Confidential offering memorandum

$3,200,000,000

frontier Communications

New Communications Holdings Inc.

which will be merged with and into

Frontier Communications Corporation

$500,000,000 7.875% Senior Notes due 2015
$1,100,000,000 8.250% Senior Notes due 2017
$1,100,000,000 8.500% Senior Notes due 2020
$500,000,000 8.750% Senior Notes due 2022

Price for the notes: 100%

Plus accrued interest, if any, from April 12, 2010.

New Communications Holdings Inc. is offering $500,000,000 aggregate principal amount of its 7.875% senior notes due 2015 (the "2015 notes"), $1,100,000,000 aggregate principal amount of its 8.250% senior notes due 2017 (the "2017 notes"), $1,100,000,000 aggregate principal amount of its 8.500% senior notes due 2020 (the "2020 notes") and $500,000,000 aggregate principal amount of its 8.750% senior notes due 2022 (the "2022 notes" and, together with the 2015 notes, the 2017 notes and the 2020 notes, the "notes"). New Communications Holdings Inc. is a subsidiary of Verizon Communications Inc. formed for the purpose of holding defined assets and liabilities of the Spinco business (as defined in this offering memorandum), which will be spun off from Verizon Communications Inc. and will merge with and into Frontier Communications Corporation, as described in this offering memorandum. Frontier Communications Corporation will be the surviving entity in the merger and, concurrently with the merger, will assume all of New Communications Holdings Inc.'s obligations under the notes and the indenture governing the notes.

The 2015 notes will bear interest at the rate of 7.875% per annum and will mature on April 15, 2015. The 2017 notes will bear interest at the rate of 8.250% per annum and will mature on April 15, 2017. The 2020 notes will bear interest at the rate of 8.500% per annum and will mature on April 15, 2020. The 2022 notes will bear interest at the rate of 8.750% per annum and will mature on April 15, 2022. Interest on the notes will accrue from April 12, 2010, and will be payable on October 15 and April 15 of each year, beginning on October 15, 2010. This offering is not conditioned on the closing of the merger.

Upon the completion of the merger, the notes will be unsecured senior obligations of Frontier Communications Corporation and will rank equally with all of Frontier Communications Corporation's other unsecured senior indebtedness from time to time outstanding. Following the completion of the merger, Frontier Communications Corporation may, at its option, redeem some or all of the notes at any time by paying a make-whole premium, plus accrued and unpaid interest, if any, to the date of the redemption. See "Description of notes—Optional redemption."

Concurrently with the closing of this offering, the gross proceeds of this offering, plus an amount in cash contributed by Frontier Communications Corporation that equals the amount of interest that will accrue on the notes from April 12, 2010, to October 1, 2010, will be deposited into an escrow account.

Immediately prior to the spin-off of New Communications Holdings Inc. and the completion of the merger, the gross proceeds of this offering (less the initial purchasers' discount) will be released from the escrow account and used to fund the special cash payment by New Communications Holdings Inc. to Verizon Communications Inc., as described in this offering memorandum.

In the event that the merger agreement governing the merger is terminated or the spin-off and the merger are not completed on or before October 1, 2010, the notes will be subject to a special mandatory redemption. The special mandatory redemption price for each series of notes is equal to 100% of the issue price set forth above, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the date of redemption, which date of redemption will be no later than October 1, 2010 (or the next business day if additional time is required for redemption).

Holders of the notes will not have any recourse to Verizon Communications Inc. or any of its subsidiaries, other than New Communications Holdings Inc. In addition, New Communications Holdings Inc. will have limited assets until shortly prior to the spin-off (except for its interest in the escrow account) and, as a result, the sole recourse of the holders prior to the spin-off will be to the funds deposited in the escrow account.

Frontier Communications Corporation has agreed to file a registration statement with the Securities and Exchange Commission ("SEC") after the completion of the merger relating to an offer to exchange the notes for new exchange notes having substantially identical terms or, in certain circumstances, to register the resale of the notes.

The notes will not be listed on any exchange or quoted on any automated dealer quotation system. Currently, there is no public market for the notes.

Investing in the notes involves risks. See "Risk factors" beginning on page 18 for a discussion of factors that you should consider carefully before investing in the notes.

The notes are expected to be delivered to purchasers through the book-entry facilities of The Depository Trust Company on or about April 12, 2010.

The notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other place. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to certain non U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

Joint Bookrunners

J.P. Morgan **Credit Suisse**

BofA Merrill Lynch **Barclays Capital** **Citi**
Deutsche Bank Securities **Morgan Stanley** **RBS**

The date of this offering memorandum is March 26, 2010.

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Spinco and Frontier are solely responsible for the information contained in this offering memorandum. All information contained in this offering memorandum with respect to Spinco or the Spinco business (as defined herein) has been provided by Spinco. All other information contained in this offering memorandum, including pro forma information, has been provided by Frontier. None of Spinco, Frontier or any of the initial purchasers has authorized any other person to provide you with different information. None of Spinco, Frontier or any of the initial purchasers takes any responsibility for any other information that others may give you. You should assume that the information appearing in this offering memorandum is accurate only as of the date of this offering memorandum or such earlier date as may be specified in this offering memorandum. The business, financial condition, results of operations and prospects of Spinco or Frontier may have changed since those dates.

Notice to investors

This offering memorandum is strictly confidential and has been prepared solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the notes. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without the prior written consent of Spinco and Frontier is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees to make no copies, electronic or otherwise, of this offering memorandum or any documents referred to in this offering memorandum.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or should be relied upon as, a promise or representation by the initial purchasers as to the past or future. Unless otherwise specified in this offering memorandum, the information contained in this offering memorandum is as of the date of this offering memorandum and is subject to change, completion or amendment without notice. Neither the delivery of this offering memorandum at any time nor the offer, sale or delivery of any note shall, under any circumstances, create any implication that there has been no change in the information set forth in this offering memorandum or in the affairs of Spinco or Frontier since the date of this offering memorandum. The initial purchasers assume no responsibility for the accuracy or completeness of the information contained herein (financial, legal or otherwise).

No person is authorized in connection with this offering to give any information or to make any representation not contained in this offering memorandum, and, if given or made, none of Spinco, Frontier or the initial purchasers or any of their respective representatives takes any responsibility for any such information or representation.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable securities laws of any state or other jurisdiction pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of distribution" and "Transfer restrictions."

In making any investment decision, prospective investors must rely on their own examination of Spinco, Frontier and the terms of this offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the notes under applicable legal investment or similar laws or regulations.

In making a purchase of notes, you will be deemed to have made the acknowledgments, representations and agreements provided in the section of this offering memorandum entitled "Transfer restrictions."

Spinco reserves the right to withdraw this offering of the notes at any time, and Spinco and the initial purchasers reserve the right to reject any commitment to subscribe for the notes, in whole or in part. Spinco and the initial purchasers also reserve the right to allot to you less than the full amount of the notes sought by you. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

The laws of some jurisdictions may restrict the distribution of this offering memorandum and the offer and sale of the notes. To purchase the notes, you must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or resell the notes or possess this offering memorandum. You must also obtain any consent, approval or permission required for your purchase, offer or sale by you of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchase, offer or resale, and none of Spinco, Frontier or the initial purchasers will have any liability therefor. None of Spinco, Frontier, the initial purchasers or any of their respective representatives is making any representation to you or any person regarding the legality of any investment in the notes by you or any person under applicable legal investment or similar laws or regulations. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy any of the notes to you or any person in any jurisdiction where it is unlawful to make such an offer or solicitation.

The initial purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the notes, including over-allotment, stabilizing and short-covering transactions in the notes, during and after this offering of the notes. Such stabilization, if commenced, may be discontinued at any time. For a description of these activities, please refer to the section in this offering memorandum entitled "Plan of distribution."

None of the SEC, any state or provincial securities commission or any other regulatory authority has approved or disapproved of the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

Notice to New Hampshire residents only

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SEC review

The information in this offering memorandum relates to an offering that is exempt from registration under the Securities Act. Frontier has agreed that, after the completion of the merger, Frontier will (1) file a registration statement with the SEC with respect to a registered offer to exchange each series of notes for new exchange notes having terms substantially identical to such series of notes (except that the new exchange notes will not contain terms with respect to additional interest or transfer restrictions) or (2) in certain circumstances, file a shelf registration statement with respect to resales of the notes. See "Exchange offer; Registration rights." In the course of review by the SEC of the registration statement and other filings Frontier makes with the SEC, it may be necessary, or Frontier may elect, to make changes to (1) the description of the business of Spinco, Frontier or the combined company, (2) the financial statements of Spinco, Frontier or the combined company, or (3) other information in those documents and filings, in any such case, that differs from the information contained in this offering memorandum. While Spinco and Frontier believe that the financial statements and the other financial data included in this offering memorandum have been prepared in a manner that complies, in all material respects, with generally accepted accounting principles ("GAAP") and the regulations published by the SEC, comments by the SEC may require modification or reformulation of financial statements and other information presented in this offering memorandum. Any such modification or reformulation may be significant.

The SEC has issued rules to regulate the use in filings with the SEC of "non-GAAP financial measures," such as Adjusted EBITDA, that are derived on the basis of methodologies other than in accordance with GAAP. The presentation of Adjusted EBITDA in this offering memorandum may not be comparable to that of other companies. For a reconciliation of Frontier's Adjusted EBITDA to operating income as calculated under GAAP, see footnote (7) in "Summary—Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information—Frontier." For a reconciliation of pro forma combined Adjusted EBITDA to pro forma combined operating income, see footnote (1) in "Summary—Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information—Pro forma combined."

Market and industry data and forecasts

This offering memorandum includes estimates of industry data and forecasts that Spinco and Frontier have obtained from industry publications and surveys or internal company sources. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. None of Spinco, Frontier or the initial purchasers has independently verified any of the data from third-party sources, nor have Spinco, Frontier or the initial purchasers ascertained the underlying economic assumptions relied upon therein. Similarly, while Spinco and Frontier believe that internal estimates with respect to industry data are reliable, such estimates have not been verified by any independent sources, and neither Spinco nor Frontier can assure you that they are accurate. While Spinco and Frontier are not aware of any misstatements regarding any industry data presented in this offering memorandum, estimates of such industry data, in particular as they relate to market share and general expectations, involve risks and uncertainties and are subject to change based on various factors, including those discussed under the section entitled "Risk factors."

Cautionary note regarding forward-looking statements

This offering memorandum contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “estimate,” “project,” “plan,” “intend,” “believe,” “anticipate,” “expect,” “would,” “should,” “could” and similar expressions are intended to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements regarding anticipated synergies, expected acquisition and integration costs, anticipated capital expenditures and strategies to increase revenue per customer and improve customer retention. Forward-looking statements (including oral representations) are only predictions or statements of current plans. Forward-looking statements may differ from actual future results due to (but not limited to), and Spinco’s, Frontier’s and the combined company’s future results may be adversely affected by, among others, risks and uncertainties relating to:

- the ability of Spinco and Frontier to complete the merger;
- the failure to obtain, delays in obtaining or adverse conditions contained in any required regulatory approvals for the merger;
- for two years after the merger, the combined company may be limited in the amount of capital stock that it can issue to make acquisitions or to raise additional capital. Also, the combined company’s indemnity obligation to Verizon may discourage, delay or prevent a third party from acquiring control of it during this two-year period in a transaction that stockholders of the combined company might consider favorable;
- the ability to successfully integrate the Spinco business’s operations into Frontier’s existing operations;
- the effects of increased expenses due to activities related to the merger;
- the ability to successfully migrate the Spinco business’s West Virginia operations from Verizon owned and operated systems and processes to Frontier owned and operated systems and processes;
- the risk that the growth opportunities and cost synergies from the merger may not be fully realized or may take longer to realize than expected;
- the sufficiency of the assets contributed by Verizon to Spinco to enable the combined company to operate the Spinco business;
- disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers;
- the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that the combined company will not respond on a timely or profitable basis;
- reductions in the number of the combined company’s access lines that cannot be offset by increases in high-speed Internet (“HSI”) subscribers and sales of other products;
- the ability to sell enhanced and data services in order to offset ongoing declines in revenues from local services, switched access services and subsidies;

- the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation;
- the effects of changes in the availability of federal and state universal funding to Frontier and its competitors;
- the effects of competition from cable, wireless and other wireline carriers (through Voice over Internet Protocol ("VOIP") or otherwise);
- the ability to adjust successfully to changes in the communications industry and to implement strategies for growth;
- adverse changes in the credit markets or in the ratings given to Spinco's, Frontier's or the combined company's debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;
- continued reductions in switched access revenues as a result of regulation, competition or technology substitutions;
- the effects of changes in both general and local economic conditions on the markets the combined company will serve, which can affect demand for its products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures related to new construction of residences and businesses;
- the ability to effectively manage service quality in the combined company's territories;
- the ability to successfully introduce new product offerings, including the ability to offer bundled service packages on terms that are both profitable to the combined company and attractive to customers;
- changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations;
- the ability to manage effectively the combined company's operations, operating expenses and capital expenditures, and to repay, reduce or refinance the combined company's debt;
- the effects of bankruptcies and home foreclosures, which could result in difficulty in collection of revenues and loss of customers;
- the effects of technological changes and competition on the combined company's capital expenditures and product and service offerings, including the lack of assurance that the combined company's network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;
- the effects of increased medical, retiree and pension expenses and related funding requirements;
- changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments;
- the effects of state regulatory cash management policies on the combined company's ability to transfer cash among the combined company's subsidiaries and to the parent company;
- the ability to successfully renegotiate union contracts expiring in 2010 and thereafter;
- declines in the value of the combined company's pension plan assets, which could require the combined company to make contributions to the pension plan in 2011 and beyond;

- the ability to pay dividends on the combined company's common shares, which may be affected by the combined company's cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes and liquidity;
- the effects of any unfavorable outcome with respect to any of Frontier's or the Spinco business's current or future legal, governmental or regulatory proceedings, audits or disputes;
- the possible impact of adverse changes in political or other external factors over which the combined company would have no control; and
- the effects of hurricanes, ice storms or other natural disasters.

Any of the foregoing events, or other events, could cause financial information to vary materially from the forward-looking statements included in this offering memorandum. You should consider these important factors, as well as the risk factors set forth in this offering memorandum, in evaluating any statement made in this offering memorandum. See "Risk factors." For the foregoing reasons, you are cautioned against relying on any forward-looking statements. Neither Spinco nor Frontier undertakes any obligation to update or revise these forward-looking statements, except as required by law.

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Summary

This summary highlights information contained elsewhere in this offering memorandum. Because this is only a summary, it does not contain all of the information that may be important to you. You should carefully read the entire offering memorandum, including "Risk factors," "Unaudited pro forma condensed combined financial information" and the financial statements of Frontier and Verizon's Separate Telephone Operations, and notes related thereto, before making an investment decision.

On May 13, 2009, Frontier executed a definitive merger agreement (as amended, the "merger agreement") pursuant to which, subject to the terms and conditions set forth therein, Spinco will merge with and into Frontier, and Frontier will survive as the combined company conducting the combined business operations of Frontier and Spinco (the "merger"). Immediately prior to the merger, Spinco, which will hold defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin and in portions of California bordering Arizona, Nevada and Oregon (collectively, the "Spinco territory"), including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory (the "Spinco business"), will be spun off to Verizon stockholders (the "spin-off"). In addition, subject to obtaining a certificate of public convenience in Virginia, which is not a condition to the merger, we will also serve approximately 300 customers in a portion of Virginia bordering West Virginia. We refer to the merger, the spin-off and the related transactions to be effected by Verizon, Spinco and Frontier, collectively, as the "transactions." The transactions are more fully described below under "—Our business" and "—The transactions."

Verizon's Separate Telephone Operations' financial information is included in this offering memorandum before taking into account any of the pro forma adjustments detailed in "Unaudited pro forma condensed combined financial information." This financial information, together with the pro forma adjustments detailed in "Unaudited pro forma condensed combined financial information," reflects the operations that will constitute the Spinco business in connection with the spin-off and the merger. This offering memorandum describes Spinco as if it had the assets, liabilities and customers that will be transferred to it prior to completion of the spin-off and the merger for all periods and dates presented.

Pro forma condensed combined financial information in this offering memorandum, and the phrase "on a pro forma basis," give pro forma effect to the transactions and (1) the repayment, on February 15, 2010, of $200 million of indebtedness, and (2) the expected repayment, on June 1, 2010, of $175 million of indebtedness, that in each case would otherwise have constituted distribution date indebtedness (as defined herein), all as if they had occurred on January 1, 2009, for statement of operations purposes, and December 31, 2009, for balance sheet purposes. See "—Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information—Pro forma combined" and "Unaudited pro forma condensed combined financial information."

For purposes of this offering memorandum, unless the context otherwise indicates or as otherwise indicated:

- references to "we," "us," "our" and the "combined company" refer to Frontier and its subsidiaries following the completion of the transactions, assuming that the transactions are completed;

- *references to "Spinco" refer to New Communications Holdings Inc. and its subsidiaries;*
- *references to "Verizon" refer to Verizon Communications Inc. and its subsidiaries (except that neither Cellco Partnership doing business as Verizon Wireless nor any of its subsidiaries is deemed to be a subsidiary or an affiliate of Verizon for purposes of the distribution agreement (as defined below) or the merger agreement); and*
- *references to "Frontier" refer to Frontier Communications Corporation and its subsidiaries.*

Our business

Frontier expects the combined company to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest incumbent local exchange carrier ("ILEC"), with more than 6.3 million access lines, 8 million voice and broadband connections and 15,000 employees in 27 states on a pro forma basis as of December 31, 2009. We will offer a broad portfolio of high-quality communications services for residential and business customers in each of the current Frontier and Spinco markets. These services will include local and long distance services, data and Internet services, access services, directory services, video services and wireless services. Through our local services, we will provide basic and enhanced telephone wireline access services to residential and business customers. In addition, these local services customers will have the opportunity to use us as their long distance provider. Our data and Internet services will offer customers a range of Internet access and data transfer options. Through our access services, we will allow other carriers the use of our facilities to originate and terminate their long distance voice and data traffic as well as allow certain carriers and high-volume commercial customers access to dedicated high-capacity circuits. Our directory services will involve the provision of white and yellow pages directories for residential and business listings. We will provide video services in partnership with satellite television providers and, in certain markets, through fiber-optic broadband video networks. We will also offer wireless data services in selected markets.

On a pro forma basis our revenues would have been approximately $6.1 billion and our Adjusted EBITDA would have been approximately $3.0 billion, in each case for the year ended December 31, 2009. See "—Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information—Pro forma combined" and "Unaudited pro forma condensed combined financial information."

The merger will combine Frontier's existing business with the Spinco business. The Spinco business consists of local exchange service, designated intrastate and interstate long distance service, network access service, Internet access service, enhanced voice and data services, digital subscriber line services ("DSL"), fiber-to-the-premises voice, broadband and video services, wholesale services, operator services, directory assistance services, customer service to end users, and, in connection with the foregoing, repairs, billing and collections, as well as other specified activities of Verizon in the Spinco territory. The conveyed assets will specifically include designated fiber-to-the-premises network elements and customer premises equipment at fiber-to-the-premises subscriber locations in the states of Indiana, Oregon and Washington and specified related transmission facilities.

Competitive strengths

Frontier believes that, following the completion of the merger, the combined company will be distinguished by the following competitive strengths:

Enhanced scale and scope. Our increased scale and scope will allow us to leverage our common support functions and systems (such as corporate administrative functions and information technology and network systems) to achieve both operating expense and capital expenditure synergies. Frontier currently anticipates that, by 2013, the combined company's annualized cost synergies will reach approximately $500 million, which represents approximately 18% of the operating expenses, excluding depreciation and amortization expense, of Verizon's Separate Telephone Operations in 2009. See "Management's discussion and analysis of financial condition and results of operations—Overview—Expected cost savings resulting from the merger."

Broader footprint and greater revenue opportunities. Although Frontier currently operates in 11 of the 14 states in which the Spinco business operates, the existing ILEC footprints of the businesses do not overlap. In addition, the customers of the Spinco business generally have a profile similar in characteristics such as age, income and property ownership to Frontier's existing customers. We will therefore have a broader operating footprint that will provide greater revenue opportunities through the expansion of Frontier's existing operating strategies into the Spinco territory, as well as through greater broadband penetration and new product and services offerings (such as bundled service packages) in the Spinco territory.

Strong financial profile with lower leverage. For the year ended December 31, 2009, on a pro forma basis, we would have generated revenue of approximately $6.1 billion, compared to revenue of approximately $2.1 billion for Frontier for the year ended December 31, 2009. Taking into account the significant decrease in our leverage as a result of the transactions and the anticipated reduction of our annual dividend to $0.75 per share of common stock, as previously announced, Frontier anticipates that the combined company will have a strengthened financial profile, with a more sustainable dividend payout ratio.

Experienced management team with proven track record of successful business integration. We will be managed by Frontier's current senior management team with a proven track record of successful business integration, as demonstrated by its integration of former GTE Corporation properties and former Rochester Telephone, Commonwealth Telephone Enterprises ("Commonwealth" or "CTE") and Global Valley Networks and GVN Services (together, "GVN") businesses into Frontier, as well as its consolidation of five billing systems covering 2.1 million access lines into a single system over the past six years.

Company strategies

Frontier expects that, following the completion of the merger, the key elements of the combined company's strategy will be as follows:

Expand broadband footprint. We will concentrate on broadband as a core component of our service offerings and growth. As of December 31, 2009, approximately 91% of Frontier's customer base had access to Frontier's broadband or other high-speed data products, whereas only approximately 62% of the customers of the Spinco business had access to Verizon's broadband or other high-speed data products. We plan to earmark capital expenditures for the expansion of broadband availability in the Spinco territory and view this expansion as an opportunity to satisfy customer needs and expectations, retain a greater number of customers and increase average revenue per customer. In addition, in connection with the approval of the transactions by certain state regulatory commissions, Frontier has committed to expand broadband availability in certain areas of the Spinco territory. See "Business—Regulatory environment—Regulation of our business after the spin-off and merger."

Increase revenue per customer. We will apply the sales and marketing practices that Frontier currently employs throughout our markets, including the sale of voice, data and video services as bundled packages and the use of promotions and incentives, including gifts such as personal computers, digital cameras and gift cards, to drive market share. Frontier believes that these marketing strategies will potentially present a significant opportunity to increase revenue per customer, as well as strengthen customer relationships and improve customer retention.

Enhance customer loyalty through local engagement. We will continue Frontier's existing strategy of engaging the markets at the local level to ensure that we have a customer-driven sales and service focus, including differentiating the service offerings and bundled packages to customers in different markets to ensure that customers are satisfied based on their specific needs. Our local markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. We will also continue the current community involvement practices of Frontier and the Spinco business to create a competitive advantage through long-term customer loyalty. We will be committed to providing best-in-class service throughout our markets and, by doing so, Frontier expects the combined company to maximize retention of current Spinco and Frontier customers and gain new customers.

Ensure integration of the Spinco business. Pursuant to the merger agreement and the other transaction agreements, Frontier expects that the Spinco business (other than with respect to West Virginia) will continue to operate with its existing single platform on an independent basis immediately following the merger, and the Spinco business with respect to West Virginia will be integrated into Frontier's existing systems contemporaneously with the closing of the merger. The main integration effort required for the combined company to operate the Spinco business immediately following the merger will therefore be completed prior to the closing of the merger, freeing up our resources to implement further strategies to achieve cost savings and drive revenue enhancements.

Increase operating efficiencies and realize cost savings. We will aim to achieve cost savings by applying Frontier's existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions (including certain functions formerly provided by Verizon, or other third-party service providers, to the Spinco business). Frontier anticipates that the combined company will realize these annualized cost savings by 2013, once the Spinco business's network and information technology systems and processes are fully integrated with those of Frontier. However, there can be no assurance that these or any other cost savings will actually be realized. See "Risk factors—Risks related to the spin-off and the merger—We may not realize the growth opportunities and cost synergies that are anticipated from the merger."

Growth through selective acquisitions. Following the completion of the merger, we will continue to evaluate and pursue select strategic acquisitions that would enhance revenues and cash flows, although for two years following the completion of the merger we may not enter into any agreement, understanding or arrangement with respect to any transaction involving the acquisition, issuance, repurchase, or change of ownership of the combined company's capital stock. We will continue to adhere to Frontier's traditional selective criteria in our acquisition analysis.

The transactions

The spin-off

As part of the spin-off, pursuant to the distribution agreement between Verizon and Spinco (as amended, the "distribution agreement"), Verizon will, pursuant to a series of restructuring transactions prior to the spin-off, contribute to Spinco and its subsidiaries defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. In exchange for these contributions, and immediately prior to the spin-off and the closing of the merger, Spinco will deliver to Verizon a special cash payment (the "special cash payment") in an amount not to exceed the lesser of (i)(x) $3.333 billion minus (y) the aggregate amount of pre-existing long-term indebtedness to third parties (which may include current maturities) of Verizon subsidiaries that conduct the Spinco business that will become the consolidated indebtedness of Spinco as a result of the spin-off (the "distribution date indebtedness") and (ii) Verizon's estimate of its tax basis in Spinco (which Verizon currently anticipates will be greater than $3.333 billion).

The distribution agreement provides that if the total amount of the special cash payment plus the distribution date indebtedness is less than $3.333 billion, Spinco may issue, if required, senior unsecured debt securities of Spinco (the "Spinco debt securities") to Verizon in a principal amount equal to such shortfall. However, the parties expect that no Spinco debt securities will be issued.

Also in connection with these contributions, Spinco will issue additional shares of Spinco common stock to Verizon, which will be distributed in the spin-off as described below.

As a result of the foregoing restructuring transactions (collectively, the "contribution"), Verizon will receive from Spinco $3.333 billion in aggregate value in the form of the special cash payment and a reduction in the consolidated indebtedness of Verizon as a result of the distribution date indebtedness becoming consolidated indebtedness of Spinco at the time of the spin-off (the "Verizon debt reduction").

The merger agreement and the distribution agreement provide that, prior to the spin-off, Spinco will enter into debt financing in the form of one or more term loan bank borrowings or capital markets issuances by Spinco (collectively, the "special cash payment financing") to finance the special cash payment to Verizon. See "Description of other indebtedness." This offering constitutes the special cash payment financing, and the net proceeds from the notes offered hereby will be used to finance the special cash payment to Verizon.

After the contribution and immediately prior to the merger, Verizon will distribute all of the shares of Spinco common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders (collectively, the "distribution"). Spinco will then merge with and into Frontier, and the shares of Spinco common stock will be immediately converted into the number of shares of Frontier common stock that Verizon stockholders will be entitled to receive in the merger based on the calculation set forth in the merger agreement. The third-party distribution agent will then distribute these shares of Frontier common stock and cash in lieu of fractional shares to Verizon stockholders on a pro rata basis in accordance with the terms of the merger agreement.

The merger

In the merger, Spinco will merge with and into Frontier in accordance with the terms of the merger agreement and, following the completion of the merger, the separate existence of Spinco will cease. Frontier will survive the merger as the combined company and will hold and conduct the combined business operations of Frontier and Spinco. Concurrently with the closing of the merger, Frontier will assume all of Spinco's obligations under the notes and the indenture governing the notes.

Verizon stockholders will be entitled to receive a number of shares of common stock of Frontier, as the combined company, to be determined based on the calculation set forth in the merger agreement.

Frontier stockholders approved proposals related to the merger at a special meeting of stockholders on October 27, 2009. No vote by Verizon stockholders is required in connection with the spin-off and the merger. Verizon, as the sole stockholder of Spinco, has already approved the merger. In addition, the Federal Trade Commission has granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and certain regulatory consents required for the transactions have already been obtained.

The merger agreement contains certain conditions to closing, including (1) the availability of financing on terms that satisfy certain requirements (including with respect to pricing and maturity) and the receipt of net proceeds thereof that, taken together with the distribution date indebtedness, equal $3.333 billion, (2) the absence of conditions imposed in connection with obtaining governmental consents that would constitute a materially adverse regulatory condition, (3) the absence of any order by a court or governmental authority enjoining or prohibiting any of the transactions, (4) the absence of any action taken by any governmental authority in connection with the transactions that would reasonably be expected to have a material adverse effect on Verizon (assuming Verizon were comparable in size to the combined company) or the combined company, (5) the receipt of applicable regulatory consents, (6) the receipt of certain tax opinions, (7) the absence of a material adverse effect on Frontier, on Spinco or on the Spinco business, (8) the receipt by Verizon and Frontier of a solvency opinion of a nationally recognized independent valuation firm and (9) other customary closing conditions. In connection with their process for approving the transactions, regulatory staffs in Ohio, Oregon and Washington are monitoring Verizon's progress in segregating the operational support systems of the Spinco business (other than the portion conducted in West Virginia) from Verizon's other businesses, and the parties are awaiting approval of the transactions in West Virginia. In addition, with respect to many of the Oregon local franchising authorities, the relevant orders state that the approval of the proposed transfer of control shall not take effect until such time as Frontier obtains a substantial portion of Verizon's existing content rights from third-party content providers. There can be no assurance that the remaining required regulatory approvals will be issued without the imposition of conditions that could adversely affect the combined company, or at all. In particular, regulators may require us to pre-fund commitments that may be made in connection with their approval of the spin-off and the merger, and we may need, or elect, to raise capital in order to finance or pre-fund these commitments.

The merger agreement is subject to termination by (1) the mutual written consent of the parties thereto, (2) any of the parties thereto if the merger is not consummated by July 31, 2010, subject to certain extension rights (including extensions for up to four months to obtain applicable regulatory consents), (3) any of the parties thereto if the merger is permanently enjoined or prohibited, or if a final, non-appealable order has been entered that would constitute a materially adverse regulatory condition, (4) Frontier, on the one hand, or Verizon and Spinco, on the other hand, if the other party or parties breach the merger agreement in a way that would entitle the party or parties seeking to terminate the agreement not to consummate the merger, subject to the right of the breaching party or parties to cure the breach, and (5) Verizon and Spinco on any date, if on that date (a) the average of the volume-weighted averages of the trading prices of the Frontier common stock for any period of 60 consecutive trading days that ended within three business days prior to that date is below $3.87 and (b) Verizon and Spinco notify Frontier in writing that they are terminating the merger agreement in accordance with this provision.

Subject to satisfaction of customary closing conditions and receipt of remaining regulatory approvals, Frontier currently expects that the transactions will be completed by the end of the second quarter of 2010.

For more information concerning the spin-off and the merger, see "Where you can find more information."

The offering

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The section entitled "Description of notes" in this offering memorandum contains more detailed descriptions of the terms and conditions of the notes and the indenture governing the notes. In this subsection, "we," "us" and "our" refer only to New Communications Holdings Inc. prior to the merger and to Frontier Communications Corporation following the completion of the merger, and not to any of New Communications Holdings Inc.'s or Frontier Communications Corporation's subsidiaries, and "Spinco" and "Frontier" refer only to New Communications Holdings Inc. and Frontier Communications Corporation, respectively, and not to any of their respective subsidiaries.

Issuer	New Communications Holdings Inc., to be merged with and into Frontier.
Securities offered	$500,000,000 aggregate principal amount of 7.875% Senior Notes due 2015. $1,100,000,000 aggregate principal amount of 8.250% Senior Notes due 2017. $1,100,000,000 aggregate principal amount of 8.500% Senior Notes due 2020. $500,000,000 aggregate principal amount of 8.750% Senior Notes due 2022.
Maturity dates	2015 notes: April 15, 2015. 2017 notes: April 15, 2017. 2020 notes: April 15, 2020. 2022 notes: April 15, 2022.
Interest payment dates	We will make interest payments on the notes semi-annually in arrears on October 15 and April 15 of each year, beginning on October 15, 2010. Interest will accrue from April 12, 2010.
Ranking	The notes will be our senior unsecured obligations and will rank: • equal in right of payment to all of our existing and future senior unsecured indebtedness; • effectively junior to all of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; • effectively junior to all existing and future indebtedness and other liabilities of our subsidiaries (including trade payables and capital lease obligations); and • senior in right of payment to all of our existing and future subordinated indebtedness, if any.

As of December 31, 2009, on a pro forma basis, the combined company would have had approximately $8.3 billion of indebtedness and the notes would have ranked effectively junior to approximately $1,569.0 million of indebtedness and other liabilities of the combined company's subsidiaries, including approximately $306.6 million of indebtedness (including secured indebtedness of $20.6 million) and excluding deferred income tax liabilities and intercompany liabilities.

The indenture governing the notes will not restrict the amount of indebtedness we may incur (including senior indebtedness, which will be pari passu with the notes) except that the indenture will limit, subject to important qualifications, the amount of secured indebtedness we may incur and the amount of indebtedness our subsidiaries may incur. The notes will rank effectively junior to any such additional secured indebtedness or subsidiary indebtedness.

Optional redemption . . . At any time following the merger, Frontier may redeem some or all of the notes by paying a specified "make-whole" premium described under "Description of notes—Optional redemption."

Covenants . . . . We will issue the notes under an indenture between us and The Bank of New York Mellon, as trustee. The indenture will include covenants that, following the merger, will limit Frontier's ability and each of Frontier's subsidiaries' ability to:

- incur indebtedness at our subsidiaries;
- create liens securing indebtedness; and
- merge or consolidate with other companies.

The indenture will also place limits on the amount and types of indebtedness of Spinco and its subsidiaries that may be outstanding immediately prior to the merger.

These covenants are subject to important exceptions and qualifications, including exceptions that permit the consummation of the transactions. In addition, we and each of our subsidiaries will not be subject to the covenant described under "Description of notes—Covenants—Limitation on subsidiary indebtedness," including any limitation on indebtedness of subsidiaries, at any time after the notes achieve investment grade ratings by S&P and Moody's. See "Description of notes—Termination of certain covenants."

Change of control . . . . . Following a change of control of the combined company and a ratings decline (as defined herein), we will be required to offer to purchase all of the notes at a purchase price equal to 101% of their respective principal amounts, plus accrued and unpaid interest, if any, to the date of purchase. See "Description of notes—Repurchase of notes upon a change of control triggering event." The spin-off and merger will not constitute a change of control for this purpose.

Special mandatory redemption; Escrow of proceeds	In the event that the merger agreement governing the merger is terminated or the spin-off and the merger are not completed on or before October 1, 2010, the notes of each series will be redeemed at a special mandatory redemption price equal to 100% of the issue price of that series of notes, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the date of redemption, which date of redemption will be no later than October 1, 2010 (or the next business day if additional time is required for redemption). Concurrently with the closing of this offering, the gross proceeds of this offering, plus an amount in cash contributed by Frontier that equals the amount of interest that will accrue on the notes from April 12, 2010 to October 1, 2010, will be deposited into an escrow account. Immediately prior to the spin-off and the completion of the merger, the gross proceeds of this offering (less the initial purchasers' discount) will be released from the escrow account and used to fund the special cash payment by Spinco to Verizon. See "Description of notes—Special mandatory redemption; Escrow of proceeds."
Exchange offer; Registration rights	In connection with the issuance of the notes, Frontier will enter into a registration rights agreement obligating it to file a registration statement with the SEC after the completion of the merger so that you can exchange your notes for new exchange notes having substantially identical terms (referred to in this offering memorandum as the "exchange notes"). Frontier will use its reasonable best efforts to cause the exchange to be completed within 270 days after the completion of the merger. In certain circumstances, Frontier will be required to file a shelf registration statement for the resale of the notes. See "Exchange offer; Registration rights."
Transfer restrictions	The notes have not been registered under the Securities Act or any state securities laws. The notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. For more details, see "Transfer restrictions."
United States Federal Income Tax Considerations	For a discussion of certain tax consequences of an investment in the notes, see "Certain U.S. federal income tax considerations."
No public market	The notes are a new issue of securities, and currently there is no market for them. We do not intend to apply for the notes to be listed

on any securities exchange or to arrange for any quotation system to quote them. The initial purchasers have advised us that they intend to make a market for the notes, but they are not obligated to do so. The initial purchasers may discontinue any market-making in the notes at any time in their sole discretion. Accordingly, neither Spinco nor Frontier can assure you that a liquid market will develop for the notes.

Use of proceeds	The net proceeds from this offering (after deducting the initial purchasers' discount) will be approximately $3,136 million. We will use the net proceeds from this offering to finance the special cash payment to Verizon. The net proceeds from this offering will be released to Spinco prior to the spin-off on the anticipated closing date of the merger. The remaining proceeds from this offering will be held in escrow until the closing of the merger. See "Use of proceeds."
Recourse	Holders of the notes will not have any recourse to Verizon Communications Inc. or any of its subsidiaries (other than Spinco). Spinco will have limited assets until shortly prior to the spin-off (except for its interest in the escrow account) and, as a result, the sole recourse of the holders prior to the spin-off, will be to the funds deposited in the escrow account. Concurrently with the closing of the merger, Frontier will assume all of Spinco's obligations under the notes and the indenture governing the notes, and from that time, the holders of notes will only have recourse to Frontier.
Risk factors	Your investment in the notes will involve risks. You should consider carefully all of the information set forth in this offering memorandum and, in particular, you should evaluate the risks factors set forth in the section entitled "Risk factors" before deciding whether to purchase any notes in this offering.
Governing law	State of New York.
Trustee; Escrow agent	The Bank of New York Mellon.

Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information

Frontier

The following tables present summary historical consolidated financial and operating information of Frontier as of the dates and for the periods indicated. The summary historical consolidated financial information of Frontier as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009 is derived from the audited historical consolidated financial statements of Frontier included elsewhere in this offering memorandum. The summary historical consolidated financial information of Frontier as of December 31, 2007, 2006 and 2005 and for each of the years in the two-year period ended December 31, 2006 is derived from the audited historical consolidated financial statements of Frontier not included in this offering memorandum. The operating data of Frontier below is unaudited for all periods. The operating results of Frontier for the year ended December 31, 2009 are not necessarily indicative of the results to be expected for any future periods.

This information is only a summary and should be read in conjunction with "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements and related notes of Frontier referred to above.

	Year ended December 31,				
(In thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Statements of Operations Information:					
Revenue(1)	$2,117,894	$2,237,018	$2,288,015(3)	$2,025,367	$2,017,041
Operating income	606,165	642,456	705,416	644,490	588,968
Income from continuing operations(2)	123,181	184,274	216,514(4)	258,321(5)	189,923
Net income attributable to common shareholders of Frontier	120,783	182,660	214,654	344,555	202,375
Other financial data:					
Capital expenditures	$ 255,965(6)	$ 288,264	$ 315,793	$ 268,806	$ 259,448
Adjusted EBITDA(7)	1,148,874	1,213,968	1,212,883	1,128,170	1,116,153

	As of December 31,				
(In thousands, except for operating data)	**2009**	**2008**	**2007**	**2006**	**2005**
Balance sheet data:					
Total assets	$6,878,255	$6,888,676	$7,256,069	$6,797,536	$6,427,567
Long-term debt	4,794,129	4,721,685	4,736,897	4,467,086	3,995,130
Total shareholders' equity of Frontier	327,611	519,045	997,899	1,058,032	1,041,809
Operating data:					
Access lines	2,117,512	2,254,333	2,429,142	2,126,574	2,237,539
High-speed Internet subscribers	635,947	579,943	522,845	393,184	318,096
Video subscribers	172,961	119,919	93,596	62,851	32,326

(1) Operating results include activities for Commonwealth, from the date of its acquisition on March 8, 2007, and for GVN, from the date of their acquisition on October 31, 2007.

(2) Operating results exclude activities for Electric Lightwave, LLC ("ELI") for 2006 and 2005. In 2006, Frontier sold ELI, its competitive local exchange carrier ("CLEC") business, for $255.3 million (including the sale of associated real estate) in cash plus the assumption of approximately $4.0 million in capital lease obligations. Frontier recognized a pre-tax gain on the sale of ELI of approximately $116.7 million. Frontier's after-tax gain on the sale was $71.6 million.

(3) Revenue for 2007 includes the favorable one-time impact of $38.7 million ($24.4 million after tax) for a significant favorable settlement of a carrier dispute.

(4) Operating results for 2007 reflect the positive pre-tax impact of a pension curtailment gain of $14.4 million ($9.1 million after tax), resulting from the freeze placed on certain pension benefits of the former CTE non-union employees.

(5) Operating results for 2006 reflect the favorable pre-tax impact of a $61.4 million ($38.7 million after tax) gain recognized on the liquidation and dissolution of Rural Telephone Bank.

(6) Capital expenditures for 2009 include $25.0 million related to integration activities.

(7) Adjusted EBITDA is a non-GAAP financial measure which Frontier defines as operating income plus depreciation and amortization, non-cash pension costs, severance and early retirement costs, acquisition and integration costs, legal settlement costs, less, in 2007, a pension curtailment gain and a non-recurring gain from a significant carrier dispute settlement. A reconciliation of the differences between Adjusted EBITDA and operating income calculated and presented in accordance with GAAP is included in the table that follows. Adjusted EBITDA is, by definition, not a measure of financial performance under GAAP and is not an alternative to operating income or net income reflected in Frontier's statement of operations or to cash flow, as reflected in Frontier's statement of cash flows, and it is not necessarily indicative of cash available to fund all cash needs. Adjusted EBITDA as used by Frontier may not be comparable to similarly titled measures of other companies.

Frontier believes that presentation of Adjusted EBITDA provides useful information to investors regarding Frontier's financial condition and results of operations because Adjusted EBITDA, when used in conjunction with related GAAP financial measures, (1) provides a more comprehensive view of Frontier's core operations and ability to generate cash flow, (2) provides investors with the financial analytical framework upon which Frontier management bases financial, operational, compensation and planning decisions and (3) presents measurements that investors and rating agencies have indicated to Frontier management are useful to them in assessing Frontier and its results of operations.

Frontier management uses Adjusted EBITDA to (1) assist in analyzing Frontier's underlying financial performance from period to period, (2) evaluate the financial performance of Frontier's business units, (3) analyze and evaluate strategic and operational decisions, (4) establish criteria for compensation decisions, and (5) assist Frontier management in understanding Frontier's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Frontier management uses Adjusted EBITDA in conjunction with related GAAP financial measures. Frontier believes that Adjusted EBITDA is meaningful and useful for the reasons outlined above.

While Frontier utilizes Adjusted EBITDA in managing and analyzing its business and financial condition and believes it is useful to Frontier management and to investors for the reasons described above, Adjusted EBITDA has certain shortcomings. Frontier management compensates for the shortcomings of Adjusted EBITDA by utilizing it in conjunction with comparable GAAP financial measures. The information presented in this section should be read in conjunction with Frontier's consolidated financial statements and the related notes contained elsewhere in this offering memorandum.

The following are the components of Adjusted EBITDA for each of the years in the five-year period ended December 31, 2009.

	Year Ended December 31,				
(In thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Operating income	$ 606,165	$ 642,456	$ 705,416	$ 644,490	$ 588,968
Add back:					
Depreciation and amortization	476,391	561,801	545,856	476,487	520,204
Non-cash pension costs	34,196	—	—	—	—
Severance and early retirement costs	3,788	7,598	13,874	7,193	6,981
Acquisition and integration costs	28,334	—	—	—	—
Legal settlement costs	—	2,113	816	—	—
Pension curtailment gain	—	—	(14,379)	—	—
Carrier dispute settlement	—	—	(38,700)	—	—
Adjusted EBITDA	1,148,874	1,213,968	1,212,883	1,128,170	1,116,153

Verizon's Separate Telephone Operations

Verizon's Separate Telephone Operations are comprised of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, including Internet access and long distance services and broadband video provided to designated customers in those states. Verizon's Separate Telephone Operations comprise portions of Verizon California Inc. and Verizon South Inc., and the stock of Contel of the South, Inc., Verizon Northwest Inc., Verizon North Inc. and Verizon West Virginia Inc. (after the transfer of specific operations, assets and liabilities of Verizon North Inc. and Verizon Northwest Inc.); also included in Verizon's Separate Telephone Operations are customer relationships for related long distance services offered by portions of Verizon Long Distance LLC and Verizon Enterprise Solutions LLC and Verizon Online LLC in the Spinco territory. Verizon's Separate Telephone Operations exclude all activities of Verizon Business Global LLC and Cellco Partnership (doing business as Verizon Wireless). The following summary historical combined special-purpose financial data of Verizon's Separate Telephone Operations for each of the years ended December 31, 2009, 2008 and 2007 and as of December 31, 2009 and 2008 have been derived from the audited combined special-purpose financial statements of Verizon's Separate Telephone Operations included elsewhere in this offering memorandum. The summary historical combined special-purpose financial data for the fiscal year ended December 31, 2006, and as of December 31, 2007 and 2006 have been derived from the audited combined special-purpose financial statements of Verizon's Separate Telephone Operations that have not been included in this offering memorandum. The summary historical combined special-purpose financial data for the fiscal year ended December 31, 2005, and as of December 31, 2005, have been derived from the unaudited combined special-purpose financial statements of Verizon's Separate Telephone Operations that have not been included in this offering memorandum.

See "Unaudited pro forma condensed combined financial information" for a detailed description of assets and liabilities of Verizon's Separate Telephone Operations that will be contributed to Spinco, other assets and liabilities of Verizon's Separate Telephone Operations that will not be contributed to Spinco, and expenses that will not be expenses of the combined company as well as other similar adjustments.

The summary historical combined financial data of Verizon's Separate Telephone Operations should be read in conjunction with the audited combined special-purpose financial statements of Verizon's Separate Telephone Operations for the years ended December 31, 2009, 2008 and 2007 and the notes thereto and "Management's discussion and analysis of financial condition and results of operations" included elsewhere in this offering memorandum.

(In millions)	Year ended December 31, 2009	2008	2007	2006	2005
					(Unaudited)
Statements of Income:					
Operating revenues	$4,065	$4,352	$4,527	$4,674	$4,831
Operating income(1)	542	1,044	1,159	1,162	1,046
Net income	292	552	603	638	538
Other Financial Data:					
Capital expenditures(2)	$ 558	$ 730	$ 703	$ 702	$ 733

(In millions)	As of December 31, 2009	2008	2007	2006	2005
					(Unaudited)
Statements of Selected Assets, Selected Liabilities and Parent Funding:					
Total selected assets	$8,356	$8,926	$9,059	$9,119	$9,375
Long-term debt, including current portion	625	622	1,319	1,315	1,732
Employee benefit obligations	1,240	1,160	1,068	991	930
Parent funding	4,445	4,952	4,548	4,443	4,270

(1) Operating expenses in the years ended December 31, 2009, 2008, 2007 and 2006 included charges related to pension settlement losses, pension and other postretirement curtailment losses and severance plans of $397 million, $107 million, $53 million and $42 million, respectively. Operating expenses in the year ended December 31, 2009 also included charges of $26 million related to activities to enable Verizon's Separate Telephone Operations to operate on a stand-alone basis in connection with the proposed spin-off and business combination with Frontier.

(2) Capital expenditures in the year ended December 31, 2009 excluded $34 million related to network, non-network software and other activities to enable Verizon's Separate Telephone Operations to operate on a stand-alone basis in connection with the proposed spin-off and business combination with Frontier.

Pro forma combined

The following table shows summary unaudited pro forma condensed combined financial data about our financial condition and results of operations after giving effect to the transactions and (1) the repayment, on February 15, 2010, of $200 million of indebtedness, and (2) the expected repayment, on June 1, 2010, of $175 million of indebtedness, that in each case would otherwise have constituted distribution date indebtedness, and is based upon the historical consolidated financial data of Frontier and the historical combined special-purpose financial data of Verizon's Separate Telephone Operations included elsewhere in this offering memorandum. The unaudited pro forma condensed combined financial data has been prepared to reflect the transactions based on the acquisition method of accounting, with Frontier treated as the accounting acquirer. Under the acquisition method, the assets and liabilities of Verizon's Separate Telephone Operations will be recorded by Frontier at their respective fair values as of the date the merger is completed. The unaudited pro forma condensed combined statement of operations information, which has been prepared for the year ended December 31, 2009, gives effect to the transactions and the repayment of indebtedness as if they had occurred on January 1, 2009. The unaudited pro forma condensed combined balance sheet data has been prepared as of December 31, 2009, and gives effect to the transactions and the repayment of indebtedness as if they had occurred on that date. The summary unaudited pro forma condensed combined financial data has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of Frontier and the combined special-purpose financial statements and the related notes of Verizon's Separate Telephone Operations included elsewhere in this offering memorandum, as well as in conjunction with "Unaudited pro forma condensed combined financial information" and "Management's discussion and analysis of financial condition and results of operations."

The summary unaudited pro forma condensed combined financial data is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have been achieved had the transactions been completed at the dates indicated above. In addition, the summary unaudited pro forma condensed combined financial data does not purport to project our future financial position or results of operations after completion of the transactions. As explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information included elsewhere in this offering memorandum, the preliminary allocation of the transaction consideration reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary significantly from the actual transaction consideration allocation that will be recorded as of completion of the merger.

	Pro forma
(In millions, except per share amounts)	**Year ended December 31, 2009**
	(Unaudited)
Statement of Operations Information:	
Revenue	$6,071
Operating income	1,367
Net income	429
Basic and diluted income per common share	0.43
Other Financial Data:	
Adjusted EBITDA(1)	$2,968
Ratio of earnings to fixed charges	1.96x

	As of December 31, 2009
	(Unaudited)
Balance Sheet Data:	
Property, plant and equipment, net	$ 8,498
Goodwill, net	6,204
Total assets	17,717
Long-term debt	8,244
Stockholders' equity	5,549

(1) The following are the components of pro forma Adjusted EBITDA for the year ended December 31, 2009, as calculated by Frontier. Neither Verizon nor Verizon's Separate Telephone Operations have historically used Adjusted EBITDA in connection with the management of Verizon's Separate Telephone Operations. For an explanation of Frontier's presentation and use of Adjusted EBITDA, see footnote (7) under "Summary—Summary historical consolidated and combined financial information and unaudited pro forma condensed combined financial information—Frontier."

(in millions)	Year Ended December 31, 2009
Operating income	$1,367
Add back:	
Depreciation and amortization	1,511
Non-cash pension costs of Frontier	34
Severance and early retirement costs of Frontier	4
Non-cash pension and other postretirement costs of Verizon's Separate Telephone Operations	52
Adjusted EBITDA	$2,968

Risk factors

You should carefully consider the following risks, together with the other information contained in this offering memorandum, before investing in the notes. The risks described below are not the only risks facing the combined company. Additional risks and uncertainties not currently known or that are currently deemed to be immaterial may also materially and adversely affect our business operations or the trading prices of the notes following completion of the merger. In such a case, you may lose all or part of your investment in the notes.

Risks related to the combined company's business following the merger

We will likely face further reductions in access lines, switched access minutes of use, long distance revenues and federal and state subsidy revenues, which could adversely affect us.

The businesses that will make up the combined company have experienced declining access lines, switched access minutes of use, long distance revenues, federal and state subsidies and related revenues because of economic conditions, increasing competition, changing consumer behavior (such as wireless displacement of wireline use, e-mail use, instant messaging and increasing use of VOIP), technology changes and regulatory constraints. For example, Frontier's access lines declined 6% in 2009 and 7% in 2008. In addition, Frontier's switched access minutes of use declined 12% in 2009 and 9% in 2008 (after excluding the switched access minutes added through acquisitions in 2007). The Spinco business's access lines declined 12% in 2009 and 10% in 2008. In addition, the Spinco business's switched access minutes of use declined 15% in 2009 and 10% in 2008. These factors, among others, are likely to cause our local network service, switched network access, long distance and subsidy revenues to continue to decline, and these factors may cause our cash generated by operations to decrease.

We will face intense competition, which could adversely affect us.

The communications industry is extremely competitive and competition is increasing. The traditional dividing lines between local, long distance, wireless, cable and Internet service providers are becoming increasingly blurred. Through mergers and various service expansion strategies, service providers are striving to provide integrated solutions both within and across geographic markets. Our competitors will include competitive local exchange carriers and other providers of services, such as Internet service providers, wireless companies, VOIP providers and cable companies, that may provide services competitive with the services that we will offer or intend to introduce. Competition will continue to be intense following the merger, and neither Frontier nor Spinco can assure you that we will be able to compete effectively. The merger agreement and the distribution agreement do not contain any restrictions on either party's ability to compete with the other party following the merger. Frontier also believes that wireless and cable telephony providers have increased their penetration of various services in Frontier's and Spinco's markets. Frontier expects that we will continue to lose access lines and that competition with respect to all of our products and services will increase. Following the merger we will compete with Verizon with respect to long distance, wireless voice and data services and other services, including services to business customers of Spinco, which Verizon will continue to offer in the Spinco territory.

Frontier expects competition to intensify as a result of the entrance of new competitors, penetration of existing competitors into new markets, changing consumer behavior and the development of new technologies, products and services that can be used in substitution for our products and services. Neither Spinco nor Frontier can predict which of the many possible future technologies, products or services will be important in order to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on the success and cost of capital expenditure investments in our territories, as well as the cost of marketing efforts and on our ability to anticipate and respond to various competitive factors affecting the industry, including a changing regulatory environment that may affect our business and that of our competitors differently, new services that may be introduced (including wireless broadband offerings), changes in consumer preferences, demographic trends, economic conditions and pricing strategies by competitors. Increasing competition may reduce our revenues and increase our marketing and other costs as well as require us to increase our capital expenditures and thereby decrease our cash flow.

Some of our future competitors will have superior resources, which may place us at a cost and price disadvantage.

Some of the companies that will be our competitors will have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than our own. In addition, some of these future competitors will be able to raise capital at a lower cost than we will be able to. Consequently, some of these competitors may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than we will be able to. Additionally, the greater brand name recognition of some future competitors may require us to price our services at lower levels in order to retain or obtain customers. Finally, the cost advantages of some of these competitors may give them the ability to reduce their prices for an extended period of time if they so choose.

We may be unable to grow our revenues and cash flows despite the initiatives Frontier has implemented and we intend to continue after the spin-off and merger.

We must produce adequate revenues and cash flows that, when combined with funds available under our new revolving credit facility, will be sufficient to service our debt, fund our capital expenditures, pay our taxes, fund our pension and other employee benefit obligations and pay dividends pursuant to our dividend policy. Frontier has identified some potential areas of opportunity and implemented and will continue to implement several growth initiatives that will affect us after the spin-off and merger, including increasing marketing promotions and related expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand, such as wireline and wireless HSI, satellite video products and the “Frontier Peace of Mind” suite of products, including computer technical support. Neither Frontier nor Spinco can assure you that Frontier management will choose the best initiatives to pursue, that its approach to these opportunities will be successful, or that these initiatives will improve our financial position or our results of operations.

Weak economic conditions may decrease demand for our services.

We could be sensitive to the ongoing recession if current economic conditions or their effects continue following the merger. Downturns in the economy and competition in our markets could cause some of our customers to reduce or eliminate their purchases of our basic and enhanced services, HSI and video services and make it difficult for us to obtain new customers. In addition, if current economic conditions continue, they could cause our customers to delay or discontinue payment for our services.

Disruption in our networks, infrastructure and information technology may cause us to lose customers and incur additional expenses.

To attract and retain customers, we will need to provide customers with reliable service. Some of the risks to our networks, infrastructure and information technology include physical damage, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond our control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, we experience short disruptions in our service due to factors such as cable damage, inclement weather and service failures of our third-party service providers. We could experience more significant disruptions in the future. We could also face disruptions due to capacity limitations if changes in our customers' usage patterns for our HSI services result in a significant increase in capacity utilization, such as through increased usage of video or peer-to-peer file sharing applications. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur additional expenses, and thereby adversely affect our business, revenues and cash flows.

Our business will be sensitive to the creditworthiness of our wholesale customers.

We will have substantial business relationships with other telecommunications carriers for whom we will provide service. While bankruptcies of these carriers have not had a material adverse effect on Frontier or the Spinco business in recent years, future bankruptcies in our industry could result in the loss of significant customers, as well as cause more price competition and uncollectible accounts receivable. Such bankruptcies may be more likely in the future if current economic conditions continue through 2010 or beyond. As a result, our revenues and results of operations could be materially and adversely affected.

A significant portion of our workforce will be represented by labor unions and will therefore be subject to collective bargaining agreements, and if we are unable to enter into new agreements or renew existing agreements before they expire, our workers subject to collective bargaining agreements could engage in strikes or other labor actions that could materially disrupt our ability to provide services to our customers.

As of December 31, 2009, Frontier had approximately 5,400 active employees. Approximately 2,800, or 52%, of these employees were represented by unions and were therefore subject to collective bargaining agreements. Of the union-represented employees as of December 31, 2009, approximately 750, or 27%, were subject to collective bargaining agreements that expire in 2010 and approximately 1,300, or 46%, were subject to collective bargaining agreements that expire in 2011.

As of December 31, 2009, assuming the contribution had taken place as of that date, Spinco would have had approximately 8,900 active employees. Approximately 6,600, or 74%, of these employees were represented by unions and were therefore subject to collective bargaining agreements. Of the union-represented employees as of December 31, 2009, approximately 2,900, or 43%, were subject to collective bargaining agreements that expire in 2010 and approximately 2,700, or 41%, were subject to collective bargaining agreements that expire in 2011.

Neither Spinco nor Frontier can predict the outcome of negotiations of their collective bargaining agreements covering their respective employees who will become employees of the combined company. If we are unable to reach new agreements or renew existing agreements, employees subject to collective bargaining agreements may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services. New labor agreements or the renewal of existing agreements may impose on us significant new costs, which could adversely affect our financial condition and results of operations in the future.

