IBEW Exhibit 1.0

BEFORE THE ILLINOIS COMMERCE COMMISSION

Frontier Communications Corporation, Verizon Communications, Inc., Verizon North Inc., Verizon South Inc., New Communications of the Carolinas, Inc. Joint Application for the approval of a Reorganization pursuant to Section 7-204 of the Public Utilities Act the Issuance of Certificates of Exchange Service Authority Pursuant to Sections 13-405 to New Communications of the Carolinas, Inc.; the Discontinuance of Service for Verizon South Inc. pursuant to Section 13-406; the Issuance of an Order Approving Designation of New Communications of the Carolinas, Inc. as an Eligible Telecommunications Carrier Covering the Service Area Consisting of the Exchanges to be Acquired from Verizon South Inc. Upon the Closing of the Proposed Transaction and the Granting of All Other Necessary and Appropriate Relief.	))))))))))))))))	Docket No. 09-0268

PRE-FILED DIRECT TESTIMONY OF RANDY BARBER

ON BEHALF OF THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, LOCALS 21, 51, AND 702

Filed: October 20, 2009

PUBLIC (REDACTED) VERSION

Table of Contents

Introduction 1
Background.....2
Organization of Testimony 5
Summary of Testimony.....5
Overview of Application and Document Review 7
Concerns with Frontier and the Proposed Transaction: Unrealistic Savings and Illusory Benefits 12
Frontier Lacks Financial Fitness: Frontier's Unsustainable, High-Risk Business Model.....16
A Frontier Acquisition Would Significantly Weaken VSTO (Verizon's Operations in Illinois and 13 Other States).....27
Frontier's Highly Aggressive And Unrealistic Financial Projections Risk Overestimating Future Revenues And Underestimating Future Expenses, Possibly By Significant Amounts...31
Frontier Plans to Reduce Capital Expenditures in Illinois and the Other VSTO States 45
Putting it Together: Frontier is Not Financially Fit to Own and Operate VSTO.....50
Conclusion 55

INTRODUCTION

Q. Please state your name and business address.

A. My name is Randy Barber. My office address is: Suite 204, 6935 Laurel Avenue, Takoma Park, Maryland 20912.

Q. By whom are you employed and in what capacity?

A. I am employed by the Center for Economic Organizing and serve as its president.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the International Brotherhood of Electrical Workers, International Brotherhood of Electrical Workers, Locals 21, 51, and 702 ("IBEW"),.

Q. Why is IBEW interested in this case?

A. IBEW represents more than 1,000 Verizon North, Verizon South, and Frontier employees in Illinois who will be directly affected by the proposed transaction.. IBEW is concerned about the financial health of its employer, as well as the employer's ability and commitment to safely and reliably operate and maintain that company's telecommunications network in Illinois.

Q. Have you been engaged to offer expert analysis and testimony on the proposed Frontier-Verizon transaction in other regulatory proceedings?

A. Yes. I have been jointly retained by IBEW and the Communications Workers of America ("CWA") to provide analyses and testimony concerning this proposed transaction. I

expect to participate in the unions' interventions before commissions in several other states.

BACKGROUND

Q. When you were engaged by IBEW on this case, what were you asked to do?

A. I have been asked to provide expert analysis and testimony, focusing on financial issues.

Q. Do you have experience in rendering that type of opinion as an expert witness?

A. Yes. While I do not specialize in being an expert witness, I have performed that function on several occasions, and I have assisted experts and attorneys in the financial and analytical aspects of judicial, quasi-judicial and regulatory proceedings. Most relevantly, I served as the financial expert for the CWA and IBEW in two recent telecommunications transactions: FairPoint Communications' acquisition of Verizon's Northern New England landline business, and the merger of Embarq and CenturyTel that formed CenturyLink.

Q. What in your educational and employment background has qualified you to provide an expert opinion on financial issues such as those presented in this case?

A. After attending Dartmouth College, I have worked as a financial consultant for more than 25 years. I specialize in complex financial and operational analyses of companies and industries, sometimes in the context of collective bargaining, other times in support of clients' strategic or policy interests. My clients tend to be labor unions and pension funds. I also regularly analyze a wide range of issues impacting specific employee benefit plans. Among the companies that I have analyzed are Alcatel, Avaya, AT&T, Boeing, Catholic

Healthcare West, Celestica, CenturyTel, Columbia/HCA, Eastern Air Lines, Edison Schools, Embarq, FairPoint Communications, Idearc, Lucent Technologies, MCI, Oregon Steel, Qwest, RH Donnelley, Sprint, Sylvan Learning Systems, Texas Air Corporation, TIAA-CREF, United Air Lines, the United States Postal Service, Verizon, and Wal-Mart. More broadly, I have provided clients with various analyses of such industries as aerospace manufacturing, air transport, for-profit education, newspaper publishing, off-road vehicle manufacturers, and telecommunications and internet access and content providers.

In addition, I have performed a wide range of analyses of private sector pension plans and public employee retirement systems across the country. These include investigations into factors associated with under-funding, integration of two or more benefit plans, efforts to improve the operations of benefit plans, evaluations of proposed investment and funding mechanisms, and proposals to convert defined benefit plans into defined contribution plans. A number of the activities mentioned above have taken the form of joint labor-management initiatives in which I served as the union expert, paired with one or more management experts. Some of these projects included work with AT&T, Lucent Technologies, and the League of Voluntary Hospitals and Nursing Homes (New York City and environs).

Q. Please summarize your experience as an expert financial witness.

A. As mentioned above, I was an expert financial witness in the FairPoint/Verizon transaction before the regulatory commissions in Maine, New Hampshire, and Vermont. In addition, I have testified as an expert witness (either at trial or by deposition) in several judicial proceedings and arbitrations. These have included, for example, a class action law suit involving A.P. Moller-Maersk/BTT, a National Mediation Board Single Carrier proceeding, the Big Sky Airlines Bankruptcy, and an Examiner's Investigation into the Bankruptcy of Eastern Air Lines. I have also served as an expert consultant in various proceedings where it was not necessary for me to testify, such as an airline fitness investigation involving ATX, a cross-border airline merger investigation (American Airlines-Canadian Airlines), and a major CWA/AT&T arbitration.

Q. What is the scope of your testimony?

A. I am advised by counsel that section 7-204 of the Public Utilities Act requires the Commission to make several findings in order to approve this transaction. My testimony primarily addresses one of those issues:

> (4) The proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.[1]

Generally, I refer to this as the question of Frontier's financial fitness to own and operate Verizon's landline business in Illinois. I also discuss the risk that Frontier will not attain

[1] 220 ILCS 5/7-204(b)(4).

the synergies -- as well as the revenues -- upon which the success of the proposed transaction rest.

ORGANIZATION OF TESTIMONY

Q. How is your testimony organized?

A. The first part of my testimony contains an analysis based on publicly available information. The next section expands on this analysis, based on purportedly Confidential information provided by either Verizon or Frontier. Finally, I set forth recommendations for the Commission's consideration.

SUMMARY OF TESTIMONY

Q. Please summarize your major findings and recommendations.

A. My findings are summarized as follows:

1. Frontier is not fit to assume ownership and control of the Verizon Separate Telephone Operations. Frontier has relied upon quite aggressive revenue and expense assumptions to justify the transaction internally.

2. If Frontier falls significantly short of its revenue and expense goals, it would likely come under severe pressure to reduce service-related spending, cut capital expenditures, and lower its dividend payments, probably a combination of all three.

3. Given the potential for such a failure in Frontier's plans -- and they need not be of the FairPoint magnitude to have serious negative ramifications -- the risks associated with this proposed transaction are simply too great.

4. Based on my analysis, I can unequivocally recommend to the Commission that it not approve this transaction.

5. Although I believe that any attempt to cure the flaws in this deal will still leave a weakened Frontier and VSTO (and should thus be denied as well), if the Commission determines that it should indeed give the Applicants the opportunity to cure the flaws in their transaction, I recommend that the Commission establish conditions that would insure Verizon's continued involvement (and interest) in the properties it is trying to sell to Frontier. Fundamentally, the idea would be to ensure that Verizon retain significant "skin in the game." As I describe in greater detail below, there are two alternatives that I believe could help achieve that goal:

a) Require Verizon and Frontier to form a Joint Venture, with meaningful milestones which the Joint Venture would be required to achieve before Verizon would be permitted to complete its sale (and Frontier allowed to consummate its purchase).

b) Require Verizon to provide Frontier with a long-term warranty (or guarantee) on all critical elements of the property it seeks to sell, again with meaningful milestones which must be reached prior to allowing Verizon to terminate its guarantees.

6. If the Commission declines to reject the transaction and further declines to require the parties to enter into a Joint Venture (or for Verizon to issue a warranty or guarantee), I have listed a set of financial conditions that could help protect Illinois communities and customers.

OVERVIEW OF APPLICATION AND DOCUMENT REVIEW

Q. Please describe your understanding of the proposed transaction.

A. On May 13, 2009, Verizon and Frontier entered into a series of agreements that would enable Frontier to become the owner of Verizon's landline business in 13 states and a portion of a fourteenth state. The first step in the transaction is the creation by Verizon of a new subsidiary that would become the holding company for all of the businesses being transferred to Frontier. The agreements refer to this holding company as Spinco. In subsequent filings with the Securities and Exchange Commission, this holding company is referred to as Verizon Separate Telephone Operations or VSTO. The terms Spinco and VSTO can be used interchangeably, but I will generally refer to the new holding company as VSTO.

The next step in the transaction would be for VSTO to merge with and into Frontier, so that VSTO becomes a wholly owned subsidiary of Frontier. The actual steps of the transaction are more complex than this because of income tax rules that Verizon will follow in order to make the transaction tax-free to Verizon and its stockholders.

In exchange for VSTO, Verizon's stockholders will receive common stock in Frontier and Verizon will receive approximately $3.3 billion in cash and debt relief. Again, there are several steps in this process because of the tax rules, but the effect is that Verizon will receive cash (or reductions in its debt) of $3.3 billion and Verizon's stockholders will end up owning a majority of Frontier's common stock (estimated at between 66% and 71% of Frontier's stock, depending on Frontier's stock price near closing). The stipulated value of the Frontier equity to be distributed to Verizon shareholders is $5.247 billion, bringing the total transaction value to $8.58 billion. However, the value of the Frontier shares to be distributed to Verizon shareholders could increase by any amounts that Verizon is required to pay or forgo in order to obtain regulatory approvals for the transaction, thus further diluting existing Frontier shareholders' stake in the firm.[2]

Essentially, Verizon has created -- and Frontier has acceded to -- an insurance policy against the actions of public utility regulators. If various state commissions require, as a condition of approval, Verizon to fund specific projects, guarantee the asset it seeks to sell, directly reduce the price, or otherwise negatively impact the proceeds Verizon realizes, Frontier is required to issue additional shares at the stipulated transaction price in sufficient amounts to make Verizon shareholders whole. It seems to me that Verizon

[2] Frontier Corp. Prospectus, Form 424B3, filed with the Securities and Exchange Commission on Sept. 16, 2009 (hereafter "Prospectus"), first page of Mary Agnes Wilderotter cover letter to Frontier Shareholders.

insisted on this provision after regulators in the Northern New England states effectively required it to reduce its price by some $360 million in the FairPoint transaction.

Q. In order to render an opinion about the financial analyses presented by Verizon and Frontier in this case, what information do you need to review?

A. Ideally, I should be able review all relevant information that was available to Verizon's and Frontier's Boards of Directors, management, and advisors, as well as subsequently developed data regarding either of the companies, the transaction, and refined projections regarding the post-closing "new" Frontier.

Q. Have you been able to review all of the information you require?

A. For the most part, but as I explain later, there are some significant gaps in our knowledge about the proposed transaction. Based on their replies to the IBEW's interrogatories, however, it appears that neither company created more than rudimentary sensitivity analyses to test how robust the new combined company would be under various scenarios. In addition, as I discuss below, the key assumption in Frontier's financial model – its projected $500 million in annual savings from so-called "synergies" -- is not based on detailed Verizon data, but, rather, starts with high level Verizon 2008 operating expense information, which is then projected forward to 2013, based on Frontier's own financial and operating experience and not on any bottom-up analysis of the actual Verizon operations that Frontier proposes to acquire.

Nonetheless, I have been provided with a large amount of public and purportedly confidential information. Based on this data, I am prepared to offer my opinion, although with certain caveats upon which I elaborate below.

Q. Please summarize the types of documents that you were able to review in this case.

A. I have reviewed documents that fall into a number of categories:

- Press reports;
- Frontier and Verizon filings with the Securities and Exchange Commission;
- Documents from various public utility regulatory agencies;
- Documents derived from on-line databases;
- Proprietary analyses produced by a number of investment advisory firms;
- Pre-filed testimony from Frontier and Verizon; and,
- Frontier and Verizon responses to numerous interrogatories and requests for production of documents in this case, including a large volume of purportedly confidential documents and information.

Q. Before addressing details of the transaction, please describe your basic impressions about the proposed Frontier-Verizon transaction.

A. My overall reaction to the proposed transaction is one of disappointment. This transaction is being driven, in large measure, by the income tax rules. Verizon can make the transaction tax-free to itself and its stockholders only if it finds a buyer that is considerably smaller than the service areas being sold. In effect, a tax-free transaction can

only be used if Verizon's stockholders end up owning a majority of the combined company. Verizon did this once before – with the sale of its landline operations in Maine, New Hampshire, and Vermont to FairPoint Communications. That deal has been a disaster for FairPoint, its customers and the communities it serves. FairPoint has not been able to maintain Verizon's service quality or uphold many of the commitments and other promises it made to regulators and elected officials in those states. As I write this, FairPoint has missed key interest payments and appears to be on the verge of seeking protection from the bankruptcy courts.

While I am not suggesting that Frontier is FairPoint (though there are unfortunate similarities, as I discuss below), I would have hoped that Verizon learned its lesson from the FairPoint debacle and would no longer try to use the tax loophole that makes it essential that Verizon find a much smaller buyer. Unfortunately, Verizon did not do so and we now have Frontier – a company with fewer than 2.3 million access lines – hoping to acquire Verizon business with a total of approximately 4.8 million access lines. Even worse, Verizon's lines are spread out all over the country – literally from coast to coast – and many of them are in states where Frontier does not currently operate, or where its presence is small. For example, in Illinois Frontier has about 97,000 access lines today, but wants to acquire Verizon's business with 573,000 lines in the state at year-end 2008.

As I explain below, my testimony focuses on my analysis of Frontier's financial condition, including both its historical and current financial conditions and its projections

for the future, as well as on the risks that I believe this transaction poses to VSTO's customers, communities and employees.

