

Large Filing Separator Sheet

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Daniel McCarthy

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Contribution Analysis. Evercore and Citi analyzed the respective contributions of Frontier and Spinco to the access lines, Adjusted EBITDA, LFCF, equity value (assuming the mid-point of the collar, i.e., a Frontier average price of \$7.75) and firm value of the combined company for actual fiscal year 2008 through estimated fiscal year 2013. For certain metrics, Evercore and Citi analyzed the contributions on both an unlevered basis and a levered basis, which assumed \$5.110 billion of debt, \$504 million of cash and \$3 million of investments at Frontier and \$3.333 billion of debt at Spinco. This analysis was based on the Frontier Management Base Case for Frontier's financial contributions and included the achievement of synergies identified by Frontier management, before taking into account non-recurring integration costs relating to the merger and excluded HSI and FiOS capital expenditures for Spinco's financial contributions. This analysis was compared to the proposed equity ownership in the combined company by current holders of shares of Frontier common stock after giving effect to the merger (before accounting for the elimination of fractional shares and any adjustments required as a result of any amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off), which was 29% to 34% based on the collar. The following table presents the results of this analysis:

	Implied Frontier Contribution	
	Unlevered	Levered
2008 Actual Access Lines	32%	5%
2009 Estimated Access Lines	33	8
2009 Estimated Adjusted EBITDA	39	19
2010 Estimated Adjusted EBITDA	39	20
2011 Estimated Adjusted EBITDA	37	16
2009 Estimated LFCF	—	36
2010 Estimated LFCF	—	34
2011 Estimated LFCF	—	32
2012 Estimated LFCF	—	28
2013 Estimated LFCF	—	26
Equity Value	—	32
Firm Value	45	—

Combination Analysis

Pro Forma Cash Flow Analysis. In order to evaluate the estimated ongoing impact of the merger, Evercore and Citi analyzed certain pro forma financial effects of the merger. Based on its analysis, Evercore and Citi computed the resulting dilution/accretion based on Frontier management's base case estimated LFCF of the combined company for the fiscal years ending in 2011, 2012, 2013 and 2014 (excluding extraordinary HSI and FiOS capital expenditures) and assumed the achievement of synergies identified by Frontier management that Frontier and Spinco could achieve if the merger were consummated before taking into account non-recurring integration costs relating to the merger and also assumed a 8.5% weighted average cost of debt on the new financing required to be incurred by Spinco under the original merger agreement. Evercore and Citi noted that the merger would be dilutive to Frontier's estimated free cash flow for the fiscal year ending 2011 and would be accretive to Frontier's estimated free cash flow for each of the fiscal years ending 2012, 2013 and 2014.

Verizon's Reasons for the Spin-Off and the Merger

As part of Verizon's periodic review process, Verizon management reviews its portfolio of assets to evaluate its current structure and composition, to determine whether changes might be advisable, and to look for attractive ways to add value for its stockholders. Verizon also regularly receives expressions of interest in its access line properties. When those expressions are credible, Verizon investigates and evaluates the proposals to

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satisfy its fiduciary responsibility to stockholders. The decision to pursue the proposed transaction involving the transfer of the Spinco business to Frontier followed the receipt of an inquiry from Frontier that initially expressed an interest in acquiring substantially all of the Spinco business.

Verizon's board of directors consulted with its financial and legal advisors and considered a wide variety of factors in deciding whether to approve the spin-off and the merger with Frontier and certain related transactions. These factors included:

- Verizon's belief that (i) its strategic position would be enhanced by the transactions because Verizon's current strategy is focused on creating value for its stockholders by bringing broadband service to its customers and (ii) the transactions would allow Verizon to focus on providing wireless voice and data products and services, and converged communications, information and entertainment services over its advanced fiber-optic network in the United States, as well as expansive end-to-end global Internet Protocol (IP) networks to business and government customers around the world.
- Verizon's belief that the spin-off and the merger will enable the Spinco business to be operated by a company with an appropriate capital structure and dividend policy, while enhancing Verizon's financial flexibility, and that the assets of the Spinco business will be managed by an experienced management team exclusively focused on assets of such type.
- Verizon's expectation that it will receive the special cash payment and, if required, Spinco debt securities, and that the distribution date indebtedness will become a part of the consolidated indebtedness of the combined company, which together would permit Verizon to reduce up to \$3.333 billion of the debt of Verizon or to pay dividends or repurchase Verizon common stock.
- The potential value, as determined by evaluating pre- and post-transaction discounted cash flows and the valuation of comparable businesses, of the approximately 66% to 71% of the combined company that Verizon stockholders will collectively own after the spin-off and merger, before accounting for the elimination of fractional shares or any adjustments required as a result of any amounts related to governmental approvals paid, payable or forgone by Verizon as described above under "—Calculation of Merger Consideration."
- The tax-efficient structure for Verizon stockholders of the spin-off and merger of Spinco with Frontier.
- The availability of other transactions, including a spin-off of the operations in the Spinco territory to stockholders of Verizon without a subsequent merger.
- The benefits that might accrue to Verizon stockholders as owners of Frontier common stock after the merger, including the fact that Frontier intends to pay an annual dividend of \$0.75 per share after the merger, recognizing that the payment of such dividend (including the amount and timing thereof) is subject to applicable law and agreements governing the combined company's indebtedness and within the sole discretion of the Frontier board, and the fact that Verizon stockholders, as owners of Frontier common stock, could benefit from synergies resulting from the integration of the assets of the Spinco business into Frontier's existing operations.

Verizon also considered the potential risks associated with the spin-off and merger, including that the anticipated benefits of the merger might not occur. See "Risk Factors—Risks Relating to the Spin-Off and the Merger."

