10.

38 *Id.*

66. The Hawaiian Telcom divestiture, consummated in 2005 through the sale of the operations to a private equity investor, The Carlyle Group ("Carlyle"), is also not similar to the Frontier transaction. Carlyle had limited or no experience in operating a local telephone company. The most profound problems that emerged were due significantly to the desire to build critical back-office systems and software, which the company first contracted through BearingPoint, Inc., and then assigned to Accenture, LLP. The inability to build and operate such systems precipitated rapid line loss and customer dissatisfaction. The root problems, therefore, arose because of the need to assemble an entirely new management team and the inability to install and operate an effective and entirely new back-office system.[39] As such, the Hawaiian Telcom transaction is completely different from the pending transaction involving Frontier and Verizon.

[39] Hawaiian Telcom, Annual Report (Form 10-K), at 15 (Mar. 31, 2008) ("In addition to the significant expenses we have incurred, because we do not have fully functional back-office and IT systems, we have been unable to fully implement our business strategy and effectively compete in the marketplace, which has had an adverse effect on our business and results of operations. While we are continuing to work to improve the functionality of our systems and we have seen improvement, there is no certainty that these activities will be successful or when we will achieve the desired level of functionality. Until we are able to achieve this level of functionality, our lack of critical back-office and IT infrastructure will negatively impact our ability to operate as a stand-alone provider of telecommunication services, and will have an adverse effect on our business and operations."); *see also id.* at 18.

CONCLUSION

67. To summarize, the benefits that we believe this transaction will bring to the current Verizon customers include:

- Increasing broadband availability will be a business imperative for Frontier, both to provide an added revenue source and to stem the rate of line losses to competitors. Frontier has a strong record of deploying broadband in its markets, making broadband available to an average of approximately 92% of its customer base in its service areas today. Frontier believes that through a combination of investment and high-quality customer service, over time it can accelerate broadband availability and penetration in the new Frontier areas.
- Frontier will also bring to Verizon's current customers in the new Frontier areas innovative customer service programs and options, such as its program to assist new subscribers of broadband services by sending a technician to a customer's home to set up service and ensure that consumers are comfortable navigating and using High-Speed Internet services. Frontier has also made promotional offerings available to customers whereby the customer is provided with a computer to access available broadband when the customer signs up for Frontier telephone and High-Speed Internet services.
- Frontier will develop and implement service bundles which address the broad spectrum of customer telecommunications needs, from customers seeking simple voice-only services to customers seeking multiple advanced services.

- The transaction will strengthen Frontier's balance sheet through a substantial decrease in the ratio of net debt to EBITDA, a 25% reduction in its shareholder dividend, and a reduced dividend payout ratio. This stronger financial structure and increased cash flow will provide Frontier the financial flexibility to make the investments, including in broadband infrastructure, which it deems necessary to improve its ability to compete in the new Frontier areas.
- The acquired areas will become a strategic focus for Frontier. Frontier already has a proven track record of success in serving larger communities such as those it will be acquiring from Verizon, along with rural communities and smaller to moderately-sized cities. Frontier will honor existing tariffs and contracts. Existing customers will continue to receive substantially the same regulated intrastate services on the same terms and conditions under their existing tariffs. Frontier will continue to provide services after the closing of the transaction without any material reduction, impairment, or discontinuance of service to any retail or wholesale customer. This approach will ensure that the transaction will be largely transparent to current customers in the new Frontier areas.
- The current regulation of the acquired operations will be unchanged by the transaction. Following the transaction, Frontier will operate in conformance with all relevant rules and regulations.

- Frontier is prepared to complete the transition of Verizon customers over to Frontier effectively and without service interruptions. Frontier has significant experience in successfully completing acquisitions and integrating the acquired operations into its business operations. Frontier will undertake the required actions to make the transition successful for its new customers, both retail and wholesale, in all its states.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on Oct 12, 2009

Daniel J. McCarthy

EXHIBIT 2

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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

DECLARATION OF STEPHEN E. SMITH

I, Stephen E. Smith, hereby state as follows:

INTRODUCTION AND SUMMARY

1. My name is Stephen Edward Smith. I am the Vice President of Business Development for the Verizon Telecom group of companies ("Verizon Telecom") of Verizon Communications Inc. ("Verizon"). Verizon Telecom includes Verizon's incumbent local exchange carrier ("ILEC") and certain other businesses. My office is located at One Verizon Way in Basking Ridge, New Jersey, 07920. I hold a Bachelor of Science degree in Business Administration from Georgetown University in Washington D.C. I have worked for Verizon or its predecessor companies for my entire professional career. As of July 2009, I had 32 years of service. During that time, I have filled roles in accounting, budget planning, financial analysis, strategic planning and business development. In my current position, I identify, evaluate, and – if appropriate – recommend and execute business development for Verizon Telecom. Business development can take many forms, including mergers, acquisitions, dispositions, joint ventures, strategic partnerships, and more. I have been in my current role for Verizon since 2000.

