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Stock Rating
Equal-weight

Industry View
Attractive

Frontier Merger Integration on Track; Flow Back an Overhang

Investment conclusion: We recently met with Frontier management. The meeting reassured us that the pending Verizon (Spinco) merger, while carrying inherent integration risks, is not comparable to other recent deals. In fact, we believe Frontier will emerge as a stronger company. While the stock could be range bound given potential flow back from Verizon shareholders (who will own roughly 70% of FTR at closing), investors can still pick up some income; Frontier has three more regular \$0.25 dividend payments before closing. The stock boasts a 14.4% dividend yield, the highest in the S&P 500.

What's new: Management continues to expect a 2Q 2010 closing. All regulatory applications (except Hart-Scott-Rodino) have been submitted. Spinco operational trends are weak, yet 2Q results exceeded management's expectations. Most of the top line pressure, however, stems from regulatory-related revenue; customer revenue decline is lower. Importantly, margins are expected to be stable at +45%. We see upside to synergy targets as productivity initiatives in several areas (i.e. call centers, field ops) are not baked in. Revenue synergies have not been laid out, yet low broadband penetration (62% v 92% at legacy FTR) points to potential revenue upside.

Where we differ: This transaction is different from other RLEC spin-offs as it has lower integration risk. In addition, the resulting entity should have investment grade-like credit metrics and a reduced dividend payout of FCF. One overhang, we believe, is the expectation that new shareholders (Verizon holders) will dispose of FTR stock at closing, making it difficult to pick an entry point. We note that in the EQ/S deal, it took ~80 days for the stock to rebound to its opening price. In the WIN/AT deal, WIN appreciated 13% in its first 20 trading days.

What's next: A second S4, containing Spinco's 2Q financials, should be filed within the next couple of months. We also expect FTR to announce regulatory approvals as they occur (video franchise authorizations, nine states as well as FCC and Hart-Scott-Rodino).

Key Ratios and Statistics

Reuters: FTR.N Bloomberg: FTR US
Telecom Services / United States of America

Price target	NA
Shr price, close (Aug 14, 2009)	\$6.94
Mkt cap, curr (mm)	\$2,156
52-Week Range	\$12.94-5.32

Fiscal Year ending	12/08	12/09e	12/10e	12/11e
ModelWare EPS (\$)	0.58	0.61	0.74	0.68
Prior ModelWare EPS (\$)	-	-	-	-
P/E	15.1	11.3	9.3	10.2
Consensus EPS (\$)	0.60	0.53	0.60	0.66
Div yld (%)	11.4	14.4	14.4	14.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
\$ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates

Quarterly ModelWare EPS

Quarter	2008	2009e		2010e	
		Prior	Current	Prior	Current
Q1	0.16	-	0.13a	-	-
Q2	0.15	-	0.12a	-	-
Q3	0.15	-	0.19	-	-
Q4	0.12	-	0.18	-	-

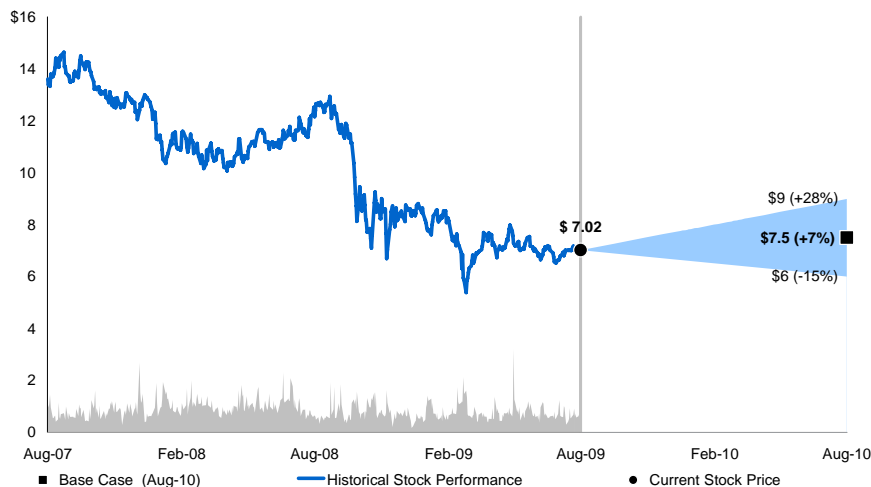
e = Morgan Stanley Research estimates, a = Actual company reported data

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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Risk-Reward Snapshot: Frontier Communications (FTR, \$7.02, Equal-weight)

Risk Reward View – A Balanced Risk/Reward



Bull Case \$9.00	11.2% Dividend Yield	Cruise Control – The rate of line loss and housing market declines slowly. Frontier generates more cash despite spending more capex for the increased business. VoIP competition becomes non-aggressive on pricing.
Base Case \$7.50	13.3% Dividend Yield	Cost Control – Line losses increase moderately despite the difficult macro environment. The construction slowdown continues; capex decreases to the RLEC average allowing the company to maintain healthy free cash flow generation, more comfortably covering its dividend payout.
Bear Case \$6.00	16.6% Dividend Yield	Recession in Rural America – The economic woes felt in suburbia spill over into the more rural areas of America. Line loss catches up with other less rural peers as cable pricing becomes more aggressive.