Q. Based on your review and analysis, are you able to render an opinion about the reasonableness of the companies' financial assumptions and analyses?

A. Yes, I am able to render an opinion. While there is some critically important information that is missing, I have enough information to conclude that Frontier's current financial position is precarious, that it has not made reasonable assumptions about the financial impact of acquiring VSTO, and that Frontier is not financially fit to own and operate Verizon's business in Illinois.

CONCERNS WITH FRONTIER AND THE PROPOSED TRANSACTION: UNREALISTIC SAVINGS AND ILLUSORY BENEFITS

Q. Please provide a broad summary of your analysis.

A. Based on my analysis and as I discuss in greater detail below, the proposed transaction raises serious concerns about whether the new Frontier will be able to provide quality telecommunications services and deployment of advanced high-speed broadband services. Frontier will find it difficult to meet its debt obligations while simultaneously investing enough capital to maintain current plant, improve service quality, set up entirely new operational, administrative and billing systems in West Virginia, pay to maintain existing computer systems from Verizon in the other 13 states until it integrates those systems, provide video service for the first time, ensure adequate staffing, and expand broadband

availability. The financial and operational risks involved in the transaction overwhelm any supposed benefits.

Q. Frontier has promised benefits from the proposed transaction. Do you agree?

A. No, I do not agree with Frontier. While I would like to believe the promises of enhanced broadband deployment and better customer service, the financial realities will make it difficult for Frontier to deliver these types of benefits to the public. Frontier will be burdened with an additional $3.3 billion in debt, and Verizon's transferred properties will experience a six-fold increase in the revenue they must generate to service the higher debt load. Equally disturbing, Frontier has not yet obtained any of the debt financing it requires to complete the transaction. Millions of dollars will leave Illinois and the other VSTO states to service Frontier's debt and pay its extravagant dividend to stockholders – money that would not be paid out under Verizon's ownership and that could be invested in the telecommunications network.

Further, neither Frontier nor any other company its size has ever taken on a deal of this complexity and magnitude – requiring the integration of 4.8 million lines spread over parts of 14 states stretching from coast to coast. The new Frontier will have to manage a company with triple its current number of access lines and employees. In West Virginia, Frontier will need to integrate all computer systems – including billing, ordering, provisioning, network operations, trouble reporting, dispatch, customer service, among other systems – on the day the deal closes. In the 13 other states, where Frontier will use a

copy of Verizon's systems (and for which Frontier will pay an annual maintenance fee), Frontier will be under pressure to cut-over to its own systems as soon as possible – and likely before they are ready -- in order to stop paying an annual $94 million maintenance fee to Verizon, and to meet Frontier's projected $500 million annual "synergy" targets.

Q. Are there benefits that outweigh these risks?

A. No, there are not. The transaction poses tremendous financial and operational risks of harm, but it presents few countervailing public interest benefits. Frontier has not made any definite, verifiable, or enforceable commitments in terms of broadband build-out or improvements in service to consumers. Frontier projects a 21 percent or $500 million annual cut in operational expenses,[3] which would further limit funds available for investment in plant, customer service, and staffing. Even without such draconian so-called "synergy" savings, Frontier – a more highly leveraged company than Verizon – will struggle to find the resources to expand and upgrade broadband services.

Q. What will Frontier do with the profits it hopes to earn from operating VSTO?

A. Frontier's business model has been based on a transfer of wealth to shareholders rather than re-investment in its networks. Frontier has historically paid out more in dividends to

[3] [<<<**BEGIN CONFIDENTIAL & PROPRIETARY** [redacted] **END CONFIDENTIAL & PROPRIETARY**>>>

shareholders than it earns in annual profits, and as a result, has seen its shareholder equity steadily decline. Frontier plans to continue this pattern with VSTO.

Q. Frontier says it has plans for increased broadband investment in VSTO. Do you doubt those promises?

A. Yes, I do. As Susan M. Baldwin discusses in her testimony, Frontier's historic and projected capital expenditures are less than the level that Verizon actually has been investing in VSTO. And while Frontier claims it has a higher rate of broadband deployment in its service areas than Verizon has in VSTO, Frontier fails to mention that it receives higher per-line universal service support for these areas than Verizon. I am advised by counsel that under the Federal Communications Commission's "parent trap" rule, Frontier's universal service support would be the same as Verizon's in the VSTO service areas.[4] So Frontier will not be able to rely on enhanced federal support to enhance broadband deployment in the VSTO service areas. I have not seen an actual plan by Frontier that explains how it will invest less than Verizon has been investing in VSTO, but somehow enhance broadband availability and improve the quality of the network.

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

[4] 47 CFR § 54.305

network passes 600,000 homes in these states, and serves 140,000 FiOS Internet and 103,000 FiOS TV subscribers.[5] (Verizon sells FiOS Internet in all four states, but does not sell FiOS TV in South Carolina.) Further, in some areas where Verizon has not yet deployed FTTH, it is offering a high-speed 7 mbps residential DSL service – a service that, to the best of my knowledge, Frontier does not offer in Illinois today.

In stark contrast to Verizon's state-of-the-art FTTH network and its progressive high-speed DSL service, Frontier's residential customers in Illinois are limited to DSL at either 768 kbps or 3 mbps. According to Frontier, it has no plans to improve either its existing network or the VSTO network beyond the 3 mbps DSL service.[6]

FRONTIER LACKS FINANCIAL FITNESS: FRONTIER'S UNSUSTAINABLE, HIGH-RISK BUSINESS MODEL

Q. Do you have enough information to evaluate the impact of the proposed transaction on Frontier's financial viability and fitness?

A. No, not entirely. This is a large and complex acquisition. The $8.4 billion deal will transfer 4.8 million access lines across 14 states, impact millions of customers and hundreds of communities in Verizon's transferred exchanges and in Frontier's existing territories. Many unanswered questions remain. Specifically, at this date, the Applicants have not provided sufficient information to answer the following questions:

[5] Prospectus, p. 146

[6] Frontier response to data request IBEW 2.9 ("Frontier has no plans to increase speed offerings in its existing Illinois service areas …").

- Will Frontier be able to finance the transaction and what will Wall Street demand to provide the financing? Frontier needs to raise $3.3 billion, but it does not have a commitment for the financing.
- How will Verizon realign its operations in Illinois and the 12 other former GTE states to provide the same functions that are currently provided centrally?
- How and when will Frontier integrate Verizon's computer systems and operations in the former GTE states into Frontier's systems and operations centers?
- How will Frontier achieve its promises to expand the level of broadband availability in Verizon's service areas while investing less than Verizon has been investing in the same service areas? Frontier has not provided any state-specific plans, budgets, milestones, or even goals; and to the best of my knowledge, it has not even visited central offices or other facilities in Illinois or many of the other states it wants to acquire.
- How will Frontier achieve the projected synergy savings of $500 million per year? Frontier is projecting a 21 percent reduction in VSTO's operating costs, but we do not know how this can be achieved without adversely affecting the quality, safety, and reliability of service it provides to the public.
- Does Frontier have the expertise, capability, and desire to maintain and expand the availability of VSTO's DSL service?
- How will the transaction affect Frontier's existing customers and its ability to expand broadband service to current Frontier areas that are underserved – including the nearly 20% of Frontier's customers in Illinois who do not have broadband access?[7]

In summary, there are many unanswered questions about the proposed transaction. The Applicants implicitly ask the Commission to accept their vague, unverifiable claims at face value. "Trust us" is not enough.

Q. In your opinion, why is Frontier pursuing such a large transaction?

A. Frontier is approaching the end of its ability to sustain the high-dividend disinvestment business model it adopted about five years ago. While the company, then known as

[7] Direct Testimony of Daniel McCarthy, p. 12.

Citizens Utilities, grew rapidly in the late 1990s and early 2000's, it actually peaked in 2001 (in terms of access lines and shareholder equity) and 2002 (in terms of revenues).[8] Subsequently, it was forced to write down over a billion dollars in assets while it exited the gas, water and electric utility businesses, as well as its CLEC operations. Schedules 1, 2 and 3 clearly demonstrate this situation, over the past ten years, as reflected by Frontier's revenue, access line and property, plant and equipment trends.

Q. What led Citizens to write down its assets?

A. In the early part of this decade, Citizens ran into significant financial difficulties, particularly with its CLEC and gas and electric utility operations. In 2002, it booked impairment charges in excess of $1 billion ($657 million on its Electric Lightwave CLEC and $417 million on its gas and electric utility assets). In 2003, Citizens announced that it would explore "strategic alternatives." During 2004, Citizens reportedly had at least two private equity suitors (Kohlberg Kravis Roberts and the Blackstone Group), but the company's board rejected that course. It reinstated its common stock dividend (including a huge special payment to shareholders in 2004) and it appointed Mary Agnes (Maggie) Wilderotter as the company's a new president and CEO (she was named board chair in 2006).

[8] Even though Frontier acquired a reasonably large single-state telecommunications company in 2007 (Commonwealth Telephone Enterprises of Pennsylvania), adding over $260 million in revenues and some 434,000 access lines, the company's revenues and access line levels have not matched those it achieved at the beginning of the decade.

After undergoing this financial restructuring, Citizens' board adopted a new high-dividend, depreciation-driven model. Since then, Citizens (and Frontier since the name change) has consistently paid out much more to shareholders than it earned in net income. During 2008, Frontier paid out dividends equal to 174% of net income. In the first half of 2009, the payout has been 240% of its profits ($65 million of net income; more than $156 million paid in dividends). The result is that Frontier's shareholders' equity has declined steadily – it stood at almost $2 billion in 2001, but is now less than $450 million (as of June 30, 2009).

Q. Is there something wrong with a utility paying out more in dividends than it earns?

A. Yes, there is. It simply is not sustainable for a public utility to consistently pay out more to its shareholders than it earns in net income. Counsel informs me that, in rejecting a proposed acquisition in 2007, the Montana Public Service Commission explained the reasons why a utility's dividend payments should be less than the utility's net income. In *NorthWestern Corp.*,[9] the Montana PSC rejected a proposed merger and acquisition, primarily because of the acquiring company's plan to pay out more in dividends than it would earn. The Montana PSC explained why this was so problematic for a public utility: "In normal utility operations, retained earnings provide a vital source of financial strength for capital investment and as reserves that are available during unexpected financial

[9] 2007 Mont. PUC LEXIS 54 (Mont. PSC July 31, 2007) The order is also available on the Montana commission's web site at: < http://www.psc.state.mt.us/eDocs/eDocuments/pdfFiles/D2006-6-82_6754e.pdf >. Citations are to the numbered paragraphs in the order, which are the same in either the Lexis or web site versions of the order.

strains. Regularly paying out dividends in excess of net earnings by a utility is inappropriate and risky because having insufficient reserves on hand could adversely affect the utility's ability to provide adequate service."[10]

I completely agree with the Montana PSC's reasoning. Cash recovered through customers' rates for depreciation is supposed to be reinvested in the business, not paid out to shareholders to pump up the stock price. But that is precisely what Frontier has been doing, and, based on its public filings, plans to continue to do if this transaction is approved.

Q. How does the proposed acquisition of VSTO relate to Frontier's business model?

A. In order for Frontier to sustain its business model, it needs to acquire more customers and continue to invest far less in the business than it earns. Thus, the proposed acquisition of VSTO would allow Frontier to keep following its high-dividend, low-investment scheme for a few more years. At some point, though, Frontier's model will fail. The company will run out of retained earnings and will not generate enough cash flow from depreciation to keep paying exorbitant dividends. Because of the number of shares of stock Frontier would issue to Verizon stockholders in this deal, Frontier's next acquisition would have to be huge – in the tens of millions of access lines – in order to further pursue its failed business model.

[10] *Ibid.*, para 149.

Q. Are you saying that Frontier's business model is not sustainable?

A. Yes, that is exactly right. Frontier's business model is based on high dividend pay-outs, financed by reducing the value of its assets. A company can support this business model over the short-term by adding assets through new acquisitions. But such a model is not sustainable over the long-term, particularly if the company takes on large debt to finance the purchase. This is precisely what Frontier proposes to do in this transaction.

Frontier has consistently paid out much more to shareholders than it has earned in net income. During 2008, Frontier paid out dividends equal to 173 percent of net income. In the first two quarters of 2009, the payout has been 240 percent of profits ($156 million in dividends, $65 million in net income). (*See* Schedule 4) The result is that Frontier's shareholders' equity has declined steadily. It stood at almost $2 billion in 2001, but is now less than $450 million (as of June 30, 2009).[11]

If a company pays out more in dividends than it earns in profits, there are basically two other sources from which such dividends can be paid: retained earnings and non-cash charges to the income statement. By far the largest non-cash charge for most companies, including Frontier, is depreciation and amortization (D&A). As can be seen in Schedule 5, Frontier's D&A has been roughly double its capital expenditures.

A fundamental result of Frontier's practice of using depreciation-based cash flows to fund dividends is an inevitable decline in its property, plant, and equipment. Even with

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

the 2007 Commonwealth Telephone acquisition of 434,000 access lines, Frontier's net property, plant, and equipment has declined by more than $1.2 billion dollars since its peak in 2001. (*See* the previously referenced Schedules 3 and 5) Frontier's business model is based on failing to adequately reinvest in its network – in essence, cannibalizing its network assets – to pay high dividends to shareholders.

Q. Do other analysts share your view of Frontier's future?

A. Yes. At the beginning of 2009, Jason Armstrong (a telecommunications analyst from Goldman Sachs) and Simon Flannery (a telecommunications analyst from Morgan Stanley) issued independent projections of Frontier. Both analysts projected that Frontier's shareholder equity would turn negative between 2012 and 2014.[12] As can be seen in Schedule 6, by early August 2009, these analysts were projecting that a standalone Frontier would see its shareholder equity turn negative in either 2012 or 2013.

The Morgan Stanley and Goldman Sachs analysts also project a continued decline in Frontier's Net Property, Plant & Equipment, as can be seen in Schedule 7.[13]

[12]Goldman Sachs and Morgan Stanley financial models for Frontier Communications, both dated February 25, 2009.

[13] Both analysts produce detailed financial projections which they regularly update. At this writing, the most recent *common* date for both versions of these models are those dated August 4, 2009. Goldman Sachs' Jason Armstrong produced another update on September 24, 2009, but it contains only minor changes and his model continues to project that Frontier's shareholder equity, on a standalone basis, will turn negative in 2012.