Board of Directors and Management of the Combined Company

There are currently twelve directors serving on the Frontier board. The merger agreement provides that immediately prior to the effective time of the merger, the Frontier board (which will become the board of directors of the combined company) will consist of twelve directors, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director designees may not be employees of Verizon, its affiliates or Cellco or any of its subsidiaries, and must satisfy director independence

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requirements of the SEC and the NYSE. One of Frontier's designees will serve as the chairman of the board of directors of the combined company. Frontier expects that Mary Agnes Wilderotter, Frontier's current Chairman of the Board of Directors, President and Chief Executive Officer, will continue to serve in such roles with the combined company.

The merger agreement also provides that the officers of Frontier at the effective time of the merger will become the initial officers of the combined company following the merger. In addition, Frontier expects to supplement its current senior management team with members of Verizon's current regional management team who currently manage the Spinco business. See "Management of the Combined Company."

Ownership of Frontier Following the Merger

Frontier anticipates that, assuming both no fractional shares and no adjustment is required for any amount related to governmental approvals paid, payable or forgone by Verizon as described above under "—Calculation of Merger Consideration," and depending on the trading prices of Frontier common stock prior to closing of the merger, Verizon stockholders will collectively own between approximately 66% and 71% of the combined company's outstanding equity immediately following the closing of the merger, and Frontier stockholders will collectively own between approximately 29% and 34% of the combined company's outstanding equity immediately following the closing of the merger. Based on existing ownership levels, Frontier does not expect that there will be any holders of more than 5% of the outstanding common stock of the combined company immediately following the closing of the merger.

Effects of the Merger and Spin-Off on Verizon Stock Options and Other Verizon Stock-Based Awards

The exercise price of and number of shares of Verizon common stock underlying options to purchase shares of Verizon common stock held by any current or former Verizon employee (including a Verizon employee who continues as an employee of the combined company following the spin-off and the merger) will be adjusted, in an amount yet to be determined, pursuant to the terms of the applicable Verizon equity incentive plans, taking into account any decrease in the value of Verizon common stock immediately following the spin-off and the merger. No adjustment will be made to the outstanding options if there is no decrease in the value of Verizon's common stock as a result of the spin-off and the merger. In order to avoid adverse tax treatment for option holders under the Code, the number of shares of Verizon common stock subject to the adjusted options will be rounded down to the nearest whole share, and the per share exercise price will be rounded up to the nearest whole cent.

Verizon restricted stock units, referred to as Verizon RSUs, awarded pursuant to Verizon equity incentive plans and held by any current or former Verizon employee (including a Verizon employee who continues as an employee of the combined company following the spin-off and the merger) at the time of the spin-off and the merger will continue to represent the right to receive the cash value equivalent of the hypothetical shares of Verizon common stock subject to the award. Each current or former Verizon employee who holds Verizon RSUs at the time of the spin-off will receive additional Verizon RSUs approximately equal to the cash value of the Frontier common stock that would be received with respect to each hypothetical share of Verizon common stock held by the current or former Verizon employee under the Verizon RSU program.

Verizon performance stock units, referred to as Verizon PSUs, awarded pursuant to Verizon equity incentive plans and held by any current or former Verizon employee (including a Verizon employee who continues as an employee of the combined company following the spin-off and the merger) at the time of the spin-off and the merger will continue to represent the right to receive the cash value equivalent of the hypothetical shares of Verizon common stock subject to the award. Each current or former Verizon employee who holds Verizon PSUs at the time of the spin-off will receive additional Verizon PSUs approximately equal to the cash value of the Frontier common stock that would be received with respect to each hypothetical share of Verizon common stock held by the current or former Verizon employee under the Verizon PSU program.

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Interests of Certain Persons in the Merger

In considering the Frontier board's determination to approve the merger agreement and to recommend that Frontier stockholders vote for the merger proposals, Frontier stockholders should be aware of potential conflicts of interest of, and the benefits available to, certain Frontier officers. These officers may have interests in the merger that may be different from, or in addition to, the interests of Frontier stockholders as a result of, among other things, certain severance protection that applies to them following the merger.

Employment and Change in Control Agreements

Each of Mary Agnes Wilderotter, Donald R. Shassian, Daniel J. McCarthy, Peter B. Hayes, Cecilia K. McKenney, Hilary E. Glassman and Melinda White is subject to an agreement with Frontier under which she or he is entitled to certain severance payments and benefits in the event of termination without cause by Frontier or resignation by the executive on account of certain material changes in his or her employment relationship. Certain of these executives are entitled to severance payments and benefits only if any such termination or resignation occurs following a change in control (as defined in the agreements). Other executives are entitled to such severance payments and benefits if any such termination or resignation occurs whether or not a change in control has occurred but may resign for additional reasons and receive such severance payments and benefits following a change in control. See "Executive Compensation of Frontier—Employment Arrangements; Potential Payments Upon Termination or Change-in-Control" for a description of the agreements with Mrs. Wilderotter, Mr. Shassian, Mr. McCarthy, Mr. Hayes and Ms. McKenney.

Frontier entered into a letter agreement with Hilary E. Glassman, dated July 8, 2005, and amended in December 2008. If Ms. Glassman's employment is terminated by Frontier without "cause" or by Ms. Glassman for "good reason" or within one year following a "change in control" as a result of certain material changes in her employment relationship (all as defined in the letter agreement), Ms. Glassman will be entitled to the sum of one times base salary and a prorated target bonus, an amount equal to one year's COBRA premiums for medical, dental and other health benefits coverage, life insurance coverage for one year and full vesting of her restricted shares.

Pursuant to a September 2007 arrangement, all of Melinda White's restricted shares will become fully vested if, within one year following a "change in control," Ms. White's employment is terminated by Frontier without "cause" or she terminates her employment as a result of certain material changes in her employment relationship (all as defined in the arrangement).

