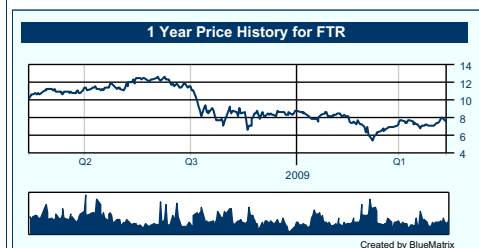


May 13, 2009

Changes	From (Previous)	To (Current)	
Rating	--	Buy	
Target Price	--	\$12.50	
FY09E EPS (Net)	--	\$0.60	
FY10E EPS (Net)	--	\$0.66	
Stock Data			
Price (05/12/09):		\$7.57	
52-Week Range:		\$13 – \$5	
Market Cap.(\$mm):		\$2,345.2	
Shr.O/S-Diluted (mm):		309.8	
Enterprise Val. (\$mm):		\$6,765.0	
Avg Daily Vol (3 Mo):		3,217,834	
LT Debt/Total Cap.:		67.4%	
Net Cash/Share:		\$2.28	
Dividend (\$):		\$1.00	
Yield (%):		13.2%	
Book Value/Share:		\$2.88	
S&P Index:		908.35	
EPS (Net)	2008A	2009E	2010E
1Q	\$0.14A	\$0.12A	NE
2Q	0.17A	0.12	NE
3Q	0.15A	0.19	NE
4Q	0.11A	0.17	NE
FY Dec	\$0.57A	\$0.60	\$0.66
P/E	13.3x	12.6x	11.5x
Revenue (Net)	\$2.24B	\$2.14B	\$2.05B
EV/Revenue	3.0x	3.2x	3.3x



Transformational Acquisition With Verizon at 4.5x EBITDA

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- Frontier announced a definitive agreement with Verizon to acquire Verizon wireline assets in 14 states for \$8.6 billion in a deal that is expected to close within 12 months.
- The \$8.6 billion price tag equates to approximately 4.5x 2008e EBITDA of roughly \$1.9 billion--or approximately \$1,792 per access line. The deal includes VZ wireline assets in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, as well as several exchanges in California.
- The transaction includes 4.8 million access lines, 2.2 million long-distance customers, 1.0 million high-speed data subscribers, which includes approximately 110,000 FiOS Internet customers and 69,000 FiOS TV customers.
- The proposed deal to be structured as a tax-free transaction for Verizon shareholders, as VZ shareholders will wind up owning approximately two-thirds of the new company through the receipt of approximately \$5.3 billion in Frontier common stock. VZ will receive approximately \$3.3 billion in value through a combination of cash distributions, debt securities issued to VZ prior to the spin-off and the assumption of certain debt previously issued by Verizon's telco subsidiaries.
- VZ shareholders will receive approximately 4.2 shares of Frontier for every share of Verizon owned as of the record date.
- Frontier has also announced that it will be reducing its dividend after the close of the transaction to \$0.75 from its current \$1.00. Notably however, the deal would be delevering for Frontier--taking its leverage from approximately 3.7x today to 2.6x upon deal close.
- In addition, Frontier is guiding to annual synergies of approximately \$500 million, or roughly 21% of cash opex, in-line with other synergy guidance levels given in similar transactions. As such, the company expects the deal to be free cash flow accretive in year-two.
- While we would not be surprised to see a negative stock reaction to Frontier today, given the recent history of VZ divestitures (Fairpoint, Idearc, Hawaii Telecom, etc.), we note Frontier is currently trading at 6.5x our 2010 EBITDA forecast and buying an asset that essentially triples its size for 4.5x EBITDA, while delevering more than a full turn of EBITDA.

Frontier has scheduled to host an 8:30am conference call this morning, while Verizon plans to host a 12:30pm conference call today. We plan to have additional comments later in the day.

Risks to Target Price

Risks to our target price include significant changes to the regulatory environment which could materially impact the company's revenues and cash flows, and macroeconomic pressures which could accelerate access line losses and impact data growth trends.