Q. But Frontier projects that this deal would improve the Company's financial condition. Do you disagree?

A. Yes, I disagree with Frontier's assessment. Frontier's track record for these types of forecasts is not good. The Company had promised Wall Street that the 2007 Commonwealth acquisition would only result in a temporary increase in Leverage Ratio (Net Debt to EBITDA) from 3.1x at year-end 2006 to around 3.6x before declining to pre-transaction levels.[14] However, by year-end 2008, Frontier's Leverage Ratio stood at 3.8x and was rising. In early 2009, Frontier negotiated an increase in its maximum leverage ratio with one of its lenders from 4.0x to 4.5x, along with an interest penalty if the leverage ratio rises above 4.0x (which it did earlier this year).

That is, Frontier has maintained a high debt level, which has fluctuated somewhat during this decade, but which currently stands close to its all-time high. The company's Leverage Ratio (Net Debt to EBITDA) has steadily risen from 3.1x in 2006 to around 4.1x (as measured on June 30, 2009). When it acquired Commonwealth Telephone, Frontier projected that this would not occur, but the Company was dead wrong. As can be seen in Schedule 8, the Morgan Stanley and Goldman Sachs analysts have projected that, standing alone, Frontier would breach the 4.5x Leverage Ratio maximum somewhere between 2012 and 2014.

[14]"Management expects to be able to bring net leverage from 3.6x to the 3.2x area while concurrently repurchasing equity under its $250 million stock repurchase plan, . . ." Goldman Sachs, Credit Research (Kevin Coyne), May 2, 2007.

As can be seen in Schedule 9, the two analysts also project that Frontier's current trajectory would lead it to paying out dividends (at its current $1 per share level) that exceed its Free Cash Flow by 2014. These are all signs that Frontier's business model is not sustainable. The Company is engaged in a high-risk path to financial failure and soon will be forced to drastically reduce its dividend and cut back further on its capital expenditures. Its only alternatives are to merge with a larger company (which would be likely to result in Frontier's management losing their jobs) or buying millions of additional customers – and the cash flow they provide – to avert failure for a few more years. In my opinion, that is what is motivating Frontier to pursue the proposed deal with Verizon.

Q. Are there indications that Verizon understood Frontier's true motivations for this deal?

A. Yes, there are. In an internal email message on April 19, 2009, the head of Verizon's negotiating team, Verizon Vice President of Business Development for the Domestic Telecommunications group, Stephen Smith, wrote to other members of the Verizon team:

<<<BEGIN CONFIDENTIAL & PROPRIETARY [redacted] **END CONFIDENTIAL & PROPRIETARY>>>**

[15] Email message from Stephen E. Smith to John W. Diercksen, Jackson G. Bennett, John P. Fitzgerald, dated April 19, 2009 (document 4(c)(42) attached to Verizon's Hart-Scott-Rodino filing).

Q. Have you seen this type of high-dividend, low-reinvestment business model before?

A. Yes, I have. FairPoint Communications was engaged in the same type of scheme before its deal with Verizon was announced. FairPoint's financial condition was precarious because of the same strategy Frontier is pursuing: use the cash flow to pay out dividends far in excess of profits, under-invest in the networks, don't retain cash in the business, and acquire new customers (and their cash flows) every few years to prop up the business. In fact, it was in my testimony in the FairPoint cases that I first referred to this process as "cannibalizing" the business – failing to reinvest enough in the business to offset the depreciation of current property, which reduces net plant and continually erodes retained earnings.

FairPoint needed a big acquisition to sustain its scheme for a few more years. It purchased Verizon's lines in Maine, New Hampshire, and Vermont – roughly increasing the size of FairPoint six-fold (from 300,000 access lines to approximately 1.8 million lines). To do so, FairPoint took on an extraordinary amount of debt, some of which carried very high interest rates. But FairPoint believed that there was sufficient cash flow in the Verizon businesses to allow it to sustain its high-risk business model.

Frontier is larger than FairPoint was – it is a little further along on the curve of buying more customers (and their cash flows) to sustain the scheme – but the strategy is exactly the same. And this deal is needed by Frontier for exactly the same reasons that FairPoint needed to do its deal with Verizon.

Q. What happened to FairPoint?

A. Unfortunately, FairPoint got trapped by its model. Just as the Montana commission warned in the order I cited above, when a utility fails to retain sufficient cash in the business, it cannot weather an economic downturn or other unforeseen circumstances. After it acquired Verizon's lines, FairPoint experienced a combination of the economic downturn, service quality problems, and the resulting customer dissatisfaction. As I had warned, FairPoint's revenue projections were unjustifiably rosy, it had insufficient cash flows and reserves to reliably operate the business, and it was unable to generate the revenues it needed to pay its lenders – let alone pay any dividends to stockholders.

At the end of September 2009, FairPoint announced that it was unable to make the required payments on its debt, but that it received a 30-day reprieve from some of its lenders. As I write this, it appears very likely that FairPoint will be seeking protection from the bankruptcy court by the end of October (when the 30-day extension from lenders expires).

Q. Frontier claims that it is not like FairPoint and that this transaction will make it stronger and even allow it to approach an investment-grade bond rating. How do you respond?

A. FairPoint made very similar assertions, trying to assure us that it would be a financially strong company if only it could do this next deal. But a dispassionate view of the numbers did not support FairPoint's belief and it does not support Frontier's belief either. It is

possible that the transaction may help Frontier for a little while. As I explained, Frontier is on the path to failure, and this deal may help avoid that result for a few years. I am concerned, however, that there is no certainty in that result. This is especially true because Frontier's debt burden will increase by $3.3 billion, to more than $8 billion overall, if this deal goes through.

Frontier argues that the deal will make it finally stronger by reducing its leverage. But that calculation is based on unsubstantiated and unrealistic assumptions about revenues and expense savings, none of which are certain (or even likely) to occur. What will be certain, however, is that Frontier's debt burden will nearly double and Wall Street lenders will need to be paid out of an ever-shrinking pool of revenues. I am especially cautious about believing Frontier's rosy projections because it made similar projections before the Commonwealth Telephone deal that did not pan out, as I discussed above.

A FRONTIER ACQUISITION WOULD SIGNIFICANTLY WEAKEN VSTO (VERIZON'S OPERATIONS IN ILLINOIS AND 13 OTHER STATES)

Q. What effect would the proposed transaction have on the financial condition of VSTO, including current Verizon operations in Illinois?

A. In my opinion, this is the critical question. While the deal may help Frontier somewhat, I believe that the Commission's primary concern should not be whether the deal would help Frontier, it is whether it will help VSTO – that is, existing Verizon customers and the

communities they serve. In my opinion, the answer to that question is unequivocal: there is no doubt that this transaction would make VSTO significantly weaker financially.

Right now, VSTO has only about 34 cents in debt for every dollar of operating cash flow. After the Frontier deal closes, these same properties (previously owned by Verizon) will be responsible for at least $2.60 in debt for every dollar of operating cash flow, an increase of over 600 percent. (*See* Schedule 10). The divested Verizon properties will be tied to a company with much lower profits and much higher debt service requirements – a combination that results in a much lower margin for error and much less ability to weather unexpected negative conditions (such as service quality problems, increased competition from cable companies and other carriers, economic downturns in portions of the service area, or new technologies that make existing services obsolete).

Specifically, during the first quarter of 2009, Frontier reported profit margins of 6.7 percent compared to a 16.5 percent profit margin for VSTO. For the first half of 2009, the difference narrowed somewhat, but VSTO still had a profit margin almost double that of Frontier (11.4% versus 6.1%).[16]

There is no question that Frontier would be significantly less able to weather a less-than-rosy future than VSTO would be.

In addition, Frontier has not yet obtained any of the approximately $3.3 billion in debt financing for the proposed transaction. The merger agreement permits Frontier to

[16] Prospectus, pp. 16 and 19.

walk away from the deal if it cannot obtain that financing at an annual average interest cost of 9.5 percent or less (including the original issue discount).[17] Frontier's recent debt has high interest rates and it just issued $600 million in securities at an effective rate of about 8.73 percent to pay off near-term notes.[18] The next most recent debt was issued on April 9, 2009, and carries an annual interest cost of 10.375 percent. Around the time of the transaction, Frontier's bonds traded in the range of 7.51 percent to 12.56 percent depending on the term, with most in the 9 to 11 percent range.[19] More recently, Frontier's issues traded in the 6% to 11% range, mostly between 8% to 9%. In the current unstable economic environment combined with Frontier's recent cost of debt, it is not clear that the company will be able to finance this transaction on reasonable terms. It is possible that Frontier – and the public it serves – may be saddled with extraordinarily high debt costs or other onerous conditions that lenders may require. Frontier's Chief Financial Officer has stated that he does not expect even to begin the process of obtaining this financing until January 2010 and that he does not expect to have financing in place until March or April 2010.[20]

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

[18] The $600 million issue, which matures on October 1, 2018, carries a coupon of 8.125%. Frontier's net proceeds were $577.6 million, after discounts and expenses, yielding an effective interest rate of 8.73%, Frontier SEC Form AWP, September 17, 2009.

[19] Frontier response to Staff data requests 77 and 79 in the Oregon Docket, July 2, 2009; additional trading data obtained from http://www.investinginbonds.com.

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

Q. Can you determine the financial impact of this deal on VSTO and Frontier without knowing the terms of that financing?

A. No, because of Frontier's current precarious financial condition, it is not possible for me, or any other independent financial analyst, to know whether Frontier will be financially viable (and for how long) without knowing the interest rate and other terms and conditions of that financing.

Q. Frontier has announced that it would reduce its dividend if this deal goes through. Have you taken that into account in your analysis?

A. Yes, I have. Frontier has stated that, if the deal goes through, it would reduce its per-share dividend pay-out by one-fourth, from $1 to 75 cents per share annually.[21] Even with this dividend reduction, it is likely that Frontier would still end up paying far more in dividends than it earns in profits. Depending on the price at which Frontier's stock is issued to Verizon's shareholders, Frontier's new dividend would represent between 125 percent and 142 percent of the combined company's (Frontier + VSTO) 2008 net income. (*See* Schedule 11) And since net income is likely to decline in the future because of the large debt burden being taken on by Frontier, these numbers will get even worse.

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

Q. Do Verizon and VSTO also pay out more in dividends than they earn?

A. No. Both Verizon and VSTO have paid dividends that are well below their profit levels.[22] (*See* Schedule 12) VSTO has been doing what a utility is supposed to do: reinvesting earnings in the business, keeping cash available to maintain flexibility, paying a reasonable dividend to stockholders, and growing retained earnings.

FRONTIER'S HIGHLY AGGRESSIVE AND UNREALISTIC FINANCIAL PROJECTIONS RISK OVERESTIMATING FUTURE REVENUES AND UNDERESTIMATING FUTURE EXPENSES, POSSIBLY BY SIGNIFICANT AMOUNTS

Q. Have you reviewed Frontier's financial projections?

A. Yes, I have.

Q. Please summarize your conclusions from conducting that review.

A. Frontier's financial projections are quite aggressive and are based on a range of unrealistic assumptions. Its revenue assumptions fly in the face of recent experience at both Frontier and VSTO. They are also very risky, in the context of the continued declines in the landline business, heightened broadband competition, and the ongoing uncertainty about the direction of the economy. There is a real risk that Frontier could fall far short of its financial goals and, as a result, be unable to meet many of the commitments it has already made or likely will make during the regulatory process attendant to this transaction. As I

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

discuss below, Frontier's expense assumptions are literally unprecedented. The combination of the very risky revenue *and* expense projections upon which Frontier has built its plans could prove quite toxic.[23] In my opinion, the Commission should not accept these projections as an accurate baseline to evaluate the Applicants' pro forma financial projections.

Q. Why do you conclude that Frontier has over-stated its projected revenues?

A. Frontier's so-called "proforma" projections rely on VSTO's year-end 2008 results. But Frontier recently acknowledged (in its second quarter conference call with investment analysts) that VSTO lost 136,000 access lines (2.9 percent of all its lines) during just the second quarter of 2009. Since June 30, 2008, VSTO has lost more than 11 percent of its access lines, resulting in a significant decline in revenues, cash flow, and net income.[24] The difficulties that both Frontier and VSTO have been encountering have been dramatically reflected in their financial results. Below is a table that reflects the comparative results of both companies during the first half of 2009 ("1H09") compared to those of the same period in 2008. Both Frontier and Verizon suffered in excess of 5 percent revenue declines, big drops in EBITDA (essentially cash operating profits before taxes and interest), and approximately one-third lower profits. It is very much worth

[23] In addition, while interest rates have declined somewhat since the transaction was agreed upon in May, the economic environment is still quite unsettled and the high yield bond market notoriously volatile and unpredictable, particularly in connection with large, highly leveraged transactions. As noted above, during 2009, many of Frontier's issues have traded over 10%, some over 11% or higher.

[24] Prospectus, p. 146.

noting that both not only struggled with declining revenues, they obviously had real difficulties controlling costs in this challenging environment: Frontier barely reduced expenses even though its revenues dropped appreciably, and VSTO's costs climbed almost as much as its revenues declined. To say the least, these dynamics do not portend well for Frontier's ability to achieve unprecedented levels of cost savings while attempting to maintain revenues well above either its or VSTO's trend lines.[25]

	Frontier 1H09 vs 1H08	VSTO 1H09 vs 1H08
Revenues	-5.4%	-5.8%
Operating Expenses	-1.4%	4.1%
EBITDA	-10.6%	-18.6%
Net Income	-36.6%	-29.3%

Recently, Frontier stated in its Prospectus filed with the Securities and Exchange Commission, "The combined company will likely face further reductions in access lines, switched access minutes of use, long distance revenues and federal and state subsidy revenues, which could adversely affect it."[26] But Frontier has not revised its financial projections to reflect this view of the future.

Q. Why do you conclude that Frontier has understated its projected expenses?

A. It is unprecedented to have expense savings of the magnitude projected by Frontier for a transaction of this size. Frontier projects that it will be able to cut VSTO's annual

[25] Prospectus, p. 16 and 146.

[26] Prospectus, p. 29.

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

Table 1. Projected "Synergies" from Three Transactions

	FairPoint-Verizon	CenturyTel-Embarq	Frontier-Verizon
Projected "Synergy" Savings as a % of the Target's Operating Expense	**8-10%**	**9%**	**21%**

Sources: FairPoint SEC Form 8-K, January 16, 2007, 3rd page of press release; CenturyTel SEC Form 8-K, October 27, 2008, 2nd page of press release; Frontier SEC Form 8-K, May 13, 2009, p. 15.

