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Stock Rating
Equal-weight
Industry View
Attractive

Frontier 3Q09 Preview: Spinco Approval Process in Focus

Investment conclusion: Three state regulators (CA, NV and SC) approved the Frontier-Verizon transaction yesterday; approvals from seven other states (AZ, IL, OH, OR, PA, WA and WV) and the FCC are still required. The FTR/VZ deal carries integration risks, yet we still believe that Frontier should emerge as a stronger company. Overall, we like the sizeable cost synergy potential and believe that Spinco's low broadband penetration (62.5% vs. FTR's 92%) and relatively less crowded competitive environment could provide some revenue upside. While the stock could be range bound given potential flow back from Verizon shareholders (who will own ~70% of FTR at closing), investors can still pick up some income. Depending on the closing, Frontier has at least one more regular \$0.25 dividend payment. The stock has a 13.7% dividend yield or 10.3% post closing, either way the highest in the S&P 500.

What's new: FTR reports 3Q results on Tuesday November 3, with a 9:00 AM call. The dial-in number is 888-503-8172. Our 3Q EPS estimate of \$0.19 is four cents above consensus. Consensus has not taken into account the step down in amortization expense expected in 2H09.

Where we differ: State regulatory approvals for the deal could pose some hurdles given negative headlines following FRP's Chapter 11 filing. Yet, simply put, contrary to the FRP/VZ deal the FTR/VZ deal is a de-leveraging one. The deal also carries much lower integration risk, as only 13% of the lines need to be moved to Frontier systems before the close. While we believe the flow back overhang makes 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: We will focus on any commentary regarding the outlook for promotional activities and business trends in Frontier's core markets. We will be looking for updates on the VZ/FTR deal and for any news on the progress of Frontier's grant applications to increase broadband coverage under the stimulus plan.

Key Ratios and Statistics

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

Price target	NA
Shr price, close (Oct 29, 2009)	\$7.26
Mkt cap, curr (mm)	\$2,255
52-Week Range	\$9.45-5.32

Fiscal Year ending	12/08	12/09e	12/10e	12/11e
ModelWare EPS (\$)	0.58	0.61	0.74	0.68
Prior ModelWare EPS (\$)	-	0.61	0.74	0.68
P/E	15.1	11.9	9.8	10.7
Consensus EPS (\$)	0.60	0.53	0.62	0.63
Div yld (%)	11.4	13.8	13.8	13.8

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

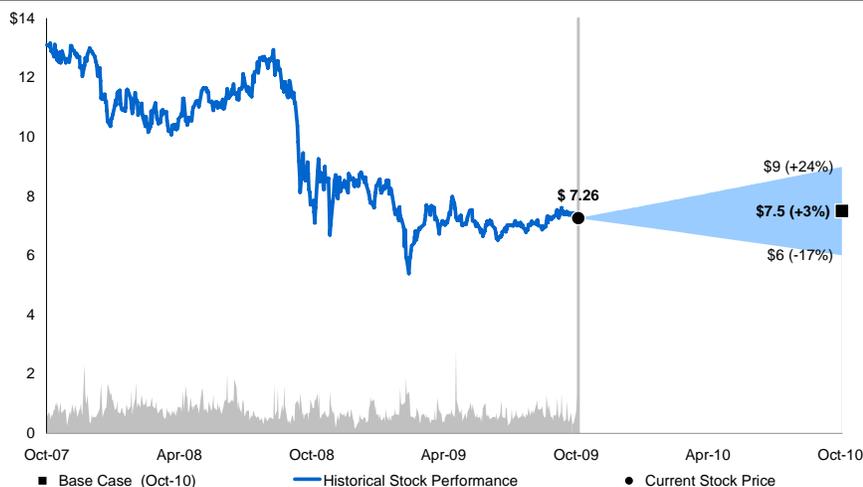
e = Morgan Stanley Research estimates, a = Actual company reported data

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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, \$7.26, Equal-weight)

Risk Reward View – A Balanced Risk/Reward



Bull Case \$9.00	11.2% Dividend Yield (8.4% pro-forma)	Cruise Control – The rate of line loss and housing market declines go 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 (10.0% pro-forma)	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 (12.5% pro-forma)	Slower Recovery 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.