A significant portion of our work force will be eligible for retirement.

As of December 31, 2009, approximately 1,200, or 22%, of Frontier's approximately 5,400 active employees were retirement eligible and, assuming the contribution had taken place as of that date, approximately 2,300, or 26%, of the Spinco business's approximately 8,900 active employees were retirement eligible. If a substantial portion of these employees were to retire and could not be replaced (and, if necessary, their replacements could not be trained promptly), our customer service could be negatively impacted, which could have a material impact on our operations and financial results. Also, the Spinco business has recently experienced increased vacancies resulting primarily from employees becoming eligible for, and taking, retirement, and Verizon has been hiring (and, if necessary, training) additional employees for the Spinco business to fill such vacancies. Spinco expects that at the time of the spin-off and the merger, Spinco will have up to 9,400 active employees.

If we are unable to hire or retain key personnel, we may be unable to operate our business successfully.

Our success will depend in part upon the continued services of our management. Neither Spinco nor Frontier can guarantee that their personnel will not leave or compete with the combined company. The loss, incapacity or unavailability for any reason of key members of our management team could have a material impact on our business. In addition, our financial results and our ability to compete will suffer should we become unable to attract, integrate or retain other qualified personnel in the future.

We may complete a future significant strategic transaction that may not achieve intended results or could increase the number of our outstanding shares or amount of outstanding debt or result in a change of control.

We will evaluate and may in the future enter into additional strategic transactions. Any such transaction could happen at any time following the closing of the merger, could be material to our business and could take any number of forms, including, for example, an acquisition, merger or a sale of all or substantially all of our assets.

Evaluating potential transactions and integrating completed ones may divert the attention of our management from ordinary operating matters. The success of these potential transactions will depend, in part, on our ability to realize the anticipated growth opportunities and cost synergies through the successful integration of the businesses we acquire with our existing business. Even if we are successful in integrating the acquired businesses, neither Spinco nor Frontier can assure you that these integrations will result in the realization of the full benefit of any anticipated growth opportunities or cost synergies or that these benefits will be realized within the expected time frames. In addition, acquired businesses may have unanticipated liabilities or contingencies.

If we complete an acquisition, investment or other strategic transaction, we may require additional financing that could result in an increase in the number of our outstanding shares or the aggregate amount of our debt, although there are restrictions on our ability to issue additional shares of stock for these purposes for two years after the merger. See "—Risks related to the spin-off and the merger—We will be unable to take certain actions after the merger because such actions could jeopardize the tax-free status of the spin-off or the merger, and such restrictions could be significant." The number of shares of our common stock or the aggregate principal amount of our debt that we may issue may be significant. A strategic transaction may result in a change in control of our company or otherwise materially and adversely affect our business.

Risks related to liquidity, financial resources and capitalization

If the lingering impact of the severe contraction in the global financial markets and current economic conditions continue through 2010, this economic scenario may have an impact on our business and financial condition.

The diminished availability of credit and liquidity due to the lingering impact of the severe contraction in the global financial markets and current economic conditions may continue through 2010. This economic scenario may affect the financial health of our customers, vendors and partners, which in turn may negatively affect our revenues, operating expenses and cash flows. In addition, in connection with the transactions, Frontier has entered into a new $750 million revolving credit facility to replace its existing $250 million revolving credit facility upon and subject to the closing of the merger and termination of the existing revolving credit facility. See "Description of other indebtedness—Description of Frontier indebtedness—Frontier credit facilities." Although Frontier believes, based on currently available information, that the financial institutions with commitments under that new revolving credit facility will be able to fulfill their commitments to us after the spin-off and merger, future adverse economic conditions could prevent them from doing so.

Volatility in asset values related to Frontier's pension plan and our assumption of Spinco's pension plan obligations may require us to make cash contributions to fund pension plan liabilities.

As a result of the ongoing payment of benefits and negative investment returns arising from a contraction in the global financial markets, Frontier's pension plan assets have declined from $822.2 million at December 31, 2007, to $608.6 million at December 31, 2009, a decrease of $213.6 million, or 26%. This decrease consisted of a decline in asset value of $72.8 million, or 9%, and benefits paid of $140.8 million, or 17%. As a result of the continued accrual of pension benefits under the applicable pension plan and the cumulative negative investment returns arising from the contraction of the global financial markets since 2007, Frontier's pension expenses increased in 2009. While the pension asset values have increased in 2009, Frontier expects to make a cash contribution to its pension plan of $10.0 million in 2010. We will maintain Frontier's pension plan and will be responsible for contributions to fund the plan's liabilities, and may be required to continue making these cash contributions in respect of liabilities under Frontier's pension plan. We will also maintain pension plans that assume the Spinco business's pension plan liabilities for active employees. The applicable Verizon tax-qualified pension plans will transfer assets to the Spinco pension plans pursuant to applicable law and the terms of the employee matters agreement entered into among Verizon, Spinco and Frontier. The aggregate transfer related to the tax-qualified pension plans for active Spinco union employees will be sufficient for full funding of projected benefit obligations in the aggregate. Following the merger, we will be responsible for making any required contributions to the new pension plans to fund liabilities of the plans, and the ongoing pension expenses of the Spinco business may require us to make cash contributions in respect of the Spinco business's pension plan liabilities.

Substantial debt and debt service obligations may adversely affect us.

Frontier has a significant amount of indebtedness, which amounted to approximately $4.8 billion at December 31, 2009. Upon the completion of the merger, we will have additional indebtedness in the amount of approximately $3.5 billion. Frontier may also obtain additional long-term debt and working capital lines of credit to meet future financing needs, subject to certain restrictions under the terms of its existing indebtedness, which would increase its total debt. Despite the substantial additional indebtedness that we will have, we will not be prohibited from incurring even more indebtedness. If we were to incur additional indebtedness, the risks that result from our substantial indebtedness could be magnified.

The potential significant negative consequences on our financial condition and results of operations that could result from our substantial debt include:

- limitations on our ability to obtain additional debt or equity financing, particularly in light of the current credit environment;
- instances in which we are unable to meet the financial covenants contained in our debt agreements or to generate cash sufficient to make required debt payments, which would have the potential of accelerating the maturity of some or all of our outstanding indebtedness;
- the allocation of a substantial portion of our cash flow from operations to service our debt, thus reducing the amount of our cash flow available for other purposes, including operating costs, capital expenditures and dividends that could improve our competitive position, results of operations or stock price;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- compromising our flexibility to plan for, or react to, competitive challenges in our business and the communications industry; and
- the possibility of our being put at a competitive disadvantage with competitors who do not have as much debt as us, and competitors who may be in a more favorable position to access additional capital resources.

We will require substantial capital to upgrade and enhance our operations.

Verizon's historical capital expenditures in connection with the Spinco business, excluding expenditures relating to Verizon's fiber-to-the-home network ("FiOS"), have been significantly lower than Frontier's level of capital expenditures, when compared on a similar basis. Replacing or upgrading our infrastructure will require significant capital expenditures, including any expected or unexpected expenditures necessary to make replacements or upgrades to the existing infrastructure of the Spinco business. If this capital is not available when needed or required as a result of the regulatory approval process in connection with the transactions, our business will be adversely affected. Responding to increases in competition, offering new services, and improving the capabilities of, or reducing the maintenance costs associated with, our plant may cause our capital expenditures to increase in the future. In addition, our anticipated annual dividend of $0.75 per share will utilize a significant portion of our cash generated by operations and therefore could limit our ability to increase capital expenditures significantly. While Frontier believes that our anticipated cash flows will be adequate to maintain this dividend policy while allowing for appropriate capital spending and other purposes, any material reduction in cash generated by operations and any increases in planned capital expenditures, interest expense or cash taxes would reduce the amount of cash available for further capital expenditures and payment of dividends. Accelerated losses of access lines, the effects of increased competition, lower subsidy and access revenues and the other factors described above may reduce our cash generated by operations and may require us to increase capital expenditures.

Risks related to regulation

Changes in federal or state regulations may reduce the access charge revenues we will receive.

A significant portion of Frontier's revenues (approximately $246.3 million, or 12%, in 2009) and a significant portion of Verizon's Separate Telephone Operations' revenues (approximately $190 million, or 5%, in 2009) are derived from access charges paid by other carriers for services Frontier and the Spinco business provide in originating and terminating intrastate and interstate long distance traffic. As a result, Frontier expects a significant portion of the combined company's revenue will continue to be derived from access charges paid by these carriers for services that we will provide in originating and terminating this traffic. The amount of access charge revenues that we will receive for these services is regulated by the Federal Communications Commission (the "FCC") and state regulatory agencies.

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation. On March 16, 2010, an FCC staff team issued a National Broadband Plan (the "National Broadband Plan") that recommends reducing intrastate terminating switched access rates to interstate terminating switched access levels over a two to four year period beginning in 2012. The National Broadband Plan further recommends eliminating all per-minute intercarrier compensation charges by 2020. This plan must still be considered by the full FCC, which may adopt, reject or modify these proposals. The FCC also has an ongoing proceeding considering whether to make changes to its regulatory regime governing special access services, including whether to mandate lower rates, change standards for deregulation and pricing flexibility, or to require changes to other terms and conditions. When and how these proposed changes will be addressed are unknown and, accordingly, neither Frontier nor Spinco can predict the impact of future changes on our results of operations. However, future reductions in our access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have substantial associated variable expenses.

Certain states also have open proceedings to address reform to access charges and other intercarrier compensation. Neither Frontier nor Spinco can predict when or how these matters will be decided or the effect on our subsidy or access revenues. In addition, Frontier has been approached by, and is currently involved in formal state proceedings with, various carriers seeking reductions in intrastate access rates in certain states. Certain of those claims have led to formal complaints to the applicable state regulatory agencies. A material reduction in the access revenues we will receive would adversely affect our financial results.

We will be reliant on support funds provided under federal and state laws.

A portion of Frontier's revenues (approximately $113.3 million in the aggregate, or 5%, in 2009) and a portion of Verizon's Separate Telephone Operations' revenues (approximately $220 million in the aggregate, or 5%, in 2009) are derived from federal and state subsidies for rural and high cost support, commonly referred to as universal service fund subsidies, including the Federal High Cost Loop Fund, federal interstate access support, federal interstate common line support, federal local switching support fund, various state funds and surcharges billed to customers. The FCC and state regulatory agencies are currently considering a number of proposals for changing the manner in which eligibility for federal and state subsidies is determined as well as the amounts of such subsidies. The FCC issued an order on May 1, 2008, to cap the amounts that competitive eligible telecommunications carriers ("CETCs") may receive from the high cost Federal Universal Service Fund (the "USF"). In 2009, a Federal court upheld the FCC's order and the cap remains in place pending any future reform. In November 2008, the FCC issued a Further Notice of Proposed Rulemaking seeking comment on several different alternatives, some of which could significantly reduce the amount of federal high cost universal service support that we would receive. Neither Frontier nor Spinco can predict if or when the FCC will take additional actions or the effect of any such actions on our subsidy revenues. The National Broadband Plan, released on March 16, 2010, recommends transitioning all of the existing federal high cost subsidy programs, including the Federal High Cost Loop Fund, federal interstate access support, federal interstate common line support and the federal local switching support fund (not including surcharges billed to customers), into a new fund focusing on broadband infrastructure buildout in unserved areas. The National Broadband Plan further recommends that there would be only one subsidized provider of broadband per geographic area, and that eligibility criteria would be company and technology agnostic, so long as the service provided meets the specifications set by the FCC. There is no assurance that a carrier that receives support under the existing federal high cost subsidy programs would receive support under the new broadband fund. In addition, the National Broadband Plan proposes that the total federal universal service fund, including high cost support, low income support and support to schools and libraries, remain close to its current size in 2010 dollars.

Federal subsidies representing interstate access support, rural high cost loop support and local switching support represented approximately $69.1 million, or 3%, of Frontier's revenues in 2009 and approximately $113 million, or 3%, of Verizon's Separate Telephone Operations' revenues in 2009. Frontier currently expects that as a result of both an increase in the national average cost per loop and a decrease in Frontier's and the Spinco business's cost structure, there will be a decrease in the subsidy revenues Frontier and the Spinco business will earn in 2010 through the Federal High Cost Loop Fund. The amount of federal interstate access support funds received may also decline as that fund is also subject to a national cap and the amounts allocated among carriers within that cap can vary from year to year. State subsidies represented approximately $8.7 million, or less than 1%, of Frontier's revenues in 2009 and approximately $20 million, or less than 1%, of Verizon's Separate Telephone Operations' revenues in 2009. Approximately $35.5 million, or 2%, of Frontier's 2009 revenues, and approximately $87 million, or 2%, of Verizon's Separate Telephone Operations' 2009 revenues, represent a surcharge to customers (local, long distance and interconnection) to recover universal service fund contribution fees which are remitted to the FCC and recorded as an expense in "other operating expenses."

We and our industry will likely remain highly regulated, and we could incur substantial compliance costs that could constrain our ability to compete in our target markets.

As an ILEC, some of the services we offer are subject to significant regulation from federal, state and local authorities. This regulation could impact our ability to change our rates, especially on our basic voice services and our access rates, and could impose substantial compliance costs on us. Regulation could constrain our ability to compete and, in some jurisdictions, may restrict how we are able to expand our service offerings. In addition, changes to the regulations that govern our business (including any implementation of the National Broadband Plan) may have an adverse effect on our business by reducing the allowable fees that we may charge, imposing additional compliance costs, reducing the amount of our subsidies or otherwise changing the nature of our operations and the competition in our industry.

Pending FCC rulemakings and state regulatory proceedings, including those relating to intercarrier compensation, universal service and broadband services, could have a substantial adverse impact on our operations.

Risks related to technology

In the future, as competition intensifies within our markets, we may be unable to meet the technological needs or expectations of our customers, and may lose customers as a result.

The communications industry is subject to significant changes in technology. If we do not replace or upgrade technology and equipment, we may be unable to compete effectively because we will not be able to meet the needs or expectations of our customers. Replacing or upgrading the combined infrastructure could result in significant capital expenditures.

In addition, rapidly changing technology in the communications industry may influence our customers to consider other service providers. For example, we may be unable to retain customers who decide to replace their wireline telephone service with wireless telephone service. In addition, VOIP technology, which operates on broadband technology, now provides our competitors with a competitive alternative to provide voice services to our customers, and wireless broadband technologies may permit our competitors to offer broadband data services to our customers throughout most or all of our service areas.

Risks related to the spin-off and the merger

The spin-off and the merger are subject to certain conditions, including the receipt of regulatory consents, and therefore the spin-off and the merger may not be consummated on the terms or timeline currently contemplated.

The consummation of the spin-off and the merger is subject to certain conditions, including (1) the availability of financing on terms that satisfy certain requirements (including with respect to pricing and maturity) and the receipt of net proceeds thereof that, taken together with the aggregate amount of the distribution date indebtedness, equals $3.333 billion, (2) the absence of conditions imposed in connection with obtaining governmental consents that would constitute a materially adverse regulatory condition, (3) the absence of any order by a court or governmental authority enjoining or prohibiting any of the transactions, (4) the absence of any action taken by any governmental authority in connection with the transactions that would reasonably be expected to have a material adverse effect on Verizon (assuming Verizon were comparable in size to the combined company) or the combined company, (5) the receipt of applicable regulatory consents, (6) the receipt of certain tax opinions, (7) the absence of a material adverse effect on Frontier, on Spinco or on the Spinco business, (8) receipt by Verizon and Frontier of a solvency opinion of a nationally recognized independent valuation firm and (9) other customary closing conditions. In addition, in connection with their process for approving the transactions, regulatory staffs in Ohio, Oregon and Washington are monitoring Verizon's progress in segregating the operational support systems of the Spinco business (other than the portion conducted in West Virginia) from Verizon's other businesses, and the parties are also awaiting approval of the transactions in West Virginia. Also, with respect to many of the Oregon local franchising authorities, the relevant orders state that the approval of the proposed transfer of control shall not take effect until such time as Frontier obtains a substantial portion of Verizon's existing content rights from third-party content providers. There can be no assurance that the remaining required regulatory approvals will be issued without the imposition of conditions that could adversely affect the combined company, or at all. In addition, the parties to the merger agreement have the right to terminate the merger agreement under certain circumstances. See "Summary – The transactions—The merger." Neither Frontier nor Spinco can assure you that the spin-off and the merger will be consummated on the terms or timeline currently contemplated.

Frontier has and will continue to expend a significant amount of capital and management's time and resources on the spin-off and the merger, and a failure to consummate the transactions as currently contemplated could have a material adverse effect on its business and results of operations. Moreover, raising the special cash payment financing through this offering prior to the closing of the spin-off and the merger has obligated Frontier to pay interest on such financing prior to the completion of the merger without yet having achieved any of the expected benefits from the merger, and the amount of such interest expense may be significant if the closing of the merger is delayed for a significant period of time.

For risks associated with the failure of the merger to be completed, see "—Risks related to the notes and this offering—In the event that the merger is not completed and the notes are subject to the special mandatory redemption, you will not realize the return on the notes that may otherwise have been obtained had the merger been completed."

Regulatory agencies may delay approval of the spin-off and the merger, fail to approve them, or approve them in a manner that may diminish the anticipated benefits of the merger.

Completion of the spin-off and the merger is conditioned upon the receipt of certain government consents, approvals, orders and authorizations. While Frontier and Verizon have obtained certain governmental approvals, intend to pursue vigorously all remaining required governmental approvals and expect to obtain the necessary approvals by the end of the second quarter of 2010, the requirement to receive these approvals before the spin-off and merger could significantly delay the completion of the spin-off and merger. See "Business—Regulatory environment" for more information on the regulatory approvals for the transactions. Any delay in the completion of the spin-off and the merger could diminish the anticipated benefits of the spin-off and the merger or result in additional transaction costs, loss of revenues or other effects associated with uncertainty about the transactions. Any uncertainty over the ability of the companies to complete the spin-off and the merger could make it more difficult for Frontier to maintain or to pursue particular business strategies. In addition, until the spin-off and the merger are completed, the attention of Frontier management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on obtaining regulatory approvals.

Further, governmental agencies may decline to grant required approvals (or grant their approvals subject to certain pre-merger requirements that, if not met, may result in the withdrawal of such approvals). If any governmental agency declines to grant or withdraws any required approval that is a condition under the merger agreement to the spin-off and the merger, then the spin-off and the merger may not be consummated and Spinco may be required to redeem the notes offered hereby. In addition, conditions imposed by governmental agencies in connection with their approval of the spin-off and the merger (such as capital expenditure and operating requirements, including expansion of broadband availability, minimum capital investment commitments, price caps on certain residential and business products, product bundle offering requirements and cash management restrictions in the event certain minimum service quality standards have not been met over a defined period of time) may restrict our ability to modify the operations of our business in response to changing circumstances for a period of time after the closing of the merger or our ability to expend cash for other uses. In particular, regulators may require us to pre-fund commitments (such as by placing cash into escrow accounts) that may be made in connection with their approval of the spin-off and the merger, and we may need, or elect, to raise capital in order to finance or pre-fund these commitments.

Our efforts to combine Frontier's business and the Spinco business may not be successful.

The acquisition of the Spinco business is the largest and most significant acquisition Frontier has undertaken. Our management will be required to devote a significant amount of time and attention to the process of integrating the operations of Frontier's business and the Spinco business, which may decrease the time it will have to serve existing customers, attract new customers and develop new services or strategies. Frontier expects that the Spinco business will operate on an independent basis, separate from Verizon's other businesses and operations, immediately prior to the closing of the merger (other than with respect to the portion operated in West Virginia, which is expected to be ready for integration into Frontier's existing business at the closing of the merger) and will not require significant post-closing integration for us to continue the operations of the Spinco business immediately after the merger. However, the size and complexity of the Spinco business and the process of using Frontier's existing common support functions and systems to manage the Spinco business after the merger, if not managed successfully by our management, may result in interruptions in our business activities, a decrease in the quality of our services, a deterioration in our employee and customer relationships, increased costs of integration and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. In addition, Frontier management will be required to devote a significant amount of time and attention before completion of the merger to the process of migrating the systems and processes supporting the operations of the Spinco business in West Virginia from systems owned and operated by Verizon to those owned and operated by Frontier. The size, complexity and timing of this migration, if not managed successfully by Frontier management, may result in interruptions of our business activities.

We may not realize the growth opportunities and cost synergies that are anticipated from the merger.

The benefits that Frontier expects to achieve as a result of the merger will depend, in part, on our ability to realize anticipated growth opportunities and cost synergies. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of Frontier's business and operations and the Spinco business and operations. Even if we are able to integrate the Frontier and Spinco businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies Frontier currently expects from this integration within the anticipated time frame or at all. For example, we may be unable to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Frontier's business and the Spinco business. While Frontier anticipates that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. For example, our estimate of expected 2010 capital expenditures related to integration activities has recently increased from $75 million to $180 million, attributable in large part to costs to be incurred in connection with third party software licenses necessary to operate the Spinco business after the closing of the merger. Accordingly, the benefits from the merger may be offset by costs incurred or delays in integrating the companies.

If the assets contributed to Spinco by Verizon are insufficient to operate the Spinco business, it could adversely affect our business, financial condition and results of operations.

Pursuant to the distribution agreement, Verizon will contribute to Spinco defined assets and liabilities of its local exchange business and related landline activities in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. The merger agreement provides that Verizon will segregate the Spinco business (other than the portion conducted in West Virginia) from Verizon's other businesses, so that the Spinco business operates independently from Verizon's other businesses, at least 60 days prior to the closing of the spin-off and merger. However, the contributed assets may not be sufficient to operate all aspects of the Spinco business, and we may need to use assets or resources from Frontier's existing business or acquire additional assets in order to operate the Spinco business, which could adversely affect our business, financial condition and results of operations.

Pursuant to the distribution agreement, we have certain rights to cause Verizon to transfer to us any assets required to be contributed to Spinco under that agreement that were not contributed as required. If Verizon were to be unable or unwilling to transfer those assets to us, or if we and Verizon were to disagree about whether those assets were required to be contributed to Spinco under the distribution agreement, we might not be able to obtain those assets or similar assets from others without significant costs or at all.

Our business, financial condition and results of operations may be adversely affected following the merger if we are not able to obtain consents to assign certain Verizon contracts to Spinco.

Certain wholesale, large business, Internet service provider and other customer contracts that are required to be assigned to Spinco by Verizon require the consent of the customer party to the contract to effect this assignment. We and Verizon may be unable to obtain these consents on terms favorable to us or at all, which could have a material adverse impact on our business, financial condition and results of operations following the merger.

If the spin-off does not qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code (the "Code"), including as a result of subsequent acquisitions of stock of Verizon or Frontier, then Verizon or Verizon stockholders may be required to pay substantial U.S. federal income taxes, and Frontier may be obligated to indemnify Verizon for such taxes imposed on Verizon or Verizon stockholders as a result thereof.

The spin-off and merger are conditioned upon Verizon's receipt of a private letter ruling from the Internal Revenue Service (the "IRS") to the effect that the spin-off and certain related transactions will qualify as tax-free to Verizon, Spinco and the Verizon stockholders for U.S. federal income tax purposes (the "IRS ruling"). A private letter ruling from the IRS generally is binding on the IRS. The favorable IRS ruling has been received by Verizon. The IRS ruling does not rule that the spin-off satisfies every requirement for a tax-free spin-off, and the parties will rely solely on the opinion of counsel described below for comfort that such additional requirements are satisfied.

The spin-off and merger are also conditioned upon Verizon's receipt of an opinion of Debevoise & Plimpton LLP ("Debevoise"), counsel to Verizon, to the effect that the spin-off and certain related transactions will qualify as tax-free to Verizon, Spinco and the stockholders of Verizon. The opinion will rely on the IRS ruling as to matters covered by it.

The IRS ruling is, and the opinion of counsel will be, based on, among other things, certain representations and assumptions as to factual matters made by Verizon, Spinco and Frontier. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the IRS ruling or the opinion of counsel. An opinion of counsel represents counsel's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the IRS ruling is based on current law, and cannot be relied upon if current law changes with retroactive effect.

The spin-off will be taxable to Verizon pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either Verizon or Spinco, directly or indirectly, as part of a plan or series of related transactions that include the spin-off. Because Verizon stockholders will collectively own more than 50% of the Frontier common stock following the merger, the merger alone will not cause the spin-off to be taxable to Verizon under Section 355(e). However, Section 355(e) might apply if other acquisitions of stock of Verizon before or after the merger, or of Frontier after the merger, are considered to be part of a plan or series of related transactions that include the spin-off. If Section 355(e) applied, Verizon might recognize a very substantial amount of taxable gain.

Under a tax sharing agreement, in certain circumstances, and subject to certain limitations, Frontier is required to indemnify Verizon against taxes on the spin-off that arise as a result of actions or failures to act by Frontier, or as a result of changes in ownership of the stock of Frontier after the merger. See "—We will be unable to take certain actions after the merger because such actions could jeopardize the tax-free status of the spin-off or the merger, and such restrictions could be significant." In some cases, however, Verizon might recognize gain on the spin-off without being entitled to an indemnification payment under the tax sharing agreement.

If the merger does not qualify as a tax-free reorganization under Section 368 of the Code, we may be required to pay substantial U.S. federal income taxes.

The obligations of Verizon and Frontier to complete the merger are conditioned, respectively, on Verizon's receipt of an opinion of Debevoise and Frontier's receipt of an opinion of Cravath, Swaine & Moore LLP, counsel to Frontier, in each case to the effect that the merger will qualify as a tax-free reorganization under Section 368(a) of the Code, and that no gain or loss will be recognized as a result of the merger by Spinco or by Spinco stockholders (except for cash in lieu of fractional shares). These opinions will be based upon, among other things, certain representations and assumptions as to factual matters made by Verizon, Spinco and Frontier. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the opinions. An opinion of counsel represents counsel's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the opinions will be based on current law, and cannot be relied upon if current law changes with retroactive effect. If the merger was taxable, Spinco stockholders would recognize taxable gain or loss on their receipt of Frontier stock in the merger, and Spinco would be considered to have made a taxable sale of its assets to Frontier. If we are required to make a payment to Verizon under the tax sharing agreement, it may make it more difficult to service the debt obligations of the combined company, including under the notes.

We will be unable to take certain actions after the merger because such actions could jeopardize the tax-free status of the spin-off or the merger, and such restrictions could be significant.

The tax sharing agreement prohibits us from taking actions that could reasonably be expected to cause the spin-off to be taxable or to jeopardize the conclusions of the IRS ruling or opinions of counsel received by Verizon or Frontier. In particular, for two years after the spin-off, we may not:

- enter into any agreement, understanding or arrangement or engage in any substantial negotiations with respect to any transaction involving the acquisition, issuance, repurchase or change of ownership of our capital stock, or options or other rights in respect of our capital stock, subject to certain exceptions relating to employee compensation arrangements, stock splits, open market stock repurchases and stockholder rights plans;

- permit certain wholly owned subsidiaries owned by Spinco at the time of the spin-off to cease the active conduct of the Spinco business to the extent it was conducted immediately prior to the spin-off; or

- voluntarily dissolve, liquidate, merge or consolidate with any other person, unless we survive and the transaction otherwise complies with the restrictions in the tax sharing agreement.

Nevertheless, we are permitted to take any of the actions described above if we obtain Verizon's consent, or if we obtain a supplemental IRS private letter ruling (or an opinion of counsel that is reasonably acceptable to Verizon) to the effect that the action will not affect the tax-free status of the spin-off or the merger. However, the receipt of any such consent, opinion or ruling does not relieve us of any obligation we have to indemnify Verizon for an action we take that causes the spin-off to be taxable to Verizon.

Because of these restrictions, for two years after the merger, we may be limited in the amount of capital stock that we can issue to make acquisitions or to raise additional capital. Also, our indemnity obligation to Verizon may discourage, delay or prevent a third party from acquiring control of us during this two-year period in a transaction that holders of our securities might consider favorable.

Frontier does not currently control the Spinco business and will not control it until completion of the merger.

The Spinco business is currently controlled by Verizon, and Frontier will not obtain control until completion of the merger. Verizon's interests in operating the Spinco business may be different from those of Frontier or the holders of notes, and Verizon may not operate the business during the period prior to the completion for the merger in the same way that Frontier would have if the merger had occurred prior to or concurrently with this offering.

The pendency of the merger could potentially adversely affect the business and operations of Frontier and the Spinco business.

In connection with the pending merger, some customers of each of Frontier and the Spinco business may delay or defer decisions or may end their relationships with the relevant company, which could negatively affect the revenues, earnings and cash flows of Frontier and the Spinco business, regardless of whether the merger is completed. Similarly, it is possible that current and prospective employees of Frontier and the Spinco business could experience uncertainty about their future roles with us following the merger, which could materially adversely affect the ability of each of Frontier and the Spinco business to attract and retain key personnel during the pendency of the merger.

Risks related to the notes and this offering

Frontier Communications Corporation is, and following the merger will remain, a holding company and, as a result, will rely on the receipt of funds from the combined company's subsidiaries in order to meet its cash needs and service its indebtedness, including the notes. After the closing of the merger, the notes will be effectively subordinated to liabilities of the combined company's subsidiaries.

After the completion of the merger, Frontier Communications Corporation, as the obligor under the notes, will remain a holding company and its principal assets will consist of the shares of capital stock or other equity instruments of the combined company's subsidiaries. As a holding company without independent means of generating operating revenues, Frontier Communications Corporation will depend on dividends, distributions and other payments from the combined company's subsidiaries to fund its obligations, including those arising under the notes, and meet its cash needs. Neither Frontier nor Spinco can assure you that the operating results of the combined company's subsidiaries at any given time will be sufficient to make dividends, distributions or other payments to Frontier Communications Corporation in order to allow it to make payments on the notes. In addition, the payment of these dividends, distributions and other payments, as well as other transfers of assets between the combined company's subsidiaries and from such subsidiaries to Frontier Communications Corporation, may be subject to legal, regulatory or contractual restrictions. Some state regulators have imposed and others are considering imposing on regulated companies, such as us, cash management practices that could limit the ability of such regulated companies to transfer cash between subsidiaries or to the parent company. While no state regulations materially affect Frontier's cash management, any changes to the existing regulations or imposition of new regulations or restrictions may materially adversely affect the combined company's ability to transfer cash within its consolidated companies.

You will not have any claim as a creditor against the combined company's subsidiaries. As a holding company, Frontier Communications Corporation's right to receive any assets of the combined company's subsidiaries upon their bankruptcy, liquidation, dissolution, reorganization or similar proceeding, and therefore your right to participate in those assets, will be effectively subordinated to the claims of the creditors of those subsidiaries, including trade creditors. As of December 31, 2009, on a pro forma basis, such subsidiary obligations would have totaled approximately $1,569.0 million, including approximately $306.6 million of indebtedness (including secured indebtedness of $20.6 million) and excluding deferred income tax liabilities and intercompany liabilities. Although the indenture governing the notes will limit the indebtedness that the combined company's subsidiaries may incur, such subsidiaries will be able to incur a substantial amount of additional debt, including without limitation Acquired Indebtedness (as defined in the indenture). See "Description of notes—Covenants—Limitations on subsidiary indebtedness." Moreover, the indenture governing the notes will provide that this covenant will no longer be applicable from and after the first date on which the notes are rated "investment grade." Termination of this covenant would allow the combined company to engage in certain transactions that would not be permitted while this covenant was in effect even if the notes are subsequently downgraded below investment grade. See "Description of notes—Termination of certain covenants."

There will be no cross-default or cross-acceleration provisions in the indenture governing the notes, which could affect our ability to satisfy our obligations under the notes.

Because the indenture governing the notes will not contain a cross-default or cross-acceleration provision, holders of the notes will not have the right to accelerate indebtedness represented by the notes should we default on our obligations arising under any of our other indebtedness. In addition, holders of the notes will not have the right to accelerate indebtedness represented by the notes in the event of a bankruptcy or similar event affecting any of our subsidiaries. If such events occur, other of our obligations may have to be satisfied first, and the holders of the notes will have no rights to participate in any distributions or payments. Consequently, we might not have sufficient funds or resources following such events to satisfy our obligations, including the obligations under the notes.

The notes are unsecured and will effectively be subordinated to any secured indebtedness.

The notes are unsecured and therefore will be effectively subordinated to all of our existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding, the assets that serve as collateral for any secured indebtedness will be available to satisfy the obligations under the secured indebtedness before such assets may be used to satisfy our obligations under the notes. As of December 31, 2009, on a pro forma basis, we would have had approximately $20.6 million of secured indebtedness. The indenture governing the notes will permit us, subject to specified limitations, to incur a substantial amount of additional secured debt, including without limitation Acquired Indebtedness (as defined in the indenture).

In the event that the merger is not completed and the notes are subject to the special mandatory redemption, you will not realize the return on the notes that may otherwise have been obtained had the merger been completed.

Concurrently with the closing of this offering, the proceeds of this offering, plus an amount in cash contributed by Frontier that equals the amount of interest that will accrue on the notes from April 12, 2010 to October 1, 2010, will be deposited in an escrow account. In the event that the merger agreement governing the merger is terminated or the spin-off and the merger are not completed on or before October 1, 2010, the notes of each series will be redeemed at a special mandatory redemption price equal to 100% of the issue price of that series of notes, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the date of redemption, which date of redemption will in no event be later than October 1, 2010 (or the next business day if additional time is required for redemption). See "Description of notes—Special mandatory redemption; Escrow of proceeds." The merger is subject to a number of conditions that have not yet been satisfied and may not be able to be satisfied, including, as described above, certain regulatory approvals and the receipt of a solvency opinion. In addition, the parties to the merger agreement have the right to terminate the merger agreement under certain circumstances. In the event that the merger is not completed and the notes are redeemed, you may not obtain the return you expect to receive on the notes over your anticipated period of investment.

Until the closing of the transactions, Spinco will have limited assets.

Holders of the notes will not have any recourse to Verizon Communications Inc. or any of its subsidiaries, other than Spinco. Until the completion of the merger, the notes will be the obligation solely of Spinco. Spinco will have limited assets until shortly prior to the spin-off (except for its interest in the escrow account) and, as a result, the sole recourse of the holders prior to the spin-off will be to the funds deposited in the escrow account.

Between the time of the issuance of the notes and the consummation of the spin-off and the merger, the parties to the merger agreement, the distribution agreement or other spin-off and merger related transaction documents may agree to modify or waive the terms or conditions of such documents without noteholder consent.

Prior to the consummation of the spin-off and the merger, the parties to the merger agreement, the distribution agreement or related transaction documents may agree to amendments or waivers of the terms thereof. Although the escrow agreement provides as a condition to the release of the escrowed funds that Spinco and Frontier certify that the spin-off and the merger are to be consummated substantially as described in the final offering memorandum, that requirement will not preclude the transaction parties from making certain changes to the terms of the transactions or from waiving certain conditions to the transactions. In addition, the certification will be provided by Spinco and Frontier and will not be made in consultation with the trustee, the escrow agent, the initial purchasers or holders of the notes.

The agreements governing our debt, including the notes and our credit facilities, will contain various covenants that impose restrictions on us that may affect our ability to operate our business and to make payments on the notes.

The indenture governing the notes will contain covenants that, among other things, limit our ability and the ability of our subsidiaries to:

- incur indebtedness at our subsidiaries;
- create liens securing indebtedness; and
- merge or consolidate with other companies.

In addition, our credit facilities require us to comply with specified covenants, including financial ratios. Any future indebtedness may also require us to comply with similar covenants. These restrictions on our ability to operate our business could seriously harm our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants. Failure to comply with any of the covenants in Spinco, Frontier or our existing or future financing agreements could result in a default under those agreements and under other agreements containing cross-default provisions. A default would permit lenders to accelerate the maturity for the debt under these agreements and to foreclose upon any collateral securing the debt. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our obligations under the notes. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

If an active trading market does not develop for the notes, you may be unable to sell the notes or to sell them at a price you deem sufficient.

The notes are new issues of securities for which there is currently no public trading market. Neither Spinco nor Frontier intends to list the notes on any national securities exchange or automated quotation system. In addition, the liquidity of any trading market for the notes, and the market price quoted for the notes, may be adversely affected by changes in the overall market for those securities and by changes in our financial performance or prospects or in the prospects of communications companies generally. Neither Spinco nor Frontier can give you any assurance as to:

- the liquidity of any trading market that may develop;
- the ability of holders to sell their notes; or
- the price at which holders would be able to sell their notes.

Even if a trading market develops, the notes may trade at higher or lower prices than the principal amount or purchase price depending on many factors, including:

- prevailing interest rates;
- the number of holders of the notes;
- the interest of securities dealers in making a market for such notes;
- the market for similar notes; and
- the financial performance of the combined company, Spinco or Frontier.

In addition, Frontier and Spinco understand that the initial purchasers currently intend to make a market in the notes. However, they are not obligated to do so and may discontinue making a market in the notes at any time without notice. As a result, neither Frontier nor Spinco can assure you that an active trading market will develop for the notes. If no active trading market develops, the price at which you may be able to sell notes, if at all, may be less than the price you pay for them.

Pursuant to the registration rights agreement, following the merger, Frontier will be required to file an exchange offer registration statement with the SEC with respect to an offer to exchange the notes or to cause to become effective a shelf registration statement providing for the resale of the notes. However, we cannot assure you that an active trading market will develop for the exchange notes or that Frontier will be successful in having any such registration statement declared effective by the SEC.

We may not have sufficient funds to repurchase the notes upon a change of control, and certain strategic transactions may not constitute a change of control.

The terms of the notes will require us to make an offer to repurchase the notes upon the occurrence of a change of control following the merger and a ratings decline (as defined herein) at a purchase price equal to 101% of the respective principal amount of the notes plus accrued interest to the date of the purchase. It is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes and will be required to obtain third party financing to do so. We may not be able to obtain this financing on commercially reasonable terms, or on terms acceptable to us, or at all. In addition, the occurrence of certain change of control events may constitute an event of default under the terms of our credit facilities. Such an event of default would entitle the lenders under such credit facilities to, among other things, cause all outstanding debt thereunder to become due and payable.

Frontier continuously evaluates strategic transactions and we will continue to do so as the combined company and we may in the future enter into strategic transactions. Any such transaction could happen at any time, could be material to our business and could take any number of forms, including, for example, an acquisition, merger or a sale of all or substantially all of our assets.

Other than the spin-off and the merger, Frontier and Spinco currently have no agreement or understanding regarding, and are not in active negotiations with respect to, any material strategic transaction, although as part of Frontier's strategy and if and to the extent permitted under the merger agreement and the tax sharing agreement, Frontier expects to continue to evaluate and may enter into material strategic transactions in the future. Further, subject to limitations in the indenture governing the notes and the tax sharing agreement entered into in connection with the spin-off and the merger, we could, in the future, enter into certain transactions, including acquisitions, refinancings, other recapitalizations and material strategic transactions, that would not result in a change of control or a change of control triggering event within the meaning of the indenture and would not otherwise be prohibited by the covenants and provisions of the indenture. Such transactions could significantly increase the amount of our indebtedness outstanding at such time (including secured debt or subsidiary debt that would be effectively senior to the notes) or otherwise affect our capital structure or credit ratings.

Use of proceeds

The net proceeds from this offering, after deducting the initial purchasers' discount, will be approximately $3,136 million. The net proceeds from this offering will be used to finance the special cash payment to Verizon immediately prior to the spin-off and the closing of the merger.

Concurrently with the closing of this offering, the gross proceeds of this offering, plus an amount in cash contributed by Frontier that equals the amount of interest that will accrue on the notes from April 12, 2010 to October 1, 2010, will be deposited in an escrow account. In the event that the merger agreement governing the merger is terminated or the spin-off and the merger are not completed on or before October 1, 2010, the notes will be subject to a special mandatory redemption. The special mandatory redemption price for each series of notes is equal to 100% of the issue price of that series of the notes, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the date of redemption, which date of redemption will be no later than October 1, 2010 (or the next business day if additional time is required for redemption). See "Description of notes—Special mandatory redemption; Escrow of proceeds."

The following table sets forth the estimated sources and uses of funds in connection with the special cash payment financing:

(In millions)	Source of funds	(In millions)	Use of funds
Notes offered hereby	$3,200	Verizon special cash payment(1)	$3,083
		Estimated fees and expenses in connection with this offering	70
		Increase in cash on hand(1)	47
Total sources of funds	$3,200	**Total uses of funds**	$3,200

(1) Assumes $250 million of distribution date indebtedness at the closing of the merger, which amount reflects the repayment, on February 15, 2010, of $200 million of indebtedness and the expected repayment, on June 1, 2010, of $175 million of indebtedness, that in each case would otherwise have constituted distribution date indebtedness. See "Description of other indebtedness—Description of Spinco indebtedness."

Pro forma capitalization

The following table sets forth our cash and cash equivalents and capitalization on a pro forma basis as of December 31, 2009.

You should read this information in conjunction with "Management's discussion and analysis of financial condition and results of operations" and the historical financial statements and the related notes of Frontier and Verizon's Separate Telephone Operations included elsewhere in this offering memorandum. In addition, you should consider the information below in conjunction with the pro forma financial information for the combined company as of and for the year ended December 31, 2009, included elsewhere in this offering memorandum.

(In millions)	As of December 31, 2009 (Pro forma)
Cash and cash equivalents	$ 406
Long-term debt:	
Existing Frontier senior notes, debentures and other debt	4,801
Spinco distribution date indebtedness	250
The notes offered hereby	3,200
Total long-term debt	8,251
Total stockholder's equity	5,549
Total capitalization	$13,800

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information is based upon the historical consolidated financial information of Frontier and the historical combined special-purpose financial information of Verizon's Separate Telephone Operations included elsewhere in this offering memorandum, and has been prepared to reflect the transactions based on the acquisition method of accounting, with Frontier treated as the accounting acquirer. Under the acquisition method, the assets and liabilities of Verizon's Separate Telephone Operations will be recorded by Frontier at their respective fair values as of the date the merger is completed. The unaudited pro forma condensed combined financial information presents the combination of the historical financial statements of Frontier and the historical financial statements of Verizon's Separate Telephone Operations, adjusted to give effect to (1) the transfer of specified assets and liabilities from Verizon to Spinco in the distribution immediately prior to the spin-off that are not included in Verizon's Separate Telephone Operations' historical balance sheet as of December 31, 2009 and the retention of specified assets and liabilities by Verizon that are included in Verizon's Separate Telephone Operations' historical balance sheet as of December 31, 2009, as more fully described in note 4(c) below, (2) the repayment on February 15, 2010, of $200 million of indebtedness, and the expected repayment on June 1, 2010, of $175 million of indebtedness, that in each case would otherwise have constituted distribution date indebtedness, (3) the incurrence by Spinco of new debt (including the notes) to finance the special cash payment to Verizon, as more fully described in note 4(a) below, (4) the distribution of shares of Spinco common stock to a third-party distribution agent for the benefit of Verizon stockholders, (5) the receipt by Verizon from Spinco of $3,333 million in aggregate value in the form of the special cash payment and the Verizon debt reduction as more fully described in note 4(a) below and (6) the merger of Spinco with and into Frontier, with Frontier considered the accounting acquirer, based on the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information. The historical financial information has been adjusted to give effect to events that are directly attributable to the transactions and factually supportable and, in the case of the statement of operations information, that are expected to have a continuing impact.

The unaudited pro forma condensed combined balance sheet information has been prepared as of December 31, 2009, and gives effect to the transactions and the repayment of indebtedness as if they had occurred on that date. The unaudited pro forma condensed combined statement of operations information, which has been prepared for the year ended December 31, 2009, gives effect to the transactions and the repayment of indebtedness as if they had occurred on January 1, 2009.

The unaudited pro forma condensed combined financial information was prepared using (1) the audited combined special-purpose financial statements of Verizon's Separate Telephone Operations as of and for the year ended December 31, 2009, included in this offering memorandum, and (2) the audited consolidated financial statements of Frontier as of and for the year ended December 31, 2009, included in this offering memorandum.

The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have been achieved had the transactions been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or results of operations of the combined company after completion of the merger. In the opinion of Frontier's management, all adjustments considered necessary for a fair presentation have been included.

The unaudited pro forma condensed combined financial information does not give effect to any potential cost savings or other operating efficiencies that could result from the merger. In addition, the fair value of the assets acquired and liabilities assumed are based upon estimates. The final allocation is dependent upon valuations and other studies that will not be completed until after the merger is consummated. Accordingly, pro forma adjustments for the allocation of the value of Frontier common stock to be issued by Frontier as consideration as discussed in note (2) below are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information in this offering memorandum.

Frontier Communications Corporation and subsidiaries

Unaudited pro forma condensed combined balance sheet information

As of December 31, 2009

($ in millions)

		Verizon's Separate Telephone Operations						
	Frontier	Verizon's Separate Telephone Operations as reported	Incurrence of new debt (4a)	Special cash payment and repayment of indebtedness (4b)	Additional transfer of assets and liabilities to/from Verizon (4c)	Verizon's Separate Telephone Operations as adjusted	Pro forma adjustments (4d)	Pro forma combined
Assets:								
Cash and cash equivalents	$ 359	$ —	$3,130	$(3,083)	$ —	$ 47	$ —	$ 406(4e)
Accounts receivable, net	191	391				391		582
Other current assets	130	255			(115)	140		270
Total current assets	680	646	3,130	(3,083)	(115)	578		1,258
Property, plant and equipment, net	3,134	5,266			98	5,364		8,498
Goodwill, net	2,642						3,562	6,204
Other intangibles, net	247						1,180	1,427
Other assets	175	2,444	70		(2,359)	155		330
Total assets	$6,878	$8,356	$3,200	$(3,083)	$(2,376)	$6,097	$4,742	$17,717
Liabilities and stockholders' equity								
Long-term debt due within one year	$ 7	$ 375	$ —	$ (375)	$ —	$ 0	$ —	$ 7
Accounts payable and other current liabilities	386	607			(166)	441	37	864
Total current liabilities	393	982		(375)	(166)	441	37	871
Deferred income taxes	722	1,310			(471)	839	437	1,998
Other liabilities	630	1,369			(944)	425		1,055
Long-term debt	4,794	250	3,200			3,450		8,244
Total long-term liabilities	6,146	2,929	3,200		(1,415)	4,714	437	11,297
Stockholders' equity	339	4,445		(2,708)	(795)	942	4,268	5,549
Total liabilities and stockholders' equity	$6,878	$8,356	$3,200	$(3,083)	$(2,376)	$6,097	$4,742	$17,717

See notes to unaudited pro forma condensed combined financial information.

Frontier Communications Corporation and subsidiaries
Unaudited pro forma condensed combined statement of operations information
For the year ended December 31, 2009
($ in millions, except per share amounts)

	Frontier	Verizon's Separate Telephone Operations	Adjustments		Pro forma combined
Revenue	$2,118	$4,065	$ 16	(5a)	$6,071
			(66)	(5b)	
			(62)	(5d)	
Cost and expenses (exclusive of depreciation and amortization)	1,007	2,742	10	(5a)	3,193
			(63)	(5b)	
			(412)	(5c)	
			(62)	(5d)	
			(26)	(5e)	
			(1)	(5f)	
			(2)	(5h)	
Depreciation and amortization	477	781	3	(5a)	1,511
			236	(5g)	
			14	(5h)	
Acquisition and integration costs	28		(28)	(5e)	—
Total operating expenses	1,512	3,523	(331)		4,704
Operating income (loss)	606	542	219		1,367
Investment and other income (expense), net	(37)	1	—		(36)
Interest expense	378	92	267	(5i)	663
			(74)	(5j)	
Income tax expense (benefit)	70	159	10	(5k)	239
Net income (loss)	$ 121	$ 292	$ 16		$ 429
Basic and diluted income per common share:	$ 0.38				$ 0.43
Weighted-average shares outstanding (in millions)	310				987

See notes to unaudited pro forma condensed combined financial information.

Notes to unaudited pro forma condensed combined financial information

1. Description of the Transactions

On May 13, 2009, Verizon, Frontier and Spinco, a wholly owned subsidiary of Verizon, entered into the merger agreement pursuant to which Spinco will merge with and into Frontier, with Frontier surviving the merger as the combined company. Pursuant to the merger agreement, Verizon stockholders will receive shares of Frontier common stock in an amount to be determined at the closing of the merger, which shares of Frontier common stock are assumed for purposes of the pro forma condensed combined financial information to have a value of $5,247 million.

Immediately prior to the merger, Spinco (1) will hold defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin and in portions of California bordering Arizona, Nevada and Oregon, including Internet access and long distance services and broadband video provided to designated customers in those states, and (2) will be spun off to Verizon stockholders. In addition, subject to obtaining a certificate of public convenience in Virginia, which is not a condition to the merger, we will also serve approximately 300 customers in a portion of Virginia bordering West Virginia. In connection with the spin-off, Verizon will receive from Spinco $3,333 million in aggregate value in the form of the special cash payment, the Verizon debt reduction and, if required, Spinco debt securities. The parties expect, and it is assumed for purposes of the pro forma condensed combined financial information, that no Spinco debt securities will be issued to Verizon in connection with the transactions.

The exact number of shares to be issued by Frontier will be determined based on the average of the volume-weighted averages of the trading prices of Frontier common stock for the 30 consecutive trading days ending on the third trading day before the closing of the merger, subject to a collar such that in no case will such average Frontier common stock price, for the purpose of determining the number of shares of Frontier common stock to be issued to Verizon stockholders at the closing of the merger, be lower than $7.00 or higher than $8.50. Depending on the trading prices of Frontier common stock prior to the closing of the merger, immediately after the closing of the merger, Verizon stockholders will own between approximately 66% and 71% of the combined company's outstanding equity, and Frontier stockholders will own between approximately 29% and 34% of the combined company's outstanding equity. Additionally, the aggregate consideration to be received by Verizon stockholders referred to above is subject to increase by any amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off. As a result, the number of shares of Frontier common stock issuable pursuant to the merger agreement may increase. Verizon will not own any shares of Frontier after the merger.

Verizon received a favorable ruling from the IRS indicating, with certain caveats, that the spin-off and merger qualify as tax-free transactions, except to the extent that cash is paid to Verizon stockholders in lieu of fractional shares. As expected, the IRS ruling does not rule that the spin-off satisfies every requirement of a tax-free spin-off, and the parties will rely solely on an opinion of counsel to determine that such additional requirements are satisfied.

The pro forma condensed combined financial information was prepared using the accounting standard relating to Business Combinations. For purposes of the pro forma condensed combined financial information, estimated transaction costs have been disregarded and are therefore not reflected except for the estimated debt incurrence fees of $70 million as described in Note 4(a) below. The aggregate estimated transaction costs (other than debt incurrence fees referred to above) are expected to be approximately $55 million and include estimated costs associated with investment banker advisory fees, legal fees, and regulatory and auditor services of Frontier. Approximately $18 million of transaction costs were recognized by Frontier for the year ended December 31, 2009, and the balance of $37 million is reflected as an accrual in the Pro Forma adjustments column on the unaudited pro forma condensed combined balance sheet. These costs are eliminated as a pro forma adjustment in the unaudited pro forma condensed combined statement of operations for the year ended December 31, 2009. In addition, the combined company will incur integration costs primarily related to information systems, network and process conversions (including hardware and software costs). The specific details of these integration plans will be refined as the integration is implemented over the next three years after completion of the transactions and will be recorded based on the nature and timing of the specific action. For purposes of the pro forma condensed combined financial information, it is assumed that no amounts will be paid, payable or forgone by Verizon pursuant to orders or settlements issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off.

Frontier is considered the accounting acquirer for purposes of the preparation of the pro forma condensed combined financial information. This conclusion is based upon Frontier's consideration of all relevant factors included in the accounting standard relating to Business Combinations including (1) the issuance by Frontier of its common stock to Verizon stockholders to acquire the Spinco business through the merger of Spinco with and into Frontier, (2) the composition of the board of directors of the combined company, which will initially consist of nine Frontier-selected directors and three Verizon-selected directors, and (3) the composition of the executive management team of the combined company, which will be led by current Frontier executives, including its Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

The merger is subject to customary closing conditions and regulatory approvals. Subject to these conditions, it is anticipated that the merger will be completed by the end of the second quarter of 2010.

2. Basis of Preliminary Estimated Transaction Consideration Allocation

The allocation presented below represents the effect of recording on a preliminary basis the value of Frontier common stock to be issued by Frontier as consideration in the merger under the acquisition method of accounting (dollars in millions):

Estimated transaction consideration:		$5,247
Current assets	$ 578	
Property, plant & equipment—net	5,364	
Goodwill	3,562	
Customer list	1,180	
Other assets	155	
Current liabilities	(441)	
Deferred income taxes	(1,276)	
Long-term debt	(3,450)	
Other liabilities	(425)	
Total net assets acquired	$ 5,247	

The allocation of the value of the Frontier common stock to be issued by Frontier as consideration in the merger to assets and liabilities is preliminary. The final allocation of the value of the Frontier common stock to be issued by Frontier as consideration in the merger will be based on the actual value of the Frontier common stock to be issued by Frontier as consideration in the merger and the fair values of assets acquired and liabilities assumed as of the effective time of the merger, determined based upon a third-party valuation. The valuation will be completed after consummation of the merger. There can be no assurance that the actual allocation will not differ significantly from the preliminary allocation.

The above noted preliminary allocation includes deferred taxes that are established at acquisition. Deferred taxes represent the tax effect at 37% of the non-deductible step-up in value of the customer list (($1,180 million x 0.37) = $437 million). The offsetting entry to establish the deferred tax liability is recorded as goodwill.

3. Frontier common stock to be issued:

The following assumptions have been made regarding the number of shares to be issued by Frontier and show the resulting impact on relative share ownership and earnings per share:

Projected Value of shares to be issued (in millions)	$5,247	$5,247	$5,247
Divided by Price Per Share	$ 7.00	$ 7.75	$ 8.50
Projected Shares to be Issued to Verizon stockholders (in millions)	750	677	617
Frontier Shares Outstanding at December 31, 2009, pre-merger (in millions)	312	312	312
Total Shares after merger (in millions)	1,062	989	929
Percentage ownership by Frontier stockholders after merger	29%	32%	34%
Percentage ownership by Verizon stockholders after merger	71%	68%	66%

Impact on Pro Forma Earnings Per Share (basic and diluted), Year Ended December 31, 2009:

Pro Forma Weighted Average Shares outstanding (in millions):			
Frontier pre merger	310	310	310
Plus shares issued in the merger	750	677	617
Total Pro Forma Weighted Average shares outstanding	1,060	987	927
Pro Forma Net Income (dollars in millions)	$ 429	$ 429	$ 429
Pro Forma Earnings Per Share (basic and diluted)	$ 0.40	$0.43	$0.46

4. Balance Sheet Adjustments:

(a) Spinco will use the proceeds of this offering (less the initial purchasers' discount) to make the special cash payment to Verizon. The amount of the special cash payment is subject to a limit of $3,333 million and will be reduced by the amount of long-term debt (including current maturities) of Verizon that will become the consolidated indebtedness of Spinco at the time of the spin-off. At December 31, 2009, Verizon's Separate Telephone Operations had long-term debt, including current maturities, of $625 million. $200 million of the $625 million of Verizon's Separate Telephone Operations' debt as of December 31, 2009, was repaid on February 15, 2010. An additional $175 million of such debt matures on June 1, 2010. The adjustment presented therefore reflects debt incurrence of $3,200 million in connection with this offering with net cash proceeds to Spinco of $3,083 million. We have also assumed estimated debt incurrence fees of $70 million. The new debt is issued at par and bears interest at a weighted average rate of 8.36%.

Total cash to be paid to Verizon of $3,083 million plus remaining distribution date indebtedness of Verizon's Separate Telephone Operations of $250 million provides Verizon with total value of $3,333 million.

The parties expect, and it has been assumed for purposes of the pro forma condensed combined financial information, that no Spinco debt securities will be issued to Verizon in connection with the transactions.

(b) This adjustment represents a special cash payment to Verizon by Spinco from the net cash proceeds of the assumed debt offering described in 4(a) above and reflects the repayment by Verizon's Separate Telephone Operations prior to the merger date of $375 million of its outstanding indebtedness that would otherwise constitute distribution date indebtedness.

(c) Verizon's Separate Telephone Operations are adjusted to (1) include assets and liabilities that will be transferred to Spinco but are not included in Verizon's Separate Telephone Operations' financial statements provided elsewhere in this offering memorandum and (2) exclude assets and liabilities that will be retained by Verizon that are included in Verizon's Separate Telephone Operations' financial statements provided elsewhere in this offering memorandum. A brief description of these items follows (dollars in millions):

Balance	Amount	Reason
Other current assets	$ (83)	Intercompany receivables retained by Verizon
	(3)	Receivables related to businesses retained by Verizon
	2	Receivables related to approximately 23,000 California access lines transferred to Spinco but not included in Verizon's Separate Telephone Operations financial information
	(8)	Deferred income taxes related to uncertain tax balances and postemployment benefits retained by Verizon
	(23)	Inventory net transfer
	$ (115)	
Property, plant and equipment, net	$ 25	Fixed assets related to approximately 23,000 California access lines referenced above
	(65)	Fixed assets related to Verizon's national operations to be retained by Verizon
	73	Verizon corporate real estate in the Spinco territory transferred to Spinco
	60	Capital expenditures to permit stand-alone operation of Spinco
	5	Corporate leased vehicles in the Spinco territory to be transferred to Spinco
	$ 98	
Other assets	$(2,325)	Prepaid pension in excess of actuarial liability retained by Verizon
	(34)	Reclassify capital expenditures to permit stand-alone operation of Spinco to Property, plant and equipment
	(2,359)	
Accounts payable and other current liabilities	$ (126)	Intercompany payables retained by Verizon
	(27)	Accrued income taxes retained by Verizon
	(14)	Postemployment benefits retained by Verizon
	1	Accounts payable and accrued liabilities related to approximately 23,000 California access lines referenced above
	$ (166)	
Other liabilities	$ (886)	Pension, other postretirement employee benefits of retirees, stock-based compensation and postemployment benefits retained by Verizon
	5	Corporate leased vehicles in the Spinco territory transferred to Spinco
	3	Other liabilities related to approximately 23,000 California access lines referenced above
	(66)	Accrued uncertain tax position liability retained by Verizon
	$ (944)	
Deferred income taxes	$ (471)	Deferred income taxes on the adjustments above
Parent funding	$ (795)	Reflects the aggregate impact of the above noted entries

The pension and other postretirement employee benefits adjustments are based on a preliminary actuarial evaluation obtained from a third party. The final actuarial evaluation completed at the time of completion of the merger may be different from that reflected in the pro forma condensed combined financial information. This difference including the related impact on deferred taxes may be material.

