

**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 ) Docket No. UT-090842  
Jurisdiction Over, or, in the Alternative, )  
Approving the Indirect Transfer of )  
Control of Verizon Northwest Inc. )

**SUPPLEMENTAL DIRECT TESTIMONY OF  
DANIEL MCCARTHY  
EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER**

**ON BEHALF OF  
FRONTIER COMMUNICATIONS CORPORATION**

**August 3, 2009**

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation and business address.**

3 A. My name is Daniel McCarthy. I am Executive Vice President and Chief  
4 Operating Officer of Frontier Communications Corporation (“Frontier”). My  
5 business address is 3 High Ridge Park, Stamford, Connecticut 06905.

6

7 **Q. Are you the same Daniel McCarthy who filed Direct Testimony (Exhibit DM-  
8 1T) in Docket No. UT-090842 on July 6, 2009?**

9 A. Yes, I am.

10

11 **Q. What is the purpose of your testimony?**

12 A. At the prehearing conference on July 7, 2009, certain statements in the  
13 Applicant’s pre-filed Direct Testimony were mentioned as not being supported  
14 directly by attached exhibits or other accompanying documentation. The  
15 Prehearing Conference Order issued on July 28, 2009 addressed this issue and  
16 advised the Applicants that if they wish to provide further support for their pre-  
17 filed direct testimony or supplemental testimony and exhibits, they must do so  
18 sufficiently in advance of the September 25, 2009 deadline for filing responsive  
19 testimony to afford all other parties to this proceeding a reasonable opportunity to  
20 address any supplemental filings or testimony in discovery practice and in  
21 responsive testimony. The purpose of my Supplemental Direct Testimony is to

1 include those documents that further support my Direct Testimony filed on July 6,  
2 2009.

3  
4 **Q. What additional documents do you intend to include as Exhibits in your**  
5 **Supplemental Direct Testimony?**

6 A. I include the following documents to further support my Direct Testimony:

- 7 • Frontier's Annual Report on Form 10-K for the year ended December 31,  
8 2008 filed with the Securities and Exchange Commission ("SEC");
- 9 • Frontier's Quarterly Report on Form 10-Q for the quarter ended March 31,  
10 2009 filed with the SEC;
- 11 • Credit rating agency reports from Moody's investors Services  
12 ("Moody's") and Fitch Ratings ("Fitch") announcing: (i) Moody's  
13 decision to place Frontier credit ratings on review for possible upgrade  
14 and (ii) Fitch's decision to place Frontier's ratings on Rating Watch  
15 Positive; these positive credit rating actions were taken by the respective  
16 rating agencies on the day of the announcement of the Frontier transaction  
17 with Verizon Communications Inc.;
- 18 • A report from an independent analyst (Raymond James & Associates)  
19 describing this transaction as "prudent" and very different from the  
20 FairPoint transaction; and

- 1           •       Frontier's Registration Statement on Form S-4 filed with the SEC on  
2                     July 24, 2009.

3  
4   **Q.   Where is Frontier's most recent 10-K referenced in your Direct Testimony?**

5   A.   In footnote No. 4, page 34, my Direct Testimony references the on-line location  
6       of Frontier's Annual Report on Form 10-K (filed February 27, 2009) for year  
7       ended December 31, 2008, which is the most recent annual report filed by  
8       Frontier and is available at:

9       <http://www.sec.gov/Archives/edgar/data/20520/000002052009000009/form10k4q2008.txt>.

10

11   **Q.   Have you included this 10-K filing in your Supplemental Testimony?**

12   A.   Yes. It is included as Exhibit No. DM-3.

13

14   **Q.   Where is Frontier's most recent 10-Q filing referenced in your Direct  
15       Testimony?**

16   A.   Also in footnote No. 4, page 34, of my Direct Testimony, I reference the on-line  
17       location of Frontier's Quarterly Report on Form 10-Q (filed May 7, 2009) for the  
18       three months ended March 31, 2009, which is the most recent quarterly report  
19       filed by Frontier with the SEC and is available at:

20       <http://www.sec.gov/Archives/edgar/data/20520/000002052009000023/form10q1q09.txt>.