Spinco Trends

Operating	4Q08	1Q08	2Q08	4Q09	1Q09	2Q09	Financial	1Q08	1Q09
Access lines	5,307	5,189	5,058	4,766	4,628	4,492	Revenues	1,099	1,043
Line loss rate Y/Y	-8.0%	na	na	-10.2%	-10.8%	-11.2%	growth Y/Y	na	-5.1%
Absolute line loss	na	(118)	(131)	na	(139)	(136)	Total Cash Opex	614	564
growth Y/Y	na	na	na	na	17%	4%	Cost of services	377	328
B'Band	919	956	963	997	1,029	1,048	growth Y/Y	na	-13.0%
growth Y/Y	na	na	na	8.5%	7.6%	8.8%	SG&A	237	236
Adds	na	37	7	na	32	19	growth Y/Y	na	-0.4%
FiOS Data	71	82	na	110	126	na	EBITDA	485	479
growth Y/Y	97%	na	na	55%	54%	na	growth Y/Y	na	-1.2%
Adds	na	11	na	na	16	na			
DSL	848	874	na	887	903	na			
growth Y/Y	14%	na	na	5%	3%	na			
Adds	na	26	na	na	16	na			
FiOS TV	26	40	47	69	87	103			
growth Y/Y	na	na	na	165%	118%	120%			
Adds	na	14	7	na	18	16			

Source: Frontier S4 filing on July 24 2009

Deal/Regulatory Requirements

Regulatory Approvals Needed:
 - 41 local video franchise authorizations (already received 2)
 - 9 state Public Utility Commission approvals
 - FCC
 - DOJ (Hart-Scott-Rodino)

Shareholder Approval:
 - Sometime in October after a second S4 is filed addressing SEC comments

Source: Company, Morgan Stanley research

Investment Thesis

- While we believe Frontier will emerge as a stronger company after the Verizon deal, we also think that Frontier's stock has no near term upside. The market is currently discounting that Verizon shareholders (who will own ~70% of the "new" Frontier) will dispose of their shares when the transaction closes. We do believe, however, that Frontier could be attractive for investors willing to see through near term headline risk and pick up some income: Frontier still has three regular \$0.25 dividend payments prior to cutting the dividend by 25% at closing (2Q 2010).

Key Value Drivers

- Post closing, we expect Frontier's strong surplus cash generation to continue and see room for potential upside as certain incremental productivity initiatives could yield higher than expected synergies
- The rural profile of Frontier's footprint, before and after the deal closes, should insulate some of the secular pressure, particularly from wireless substitution. Spinco's low broadband penetration and relatively less crowded competitive environment could provide revenue upside.

Potential Catalysts

- Regulatory approvals. Given the history at Fairpoint, regulators are expected to scrutinize the deal more than they normally would. Thus, approvals should provide some relief to investors worried about merger integration risks.

Potential Risks

- Aggressive promotional activity from VoIP competitors in Spinco properties prior to the deal close
- Difficulties in the conversion of West Virginia's systems which accounts for 13% of the acquired lines and is the only system to be converted prior to closing.
- Worse than expected operating trends at Spinco
- Regulatory conditions to the deal, particularly regarding the dividend and capex

Key Investment Debates:

DEBATE	MARKET'S VIEW	IMPACT ON OUR VIEW / NOTES FROM OUR MEETINGS WITH MGMT
Is the dividend sustainable?	<p>Mixed. (1) Secular pressures should ultimately hurt FTR's strong FCF generation. (2) Deterioration in trends in the Spinco properties as cable companies increase their competitive stance during the merger integration. (3) The \$3.2B in Spinco financing could result in higher debt service costs.</p>	<p>We left the meeting feeling that the dividend, both pre and post closing, is well supported. Post closing, the 25% dividend cut (which would lead to a payout of FCF below 50%) along with investment grade credit-like metrics, should be supportive. Top line erosion is a concern, but strict cost control combined with the expected \$500M synergies should help FTR maintain profitability in the high 40% to low 50% range.</p> <p>Notes:</p> <ul style="list-style-type: none"> • FTR has at least 3 more \$0.25 dividend payments plus a prorated one depending on the closing date before the 25% dividend cut • Management went in to the deal expecting to see some revenue erosion in the near term. Yet, despite the revenue decline, margin stability is expected. • Given the underpenetrated state of the Spinco lines (62% v. to 92% at legacy Frontier), capex needs were a major focal point during due diligence. • Productivity initiatives in call centers and field operations not included in synergy target. • Management has and will continue to address 2011 debt maturities, preferably prior to closing.
How defensive is the footprint?	<p>Susceptible to weakness. In addition to cyclical pressures, secular pressure could intensify in rural America once housing activity picks up and cable companies target movers. Down the road (around 2011) wireless competition (via 700MHz deployments) could pose additional risk.</p>	<p>Our view, before and after the meeting, is that the footprint is very defensive. Yet, management is realistic and is not expecting a turnaround in revenue trends in the near term. The Spinco properties are underserved, leaving opportunity in broadband. Footprint post closing will remain rural with 24 lines/sq mile (FTR at 13, Spinco at 37).</p> <p>Notes:</p> <ul style="list-style-type: none"> • Cyclical pressure is not increasing. Some markets in California seeing an improvement in housing activity. • Consumer looking for value but cable competition seems rational; no price wars • Rochester: lowest residential line losses in four years; satellite bundles helping. • Wireless displacement has increased. The company expressed interest in doing more in wireless. • Video bundles reducing churn by approx 50%
Will Verizon shareholders sell their FTR shares?	<p>Most will. VZ shareholders will own roughly 70% of Frontier at closing. Many investors have limits to telco exposure.</p>	<p>Our view is that FTR could be range bound leading up to and after the close. Spin-off dynamics suggest that FTR could still outperform VZ in the 12 months post closing. This was the case in the WIN/AT and EQ/S deals. It took Embarq's stock 80 days to trade back up to its opening price. Windstream was range bound for a couple of weeks after its first trading day but had appreciated 13% by its 20th trading session. Management will work to help Verizon investors understand the new company.</p>
How similar is this deal to the FRP/VZ deal?	<p>Some similarities. Frontier is in a better position than Fairpoint, but integration risks remain.</p>	<p>Our view did not change after the meeting. We continue to see significant differences in the two deals: (1) Deal lowers leverage by more than a turn (3.8x to 2.6x) instead of increasing it; (2) Spinco (except West Virginia with ~13% of acquired lines) will operate with a single platform on an independent basis prior to the merger while West Virginia will be integrated contemporaneously with the merger on existing Frontier systems while Fairpoint built new systems from scratch.</p>