(d) (i) This adjustment in the amount of $3,562 million ($3,125 million + $437 million) reflects the goodwill associated with the excess of the transaction consideration issued over the preliminary estimated fair value of the underlying identifiable net tangible and intangible assets at December 31, 2009 ($3,125 million), and reflects the impact of the deferred taxes established in (iii) below ($437 million).

(ii) This adjustment in the amount of $1,180 million reflects the preliminary fair value of the identifiable intangible asset (customer list) which was estimated by Frontier's management based on the fair values assigned to similar assets in recently completed acquisitions (a market approach). A third party valuation firm will be utilized to help determine the final fair value after the merger is completed. The estimated useful life of the customer list asset was assumed to be five years.

(iii) This adjustment in the amount of $437 million reflects the deferred taxes associated with the non-deductible customer list asset ($1,180 million x 37% = $437 million) based on an assumed tax rate of 37%.

(iv) This adjustment in the amount of $37 million records the estimated unpaid non-recurring costs for acquisition related transaction costs, primarily bankers, lawyers and consulting advisory fees.

(v) This adjustment in the amount of $4,268 million ($5,247 million – $942 million – $37 million) eliminates the "as adjusted" net equity of Verizon's Separate Telephone Operations ($942 million) and reflects Frontier's issuance of common stock to Verizon stockholders ($5,247 million) less unpaid estimated transaction costs of $37 million as of December 31, 2009.

(e) A portion of the pro forma combined cash and cash equivalents is expected to be held in escrow accounts or otherwise restricted after the closing of the merger in order to satisfy certain commitments to be made by Frontier in connection with obtaining regulatory approvals for the transactions. The amount of such restricted cash will be determined in connection with obtaining those regulatory approvals.

5. Income Statement Adjustments:

(a) This adjustment reflects results of operations related to the transfer of approximately 23,000 California access lines, representing a portion of the Spinco business not included in Verizon's Separate Telephone Operations, to the combined company.

(b) This adjustment reflects results of operations of wireless directory assistance, long distance revenues from calling cards and discontinued services, and customer premises equipment contracts that will not be transferred in the transactions.

(c) This adjustment reflects pension, other postretirement employee benefits of retirees and postemployment benefits retained by Verizon.

(d) This adjustment conforms the classification of bad debt expenses by Verizon's Separate Telephone Operations to the classification policy of Frontier.

(e) This adjustment reflects the removal of acquisition, integration and realignment expenses related to activities to enable Spinco to operate on a stand-alone basis in connection with the proposed business combination with Frontier.

(f) This adjustment reflects the removal of transactions between Verizon's Separate Telephone Operations and Frontier.

(g) This adjustment reflects amortization expense associated with the customer list asset estimated in note 4(d) above assuming an estimated useful life of five years which corresponds to an increase in depreciation and amortization of $236 million for the year ended December 31, 2009.

The actual depreciation and amortization expense will be based on the final fair value attributed to the identifiable tangible and intangible assets based upon the results of the third-party valuation of the acquired assets. The depreciation and amortization rates may also change based on the results of this third-party valuation. There can be no assurance that the actual depreciation and amortization expense will not differ significantly from the pro forma adjustment presented.

(h) This adjustment reflects depreciation on Verizon corporate real estate in the Spinco territory transferred to Spinco, net of depreciation in fixed assets related to Verizon national operations to be retained by Verizon and related rent expense allocated to Verizon's Separate Telephone Operations.

(i) This adjustment reflects additional interest expense on the $3,200 million of notes offered hereby, based on a weighted average interest rate of 8.36%.

(j) This adjustment adjusts interest expense of Spinco to represent the annualized third-party interest charge on the long-term debt ($250 million) contributed by Verizon to Spinco.

(k) This adjustment reflects the tax effect of the adjustments described in notes 5(a) through 5(j) above, using an estimated effective income tax rate of 37%.

Management's discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with the financial statements of Frontier and Verizon's Separate Telephone Operations and the notes thereto included elsewhere in this offering memorandum. Verizon's Separate Telephone Operations' financial information is included elsewhere in this offering memorandum before taking into account any of the pro forma adjustments detailed in "Unaudited pro forma condensed combined financial information." This financial information, together with the pro forma adjustments detailed in "Unaudited pro forma condensed combined financial information," reflects the operations that will constitute the Spinco business in connection with the spin-off.

The following discussion includes forward-looking statements. For a discussion of important factors, including the integration of the Spinco business into Frontier's existing business, the continuing development of our business following the merger, actions of regulatory authorities and competitors and other factors that could cause actual results of Frontier, Verizon's Separate Telephone Operations or the combined company to differ materially from the results referred to in the forward-looking statements, see "Risk factors" and "Cautionary note regarding forward-looking statements."

Overview

Frontier expects the combined company to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest ILEC, with more than 6.3 million access lines, 8 million voice and broadband connections and 15,000 employees in 27 states on a pro forma basis as of December 31, 2009. On a pro forma basis, our revenues would have been approximately $6.1 billion for the year ended December 31, 2009.

Based on the level of debt and projected cash flows that we will be assuming from Spinco, our overall debt will increase but our capacity to service the debt will be significantly enhanced as compared to Frontier's capacity today. At December 31, 2009, Frontier's ratio of net debt to 2009 Adjusted EBITDA ("leverage ratio") was 3.9 times. It is expected that our leverage ratio will be significantly lower at closing.

Competition in the communications industry is intense and increasing. Frontier expects that the combined company will experience competition from many communications service providers. These providers include cable operators offering video, data and VOIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and other wireline carriers. Frontier also believes that competition will continue to intensify in 2010 and beyond and may result in reduced revenues for the combined company.

The lingering impact of the severe contraction in the global financial markets that occurred in 2008 and 2009 and the subsequent recession has impacted residential and business customer behavior, causing them to reduce expenditures by not purchasing Frontier's services or by discontinuing some or all of Frontier's services. These trends may continue and may result in a continued challenging revenue environment. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect our ability to collect money owed to us by residential and business customers.

We will employ a number of strategies to combat the competitive pressures and changes in consumer behavior noted above. These strategies will focus on preserving and generating new revenues through customer retention, upgrading and up-selling services to existing customers, new customer growth, win backs of former customers, new product deployment, and managing our profitability and cash flow through targeted reductions in operating expenses and capital expenditures.

We will seek to achieve our customer retention goals by offering attractive packages of value-added services to our local access line customers and providing exemplary customer service. Bundled services include HSI, unlimited long distance calling, enhanced telephone features and video offerings. We will tailor these services to the needs of our residential and business customers and continually evaluate the introduction of new and complementary products and services, many of which can also be purchased separately. Customer retention will also be enhanced by offering one-, two-and three-year price protection plans where customers commit to a term in exchange for predictable pricing and/or promotional offers. Additionally, we will focus on enhancing the customer experience, as Frontier believes exceptional customer service will differentiate us from our competition. We will demonstrate our commitment to providing exemplary customer service by continuing Frontier's expanded customer service hours, shorter scheduling windows for in-home appointments and the call reminders and follow-up calls for service appointments. In addition, our local area markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. Customers in our markets will have direct access to those local managers to help them manage their communications needs.

We will utilize targeted and innovative promotions like "aspirational gifts" (e.g., personal computers) or promotional credits to attract new customers, including those moving into our territory, to win back former customers and to upgrade and up-sell existing customers a variety of service offerings including HSI, video, and enhanced long distance and feature packages in order to maximize the average revenue per customer (wallet share) paid to us. Depending upon market and economic conditions, we may offer such promotions to drive sales in the future.

We will also focus on increasing sales of newer products, including unlimited long distance minutes, bundles of long distance minutes, wireless data, Internet portal advertising, and the Frontier Peace of Mind product suite. This last category is a suite of products that is aimed at managing the total communications and personal computing experience for our customers and is designed to provide value and simplicity to meet customers' ever-changing needs. The Frontier Peace of Mind products and services suite includes services such as an in-home, full installation of our HSI product, two hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance (when bundled). In 2009, the Frontier Peace of Mind products generated approximately $3.2 million in revenue for Frontier and Frontier plans to make it available to all of our customers. We will also continue to offer the myfitv.com website, which provides easy online access to video content, entertainment and news available on the worldwide web. Hard drive back-up services, 24-7 help desk PC support and myfitv.com services will also available outside of our service territories. Although we are optimistic about the opportunities provided by each of these initiatives to increase revenue and reduce customer churn (i.e., customer attrition), neither Spinco nor Frontier can provide assurance about their long-term profitability or impact on revenue.

The combination of offering multiple products and services to our customers pursuant to price protection programs, billing them on a single bill, providing superior customer service, and being active in our local communities may make our customers more loyal, and, as a result, may help us generate new, and retain existing, customer revenue.

Expected cost savings resulting from the merger

Based on current estimates and assumptions, Frontier expects to achieve significant cost savings and other synergies as a result of the merger, principally (1) by leveraging the scalability of Frontier's existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions and (2) by internalizing certain functions formerly provided by third-party service providers to the Spinco business. Frontier expects that these cost savings will have significant effects on our results of operations that are not reflected in the unaudited pro forma combined financial information included in this offering memorandum.

Pursuant to the merger agreement and the other transaction agreements, Frontier expects that the Spinco business (other than with respect to West Virginia) will continue to operate with its existing single platform on an independent basis immediately following the merger, and the Spinco business with respect to West Virginia will be integrated into Frontier's existing systems contemporaneously with the closing of the merger. The main integration effort required for us to operate the Spinco business immediately following the merger will therefore be completed prior to the closing of the merger, freeing up our resources to implement further strategies to achieve cost savings and drive revenue enhancements.

Frontier estimates that, by 2013, the combined company's annual net cost savings will reach approximately $500 million, which represents approximately 18% of the operating expenses, excluding depreciation and amortization expense, of the Spinco business in 2009. The realization of these annual cost savings is expected to be fully achieved in 2013, when the Spinco business's network and information technology systems and processes are fully integrated with those of Frontier.

The foregoing cost savings and synergies are based on estimates and assumptions made by Frontier that are inherently uncertain, though considered reasonable by Frontier. These expected cost savings and synergies are subject to significant business, economic, competitive and regulatory uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. As a result, there can be no assurance that these or any other cost savings or synergies will actually be realized. See "Risk factors—Risks related to the spin-off and the merger—We may not realize the growth opportunities and cost synergies that are anticipated from the merger."

Results of operations

The following table lists summary financial and operating information for Frontier and Verizon's Separate Telephone Operations for the year ended December 31, 2009:

	Year ended December 31, 2009	
(In millions, except for access lines and HSI subscribers)	**Frontier**	**Verizon's Separate Telephone Operations**
Access lines and HSI subscribers (as of end of period, in thousands)	2,754	5,128
Revenues	$2,118	$4,065
Cash provided by operating activities	$ 743	$1,366
Capital expenditures	$ 256	$ 558

Revenues

Frontier expects the combined company to derive its revenues as follows:

Local services. We will provide basic telephone wireline services to residential and business customers in our service areas. Our service areas will be largely residential and generally less densely populated than the primary service areas of the largest ILECs. We will also provide enhanced services to our customers by offering a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. All of these local services will be billed monthly in advance. We will also offer packages of communications services. These packages will permit customers to bundle their basic telephone line service with their choice of enhanced, long distance, video and Internet services for a monthly fee or usage fee, depending on the plan.

We intend to seek to increase the penetration of those enhanced and other services described above. Frontier believes that increased sales of such services will produce revenues with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. Frontier believes our ability to integrate these services with other services will provide us with the opportunity to capture an increased percentage of our customers' communications expenditures (wallet share).

Data and internet services. We will offer data services including Internet access (via high-speed or dial up Internet access), portal and e-mail products, frame relay, Metro Ethernet, asynchronous transfer mode switching services, hard drive back-up services and 24-7 help desk PC support. We will offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and Internet services are typically billed monthly in advance.

Access services. Our switched access services allow other carriers to use our facilities to originate and terminate their long distance voice and data traffic. These services are generally offered on a month-to-month basis and the service is generally billed on a minutes-of-use basis. Access charges are based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and the USF based on the higher cost of providing telephone service to certain rural areas will be a part of our access services revenues. Monthly recurring access service fees will be billed in advance.

Long distance services. We will offer long distance services to customers in our territories, as Frontier currently believes that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside our operating territories will be provided by interconnection with the facilities of interexchange carriers. Our long distance services will be billed either on an unlimited or fixed number of minutes basis in advance or on a per minute-of-use basis in arrears.

Directory services. Directory services involves the provision of white and yellow page directories for residential and business listings. We will provide this service through third-party contractors. In most of our markets that were Frontier's markets prior to the merger, the third-party contractors will be paid a percentage of revenues from the sale of advertising in these directories. In the remaining markets that were Frontier's markets prior to the merger, we will receive a flat fee from the contractors. In the Spinco territory, the directory services are expected to be provided through a third-party contractor, but we will not receive any fees for listing or advertising. Our directory service will also include "Frontier Pages," an Internet-based directory service which generates advertising revenues.

Other services. Other services that Frontier expects the combined company to provide are as follows:

Video services. We will continue to offer a video product under an agency relationship with DISH Network in the areas in which Frontier currently operates and DirecTV in the Spinco territory (other than West Virginia, where we will sell the DISH product after completion of the merger but will continue to support existing customers who have the DirecTV product). We will receive from the applicable satellite provider and recognize as revenue activation fees, other residual fees and nominal management, billing and collection fees. We will also purchase receivables at a discount and will bill customers for the monthly services and remit those billings to the applicable satellite provider without recognizing any revenue. Additionally, we will continue to offer broadband video services that are similar to FiOS in the states of Indiana, Oregon and Washington.

We will also continue to offer our myfitv website which provides easy online access to video content, entertainment and news available on the worldwide web. This service will be available to consumers in and outside of our service territories.

Wireless data services. We will offer wireless data services in select markets. Our wireless data services will utilize technologies that are relatively new, and we will depend to some degree on the representations of equipment vendors, lab testing and the experiences of others who have been successful at deploying these new technologies. Revenue will be recognized when services are provided to customers. Long-term contracts will be billed in advance on an annual or semi-annual basis. End-user subscribers will be billed in advance on a monthly recurring basis and colleges, universities and businesses will be billed on a monthly recurring basis for a fixed number of users. Hourly, daily and weekly casual end-users are billed by credit card at the time of use.

Expenses

Our expenses are expected to be categorized as network access expenses, other operating expenses and depreciation and amortization expenses.

- *Network access expenses*. Network access expenses generally are composed of costs associated with the interconnection and routing of traffic to or from customers in our service territories with territories outside our service markets. Typical examples include costs to provide long distance services and Internet services. Access expenses also include equipment installed at customer locations.

- *Other operating expenses*. Other operating expenses include wages, benefits, property taxes, utilities, facilities, marketing, consulting and other direct costs of the business.

- *Depreciation and amortization expenses*. Depreciation and amortization expenses include: (1) the estimated periodic charge (depreciation) for the use of property, plant and equipment and (2) the estimated periodic charge (amortization) associated with acquired intangible assets, primarily customer relationships.

Because the Spinco business has been operated as a local exchange carrier division of Verizon in the Spinco territory, utilizing certain shared services and resources, and not as a stand-alone communications provider, the historical operating results of Verizon's Separate Telephone Operations for the year ended December 31, 2009, include approximately $906 million of expenses for services provided by Verizon and its affiliates, including information systems and information technology, shared assets including office space outside of the Spinco territory, supplemental customer sales and service and operations. After the merger, we will provide these services from internal operations or obtain them from third-party service providers.

Competition with Verizon

Historically, Frontier and Verizon did not compete in the offering of ILEC services in their respective service areas, as their ILEC footprints did not overlap. However, Verizon has historically offered other services in the Spinco territory in addition to those offered by the Spinco business. The merger agreement and the distribution agreement do not contain any restrictions on either party's ability to compete with the other party following the merger. Following the merger, we will compete with Verizon with respect to the following services, which Verizon has indicated that it will continue to offer in the Spinco territory:

- the offering of long distance services;
- the offering of products and services to business and government customers other than as the ILEC, including but not limited to carrier services, data customer premises equipment and software, structured cabling, call center solutions and the products and services formerly offered by MCI, Inc.; and
- the offering of wireless voice, wireless data and other wireless services.

We will offer long distance services in the Spinco territory and will compete with Verizon for these services. We will also offer services to businesses and government customers in these states, and will also compete directly with Verizon with respect to those services.

Frontier's results of operations

Frontier's historical results include the results of operations of CTE from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. Accordingly, results of operations for 2009, 2008 and 2007 are not directly comparable as 2009 and 2008 results reflect the inclusion of a full year of operations of CTE and GVN, whereas 2007 results reflect the inclusion of approximately ten months of operations of CTE and of two months of operations of GVN.

Revenue

Frontier's revenue is generated primarily through the provision of local, network access, long distance, and data and Internet services. Such revenues are generated through either a monthly recurring fee or a fee based on usage at a tariffed rate and revenue recognition is not dependent upon significant judgments by management, with the exception of a determination of a provision for uncollectible amounts.

Consolidated revenue for 2009 decreased $119.1 million, or 5%, to $2,117.9 million as compared to 2008. This decline is a result of lower local services revenue, switched access revenue, long distance services revenue and subsidy revenue, partially offset by a $31.3 million, or 5%, increase in data and Internet services revenue, each as described in more detail below.

Consolidated revenue for 2008 decreased $51.0 million, or 2%, to $2,237.0 million as compared to 2007. Excluding additional revenue attributable to the CTE and GVN acquisitions for a full year in 2008 and for a partial period in 2007, Frontier's revenue decreased $107.3 million during 2008, or 5%, as compared to 2007. During the first quarter of 2007, Frontier had a significant favorable settlement of a carrier dispute that resulted in a favorable one-time impact to its revenue of $38.7 million. Excluding the additional revenue due to the one-time favorable settlement in the first quarter of 2007 and the additional revenue attributable to the CTE and GVN acquisitions in 2008 and 2007, Frontier's revenue for the year ended December 31, 2008 declined $68.6 million, or 3%, as compared to the prior year. This decline is a result of lower local services revenue, switched access revenue and subsidy revenue, partially offset by a $37.3 million, or 8%, increase in data and Internet services revenue, each as described in more detail below.

Change in the number of its access lines is one factor that is important to Frontier's revenue and profitability. Frontier has lost access lines primarily because of changing consumer behavior (including wireless substitution), economic conditions, changing technology, competition, and by some customers disconnecting second lines when they add HSI or cable modem service. In 2009, Frontier lost approximately 136,800 access lines (net), or 6% on an annual basis. This represents an improvement in its rate of access line loss over 2008, during which Frontier lost approximately 174,800 access lines (net) or 7% on an annual basis. Frontier believes this improvement is attributable to the customer recognition of the value of its product bundles, fewer residential moves out of territory, fewer moves by businesses to competitors and its ability to compete with cable telephony in a maturing marketplace. Economic conditions and/or increasing competition could make it more difficult to sell its bundles, and cause Frontier to increase its promotions and/or lower its prices for its products and services, which would adversely affect its revenue, profitability and cash flow.

During 2009, Frontier added approximately 56,000 HSI subscribers. Frontier expects to continue to increase HSI subscribers in 2010 (although not enough to offset the expected continued loss in access lines).

While the number of access lines is an important metric to gauge certain revenue trends, it is not necessarily the best or only measure to evaluate Frontier's business. Frontier's management believes that customer counts and understanding different components of revenue is most important. For this reason, presented in the table titled "Other financial and operating data" below is a breakdown that presents residential customer counts, average monthly revenue, percentage of customers on price protection plans and churn. It also categorizes revenue into customer revenue (residential and business) and regulatory revenue (switched access and subsidy revenue). Despite the 7% decline in residential customers and the 6% decline in total access lines, Frontier's customer revenue, which is all revenue except switched access and subsidy revenue, declined in 2009 by 4% as compared to the prior year period. The average monthly residential and total customer revenue per customer has improved, and resulted in an increased wallet share. A substantial further loss of customers and access lines, combined with increased competition and the other factors discussed herein may cause Frontier's revenue, profitability and cash flows to decrease in 2010.

Other financial and operating data

	As of December 31, 2009	% Increase (decrease)	As of December 31, 2008	% Increase (decrease)	As of December 31, 2007
Access lines:					
Residential	1,349,510	(7%)	1,454,268	(8%)	1,587,930
Business	768,002	(4%)	800,065	(5%)	841,212
Total access lines	2,117,512	(6%)	2,254,333	(7%)	2,429,142
High-Speed Internet subscribers	635,947	10%	579,943	11%	522,845
Video subscribers	172,961	44%	119,919	28%	93,596

	For the year ended December 31,						
	2009	$ Increase (decrease)	% Increase (decrease)	2008	$ Increase (decrease)	% Increase (decrease)	2007
Revenue (in 000's):							
Residential	$ 899,800	$ (49,484)	(5%)	$ 949,284	$ (9,169)	(1%)	$ 958,453
Business	858,460	(24,561)	(3%)	883,021	32,921	4%	850,100
Total customer revenue	1,758,260	(74,045)	(4%)	1,832,305	23,752	1%	1,808,553
Regulatory (Access services)	359,634	(45,079)	(11%)	404,713	(74,749)	(16%)	479,462
Total revenue	$2,117,894	$(119,124)	(5%)	$2,237,018	$(50,997)	(2%)	$2,288,015
Switched access minutes of use (in millions)	8,854		(12%)	10,027		(5%)	10,592
Average monthly total revenue per access line	$ 80.74		1%	$ 79.62		2%	$ 77.72(1)
Average monthly customer revenue per access line	$ 67.03		3%	$ 65.22		4%	$ 62.49

	As of December 31, 2009		As of December 31, 2008
Residential customer metrics:			
Customers	1,254,508	(7%)	1,347,423
Revenue (in 000's)	$ 899,800	(5%)	$ 949,284
Average monthly residential customer revenue per customer	$ 57.62	2%	$ 56.42
Percent of Customers on price protection plans	53.2%	19%	44.6%
Customer monthly churn	1.47%	(6%)	1.57%
Products per residential customer(2)	2.54	7%	2.37

(1) For the year ended December 31, 2007, the calculation includes CTE and GVN data and excludes the $38.7 million favorable one-time impact from the first quarter 2007 settlement of a switched access dispute. The amount is $79.06 with the $38.7 million favorable one-time impact from the settlement.

(2) Products per Residential Customer: Primary Residential Voice line, HSI, Video products have a value of 1. FTR long distance, POM, second lines, Feature Packages and Dial-up have a value of 0.5.

Revenue

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Local services	$ 781,388	$ (67,005)	(8%)	$ 848,393	$(27,369)	(3%)	$ 875,762
Data and Internet services	636,943	31,328	5%	605,615	61,851	11%	543,764
Access services	359,634	(45,079)	(11%)	404,713	(74,749)	(16%)	479,462
Long distance services	165,774	(16,785)	(9%)	182,559	2,034	1%	180,525
Directory services	107,096	(6,251)	(6%)	113,347	(1,239)	(1%)	114,586
Other	67,059	(15,332)	(19%)	82,391	(11,525)	(12%)	93,916
	$2,117,894	$(119,124)	(5%)	$2,237,018	$(50,997)	(2%)	$2,288,015

Local services

Local services revenue for 2009 decreased $67.0 million, or 8%, to $781.4 million as compared with 2008, primarily due to the continued loss of access lines that accounted for $41.9 million of the decline and a reduction in all other related services revenue of $25.1 million. Enhanced services revenue in 2009 decreased $14.7 million, as compared with 2008, primarily due to a decline in access lines and a shift in customers purchasing Frontier's unlimited voice communications packages with features included in the bundle instead of purchasing individual features.

Local services revenue for 2008 decreased $27.4 million, or 3%, to $848.4 million as compared to 2007. Local services revenue for 2008 increased $20.4 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations decreased $47.8 million, or 6%, as compared to 2007, primarily due to the continued loss of access lines which accounted for $40.4 million of the decline and a reduction in all other related services of $7.4 million. Enhanced services revenue for 2008, excluding the impact of the CTE and GVN acquisitions for 2008 and 2007, decreased $5.6 million, or 3%, as compared to 2007, primarily due to a decline in access lines and a shift in customers purchasing Frontier's unlimited voice communications packages instead of individual features. Rate increases that were effective August 2007 resulted in a favorable 2008 impact of $3.0 million.

Data and internet services

Data and Internet services revenue for 2009 increased $31.3 million, or 5%, to $636.9 million as compared with 2008, primarily due to the overall growth in the number of HSI subscribers and high-capacity Internet and ethernet circuits purchased by customers. As of December 31, 2009, the number of Frontier's HSI subscribers had increased by approximately 56,000, or 10%, since December 31, 2008. Frontier has used "aspirational gifts" or promotional credits to drive growth in HSI subscribers. Data and Internet services also includes revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity Internet and ethernet circuits. Revenue from these dedicated high-capacity circuits increased $7.3 million in 2009, as compared with 2008, primarily due to growth in the number of those circuits.

Data and Internet services revenue for 2008 increased $61.9 million, or 11%, to $605.6 million as compared to 2007. Data and Internet services revenue for 2008 increased $24.6 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations increased $37.3 million, or 8%, as compared to 2007, primarily due to the overall growth in the number of HSI subscribers. As of December 31, 2008, the number of Frontier's HSI subscribers increased by approximately 57,100, or 11%, since December 31, 2007. Revenue from dedicated high-capacity circuits, including the impact of $10.5 million attributable to the CTE and GVN acquisitions, increased $26.9 million in 2008, as compared to 2007, primarily due to growth in the number of those circuits.

In February 2009, the President signed into law an economic stimulus package, ARRA, that includes $7.2 billion in funding, through grants and loans, for new broadband investment and adoption in unserved and underserved communities. Frontier filed applications for the first round of stimulus funding in West Virginia, but was notified in February 2010 that Frontier was not selected. The federal agencies responsible for administering the programs released rules and evaluation criteria for the second round of funding, with applications due by March 15, 2010. Frontier will evaluate opportunities but has not made a decision on whether it will apply for any funding in this round.

Access services

Access services revenue for 2009 decreased $45.1 million, or 11%, to $359.6 million as compared with 2008. Switched access revenue in 2009 of $246.3 million decreased $38.6 million, or 14%, as compared with 2008, primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, email and other communications services. Access services revenue includes subsidy payments Frontier receives from federal and state agencies, including surcharges billed to customers that are remitted to the FCC. Subsidy revenue, including surcharges billed to customers, for 2009 of $113.3 million decreased $6.5 million, or 5%, as compared with 2008, primarily due to lower receipts under the Federal High Cost Fund (FHCF) program resulting from its reduced cost structure and an increase in the program's National Average Cost per Local Loop (NACPL) used by the FCC to allocate funds among all recipients.

Access services revenue for 2008 decreased $74.7 million, or 16%, to $404.7 million as compared to 2007. Access services revenue for 2008 increased $2.6 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations decreased $77.3 million, or 19%, as compared to 2007. Switched access revenue for 2008, excluding the unfavorable impact of the CTE and GVN acquisitions, decreased $56.8 million, or 20%, as compared to 2007, primarily due to the settlement of a carrier dispute resulting in a favorable impact on Frontier's 2007 revenue of $38.7 million (a one-time event), and the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, email and other communications services. Excluding the impact of that one-time favorable settlement in 2007, Frontier's switched access revenue for 2008 declined by $18.1 million, or 7% from 2007. Subsidy revenue for 2008, excluding the additional subsidy revenue attributable to the CTE and GVN acquisitions in 2008 and 2007, decreased $20.5 million, or 16%, in 2008 to $104.1 million, as compared to 2007, primarily due to lower receipts under the FHCF program resulting from its reduced cost structure and an increase in the program's NACPL used by the FCC to allocate funds among all recipients. Subsidy revenue in 2008 was also negatively impacted by $2.5 million in unfavorable adjustments resulting from audits of the FHCF program.

Many factors may lead to further increases in the NACPL, thereby resulting in decreases in Frontier's federal subsidy revenue in the future. The FCC and state regulatory agencies are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. On May 1, 2008, the FCC issued an order to cap CETC receipts from the high cost Federal Universal Service Fund. In 2009, the federal court upheld the FCC's order and the cap remains in place pending any future reform.

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation and would revise the Federal Universal Service funding and disbursement mechanisms. The National Broadband Plan recommends reducing intrastate terminating switched access rates to interstate terminating switched access levels over a two to four year period beginning in 2012 and eliminating all per-minute intercarrier compensation charges by 2020. This plan must still be considered by the full FCC, which may adopt, reject or modify these proposals. The FCC also has an ongoing proceeding considering whether to make changes to its regulatory regime governing special access services, including whether to mandate lower rates, change standards for deregulation and pricing flexibility, or to require changes to other terms and conditions. When and how these proposed changes will be addressed are unknown and, accordingly, Frontier is unable to predict the impact of future changes on its results of operations. However, future reductions in Frontier's subsidy and access revenues will directly affect its profitability and cash flows as those regulatory revenues do not have associated variable expenses.

Certain states have open proceedings to address reform to intrastate access charges and other intercarrier compensation. Frontier cannot predict when or how these matters will be decided or the effect on its subsidy or access revenues. In addition, Frontier has been approached by, and/or is involved in formal state proceedings with, various carriers seeking reductions in intrastate access rates in certain states.

Long distance services

Long distance services revenue for 2009 decreased $16.8 million, or 9%, to $165.8 million as compared with 2008, primarily due to a 3% reduction in the overall minutes of use and a reduction in the average revenue per minute of use. Frontier expects its long distance services revenue to continue to trend downward. Frontier has actively marketed a package of unlimited long distance minutes with its digital phone and state unlimited bundled service offerings. These offerings have resulted in an increase in long distance customers, and an increase in the minutes used by these customers. This has lowered Frontier's overall average rate per minute billed. While these package offerings have grown Frontier's long distance customer base, those customers who still pay on a per minute of use basis have reduced their calling volumes.

Long distance services revenue for 2008 increased $2.0 million, or 1%, to $182.6 million as compared to 2007. Long distance services revenue for 2008 increased $5.8 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations decreased $3.8 million, or 2%, as compared to 2007. During 2008, Frontier actively marketed a package of unlimited long distance minutes with its digital phone and state unlimited bundled service offerings.

Frontier's long distance services revenue may decrease in the future due to further declines in minutes of use or increased penetration of its unlimited calling packages. Competing services such as wireless, VOIP and cable telephony are resulting in a loss of customers, minutes of use and further declines in the rates Frontier charges its customers. Frontier expects these factors will continue to adversely affect its long distance revenue in the future.

Directory services

Directory services revenue for 2009 decreased $6.3 million, or 6%, to $107.1 million as compared with 2008, primarily due to lower revenues from yellow pages local advertising.

Directory services revenue for 2008 decreased $1.2 million, or 1%, to $113.3 million as compared to 2007. Directory services revenue for 2008 increased $2.8 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations decreased $4.0 million, or 4%, as compared to 2007 due to lower revenues from yellow pages advertising, mainly in Rochester, New York.

Other

Other revenue for 2009 decreased $15.3 million, or 19%, to $67.1 million as compared with 2008, primarily due to video promotional discounts of approximately $13.6 million.

Other revenue for 2008 decreased $11.5 million, or 12%, to $82.4 million as compared to 2007. Other revenue was impacted by a decrease in equipment sales of $7.0 million, a decrease in service activation fee revenue of $3.3 million and decreased "bill and collect" fee revenue of $3.2 million, partially offset by higher DISH video revenue of $3.3 million.

Operating expenses

Network access expenses

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Network access	$225,907	$ 3,894	2%	$ 222,013	$(6,229)	(3%)	$228,242

Network access

Network access expenses for 2009 increased $3.9 million, or 2%, to $225.9 million as compared to 2008 due to higher "aspirational gift" costs (e.g., personal computers), higher long distance carriage costs and additional data backbone costs.

Network access expenses for 2008 decreased $6.2 million, or 3%, to $222.0 million as compared to 2007 primarily due to decreasing rates resulting from more efficient circuit routing for Frontier's long distance and data products. Network access expenses for 2008 increased $8.9 million as a result of the CTE and GVN acquisitions, and legacy Frontier operations decreased $15.1 million, or 8%, as compared to 2007.

During 2008, Frontier expensed $4.2 million of promotional costs for Master Card gift cards issued to new HSI customers entering into a two-year price protection plan and to existing customers who purchased additional services under a two-year price protection plan and $3.0 million for a flat screen television promotion. In the fourth quarter of 2007, Frontier expensed $11.4 million of promotional costs associated with fourth quarter HSI promotions that subsidized the cost of a new personal computer or a new digital camera provided to customers entering into a multi-year commitment for certain bundled services.

As Frontier continues to offer "aspirational gifts" as part of its promotions, increase its sales of data products such as HSI and increase the penetration of its unlimited long distance calling plans, Frontier' network access expense may increase in the future. A decline in expenses associated with access line losses may offset some of the increase.

Other operating expenses

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Wage and benefit expenses	$360,551	$(23,173)	(6%)	$383,724	$(12,210)	(3%)	$395,934
Pension costs	34,196	34,033	NM	163	14,771	101%	(14,608)
Severance and early retirement costs	3,788	(3,810)	(50%)	7,598	(6,276)	(45%)	13,874
Stock based compensation	9,368	1,580	20%	7,788	(1,234)	(14%)	9,022
All other operating expenses	373,194	(38,281)	(9%)	411,475	7,196	2%	404,279
	$781,097	$(29,651)	(4%)	$810,748	$ 2,247	0%	$808,501

Wage and benefit expenses

Wage and benefit expenses for 2009 decreased $23.2 million, or 6%, to $360.6 million as compared to 2008, primarily due to headcount reductions, decreases in compensation, reduced overtime costs and lower benefit expenses.

Wage and benefit expenses for 2008 decreased $12.2 million, or 3%, to $383.7 million as compared to 2007. Wage and benefit expenses related to the CTE and GVN acquisitions decreased $4.2 million and legacy Frontier operations decreased $8.0 million primarily due to headcount reductions and associated decreases in compensation and benefit costs attributable to the integration of the back office, customer service and administrative support functions of the CTE and GVN operations acquired in 2007.

Pension costs

The decline in the value of Frontier's pension plan assets during 2008 resulted in an increase in its pension expense in 2009. Pension costs for 2009 and 2008 were approximately $34.2 million and $0.2 million, respectively. Pension costs for 2009 include pension expense of $41.7 million, less amounts capitalized into the cost of capital expenditures of $7.5 million.

Pension costs for 2008 and 2007 were approximately $0.2 million and $(14.6) million, respectively. The amount for 2007 includes the costs for Frontier's CTE plans acquired in 2007 and reflects the positive impact of a pension curtailment gain of $14.4 million, resulting from the freeze placed on certain pension benefits of the former CTE non-union employees. Also, effective December 31, 2007, the CTE Employees' Pension Plan was merged into the Frontier Pension Plan.

Frontier's pension plan assets have increased from $589.8 million at December 31, 2008 to $608.6 million at December 31, 2009, an increase of $18.8 million, or 3%. This increase is a result of positive investment returns of $90.2 million, or 15%, partially offset by ongoing benefit payments of $71.4 million, or 12%, during 2009.

Based on current assumptions and plan asset values, Frontier estimates that its 2010 pension and other postretirement benefit expenses (which were $48.6 million in 2009) will be approximately $45.0 million to $55.0 million. No contributions were made to Frontier's pension plan during 2007, 2008 and 2009. Frontier expects that it will make a $10.0 million cash contribution to its pension plan in 2010.

Severance and early retirement costs

Severance and early retirement costs for 2009 decreased $3.8 million, or 50%, to $3.8 million as compared with 2008.

Severance and early retirement costs for 2008 decreased $6.3 million, or 45%, as compared to 2007. Severance and early retirement costs of $7.6 million in 2008 include charges recorded in the first half of 2008 of $3.4 million related to employee early retirements and terminations for 42 Rochester, New York employees. Additional severance costs of $4.0 million were recorded in the fourth quarter of 2008, including $1.7 million of enhanced early retirement pension benefits related to 55 employees.

Severance and early retirement costs of $13.9 million in 2007 include a third quarter charge of approximately $12.1 million related to initiatives to enhance customer service, streamline operations and reduce costs. Approximately 120 positions were eliminated as part of this 2007 initiative, most of which were filled by new employees at Frontier's remaining call centers. In addition, approximately 50 field operations employees agreed to participate in an early retirement program and another 30 employees from a variety of functions left Frontier in 2007.

Stock based compensation

Stock based compensation for 2009 increased $1.6 million, or 20%, to $9.4 million as compared with 2008, due to increased costs for restricted stock awards.

Stock based compensation for 2008 decreased $1.2 million, or 14%, as compared to 2007 due to reduced costs associated with stock units and stock options.

All other operating expenses

All other operating expenses for 2009 decreased $38.3 million, or 9%, to $373.2 million as compared to 2008, due to reduced costs for outside contractors and other vendors, as well as lower fuel, travel and USF surcharges, partially offset by slightly higher marketing expenses.

All other operating expenses for 2008 increased $7.2 million, or 2%, to $411.5 million as compared to 2007, primarily due to the additional expenses attributable to the CTE and GVN acquisitions of $10.0 million in 2008 versus 2007, as 2008 includes a full year of expenses for CTE and GVN while 2007 included approximately ten months of costs for CTE and two months of costs for GVN. Frontier's purchase of CTE has enabled Frontier to realize cost savings by leveraging its centralized back office, customer service and administrative support functions over a larger customer base.

Depreciation and amortization expense

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Depreciation expense	$362,228	$(17,262)	(5%)	$379,490	$ 5,055	1%	$374,435
Amortization expense	114,163	(68,148)	(37%)	182,311	10,890	6%	171,421
	$476,391	$(85,410)	(15%)	$561,801	$15,945	3%	$545,856

Depreciation and amortization expense for 2009 decreased $85.4 million, or 15%, to $476.4 million as compared to 2008. The decrease is primarily due to reduced amortization expense, as discussed below, and a declining net asset base, partially offset by changes in the remaining useful lives of certain assets. An independent study updating the estimated remaining useful lives of Frontier's plant assets is performed annually. Frontier revised its useful lives based on the study effective October 1, 2009. Frontier's "composite depreciation rate" decreased from 5.6% to 5.2% as a result of the study. Frontier anticipates depreciation expense of approximately $335.0 million to $355.0 million and amortization expense of approximately $56.2 million for 2010 related to its currently owned properties.

Amortization expense for 2009 is comprised of $57.9 million for amortization associated with legacy Frontier properties, which were fully amortized in June 2009, and $56.3 million for intangible assets (customer base and trade name) that were acquired in the CTE and GVN acquisitions. Amortization expense for legacy Frontier properties was $126.4 million for 2008 and 2007.

Depreciation and amortization expense for 2008 increased $15.9 million, or 3%, to $561.8 million as compared to 2007. Depreciation and amortization expense increased $26.6 million as a result of the CTE and GVN acquisitions, and decreased $10.7 million, or 2%, as compared to 2007, primarily due to a declining net asset base for legacy Frontier properties, partially offset by changes in the remaining useful lives of certain assets.

Acquisition and integration costs

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Acquisition and integration costs	$28,334	$ 28,334	100%	$—	$—	—	$—

Acquisition and integration costs represent expenses incurred to close the merger (legal, financial advisory, accounting, regulatory and other related costs) and integrate the network and information technology platforms. While Frontier continues to evaluate certain other expenses, Frontier currently expects to incur acquisition and integration costs of approximately $100.0 million in 2010.

Investment income/other income (loss), net/interest expense/income tax expense

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Investment income	$ 6,285	$ (9,833)	(61%)	$ 16,118	$(21,523)	(57%)	$ 37,641
Other income (loss), net	$ (41,127)	$(35,957)	NM	$ (5,170)	$ 12,663	71%	$ (17,833)
Interest expense	$378,214	$ 15,580	4%	$362,634	$(18,062)	(5%)	$380,696
Income tax expense	$ 69,928	$(36,568)	(34%)	$106,496	$(21,518)	(17%)	$128,014

Investment income

Investment income for 2009 declined $9.8 million, or 61%, to $6.3 million as compared with 2008 primarily due to reduced equity earnings of $4.2 million and a decrease of $5.6 million in income from short-term investments of cash and cash equivalents, as higher cash balances were more than offset by significantly lower short-term investment rates.

Investment income for 2008 decreased $21.5 million, or 57%, to $16.1 million as compared to 2007, primarily due to a decrease of $22.1 million in income from short-term investments of cash and cash equivalents due to a lower investable cash balance.

Frontier's average cash balances were $318.0 million, $177.5 million and $594.2 million for 2009, 2008 and 2007, respectively. The 2007 amount reflects the impact of borrowing $550.0 million in December 2006 in anticipation of the Commonwealth acquisition in 2007.

Other income (loss), net

Other income (loss), net for 2009 declined $36.0 million to $(41.1) million as compared with 2008, primarily due to premiums paid on the early retirement of debt of $45.9 million in 2009, partially offset by increased litigation settlement proceeds of $3.8 million.

Other income (loss), net for 2008 improved $12.7 million, or 71%, to $(5.2) million as compared to 2007. Other income (loss), net improved in 2008 primarily due to a reduction in the loss on retirement of debt of $11.9 million and the $4.1 million expense of a bridge loan fee recorded during the first quarter of 2007.

Interest expense

Interest expense for 2009 increased $15.6 million, or 4%, to $378.2 million as compared with 2008, primarily due to higher average debt levels and interest rates in 2009. Frontier's composite average borrowing rate as of December 31, 2009 as compared with the prior year was 31 basis points higher, increasing from 7.54% to 7.85%.

Interest expense for 2008 decreased $18.1 million, or 5%, to $362.6 million as compared to 2007, primarily due to the amortization of the deferred gain associated with the termination of its interest rate swap agreements and retirement of related debt during the first quarter of 2008, along with slightly lower average debt levels and average interest rates. Frontier's composite average borrowing rate as of December 31, 2008, as compared to 2007, was 40 basis points lower, decreasing from 7.94% to 7.54%.

Frontier's average debt outstanding was $4,867.2 million, $4,753.0 million and $4,834.5 million for 2009, 2008 and 2007, respectively. The higher average debt levels for 2009 result primarily from its April 2009 debt offering of $600.0 million, as the net proceeds were not fully utilized to retire existing debt until the fourth quarter of 2009.

Income tax expense

Income tax expense for 2009 decreased $36.6 million, or 34%, to $69.9 million as compared with 2008, primarily due to lower taxable income arising from lower operating income, lower investment income and loss on debt repurchases. The second quarter of 2008 included a reduction in income tax expense of $7.5 million that resulted from the expiration of certain statute of limitations on April 15, 2008, as discussed below.

The effective tax rate for 2009 was 36.2% as compared with 36.6% for 2008 and 37.2% for 2007.

Cash paid for taxes was $59.7 million, $78.9 million and $54.4 million in 2009, 2008 and 2007, respectively. Frontier's 2009 cash taxes were lower than 2008 and reflect the benefits from accelerated tax depreciation arising from the ARRA, utilization of AMT credits and higher interest expense arising from its debt offerings not fully offset by debt repurchases. Frontier expects that in 2010 its cash taxes will be less than $10.0 million. Frontier expects that its 2010 cash taxes will be reduced by the receipt of tax refunds arising from the retroactive application of a change in tax accounting for repairs and maintenance costs. In addition, its 2010 cash taxes will be impacted by approximately $60.0 million of tax benefits arising from its integration activities and secondarily, its 2009 debt refinancing activities. Absent the tax benefits generated by these integration and refinancing activities, Frontier estimates that cash taxes would be approximately $60.0 million to $70.0 million in 2010.

Refunds of approximately $56.2 million have been applied for in Frontier's 2008 tax returns. The refunds result from a tax methods change applied for during the third quarter of 2009. Refunds are recorded on its balance sheet at December 31, 2009 in current assets within income taxes. Frontier recorded approximately $8.2 million (net) related to uncertain tax positions under FASB Interpretation No. (FIN) 48 (ASC Topic 740) in 2009.

Income tax expense for 2008 decreased $21.5 million, or 17%, as compared to 2007, primarily due to lower taxable income and the reduction in income tax expense of $7.5 million recorded in the second quarter of 2008 that resulted from the expiration of certain statute of limitations on April 15, 2008, as discussed below.

As a result of the expiration of certain statute of limitations on April 15, 2008, the liabilities on Frontier's books as of December 31, 2007 related to uncertain tax positions recorded under FASB Interpretation No. (FIN) 48 (ASC Topic 740) were reduced by $16.2 million in the second quarter of 2008. This reduction lowered income tax expense by $7.5 million, goodwill by $3.0 million and deferred income tax assets by $5.7 million during the second quarter of 2008.

Income attributable to the noncontrolling interest in a partnership

	2009			2008			2007
($ in thousands)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount	$ Increase (decrease)	% Increase (decrease)	Amount
Income attributable to the noncontrolling interest in a partnership	$2,398	$784	49%	$1,614	$(246)	(13%)	$1,860

Income attributable to the noncontrolling interest relates to Frontier's joint venture, Mohave Cellular LP.

Verizon's Separate Telephone Operations' results of operations

Verizon's wireline business provides customers with communications services that include voice, Internet access, broadband video and data, next generation IP network services, network access, long distance and other services. Verizon's Separate Telephone Operations represent a portion of Verizon's wireline business but have not been operated as a distinct business separate from Verizon's wireline business and do not constitute a separate legal entity. Consequently, financial statements had not historically been prepared for Verizon's Separate Telephone Operations. Verizon's Separate Telephone Operations had approximately 8,900 employees as of December 31, 2009.

Verizon's Separate Telephone Operations are comprised of the local exchange business and related landline activities of Verizon in the states of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, including long distance services, Internet access and broadband video provided to designated customers in those states.

Verizon's Separate Telephone Operations are comprised of portions of Verizon California Inc. and Verizon South Inc., and the stock of Contel of the South, Inc., Verizon Northwest Inc., Verizon

North Inc., and Verizon West Virginia Inc. (after the transfer of certain operations, assets and liabilities of Verizon North Inc. and Verizon Northwest Inc.); also included in Verizon's Separate Telephone Operations are portions of Verizon Long Distance LLC and Verizon Enterprise Solutions LLC and Verizon Online LLC. Verizon's Separate Telephone Operations exclude all activities of Verizon Business Global LLC and Cellco Partnership (doing business as Verizon Wireless).

Verizon California Inc., Verizon Northwest Inc., Verizon North Inc., Verizon South Inc. and Contel of the South, Inc., are wholly owned subsidiaries of GTE Corporation, which is a subsidiary of Verizon. Verizon West Virginia Inc. is a wholly owned subsidiary of Verizon. Verizon Long Distance LLC, Verizon Enterprise Solutions LLC and Verizon Online LLC are indirect wholly owned subsidiaries of Verizon.

Verizon's Separate Telephone Operations have one reportable segment, servicing territories consisting of local access and transport areas ("LATAs") in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin. These LATAs are generally centered on a city or based on some other identifiable common geography. Verizon's Separate Telephone Operations include regulated and unregulated carrier business in thirteen states, consisting principally of:

- local wireline customers and related operations and assets used to deliver:
  - local exchange service,
  - intraLATA toll service,
  - network access service,
  - enhanced voice and data services, and
  - products at retail stores;
- consumer and small business switched long distance customers (excluding any customers of Verizon Business Global LLC);
- dial-up, high-speed Internet (or digital subscriber line) and fiber-to-the-premises Internet service provider customers; and
- broadband video in areas of Indiana, Oregon and Washington.

Many of the communications services Verizon's Separate Telephone Operations provide are subject to regulation by the state regulatory commissions of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, with respect to intrastate rates and services and other matters. In Idaho, Verizon's Separate Telephone Operations has made the election under a statutory amendment into a deregulatory regime that phases out all price regulation. The FCC regulates rates that Verizon's Separate Telephone Operations charge long distance carriers and end-user subscribers for interstate access services and interstate traffic. All of the broadband video services Verizon's Separate Telephone Operations provides, including the payment of franchise fees, are subject to regulation by state regulatory commissions or local governmental authorities.

The sections that follow provide information about the important aspects of Verizon's Separate Telephone Operations and discuss their results of operations, financial position and sources and uses of cash and investments. Also highlighted are key trends and uncertainties related to Verizon's Separate Telephone Operations to the extent practicable. In its operation of Verizon's

Separate Telephone Operations, Verizon management also monitors several key economic indicators as well as the state of the United States economy in general in evaluating operating results and assessing the potential impacts of these trends on Verizon's businesses. While most key economic indicators, including gross domestic product, affect Verizon's operations to some degree, Verizon management historically has noted higher correlations to non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflationary or recessionary trends and housing starts.

Verizon's Separate Telephone Operations' results of operations, financial position and sources and uses of cash in the periods presented have reflected, and prior to the merger are expected to continue to reflect, a focus on the following strategic imperatives:

Revenue Growth. To generate revenue growth, Verizon management, including in managing Verizon's Separate Telephone Operations, is devoting resources to higher growth markets such as broadband markets as well as continuing to develop and market innovative product bundles to include local, long distance and broadband data and video services for consumer and general business retail customers. Verizon management believes these efforts will help counter the effects of competition and technology substitution that have resulted in access line losses.

Profitability Improvement. Verizon management, including in managing Verizon's Separate Telephone Operations, continues to be sharply focused on cost controls with the objective of driving efficiencies to offset access line losses.

Operational Efficiency. While focusing resources on revenue growth and market share gains, Verizon management, including in managing Verizon's Separate Telephone Operations, is continually challenging its team to lower expenses, particularly through technology-assisted productivity improvements, including self-service initiatives. The effect of these and other efforts, such as real estate consolidation and call center routing improvements has led to changes in Verizon's cost structure, including in managing Verizon's Separate Telephone Operations, with a goal of maintaining and improving operating income margins.

Customer Service. Verizon management's goal is to be the leading company in customer service in every area Verizon serves. Verizon management, including in managing Verizon's Separate Telephone Operations, views superior product offerings and customer service experiences as a competitive differentiator and a catalyst to growing revenues and gaining market share. It is committed to providing high-quality customer service and continually monitoring customer satisfaction.

Performance-Based Culture. Verizon management, including in managing Verizon's Separate Telephone Operations, embraces a culture of accountability, based on individual and team objectives that are performance-based and tied to Verizon's strategic imperatives. Key objectives of Verizon's compensation programs are pay-for-performance and the alignment of executives' and shareowners' long-term interests. Verizon, including Verizon's Separate Telephone Operations, also employs a highly diverse workforce, since respect for diversity is an integral part of Verizon's culture and a critical element of its competitive success.

Verizon's Separate Telephone Operations create value by investing the cash flows generated by their business in opportunities and transactions that support their strategic imperatives, thereby increasing customer satisfaction and usage of Verizon's Separate Telephone Operations' products and services.

Verizon's Separate Telephone Operations' net cash provided by operating activities for the year ended December 31, 2009 of $1,366 million decreased by $60 million (or 4.2%) from $1,426 million for the year ended December 31, 2008, as it incurred 551,000 (or 11.6%) access line losses and lower operating revenues of $287 million over that same year.

Basis of presentation

Historically, financial statements have not been prepared for Verizon's Separate Telephone Operations, as they were not operated as a distinct business separate from Verizon's wireline business and do not constitute a separate legal entity. The accompanying combined special-purpose financial statements have been prepared to present the statements of selected assets, selected liabilities and parent funding, and statements of income, parent funding and cash flows of Verizon's Separate Telephone Operations in contemplation of a proposed spin-off and business combination of Verizon's Separate Telephone Operations. The accompanying combined special-purpose financial statements have been prepared in accordance with U.S. GAAP using specific information where available and allocations where data is not maintained on a state-specific basis within Verizon's books and records. The allocations impacted substantially all of the income statement items, other than operating revenues, and balance sheet items with the exception of plant, property and equipment, accumulated depreciation and materials and supplies, which were maintained at the state level. Verizon management believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of Verizon's Separate Telephone Operations. The financial statements of Verizon's Separate Telephone Operations reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the years shown including normal recurring accruals and other items.

The combined special-purpose financial statements include the wireline-related businesses, Internet access and long distance services provided by Verizon's Separate Telephone Operations to customers in the thirteen states in which it operates. All significant intercompany transactions have been eliminated.

Transactions with affiliates

Operating revenue reported by Verizon's Separate Telephone Operations includes transactions with Verizon for the provision of local telephone services, network access, billing and collection services, interconnection agreements and the rental of facilities and equipment. These services were reimbursed by Verizon based on tariffed rates, market prices, negotiated contract terms that approximated market rates, or actual costs incurred by Verizon's Separate Telephone Operations.

Verizon was reimbursed by Verizon's Separate Telephone Operations for specific goods and services it provided to, or arranged for, Verizon's Separate Telephone Operations based on tariffed rates, market prices or negotiated terms that approximated market rates. These goods and services included items such as communications and data processing services, office space, professional fees and insurance coverage.

Verizon was also reimbursed by Verizon's Separate Telephone Operations for Verizon's Separate Telephone Operations' share of costs incurred by Verizon to provide services on a common basis to all of its subsidiaries. These costs included allocations for marketing, sales, accounting, finance, materials management, procurement, labor relations, legal, security, treasury, human resources, and tax and audit services. The allocations were based on actual costs incurred by Verizon and periodic studies that identified employees or groups of employees who were totally or partially dedicated to performing activities that benefited Verizon's Separate Telephone Operations. These allocations were also based on the size of Verizon's Separate Telephone Operations relative to other Verizon subsidiaries. Verizon management believes that these cost allocations are reasonable for the services provided and also believes that these cost allocations are consistent with the nature and approximate amount of the costs that Verizon's Separate Telephone Operations would have incurred on a stand-alone basis; however, costs may be higher on a stand-alone basis depending on facts and circumstances.

Verizon's Separate Telephone Operations also recognized an allocated portion of interest expense in connection with their contractual agreements with Verizon for the provision of short-term financing and cash management services. Verizon issues commercial paper and obtains bank loans to fund its working capital requirements, including those of Verizon's Separate Telephone Operations, and invests funds in temporary investments.

The affiliate operating revenue and expense amounts included only Verizon's Separate Telephone Operations local exchange business and related landline activities. Because operating expenses associated with Verizon's Separate Telephone Operations' long distance and Internet operations were determined predominantly through allocations, separate identification of the affiliate transactions was not available.

Results of operations

Year ended December 31, 2009 compared to the year ended December 31, 2008

	Year ended December 31,		
($ in millions)	**2009**	**2008**	**% Change**
Operating revenues	$ 4,065	$ 4,352	(6.6)
Operating expenses			
Cost of services and sales (exclusive of items shown below)	1,380	1,435	(3.8)
Selling, general and administrative expense	1,362	1,114	22.3
Depreciation and amortization expense	781	759	2.9
Total operating expenses	3,523	3,308	6.5
Operating income	542	1,044	(48.1)
Other income, net	1	7	(85.7)
Interest expense	92	186	(50.5)
Income tax provision	159	313	(49.2)
Net income	$ 292	$ 552	(47.1)
Operating data (in thousands)			
Switched access lines in service	4,215	4,766	(11.6)
Minutes of use (MOUs)	15,904,000	18,711,000	(15.0)
FiOS Internet subscribers	148	110	34.5
FiOS TV subscribers	111	69	60.9
High-Speed Internet subscribers	913	887	2.9

Operating revenues

Operating revenues in 2009 of $4,065 million declined $287 million, or 6.6%, compared to 2008. This decrease was principally related to 11.6% fewer switched access lines in service as of December 31, 2009 compared to December 31, 2008, driven by continued competition and technology substitution, partially offset by revenue growth associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions of 34.5%, 60.9% and 2.9%, respectively. Fewer access lines resulted in lower local exchange service revenues and lower Universal Service Fund and end-user common line charge revenues. However, increases in Internet and video revenues resulting principally from increased FiOS and high-speed Internet subscribers totaled $66 million.

Operating expenses

Cost of services and sales. Cost of services and sales in 2009 of $1,380 million declined $55 million, or 3.8%, compared to 2008. The decrease was primarily the result of lower MOUs, reduced repair and maintenance expenses and lower Universal Service Fund charges, driven by the decrease in access lines. Partially offsetting this decrease in cost of services and sales were higher costs associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions, as well as realignment charges of $26 million related to activities to enable Verizon's Separate Telephone Operations to operate on a stand-alone basis in connection with the proposed business combination with Frontier.

