

Frontier Communications Corp.

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Company Brief

(FTR:NYSE)

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Telecommunications Services: Wireline

FTR: Notes from the Road

Yesterday, we hosted Frontier CFO Don Shassian at our Raymond James Boston Fall Investors Conference. We sat in on several meetings with management where the Verizon (VZ/\$32.69/Market Perform) deal and issues leading up to and surrounding it were the main topics of conversation. We have the following observations:

Deal on track. The transaction appears to be on track for closing, with management reporting that the SpinCo properties are performing in-line with its expectations. Verizon filed an 8-K this week that outlined some financial information regarding the deal, and it appears to be more favorable than many investors feared at the outset. We believe that management has realistic expectations regarding its ability to effect changes in the revenue and cash flow characteristics of the SpinCo markets, and that it will be successful in the transition.

Regulatory on the move. The company has been finalizing information requests for the various state hearings that are scheduled over the next six weeks, and after mid-January, all the hearings and related issues should be clear. We do not expect the company to face significant scrutiny given that this is a de-levering event, and its track record for customer service and product deployment is impressive. If there are any concerns, we expect them to be known by the end of January, giving management sufficient time to address them.

Broadband update. The company is expected to focus on broadband deployment in the new properties quickly. We believe that a key to getting customer revenue up is broadband deployment and effective marketing of bundles to the SpinCo customers, where it has been lacking under Verizon. Management remains confident that this is achievable following additional due diligence on the SpinCo properties.

Conclusion. We continue to view Frontier as a very solid investment, but with relatively low appreciation over the next few months ahead of the merger with Verizon's properties. We expect state regulatory approval announcements to help boost interest in the name as well. We believe that patient investors will be rewarded for holding shares of Frontier.

Rating

Outperform 2

Current Price

Current Price (12/3/2009)	\$8.37
52-Week Range	\$9.00 - \$5.32
Suitability	Total Return

Market Data

Shares Out. (mil.)	310.1
Market Cap. (mil.)	\$2,596
Avg. Daily Vol. (10 day)	4,358,720
Dividend/Yield	\$1.00/12.0%
BVPS (09/09)	\$1.38
ROE	35%
LT Debt (mil.)/% Cap.	\$4,898/68%

Earnings & Valuation Metrics

	2008A	2009E	2010E
Non-GAAP EPS	\$0.57	\$0.59	\$0.71
P/E Ratios (Non-GAAP)	14.7x	14.2x	11.8x
GAAP EPS	\$0.57	\$0.56	\$0.71
P/E Ratios (GAAP)	14.7x	14.9x	11.8x
Revenues (mil.)	\$2,237	\$2,128	\$4,003
Levered FCF/Share	\$1.28	\$1.46	\$1.20

Company Description

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.

Footnote: Frontier is acquiring over 4 million access lines from Verizon in a reverse Morris Trust transaction, which we expect to close in the second quarter of 2010.

Footnotes: Non-GAAP EPS excludes non-recurring items.

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Strong Buy (SB1) Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

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Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Hold (3) Expected to perform in line with the underlying country index.

Underperform (4) Expected to underperform the underlying country index.

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Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.

Buy (2) Absolute return expected to be at least 10% over the next 12 months.

Fair Value (3) Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.

Sell (4) Expected absolute drop in the share price of more than 10% in next 12 months.

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Verizon Communications	Raymond James & Associates received non-investment banking securities-related compensation from VZ within the past 12 months.

Stock Charts, Target Prices, and Valuation Methodologies

Target Prices: The information below indicates our target price and rating changes for FTR stock over the past three years.



Update Date	Closing Price	Target Price	Rating
2/25/09	7.30	10.00	2
11/10/08	8.52	12.50	2
8/20/08	12.60	UR	2
8/5/08	11.54	12.50	2
5/5/08	10.55	12.00	2
12/18/07	12.41	14.00	2
5/3/07	15.91	NM	3
4/20/07	15.62	UR	2
2/28/07	14.53	15.00	2
2/16/07	15.08	UR	2
12/4/06	14.04	15.00	2

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Our valuation methodology for Frontier Communications is based on a multiple to levered free cash flow.

The information below indicates target price and rating changes for other subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
10/30/07	45.99	NM	3
5/7/07	40.66	NM	4
12/4/06	34.64	NM	3

Risk Factors

General Risk Factors: Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major

segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Wireline Telecom Services Risk Factors

Wireline telecom services remain highly regulated, and should regulation become less favorable, promoting more competition or reducing subsidies for these companies, the sector could be negatively impacted. Technological substitution remains a highly credible threat toward most wireline telecom services companies' revenue and earnings. A large amount of debt could leverage the industry to the downside should earnings and cash flows face significant pressure.

Frontier Communications Risk Factors

Should additional unfavorable regulatory rulings emerge or the landscape for USF change, we believe it would have a material negative impact on Frontier. Regulatory changes to network access rates also represent a significant risk to ILECs (incumbent local exchange carriers) and to Frontier, as the company currently derives a meaningful percentage of its total revenue from network access. Voice over Internet Protocol (VoIP) and wireless replacement also represent significant competitive threats to Frontier, especially in Rochester, New York, and we believe if consumer demand for the technology expands significantly, Frontier would be adversely affected.

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