The consummation of the merger will constitute a change in control for purposes of these agreements. If a change in control occurred as of September 1, 2009, and these executives were terminated or resigned as of that date under the circumstances covered by the agreements, the executives would have been entitled to base salary payment, bonus payments, accelerated vesting of restricted shares and benefits as follows:

Name	Base Salary	Bonus	Value of Accelerated Restricted Stock ⁽¹⁾	Benefits	Total
Mrs. Wilderotter	\$ 2,775,000	\$ 2,775,000	\$ 5,569,634	\$ 51,108 ⁽²⁾⁽³⁾	\$ 11,170,742
Mr. Shassian	\$ 900,000	\$ 900,000	\$ 1,410,021	0	\$ 3,210,021
Mr. McCarthy	0	0	\$ 811,307	0	\$ 811,307
Mr. Hayes	\$ 300,000	\$ 199,800	\$ 749,500	\$ 14,972 ⁽⁴⁾	\$ 1,264,272
Ms. McKenney	\$ 290,000	\$ 217,500	\$ 734,927	0	\$ 1,242,427
Ms. Glassman	\$ 308,700	\$ 154,196	\$ 634,592	\$ 6,187 ⁽²⁾	\$ 1,103,675
Ms. White	0	0	\$ 408,153	0	\$ 408,153

(1) Consists of the number of shares multiplied by the \$7.05 closing price per share on September 1, 2009.

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- (2) Consists of the applicable monthly COBRA premium for the type of medical, dental and vision coverage in effect for the executive on September 1, 2009 and the applicable monthly insurance premium for the life insurance coverage in effect for the executive on September 1, 2009, each multiplied by the applicable number of months (for Mrs. Wilderotter, 36; for Ms. Glassman, 12).
- (3) Although Mrs. Wilderotter is entitled to a tax gross-up payment in certain circumstances, no gross-up payment is estimated to be payable based on a termination on September 1, 2009 and the payments and benefits described above.
- (4) Consists of the applicable monthly COBRA premium for the type of medical coverage in effect for Mr. Hayes on September 1, 2009, multiplied by 12.

Executive Deferred Savings Plan

Under the Executive Deferred Savings Plan, upon a “change in control” (as defined in the plan) all matching contributions become fully vested and all vested account balances must be distributed to participating executives. The consummation of the merger will constitute a change in control under the plan, resulting in accelerated vesting of matching contributions and distribution of the vested account balance of one officer.

Regulatory Approvals

Telecommunications Regulatory Approvals

Frontier and Verizon currently expect that the transactions contemplated by the merger agreement will require approval of the state regulatory agencies of the following states in their capacities as regulators of incumbent local exchange and intrastate toll carrier operations of Verizon or Frontier: Arizona, California, Illinois, Nevada, Ohio, Oregon, South Carolina, Washington and West Virginia. State regulatory agencies in other states, however, may require that Frontier, Verizon or both obtain approval or authorization for the transactions in those states as well. At the request of third parties, certain state regulatory agencies are considering whether approval of the transactions is required. Also, the regulatory agency in Pennsylvania must approve the transfer of Verizon’s incumbent local exchange operations in that state, which Verizon will retain, to a newly created Verizon operating company. Although the scope of matters that must be approved varies by state, the foregoing approvals are generally required for the transfer of Verizon’s local exchange and intrastate toll businesses in the Spinco territory to companies to be controlled by Frontier (including the Spinco subsidiaries after the merger), which will be deemed to occur upon completion of the merger and the other transactions described elsewhere in this proxy statement/prospectus.

On May 29, 2009, Frontier and Verizon completed the filing of regulatory applications in Arizona, Ohio, Oregon, Pennsylvania, South Carolina, Washington and West Virginia.

On or prior to June 4, 2009, Frontier and Verizon completed the filing of regulatory applications in California, Illinois and Nevada.

On June 1, 2009, Frontier and Verizon applied to 41 local franchising authorities in Oregon and Washington for consent and approval to transfer control of the Verizon franchises to provide video services in those states to Frontier. There can be no assurance that these consents and approvals will be obtained. Ten authorities have already granted approval to transfer control of Verizon’s franchise to Frontier. In addition, prior to closing, Verizon will provide notice to Indiana of the transfer of control of its statewide franchise to Frontier.

Frontier and Verizon believe that the transactions will produce benefits for the states in which the combined company will conduct its operations, the residents of those states, and the customers of the communications businesses of the combined company. While the parties believe that the transactions satisfy the applicable regulatory standards for the foregoing approvals, there can be no assurance that the state regulatory agencies will grant the approvals or will not attempt to impose conditions on the approvals.

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In addition, under the Communications Act of 1934, as amended, referred to as the Communications Act, the FCC must approve the transfer or assignment of FCC licenses and authorizations. Verizon and Frontier filed applications for consent to transfer the affected licenses and authorizations, and related amendments, on May 28 and May 29, 2009, June 8, 2009 and July 30, 2009.

Each party's obligations to complete the merger are subject to receipt of the consents of, or receipt of an exemption from, the state regulatory agencies referred to above and the FCC, in each case, without the imposition of conditions that would reasonably be expected to be materially adverse to Frontier, to Spinco or to Verizon (assuming for this purpose that the business, assets, properties and liabilities of each of (1) Verizon and all Verizon subsidiaries and (2) Frontier and all Frontier subsidiaries are comparable in size to those of Spinco and all Spinco subsidiaries). The merger agreement provides that each party to the merger agreement, subject to customary limitations, will use all commercially reasonable efforts to promptly take all actions and to assist and cooperate with the other parties in doing all things necessary, proper or advisable under applicable laws and regulations to consummate the merger and the transactions contemplated by the merger agreement. Frontier and Verizon have also agreed to use all commercially reasonable efforts to resolve any objections or challenges from a regulatory authority, except that the parties are not obligated to appeal any final order by the FCC or any state regulatory agency.