21

22   **Q.   Is this 10-Q included in your Supplemental Testimony?**

1 A. Yes. It is included as Exhibit No. DM-4.

2

3 **Q. Please explain the credit rating action releases related to Frontier issued by**  
4 **Moody's and Fitch following announcement of the proposed transaction.**

5 A. Beginning on line 2, page 39, of my Direct Testimony, I stated that two credit  
6 rating agencies (Moody's and Fitch) put Frontier on a positive credit watch as of  
7 the day the proposed transaction was announced (meaning as a result of the  
8 proposed transaction the agencies will review Frontier's credit rating with the  
9 possibility that the ratings will be upgraded to reflect the improved credit quality  
10 of the pro forma combined company).

11

12 **Q. Does Frontier have support for the changes in credit rating status referenced**  
13 **in your Direct Testimony?**

14 A. Yes. The reports issued by Moody's and Fitch to support the change to positive  
15 credit watch status are included as Exhibit No. DM-5.

16

17 **Q. On page 47 of your Direct Testimony, you explain how this transaction**  
18 **differs from the FairPoint and Hawaiian Telecom transactions, including**  
19 **differences from a financial perspective. Is there support from independent**  
20 **investment analysts that this transaction is different from previous**  
21 **transactions and that Frontier's acquisition is financially sound?**

1 A. Yes. For example, Raymond James and Associates, Inc. issued a report  
2 explaining that this transaction is very different from the FairPoint transaction,  
3 and that Frontier is making a “prudent acquisition”:

4 We note several significant differences between the two  
5 transactions: Frontier is de-levering (not re-levering)  
6 significantly through the transaction, should be solidly in  
7 investment grade range, is proactively cutting its dividend,  
8 and plans on driving broadband penetration and availability  
9 much higher than current levels, (Verizon properties have  
10 60% availability, Frontier’s have 92%), all of which  
11 regulators like to see. In addition, we believe Frontier is in  
12 a position of strength, as it does not face any financial  
13 burdens like FairPoint did that would force it to take  
14 burdensome concessions. Lastly, Frontier will acquire  
15 GTE’s entire legacy IT systems in 13 of the 14 states,  
16 giving it the ability to run parallel systems for all products  
17 in those 13 states. This is different from a forced cutover  
18 or new systems development, which actually requires a  
19 hastened time frame and can be fraught with peril.  
20 Effectively, these are stand-alone systems with a general  
21 manager overseeing them and won’t require any new  
22 systems development on the part of Frontier until  
23 management is ready to move them over.

24  
25 Overall, we believe Frontier is making a prudent  
26 acquisition, which will expand its scale, lower its leverage,  
27 and improve its dividend sustainability, thus rewarding  
28 patient investors over time.

29  
30 Raymond James & Associates, FTR: Notes From the Road (June 12, 2009)  
31 (attached as Exhibit No. DM-6).

32  
33 **Q. Has Frontier submitted other supporting documents in this proceeding?**

1 A. Yes. On May 29, 2009, the Joint Applicants filed the Joint Application in this  
2 proceeding, which included the following three exhibits: 1) The Agreement and  
3 Plan of Merger (“Merger Agreement”) which was attached as an Exhibit to a  
4 Current Report on Form 8-K filed with the SEC on May 15, 2009 and was  
5 attached as Exhibit 1 to the Joint Application; 2) the Distribution Agreement  
6 which was attached as an Exhibit to the same 8-K filing and was attached as  
7 Exhibit 2 to the Joint Application; and 3) Frontier’s pre- and post-Transaction  
8 corporate structure was attached as Exhibit 3 to the Joint Application.

