EXHIBIT LIST
DOCKET TITLE: *Verizon/Frontier Transfer*
DOCKET NUMBER: UT-090842
DATE: December 15 - 18, 2009

WITNESS: FRONTIER: DAVID R. WHITEHOUSE				
STAFF CROSS-EXAMINATION EXHIBITS				
				Frontier Response to Public Counsel Data Request No. 481
				Table comparing Frontier pro forma statistics to Verizon statistics
				Frontier Response to Staff Data Request No. 139
				Standard and Poor's, Ratings Direct ® Verizon Communications, Inc., Sept. 16, 2009
				Standard and Poor's, Ratings Direct ® Research Update: Frontier Communications Corp., Sept. 17, 2009
				Frontier Response to Public Counsel Data Request No. 455

PUBLIC COUNSEL DATA REQUEST NO. 481

Please refer to Exhibit No.___(DM-8HCT), p. 10, lines 5, 6. Does Mr. McCarthy dispute the fact that Frontier is not as financially strong as Verizon? Please provide support for your response.

Response:

Applicants assert Objection Nos. 3, 7, 9 and 12. Subject to and without waiver of the objections, Applicants respond as follows:

Mr. McCarthy has not expressed any opinion regarding the relative financial strength of Verizon. Mr. McCarthy was stating that Frontier is financially strong today, will be financially stronger post transaction and has a strategy focused on markets such as those being acquired in Washington.

Prepared By: Cassandra Guinness
Date: December 30, 2009
Witness: To be determined

2008 Statistics	Frontier Standalone	Frontier Pro Forma	Verizon Communications
Access Lines	2,250K	7,050K	36,161K
Revenue	$2,250M	$6,525M	$97,354M
EBITDA	$1,200M	$3,125M	$26,143M
CAPEX	$290M	$700M	$17,238M
Free Cash	$500M	$1,400M	
Net Debt	$4,547M*	$8,005M	$42,170M
Net Leverage	3.8x	2.6x	1.6x
Dividend/Share	$1.00	$0.75	
Dividend Payout Ratio	64.6%	43.0%	

*As of 3/31/2009

Docket UT-090842
UTC Staff Data Request Nos. 127-139 to Verizon and Frontier
December 3, 2009

Re: Rebuttal testimony of David R. Whitehouse

UTC STAFF DATA REQUEST NO. 139:

On page 15 of his rebuttal testimony, Mr. Whitehouse states the following:

> Verizon's net leverage ratio is 2.0 times. The pro forma Frontier, therefore, will have a conservative capitalization. Specifically, Mr. McCarthy explained in his Direct Testimony that Frontier's leverage ratio is estimated to decrease from a pre-transaction 3.8 times (based on year-end 2008 financial results) to 2.6 times after the combination, before considering the benefit of expected cost savings. Including expected synergies, the 2008 pro forma leverage ratio is estimated to improve further to approximately 2.2 times. I note that Staff witness Weinman reports that Verizon's debt-to-EBITDA ratio is 2.7 times, that Frontier's current leverage ratio is 4.6 times, and that the Frontier ratio will decline to 3.0 times on a pro forma basis. Those ratios are all incorrect. I am not clear how Staff calculated much higher ratios than the numbers Verizon and Frontier have published.

Please refer to the attached Standard & Poor's RatingsDirect® documents and explain why the debt-to-EBITDA levels in the Standard & Poor's report (appearing on page 3 of each document) differ from the levels presented by Mr. Whitehouse.

Response:

Applicants assert Objection Nos. 3, 7, 8, 9 and 12. Subject to and without waiver of the objections, Applicants respond as follows:

The ratios of debt-to-EBITDA presented by Frontier for both Frontier and Verizon were calculated using Net Debt (Total Debt net of Cash). It would appear that Standard & Poor's used Total Debt in addition to making several adjustments to their ratio. The S&P calculation appears to adjust for Operating Leases, Postretirement Benefit Obligations, Accrued Interest not included in reported debt as well as another category labeled "Other". Given that it is consistent with the calculation used in all debt covenant calculations,

Prepared By: Cassandra Guinness
Date: December 3, 2009
Witness: To be determined

STANDARD
&POOR'S

RATINGSDIRECT®

September 16, 2009

Verizon Communications Inc.