Antitrust Approvals

Under the Hart-Scott-Rodino Act and the rules promulgated under that act by the Federal Trade Commission, the merger may not be completed until notifications have been given and information furnished to the Federal Trade Commission and to the Antitrust Division of the Department of Justice and the specified waiting period has been terminated or has expired. The parties filed their Hart-Scott-Rodino Act application on August 21, 2009. On September 1, 2009, the Federal Trade Commission granted the parties' request for early termination of the waiting period under the Hart-Scott-Rodino Act. At any time before or after completion of the merger, the Federal Trade Commission or the Antitrust Division of the Department of Justice could take any action under the antitrust laws that it deems necessary or desirable in the public interest, including seeking to enjoin completion of the spin-off and the merger or seeking divestiture of substantial assets of Frontier or Spinco. The spin-off and the merger are also subject to review under state antitrust laws and could be the subject of challenges by private parties under the antitrust laws.

Accounting Treatment

The merger will be accounted for by applying the acquisition method, which requires the determination of the acquirer, the acquisition date, the fair value of assets and liabilities of the acquiree and the measurement of goodwill. Statement of Financial Accounting Standards No. 141(R) (revised 2007), *Business Combinations*, referred to as SFAS 141(R), provides that in identifying the acquiring entity in a combination effected through an exchange of equity interests, all pertinent facts and circumstances must be considered, including: the constituent company issuing its equity interest in the business combination, the relative voting rights of the stockholders of the constituent companies in the combined entity, the composition of the board of directors and senior management of the combined company, the relative size of each company and the terms of the exchange of equity securities in the business combination, including payment of any premium.

Based on Frontier being the entity issuing its equity interests in the merger, the Frontier-designated directors representing nine out of twelve directors on the board of the combined company and the Frontier senior management team being the senior management team of the combined company, Frontier has concluded that it is appropriate to treat Frontier as the acquirer of Spinco for accounting purposes. This means that Frontier will allocate the transaction consideration to the fair value of Spinco's assets and liabilities at the acquisition date, with any excess of the transaction consideration over fair value being recorded as goodwill.

No Appraisal Rights

None of the stockholders of Frontier or Verizon will be entitled to appraisal rights or to demand payment for their shares in connection with the spin-off or the merger.

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Listing

After the merger, shares of common stock of Frontier, as the combined company, will continue to trade on the NYSE under the symbol "FTR."

Dividend Policy of Frontier and the Combined Company

The amount and timing of dividends payable on Frontier common stock are within the sole discretion of the Frontier board. Frontier currently pays an annual cash dividend of \$1.00 per share of Frontier common stock. After the closing of the merger, Frontier intends to pay an annual cash dividend of \$0.75 per share of common stock of the combined company, subject to applicable law and agreements governing the combined company's indebtedness and at the discretion of the Frontier board. Frontier expects that the dividend policy after the closing of the merger will allow Frontier to invest in the existing Frontier and Spinco markets, offer new products and services and extend and increase broadband capability to the existing Frontier and Spinco markets.

Table of Contents**MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE SPIN-OFF AND THE MERGER**

The following summarizes the material United States federal income tax consequences of the spin-off and the merger. This summary is based on the Code, the Treasury regulations promulgated under the Code, and interpretations of the Code and the Treasury regulations by the courts and the IRS, all as they exist as of the date hereof and all of which are subject to change, possibly with retroactive effect. This is not a complete summary of all of the tax consequences of the spin-off and the merger. In particular, it may not address United States federal income tax considerations applicable to Frontier or Verizon stockholders subject to special treatment under United States federal income tax law, such as financial institutions, dealers in securities, traders in securities who elect to apply a mark-to-market method of accounting, insurance companies, tax-exempt entities, partnerships and other pass-through entities, stockholders who hold their shares as part of a "hedge," "straddle," "conversion" or "constructive sale" transaction, stockholders who are subject to the alternative minimum tax and stockholders who acquired their shares upon the exercise of employee stock options or otherwise as compensation. In addition, this summary is limited to stockholders that hold their Frontier or Verizon common stock as a capital asset. Finally, this summary does not address any estate, gift or other non-income tax consequences or any state, local or foreign tax consequences.

This summary is limited to stockholders of Frontier or Verizon that are United States holders. A United States holder is a beneficial owner of Frontier or Verizon stock, other than an entity or arrangement treated as a partnership for United States federal income tax purposes, that is, for United States federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation, or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if (i) a court within the United States is able to exercise primary jurisdiction over its administration and one or more United States persons have the authority to control all of its substantial decisions, or (ii) in the case of a trust that was treated as a domestic trust under the law in effect before 1997, a valid election is in place under applicable Treasury regulations.

Verizon and Frontier stockholders are urged to consult their own tax advisors regarding the tax consequences of the spin-off and the merger to them, including the effects of United States federal, state, local, foreign and other tax laws.

The Spin-Off

The spin-off and merger are conditioned upon Verizon's receipt of the IRS ruling. Although a private letter ruling from the IRS generally is binding on the IRS, the ruling will not rule that the spin-off satisfies every requirement for a tax-free spin-off, and the parties will rely solely on the opinion of counsel described below for comfort that such additional requirements are satisfied.

The spin-off and merger are also conditioned upon Verizon's receipt of an opinion of Debevoise, counsel to Verizon, to the effect that the spin-off and certain related transactions will qualify as tax-free to Verizon, Spinco and the stockholders of Verizon, referred to as the opinion of Verizon's counsel. The opinion of Verizon's counsel will rely on the IRS ruling as to matters covered by it.

Both the IRS ruling and the opinion of Verizon's counsel will be based on, among other things, certain representations and assumptions as to factual matters made by Verizon, Spinco and Frontier, including assumptions concerning Section 355(e) of the Code as discussed below. The failure of any factual representation

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or assumption to be true, correct and complete in all material respects could adversely affect the validity of the ruling or opinion. An opinion of counsel represents counsel's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the IRS ruling and the opinion of Verizon's counsel will be based on current law, and cannot be relied on if current law changes with retroactive effect.

