ORDINANCE NO. 491

AN ORDINANCE OF THE CITY OF WOODINVILLE, WASHINGTON, APPROVING TRANSFER OF CONTROL OF THE FRANCHISEE (VERIZON NORTHWEST INC.) FROM VERIZON COMMUNICATIONS INC. TO FRONTIER COMMUNICATIONS CORPORATION WITH CONDITIONS AND ESTABLISHING AN EFFECTIVE DATE.

WHEREAS, the City of Woodinville, has granted a cable television franchise ("Franchise") to Verizon Northwest Inc. ("Franchisee") which is an indirect wholly owned subsidiary of Verizon Communications Inc. ("Verizon"); and

WHEREAS, Verizon has entered into an agreement with Frontier Communications Corporation ("Frontier") to effectuate a transfer of control of Franchisee from Verizon to Frontier ("Transfer"); and

WHEREAS, upon completion of the Transfer, Franchisee will become an indirect wholly owned subsidiary of Frontier and, as a result, control of the Franchisee will be transferred from Verizon to Frontier; and

WHEREAS, following the Transfer, Franchisee will continue to hold and be responsible for the performance of the Franchise; and

WHEREAS, Franchisee has requested that the City consent to the Transfer and, in accordance with the requirements of the Franchise and federal law, Verizon has filed an FCC Form 394 together with Exhibits and related materials (all hereinafter collectively the "Application") with the City; and

WHEREAS, to evaluate Franchisee's request, the City has participated in a Consortium of jurisdictions including Snohomish County, the cities of Bothell, Edmonds, Everett, Kenmore, Marysville, Mountlake Terrace, Mukilteo, Woodinville and the Town of Woodway (the "Consortium"); and

WHEREAS, the City and the Consortium examined the legal, financial and technical qualifications of Frontier in order to consider and act upon the Transfer request and considered the comments of interested parties; and

WHEREAS, the City has relied upon the Application and supplemental written information provided by Frontier and Verizon; and

WHEREAS, on November 3, 2009, the City Council held a public meeting to review the Transfer request; and

WHEREAS, the City is willing to consent to the Transfer, subject to the closing of the Transfer between Verizon and Frontier and the appropriate approvals by the

Washington State Utilities and Transportation Commission and federal regulatory entities; and

WHEREAS, Franchisee has agreed to continue to unconditionally accept the terms of the existing Franchise and to comply with any other agreements existing between the Franchisee and the City;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF WOODINVILLE DOES ORDAIN AS FOLLOWS:

Section 1. The City hereby consents to the Transfer in accordance with the terms of applicable law, subject to and contingent upon the following conditions:

a. In all respects and without exception, Franchisee agrees to continue to abide by all terms of the existing Franchise and acknowledges that the transfer of control will not affect, diminish, impair or supersede the binding nature of the Franchise and any other valid ordinances, resolutions, and agreements applicable to the operation of the cable system in the City and Franchisee shall continue to meet its obligations under the Franchise. Franchisee agrees that subject to the Franchise, that Franchisee shall comply with all lawful and applicable provisions related to cable service of Woodinville Municipal Code Chapter 5.50, as amended, and all related applicable federal and state laws, and lawful orders, contracts, agreements, commitments, side letters, Franchise amendments and regulatory actions.

b. The City's consent to the transfer of control shall not be construed to constitute a waiver or release of any rights the City may have now or in the future under federal, state or local law, the Franchise, or any separate written agreements with the Franchisee. Franchisee shall remain responsible for any and all Franchise requirements (including but not limited to payment of Franchise fees and other amounts due under the Franchise, and indemnification of the City as provided in the Franchise) and non-compliance issues under the Franchise or any obligation that may now exist or may later be discovered to have existed during the term of the Franchise, even if prior to the closing of this Transfer.

c. The Transfer between Frontier and Verizon shall be substantially and materially consistent with the Application and the supplemental information provided by Frontier and Verizon through the request for information process undertaken by the City and the Consortium.