<<<BEGIN CONFIDENTIAL & PROPRIETARY [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

636 [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

645 [redacted]

[redacted]

[redacted]

[redacted]

649 [redacted]

[27] The references for HSC-1, -2, and -3 appear on the documents themselves. Also, there is something of a discrepancy

[redacted]

[redacted]

between the publicly announced synergies projection of 21 percent and the percentage reflected for the public "guidance" on this transaction. The difference is probably due to slight methodological variations.

[redacted]

[redacted] **END CONFIDENTIAL & PROPRIETARY>>>**

Q. What is the magnitude of the workforce reduction Frontier projects for VSTO?

A. At the present time, VSTO has approximately 10,700 employees.[29] Frontier projects that by 2013 VSTO will have only **<<<BEGIN CONFIDENTIAL & PROPRIETARY** [redacted] **END CONFIDENTIAL & PROPRIETARY>>>**

Q. Hasn't Frontier promised that none of the job losses will be in service-affecting positions?

A. No, Frontier has not promised that. Frontier has said that it would not lay off any technicians or installers for 18 months after closing, which would be roughly through the end of 2011. After that point, Frontier has made no commitments whatsoever to keep its workforce appropriately sized so that customer service will be maintained and improved. Moreover, Frontier has yet to respond to multiple queries about its commitment to employees who are **not** technicians or installers. Given the magnitude of the workforce

[28] "IL IBEW Set 1_VZ10 Attach2 Barclays and JPMorgan Presentation 051109 CONFIDENTIAL AND PROPRIETARY.pdf," page 14.

[29] Prospectus, p. 32.

[30] IL Staff Set 8 FRORP201 attach2 Synergy spreadsheet confidential and proprietary.xls (the "synergies spreadsheet" or "synergies model")

reduction that is contained in Frontier's synergies model, it appears likely that service-affecting jobs (such as call center, customer service, dispatch, and field employees) will be affected.

Q. Can you show specifically where Frontier has been too optimistic in its expense projections?

A. **<<<BEGIN CONFIDENTIAL & PROPRIETARY** [redacted]

[redacted]

[redacted] **END CONFIDENTIAL & PROPRIETARY>>>** In a summary overview of the company's synergy projection process, Frontier says:

> Frontier was provided summary financial and operational information for the FYs 2006 – 2008, by Verizon, relating to Verizon's Wireline operations in 13 states (SpinCo, or the potential divestiture properties) (financial information for California was provided later, but is not material to the forecasts). Frontier identified the various components of the business (local, long distance, and data services) that would be acquired as part of the transaction and generated a historical and forward looking view of revenues and product units by state for the SpinCo properties.
>
> Using this revenue and unit information, and the underlying metrics of demand activity that were available in the data room and via discussions with Verizon personnel, Frontier compared its stand-alone operating performance metrics to the projected view of SpinCo for the FY 2013 and had our functional area teams develop a view of incremental headcount, wage expense . . . and non-wage expenses . . . necessary to operate the acquired properties at current Frontier stand-alone performance levels. . . .
>
> ***Due to the nature of the data provided, synergy estimates by functional area and by state were unable to be created.*** Additionally, the calculation of synergies used numerous estimates and assumptions which have yet to be validated by supporting documentation from Verizon. ***No information regarding Verizon's "realignment" plan was provided prior to the determination of the anticipated value of the synergies.***[31] [emphasis added]

<<<BEGIN CONFIDENTIAL & PROPRIETARY

[31] Frontier supplemental reply to IBEW 5.12(c), "SynergydocsPUBLIC.pdf" which is the public version of "Confidential & Proprietary-(IBEW5.12)SynergyProcessSummary.pdf."

[redacted]

END CONFIDENTIAL & PROPRIETARY>>>

Q. You cite Frontier's description of how its synergies projections were determined. Have you had a chance to evaluate any more detailed explanation of Frontier's synergies analysis?

A. Yes I have. In analyzing the credibility of Frontier's synergies projections, it is important to understand how these projections were created. Frontier received public financial data for 2006-2008 and validated this data through visits to a "data room" and conversations with Verizon personnel. However, in projecting VSTO's synergies under Frontier's management, the company took the 2008 VSTO cash operating expense data, projected it forward to 2010, using that as the starting point for its "final" synergies estimate for 2013. Describing confidential pages of the synergies overview document, Frontier says that

> [it] did not take any steps to convert the operating expense "summary buckets" into Departmental categories as reflected on the third and fourth pages of this document. Due to the nature of the data provided, synergy estimates by functional area and by state were not created. Rather, pages 3 and 4 were developed based upon Frontier's current organization and cost structure applied to the business to be acquired. The information received from Verizon was used only in total to create a starting point to determine amount of potential synergies.[32]

<<<BEGIN CONFIDENTIAL & PROPRIETARY

[redacted]

[redacted]

[32] Frontier response to Oregon IBEW Data Request No. 249, August 25, 2009.

[redacted]

END CONFIDENTIAL & PROPRIETARY>>>

Q. You question Frontier's revenue and expense projections. Are you suggesting that Frontier does not have a good understanding of what it would take to operate the VSTO business?

A. Yes, that is exactly what I am saying. This transaction is unprecedented in scope and size. Neither Frontier nor any other company its size has ever taken on a deal of this complexity and magnitude which includes integrating approximately 4.8 million access lines spread over parts of 14 states stretching from coast to coast. As a result of this transaction, the new Frontier will have three times as many access lines (from 2.2 million access lines now to 7 million after the sale) and employees (from 5,400 employees now to approximately 16,000 after the sale).[33]

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

It does not appear that Frontier has engaged in rigorous due diligence of the service areas it is acquiring. The period between Frontier's initial meeting with Verizon to the signing of the merger agreement was only two months.[34] That is an extremely short

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

[34] See Prospectus, pp. 46-54. It is also instructive to evaluate the context in which the Verizon transaction unfolded. Approximately one month prior to the first meeting between the CEOs of Frontier and Verizon, Frontier received an

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

In my role as financial expert for the IBEW and CWA during the regulatory process in Maine, New Hampshire and Vermont concerning the FairPoint/Verizon transaction, I performed a series of in-depth analyses of multiple iterations of FairPoint's transaction model. While I cannot disclose any details (which are also confidential and proprietary), I can attest that a key difference between FairPoint's model and Frontier's "proforma" model is that the former relied on detailed historic Verizon revenue and operating expense data.

While I found many of FairPoint's assumptions and projections to be unrealistic, they were far more grounded in an understanding of the actual Verizon operations than is the Frontier model. Frontier's model is based on Frontier's experience with its own

---

offer to be acquired by "Company A," which Frontier appears to have rebuffed. During the period that Frontier and Verizon were negotiating the present transaction, Company A's CEO periodically contacted Frontier's CEO, seeking to recommence discussions about a potential acquisition of Frontier by Company A. Three days before the Verizon deal was completed, Company A reasserted its offer to purchase Frontier and did so again on the day the Verizon transaction was agreed upon. It is difficult to avoid the conclusion that Frontier rushed into the VSTO transaction in order to escape the clutches of Company A. **<<Begin Confidential & proprietary** [redacted] **End Confidential & proprietary>>**

operations and not on Verizon's functions and operations. FairPoint's model contained bottoms up revenue and expense projections based on historic Verizon experience in the Northern New England states. In contrast, Frontier's model contains revenue and expense projections based on Frontier's experience in other parts of the country.

FRONTIER PLANS TO REDUCE CAPITAL EXPENDITURES IN ILLINOIS AND THE OTHER VSTO STATES

Q. Have you reviewed Frontier's projected levels of capital investment in Illinois and the other VSTO states?

A. I have reviewed capital expenditure projections at a summary level for the 14 VSTO states. Frontier has not provided specific capital expenditure projections for Illinois, although it has just provided a new spreadsheet with purported details of historic Illinois-level capital expenditures and somewhat detailed revenue (although not expense) projections for Illinois.[35] This file arrived too late for me to perform any detailed analysis, but I may return to it in my surrebuttal testimony. However, the spreadsheet does contain certain data worth noting at this point:

- **<<BEGIN CONFIDENTIAL & PROPRIETARY** [redacted]

[35] Confidential & Proprietary IL VZ Forecast 2009-10-16.xls, supplementing Frontier's response to RP 3.01.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] **END**

CONFIDENTIAL & PROPRIETARY>>

Q. Please summarize your understanding of Frontier's and VSTO's current practices regarding the use of their cash flows and capital investment.

A. As I mentioned earlier, Frontier uses an inordinately high amount of its cash flow to pay dividends to stockholders. Several financial measures capture the amount of cash flows that a company re-invests in capital projects. One measure evaluates the proportion of depreciation and amortization (D&A) cash flows that are reinvested as capital expenditures. Using this measure, VSTO has invested a significantly greater percentage in new capital expenditures than Frontier every year since 2006. In 2008, VSTO invested twice as much of its D&A derived cash flows in capital expenses (96.2 percent for VSTO compared to 50 percent for Frontier). In 2007, VSTO capital expenditures were one-third larger than Frontier's (88.3 percent for VSTO's compared to 57.9 percent for Frontier), and in 2006, they were 25 percent greater (VSTO's 77.4 percent compared to Frontier's 56.4 percent). (See Schedule 13.)

[37] "Meeting-May 1, 2009.pdf," p. 19; materials prepared by Citigroup and Evercore.

[38] "IL IBEW Set1_VZ10_Attach2 Barclays and JPMorgan Presentation 051109.pdf"

One can also measure a company's level of capital expenditures as a percentage of its revenues. Frontier makes much of the fact that it dedicates about 12 percent of its revenues to new capital expenditures.[39] However, an examination of the capital expenditures in VSTO reveals a materially higher ratio of capital expenditures in recent years. For the period 2004 through 2008, Frontier dedicated between 12.8 percent and 13.9 percent of its revenues to capital expenditures (It was 12.9 percent in 2008). VSTO, on the other hand, invested 13.5 percent of its revenues in capital expenditures in 2004, increased that proportion to 15 percent or more during 2005 through 2007, and further increased it to 16.8 percent in 2008. (See Schedule 14)

Q. Does Frontier plan to maintain VSTO's level of capital investment?

A. No, it does not. Despite its promises of enhanced services and network modernization, Frontier actually plans to <u>reduce</u> VSTO's level of capital expenditures. In 2008, VSTO had actual capital expenditures of $730 million.[40] In fact, from 2005 through 2008, VSTO's capital spending was higher than $700 million in every year, ranging from $702 million in 2006 to $733 million in 2005.[41]

---

[39] For example, speaking at the May 18, JPMorgan Global Technology, Media and Telecom Conference, Frontier Chairman and CEO Maggie Wilderotter made the point that she and other Frontier executives frequently repeat: "The other thing that I would add is, if you look at our percentage of revenues that we spend on capital today, it's about 12%. So, for our business as usual, it's probably 4% higher than what Verizon looks at as business as usual." Thompson StreetEvents Transcript, p. 8.

[40] Prospectus, p. 19.

[41] *Id.*

But Frontier does not plan to maintain this level of capital spending. According to Frontier's financial model, it plans to have capital expenditures of **<<<BEGIN CONFIDENTIAL & PROPRIETARY** [redacted] **END CONFIDENTIAL & PROPRIETARY>>>**.[42] Moreover, these significant reductions in capital expenditures are occurring during the period when Frontier claims that it will be increasing investment to improve the level of broadband deployment in Illinois and other VSTO service areas.

Unfortunately, after 2012, Frontier proposes to make even more drastic cuts in the level of capital investment in Illinois and the other VSTO service areas. Frontier's financial model shows capital expenditures of **<<<BEGIN CONFIDENTIAL & PROPRIETARY** [redacted] **END CONFIDENTIAL & PROPRIETARY>>>**.

[42] Frontier proforma financial model, "IL Staff Set2 FRORP201 attach1 FrontierProforma Model donfidential and proprietary.xls," referred to here as the "Frontier proforma model" or simply the "proforma model."

[43] *Id.*

Q. What would happen to Frontier's financial condition if it maintained the same level of capital spending (approximately $700 million per year) that Verizon has consistently invested in the VSTO states?

A. If Frontier continued Verizon's historic $700 plus million per year of capital spending (above and beyond whatever transaction and transition-related costs that it may incur), something would have to give. Again, assuming that Frontier maintained a robust capital investment program (which could well require more than the Verizon status quo level), it would only have one realistic choice: reduce its dividends materially and refrain from reinstituting its share repurchase program. The amount that dividends would need to be reduced would depend on the specific circumstances of VSTO (and Frontier) when such a decision is made. It would be a significant amount, though.

PUTTING IT TOGETHER: FRONTIER IS NOT FINANCIALLY FIT TO OWN AND OPERATE VSTO

Q. Have you reached any conclusions about Frontier's financial fitness to own and operate Verizon's VSTO operations in Illinois and 13 other states?

A. Yes, I have. Based on my analysis of Frontier's current business model, Frontier's unrealistic projections of revenue increases and expense reductions, and Frontier's dramatic planned reductions in the level of capital spending in VSTO, I conclude that Frontier is not financially fit to own and operate Verizon's VSTO operations.

Q. How did you reach your conclusions?

A. These conclusions stem from the totality of my analysis, which initially led me to doubt the credibility of Frontier's public representations, and subsequently spurred me to explore the company's financial and synergy models very closely. That exploration, combined with reams of documents, confirmed my suspicion that Frontier would be taking on enormous potential risks which, if they came to bear, Frontier would in no way be capable of confronting.

There are a number of ways to test the credibility of a firm's financial projections, one of which is to subject its model to something of a "forensic" analysis. This entails what could be described as an inside-out exploration of the entire model, to understand how it works, to judge whether or not its output is meaningful, and possibly to use it as a tool to test alternative scenarios (or sensitivities). In this case, Frontier's proforma model yielded information about the assumptions the company has made, particularly with respect to the data it determined to insert into the program rather than subject it to further manipulation (of which there is much). I would describe the model's output as somewhat useful, but limited for the purposes of testing the credibility of Frontier's plans. It only permits two basic (very aggressive) scenarios for standalone VSTO and three fairly narrow scenarios for standalone Frontier. It combines the results of these limited standalone scenarios, but those results are not particularly useful in understanding the likely financial behavior of the firm under financial stress.

Fortunately, the question that I wanted to explore is quite straight forward: what risks can reasonably be deduced by examining the financial impact of plans gone seriously awry? From my initial analysis, it was clear to me that Frontier is banking on projections that have a fairly high risk of not coming to fruition. Significant underperformance on either the revenue or expense side can lead to similar pressures. In the end, it all gets down to available cash and the competition for access to it within a firm. While I can't predict with any precision how badly Frontier might undershoot its projections -- and I certainly don't know with any certainty how the company's leadership would respond in such a situation -- I can say with a high degree of certainty that it would do *something*. Management would obviously react and make changes. The question would be whether it still had sufficient resources available to it and what the magnitude of its financial distress might imply about the decisions it might take.