The IRS ruling and the opinion of Verizon's counsel are expected to conclude that:

- (1) the contribution by Verizon to Spinco of assets of the Spinco business and related liabilities, in exchange for additional shares of Spinco common stock, receipt by Verizon of the special cash payment and, in certain circumstances, the Spinco debt securities, followed by the distribution of the Spinco common stock in the spin-off, will qualify as a reorganization within the meaning of Section 368(a)(1)(D) of the Code, and Verizon and Spinco will each be a party to a reorganization within the meaning of Section 368(b) of the Code;
- (2) no gain or loss will be recognized by Verizon on the contribution or the spin-off under Section 361 of the Code provided that the cash received by Verizon does not exceed the amount of Verizon's tax basis in the assets contributed to Spinco (less liabilities assumed);
- (3) Verizon will not recognize any income, gain, loss or deduction with respect to the Spinco debt securities, except in certain enumerated cases;
- (4) no gain or loss will be recognized by stockholders of Verizon on the receipt of the Spinco common stock in the spin-off under Section 355(a)(1) of the Code;
- (5) each Verizon stockholder's holding period in the Spinco common stock received in the spin-off will include the holding period of the Verizon common stock with respect to which the distribution of the Spinco common stock is made; and
- (6) each Verizon stockholder's basis in a share of Verizon common stock will be allocated between the share of Verizon common stock with respect to which the distribution of the Spinco common stock is made and the share of Spinco common stock (or allocable portions thereof) received with respect to such share of Verizon common stock in proportion to their fair market values.

The IRS ruling and the opinion of Verizon's counsel are also expected to conclude that certain internal contributions and distributions in connection with the spin-off will be tax-free to Verizon.

If the spin-off does not qualify as a tax-free spin-off under Section 355 of the Code, each Verizon stockholder who receives Spinco common stock would be treated as receiving a taxable dividend in an amount equal to the fair market value of the Spinco stock received, to the extent of such stockholder's ratable share of Verizon's earnings and profits.

In addition, if the spin-off does not qualify under Section 355 of the Code, Verizon would have taxable gain equal to the excess of the value of the assets transferred to Spinco plus liabilities assumed by Spinco over Verizon's tax basis for those assets. Even if the spin-off otherwise qualifies as a tax-free spin-off under Section 355 of the Code, the spin-off will be taxable to Verizon pursuant to Section 355(e) of the Code if there is a 50% or more change in ownership of either Verizon or Spinco, directly or indirectly, as part of a plan or series of related transactions that include the spin-off. Because Verizon stockholders will collectively own more than 50% of the Frontier common stock following the merger, the merger alone will not cause the spin-off to be taxable to Verizon under Section 355(e). However, Section 355(e) might apply if other acquisitions of stock of Verizon before or after the merger, or of Frontier after the merger, are considered to be part of a plan or series of related transactions that include the spin-off. In connection with the request for the IRS ruling and the opinion of Verizon's counsel, Verizon will represent that the spin-off is not part of any such plan or series of related transactions. If Section 355(e) of the Code applied, Verizon might recognize a very substantial amount of taxable gain.

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Under the tax sharing agreement, in certain circumstances, and subject to certain limitations, Frontier is required to indemnify Verizon for taxes on the spin-off that arise as a result of actions or failures to act by Frontier, or as a result of changes in ownership of the stock of Frontier after the distribution and merger. See “The Transaction Agreements—Additional Agreements Between Frontier, Verizon and Their Affiliates—Tax Sharing Agreement.” In some cases however, Verizon might recognize gain on the spin-off without being entitled to an indemnification payment under the tax sharing agreement. Even if Section 355(e) of the Code causes the spin-off to be taxable to Verizon, the spin-off will nevertheless remain tax-free to Verizon stockholders.

United States Treasury regulations require each Verizon stockholder that owns at least 5% of the total outstanding stock of Verizon and receives stock in the spin-off to attach to its United States federal income tax return for the year in which the spin-off occurs a detailed statement containing certain information relating to the tax-free nature of the spin-off. Upon request, Verizon will provide stockholders of 5% or more of its outstanding stock who received Frontier common stock in the merger with any pertinent information that is in Verizon’s possession and is reasonably available, to the extent necessary to comply with that requirement.

The Merger

The obligations of Verizon and Frontier to consummate the merger are conditioned, respectively, on Verizon’s receipt of the opinion of Debevoise, counsel to Verizon, and Frontier’s receipt of an opinion of Cravath, counsel to Frontier, to the effect that the merger will qualify as a tax-free reorganization under Section 368(a) of the Code, and that no gain or loss will be recognized on the merger by Spincor or by Spincor stockholders (except for cash in lieu of fractional shares), referred to as the opinion of Frontier’s counsel. These opinions will be based on, among other things, certain representations and assumptions as to factual matters made by Verizon, Spincor and Frontier. The failure of any factual representation or assumption to be true, correct and complete in all material respects could adversely affect the validity of the opinions. An opinion of counsel represents counsel’s best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the opinions will be based on current law, and cannot be relied on if current law changes with retroactive effect. A private letter ruling from the Internal Revenue Service regarding the qualification of the merger as a reorganization will also be requested, but the receipt of the private letter ruling is not a condition to the obligations of the parties to the merger.

The IRS ruling and the tax opinions are expected to conclude that:

- the merger will qualify as a reorganization under Section 368(a)(1)(A) of the Code and Spincor and Frontier will each be a party to a reorganization within the meaning of Section 368(b) of the Code,
- no gain or loss will be recognized by, and no amount will be included in the income of, Spincor on the transfer of its assets to Frontier and Frontier’s assumption of Spincor liabilities;
- no gain or loss will be recognized by, and no amount will be included in the income of, Spincor stockholders upon the receipt of Frontier common stock in the merger, except with respect to cash received in lieu of a fractional share of Frontier common stock;
- the tax basis of Frontier common stock received in the merger, including any fractional share of Frontier common stock deemed received, will be the same as the tax basis in the shares of Spincor common stock deemed exchanged therefor;
- the holding period of Frontier common stock received by a Spincor stockholder in the merger will include the holding period of the Spincor common stock deemed exchanged therefor; and
- gain or loss will be recognized by Spincor stockholders on any cash received in lieu of a fractional share of Frontier common stock equal to the difference between the amount of cash received and the tax basis of such fractional share.