Company Description

Frontier Communications Corporation (NYSE: FTR) is a full-service communications provider and one of the largest local exchange telephone companies in the country. Under the Frontier brand name, the company offers telephone, television and Internet services, as well as bundled offerings, ESPN360 streaming video, security solutions and specialized bundles for small businesses and home offices.

Frontier Communications
Earnings Model
Christopher King
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443-224-1329

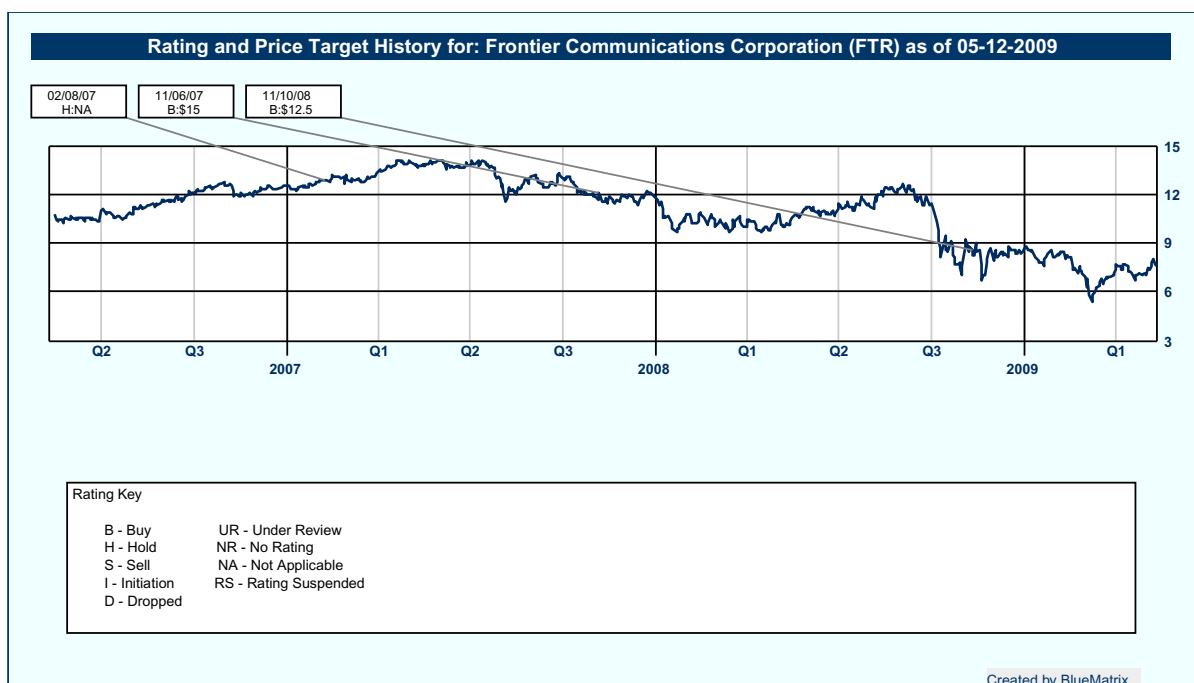
units in thousands except per share amounts