Section 2. In the event that the Transfer which is the subject of this ordinance does not close for any reason; or in the event approval is not granted by the Washington State Utilities and Transportation Commission and appropriate federal regulatory entities, or in the event that the Transfer closes on terms substantially or materially different from the terms described in the Application and supplemental written information provided by Frontier and Verizon that is relied upon by the City; or

Franchisee does not accept each and every condition of the transfer of control required of it as set forth in this ordinance; then the consent provided for herein shall be null and void, and the City shall be deemed to have disapproved the transfer of control under the Franchise and federal law, and all remedies under the Franchise and applicable laws shall be available to the City. In the event the Transfer does not close before January 2012, Verizon and Frontier will provide notice of that event to the City and an update on the reasons for such a delay in closing or notice of the termination of the Transfer.

Section 3. By consenting to the transfer of control, the City does not waive or release any rights of the City in and to the streets as provided by state law and the Woodinville Municipal Code, nor does the City waive or release any claim or issue of non-compliance it may have, known or unknown, now or in the future, against the Franchisee or any successor in interest to the Franchisee.

Section 4. The City shall not amend, revoke or otherwise alter this Ordinance without providing reasonable prior notice to the Franchisee.

Section 5. **Severability.** If any section, sentence, clause or phrase of this ordinance shall be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause or phrase of this ordinance.

Section 6. **Effective Date.** This ordinance or a summary thereof consisting of the title shall be published in the official newspaper of the City, and shall take effect and be in full force five (5) days after publication.

ADOPTED BY THE CITY COUNCIL AND SIGNED IN AUTHENTICATION OF ITS PASSAGE THIS 17th DAY OF NOVEMBER 2009.

Scott Hageman, Mayor

ATTEST/AUTHENTICATED:

Jennifer Kuhn

Jennifer Kuhn
City Clerk/CMC

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

Greg A. Rubstello
City Attorney

PASSED BY THE CITY COUNCIL: 11-17-2009
PUBLISHED: 11-23-2009
EFFECTIVE DATE: 11-30-2009
ORDINANCE NO. 491

SUMMARY OF ORDINANCE NO. 491
of the City of Woodinville, Washington

On November 17, 2009, the City Council of the City of Woodinville, Washington, approved Ordinance No. 491, the main points of which are summarized by its title as follows:

AN ORDINANCE OF THE CITY OF WOODINVILLE, WASHINGTON, APPROVING TRANSFER OF CONTROL OF THE FRANCHISEE (VERIZON NORTHWEST INC.) FROM VERIZON COMMUNICATIONS INC. TO FRONTIER COMMUNICATIONS CORPORATION WITH CONDITIONS AND ESTABLISHING AN EFFECTIVE DATE.

The full text of this ordinance will be mailed upon request.

APPROVED by the City Council at their meeting of November 17, 2009.

Jennifer L Kuhn
CITY CLERK

River Oaks Communications Corporation

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REPORT TO WASHINGTON CONSORTIUM REGARDING THE TRANSER OF CONTROL OF VERIZON NORTHWEST INC. TO FRONTIER COMMUNICATIONS CORPORATION

October 21, 2009

Executive Summary

Verizon Northwest Inc. is the cable television franchisee in ten jurisdictions that comprise the Consortium. Approximately ten months after the franchise agreements were finished, Verizon Communications Inc. ("Verizon"), the parent company of Verizon Northwest Inc., announced that it had signed an agreement to transfer control of Verizon Northwest Inc. to Frontier Communications Corporation ("Frontier") for approximately $8.6 Billion ($5.3 Billion in stock and $3.3 Billion in new debt). Frontier offers wireline telephone service and Internet service and acts as an agent for Dish Network which provides satellite television service.

On June 1, 2009, FCC Form 394, its Exhibits and related materials were received by Consortium members. Under federal law, had the application been complete, the local franchise authorities would have had 120 days to approve or deny the transfer of control. Due to disagreements over the completeness of the submittal, the timeframe was mutually extended with Verizon and Frontier until November 30, 2009.

The criteria for review are whether the transferee, in this case Frontier, has the legal, financial and technical qualifications to own and operate the cable television systems. The Consortium prepared Data Requests #1, #2 and #3 along with Requests for Information in order to be provided with necessary information to conduct its due diligence and evaluation. After reviewing several hundreds of pages of information, it is clear that there are questions as to whether this transaction will work from financial and technical standpoints. There are risks associated with it and no guarantees, but it is the responsibility of Frontier to make it work from ownership and operations perspectives.