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If the merger was taxable, Spinco stockholders would recognize taxable gain or loss on their receipt of Frontier stock in the merger, and Spinco would be considered to have made a taxable sale of its assets to Frontier.

Non-corporate holders of Verizon common stock may be subject to information reporting and backup withholding tax on any cash payments received in lieu of a fractional share of Frontier common stock. Any such holder will not be subject to backup withholding tax, however, if the holder furnishes or has previously furnished a Form W-9 or substitute Form W-9 or successor form stating a correct taxpayer identification number and certifying that the holder is not subject to backup withholding tax. Any amounts withheld under the backup withholding tax rules will be allowed as a refund or credit against a holder's United States federal income tax liability provided that the holder furnishes the required information to the IRS.

Verizon stockholders who own at least 1% of the total outstanding stock of Spinco immediately after the spin-off but prior to the merger and receive Frontier common stock as a result of the merger will be required to retain records pertaining to the merger and will be required to file with their United States federal income tax return for the year in which the merger takes place a statement setting forth certain facts relating to the merger.

Table of Contents**THE TRANSACTION AGREEMENTS****The Merger Agreement**

The following is a summary of selected material provisions of the merger agreement. This summary is qualified in its entirety by reference to the Agreement and Plan of Merger, dated as of May 13, 2009, and Amendment No. 1 thereto, dated as of July 24, 2009. The composite form of the merger agreement, reflecting Amendment No. 1 thereto, is incorporated by reference in its entirety and attached to this proxy statement/prospectus as Annex A-1. Stockholders of Frontier and Verizon are urged to read the merger agreement in its entirety. The merger agreement has been included to provide Frontier stockholders and Verizon stockholders with information regarding its terms. The merger agreement is not intended to provide any other factual information about Verizon, Spinco, Frontier or the combined company following completion of the merger. Information about Verizon, Spinco, Frontier and the combined company can be found elsewhere in this proxy statement/prospectus.

The merger agreement contains representations and warranties that Verizon, Spinco and Frontier made to each other. These representations and warranties have been made solely for the benefit of the other parties to the merger agreement and have been qualified by certain information that has been disclosed to the other parties to the merger agreement and that is not reflected in the merger agreement. In addition, these representations and warranties may be intended as a way of allocating risks among parties if the statements contained therein prove to be incorrect, rather than as actual statements of fact. Accordingly, Frontier and Verizon stockholders should not rely on the representations and warranties as characterizations of the actual state of facts. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in the companies' public disclosures. Frontier does not believe that securities laws require Frontier to disclose publicly any information related to the merger agreement other than information that has already been so disclosed.

The Merger

Under the merger agreement and in accordance with Delaware law, Spinco will merge with and into Frontier. As a result of the merger, the separate corporate existence of Spinco will terminate and Frontier will continue as the combined company. Frontier's restated certificate of incorporation and by-laws as in effect immediately prior to the merger will be the certificate of incorporation and by-laws of the combined company.

Effective Time

The merger will become effective at the time of filing of a certificate of merger with the Secretary of State of the State of Delaware or at such later time as Verizon, Spinco and Frontier may agree. The closing of the merger will take place no later than 2:00 p.m., prevailing Eastern time, on the last business day of the month in which, on such last business day, the conditions precedent to the merger are satisfied or waived, but in any event not earlier than the last business day of April 2010, unless otherwise agreed upon by the parties.

Merger Consideration

The merger agreement provides that all of the issued and outstanding shares of common stock of Spinco will be automatically converted into an aggregate number of shares of common stock of Frontier equal to (i) \$5,247,000,000 divided by (ii) the Frontier average price. However, the merger agreement provides that if the Frontier average price exceeds \$8.50, then the Frontier average price for purposes of the merger agreement will be \$8.50, and if the Frontier average price is less than \$7.00, then the Frontier average price for purposes of the merger agreement will be \$7.00. Additionally, the amount referred to in clause (i) is subject to increase by any amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off, which increase will result in a corresponding increase in the number of shares of Frontier common stock being issued pursuant to the merger agreement.

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Distribution of Per Share Merger Consideration

Prior to or at the effective time of the merger, Frontier will deposit with a third-party distribution agent certificates or book-entry authorizations representing the shares of Frontier common stock for the benefit of the Verizon stockholders entitled to receive shares of Spinco common stock in the distribution. Each Verizon stockholder will be entitled to receive the number of whole shares of Frontier common stock (in lieu of the shares of Spinco common stock otherwise distributable to that stockholder) that the stockholder has the right to receive pursuant to the merger agreement. Shortly following the merger, the distribution agent will distribute these shares of Frontier common stock to those persons.

Treatment of Fractional Shares

The distribution agent will not deliver any fractional shares of Frontier common stock to Verizon stockholders pursuant to the merger agreement. Instead, promptly following the merger, the distribution agent will aggregate all fractional shares of Frontier common stock and sell them on behalf of those Verizon stockholders who otherwise would be entitled to receive a fractional share. It is anticipated that these sales will occur as soon as practicable following the merger. Those Verizon stockholders will then receive a cash payment in an amount equal to their pro rata share of the total net proceeds of those sales. If a Verizon stockholder physically holds Verizon stock certificates or holds its stock in book-entry form, that stockholder's check for any cash that it may be entitled to receive instead of fractional shares of Frontier common stock will be mailed to the stockholder separately.

Under the merger agreement, all shares held by a holder of record will be aggregated for purposes of determining fractional shares. Any Spinco shares held in "street name" will be aggregated with all other shares held by the holder of record for purposes of determining fractional shares. It is anticipated that some shares of Frontier common stock held in street name will be sold post-merger by brokers or other nominees according to their standard procedures to avoid allocating fractional shares to customer accounts, and that brokers or other nominees may request the distribution agent to sell these shares of Frontier common stock on their behalf. Any such sale would not occur pursuant to the merger agreement. Verizon stockholders should contact their brokers or other nominees for additional details.