Questions for Management

Guidance/ Economic pressures – Any updates/changes to 2009 guidance? (see chart on lower left). Is mgmt still expecting \$35M of acquisition-related expenses in 2009, and targeting the quarterly EBITDA margin to be in the 53-56% range? How did the economic weakness play out in 3Q09? Any updates on the housing activity in California?

Verizon Deal? Where does the regulatory approval process stand? Is closing still expected in 2Q10? The company recently announced that California, Nevada and South Carolina approved the acquisition of Verizon's wireline operations; just two days after its shareholders approved the transaction. Any updates on the approval process in West Virginia? What were the operational/financial trends at Spinco in 3Q09? In 2Q09, access lines declined by 11.2% y/y, broadband subscribers increased by 8.8% y/y, revenue declined by 6.4% y/y and the EBITDA margin stood at 31%.

Uses of Cash – FTR recently used the proceeds from its \$600M offering, together with cash on hand, to finance the purchase of its outstanding 9.250% senior notes due 2011 and its 6.250% senior notes due 2013. Any updates on this?

Productivity – Any updates on Frontier's initiatives to reduce costs?

Broadband Stimulus Plan – Frontier submitted two applications for federal funding in West Virginia. Any updates? The company plans to focus its capex on the expansion of broadband availability in the Spinco Markets.

Wireline retention and promotions – Is the company considering any promotions for the remainder of the year? Are bundles still helping mitigate access line losses? Any updates on the Rochester market?

Cable Competition – Any updates on the cable penetration rate in 3Q09?

Rural Carrier Valuation Comps

	YTD Perf.	One-month Perf.	Div yield	Div yld minus Bond ytw	P/E '10E	P/E '11E	EV / EBITDA '10E	EV / EBITDA '11E	FCF yld '10E (t)	FCF yld '11E (t)	Return on Tangible Net Operating Assets	Div as % of '10E FCF	Leverage 2Q09
Q	0.0%	-2.7%	8.8%	129 bps	12.4 e	12.5 e	4.6 e	4.7 e	22.4%	18.8%	11.6% e	39.2%	2.7x
CBB	61.7%	-12.4%	NA	NA	7.8 e	7.1 e	6.0 e	5.6 e	24.6%	15.1%	13.4% e	NA	4.1x
CTL	20.7%	-2.4%	8.5%	269 bps	10.8 e	10.5 e	4.7 e	4.5 e	19.7%	9.0%	17.4% e	51.7%	2.1x
FTR	-16.9%	-3.2%	10.3%*	-30 bps*	9.9 e	10.4 e	6.4 e	6.6 e	16.7%	8.9%	20.0% e	61.9%*	3.8x
IWA	-16.0%	-6.8%	13.5%	NA	22.0 e	26.2 e	8.1 e	8.4 e	13.7%	6.3%	15.6% e	96.5%	4.4x
TDS	-3.1%	-1.5%	1%	NA	14.4 e	13.8 e	4.1 e	3.7 e	9.0%	9.1%	9.2% e	14.5%	0.6x
WIN	6.3%	-0.2%	10.2%	231 bps	10.3 e	9.8 e	5.7 e	5.7 e	15.7%	10.5%	23.3% e	65.3%	3.2x
Avg	7.5%	-4.2%	8.8%	150 bps	12.5 e	NA	5.6 e	5.6 e	17.4%	11.1%	15.8%	54.8%	3.0x
S&P 500	18.0%	0.5%	2.0%										
S&P Telco	-5.8%	-3.1%	6.0%										

Source: FactSet, Morgan Stanley research (1) FCF = Operating Cash Flow – Capex
* Using pro-forma Frontier dividend yield (reducing dividend by 25% post acquisition of Verizon lines).

2009 Guidance vs. Morgan Stanley Estimates

	2008 Actual	2009 Guidance	2009 MS
Free Cash Flow	\$493mn	\$460-485mn	\$454mn
Capex	\$288mn	\$250-270mn	\$247mn
FCF payout	64.6%	implied 64% to 67%	68.6%

Source: Company data, Morgan Stanley Research

3Q Preview: Spinco Approval Process in Focus

Investment Debates

1. Is the dividend sustainable?

Market view: Mixed. (1) Secular pressures could 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 \$3.2bn in Spinco financing could result in higher debt service costs.