2. In this declaration, I explain why the proposed transaction between Verizon and Frontier Communications Corporation ("Frontier") is in the public interest and describe the plans that the parties have in place to ensure that there is a seamless transition when operations are transferred from Verizon to Frontier. In particular, as set forth in more detail below, in all of the affected states but one, Frontier will use the same back-office support and network systems used by Verizon prior to closing to serve its customers – and those systems will be operated by Verizon personnel who move over to Frontier as part of the transaction. In the remaining state, West Virginia, the parties have a formal cutover plan in place under which Verizon will transfer to Frontier all relevant customer data in an agreed-upon format, which Frontier can then use in its existing systems to provide service. Given these systems plans, and that Frontier will have the same tariffs and will offer substantially the same regulated retail and wholesale services under the same rates, terms, and conditions that are offered at the time of closing, customers will not experience disruption in the services they currently receive. Thus, this transaction is fundamentally different from the FairPoint Communications, Inc. ("FairPoint") and Hawaiian Telecom transactions, both of which involved the creation and use of new operational and back-office systems that resulted in post-transition problems.

PUBLIC INTEREST

3. The proposed transaction is in the public interest. As explained in greater detail in Mr. McCarthy's declaration, the transaction will benefit consumers and cause no competitive harm. As a result of the transaction, residential and business customers in predominantly rural and smaller city service areas will join consumers across Frontier's territories and become a key strategic focus of Frontier, which has a proven record of successfully serving such areas. Among other things, the transaction will promote increased broadband deployment and investment in

these areas when compared to the levels currently achieved by Verizon (approximately 62.5 percent of the customers in the areas to be transferred to Frontier have broadband availability, as of June 30, 2009). As Mr. McCarthy explains, increasing broadband availability will be a business imperative for Frontier in order to retain customers and to reduce the access line loss Verizon recently has been experiencing in these areas.

4. Even as the proposed transaction generates these benefits, it will not cause competitive harm. None of the local exchanges being acquired by Frontier from Verizon overlap with any of the local exchanges already served by Frontier. As a result, the transaction will not reduce the number of competitors in any region.

STEPS VERIZON AND FRONTIER WILL TAKE BEFORE CLOSING

5. Verizon and Frontier will take a number of steps before the transaction is completed to facilitate a smooth transition. Verizon already has created a new organization, the "North Central Area," which is responsible for sales, service and network operations activities of the ILECs and ILEC assets being transferred to Frontier. This organization is devoted exclusively to the ILEC operations in the affected states. Before Verizon created the North Central Area, it had four different area organizations that were responsible for the states that now make up the North Central Area. For example, the Mid-Atlantic Area was responsible for Maryland, Virginia, West Virginia and the District of Columbia, and the South/West Area was responsible for most of the former GTE areas including Washington, Oregon, and Idaho. Verizon realized that this transaction could be accomplished more smoothly by reorganizing its operations and creating a new area – the North Central Area – devoted exclusively to the affected states. This new area is in place today and already is performing many of the service and operational activities in the affected states. Creation and implementation of this new area will

enable a smooth transition to Frontier since the relevant operations have been identified already and are being separated from those that will remain with Verizon.

6. Verizon and Frontier are also working together to ensure a seamless transition of the billing, customer account, plant record, and other operational support and network systems. In all of the affected states except West Virginia, the local wireline companies that are part of the transaction were formerly part of GTE Corporation ("GTE"). Since acquiring that company, Verizon has continued to use the majority of the computer systems that Verizon obtained from GTE though these have been modified and improved since the closing of that transaction. These systems are used to run essential customer/carrier facing aspects of the business, such as retail ordering and billing, CLEC ordering and billing, IXC wholesale access, network monitoring and maintenance, and all customer support functions. Based on this past usage, the GTE systems are battle-tested. The North Central Area described above (with the exception of West Virginia) is now using these GTE systems.

7. In all of the transferred states except West Virginia, Frontier will use at close the same systems used by Verizon prior to closing, and no new system development will be necessary. This includes all ordering interfaces, e-bonding, and application programming interfaces ("APIs"). To accomplish this, Verizon will create a replica – in the language of the Merger Agreement, Section 7.24(c), a functioning "separate instance" – of the existing GTE systems used today, loaded with all customer-related data, to be transferred to Frontier. These replicated systems will enable Frontier to provide service with functionality no less favorable than that provided by Verizon today using its existing systems.