Q. Please describe your analysis.

<<<BEGIN CONFIDENTIAL & PROPRIETARY

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

END CONFIDENTIAL & PROPRIETARY>>>

Q. What were the results of your financial analysis of Frontier under stress?

A. As I describe in more detail in my confidential testimony, I tested what the impact would be on the combined Frontier/VSTO if no synergies are achieved over the mid-2010-year-

end 2014 timeframe. While I obviously can't predict what the company's management would do under such circumstances, this would clearly be a significant event with large financial implications.

Q. What do you conclude?

A. It is my conclusion that in such a situation, Frontier/VSTO would come under enormous pressure to reduce outlays anywhere it could (as well as raise revenues if it could). Three obvious targets for downward adjustment would be service, capital expenditures, and dividends. While I cannot disclose the precise results of this analysis in the public part of my testimony, I can say that the lost profits and cash flows represent a large proportion of the dividends and capital expenditures that Frontier intends to pay over that four and one-half year period.

CONCLUSION

Q. Based on your financial analyses, what do you conclude?

A. I conclude that the proposed transaction contains fundamental flaws that cannot be remedied. Frontier is not financially fit to own and operate Verizon's operations in Illinois and the 13 other states Frontier is proposing to acquire. In my opinion, therefore, the only way for the Commission to project the public is to deny the Application and reject the proposed transaction.

Q. If the Commission disagrees with you and believes that it is possible to condition the proposed transaction to protect the public, are there conditions you would recommend?

A. At the outset, I must reiterate that I do not believe it is possible to adequately protect the public from the very serious risks that would be posed by having Frontier take over Verizon's operations in Illinois. Frontier simply does not have the financial capability to safely and reliably operate, maintain, and enhance Verizon's network.

If the Commission disagrees, however, then I would recommend the following conditions. I do not believe that these conditions would fully insulate the public from the numerous risks and adversities that I believe are likely to occur if Frontier were put in charge of Verizon's network in Illinois. But these conditions would at least ameliorate some of the most serious risks of the transaction.

First, I embrace Ms. Baldwin's recommendations with respect to systems integration, cutover monitoring, broadband deployment, and service quality. I would also reiterate that I am very concerned about the risks inherent in the proposed transaction. Verizon has done this type of transaction twice before (in Hawaii and Northern New England) and both times have been abject failures, resulting in the financial failure of the acquiring companies, a significant deterioration in customer service, and significant expenditures by regulators, labor unions, CLECs, public advocates, and other interested parties.

Because these risks are so large – and the deal (as proposed) does little if anything to address them – I do not believe that the Commission should even consider approving the transaction unless it is substantially restructured to ensure that Verizon retains responsibility until there is a full and complete transition of operations. Therefore, my first would be that the Commission should insist that the applicants fundamentally renegotiate the overall transaction.

Q. What do you mean by "fundamentally renegotiate the transaction?"

A. Simply put, the Commission should not agree to let Verizon walk away from its operations at closing. The last three Verizon asset divestitures resulted in the financial failure of the new firm (Hawaiian Telcom, Idearc, and FairPoint). Verizon must remain responsible until it has been demonstrated that the new Frontier is truly financially viable.

Q. How would you recommend that the Commission insist that Verizon remains responsible until Frontier and Verizon have demonstrated the viability of the new combined firm?

A. Broadly, I would suggest two alternative approaches to retaining Verizon's involvement. While the details of each would obviously require much elaboration, both have the virtue of ensuring that Verizon continues to have significant "skin in the game," unlike the Hawaiian Telecom, Idearc and FairPoint experiences where Verizon fundamentally walked away after the transactions were consummated. The idea behind each of these alternatives

is to ensure that Verizon's long-term interests are aligned with success of the proposed transaction.

Verizon Frontier Joint Venture: Create a Joint Venture ("JV") between Verizon and Frontier, with specific milestones that must be met before Verizon can sell its interest in the venture. (See below for milestones.) Rather than an all-or-nothing solution, a JV would permit a much more orderly transition from Verizon to Frontier ownership, retaining Verizon's "skin in the game" while also providing Frontier with appropriate incentives to manage the transition smoothly. This approach also has the benefit of being reversible (that is, Verizon can be required to repurchase Frontier's interest in the JV) if the Verizon/Frontier partnership fails to meet the expectations of regulators or the companies. Finally, the financial burdens imposed by the proposed structure of the deal on the properties being acquired can be mitigated through an appropriate exit pricing mechanism that recognizes the actual economic value of the new entity, not the projected value.

It also is possible that the JV would be beneficial to both companies for the indefinite future. The Verizon Wireless JV between Verizon and Vodafone has been quite successful. Both companies have retained their interests, contributed additional capital, and worked together to create a successful company.

Verizon Warranty or Guarantee: An alternative to the JV would require Verizon to provide a warranty (or guarantee). The warranty would remain in place for the longer of five years or the time it takes for Frontier to achieve certain milestones (see below). Verizon (or its predecessors GTE / Bell Atlantic) has owned these utilities for many decades. Verizon should be required to stand behind these operations for a reasonable period while Frontier works to absorb them. The warranty would cover system operations (all computer systems, network operations center, etc.), condition of plant and equipment, adequacy of inventory, accuracy of billing and customer data. Verizon would be required to compensate Frontier for access line losses greater than the industry average and for increased costs (and revenue losses) Frontier incurs as a result of faulty, incorrect, or inappropriate data passed by Verizon to Frontier as part of the closing and cutover to Frontier or standalone former GTE systems. Verizon would also be required, at its expense, to correct any deficiencies that existed at closing, regardless of when the deficiencies became apparent to Frontier (or customers or regulators). Needless to say, the terms of a Verizon guarantee would need to be extensively documented and clear dispute-resolution procedures created.

Q. You mentioned "milestones." Please explain.

A. The milestones I outline below would be conditions that would have to be met before either the Joint Venture would be permitted to be dissolved or Verizon would be released from various warranty or guarantee-related obligations. These would be above and

beyond any other on-going conditions that the Commission might impose on the new Frontier entity. The milestones would include: Frontier successfully converts from Verizon's systems onto the Frontier systems that will be used after the estimated 2-3 year transition period, and a minimum 2-3 year "proving" period thereafter. (If there are any systems acquired from Verizon that Frontier will use going forward, then Frontier must certify when they are operating fully to Frontier's satisfaction and according to predetermined specifications.)

a. Frontier documents that it has received accurate customer data – billing information, customer location, etc. Any deficiencies are resolved at Verizon's expense.

b. Frontier achieves and maintains an investment-grade bond rating from at least two of the major rating agencies (Moody's, S&P, Fitch).

c. Frontier successfully refinances its corporate debt that matures in 2011 and 2013 ($1.1 billion and $700 million, respectively).

d. Joint Applicants should agree to a 3rd party audit of the systems integrations process. An outside party, such as an auditing firm, should perform tests of functionality and reliability of the new systems, and affirm to the Commission that the systems in question will perform the way they are intended to perform on the date of transfer, that is, that the systems will be able to process billing tasks, repair orders, personnel deployment, wholesale orders, etc.

e. The Joint Applicants should provide broadband availability to 100% of its territory within three years. Intermediate milestones should be: (1) 3

Mbps to 90% of the broadband eligible access lines within two years of the Transaction Closing Date; and (2) 7 Mbps to 75% of broadband eligible access lines within one year of the Transaction Closing Date, 85% of broadband eligible lines within two years of the Transaction Closing Date, and 100% of broadband eligible lines within three years of the Transaction Closing Date; and (3) symmetric 5 mbps to 100 % of broadband eligible lines within five years of the Transaction Closing Date.

f. Verizon should submit a report to the Commission detailing current broadband deployment at a very granular level (e.g. on an address-by-address basis).

g. Verizon should provide comprehensive data about its infrastructure, broadband locations, broadband speeds, etc., in the format that is required by the Illinois "eligible entity" responsible for broadband mapping under the NTIA guidelines so that Frontier does not need to incur that expense and to facilitate the state's ability to achieve its broadband goals in a timely manner.

h. Joint Applicants should commit to allocate sufficient resources in Illinois to coincide with the time that systems integration occurs so that Frontier is able to handle any possible spikes in customer calls and complaints. Sufficiency of resources should be measured by examining resources for business as usual and scaling up to accommodate higher volumes of calls and possible problems at the time of the transfer to Frontier's platform.

i. Before systems are shifted from the Verizon platform to the Frontier platform, Joint Applicants should provide a report to the Commission outlining its plans.

j. Verizon should pay for an audit to be conducted of its network under the supervision of the Commission, with proposals submitted to the Commission, and the auditor selected by the Commission.

Q. As you are aware, Ms. Baldwin also makes a number of recommendations to the Commission in the event that it determines to approve the transaction without the restructuring alternatives that you suggest. Do you have any such recommendations in the financial realm?

A. Yes. Below I set forth a series of financial conditions that I believe -- in combination with those proposed by Ms. Baldwin -- are the minimum conditions necessary to ensure that the transaction will not harm the public in Illinois.

<u>Changes in Responsibility for Verizon (former GTE) Computer Systems</u>

1. Restructure the transaction so that it does not require payment for maintenance or use of back office systems (e.g., the $94 million annual maintenance fee for Verizon / former GTE systems).
2. Verizon's obligations for technical support should continue at no cost until such time as the Commission determines that the transition from Verizon's platform to Frontier's platform has been successfully completed, based on a third-party audit.

Financial Conditions (Ring Fencing)

The Illinois utility will not be permitted to guarantee any debt of Frontier or any affiliate of Frontier. Frontier will not pledge or otherwise encumber the stock of the Illinois utility. Any capital contributions from Frontier, or any affiliate of Frontier, to the Illinois utility will be made through a combination of debt and equity that maintains the capital structure of the Illinois utility with a minimum of 40% common equity and a maximum of 60% common equity.

1. Any debt from Frontier, or any affiliate of Frontier, to the Illinois utility will carry an interest rate that is no higher than the lowest interest rate on Frontier's public debt of similar maturity.
2. The Illinois utility shall not pay a dividend to Frontier, or any affiliate of Frontier, that is more than 90% of the Illinois utility's net income in the year to which the dividend relates.[44]
3. The Illinois utility shall not pay a dividend to Frontier if doing so would result in the Illinois utility's capital structure falling below 40% common equity.
4. The Illinois utility shall not pay a dividend to Frontier if, during the preceding year, its capital expenditures were less than 90% of its depreciation and amortization.

Financial Conditions (Debt)

I am very concerned that no information is available about the interest rate, or other terms and conditions, of the approximately $3 billion in new debt that Frontier will be issuing for this transaction. The merger agreement (section 7.18(e)) states that Frontier may, but is not required to, walk away from the transaction if the interest rate exceeds 9.5%. Frontier's CFO has stated that he does not expect to even begin the process of obtaining this financing until January 2010 and that he doesn't expect to have financing in place until March or April 2010.[45] Thus, as presently structured, the record in this case would close before there is any definitive information about the debt issuance.

In my opinion, the Commission should not even consider approving a transaction where the terms and conditions of the financing are not known. Given this uncertainty, I would propose the following conditions:

[44] I believes a similar dividend restriction should be imposed on the parent company, but it is unclear if the Commission has the ability to do so.

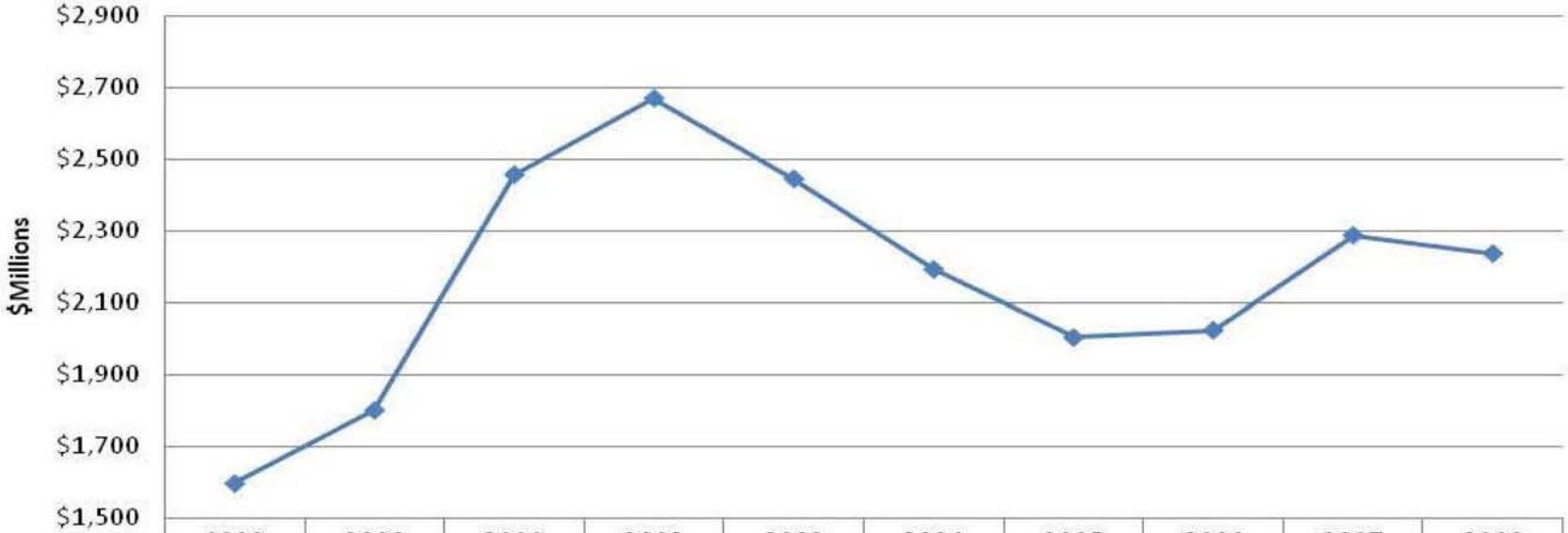
[45] Transcript of Frontier analysts' conference call, Aug. 4, 2009.

1. Frontier must receive separate Commission approval prior to closing if the weighted average annual cash interest rate (including annual accretion of original issue discount) exceeds 8.5%
2. The debt for this transaction should not include a pledge of stock, guarantee, or other encumbrance on the Illinois utility.
3. If the debt includes conditions that place Frontier in default or that change the interest rate based on Frontier's leverage ratio (net debt / EBITDA), the trigger for such conditions shall be no less than 4.5x.