Our view: 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. Furthermore, strict cost control combined with the \$500mn synergies should help FTR maintain its profitability. We note that FTR recently used net proceeds from its \$600 offering (in September) to purchase the outstanding senior notes due 2011 and 2013. The company doesn't have material debt maturities until 2011 (approx. \$280mn).

2. How defensive is the footprint?

Market view: Susceptible to weakness. Pressures 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.

Our view: Footprint is defensive (industry line loss trends are improving). The spinco properties are underserved, leaving opportunity in broadband. Management mentioned that it had seen "housing moves" in Elk Grove and that economic pressures were not increasing. We note that line losses in the Rochester market in 2Q were the lowest seen in four years.

3. Will the FTR/VZ deal close? When? Will there be additional conditions?

Market view: It could be delayed; state regulators may add conditions. The regulatory approval process changed in Washington. Fairpoint's recent bankruptcy filing could lead to increased scrutiny by state regulators, who could condition their approvals.

Our view: There are risks but it should close in time with minimal additional conditions. The DOJ's swift approval is already a good sign yet the FCC has its hands full with a number of regulatory initiatives. Using the same timeframe (301 days) it took the FCC to approve the FRP/VZ would point to an early June '10 approval of the FTR/VZ deal, in line with mgmt's 2Q10 closing expectations. The approval may be faster depending on FTR's success in demonstrating the differences between this deal and the FRP/VZ deal. The state regulatory approval process could be more difficult. Yet the approval by CA, NV and SC regulators is a sign that they understand the deleveraging nature of the FTR/VZ deal. Frontier's preemptive dividend cut should provide additional comfort. The West Virginia approval could pose the biggest hurdle as 13% of the acquired lines are in that state.

Exhibit 1

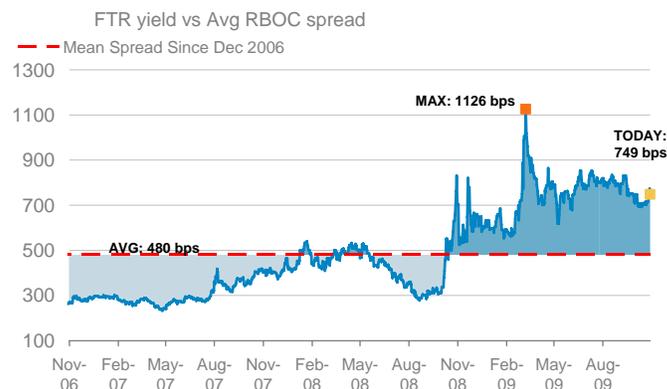
Morgan Stanley 3Q09 Estimates

	3Q08A Prior Yr	2Q09A Prior Qrt	3Q09E Est.
Normalized EPS	\$0.15	\$0.11	\$0.19
Consolidated Revenue	\$557.9	\$532.1	\$528.6
y/y % growth	(3.1%)	(5.4%)	(5.3%)
Consolidated EBITDA	\$302.1	\$280.2	\$276.9
% margin	54.2%	52.7%	52.4%
Consolidated Capex	\$80.5	\$55.8	\$66.1
% of revenues	14.4%	10.5%	12.5%
FCF (as reported)	\$114.7	\$98.1	\$109.9
Dividends as % of FCF	68.3%	79.6%	70.6%
Access lines (1)	2,296	2,189	2,154
y/y % growth	(7.3%)	(6.5%)	(6.2%)
Incremental access lines	(44.3)	(27.7)	(35.0)
DSL Subscribers (2)	571	614	626
Net adds	12.1	13.8	12.7

Source: Company data, Morgan Stanley Research (1) Access lines are pro forma for CTCO and GVN (2) DSL subs are pro forma for CTCO and GVN