Selling, general and administrative expense. Selling, general and administrative expense in 2009 of $1,362 million increased $248 million, or 22.3%, compared to 2008. Verizon's Separate Telephone Operations recorded pension settlement losses, pension and other postretirement curtailment losses and severance charges of $397 million in 2009 compared to $107 million of similar charges in 2008. These increases were partially offset by lower operating taxes and lower salary and benefits costs associated with lower headcount and cost reduction initiatives.

Depreciation and amortization. Depreciation and amortization expense in 2009 of $781 million increased $22 million, or 2.9%, compared to 2008. The increase was primarily driven by growth in depreciable telephone plant and equipment from additional capital spending and the impact of asset life changes effective January 1, 2009.

Other results

Other income, net. Other income, net includes interest income and other non-operating income and expense items. Other income, net in 2009 of $1 million decreased $6 million, or 85.7%, compared to 2008 as a result of lower income on short-term investments, driven by lower average short-term investment balances during 2009 compared to 2008.

Interest expense. Interest expense in 2009 of $92 million decreased $94 million, or 50.5%, compared to 2008. The decrease was primarily driven by lower average debt balances during 2009 compared to 2008. During the fourth quarter of 2008, $700 million of long-term debt with a weighted-average interest rate of 6.1% was repaid. In addition, the average interest rate on affiliate payables decreased from 3% in 2008 to 1% in 2009.

Income taxes. The effective income tax rate is the income tax provision stated as a percentage of income before the provision for income taxes. The effective income tax rate for Verizon's Separate Telephone Operations during 2009 was 35.3% compared to 36.2% during 2008. The decrease was primarily due to an increase in percentage impact related to Medicare subsidy tax benefit.

Year ended December 31, 2008 compared to the year ended December 31, 2007

($ in millions)	Year ended December 31, 2008	2007	% Change
Operating revenues	$ 4,352	$ 4,527	(3.9)
Operating expenses			
Cost of services and sales (exclusive of items shown below)	1,435	1,523	(5.8)
Selling, general and administrative expense	1,114	1,049	6.2
Depreciation and amortization expense	759	796	(4.6)
Total operating expenses	3,308	3,368	(1.8)
Operating income	1,044	1,159	(9.9)
Other income, net	7	10	(30.0)
Interest expense	186	203	(8.4)
Income tax provision	313	363	(13.8)
Net income	$ 552	$ 603	(8.5)
Operating data (in thousands)			
Switched access lines in service	4,766	5,307	(10.2)
Minutes of use (MOUs)	18,711,000	20,902,000	(10.5)
FiOS Internet subscribers	110	71	54.9
FiOS TV subscribers	69	26	165.4
High-Speed Internet subscribers	887	848	4.6

Operating revenues

Operating revenues during 2008 of $4,352 million declined $175 million, or 3.9%, compared to 2007. This decrease was principally related to 10.2% fewer switched access lines in service as a result of continued competition and technology substitution, partially offset by revenue growth associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions of 54.9%, 165.4% and 4.6%, respectively. Fewer access lines resulted in lower local exchange service revenues and lower Universal Service Fund and end-user common line charge revenues. However, increases in Internet and video revenues resulting principally from increased FiOS and high-speed Internet subscribers totaled $92 million.

Operating expenses

Cost of services and sales. Cost of services and sales in 2008 of $1,435 million declined $88 million, or 5.8%, compared to 2007. The decrease was primarily the result of lower MOUs, reduced repair and maintenance expenses and lower Universal Service Fund charges, driven by 10.2% fewer access lines, as well as productivity improvements. Partially offsetting this decrease in cost of services and sales were higher costs associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions.

Selling, general and administrative expense. Selling, general and administrative expense in 2008 of $1,114 million increased $65 million, or 6.2%, compared to 2007. Higher advertising, contractor and other costs associated with the growth of FiOS Internet, FiOS TV and the high-speed Internet business and lower gains on asset sales in 2008 as well as pension settlement losses of $98 million were partially offset by lower salary and benefits costs associated with lower allocated headcount and cost reduction initiatives.

Depreciation and amortization. Depreciation and amortization expense in 2008 of $759 million decreased $37 million, or 4.6%, compared to 2007 primarily driven by lower rates of depreciation, partially offset by growth in depreciable telephone plant and equipment from additional capital spending.

Other results

Other income, net. Other income, net in 2008 of $7 million declined $3 million, or 30.0%, compared to 2007 as a result of lower income on short-term investments, driven by lower average short-term investment balances during 2008 compared to 2007.

Interest expense. Interest expense in 2008 of $186 million declined $17 million, or 8.4%, compared to 2007. The decrease was primarily driven by lower average debt balances during 2008 compared to 2007. During the fourth quarter of 2008, $700 million of long-term debt with a weighted-average interest rate of 6.1% was repaid. In addition, the average interest rate on affiliate payables decreased from 5.3% in 2007 to 3% in 2008. These decreases were partially offset by higher average affiliate payables in 2008 compared to 2007.

Income taxes. The effective income tax rate for Verizon's Separate Telephone Operations during 2008 was 36.2% compared to 37.6% during 2007. The decline in the effective income tax rate was primarily due to a tax benefit recorded in 2008 related to interest on uncertain tax positions.

Liquidity and capital resources

The combined company

As a result of the spin-off and merger, we will have significantly larger business operations and, consequently, greater working capital, capital expenditure and other liquidity needs. Upon the completion of the spin-off and merger, the combined company will have approximately $3.5 billion of additional indebtedness (including the notes offered hereby) compared to Frontier's indebtedness immediately prior to the merger. As of December 31, 2009, Frontier had outstanding indebtedness equal to approximately $4.8 billion, which will remain an obligation of ours. As a result of our greater liquidity requirements, Frontier has entered into a new $750 million revolving credit facility that will replace Frontier's existing revolving credit facility upon and subject to the closing of the merger and the termination of the existing revolving credit facility in order to ensure that we have additional flexibility to meet our liquidity needs. See "Description of other indebtedness—Description of Frontier indebtedness—Frontier credit facilities." In addition, we may need or elect to raise capital in order to finance or pre-fund commitments which may be made to governmental agencies in connection with their approval of the spin-off and merger, including commitments with regard to capital expenditures. See "Business—Regulatory environment—Regulation of our business after the spin-off and merger." The payment obligations that will arise from such assumed and existing indebtedness, and any potential future indebtedness we incur, will constitute a significant use of our operating cash flows. See "Description of other indebtedness."

Assuming completion of the spin-off and merger, based on the level of debt and the projected cash flows that we will be assuming from Spinco, our overall debt will increase but our capacity to service the debt will be significantly enhanced as compared to Frontier's capacity today. At December 31, 2009, Frontier's ratio of net debt to 2009 Adjusted EBITDA was 3.9 times. Frontier expects that our ratio of net debt to Adjusted EBITDA will be significantly lower at closing.

Frontier anticipates that the combined company's operating cash flows, together with any cash balances and borrowing capacity under its revolving credit facility, will be adequate to finance its working capital requirements, fund capital expenditures, make required debt payments, pay taxes, pay dividends to its stockholders in accordance with its dividend policy and support its short-term and long-term operating strategies. However, a number of factors, including but not limited to losses of access lines, pricing pressure from increased competition, lower subsidy and access revenues and the impact of the current economic environment, may reduce our operating cash flows.

Frontier

As of December 31, 2009, Frontier had cash and cash equivalents aggregating $358.7 million. Its primary source of funds continued to be cash generated from operations. For the year ended December 31, 2009, Frontier used cash flow from operations, new borrowings and cash on hand to fund all of its investing and financing activities, including debt repayments.

Frontier believes its operating cash flows, cash balances, and revolving credit facility will be adequate to finance its working capital requirements, fund capital expenditures, make required debt payments, pay taxes, pay dividends to its stockholders in accordance with its dividend policy, pay its acquisition and integration costs and capital expenditures, and support its short-term and long-term operating strategies up to the consummation of the spin-off and merger. However, a number of factors, including, but not limited to, losses of access lines, pricing pressure from increased competition, lower subsidy and access revenues and the impact of the current economic environment are expected to reduce Frontier's cash generated by operations. In addition, although Frontier believes, based on information available to it, that the financial institutions syndicated under its revolving credit facility (as well as the new revolving credit facility that will be effective upon closing of the merger) would be able to fulfill their commitments to Frontier, given the current economic environment and the recent severe contraction in the global financial markets, this could change in the future. Further, the current credit market turmoil and Frontier's below-investment grade credit ratings may also make it more difficult and expensive to refinance its maturing debt. As of December 31, 2009, Frontier had approximately $7.2 million and $280.0 million of debt maturing in 2010 and 2011, respectively.

Cash flow provided by operating activities

Cash flow provided by operating activities improved $3.5 million for 2009 as compared to 2008.

Cash flow provided by operating activities declined $82.4 million, or 10%, for 2008 as compared to 2007. The decline resulted from a drop in operating income, as adjusted for non-cash items, lower investment income, a decrease in accounts payable and an increase in current income tax expenditures. These declines were partially offset by a decrease in accounts receivable that positively impacted Frontier's cash position as compared to the prior year. Frontier paid $78.9 million in cash taxes during 2008.

Cash paid for taxes was $59.7 million, $78.9 million and $54.4 million in 2009, 2008 and 2007, respectively. Frontier's 2009 cash taxes were lower than 2008 and reflect the benefits from accelerated tax depreciation arising from the 2009 American Recovery and Reinvestment Act (ARRA), utilization of AMT credits and higher interest expense arising from its debt offerings not fully offset by debt repurchases. Frontier expects that in 2010 its cash taxes will be less than $10.0 million. Its 2010 cash taxes will be favorably impacted by the receipt of tax refunds arising from the retroactive application of a change in tax accounting for repairs and maintenance costs. In addition, Frontier's 2010 cash taxes will be impacted by approximately $60.0 million of tax benefits arising from its integration activities and secondarily, its 2009 debt refinancing activities. Absent the tax benefits generated by these integration and refinancing activities, Frontier estimates that cash taxes would be approximately $60.0 million to $70.0 million in 2010.

In connection with the pending spin-off and merger, Frontier commenced activities during 2009 to obtain the necessary regulatory approvals, plan and implement systems conversions and begin other initiatives necessary to effectuate the closing, which is expected to occur by the end of the second quarter of 2010, and enable us to implement our "go to market" strategy at closing. As a result, Frontier incurred $28.3 million of acquisition and integration costs and $25.0 million in capital expenditures related to Spinco integration activities in 2009. While Frontier continues to evaluate certain other expenses, it currently expects to incur in 2010 acquisition and integration costs of approximately $100.0 million and capital expenditures of approximately $180.0 million, in each case related to these integration activities.

Cash flow used by investing activities

Acquisitions

On March 8, 2007, Frontier acquired Commonwealth in a cash-and-stock taxable transaction, for a total consideration of approximately $1.1 billion. Frontier paid $804.1 million in cash ($663.7 million net, after cash acquired) and issued its common stock with a value of approximately $249.8 million.

In connection with the acquisition of Commonwealth, Frontier assumed $35.0 million of debt under a revolving credit facility and $191.8 million face amount of Commonwealth convertible notes (fair value of $209.6 million). During March 2007, Frontier paid down in full the $35.0 million credit facility. Frontier retired all of the Commonwealth notes as of December 31, 2008.

On October 31, 2007, Frontier acquired GVN for a total cash consideration of $62.0 million.

Capital expenditures

In 2009, 2008 and 2007, Frontier's capital expenditures were $256.0 million (including $25.0 million of Spinco integration-related capital expenditures), $288.3 million and $315.8 million, respectively. Frontier continues to closely scrutinize all of its capital projects, emphasize return on investment and focus its capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. Frontier anticipates capital expenditures of approximately $220.0 million to $240.0 million for 2010 related to its currently owned properties, and an additional $180.0 million of capital expenditures related to the integration activities of the pending spin-off and merger.

Cash flow used by and provided from financing activities

Issuance of debt securities

On October 1, 2009, Frontier completed a registered debt offering of $600.0 million aggregate principal amount of 8.125% senior unsecured notes due 2018. The issue price was 98.441% of the principal amount of the notes, and Frontier received net proceeds of approximately $578.7 million from the offering after deducting underwriting discounts and offering expenses. Frontier used the net proceeds from the offering, together with cash on hand (including cash proceeds from its April 2009 debt offering described below), to finance a cash tender offer for its outstanding 9.250% Senior Notes due 2011 (the 2011 Notes) and its outstanding 6.250% Senior Notes due 2013 (the 2013 Notes), as described below.

On April 9, 2009, Frontier completed a registered offering of $600.0 million aggregate principal amount of 8.250% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. Frontier received net proceeds of approximately $538.8 million from the offering after deducting underwriting discounts and offering expenses. Frontier used the net proceeds from the offering to repurchase outstanding debt, as described below.

On March 28, 2008, Frontier borrowed $135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest based on the prime rate or London Interbank Offered Rate ("LIBOR") at Frontier's election, plus a margin which varies depending on its debt leverage ratio. Frontier used the proceeds to repurchase, during the first quarter of 2008, $128.7 million principal amount of the 2011 Notes and to pay for the $6.3 million of premium on early retirement of those notes.

On March 23, 2007, Frontier issued in a private placement an aggregate $300.0 million principal amount of 6.625% Senior Notes due 2015 and $450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down in full $200.0 million principal amount of indebtedness borrowed on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth, and to redeem, on April 26, 2007, $495.2 million principal amount of its 7.625% Senior Notes due 2008. In the second quarter of 2007, Frontier completed an exchange offer (to publicly register the debt) for the $750.0 million in total of private placement notes described above, in addition to the $400.0 million principal amount of 7.875% Senior Notes due 2027 issued in a private placement on December 22, 2006, for registered notes.

Debt reduction

In 2009, Frontier retired an aggregate principal amount of $1,048.3 million of debt, consisting of $1,047.3 million of senior unsecured debt, as described in more detail below, and $1.0 million of rural utilities service loan contracts.

During the fourth quarter of 2009, Frontier purchased and retired, in accordance with the terms of the tender offer referred to above, approximately $564.4 million aggregate principal amount of the 2011 Notes and approximately $83.4 million aggregate principal amount of the 2013 Notes. The aggregate consideration for these debt repurchases was $701.6 million, which was financed with the proceeds of the October 2009 debt offering and a portion of the proceeds of the April 2009 debt offering, each as described above. The repurchases in the tender offer resulted in a loss on the early retirement of debt of approximately $53.7 million, which Frontier recognized in the fourth quarter of 2009.

In addition to the debt tender offer, Frontier used $388.9 million of the April 2009 debt offering proceeds to repurchase in 2009 $396.7 million principal amount of debt, consisting of $280.8 million of the 2011 Notes, $54.1 million of its 7.875% Senior Notes due January 15, 2027, $35.9 million of the 2013 Notes, $16.0 million of its 7.125% Senior Notes due March 15, 2019, and $9.9 million of its 6.800% Debentures due August 15, 2026. An additional $7.8 million net gain was recognized and included in Other income (loss), net in its consolidated statements of operations for the year ended December 31, 2009 as a result of these other debt repurchases.

As a result of these 2009 debt transactions described above, as of December 31, 2009, Frontier had reduced its debt maturities through 2013 to approximately $7.2 million maturing in 2010, $280.0 million maturing in 2011, $180.4 million maturing in 2012 and $709.9 million maturing in 2013. Frontier does not expect the spin-off and merger to change the amount of these near-term debt maturities.

In 2008, Frontier retired an aggregate principal amount of $144.7 million of debt, consisting of $128.7 million principal amount of the 2011 Notes, $12.0 million of other senior unsecured debt and rural utilities service loan contracts, and $4.0 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities ("EPPICS.")

In 2007, Frontier retired an aggregate principal amount of $967.2 million of debt, including $3.3 million of EPPICS, and $17.8 million of 3.25% Commonwealth convertible notes that were converted into its common stock. On April 26, 2007, Frontier redeemed $495.2 million principal amount of its 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. During the first quarter of 2007, Frontier borrowed and repaid $200.0 million utilized to temporarily fund the acquisition of Commonwealth, and Frontier paid down in full the $35.0 million Commonwealth credit facility. Through December 31, 2007, Frontier retired $183.3 million face amount of Commonwealth convertible notes for which Frontier paid $165.4 million in cash and $36.7 million in common stock. Frontier also paid down $44.6 million of industrial development revenue bonds and $4.3 million of rural utilities service loan contracts.

Frontier may from time to time repurchase its debt in the open market, through tender offers, exchanges of debt securities, by exercising rights to call or in privately negotiated transactions. Frontier may also refinance existing debt or exchange existing debt for newly issued debt obligations.

EPPICS

As of December 31, 2008 and 2009, there was no EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issuance.

In 1996, Frontier's consolidated wholly owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of 5% EPPICS, representing preferred undivided interests in the assets of the Trust, with a liquidation preference of $50 per security (for a total liquidation amount of $201.3 million). These securities had an adjusted conversion price of $11.46 per share of Frontier's common stock. The conversion price was reduced from $13.30 to $11.46 during the third quarter of 2004 as a result of the $2.00 per share of common stock special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Frontier capital contribution were used to purchase $207.5 million aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly owned consolidated subsidiary, Citizens Utilities Capital L.P. (the "Partnership"). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Frontier capital contribution were used to purchase from Frontier $211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust were the Partnership Convertible Preferred Securities, and Frontier's Convertible Subordinated Debentures were substantially all the assets of the Partnership. Frontier's obligations under the agreements relating to the issuances of such securities, taken together, constituted a full and unconditional guarantee by Frontier of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, Frontier paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2008 and 2007. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2008, EPPICS representing the total aggregate liquidation preference of $197.8 million have been converted into 15,969,645 shares of its common stock. There were no outstanding EPPICS as of December 31, 2008 and 2009. As a result of the redemption of all outstanding EPPICS as of December 31, 2008, the $10.5 million in debt with related parties was reclassified by Frontier against an offsetting investment.

Interest rate management

On January 15, 2008, Frontier terminated all of its interest rate swap agreements representing $400.0 million notional amount of indebtedness associated with its 2011 Notes and 2013 Notes. Cash proceeds from the swap terminations of approximately $15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt. Frontier recognized $7.6 million and $5.0 million of deferred gain during 2009 and 2008, respectively, and anticipate recognizing an additional $1.0 million of deferred gain during 2010. For 2007, the interest expense resulting from these interest rate swaps totaled approximately $2.4 million. At December 31, 2009, and 2008, Frontier did not have any derivative instruments.

Credit facility

As of December 31, 2009, Frontier had an available line of credit under its revolving credit facility with seven financial institutions in the aggregate amount of $250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees vary, depending on its debt leverage ratio, and were 0.225% per annum as of December 31, 2009. The expiration date for this $250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility Frontier may borrow, repay and reborrow funds subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

Covenants

The terms and conditions contained in Frontier's indentures and credit facility agreements include the timely payment of principal and interest when due, the maintenance of its corporate existence, keeping proper books and records in accordance with U.S. GAAP, restrictions on liens on its assets, and restrictions on asset sales and transfers, mergers and other changes in corporate control. Frontier currently has no restrictions on the payment of dividends either by contract, rule or regulation, other than those imposed by the General Corporation Law of the State of Delaware. However, Frontier would be restricted under its credit facilities from declaring dividends if an event of default has occurred and is continuing at the time or will result from the dividend declaration.

Frontier's $200.0 million term loan facility with the Rural Telephone Finance Cooperative (the "RTFC"), which matures in 2011, its $250.0 million credit facility, and its $150.0 million and $135.0 million senior unsecured term loans, each contain a maximum leverage ratio covenant. Under those covenants, Frontier is required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of $50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters no greater than 4.50 to 1.

Frontier's credit facilities and certain indentures for its senior unsecured debt obligations limit its ability to create liens or merge or consolidate with other companies and its subsidiaries' ability to borrow funds, subject to important exceptions and qualifications.

As of December 31, 2009, Frontier was in compliance with all of its debt and credit facility covenants.

Proceeds from the sale of equity securities

Frontier receives proceeds from the issuance of its common stock upon the exercise of options pursuant to its stock-based compensation plans. For the years ended December 31, 2009, 2008 and 2007, Frontier received approximately $0.8 million, $1.4 million and $13.8 million, respectively, upon the exercise of outstanding stock options.

Share repurchase programs

There were no shares repurchased during 2009 under a share repurchase program.

During 2008, Frontier repurchased 17,778,300 shares of its common stock at an aggregate cost of $200.0 million. During 2007, Frontier repurchased 17,279,600 shares of its common stock at an aggregate cost of $250.0 million.

Dividends

Frontier intends to pay regular quarterly dividends. Its ability to fund a regular quarterly dividend will be impacted by its ability to generate cash from operations. The declarations and payment of future dividends will be at the discretion of its Board of Directors, and will depend upon many factors, including its financial condition, results of operations, growth prospects, funding requirements, applicable law, restrictions in agreements governing its indebtedness and other factors its Board of Directors deems relevant. Frontier has announced that after the closing of the spin-off and merger it intends to reduce its annual cash dividend from $1.00 per share to $0.75 per share, subject to applicable law and within the discretion of its Board of Directors, as discussed above. Until consummation of the spin-off and merger or termination of the merger agreement, Frontier also is restricted by the terms of the merger agreement from increasing the amount of its dividends prior to the closing of the merger.

Off-balance sheet arrangements

Frontier does not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon its financial statements.

Future commitments

A summary of its future contractual obligations and commercial commitments as of December 31, 2009 is as follows:

Contractual Obligations:

		Payment due by period			
($ in thousands)	**Total**	**2010**	**2011-2012**	**2013-2014**	**Thereafter**
Long-term debt obligations, excluding interest	$4,884,151	$ 7,236	$ 460,322	$1,310,372	$3,106,221
Interest on long-term debt	4,593,546	362,308	703,055	592,803	2,935,380
Operating lease obligations	64,288	24,417	20,034	12,903	6,934
Purchase obligations	30,269	11,026	10,828	8,250	165
Liability for uncertain tax positions	56,860	3,454	45,538	7,587	281
Total	$9,629,114	$408,441	$1,239,777	$1,931,915	$6,048,981

At December 31, 2009, Frontier had outstanding performance letters of credit totaling $27.7 million.

Divestitures

On August 24, 1999, Frontier's Board of Directors approved a plan to divest its public utilities services businesses, which included gas, electric and water and wastewater businesses. Frontier has sold all of these properties. In 2006, Frontier disposed of ELI, its former CLEC business. All of the agreements relating to the sales provide that Frontier will indemnify the buyer against certain liabilities (typically liabilities relating to events that occurred prior to sale), including environmental liabilities, for claims made by specified dates and that exceed threshold amounts specified in each agreement (see Note 21 to Frontier's audited consolidated financial statements included elsewhere in this offering memorandum).

Critical accounting policies and estimates

Frontier reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from those estimates and changes to estimates could occur in the near term. The preparation of Frontier's financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, pension and other postretirement benefits, income taxes, contingencies and purchase price allocations, among others.

Frontier's management has discussed the development and selection of these critical accounting estimates with the Audit Committee of its Board of Directors and its Audit Committee has reviewed its disclosures relating to such estimates.

Allowance for doubtful accounts

Frontier maintains an allowance for estimated bad debts based on its estimate of collectability of its accounts receivable through a review of aging categories and specific customer accounts. In 2009 and 2008, Frontier had no "critical estimates" related to telecommunications bankruptcies.

Asset impairment

In 2009 and 2008, Frontier had no "critical estimates" related to asset impairments.

Intangibles

Frontier's indefinite lived intangibles consist of goodwill and trade name, which resulted from the purchase of ILEC properties. Frontier tests for impairment of these assets annually, or more frequently, as circumstances warrant. Frontier reorganized its management and operating structure during the first quarter of 2009 to include its Rochester market with its existing New York State properties and the rest of the East Region. This structure is consistent with how its Chief Operating Decision Makers (CEO, CFO and COO) review its results on a daily, weekly and monthly basis. As a result of the change, Frontier's operating segments (reporting units) decreased from 4 (at December 31, 2008) to 3 (effective as of March 31, 2009). After making the change in its operating segments, Frontier reviewed its goodwill impairment test by comparing the EBITDA multiples for each reporting unit to their carrying values noting that no impairment indicator was present. Further, Frontier determined that no impairment was indicated at December 31, 2008 and March 31, 2009 for either the East or Rochester reporting units and combining them did not alter the conclusion at either date. No potential impairment was indicated and no further analysis was deemed necessary.

All of Frontier's ILEC properties share similar economic characteristics and, as a result, Frontier aggregates its three operating segments into one reportable segment. In determining fair value of goodwill during 2009 Frontier compared the net book value of the reporting units to current trading multiples of ILEC properties as well as trading values of its publicly traded common stock. Additionally, Frontier utilized a range of prices to gauge sensitivity. Its test determined that fair value exceeded book value of goodwill for each of its reporting units as of December 31, 2009.

Goodwill by reporting unit (operating segment) at December 31, 2009 is as follows:

	Reporting units		
($ in thousands)	**East**	**West**	**Central**
Goodwill	$1,201,387	$34,736	$1,406,200

Frontier did not have any changes to its operating segments, reporting units, or changes in the allocation of goodwill by reporting unit during the years ended December 31, 2007 and 2008. During the first quarter of 2007 Frontier acquired Commonwealth and included their operations and any related goodwill in its Central region.

Each of the above noted reporting units is an operating segment. The first step in the goodwill impairment test compares the carrying value of net assets of the reporting unit to its fair value. The result of this first step indicated that fair value of each reporting unit exceeded the carrying value of such reporting units by a wide margin. As a result, the second step of the goodwill impairment test was not required.

Frontier estimates fair value in two ways: (1) market or transaction based and (2) equity based utilizing its share price. Market values for rural ILEC properties are typically quoted as a multiple of cash flow or EBITDA. Marketplace transactions and analyst reports support a range of values around a multiple of 6 to 6.5 times annualized EBITDA. For the purpose of the goodwill impairment test Frontier defines EBITDA as operating income plus depreciation and amortization. Frontier determined the fair value estimates using 6 times EBITDA but also used lower EBITDA multiples to gauge the sensitivity of the estimate and its effect on the margin of excess of fair value over the carrying values of the reporting units. Additionally, a second test was performed using its public market equity value or market capitalization. Market capitalization (current market stock price times total shares outstanding) is a public market indicator of equity value and is useful in corroborating the 6 times EBITDA valuation because Frontier is singularly engaged in rural ILEC operating activities. Its stock price on December 31, 2009 was $7.81 and when compared to the fair value using the EBITDA multiple obtained above, exceeded such value before consideration of any applicable control premium. Frontier also used lower per share stock prices to gauge the sensitivity of the estimate and its effect on the margin of excess fair value over the carrying value. Total market capitalization determined in this manner is then allocated to the reporting units based upon each unit's relative share of consolidated EBITDA. Frontier's method of determining fair value has been consistently applied for the three years ending December 31, 2009.

Depreciation and amortization

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and identifiable intangible assets. An independent study updating the estimated remaining useful lives of its property, plant and equipment assets is performed annually. Frontier adopted the lives proposed in the study effective October 1, 2009. Its "composite depreciation rate" decreased from 5.6% to 5.2% as a result of the study. Frontier anticipates depreciation expense of approximately $335.0 million to $355.0 million for 2010 related to its currently owned properties. Frontier periodically reassesses the useful life of its intangible assets to determine whether any changes to those lives are required.

Pension and other postretirement benefits

Frontier's estimates of pension expense, other postretirement benefits including retiree medical benefits and related liabilities are "critical accounting estimates." Frontier sponsors a noncontributory defined benefit pension plan covering a significant number of its current and former employees and other postretirement benefit plans that provide medical, dental, life insurance and other benefits for covered retired employees and their beneficiaries and covered dependents. The pension plans for the majority of its current employees are frozen. All of the employees who are still accruing pension benefits are represented employees. The accounting results for pension and other postretirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. Frontier reviews these assumptions for changes annually with its independent actuaries. Frontier considers its discount rate and expected long-term rate of return on plan assets to be its most critical assumptions.

The discount rate is used to value, on a present value basis, its pension and other postretirement benefit obligations as of the balance sheet date. The same rate is also used in the interest cost component of the pension and postretirement benefit cost determination for the following year. The measurement date used in the selection of its discount rate is the balance sheet date. Its discount rate assumption is determined annually with assistance from its actuaries based on the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination Frontier considers, among other things, the yields on the Citigroup Pension Discount Curve, the Citigroup Above-Median Pension Curve, the general movement of interest rates and the changes in those rates from one period to the next. This rate can change from year-to-year based on market conditions that affect corporate bond yields. Its discount rate was 5.75% at year-end 2009, and 6.50% at year-end 2008.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and postretirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, Frontier considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and its own historical 5 year, 10 year and 20 year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 35% to 55% in fixed income securities, 35% to 55% in equity securities and 5% to 15% in alternative investments. Frontier reviews its asset allocation at least annually and makes changes when considered appropriate. Frontier's asset return assumption is made at the beginning of its fiscal year. In 2009, Frontier changed its expected long-term rate of return on plan assets to 8.0% from the 8.25% used in 2008. For 2010, Frontier will assume a rate of return of 8.00%. Its pension plan assets are valued at fair value as of the measurement date.

Frontier expects that its pension and other postretirement benefit expenses for 2010 will be $45.0 million to $55.0 million (they were $48.6 million in 2009), and that Frontier will make a $10.0 million cash contribution to its pension plan in 2010. No contributions were made to its pension plan during 2007, 2008 or 2009.

Income taxes

Frontier's effective tax rates in 2007, 2008 and 2009 were approximately at the statutory rates.

Contingencies

At December 31, 2006, Frontier had a reserve of $8.0 million in connection with a potential environmental claim in Bangor, Maine. This claim was settled with a payment of $7.625 million plus additional expenses during the third quarter of 2007.

Frontier currently does not have any contingencies in excess of $5.0 million recorded on its books.

Purchase price allocation—Commonwealth and GVN

The allocation of the approximate $1.1 billion paid to the "fair market value" of the assets and liabilities of Commonwealth is a critical estimate. Frontier finalized its estimate of the fair values assigned to plant, customer list and goodwill, as more fully described in Notes 3 and 6 to Frontier's consolidated financial statements disclosed elsewhere in this offering memorandum. Additionally, the estimated expected life of a customer (used to amortize the customer list) is a critical estimate.

New accounting pronouncements

The following new accounting standards were adopted by Frontier in 2009 without any material financial statement impact:

- *Fair Value Measurements (SFAS No. 157, ASC Topic 820), as amended*;
- *Business Combinations (SFAS No. 141R, ASC Topic 805), as amended*;
- *Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160, ASC Topic 810)*;
- *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF No. 03-6-1, ASC Topic 260)*;
- *Subsequent Events (SFAS No. 165, ASC Topic 855)*;
- *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168, ASC Topic 105); and*
- *Employers' Disclosures about Postretirement Benefit Plan Assets (FSP SFAS No. 132(R)-1, ASC Topic 715).*

All of these standards are more fully described in Note 2 to Frontier's audited consolidated financial statements included elsewhere in this offering memorandum.

Verizon's Separate Telephone Operations

Verizon's Separate Telephone Operations use net cash generated from operations to fund capital expenditures and repay external and affiliate debt.

Cash flows provided by operating activities. Net cash provided by operating activities was $1,366 million, $1,426 million and $1,181 million for the years ended December 31, 2009, 2008 and 2007, respectively. Historically, Verizon's Separate Telephone Operations' principal source of funds was cash generated from operations.

In 2009, cash from operating activities decreased $60 million compared to 2008 primarily as a result of an increase in working capital requirements. The increase in working capital requirements was due to decreases in accounts payable and accrued liabilities and other current liabilities, partially offset by an increase in earnings.

In 2008, cash from operating activities increased $245 million compared to 2007 as a result of an increase in earnings and a decrease in working capital requirements. The decrease in working capital requirements was driven by an increase in accounts payable and accrued liabilities.

Cash flows used in investing activities. Net cash used in investing activities was $567 million, $578 million and $660 million for the years ended December 31, 2009, 2008 and 2007, respectively. Capital expenditures were Verizon's Separate Telephone Operations' primary use of capital resources and facilitated the introduction of new products and services, enhanced responsiveness to competitive challenges and increased the operating efficiency and productivity of Verizon's Separate Telephone Operations' networks. Including capitalized software, Verizon's Separate Telephone Operations invested $558 million, $730 million and $703 million during the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in capital spending in 2009 compared to 2008 was primarily due to lower capital spending levels across Verizon's wireline operations. The increase in capital spending in 2008 was primarily due to increased spending in high growth areas, including FiOS Internet, FiOS TV and high-speed Internet. In addition to the investment discussed above, Verizon's Separate Telephone Operations invested $34 million during 2009 in capital expenditures to enable Verizon's Separate Telephone Operations to operate on a stand-alone basis in connection with the proposed business combination with Frontier.

Verizon's Separate Telephone Operations' short-term investments principally include cash equivalents held in trust accounts for payment of employee benefits. In 2009, 2008 and 2007, Verizon's Separate Telephone Operations invested $1 million, $13 million and $160 million, respectively, in short-term investments, to pre-fund active employees' health and welfare benefits. In 2009 and 2008, Verizon's Separate Telephone Operations significantly decreased its annual trust funding. Proceeds from the sales of all short-term investments, principally for the payment of employee benefits, were $1 million, $4 million and $28 million in 2009, 2008 and 2007, respectively.

Cash flows used in financing activities. Net cash used in financing activities was $799 million, $848 million and $521 million for the years ended December 31, 2009, 2008 and 2007, respectively. The funding sources of Verizon's Separate Telephone Operations are included in parent funding in the combined statements of selected assets, selected liabilities and parent funding of Verizon's Separate Telephone Operations without regard to whether the funding represents intercompany debt or equity. Verizon's Separate Telephone Operations participate in the centralized cash management services provided by Verizon. Verizon issued commercial paper and obtained bank loans to fund the working capital requirements of Verizon subsidiaries, including the companies that comprise Verizon's Separate Telephone Operations, and invested funds in temporary investments on their behalf.

During the fourth quarter of 2008, Verizon North Inc.'s 5.65% debentures of $250 million, Verizon Northwest Inc.'s 5.55% debentures of $200 million and Verizon North Inc.'s 6.9% debentures of $250 million matured and were repaid.

Distribution date indebtedness

Prior to the distribution date, all intercompany loans from Verizon to the Spinco business will be settled. The $200 million in principal amount of 6.375% Debentures Series F, due February 15, 2010, originally issued by GTE North Incorporated (later renamed Verizon North Inc.), which was outstanding at December 31, 2009, matured and was repaid in February 2010. The parties expect that the $175 million in principal amount of 6.30% Debentures, Series C, due June 1, 2010, issued by GTE Northwest Incorporated, referred to as the GTE Northwest debentures, will mature prior to the closing date of the merger and the obligations under the GTE Northwest debentures will be repaid and will not be included in the distribution date indebtedness. As a result, the parties anticipate that distribution date indebtedness will consist of the debentures described below.

$50,000,000 8.40% Debentures due 2029

In October 1989, The Chesapeake and Potomac Telephone Company of West Virginia, a subsidiary of Verizon renamed Verizon West Virginia Inc. that will become a Spinco subsidiary, issued $50,000,000 in aggregate principal amount of 8.40% Debentures due October 15, 2029, referred to as the West Virginia debentures, in a private placement. The West Virginia debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

GTE North Incorporated $200,000,000 6.73% Debentures, Series G, due 2028

In February 1998, GTE North Incorporated, a subsidiary of Verizon renamed Verizon North Inc. that will become a Spinco subsidiary, issued $200,000,000 in aggregate principal amount of 6.73% Debentures, Series G, due February 15, 2028, referred to as the GTE North debentures, in a transaction registered under the Securities Act. The GTE North debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

If the GTE Northwest Debentures do not mature and are not repaid prior to the closing date of the merger, the distribution date indebtedness will also include the debentures described below.

GTE Northwest Incorporated $175,000,000 6.30% Debentures, Series C, due 2010

In June 1998, GTE Northwest Incorporated, a subsidiary of Verizon renamed Verizon Northwest Inc. that will become a Spinco subsidiary, issued $175,000,000 in aggregate principal amount of 6.30% Debentures, Series C, due June 1, 2010, in a transaction registered under the Securities Act. The GTE Northwest debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

Off-Balance Sheet Arrangements

Verizon's Separate Telephone Operations do not have any off-balance sheet arrangements.

Summary of contractual obligations

The following table discloses aggregate information about Verizon's Separate Telephone Operations' contractual obligations as of December 31, 2009, and the periods in which payments are due:

	Payment due by period				
(dollars in millions)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual obligations:					
Long-term debt, including current maturities	$625	$375	$—	$—	$250
Interest on long-term debt	333	24	35	35	239
Operating leases, excluding with affiliate companies	30	10	12	7	1
Total contractual obligations	$988	$409	$47	$42	$490

Note: Verizon management is not able to make a reliable estimate of when the balance of $58 million of unrecognized tax benefits and related interest and penalties that exist at December 31, 2009, will be settled with the respective taxing authorities until issues or examinations are further developed. Consequently, no amounts related to these tax benefits were included in the table above.

Critical Accounting Policies

Verizon's Separate Telephone Operations' critical accounting policies are as follows:

- accounting for income taxes; and
- depreciation of plant, property and equipment.

Accounting for Income Taxes. Verizon's Separate Telephone Operations' current and deferred income taxes, and any associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, changes in tax laws and rates, acquisitions and dispositions of business and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing and amount of income tax payments. Verizon's Separate Telephone Operations account for tax benefits taken or expected to be taken in Verizon's tax returns in accordance with the accounting standard relating to uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We review and adjust our liability for unrecognized tax benefits based on our best judgment given the facts, circumstances and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments. We recognized any interest and penalties accrued related to unrecognized tax benefits in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.

Depreciation of Plant, Property and Equipment. Verizon's Separate Telephone Operations recognize depreciation on plant, property, and equipment principally on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. An increase or decrease of 50 basis points to the composite rates would result in an increase or decrease of approximately $96 million to depreciation expense based on year-end plant balances at December 31, 2009.

All of Verizon's Separate Telephone Operations' significant accounting policies are described in Note 1 to the combined special-purpose financial statements of Verizon's Separate Telephone Operations included elsewhere in this offering memorandum.

Quantitative and qualitative disclosure about market risk

We will be exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with our pension assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity prices. We will not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading purposes. As a result, we will not undertake any specific actions to cover our exposure to market risks, and we will not be party to any market risk management agreements other than in the normal course of business. Our primary market risk exposures will be interest rate risk and equity price risk.

Interest rate exposure

Our exposure to market risk for changes in interest rates will relate primarily to the interest-bearing portion of our investment portfolio. Frontier's long-term debt as of December 31, 2009 was approximately 94% fixed rate debt with minimal exposure to interest rate changes. All of the indebtedness that would have constituted distribution date indebtedness as of December 31, 2009, consisted of fixed rate debt. Neither the Spinco business nor Frontier had interest rate swap agreements related to their respective fixed rate debt in effect at December 31, 2009.

Our objectives in managing our interest rate risk will be to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. All but $278.1 million of Frontier's outstanding borrowings, and all of the distribution date indebtedness, at December 31, 2009, had fixed interest rates. In addition, our new $750.0 million revolving credit facility to be effective upon the closing of the merger has interest rates that float with LIBOR. Consequently, we will have limited material future earnings or cash flow exposures from changes in interest rates on our long-term debt. An adverse change in interest rates would increase the amount that we would pay on our variable obligations and could result in fluctuations in the fair value of our fixed rate obligations. Based upon the overall interest rate exposure of Frontier and the Spinco business at December 31, 2009, Frontier believes that a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

On January 15, 2008, Frontier terminated all of its interest rate swap agreements representing $400.0 million notional amount of indebtedness associated with its Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately $15.5 million were received by Frontier in January 2008. Frontier's related gain has been deferred on its consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt.

Sensitivity analysis of interest rate exposure. At December 31, 2009, the fair value of Frontier's long-term debt was estimated to be approximately $4.6 billion, based on its overall weighted average borrowing rate of 7.85% and its overall weighted average maturity of approximately 11.5 years. As of December 31, 2009, the weighted average maturity applicable to Frontier's obligations had been extended over the weighted average maturity as of December 31, 2008 by approximately 1.5 years due to the debt offerings and refinancing activities that occurred during 2009.

At December 31, 2009, the fair value of the Spinco business's long-term debt was estimated to be approximately $637 million, based on its overall weighted average borrowing rate of 6.63%.

Equity price exposure

Frontier's exposure to market risks for changes in security prices as of December 31, 2009 was limited to its pension assets. After the closing of the merger, Frontier does not expect that we will have any other security investments of any material amount, other than assets related to our pension plans.

During 2008 and 2009, the diminished availability of credit and liquidity in the United States and throughout the global financial system resulted in substantial volatility in financial markets and the banking system. These and other economic events have had an adverse impact on Frontier's investment portfolios.

The decline in the value of Frontier's pension plan assets during 2008 resulted in an increase in its pension expense in 2009. Frontier's pension plan assets increased from $589.8 million at

December 31, 2008, to $608.6 million at December 31, 2009, an increase of $18.8 million, or 3%. This increase is a result of positive investment returns of $90.2 million, or 15%, partially offset by ongoing benefit payments of $71.4 million, or 12%, during 2009. Frontier expects that it will make a $10.0 million cash contribution to its pension plan in 2010.

We will maintain Frontier's pension plan and will be responsible for contributions to fund the plan's liabilities, and may be required to continue making these cash contributions in respect of liabilities under Frontier's pension plan. We will also, upon the consummation of the merger, maintain pension plans that assume the Spinco business's pension plan liabilities for active employees. The applicable Verizon tax-qualified pension plans will transfer assets to the Spinco pension plans pursuant to applicable law and the terms of the employee matters agreement entered into among Verizon, Spinco and Frontier. The aggregate transfer related to the tax-qualified pension plans for active Spinco union employees will be sufficient for full funding of projected benefit obligations in the aggregate. Following the merger, we will be responsible for making any required contributions to the new pension plans to fund liabilities of the plans, and the ongoing pension expenses of the Spinco business may require us to make cash contributions in respect of the Spinco business's pension plan liabilities.

Recent developments

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (the "PPACA"), which includes provisions that, when fully phased in, limit the federal income tax deduction an employer can claim for retiree health care costs for providing retiree prescription drug benefits that are equivalent to Medicare D coverage, and also imposes a 40% excise tax on coverage providers to the extent the value of employer-sponsored health plans exceeds certain prescribed dollar thresholds. Verizon is currently evaluating the impact that the PPACA will have on Verizon's Separate Telephone Operations' financial position and results of operations, including its effective tax rate, which may be material.

Business

General

Frontier expects the combined company to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest ILEC, with more than 6.3 million access lines, 8 million voice and broadband connections and 15,000 employees in 27 states on a pro forma basis as of December 31, 2009. On a pro forma basis, our revenues would have been approximately $6.1 billion and our Adjusted EBITDA would have been approximately $3.0 billion, in each case for the year ended December 31, 2009. See "Unaudited pro forma condensed combined financial information."

Competitive strengths

Frontier believes that, following the completion of the merger, the combined company will be distinguished by the following competitive strengths:

Enhanced scale and scope. Our increased scale and scope will allow us to leverage our common support functions and systems (such as corporate administrative functions and information technology and network systems) to achieve both operating expense and capital expenditure synergies. Frontier currently anticipates that, by 2013, the combined company's annualized cost synergies will reach approximately $500 million, which represents approximately 18% of the operating expenses, excluding depreciation and amortization expense, of Verizon's Separate Telephone Operations in 2009. See "Management's discussion and analysis of financial condition and results of operations—Overview—Expected cost savings resulting from the merger.

Broader footprint and greater revenue opportunities. Although Frontier currently operates in 11 of the 14 states in which the Spinco business operates, the existing ILEC footprints of the businesses do not overlap. In addition, the customers of the Spinco business generally have a profile similar in characteristics such as age, income and property ownership to Frontier's existing customers. We will therefore have a broader operating footprint that will provide greater revenue opportunities through the expansion of Frontier's existing operating strategies into the Spinco territory, as well as through greater broadband penetration and new product and services offerings (such as bundled service packages) in the Spinco territory.

Strong financial profile with lower leverage. For the year ended December 31, 2009, on a pro forma basis, we would have generated revenue of approximately $6.1 billion, compared to revenue of approximately $2.1 billion for Frontier for the year ended December 31, 2009. Taking into account the significant decrease in our leverage as a result of the transactions and the anticipated reduction of our annual dividend to $0.75 per share of common stock, as previously announced, Frontier anticipates that the combined company will have a strengthened financial profile, with a more sustainable dividend payout ratio.

Experienced management team with proven track record of successful business integration. We will be managed by Frontier's current senior management team with a proven track record of successful business integration, as demonstrated by its integration of former GTE Corporation properties and former Commonwealth and GVN businesses into Frontier, as well as its consolidation of five billing systems covering 2.1 million access lines into a single system over the past six years.

Combined company strategies

Frontier expects that, following the completion of the merger, the key elements of the combined company's strategy will be as follows:

Expand broadband footprint. We will concentrate on broadband as a core component of our service offering and growth. As of December 31, 2009, approximately 91% of Frontier's customer base had access to Frontier's broadband or other high-speed data products, whereas only approximately 62% of the customers of the Spinco business had access to Verizon's broadband or other high-speed data products. We plan to earmark capital expenditures for the expansion of broadband availability in the Spinco territory and view this expansion as an opportunity to satisfy customer needs and expectations, retain a greater number of customers and increase average revenue per customer. In addition, in connection with the approval of the transactions by certain state regulatory commissions, Frontier has committed to expand broadband availability in certain areas of the Spinco territory. See "—Regulatory environment—Regulation of our business after the spin-off and the merger."

Increase revenue per customer. We will apply the sales and marketing practices that Frontier currently employs throughout our markets, including the sale of voice, data and video services as bundled packages and the use of promotions and incentives, including gifts such as personal computers, digital cameras and gift cards, to drive market share. Frontier believes that these marketing strategies will present a significant opportunity to increase revenue per customer, as well as strengthen customer relationships and improve customer retention. We will tailor our services to the needs of our residential and business customers in the markets we serve and continually evaluate the introduction of new and complementary products and services. We may seek, over time, to increase broadband availability to the current Spinco customer base currently served by the Spinco business and, through innovative packages and promotions, improve subscription rates for broadband services in the Spinco territory. We may also develop broadband video services in certain parts of our territories and incorporate these services into our offerings, while at the same time continuing to offer satellite video products. As we strive to provide our customers with a diverse range of communications services, we will consider entering into and enhancing partnerships for other services that Frontier or the Spinco business do not currently provide in their markets. In addition, Frontier has implemented, and, after the consummation of the merger, we will continue to implement, several growth initiatives that will affect us, including efforts to increase Frontier's marketing expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand, such as wireline and wireless HSI, satellite video products and the "Frontier Peace of Mind" computer technical support. We will also focus on providing a number of different service offerings, including unlimited long distance minutes, bundles of long distance minutes, wireless data and Internet portal advertising.

Enhance customer loyalty through local engagement. We will continue Frontier's existing strategy of engaging the markets at the local level to ensure that we have a customer-driven sales and service focus, including differentiating the service offerings and bundled packages to customers in different markets to ensure that customers are satisfied based on their specific needs. Our local markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. We will also continue the current community involvement practices of Frontier and the Spinco business to create a competitive advantage through long-term customer loyalty. We will be committed to providing best-in-class service throughout our markets and, by doing so, Frontier expects the combined company to maximize retention of current Spinco and Frontier customers and gain new customers.

Ensure integration of the Spinco business. Pursuant to the merger agreement and the other transaction agreements, Frontier expects that the Spinco business (other than with respect to West Virginia) will continue to operate with its existing single platform on an independent basis immediately following the merger, and the Spinco business with respect to West Virginia will be integrated into Frontier's existing systems contemporaneously with the closing of the merger. The main integration effort required for the combined company to operate the Spinco business immediately following the merger will therefore be completed prior to the closing of the merger, freeing up our resources to implement further strategies to achieve cost savings and drive revenue enhancements.

Increase operating efficiencies and realize cost savings. We will aim to achieve cost savings by applying Frontier's existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions (including certain functions formerly provided by Verizon, or other third-party service providers, to the Spinco business). Frontier anticipates that the combined company will realize these annualized cost savings by 2013, once the Spinco business's network and information technology systems and processes are fully integrated with those of Frontier. However, there can be no assurance that these or any other cost savings will actually be realized. See "Risk factors—Risks related to the spin-off and the merger—We may not realize the growth opportunities and cost synergies that are anticipated from the merger."

Growth through selective acquisitions. Following the completion of the merger, we will continue to evaluate and pursue select strategic acquisitions that would enhance revenues and cash flows, although for two years following the completion of the merger we may not enter into any agreement, understanding or arrangement with respect to any transaction involving the acquisition, issuance, repurchase, or change of ownership of the combined company's capital stock. We will continue to adhere to Frontier's traditional selective criteria in our acquisition analysis.

Services

We will offer a broad portfolio of high-quality communications services for residential and business customers in each of the markets in which Frontier and the Spinco business currently operate. These include services traditionally associated with local telephone companies, as well as other services such as long distance, Internet access and broadband-enabled services as well as video services. Based on our understanding of our local customers' needs, we will offer bundled service packages designed to simplify customer purchasing decisions as well as to provide pricing discounts. We will also offer incentives and promotions such as gifts to influence customers to purchase or retain certain services. Customer retention will also be enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing or other incentives and promotions. We will be staffed locally with skilled technicians and supervisory personnel, which will enable us to provide efficiently and reliably an array of communications services to meet our customers' needs. Local markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets.

Generation of revenue

We will primarily generate revenue through the provision of basic local telephone wireline services to residential and business customers in our service areas; network access to interexchange carriers for origination and termination of long distance voice and data traffic; long distance services; data and Internet services; directory listing and advertising; sales of third-party and owned video services; and wireless data services.

Local services. We will provide basic telephone wireline services to residential and business customers in our service areas. Our service areas will be largely residential and generally less densely populated than the primary service areas of the largest ILECs. We will also provide enhanced services to our customers by offering a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. All of these local services will be billed monthly in advance. We will also offer packages of communications services. These packages will permit customers to bundle their basic telephone line service with their choice of enhanced, long distance, video and Internet services for a monthly fee or usage fee depending on the plan.

We intend to continue our efforts to increase the penetration of our enhanced services. Increased sales of such services may produce revenue with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. Frontier believes that our ability to integrate these services with other services may provide us with the opportunity to capture an increased percentage of our customers' communications expenditures (wallet share).

Data and internet services. We will offer data services including Internet access (via high-speed or dial up Internet access), portal and e-mail products, frame relay, Metro Ethernet, asynchronous transfer mode switching services, hard drive back-up services and 24-7 help desk PC support. We will offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and Internet services are typically billed monthly in advance.

Access services. Our switched access services will allow other carriers to use our facilities to originate and terminate their long distance voice and data traffic. These services will be generally offered on a month-to-month basis and the service billed on a minutes-of-use basis. Access charges will be based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and the USF based on the higher cost of providing telephone service to certain rural areas will be a part of our access services revenue. Monthly recurring access service fees will be billed in advance.

Long distance services. We will offer long distance services in our territories to our customers, as Frontier currently believes that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside our operating territories will be provided by interconnection with the facilities of interexchange carriers. Our long distance services will be billed either as unlimited/fixed number of minutes in advance or on a per minute-of-use basis.

Directory services. Directory services involves the provision of white and yellow page directories for residential and business listings. We will provide this service through third-party contractors. In most of our markets that were Frontier's markets prior to the merger, the third-party contractors will be paid a percentage of revenues from the sale of advertising in these directories. In the remaining markets that were Frontier's markets prior to the merger, we will receive a flat fee from the contractors. In the Spinco territory, the directory services are expected to be provided through a third-party contractor, but we will not receive any fees for listing or advertising. Our directory service will also include "Frontier Pages," an Internet-based directory service which generates advertising revenues.

Other services. Other services that Frontier expects the combined company to provide include:

Video services. We will continue to offer a video product under an agency relationship with DISH Network in the areas in which Frontier currently operates and with DirecTV in the Spinco territory (other than West Virginia where we will sell the DISH product after completion of the merger but will continue to support existing customers who have the DirecTV product). We will receive from the applicable satellite provider and recognize as revenue activation fees, other residual fees and nominal management, billing and collection fees. We will also purchase receivables at a discount and will bill customers for the monthly services and remit those billings to the applicable satellite provider without recognizing any revenue. Additionally, we will continue to offer broadband video services that are similar to FiOS in the states of Indiana, Oregon and Washington.

We will also continue to offer our myfitv website which provides easy online access to video content, entertainment and news available on the worldwide web. This service will be available to consumers in and outside of our service territories.

Wireless data services. We will offer wireless data services in select markets. Our wireless data services will utilize technologies that are relatively new, and we will depend to some degree on the representations of equipment vendors, lab testing and the experiences of others who have been successful at deploying these new technologies. Long-term contracts will be billed in advance on an annual or semi-annual basis. End-user subscribers will be billed in advance on a monthly recurring basis and colleges, universities and businesses will be billed on a monthly recurring basis for a fixed number of users. Hourly, daily and weekly casual end-users are billed by credit card at the time of use.

The following table sets forth the combined number of access lines and HSI subscribers in the states in which Frontier and the Spinco business operated as of December 31, 2009.

State	Access lines and HSI subscribers of Frontier	Access lines and HSI subscribers of the Spinco business	Access lines and HSI subscribers of the combined company	Percentage of access lines and HSI subscribers of the combined company
West Virginia	189,097	656,145	845,242	10.7%
Indiana	6,303	801,481	807,784	10.2
New York	782,742	—	782,742	9.9
Illinois	129,040	637,272	766,312	9.7
Ohio	747	687,202	687,949	8.7
Washington	—	635,717	635,717	8.0
Michigan	24,006	496,993	520,999	6.6
Pennsylvania	487,931	—	487,931	6.2
Wisconsin	77,634	302,796	380,430	4.8
Oregon	16,737	331,555	348,292	4.4
North Carolina	—	298,340	298,340	3.8
Minnesota	276,497	—	276,497	3.5
California	188,138	22,614	210,752	2.7
Arizona	189,578	5,480	195,058	2.5
Idaho	25,757	120,234	145,991	1.8
South Carolina	—	120,001	120,001	1.5
Other States(1)	359,252	34,488	393,740	5.0
Total:	2,753,459	5,150,318	7,903,777	100.0

* This table does not reflect FiOS Internet subscribers.

(1) Includes Tennessee, Nevada, Iowa, Nebraska, Alabama, Utah, Georgia, New Mexico, Montana, Mississippi and Florida.

Sales and marketing

We will focus on service to local communities, utilizing Frontier's local leadership model in the execution of sales, marketing and service initiatives. We will also maintain Frontier's traditional focus on individual customers. We plan to invest in infrastructure improvements and enhancements each year, recognizing that the economic livelihood of the communities we serve will affect opportunities to grow the business. We will therefore have a vested interest in the economic development of the communities we serve.

We will seek to differentiate ourselves from our competitors by providing an attractive range of services and a superior level of service to each of our customers, supported by local sales and service representatives, technicians and supervisory personnel. Local market operations will be managed by local leadership with responsibility for the customer experience, as well as the financial results, in those markets. We will offer competitively priced bundled services across voice, data and video products and other incentives and promotions (such as gifts) to further enhance our market position.

As we strive to provide our customers with a diverse range of communications services, we will also consider entering into and enhancing partnerships for other services that we do not currently provide through our own network. Frontier has implemented and we will continue to implement several growth initiatives, including the launch of new products and services with a focus on areas that are growing or demonstrate meaningful demand. Some of the products and services that Frontier has already launched in certain areas include unlimited long distance minutes, wireline and wireless HSI, satellite video products, "Frontier Peace of Mind" computer technical support, Internet-based directory services and Internet portal advertising. We will continue to focus on growing those products and services and to offer new ones, should we determine that they would be attractive to our customers.

Network architecture and technology

Our local exchange carrier networks will consist of central office hosts and remote sites, primarily equipped with digital switches. The outside plant will consist of transport and distribution delivery networks connecting our host central office with remote central offices and ultimately with our customers. We will own fiber optic and copper cable, which have been deployed in Frontier's and the Spinco business's networks and will be the primary transport technologies between our host and remote central offices and interconnection points with other incumbent carriers.

Our fiber optic and copper transport system will be capable of supporting increasing customer demand for high bandwidth transport services. This system supports advanced services including ATM, Frame Relay, VOIP, Ethernet and Internet Protocol Transport, facilitating delivery of advanced services as demand warrants.

As of December 31, 2009, approximately 91% of Frontier's customer base had access to Frontier's broadband or other high-speed data products. As of December 31, 2009, approximately 62% of the customer base of the Spinco business had access to Verizon's broadband or other high-speed data products.

Rapid and significant changes in technology are expected in the communications industry. Our success will depend, in part, on our ability to anticipate and adapt to technological changes. Frontier believes that its existing network architecture will enable the combined company to respond to these technological changes efficiently after the consummation of the spin-off and merger. In addition, Frontier expects to improve profitability by reducing costs through the sharing of best practices across operations, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability.