Primary Credit Analyst:
Catherine Cosentino, New York (1) 212-438-7828; catherine_cosentino@standardandpoors.com

Table Of Contents

Verizon Communications Inc.

Major Rating Factors

Corporate Credit Rating

A/Negative/A-1

Strengths:

- Strong position in the wireless sector and its national wireless operations have the best operating metrics in the industry, including a retail postpaid churn of about 1.01%;
- Strong cash generating ability. The company continues to generate sufficient net free cash flow after capital expenditures to accommodate its dividends, partner distributions, and modestly-sized common stock repurchase plans; and
- Benefits from a global telecommunications network that enables it to serve large enterprise customers.

Weaknesses:

- Financial leverage is high for the current rating, at around 2.7x debt to EBITDA, including unfunded pension and OPEBs, which are material, at around $18.4 billion as of year-end 2008, on an after-tax basis; and
- Continuing significant line losses in the face of competition from cable TV companies offering telephony and high-speed data services could pressure prices and adversely affect cash flow margins.

Rationale

New York City-based diversified telecommunications carrier Verizon Communications Inc.'s ratings reflect the rapid growth and substantial cash generation from its strongly positioned wireless segment and sizable local exchange operations capable of producing substantial free cash flow. This is partly offset by a landline business that continues to experience significant residential access-line losses and leverage which is currently somewhat high for the rating. Verizon is one of two largest communications companies in the U.S., along with AT&T Inc., and benefits from its scale as both a local telephone and wireless provider with a base of 34.3 million switched-access lines and 87.7 million wireless subscribers, including the ALLTEL wireless subscriber base acquired in early January 2009.

In light of competitive threats and uncertain prospects for pricing, Standard & Poor's Ratings Services considers the overall business risk of the wireline segment to be only satisfactory. While local telephone switched access-line losses totaled 9.9% as of June 30, 2009, on a year-over-year basis, the financial effects of such losses may be somewhat tempered over the next few years as Verizon introduces and grows its competitive video offerings to the markets most vulnerable to the cable companies' telephony offerings.

The company continues to expand its broadband base, despite cable companies marketing their own cable modem services. Verizon's broadband penetration, which was about 27% of its total switched-access lines as of June 30, 2009, has room for growth, especially as the company aggressively markets its FiOS broadband services.

Verizon has a substantial presence in the enterprise market and this business is also competitively well placed, given its expansive global network capabilities. The global enterprise business contributed about $3.7 billion in revenues for the second quarter of 2009, or about one-third of total wireline revenue. While the long-term contracts in this business provide a degree of revenue visibility, revenues declined by 6.7% for the second quarter of 2009 on a year-over-year basis, due in part to the softening economy and its effect on companies' demand for long-distance services.

We believe that Verizon's wireless business has strong business characteristics. Verizon Wireless has best-in-class operating statistics and financial metrics, with the highest EBITDA service margin of 46% and retail postpaid churn, at 1.01%, an industry-leading level. We expect the company to benefit over the next few years from growth in wireless data revenues from existing customers and additional data-centric devices. Moreover, with the acquisition of ALLTEL, Verizon has become the single largest wireless carrier in the U.S.

Consolidated credit metrics have been pressured by funding for the ALLTEL acquisition, along with higher unfunded pension and other postretirement employee benefits (OPEB) obligations, which rose by $9.2 billion on an after-tax basis in 2008. This has resulted in elevated annualized leverage for the second quarter of 2009 of about 2.7x. However, Verizon has some opportunity to de-lever, given the healthy net free cash flow (after capital expenditures and partner distributions) that Verizon Wireless generates, which we expect to both grow and be largely dedicated to debt reduction. Debt issued by Verizon Wireless to fund the ALLTEL acquisition has a somewhat longer maturity schedule than Standard & Poor's had initially incorporated into Verizon's overall financial profile. That deferred maturity schedule may, in part, lead to significant cash balances through 2010 from a combination of wireless net free cash flow, coupled with proceeds from the pending sale of certain wireless properties to AT&T and the spin off of certain wireline assets to Frontier. The rating assumes that the bulk of this cash will ultimately be directed to debt reduction and therefore during this period of potentially mismatched cash flows and maturities, we will focus analytically on the company's leverage using debt net of cash balances.