Exhibit 2

FTR's Spread over Avg Baby Bell Yield

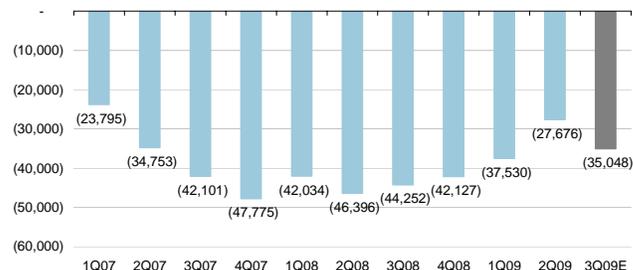


Source: Company data, Morgan Stanley Research

Exhibit 2

Impressive Line Loss Reduction in 2Q Will Likely be Difficult to Replicate

ABSOLUTE LINE LOSS



Source: Company data, Morgan Stanley Research

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Frontier

Exhibit 3

Frontier – Income Statement

Consolidated Income Statement	2007	2008	2009E	2010E	2011E	2012E	CAGR	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
(\$ in millions, except per share data)															
Total Revenue	\$2,249	\$2,237	\$2,119	\$2,049	\$1,993	\$1,950	08 - '15	\$569	\$563	\$558	\$547	\$538	\$532	\$529	\$520
% growth	11.1%	-0.5%	-5.3%	-3.3%	-2.8%	-2.1%	-3.0%	10.0%	-2.8%	-3.1%	-5.2%	-5.5%	-5.4%	-5.3%	-4.9%
Total cash expenses	228	222	235	211	205	201	-2.2%	61	54	52	55	61	59	58	57
% growth	33.3%	-2.7%	5.7%	-10.1%	-2.8%	-2.1%		17.8%	0.6%	-7.2%	-17.4%	0.2%	9.6%	9.8%	4.1%
% of revenue	10.1%	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%
D&A	546	562	473	388	379	378	-6.1%	141	144	138	139	138	133	103	99
% growth	14.6%	2.9%	-15.8%	-17.9%	-2.3%	-0.2%		15.5%	2.7%	-0.3%	-4.4%	-2.5%	-7.9%	-25.0%	-28.4%
% of revenue	24.3%	25.1%	22.3%	18.9%	19.0%	19.4%		24.8%	25.6%	24.7%	25.4%	25.6%	25.0%	19.5%	19.1%
Other operating expenses	808	802	777	762	751	743	-1.9%	200	202	203	196	198	193	194	192
% growth	10.8%	-0.8%	-3.2%	-1.8%	-1.5%	-1.1%		5.9%	-4.7%	0.1%	-3.8%	-1.4%	-4.5%	-4.6%	-2.2%
% of revenue	35.9%	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	1,583	1,586	1,484	1,362	1,336	1,322	-3.3%	402	400	393	390	396	385	355	349
% growth	14.9%	0.2%	-6.4%	-8.2%	-1.9%	-1.0%		10.8%	-1.4%	-1.1%	-6.2%	-1.5%	-3.8%	-9.8%	-10.6%
% of revenue	70.4%	70.9%	70.0%	66.4%	67.0%	67.8%		70.6%	71.1%	70.5%	71.3%	73.6%	72.3%	67.2%	67.0%
EBITDA	1,213	1,213	1,108	1,076	1,036	1,006	-3.8%	308	307	302	296	280	280	277	271
% growth	7.8%	0.0%	-8.7%	-2.9%	-3.7%	-2.9%		11.4%	-2.1%	-4.4%	-3.4%	-9.3%	-8.6%	-8.3%	-8.4%
% of revenue	53.9%	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	667	651	635	688	657	628	-2.1%	\$167	\$162	\$164	\$157	\$142	\$147	\$174	\$172
Investment and other income, net	34.2	15.7	23.4	22.6	22.0	21.5		5.1	6.4	1.3	2.9	8.2	4.6	5.3	5.2
% growth	100.5%	-54.2%	49.0%	-3.3%	-2.8%	-2.1%		-49.0%	-34.7%	-81.8%	-60.5%	61.6%	-27.8%	306.0%	81.1%
% of revenue	1.5%	0.7%	1.1%	1.1%	1.1%	1.1%		0.9%	1.1%	0.2%	0.5%	1.5%	0.9%	1.0%	1.0%
Interest expense	\$381	\$363	\$368	\$357	\$354	\$339	-1.4%	\$91	\$91	\$90	\$91	\$89	\$99	\$91	\$90
% growth	13.2%	-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	16.9%	16.2%	17.4%	17.4%	17.8%	17.4%		16.0%	16.1%	16.2%	16.6%	16.5%	18.5%	17.2%	17.4%
Pre-tax income (loss)	\$320	\$304	\$291	\$355	\$327	\$312		\$81	\$78	\$75	\$69	\$62	\$53	\$89	\$87
% growth	-2.6%	-5.0%	-4.2%	21.7%	-7.9%	-4.5%		15.3%	-7.0%	-16.2%	-8.4%	-24.4%	-31.7%	17.4%	25.5%
% of revenue	14.2%	13.6%	13.8%	17.3%	16.4%	16.0%		14.3%	13.9%	13.5%	12.7%	11.4%	10.0%	16.8%	16.7%
Income tax expense (benefit)	\$119	\$120	\$102	\$124	\$115	\$109		\$30	\$30	\$28	\$32	\$23	\$18	\$31	\$30
% growth	14.7%	1.2%	-14.8%	21.7%	-7.9%	-4.5%		14.6%	-7.9%	-19.7%	28.2%	-23.4%	-39.6%	9.5%	-5.3%
% of revenue	5.3%	5.4%	4.8%	6.1%	5.8%	5.6%		5.3%	5.3%	5.1%	5.9%	4.3%	3.4%	5.9%	5.8%
Effective tax rate	37%	39%	35%	35%	35%	35%		37%	38%	38%	46%	37%	33%	35%	35%
Statutory tax rate	38%	38%	38%	38%	38%	38%		38%	38%	38%	38%	38%	38%	38%	38%
Net income	\$202	\$184	\$189	\$230	\$212	\$202		\$51	\$49	\$47	\$37	\$39	\$35	\$58	\$57
Minority interest	0.0	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 (common shareholders)	\$202	\$184	\$187	\$228	\$210	\$201						\$38	\$35	\$57	\$56
Diluted EPS	\$0.61	\$0.58	\$0.61	\$0.74	\$0.68	\$0.65	-1.3%	\$0.16	\$0.15	\$0.15	\$0.12	\$0.12	\$0.11	\$0.19	\$0.18
Weighted average shares outstanding	332	317	310	311	311	311		326	321	313	310	310	310	311	311

