Exhibit No._____TM-1T

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of Verizon Communications Inc. and Frontier Communications Corporation For An Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.	)))))))	Docket No. UT-090842

DIRECT TESTIMONY OF TIMOTHY McCALLION

ON BEHALF OF VERIZON

July 6, 2009

Introduction

Q. Please state your name, title and business address.

A. My name is Timothy McCallion. I am President of the West Region for Verizon Communications. My business address is 112 Lakeview Canyon Road, Thousand Oaks, California 91362.

Q. Please describe your educational and professional background.

A. I have a master's degree in business administration and a bachelor's degree in business management from Gannon University. During my 33 year career with Verizon, I have held a variety of management positions located in California, Hawaii, Indiana, Connecticut, Ohio and Pennsylvania.

Q. Please describe your current duties for Verizon.

A. I was named West Region President for Verizon in July 2000. My current duties include serving as President of Verizon Northwest, Verizon West Coast, and Verizon California. I am responsible for Verizon's corporate interests including regulatory affairs, community relations, and government affairs in the States of California, Washington, Oregon, Alaska, Arizona, Colorado, Hawaii, Idaho, Iowa, Minnesota, Montana, Nebraska, Nevada, North Dakota, South Dakota, Utah and Wyoming. In addition to my duties with Verizon, I am actively involved with a number of community-based and business organizations.

Q. On whose behalf are you offering testimony?

A. My testimony is offered on behalf of Verizon Communications Inc., ("Verizon") applicants in this proceeding who, along with Frontier Communications Corporation ("Frontier"), support the Joint Application that is the subject of this docket before the Washington Utilities and Transport Commission ("Commission"). The Joint Application proposes a series of transactions that would, among other things, result in the transfer of control of Verizon Northwest Inc. ("Verizon Northwest") in its entirety from Verizon to Frontier (the "Transaction"). At the close of the Transaction, my understanding is that Verizon Northwest would be renamed Frontier Northwest.

Q. Please describe the purpose of your testimony.

A. My testimony describes the mechanics of the Transaction between Verizon and Frontier, including the structure and operation of the affected Verizon and Frontier entities pre- and post-closing.

As I discuss below, the essence of the Transaction for Washington is that control of Verizon Northwest will be transferred in its entirety from Verizon to Frontier pursuant to a parent company merger. After the transfer, Frontier Northwest will have the same tariffs and will offer substantially the same regulated retail and wholesale services under the same rates, terms, and conditions that are offered at the time of closing. Moreover post-closing Frontier Northwest will use the same back-office support and network systems used by Verizon Northwest prior to closing to serve its customers – and those systems will be operated by Verizon personnel who move over to Frontier with the Transaction. The only material change customers will experience when the Transaction closes is a name change for their service provider.

This seamless transition also holds true for the transfer of presubscribed long distance customers from Verizon Long Distance LLC ("VLD") and Verizon Enterprise Solutions LLC ("VES") to Frontier. Frontier has been providing long distance service in Washington and most other states for many years through its long distance operating company, Frontier Communications of America, Inc. ("FCA"). The affected long distance customers who reside in the Verizon incumbent local exchange carrier ("ILEC") service areas subject to the Transaction simply will be transferred from VLD and VES to a newly established long distance company that will become a subsidiary of Frontier and an affiliate of FCA. All customer transfers will be made in accord with the FCC's and this Commission's rules, and the new long distance company will offer substantially the same services under the same rates, terms, and conditions that exist immediately prior to closing.

Q. Is the Transaction in the public interest?

A. Yes. As Frontier's Chief Operating Officer ("COO") Daniel McCarthy explains in detail in his testimony, this transaction causes no harm (and instead will result in tangible benefits), and thus is in the public interest. Specifically, Mr. McCarthy explains that the Washington consumers in the service areas to be acquired by Frontier will join consumers across Frontier's territories and become a key strategic focus of Frontier. Frontier is a wireline communications company dedicated primarily to serving rural, suburban and smaller urban service areas, where it has a proven track record of success. This transaction will allow Frontier to build on that success over much broader areas and generate substantial public interest benefits.