Competition

Competition in the communications industry is intense and increasing. Frontier expects that the combined company will experience competition from many communications service providers. These providers include cable operators offering video, data and VOIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and other wireline carriers. Frontier also believes that competition will continue to intensify in 2010 and beyond and may result in reduced revenues for Frontier and the Spinco business.

The lingering impact of the severe contraction in the global financial markets that occurred in 2008 and 2009 and the subsequent recession may cause residential and business customers to reduce expenditures by not purchasing our services, reducing usage of our services or by discontinuing some or all of the services of Frontier or the Spinco business. These trends may continue and may result in a continued challenging revenue environment for us. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect our ability to collect money owed to us by residential and business customers.

We will employ a number of strategies to combat the competitive pressures and changes in consumer behavior noted above. Our strategies will be focused on preserving and generating new revenue through customer retention, upgrading and up-selling services to our existing customer base, new customer growth, win backs of former customers, new product deployment, and upon managing our profitability and cash flow through targeted reductions in operating expenses and capital expenditures.

We will seek to achieve our customer retention goals by offering attractive packages of value-added services to our access line customers and providing exemplary customer service. Bundled services include HSI, unlimited long distance calling, enhanced telephone features and video offerings. We will tailor these services to the needs of our residential and business customers and continually evaluate the introduction of new and complementary products and services, many of which can also be purchased separately. Customer retention will also be enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing and/or promotional offers. Additionally, we will focus on enhancing the customer experience and providing exceptional customer service to differentiate ourselves from the competition. Our commitment to providing exemplary customer service will be demonstrated by the expansion of existing customer services hours, shorter scheduling windows for in-home appointments and the implementation of call reminders and follow up calls for service appointments. In addition, local markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. Customers in our markets will have direct access to those local managers to help them manage their communications needs.

We will utilize targeted and innovative promotions like "aspirational gifts" (e.g., personal computers) or promotional credits to attract new customers, including those moving into our territory, to win back former customers and to upgrade and up-sell existing customers a variety of service offerings, including HSI, video, and enhanced long distance and feature packages in order to maximize the average revenue per customer (wallet share) paid to us. Depending upon market and economic conditions, we may offer such promotions to drive sales in the future.

Frontier has restructured and augmented its sales distribution channels to improve coverage of all segments of its business customer base. This included adding new sales teams dedicated to small business customers and enhancing the business selling and support skills in its customer sales and service centers. Frontier has also increased its focus on customer premise equipment ("CPE") sales for customers requiring an equipment solution, and has extended its CPE sales reach beyond a handful of markets. In addition, Frontier is introducing new products utilizing wireless and Internet technologies. Frontier believes the combination of new products and distribution channel improvements will help us improve business customer acquisition and retention efforts, after the consummation of the merger.

We will also focus on increasing sales of newer products, including unlimited long distance minutes, bundles of long distance minutes, wireless data, Internet portal advertising, and the "Frontier Peace of Mind" product suite. This last category is a suite of products aimed at managing the total communications and personal computing experience for customers and are designed to provide value and simplicity to meet customers' ever-changing needs. The Frontier Peace of Mind products and services suite includes services such as an in-home, full installation of our HSI product, two hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance (when bundled). In 2009, the Frontier Peace of Mind products generated approximately $3.2 million in revenue for Frontier. Most recently, Frontier introduced its myfitv.com website which provides easy online access to video content, entertainment and news available on the worldwide web. Although Frontier is optimistic about the opportunities provided by each of these initiatives to increase our revenue and reduce our customer churn (i.e., customer attrition), neither Spinco nor Frontier can provide assurance about their long term profitability or impact on revenue. Our hard drive back-up services, 24-7 help desk PC support and myfitv.com services will also available outside of our service territories.

Frontier believes that the combination of offering multiple products and services to customers pursuant to price protection programs, billing customers in a single bill, providing superior customer service, and being active in local communities makes customers more loyal, and helps generate additional, and retain existing, customer revenue.

Employees

Upon the consummation of the merger, we estimate that we will have approximately 15,000 employees, of whom an estimated 65% will be represented by a labor union and whose employment therefore will be subject to collective bargaining agreements.

Properties

Frontier currently owns or leases from third parties, and the Spinco business, immediately prior to the spin-off, will own or lease from third parties, all of the properties material to their respective businesses. Our headquarters will be located in leased premises at 3 High Ridge Park, Stamford, Connecticut, which currently serves as the headquarters of Frontier. Frontier believes that the properties of the combined company will be suitable and adequate for the business conducted therein and will have sufficient capacity for their intended purposes.

Intellectual property

Frontier believes that the combined company will have the trademarks, trade names and intellectual property licenses that are necessary for the operation of its business as Frontier currently expects it to be conducted after the merger.

Legal proceedings

From time to time, Frontier and the Spinco business are involved, and we may be involved, in litigation and regulatory proceedings arising out of their and our respective operations. See "—Regulatory environment," Note 21 to the audited consolidated financial statements of Frontier and Note 10 to the audited combined financial statements of Verizon's Separate Telephone Operations, in each case included elsewhere in this offering memorandum. Frontier believes that if the merger had occurred as of the date of this offering memorandum, we would not be a party to any legal proceedings the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on our financial position (although such adverse outcome could have a material adverse effect on our results of operations).

Regulatory environment

The majority of Frontier's and Spinco's operations are regulated by the FCC and various state regulatory agencies, often called public service or utility commissions.

Certain of Frontier's and Spinco's revenue is subject to regulation by the FCC and various state regulatory agencies. Frontier expects federal and state lawmakers to continue to review the statutes governing the level and type of regulation for telecommunications services.

Regulation of our business after the spin-off and merger

The following summary does not describe all present and proposed federal, state and local legislation and regulations affecting the communications industry. Some legislation and regulations are or could in the future be the subject of judicial proceedings, legislative hearings and administrative proposals which could change the manner in which this industry operates. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. Regulation can change rapidly in the communications industry, and such changes may have an adverse effect on us. See "Risk factors—Risks related to regulation—Changes in federal or state regulation may reduce the access charge revenues we will receive."

The merger of Frontier and Spinco will affect the regulatory operations and risks of Frontier in several specific ways:

- The closing of the merger is subject to certain state and federal regulatory approvals. Frontier and Verizon may be delayed in obtaining or unable to obtain the necessary approvals, which could delay or prevent the consummation of the merger. In addition, regulatory agencies have imposed and may impose further requirements (including service quality and capital expenditures requirements) on our business operations for specified periods of time post-closing in connection with granting such approvals, which may restrict our ability to modify the operations of our business as needed in reaction to changing circumstances.

- Most of Frontier and some parts of the Spinco business have previously operated under different statutory classifications that can affect their obligations to interconnect with competing carriers and, under current FCC rules, also affect the computation of USF funds. All of Frontier's current ILEC operations other than Rochester Telephone are defined as "rural telephone companies" under Section 3(37) of the Communications Act, while at least some of the current operations of the Spinco business are non-rural telephone companies. Irrespective of whether they are statutorily classified as rural telephone companies, none of the current operations of the Spinco business have reduced obligations to interconnect with competing carriers.

- Prior to the transactions, Frontier served fewer than 2% of the wireline subscriber lines in the aggregate nationwide, which permitted Frontier to have reduced regulatory obligations. Following the transactions, we will serve more than 2% of the wireline subscriber lines in the aggregate nationwide, which will mean that we will no longer be eligible for those reduced obligations.

Our regulated communications services will continue to be subject to federal, state and local regulation. We will hold various regulatory authorizations for our regulated service offerings. At the federal level, the FCC generally exercises jurisdiction over facilities and services of communications common carriers, such as our company, to the extent those facilities are used to provide, originate or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers' facilities and services to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to the Telecommunications Act of 1996 (the "1996 Act" or the "Telecommunications Act"), state and federal regulatory agencies share responsibility for implementing and enforcing the domestic pro-competitive policies introduced by that legislation. In particular, state regulatory agencies have substantial oversight over the provision by incumbent telephone companies of interconnection and non-discriminatory network access to competitive communications providers. Local governments often regulate the public rights-of-way necessary to install and operate networks, and may require communications services providers to obtain licenses or franchises regulating their use of public rights-of-way. Additionally, municipalities and other local government agencies may regulate limited aspects of our business, including our use of public rights-of-way, and by requiring us to obtain construction permits and abide by building codes.

Frontier believes that competition in our telephone service areas will increase in the future as a result of the Telecommunications Act and actions taken by the FCC and state regulatory authorities, and through increased deployment of various types of technology, although the ultimate form and degree of competition cannot be predicted at this time. Competition may lead to loss of revenues and profitability as a result of loss of customers; reduced usage of our network by our customers who may use alternative providers for long distance, voice and data services; and reductions in prices for our services which may be necessary to meet competition.

Under the 1996 Act, state regulatory commissions have jurisdiction to arbitrate and review interconnection disputes and agreements between ILECs and competitive local exchange carriers, in accordance with rules set by the FCC. State regulatory commissions also may impose fees on providers of communications services within their respective states to support state universal service programs. States often require prior approvals or notifications for certain acquisitions and transfers of assets, customers, or ownership of regulated entities. In connection with the transactions, Frontier and Verizon have applied for pre-closing approvals from the Arizona, California, Illinois, Nevada, Ohio, Oregon, South Carolina, Washington, and West Virginia commissions for Spinco's local exchange service areas, and have to date received approvals from state commissions in Arizona, California, Nevada, Ohio, Oregon and South Carolina (state approval in Ohio has been effective since February 11, 2010, although a labor union has filed an Application for Rehearing, which will be determined by the Ohio state commission in mid-April). Frontier and Verizon are in the process of working with various parties to obtain approvals from the remaining state commissions and expect to obtain such approvals by the end of the second quarter of 2010. It is possible, however, that those state commissions may delay their approvals or decline to grant them. For example, on March 9, 2010, an administrative law judge in Illinois, in connection with the approval process in that state, issued a recommendation and proposed order to the Illinois Commerce Commission against approval of the transactions. The recommendation and proposed order by the administrative law judge are not decisions of the Illinois Commerce Commission, which will review the relevant records before granting or declining approval of the transactions. Frontier and Verizon have filed a joint brief on exceptions with the Illinois Commerce Commission. The Staff of the Illinois Commerce Commission and the United States Department of Defense and all other Federal Executive Agencies have filed briefs on exceptions with the Illinois Commerce Commission identifying concerns with the proposed order and asking the Illinois Commerce Commission to adopt the Staff of the Illinois Commerce Commission's recommendations to approve the transactions. Regulatory staffs in Ohio, Oregon and Washington, in connection with their process for approving the transactions, are also monitoring Verizon's progress in segregating the operational support systems of the Spinco business (other than the portion conducted in West Virginia) from Verizon's other businesses, and the parties are awaiting approval of the transactions in West Virginia. In addition, certain state regulatory commissions have, in connection with granting their approvals, specified certain capital expenditure and operating requirements for our business for specified periods of time post-closing, and other state regulatory commissions that have not yet approved the transactions may impose such requirements in connection with granting their approvals. These requirements have thus far focused primarily on a variety of capital investment commitments, including the expansion of broadband availability (in some cases, with our agreeing to place cash in escrow accounts to satisfy such future capital investment commitments). In addition, in certain states we will be subject to operating restrictions such as price caps (including maintenance of existing prices on certain residential and business products and existing prices and terms of interconnection agreements with competitive local exchange carriers and arrangements with other carriers), continuation of existing product bundle offerings, waiver of certain customer early termination fees, post-closing changes to our operational support systems, and certain minimum service quality standards for a defined period of time. We expect similar conditions from the three remaining state regulatory commissions, which may also include requirements to pre-fund into escrow accounts amounts for commitments related to broadband expansion and, in one case, cash management restrictions, upon the failure to meet service quality standards over a period of time. We will also be required to report certain financial information and adhere for a period of time to certain conditions regulating competition and consumer protection. Although these requirements are generally consistent with our current business plans, they may restrict our flexibility in operating our business during such specified periods, including our ability to raise rates in a declining revenue environment. Also, the regulatory agency in Pennsylvania approved the transfer of Verizon's ILEC operations in that state, which Verizon will retain, to a newly created Verizon operating company and North Carolina granted a Certificate of Public Convenience and Necessity to Frontier. Requests for consent for the transaction remain pending in Illinois, Washington and West Virginia. States generally retain the right to sanction a carrier or to revoke certifications if a carrier materially violates relevant laws or regulations.

Frontier and Verizon have applied to 41 local franchising authorities in Oregon and Washington for approval to transfer control of Verizon's franchises to provide video services in those states to Frontier. All of those local franchising authorities have granted approval to permit Verizon to transfer control of the franchises to Frontier, subject to the satisfaction of certain conditions.

Regulation of the telecommunications industry at the federal and state level

The 1996 Act dramatically changed the telecommunications industry. The main purpose of the 1996 Act was to open local telecommunications marketplaces to competition. The 1996 Act preempts state and local laws to the extent that they prevent competition with respect to communications services. Under the 1996 Act, however, states retain authority to impose requirements on carriers necessary to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. States are also responsible for mediating and arbitrating interconnection agreements between CLECs and ILECs if voluntary negotiations fail. The 1996 Act imposes a number of requirements for access to network facilities and interconnection on all local communications providers. Incumbent local carriers must interconnect with other carriers, unbundle some of their services at wholesale rates, permit resale of some of their services, enable collocation of equipment, provide local telephone number portability and dialing parity, provide access to poles, ducts, conduits and rights-of-way, and complete calls originated by competing carriers under termination arrangements.

At the federal level and in a number of the states in which we will operate, we will be subject to price cap or incentive regulation plans under which prices for regulated services are capped in return for the elimination or relaxation of earnings oversight. The goal of these plans is to provide incentives to improve efficiencies and increased pricing flexibility for competitive services while ensuring that customers receive reasonable rates for basic services. Some of these plans have limited terms and, as they expire, we may need to renegotiate with various states. These negotiations could impact rates, service quality and/or infrastructure requirements which could impact our earnings and capital expenditures. In other states in which we will operate, we will be subject to rate of return regulation that limits levels of earnings and returns on investments. The National Broadband Plan recommends requiring all incumbent local exchange carriers to be regulated for interstate services, if at all, under incentive regulation. We will continue to advocate our position for no regulation with various regulatory agencies. In some of states, Frontier has already been successful in reducing or eliminating price regulation on end-user services under state commission jurisdiction.

For interstate services regulated by the FCC, Frontier has elected to comply with price caps for most of its operations and all of the current operations of the Spinco business are subject to price caps as well. In May 2000, the FCC adopted a methodology for regulating the interstate access rates of price cap providers through May 2005, which has continued in effect in the absence of any changes in FCC rules. The FCC has been considering a number of different proposals for comprehensive intercarrier compensation reform, including changes to the regulation of interstate access rates. The National Broadband Plan recommends reducing intrastate terminating switched access rates to interstate terminating switched access levels over a two to four year period beginning in 2012, and eliminating all per-minute intercarrier compensation charges by 2020. This plan must still be considered by the full FCC which may adopt, reject or modify these proposals. In addition, the FCC also has an ongoing proceeding considering whether to make changes in its regulatory regime governing special access services, including whether to mandate lower rates, change standards for deregulation and pricing flexibility, or to require changes to other terms and conditions.

Another goal of the 1996 Act was to remove implicit subsidies from the rates charged by local telecommunications companies. Some state legislatures and regulatory agencies are looking to reduce the implicit subsidies in intrastate rates. The most common subsidies are in intrastate access rates that historically have been priced above their costs to allow basic local rates to be priced below cost. Legislation has been considered in several states to require regulators to eliminate these subsidies and implement state universal service programs where necessary to maintain reasonable basic local rates. However, not all the reductions in access charges would be fully offset. Frontier anticipates additional state legislative and regulatory pressure to lower intrastate access rates.

The National Broadband Plan recommends transitioning all of the existing federal high cost subsidy programs, including the Federal High Cost Loop Fund, federal interstate access support, federal interstate common line support, federal local switching support fund (but not including surcharges billed to customers), into a new fund focusing on broadband infrastructure buildout in unserved areas. The National Broadband Plan recommends that there would be only one subsidized provider of broadband per geographic area, and that eligibility criteria would be company and technology agnostic so long as the service provided meets the specifications set by the FCC. There is no assurance that a carrier that receives support under the existing federal high cost subsidy programs would receive support under the new broadband fund. In addition, the National Broadband Plan proposes that the total federal universal service fund, including high cost support, low income support and support to schools and libraries, remain close to its current size in 2010 dollars.

Telephone companies are subject to FCC rules governing privacy of customer information. Among other things, these rules obligate carriers to protect customer information from inappropriate disclosure, set requirements for obtaining customer permission to use information in marketing and for disclosure of information to customers, and require carriers to certify annually that they are in compliance with the rules.

Most states have certification requirements that require providers of communications services to obtain authority from the state regulatory commission prior to offering common carrier services. Most of the local exchange companies that will be operated by us will operate as incumbent carriers in the states in which they operate and are certified in those states to provide local telephone services. State regulatory commissions generally regulate the rates ILECs charge for intrastate services, including rates for intrastate access services paid by providers of intrastate long distance services.

Local government authorizations

We may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. Some of these franchises may require the payment of franchise fees. Frontier has historically obtained municipal franchises as required. In some areas, we will not need to obtain permits or franchises because the subcontractors or electric utilities with which we will have contracts already possess the requisite authorizations to construct or expand our networks.

Promotion of local service competition and traditional telephone companies. The Telecommunications Act provides, in general, for the removal of barriers to entry into the communications marketplace. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber-to-the-premises loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies, cable companies, electric utilities, wireless providers and their affiliates qualify as information services and are not subject to mandatory common carriage regulation. The FCC has also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law on March 19, 2006, when the FCC did not deny the petition by the statutory deadline. Frontier received similar relief for certain broadband services in a forbearance petition granted in an order adopted by the FCC on October 24, 2007. In the National Broadband Plan, an FCC staff team recommended that the FCC review its wholesale regulatory framework for broadband services, including competitive access to local fiber facilities, copper retirement rules and implementation of Section 271 of the Communications Act of 1934, as amended.

Promotion of universal service. Current FCC rules provide different methodologies for the determination of universal service payments to rural and non-rural telephone company areas. In general, the rules provide high-cost support to rural telephone company study areas where the company's actual costs exceed a preset nationwide benchmark level. High-cost support for non-rural telephone company areas, on the other hand, is determined by a nationwide proxy cost model. The FCC's current rules for support to high-cost areas served by non-rural local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. The Federal-State Joint Board on Universal Service is also considering proposals to update the proxy model used to determine non-rural high-cost funding is determined. In 2000, the FCC also created an explicit support mechanism to replace implicit support that was previously recovered in interstate access charges for carriers subject to price-cap regulation. Most of our price-cap regulated study areas will receive this interstate access support.

The payments received by our rural local exchange carriers from the rural and high cost portions of the USF are intended to support the high cost of our operations in rural markets. Various parts of the federal rural and the high cost USF are subject to caps that can reduce the amount of support provided from year to year. For example, payments from the USF will fluctuate based upon our average cost per loop in a study area compared with the national average cost per loop. For areas classified as rural telephone companies, if the national average cost per loop increases and our operating costs and average cost per loop increase at a lower rate, remain constant or decrease, the payments we will receive from the USF will decline. Conversely, if the national average cost per loop decreases and our operating costs and average cost per loop decrease at a lower rate, remain constant or increase, the payments we will receive from the USF will increase. Over the past year, the national average cost per loop in relation to the average cost per loop for the majority of Frontier study areas has increased, and Frontier believes the national average cost per loop will likely continue to increase in relation to its average cost per loop. As a result, the payments from the rural portions of the USF that we will receive with respect to the operations of the current Frontier business will likely decline. In addition, subsidy revenue received under the federal interstate access support fund may also decline, as that fund is also subject to a national cap and the formula used to allocate funds among recipients may cause our support to decline, as occurred for the Frontier business and the Spinco business in 2008 and 2009. Furthermore, the proposed changes in the federal rules governing both the collection and distribution of the USF are pending before the FCC. If our rural local exchange carriers were unable to receive USF payments, or if those payments were reduced, many of our rural local exchange carriers may operate less profitably as they have historically under Frontier in the absence of our implementation of increases in charges for other services. Moreover, if we raise prices for services to offset loss of USF payments, the increased pricing of our services may disadvantage us competitively in the marketplace, resulting in additional potential revenue loss.

Universal service rules have been adopted by both the FCC and some state regulatory commissions. USF disbursements may be distributed only to carriers that are designated as eligible telecommunications carriers by a state regulatory commission. All of the incumbent local exchange carriers that will be operated by us have been designated as eligible telecommunications carriers pursuant to the Telecommunications Act. However, under the Telecommunications Act, competitors can obtain the same support payments per line served as we will if a state regulatory commission determined that granting support payments to competitors would be in the public interest, although the FCC placed a temporary cap on high-cost support paid to CETCs in May 2008. The FCC is currently considering revisions to the distribution mechanisms for universal service funds.

In May 2007, the FCC requested comment on the possible use of reverse auctions to determine recipients of high-cost universal service reform, as well as on other rule changes that could reduce support in the future, or provide for new support, such as for broadband services. The FCC issued a Further Notice of Proposed Rulemaking on November 5, 2008, with a range of different proposals. Some of these proposals would likely substantially reduce the universal service support Frontier would receive, if ultimately adopted without change. Neither Spinco nor Frontier can predict what course the FCC will take on universal service distribution reform, but it is possible that the remedy selected by the FCC could materially affect the amount of universal service funding we will receive. It is possible that the Joint Board will recommend and the FCC will adopt additional mechanisms to reduce the amount of high-cost universal service support disbursed in rural areas to ILECs, as it recently did with respect to CETCs.

As discussed above, the National Broadband Plan recommends transitioning all of the existing federal high cost subsidy programs into a new fund focusing on broadband infrastructure building out unserved areas with support going to only one subsidized provider per geographic area. There is no assurance that a carrier that receives support under the existing federal high cost subsidy programs would receive support under the new broadband fund. The National Broadband Plan also recommends that the federal universal service fund in total remain close to its current size in 2010 dollars.

Universal service funding is currently collected through a surcharge on interstate and international end-user revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in the size of the fund, due primarily to increased funding to CETCs, are all causing the FCC to consider alternative and more sustainable means for collecting this funding. One alternative under active consideration would be to impose surcharges on telephone numbers or network connections. As an interim step, in June 2006, the FCC ordered that providers of certain VOIP services are subject to federal universal service obligations. The FCC also increased the percentage of revenues subject to federal universal service obligations that wireless providers may use as a safe harbor. The FCC is considering revisions to the contribution methodology for funding universal service. In the National Broadband Plan, an FCC staff team recommended broadening the universal service contribution base, and discussed proposals to include broadband revenues or to assess broadband connections through a hybrid numbers and connections-based approach, but also noted that some suggest that broadband should not be assessed. Any further change in the current assessment mechanism could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would be collected from customers.

Neither Frontier nor Spinco can predict whether the FCC or Congress will require modification to any of the universal service rules, or the ultimate impact that any such modification might have on us.

Recent and potential regulatory developments

Federal legislators, the FCC and state regulators are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. In May 2008, the FCC issued an order to cap CETC receipts from the high cost Federal Universal Service Fund. In 2009, the federal court upheld the FCC's order and the cap remains in place pending any future reform.

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation and would revise the Federal Universal Service funding and disbursement mechanisms to incentivize expanded broadband availability. The National Broadband Plan recommends eliminating all per-minute intercarrier compensation charges by 2020, and reducing intrastate terminating switched access rates to interstate terminating switched access levels over a two to four year period beginning in 2012. The National Broadband Plan also recommends transitioning all of the existing federal high cost subsidy programs, including the Federal High Cost Loop Fund, federal interstate access support, federal interstate common line support, federal local switching support fund (but not including surcharges billed to customers), into a new fund focusing on broadband infrastructure buildout in unserved areas. The National Broadband Plan further recommends that there would be only one subsidized provider of broadband per geographic area, and that eligibility criteria would be company and technology agnostic, so long as the service provided meets the specifications set by the FCC. However, there is no assurance that a carrier that receives support under the existing federal high cost subsidy programs would receive support under the new broadband fund. In addition, the National Broadband Plan proposes that the total federal universal service fund, including high cost support, low income support and support to schools and libraries, remain close to its current size in 2010 dollars. The National Broadband Plan proposals could be accepted, rejected or modified significantly by the FCC. The FCC also has an ongoing proceeding considering whether to make changes in its regulatory regime governing special access services, including whether to mandate lower rates, change standards for deregulation and pricing flexibility, or to require changes to other terms and conditions. When and how these proposed changes will be addressed are unknown and, accordingly, we are unable to predict the impact of future changes on our results of operations. However, future reductions in our subsidy and access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have associated variable expenses. Frontier's access and subsidy revenues declined in 2009 compared to 2008 and are both likely to decline further in 2010.

Certain states have opened proceedings to address reform to intrastate access charges and other intercarrier compensation. Neither Spinco nor Frontier can predict when or how these matters will be decided or the effect on our subsidy or access revenues. In addition, Frontier has been approached by, and/or is involved in formal state proceedings with, various carriers seeking reductions in intrastate access rates in certain states.

Regulators at both the federal and state levels continue to address whether VOIP services are subject to the same or different regulatory and intercarrier compensation regimes as traditional telephony. The FCC has concluded that certain VOIP services are jurisdictionally interstate in nature and states therefore are preempted from regulating the rates, terms and conditions on which providers offer these services. The FCC has not addressed other related issues, such as: whether or under what terms VOIP originated traffic may be subject to intercarrier compensation; and whether VOIP services are subject to general state requirements relating to taxation and general commercial business requirements. The FCC has stated its intent to address these open questions in subsequent orders in its ongoing "IP-Enabled Services Proceeding." Internet telephony may have an advantage over the traditional services of Frontier and Spinco if it remains less regulated.

In January 2008, the FCC released public notices requesting comments on two petitions that have been filed regarding net neutrality and the application of the FCC's Internet Policy Statement. In October 2009 the FCC issued a proposed rulemaking looking at rules to "Preserve a Free and Open Internet", including proposed restrictions on broadband network management practices. That proceeding remains pending.

Some state regulators have in the past considered imposing on regulated companies (including us) cash management practices that could limit the ability of a company to transfer cash between its subsidiaries or to its parent company. None of the existing state requirements materially affect the cash management of Frontier, but future changes by state regulators could affect our ability to freely transfer cash within our consolidated companies.

In February 2009, the President signed into law an economic stimulus package, the American Recovery and Reinvestment Act ("ARRA"), that includes $7.2 billion in funding, through grants and loans, for new broadband investment and adoption in unserved and underserved communities. Frontier filed applications for the first round of stimulus funding in West Virginia, but was notified in February 2010 that it was not selected. The federal agencies responsible for administering the programs released rules and evaluation criteria for the second round of funding, with applications due by March 15, 2010. Frontier has applied for one funding of approximately $5.5 million in this round.

Current and potential internet regulatory obligations

In connection with our Internet access offerings, we could become subject to laws and regulations as they are adopted or applied to the Internet. There is currently only limited regulation applicable to these services. As the significance of the Internet expands, federal, state and local governments may adopt rules and regulations, or apply existing laws and regulations to the Internet (including Internet access services), and related matters are under consideration in both federal and state legislative and regulatory bodies. Neither Frontier nor Spinco can predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to our competitive position.

The FCC adopted orders which put wireline broadband Internet access service, commonly delivered by DSL or fiber technology, as well as mobile wireless based broadband Internet access service and other forms of broadband Internet access services on an equal regulatory footing with cable modem service. This approach is consistent with a United States Supreme Court decision upholding the FCC's classification of cable modem services as "information services" not subject to mandatory common carriage regulation. Specifically, the FCC has determined that these information services are functionally integrated with any underlying telecommunications component, and that there is no obligation to separate out and offer that transmission component subject to common carriage regulation. The FCC provides the option, however, for rate of return carriers to voluntarily provide wireline broadband Internet access service as a common-carrier offering. In the National Broadband Plan, the FCC staff team indicates that the FCC will consider the legal classification of broadband as it reviews the Plan.

The FCC has imposed particular regulatory obligations on broadband services. For example, it has concluded that VOIP and facilities-based broadband Internet access providers must comply with the Communications Assistance for Law Enforcement Act, a decision that the United States Court of Appeals for the District of Columbia Circuit has upheld. The FCC has also required VOIP providers to provide enhanced 911 emergency calling capabilities. Recently, there have also been discussions among policymakers concerning "net neutrality" or the potential requirement for non-discriminatory treatment of traffic over broadband networks. The FCC has sought comment on industry practices in connection with this issue. However, neither Spinco nor Frontier can predict what, if any, impact this may have on our business.

The National Broadband Plan proposes a series of other actions that could result in additional regulatory requirements for broadband services. These proposals include, but are not limited to, mandating specific disclosures to customers concerning actual speed of service; new regulations governing customer privacy; reports to the government on service outages; providing emergency alerts and access to next-generation 911 services; evaluating the resiliency of broadband networks in disasters and emergencies; and providing priority access to first responders in emergencies. The FCC staff has indicated that the FCC will initiate proceedings on these and other issues over the next several months. Neither Spinco nor Frontier can predict, however, what, if any, impact these proposals may have on our business.

Video programming. We will provide video programming in Oregon, Washington, and Indiana, pursuant to franchises, permits, and similar authorizations issued by local franchising authorities. Each local franchising authority in Oregon and Washington often must approve a transfer to another party. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require payment of a franchise fee to the granting authority.

Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms of at least ten years and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate.

For information regarding approvals by local franchising authorities in connection with the transactions, see "—Regulation of our business after the spin-off and merger."

Federal, state and local governments extensively regulate the video services industry. Our video programming operations will be subject to, among other things, subscriber privacy regulations; requirements that we carry a local broadcast station or obtain consent to carry a local or distant broadcast station; rules for franchise renewals and transfers; the manner in which program packages are marketed to subscribers; and program access requirements.

Environmental regulation.

Like all other local telephone companies, the local exchange carrier subsidiaries that will be operated by us are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner and former owner of property, we could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, including sites formerly owned by Frontier or the Spinco business, regardless of fault or the lawfulness of the activity that resulted in contamination. Frontier believes that our operations will be in substantial compliance with applicable environmental laws and regulations.

Management

Management

The following table provides the name, age and title of each person who is currently expected to be a member of our senior management immediately following the merger.

Name	Age	Current position
Mary Agnes Wilderotter	55	Chairman of the Board, President and Chief Executive Officer
Donald R. Shassian	54	Executive Vice President and Chief Financial Officer
Kathleen Quinn Abernathy	53	Chief Legal Officer and Executive Vice President, Regulatory and Government Affairs
Hilary E. Glassman	48	Senior Vice President, General Counsel and Secretary
Peter B. Hayes	52	Executive Vice President, Commercial Sales
Robert J. Larson	50	Senior Vice President and Chief Accounting Officer
Daniel J. McCarthy	45	Executive Vice President and Chief Operating Officer
Cecilia K. McKenney	47	Executive Vice President, Human Resources and Call Center Sales & Services
Melinda White	50	Executive Vice President and General Manager, Marketing and New Business Operations

MARY AGNES WILDEROTTER has been with Frontier since November 2004. She was elected President and Chief Executive Officer in November 2004 and Chairman of the Board in December 2005. Prior to joining Frontier, she was Senior Vice President—Worldwide Public Sector of Microsoft Corp. from February 2004 to November 2004 and Senior Vice President—Worldwide Business Strategy of Microsoft Corp. from 2002 to 2004. Before that she was President and Chief Executive Officer of Wink Communications from 1997 to 2002.

DONALD R. SHASSIAN has been with Frontier since April 2006. He is currently Executive Vice President and Chief Financial Officer. Previously, he was Chief Financial Officer from April 2006 to February 2008. Prior to joining Frontier, Mr. Shassian had been an independent consultant since 2001 primarily providing M&A advisory services to several organizations in the communications industry. In his role as independent consultant, Mr. Shassian also served as Interim Chief Financial Officer of the Northeast region of Health Net, Inc. for a short period of time, and assisted in the evaluation of acquisition, disposition and capital raising opportunities for several companies in the communications industry, including AT&T, Consolidated Communications and smaller companies in the rural local exchange business. Mr. Shassian is a certified public accountant, and served for 5 years as the Senior Vice President and Chief Financial Officer of Southern New England Telecommunications Corporation and for more than 16 years at Arthur Andersen, where his last position was as Partner in Charge of the North American Telecom Industry.

KATHLEEN QUINN ABERNATHY joined Frontier's management team in March 2010 as Chief Legal Officer and Executive Vice President, Regulatory and Government Affairs, after serving as a member of Frontier's board of directors from April 2006 to March 2010. From October 2008 to March 2010, Ms. Abernathy was a partner at the law firm of Wilkinson Barker Knauer, LLP. Prior to that time, she was a partner at the law firm of Akin Gump Strauss Hauer & Feld LLP from March 2006 to October 2008. From June 2001 to December 2005, she served as a Commissioner at the Federal Communications Commission. Prior to that time, she was Vice President, Public Policy at Broadband Office Communications, Inc., a provider of commercial communications services, from 2000 to 2001.

HILARY E. GLASSMAN has been with Frontier since July 2005 as Senior Vice President, General Counsel and Secretary. Prior to joining Frontier, from February 2003, she was associated with Sandler O'Neill & Partners, L.P., an investment bank with a specialized financial institutions practice, first as Managing Director, Associate General Counsel and then as Managing Director, Deputy General Counsel. From February 2000 through February 2003, Ms. Glassman was Vice President and General Counsel of Newview Technologies, Inc. (formerly e-Steel Corporation), a privately-held software company.

PETER B. HAYES has been with Frontier since February 2005. He is currently Executive Vice President, Commercial Sales. Previously, Mr. Hayes was Executive Vice President, Sales, Marketing and Business Development from December 2005 to August 2009 and prior to that, Senior Vice President, Sales, Marketing and Business Development from February 2005 to December 2005. Prior to joining Frontier, he was associated with Microsoft Corp. and served as Vice President, Public Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and General Manager, Microsoft U.S. Government from 1997 to 2003.

ROBERT J. LARSON has been with Frontier since July 2000. He was elected Senior Vice President and Chief Accounting Officer of Frontier in December 2002. Previously, he was Vice President and Chief Accounting Officer from July 2000 to December 2002. Prior to joining Frontier, he was Vice President and Controller of Century Communications Corp.

DANIEL J. McCARTHY has been with Frontier since December 1990. He is currently Executive Vice President and Chief Operating Officer. Previously, he was Senior Vice President, Field Operations from December 2004 to December 2005. He was Senior Vice President Broadband Operations from January 2004 to December 2004, President and Chief Operating Officer of Electric Lightwave from January 2002 to December 2004, President and Chief Operating Officer, Public Services Sector from November 2001 to January 2002, Vice President and Chief Operating Officer, Public Services Sector from March 2001 to November 2001 and Vice President, Citizens Arizona Energy from April 1998 to March 2001.

CECILIA K. McKENNEY has been with Frontier since February 2006. She is currently Executive Vice President, Human Resources and Call Center Sales & Service. Previously, she was Senior Vice President, Human Resources from February 2006 to February 2008. Prior to joining Frontier, she was the Group Vice President of Headquarters of Human Resources of The Pepsi Bottling Group ("PBG") from 2004 to 2005. Previously at PBG Ms. McKenney was the Vice President, Headquarters Human Resources from 2000 to 2004.

MELINDA WHITE has been with Frontier since January 2005. She is currently Executive Vice President and General Manager, Marketing and New Business Operations. Previously, she was Senior Vice President and General Manager, Marketing and New Business Operations from July 2009 to November 2009. Prior to that, Ms. White was Senior Vice President and General Manager of New Business Operations from October 2007 to July 2009 and prior to that, Senior Vice President, Commercial Sales and Marketing from January 2006 to October 2007. Ms. White was Vice President and General Manager of Electric Lightwave from January 2005 to July 2006. Prior to joining Frontier, she was Executive Vice President, National Accounts/Business Development for Wink Communications from 1996 to 2002. From 2002 to 2005, Ms. White pursued a career in music.

Pursuant to the merger agreement, the officers of Frontier immediately prior to the merger will remain as officers of the combined company. Frontier anticipates that Frontier's senior management team will continue to manage the combined company's business. In addition, Frontier expects to supplement Frontier's current senior management team with members of Verizon's current regional management team who currently manage the Spinco business.

Board of directors

The board of directors of the combined company is to consist of twelve directors, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director designees may not be employees of Verizon or its affiliates or of Cellco Partnership or any of its subsidiaries, and must satisfy director independence requirements of the SEC and the NYSE. Frontier expects that Mary Agnes Wilderotter, Frontier's current Chairman of the Board of Directors, President and Chief Executive Officer, will continue to serve in those roles with the combined company.

Committees of the board of directors

The members of the committees of our board of directors will not be determined until the board of directors of the combined company holds its initial meeting. Upon completion of the merger, our then existing board of directors will make determinations with respect to each committee member's independence in accordance with the director independence requirements of the SEC and the NYSE.

Audit committee

Upon completion of the merger, our board of directors will make determinations regarding the financial literacy and financial expertise of each member of the audit committee in accordance with the requirements of the SEC and the NYSE.

The audit committee will select an independent registered public accounting firm for the company. The audit committee will also assist the board of directors in undertaking and fulfilling its responsibilities in monitoring (1) the integrity of our consolidated financial statements, (2) our compliance with legal and regulatory requirements, (3) the qualifications of our internal auditors and the independence and qualifications of our independent registered public accounting firm and (4) the performance of our internal audit function and independent registered public accounting firm.

In accordance with the Sarbanes-Oxley Act of 2002 and the rules of the SEC and the NYSE, the audit committee will pre-approve all auditing and permissible non-auditing services that will be provided by our independent registered public accounting firm.

In accordance with the rules of the SEC, our audit committee will continue Frontier's established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls, or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Compensation committee

The compensation committee will review our general compensation strategies; act as the committee for our incentive compensation plans; and establish and review compensation for our Chief Executive Officer and other senior executive officers. The compensation committee will also oversee and approve compensation policy and incentive plan design, costs and administration.

Specifically, the compensation committee's responsibilities, as set forth in its existing charter, will include, among other duties, the responsibility to:

- annually review and approve, for our Chief Executive Officer and the other senior executive officers, (1) the annual base salary level, (2) the annual incentive opportunity level, (3) the long-term incentive compensation opportunity level, (4) employment agreements, severance arrangements, and change in control agreements/provisions, in each case as, when and if appropriate, and (5) any special or supplemental benefits;
- review periodically and recommend to the board the compensation of all directors;
- review our incentive compensation plans and equity-based plans and recommend to the board changes in such plans as needed; the compensation committee will exercise all authority of the board with respect to the administration of such plans; and
- review and approve all grants of awards, including the award of shares or options to purchase shares, pursuant to our incentive and equity-based compensation plans.

Our Chief Executive Officer will make recommendations with respect to the compensation for our other senior executive officers to the compensation committee for their final review and approval.

The compensation committee may form, and delegate any of its responsibilities to, a subcommittee so long as such subcommittee is composed solely of one or more members of the compensation committee. The compensation committee will engage compensation consultants from time to time to assist the committee in evaluating the design and assessing the competitiveness of its executive compensation program.

Nominating and corporate governance committee

The nominating and corporate governance committee will recommend candidates for election to the board of directors. The nominating and corporate governance committee will use a variety of means of identifying nominees for director, including recommendations from existing board members and from stockholders. In determining whether to nominate a candidate, the nominating and corporate governance committee will consider the then-existing composition and capabilities of serving board members, as well as additional capabilities considered necessary or desirable in light of our then-existing needs, and assess the need for new or additional members to provide those capabilities. In addition, the nominating and corporate governance committee will take a leadership role in shaping our corporate governance, including making recommendations on matters relating to the composition of the board of directors and its various committees and our corporate governance guidelines.

Retirement plan committee

The retirement plan committee will oversee our retirement plans, including reviewing the investment strategies and asset performance of the plans, compliance with the plans and the overall quality of the asset managers, plan administrators and communications with employees.

Certain relationships and related party transactions

Code of business conduct and ethics

Frontier has a Code of Business Conduct and Ethics, referred to as the Code of Conduct, to which all employees, executive officers and directors, which for purposes of the Code of Conduct are collectively referred to as employees, are required to adhere in addressing the legal and ethical issues encountered in conducting their work. The Code of Conduct requires that all employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity. Employees are required to report any conduct that they believe, in good faith, is an actual or apparent violation of the Code of Conduct and may do so anonymously by using Frontier's Ethics Hotline. The Code of Conduct includes specific provisions applicable to Frontier's principal executive officer and senior financial officers. Frontier posts amendments to or waivers from the provisions applicable to its senior executives on its website. A copy of the Code of Conduct is available upon request to Frontier's Secretary or may be viewed or downloaded from Frontier's website at www.frontier.com.

The Code of Conduct will apply to us after the merger.

Related person transactions policy

The Frontier board adopted a policy addressing Frontier's procedures with respect to the review, approval and ratification of "related person transactions" that are required to be disclosed pursuant to SEC regulations. The policy provides that any transaction, arrangement or relationship, or series of similar transactions, in which Frontier is involved, with a "related person" (as defined in the SEC regulations) who has or will have a direct or indirect material interest and which exceeds $120,000 in the aggregate, shall be subject to review, approval or ratification by the nominating and corporate governance committee. In its review of related person transactions, the nominating and corporate governance committee shall review the material facts and circumstances of the transaction and shall take into account certain factors, where appropriate, based on the particular facts and circumstances, including (i) the nature of the "related person's" interest in the transaction, (ii) the significance of the transaction to Frontier and to the "related person" and (iii) whether the transaction is likely to impair the judgment of the "related person" to act in the best interest of Frontier.

No member of the nominating and corporate governance committee may participate in the review, approval or ratification of a transaction with respect to which he or she is a "related person" provided that such person can be counted for purposes of a quorum and shall provide such information with respect to the transaction as may be reasonably requested by other members of the committee or the board.

This related person transactions policy will apply to us after the merger.

Material transactions between Frontier and Verizon

Frontier provides switched access and special access services to Verizon. Frontier receives per-minute terminating switched access compensation from Verizon when Frontier's switched network is used for the origination or termination of Verizon's traffic. Frontier also receives special access compensation from Verizon on a per-unit basis, the amount of the per-unit price depending on the amount of bandwidth utilized. Frontier received approximately $150 million from Verizon for these services in 2009.

Verizon provides Frontier (a) long distance services to support both residential and business customers of Frontier, (b) unbundled network element loops to support Frontier customers, (c) unbundled network element and expanded extended loop T1s to support Frontier's customers, (d) circuits to support Frontier internal requirements (including Internet backhaul and Interoffice connections) and (e) space in Verizon central offices to support interconnection with Verizon. Frontier paid Verizon approximately $59.7 million for these services in 2009.

A Frontier subsidiary holds a 33.33% general partnership interest in, and is the managing partner of, Mohave Cellular Limited Partnership, referred to as Mohave Cellular, which provides cellular phone service in Mohave County, Arizona. A Verizon subsidiary holds a 33.33% limited partnership interest in Mohave Cellular. The remaining 33.33% limited partnership interest in Mohave Cellular is held by an unrelated third party. Mohave Cellular declared a $5.25 million ($1.75 million per partner) distribution in May 2008 and paid this amount to its partners. Mohave Cellular may declare similar distributions from time to time, as permitted by the terms of its partnership agreement.

Frontier and its affiliates are entering into agreements for Verizon or its affiliates to provide various services to Frontier and its affiliates after the closing of the merger. Pursuant to the merger agreement, Frontier will enter into an agreement to license software and purchase maintenance services from Verizon and its affiliates. Frontier and Verizon will also enter into an intellectual property agreement pursuant to which Frontier will obtain certain rights to use designated Verizon intellectual property for Frontier's wireline and video operations in the Spinco territory. Verizon and Frontier have also entered into an IMG Agreement and a Video Transport Agreement pursuant to which Verizon has agreed to assist Frontier in the design of a facility for a video interactive media guide to use with the FiOS video product in the Spinco territory and to provide transport services for video content for up to two years after closing, respectively. Frontier will obtain designated other services from Verizon for an interim period after the closing.

Description of other indebtedness

Description of Frontier indebtedness

Immediately following completion of the merger, Frontier's debt financing arrangements existing immediately prior to the closing of the merger, other than its current revolving credit facility, as described below, will remain in place (subject to any permitted refinancing or repayment thereof by Frontier).

Frontier credit facilities

Frontier currently has a revolving credit facility with seven financial institutions in the aggregate amount of $250.0 million. As of December 31, 2009, the revolving credit facility was undrawn. Associated facility fees vary from time to time depending on Frontier's leverage ratio (as defined in the credit agreement governing such revolving credit facility): 0.175% per annum if such leverage ratio is less than or equal to 3.00 to 1.00, 0.200% per annum if such leverage ratio is greater than 3.00 to 1.00 but less than or equal to 3.50 to 1.00, 0.225% per annum if such leverage ratio is greater than 3.50 to 1.00 but less than or equal to 4.00 to 1.00, and 0.275% per annum if such leverage ratio is greater than 4.00 to 1.00. The expiration date for the revolving credit facility is May 18, 2012. During the term of the revolving credit facility, Frontier may borrow, repay and reborrow funds, and may obtain letters of credit under the revolving credit facility to support Frontier's obligations to third parties, subject to customary borrowing conditions. Loans under the revolving credit facility bear interest based on the alternate base rate or the adjusted LIBO rate (each as determined in the credit agreement governing such revolving credit facility), at Frontier's election, plus a margin of (1) for alternate base rate borrowings, 0.000% per annum if Frontier's leverage ratio is less than or equal to 4.00 to 1.00 and 0.250% if such leverage ratio is greater than 4.00 to 1.00 and (2) for adjusted LIBO rate borrowings, 0.625% per annum if Frontier's leverage ratio is less than or equal to 3.00 to 1.00, 0.750% per annum if such leverage ratio is greater than 3.00 to 1.00 but less than or equal to 3.50 to 1.00, 0.875% per annum if such leverage ratio is greater than 3.50 to 1.00 but less than or equal to 4.00 to 1.00 and 1.250% per annum if such leverage ratio is greater than 4.00 to 1.00. Letters of credit issued under the revolving credit facility are also subject to fees that vary depending on Frontier's leverage ratio. The revolving credit facility is available for general corporate purposes but may not be used to fund dividend payments.

In connection with the transactions, Frontier has entered into a new $750.0 million revolving credit facility that will become effective upon, and subject to, the closing of the merger and the termination of Frontier's existing revolving credit facility described above and other customary conditions. Associated facility fees under the new revolving credit facility will vary from time to time depending on the combined company's debt rating (as defined in the credit agreement governing the new revolving credit facility) from Moody's and S&P: 0.375% per annum if the debt rating from Moody's is Baa3 or higher and the debt rating from S&P is BBB- or higher, 0.500% per annum if the debt rating from Moody's is Ba1 and the debt rating from S&P is BB+, 0.625% per annum if the debt rating from Moody's is Ba2 and the debt rating from S&P is BB, and 0.750% per annum if the debt rating from Moody's is Ba3 or lower and the debt rating from S&P is BB- or lower; provided that (a) if the respective debt ratings issued by the foregoing rating agencies differ by one level, then the facility fee applicable to the higher of the two ratings shall apply, (b) if the respective debt ratings issued by the foregoing agencies differ by more than one level, then the facility fee applicable to a rating that is one level higher than the lower of the two ratings shall apply, (c) if there is only one debt rating, then the facility fee that is applicable to a rating that is one level lower than that debt rating shall apply and (d) if there is no debt rating, then a facility fee of 0.750% per annum shall apply. The new revolving credit facility is scheduled to terminate on the date that is three years and six months after the effective date of the facility. During the term of the new revolving credit facility, the combined company may borrow, repay and reborrow funds, and may obtain letters of credit, subject to customary borrowing conditions. Loans under the new revolving credit facility will bear interest based on the alternate base rate or the adjusted LIBO rate (each as determined in the credit agreement governing the new revolving credit facility), at the combined company's election, plus a margin of (1) for alternate base rate borrowings, 1.75% per annum if the debt rating from Moody's is Baa3 or higher and the debt rating from S&P is BBB- or higher, 2.00% per annum if the debt rating from Moody's is Ba1 and the debt rating from S&P is BB+, 2.25% per annum if the debt rating from Moody's is Ba2 and the debt rating from S&P is BB and 2.75% if the debt rating from Moody's is Ba3 or lower and the debt rating from S&P is BB- or lower and (2) for adjusted LIBO rate borrowings, 2.75% per annum if the debt rating from Moody's is Baa3 or higher and the debt rating from S&P is BBB- or higher, 3.00% per annum if the debt rating from Moody's is Ba1 and the debt rating from S&P is BB+, 3.25% per annum if the debt rating from Moody's is Ba2 and the debt rating from S&P is BB and 3.75% if the debt rating from Moody's is Ba3 or lower and the debt rating from S&P is BB- or lower; provided that in each case (a) if the respective debt ratings issued by the foregoing rating agencies differ by one level, then the margin applicable to the higher of the two ratings shall apply, (b) if the respective debt ratings issued by the foregoing agencies differ by more than one level, then the margin applicable to a rating that is one level higher than the lower of the two ratings shall apply, (c) if there is only one debt rating, then the margin that is applicable to a rating that is one level lower than that debt rating shall apply and (d) if there is no debt rating, then the margin applicable to a debt rating from Moody's of Ba3 or lower and a debt rating from S&P of BB- or lower shall apply. Letters of credit issued under the revolving credit facility will also be subject to fees that vary depending on the combined company's debt ratings. The new revolving credit facility will be available for general corporate purposes but may not be used to fund dividend payments.

On March 28, 2008, Frontier borrowed $135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest based on the prime rate or LIBOR, at Frontier's election, plus a margin of (1) with respect to interest based on prime rate, 1.00% per annum and (2) with respect to interest based on LIBOR, 1.75% per annum if Frontier's leverage ratio (as defined in the credit agreement governing the term loan credit facility) is less than 4.00 to 1.00 and 2.00% per annum if such leverage ratio is greater than 4.00 to 1.00.

In December 2006, Frontier borrowed $150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on the prime rate or LIBOR, at Frontier's election, plus a margin of (1) with respect to interest based on the prime rate, 0.25% per annum and (2) with respect to interest based on LIBOR, 1.375% per annum if Frontier's leverage ratio (as defined in the credit agreement governing the term loan credit facility) is less than 4.00 to 1.00 and 1.625% per annum if such leverage ratio is greater than or equal to 4.00 to 1.00.

On October 24, 2001, Frontier borrowed $200.0 million under a senior unsecured term loan agreement with the RTFC. The loan matures in 2011 and has a fixed interest rate of 6.27%.

The revolving credit and term loan facilities described above each contain a maximum leverage ratio covenant that requires Frontier to maintain, at the end of each fiscal quarter, a ratio of

(1) total indebtedness minus cash and cash equivalents in excess of $50.0 million, to (2) consolidated EBITDA (as defined in the applicable agreements) over the immediately preceding four fiscal quarters, that is no greater than 4.50 to 1. They also contain covenants limiting Frontier's ability to incur or guarantee additional debt, create certain liens, merge with other entities or engage in other change of control transactions, sell assets and engage in affiliate transactions, as well as other customary covenants, representations and warranties and events of default. All of the revolving credit and term loan facilities described above are unsecured.

Frontier notes and debentures

At December 31, 2009, Frontier's notes and debentures represented approximately $4.34 billion of its approximately $4.88 billion of indebtedness outstanding. At such date, Frontier had outstanding:

- $76.1 million in principal amount of 9.250% Senior Notes due 2011;
- $580.7 million in principal amount of 6.250% Senior Notes due 2013;
- $600.0 million in principal amount of 8.250% Senior Notes due 2014;
- $300.0 million in principal amount of 6.625% Senior Notes due 2015;
- $600.0 million in principal amount of 8.125% Senior Notes due 2018;
- $434.0 million in principal amount of 7.125% Senior Notes due 2019;
- $345.9 million in principal amount of 7.875% Senior Notes due 2027;
- $945.3 million in principal amount of 9.000% Senior Notes due 2031; and
- $458.9 million in principal amount of Debentures with weighted average interest rates of 7.229% and maturities ranging from 2025-2046.

Each of Frontier's outstanding senior notes (other than the debentures) may be redeemed at any time at Frontier's option, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus a make-whole premium, if any, plus accrued and unpaid interest to the date of redemption. The debentures are not redeemable by Frontier. In addition, certain outstanding senior notes obligate Frontier to offer to repurchase such notes at a purchase price of 101% of the principal amount thereof, plus accrued and unpaid interest to the date of repurchase, if an event constituting a "change of control" of Frontier, as defined in the relevant indentures, occurs.

The indentures governing Frontier's outstanding senior notes and debentures contain covenants limiting Frontier's ability to enter into mergers, consolidations and sales of all or substantially all of its assets. The indentures governing certain senior notes also contain covenants with respect to (1) limitations on subsidiary debt, (2) limitations on liens and (3) certain reporting requirements. Frontier's senior notes and debentures are subject to acceleration, at the option of the holders thereof, if certain events of default exists under the applicable indentures.

There are no scheduled principal payments required on any of these senior notes or debentures until their final maturities. Frontier's outstanding senior notes and debentures are senior, unsecured obligations that rank equally in right of payment with all of its existing and future senior indebtedness and rank senior in right of payment to all of its existing and future subordinated indebtedness.

None of Frontier's revolving credit facility, term loans or outstanding senior notes or debentures are guaranteed by its subsidiaries.

Description of Spinco indebtedness

As of December 31, 2009, Verizon's Separate Telephone Operations had approximately $625 million aggregate principal amount of indebtedness. Approximately $200 million of such indebtedness was repaid on February 15, 2010. The parties expect that an additional $175 million of such indebtedness will be repaid at maturity prior to the closing date of the merger. The parties therefore anticipate that the distribution date indebtedness will consist of:

- $200 million in principal amount of 6.73% Debentures, Series G, due 2028 of Verizon North Inc., as obligor; and

- $50 million in principal amount of 8.40% Debentures due 2029 of Verizon West Virginia Inc., as obligor;

provided, however, that if the $175 million in principal amount of 6.30% Debentures, Series C, due 2010 of Verizon Northwest Inc., as obligor, which are scheduled to mature on June 1, 2010, is not repaid prior to the closing date of the merger, the obligations under the 6.30% Debentures, Series C, due 2010 will also constitute distribution date indebtedness.

In October 1989, The Chesapeake and Potomac Telephone Company of West Virginia, a subsidiary of Verizon renamed Verizon West Virginia Inc. that will become a Spinco subsidiary, issued $50.0 million in aggregate principal amount of 8.40% Debentures due October 15, 2029 in a private placement. The West Virginia debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

In February 1998, GTE North Incorporated, a subsidiary of Verizon renamed Verizon North Inc. that will become a Spinco subsidiary, issued $200,000,000 in aggregate principal amount of 6.73% Debentures, Series G, due February 15, 2028 in a transaction registered under the Securities Act. The GTE North debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

In June 1998, GTE Northwest Incorporated, a subsidiary of Verizon renamed Verizon Northwest Inc. that will become a Spinco subsidiary, issued $175,000,000 in aggregate principal amount of 6.30% Debentures, Series C, due June 1, 2010 in a transaction registered under the Securities Act. The GTE Northwest debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness.

None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

There are no scheduled principal payments required on any of these debentures until their final maturities. These debentures will be senior, unsecured obligations of subsidiaries of Spinco (and, as a result of the merger, the combined company) that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

A subsidiary of Verizon is currently the obligor on certain capitalized vehicle leases, totaling approximately $5 million, associated with trucks used in the operation of the Spinco business. In connection with the contribution, these vehicle leases will become the obligations of a subsidiary of Spinco that will become a subsidiary of the combined company following the merger and will be subject to a guarantee by Frontier. The amount of these capitalized leases will not be considered distribution date indebtedness for purposes of calculating the amount of the special cash payment to be made by Spinco to Verizon.

Description of notes

General

New Communications Holdings Inc. ("Spinco") will issue $500,000,000 aggregate principal amount of 7.875% senior notes due 2015 (the "2015 notes"), $1,100,000,000 aggregate principal amount of 8.250% senior notes due 2017 (the "2017 notes"), $1,100,000,000 aggregate principal amount of 8.500% senior notes due 2020 (the "2020 notes") and $500,000,000 aggregate principal amount of 8.750% senior notes due 2022 (the "2022 notes" and, together with the 2015 notes, the 2017 notes and the 2020 notes, the "notes") as separate series of notes under an indenture between Spinco and The Bank of New York Mellon, as trustee. The notes are being issued in a private transaction that is not subject to the registration requirements of the Securities Act. See "Plan of distribution" and "Transfer restrictions."

Spinco will be spun off from Verizon Communications Inc. (the "Spin-Off") and will merge with and into Frontier Communications Corporation, with Frontier Communications Corporation continuing as the surviving corporation conducting the combined business of Frontier and Spinco (the "Merger"). In this description, (i) the term "Issuer" refers to Spinco prior to the consummation of the Merger and to Frontier Communications Corporation, as the surviving corporation, following the consummation of the Merger and (ii) "we," "our," "us" and "the Issuer" refer only to the Issuer and not to any of its subsidiaries. Concurrently with the closing of the Merger, Frontier Communications Corporation will execute and deliver to the trustee a supplemental indenture pursuant to which Frontier Communications Corporation will assume all of Spinco's obligations under the notes and the indenture.