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

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Frontier

Exhibit 4

Frontier – Balance Sheet

Consolidated Balance Sheet	2007	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	226	164	421	407	370	341	227.6	179	91	164	177	454	445	421
Accounts receivable, net	235	222	208	201	196	192	214	224	223	222	218	217	211	208
Other current assets	63	82	88	88	88	88	53	45	56	82	70	88	88	88
Total current assets	524	468	717	696	654	621	495	449	370	468	465	759	744	717
Property, Plant and Equipment - Gross	7,375	7,581	8,022	8,709	9,428	10,183	7,413	7,483	7,543	7,581	7,623	7,673	7,845	8,022
Accumulated Depreciation	(4,040)	(4,341)	(4,922)	(5,759)	(6,626)	(7,532)	(4,125)	(4,218)	(4,292)	(4,341)	(4,421)	(4,507)	(4,717)	(4,922)
Net property, plant, and equipment	3,335	3,240	3,100	2,950	2,802	2,651	3,288	3,265	3,251	3,240	3,202	3,166	3,129	3,100
Goodwill	2,635	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	548	360	276	276	276	276	502	456	405	360	315	276	276	276
Investments	21	8	-	-	-	-	21	22	23	8	3	-	-	-
Other assets	193	171	185	183	186	196	187	188	190	171	172	175	180	185
Total assets	\$7,256	6,889	6,920	\$6,747	\$6,561	\$6,386	\$7,129	\$7,013	\$6,881	6,889	6,800	7,018	6,971	6,920
Liabilities and Shareholders' equity														
Long term debt due within one year	2	4	7	7	7	7	4	4	4	4	4	7	7	7
Accounts payable and other current liability	179	142	111	103	102	103	101	105	89	142	85	114	114	111
Other taxes accrued	21	26	26	26	26	26	21	21	21	26	26	26	26	26
Interest accrued	117	102	102	102	102	102	117	117	117	102	102	102	102	102
Other current liabilities	126	109	109	109	109	109	126	126	126	109	109	109	109	109
Total current liabilities	446	383	355	347	347	347	369	373	357	383	326	359	358	355
Deferred	712	670	684	681	678	675	712	713	711	670	677	685	684	684
Other liabilities	364	595	590	585	581	575	361	351	347	595	595	592	591	590
Long-term debt	4,737	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	5,812	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	87	89	91	93	87	87	87	87	87	87	87	87
Additional paid-in capital	1,281	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	14	38	(17)	(98)	(197)	(306)	60	35	4	38	74	24	4	(17)
Accumulated other comprehensive loss	(78)	(237)	(229)	(229)	(229)	(229)	(78)	(77)	(76)	(237)	(233)	(229)	(229)	(229)
Treasury stock	(306)	(487)	(473)	(473)	(473)	(473)	(316)	(404)	(486)	(487)	(473)	(473)	(473)	(473)
Total shareholders' equity	998	519	397	318	221	114	940	830	720	519	482	438	418	397
Total liabilities and Shareholders' equity	\$7,256	6,889	6,920	\$6,747	\$6,561	\$6,386	\$7,129	\$7,013	\$6,881	6,889	6,800	7,018	6,971	6,920