Frontier has indicated that it intends to abide by existing franchise requirements, has no plans to increase rates (although they do not guarantee this due to market conditions), will continue providing Governmental and Educational Access Channels and build-out the systems in accordance with the franchise. Frontier prides itself on its customer service and will be retaining the bulk of Verizon's customer service personnel. As a result of the transaction, a smaller company is acquiring a larger one and the company's debt to EBITDA (EBITDA is earnings before interest, taxes, depreciation and amortization) ratio is being reduced from about 3.8 to 2.6.

Frontier continues to work on Video Transport Agreements and obtaining Programming Agreements. It is confident in its ability to address both of these issues as well as obtaining financing. Closing of the transaction is planned for April, 2010. Much additional detail with respect to these and other matters is provided below.

Neither the local government members of the Consortium nor River Oaks Communications Corporation ("River Oaks") is expressing an opinion as to whether Frontier will ultimately be successful financially, operationally or otherwise. We have not audited Verizon or Frontier or prepared independent financial projections. During the past five months, River Oaks and the Consortium Members have conducted an extensive review of information, including meetings between Verizon/Frontier and Consortium members, conference calls and a diligent and thorough review of these documents as required by federal law.

River Oaks believes Frontier meets the criteria of being legally, financially and technically qualified. Thus, we recommend consent should be given by each Consortium member to the transfer of control of Verizon Northwest Inc. to Frontier subject to a mutually acceptable Transfer Resolution or Ordinance. It is Frontier's and Verizon Northwest Inc.'s responsibility to make this transfer of control and acquisition successful from a business, technical, financial and customer standpoint.

Background

In response to public information that Verizon Communications Inc. ("Verizon") was transferring Verizon Northwest Inc., the cable system operator in the Northwest area, to Frontier Communications Corporation ("Frontier"), a Consortium was formed to consolidate resources and effectively perform due diligence as required by federal law. The Consortium is comprised of Snohomish County and the Cities of Everett, Edmonds, Marysville, Bothell, Mountlake Terrace, Kenmore, Mukilteo, Woodinville and the Town of Woodway (the "Consortium").

On June 1, 2009, Verizon filed the FCC Form 394, its Exhibits and related materials with the Consortium members. Federal law, pursuant to 47 U.S.C. §537 provides in part that a franchising authority shall have 120 days to act upon any request for approval of a sale or transfer that contains or is accompanied by such information as is required in accordance with FCC Regulations and by the franchising authority. 47 CFR §76.502 also provides certain timeframes in which local governments are required to raise substantive and procedural questions if they believe that the FCC Form 394 is not complete.

With this legal and regulatory backdrop, the Consortium retained Ogden Murphy Wallace and River Oaks Communications Corporation ("River Oaks") to represent it in this process. Peter Camp, the Executive Director of Snohomish County, was an integral part of this team as it worked on its process, responses, negotiations and related matters with respect to Verizon and Frontier.

Initial Documents Provided by Verizon/Frontier

Documents provided to the Consortium members included: FCC Form 394, Request For Consent To Transfer Control of Franchisee, Exhibit 1 with a Corporate Organizational Chart, Exhibit 2 with respect to Conditions of Service and Operations, Exhibit 3 with respect to Corporate Ownership, Directors and Officers, Exhibit 4 describing how Verizon Northwest Inc. would become a wholly owned subsidiary of Frontier Communications Corporation, Exhibit 5 with respect to other Litigation, Exhibit 6 regarding no Pledge of Stock, Exhibit 7 with respect to Frontier Financial Matters along with the 10-K of Frontier for the year ending December 31, 2008, Exhibit 8 with respect to Frontier's Technical Qualifications and a Model Resolution whereby Verizon sought to have each local jurisdiction consent to the transfer of control.

