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Receives 3 of 9 State Approvals Needed for VZ Deal

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Analysis of Sales/Earnings

Changes	From (Previous)	To (Current)	
Rating	--	Buy	
Target Price	--	\$12.50	
FY09E EPS (Net)	--	\$0.51	
FY10E EPS (Net)	--	\$0.58	
Stock Data			
Price (10/29/09):		\$7.26	
52-Week Range:		\$10 – \$5	
Market Cap.(mm):		\$2,251.3	
Shr.O/S-Diluted (mm):		310.1	
Enterprise Val. (mm):		\$6,765.0	
Avg Daily Vol (3 Mo):		3,188,426	
LT Debt/Total Cap.:		67.4%	
Net Cash/Share:		\$1.62	
Dividend:		\$1.00	
Yield (%):		13.8%	
Book Value/Share:		\$2.88	
S&P Index:		1,066.11	
EPS (Net)	2008A	2009E	2010E
1Q	\$0.15A	\$0.12A	NE
2Q	0.17A	0.09A	NE
3Q	0.15A	0.16	NE
4Q	0.11A	0.14	NE
FY Dec	\$0.57A	\$0.51	\$0.58
P/E	12.7x	14.2x	12.5x
Revenue (Net)	\$2.24B	\$2.14B	\$2.09B
EV/Revenue	3.0x	3.2x	3.2x



- Frontier received approval from 3 of the 9 states needed for its acquisition of Verizon's local exchange businesses in 14 states this week, as California, Nevada and South Carolina regulators approved the transaction, leaving 6 states, in addition to FCC approval, needed to consummate the deal, which is expected to close in 2Q10.
- While we have seen union posturing regarding comparisons to Verizon's divestiture of wireline assets to Fairpoint Communications, we continue to see a strong case being made in favor of approving this acquisition, from the healthy delevering at Frontier, to the reduction in the company's dividend payout, to the capital commitments that Frontier management has laid out publicly. Frontier expects to spend approximately 12% of revenues on capex in the newly-acquired properties, plus an additional \$100 million per year for three years after closing for plant upgrades.
- We do believe that West Virginia, which will be dominated by Frontier from an ILEC perspective following the acquisition, and which has a strong union footprint, as well as the FCC approval (which will likely have broadband availability commitments associated with it), could very well be two of the last approvals received. We anticipate most state approvals to be complete by 1Q10.
- With the company's shareholders enjoying a 13.8% dividend yield at current levels, until the deal closes, and even after the deal closes, shareholders are expected to receive a 10.3% dividend yield with an investment-grade-like balance sheet and one of the lowest payout ratios in the industry. As such, we believe Frontier remains one of the more compelling opportunities in the RLEC sector. We reiterate our Buy rating on the name, and our \$12.50 target price represents an 8.0% dividend yield.

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
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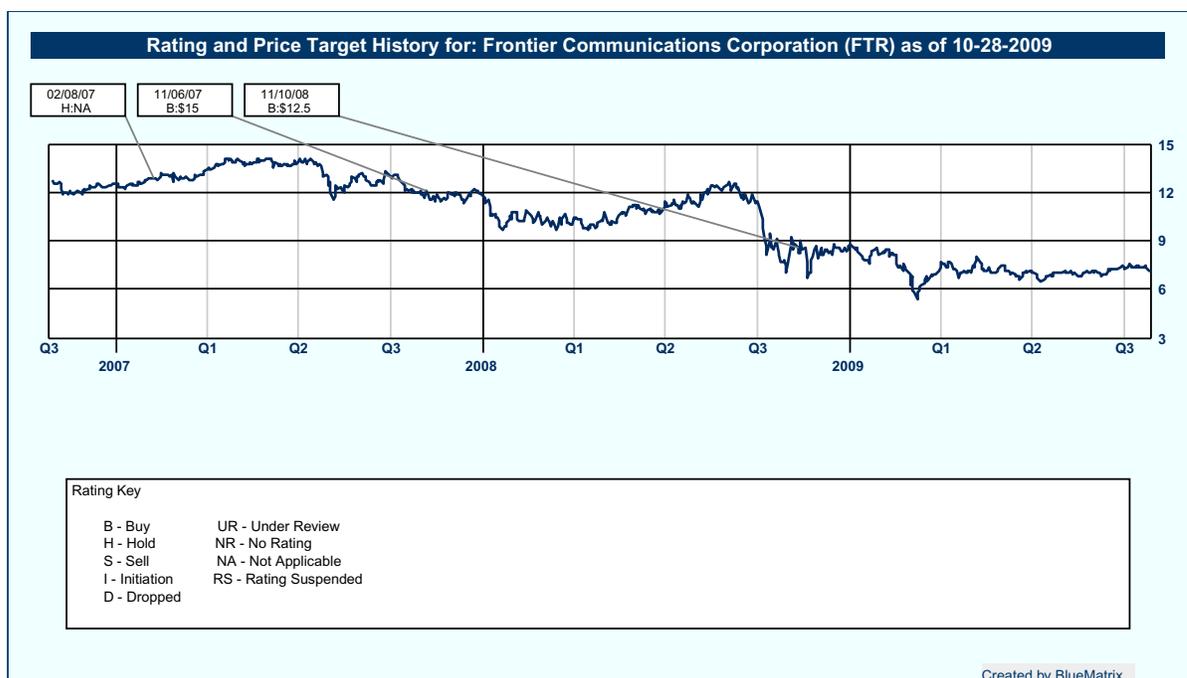
units in thousands except per share amounts