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

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Frontier

Exhibit 5

Frontier – Cash Flow Statement

(in \$Ms)	2007	2008	2009E	2010E	2011E	2012E	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09E	4Q09E
Cash flows from operating activities:														
Net Income	\$215	\$183	\$179	\$230	\$212	\$202	\$46	\$56	\$47	\$34	\$37	\$28	\$58	\$57
Adj. to reconcile net income														
Depreciation and amortization expense	546	562	473	388	379	378	141	144	138	139	138	133	103	99
Non-cash restructuring charge	0	0	0											
Investment write down	20	0	0											
Investment (gains)/losses	0	6	(4)				3	3	0	0	2	(6)		
Other	(6)	1	19				5	(6)	3	(1)	4	15		
Deferred income tax and investment tax cr	81	34	7	(3)	(3)	(3)	(0)	(9)	(2)	45	4	4	(1)	(1)
Change in operating accounts receivable	(5)	10	19	7	6	4	19	(11)	1	0	9	1	5	3
Change in accounts payable and other liab	(36)	(52)	(27)	(12)	(6)	(4)	(70)	12	(15)	22	(47)	26	(2)	(4)
Change in accrued taxes and interest	0	0	0	0	0	0								
Change in other assets	7	(4)	(28)	3	(4)	(10)	(2)	8	(13)	3	0	(18)	(5)	(5)
Net cash by continuing operating activities	\$822	\$739	\$639	\$613	\$585	\$567	\$141.5	\$197.3	\$158.2	\$242.2	\$147	\$183	\$159	\$149
Cash flows from investing activities:														
(Acquisitions)/Disposals	(726)	0	0				0	0	0	0	0			
Proceeds from sale of assets over book n	0	0	0	0	0	0							0	0
Capital expenditure	(316)	(288)	(247)	(239)	(232)	(227)	(48)	(76)	(80)	(84)	(55)	(56)	(66)	(70)
Other	7	5	1	0	0	0	1	(2)	(1)	8	0	0	0	0
Net cash used by investing activities	(\$1,035)	(\$283)	(\$246)	(\$239)	(\$232)	(\$227)	(\$47)	(\$78)	(\$81)	(\$76)	(\$54)	(\$55)	(\$66)	(\$70)
Cash flows from financing activities:														
Short term debt borrowings (repayments)	0	0	0	0	0	0							0	0
Long-term debt borrowings (repayments)	4	(7)	179	(80)	(80)	(60)	6	(1)	(1)	(11)	(1)	230	(25)	(25)
Issuance of equity units	0	0	0	0	0	0							0	0
Debt issuance cost	(12)	(1)	(1)	0	0	0	(1)	0	0	0	0	(1)		
Issuance of Common Stock	14	1	1	2	2	2	1	0	0	0	1	0	0	0
Issuance of common stock for employee p	0	0	0											
Settlement of equity forward contracts	0	16	0	0	0	0	16	0	0	0	0	0	0	0
Common stock buybacks	(250)	(200)	0	0	0	0	(25)	(88)	(84)	(4)	0	0	0	0
Other	(21)	(9)	0				(6)	0	0	(3)	0	0		
Dividends Paid	(336)	(318)	(311)	(311)	(311)	(311)	(82)	(80)	(78)	(78)	(78)	(78)	(78)	(78)
Customer advances for construction and c	0	0	(3)	0	0	0	(1)	0	(2)	3	(0)	(2)	0	0
Net cash provided by financing activities	(\$602)	(\$519)	(\$135)	(\$389)	(\$389)	(\$369)	(\$93)	(\$168)	(\$165)	(\$93)	(\$79)	\$149	(\$103)	(\$103)
Cash provided by (used by) discontinued/so	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net increase (decrease) in cash	(815)	(63)	257	(14)	(36)	(29)	1	(49)	(88)	73	14	277	(10)	(24)
Cash at the beginning of period	1,041	226	164	421	407	370	226	228	179	91	164	177	454	445
Cash at the end of period	\$226	\$164	\$421	\$407	\$370	\$341	\$228	\$179	\$91	\$164	\$177	\$454	\$445	\$421