9  
10 **Q. Are there other recently finalized supporting documents that Frontier would**  
11 **like to include in the record in this proceeding?**

12 A. Yes. On July 24, 2009, Frontier filed with the SEC a Registration Statement on  
13 Form S-4, which is 460 pages in length. The purpose of the Form S-4 is to  
14 register the shares of common stock that Frontier will be issuing in connection  
15 with the proposed transaction. The S-4 includes the proxy statement that will be  
16 sent to Frontier’s stockholders in order to solicit their vote on the proposed  
17 transaction. The registration of the shares and the approval of Frontier’s  
18 shareholders are necessary steps to consummating the proposed transaction.

19  
20 **Q. Please summarize the information related to the proposed transaction**  
21 **between Frontier and Verizon included in that S-4.**

1 A. The S-4 and the proxy statement concentrate in one document information that  
2 could be material to a stockholder's decision to vote on the proposed transaction.  
3 As such, it includes financial and operating data about Frontier and the operations  
4 to be acquired by Frontier in the proposed transaction, as well as pro forma  
5 information with respect to the combined company, a description of the  
6 transaction and the agreements executed in connection therewith. The S-4 also  
7 includes a more detailed history about the process that led to the vote by the  
8 Frontier Board of Directors in approving the proposed transaction, including a  
9 description of the analyses performed by Frontier's investment bankers in  
10 rendering their opinions as to the fairness of the transaction to Frontier and its  
11 stockholders from a financial point of view. As such, that detail supplements my  
12 pre-filed Direct Testimony in the form of more specific explanations about the  
13 rationale for the merger, the process that led to and is expected to result in the  
14 consummation of the merger, and historical financial information. However, the  
15 S-4 contains no information that would cause me to change any of the facts,  
16 representations or conclusions included in my Direct Testimony.

17

18 **Q. Does the entire S-4 pertain to the review of the Commission?**

19 A. No. The entire S-4 is probably not pertinent to the Commission's review of the  
20 transaction, but I have attached the entire document as Exhibit No. DM-7 in  
21 response to the Commission's expressed preference for a complete record. The S-



1 4 is often repetitious from one section to the next, and it includes already-  
2 submitted Frontier financial information reflected in Frontier's 10-K and 10-Q (in  
3 particular, on pages F-1 through F-60) cited in my Direct Testimony at pages 34  
4 and 35 and a copy of the Merger Agreement and Distribution Agreement (Annex-  
5 1 and Annex-2), each of which was previously included as Exhibits to the Joint  
6 Application filed in this proceeding on May 29, 2009. Note the Merger  
7 Agreement and Distribution Agreement included with the S-4 are composite  
8 copies of the Merger Agreement and Distribution Agreements dated May 13,  
9 2009 and short amendments to each of these agreements dated July 24, 2009  
10 (Exhibit 2.2 and 10.2).

11

12 **Q. What other information in the S-4 should the Commission consider in**  
13 **conjunction with your Direct Testimony?**

14 A. In addition to the information highlighted above, the S-4 includes information that  
15 supplements the points made in my Direct Testimony. For example, the S-4  
16 summarizes historical financial data of Frontier and Verizon's operations to be  
17 acquired by Frontier as well as pro forma data about the combined company from  
18 pages 16 through 21. Frontier's financial strength and advantages, as outlined in  
19 the S-4, support the benefits I described in my Direct Testimony at pages 17-19.  
20 In addition, the S-4 provides more detail regarding the historical information for  
21 the Verizon operations to be acquired by Frontier and for the pro forma combined

1           company. Specifically, the historical financials and discussion of those financials  
2           for the Verizon operations to be acquired by Frontier are explained more fully on  
3           pages 112 through 115, and on pages F-61 through F-90 of the S-4. The  
4           combined-company pro forma financials are found on pages 168 through 176,  
5           including the Balance Sheet information, as of March 31, 2009; the pro forma  
6           2008 Statement of Operations; the pro forma quarterly Statement of Operations,  
7           as of March 31, 2009; and the notes for those financial statements. Those data  
8           support the key service and financial metrics summarized in my pre-filed Direct  
9           Testimony at pages 36 through 40.

10

11   **Q.    Does this conclude your Supplemental Direct Testimony?**

12   **A.    Yes, thank you.**