Short-term credit factors

The short-term rating on Verizon is 'A-1', reflecting its strong liquidity. As of June 30, 2009, the company's cash and short-term investment balance totaled $1.2 billion. The company also has a definitive agreement to sell wireless assets to AT&T Inc. for $2.35 billion. This divestiture is required by regulators as a condition for their approval of Verizon Wireless' acquisition of ALLTEL. Moreover, based on performance for the six months ended June 30, 2009, Verizon generates nearly $7 billion in annual net free cash flow after capital expenditures and dividends. Verizon also maintains a $5.3 billion backup facility for commercial paper (CP) issuances. As of June 30, 2009, debt maturities for the next 12 months total about $5.4 billion.

Outlook

The outlook on Verizon is negative. The company's credit measures are currently weak for the rating following the ALLTEL acquisition and increased unfunded pensions and OPEBs last year. Given the weak economy and competitive threats facing the company over the next six to 18 months, Verizon will be challenged to grow its EBITDA sufficiently to achieve net leverage of around the low-2x area by year-end 2010, absent some material improvement in the status of its unfunded pension and OPEB balances. If such improvement does not occur, we are likely to lower the ratings. However, the company has the opportunity to de-lever given the net free cash flows generated, the potential for an improved economic environment and pension and OPEB liabilities, along with its financial flexibility. We would revise the outlook to stable if net leverage declines to near 2x in 2010, with prospects to decline to below 2x on a sustained basis.

Business Description: Nation's Second-Largest Local Phone And Wireless Carrier

Verizon is the second-largest local telephone carrier and largest wireless carrier in the U.S. with 34.3 million switched-access lines and 87.7 million wireless customers. Over the next few years, the company will be increasing its wireless capacity in numerous markets, and will be well positioned to upgrade its wireless network to next-generation technology, including the long-term evolution (LTE) platform, to support higher wireless data speeds. The wireless business accounts for nearly 60% of total revenues, before adjustments for Vodafone's 45% share of Verizon Wireless, with the remaining 40% ascribable to the wireline business. Of the total wireline revenues, about 43% are consumer, 32% enterprise, 21% wholesale, and the remainder consists of miscellaneous, including international sales and operator services.

Business Risk Profile: Top Wireless-Sector Performer

The company continues to demonstrate the best operating metrics in the wireless sector. Retail postpaid churn totaled 1.01% for the second quarter of 2009, while the number of retail postpaid wireless customers grew 7.7% on a year-over-year basis, pro forma for the ALLTEL acquisition in early 2009. Due to data revenue growth, EBITDA as a percent of service revenue is about 46.3%, one of the highest levels in the industry. Total wireless data revenues, pro forma for ALLTEL, rose 33.2%, while pro forma average data average revenue per user (ARPU) rose 22.8%.

Verizon lost 9.9% of its switched access lines in the second quarter, roughly in line with that experienced by other major telephone companies. Line losses are due to a combination of continuing wireless substitution and aggressive telephony deployment by the cable companies. We note that Cablevision has been especially aggressive in marketing telephony services in the New York/New Jersey Metropolitan area, although Cablevision's homes passed represents only about 10% of Verizon's total access lines. In response to this, Verizon has deployed FiOS video services over the past few years. It currently has 2.5 million FiOS TV customers and 3.1 million FiOS Internet customers, and the FiOS network passes about 13.8 million premises or about 43% of households in Verizon's wireline network footprint. With the completion of the Frontier transaction anticipated in 2010, Verizon expects to have about 70% coverage of its telecom footprint with the FiOS network. Adoption of FiOS by customers will be an important defense against competition from the cable TV operators.

Business Risk Profile: Overall Healthy Margins

Profitability

The EBITDA margin for the second quarter of 2009 was 33.7%, in line with AT&T's 33.9%. The wireless business has a very strong 46.3% service margin, which we expect to remain healthy over the next few years.

Financial Risk Profile: Direct Value Approach For Wireless Licenses

Accounting

Verizon consolidates the financial results for its 55% ownership stake in Verizon Wireless. For our debt ratio analysis, we deconsolidate Vodafone's ownership of Verizon Wireless by reducing EBITDA and total debt, including intercompany debt payable to Verizon Communications and the present value of operating lease commitments, by 45%.