Also, as fully discussed by Mr. McCarthy, the Transaction satisfies factors the Commission typically considers in transaction approvals in that it: (i) will not distort or impair competition; (ii) involves a company with the technical, managerial and financial capability to operate successfully; (iii) will not diminish service quality; (iv) will allow customers to share in benefits from the Transaction; (v) will improve Frontier's access to capital and lower its cost of capital; and (vi) will continue substantially the same regulated services under the same rates, terms and conditions.

Mr. McCarthy also explains that the Transaction will promote broadband deployment and investment in the more rural areas of the territory Frontier is acquiring in Washington, a subject that is outside the jurisdiction of – but of significant interest to – the Commission.

Moreover, the Transaction will leave Frontier with a strong financial structure and will not result in any competitive harm. Frontier does not currently serve any local exchanges in Washington; so Frontier and Verizon do not currently compete for customers in any of the affected exchanges. As a result, the Transaction will not reduce the number of competitors.

<u>Summary of the Transaction</u>

Q. Why did Verizon decide to transfer its operations in Washington and other states to Frontier?

A. Several months ago, Frontier approached Verizon and expressed interest in acquiring the access lines that are the subject of the Application. In May, the parties reached agreement to transfer Verizon's entire ILEC operations and certain long distance customers to Frontier in thirteen states, plus certain operations in a small portion of California. The states are: Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, Wisconsin, and a small number of access lines in California near the Arizona, Nevada, and Oregon borders.

The proposed transaction with Frontier will allow Verizon to focus on its ILEC, global IP and wireless operations in its remaining states, which consist primarily of high-density urban and suburban service areas. Furthermore, this transaction will be a good one for customers. Frontier is an excellent company that specializes in providing high-quality telecommunications, broadband and video services to rural, suburban and smaller city service areas. And as I discuss later in my testimony, Verizon and Frontier have completed many successful transactions over the years. Between 1993 and 2000, Verizon's predecessor company GTE transferred more than 750,000 total access lines to Frontier and its predecessors in eleven different states. Moreover, as Frontier COO Daniel McCarthy explains in his testimony, after this transaction Frontier will be an even stronger company.

<u>The Proposed Transaction</u>

Q. Please provide an overview of the proposed transaction between Verizon and Frontier.

A. On May 13, 2009, Frontier, Verizon and New Communications Holdings Inc. ("NCH") entered into an Agreement and Plan of Merger (the "Merger Agreement") under which Frontier, by issuing its stock in exchange for NCH stock held by Verizon shareholders, will acquire control of approximately 4.8 million access lines (and certain related assets) currently owned by subsidiaries of Verizon in the states listed above. The Merger Agreement is attached to the Joint Application as Exhibit 1. On the same date, Verizon and NCH entered into a Distribution Agreement (attached as Exhibit 2 to the Application).

The Merger Agreement and Distribution Agreement are designed to: (a) establish a separate entity (i.e., NCH) as the holding company for Verizon's local exchange, long distance and related business activities in the acquired areas; (b) spin off the stock of that new entity to Verizon shareholders; and then (c) immediately merge the new entity into Frontier. More specifically, the Transaction will be completed through several steps:

a. NCH, which has already been formed as a subsidiary of Verizon, will serve as the holding company for the local exchange, long distance and related businesses in Washington and the other affected states that are being transferred to Frontier. As part of the transactions described below, NCH will be merged into Frontier. Frontier will be the surviving entity, and will then own and control the Verizon assets being transferred to it through the Transaction at issue here.