FRONTIER COMMUNICATIONS	2007A	1Q08A	2Q08A	3Q08A	4Q08A	2008A	1Q09A	2Q09E	3Q09E	4Q09E	2009E	2010E
ILEC REVENUES												
Local Network Services	889,879	217,158	214,703	210,749	205,783	848,393	200,896	199,177	195,517	191,857	787,448	729,029
Data and Internet Services	552,245	145,982	151,655	154,047	153,931	605,615	156,393	159,995	161,863	161,978	640,229	661,550
Access	456,862	107,818	101,003	99,555	96,337	404,713	90,065	88,161	86,541	83,348	348,114	304,058
Directory Services	114,586	28,628	29,070	28,126	27,523	113,347	27,705	27,754	27,244	26,734	109,438	101,837
Other	93,917	23,166	19,207	18,999	21,019	82,391	21,485	21,224	20,834	20,444	83,986	77,875
Long-Distance	180,526	46,453	46,912	46,395	42,799	182,559	41,412	43,000	43,000	43,000	170,412	172,000
TOTAL ILEC REVENUES	2,288,015	569,205	562,550	557,871	547,392	2,237,018	537,956	539,311	534,999	527,361	2,139,627	2,046,349
ILEC EXPENSES												
Network Access Expense	225,838	60,549	53,998	52,478	54,988	222,013	60,684	53,000	52,000	53,000	218,684	218,000
D&A	545,856	141,080	144,250	137,656	138,815	561,801	137,558	138,000	100,000	100,000	475,558	400,000
Other Operating Expenses	813,186	200,364	202,333	203,496	201,655	807,848	200,204	204,251	202,124	202,770	809,350	766,797
ILEC OPERATING EXPENSES	1,584,880	401,993	400,581	393,630	395,458	1,591,662	398,446	395,251	354,124	355,770	1,503,592	1,384,797
ILEC EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	277,068	282,060	280,874	271,591	1,111,593	1,061,552
ILEC OPERATING INCOME	703,135	167,212	161,969	164,241	151,934	645,356	139,510	144,060	180,874	171,591	636,035	661,552
TOTAL REVENUES	2,288,015	569,205	562,550	557,871	547,392	2,237,018	537,956	539,311	534,999	527,361	2,139,627	2,046,349
TOTAL EXPENSES	1,584,880	401,993	400,581	393,630	395,458	1,591,662	398,446	395,251	354,124	355,770	1,503,592	1,384,797
OPERATING INCOME	703,135	167,212	161,969	164,241	151,934	645,356	139,510	144,060	180,874	171,591	636,035	661,552
Investment Income	17,948	(1,235)	6,393	1,302	2,874	9,334	7,595	5,000	2,000	2,000	16,595	16,595
Minority Interest/One-time Gain	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense	380,696	90,860	90,710	90,333	90,731	362,634	88,749	87,188	87,188	87,188	350,312	348,750
Earnings before Taxes	340,387	75,117	77,652	75,210	64,077	292,056	58,356	61,872	95,687	86,404	302,319	329,397
Income Taxes	127,881	26,628	21,874	28,215	29,779	106,496	22,053	23,511	36,361	32,833	114,759	124,988
Income before Dividends	212,506	48,489	55,778	46,995	34,298	185,560	36,303	38,361	59,326	53,570	187,560	204,409
NET INCOME	212,506	48,489	55,778	46,995	34,298	185,560	36,303	38,361	59,326	53,570	187,560	204,409
DILUTED EPS	0.64	0.15	0.17	0.15	0.11	0.58	0.12	0.12	0.19	0.17	0.61	0.66
# of diluted shares	327.0	326.17	320.84	313.00	309.63	309.6	309.83	309.83	309.83	309.83	309.8	309.8
Discontinued Ops Net Income	0	0	0	0	0	0	0	0	0	0	0	0
DILUTED EPS -inc. disc. Ops.	0.64	0.14	0.17	0.15	0.11	0.57	0.12	0.12	0.19	0.17	0.60	0.66
TOTAL REPORTED EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	277,068	282,060	280,874	271,591	1,111,593	1,061,552
MARGIN ANALYSIS												