This transfer involves a publicly traded company acquiring a company held by a much larger company. As indicated by Frontier in Exhibit 7 in the submittal:

> ". . . the transaction . . . will reduce significantly the Company's debt to EBITDA ratio. Currently, Frontier's leverage is approximately 3.8 x EBITDA; after the transaction its leverage will be reduced to 2.6 x EBITDA. (EBITDA is earnings before interest, taxes, depreciation and amortization). The increased financial strength is expected to improve Frontier's access to capital and lower its cost of capital, which will inure to the benefit of the franchisee and its customers."

Additionally, the submittal also contained the Distribution Agreement by and between Verizon Communications Inc. and New Communications Holdings Inc. dated as of May 13, 2009. Also included was the Agreement and Plan of Merger dated as of May 13, 2009 by and among Verizon Communications Inc., New Communications Holdings Inc. and Frontier Communications Corporation. Subsequently the Consortium also received Amendment No.1 to the Distribution Agreement and Amendment No.1 to the Agreement and Plan of Merger.

Consortium's Data Request #1, Data Request #2 and Request for Information

Following the submittal of the FCC Form 394, Frontier and Verizon representatives met individually with the staff and elected officers of several of the Consortium members. Within 30 days of receipt of the FCC Form 394, the Washington Consortium prepared and submitted Data Request #1 and Data Request #2 to Verizon and Frontier. Copies of Data Request #1, Data Request #2 and the Request for Information Letter with its accompanying questions are attached to this Report. For purposes of brevity, we will not address the specifics and level of detail contained in those Requests for Information. Rather we will focus on salient issues and their current status. It is important to note that under federal law, the key issues are whether the transferee will have the Financial, Legal and Technical capability to own and operate the cable television systems. It was the position of the Consortium that the FCC Form 394 and Exhibits, as submitted, were incomplete and deficient. Furthermore, it was the view of the Consortium that, given that all necessary materials were not filed, the 120 day timeframe under Federal law had not commenced. If the 120 day timeframe had commenced, each jurisdiction would have been required to either approve or deny the transfer within 120 days, or the transfer would be deemed approved. The Consortium, Verizon and Frontier had significant disagreements as to whether the shot clock had been triggered.

Legal Qualifications, Frontier's Plans and Capabilities

Following the transfer, Verizon Northwest Inc., the current franchisee, will continue to be the franchisee after the completion of the transfer to Frontier. However, given that Frontier will become the new controlling entity of Verizon Northwest Inc., it was essential that the Consortium members inquire about Frontier's Legal Qualifications, plans and capabilities concerning:

- the character qualifications of Frontier,
- the cable holdings owned by Frontier,
- the existing Service Area and Line Extension Policies,
- Frontier's planned Channel Capacity, System Design and Customer Service policies, and
- the proposed Signal Carriage, including the Educational and Governmental Access Channels, Channel Allocation, and Community Access Programming.

In addition, the Request for Information inquired about the planned employment practices, whether any franchise modifications were expected, and the financial impact of the transaction on Frontier.

Customer Rates and Financing the Transaction

Of importance to cable subscribers were questions as to whether Frontier planned to increase rates as a result of this transaction. Additionally, Member communities wanted to know whether Frontier would have the financial wherewithal to successfully operate the cable television systems. The responses from Verizon and Frontier were that Frontier does not plan to increase cable rates as a result of this transaction. It should be noted, however, that while this process was underway, Verizon increased its rates to subscribers. Given that this transaction involves the exchange of approximately $5.3 Billion in stock from Frontier to Verizon shareholders and the creation of approximately $3.3 Billion in debt, many questions arose as to whether Verizon Northwest Inc. would be able to continue as an ongoing entity. Much discussion has taken place to date regarding the financial issues. This includes a presentation that was made by David Whitehouse, the Treasurer of Frontier, in which he detailed that Frontier will be selling unsecured notes with a maximum cost of 9.5% in order to finance this transaction. His view is that the Capital Markets will be receptive to the offering based on a previous debt sale by Frontier of $600 Million to $700 Million in unsecured debt. More detail regarding the financial matters will be addressed below.