The notes will be subject to a special mandatory redemption in the event that the merger agreement governing the Merger is terminated or the Spin-Off and the Merger are not completed on or before October 1, 2010. The special mandatory redemption price for each series of the notes is equal to 100% of the issue price of that series of notes, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the Special Redemption Date (as defined below). Concurrently with the closing of this offering, the gross proceeds of this offering, plus an amount in cash contributed by Frontier Communications Corporation that equals the amount of interest that will accrue on the notes from April 12, 2010 to, but excluding, October 1, 2010, will be deposited into an escrow account pending the Spin-Off and the closing of the Merger. See "—Special mandatory redemption; Escrow of proceeds."

The following description is a summary of the terms of the notes. The descriptions in this offering memorandum contain a summary of certain terms of the notes, the escrow agreement, the registration rights agreement and the indenture, but do not purport to be complete and are qualified by reference to those instruments. Certain terms used in this description are defined under the subheading "—Certain definitions."

The notes will be issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof. We may offer additional series of debt securities from time to time under the indenture in as many distinct series as we may determine. All debt securities issued under the indenture will be our senior unsecured obligations and will rank equal in right of payment to the notes. The terms and conditions of each series of debt securities, including the notes, will be set forth in those debt securities and in the indenture. We may, without the consent of the holders of notes, issue additional notes of a series having the same ranking, interest rate, maturity and other terms as the notes of that series previously issued. Any additional notes having such same terms, together with the notes of that series previously issued, will constitute a single series of notes issued under the indenture.

The 2015 notes, the 2017 notes, the 2020 notes and the 2022 notes are each separate series of notes under the indenture. As a result, holders of each series of notes will have separate rights to, among other things, give notice of defaults or to direct the trustee to exercise remedies during an event of default or otherwise.

The 2015 notes will mature on April 15, 2015, the 2017 notes will mature on April 15, 2017, the 2020 notes will mature on April 15, 2020, and the 2022 notes will mature on April 15, 2022. Interest on the notes will accrue from April 12, 2010, and will be payable on October 15 and April 15 of each year, beginning on October 15, 2010, to the persons in whose names the notes are registered on the preceding April 1 and October 1, respectively (except interest payable on October 15, 2010, will be to the persons in whose names the notes are registered on October 5, 2010).

Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.

We will pay principal and interest (including additional interest, if any) on the notes, register the transfer of the notes and exchange the notes at our office or agency maintained for that purpose, which initially will be the corporate trust office of the trustee located at 101 Barclay Street, Floor 8 West, New York, New York 10286, Attention: Corporate Trust Administration. So long as the notes are represented by global debt securities, the interest payable on the notes will be paid to Cede & Co, the nominee of the depositary, or its registered assigns as the registered owner of such global debt securities, by wire transfer of immediately available funds on each of the applicable interest payment dates. If any of the notes are no longer represented by a global debt security, we have the option to pay interest by check mailed to the address of the person entitled to the interest. No service charge will be made for any transfer or exchange of notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable.

If the trustee shall not be the registrar for any series of notes at any time, we will furnish or cause to be furnished to the trustee a list in such form as the trustee may reasonably require of the names of the holders of the notes of such series (a) semi-annually and (b) at such other times as the trustee may request in writing, within thirty days after receipt of any such request.

The notes will be the Issuer’s senior unsecured obligations and will rank:

- equal in right of payment to the Issuer’s senior unsecured indebtedness;
- effectively junior to the Issuer’s secured indebtedness to the extent of the value of the assets securing such indebtedness;
- effectively junior to indebtedness and other liabilities of the Issuer’s subsidiaries (including trade payables and capital lease obligations); and
- senior in right of payment to the Issuer’s subordinated indebtedness, if any.

As of December 31, 2009, assuming the Spin-Off, the Merger and the related transactions (the “Transactions”), as well as the repayment of $375 million of indebtedness that otherwise would have constituted distribution date indebtedness, had occurred on that date, Frontier Communications Corporation and its subsidiaries would have had on a pro forma basis approximately $8.3 billion of indebtedness and the notes would have ranked effectively junior to approximately $1,569.0 million of indebtedness and other liabilities of Frontier Communications Corporation's subsidiaries, including approximately $306.6 million of indebtedness (including secured indebtedness of $20.6 million) and excluding deferred income tax liabilities and intercompany liabilities.

Registration rights

Frontier Communications Corporation will enter into a registration rights agreement with J.P. Morgan Securities Inc., as representative of the initial purchasers, on the Issue Date to be operative upon consummation of the Merger. See "Exchange offer; Registration rights."

Special mandatory redemption; Escrow of proceeds

The Issuer expects to use the net proceeds from this offering in connection with the Transactions, as described under the heading "Use of proceeds". In the event that the merger agreement governing the Merger is terminated or the Spin-Off and the Merger are not completed on or before October 1, 2010, the notes of each series will be redeemed at a special mandatory redemption price equal to 100% of the issue price of that series of notes, plus accrued and unpaid interest on the principal amount of such series of notes to, but not including, the Special Redemption Date (as defined below).

The closing of this offering will occur in advance of the date of completion of the Spin-off and the Merger. Therefore, prior to the closing of this offering, Spinco will enter into an escrow agreement (the "Escrow Agreement") with Frontier Communications Corporation, J.P. Morgan Securities Inc., as the representative of the initial purchasers, The Bank of New York Mellon, as trustee under the indenture for the notes, and The Bank of New York Mellon, as escrow agent (in such capacity, the "Escrow Agent"), pursuant to which the initial purchasers will deposit, or direct the deposit, into an escrow account with the Escrow Agent the gross proceeds of this offering and Frontier will deposit, or direct the deposit, into such escrow account $125,517,708.33 in cash, which represents the amount of interest that will accrue on the aggregate principal amount of the notes as calculated in accordance with the terms of the indenture governing the notes and the notes from April 12, 2010, to, but excluding, October 1, 2010.

Spinco and Frontier will only be entitled to direct the Escrow Agent to release the amounts deposited into the escrow account in accordance with the provisions of the Escrow Agreement. Pursuant to the Escrow Agreement, if the Escrow Agent receives, at or prior to 11:00 a.m. (New York City time) on October 1, 2010, a release certificate signed by an officer of Spinco and an officer of Frontier as provided in the Escrow Agreement (the "Spin-Off/Merger Release Certificate", which certificate includes, among other things, certification that the Spin-Off is expected to be consummated promptly upon release of the funds described below and the Merger is expected to be consummated promptly following the consummation of the Spin-Off, in each case substantially as described in this offering memorandum), then the Escrow Agent shall release the net proceeds from this offering to, or at the written direction of, Spinco. Promptly upon consummation of the Merger, Frontier shall deliver to the Escrow Agent an officer's certificate certifying that the Merger has been consummated (the "Merger Certificate"), upon receipt of which the Escrow Agent shall, as promptly as practicable, release (1) first, to the initial purchasers an amount equal to the initial purchasers' discount from this offering and (2) second, the remainder of the amounts held in the escrow account to, or at the direction of, Frontier.

Pursuant to the Escrow Agreement, if (1) the Escrow Agent receives, at or prior to 11:00 a.m. (New York City time) on October 1, 2010, an officer's certificate from Spinco and an officer's certificate from Frontier certifying that the merger agreement governing the Merger has been terminated in accordance with its terms (the first Business Day on which the Escrow Agent has possession of both certificates being the "Termination Date"), (2) the Escrow Agent has not received, at or prior to 11:00 a.m. (New York City time) on October 1, 2010, a Spin-Off/Merger Release Certificate or (3) the Escrow Agent has not received at or prior to 11:59 p.m. (New York City time) on October 1, 2010, a Merger Certificate, then the Escrow Agent shall promptly notify the trustee in writing on (A) the Termination Date, in the case of clause (1) above or (B) October 1, 2010, in the case of clause (2) or (3) above (such date, the "Redemption Notice Date") that the notes are to be redeemed on (i) the Redemption Notice Date, if the Escrow Agent receives the certificates described in clause (1) above prior to 11:00 a.m. (New York City time) on the Redemption Notice Date or if the notes are to be redeemed pursuant to clause (2) above or (ii) the next Business Day following the Redemption Notice Date, if the notes are to be redeemed in all other cases (such date, the "Special Redemption Date"), in each case in accordance with the applicable provisions of the indenture. The trustee, on the Redemption Notice Date, shall promptly notify each holder (with a copy to the Escrow Agent) in accordance with the applicable provisions of the indenture that all of the outstanding notes shall be redeemed on the Special Redemption Date automatically and without any further action by the holders of the notes. At or prior to 2:00 p.m. (New York City time) on the Special Redemption Date, the Escrow Agent shall as promptly as practicable release from the escrow account (I) first, to the paying agent as per the written instructions of the trustee (which shall specify the special mandatory redemption price and the wire payment instructions), an amount equal to the lesser of (A) the amount of funds in the escrow account and (B) the aggregate amount of the special mandatory redemption price and (II) second, the remainder of the amounts held in the escrow account (if any) to, or at the written direction of, Frontier Communications Corporation. In the event that the amount of funds in the escrow account is less than the aggregate amount of the special mandatory redemption price, Frontier Communications Corporation agrees to pay to the paying agent, at or prior to 2:00 p.m. (New York City time) on the Special Redemption Date, cash in the amount of such shortfall so as to permit all outstanding notes to be redeemed on the Special Redemption Date at the special mandatory redemption price in accordance with the applicable provisions of the indenture.

In the event the net proceeds from the escrow account have been released to Spinco pursuant to the Spin-Off/Merger Release Certificate but for any reason the Merger is not consummated prior to the earlier of (1) 11:59 p.m. (New York City time) on October 1, 2010, and (2) 2:00 p.m. (New York City time) on the Business Day following such release of funds to Spinco, Spinco shall promptly arrange for the redeposit of such released funds into the escrow account, which shall in no event occur later than 2:00 p.m. (New York City time) on the Special Redemption Date.

Optional redemption

From and after the effective time of the Merger, the notes will be redeemable at the Issuer's election, in whole or in part, at any time at a redemption price equal to the greater of:

(1) 100% of the principal amount of the notes to be redeemed; and

(2) as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 50 basis points plus, in either of the above cases, accrued and unpaid interest to the date of redemption on the notes to be redeemed.

If the redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the person in whose name the note is registered at the close of business on such interest record date.

The Issuer will mail a notice of redemption at least 30 days but not more than 60 days before the redemption date to each holder of the securities to be redeemed.

Unless the Issuer defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

If less than all of the notes are to be redeemed, selection of the notes for redemption will be made by the trustee:

(1) if the notes are listed on any national securities exchange, in compliance with the requirements of such national securities exchange; or

(2) if the notes are not so listed, on a pro rata basis (subject to the procedures of The Depository Trust Company) or, to the extent a pro rata basis is not permitted, in such manner as the trustee shall deem to be fair and appropriate.

No note of $2,000 in principal amount or less shall be redeemed in part. If any note is to be redeemed in part only, the notice of redemption relating to such note will state the portion of the principal amount to be redeemed. A new note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original note.

The notes are not subject to a sinking fund.

Repurchase of notes upon a Change of Control Triggering Event

If a Change of Control Triggering Event occurs with respect to the notes, each holder of notes will have the right to require the Issuer to repurchase all or any part of that holder's notes pursuant to a Change of Control offer on the terms set forth in the indenture. In the Change of Control offer, the Issuer will offer a Change of Control payment in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest on the notes to the applicable date of repurchase. Within 30 days following any Change of Control Triggering Event, if the Issuer had not, prior to the Change of Control Triggering Event, sent a redemption notice for all the notes in connection with an optional redemption permitted by the indenture, the Issuer will mail a notice to each registered holder briefly describing the transaction or transactions that constitute a Change of Control Triggering Event and offering to repurchase notes on the date specified in such notice (the "Change of Control Payment Date") pursuant to the procedures required by the indenture and described in such notice.

The Issuer will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Triggering Event provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Triggering Event provisions of the indenture by virtue of such conflict.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

(1) accept for payment all notes or portions thereof properly tendered pursuant to the Change of Control offer;

(2) deposit with the paying agent an amount equal to the Change of Control payment in respect of all notes or portions thereof properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Issuer.

The paying agent will promptly mail to each registered holder of notes so tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail, or cause to be transferred by book entry, to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; provided that each such new note will be in a principal amount of $2,000 and integral multiples of $1,000 in excess thereof. Any note so accepted for payment will cease to accrue interest on and after the Change of Control Payment Date.

The Issuer will not be required to make a Change of Control offer upon a Change of Control Triggering Event if a third party makes the Change of Control offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control offer made by the Issuer and purchases all notes properly tendered and not withdrawn under the Change of Control offer.

A Change of Control offer may be made in advance of a Change of Control Triggering Event, and conditional upon the occurrence of such Change of Control Triggering Event, if a definitive agreement is in place for the Change of Control Triggering Event at the time of making the Change of Control offer.

There can be no assurance that the Issuer will have sufficient funds available at the time of any Change of Control Triggering Event to consummate a Change of Control offer for all notes then outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest to the Change of Control Payment Date.

The Spin-Off and the Merger will not constitute a Change of Control and, therefore, will not give rise to a Change of Control Triggering Event.

Covenants

Limitation on Spinco Indebtedness and Spinco Liens

(a) At the time that is immediately prior to the effective time of the Merger and after giving effect to the Distribution, neither the Issuer nor any of its Subsidiaries shall have outstanding any indebtedness for borrowed money paid to the Issuer or such Subsidiary (as the case may be) and owed to third parties (excluding the deferred purchase price of property or services, but including any Guarantees of indebtedness of third parties) ("Spinco Indebtedness"), other than:

(1) The notes offered hereby;

(2) Spinco Indebtedness in the form of one or more term loan bank borrowings and/or capital markets issuances by the Issuer prior to or substantially contemporaneous with the Distribution effected for the purpose of financing the Special Cash Payment, the net proceeds of which did not exceed, in the aggregate, $3.5 billion less the aggregate net proceeds of (x) the notes offered hereby, (y) the Distribution Date Indebtedness and (z) any Spinco Debt Securities;

(3) Spinco Indebtedness representing the Distribution Date Indebtedness;

(4) Spinco Indebtedness in the form of Spinco Debt Securities;

(5) Additional Spinco Indebtedness in an amount not to exceed, in the aggregate, $100 million; and

(6) Guarantees by any Subsidiary of the Issuer of any Spinco Indebtedness permitted by clauses (2) through (5) above.

(b) At the time that is immediately prior to the effective time of the Merger and after giving effect to the Distribution, none of the Spinco Indebtedness, other than Spinco Indebtedness contemplated by clauses (2) through (5) above and Guarantees by any Subsidiary thereof, shall be secured by any Lien on any of the Issuer's or its Subsidiaries' property or assets (which includes Capital Stock).

Limitation on Subsidiary Indebtedness

From and after the effective time of the Merger, the Issuer will not permit any of its Subsidiaries to Incur any Indebtedness, other than:

(A) Indebtedness of any Subsidiary of the Issuer consisting of (i) Guarantees by such Subsidiary of Indebtedness of the Issuer under Credit Facilities or (ii) Liens granted by such Subsidiary to secure such Guarantee or such Indebtedness of the Issuer, in an aggregate principal amount (without duplication), when taken together with the aggregate principal amount of Indebtedness secured by Liens on the property or assets (which includes capital stock) of the Issuer and its Subsidiaries Incurred pursuant to the second sentence and clause (1) of the first paragraph of "—Limitations on Liens" covenant below, not to exceed the Permitted Amount at the time of Incurrence of such Guarantee or Lien;

(B) Indebtedness of any Designated Subsidiary or any Subsidiary of such Designated Subsidiary, provided that, with respect to this clause (B) only, no portion of such Indebtedness is recourse to the Issuer or any of its other Subsidiaries;

(C) Acquired Indebtedness;

(D) Indebtedness of any Subsidiary of the Issuer existing as of the effective time of, and after giving effect to, the Merger;

(E) Indebtedness of any Subsidiary of the Issuer issued in exchange for, or the net proceeds of which are used or will be used to extend, refinance, renew, replace, defease or refund, other Indebtedness that was permitted to be Incurred under clause (C) or (D) of this paragraph; or

(F) Indebtedness in an aggregate principal amount, at anytime outstanding, not to exceed $250.0 million.

The maximum amount of Indebtedness that may be Incurred pursuant to this "Limitation on Subsidiary Indebtedness" covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Liens

From and after the effective time of the Merger, the Issuer will not, and will not permit any of its Subsidiaries to, incur or permit to exist any Lien on any of the Issuer's or its Subsidiaries' property or assets (which includes capital stock) securing Indebtedness, unless the Lien secures the notes equally and ratably with, or prior to, any such Indebtedness secured by such Lien, for so long as such other Indebtedness is so secured, subject to certain exceptions described below. The indenture provides for an exception from this limitation for secured debt that the Issuer or its Subsidiaries may issue, assume, guarantee or permit to exist up to 10% of the value of the consolidated total assets of the Issuer as shown on, or computed from, the most recent quarterly or annual balance sheet prepared in accordance with GAAP and filed by the Issuer with the U.S. Securities and Exchange Commission (the "SEC") or provided to the trustee. In addition, this restriction will not take into account or apply to:

(1) Liens securing Indebtedness and other obligations under any senior bank financing of the Issuer or any of its Subsidiaries, including Guarantees of Indebtedness and other obligations under such senior bank financings, in an amount of up to 20% of the sum of the total consolidated current assets and net property, plant and equipment of the Issuer as shown on, or computed from, the most recent quarterly or annual balance sheet prepared in accordance with GAAP and filed by the Issuer with the SEC or provided to the trustee;

(2) Liens existing as of the effective time of, and after giving effect to, the Merger;

(3) Liens on property that exist when the Issuer acquires the property that secure payment of the purchase price of the property;

(4) Liens securing debt that any Subsidiary of the Issuer owes to the Issuer or to any other Subsidiary of the Issuer;

(5) Liens on property, shares of stock or indebtedness of any entity that exists when (a) it becomes a Subsidiary of the Issuer, (b) it is merged into or consolidated with the Issuer or any of its Subsidiaries, or (c) the Issuer or any of its Subsidiaries acquires all or

substantially all of the assets of the entity, provided that no such Lien extends to any other property of the Issuer or any of its Subsidiaries;

(6) Liens on property to secure debt incurred for development or improvement of the property;

(7) Liens securing (a) nondelinquent performance of bids or contracts (other than for borrowed money, obtaining of advances or credit or the securing of debt), (b) contingent obligations on surety and appeal bonds and (c) other similar nondelinquent obligations, in each case incurred in the ordinary course of business;

(8) Liens securing purchase money Indebtedness or Capital Lease Obligations, provided that (a) any such Lien attaches to the property within 270 days after the acquisition thereof and (b) such Lien attaches solely to the property so acquired;

(9) Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit account or other funds, provided that such deposit account is not a dedicated cash collateral account and is not subject to restrictions against the Issuer's access in excess of those set forth by regulations promulgated by the Federal Reserve Board and such deposit account is not intended by the Issuer to provide collateral to the depository institution;

(10) pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation;

(11) statutory and tax Liens for sums not yet due or delinquent or which are being contested or appealed in good faith by appropriate proceedings;

(12) Liens arising solely by operation of law and in the ordinary course of business, such as mechanics', materialmen's, warehousemen's and carriers' Liens and Liens of landlords or of mortgages of landlords on fixtures and movable property located on premises leased in the ordinary course of business;

(13) Liens on personal property (other than shares or debt of the Issuer's Subsidiaries) securing loans maturing in not more than one year or on accounts receivables in connection with a receivables financing program;

(14) Liens securing financings in amounts up to the value of assets, businesses and properties acquired after the consummation of the Merger; or any Lien upon any property to secure all or part of the cost of construction thereof or to secure debt incurred prior to, at the time of, or within twelve months after completion of such construction or the commencement of full operations thereof (whichever is later), to provide funds for such purpose; and

(15) extensions, renewals or replacement of any of the Liens described above, if limited to all or any part of the same property securing the original Lien.

Notwithstanding the foregoing, from and after the effective time of the Merger, the Issuer will not, and will not permit any of its Subsidiaries to, incur or permit to exist Liens securing Indebtedness or other obligations pursuant to the second sentence or clause (1) of the first paragraph above, unless, after giving effect to the incurrence of such Liens, the aggregate amount (without duplication) of (a) the Indebtedness and other obligations secured by Liens on the property or assets (which includes capital stock) of the Issuer and its Subsidiaries incurred pursuant to the second sentence and clause (1) of the first paragraph above plus (b) the Indebtedness of the Issuer's Subsidiaries Incurred pursuant to clause (A) of the first paragraph of "—Limitation on Subsidiary Indebtedness" covenant above shall not exceed the Permitted Amount at the time of the incurrence of such Liens.

Merger, consolidation and sale of assets

Other than in connection with the Transactions, the Issuer may not consolidate or merge with or into, or sell, lease or convey all or substantially all of its assets in any one transaction or series of transactions to any other Person, unless:

(1) the resulting, surviving or transferee Person (the "successor") is either the Issuer or is a corporation organized under the laws of the United States, any state or the District of Columbia and expressly assumes by supplemental indenture all of the Issuer's obligations under the indenture and the notes; and

(2) immediately after giving effect to the transaction no Event of Default or event which with notice or lapse of time would be an Event of Default has occurred and is continuing.

The successor will be substituted for the Issuer in the indenture with the same effect as if it had been an original party to such indenture. Thereafter, the successor may exercise the rights and powers of the Issuer under the indenture.

Reports by the Issuer

From and after the Issue Date and prior to the effective time of the Merger, if financial information of Verizon's Separate Telephone Operations for a completed fiscal quarter has not been filed with or furnished to the SEC by Verizon or the Issuer, the Issuer shall furnish the following information with respect to Verizon's Separate Telephone Operations to the Trustee within 60 days after the end of such fiscal quarter:

(A) the unaudited combined results of operations of Verizon's Separate Telephone Operations (including operating revenues, cost of services and sales, selling, general and administrative expense, depreciation and amortization expense, operating income, interest expense, income before provision for income taxes, income tax provision and net income);

(B) capital expenditures; and

(C) the aggregate number of each of (i) switched access lines in service, (ii) FiOS Internet subscribers, (iii) FiOS TV subscribers and (iv) High-Speed Internet subscribers;

in each case with respect to such fiscal quarter and any interim period since the date of the end of the most recently ended fiscal year of Verizon's Separate Telephone Operations.

At any time prior to the effective time of the Merger, the Issuer shall furnish, upon request, to Holders of the Notes and prospective purchasers designated by Holders, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

From and after the effective time of the Merger, the Issuer will be required to:

(1) file with the trustee, within 15 days after the Issuer files the same with the SEC, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe), if any, which the Issuer may be required to file with the SEC pursuant to Section 13 or Section 15(d) of the Exchange Act; or, if the Issuer is not required to file information, documents or reports pursuant to either of such Sections, then to file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Exchange Act, in respect of a debt security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations; provided that, in either case described in this subsection (a), such information, documents, reports and periodic information, as applicable, shall be deemed to be filed with the trustee when publicly filed with the SEC;

(2) file with the trustee and the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by the Issuer with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations; and

(3) furnish to the trustee, by April 30 of each fiscal year of the Issuer beginning with April 30, 2011, a brief certificate from the principal executive officer, principal financial officer or principal accounting officer as to his knowledge of the Issuer's compliance with all conditions and covenants under this Indenture during the prior fiscal year.

Termination of certain covenants

In the event that the notes of a series receive a rating equal to or greater than BBB- by S&P and Baa3 by Moody's or the equivalent thereof under any new ratings system if the ratings system of either such agency shall be modified after the date hereof (with a stable or better outlook in the case of a rating equal to BBB- by S&P and Baa3 by Moody's) (each such rating, an "Investment Grade Rating"), and notwithstanding that such series of notes may later cease to have an Investment Grade Rating from either S&P or Moody's or both, the Issuer and its Subsidiaries will be released from their obligations to comply with the provisions of the indenture described under "—Limitation on Subsidiary Indebtedness" with respect to such series of notes.

Events of default

The term "Event of Default" with respect to each series of notes means any of the following:

(1) failure to pay interest for 60 days after the date payment is due and payable;

(2) failure to pay principal or premium, if any, on any note when due, at maturity, upon any redemption, by declaration or otherwise;

(3) failure to perform other covenants for 90 days after due notice that performance was required; or

(4) events in bankruptcy, insolvency or reorganization of the Issuer.

If an Event of Default relating to the payment of interest or principal involving a series of notes has occurred and is continuing, the trustee or the holders of not less than 25% in aggregate principal amount of the notes of that series may declare the entire principal amount of the notes of that series to be due and payable immediately.

If an Event of Default relating to the failure to perform other covenants occurs and is continuing for a period of 60 days after the date on which such failure becomes an Event of Default, then the trustee or the holders of not less than 25% in aggregate principal amount of a series of notes may declare the entire principal amount of the notes of that series to be due and payable immediately.

The holders of not less than a majority in aggregate principal amount of notes of a series may, after satisfying conditions, rescind and annul any of the above-described declarations and consequences involving such series of notes.

If an Event of Default relating to events in bankruptcy, insolvency or reorganization of the Issuer occurs and is continuing, then the principal amount of all of the notes outstanding and any accrued interest on such notes will automatically become due and payable immediately, without any declaration or other act by the trustee or any holder.

The indenture imposes limitations on suits brought by holders of notes against us. Except for actions for payment of overdue principal or interest, no holder of notes may institute any action against us under the indenture unless:

- the holder has previously given to the trustee written notice of an Event of Default and of the continuance thereof;
- the holders of at least 25% in aggregate principal amount of the notes of that series then outstanding requested that the trustee institute the action;
- the requesting holders have offered the trustee reasonable indemnity for expenses and liabilities that may be incurred by bringing the action;
- the trustee has not instituted the action within 60 days of the request; and
- the trustee has not received inconsistent direction by the holders of a majority in aggregate principal amount of the notes of that series then outstanding.

Discharge, defeasance, and covenant defeasance

The Issuer may elect either:

(1) to defease and be discharged from any and all obligations with respect to the notes of a series; or

(2) to be released from its obligations described above under "—Repurchase of notes upon a Change of Control Triggering Event," "—Limitation on Subsidiary Indebtedness," "—Limitations on Liens" and "—Merger, consolidation and sale of assets" with respect to the notes of a series, only:

(A) upon the deposit with the trustee, in trust, of money and/or U.S. government obligations, which through the payment of interest and principal of the U.S.

government obligations in accordance with their terms will provide money in an amount sufficient to pay any installment of principal and premium, if any and interest on such notes on the applicable Stated Maturity of the payments in accordance with the terms of the indenture and such notes;

(B) upon delivery to the trustee by the Issuer of an opinion of counsel to the effect that the deposit and related defeasance or release will not cause the holders of such notes to recognize income, gain or loss for federal income tax purposes;

(C) if at the time of defeasance or release no Event of Default with respect to such notes will have happened or be continuing; and

(D) if certain other conditions are satisfied.

Book-entry, delivery and form

The Global Notes

The notes will be issued in the form of registered notes in global form, without interest coupons (collectively, the "Global Notes"), as follows:

- notes sold to qualified institutional buyers under Rule 144A will be represented by a permanent Global Note (the "Rule 144A Global Note"); and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S will initially be represented by a temporary Global Note (the "Temporary Regulation S Global Note") and, after completion of the exchange described below, by a permanent Global Note (the "Permanent Regulation S Global Note" and, together with the Temporary Regulation S Global Note, the "Regulation S Global Notes").

Upon issuance, each of the Global Notes will be deposited with the trustee as custodian for The Depository Trust Company ("DTC") and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note will be limited to persons who have accounts with DTC ("DTC participants") or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of each Global Note with DTC's custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the initial purchaser; and
- ownership of beneficial interests in each Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in the Temporary Regulation S Global Note will initially be credited within DTC to Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"), on behalf of the owners of such interests. During the Distribution Compliance Period described below, beneficial interests in the Temporary Regulation S Global Note may be:

- held only through Euroclear or Clearstream; and

- transferred only to non-U.S. persons under Regulation S or qualified institutional buyers under Rule 144A.

After the Distribution Compliance Period ends, beneficial interests in the Temporary Regulation S Global Note may be exchanged for beneficial interests in the Permanent Regulation S Global Note upon certification that those interests are owned either by non-U.S. persons or by U.S. persons who purchased those interests pursuant to an exemption from, or in transactions not subject to, the registration requirements of the Securities Act.

Investors may hold their interests in the Permanent Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in those systems, or indirectly through organizations that are participants in those systems. After the Distribution Compliance Period ends, investors may also hold their interests in the Permanent Regulation S Global Note through organizations other than Euroclear or Clearstream that are DTC participants. Each of Euroclear and Clearstream will appoint a DTC participant to act as its depositary for the interests in each Regulation S Global Note that are held within DTC for the account of each settlement system on behalf of its participants.

Beneficial interests in the Global Notes may not be exchanged for notes in physical, certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under "Transfer restrictions".

Exchanges among the Global Notes

The "Distribution Compliance Period" will begin on the closing date of this offering and end 40 days after the closing date. Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the Distribution Compliance Period, and to which Global Note the transfer is being made, the trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-entry procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we nor the initial purchasers are responsible for those operations or procedures.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a "banking organization" within the meaning of the New York State Banking Law;
- a member of the Federal Reserve System;

- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, banks and trust companies; clearing corporations and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the notes represented by that Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have notes represented by the Global Note registered in their names;

- will not receive or be entitled to receive physical, certificated notes; and

- will not be considered the owners or holders of the notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal, premium (if any) and interest (including additional interest, if any) with respect to the notes represented by a Global Note will be made by the trustee to DTC’s nominee as the registered holder of such Global Note. Neither we nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream account, an investor must send transfer instructions to Euroclear or Clearstream, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant that purchases an interest in a Global Note from a DTC participant will be credited on the Business Day for Euroclear or Clearstream immediately following the DTC settlement date. Cash received in Euroclear or Clearstream from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account as of the Business Day for Euroclear or Clearstream following the DTC settlement date.

DTC, Euroclear and Clearstream have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither we nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated notes

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related notes only if:

- DTC notifies us at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days;
- we, at our option, notify the trustee that we elect to cause the issuance of certificated notes; or
- certain other events provided in the indenture should occur.

Modification of the indenture

The indenture provides that we and the trustee may enter into supplemental indentures without the consent of the holders of a series of notes to:

- secure the notes of that series;
- evidence the assumption by a successor corporation of our obligations;
- add covenants for the protection of the holders of the notes of that series;
- provide for the issuance of, and terms of, new notes as permitted under the indenture;
- cure any ambiguity or correct any inconsistency in the indenture or any supplement thereto;

- evidence and provide for the acceptance of appointment by a successor trustee;
- make any change that would provide any additional rights or benefits to the holders of the notes of that series or that does not adversely affect the legal rights hereunder of any holder of the notes of that series; and
- comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act of 1939.

The indenture also provides that we and the trustee may, with the consent of the holders of not less than a majority in aggregate principal amount of the notes of a series then outstanding and affected, voting as one class, add any provisions to, or change in any manner, eliminate or modify in any way the provisions of, the indenture or any supplement thereto or modify in any manner the rights of the holders of the notes of a series. We and the trustee may not, however, without the consent of the holder of each outstanding note affected thereby:

- extend the final maturity of any note;
- reduce the principal amount or premium, if any;
- reduce the rate or extend the time of payment of interest;
- reduce any amount payable on redemption;
- change the currency in which the principal, premium, if any, or interest is payable;
- impair the right to institute suit for the enforcement of any payment on any note when due; or
- reduce the percentage of holders of notes whose consent is required for any modification of the indenture.

The trustee

The Bank of New York Mellon is the trustee under the indenture.

Except during the continuance of an Event of Default, the trustee will perform only such duties as are specifically set forth in the indenture. During the existence of an Event of Default, the trustee will exercise such of the rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

Pursuant and subject to the Trust Indenture Act, the trustee will be permitted to engage in other transactions with us; however, if the trustee acquires any conflicting interest, it would be required to eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee or resign.

No individual liability of incorporators, shareholders, officers or directors

The indenture provides that no incorporator and no past, present or future shareholder, officer or director of our company or of any successor corporation, in their capacity as such, shall have any individual liability for any of our obligations, covenants or agreements under the notes or the indenture.

Governing law

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

Certain definitions

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Issuer or Indebtedness of a Subsidiary of the Issuer assumed in connection with an Asset Acquisition by such Subsidiary; provided such Indebtedness was not Incurred in connection with or in contemplation of such Person becoming a Subsidiary or such Asset Acquisition.

"Adjusted Treasury Rate" means, with respect to any redemption date:

(1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

(2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Adjusted Treasury Rate shall be calculated on the third Business Day preceding the redemption date.

"Asset Acquisition" means (1) an investment by the Issuer or any of its Subsidiaries in any other Person pursuant to which such Person shall become a Subsidiary or shall be merged into or consolidated with the Issuer or any of its Subsidiaries; or (2) an acquisition by the Issuer or any of its Subsidiaries of the property and assets of any Person other than the Issuer or any of its Subsidiaries that constitute substantially all of a division, operating unit or line of business of such Person.

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" as such term is used in Section 13(d)(3) of the Exchange Act, such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

"Board of Directors" means either the Board of Directors of the Issuer or any committee of such Board duly authorized to act on its behalf.

"Board Resolution" means one or more resolutions, certified by the secretary or an assistant secretary of the Issuer to have been duly adopted or consented to by the Board of Directors and to be in full force and effect, and delivered to the trustee.

"Business Day" means a day that (a) in the Place of Payment (or in any of the Places of Payment, if more than one) in which amounts are payable and (b) in the city in which the Corporate Trust Office is located, is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law or regulation to close.

"Capital Lease Obligations" means Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP. The amount of Indebtedness will be the capitalized amount of the obligations determined in accordance with GAAP consistently applied.

"Capital Stock" means, with respect to any entity, any and all shares, interests, participations or other equivalents (however designated) of or in such entity's Common Stock or other equity interests, and options, rights or warrants to purchase such Common Stock or other equity interests, whether now outstanding or issued after the Issue Date.

"Change of Control" means the occurrence after the effective time of the Merger of any of the following:

(1) the adoption of a plan relating to the liquidation or dissolution of the Issuer;

(2) any "person," as such term is used in Section 13(d)(3) of the Exchange Act, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the voting power of the Voting Stock of the Issuer; provided that a transaction in which the Issuer becomes a Subsidiary of another Person shall not constitute a Change of Control if (a) the stockholders of the Issuer immediately prior to such transaction Beneficially Own, directly or indirectly through one or more intermediaries, 50% or more of the voting power of the outstanding Voting Stock of such other Person of whom the Issuer is then a Subsidiary and (b) immediately following such transaction no person (as defined above) other than such other Person, Beneficially Owns, directly or indirectly, more than 50% of the voting power of the Voting Stock of the Issuer; or

(3) the first day on which a majority of the members of the Board of Directors of the Issuer are not Continuing Directors.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Ratings Decline.

"Commodity Agreement" means any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement.

"Common Stock" means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the applicable notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes ("Remaining Life").

"Comparable Treasury Price" means, for any redemption date, (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations the average of all such quotations.

"Continuing Director" means, as of any date of determination, any member of the Board of Directors of the Issuer who:

(1) was a member of such Board of Directors as of the effective time of and after giving effect to the Merger; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"Contribution" means, pursuant to a series of restructuring transactions prior to the Spin-Off entered into pursuant to the Distribution Agreement, dated as of May 13, 2009, between Verizon and Spinco (as amended, the "Distribution Agreement"), the contribution by Verizon to the Issuer and its subsidiaries of defined assets and liabilities of the local exchange business and related landline activities of Verizon in the Spinco Territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco Territory.

"Corporate Trust Office" means the office of the trustee at which the trust created by the indenture shall, at any particular time, be principally administered, which office is, at the date as of which the indenture is dated, located at 101 Barclay Street, Floor 8 West, New York, New York 10286.

"Credit Facilities" means one or more debt facilities or commercial paper facilities, in each case with banks or other lenders, including the Rural Telephone Finance Cooperative, providing for revolving credit loans, term loans, receivables financings, including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables, letters of credit or other borrowings, including capital markets debt, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Designated Subsidiary" means any Subsidiary of the Issuer (a) the Capital Stock of which the Issuer intends to distribute to its shareholders or (b) the assets or Capital Stock of which the Issuer intends to sell or otherwise dispose of to any Person other than the Issuer or any of its Subsidiaries, in each case, as evidenced by a Board Resolution.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the notes.

"Distribution" means, after the Contribution and immediately prior to the Merger, the distribution by Verizon of all of the shares of the Issuer's common stock to a third-party distribution agent to be held collectively for the benefit of Verizon stockholders.

"Distribution Date Indebtedness" means the aggregate amount of pre-existing long-term indebtedness to third parties (which may include current maturities) of Verizon subsidiaries that conduct the Spinco business that will become the consolidated indebtedness of the Issuer as a result of the Spin-Off.

"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination, unless otherwise specified, shall be conclusive if evidenced by a Board Resolution.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, as in effect from time to time. All ratios and computations contained or referred to in the indenture shall be computed in conformity with GAAP applied on a consistent basis.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services (unless such purchase arrangements are on arm's-length terms and are entered into in the ordinary course of business), to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Incur" means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness; provided that (1) any Indebtedness of a Person existing at the time such Person becomes a Subsidiary will be deemed to be incurred by such Subsidiary at the time it becomes a Subsidiary and (2) neither the accrual of interest nor the accretion or amortization of original issue discount nor the payment of interest or dividend in the form of additional Indebtedness shall be considered an Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto, but excluding obligations with respect to letters of credit (including trade letters of credit) securing obligations entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the fifth Business Day following receipt by such Person of a demand for reimbursement);

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, which purchase price is due more than one year after the date of placing such property in service or taking delivery and title thereto or the completion of such services, except Trade Payables;

(5) all Capitalized Lease Obligations of such Person;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;

(8) to the extent not otherwise included in this definition, obligations under Interest Rate Agreements, Commodity Agreements and Currency Agreements, except for Interest Rate Agreements, Commodity Agreements and Currency Agreements entered into for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk; and

(9) all Disqualified Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, provided:

(A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(C) that Indebtedness shall not include:

(I) any liability for federal, state, local or other taxes;

(II) workers' compensation claims, self-insurance obligations, performance, surety, appeal and similar bonds and completion guarantees provided in the ordinary course of business;

(III) obligations arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided that such Indebtedness is extinguished within two business days of its Incurrence; or

(IV) any Indebtedness defeased or called for redemption.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by us.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement.

"Issue Date" means the date on which the notes offered hereby are originally issued under the indenture.

"Lien" means, with respect to any property or assets, including Capital Stock, any mortgage or deed of trust, pledge, lien, hypothecation, assignment, deposit arrangement, security interest, charge, easement or zoning restriction that materially impairs usefulness or marketability, encumbrance, security agreement, Capital Lease Obligation, conditional sale, any other agreement that has the same economic effect as any of the above, or any sale and leaseback transaction.

"Moody's" means Moody's Investor Services, Inc. or any successor rating agency.

"Officers' Certificate" means, with respect to any Person, a certificate signed by the chairman of the Board of Directors, the chief executive officer, the president, the chief financial officer or any vice president and by the treasurer, any assistant treasurer, the controller, any assistant controller, the secretary or any assistant secretary of such Person in accordance with the applicable provisions of the indenture.

"Permitted Amount" means, at any time, the sum of (a) 10% of the value of the consolidated total assets of the Issuer and (b) 20% of the sum of the total consolidated current assets and net property, plant and equipment of the Issuer, in each case, as shown on, or computed from, the most recent quarterly or annual consolidated balance sheet filed by the Issuer with the SEC or provided to the trustee.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof or any other entity.

"Place of Payment" means the place or places where the principal of and interest, if any, on the notes are payable as determined in accordance with the indenture.

"Ratings Agencies" means Moody's and S&P.

"Ratings Decline" means the occurrence of the following on, or within 90 days after, the date of the public notice of the occurrence of a Change of Control or of the intention by us or any third-party to effect a Change of Control (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any of the Ratings Agencies): (1) in the event that the notes have an Investment Grade Rating by both Ratings Agencies, such notes cease to have an Investment Grade Rating by one or both of the Ratings Agencies, or (2) in any other event, the rating of such notes by either of the Ratings Agencies decreases by one or more gradations (including gradations within ratings categories as well as between rating categories) or is withdrawn.

"Reference Treasury Dealer" means any of the primary U.S. Government securities dealers in New York City.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

"S&P" means Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc., or any successor rating agency.

"Special Cash Payment" means, in exchange for the Contribution, and immediately prior to the Spin-Off and the closing of the Merger, the delivery by the Issuer to Verizon of a special cash payment in an amount not to exceed the lesser of (i)(x) $3.333 billion minus (y) the Distribution Date Indebtedness and (ii) Verizon's estimate of its tax basis in the Issuer.

"Spinco Debt Securities" means senior unsecured debt securities of the Issuer to be issued to Verizon, if the total amount of the Special Cash Payment plus the Distribution Date Indebtedness is less than $3.333 billion, in a principal amount equal to such shortfall.

"Spinco Territory" means Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin and portions of California bordering Arizona, Nevada and Oregon.

"Stated Maturity" means, (1) with respect to any debt security, the date specified in such debt security as the fixed date on which the final installment of principal of such debt security is due and payable and (2) with respect to any scheduled installment of principal of or interest on any debt security, the date specified in such debt security as the fixed date on which such installment is due and payable.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Verizon" means Verizon Communications Inc., a Delaware corporation.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is normally entitled to vote in the election of the Board of Directors of such Person.

Exchange offer; Registration rights

Frontier will enter into a registration rights agreement with J. P. Morgan Securities Inc., as representative of the initial purchasers on the issue date. In the registration rights agreement, Frontier will agree for the benefit of the holders of the notes that it will use its reasonable best efforts to file with the SEC, within 90 days of the release of the escrowed funds, and use its reasonable best efforts to cause to become effective, a registration statement relating to an offer to exchange each series of notes for SEC-registered notes (the "Exchange Notes") with terms identical to the notes (except that the Exchange Notes will not be subject to restrictions on transfer or the interest rate increases described below). Promptly after the SEC declares the exchange offer registration statement effective, Frontier will offer the Exchange Notes in return for the notes. The exchange offer will remain open for at least 20 business days after the date Frontier mails notice of the exchange offer to holders (the "Exchange Offer Period"). For each note surrendered to Frontier under the exchange offer, the holder will receive an Exchange Note of the applicable series of equal principal amount. Interest on each Exchange Note will accrue from the last interest payment date on which interest was paid on the notes or, if no interest has been paid on the notes, from the Issue Date.

In the event that (i) Frontier determines that the exchange offer registration is not available or may not be completed as soon as practicable after the Exchange Offer Period because it would violate any applicable law or applicable interpretations of the staff of the SEC, (ii) the exchange offer is not for any other reason completed by the date that is 270 days after the date of the release of the escrowed funds or (iii) upon receipt of a written request (a "Shelf Request") from any initial purchaser representing that it holds registrable securities (as such term is defined in the registration rights agreement) that are or were ineligible to be exchanged in the exchange offer, Frontier shall use its reasonable best efforts to cause to be filed as soon as practicable after such determination, date or Shelf Request, as the case may be, a shelf registration statement providing for the sale of all the registrable securities by the holders thereof and to have such shelf registration statement become effective. In the event that Frontier is required to file a Shelf Registration Statement pursuant to a Shelf Request, Frontier shall use its reasonable best efforts to file and have become effective both an exchange offer registration statement with respect to all registrable securities and a Shelf Registration Statement (which may be a combined registration statement with the exchange offer registration statement) with respect to offers and sales of registrable securities held by the initial purchasers after completion of the exchange offer. Frontier will, in the event of such a shelf registration, provide to each holder copies of a prospectus, notify each holder when the shelf registration statement has become effective and take certain other actions to permit resales of the notes. A holder that sells notes under the shelf registration statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with those sales and will be bound by the provisions of the registration rights agreement that are applicable to such a holder (including certain indemnification obligations).

If the exchange offer is not completed or the shelf registration statement, if required (other than pursuant to a Shelf Request), has not become effective on or prior to the date that is 270 days after the release date (the "Target Registration Date"), the interest rate on the registrable securities will be increased by (i) 0.25% per annum for the first 90-day period immediately following the Target Registration Date and (ii) an additional 0.25% per annum with respect to each subsequent 90-day period, in each case until the exchange offer is completed or the shelf registration statement, if required, becomes effective or the notes become freely tradable under the Securities Act, up to a maximum increase of 1.00% per annum. In the event that Frontier receives a Shelf Request, and the shelf registration statement required to be filed thereby has not become effective by the later of (x) the date that is 270 days after the release date and (y) 90 days after delivery of such Shelf Request (such later date, the "Shelf Request Additional Interest Date"), then the interest rate on the registrable securities will be increased by (i) 0.25% per annum for the first 90-day period payable commencing from one day after the Shelf Request Additional Interest Date and (ii) an additional 0.25% per annum with respect to each subsequent 90-day period, in each case until the Shelf Registration Statement becomes effective or the notes become freely tradable under the Securities Act, up to a maximum increase of 1.00% per annum. If the shelf registration statement, if required, becomes effective and thereafter ceases to be effective or the prospectus contained therein ceases to be effective for the period required by the registration rights agreement, and such failure to remain effective or usable exists for more than 30 days (whether or not consecutive) in any 12-month period, then the interest rate on the registrable securities will be increased by (i) 0.25% per annum for the first 90-day period and (ii) an additional 0.25% per annum with respect to each subsequent 90-day period, commencing on the 31st day in such 12-month period and ending on such date that the Shelf Registration Statement has again become effective or the prospectus again becomes usable, as the case may be.

Notes not tendered in the exchange offer shall bear interest at the rate set forth on the cover page of this offering memorandum and will be subject to all the terms and conditions specified in the indenture, including transfer restrictions. This summary of the provisions of the registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement.

Certain U.S. federal income tax considerations

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that: (1) any U.S. federal tax advice contained in this offering memorandum is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties under the Internal Revenue Code; (2) such advice was written in connection with the promotion or marketing of the transactions or matters addressed herein; and (3) taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

General

The following summary of certain U.S. federal income tax consequences to holders of notes addresses the purchase, ownership and disposition of the notes but does not purport to be a complete analysis of all the potential considerations. In particular, the discussion is limited in the following ways:

- The discussion only covers you if you buy your notes in the initial offering.
- The discussion only covers you if you hold your notes as a capital asset (that is, for investment purposes), and if you do not have a special tax status.
- The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of notes.
- The discussion does not cover you if you are a partner in a partnership (or entity treated as a partnership for U.S. tax purposes). If a partnership holds notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.
- The discussion is based on current law. Changes in the law may change the tax treatment of the notes.
- The discussion does not cover state, local or foreign law.
- We have not requested a ruling from the IRS on the tax consequences of owning the notes. As a result, the IRS could disagree with portions of this discussion.

If you are considering buying notes, we suggest that you consult your tax advisor about the tax consequences of holding the notes in your particular situation.

Tax consequences of the merger

For U.S. federal income tax purposes, the modification of a debt instrument can give rise to the recognition of gain or loss under Section 1001 of the Internal Revenue Code if the modified debt instrument differs materially from the original debt instrument. In general, governing Treasury regulations provide that a taxable event occurs when, based on all the facts and circumstances and taking into account all changes to the debt instrument collectively, the legal rights or obligations that are altered, and the degree to which they are altered, are economically significant (a "significant modification").

Upon the closing of the merger, the notes will become the obligation of Frontier and will no longer be the obligation of Spinco (which will cease to exist). Although this change in obligor with respect to the notes will constitute a modification of the notes, we believe that this will not constitute a significant modification. Accordingly, upon the closing of the merger:

- You will not recognize any income, gain or loss with respect to your notes for U.S. federal income tax purposes.
- You will have the same adjusted basis and holding period in your notes as before the closing of the merger.

Our determination is not binding on the IRS. Additionally, although the IRS ruling received by Verizon concluded that the merger will not result in a significant modification of the notes, holders of notes may not rely on the IRS ruling as precedent because the IRS ruling was not issued to noteholders. Prospective purchasers of notes should consult their own tax advisors regarding the tax consequences of the merger.

Tax consequences to U.S. holders

This section applies to you if you are a "U.S. Holder." A "U.S. Holder" is:

- an individual U.S. citizen or resident alien;
- a corporation—or entity taxable as a corporation for U.S. federal income tax purposes—that was created under U.S. law (federal or state); or
- an estate or trust whose world-wide income is subject to U.S. federal income tax.

Interest

- If you are a cash method taxpayer (including most individual holders), you must report interest in your income when you receive it.
- If you are an accrual method taxpayer, you must report interest in your income as it accrues.

Additional payments

In certain circumstances, we are required to make payments on the notes in addition to stated principal and interest. In particular, following the closing of the merger, we are required to pay:

- 101% of the aggregate principal amount, plus accrued and unpaid interest, of any note purchased by us at the holder's election after a change of control, as described above under the heading "Description of notes—Repurchase of notes upon a change of control triggering event"; and
- Additional interest if we fail to meet certain targets regarding registration of the notes, as described above under the heading "Exchange offer; Registration rights."

U.S. Treasury regulations provide special rules for contingent payment debt instruments which, if applicable, could affect the timing, amount and character of your income, gain or loss with respect to the notes. For purposes of determining whether a debt instrument is a contingent payment debt instrument, remote or incidental contingencies are ignored. We intend to treat the possibility of our making any of the above payments as remote or to treat such payments as incidental. Accordingly, we do not intend to treat the notes as contingent payment debt instruments. Our treatment will be binding on you, unless you disclose your differing treatment in a statement attached to a timely-filed U.S. federal income tax return for the taxable year during which you acquired the notes. However, our treatment is not binding on the IRS. If the IRS were to challenge our treatment, you may be required to accrue income on the notes in excess of stated interest and to treat as ordinary income, rather than capital gain, any gain recognized on the disposition of the notes before the resolution of the contingencies. In any event, if we actually make any such additional payment, the timing, amount and character of your income, gain or loss with respect to the notes may be affected. The remainder of this discussion assumes that the notes will not be treated as contingent payment debt instruments.

Sale, redemption or other taxable disposition

On your sale, redemption of other taxable disposition of your note:

- You will have taxable gain or loss equal to the difference between the amount realized by you and your tax basis in the note. Your tax basis in the note is your cost, subject to certain adjustments.
- Your gain or loss will generally be capital gain or loss, and will be long term capital gain or loss if you held the note for more than one year. Under current law, long term capital gains of non-corporate taxpayers are, under certain circumstances, taxed at lower rates than items of ordinary income. The deductibility of capital losses may be subject to limitations.
- If you sell or otherwise dispose of the note between interest payment dates or if your note is redeemed between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the note but has not yet been paid by the sale date. That amount is treated as ordinary income and not as sale proceeds.

Exchange of notes in the exchange offer

The exchange of notes for Exchange Notes in the exchange offer will not constitute a taxable event. Consequently:

- You will not recognize a taxable gain or loss upon the receipt of an Exchange Note.
- Your basis in the Exchange Note will be the same as your basis in the corresponding note immediately before the exchange.
- Your holding period in the Exchange Note will include your holding period in the note exchanged therefor.

Information reporting and backup withholding

Under the tax rules concerning information reporting to the IRS:

- Assuming you hold your notes through a broker or other securities intermediary, the intermediary must provide information to the IRS and to you on IRS Form 1099 concerning interest and retirement proceeds on your notes, unless an exemption applies.
- Similarly, unless an exemption applies, you must provide the intermediary with your taxpayer identification number for its use in reporting information to the IRS. If you are an individual,

this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

- If you are subject to these requirements but do not comply, the intermediary must withhold at a rate currently equal to 28% of all amounts payable to you on the notes (including principal payments). This is called "backup withholding." If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.
- All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

Tax consequences to Non-U.S. Holders

This section applies to you if you are a "Non-U.S. Holder." A "Non-U.S. Holder" is:

- an individual that is a nonresident alien;
- a corporation—or entity taxable as a corporation for U.S. federal income tax purposes—created under non-U.S. law; or
- an estate or trust that is not taxable in the U.S. on its worldwide income.

Withholding taxes

Generally, payments of principal and interest on the notes will not be subject to U.S. withholding taxes.

However, for the exemption from withholding taxes to apply to you, you must meet one of the following requirements.

- You provide a completed Form W-8BEN (or substitute form) to the bank, broker or other intermediary through which you hold your notes. The Form W-8BEN contains your name, address and a statement that you are the beneficial owner of the notes and that you are not a U.S. Holder.
- You hold your notes directly through a "qualified intermediary," and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. Holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. tax withholding rules under specified procedures.
- You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you must generally complete Form W-8BEN and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.
- The interest income on the notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI.

Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

- The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.
- The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.
- An intermediary through which you hold the notes fails to comply with the procedures necessary to avoid withholding taxes on the notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN (or other documentary information concerning your status) to the withholding agent for the notes. However, if you hold your notes through a qualified intermediary, or if there is a qualified intermediary in the chain of title between yourself and the withholding agent for the notes, the qualified intermediary will not generally forward this information to the withholding agent.
- You own 10% or more of the voting stock of Spinco or, upon and after the closing of the merger, Frontier, are a "controlled foreign corporation" with respect to Spinco, or, upon or after the closing of the merger, Frontier, or are a bank making a loan in the ordinary course of its business. In these cases, you will be exempt from withholding taxes only if you are eligible for a treaty exemption or if the interest income is effectively connected with your conduct of a trade or business in the U.S., as discussed above.

Interest payments made to you will generally be reported to the IRS and to you on Form 1042-S. However, this reporting does not apply to you if you hold your notes directly through a qualified intermediary and the applicable procedures are complied with.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

Sale, redemption or other taxable disposition of notes

On your sale, redemption or other taxable disposition of your note, you will not be subject to federal income tax on any gain unless one of the following applies:

- The gain is connected with a trade or business that you conduct in the U.S.
- You are an individual, you are present in the U.S. for at least 183 days during the year in which you dispose of the note, and certain other conditions are satisfied.
- The gain represents accrued interest, in which case the rules for interest would apply.

U.S. trade or business

If you hold your note in connection with a trade or business that you are conducting in the U.S.:

- Any interest on the note, and any gain from disposing of the note, generally will be subject to income tax as if you were a U.S. Holder.
- If you are a corporation, you may be subject to the "branch profits tax" on your earnings that are connected with your U.S. trade or business, including earnings from the note. This tax is 30%, but may be reduced or eliminated by an applicable income tax treaty.

Exchange of notes in the exchange offer

The exchange of notes for Exchange Notes in the exchange offer will not constitute a taxable event.

Estate taxes

If you are an individual, your notes will not be subject to U.S. estate tax when you die. However, this rule only applies if, at your death, payments on the notes were not connected to a trade or business that you were conducting in the U.S. and you did not own 10% or more of the voting stock of Spinco or, upon and after the closing of the merger, Frontier.

Information reporting and backup withholding

U.S. rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. Holders as follows:

- Principal and interest payments you receive will be automatically exempt from the usual rules if you are a Non-U.S. Holder exempt from withholding tax on interest, as described above. The exemption does not apply if the withholding agent or an intermediary knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, as described above, interest payments made to you may be reported to the IRS on Form 1042-S.

- Sale proceeds you receive on a sale of your notes through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup reporting may apply if you use the U.S. office of a broker, and information reporting (but not backup withholding) may apply if you use the foreign office of a broker that has certain connections to the U.S. In general, you may file Form W-8BEN to claim an exemption from information reporting and backup withholding. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.

Certain ERISA considerations

The following is a summary of certain considerations associated with the purchase of the notes and exchange notes by employee benefit plans that are subject to Title I of Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any federal, state, local, non-U.S. or other laws, rules or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”), and entities whose underlying assets are considered to include “plan assets” of such plans, accounts and arrangements (each, a “Plan”).

General fiduciary matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an “ERISA Plan”) and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary’s duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Prohibited transaction issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of Section 3(14) of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an applicable statutory, class or individual exemption is available. A party in interest or disqualified person who engages in a nonexempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code and the transaction may be subject to rescission. In addition, the fiduciary of the ERISA Plan that engages in such a nonexempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of notes by an ERISA Plan with respect to which we or the initial purchasers are considered a party in interest or disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the United States Department of Labor has issued prohibited transaction class exemptions (“PTCEs”) that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 84-14, respecting transactions determined by independent qualified professional asset managers, PTCE 90-1, respecting insurance company pooled separate accounts, PTCE 91-38, respecting bank collective investment funds, PTCE 95-60, respecting life insurance company general accounts and PTCE 96-23, respecting transactions determined by in-house asset managers, although there can be no assurance that all of the conditions of any such exemptions will be satisfied.

Because of the foregoing, the notes should not be purchased or held by any person investing "plan assets" of any Plan, unless such purchase and holding (and the exchange of notes for exchange notes) will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a note or an exchange note, each purchaser and subsequent transferee will be deemed to have represented and warranted that either (1) it is not, and is not acting on behalf of, a Plan and no portion of the assets used by such purchaser or transferee to acquire and hold the notes (or any interest therein) constitutes assets of any Plan or (2) the purchase, holding and subsequent disposition of the notes or any interest therein (and the exchange of notes for exchange notes) by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes (and holding the notes or exchange notes) on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such transactions and whether an exemption would be applicable to the purchase and holding of the notes.