Verizon treats the wireless licenses as an indefinite-lived intangible asset under the provisions of Statement of Financial Accounting Standard No. 142, and re-evaluates the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

As of 2005, Verizon began using a direct value approach in performing its annual impairment test on the domestic wireless licenses. The direct value approach determines fair value using estimates of future cash flows associated specifically with the licenses. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized. Given the continued good growth prospects for the wireless business, we do not anticipate any substantial impairment charge to this segment.

Table 1

Reconciliation Of Verizon Communications Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--LTM ended June 30, 2009--									
Verizon Communications Inc. reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	64,909.0	42,672.0	102,849.0	33,370.0	33,370.0	17,897.0	2,669.0	28,705.0	28,705.0	16,935.0
Standard & Poor's adjustments										
Operating leases	5,965.6	--	--	1,554.5	350.1	350.1	350.1	1,204.4	1,204.4	1,647.2
Intermediate hybrids reported as equity	--	--	--	--	--	--	--	--	--	--
Postretirement benefit obligations	18,361.2	--	--	1,267.0	1,267.0	1,267.0	121.0	588.3	588.3	--
Accrued Interest not included in reported debt	652.0	--	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	--	919.0	(919.0)	(919.0)	(919.0)
Share-based compensation expense	--	--	--	--	562.5	--	--	--	--	--
Asset retirement obligations	--	--	--	--	--	--	--	--	--	--
Exploration costs	--	--	--	--	--	--	--	--	--	--
Non-operating Income(Expense)	--	--	--	--	--	807.0	--	--	--	--
Minority Interest	--	40,149.0	--	--	--	--	--	--	--	--

Table 1

Reconciliation Of Verizon Communications Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	--	2,794.0	--
Other	(16,961.5)	--	--	(10,132.3)	(10,132.3)	(10,132.3)	(628.4)	--	--	--
Standard & Poor's total adjustments	8,017.3	40,149.0	--	(7,310.8)	(7,952.7)	(7,708.2)	761.7	873.7	3,667.7	728.2

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	72,926.3	82,821.0	102,849.0	26,059.3	25,417.3	10,188.8	3,430.7	29,578.7	32,372.7	17,663.2

*Verizon Communications Inc.reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A, and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Corporate governance/Risk tolerance/Financial policy

Verizon's leverage has increased to the high-2x area due to both additional debt issued to fund the acquisition of ALLTEL and pension and OPEB liabilities. However, Verizon has some opportunity to de-lever, given the healthy net free cash flow (after capital expenditures and partner distributions) that Verizon Wireless generates, which we expect to both grow and be largely dedicated to debt reduction. Included in the leverage calculations are significant levels of unfunded pension and OPEBs, which totaled $18.4 billion on an after-tax basis, as of Dec. 31, 2008. Verizon also has substantial amounts of operating lease obligations, which are included in our ratio calculations as additional debt. These totaled $6 billion as of Dec. 31, 2008, before adjustment to exclude 45% of Verizon Wireless' operating leases, which represents Vodafone's share.

Cash flow adequacy

Discretionary net free cash flow after capital expenditures and dividends was about $4.4 billion for full-year 2008 and $3.3 billion for the first half of 2009. We expect discretionary net free cash flow to grow materially in the next few years as FiOS and the LTE upgrade are completed. The company may maintain increasing cash balances from this higher cash generation to repay upcoming debt maturities over the next several years, unless it selectively retires other debt early.

Capital structure/Asset protection

Consolidated credit metrics have been pressured by funding for the ALLTEL acquisition, along with higher unfunded pension and OPEB obligations. However, Verizon has some opportunity to de-lever, given the healthy net free cash flow (after capital expenditures and partner distributions) that Verizon Wireless generates, which we expect to both grow and be largely dedicated to debt reduction. Verizon is also afforded very good asset protection by its large base of wireline and wireless customers. At a very conservative value of $1,500 per line, their access-line count provides a value of about $51.5 billion. The company's roughly 88 million wireless subscribers provide roughly $175 billion in total value, although this represents a gross value, for which Verizon would be entitled to 55%, after settlement of intercompany debt. Still these values more than cover the company's adjusted total debt of approximately $73 billion, including unfunded pensions and OPEBs and the present value of operating leases, and adjusted to exclude 45% of Verizon Wireless' operating leases, and debt, both intercompany and from third parties.