b. NCH has two newly formed subsidiaries: (a) New Communications ILEC Holdings Inc. ("NCIH"), which will own the stock of Verizon Northwest and the other operating ILECs in the affected states; and (b) New Communications Online and Long Distance Inc. ("NewLD"), which will hold the accounts receivables, liabilities, and customer relationships related to long distance operations (and other operations) in the service territories of NCIH in Washington and the other affected states.

c. Through a series of intra-corporate stock transfers, the stock of Verizon Northwest and the other affected ILECs will be transferred to NCIH.[1] Similarly, VLD and VES will transfer their accounts receivables and customer relationships related to their long distance operations in Washington and the other affected states to NewLD.[2]

d. The stock of NCH will then be distributed to Verizon shareholders – that is, NCH will be "spun off" from Verizon to Verizon's shareholders, and will be a separate corporation from Verizon. Immediately following this spin-off, NCH will be merged into Frontier, and Frontier will be the surviving holding company,

[1] The assets and business to be transferred to NCIH (as well as the assets and business that are not being transferred) are more fully described in the Distribution Agreement between Verizon and NCH. *See* Exhibit 2 to the Application.

[2] In addition to acquiring Verizon's regulated local exchange and long distance business in the affected states, Frontier also will acquire certain unregulated businesses, including high speed Internet and, where provided, wireline video and broadband data (*e.g.,* Verizon FiOS) services provided in these states.

> operating under its existing name and corporate structure, but also owning all of the stock of NCH's subsidiaries, NCIH and NewLD. Pursuant to this merger, Verizon shareholders will receive Frontier stock in exchange for their NCH stock. Once the merger is completed, NCH will cease to exist; thus, NCIH and NewLD will be direct subsidiaries of Frontier, and Verizon Northwest will be an indirect subsidiary.

At the completion of the Transaction, Verizon Northwest will be a wholly-owned, indirect subsidiary of Frontier (albeit with the different name of Frontier Northwest) and will continue to provide local exchange service in the territory it serves today. Frontier also will own and control NewLD, which will provide long distance services in Washington.

Q. What regulatory authority will the Commission have over Frontier Northwest and NewLD after the Transaction is completed?

A. Upon completion of the Transaction, the Commission will retain the same regulatory authority over the provision of regulated services by Frontier Northwest and NewLD that the Commission possessed over Verizon Northwest, VLD and VES prior to the consummation of the Transaction. And Frontier Northwest will remain a rate-of-return regulated company unless and until Frontier seeks an alternative form of regulation.

As noted, upon closing, Frontier will change the names of Verizon Northwest and NewLD, and it will make all necessary filings to accomplish the name changes. Any subsequent service or price changes will need to be made in accordance with all applicable laws, rules and Commission orders.

The Transaction In Washington

Q. Please identify the affected Verizon companies that operate in Washington today, and then identify the companies that will operate in Washington post-merger.

A. Today, Verizon has three companies operating in Washington involved in this transaction: Verizon Northwest, VLD, and VES.[3] Verizon Northwest is an ILEC that serves approximately 578,000 access lines in a total of 79 tariffed exchanges. VLD and VES are long distance companies. Together, they will transfer approximately 273,000 long distance lines in Washington to Frontier.

After the Transaction is completed, Verizon Northwest (as Frontier Northwest) will operate as an ILEC and NewLD will provide long distance services, both as subsidiaries of Frontier. VLD and VES will continue to operate in Washington as Verizon companies, providing certain long distance services to customers on lines that will be served by local carriers other than Frontier. They also will continue to offer all the long distance services in the areas in which they currently operate. So, for example, if VLD transfers one of its customers to NewLD as part of the Transaction, that customer may elect to return to VLD. The parties' agreements do *not* contain a "non-compete" clause.

[3] Verizon has other affiliates operating in Washington that are not part of the transaction. For example, Verizon Select Services Inc. operates in Washington, but it is not part of this transaction. My testimony addresses only those Verizon companies that are affected by the transaction and over which the Commission has jurisdiction.