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

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

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(as of September 30, 2009)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	843	36%	259	39%	31%
Equal-weight/Hold	1062	45%	314	47%	30%
Not-Rated/Hold	26	1%	3	0%	12%
Underweight/Sell	412	18%	89	13%	22%
Total	2,343		665		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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Industry Coverage: Telecom Services

Company (Ticker)	Rating (as of)	Price (10/29/2009)
Simon Flannery		
AT&T, Inc. (T.N)	O (03/08/2006)	\$26.23
American Tower Corp. (AMT.N)	E (03/12/2009)	\$38.24
BCE Inc. (BCE.TO)	O (11/21/2008)	C\$25.6
CenturyTel (CTL.N)	O (09/23/2009)	\$32.98
Cincinnati Bell Inc. (CBB.N)	E (11/03/2006)	\$3.12
Clearwire Corporation (CLWR.O)	U (12/08/2008)	\$6.6
Crown Castle Corp. (CCI.N)	E (03/12/2009)	\$31.04
Equinix Inc. (EQIX.O)	E (05/13/2009)	\$87.87
FairPoint Communications (FRMCMQ.PK)	NA (10/29/2007)	\$1.12
Frontier Communications Corp (FTR.N)	E (05/07/2007)	\$7.26
Iowa Telecom (IWA.N)	U (12/17/2008)	\$12
Leap Wireless (LEAP.O)	E (08/07/2009)	\$13.98
Level 3 Communications, Inc. (LVLT.O)	U (02/14/2008)	\$1.2
MetroPCS Communications (PCS.N)	E (08/07/2009)	\$6.51
Neutral Tandem, Inc. (TNDM.O)	O (06/19/2009)	\$22.11
PAETEC Holding Corp. (PAET.O)	E (06/26/2008)	\$3.43
Qwest Communications Int'l (Q.N)	E (01/09/2009)	\$3.64
Rackspace Hosting, Inc. (RAX.N)	O (09/23/2009)	\$17.31
Rogers Communications, Inc. (RCIb.TO)	O (04/27/2005)	C\$30.98
SAVVIS Inc. (SVVS.O)	O (08/04/2009)	\$15.78
SBA Communications (SBAC.O)	E (03/12/2009)	\$29.38
Sprint Nextel Corporation (S.N)	U (10/19/2009)	\$3.09
TELUS Corp. (T.TO)	E (12/19/2008)	C\$32.85
Telephone & Data Systems (TDS.N)	U (02/19/2009)	\$30.75
US Cellular Corporation (USM.N)	E (03/10/2009)	\$38.04
Verizon Communications (VZ.N)	E (01/22/2009)	\$30.04
Windstream Corp. (WIN.N)	O (04/17/2006)	\$9.78
tw telecom inc (TWTC.O)	E (06/26/2008)	\$12.9

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