Table 2

Verizon Communications Inc. -- Peer Comparison

Industry Sector: Telecommunications

	--Second quarter ended June 30, 2009 annualized--			
	Verizon Communications Inc.	**AT&T Inc.**	**Comcast Corp.**	**Time Warner Cable Inc.**
Rating (as of Sept. 16, 2009)	A/Negative/A-1	A/Negative/A-1	BBB+/Positive/A-2	BBB/Stable/A-2
(Mil. $)				
Revenues	107,444.0	123,723.0	35,087.0	17,580.0
EBITDA	26,935.2	41,427.5	14,078.1	6,501.0
Net income from cont. oper.	5,932.0	11,958.0	2,922.0	(7,383.0)
Funds from oper. (FFO)	38,448.8	37,974.6	11,077.9	5,611.1
Cash flow from oper.	31,740.8	36,442.6	10,659.9	5,619.1
Capital expenditures	18,275.2	22,526.4	5,607.7	3,494.9
Free oper. cash flow	13,465.6	13,916.2	5,052.2	2,124.1

Table 2

Verizon Communications Inc. -- Peer Comparison (cont.)				
Discretionary cash flow	8,237.6	4,377.2	4,315.2	(8,731.9)
Cash and equivalents	1,180.0	7,348.0	4,051.0	528.0
Debt	72,926.3	115,638.2	34,747.1	24,172.3
Common equity	82,821.0	99,012.0	41,981.0	7,921.0
Total capital	173,484.3	235,004.2	104,122.1	40,608.3
Ratios				
EBITDA/revenues (%)	33.8	33.5	40.1	37.0
EBIT interest coverage (x)*	2.7	4.5	3.0	2.5
EBITDA interest coverage (x)	6.9	8.4	5.8	5.6
Return on capital (%)	6.6	9.6	7.1	6.0
FFO/debt (%)*	52.7	32.8	31.9	23.2
Cash flow from oper./debt (%)	43.5	31.5	30.7	23.2
Free oper. cash flow/debt (%)	18.5	12.0	14.5	8.8
Disc. cash flow/debt (%)	11.3	3.8	12.4	(36.1)
Disc. cash flow/EBITDA (%)	30.6	10.6	30.7	(134.3)
Debt/EBITDA (x)	2.7	2.8	2.5	3.7
Debt/capital (%)*	42.0	49.2	33.4	59.5

*Fully adjusted (including postretirement obligations).

Note: Verizon's EBITDA, interest and debt have been adjusted to exclude Vodafone's 45% share of Cellco Partnership. While Verizon's revenue is not adjusted for Vodafone's share of Cellco, EBITDA/Revenues is adjusted to exclude Vodafone's share of Cellco. All other cash flow metrics for Verizon are not adjusted to exclude Vodafone's share of Cellco.

Table 3

Verizon Communications Inc. -- Financial Summary				
Industry Sector: Telecommunications				
		Fiscal year ended December 31, 2008		
Rating history	A/Negative/A-1	A/Stable/A-1	A/Negative/A-1	
		2008	**2007**	**2006**
(Mil. $)				
Revenues		97,354.0	93,469.0	88,144.0
EBITDA		24,621.7	24,270.2	23,317.0
Net income from cont. oper.		6,428.0	5,510.0	5,480.0
Funds from oper. (FFO)		30,694.0	30,616.4	26,234.0
Cash flow from oper.		27,661.0	27,723.4	24,599.0
Capital expenditures		18,133.5	18,500.0	16,639.0
Free oper. cash flow		9,527.5	9,223.5	7,960.0
Discretionary cash flow		4,533.5	4,450.5	3,241.0
Cash and equivalents		10,291.0	3,397.0	5,653.0
Debt		65,592.8	41,659.1	45,353.9
Common equity		78,905.0	82,869.0	76,872.0
Total capital		156,266.8	139,312.1	138,495.9

Table 3

Verizon Communications Inc. -- Financial Summary (cont.)

