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Frontier Communications Corp.

(FTR:NYSE) **Outperform 2**

EQUITY RESEARCH

Headquartered in Stamford, Connecticut, Frontier Communications Corp. (formerly Citizens Communications) was founded in 1935 and provides local, long-distance, data, and Internet services in the northeastern, central, and western U.S., with more than two million access lines and over 500,000 xDSL customers.

Current Price	$7.08 (6/11/2009)	10-day ADV	3,444,530
52-Week Range	$12.94-$5.32	Div. Yield	14.1%
Mkt. Cap (mil.)	$2193	BV (03/09)	$1.59

Non-GAAP EPS:

			P/E Ratios (Non-GAAP)			
FY=Dec 2008A	$0.57			Suitability	TR
2009E	0.57	2009E	12.4x	Debt/Total Cap.	67%
2010E	0.69	2010E	10.3x	ROE	35%

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Telecommunications Services
Company Brief

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FTR: Notes from the Road

Wednesday, we had Frontier CFO Don Shassian on the road in Boston. The story continues to focus on the strong free cash flow generation of the company and the previously announced acquisition of Verizon access lines.

We believe the current yield is attractive at the current price, offering investors a 14% coupon for the upcoming year, which will drop to an attractive 10% coupon following the close of the Verizon (VZ/$29.75/Market Perform) properties; however, we note the 10% yield will be on a company with a significantly lower payout ratio of approximately ~43% after synergies and much less leverage, ~2.2x debt/EBITDA post synergies (from its current 3.8x).

Investors remained concerned over similarities with FairPoint (FRP/$1.21), which we believe have little bearing on the outcome of Frontier's reverse morris trust transaction. Although both deals occur via the same tax-free spinout process with Verizon, we do not expect any major obstacles to prevent a relatively smooth merger and integration.

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

Overall, we believe Frontier is making a prudent acquisition, which will expand its scale, lower its leverage, and improve its dividend sustainability, thus rewarding patient investors over time. However, absent any meaningful near-term catalysts on the horizon, we believe shareholder returns will likely be limited to the attractive 14% dividend yield, with potential upside coming from approval momentum next year.

Please read disclosure/risk information on page 2 and Analyst Certification on page 4.

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