Effect of Transaction on Customers

Q. What effect will this transaction have on Verizon's retail customers in Washington?

A. Our customers – both local and long distance customers – will be unaffected. After the Transaction, Frontier Northwest will have the same tariffs and will offer substantially the same regulated intrastate retail services under the same rates, terms, and conditions that will exist prior to closing. Moreover, as I discuss later in my testimony, post-closing Frontier Northwest will use the same operational support and network systems used by Verizon Northwest prior to closing – and Frontier will be able to validate, prior to closing, that those systems have been replicated properly.[4] In short, the Transaction will be seamless and transparent to Verizon Northwest's customers.

In addition, as Frontier COO McCarthy describes in his testimony, Washington customers also can look forward to new telecommunications, broadband, and video services from the Frontier companies.

Q. How will the regulated intrastate retail services that Verizon Northwest, VLD or VES provide at closing be affected by the Transaction?

A. Frontier Northwest will have the same tariffs and will offer substantially the same regulated retail and wholesale services under the same rates, terms, and conditions that are offered by Verizon Northwest at the time of closing. As Frontier Northwest will

[4] In the language of the Merger Agreement, Section 7.24(c), Verizon will create a functioning "separate instance" of the systems used today.

simply be taking over Verizon Northwest's tariffs and the catalogs of VLD and VES, any changes it would make to service offerings would have to follow Washington laws and Commission rules.

Q. What effect will this transaction have on Verizon Northwest's wholesale customers?

A. Existing Verizon Northwest interconnection agreements and commercial wholesale agreements will remain in place. Frontier will assume or honor these agreements. In addition, Verizon Northwest's wholesale tariffs in Washington, the contents of which were litigated at the Commission in various dockets (including Docket No. 960371), will remain in place. Moreover, wholesale customers will be able to continue to place orders post-closing using the same systems used by Verizon Northwest prior to closing.

Q. Have the tariffed rates of Verizon Northwest been scrutinized by the Commission?

A. Yes. In contrast to those of a number of ILECs in Washington, Verizon Northwest's tariffed rates result from recent consideration of costs and revenues by the Commission. For example, Verizon Northwest's intrastate access charges are the lowest in the state, having been reduced significantly in Docket UT-020406. And Verizon Northwest's retail rates were set in a settlement of a general rate case completed in 2005 (Docket UT-040788). Thus, the tariffed rates utilized by Verizon Northwest (both now and at the completion of the Transaction) reflect rate rebalancing and a relatively current revenue analysis. The resulting tariffed rates of Verizon Northwest reflect thorough Commission consideration, and will remain in effect at the close of the Transaction.

Management and Day-to-Day Operations

Q. Before the Transaction is completed, how will Verizon Northwest be managed and operated?

A. To facilitate a smooth transition, and as described in more detail below, Verizon created a "North Central Area" that includes Verizon Northwest. From a customer perspective, Verizon Northwest will be managed and operated on a "business as usual" basis.

Q. After the Transaction is completed, who will manage Frontier Northwest and NewLD?

A. As explained in Mr. McCarthy's testimony, Frontier and its operating companies are managed by an experienced group of executives, including Maggie Wilderotter, Chairman and Chief Executive Officer, Don Shassian, Chief Financial Officer, and Mr. McCarthy. All these executives will continue to lead Frontier after the Transaction is completed. Frontier is retaining the Verizon employees that today are involved in the day-to-day provisioning and maintenance of service to customers of Verizon Northwest.

Q. What steps will Verizon and Frontier take before the Transaction is completed to ensure a seamless transition?

A. First, as noted above, Verizon has already created NCH and its subsidiaries, NCIH and NewLD. But it also has created a new organization, the "North Central Area," which is responsible for sales, service and network operations activities of the ILECs and ILEC assets being transferred to Frontier. This organization is devoted exclusively to the ILEC operations in the affected states. The North Central Area (or "Area") is an operating region within Verizon today.