Plan of distribution

Subject to the terms and conditions in the purchase agreement between us and the initial purchasers, we have agreed to sell to the initial purchasers, and the initial purchasers severally and not jointly have agreed to purchase from us, the entire principal amount of the notes. The purchase agreement provides that the initial purchasers will purchase all the notes if any of them are purchased.

The initial purchasers initially propose to offer the notes for resale at the issue price that appears on the cover of this offering memorandum. After the initial offering, the initial purchasers may change the offering price and any other selling terms. The initial purchasers may offer and sell notes through certain of their affiliates.

In the purchase agreement, we have agreed that:

- Neither Frontier nor Spinco will offer, sell, contract to sell or otherwise dispose of any debt securities issued or guaranteed by Frontier or Spinco, as applicable, having a maturity of greater than one year from the date of issue without the prior consent of J.P. Morgan Securities Inc. during the period from the date of this offering memorandum to the closing date of this offering;

- we will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

The notes have not been registered under the Securities Act or the securities laws of any other place. Accordingly, the notes are subject to restrictions on resale and transfer as described under "Transfer restrictions." In the purchase agreement, the initial purchasers have agreed that:

- the notes may not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and

- during the initial distribution of the notes, they will offer or sell notes only to qualified institutional buyers in compliance with Rule 144A and outside the United States in compliance with Regulation S.

In addition, with respect to the notes initially sold outside the United States in compliance with Regulation S, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), the initial purchasers have represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purpose of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an Investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each initial purchaser has agreed that:

- It has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.
- It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000), received by it in connection with the issue or sale of any notes in circumstances in which Section 21 (1) of the Financial Services and Markets Act 2000 does not apply to us.

The notes are new issues of securities, and there is currently no established trading market for the notes. In addition, the notes are subject to certain restrictions on resale and transfer as described under "Transfer restrictions." We do not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system. The initial purchasers have advised us that they intend to make a market in the notes, but are not obligated to do so. The initial purchasers may discontinue any market making in the notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with the offering of the notes, the initial purchasers may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchasers. Stabilizing transactions involve bids to purchase the notes in the open market for the purpose of pegging, fixing or maintaining the price of the notes. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the notes to be higher than it would otherwise be in the absence of those transactions. If the initial purchasers engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

Delivery of the notes will be made against payment therefor on April 12, 2010, which will be the tenth business day following the date of pricing of the notes (such settlement cycle being herein referred to as “T+10”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of pricing or the next six succeeding business days will be required, by virtue of the fact that the notes initially will settle T+10, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade notes on the date of pricing or the next six succeeding business days should consult their own advisor.

The initial purchasers and their affiliates perform various financial advisory, investment banking and commercial banking services from time to time for Frontier and its affiliates and for Verizon and its affiliates. J.P. Morgan Securities Inc. is acting as a financial adviser to Verizon in connection with the merger. Certain of the initial purchasers or their affiliates are lenders and/or agents or arrangers under Frontier’s existing revolving bank credit facility and under Frontier’s new revolving bank credit facility. Certain of the initial purchasers are lenders or agents or arrangers under Verizon’s bank credit facilities. Certain of the initial purchasers or their affiliates may hold long and short positions in the debt and equity of Frontier and its affiliates and Verizon and its affiliates for their own account and for the account of their customers.

Transfer restrictions

The notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) persons in offshore transactions in reliance on Regulation S.

Each purchaser of the notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the notes for its own account or for the account of a qualified institutional buyer or (B) is not a U.S. person and is purchasing the notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the notes, such notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the notes will, until the expiration of the applicable holding period with respect to the notes set forth in Rule 144(d)(1) of the Securities Act, unless otherwise agreed by Spinco and the holder thereof, bear a legend substantially to the following effect:

"THIS SECURITY (OR ITS PREDECESSOR) HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT AS SET FORTH IN THE NEXT SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER:

(1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "QIB") OR (B) IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT;

(2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT (A) TO THE ISSUER OR ANY OF ITS SUBSIDIARIES, (B) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB PURCHASING FOR ITS OWN ACCOUNT

OR FOR THE ACCOUNT OF A QIB IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (C) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (D) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144 UNDER THE SECURITIES ACT, (E) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY), OR (F) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION; AND

(3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY RULE 902 OF REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE GOVERNING THIS SECURITY CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS SECURITY IN VIOLATION OF THE FOREGOING."

Each purchaser and transferee of the notes will be deemed to have represented and agreed as follows:

(1) Either: (A) it is not, and is not acting on behalf of, a Plan (which term includes (i) employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or to provisions under applicable Federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code ("Similar Laws") and (iii) entities the underlying assets of which are considered to include "plan assets" of such plans, accounts and arrangements) and it is not purchasing the notes on behalf of, or with the "plan assets" of, any Plan; or (B) its purchase, holding and subsequent disposition of the notes or any interest therein (and the exchange of notes for exchange notes) either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws; and

(2) It will not transfer the notes to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants.

Legal matters

The validity of the notes offered hereby will be passed upon for Spinco by Debevoise & Plimpton LLP. Certain legal matters relating to this offering will be passed upon for Frontier by Cravath, Swaine & Moore LLP. Weil, Gotshal & Manges LLP advised the initial purchasers in connection with the offering of the notes.

Independent registered public accounting firms

The combined financial statements of Verizon's Separate Telephone Operations at December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, included in this offering memorandum have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report appearing elsewhere herein.

The consolidated financial statements of Frontier and subsidiaries as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2009, are included in this offering memorandum in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein.

Where you can find more information

Frontier files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy materials filed with the SEC at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its public reference room. Frontier's SEC filings are also available to the public on the SEC's Internet site at http://www.sec.gov. Frontier's SEC filings can also be found on Frontier's website at http://www.frontier.com. However, the information on Frontier's website is not a part of this offering memorandum. In addition, you can inspect reports and other information Frontier files at the office of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

For additional information regarding the merger agreement, the distribution agreement and certain other transaction documents, see "The Transaction Agreements" section of the definitive proxy statement/prospectus of Frontier filed with the SEC on September 16, 2009 and "Amendment to Distribution Agreement" in item 1.01 of Frontier's current report on Form 8-K filed with the SEC on March 24, 2010, which sections are incorporated by reference into this offering memorandum. The descriptions of the agreements in this offering memorandum are qualified by reference to the actual agreements, copies of which are publicly available as described above.

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Management's report on internal control over financial reporting

The Board of Directors and Shareholders
Frontier Communications Corporation:

The management of Frontier Communications Corporation and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2009 and for the period then ended.

Our independent registered public accounting firm, KPMG LLP, has audited the consolidated financial statements included in this report and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

Stamford, Connecticut
February 26, 2010

Report of independent registered public accounting firm

The Board of Directors and Shareholders
Frontier Communications Corporation:

We have audited the accompanying consolidated balance sheets of Frontier Communications Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frontier Communications Corporation and subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Frontier Communications Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Stamford, Connecticut
February 26, 2010

Report of independent registered public accounting firm

The Board of Directors and Shareholders
Frontier Communications Corporation:

We have audited Frontier Communications Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Frontier Communications Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Frontier Communications Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Frontier Communications Corporation and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Stamford, Connecticut
February 26, 2010

Frontier Communications Corporation and subsidiaries
Consolidated balance sheets
as of December 31, 2009 and 2008
($ in thousands)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 358,693	$ 163,627
Accounts receivable, less allowances of $30,171 and $40,125, respectively	190,745	222,247
Prepaid expenses	28,081	33,265
Income taxes	102,561	48,820
Total current assets	680,080	467,959
Property, plant and equipment, net	3,133,521	3,239,973
Goodwill, net	2,642,323	2,642,323
Other intangibles, net	247,527	359,674
Other assets	174,804	178,747
Total assets	$6,878,255	$6,888,676
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 7,236	$ 3,857
Accounts payable	139,556	141,940
Advanced billings	49,589	51,225
Other taxes accrued	28,750	25,585
Interest accrued	107,119	102,370
Other current liabilities	60,427	57,798
Total current liabilities	392,677	382,775
Deferred income taxes	722,192	670,489
Other liabilities	630,187	584,121
Long-term debt	4,794,129	4,721,685
Equity:		
Shareholders' equity of Frontier:		
Common stock, $0.25 par value (600,000,000 authorized shares; 312,328,000 and 311,314,000 outstanding, respectively, and 349,456,000 issued at December 31, 2009 and 2008)	87,364	87,364
Additional paid-in capital	956,401	1,117,936
Retained earnings	2,756	38,163
Accumulated other comprehensive loss, net of tax	(245,519)	(237,152)
Treasury stock	(473,391)	(487,266)
Total shareholders' equity of Frontier	327,611	519,045
Noncontrolling interest in a partnership	11,459	10,561
Total equity	339,070	529,606
Total liabilities and equity	$6,878,255	$6,888,676

The accompanying Notes are an integral part of these Consolidated Financial Statements

Frontier Communications Corporation and subsidiaries
Consolidated statements of operations
for the years ended December 31, 2009, 2008 and 2007
($ in thousands, except for per-share amounts)

	2009	2008	2007
Revenue	$2,117,894	$2,237,018	$2,288,015
Operating expenses:			
Network access expenses	225,907	222,013	228,242
Other operating expenses	781,097	810,748	808,501
Depreciation and amortization	476,391	561,801	545,856
Acquisition and integration costs	28,334	—	—
Total operating expenses	1,511,729	1,594,562	1,582,599
Operating income	606,165	642,456	705,416
Investment income	6,285	16,118	37,641
Other income (loss), net	(41,127)	(5,170)	(17,833)
Interest expense	378,214	362,634	380,696
Income before income taxes	193,109	290,770	344,528
Income tax expense	69,928	106,496	128,014
Net income	123,181	184,274	216,514
Less: Income attributable to the noncontrolling interest in a partnership	2,398	1,614	1,860
Net income attributable to common shareholders of Frontier	$ 120,783	$ 182,660	$ 214,654
Basic and diluted income per common share attributable to common shareholders of Frontier	$ 0.38	$ 0.57	$ 0.64

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Frontier Communications Corporation and subsidiaries
Consolidated statements of equity
for the years ended December 31, 2009, 2008 and 2007
($ and shares in thousands, except for per-share amounts)

	Frontier shareholders								
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock		Noncontrolling interest	Total equity
	shares	amount				shares	amount		
Balance December 31, 2006	343,956	$85,989	$1,207,399	$ 134,705	$ (81,899)	(21,691)	$(288,162)	$10,587	$1,068,619
Stock plans	—	—	(6,237)	667	—	1,824	25,399	—	19,829
Acquisition of Commonwealth	5,500	1,375	77,939	—	—	12,640	168,121	—	247,435
Conversion of EPPICS	—	—	(549)	—	—	291	3,888	—	3,339
Conversion of Commonwealth notes	—	—	1,956	—	—	2,508	34,775	—	36,731
Dividends on common stock of $1.00 per share	—	—	—	(336,025)	—	—	—	—	(336,025)
Shares repurchased	—	—	—	—	—	(17,279)	(250,000)	—	(250,000)
Net income	—	—	—	214,654	—	—	—	1,860	216,514
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	3,904	—	—	—	3,904
Balance December 31, 2007	349,456	87,364	1,280,508	14,001	(77,995)	(21,707)	(305,979)	12,447	1,010,346
Stock plans	—	—	(1,759)	—	—	1,096	15,544	—	13,785
Acquisition of Commonwealth	—	—	1	—	—	3	38	—	39
Conversion of EPPICS	—	—	(74)	—	—	51	664	—	590
Conversion of Commonwealth notes	—	—	(801)	—	—	193	2,467	—	1,666
Dividends on common stock of $1.00 per share	—	—	(159,939)	(158,498)	—	—	—	—	(318,437)
Shares repurchased	—	—	—	—	—	(17,778)	(200,000)	—	(200,000)
Net income	—	—	—	182,660	—	—	—	1,614	184,274
Other comprehensive loss, net of tax and reclassification adjustments	—	—	—	—	(159,157)	—	—	—	(159,157)
Distributions	—	—	—	—	—	—	—	(3,500)	(3,500)
Balance December 31, 2008	349,456	87,364	1,117,936	38,163	(237,152)	(38,142)	(487,266)	10,561	529,606
Stock plans	—	—	(5,359)	—	—	1,014	13,875	—	8,516
Dividends on common stock of $1.00 per share	—	—	(156,176)	(156,190)	—	—	—	—	(312,366)
Net income	—	—	—	120,783	—	—	—	2,398	123,181
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	(8,367)	—	—	—	(8,367)
Distributions	—	—	—	—	—	—	—	(1,500)	(1,500)
Balance December 31, 2009	349,456	$87,364	$ 956,401	$ 2,756	$(245,519)	(37,128)	$(473,391)	$11,459	$ 339,070

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Frontier Communications Corporation and subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2009, 2008 and 2007

($ in thousands)

	2009	2008	2007
Net income	$123,181	$ 184,274	$216,514
Other comprehensive income (loss), net of tax and reclassification adjustments (see Note 16)	(8,367)	(159,157)	3,904
Comprehensive income	114,814	25,117	220,418
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	2,398	1,614	1,860
Comprehensive income attributable to the common shareholders of Frontier	$112,416	$ 23,503	$218,558

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Frontier Communications Corporation and subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2009, 2008 and 2007
($ in thousands)

	2009	2008	2007
Cash flows provided by (used in) operating activities:			
Net income	$ 123,181	$ 184,274	$ 216,514
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	476,391	561,801	545,856
Stock based compensation expense	9,368	7,788	9,022
Pension expense	34,196	163	(14,608)
Loss on extinguishment of debt, net	45,939	6,290	20,186
Other non-cash adjustments	2,080	(8,658)	(9,458)
Deferred income taxes	61,217	33,967	81,011
Legal settlement	—	—	(7,905)
Change in accounts receivable	21,906	9,746	(4,714)
Change in accounts payable and other liabilities	13,297	(52,210)	(21,649)
Change in prepaid expenses and income taxes	(44,855)	(3,895)	7,428
Net cash provided by operating activities	742,720	739,266	821,683
Cash flows provided from (used by) investing activities:			
Capital expenditures—Business operations	(230,966)	(288,264)	(306,203)
Capital expenditures—Integration activities	(24,999)	—	(9,590)
Cash paid for acquisitions (net of cash acquired)	—	—	(725,548)
Other assets purchased and distributions received, net	673	5,489	6,629
Net cash used by investing activities	(255,292)	(282,775)	(1,034,712)
Cash flows provided from (used by) financing activities:			
Long-term debt borrowings	1,117,476	135,000	950,000
Financing costs paid	(2,204)	(857)	(12,196)
Long-term debt payments	(1,027,408)	(142,480)	(946,070)
Premium paid to retire debt	(66,868)	(6,290)	(20,186)
Settlement of interest rate swaps	—	15,521	—
Issuance of common stock	751	1,398	13,808
Common stock repurchased	—	(200,000)	(250,000)
Dividends paid	(312,366)	(318,437)	(336,025)
Repayment of customer advances for construction and distributions to noncontrolling interests	(1,743)	(3,185)	(942)
Net cash used by financing activities	(292,362)	(519,330)	(601,611)
Increase (decrease) in cash and cash equivalents	195,066	(62,839)	(814,640)
Cash and cash equivalents at January 1,	163,627	226,466	1,041,106
Cash and cash equivalents at December 31,	$ 358,693	$ 163,627	$ 226,466
Cash paid during the period for:			
Interest	$ 364,167	$ 365,858	$ 364,381
Income taxes	$ 59,735	$ 78,878	$ 54,407
Non-cash investing and financing activities:			
Change in fair value of interest rate swaps	$ —	$ 7,909	$ 18,198
Conversion of EPPICS	$ —	$ 590	$ 3,339
Conversion of Commonwealth notes	$ —	$ 1,666	$ 36,731
Shares issued for Commonwealth acquisition	$ —	$ 39	$ 247,435
Acquired debt	$ —	$ —	$ 244,570
Other acquired liabilities	$ —	$ —	$ 112,194

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Frontier Communications Corporation and subsidiaries
Notes to consolidated financial statements

(1) Description of Business and Summary of Significant Accounting Policies:

(a) Description of Business:

Frontier Communications Corporation (formerly known as Citizens Communications Company through July 30, 2008) and its subsidiaries are referred to as "we," "us," "our," or the "Company" in this report. We are a communications company providing services to rural areas and small and medium-sized towns and cities as an incumbent local exchange carrier, or ILEC.

(b) Basis of Presentation and Use of Estimates:

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation.

Our consolidated financial statements have been adjusted on a retrospective basis to reflect the adoption of two new accounting standards: Accounting Standards Codification (ASC) Topic 810, (formerly Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements") and ASC Topic 260 (formerly FASB Staff Position (FSP) EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.") The prior period data for 2008 and 2007 presented in these consolidated financial statements and notes herein have been adjusted retrospectively in accordance with ASC Topic 810 and ASC Topic 260. See Note 2 for further discussion.

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, income taxes, purchase price allocations, contingencies, and pension and other postretirement benefits, among others.

(c) Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Revenue Recognition:

Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes: monthly recurring network access services, special access services and monthly recurring local line and unlimited fixed long-distance bundle charges. The unearned portion of these fees are initially deferred as a component of other liabilities on our consolidated balance sheet and recognized as revenue over the period that the services are provided. Revenue that is billed in arrears includes: non-recurring network access services, switched access services, non-recurring local services and long-distance services. The earned but unbilled portion of these fees are recognized as revenue in our consolidated statements of operations and accrued in accounts receivable in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

The Company collects various taxes from its customers and subsequently remits such funds to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) which we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses at $35.5 million, $37.1 million and $35.9 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(e) Property, Plant and Equipment:

Property, plant and equipment are stated at original cost or fair market value for our acquired properties, including capitalized interest. Maintenance and repairs are charged to operating expenses as incurred. The gross book value of routine property, plant and equipment retired is charged against accumulated depreciation.

(f) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) or more frequently, if appropriate, examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for goodwill impairment at the "operating segment" level, as that term is defined in ASC Topic 350 (formerly Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets"). The Company revised its management and operating structure during the first quarter of 2009 and now has three "operating segments." Our "operating segments" are aggregated into one reportable segment.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of:

We review long-lived assets to be held and used and long-lived assets to be disposed of, including customer lists, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If any assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value. Also, we periodically reassess the useful lives of our tangible and intangible assets to determine whether any changes are required.

(h) Derivative Instruments and Hedging Activities:

We account for derivative instruments and hedging activities in accordance with ASC 815 (formerly SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") ASC 815 requires that all derivative instruments, such as interest rate swaps, be recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them.

(i) Investments:

Investments in entities that we do not control, but where we have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method of accounting.

(j) Income Taxes and Deferred Income Taxes:

We file a consolidated federal income tax return. We utilize the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recorded for the tax effect of temporary differences between the financial statement basis and the tax basis of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to reverse.

(k) Stock Plans:

We have various stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees, non-management employees and non-employee directors. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards. We have no awards with market or performance conditions. Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury.

The compensation cost recognized is based on awards ultimately expected to vest. ASC Topic 718 requires forfeitures to be estimated and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

(l) Net Income Per Common Share Attributable to Common Shareholders:

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period being reported on, excluding unvested restricted stock awards. The impact of dividends paid on unvested restricted stock awards have been deducted in the determination of basic and diluted net income attributable to common shareholders of Frontier. Except when the effect would be antidilutive, diluted net income per common share reflects the dilutive effect of the assumed exercise of stock options using the treasury stock method at the beginning of the period being reported on as well as common shares that would result from the conversion of convertible preferred stock (EPPICS) and convertible notes. In addition, the related interest on convertible debt (net of tax) is added back to income since it would not be paid if the debt was converted to common stock.

(2) Recent Accounting Literature and Changes in Accounting Principles:

Fair value measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (currently ASC Topic 820), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB amended SFAS No. 157 (ASC Topic 820) to defer the application of this standard to nonfinancial assets and liabilities until 2009. The provisions of SFAS No. 157 (ASC Topic 820) related to financial assets and liabilities were effective as of the beginning of 2008. Our partial adoption of SFAS No. 157 (ASC Topic 820) in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows. The adoption of SFAS No. 157 (ASC Topic 820), as amended, in the first quarter of 2009 with respect to its effect on nonfinancial assets and liabilities had no impact on our financial position, results of operations or cash flows.

Business combinations

In December 2007, the FASB revised SFAS No. 141, "Business Combinations" (currently ASC Topic 805). The revised statement, SFAS No. 141R (ASC Topic 805), as amended by FSP SFAS No. 141(R)-1 (ASC Topic 805), requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to recognize and measure preacquisition contingencies, including contingent consideration, at fair value (if possible), to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R (ASC Topic 805) was for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will account for our pending acquisition of approximately 4.2 million access lines (as of December 31, 2009) from Verizon Communications Inc. (Verizon) using the guidance included in SFAS No. 141R (ASC Topic 805). For the year ended December 31, 2009, we incurred approximately $28.3 million of acquisition and integration costs in connection with our pending acquisition from Verizon. In accordance with SFAS No. 141R (ASC Topic 805), such costs are required to be expensed as incurred and are reflected in "Acquisition and integration costs" in our consolidated statements of operations.

Noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" (currently ASC Topic 810). SFAS No. 160 (ASC Topic 810) establishes requirements for ownership interest in subsidiaries held by parties other than the Company (sometimes called "minority interest") be clearly identified, presented and disclosed in the consolidated statement of financial position within equity, but separate from the parent's equity. All changes in the parent's ownership interest are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in unconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 (ASC Topic 810) was effective, on a prospective basis, for fiscal years beginning after December 15, 2008.

However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The adoption of SFAS No. 160 (ASC Topic 810) in the first quarter of 2009 did not have a material impact on our financial position, results of operations or cash flows.

Determining whether instruments granted in share-based payment transactions are participating securities

In June 2008, the FASB ratified FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (currently ASC Topic 260). FSP EITF No. 03-6-1 (ASC Topic 260) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF No. 03-6-1 (ASC Topic 260) was effective, on a retrospective basis, for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Our outstanding non-vested restricted stock is a participating security in accordance with FSP EITF No. 03-6-1 (ASC Topic 260) and we have adjusted our previously reported basic and diluted income per common share. The adoption of FSP EITF No. 03-6-1 (ASC Topic 260) in the first quarter of 2009 did not have a material impact on our basic and diluted income per common share.

Employers' disclosures about postretirement benefit plan assets

In December 2008, the FASB issued FSP SFAS No. 132 (R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (currently ASC Topic 715). FSP SFAS No. 132(R)-1 (ASC Topic 715) amends SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," (ASC Topic 230) to provide guidance on an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS No. 132(R)-1 (ASC Topic 715) requires additional disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The disclosures about plan assets required by FSP SFAS No. 132(R)-1 (ASC Topic 715) are effective for fiscal years ending after December 15, 2009. The adoption of the disclosure requirements of FSP SFAS No. 132(R)-1 (ASC Topic 715) in 2009 did not have a material impact on our financial position, results of operations or cash flows.

Subsequent events

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (currently ASC Topic 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, SFAS No. 165 (ASC Topic 855) sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 (ASC Topic 855) was effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS No. 165 (ASC Topic 855) in the second quarter of 2009 had no impact on our financial position, results of operations or cash flows.

Accounting standards codification

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals" (currently ASC Topic 105). SFAS No. 168 (ASC Topic 105) replaces the guidance that previously existed in SFAS No. 162, entitled "The Hierarchy of Generally Accepted Accounting Principals" and designates the FASB Accounting Standards Codification as the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the Accounting Standards Codification is now considered to be non-authoritative. SFAS No. 168 (ASC Topic 105) was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 (ASC Topic 105) in the third quarter of 2009 had no impact on our financial position, results of operations or cash flows.

(3) Acquisitions:

Pending acquisition:

On May 13, 2009, we entered into a definitive agreement with Verizon under which Frontier will acquire defined assets and liabilities of the local exchange business and related landline activities of Verizon, including Internet access and long distance services and broadband video provided to designated customers. Assuming that the merger occurred on December 31, 2009, the merger would have resulted in Frontier acquiring approximately 4.2 million access lines and certain business related assets from Verizon. The Verizon Transaction will be financed with approximately $5.3 billion of common stock plus the assumption of approximately $3.33 billion in debt. Certain of the conditions to the closing of the Verizon Transaction have already been met: (1) Frontier's shareholders approved the Verizon Transaction at a special meeting of shareholders held on October 27, 2009; (2) the Federal Trade Commission has granted early termination of the waiting period under the Hart-Scott-Rodino Act; (3) approvals of all necessary local video franchise authorities (subject to the satisfaction of certain conditions); (4) receipt by Verizon of a favorable ruling from the IRS regarding the tax consequences of the Verizon Transaction; and (5) five of the nine required state regulatory approvals. Completion of the Verizon Transaction remains subject to a number of other conditions, including the receipt of the remaining four state regulatory approvals, approval from the FCC, the completion of financing, on terms that satisfy certain conditions as well as other customary closing conditions. Subject to satisfaction of these conditions, we anticipate closing this transaction at the end of the second quarter of 2010.

Acquisitions of Commonwealth Telephone and Global Valley Networks

On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (“Commonwealth” or “CTE”) in a cash-and-stock taxable transaction, for a total consideration of approximately $1.1 billion. We paid $804.1 million in cash ($663.7 million net, after cash acquired) and issued common stock with a value of $249.8 million.

On October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) through the purchase from Country Road Communications, LLC of 100% of the outstanding common stock of Evans Telephone Holdings, Inc., the parent Company of GVN. The purchase price of $62.0 million was paid with cash on hand.

We have accounted for the acquisitions of Commonwealth and GVN as purchases under U.S. GAAP. Under the purchase method of accounting, the assets and liabilities of Commonwealth and GVN were recorded as of their respective acquisition dates, at their respective fair values, and consolidated with those of Frontier.

The following schedule provides a summary of the final purchase price paid by Frontier in the acquisitions of Commonwealth and GVN:

($ in thousands)	Commonwealth	GVN
Cash paid	$ 804,554	$62,001
Value of Frontier common stock issued	249,804	—
Total Purchase Price	$1,054,358	$62,001

With respect to our acquisitions of Commonwealth and GVN, the purchase price has been allocated based on fair values to the net tangible and intangible assets acquired and liabilities assumed. The final allocations were as follows:

($ in thousands)	Commonwealth	GVN
Allocation of purchase price:		
Current assets(1)	$ 187,986	$ 1,581
Property, plant and equipment	387,343	23,578
Goodwill	690,262	34,311
Other intangibles	273,800	7,250
Other assets	11,285	812
Current portion of debt	(35,000)	(17)
Accounts payable and other current liabilities	(80,375)	(626)
Deferred income taxes	(143,539)	(3,740)
Convertible notes	(209,553)	—
Other liabilities	(27,851)	(1,148)
Total Purchase Price	$1,054,358	$62,001

(1) Includes $140.6 million of total acquired cash.

The following unaudited pro forma financial information presents the combined results of operations of Frontier, Commonwealth and GVN as if the acquisitions had occurred at the beginning of 2007. The historical results of the Company include the results of Commonwealth from the date of its acquisition on March 8, 2007, and GVN from the date of its acquisition on October 31, 2007. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisitions been completed at the beginning of 2007. In addition, the unaudited pro forma financial information does not purport to project the future financial position or operating results of Frontier after completion of the acquisitions.

($ in thousands, except per share amounts)	2007
Revenue	$2,362,695
Operating income	$ 720,476
Net income attributable to common shareholders of Frontier	$ 218,428
Basic and diluted income per common share	$ 0.65

(4) Property, Plant and Equipment:

The components of property, plant and equipment at December 31, 2009 and 2008 are as follows:

($ in thousands)	Estimated useful lives	2009	2008
Land	N/A	$ 22,416	$ 22,631
Buildings and leasehold improvements	41 years	348,002	344,839
General support	5 to 17 years	517,958	508,825
Central office/electronic circuit equipment	5 to 11 years	3,042,665	2,959,440
Cable and wire	15 to 60 years	3,730,998	3,623,193
Other	20 to 30 years	24,368	24,703
Construction work in progress		116,655	97,429
		7,803,062	7,581,060
Less: Accumulated depreciation		(4,669,541)	(4,341,087)
Property, plant and equipment, net		$ 3,133,521	$ 3,239,973

Depreciation expense is principally based on the composite group method. Depreciation expense was $362.2 million, $379.5 million and $374.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2009.

(5) Accounts Receivable:

The components of accounts receivable, net at December 31, 2009 and 2008 are as follows:

($ in thousands)	2009	2008
End user	$205,384	$244,395
Other	15,532	17,977
Less: Allowance for doubtful accounts	(30,171)	(40,125)
Accounts receivable, net	$190,745	$222,247

An analysis of the activity in the allowance for doubtful accounts for the years ended December 31, 2009, 2008 and 2007 is as follows:

		Additions				
Allowance for doubtful accounts	Balance at beginning of period	Balance of acquired properties	Charged to bad debt expense*	Charged to other accounts—revenue	Deductions	Balance at end of period
2007	$108,537	$1,499	$31,131	$(77,898)	$30,521	$32,748
2008	$ 32,748	$1,150	$31,700	$ 2,352	$27,825	$40,125
2009	$ 40,125	$ —	$33,682	$ (6,181)	$37,455	$30,171

* Such amounts are included in bad debt expense and for financial reporting purposes are classified as contra-revenue.

We maintain an allowance for estimated bad debts based on our estimate of our ability to collect our accounts receivable. Bad debt expense is recorded as a reduction to revenue.

Our allowance for doubtful accounts (and "end user" receivables) declined in 2007, primarily as a result of the resolution of a principal carrier dispute. On March 12, 2007, we entered into a settlement agreement with a carrier pursuant to which we were paid $37.5 million, resulting in a favorable impact on our revenue in the first quarter of 2007 of $38.7 million.

(6) Other Intangibles:

The components of other intangibles at December 31, 2009 and 2008 are as follows:

($ in thousands)	2009	2008
Customer base	$ 270,309	$ 1,265,052
Trade name and license	134,680	132,664
Other intangibles	404,989	1,397,716
Less: Accumulated amortization	(157,462)	(1,038,042)
Total other intangibles, net	$ 247,527	$ 359,674

Amortization expense was $114.2 million, $182.3 million and $171.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. Amortization expense for 2009 is comprised of $57.9 million for amortization associated with our "legacy" Frontier properties, which were fully amortized in June 2009, and $56.3 million for intangible assets (customer base and trade name) that were acquired in the Commonwealth and Global Valley acquisitions. As of December 31, 2008, $263.5 million has been allocated to the customer base (five year life) and $10.3 million to the trade name (five year life) acquired in the Commonwealth acquisition, and $7.0 million to the customer base (five year life) and $0.3 million to the trade name (five year life) acquired in the Global Valley acquisition. Amortization expense, based on our estimate of useful lives, is estimated to be $56.2 million in 2010 and 2011 and $11.3 million in 2012.

(7) Long-Term Debt:

The activity in our long-term debt from December 31, 2008 to December 31, 2009 is summarized as follows:

($ in thousands)	December 31, 2008	Year ended December 31, 2009 Retirements	Year ended December 31, 2009 New borrowings	December 31, 2009	Interest rate* at December 31, 2009
Rural Utilities Service Loan Contracts	$ 16,607	$ (1,007)	$ —	$ 15,600	**6.07%**
Senior Unsecured Debt	4,702,331	(1,047,330)	1,200,000	4,855,001	**7.86%**
Industrial Development Revenue Bonds	13,550	—	—	13,550	**6.33%**
TOTAL LONG-TERM DEBT	$ 4,732,488	$(1,048,337)	$1,200,000	$ 4,884,151	**7.85%**
Less: Debt Discount	(6,946)			(82,786)	
Less: Current Portion	(3,857)			(7,236)	
	$4,721,685			**$4,794,129**	

* *Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates at December 31, 2009 represent a weighted average of multiple issuances.*

Additional information regarding our Senior Unsecured Debt at December 31:

	2009		2008	
($ in thousands)	Principal outstanding	Interest rate	Principal outstanding	Interest rate
Senior Notes:				
Due 5/15/2011	$ 76,089	9.250%	$ 921,276	9.250%
Due 10/24/2011	200,000	6.270%	200,000	6.270%
Due 12/31/2012	145,500	1.625% (Variable)	147,000	2.448% (Variable)
Due 1/15/2013	580,724	6.250%	700,000	6.250%
Due 12/31/2013	132,638	2.000% (Variable)	133,988	2.250% (Variable)
Due 5/1/2014	600,000	8.250%	—	
Due 3/15/2015	300,000	6.625%	300,000	6.625%
Due 10/1/2018	600,000	8.125%	—	
Due 3/15/2019	434,000	7.125%	450,000	7.125%
Due 1/15/2027	345,858	7.875%	400,000	7.875%
Due 8/15/2031	945,325	9.000%	945,325	9.000%
	4,360,134		4,197,589	
Debentures:				
Due 11/1/2025	138,000	7.000%	138,000	7.000%
Due 8/15/2026	1,739	6.800%	11,614	6.800%
Due 10/1/2034	628	7.680%	628	7.680%
Due 7/1/2035	125,000	7.450%	125,000	7.450%
Due 10/1/2046	193,500	7.050%	193,500	7.050%
	458,867		468,742	
Subsidiary Senior Notes due 12/1/2012	36,000	8.050%	36,000	8.050%
Total	$4,855,001	7.86%	$4,702,331	7.54%

During 2009, we retired an aggregate principal amount of $1,048.3 million of debt, consisting of $1,047.3 million of senior unsecured debt, as described in more detail below, and $1.0 million of rural utilities service loan contracts.

On October 1, 2009, we completed a registered debt offering of $600.0 million aggregate principal amount of 8.125% senior unsecured notes due 2018. The issue price was 98.441% of the principal amount of the notes, and we received net proceeds of approximately $578.7 million from the offering after deducting underwriting discounts and offering expenses. We used the net proceeds from the offering, together with cash on hand, to finance a cash tender offer for up to $700.0 million to purchase our outstanding 9.250% Senior Notes due 2011 (the 2011 Notes) and our outstanding 6.250% Senior Notes due 2013 (the 2013 Notes), as described below.

On April 9, 2009, we completed a registered offering of $600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately $538.8 million from the offering after deducting underwriting discounts and offering expenses.

The Company accepted for purchase, in accordance with the terms of the tender offer referred to above, approximately $564.4 million aggregate principal amount of the 2011 Notes and approximately $83.4 million of the 2013 Notes tendered during the tender period, which expired on October 16, 2009. The aggregate consideration for these debt repurchases was $701.6 million, which was financed with the proceeds of the debt offering described above and cash on hand. The repurchases resulted in a loss on the early retirement of debt of $53.7 million, which we recognized in the fourth quarter of 2009.

In addition to the debt tender offer, we used $388.9 million of the debt offering proceeds in 2009 to repurchase $396.7 million principal amount of debt, consisting of $280.8 million of the 2011 Notes, $54.1 million of our 7.875% Senior Notes due January 15, 2027, $35.9 million of the 2013 Notes, $16.0 million of our 7.125% Senior Notes due March 15, 2019 and $9.9 million of our 6.80% Debentures due August 15, 2026. As a result of these repurchases, a $7.8 million net gain was recognized and included in Other income (loss), net in our consolidated statements of operations for the year ended December 31, 2009.

As a result of these 2009 debt financing, tender activities and other debt repurchases described above, as of December 31, 2009, we reduced our 2011 debt maturity to $280.0 million.

As of December 31, 2009, we had an available line of credit with seven financial institutions in the aggregate amount of $250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of December 31, 2009. The expiration date for this $250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

During 2008, we retired an aggregate principal amount of $144.7 million of debt, consisting of $128.7 million principal amount of the 2011 Notes, $12.0 million of other senior unsecured debt and rural utilities service loan contracts, and $4.0 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (EPPICS).

On March 28, 2008, we borrowed $135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.00% as of December 31, 2009. The interest rate is based on the prime rate or LIBOR, at our election, plus a margin which varies depending on our debt leverage ratio. We used the proceeds to repurchase, during the first quarter of 2008, $128.7 million principal amount of the 2011 Notes and to pay for the $6.3 million of premium on early retirement of these notes.

As of December 31, 2008, EPPICS representing a total principal amount of $197.8 million have been converted into 15,969,645 shares of our common stock. There were no outstanding EPPICS as of December 31, 2008. As a result of the redemption of all outstanding

EPPICS as of December 31, 2008, the $10.5 million in debt with related parties was reclassified by the Company against an offsetting investment.

On January 15, 2008, we terminated all of our interest rate swap agreements representing $400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately $15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt.

During 2007, we retired an aggregate principal amount of $967.2 million of debt, including $3.3 million of EPPICS and $17.8 million of 3.25% Commonwealth convertible notes that were converted into our common stock. As further described below, we temporarily borrowed and repaid $200.0 million during the month of March 2007, utilized to temporarily fund our acquisition of Commonwealth.

In connection with the acquisition of Commonwealth, we assumed $35.0 million of debt under a revolving credit facility and approximately $191.8 million face amount of Commonwealth convertible notes (fair value of approximately $209.6 million). During March 2007, we paid down the $35.0 million credit facility, and through December 31, 2007, we retired approximately $183.3 million face amount (for which we paid $165.4 million in cash and $36.7 million in common stock) of the convertible notes (premium paid of $18.9 million was recorded as $17.8 million to goodwill and $1.1 million to other income (loss), net). The remaining outstanding balance of $8.5 million was fully redeemed in the fourth quarter of 2008.

On March 23, 2007, we issued in a private placement an aggregate $300.0 million principal amount of 6.625% Senior Notes due 2015 and $450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down $200.0 million principal amount of indebtedness borrowed on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth, and redeem, on April 26, 2007, $495.2 million principal amount of our 7.625% Senior Notes due 2008.

During the first quarter of 2007, we incurred and expensed approximately $4.1 million of fees associated with the bridge loan facility established to temporarily fund our acquisition of Commonwealth. In the second quarter of 2007, we completed an exchange offer (to publicly register the debt) for the $750.0 million in total of private placement notes described above, in addition to the $400.0 million principal amount of 7.875% Senior Notes issued in a private placement on December 22, 2006, for registered Senior Notes due 2027. On April 26, 2007, we redeemed $495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. The debt retirement generated a pre-tax loss on the early extinguishment of debt at a premium of approximately $16.3 million in the second quarter of 2007 and is included in other income (loss), net. As a result of this debt redemption, we also terminated three interest rate swap agreements hedging an aggregate $150.0 million notional amount of indebtedness. Payments on the swap terminations of approximately $1.0 million were made in the second quarter of 2007.

As of December 31, 2009, we were in compliance with all of our debt and credit facility financial covenants.

Our principal payments for the next five years are as follows:

($ in thousands)	Principal payments
2010	$ 7,236
2011	$279,956
2012	$180,366
2013	$709,855
2014	$600,517

(8) Derivative Instruments and Hedging Activities:

Interest rate swap agreements were used to hedge a portion of our debt that is subject to fixed interest rates. Under our interest rate swap agreements, we agreed to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount. The notional amounts of the contracts were not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination and represents the market value, at the then current rate of interest, of the remaining obligations to exchange payments under the terms of the contracts.

On January 15, 2008, we terminated all of our interest rate swap agreements representing $400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately $15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt. For the years ended December 31, 2009 and 2008, we recognized $7.6 million and $5.0 million, respectively, of deferred gain and anticipate recognizing $1.0 million during 2010. For the year ended December 31, 2007, the interest expense resulting from these interest rate swaps totaled approximately $2.4 million. At December 31, 2009 and 2008, we did not have any derivative instruments.

(9) Investment Income:

The components of investment income for the years ended December 31, 2009, 2008 and 2007 are as follows:

($ in thousands)	2009	2008	2007
Interest and dividend income	$5,291	$10,928	$32,986
Equity earnings	994	5,190	4,655
Total investment income	$6,285	$16,118	$37,641

(10) Other Income (Loss), net:

The components of other income (loss), net for the years ended December 31, 2009, 2008 and 2007 are as follows:

($ in thousands)	2009	2008	2007
Loss on retirement of debt, net	$(45,939)	$(6,290)	$(18,217)
Bridge loan fee	—	—	(4,069)
Litigation settlement proceeds/(costs)	2,749	(1,037)	—
Gain on expiration/settlement of customer advances, net	2,741	4,520	2,031
Other, net	(678)	(2,363)	2,422
Total other income (loss), net	$(41,127)	$(5,170)	$(17,833)

During the fourth quarter of 2009, we recognized a loss of $53.7 million on the early retirement of debt in connection with a $700.0 million debt tender offer. During 2009, we also recognized a $7.8 million gain as a result of repurchasing $396.7 million principal amount of debt. During 2009, we recorded litigation settlement proceeds of $2.7 million in connection with the Bangor, Maine legal matter.

During 2008, we retired certain debt and recognized a loss of $6.3 million on the early extinguishment of debt at a premium, mainly for the 9.25% Senior Notes due 2011. During 2008, we recorded legal fees and settlement costs in connection with the Bangor, Maine legal matter of $1.0 million. During 2007, we incurred $4.1 million of fees associated with a bridge loan facility. In 2007, we retired certain debt and recognized a loss of $18.2 million on the early extinguishment of debt at a premium, mainly for the 7.625% Senior Notes due 2008. During 2009, 2008 and 2007, we recognized income of $2.7 million, $4.5 million and $2.0 million, respectively, in connection with certain retained liabilities that have terminated, associated with customer advances for construction from our disposed water properties.

(11) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

As of December 31, 2008, we fully redeemed the EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issue.

In 1996, our consolidated wholly-owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of EPPICS, representing preferred undivided interests in the assets of the Trust, with a liquidation preference of $50 per security (for a total liquidation amount of $201.3 million). These securities had an adjusted conversion price of $11.46 per share of our common stock. The conversion price was reduced from $13.30 to $11.46 during the third quarter of 2004 as a result of the $2.00 per share of common stock special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase $207.5 million aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly-owned subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from us $211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust were the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures were substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constituted a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2008 and 2007. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2008, EPPICS representing a total principal amount of $197.8 million have been converted into 15,969,645 shares of our common stock. There were no outstanding EPPICS as of December 31, 2008. As a result of the redemption of all outstanding EPPICS as of December 31, 2008, the $10.5 million in debt with related parties was reclassified by the Company against an offsetting investment.

(12) Capital Stock:

On October 27, 2009, in conjunction with the shareholder vote to approve the Verizon Transaction, our stockholders approved an increase in the number of authorized shares of Frontier common stock from 600,000 to 1,750,000. The Certificate of Amendment to our Restated Certificate of Incorporation effectuating the increase will be filed and become effective immediately prior to the effective time of the merger. The amount and timing of dividends payable on common stock are, subject to applicable law, within the sole discretion of our Board of Directors.

(13) Stock Plans:

At December 31, 2009, we had five stock-based compensation plans under which grants have been made and awards remained outstanding. These plans, which are described below, are the 1996 Equity Incentive Plan (1996 EIP), the Amended and Restated 2000 Equity Incentive Plan (2000 EIP), the Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan), the Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan, and together with the Deferred Fee Plan, the Director Plans) and the 2009 Equity Incentive Plan that was adopted on May 14, 2009 (2009 EIP).

Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury. At December 31, 2009, there were 12,540,761 shares authorized for grant under these plans and 12,057,989 shares available for grant under two of the plans. No further awards may be granted under three of the plans: the 1996 EIP, the 2000 EIP or the Deferred Fee Plan.

In connection with the Director Plans, compensation costs associated with the issuance of stock units was $0.7 million, $0.8 million and $1.6 million in 2009, 2008 and 2007, respectively. Cash compensation associated with the Director Plans was $0.6 million in 2009 and $0.5 million in each of 2008 and 2007. These costs are recognized in Other operating expenses.

We have granted restricted stock awards to key employees in the form of our common stock. The number of shares issued as restricted stock awards during 2009, 2008 and 2007 were 1,119,000, 887,000 and 722,000, respectively. None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse, subject to limited exceptions. The restrictions are time based. At December 31, 2009, 2,193,000 shares of restricted stock were outstanding. Compensation expense, recognized in Other operating expenses, of $8.7 million, $6.9 million and $6.6 million, for the years ended December 31, 2009, 2008 and 2007, respectively, has been recorded in connection with these grants.

1996, 2000 and 2009 Equity Incentive Plans

Since the expiration dates of the 1996 EIP and the 2000 EIP on May 22, 2006 and May 14, 2009, respectively, no awards have been or may be granted under the 1996 EIP and the 2000 EIP. Under the 2009 EIP, awards of our common stock may be granted to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, SARs, restricted stock or other stock-based awards. As discussed under the Non-Employee Directors' Compensation Plans below, prior to May 25, 2006 non-employee directors received an award of stock options under the 2000 EIP upon commencement of service.

At December 31, 2009, there were 10,000,000 shares authorized for grant under the 2009 EIP and 9,979,000 shares available for grant. No awards were granted more than 10 years after the effective date (May 14, 2009) of the 2009 EIP plan. The exercise price of stock options and SARs under the 2009, 2000 and 1996 EIPs generally are equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are not ordinarily exercisable on the date of grant but vest over a period of time (generally four years). Under the terms of the EIPs, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decrease the average exercise price of outstanding options.

The following summary presents information regarding outstanding stock options and changes with regard to options under the EIP:

	Shares subject to option	Weighted average option price per share	Weighted average remaining life in years	Aggregate intrinsic value
Balance at January 1, 2007	5,242,000	$12.41	4.4	$14,490,000
Options granted	—	$ —		
Options exercised	(1,254,000)	$10.19		$ 6,033,000
Options canceled, forfeited or lapsed	(33,000)	$10.79		
Balance at December 31, 2007	3,955,000	$13.13	3.4	$ 5,727,000
Options granted	—	$ —		
Options exercised	(187,000)	$ 7.38		$ 743,000
Options canceled, forfeited or lapsed	(55,000)	$10.40		
Balance at December 31, 2008	3,713,000	$13.46	2.5	$ 495,000
Options granted	—	$ —		
Options exercised	(114,000)	$ 6.58		$ 65,000
Options canceled, forfeited or lapsed	(48,000)	$ 9.24		
Balance at December 31, 2009	3,551,000	$13.74	1.5	$ —

The following table summarizes information about shares subject to options under the EIP at December 31, 2009:

	Options outstanding			Options exercisable	
Number outstanding	Range of exercise prices	Weighted average exercise price	Weighted average remaining life in years	Number exercisable	Weighted average exercise price
394,000	$ 8.19 - 8.19	$ 8.19	2.37	394,000	$ 8.19
511,000	10.44 -10.44	10.44	3.4	511,000	10.44
199,000	11.15 - 11.15	11.15	0.8	199,000	11.15
476,000	11.79 - 11.79	11.79	1.38	476,000	11.79
167,000	11.90 - 14.27	13.44	3.77	166,000	13.44
582,000	15.02 - 15.02	15.02	0.75	582,000	15.02
640,000	15.94 - 16.74	16.67	0.73	640,000	16.67
582,000	18.46 - 18.46	18.46	0.75	582,000	18.46
3,551,000	$ 8.19 - 18.46	$13.74	1.54	3,550,000	$13.74

The number of options exercisable at December 31, 2008 and 2007 were 3,706,000 and 3,938,000, with a weighted average exercise price of $13.46 and $13.13, respectively.

Cash received upon the exercise of options during 2009, 2008 and 2007 was $0.8 million, $1.4 million and $13.8 million, respectively. There is no remaining unrecognized compensation cost associated with unvested stock options at December 31, 2009.

For purposes of determining compensation expense, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model which requires the use of various assumptions including expected life of the option, expected dividend rate, expected volatility, and risk-free interest rate. The expected life (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis. No stock option grants were issued in 2007, 2008 and 2009 under the EIP.

The following summary presents information regarding unvested restricted stock and changes with regard to restricted stock under the EIP:

	Number of shares	Weighted average grant date fair value	Aggregate fair value
Balance at January 1, 2007	1,174,000	$12.89	$16,864,000
Restricted stock granted	722,000	$15.04	$ 9,187,000
Restricted stock vested	(587,000)	$12.94	$ 7,465,000
Restricted stock forfeited	(100,000)	$13.95	
Balance at December 31, 2007	1,209,000	$14.06	$15,390,000
Restricted stock granted	887,000	$11.02	$ 7,757,000
Restricted stock vested	(367,000)	$13.90	$ 3,209,000
Restricted stock forfeited	(27,000)	$13.39	
Balance at December 31, 2008	1,702,000	$12.52	$14,876,000
Restricted stock granted	1,119,000	$ 8.42	$ 8,738,000
Restricted stock vested	(557,000)	$12.77	$ 4,347,000
Restricted stock forfeited	(71,000)	$11.02	
Balance at December 31, 2009	2,193,000	$10.41	$17,126,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at December 31, 2009 was $15.2 million and the weighted average period over which this cost is expected to be recognized is approximately two years.

Non-employee directors' compensation plans

Upon commencement of his or her service on the Board of Directors, each non-employee director receives a grant of 10,000 stock options. These options are currently awarded under the Directors' Equity Plan. Prior to effectiveness of the Directors' Equity Plan on May 25, 2006, these options were awarded under the 2000 EIP. The exercise price of these options, which become exercisable six months after the grant date, is the fair market value (as defined in the relevant plan) of our common stock on the date of grant. Options granted under the Directors'

Equity Plan expire on the earlier of the tenth anniversary of the grant date or the first anniversary of termination of service as a director. Options granted to non-employee directors under the 2000 EIP expire on the tenth anniversary of the grant date.

Each non-employee director also receives an annual grant of 3,500 stock units. These units are currently awarded under the Directors' Equity Plan and prior to effectiveness of that plan, were awarded under the Deferred Fee Plan. Since the effectiveness of the Directors' Equity Plan, no further grants have been made under the Deferred Fee Plan. Prior to April 20, 2004, each non-employee director received an award of 5,000 stock options. The exercise price of such options was set at 100% of the fair market value on the date the options were granted. The options were exercisable six months after the grant date and remain exercisable for ten years after the grant date.

In addition, each year, each non-employee director is also entitled to receive a retainer, meeting fees, and, when applicable, fees for serving as a committee chair or as Lead Director. For 2009, each non-employee director had to elect, by December 31 of the preceding year, to receive $40,000 cash or 5,760 stock units as an annual retainer and to receive meeting fees and Lead Director and committee chair stipends in the form of cash or stock units. Stock units are awarded under the Directors' Equity Plan. Directors making a stock unit election must also elect to convert the units to either common stock (convertible on a one-to-one basis) or cash upon retirement or death.

The number of shares of common stock authorized for issuance under the Directors' Equity Plan is 2,540,761, which includes 540,761 shares that were available for grant under the Deferred Fee Plan on the effective date of the Directors' Equity Plan. In addition, if and to the extent that any "plan units" outstanding on May 25, 2006 under the Deferred Fee Plan are forfeited or if any option granted under the Deferred Fee Plan terminates, expires, or is cancelled or forfeited, without having been fully exercised, shares of common stock subject to such "plan units" or options cancelled shall become available under the Directors' Equity Plan. At December 31, 2009, there were 2,078,989 shares available for grant. There were 11 directors participating in the Directors' Plans during all or part of 2009. In 2009, the total options, plan units, and stock earned were 0, 76,326, and 0, respectively. In 2008, the total options, plan units, and stock earned were 0, 102,673, and 0, respectively. In 2007, the total options, plan units, and stock earned were 10,000, 98,070 and 0, respectively. Options granted prior to the adoption of the Directors' Equity Plan were granted under the 2000 EIP. At December 31, 2009, 182,951 options were outstanding and exercisable under the Director Plans at a weighted average exercise price of $12.68.

For 2009, each non-employee director received fees of $2,000 for each in-person Board of Directors and committee meeting attended and $1,000 for each telephone Board and committee meeting attended. The chairs of the Audit, Compensation, Nominating and Corporate Governance and Retirement Plan Committees were paid an additional annual fee of $25,000, $20,000, $7,500 and $7,500, respectively. In addition, the Lead Director, who heads the ad hoc committee of non-employee directors, received an additional annual fee of $15,000. A director must elect, by December 31 of the preceding year, to receive meeting and other fees in cash, stock units, or a combination of both. All fees paid to the non-employee directors in 2009 were paid quarterly. If the director elects stock units, the number of units credited to the director's account is determined as follows: the total cash value of the fees payable to the director are divided by 85% of the closing prices of our common stock on the last business day of the calendar quarter in which the fees or stipends were earned. Units are credited to the director's account quarterly.

We account for the Deferred Fee Plan and Directors' Equity Plan in accordance with ASC Topic 718 (formerly SFAS No. 123R). To the extent directors elect to receive the distribution of their stock unit account in cash, they are considered liability-based awards. To the extent directors elect to receive the distribution of their stock unit accounts in common stock, they are considered equity-based awards. Compensation expense for stock units that are considered equity-based awards is based on the market value of our common stock at the date of grant. Compensation expense for stock units that are considered liability-based awards is based on the market value of our common stock at the end of each period.

(14) Income Taxes:

The following is a reconciliation of the provision for income taxes computed at Federal statutory rates to the effective rates for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Consolidated tax provision at federal statutory rate	35.0%	35.0%	35.0%
State income tax provisions, net of federal income tax benefit	2.8	2.8	1.8
Tax reserve adjustment	—	(1.4)	1.0
All other, net	(1.6)	0.2	(0.6)
	36.2%	36.6%	37.2%

The components of the net deferred income tax liability (asset) at December 31 are as follows:

($ in thousands)	2009	2008
Deferred income tax liabilities:		
Property, plant and equipment basis differences	$666,393	$642,598
Intangibles	292,736	248,520
Other, net	3,924	15,946
	963,053	907,064
Deferred income tax assets:		
Additional pension/OPEB liability	154,856	146,997
Tax operating loss carryforward	94,284	72,434
Employee benefits	74,226	62,482
State tax liability	2,531	7,483
Accrued expenses	15,712	19,726
Bad debts	9,435	12,026
Other, net	13,121	14,550
	364,165	335,698
Less: Valuation allowance	(91,537)	(67,331)
Net deferred income tax asset	272,628	268,367
Net deferred income tax liability	$690,425	$638,697
Deferred tax assets and liabilities are reflected in the following captions on the consolidated balance sheet:		
Deferred income taxes	$722,192	$670,489
Income taxes	(31,767)	(31,792)
Net deferred income tax liability	$690,425	$638,697

Our state tax operating loss carryforward as of December 31, 2009 is estimated at $1.2 billion. A portion of our state loss carryforward begins to expire in 2010.

The provision (benefit) for Federal and state income taxes, as well as the taxes charged or credited to shareholders' equity of Frontier, includes amounts both payable currently and deferred for payment in future periods as indicated below:

($ in thousands)	2009	2008	2007
Income taxes charged to the consolidated statement of operations:			
Current:			
Federal	$11,618	$ 68,114	$ 37,815
State	(2,630)	4,415	9,188
Total current	8,988	72,529	47,003
Deferred:			
Federal	49,916	32,984	75,495
State	11,024	983	5,516
Total deferred	60,940	33,967	81,011
Total income taxes charged to the consolidated statement of operations(a)	69,928	106,496	128,014
Income taxes charged (credited) to shareholders' equity of Frontier:			
Deferred income tax benefits on unrealized/realized gains or losses on securities classified as available-for-sale	—	—	(11)
Current benefit arising from stock options exercised and restricted stock	881	(4,877)	(552)
Deferred income taxes (benefits) arising from the recognition of additional pension/OPEB liability	(4,353)	(88,410)	(6,880)
Total income taxes charged (credited) to shareholders' equity of Frontier(b)	(3,472)	(93,287)	(7,443)
Total income taxes: (a) plus (b)	$66,456	$ 13,209	$120,571

During 2009, we retrospectively changed our method of accounting for repairs and maintenance costs for tax return purposes. The effect of this change was a decrease of our current tax expense and an offsetting increase of our deferred tax expense of approximately $35.8 million in our 2009 income tax provision. Additionally, in part due to the above noted accounting change, refunds of approximately $56.2 million have been applied for in the Company's 2008 tax returns. Refunds are recorded on our balance sheet at December 31, 2009 in current assets within income taxes. We recorded approximately $8.2 million (net) related to uncertain tax positions under FASB Interpretation No. (FIN) 48 (ASC Topic 740) in 2009.

ASC Topic 740 (formerly FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes") requires applying a "more likely than not" threshold to the recognition and derecognition of uncertain tax positions either taken or expected to be taken in the

Company's income tax returns. The total amount of our gross tax liability for tax positions that may not be sustained under a "more likely than not" threshold amounts to $61.9 million as of December 31, 2009 including interest of $5.0 million. The amount of our total tax liabilities reflected above that would positively impact the calculation of our effective income tax rate, if our tax positions are sustained, is $29.3 million as of December 31, 2009.

The Company's policy regarding the classification of interest and penalties is to include these amounts as a component of income tax expense. This treatment of interest and penalties is consistent with prior periods. We have recognized in our consolidated statement of operations for the year ended December 31, 2009, additional interest in the amount of $1.4 million. We are subject to income tax examinations generally for the years 2006 forward for Federal and 2005 for state filing jurisdictions. We also maintain uncertain tax positions in various state jurisdictions. Amounts related to uncertain tax positions that may change within the next twelve months are not material.