Operating Margin	30.7%	29.4%	28.8%	29.4%	27.8%	28.7%	25.9%	26.7%	33.8%	32.5%	29.7%	32.3%
ILEC EBITDA Margin	54.6%	54.2%	54.4%	54.1%	53.1%	53.8%	51.5%	52.3%	52.5%	51.5%	52.0%	51.9%
ILEC EBITDA Margin (Cash)	54.6%	54.2%	54.4%	54.1%	53.1%	54.0%	53.5%	54.3%	54.6%	53.6%	54.0%	54.0%
Tax Rate	15.6%	35.4%	28.2%	37.5%	46.5%	38.0%	37.8%	38.0%	38.0%	38.0%	38.0%	38.0%
Book Value	\$3.05	\$2.88	\$2.59	\$2.30	\$1.68	\$1.68	\$1.59	\$1.72	\$1.91	\$2.08	\$2.08	\$2.74
GROWTH ANALYSIS												
Total Revenue	13.0%	2.3%	-2.8%	-3.1%	-5.2%	-2.2%	-5.5%	-4.1%	-4.1%	-3.7%	-4.4%	-4.4%
ILEC Revenues	13.0%	2.3%	-2.8%	-3.1%	-5.2%	-2.2%	-5.5%	-4.1%	-4.1%	-3.7%	-4.4%	-4.4%
Operating Income	9.1%	-13.5%	-5.4%	-7.7%	-5.3%	-8.2%	-16.6%	-11.1%	10.1%	12.9%	-1.4%	4.0%
Net Income	-4.2%	-28.3%	37.5%	-14.2%	-30.7%	-12.7%	-25.1%	-31.2%	26.2%	56.2%	1.1%	9.0%
CASH FLOW (Top-Down)												
Cash EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	287,870	293,060	291,874	282,591	1,155,395	1,105,552
Interest Expense	364,381	90,860	90,710	90,333	90,731	362,634	88,749	87,188	87,188	87,188	350,312	348,750
Capex	315,793	47,986	75,737	80,476	84,065	288,264	54,572	55,000	70,000	80,000	259,572	250,000
Taxes	54,407	1,859	51,874	20,589	8,704	83,026	1,255	55,000	22,000	20,000	98,255	98,500
Non-Cash Adjustments/True-Ups	-9,399	-452	-8,717	-4,194	-1,830	-15,193	-2,854	-5,000	-5,000	-5,000	-17,854	-25,500
Pre-dividend Free Cash Flow	523,809	168,039	96,615	114,693	109,079	488,426	146,148	100,872	117,687	100,404	465,111	433,802
Dividend Payments	332,199	82,103	80,221	78,278	77,835	318,437	78,085	77,457	77,457	77,457	310,455	309,826
Free Cash Flow	191,611	85,936	16,394	36,415	31,244	169,989	68,063	23,416	40,230	22,947	154,656	123,976
Dividend Payout Ratio (Div/FCF)	63.4%	48.9%	83.0%	68.3%	71.4%	65.2%	53.4%	76.8%	65.8%	77.1%	66.7%	71.4%
BALANCE SHEET												
Total Debt	4,739,345	4,751,079	4,750,440	4,749,003	4,725,542	4,725,542	4,724,585	4,701,169	4,660,939	4,637,992	4,637,992	4,514,015
Cash and Marketable Securities	226,466	227,634	178,874	91,086	163,627	163,627	177,431	177,431	177,431	177,431	177,431	177,431
Net Debt	4,512,879	4,523,445	4,571,566	4,657,917	4,561,915	4,561,915	4,547,154	4,523,738	4,483,508	4,460,561	4,460,561	4,336,584
Equity	997,899	939,788	830,249	719,648	519,045	519,045	493,185	531,546	590,872	644,442	644,442	848,851
Debt/Equity Ratio	4.5x	4.8x	5.5x	6.5x	8.8x	8.8x	9.2x	8.5x	7.6x	6.9x	6.9x	5.1x
Debt/Total Capitalization	81.9%	82.8%	84.6%	86.6%	89.8%	89.8%	90.2%	89.5%	88.4%	87.4%	87.4%	83.6%

Source: Company data and Stifel Nicolaus estimates

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For a price chart with our ratings and target price changes for FTR go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=FTR>

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HOLD -We expect this stock to perform within 10% (plus or minus) of the S&P 500 over the next 12 months. A Hold rating is also used for those higher-yielding securities where we are comfortable with the safety of the dividend, but believe that upside in the share price is limited.

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