August 14, 2009

Frontier

Exhibit 1

Frontier Income Statement

Consolidated Income Statement	2008	2009E	2010E	2011E	2012E	CAGR '08-'15	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
(\$ in millions, except per share data)														
Total Revenue	\$2,237.0	\$2,115.8	\$2,041.1	\$1,983.9	\$1,941.0	-3.0%	\$569.2	\$562.6	\$557.9	\$547.4	\$538.0	\$532.1	\$527.5	\$518.2
% growth	-0.5%	-5.4%	-3.5%	-2.8%	-2.2%		10.0%	-2.8%	-3.1%	-5.2%	-5.5%	-5.4%	-5.4%	-5.3%
Total cash expenses	\$222.0	\$234.4	\$210.2	\$204.3	\$199.9	-2.3%	\$60.5	\$54.0	\$52.5	\$55.0	\$60.7	\$59.2	\$57.5	\$57.0
% growth	-2.7%	5.6%	-10.3%	-2.8%	-2.2%		17.8%	0.6%	-7.2%	-17.4%	0.2%	9.6%	9.6%	3.7%
% of revenue	9.9%	11.1%	10.3%	10.3%	10.3%		10.6%	9.6%	9.4%	10.0%	11.3%	11.1%	10.9%	11.0%
Depreciation and amortization expense	\$61.8	\$47.8	\$37.0	\$37.9	\$37.9	-6.2%	\$14.1	\$14.3	\$13.7	\$13.8	\$13.6	\$13.8	\$12.0	\$10.5
% growth	2.9%	-15.8%	-18.1%	-2.3%	-0.3%		15.5%	2.7%	-0.3%	-4.4%	-2.5%	-7.9%	-25.9%	-27.6%
% of revenue	25.1%	22.3%	19.0%	19.1%	19.4%		24.8%	25.6%	24.7%	25.4%	25.6%	25.0%	19.3%	19.4%
Other operating expenses	\$801.9	\$775.4	\$759.4	\$748.0	\$739.6	-2.0%	\$200.4	\$201.9	\$203.3	\$196.4	\$197.6	\$192.7	\$193.7	\$191.4
% growth	-0.8%	-3.3%	-2.1%	-1.5%	-1.1%		5.9%	-4.7%	0.1%	-3.8%	-1.4%	-4.5%	-4.7%	-2.6%
% of revenue	35.8%	36.6%	37.2%	37.7%	38.1%		35.2%	35.9%	36.4%	35.9%	36.7%	36.2%	36.7%	36.9%
Total Expenses	\$1,585.8	\$1,482.7	\$1,356.7	\$1,330.3	\$1,316.5	-3.4%	\$402.0	\$400.1	\$393.4	\$390.2	\$395.9	\$384.8	\$353.1	\$348.9
% growth	0.2%	-6.5%	-8.5%	-1.9%	-1.0%		10.8%	-1.4%	-1.1%	-6.2%	-1.5%	-3.8%	-10.2%	-10.6%
% of revenue	70.9%	70.1%	66.5%	67.1%	67.8%		70.6%	71.1%	70.5%	71.3%	73.6%	72.3%	66.9%	67.3%
EBITDA	\$1,213.1	\$1,106.0	\$1,071.4	\$1,031.5	\$1,001.5	-3.9%	\$308.3	\$306.7	\$302.1	\$296.0	\$279.6	\$280.2	\$276.4	\$269.8
% growth	0.0%	-8.8%	-3.1%	-3.7%	-2.9%		11.4%	-2.1%	-4.4%	-3.4%	-9.3%	-8.6%	-8.5%	-8.8%
% of revenue	54.2%	52.3%	52.5%	52.0%	51.6%		54.2%	54.5%	54.2%	54.1%	52.0%	52.7%	52.4%	52.1%
Operating income/EBIT	\$651.3	\$633.2	\$684.4	\$653.6	\$624.5	-2.2%	\$167.2	\$162.4	\$164.5	\$157.1	\$142.1	\$147.4	\$174.4	\$169.3
% growth	-2.3%	-2.8%	8.1%	-4.5%	-4.4%		8.2%	-6.0%	-7.6%	-2.6%	-15.0%	-9.3%	6.0%	7.8%
% of revenue	29.1%	29.9%	33.5%	32.9%	32.2%		29.4%	28.9%	29.5%	28.7%	26.4%	27.7%	33.1%	32.7%
Operating income pre-acquisition expense	\$651.3	\$633.2	\$684.4	\$653.6	\$624.5	-2.2%	\$167.2	\$162.4	\$164.5	\$157.1	\$142.1	\$147.4	\$174.4	\$169.3
% growth	-2.3%	-2.8%	8.1%	-4.5%	-4.4%		8.2%	-6.0%	-7.6%	-2.6%	-15.0%	-9.3%	6.0%	7.8%
% of revenue	29.1%	29.9%	33.5%	32.9%	32.2%		29.4%	28.9%	29.5%	28.7%	26.4%	27.7%	33.1%	32.7%
Operating income including special items	\$651.3	\$633.2	\$684.4	\$653.6	\$624.5	-2.2%	\$167.2	\$162.4	\$164.5	\$157.1	\$142.1	\$147.4	\$174.4	\$169.3