In response to Data Request #1 and Data Request #2 along with narrative questions, Frontier indicated that it planned to close this transaction in April, 2010. They also indicated that they intend to honor the build-out requirements contained in each of the existing Franchises. While Frontier works with Dish Network in other regions, its view is that it wants to grow its wireline cable television business. It is the position of Frontier that its responses to the Request for Information including Data Request #1 and Data Request #2 are intended to be interpreted in conjunction with the Franchise Agreements. Also, it is important to note that consummation of the transaction is dependent upon approvals at the Federal Regulatory level and from several States as well.

Frontier's Prior Ownership of Cable Systems

In the past, Frontier has previously owned some smaller cable systems ranging in size from 255 customers to 2,728 customers. Most of these systems were either sold or discontinued. It is Frontier's position that by retaining many of the Verizon Northwest personnel and bringing in people with other cable television operating experience, it has the ability to successfully manage and operate the cable television systems in the Consortium jurisdictions. Frontier has said that it does not have post-closing plans to sell any of the cable systems in the Washington member jurisdictions.

Governmental and Educational Access Channels and Franchise Fees

With respect to the Educational and Governmental Access Channels, Frontier has stated that the Franchise commitments and obligations will continue to be met. This would include retention of the existing Educational and Governmental Access Channels. With respect to payments of Franchise Fees, Frontier has stated that it will use the same basis for calculation of Gross Revenues called for in the Franchises and the methodology of the computations will not change.

Build-Out of Verizon's Cable Systems

The issue of the system build-out was of concern to the local governments. Thus, a meeting occurred in which the build-out for each community was addressed. The range of the build-out completed varies from more than 1/3 to more than 3/4 complete. The following is a break-down by jurisdiction of the approximate build-out completion:

- Snohomish County: More than three quarters complete
- City of Everett: Approximately two thirds complete
- City of Edmonds: More than three quarters complete
- City of Marysville: More than a third complete
- City of Bothell: Almost three quarters complete
- City of Mountlake Terrace: More than three quarters complete
- City of Kenmore: Almost half complete
- City of Mukilteo: Almost half complete
- City of Woodinville: More than half complete
- Town of Woodway: More than three quarters complete

Data Request #3, Standstill Agreement and Reimbursement to the Consortium Members

In August, the Consortium, dissatisfied with the original responses to its Data Requests, sent Verizon and Frontier Data Request #3. A copy of Data Request #3 is attached to this Report. In order to prevent the 120 days from hampering the Consortium members' decisions, each member of the Consortium, Verizon and Frontier entered into a Standstill Agreement whereby the date for approval or denial was extended until November 30, 2009. Also during this time and as a continuation of issues raised in June 2009, the Consortium continued to seek reimbursement from Verizon and Frontier for costs and expenses incurred in connection with this transaction. When the Franchises were negotiated between Verizon Northwest Inc. and each of the Consortium members, Verizon stressed that it was committed to providing cable service to the communities for the long term. It was in this spirit that the Consortium members and Verizon worked collaboratively to create Franchises that would best ensure the highest quality service for the citizens. At the time the proposed transfer was announced, Verizon had held many of the Franchises for about 10 months. Verizon and Frontier through Verizon's attorney have committed to reimbursing the Consortium members for a significant portion of the members' costs and expenses. A letter of intent from Verizon will be provided shortly by Verizon.

In Data Request #3, more inquiry was made into the Legal, Technical and Financial qualifications of Frontier. Questions were again asked as to whether rates would be increased. Frontier responded by saying that it cannot guarantee that rates will not increase. However, in one of the meetings, the Frontier representative said there are no plans to raise rates because of this transaction.

Technical Capabilities

In a September meeting regarding Frontier's technical capabilities, Frontier indicated that it was going to use another method to transport its signals from Florida to Washington State than originally presented. The Video Transport Plan includes utilizing space at a facility in Florida, then sending the signal to Bloomington, Illinois, operating a transport network from Bloomington, Illinois to Ft. Wayne, Indiana and then transporting programming to Oregon and Washington. Frontier has stated that this network does not involve deploying significant new fiber; rather, it involves leasing existing transport capacity from third party providers and configuring that network by installing off-the-shelf equipment so it can transport the video signals. Presentations in September by Michael Golob, the Head Engineer for Frontier, to Consortiums in Washington and Oregon addressed these matters.