FRONTIER COMMUNICATIONS	2007A	1Q08A	2Q08A	3Q08A	4Q08A	2008A	1Q09A	2Q09A	3Q09E	4Q09E	2009E	2010E
ILEC REVENUES												
Local Network Services	889,879	217,158	214,703	210,749	205,783	848,393	200,896	198,296	197,560	195,273	792,025	754,456
Data and Internet Services	552,245	145,982	151,655	154,047	153,931	605,615	156,393	160,551	163,554	164,861	645,359	686,501
Access	456,862	107,818	101,003	99,555	96,337	404,713	90,065	87,427	87,445	84,832	349,768	315,433
Directory Services	114,586	28,628	29,070	28,126	27,523	113,347	27,705	27,211	27,529	27,210	109,655	104,986
Other	93,917	23,166	19,207	18,999	21,019	82,391	21,485	18,097	21,051	20,808	81,441	77,702
Long-Distance	180,526	46,453	46,912	46,395	42,799	182,559	41,412	40,560	40,000	39,000	160,972	146,000
TOTAL ILEC REVENUES	2,288,015	569,205	562,550	557,871	547,392	2,237,018	537,956	532,142	537,139	531,983	2,139,220	2,085,078
ILEC EXPENSES												
Network Access Expense	225,838	60,549	53,998	52,478	54,988	222,013	60,684	59,203	60,000	60,000	239,887	240,000
D&A	545,856	141,080	144,250	137,656	138,815	561,801	137,558	132,818	100,000	100,000	470,376	400,000
Other Operating Expenses	813,186	200,364	202,333	203,496	201,655	807,848	200,204	192,754	195,141	198,012	786,111	763,435
ILEC OPERATING EXPENSES	1,584,880	401,993	400,581	393,630	395,458	1,591,662	398,446	384,775	355,141	358,012	1,496,374	1,403,435
ILEC EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	277,068	280,185	281,998	273,971	1,113,222	1,081,643
TOTAL REVENUES	2,288,015	569,205	562,550	557,871	547,392	2,237,018	537,956	532,142	537,139	531,983	2,139,220	2,085,078
TOTAL EXPENSES	1,584,880	401,993	400,581	393,630	395,458	1,591,662	398,446	384,775	355,141	358,012	1,496,374	1,403,435
OPERATING INCOME	703,135	167,212	161,969	164,241	151,934	645,356	139,510	147,367	181,998	173,971	642,846	681,643
Investment Income	17,948	(1,235)	6,393	1,302	2,874	9,334	7,595	4,618	2,000	2,000	16,213	16,213
Acquisition-Related Costs	0	0	0	0	0	0	0	(10,751)	(11,500)	(12,500)	(34,751)	(50,000)
Interest Expense	380,696	90,860	90,710	90,333	90,731	362,634	88,749	98,670	92,813	91,125	371,357	360,000
Earnings before Taxes	340,387	75,117	77,652	75,210	64,077	292,056	58,356	42,564	79,685	72,346	252,952	287,856
Income Taxes	127,881	26,628	21,874	28,215	29,779	106,496	22,053	14,254	30,280	27,492	94,079	109,227
Income before Dividends	212,506	48,489	55,778	46,995	34,298	185,560	36,303	28,310	49,405	44,855	158,873	178,629
NET INCOME	212,506	48,489	55,778	46,995	34,298	185,560	36,303	28,310	49,405	44,855	158,873	178,629
DILUTED EPS	0.64	0.15	0.17	0.15	0.11	0.58	0.12	0.09	0.16	0.14	0.51	0.58