Before Verizon created the North Central Area, it had four different Area organizations that were responsible for different states. For example, the Mid-Atlantic Area was responsible for Maryland, Virginia, West Virginia and the District of Columbia. The South/West Area was responsible for, among other states, Washington, Oregon and Idaho. Verizon realized that this transaction could be accomplished more smoothly by reorganizing its operations and creating a new area – the North Central Area – devoted exclusively to the affected states. This new Area is in place today; it has already assumed and is performing many of the functions described above. By creating this new Area, we have put in place an operation that allows for a smooth transition to Frontier.

Q. Will Verizon and Frontier take any other steps before the Transaction is completed to ensure a seamless transition?

A. Yes. Verizon and Frontier will work together to effectuate the smooth transition of all aspects of the Transaction, including billing, customer account systems, and plant record systems. Importantly, as discussed below, Frontier will use the same operational support systems used by Verizon prior to closing to serve its customers in Washington. No system development is required in Washington.

<u>The Transition of Verizon's Systems to Frontier</u>

Q: Please describe the back office systems that Verizon Northwest currently uses.

A: Verizon Northwest is one of a number of Verizon companies that were formerly part of GTE Corporation ("GTE").[5] As such, Verizon Northwest continues to use the centralized computer systems that Verizon obtained from GTE as modified and improved since the closing of that transaction. These systems are used to run essential aspects of the business, such as retail ordering and billing, CLEC ordering and billing, network monitoring and maintenance, and all customer support functions and are battle-tested. Rather than merge the systems of its GTE companies with other Verizon systems, Verizon runs its GTE systems separately. Of the local wireline companies in the 14 states that are part of the Transaction with Frontier, all but one are (like Verizon Northwest) former GTE entities.[6]

Q: What systems realignment will Verizon undertake prior to closing?

[5] Verizon was created in 2000 when Bell Atlantic, primarily an RBOC operating on the East coast, merged with GTE, which operated numerous smaller telephone companies across the country.

[6] The exception is Verizon West Virginia, a former Bell Atlantic company.

A: The North Central Area will utilize the existing centralized GTE systems that are used by Verizon to operate the former GTE assets that Verizon is transferring to Frontier, including those of Verizon Northwest. The existing GTE systems will be replicated so that they may be transferred to Frontier as physically separate functional systems, and substantially identical to the existing systems.

Q: Will Frontier have the ability to validate that the systems are working properly prior to closing?

A: Yes. First, Verizon will coordinate with Frontier as Verizon undertakes the process of replicating its existing systems. Verizon is required to keep Frontier updated, engage in ongoing discussions regarding the process, and grant Frontier reasonable rights of access. Moreover, consistent with Section 7.24 of the Merger Agreement, Frontier will be able to validate and confirm that the principal operating systems have been replicated properly in advance of closing.

Q: Will there be any overlap between the systems that remain with Verizon and those that serve the areas Frontier is acquiring?

A: No. There are a few states other than Washington (Florida, California, and Texas) where Verizon will continue to own former GTE companies, and those operations will continue to use systems substantially similar to the ones Frontier is acquiring. But the systems Verizon keeps for its own use will be separate from those dedicated to the companies

Frontier is acquiring. After closing, the customer records and information for customers located in Washington will be maintained on Frontier's systems, which will be maintained independently from the systems Verizon retains and utilizes to provide services in other states. Also, the parties have agreed that if all the necessary hardware cannot be procured and installed in the Frontier data center by closing, it will be made available from Verizon or a Verizon subsidiary following the closing to allow for transition, and such hardware shall thereafter be transferred to the Frontier data center.

Q: What systems will be used to manage wholesale and CLEC relationships?

A: The Frontier data center will control substantially all of the systems needed to successfully operate the GTE assets that are being transferred, including those necessary to manage wholesale and CLEC relationships. Thus, for example, wholesale customers – including competitors – in these states will not have to process orders in a different manner nor have their existing OSS arrangements disrupted.