8. The replicated systems will be transferred to Frontier as physically separate functional systems that are substantially identical to the existing systems. The hardware

supporting the replicated systems will be located in a data center in Fort Wayne, Indiana, in Frontier's new expanded service territory. This data center will be devoted exclusively to the replicated systems and will control substantially all of the systems needed to successfully operate the GTE assets that are being transferred, including those necessary to manage wholesale and CLEC relationships. Wholesale customers – including competitors – in these states will not have to change their systems interfaces to process orders, track provisioning or manage troubles; however a small proportion of wholesale customers will need to change their point of interconnection with Frontier if it is not currently at the Fort Wayne data center.

9. Verizon will do its own testing and validation during the replication process. For example, prior to migrating data from its existing systems to the replicated systems, Verizon will create and run validation scripts to baseline the data records. Once the data migration process is completed, Verizon will execute those validation scripts in the replicated systems and check the results against the pre-migration statistics to verify the successful completion of the data migration.

10. Verizon will coordinate with Frontier as Verizon undertakes the process of replicating its existing systems. Under the terms of the Merger Agreement, Verizon is required to keep Frontier updated, to engage in ongoing discussions with Frontier regarding the process, and to grant Frontier reasonable rights of access. Moreover, Frontier will be able to validate and confirm that the principal operating systems have been replicated properly in advance of closing. Verizon plans to operate the replicated systems in full production mode for at least 60 days prior to closing, ensuring system performance with Frontier validating the results. Frontier's testing will be separated into two sections. The first section will focus on the replicated customer/carrier facing systems that allow service to be provisioned. That set of tests will be primarily exception

testing and testing for any activity that is not being processed properly. The second set of testing will cover the smaller number of downstream systems (e.g., payroll, accounts payable, etc.) that will involve various standard tests for functionality, including testing of end-to-end process flows.

11. At closing, the replicated systems, including the Fort Wayne data center and the hardware it contains, will transfer to Frontier. The parties have agreed that if all the necessary hardware cannot be procured and installed in the data center by closing, it will be made available to Frontier from Verizon or from a Verizon subsidiary following the closing to allow for transition, and such hardware shall thereafter be transferred to the data center. Frontier will take over the existing functional systems and will use them to provide its products, bundles, and pricing without disrupting service to customers. After closing, Frontier will retain the Verizon employees that today are involved in operating these systems and have the skill and knowledge to use them.

12. In addition, to further ensure a smooth transition, Verizon will, under a commercial services agreement, provide system support for at least a year after close, and Frontier may elect to continue to take some or all of this support from Verizon after the first year.

13. In a few states (Florida, California, and Texas), Verizon will continue to own former GTE companies, and those operations will continue to use systems substantially similar to the ones Frontier is acquiring. But the systems Verizon keeps for its own use will be separate from those dedicated to the companies Frontier is acquiring. After closing, the customer records and information for customers to be served by Frontier will be maintained on Frontier's systems.

14. The process in West Virginia will be different because Verizon's ILEC in West Virginia was not acquired from GTE but was part of Bell Atlantic. Verizon West Virginia uses a combination of systems that support Verizon's legacy Bell Operating Companies ("BOCs"), and it would not make sense to create a replica of all of these systems for a single state, particularly since Frontier already has proven systems servicing West Virginia. Instead, the parties will follow a process used in most successful consolidations within the industry today. Verizon will extract final data from its information systems and deliver that data to Frontier for use on Frontier's existing systems before closing. In particular, Verizon will identify the relevant customer data and furnish Frontier with data descriptions, data formats and layouts, and a series of full test data extracts from the Verizon systems which hold the data. Frontier will receive the test data, map them to its own comparable systems, and then load and test its systems to confirm that the data have been mapped properly.

15. This process is known as a "cutover" and is the subject of a Cutover Plan Support Agreement ("Cutover Agreement"). The Cutover Agreement establishes a Cutover Planning Committee that is comprised of two senior Verizon and Frontier leaders, who will bring in additional subject matter experts as appropriate. The Cutover Plan Committee is discussing and planning cutover activities already and will formulate a detailed schedule of cutover steps with related timelines. Each party will deliver to the other party a detailed plan ("Cutover Plan") that describes precisely what cutover activities it will perform, and how they will be performed. Verizon will provide Frontier with essential business information regarding Verizon West Virginia, including information about file record templates and test data extracts so that Frontier can ensure it will be able to use the customer data provided by Verizon. Verizon already has

begun to deliver file record layouts and sample file data to Frontier, and the first full data extract is in progress.

16. Verizon's Cutover Plan will describe in detail the specific business and systems deliverables for which Verizon will be responsible. It will describe the process Verizon will use for extracting data and transferring the data to Frontier, and it will include a detailed schedule of deliverables. That schedule will be updated periodically and used by the parties to track progress and confirm activity completion. Frontier's Cutover Plan will describe its plan for the receipt, conversion and conversion testing of Verizon's test data. This will help Verizon better understand Frontier's information needs. This process is the same one that both Verizon and Frontier have used in previous successful acquisitions, including transactions between Verizon's predecessor (GTE) and Frontier (then Citizen's Telephone) during the mid-1990s and early 2000s. Significantly, in each of these cases, the transferring company was merely extracting data and transferring that data to existing, tested, operational systems of the acquiring company. Verizon (including GTE) has undertaken numerous access line repositionings, substantially all of which involved successful conversions at closing.