The following table sets forth the changes in the Company's balance of unrecognized tax benefits for the years ended December 31, 2009 and 2008 in accordance with ASC Topic 740:

($ in thousands)	2009	2008
Unrecognized tax benefits—beginning of year	$48,711	$ 59,717
Gross decreases—prior year tax positions	(3,133)	(2,070)
Gross increases—current year tax positions	12,412	2,379
Gross decreases—expired statute of limitations	(1,130)	(11,315)
Unrecognized tax benefits—end of year	$56,860	$ 48,711

The amounts above exclude $5.0 million of accrued interest that we have recorded and would be payable should the Company's tax positions not be sustained.

(15) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the years ended December 31, 2009, 2008 and 2007 is as follows:

($ in thousands, except per-share amounts)	2009	2008	2007
Net income used for basic and diluted earnings per common share:			
Net income attributable to common shareholders of Frontier	$120,783	$182,660	$214,654
Less: Dividends allocated to unvested restricted stock awards	(2,248)	(1,744)	(1,408)
Total basic net income attributable to common shareholders of Frontier	118,535	180,916	213,246
Effect of conversion of preferred securities—EPPICS	—	130	152
Total diluted net income attributable to common shareholders of Frontier	$118,535	$181,046	$213,398
Basic earnings per common share:			
Total weighted-average shares and unvested restricted stock awards outstanding—basic	312,183	319,161	332,377
Less: Weighted-average unvested restricted stock awards	(2,162)	(1,660)	(1,340)
Total weighted-average shares outstanding—basic	310,021	317,501	331,037
Net income per share attributable to common shareholders of Frontier	$ 0.38	$ 0.57	$ 0.64
Diluted earnings per common share:			
Total weighted-average shares outstanding—basic	310,021	317,501	331,037
Effect of dilutive shares	92	435	940
Effect of conversion of preferred securities—EPPICS	—	306	401
Total weighted-average shares outstanding—diluted	310,113	318,242	332,378
Net income per share attributable to common shareholders of Frontier	$ 0.38	$ 0.57	$ 0.64

Stock options

For the years ended December 31, 2009, 2008 and 2007, options to purchase 3,551,000 shares (at exercise prices ranging from $8.19 to $18.46), 2,647,000 shares (at exercise prices ranging from $11.15 to $18.46) and 1,804,000 shares (at exercise prices ranging from $15.02 to $18.46), respectively, issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive. In calculating diluted EPS we apply the treasury stock method and include future unearned compensation as part of the assumed proceeds.

In addition, for the years ended December 31, 2009, 2008 and 2007, the impact of dividends paid on unvested restricted stock awards have been deducted from net income attributable to common shareholders of Frontier in accordance with FSP EITF No. 03-6-1 (ASC Topic 260), which we adopted in the first quarter of 2009 on a retrospective basis.

EPPICS

There were no outstanding EPPICS at December 31, 2008 and 2009. At December 31, 2007, we had 80,307 shares of potentially dilutive EPPICS, which were convertible into our common stock at a 4.3615 to 1 ratio at an exercise price of $11.46 per share. If all EPPICS that remained outstanding as of December 31, 2007 were converted, we would have issued approximately 350,259 shares of our common stock. These securities have been included in the diluted earnings per common share calculation for the period ended December 31, 2007.

Stock units

At December 31, 2009, 2008 and 2007, we had 440,463, 324,806 and 225,427 stock units, respectively, issued under the Director Plans. These securities have not been included in the diluted income per share of common stock calculation because their inclusion would have had an antidilutive effect.

Share repurchase programs

There were no shares repurchased during 2009 under a share repurchase program.

During 2008, we repurchased approximately 17.8 million shares of our common stock at an aggregate cost of $200.0 million. During 2007, we repurchased approximately 17.3 million shares of our common stock at an aggregate cost of $250.0 million.

(16) Comprehensive Income:

Comprehensive income consists of net income and other gains and losses affecting shareholders' investment and pension/OPEB liabilities that, under GAAP, are excluded from net income.

The components of accumulated other comprehensive loss, net of tax at December 31, 2009 and 2008 are as follows:

($ in thousands)	**2009**	**2008**
Pension costs	$ 374,157	$ 376,086
Postretirement costs	21,554	8,045
Deferred taxes on pension and OPEB costs	(150,284)	(146,997)
All other	92	18
	$ 245,519	$ 237,152

Our other comprehensive income (loss) for the years ended December 31, 2009, 2008 and 2007 is as follows:

($ in thousands)	2009 Before-tax amount	2009 Tax expense/ (benefit)	2009 Net-of-tax amount
Net actuarial loss	$(35,759)	$(10,149)	$(25,610)
Amortization of pension and postretirement costs	24,179	6,862	17,317
All other	(74)	—	(74)
Other comprehensive (loss)	$(11,654)	$ (3,287)	$ (8,367)

	2008 Before-tax amount	2008 Tax expense/ (benefit)	2008 Net-of-tax amount
Net actuarial loss	$(252,358)	$(90,122)	$(162,236)
Amortization of pension and postretirement costs	4,795	1,712	3,083
All other	(4)	—	(4)
Other comprehensive (loss)	$(247,567)	$(88,410)	$(159,157)

	2007 Before-tax amount	2007 Tax expense/ (benefit)	2007 Net-of-tax amount
Amortization of pension and postretirement costs	$(3,023)	$(6,880)	$3,857
All other	35	(12)	47
Other comprehensive income	$(2,988)	$(6,892)	$3,904

(17) Segment Information:

We operate in one reportable segment, Frontier. Frontier provides both regulated and unregulated voice, data and video services to residential, business and wholesale customers and is typically the incumbent provider in its service areas.

As permitted by ASC Topic 280 (formerly SFAS No. 131), we have utilized the aggregation criteria in combining our operating segments because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not materially impact the economic characteristics or operating results of a particular property.

(18) Quarterly Financial Data (Unaudited):

($ in thousands, except per share amounts)	First quarter	Second quarter	Third quarter	Fourth quarter	Total year
2009					
Revenue	$537,956	$532,142	$526,816	$520,980	$2,117,894
Operating income	139,510	136,616	172,490	157,549	606,165
Net income attributable to common shareholders of Frontier	36,303	27,918	52,159	4,403	120,783
Net income available for common shareholders per basic and diluted share	$ 0.12	$ 0.09	$ 0.17	$ 0.01	$ 0.38
2008					
Revenue	$569,205	$562,550	$557,871	$547,392	$2,237,018
Operating income	164,312	161,969	164,241	151,934	642,456
Net income attributable to common shareholders of Frontier	45,589	55,778	46,995	34,298	182,660
Net income available for common shareholders per basic and diluted share	$ 0.14	$ 0.17	$ 0.15	$ 0.11	$ 0.57

The quarterly net income per common share amounts are rounded to the nearest cent. Annual net income per common share may vary depending on the effect of such rounding. We recognized $10.8 million ($6.8 million or $0.02 per share after tax), $3.7 million ($2.3 million or $0.01 per share after tax) and $13.9 million ($8.8 million or $0.03 per share after tax) of acquisition and integration costs during the second, third and fourth quarters of 2009, respectively. During the fourth quarter of 2009, we recognized a loss of $53.7 million ($33.8 million or $0.11 per share after tax) on the early retirement of debt in connection with a $700.0 million debt tender offer.

(19) Retirement Plans:

We sponsor a noncontributory defined benefit pension plan covering a significant number of our former and current employees and other postretirement benefit plans that provide medical, dental, life insurance and other benefits for covered retired employees and their beneficiaries and covered dependents. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to meet ERISA funding requirements while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities and alternative investments.

The accounting results for pension and other postretirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. We review these assumptions for changes annually with our independent actuaries. We consider our discount rate and expected long-term rate of return on plan assets to be our most critical assumptions.

The discount rate is used to value, on a present value basis, our pension and other postretirement benefit obligations as of the balance sheet date. The same rate is also used in the interest cost component of the pension and postretirement benefit cost determination for the following year. The measurement date used in the selection of our discount rate is the balance sheet date. Our discount rate assumption is determined annually with assistance from our actuaries based on the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination we consider, among other things, the yields on the Citigroup Pension Discount Curve, the Citigroup Above-Median Pension Curve, the general movement of interest rates and the changes in those rates from one period to the next. This rate can change from year-to-year based on market conditions that affect corporate bond yields. Our discount rate was 5.75% at year-end 2009, and 6.50% at year-end 2008 and 2007.

The expected long-term rate of return on plan assets is applied in the determination of periodic pension and postretirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, we considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and our own historical 5-year, 10-year and 20-year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 35% to 55% in fixed income securities, 35% to 55% in equity securities and 5% to 15% in alternative investments. We review our asset allocation at least annually and make changes when considered appropriate. Our pension asset investment allocation decisions are made by the Retirement Investment & Administration Committee (RIAC), a committee comprised of members of management, pursuant to a delegation of authority by the Retirement Plan Committee of the Board of Directors. The RIAC is responsible for reporting its actions to the Retirement Plan Committee. Asset allocation decisions take into account expected market return assumptions of various asset classes as well as expected pension benefit payment streams. When analyzing anticipated benefit payments, management considers both the absolute amount of the payments as well as the timing of such payments. In 2009, we changed our expected long-term rate of return on plan assets to 8.00% from the 8.25% used in 2008. For 2010, we will assume a rate of return of 8.00%. Our pension plan assets are valued at fair value as of the measurement date. The measurement date used to determine pension and other postretirement benefit measures for the pension plan and the postretirement benefit plan is December 31.

Pension benefits

The following tables set forth the pension plan's projected benefit obligations and fair values of plan assets as of December 31, 2009 and 2008 and the components of net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007:

($ in thousands)	2009	2008
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 831,687	$ 820,404
Service cost	6,098	6,005
Interest cost	52,127	52,851
Actuarial loss/(gain)	69,861	20,230
Benefits paid	(71,373)	(69,465)
Plan change	609	—
Special termination benefits	1,567	1,662
Projected benefit obligation at end of year	$ 890,576	$ 831,687
Change in plan assets		
Fair value of plan assets at beginning of year	$ 589,776	$ 822,165
Actual return on plan assets	90,222	(162,924)
Benefits paid	(71,373)	(69,465)
Fair value of plan assets at end of year	$ 608,625	$ 589,776
Funded status	$(281,951)	$(241,911)
Amounts recognized in the consolidated balance sheet		
Other long-term liabilities	$(281,951)	$(241,911)
Accumulated other comprehensive income	$ 374,157	$ 376,086

($ in thousands)	Expected 2010	2009	2008	2007
Components of net periodic benefit cost				
Service cost		$ 6,098	$ 6,005	$ 9,175
Interest cost on projected benefit obligation		52,127	52,851	50,948
Expected return on plan assets		(44,712)	(65,256)	(67,467)
Amortization of prior service cost/(credit)	(199)	(255)	(255)	(255)
Amortization of unrecognized loss	26,984	27,144	6,855	7,313
Net periodic benefit cost/(income)		40,402	200	(286)
Plan curtailment gain		—	—	(14,379)
Special termination charge		1,567	1,662	467
Total periodic benefit cost/(income)		$ 41,969	$ 1,862	$(14,198)

We capitalized $7.5 million, $0.0 million and $0.1 million of pension expense into the cost of our capital expenditures during the years ended December 31, 2009, 2008 and 2007, respectively, as the costs that relate to our engineering and plant construction activities.

Effective December 30, 2007, the CTE Employees' Pension Plan was frozen for all non-union Commonwealth employees. No additional benefit accruals for service rendered subsequent to December 30, 2007 will occur for those participants. As a result of this plan change and in accordance with ASC Topic 715 (formerly SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,") a gain on pension curtailment of $14.4 million was recorded in 2007 and included in Other operating expenses in the consolidated statement of operations. Also, effective December 31, 2007, the CTE Employees' Pension Plan was merged into the Frontier Pension Plan.

The plan's weighted average asset allocations at December 31, 2009 and 2008 by asset category are as follows:

	2009	2008
Asset category:		
Equity securities	38%	42%
Debt securities	51%	48%
Alternative investments	10%	9%
Cash and other	1%	1%
Total	100%	100%

The plan's expected benefit payments over the next 10 years are as follows:

Year ($ in thousands)	Amount
2010	$ 60,820
2011	62,558
2012	64,929
2013	66,619
2014	67,179
2015 - 2019	344,565
Total	$666,670

No contributions were made to the plan during 2007, 2008 and 2009. We expect that we will make a $10.0 million cash contribution to our pension plan in 2010.

The accumulated benefit obligation for the plan was $876.5 million and $818.9 million at December 31, 2009 and 2008, respectively.

Assumptions used in the computation of annual pension costs and valuation of the year-end obligations were as follows:

	2009	2008	2007
Discount rate—used at year end to value obligation	5.75%	6.50%	6.50%
Discount rate—used to compute annual cost	6.50%	6.50%	6.00%
Expected long-term rate of return on plan assets	8.00%	8.25%	8.25%
Rate of increase in compensation levels	3.00%	3.00%	3.50%

Postretirement benefits other than pensions—"OPEB"

The following tables set forth the OPEB plan's benefit obligations, fair values of plan assets and the postretirement benefit liability recognized on our consolidated balance sheets at December 31, 2009 and 2008 and the components of net periodic postretirement benefit costs for the years ended December 31, 2009, 2008 and 2007.

($ in thousands)	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	$ 178,615	$ 174,602
Service cost	361	444
Interest cost	11,017	11,255
Plan participants' contributions	4,086	3,753
Actuarial loss	11,378	3,917
Benefits paid	(16,167)	(15,261)
Plan change	—	(95)
Benefit obligation at end of year	$ 189,290	$ 178,615
Change in plan assets		
Fair value of plan assets at beginning of year	$ 8,137	$ 9,369
Actual return on plan assets	1,018	388
Plan participants' contributions	4,086	3,753
Employer contribution	10,954	9,888
Benefits paid	(16,167)	(15,261)
Fair value of plan assets at end of year	$ 8,028	$ 8,137
Funded status	$(181,262)	$(170,478)
Amounts recognized in the consolidated balance sheet		
Current liabilities	$ (9,052)	$ (8,916)
Other long-term liabilities	$(172,210)	$(161,562)
Accumulated other comprehensive income	$ 21,554	$ 8,045

($ in thousands)	Expected 2010	2009	2008	2007
Components of net periodic postretirement benefit cost				
Service cost		$ 361	$ 444	$ 533
Interest cost on projected benefit obligation		11,017	11,255	10,241
Expected return on plan assets		(439)	(514)	(578)
Amortization of prior service cost/(credit)	(7,716)	(7,751)	(7,751)	(7,735)
Amortization of unrecognized loss	6,324	5,041	5,946	6,099
Net periodic postretirement benefit cost		$ 8,229	$ 9,380	$ 8,560

Assumptions used in the computation of annual OPEB costs and valuation of the year-end OPEB obligations were as follows:

	2009	2008	2007
Discount rate—used at year end to value obligation	5.75%	6.50%	6.50%
Discount rate—used to compute annual cost	6.50%	6.50%	6.00%
Expected long-term rate of return on plan assets	6.00%	6.00%	6.00%

The plan's weighted average asset allocations at December 31, 2009 and 2008 by asset category are as follows:

	2009	2008
Asset category:		
Equity securities	0%	0%
Debt securities	100%	100%
Cash and other	0%	0%
Total	100%	100%

The plan's expected benefit payments over the next 10 years are as follows:

($ in thousands) Year	Gross benefits	Medicare part D subsidy	Total
2010	$ 13,266	$ 461	$ 12,805
2011	13,798	529	13,269
2012	13,961	642	13,319
2013	14,300	742	13,558
2014	14,510	850	13,660
2015 – 2019	75,185	5,786	69,399
Total	$145,020	$9,010	$136,010

Our expected contribution to the plan in 2010 is $12.8 million.

For purposes of measuring year-end benefit obligations, we used, depending on medical plan coverage for different retiree groups, a 8.5% annual rate of increase in the per-capita cost of covered medical benefits, gradually decreasing to 5% in the year 2017 and remaining at that level thereafter. The effect of a 1% increase in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be $0.7 million and the effect on the accumulated postretirement benefit obligation for health benefits would be $12.3 million. The effect of a 1% decrease in the assumed medical cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be $(0.6) million and the effect on the accumulated postretirement benefit obligation for health benefits would be $(10.7) million.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) became law. The Act introduced a prescription drug benefit under Medicare. It includes a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare Part D benefit. The amount of the federal subsidy is based on 28% of an individual beneficiary's annual eligible prescription drug costs ranging between $250 and $5,000. We have determined that the Company-sponsored postretirement healthcare plans that provide prescription drug benefits are actuarially equivalent to the Medicare Prescription Drug benefit. The impact of the federal subsidy has been incorporated into the calculation.

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost at December 31, 2009 and 2008 are as follows:

	Pension plan		OPEB	
($ in thousands)	**2009**	**2008**	**2009**	**2008**
Net actuarial loss	$374,390	$377,183	$ 53,010	$ 47,252
Prior service cost/(credit)	(233)	(1,097)	(31,456)	(39,207)
Total	$374,157	$376,086	$ 21,554	$ 8,045

The amounts recognized as a component of accumulated comprehensive income for the years ended December 31, 2009 and 2008 are as follows:

	Pension plan		OPEB	
($ in thousands)	**2009**	**2008**	**2009**	**2008**
Accumulated other comprehensive income at beginning of year	$376,086	$134,276	$ 8,045	$ 2,292
Net actuarial gain (loss) recognized during year	(27,144)	(6,855)	(5,041)	(5,946)
Prior service (cost)/credit recognized during year	255	255	7,751	7,751
Net actuarial loss (gain) occurring during year	24,351	248,410	10,799	4,043
Prior service cost (credit) occurring during year	609	—	—	(95)
Net amount recognized in comprehensive income for the year	(1,929)	241,810	13,509	5,753
Accumulated other comprehensive income at end of year	$374,157	$376,086	$21,554	$ 8,045

401(k) Savings plans

We sponsor employee retirement savings plans under section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time employees. Under the plans, we provide matching contributions and also provide certain profit-sharing contributions to certain employees upon the attainment of pre-established financial criteria. Employer contributions were $4.4 million, $5.0 million and $4.9 million for 2009, 2008 and 2007, respectively. The amount for 2007 includes employer contributions of $0.4 million for CTE employees under a separate Commonwealth plan. Also, effective December 31, 2007, the Commonwealth Builder 401(k) Plan was merged into the Frontier 401(k) Savings Plan.

(20) Fair Value of Financial Instruments:

In September 2006, the FASB issued ASC Topic 820 (formerly SFAS No. 157, "Fair Value Measurements"), which establishes a framework for measuring fair value in accordance with generally accepted accounting principles in the United States and expands disclosure requirements about fair value measurements. ASC Topic 820 was effective for financial statements issued for fiscal years beginning after November 15, 2007. We adopted ASC Topic 820 effective January 1, 2008, for all financial assets and financial liabilities, as required.

Fair value is defined under ASC Topic 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value under ASC Topic 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

The following table represents the Company's pension plan assets measured at fair value on a recurring basis:

	Fair value measurements at December 31, 2009			
	Total	Quoted prices in active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Cash and Cash Equivalents	$ 23,202	$ —	$ 23,202	$ —
U.S. Government Obligations	85,255	—	85,255	—
Corporate and Other Obligations	200,671	—	200,671	—
Common Stock	67,571	67,571	—	—
Commingled Funds	36,120	—	22,198	13,922
Common/Collective Trust Funds	29,799	—	29,799	—
Interest in Registered Investment Companies	139,929	59,564	80,365	—
Interest in Limited Partnerships	29,727	—	—	29,727
Insurance Contracts	900	—	900	—
Other	(75)	—	(75)	—
Total investments, at fair value	$613,099	$127,135	$442,315	$43,649
Interest and Dividends Receivable	1,872			
Due from Broker for Securities Sold	36,715			
Receivable Associated with Insurance Contract	6,284			
Due to Broker for Securities Purchased	(49,345)			
Total Plan Assets, at Fair Value	$608,625			

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets:

	For the year ended December 31, 2009	
	Interest in limited partnerships	Commingled funds
Balance, beginning of year	$28,924	$12,515
Realized gains/(losses)	(2,475)	—
Unrealized gains	3,786	1,407
Purchases and (sales), net	(508)	—
Balance, end of year	$29,727	$13,922

The fair value of our OPEB plan assets, which are measured using Level 1 inputs, was $8.0 million as of December 31, 2009.

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2009 and 2008. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments for which market values are not readily available are carried at cost, which approximates fair value.

	2009		2008	
($ in thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	$4,794,129	$4,628,132	$4,721,685	$3,651,924

(21) Commitments and Contingencies:

On June 24, 2004, one of our subsidiaries, Frontier Subsidiary Telco, Inc., received a "Notice of Indemnity Claim" from Citibank, N.A., that was related to a case pending against Citibank and others in the U.S. Bankruptcy Court for the Southern District of New York as part of the Global Crossing bankruptcy proceeding. The case against Citibank and others has been settled with no contribution from the Company and no further indemnification claims are expected.

We are party to various other legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

We anticipate capital expenditures related to our currently owned properties of approximately $220.0 million to $240.0 million for 2010. Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into firm, written contracts for such activities.

In connection with the Verizon Transaction, the Company has commenced activities to obtain the necessary regulatory approvals, plan and implement systems conversions and other initiatives necessary to effectuate the closing, which is expected to occur at the end of the second quarter of 2010, and enable the Company to implement its "go to market" strategy at closing. While the Company continues to evaluate certain other expenses, the Company currently expects to incur in 2010 acquisition and integration costs of approximately $100.0 million and capital expenditures of approximately $180.0 million, in each case related to these integration initiatives. The Company incurred $28.3 million of acquisition and integration costs and $25.0 million in capital expenditures related to the integration of Verizon activities during 2009.

We conduct certain of our operations in leased premises and also lease certain equipment and other assets pursuant to operating leases. The lease arrangements have terms ranging from 1 to 99 years and several contain rent escalation clauses providing for increases in monthly rent at specific intervals. When rent escalation clauses exist, we record annual rental expense based on the total expected rent payments on a straight-line basis over the lease term. Certain leases also have renewal options. Renewal options that are reasonably assured are included in determining the lease term. Future minimum rental commitments for all long-term noncancelable operating leases as of December 31, 2009 are as follows:

($ in thousands)	Operating leases
Year ending December 31:	
2010	$24,417
2011	11,627
2012	8,407
2013	7,107
2014	5,796
Thereafter	6,934
Total minimum lease payments	$64,288

Total rental expense included in our consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 was $25.9 million, $24.3 million and $23.6 million, respectively.

We are a party to contracts with several unrelated long distance carriers. The contracts provide fees based on traffic they carry for us subject to minimum monthly fees.

At December 31, 2009, the estimated future payments for obligations under our noncancelable long distance contracts and service agreements are as follows:

Year ($ in thousands)	Amount
2010	$11,026
2011	6,407
2012	4,421
2013	4,125
2014	4,125
Thereafter	165
Total	$30,269

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the State of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec, then the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). U.S. GAAP rules require that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." U.S. GAAP rules also state that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2010 and remained in default for the duration of the contract (another 6 years), we estimate that our undiscounted purchase obligation for 2010 through 2015 would be approximately $0.6 billion. In such a scenario the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

At December 31, 2009, we have outstanding performance letters of credit as follows:

($ in thousands)	
CNA	$26,618
State of New York	1,042
Total	$27,660

CNA serves as our agent with respect to general liability claims (auto, workers compensation and other insured perils of the Company). As our agent, they administer all claims and make payments for claims on our behalf. We reimburse CNA for such services upon presentation of their invoice. To serve as our agent and make payments on our behalf, CNA requires that we establish a letter of credit in their favor. CNA could potentially draw against this letter of credit if we failed to reimburse CNA in accordance with the terms of our agreement. The value of the letter of credit is reviewed annually and adjusted based on claims history.

None of the above letters of credit restrict our cash balances.

Verizon’s Separate Telephone Operations Report of independent registered public accounting firm

The Board of Directors and Management
Verizon Communications Inc.

We have audited the accompanying combined special-purpose statements of selected assets, selected liabilities and parent funding of Verizon Communications Inc.’s (“Verizon”) Separate Telephone Operations, a combination of Arizona and Nevada carved-out of Verizon California Inc.; Illinois, Indiana, Michigan, Ohio and Wisconsin carved out of Verizon North Inc.; Illinois, North Carolina and South Carolina carved out of Verizon South Inc.; Verizon Northwest Inc., Contel of the South, Inc., Verizon West Virginia Inc. and carved-out components of Verizon Long Distance LLC, Verizon Enterprise Solutions LLC and Verizon Online LLC (collectively, the “Business”) as of December 31, 2009 and 2008, and the related combined statements of income, parent funding, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed on page F-72. These financial statements and financial statement schedule are the responsibility of the Business’ management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Business’ internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying combined special-purpose financial statements were prepared on the basis described in Note 1. The combined special-purpose financial statements include allocations of certain indirectly attributable amounts on bases determined by management of the Business.

In our opinion, the combined special-purpose financial statements referred to above present fairly, in all material respects, the selected assets, liabilities and parent funding of Verizon’s Separate Telephone Operations as of December 31, 2009 and 2008, and the combined results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic special-purpose combined financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

/s/ Ernst & Young LLP

New York, New York
March 10, 2010

Verizon's Separate Telephone Operations
Combined statements of income

Years Ended December 31, (Dollars in millions)	2009	2008	2007
Operating Revenues (including $339, $332 and $350 from affiliates)	**$4,065**	$4,352	$4,527
Operating Expenses (including $906, $749 and $779 allocated from affiliates)			
Cost of services and sales (exclusive of items shown below)	**1,380**	1,435	1,523
Selling, general and administrative expense	**1,362**	1,114	1,049
Depreciation and amortization expense	**781**	759	796
Total Operating Expenses	**3,523**	3,308	3,368
Operating Income	**542**	1,044	1,159
Other income (expense), net (including $0, $4 and $5 allocated from affiliates)	**1**	7	10
Interest expense (including $(50), $(114) and $(115) allocated from affiliates)	**(92)**	(186)	(203)
Income before provision for income taxes	**451**	865	966
Income tax provision	**(159)**	(313)	(363)
Net Income	**$ 292**	$ 552	$ 603

See Notes to Combined Special-Purpose Financial Statements.

Verizon's Separate Telephone Operations
Combined statements of selected assets, selected liabilities and parent funding

At December 31, (Dollars in millions)	2009	2008
Selected Assets		
Current assets		
Short-term investments	**$ —**	$ 26
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $46 and $49	**391**	455
Affiliates	**83**	82
Materials and supplies	**49**	51
Deferred income taxes	**55**	60
Prepaid expense and other	**68**	93
Total current assets	**646**	767
Plant, property and equipment	**19,426**	19,160
Less accumulated depreciation	**14,160**	13,667
	5,266	5,493
Prepaid pension asset	**2,346**	2,611
Other assets	**98**	55
Total selected assets	**$ 8,356**	$ 8,926
Selected Liabilities and Parent Funding		
Current liabilities		
Current portion of long-term debt	**$ 375**	$ —
Accounts payable and accrued liabilities:		
Affiliates	**126**	188
Other	**261**	327
Other current liabilities	**220**	276
Total current liabilities	**982**	791
Long-term debt	**250**	622
Employee benefit obligations	**1,240**	1,160
Deferred income taxes	**1,310**	1,270
Other long-term liabilities	**129**	131
Parent funding	**4,445**	4,952
Total selected liabilities and parent funding	**$ 8,356**	$ 8,926

See Notes to Combined Special-Purpose Financial Statements.

Verizon's Separate Telephone Operations
Combined statements of parent funding

	(Dollars in millions)
Balance at January 1, 2007	$ 4,443
Adoption of the accounting standard regarding accounting for uncertainty in income taxes	23
Net income	603
Net change due to parent funding, allocations and intercompany reimbursements	(521)
Balance at December 31, 2007	$ 4,548
Net income	552
Net change due to parent funding, allocations and intercompany reimbursements	(148)
Balance at December 31, 2008	$ 4,952
Net income	292
Net change due to parent funding, allocations and intercompany reimbursements	(799)
Balance at December 31, 2009	**$4,445**

See Notes to Combined Special-Purpose Financial Statements.

Verizon's Separate Telephone Operations
Combined statements of cash flows

Years Ended December 31, (Dollars in millions)	2009	2008	2007
Cash Flows From Operating Activities			
Net Income	**$ 292**	$ 552	$ 603
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**781**	759	796
Deferred income taxes, net	**45**	10	(67)
Employee retirement benefits	**449**	150	72
Provision for uncollectible accounts	**62**	65	58
Changes in current assets and liabilities:			
Accounts receivable	**1**	(23)	(32)
Materials and supplies	**2**	(22)	2
Other current assets	**25**	7	26
Accounts payable and accrued liabilities	**(128)**	83	(148)
Other current liabilities	**(56)**	(17)	(6)
Other, net	**(107)**	(138)	(123)
Net cash provided by operating activities	**1,366**	1,426	1,181
Cash Flows From Investing Activities			
Capital expenditures (including capitalized network software)	**(558)**	(730)	(703)
Purchases of short-term investments	**(1)**	(13)	(160)
Proceeds from sale of short-term investments	**27**	161	175
Proceeds from sales of assets	**1**	4	28
Other, net	**(36)**	—	—
Net cash used in investing activities	**(567)**	(578)	(660)
Cash Flows From Financing Activities			
Principal repayments of borrowings and capital lease obligations	**—**	(700)	—
Net change in parent funding, allocations and intercompany reimbursement	**(799)**	(148)	(521)
Net cash used in financing activities	**(799)**	(848)	(521)
Net change in cash	**—**	—	—
Cash, beginning of year	**—**	—	—
Cash, end of year	**$ —**	$ —	$ —

See Notes to Combined Special-Purpose Financial Statements.

Verizon's Separate Telephone Operations
Notes to combined special-purpose financial statements

1. Description of business and summary of significant accounting policies

Description of business

Verizon's Separate Telephone Operations are comprised of the local exchange business and related landline activities of Verizon Communications Inc. (Verizon) in the states of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, including Internet access and long distance services and broadband video provided to certain customers in those states, (collectively the Business). The Business is comprised of portions of Verizon California Inc. and Verizon South Inc., and the stock of Contel of the South, Inc., Verizon Northwest Inc., Verizon North Inc., and Verizon West Virginia Inc. (after the transfer of certain operations, assets and liabilities of Verizon North Inc. and Verizon Northwest Inc.) and is referred to as ILECs; also included in the Business are portions of Verizon Long Distance LLC and Verizon Enterprise Solutions LLC, referred to as VLD and Verizon Online LLC, referred to as VOL. The Business excludes all activities of Verizon Business Global LLC and Cellco Partnership (doing business as Verizon Wireless).

Verizon California Inc., Verizon Northwest Inc., Verizon North Inc., Verizon South Inc. and Contel of the South, Inc., are wholly owned subsidiaries of GTE Corporation (GTE), which is a subsidiary of Verizon. Verizon West Virginia Inc. is a wholly owned subsidiary of Verizon. Verizon Long Distance LLC, Verizon Enterprise Solutions LLC and Verizon Online LLC are indirect wholly-owned subsidiaries of Verizon. ILECs, VLD, and VOL are referred to collectively as "the Companies."

We have one reportable segment, servicing a territory consisting of Local Access and Transport Areas (LATAs) in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin. These LATAs are generally centered on a city or based on some other identifiable common geography. Our business includes regulated and unregulated carrier business in all thirteen states, consisting principally of:

- local wireline customers and related operations and assets used to deliver:
    - local exchange service,
    - intraLATA toll service,
    - network access service,
    - enhanced voice and data services, and
    - products at retail stores;
- consumer and small business switched long distance customers (excluding any customers of Verizon Business Global LLC);
- dial-up, high speed Internet (or Digital Subscriber Line) and fiber-to-the-premises Internet service provider customers; and
- broadband video in certain areas in Indiana, Oregon and Washington.

Many of the communications services we provide are subject to regulation by the state regulatory commissions of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, with respect to intrastate rates and services and other matters. In Idaho, we have made the election under a statutory amendment into a deregulatory regime that phases out all price regulation. The Federal Communications Commission regulates rates that we charge long-distance carriers and end-user subscribers for interstate access services and interstate traffic. All of the broadband video services we provide, including the payment of franchise fees, are subject to regulation by state regulatory commissions or local governmental authorities.

Basis of presentation

Financial statements had not been historically prepared for the Business, as it was not operated as a separate business and does not constitute a separate legal entity. The accompanying combined special-purpose financial statements have been prepared to present the statements of selected assets, selected liabilities and parent funding, and statements of income, parent funding and cash flows of the Business in contemplation of the proposed spin-off and business combination of the Business. On May 13, 2009, Verizon entered into a definitive agreement with Frontier Communications Corporation ("Frontier") pursuant to which Verizon agreed to spin-off the Business in a newly formed legal entity and that entity will then merge with and into Frontier in accordance with the terms of the merger agreement. The accompanying combined special-purpose financial statements have been prepared in accordance with U.S. generally accepted accounting principles using specific information where available and allocations where data is not maintained on a state-specific basis within the Companies' books and records. The allocations impacted substantially all of the income statement items other than operating revenues and balance sheet items with the exception of plant, property and equipment, accumulated depreciation and materials and supplies, which were maintained at the state level.

The combined special-purpose financial statements include the wireline-related businesses, Internet access and long distance services provided to customers in those thirteen states. All significant intercompany transactions have been eliminated.

The preparation of the financial information related to our business, which is included in the accompanying combined special-purpose financial statements, was based on the following:

ILECs: For the Combined Statements of Selected Assets, Selected Liabilities and Parent Funding, plant, property and equipment, accumulated depreciation, materials and supplies and certain other assets and liabilities were determined based upon state specific records; accounts receivable were allocated based upon applicable billing system data; short-term investments, accrued payroll related liabilities and certain employee benefit obligations were allocated based on employee headcount; and accounts payable were allocated based upon applicable operating expenses. The remaining assets and liabilities were primarily allocated based upon relevant percentages of our ILECs' revenues, operating expenses and headcount to the total revenues, operating expenses and headcount of each of the Verizon ILEC businesses. For the Combined Statements of Income, operating revenues and certain operating expenses were based on state specific records.

VOL: For the Combined Statements of Selected Assets, Selected Liabilities and Parent Funding, receivables were calculated based on applicable operating revenues; accounts payable were calculated based on allocated operating expenses; the remaining assets and liabilities were determined based upon state-specific records. For the Combined Statements of Income, operating revenues were determined using applicable billing system data and depreciation expense was determined based upon state-specific records. The remaining operating expenses were allocated based on the percentage of our VOL's revenues to total Verizon VOL's revenues applied to operating expense for total Verizon VOL.

VLD: For the Combined Statements of Selected Assets, Selected Liabilities and Parent Funding, receivables were calculated based on applicable operating revenues and accounts payable were calculated based on allocated operating expenses. Other current liabilities, which consist of advanced billings, were allocated based upon the revenue percentage of our VLD's revenues to the total operating revenues of Verizon VLD. For the Combined Statements of Income, operating revenues were determined using applicable billing system data; operating expenses were allocated based on the percentage of our VLD's revenues to total Verizon VLD's revenues applied to operating expenses for total Verizon VLD.

We believe the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of our business.

We have evaluated subsequent events through March 10, 2010, the date the financial statements were available to be issued.

Use of estimates

The accompanying combined special-purpose financial statements have been prepared using U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include the allowance for doubtful accounts, the recoverability of plant, property and equipment and income taxes. In addition, estimates were made to determine the allocations in preparing the combined special-purpose financial statements as described above.

Revenue recognition

We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for local telephone, long distance, Internet access and certain other services are recognized in the month the service is provided. Revenue from other services that are derived from fixed fee or that exceed contracted amounts is recognized when such services are provided.

We recognize revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as the services are provided. Long-term contracts are accounted for using the percentage of completion method. The completed contract method is used when the costs cannot be estimated with a reasonable degree of reliability.

Non-recurring customer activation fees, along with the related costs up to, but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

We report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

Maintenance and repairs

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged primarily to Cost of services and sales as these costs are incurred.

Trade and other accounts receivable

Trade and other accounts receivable are stated at the amount we expect to collect. We maintain allowances for uncollectible accounts for estimated losses resulting from the inability of our customers to make required payments. In determining these estimates, we consider historical write-offs, the aging of the receivables and other factors, such as overall economic conditions.

Concentrations of credit risk

Financial instruments that subject us to concentrations of credit risk consist primarily of trade receivables. Concentrations of credit risk with respect to trade receivables, other than those from AT&T Inc. (AT&T) and Sprint Nextel Corporation (Sprint), are limited due to the large number of customers. We generated revenues from services provided to AT&T and Sprint (primarily network access and billing and collection) of $178 million and $73 million in 2009, $227 million and $76 million in 2008 and $246 million and $78 million in 2007, respectively.

While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider this risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial position.

Materials and supplies

Materials and supplies include new and reusable supplies and network equipment, which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

Plant, property and equipment

We record our plant, property, and equipment at cost. Depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, property and equipment less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used are presented in the following table:

Average useful lives (in years)	
Buildings	45
Central office equipment	5 – 11
Outside communications plant	
Copper cable	15
Fiber cable	25
Poles and conduit	30 – 50
Furniture, vehicles and other	5 – 15

When depreciable telephone plant used in our wireline network is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation.

Network software purchased or developed in connection with related plant assets is capitalized. Interest associated with the acquisition or construction of plant assets is also capitalized. Capitalized interest is reported as a cost of plant and a reduction in interest expense.

Annually, we review the estimated useful lives of plant, property, and equipment along with the associated depreciation rates.

Effective January 1, 2009, the average lives of fiber cable were increased from a range of 20 to 25 years to 25 years. As a result, 2009 depreciation expense decreased by $6 million. Effective January 1, 2009, the average life of copper cable was standardized from a range of 14 to 18 years to 15 years. As a result, 2009 depreciation expense increased by $37 million. Effective January 1, 2009, the average life of switch-related network software was changed from 3 years to 5 years. As a result, 2009 depreciation expense decreased by $2 million.

Effective January 1, 2008, the average useful lives of fiber cable were increased from 20 years to a range of 20 to 25 years. As a result, 2008 depreciation expense decreased by $9 million. Effective January 1, 2007, the useful life for buildings was increased to 45 years from a previous range of 25 to 42 years. As a result, 2007 depreciation expense decreased by $29 million. In addition, the useful life of circuit equipment was increased from 8 to 9 years, effective January 1, 2007. This resulted in a decrease in 2007 depreciation expense of $32 million.

We believe that current estimated useful asset lives are reasonable, although they are subject to regular review and analysis. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing plans to roll out the broadband network, technology upgrades and enhancements, planned retirements, and the adequacy of reserves.

Impairment of long-lived assets

Plant, property, and equipment and intangible assets with finite lives are amortized over their useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications are present, we test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we perform the next step, which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

Computer software costs

We capitalize the cost of network software which has a useful life in excess of one year in accordance with the accounting standard for the costs of computer software developed or obtained for internal use. Subsequent additions, modifications or upgrades to network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Also, we capitalize interest associated with the development of network software. Software maintenance and training costs are expensed in the period in which they are incurred.

Advertising costs

Advertising costs for advertising products and services are charged to selling, general and administrative expense in the period in which they are incurred.

Stock-based compensation

We participate in the Verizon Communications Long Term Incentive Plan (the Plan). The Plan permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units (RSU), performance shares, performance stock units (PSU) and other awards.

Restricted stock units

The Plan provides for grants of RSUs that vest at the end of the third year of the grant. The RSUs are classified as liability awards because the RSUs are paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon's stock. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

Performance stock units

The Plan also provides for grants of PSUs that generally vest at the end of the third year after the grant. As defined by the Plan, the Human Resources Committee of the Verizon Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding goals have been achieved over the three-year performance cycle. All payments are subject to approval by Verizon's Human Resources Committee. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon's stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award.

Stock options

The Plan provides for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004.

The structure of Verizon's stock incentive plans does not provide for the separate determination of certain disclosures for our business. The costs associated with such plans are allocated to us as part of the general allocations and are not relevant on a participant basis. The disclosures omitted are the rollforward of stock option activity, the assumptions used in the Black-Scholes valuation and information about the range of exercise prices for outstanding and exercisable options.

After-tax compensation expense for stock options and other stock-based compensation included in net income for the years ended December 31, 2009, 2008 and 2007 was not material.

Employee benefit plans

We participate in certain Verizon benefit plans. Under these plans, pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Unrecognized actuarial gains and losses and prior service costs and credits that arise during the period are immediately recognized as a component of other accumulated comprehensive income, net of applicable income taxes.

We maintain ongoing severance plans for both management and associate employees who are terminated. The costs for these plans are accounted for under the accounting standard on employers' accounting for postemployment benefits. Severance benefits are accrued based on the terms of the severance plan over the estimated service periods of the employees. The accruals are also based on the historical run-rate of actual severances and expectations for future severances. Severance costs are included in selling, general and administrative expense in the statement of income (See Note 5).

Fair value measurements

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the valuation methodologies in measuring fair value, is as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities
Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities
Level 3—No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The value of the financial assets and financial liabilities held by the Business and impacted by the adoption of this accounting standard is not material.

Income taxes

Verizon and its domestic subsidiaries, including us, file consolidated federal income tax returns. We participate in a tax sharing agreement with Verizon and remit tax payments to Verizon based on the respective tax liability determined as if on a separate company basis. Current and deferred tax expense is determined by applying the accounting standard for income taxes to each subsidiary as if it were a separate taxpayer.

Our effective tax rate is based on pre-tax income, statutory tax rates, tax laws and regulations and tax planning strategies available to us in the various jurisdictions in which we operate.

Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at rates then in effect. We record valuation allowances if applicable to reduce our deferred tax assets to the amount that is more likely than not to be realized.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. These credits are amortized over the estimated service lives of the related assets as a reduction to the Income Tax Provision.

We use a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

Significant management judgment is required in evaluating our tax positions and in determining our effective tax rate.

Other

During 2009, we recorded $26 million in expense and $34 million in capital expenditures, for costs incurred related to network, non-network software and other activities to enable the Business to operate on a stand-alone basis subsequent to the proposed spin-off and business combination. The expense is primarily included in Cost of services and sales in the combined statements of income. The capital expenditures are included in Other assets in the combined statements of selected assets, selected liabilities and parent funding and Other, net cash flows used in investing activities in the combined statements of cash flows.

2. Plant, property and equipment

We maintain continuing property records, which identify specific plant, property and equipment balances, depreciation reserves and annual capital expenditure amounts for our business. The plant, property and equipment balance in the accompanying statements of selected assets, selected liabilities, and parent funding is based on these specific amounts and does not include any allocations of common assets utilized in providing centralized services and otherwise not specifically associated with our business.

The following table displays the details of our plant, property and equipment, which is stated at cost:

	(Dollars in millions)	
At December 31,	**2009**	**2008**
Land	**$ 49**	$ 50
Buildings	**1,141**	1,130
Central office equipment	**7,287**	7,262
Outside communications plant	**10,248**	9,992
Furniture, vehicles and other work equipment	**460**	370
Construction-in-progress	**56**	49
Other	**185**	307
	19,426	19,160
Less accumulated depreciation	**14,160**	13,667
Total	**$ 5,266**	$ 5,493

3. Leases

We lease certain facilities and equipment for use in our operations principally under operating leases. Total rent expense under operating leases amounted to $140 million, $189 million and $217 million in 2009, 2008 and 2007, respectively. Of these amounts, $106 million, $135 million and $162 million in 2009, 2008 and 2007, respectively, were lease payments to affiliated companies.

The table below displays the aggregate minimum rental commitments under noncancelable operating leases for the periods shown at December 31, 2009, excluding those with affiliated companies:

Years (Dollars in millions)	Third-party operating leases
2010	$10
2011	7
2012	5
2013	4
2014	3
Thereafter	1
Total minimum rental commitments	$30

4. Debt

Debt maturing within one year

Debt maturing within one year is as follows:

At December 31, (Dollars in millions)	2009	2008
Current portion of long-term debt	**$375**	$—

Long-term debt

Long-term debt consists of debentures that were issued by certain of the Companies. Interest rates and maturities of the amounts outstanding are as follows at December 31:

Description (Dollars in millions)	Interest rate %	Maturity	2009	2008
Twelve year debenture	**6.375**	**2010**	**$200**	$200
Twelve year debenture	**6.300**	**2010**	**175**	175
Thirty year debenture	**6.730**	**2028**	**200**	200
Forty year debenture	**8.400**	**2029**	**50**	50
			625	625
Unamortized premium and discount, net			**—**	(3)
Total long-term obligations			**625**	622
Less maturing within one year			**375**	—
Total long-term debt			**$250**	$622

In February 2010, Verizon North's 6.375% debenture of $200 million due February 15, 2010, which was outstanding at December 31, 2009, matured and was repaid. During 2008, Verizon

North's 5.65% debenture of $250 million, Verizon Northwest's 5.55% debentures of $200 million and Verizon North's 6.9% debenture of $250 million matured and were repaid.

The terms of the debentures shown above are subject to the restrictions and provisions of the indentures governing that debt. None of the debentures shown above were held in sinking or other special funds or pledged by us. Debt discounts and premiums on our outstanding long-term debt are amortized over the lives of the respective issues.

The fair value of debt is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates. The fair value of debt was $637 million and $604 million at December 31, 2009 and 2008, respectively, as compared to the carrying value of $625 million and $622 million, respectively at December 31, 2009 and 2008.

We are in compliance with all of our debt covenants.

5. Employee benefits

We participate in Verizon's benefit plans. Verizon maintains noncontributory defined pension plans for many of its employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on our share of cost for recent and future retirees. Verizon also sponsors defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. A measurement date of December 31 is used for the pension and postretirement health care and life insurance plans.

The structure of Verizon's benefit plans does not provide for the separate attribution of the related pension and postretirement assets and obligations at the Business level. Because there is not a separate plan for our business, the annual income and expense related to such assets and obligations have been allocated to us and are reflected as prepaid pension assets and employee benefit obligations in the combined statements of selected assets, selected liabilities and parent funding.

The structure of Verizon's benefit plans does not provide for the separate determination of certain disclosures for the Companies, or our Business.

Pension plans and other postretirement benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Approximately 82% of the employees of the ILECs' operations are covered by collective bargaining agreements which expire at different times. Modifications in benefits have been bargained for from time to time, and Verizon may also periodically amend the benefits in the management plans.

Benefit cost

The following table summarizes the benefit costs related to our pension and postretirement health care and life insurance plans associated with the ILECs operations. Because our operating expenses associated with VLD and VOL were determined predominantly through allocations, the benefit costs for these businesses were not separable for disclosure purposes.

At December 31, (Dollars in millions)	Pension			Health care and life		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Net periodic benefit (income) cost	**$(101)**	$(143)	$(116)	**$168**	$193	$188
Settlement loss	**343**	98	—	**—**	—	—
Curtailment loss	**24**	—	—	**14**	—	—
Termination benefits	**1**	2	—	**—**	—	—
Total cost	**$ 267**	$ (43)	$(116)	**$182**	$193	$188

We recorded pension settlement losses of $343 million and $98 million in 2009 and 2008, respectively, related to employees that received lump-sum distributions, primarily resulting from our previous separation plans, as prescribed payment thresholds were reached. We also recorded pension and postretirement curtailment losses of $38 million in 2009, as workforce reductions caused the elimination of a significant amount of future service requiring us to recognize a portion of the prior service costs and actuarial losses. The settlement and curtailment of pension and postretirement obligations are recorded in accordance with the accounting standard regarding employers' accounting for settlements and curtailments of defined benefit pension plans and for termination benefits.

The employee benefit assets and obligations associated with our ILECs' operations and recognized in our combined statements of selected assets, selected liabilities and parent funding consist of:

At December 31, (Dollars in millions)	Pension		Health care and life	
	2009	**2008**	**2009**	**2008**
Prepaid pension asset	**$2,346**	$2,611	**$ —**	$ —
Employee benefit obligations	**3**	6	**1,168**	1,102

The changes in the employee benefit asset and obligations from year to year were caused by a number of factors, including changes in actuarial assumptions (see Assumptions), settlements and curtailments.

Assumptions

The weighted-average assumptions used in determining benefit obligations are as follows:

	Pension		Health care and life	
At December 31,	2009	2008	2009	2008
Discount rate	**6.25%**	6.75%	**6.25%**	6.75%
Rate of future increases in compensation	**4.00**	4.00	**N/A**	N/A

The weighted-average assumptions used in determining net periodic cost are as follows:

	Pension			Health care and life		
Years ended December 31,	2009	2008	2007	2009	2008	2007
Discount rate	**6.75%**	6.50%	6.00%	**6.75%**	6.50%	6.00%
Expected return on plan assets	**8.50**	8.50	8.50	**8.25**	8.25	8.25
Rate of compensation increase	**4.00**	4.00	4.00	**N/A**	4.00	4.00

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the Verizon pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed health care cost trend rates are as follows:

	Health care and life		
At December 31,	2009	2008	2007
Health care cost trend rate assumed for next year	**8.00%**	9.00%	10.00%
Rate to which cost trend rate gradually declines	**5.00**	5.00	5.00
Year the rate reaches level it is assumed to remain thereafter	**2014**	2014	2013

Savings plans and employee stock ownership plans

Substantially all of our employees are eligible to participate in savings plans maintained by Verizon. Verizon maintains four leveraged employee stock ownership plans (ESOP) for its management employees. Under these plans, a certain percentage of eligible employee contributions are matched with shares of Verizon's common stock. We recognize savings plan costs based on these matching obligations. We recorded total savings plan costs of $19 million in 2009, $20 million in 2008 and $24 million in 2007.

Severance benefits

The following table provides an analysis of our severance liability recorded in accordance with the accounting standard regarding employers' accounting for postemployment benefits:

Year (Dollars in millions)	Beginning of year	Charged to expense(a)	Payments	End of year
2007	$27	$56	$ (19)	$64
2008	64	11	(24)	51
2009	**51**	**21**	**(27)**	**45**

(a) Includes accruals for ongoing employee severance costs and $16 million, $9 million and $53 million of special charges in 2009, 2008 and 2007, respectively.

The severance liability at December 31, 2009 includes future contractual payments due to employees separated as of the end of the year.

6. Parent funding and interest expense

For purposes of these combined special-purpose financial statements, some funding requirements have been summarized as "Parent Funding" without regard to whether the funding represents debt or equity. No separate equity accounts are maintained for our business and debt instruments that cannot be directly attributable to our business are allocated to us and included in the parent funding. As such, a portion of interest expense net of interest income for the years ended December 31, 2009, 2008 and 2007 was allocated to us based on the percentage of our parent funding relative to the total debt and equity for the Companies.

7. Income taxes

The components of income tax provision are presented in the following table:

Years ended December 31, (Dollars in millions)	2009	2008	2007
Current:			
Federal	**$ 83**	$245	$371
State and local	**31**	58	59
	114	303	430
Deferred:			
Federal	**47**	19	(56)
State and local	**(2)**	(9)	(11)
	45	10	(67)
Total income tax provision	**$159**	$313	$363

The following table shows the primary reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years ended December 31,	2009	2008	2007
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefits	**4.3**	3.6	3.2
Unrecognized tax benefits	**(1.8)**	(1.3)	0.3
Medicare subsidy	**(2.2)**	(1.2)	(1.0)
Other, net	**—**	0.1	0.1
Effective income tax rate	**35.3%**	36.2%	37.6%

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of our deferred tax assets and liabilities are shown in the following table:

At December 31, (Dollars in millions)	2009	2008
Deferred tax assets:		
Employee benefits	**$ 536**	$ 511
Allowance for uncollectible accounts	**18**	19
Other assets	**38**	46
Total deferred tax assets	**592**	576
Deferred tax liabilities:		
Employee benefits	**907**	1,018
Depreciation	**938**	757
Other liabilities	**2**	11
Total deferred tax liabilities	**1,847**	1,786
Net deferred tax liabilities	**$1,255**	$1,210

No valuation allowance has been recorded against deferred tax assets as of December 31, 2009 and December 31, 2008.

Unrecognized tax benefits

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

(Dollars in millions)	2009	2008	2007
Balance at January 1,	**$ 47**	$ 71	$73
Additions based on tax positions related to the current year	**7**	8	6
Additions for tax positions of prior years	**31**	(2)	—
Reductions for tax positions of prior years	**(27)**	(5)	(8)
Settlements	**—**	(25)	—
Balance at December 31,	**$ 58**	$ 47	$71

During the year ended December 31, 2008, Verizon settled the federal income tax audit for tax years 2000 through 2003 with the Internal Revenue Service. This settlement resulted in payments of approximately $25 million with respect to the Business.

Included in the total unrecognized tax benefits at December 31, 2009, 2008 and 2007 was $5 million for each respective period that, if recognized, would favorably affect the effective tax rate.

We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During 2009 and 2008, we recognized a net after tax benefit in the income statement related to interest and penalties of approximately $8 million and $10 million, respectively. During 2007, we recognized a net after tax expense in the income statement related to interest and penalties of approximately $5 million. We had approximately $5 million (after-tax) and $13 million (after tax) for the payment of interest and penalties accrued in the combined statements of selected assets, selected liabilities and parent funding at December 31, 2009 and December 31, 2008, respectively.

Verizon and/or its domestic subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Internal Revenue Service (IRS) is currently examining Verizon's U.S. income tax returns for years 2004 through 2006. As a large taxpayer, Verizon is under continual audit by the IRS and multiple state jurisdictions on numerous open tax positions. It is reasonably possible that the amount of the remaining liability for unrecognized tax benefits could change by a significant amount during the next twelve-month period. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

8. Transactions with affiliates

Our operating revenue includes transactions with Verizon for the provision of local telephone services, network access, billing and collection services, interconnection agreements and the rental of facilities and equipment. These services were reimbursed by Verizon based on tariffed rates, market prices, negotiated contract terms that approximated market rates, or actual costs incurred by us.

We reimbursed Verizon for specific goods and services it provided to, or arranged for, us based on tariffed rates, market prices or negotiated terms that approximated market rates. These goods and services included items such as communications and data processing services, office space, professional fees and insurance coverage.

We also reimbursed Verizon our share of costs incurred by Verizon to provide services on a common basis to all of its subsidiaries. These costs included allocations for marketing, sales, accounting, finance, materials management, procurement, labor relations, legal, security, treasury, human resources, tax and audit services. The allocations were based on actual costs incurred by Verizon and periodic studies that identified employees or groups of employees who were totally or partially dedicated to performing activities that benefited our Business. These allocations were based on actual costs incurred by Verizon, as well as on the size of our business relative to other Verizon subsidiaries. We believe that these cost allocations are reasonable for the services provided. We also believe that these cost allocations are consistent with the nature and approximate amount of the costs that we would have incurred on a stand-alone basis.

We also recognized an allocated portion of interest expense in connection with our contractual agreements with Verizon for the provision of short-term financing and cash management services. Verizon issues commercial paper and obtains bank loans to fund the working capital requirements of Verizon's subsidiaries, including us, and invests funds in temporary investments on their behalf.

The affiliate operating revenue and expense amounts included only our ILECs operations. Because our operating expenses associated with VLD and VOL were determined predominantly through allocations, separate identification of the affiliate transactions was not available.

9. Additional financial information

The tables below provide additional financial information related to the Business' financial statements:

Years ended December 31, (dollars in millions)	2009	2008	2007
Statements of Cash Flows:			
Cash paid during the year for:			
Income taxes, net of amounts refunded	**$188**	$333	$472
Interest, net of amounts capitalized (excluding affiliates)	**42**	79	88
Statements of Income:			
Depreciation expense	**780**	758	794
Interest costs incurred	**95**	189	205
Capitalized interest	**(3)**	(3)	(2)
Advertising expense allocated from affiliates	**41**	39	28

At December 31, (dollars in millions)	2009	2008
Statements of Selected Assets, Selected Liabilities and Parent Funding:		
Prepaid Expense and Other		
Deferred activation costs	**$ 58**	$ 81
Other	**10**	12
	$ 68	$ 93
Accounts Payable and Accrued Liabilities—Other		
Accrued payroll related	**$ 77**	$110
Accounts payable	**76**	97
Accrued general taxes	**54**	49
Accrued income taxes	**28**	58
Other	**26**	13
	$261	$327
Other Current Liabilities		
Advanced billings and customer deposits	**$133**	$145
Deferred activation revenues	**58**	81
Other	**29**	50
	$220	$276

10. Commitments and contingencies

Various legal actions and regulatory proceedings are pending to which the Companies are a party and claims may exist which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with legal and regulatory matters that we currently deem to be probable and estimable. We do not believe the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on the financial condition of our Business, but it could have a material effect on our results of operations.

From time to time, state regulatory decisions require us to assure customers that we will provide a level of service performance that falls within prescribed parameters. There are penalties associated with failing to meet those service parameters, and we, from time to time, have paid such penalties. We do not expect these penalties to have a material effect on the financial condition of our Business, but they could have a material effect on our results of operations.

Verizon's Separate Telephone Operations

Schedule II—Valuation and qualifying accounts

Description (dollars in millions)	Balance at beginning of period	Additions: Charged to expense	Additions: Charged to other accounts note (a)	Deductions(b)	Balance at end of period
Allowances for Uncollectibles Accounts Receivable:					
2009	$49	$62	$ 2	$(67)	$46
2008	54	65	(2)	(68)	49
2007	66	58	(3)	(67)	54

(a) Charged to other accounts includes accruals charged to accounts payable for anticipated uncollectible charges on purchase of accounts receivable from others which were billed by us.

(b) Deductions include amounts written off as uncollectible, net of recoveries.

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