% growth	-2.3%	-2.8%	8.1%	-4.5%	-4.4%		8.2%	-6.0%	-7.6%	-2.6%	-15.0%	-9.3%	6.0%	7.8%
% of revenue	29.1%	29.9%	33.5%	32.9%	32.2%		29.4%	28.9%	29.5%	28.7%	26.4%	27.7%	33.1%	32.7%
Investment and other income, net	\$15.7	\$21.9	\$21.2	\$20.6	\$20.1		\$5.1	\$6.4	\$1.3	\$2.9	\$8.2	\$4.6	\$4.6	\$4.5
% growth	-54.2%	40.0%	-3.5%	-2.8%	-2.2%		-49.0%	-34.7%	-81.8%	-60.5%	61.6%	-27.8%	251.6%	56.5%
% of revenue	0.7%	1.0%	1.0%	1.0%	1.0%		0.9%	1.1%	0.2%	0.5%	1.5%	0.9%	0.9%	0.9%
Interest expense	\$362.6	\$368.5	\$357.4	\$353.9	\$339.3	-1.4%	\$90.9	\$90.7	\$90.3	\$90.7	\$88.7	\$98.7	\$90.8	\$90.3
% growth	-4.7%	1.6%	-3.0%	-1.0%	-4.1%		-3.3%	-8.0%	-5.1%	-2.4%	-2.3%	8.8%	0.5%	-0.5%
% of revenue	16.2%	17.4%	17.5%	17.8%	17.5%		16.0%	16.1%	16.2%	16.6%	16.5%	18.5%	17.2%	17.4%
Pre-tax income (loss)	\$304.3	\$288.5	\$350.0	\$322.1	\$307.2		\$81.4	\$78.1	\$75.4	\$69.3	\$61.6	\$53.3	\$88.6	\$83.9
% growth	-5.0%	-5.2%	21.3%	-8.0%	-4.6%		15.3%	-7.0%	-16.2%	-8.4%	-24.4%	-31.7%	17.4%	21.1%
% of revenue	13.6%	13.6%	17.1%	16.2%	15.8%		14.3%	13.9%	13.5%	12.7%	11.4%	10.0%	16.8%	16.2%
Income tax expense (benefit)	\$120.0	\$98.2	\$119.2	\$109.7	\$104.6		\$30.0	\$29.6	\$28.3	\$32.1	\$23.0	\$17.9	\$29.7	\$27.7
% growth	1.2%	-18.2%	21.3%	-8.0%	-4.6%		14.6%	-7.9%	-19.7%	28.2%	-23.4%	-39.6%	4.8%	-13.8%
% of revenue	5.4%	4.6%	5.8%	5.5%	5.4%		5.3%	5.3%	5.1%	5.9%	4.3%	3.4%	5.6%	5.3%
Effective tax rate	39%	34%	34%	34%	34%		37%	38%	38%	46%	37%	33%	33%	33%
Statutory tax rate	38%	38%	38%	38%	38%		38%	38%	38%	38%	38%	38%	38%	38%
Income (loss) from continuing operations	\$184.3	\$190.2	\$230.8	\$212.4	\$202.6		\$51.404	\$48.6	\$47.1	\$37.2	\$38.6	\$35.5	\$58.9	\$56.2
% growth	-8.7%	3.2%	21.3%	-8.0%	-4.6%		15.7%	-6.5%	-13.9%	-26.5%	-25.0%	-27.0%	25.0%	51.3%
% of revenue	8.2%	9.0%	11.3%	10.7%	10.4%		9.0%	8.6%	8.4%	6.8%	7.2%	6.7%	11.2%	10.9%
Income (loss) from continuing operations, ex	\$184.3	\$190.2	\$230.8	\$212.4	\$202.6		\$51.4	\$48.6	\$47.1	\$37.2	\$38.6	\$35.5	\$58.9	\$56.2
% growth	-8.7%	3.2%	21.3%	-8.0%	-4.6%		15.7%	-6.5%	-13.9%	-26.5%	-25.0%	-27.0%	25.0%	51.3%
% of revenue	8.2%	9.0%	11.3%	10.7%	10.4%		9.0%	8.6%	8.4%	6.8%	7.2%	6.7%	11.2%	10.9%
Diluted EPS from continuing operations	\$ 0.58	\$ 0.61	\$ 0.74	\$ 0.68	\$ 0.65	-1.4%	\$ 0.16	\$ 0.15	\$ 0.15	\$ 0.12	\$ 0.12	\$ 0.11	\$ 0.19	\$ 0.18
% growth	-4.4%	5.6%	21.1%	-8.1%	-4.7%		15.8%	-0.7%	-7.9%	-22.4%	-21.0%	-24.5%	26.0%	50.8%
Net income	\$184.3	\$190.2	\$230.8	\$212.4	\$202.6		\$51.4	\$48.6	\$47.1	\$37.2	\$38.6	\$35.5	\$58.9	\$56.2
Minority interest	0.0	1.8	1.8	1.8	1.8		0.0	0.0	0.0	0.0	0.7	0.4	0.4	0.4
Net income available for common shareholder	\$184.3	\$188.4	\$229.0	\$210.6	\$200.8		\$51.4	\$48.6	\$47.1	\$37.2	\$38.6	\$35.5	\$58.9	\$55.8
Diluted EPS	\$0.58	\$0.61	\$0.74	\$0.68	\$0.65	-1.4%	\$0.16	\$0.15	\$0.15	\$0.12	\$0.12	\$0.11	\$0.19	\$0.18