None of Verizon, Spinco or Frontier or the distribution agent will guarantee any minimum sale price for the fractional shares of Frontier common stock. None of Frontier, Spinco or Verizon will pay any interest on the proceeds from the sale of fractional shares of Frontier common stock. The distribution of the cash proceeds from the sale of aggregated fractional shares of Frontier common stock is expected to be made net of commissions and other fees required to be paid by the distribution agent in connection with the sale of those shares. The receipt of cash in lieu of fractional shares of Frontier common stock will generally be taxable to the recipient stockholders. See "Material United States Federal Income Tax Consequences of the Spin-Off and the Merger."

Officers and Directors of the Combined Frontier

The parties to the merger agreement have agreed that the officers and directors of Frontier at the effective time of the merger will continue to be the officers and directors of the combined company following the merger. The merger agreement also provides that the parties will take all action necessary to cause the Frontier board immediately prior to the effective time of the merger to consist of twelve members, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director nominees may not be employees of Verizon, its affiliates or Cellco or any of its subsidiaries, and all such nominees will satisfy the requirements for director independence under the rules and regulations of the SEC and the NYSE. The officers of Frontier immediately prior to the merger will continue as the officers of the combined company immediately following the merger.

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Stockholders Meeting

Under the terms of the merger agreement, Frontier has agreed to call a special meeting of its stockholders for the purpose of voting upon the adoption of the merger agreement, the amendment of Frontier's certificate of incorporation to increase the number of authorized shares of Frontier common stock and the issuance of Frontier common stock pursuant to the merger agreement. Frontier will satisfy this merger agreement requirement by asking its stockholders to vote on these matters at the special meeting. Frontier has also agreed to deliver this proxy statement/prospectus to its stockholders in accordance with applicable law and its organizational documents.

In addition, subject to certain exceptions as described in this proxy statement/prospectus, the Frontier board is obligated to recommend that Frontier's stockholders vote for the merger proposals. Even if the Frontier board changes its recommendation, Frontier is required to submit the merger proposals to a stockholder vote. See "—No Solicitation."

Representations and Warranties

The merger agreement contains representations and warranties between Verizon and Spinco, on the one hand, and Frontier, on the other. These representations and warranties, which are substantially reciprocal, relate to, among other things:

- due organization, good standing and qualification;
- capital structure;
- authority to enter into the merger agreement (and the other agreements executed in connection therewith) and no conflicts with or violations of governance documents, other obligations or laws;
- financial statements and absence of undisclosed liabilities;
- absence of certain changes or events;
- absence of material investigations or litigation;
- compliance with applicable laws;
- accuracy of information supplied for use in this proxy statement/prospectus, the registration statements/information statements and other governmental filings;
- environmental matters;
- tax matters;
- employee benefit matters and compliance with ERISA;
- labor matters;
- intellectual property matters;
- communications regulatory matters;
- material contracts;
- approval by the board of directors;
- interests in real properties;
- possession of required licenses and regulatory approvals;
- payment of fees to finders or brokers in connection with the merger (representation given by Verizon and Frontier, not Spinco); and
- affiliate transactions.

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Frontier has also made representations and warranties to Verizon and Spinco relating to filings with the SEC, the opinions of Frontier's financial advisors, the inapplicability to the merger of state anti-takeover laws and Frontier's rights plan and the required vote of Frontier stockholders to approve the merger proposals.

Verizon and Spinco also made representations and warranties to Frontier relating to the sufficiency of assets to be contributed to Spinco and the absence of ownership by Verizon or Spinco of any shares of Frontier capital stock.

Many of the representations and warranties contained in the merger agreement are subject to materiality qualifications, knowledge qualifications, or both, and none of the representations and warranties survive the effective time of the merger. The merger agreement does not contain any post-closing indemnification obligations with respect to these matters.

Conduct of Business Pending Closing

Each of the parties has undertaken to perform certain covenants in the merger agreement and agreed to restrictions on its activities until the effective time of the merger. In general, each of Spinco, each of the subsidiaries of Verizon contributing assets to Spinco and Frontier is required to conduct its business in the ordinary course (other than as required to consummate the transactions), to use all reasonable efforts to preserve its present business organization, to keep available the services of its current officers and other key employees and preserve its relationships with customers and vendors with the intention that its goodwill and ongoing businesses will not be materially impaired. In addition, each of Verizon (with respect to the Spinco business only), Spinco and Frontier has agreed to specific restrictions applicable prior to the effective time of the merger relating to the following:

- issuing, delivering, or selling any shares of its capital stock or any securities convertible into or exercisable for, or any right to acquire, capital stock, other than (a) the issuance of shares by Frontier in connection with the exercise of certain stock options or the vesting of certain restricted stock units or restricted stock, (b) issuances of capital stock by any wholly owned subsidiary of Spinco, on the one hand, or Frontier, on the other hand, to their respective parents or to another of their respective wholly owned subsidiaries, (c) grants by Frontier of certain options, restricted stock units or restricted stock in the ordinary course of business, consistent with past practice, (d) issuances by Frontier pursuant to its rights plan and (e) issuances by Spinco or its subsidiaries pursuant to the merger agreement, the distribution agreement or the contribution;
- amending certificates of incorporations or by-laws, subject to certain exceptions;
- making acquisitions of a substantial equity interest or assets of another entity;
- selling, leasing, licensing, disposing of or otherwise encumbering assets (including the capital stock of certain subsidiaries, but excluding surplus real estate, inventory or obsolete equipment in the ordinary course of business consistent with past practice) other than, with respect to Frontier, any liens to be created in connection with certain of its financing arrangements;
- except in the ordinary course, consistent with past practice, making capital expenditures that are not included in such party's capital expenditures budget and that are in excess of \$10 million in the aggregate, subject to certain exceptions;
- incurring debt, other than (a) in connection with customer contracts or equipment leasing in the ordinary course of business consistent with past practice, (b) with respect to Spinco, as contemplated by the special cash payment financing and the Spinco debt securities, (c) with respect to Frontier, refinancings of indebtedness completed prior to March 1, 2010 that are unsecured and do not conflict with the terms of the special cash payment financing or the Spinco debt securities or (d) with respect to Frontier, incurrence of indebtedness under its revolving credit facility;