Ratios			
EBITDA/revenues (%)	25.3	26.0	26.5
EBIT interest coverage (x)*	4.0	3.9	3.1
EBITDA interest coverage (x)	9.4	9.6	7.7
Return on capital (%)	7.1	7.2	7.0
FFO/debt (%)*	46.8	73.5	57.8
Cash flow from oper./debt (%)	42.2	66.5	54.2
Free oper. cash flow/debt (%)	14.5	22.1	17.6
Disc. cash flow/debt (%)	6.9	10.7	7.1
Disc. cash flow/EBITDA (%)	18.4	18.3	13.9
Debt/EBITDA (x)	2.7	1.7	1.9
Debt/capital (%)*	42.0	29.9	32.7

*Fully adjusted (including postretirement obligations). Note: Verizon's EBITDA, interest and debt have been adjusted to exclude Vodafone's 45% share of Cellco Partnership. While Verizon's revenue is not adjusted for Vodafone's share of Cellco, EBITDA/Revenues is adjusted to exclude Vodafone's share of Cellco. All other cash flow metrics for Verizon are not adjusted to exclude Vodafone's share of Cellco.

Ratings Detail (As Of September 16, 2009)*

Verizon Communications Inc.	
Corporate Credit Rating	A/Negative/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured (24 Issues)	A
Corporate Credit Ratings History	
05-Jun-2008	A/Negative/A-1
19-Jul-2007	A/Stable/A-1
03-Feb-2006	A/Negative/A-1
13-Jan-2006	A/Negative/--
14-Feb-2005	A+/Watch Neg/--
28-Sep-2004	A+/Negative/--
Business Risk Profile	Strong
Financial Risk Profile	Modest

Debt Maturities

As of June 30, 2009, including commercial paper
2009 $4.7 bil.
2010 $4.8 bil.
2011 $9.4 bil.
2012 $5.8 bil.
2013 $5.6 bil.
Thereafter $34.1 bil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD
&POOR'S

RATINGSDIRECT®

September 17, 2009

Research Update:

Frontier Communications Corp. Senior Unsecured Notes Rated 'BB' (Recovery: 3); 'BB' Rating Affirmed

Primary Credit Analyst:
Allyn Arden, CFA, New York (1) 212-438-7832;allyn_arden@standardandpoors.com

Table Of Contents

Research Update:

Frontier Communications Corp. Senior Unsecured Notes Rated 'BB' (Recovery: 3); 'BB' Rating Affirmed

Overview

- We are assigning a 'BB' issue-level rating and a '3' recovery rating to Frontier's proposed $450 million of senior unsecured notes due 2018.
- We are affirming the 'BB' corporate credit rating on Frontier.
- The stable outlook reflects the company's moderate pro forma leverage, high margins, and solid net free cash flow generation, despite ongoing access line losses.

Rating Action

On Sept. 17, 2009, Standard & Poor's Ratings Services assigned a 'BB' issue-level rating to Stamford, Conn-based Frontier Communications Corp.'s proposed $450 million of senior unsecured notes due 2018, to be drawn from the company's shelf registration. Net proceeds, coupled with cash on hand, will be used to finance a cash tender offer to repurchase up to $700 million of existing debt, including maturities in 2011 and 2013. We also assigned a '3' recovery rating to the notes, which indicates expectations for meaningful (50% to 70%) recovery in the event of payment default.

At the same time, we affirmed all other ratings on Frontier, including the 'BB' corporate credit rating. The outlook is stable. The new notes will provide the company with a degree of financial flexibility, allowing it to extend maturities. However, we remain concerned about the company's access-line losses, which totaled 6.5% in the second quarter of 2009, as well as the integration of the acquired Verizon properties longer term.

Rationale

The ratings on Frontier continue to reflect rising competition from cable telephony and wireless substitution, the lack of a facilities-based video strategy, currently high leverage, and risk related to the acquisition of properties from Verizon Communications Inc. (A/Negative/A-1). Tempering factors include the company's solid position as an incumbent local exchange carrier (ILEC), primarily in less competitive rural areas; relatively stable cash flow and high margins; modest growth in high-speed data (HSD) services, which has helped mitigate revenue declines from line losses; and the deleveraging effect of the stock-based Verizon transaction.