Q: Have Verizon and Frontier designed the systems transition process so that there are no operational disruptions?

A: Yes. As described above, upon closing Frontier will use replicated versions of the same operational systems – ordering, billing, etc. – that Verizon uses to provide service in Washington. Verizon will separate these systems prior to closing, and Frontier will provide its products, bundles, and pricing on these tested systems. In other words, Frontier will simply take over those existing functional systems. Frontier will then have the option to use these tested systems for as long as it wishes, and over time can consider on a system-by-system basis which systems it may want to merge with its existing operations, and when. In addition, to further ensure a smooth transition, Verizon will continue to provide system support for at least a year after close, and Frontier may elect to continue to take some or all of the support from Verizon after the first year.

Q: How is this transition different from a "cutover" to systems that have been specifically developed in response to acquiring the properties?

A: In situations where the wireline assets to be transferred are operated with systems that remain with the transferor, it is often necessary to develop new, or substantially modify existing, systems and then perform a complex cutover and have the acquirer assume responsibilities for operating the network using its new or modified systems. This scenario does not exist in Washington because Frontier will be using the same systems used by Verizon prior to closing, and will have the advantage of employees experienced with those systems that will continue with the business.

Q: Is this transaction different from ones where post-transaction problems have occurred?

A: Yes, very different. Two Verizon transactions have been scrutinized because the acquirers had post-transition operational problems associated with the use of newly developed systems and the associated cutover. Those are Verizon's sale of control of its Hawaii operations to The Carlyle Group in 2005, and the spin/merger of its New England operations to FairPoint Communications, Inc. last year. As explained in more detail below, both of those transactions are fundamentally different than this one. Each of those transactions involved the creation of entirely new operational and back-office systems, a lengthy post-closing "transition" period in which Verizon continued to use its own systems to operate much of the buyer's business while the new systems were developed, and finally a complex cutover. As discussed above, none of those complications will be present in this transaction in Washington. Accordingly, none of the issues sometimes associated with the cutover process to newly developed systems is present here. Moreover, Frontier is a large, experienced operating company and that will help ensure a smooth transition.

Q. How will the fact that Frontier is the acquiring company help ensure a smooth transition?

A. Frontier is today a leading and respected provider of telecommunications services to rural, suburban and smaller urban service areas across the country. Frontier currently has approximately 2.3 million access lines in 24 states and provides an array of services, including local and long-distance voice, data, Internet and broadband. Thus, Frontier already knows how to successfully run its business, allowing the parties to remain laser-focused on a smooth transition. And as noted above, Frontier will merely take over an existing Verizon area, using the same kinds of systems used in the North Central Area today.

Q. Does Frontier have a track record of smooth transitions?

A. Yes. As detailed in the testimony of Mr. McCarthy, Frontier has a highly successful track record of acquiring, operating and investing in telecommunications properties nationally, including over 750,000 access lines it purchased from Verizon/GTE between 1993 and 2000.

Q: Please summarize the problems FairPoint experienced post-transaction, and please explain why this transaction is different.

A. Based on publicly available information, FairPoint encountered operational problems with the new systems it had designed and built to completely replace Verizon's systems and to run the business it acquired – primarily problems relating to billing processes, order flow, and call center response for both retail and wholesale operations. Those operational problems have translated into increased costs for manual processing of orders, lost billing cycles for customers whose service orders were delayed, and possibly some customer attrition.

Frontier is a very different company. First, as discussed above, the FairPoint transaction involved a cutover to a completely new set of systems that FairPoint developed specifically for the transaction (and that FairPoint was still developing and testing well past the closing and right up to the cutover), whereas this transaction does not involve newly developed systems, a comparable transition service period or a complex cutover. FairPoint replaced hundreds of Verizon systems with 60 wholly new systems developed by FairPoint to support its new business. Those brand-new systems then had to be populated with data provided by Verizon at cutover and then brought online. Unlike FairPoint, Frontier will take possession of a tested functional replication of Verizon's existing systems at closing. To the extent Frontier chooses to transition to some of its own existing systems or to new systems in the years following the transaction, it can do so at its own pace.