Source: Company data, Morgan Stanley Research E= Morgan Stanley Estimates

Morgan Stanley is currently acting as financial advisor to Verizon Wireless with respect to the proposed acquisition of certain of its wireless assets by AT&T, Inc. and Atlantic Tele-Network, as required by the conditions of the regulatory approvals granted for Verizon Wireless' purchase of Alltel Corporation earlier this year.

The proposed acquisitions are subject to customary regulatory approvals, as well as other customary closing conditions.

Verizon Wireless has agreed to pay fees to Morgan Stanley for its financial services.

Please refer to the notes at the end of the report.

August 14, 2009
Frontier

Exhibit 2

Frontier Balance Sheet

Consolidated Balance Sheet	2008	2009E	2010E	2011E	2012E	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
(\$ in millions, except per share data)													
Assets													
Cash at the end of period	164	418	405	371	343	227.6	179	91	164	177	454	443	418
Accounts receivable, net	222	207	200	194	190	214	224	223	222	218	217	211	207
Other current assets	82	88	88	88	88	53	45	56	82	70	88	88	88
Total current assets	468	713	693	653	621	495	449	370	468	465	759	743	713
Property, Plant and Equipment - Gross	7,581	8,021	8,707	9,426	10,179	7,413	7,483	7,543	7,581	7,623	7,673	7,845	8,021
Accumulated Depreciation	(4,341)	(4,922)	(5,759)	(6,626)	(7,532)	(4,125)	(4,218)	(4,292)	(4,341)	(4,421)	(4,507)	(4,715)	(4,922)
Net property, plant, and equipment	3,240	3,099	2,948	2,800	2,647	3,288	3,265	3,251	3,240	3,202	3,166	3,130	3,099
Goodwill	2,642	2,642	2,642	2,642	2,642	2,636	2,633	2,642	2,642	2,642	2,642	2,642	2,642
Intangibles	360	276	276	276	276	502	456	405	360	315	276	276	276
Investments	8	-	-	-	-	21	22	23	8	3	-	-	-
Other assets	171	189	187	190	200	187	188	190	171	172	175	181	189
Total assets	6,889	6,920	\$6,746	\$6,561	\$6,386	\$7,129	\$7,013	\$6,881	\$6,889	6,800	7,018	\$6,972	\$6,920
Liabilities and Shareholders' equity													
Long term debt due within one year	4	7	7	7	7	4	4	4	4	4	7	7	7
Accounts payable and other current liabilities	142	110	101	100	101	101	105	89	142	85	114	113	110
Other taxes accrued	26	26	26	26	26	21	21	21	26	26	26	26	26
Interest accrued	102	102	102	102	102	117	117	117	102	102	102	102	102
Other current liabilities	109	109	109	109	109	126	126	126	109	109	109	109	109
Total current liabilities	383	354	345	344	345	369	373	357	383	326	359	358	354
Deferred	670	684	681	678	675	712	713	711	670	677	685	684	684
Other liabilities	595	590	585	581	575	361	351	347	595	595	592	591	590
Long-term debt	4,722	4,895	4,815	4,735	4,675	4,747	4,747	4,745	4,722	4,721	4,945	4,920	4,895
Total non-current liabilities	5,987	6,168	6,081	5,993	5,925	5,820	5,810	5,804	5,987	5,993	6,221	6,195	6,168
Common stock	87	87	89	91	93	87	87	87	87	87	87	87	87
Additional paid-in capital	1,118	1,029	1,029	1,029	1,029	1,187	1,189	1,190	1,118	1,026	1,029	1,029	1,029
Accumulated deficit	38	(16)	(96)	(195)	(303)	60	35	4	38	74	24	6	(16)
Accumulated other comprehensive loss	(237)	(229)	(229)	(229)	(229)	(78)	(77)	(76)	(237)	(233)	(229)	(229)	(229)
Treasury stock	(487)	(473)	(473)	(473)	(473)	(316)	(404)	(486)	(487)	(473)	(473)	(473)	(473)
Total shareholders' equity	519	398	320	223	116	940	830	720	519	482	438	419	398
Total liabilities and Shareholders' equity	6,889	6,920	\$6,746	\$6,561	\$6,386	\$7,129	\$7,013	\$6,881	\$6,889	6,800	\$7,018	\$6,972	\$6,920