Q. Does this conclude your direct testimony?

A. Yes, it does,

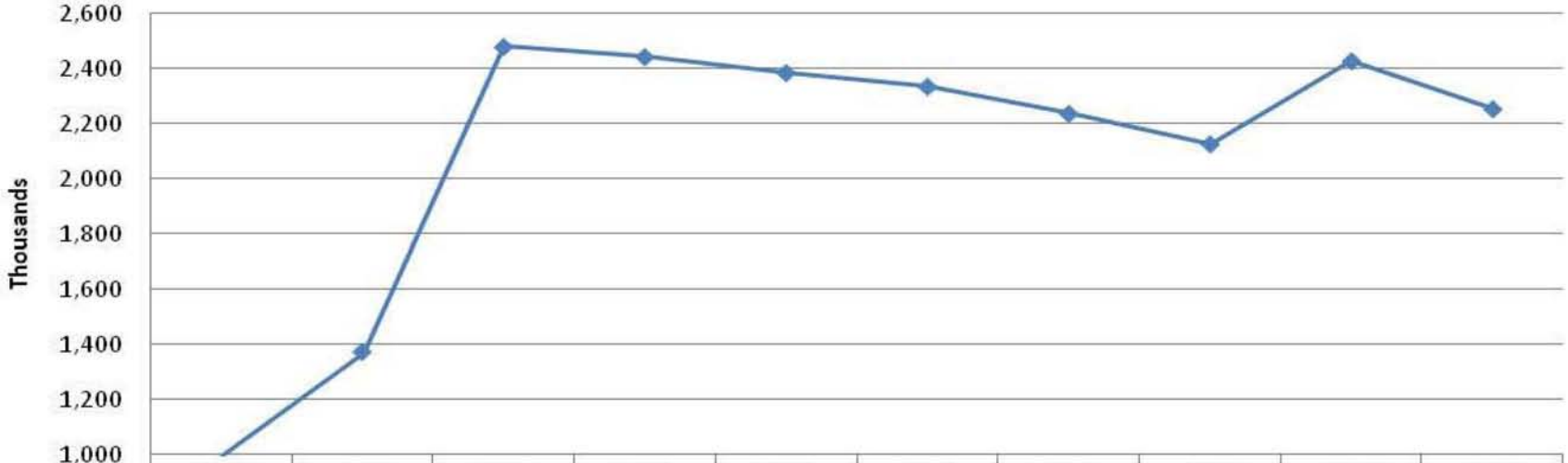
Schedule 1. Frontier Communications: Revenues 1999-2008



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues	$1,598	$1,802	$2,457	$2,669	$2,445	$2,193	$2,005	$2,025	$2,288	$2,237

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

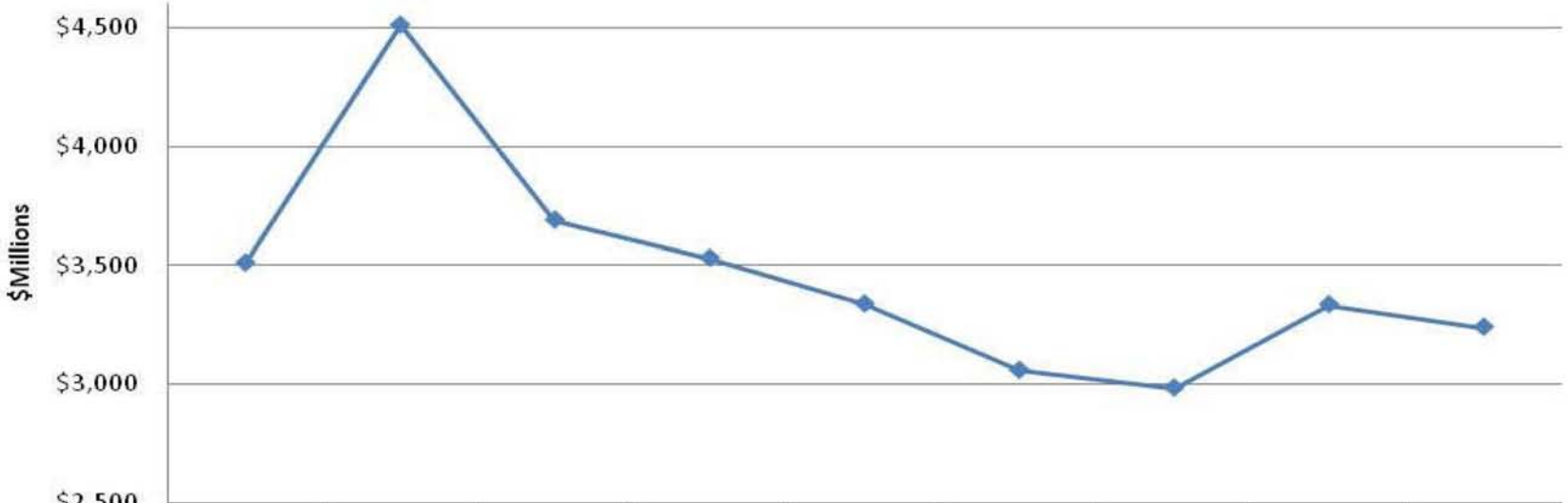
Schedule 2. Frontier Communications: Access Lines 1999-2008



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Access Lines	997	1,371	2,481	2,444	2,386	2,336	2,238	2,127	2,429	2,254

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

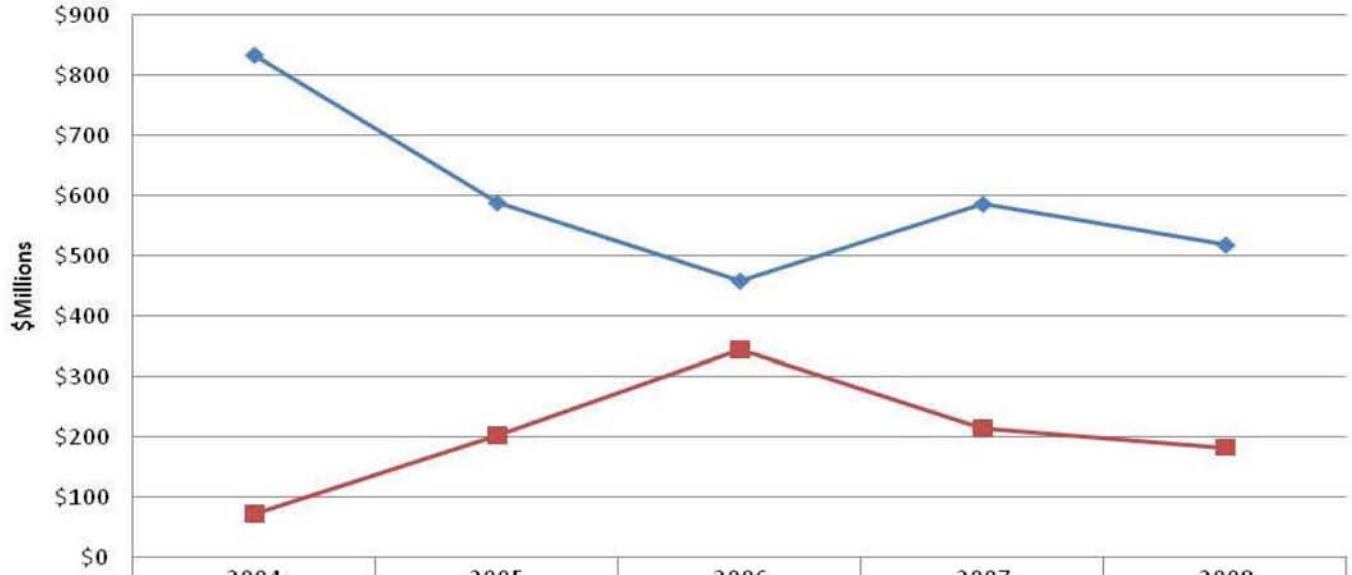
Schedule 3. Frontier Communications
Net Property, Plant & Equipment
2000-2009



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

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

Schedule 4. Frontier Communications: Payments to Shareholders vs. Net Income 2004-2008

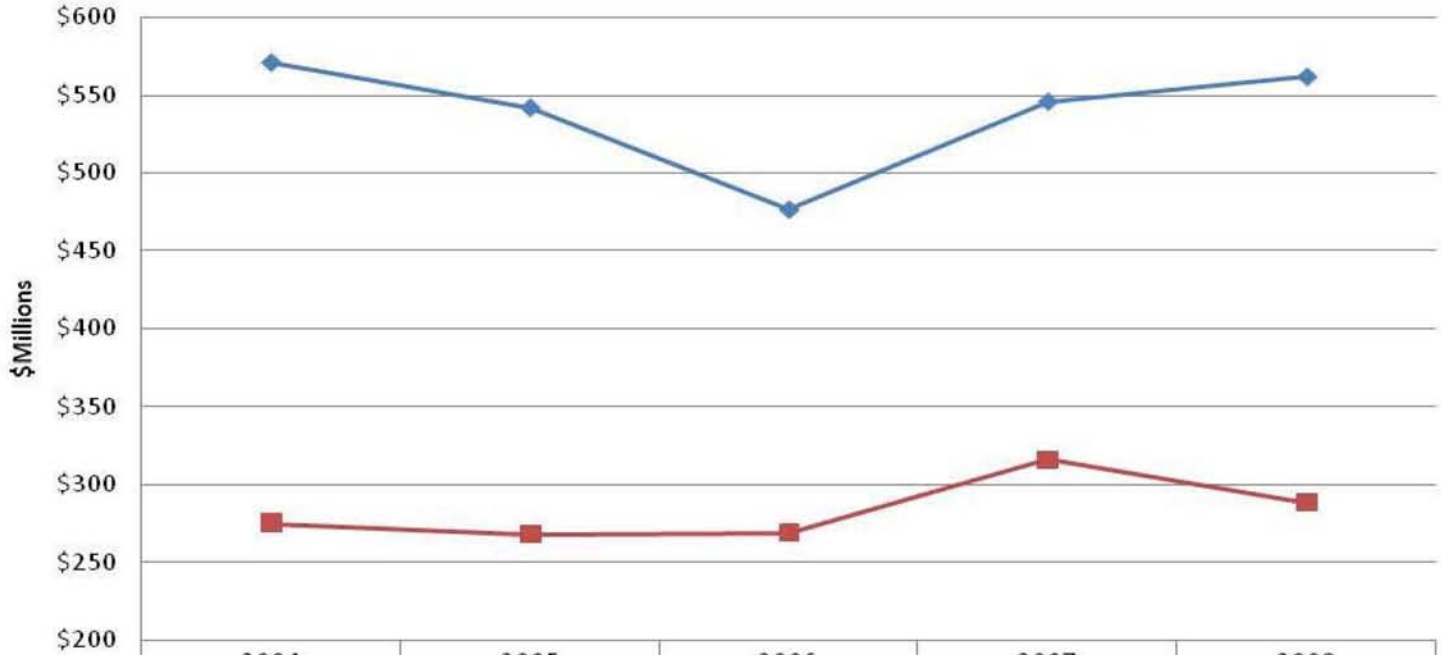


	2004	2005	2006	2007	2008
Payments to Shareholders (Dividends & Buybacks)	$833	$588	$459	$586	$518
Net Income	$72	$202	$345	$215	$183

Note: Frontier began paying dividends and engaging in share repurchases in 2004.

Sources: Fronter Forms 10K filed with the SEC on March 1, 2007 and February 27, 2009; page F-8 in both filings.

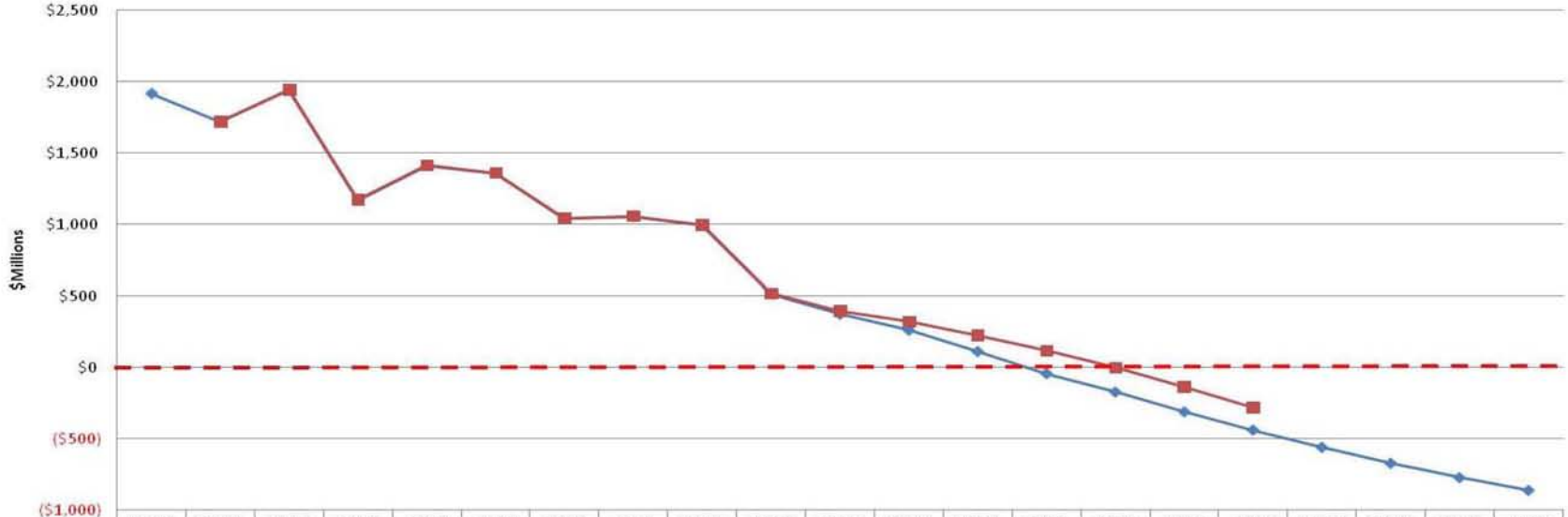
Schedule 5. Frontier Communications: Depreciation & Amortization vs Capital Expenditures