Customer Service

Frontier espouses a customer first and peace-of-mind culture for its service offering that empowers its representatives to offer its customers an array of promotions and packages so that its customers are satisfied with the services requested. Frontier empowers local supervisors and General Managers so that if a customer is unhappy with his or her current bundle of services, they have the authority to resolve the issue to the customer's satisfaction. The names of Frontier's General Managers and Regional Managers are listed on Frontier's website and in telephone directories should customers need immediate access and additional assistance.

Frontier has indicated that it plans to hire General Managers and is committed to "extending its local engagement model to newly acquired properties in Washington". Under this model, Frontier will appoint General Managers with responsibility and authority for operations, including profit and loss, installation and maintenance, responses to customer issues, charitable contributions and coordination with local government officials. Frontier indicated that it expects to appoint multiple General Managers in Washington, but did not state in which cities they would be located.

With respect to Customer Service, Frontier is retaining the Call Center and Customer Dispatch Center in Everett, along with the Verizon Customer Service personnel. Frontier prides itself on its Customer Service in the telecommunications business. Since there will be cable television, telephone and internet components of their business, their financials are predicated upon customer retention and growth in these areas. To the extent there is attrition, Frontier has indicated that it will hire additional personnel to handle Customer Service.

Programming

With respect to programming matters, Frontier is in the process of securing content agreements. It has teams of people involved in negotiations in New York and Los Angeles with two content aggregators – either one of which could provide up to 90% of Verizon's existing content. Frontier has also retained the well-known Los Angeles based law firm of Latham and Watkins to assist it in programming acquisition and negotiations.

Financial Risks

While Frontier is confident of the financial and operational success of this transaction, there are risks associated with it. In response to Data Request #3, Frontier provided Verizon Northwest Inc.'s Financial Statements for the years ended 2005, 2006, 2007, 2008 and the first and second quarters of 2009.

In summary, based upon information provided by Verizon and Frontier, Verizon Northwest Inc. will have approximately $2.18 Billion in assets, $930 Million in revenue per year and about $116 Million in net income for 2009 on an annualized basis. There is no way to know or predict whether this transaction will work from a financial standpoint because of the current state of the economy (the recession) and significant competition from Comcast, other telephone providers and DBS providers (DirecTV and EchoStar) are all variables that cannot be quantified. Additionally, there have been instances of other financial issues in Hawaii and elsewhere involving Verizon transfers to another company or companies that raise questions as well. In the context of an $8.6 Billion transaction, there is a possibility that Frontier and Verizon Northwest Inc. could cease or scale back doing business at some point in the future. The local governments cannot require them to stay in the cable television business, and it is up to Frontier's management to retain customers and grow the business.

Additionally, it appears that the Transport Agreements will not be for the length of the Franchises. Further, Programming Content Agreements could lapse or not be renewed once they are initially agreed upon between Frontier and the NCTC, Frontier and NRTC or Frontier and direct providers of video programming.

The Verizon/Frontier response to Data Request #3 contained significant narrative and 11 Attachments which were several hundred pages in length. Those documents still presented questions for the Consortium as to whether this proposed transaction will be viable from a financial and technical standpoint.

Frontier believes that by completing this transaction, synergies will result in cost savings of approximately $500 Million which, according to them, represents more than 20% of the cash operating expenses of Verizon's separate telephone operations in 2008. Projections with respect to Revenues, Debt Service, Expenses and Capital Expenditures were requested for the next three years. The response was that the requested projections do not exist and the financials reflect a combination of cable, phone and internet businesses. Without those projections, it is not possible to test the assumptions for this transaction to determine if they are reasonable or more or less favorable than could be reasonably anticipated.

Based on information provided, the combined company of Frontier and Verizon Northwest Inc. will have projected revenues of approximately $6.5 Billion as compared to the $2.2 Billion for Frontier on a stand-alone basis. Frontier has stated that the EBITDA ratio of the combined company will be less than that for Frontier presently, and combined with other actions detailed in the S-4, Frontier has stated that it anticipates that these factors will allow it to achieve an investment grade credit rating after the transaction. Frontier hopes to increase Broadband Revenue per customer as it bundles voice, video and data products tailored to customers' needs. Its view is that the FiOS properties being acquired are an important part of this strategy because they are state-of-the-art in terms of video product offerings. By being actively involved in the community and empowering local managers with their interaction with subscribers, Frontier hopes to use its local engagement model to increase customer loyalty, which would help with both customer retention and gaining new customers.