Source: Company data, Morgan Stanley Research E= Morgan Stanley Estimates

Exhibit 3

Frontier FCF

Free cash flow - variations	2008	2009E	2010E	2011E	2012E	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
Levered Free Cash Flow (OCF - capex)	\$451.0	\$388.8	\$376.4	\$354.4	\$341.6	\$93.5	\$121.6	\$77.8	\$158.1	\$92.5	\$127.5	\$91.8	\$77.0
Levered Free Cash Flow (OCF-capex-divide)	132.6	77.3	65.6	43.3	30.2	11.4	41.4	(0.5)	80.3	14.4	49.4	14.2	(0.7)
Levered FCF (OCF - capex) as % of Reven	20.2%	18.4%	18.4%	17.9%	17.6%	16.4%	21.6%	13.9%	28.9%	17.2%	24.0%	17.4%	14.9%
Dividend as % of FCF (OCF - capex)	70.6%	80.1%	82.6%	87.8%	91.1%	87.8%	66.0%	100.7%	49.2%	84.4%	61.3%	84.6%	100.9%
Comparative FCF (as FTR discloses it)													
Operating Income	651	633	684	654	625	167.2	162	164	157	142	147	174	169
Plus: D&A	562	473	387	378	377	141	144	138	139	138	133	102	100
Plus: Stock based compensation	8	9	9	9	9	3.0	3	3	(1)	2	2	2	2
Plus: Investment and other income (loss)	16	22	21	21	20	5.104	6	1	3	8	5	5	4
Less: Capex	(288)	(246)	(238)	(231)	(226)	(48)	(76)	(80)	(84)	(55)	(56)	(66)	(70)
Less: Cash taxes	(79)	(90)	(99)	(95)	(95)	(2)	(48)	(21)	(9)	(1)	(39)	(25)	(25)
Less: Cash interest	(363)	(368)	(357)	(354)	(339)	(91)	(91)	(90)	(91)	(89)	(99)	(91)	(90)
Less: Investment and other income (loss), net of interest	30	9	9	30	31	0	0	0	0	8	8	7	7
Free cash flow (\$MM)	507	463	416	411	402	175.7	102.1	115.1	113.9	153.7	101.8	108.8	98.6
Dividend as % of FCF	62.8%	67.3%	74.7%	75.6%	77.5%	46.7%	78.6%	68.0%	68.3%	50.8%	76.7%	71.4%	78.7%
Reported FCF (\$MM)	493	452	416	411	402	172.8	96.6	114.7	109.1	146.1	98.1	108.8	98.6
Total Adjustments	47	11				2.9	5.4	0.4	4.8	7.5	3.7		
Dividend as % of Reported FCF	64.6%	69.0%	74.7%	75.6%	77.5%	47.5%	83.0%	68.3%	71.4%	53.4%	79.6%	71.4%	78.7%

Source: Company data, Morgan Stanley Research

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Exhibit 4

Frontier Revenues (Detailed)

	2008	2009E	2010E	2011E	2012E	CAGR '08-'15	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
Operating Revenue														
Access services	404.7	347.3	314.0	287.8	267.4	-8.6%	107.8	101.0	99.6	96.3	90.1	87.4	86.4	83.4
% growth	-8.2%	-14.2%	-9.6%	-8.3%	-7.1%		7.5%	-11.0%	-12.0%	-15.4%	-16.5%	-13.4%	-13.2%	-13.4%
% revenue	18.1%	16.4%	15.4%	14.5%	13.8%		18.9%	18.0%	17.8%	17.6%	16.7%	16.4%	16.4%	16.1%
% of revenue growth	293.1%	47.3%	44.6%	45.7%	47.6%		14.5%	76.3%	75.6%	58.8%	56.8%	44.6%	43.2%	44.3%
Local services	848.4	785.8	746.9	719.7	699.0	-3.9%	217.2	214.7	210.7	205.8	200.9	198.3	195.4	191.2
% growth	-3.1%	-7.4%	-4.9%	-3.6%	-2.9%		6.2%	-5.2%	-6.3%	-6.5%	-7.5%	-7.6%	-7.3%	-7.1%
% revenue	37.9%	37.1%	36.6%	36.3%	36.0%		38.2%	38.2%	37.8%	37.6%	37.3%	37.3%	37.0%	36.9%
% of revenue growth	222.5%	51.7%	52.0%	47.7%	48.2%		24.6%	71.6%	79.3%	47.6%	52.0%	54.0%	50.6%	50.0%
Data and internet servic	605.6	636.5	653.8	668.2	682.4	2.0%	146.0	151.7	154.0	153.9	156.4	160.6	160.8	158.8
% growth	11.4%	5.1%	2.7%	2.2%	2.1%		23.7%	9.7%	9.9%	4.5%	7.1%	5.9%	4.4%	3.2%
% revenue	27.1%	30.1%	32.0%	33.7%	35.2%		25.6%	27.0%	27.6%	28.1%	29.1%	30.2%	30.5%	30.6%
% of revenue growth	-502.9%	-25.5%	-23.1%	-25.2%	-33.1%		54.0%	-82.4%	-77.1%	-22.3%	-33.3%	-29.3%	-22.2%	-16.8%
Long distance services	182.6	160.9	150.5	140.6	131.9		46.5	46.9	46.4	42.8	41.4	40.6	40.3	38.7
% growth	1.1%	-11.8%	-6.5%	-6.6%	-6.2%		14.9%	-0.3%	-2.8%	-5.5%	-10.9%	-13.5%	-13.2%	-9.5%
% revenue	8.2%	7.6%	7.4%	7.1%	6.8%		8.2%	8.3%	8.3%	7.8%	7.7%	7.6%	7.6%	7.5%
% of revenue growth	-0.5%	-7.5%	-17.7%	15.0%	17.1%		11.6%	0.9%	7.5%	8.4%	16.1%	20.9%	20.2%	14.0%
Directory services	113.3	107.2	101.8	96.9	92.6	-4.6%	28.6	29.1	28.1	27.5	27.7	27.2	26.4	25.9
% growth	-1.1%	-5.4%	-5.1%	-4.7%	-4.4%		-0.1%	1.4%	-0.8%	-4.8%	-3.2%	-6.4%	-6.0%	-6.0%
% revenue	5.1%	5.1%	5.0%	4.9%	4.8%		5.0%	5.2%	5.0%	5.0%	5.2%	5.1%	5.0%	5.0%
% of revenue growth	10.1%	5.1%	7.3%	8.4%	10.0%		-0.1%	-2.5%	1.2%	4.6%	3.0%	6.1%	5.6%	5.7%
Other	82.4	78.0	74.1	70.6	67.5	-4.6%	23.2	19.2	19.0	21.0	21.5	18.1	18.2	20.2
% growth	-12.3%	-5.3%	-5.0%	-4.7%	-4.4%		-9.4%	-23.4%	-11.3%	-3.8%	-7.3%	-5.8%	-4.0%	-4.0%
% revenue	3.7%	3.7%	3.6%	3.6%	3.5%		4.1%	3.4%	3.4%	3.8%	4.0%	3.4%	3.5%	3.9%
% of revenue growth	93.7%	3.6%	5.2%	6.1%	7.2%		-4.6%	36.0%	13.6%	2.8%	5.4%	3.7%	2.5%	2.9%
Total revenue	2,237.0	2,115.8	2,041.1	1,983.9	1,941.0	-3.0%	569.2	562.6	557.9	547.4	538.0	532.1	527.5	518.2
% growth	-0.5%	-5.4%	-3.5%	-2.8%	-2.2%		10.0%	-2.8%	-3.1%	-5.2%	-5.5%	-5.4%	-5.4%	-5.3%