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

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

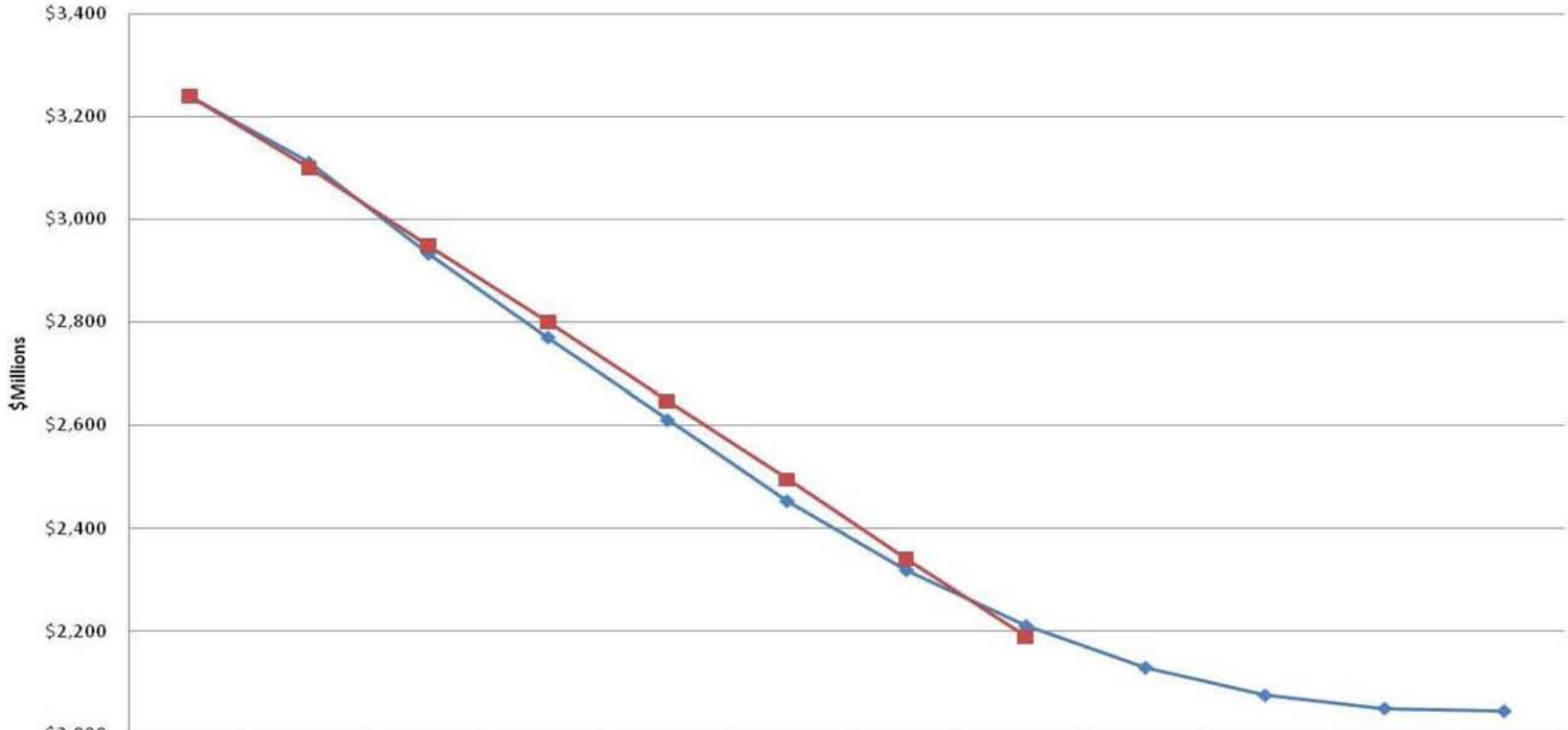
Schedule 6. Frontier Communications (Standalone)
Total Shareholder Equity: 1999A-2019E



	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Goldman Sachs	$1,920	$1,720	$1,946	$1,172	$1,415	$1,362	$1,042	$1,058	$998	$519	$377	$266	$116	($39)	($168)	($307)	($435)	($556)	($668)	($769)	($858)
Morgan Stanley		$1,720	$1,946	$1,172	$1,415	$1,362	$1,045	$1,058	$998	$519	$398	$320	$223	$116	($2)	($138)	($284)				

Sources: Goldman Sachs and Morgan Stanley financial models for Frontier Communications, both dated August 4, 2009. Projections are for Frontier on a standalone basis.

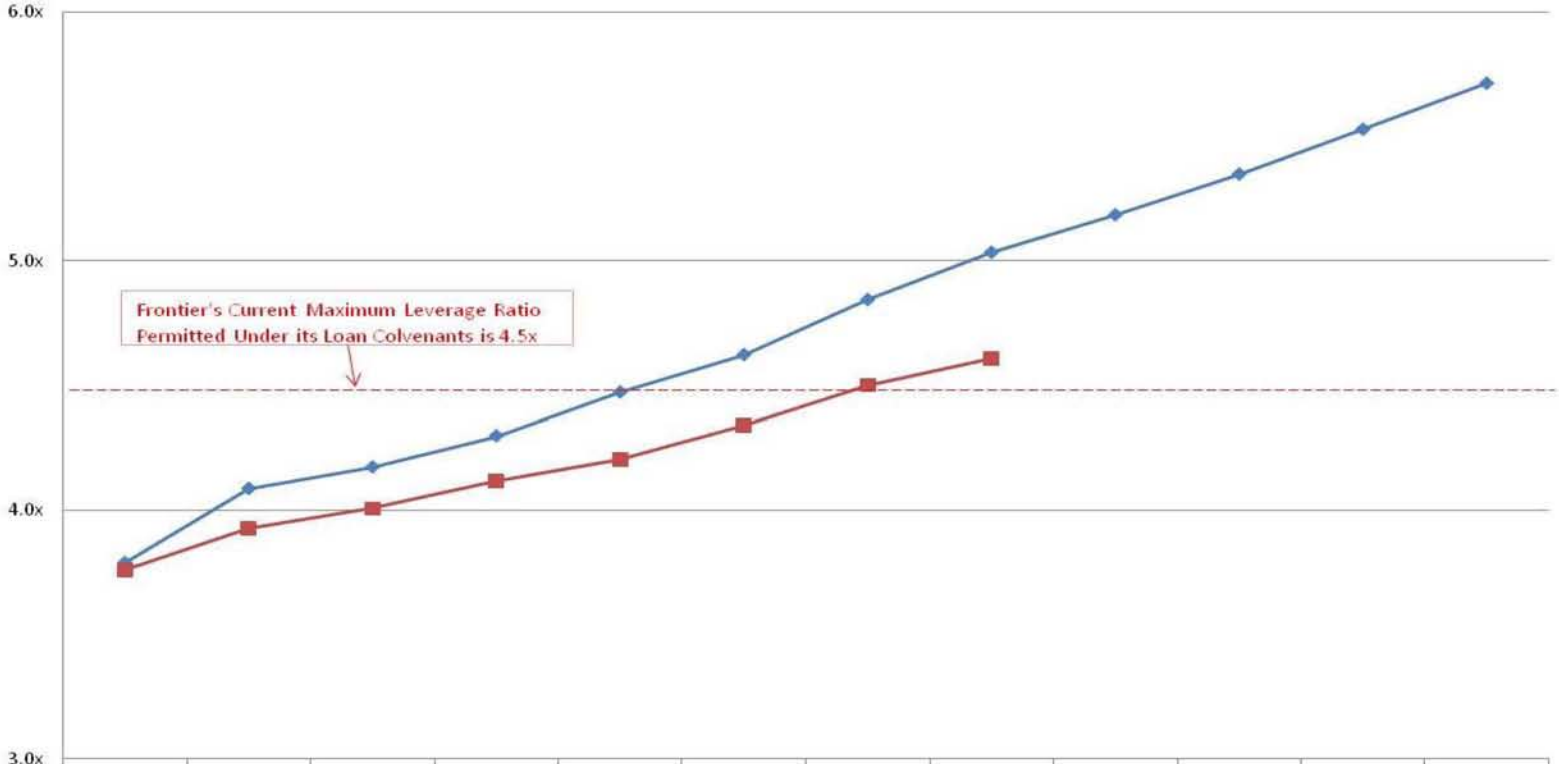
Schedule 7. Wall Street Projections for Standalone Frontier: Net Property, Plant & Equipment 2008-2019



	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Goldman Sachs	$3,240	$3,110	$2,933	$2,770	$2,610	$2,453	$2,318	$2,210	$2,129	$2,075	$2,050	$2,044
Morgan Stanley	$3,240	$3,099	$2,948	$2,800	$2,647	$2,494	$2,341	$2,189				

Sources: Goldman Sachs and Morgan Stanley financial models for Frontier Communications, both dated August 4, 2009. Projections are for Frontier on a standalone basis.

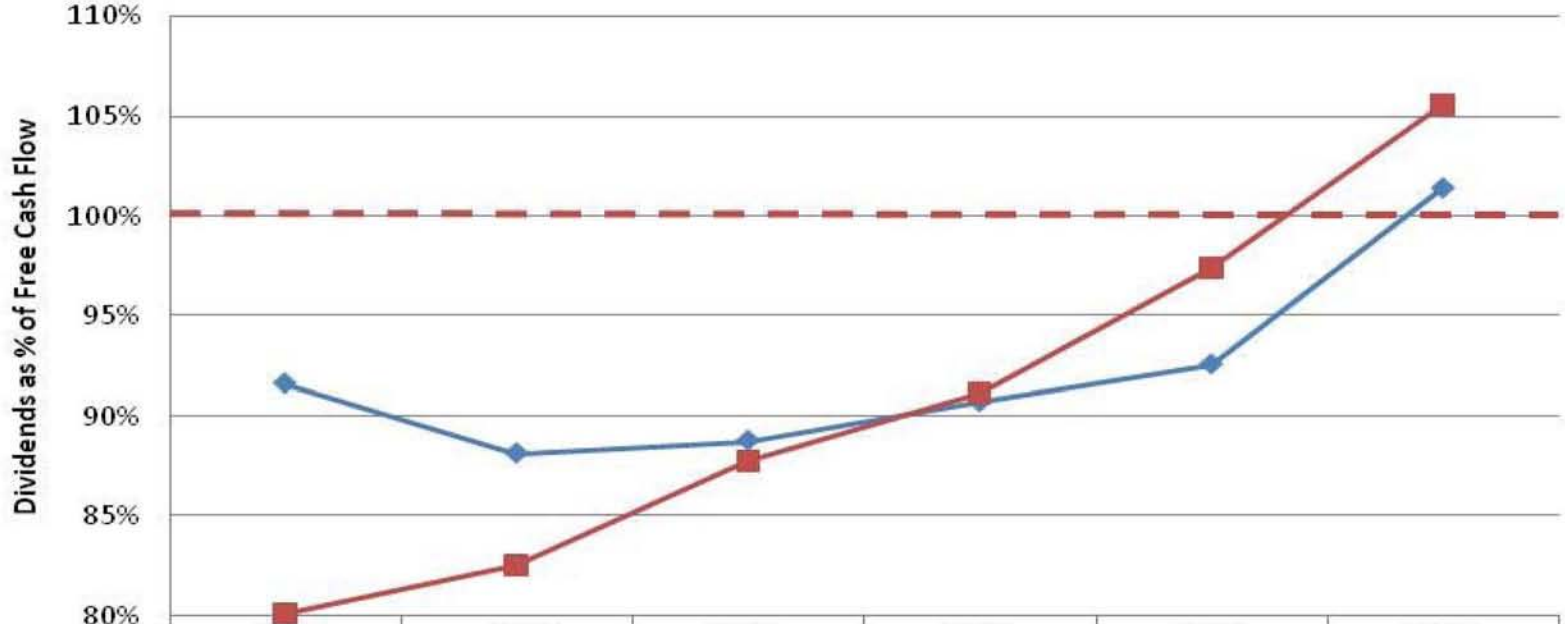
Schedule 8. Wall Street Projections for Frontier Leverage Ratios (Standalone): 2008-2019



	2008A	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Goldman Sachs	3.8x	4.1x	4.2x	4.3x	4.5x	4.6x	4.8x	5.0x	5.2x	5.3x	5.5x	5.7x
Morgan Stanley	3.8x	3.9x	4.0x	4.1x	4.2x	4.3x	4.5x	4.6x				

Sources: Goldman Sachs and Morgan Stanley financial models for Frontier Communications, both dated August 4, 2009. Projections are for Frontier on a standalone basis.

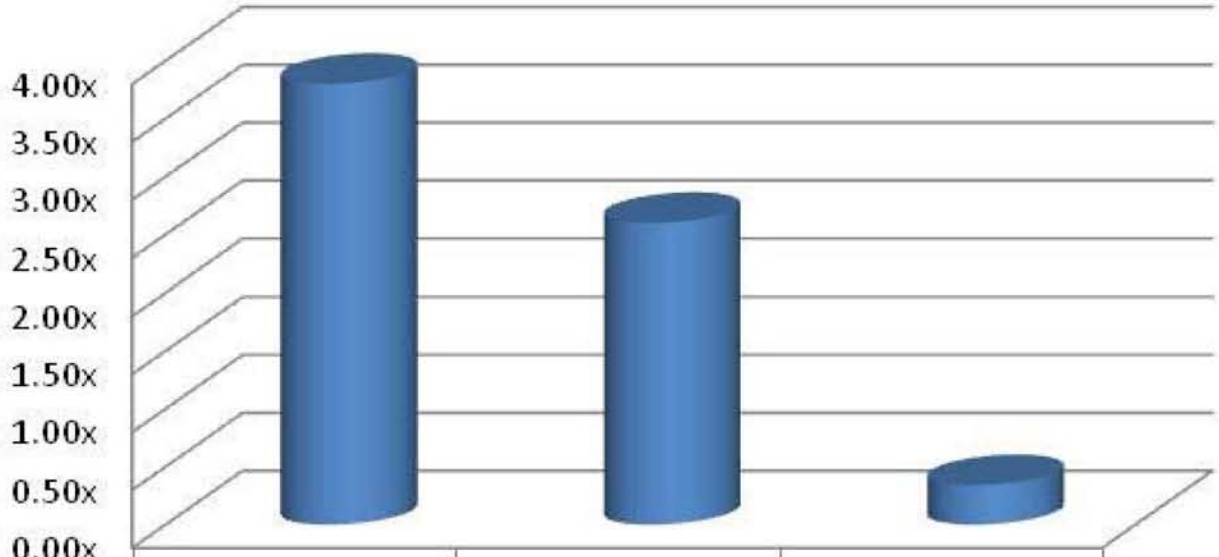
Schedule 9. Wall Street Projections for Standalone Frontier Dividends as a Percent of Free Cash Flow 2009-2014



	2009	2010	2011	2012	2013	2014
Goldman Sachs	92%	88%	89%	91%	93%	101%
Morgan Stanley	80%	83%	88%	91%	97%	106%

Sources: Goldman Sachs and Morgan Stanley financial models for Frontier Communications, both dated August 4, 2009. Projections are for Frontier on a standalone basis.