Wireless substitution and cable telephony competition continue to pressure Frontier's existing customer base. Standard & Poor's believes the company will continue to face significant competition as cable operators keep deploying less expensive Internet protocol (IP) telephony service in rural markets. Frontier's overlap with cable telephone service is about 68% currently. Additionally, many consumers, especially in a weak economy, are eliminating wireline service altogether. Despite the company's promotional efforts to retain customers and some noticeable improvement in operating performance during the June 2009 quarter, we believe that access-line trends will remain under pressure in the foreseeable future.

In May 2009, Frontier announced that it had signed a definitive agreement with Verizon to acquire 4.8 million access lines in a stock-based transaction valued at approximately $8.6 billion. The acquisition of the Verizon properties will create a company that is about three times the size of Frontier on a stand-alone basis with around 7 million access lines in 27 states, which should improve Frontier's scale and diversify its footprint. However, the legacy Verizon markets have about 70% of its access line base in rural areas, with an average of 37 access lines per square mile, significantly higher than for stand-alone Frontier, which suggests that competition could increase and line losses could accelerate in these markets in the near term. HSD penetration in the legacy Verizon markets is low, at about 21% compared to 26% for stand-alone Frontier and digital subscriber line (DSL) availability is substantially lower at 60%, which could bolster growth prospects for data services in the intermediate term as Frontier invests in these markets. Still, Standard & Poor's expects the integration of the Verizon properties will be challenging given the size of the transaction. Additionally, while above average line losses of over 10% and lower DSL penetration provides opportunities for Frontier, they also entail the risk of further customer losses during an extended transition period.

Pro forma debt to EBITDA is moderate at about 3.0x, and significantly lower the 4.6x for Frontier on a stand-alone basis as of June 30, 2009, although we are concerned that execution missteps or deteriorating operating trends could result in higher leverage in the intermediate term. As part of the transaction, Frontier will need to raise about $3.2 billion of new debt. The pro forma EBITDA margin is about 48%, somewhat lower than stand-alone Frontier's 54% margin as of June 30, 2009, although still healthy relative to the industry. However, margins could decline in the near term because of line losses. Potential operating synergies are meaningful at about $500 million, or 21% of cash operating expenses, but achieving this will require solid execution during the integration and may be impeded by higher access-line losses or a more competitive industry environment. Frontier's ability to continue to operate under the legacy systems, if it chooses to, mitigates concerns about system switchovers from Verizon.

Liquidity

Frontier's current liquidity is adequate, consisting of roughly $454 million in cash and $250 million from an undrawn unsecured revolving bank loan as of June 30, 2009. The company generated about $144 million in net free cash flow in during the last 12 months, which should remain stable over the next year because of lower levels of capital spending, despite the company's significant dividend payout, which represents about 64% of free operating cash flow through the first six months of 2009.

We expect the company to have moderate headroom over the next year relative to the bank facility's maximum net debt to EBITDA covenant, which is 4.5x through the term of the agreement. Frontier amended the $200 million term loan with the Rural Telephone Finance Cooperative (RTFC) increasing the net debt to EBITDA covenant to 4.5x from 4.0x until maturity, which should also provide it with moderate cushion over the next year. Leverage under both the revolver and the RTFC term loan is calculated after subtracting cash in excess of $50 million from debt. Debt maturities as of the June 2009 quarter are manageable, including about $866 billion due in 2011.

Outlook

The outlook is stable. Despite the expectation for continued access-line erosion in both the legacy Verizon markets as well as the existing customer base because of increased cable telephony competition and wireless substitution, the company's moderate pro forma leverage, high margins, and net free cash flow generation support the outlook. Still, we could revise the outlook to negative if line losses accelerate from current levels, resulting in materially lower EBITDA. Although unlikely in the near-term, we could revise the outlook to positive if operating trends stabilize, including the continued improvement of line losses, and the company maintains adjusted pro forma leverage below 3x. This would likely entail the successful integration of the Verizon properties and execution of its enhanced marketing plans to increase DSL penetration and stem churn.

Related Research

"Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009.

Ratings List

Ratings Affirmed

Frontier Communications Corp.	
Corporate Credit Rating	BB/Stable/--

New Rating

Frontier Communications Corp.	
Senior Unsecured	
US$450 mil sr nts due 2018	BB
Recovery Rating	3

Ratings Affirmed

Frontier Communications Corp.	
Senior Unsecured	BB
Recovery Rating	3

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.