Source: Company data, Morgan Stanley Research E= Morgan Stanley Estimates

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Total	2,299		641		

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Industry Coverage: Telecom Services

Company (Ticker)	Rating (as of)	Price (08/14/2009)
Simon Flannery		
AT&T, Inc. (T.N)	O (03/08/2006)	\$25.45
American Tower Corp. (AMT.N)	E (03/12/2009)	\$32.13
BCE Inc. (BCE.TO)	O (11/21/2008)	C\$26.4
CenturyTel (CTL.N)	E (06/30/2009)	\$31.53
Cincinnati Bell Inc. (CBB.N)	E (11/03/2006)	\$3.26
Clearwire Corporation (CLWR.O)	U (12/08/2008)	\$6.61
Crown Castle Corp. (CCI.N)	E (03/12/2009)	\$27.6
Equinix Inc. (EQIX.O)	E (05/13/2009)	\$80.42
FairPoint Communications (FRP.N)	NA (10/29/2007)	\$.51
Frontier Communications Corp (FTR.N)	E (05/07/2007)	\$6.94
Iowa Telecom (IWA.N)	U (12/17/2008)	\$11.8
Leap Wireless (LEAP.O)	E (08/07/2009)	\$17.48
Level 3 Communications, Inc. (LVLTO)	U (02/14/2008)	\$1.19
MetroPCS Communications (PCS.N)	E (08/07/2009)	\$8.76
Neutral Tandem, Inc. (TNDM.O)	O (06/19/2009)	\$25.29
PAETEC Holding Corp. (PAET.O)	E (06/26/2008)	\$2.61
Qwest Communications Int'l (Q.N)	E (01/09/2009)	\$3.84
Rogers Communications, Inc. (RCIb.TO)	O (04/27/2005)	C\$30.99
SAVVIS Inc. (SVVS.O)	O (08/04/2009)	\$16.06
SBA Communications (SBAC.O)	E (03/12/2009)	\$24.83
Sprint Nextel Corporation (S.N)	U (12/08/2008)	\$3.85
TELUS Corp. (T.TO)	E (12/19/2008)	C\$34.27
Telephone & Data Systems (TDS.N)	U (02/19/2009)	\$25.16
US Cellular Corporation (USM.N)	E (03/10/2009)	\$34.34
Verizon Communications (VZ.N)	E (01/22/2009)	\$31.08
Windstream Corp. (WIN.N)	O (04/17/2006)	\$8.55
tw telecom inc (TWTC.O)	E (06/26/2008)	\$11.39

Stock Ratings are subject to change. Please see latest research for each company.