Frontier does not plan to have to draw on its $250 Million Revolving Credit Facility to finance this transaction. It plans to maintain at least $100 Million in cash at all times. With the "back-up liquidity" provided by the Revolving Credit Facility, it anticipates having access to funds on hand if there were to be unanticipated or unforeseen events. While the financing commitments will not be in place before November 30th, Frontier will not be able to close this transaction in the absence of ultimately obtaining them. Frontier anticipates that potential investors could include commercial banks, institutional loan investors and institutional fixed income bond investors. In order to close this transaction, Frontier wants to complete the $3.3 Billion financing at a maximum cost of 9.5%. Their preference is to secure financing entirely with senior unsecured notes. It is their belief that equity and corporate bond valuations are improving and that cash stockpiles held by investors could be reinvested and economic data indicates to investors that there is light at the end of the tunnel. Obviously, every person and entity will have their own opinion and risk tolerance, and there is no certainty as to how this will all play out from a financial standpoint.

Thus, in order to close this transaction, Frontier will need to have financing in place. Similarly, it could be reasonably anticipated that Frontier will need to have Transport Agreements, Network Lease Agreements and Programming Agreements in place acceptable to Frontier in order to have viability in terms of acquiring Verizon Northwest Inc. and operating the cable systems.

Conclusion

Under Federal law, the members of the Consortium have a duty from a due diligence standpoint to examine this transaction from a Financial, Legal and Technical standpoint and ultimately approve or deny this transfer of control based on these criteria. With respect to being legally qualified, both Verizon Northwest Inc. and Frontier appear to meet this standard. In its response to Data Request #1 and Data Request #2, Verizon and Frontier indicated that the proposed ownership structure complies with any and all State and Federal restrictions regarding ownership of cable communications systems. Further, the transferee is a U.S. citizen and Verizon Northwest Inc. is qualified to do business in Washington and will remain qualified after the closing of the transaction. Verizon and Frontier are seeking regulatory approvals with the Federal Communications Commission, the Department of Justice and nine states including Washington. According to Verizon Northwest Inc., they currently hold all necessary licenses from the FCC to operate the cable systems. With respect to the character qualifications of Frontier, Frontier has never been convicted in any criminal proceeding involving violations of FCC Regulations or the Communications Act of 1934, as amended.

By consenting to the transfer of control, local governments are not opining as to whether Frontier will ultimately be successful from a Financial, Technical or business standpoint. Similarly, River Oaks is not expressing an opinion as to whether Verizon Northwest Inc. or Frontier will be successful from a Technical, Financial or Operations standpoint. Competition for retention and customer growth in the broadband market among cable television, telephony and other providers is significant. Other business risks exist including handling the debt load, reductions in telephone revenues and the costs inherent in deploying and maintaining broadband systems. This could be a positive acquisition for Frontier or it could result in a situation where some day in the future, Verizon Northwest Inc. and/or Frontier scale back or cease doing business as a cable television provider in one or more of the jurisdictions that comprise the Consortium.

However, given the totality of the information presented and reviewed, River Oaks recommends that consent to the transfer of control be given by each member of the Consortium subject to a mutually acceptable Transfer Resolution or Ordinance. After a process that has spanned almost five months, extensive production of information and a diligent and thorough review of the Financial, Legal and Technical qualifications of the transferee, River Oaks believes that Frontier meets the criteria of being Financially, Legally and Technically qualified per the FCC Form 394, related materials and supplemental information to own and operate the cable systems in the Member Communities (via transfer of control of Verizon Northwest Inc. to Frontier Communications Corporation). While there are no guarantees as to Verizon Northwest Inc.'s or Frontier's post-closing Operational, Financial and Technical viability, it is the responsibility of Frontier Communications Corporation and Verizon Northwest Inc. to make this transfer of control and acquisition work from a business, Technical, Financial and Customer standpoint.