Second, as discussed above, Frontier has a successful track record of integrating the operations of various operating companies, including its acquisition of Commonwealth Telephone in 2006, which involved some 316,000 access lines. Frontier already has existing, proven systems – and Frontier's existing systems are fully scalable.

In addition, while FairPoint endeavored to transition to its new systems promptly upon closing, Frontier will have full use of existing systems acquired from Verizon.

Finally, as discussed by Mr. McCarthy, Frontier is now a large, strong, conservatively capitalized company whose balance sheet will become stronger after the transaction.[7] And Frontier has taken the additional step of announcing that it will reduce its yearly dividend by $0.25 – which will free up additional cash to fund operations or investment.

Q: Please summarize the problems Hawaiian Telcom experienced post-transaction, and please explain why this transaction is different.

A. An entity affiliated with The Carlyle Group, a private equity investment firm, acquired control of Hawaiian Telcom ("HTL") in May 2005. HTL has described its post-transaction problems as follows:

> On April 1, 2006, we cut over from the legacy Verizon systems to our new back-office and IT infrastructure. While the major network operational systems functioned without significant problems, critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in order accuracy, service provisioning, billings and collections, revenue assurance and overall customer service. Despite efforts to improve the functionality of the related systems since 2006, we continued to experience many of these same issues, requiring us to incur significant incremental expenses to retain third-party service providers to provide call center and manual processing services in order to operate our business.[8]

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

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[7] Frontier's current debt-to-EBITDA ratio of 3.8 is expected to improve to 2.6 after the transaction is completed.

[8] *See* Hawaiian Telcom Communications, Inc.'s 10-Q for period ending September 30, 2008.

The difference between this transaction and the HTL transaction are essentially the same as the differences with FairPoint – but even more pronounced. The Carlyle Group was not an operating company with extensive experience in the telephone business, but its business plan was based on building brand new systems and to expeditiously end its lease of the Verizon systems to reduce costs. Neither of these considerations is present with Frontier. Moreover, HTL's first system developer was replaced, and its systems issues continued long after the transaction closed. Frontier, on the other hand, is an experienced and sophisticated telephone company – it has significant experience in operations support systems, and if it decides to replace or modify any of its systems, it can do so at an appropriate time.

<u>The Public Interest</u>

Q. Please explain why the Transaction is in the public interest and should be approved by the Commission.

A. The most important reason is the buyer, Frontier. As discussed fully by Frontier COO McCarthy in his testimony, Frontier is a leading and respected provider of telecommunications services to rural, suburban and smaller urban service areas across the country. Frontier and its operating companies are dedicated to providing their customers high quality service at reasonable rates, and have a rich history in serving areas through a local management structure. To ensure that it places the customer first, Frontier has pursued a strategy of focusing on and enhancing its local presence in the communities in which it operates. With this transaction, the residential and business consumers in the service areas it is acquiring from Verizon will become a key strategic focus for Frontier.

Mr. McCarthy explains in detail why this transaction is in the public interest and analyzes the six factors the Commission applied in the Verizon-MCI merger docket (Docket No. UT-050814). In short, Mr. McCarthy explains that this transaction will cause no harm and thus is in the public interest because it: (i) will not distort or impair competition; (ii) involves a company with the technical, managerial and financial capability to operate successfully; (iii) will not diminish service quality; (iv) will allow customers to share in benefits that will result from the transaction; (v) will improve Frontier's access to capital and lower its cost of capital; and (vi) will continue substantially the same regulated services under the same rates, terms and conditions.

Q. Does this conclude your testimony?

A. Yes.