DIFFERENCES FROM PRIOR TRANSACTIONS

17. This transaction is very different from two prior Verizon transactions that have been scrutinized because the acquirers had post-transition operational problems associated with the use of newly developed systems and the associated cutover. Those prior transactions are Verizon's transfer of Verizon Hawaii Inc. (now known as Hawaiian Telcom) to The Carlyle Group in 2005, and the transfer of Verizon's New England local exchange operations to FairPoint last year. As explained in more detail below, both of those transactions are fundamentally different from this one. Each of those transactions involved the creation of

entirely new operational and back-office systems by the acquirer and a third party systems integrator, and finally a cutover from Verizon systems to those new systems that had only been used in a test environment. Those complications will not be present in this transaction.

18. The FairPoint transaction involved a cutover to a completely new set of systems that FairPoint developed specifically for the transaction (and that FairPoint was still developing and testing well past the closing and right up to the cutover). FairPoint replaced hundreds of Verizon systems with approximately sixty newly developed or third party systems which needed to be configured and integrated to work together in support of FairPoint's acquired business. Those brand-new systems had to be populated with data provided by Verizon at cutover and then brought online. Further, the transition challenges were magnified because FairPoint was acquiring operations many times larger than its own (for example, in terms of access lines, the acquired Verizon operations were 6.1 times larger than FairPoint; by contrast, in the Frontier transaction, the comparable ratio is 2.1 times). Based on publicly available information, FairPoint encountered operational problems relating to billing processes, order flow, and call center response for both retail and wholesale operations. These problems surfaced immediately at cutover when FairPoint attempted to bring the newly developed systems into production. Those operational problems translated into increased costs for manual processing of orders, lost billing cycles for customers whose service orders were delayed, and possibly some customer attrition.

19. The Hawaiian Telcom transaction suffered from similar problems. The Carlyle Group was an investment firm with extremely limited experience in the telephone business, and its business plan was based on building brand new systems and expeditiously ending its transitional use of the Verizon systems to reduce costs. Moreover, Hawaiian Telcom's first

system developer was replaced, and its systems issues continued long after the transaction closed. Hawaiian Telcom has described its post-transaction problems as follows:

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

As a result of the operational problems and costs described above, and other business challenges, Hawaiian Telcom eventually filed for bankruptcy in 2008.

20. The Frontier transaction differs significantly from the FairPoint and Hawaiian Telcom transactions. Most fundamentally, this transaction does not involve newly developed systems that might suffer from the design and integration problems experienced by FairPoint and Hawaiian Telcom. As described above, in thirteen of the fourteen states at issue, at closing Frontier will take possession of and use a tested functional replication of Verizon's existing systems. And in West Virginia, Frontier will utilize its own existing, proven systems.

21. Verizon was aware of the outcomes of these prior transactions before entering into an agreement with Frontier. Verizon management recommended that Verizon pursue the transaction after concluding that Frontier had the competence and experience to complete the transaction without interruptions to customer service in light of the fact that all fourteen states post-transaction would be using existing, in-production systems. Verizon's board of directors also received fairness opinions from outside financial advisors.

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[1] *See* Hawaiian Telcom Communications, Inc., Quarterly Report (Form 10-Q) (Nov. 14, 2008).

VERIZON'S CAPITAL INVESTMENT

22. CWA claims that Verizon's capital expenditures "reveal[] a materially higher ratio of capital expenditures in recent years."[2] There are two flaws in this analysis. First, CWA's chart relies on a calculation of capital expenditures as a percentage of revenues. But that calculation and chart ignore the declining number of access lines and corresponding loss of revenue.[3] A better analysis is capital expenditures on a per line basis. Second, Verizon's capital expenditures were skewed by expenditures on FiOS video in a small number of states. When one subtracts the capital expenditures spent on FiOS video, on a per line basis for 2007 and 2008, Verizon expended approximately $85 per line in core capital investments in the new Frontier areas.

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[2] *See* Comments of Communications Workers of America and the International Brotherhood of Electrical Workers at 43, WC Docket No. 09-95 (filed Sept. 22, 2009).

[3] Frontier Communications Corporation, Proxy/Prospectus (Form 424B3), at 30, 146-48 (Sept. 16, 2009), available at http://www.sec.gov/Archives/edgar/data/20520/000119312509192484/d424b3.htm#toc20249_4.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on 10/12, 2009