



Moody's Investors Service

Global Credit Research  
Rating Action  
13 MAY 2009

**Rating Action: Frontier Communications Corporation**

**Moody's: Frontier's ratings on review for possible upgrade; Verizon - NW, North and WV on review for possible downgrade**

New York, May 13, 2009 -- Moody's Investors Service has placed the debt ratings of Frontier Communications Corporation ("Frontier") on review for possible upgrade, following the announcement that it plans to merge with a company to be spun out of Verizon Communications' northern and western operations (VZ-Spinco) in a reverse Morris Trust transaction, valued at \$8.6 billion in cash and stock, where by Verizon shareholders will own between 66% and 71% of the post-merger entity. However, Moody's believes the change of control provisions in Frontier's debt are unlikely to be triggered and Moody's expects the existing Frontier debt to stay in place.

As part of the transaction, VZ-Spinco will issue approximately \$3 billion of new debt, while it is anticipated that \$250 million of existing debt at the Verizon entities to be acquired will remain in place post-merger, although the amount may be up to \$425 million, depending on the final timing of the merger closing. As a result Moody's has also placed the A3 senior unsecured debt ratings of Verizon - Northwest, North, and West Virginia on review for a possible downgrade, as it is unlikely that the post-merger entity will be rated at that level.

The ratings actions include:

**On Review for Possible Downgrade:**

...Issuer: Verizon North Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

...Issuer: Verizon Northwest Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

...Issuer: Verizon West Virginia, Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

**On Review for Possible Upgrade:**

...Issuer: Frontier Communications Corporation

....Corporate Family Rating, currently Ba2

....Probability of Default Rating, currently Ba2

....Senior Unsecured Bank Credit Facility, currently Ba2 LGD4-53%

....Senior Unsecured Regular Bond/Debenture, currently Ba2 LGD4-53%

....Senior Unsecured Shelf, currently (P)Ba2

**Outlook Actions:**

...Issuer: Frontier Communications Corporation

....Outlook, Changed To Rating Under Review From Stable

...Issuer: Verizon North Inc.

...Outlook, Changed To Rating Under Review From Negative

..Issuer: Verizon Northwest Inc.

....Outlook, Changed To Rating Under Review From Negative

..Issuer: Verizon West Virginia, Inc.

....Outlook, Changed To Rating Under Review From Negative

Frontier expects to generate significant expense savings from the merger, initially estimated at about \$500 million annually. Non-recurring integration costs will likely be in the \$200 million range, while the company is likely to ramp up capital expenditures during the first years of integration in order to increase VZ-Spinco properties' high speed data addressability. Frontier's current high speed data availability is approximately 90%. The merger will produce a company with operations in 27 states serving over 7 million access lines. The increase in scale is expected to bolster Frontier's overall competitive position and increase operational and capital efficiencies, especially those related to network modernization and new product development. However, the challenge to Frontier of integrating a company more than twice its size is substantial and will be an additional and significant focus of Moody's review of the ratings.

Frontier believes that the operating systems transition in this situation will be easier than in some recent Verizon asset sales, as only the West Virginia operations, which represent about 13% of the VZ-Spinco lines, will require a systems conversion at closing. For the remaining lines, VZ-Spinco will be operating under independent management and operating systems prior to the merger effectiveness and will not require a timed cutover, which is expected to materially reduce the transition issues that other carriers have experienced.

The transaction is expected to result in significant deleveraging at Frontier, leading to a potentially improved credit profile. The combined pro forma 2008 Debt/EBITDA would be 2.6x, while its dividend would be cut by 25% due to a \$0.25 annual per share dividend reduction effective after closing of the transaction. Frontier has stated its intent to achieve investment grade financial metrics following the merger. Moody's will assess management's commitment and ability to maintain an investment grade credit profile for the combined company in light of the intense competitive challenges confronting the sector and the resulting pressures to achieve the targeted cost savings.

Before the transaction can close, numerous regulatory approvals, including those of several state Public Utility Commissions, are required. Conditions that may be imposed by some of these states' regulatory authorities could have a material impact on the combined entities' future operating performance and financial profile. In addition, the Obama administration and Federal Communication Commission could potentially put forth comprehensive reforms of intercarrier compensation and universal service rules. Changes to the current structure of these and other regulatory frameworks could also have an impact on the combined company's future operating and financial performance and will also be a focus of Moody's review.

Moody's most recent rating action for Frontier was on April 3, 2009, at which time Moody's assigned a Ba2 rating to the company's new note issuance.

Moody's most recent rating action for Verizon - Northwest, North, and West Virginia Frontier was on October 28, 2008, at which time Moody's confirmed the issuers' A3 senior unsecured rating and placed a negative outlook on the debt ratings.

The principal methodology used in rating Frontier and Verizon - was Moody's Global Telecommunications Industry rating methodology, which can be found at [www.moodys.com](http://www.moodys.com) in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory (December 2007, document #106465). Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

Pro-forma for the transaction, Frontier, headquartered in Stamford, CT, will become the fifth largest wireline telecommunications company in the US, serving over 7 million access lines in primarily rural areas and small and medium-sized cities. Verizon Communications is headquartered in Basking Ridge, NJ.

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