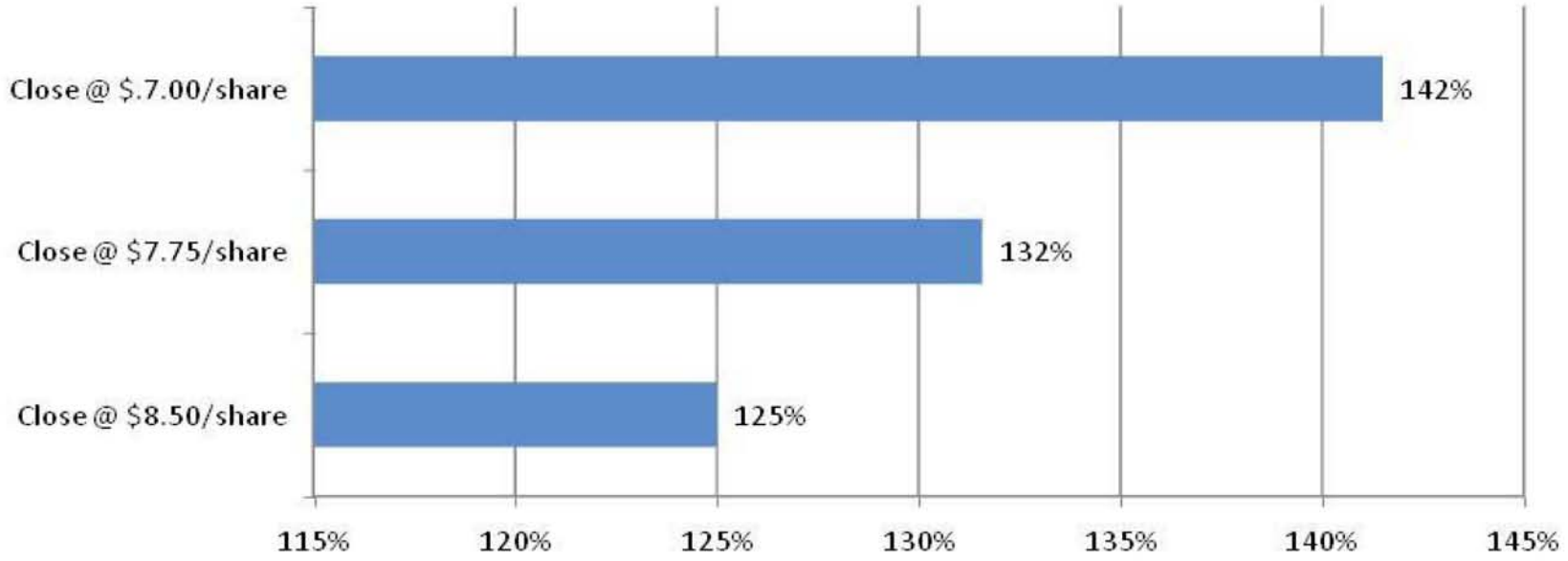
Schedule 10. The Verizon Separate Telephone Operations' Leverage Ratio Will Increase Dramatically if the Frontier Deal is Approved



	Frontier (Year-End 2008)	Combined 2008 Pro Forma	VSTO (Year-End 2008)
Leverage Ratio (Net Debt:EBITDA)	3.80x	2.60x	0.34x

Sources: IL Docket No. 09-0268, Joint Application, p. 15, footnote 10; Verizon reply to IBEW 1.32, July 27, 2009

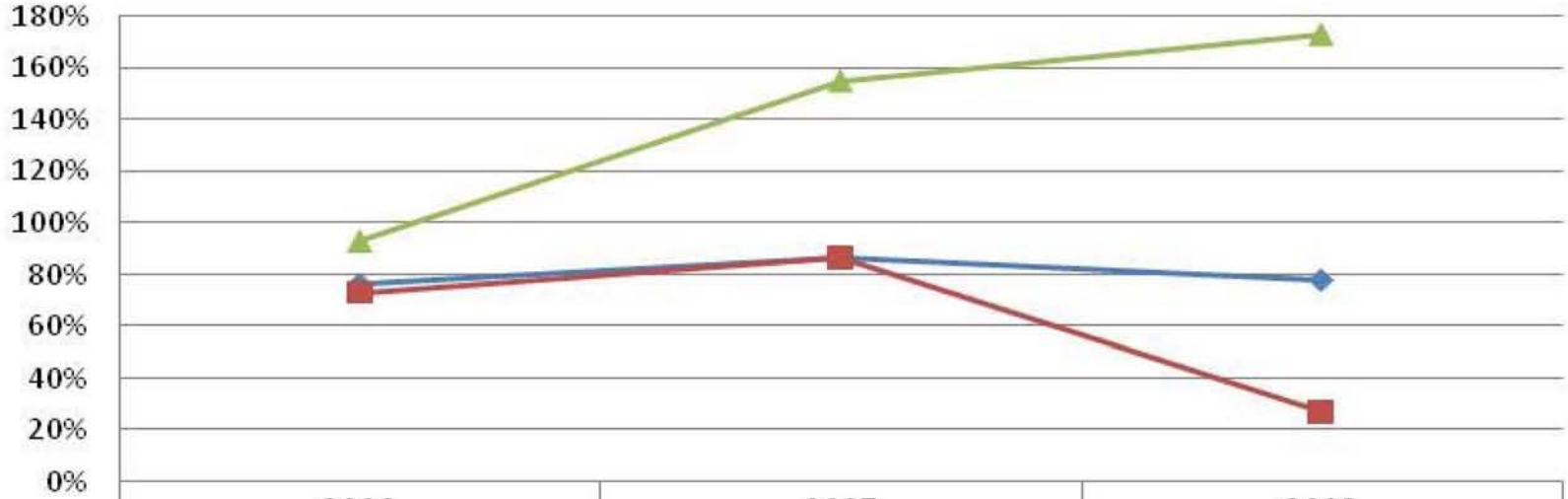
Schedule 11. Frontier's Promised $0.75/Share Dividend as % of 2008 Pro Forma Combined Net Income



■ Total Shares Issued to VZ Shareholders Depends on Frontier's Price at Close (currently trading in low $7 range)

Source: Frontier SEC Form 424B3, Prospectus; Filed September 16, 2009; p. 177

Schedule 12. Frontier, Verizon, and VSTO* Dividends** as % of Net Income



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

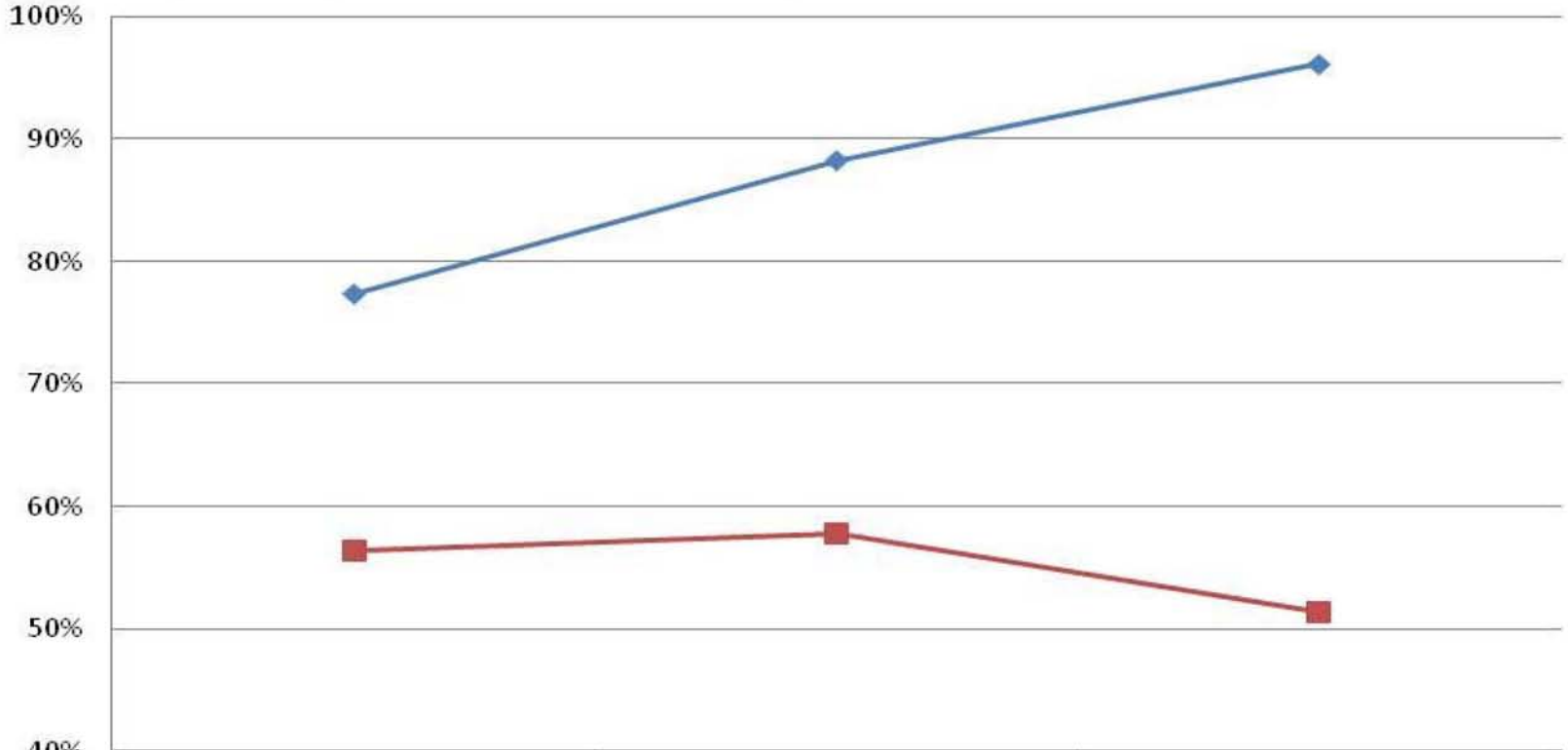
* VSTO = Verizon Separate Telephone Operations

** For VSTO, Parent Funding, Allocations, Intercompany Reimbursement as % of Net Income

Sources: Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, pages F-27 and F-78; Verizon SEC Form 10K, filed February 24, 2009, Consolidated Statements of Cash Flows, unpaginated

Schedule 13. Frontier and VSTO*

Capital Expenditures as % of Depreciation & Amortization



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

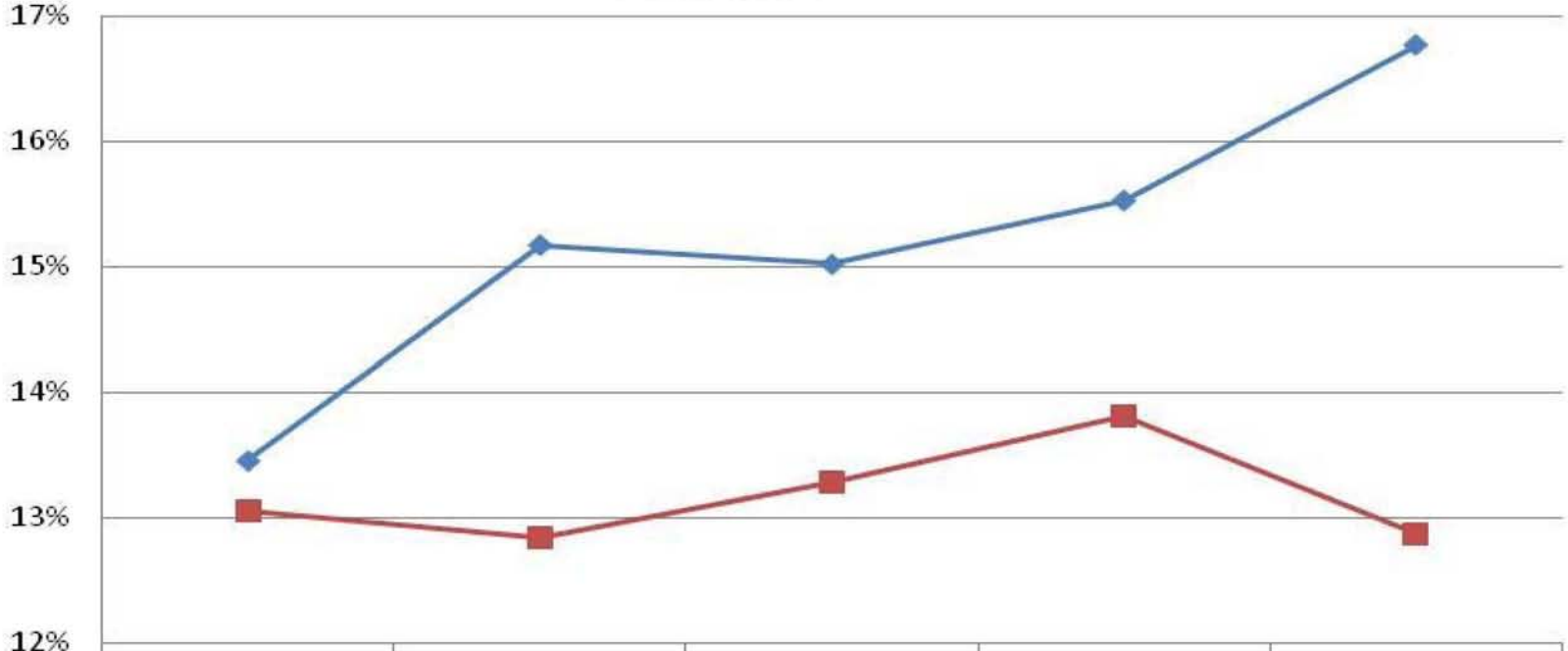
* VSTO = Verizon Separate Telephone Operations

Sources: Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, page F-78; Frontier Form 10K, February 27, 2009, p. F-8.

Schedule 14. Frontier and VSTO*

Capital Expenditures as % of Revenues

2004-2008



	2004	2005	2006	2007	2008
VSTO*	13.5%	15.2%	15.0%	15.5%	16.8%
Frontier	13.1%	12.8%	13.3%	13.8%	12.9%

* VSTO = Verizon Separate Telephone Operations

Source: Frontier SEC Form 424B3 Prospectus, filed September 16, 2009, pages 16 and 19

Schedules HSC-1 through HSC-4 Removed from Public Version