# of diluted shares	327.0	326.17	320.84	313.00	309.63	309.6	309.83	310.10	310.10	310.10	310.1	310.1
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	0.09	0.16	0.14	0.51	0.58
TOTAL REPORTED EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	277,068	280,185	281,998	273,971	1,113,222	1,081,643
MARGIN ANALYSIS												
Operating Margin	30.7%	29.4%	28.8%	29.4%	27.8%	28.7%	25.9%	27.7%	33.9%	32.7%	30.1%	32.7%
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%	54.2%	54.5%	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	\$1.45	\$1.60	\$1.75	\$1.75	\$2.33
GROWTH ANALYSIS												
Total Revenue	13.0%	2.3%	-2.8%	-3.1%	-5.2%	-2.2%	-5.5%	-5.4%	-3.7%	-2.8%	-4.4%	-2.5%
ILEC Revenues	13.0%	2.3%	-2.8%	-3.1%	-5.2%	-2.2%	-5.5%	-5.4%	-3.7%	-2.8%	-4.4%	-2.5%
Operating Income	9.1%	-13.5%	-5.4%	-7.7%	-5.3%	-8.2%	-16.6%	-9.0%	10.8%	14.5%	-0.4%	6.0%
Net Income	-4.2%	-28.3%	37.5%	-14.2%	-30.7%	-12.7%	-25.1%	-49.2%	5.1%	30.8%	-14.4%	12.4%
CASH FLOW (Top-Down)												
Cash EBITDA	1,248,991	308,292	306,219	301,897	290,749	1,207,157	287,870	288,404	292,998	284,971	1,154,243	1,125,643
Interest Expense	364,381	90,860	90,710	90,333	90,731	362,634	88,749	92,317	92,813	91,125	365,004	360,000
Capex	315,793	47,986	75,737	80,476	84,065	288,264	54,572	55,792	70,000	80,000	260,364	250,000
Taxes	54,407	1,859	51,874	20,589	8,704	83,026	1,255	39,203	17,500	15,000	72,958	66,500
Non-Cash Adjustments/True-Ups	-9,399	-452	-8,717	-4,194	-1,830	-15,193	-2,854	3,013	-5,000	-5,000	-9,841	-25,500
Pre-dividend Free Cash Flow	523,809	168,039	96,615	114,693	109,079	488,426	146,148	98,079	117,685	103,846	465,759	474,643
Dividend Payments	332,199	82,103	80,221	78,278	77,835	318,437	78,085	78,099	77,524	77,524	311,232	310,028
Free Cash Flow	191,611	85,936	16,394	36,415	31,244	169,989	68,063	19,980	40,162	26,323	154,527	164,615
Dividend Payout Ratio (Div/FCF)	63.4%	48.9%	83.0%	68.3%	71.4%	65.2%	53.4%	79.6%	65.9%	74.7%	66.8%	65.3%
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	4,952,255	4,912,093	4,885,771	4,885,771	4,721,156
Cash and Marketable Securities	226,466	227,634	178,874	91,086	163,627	163,627	177,431	454,102	454,102	454,102	454,102	454,102
Net Debt	4,512,879	4,523,445	4,571,566	4,657,917	4,561,915	4,561,915	4,547,154	4,498,153	4,457,991	4,431,669	4,431,669	4,267,054
Equity	997,899	939,788	830,249	719,648	519,045	519,045	493,185	448,161	497,566	542,421	542,421	721,049
Debt/Equity Ratio	4.5x	4.8x	5.5x	6.5x	8.8x	8.8x	9.2x	10.0x	9.0x	8.2x	8.2x	5.9x
Debt/Total Capitalization	81.9%	82.8%	84.6%	86.6%	89.8%	89.8%	90.2%	90.9%	90.0%	89.1%	89.1%	85.5%

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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