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- effecting the complete or partial liquidation or dissolution of Spinco or Frontier or any of their respective subsidiaries;
- compensation and benefit matters with respect to directors, officers and employees;
- in the case of Spinco, subject to certain exceptions, establishing, adopting, entering into, terminating or amending any collective bargaining agreement or other arrangement for the benefit of directors, officers or employees, except as contemplated by the employee matters agreement (see “The Transaction Agreements—Additional Agreements Between Frontier, Verizon and Their Affiliates—The Employee Matters Agreement”);
- making any material change in its accounting methods, other than in accordance with accounting principles generally accepted in the United States, referred to as U.S. GAAP, or as required by Verizon’s or Frontier’s respective auditors;
- making or rescinding any material tax elections or settling or compromising any material income tax claims, amending any material tax returns and materially changing any method of reporting income or deductions;
- paying, discharging or satisfying any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than in the ordinary course of business consistent with past practice and subject to certain other exceptions;
- entering into or amending agreements or arrangements with certain affiliated parties on non-arm’s-length terms; and
- modifying, amending or terminating any material contract or waiving, releasing or assigning any material rights or claims, except in the ordinary course of business, consistent with past practice.

In addition, Spinco agreed not to amend the distribution agreement without Frontier’s consent.

Verizon has also agreed to cause Spinco to adhere to the covenants listed above.

Frontier agreed to additional restrictions relating to the following:

- declaring or paying dividends or other distributions in respect of its capital stock; provided that Frontier may continue paying quarterly dividends in an amount not to exceed \$0.25 per share in accordance with its dividend payment practices in 2008;
- from and after March 1, 2010, offering or engaging in negotiations concerning any potential issuance of debt securities other than the financing contemplated by the merger agreement and described below under “Financing Matters”;
- splitting, combining or reclassifying its capital stock or issuing securities in respect of, in lieu of or in substitution for its capital stock; and
- redeeming, repurchasing or otherwise acquiring its capital stock.

Non-Competition

The merger agreement and the distribution agreement do not contain any restrictions on either party’s ability to compete with the other party following the merger.

Proxy Materials

The parties agreed to prepare this proxy statement/prospectus and the registration statement of which it is a part, and Frontier has agreed to file them with the SEC and use all commercially reasonable efforts to have the

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SEC complete its review of this proxy statement/prospectus and declare the registration statement effective. Frontier is required under the terms of the merger agreement to mail this proxy statement/prospectus to its stockholders as promptly as practicable after the SEC completes its review of this proxy statement/prospectus and, if required by the SEC, after the registration statement is declared effective. The parties have agreed to prepare a registration statement to effect the registration of the shares of Spinco common stock to be issued in connection with the distribution, and Spinco has agreed to file that registration statement with the SEC and use all commercially reasonable efforts to have the registration statement declared effective by the SEC prior to the distribution.

Listing

Frontier has agreed to make application to the NYSE for the listing of the shares of its common stock to be issued pursuant to the merger agreement and use all commercially reasonable efforts to cause such shares to be approved for listing.

Efforts to Close

The merger agreement provides that each party to the merger agreement, subject to customary limitations, will use all commercially reasonable efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated by the merger agreement, the distribution agreement, the cutover plan support agreement, the employee matters agreement, the intellectual property agreement, the software license agreement, the FiOS intellectual property agreement, the FiOS software license agreement, the FiOS trademark license agreement, the joint defense agreement and the tax sharing agreement, collectively referred to as the transaction agreements, including executing such documents, instruments or conveyances that may be reasonably necessary or advisable to carry out any of the transactions contemplated by the merger agreement and the other transaction agreements.

Regulatory Matters

The merger agreement provides that each of the parties to the merger agreement will use all commercially reasonable efforts to take all actions and to do all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions, including:

- obtaining all necessary actions, waivers, consents, and approvals from any governmental authority;
- obtaining the consents of the FCC and state and local regulatory agencies relating to telecommunications regulatory matters, in each case without the imposition of any conditions or restrictions other than those as Frontier may offer in its discretion and other than those that would not reasonably be expected to constitute a materially adverse regulatory condition (as described further under “—Conditions to the Completion of the Merger”);
- defending any lawsuits or other legal proceedings challenging the merger agreement or the consummation of the transactions contemplated by the merger agreement;
- contesting any actions or proceedings instituted by a regulatory authority; and
- resolving any objections or challenges from a regulatory authority;

provided, however, that the parties are not obligated to appeal the denial of approval by the FCC or any state public service or public utility commission or similar state regulatory body.

Verizon, Spinco and Frontier have also agreed to (a) make all required filings under the Hart-Scott-Rodino Act, and (b) file all required applications with the FCC and state and local regulatory agencies relating to telecommunications regulatory matters.

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Certain Third-Party Consents

The merger agreement provides that each of Verizon and Spingo will use all commercially reasonable efforts to identify and obtain any material third-party consents necessary to consummate the transactions contemplated by the merger agreement or the distribution agreement (including for up to six months following the closing), and the parties have agreed on an allocation of the costs associated with obtaining those consents. Verizon has also agreed to use all commercially reasonable efforts to identify and obtain any third-party intellectual property consents required in connection with the consummation of the transactions contemplated by the merger agreement or the distribution agreement (including for up to six months following the closing), and the parties have agreed on an allocation of the costs associated with obtaining such consents. To the extent any required consent is not received prior to the closing of the merger, then (a) if applicable, the contract that is subject to that consent will not be assigned in the contribution and (b) if applicable, to the extent any such contract may only be enjoyed by an affiliate of Verizon, that contract will be transferred to another affiliate of Verizon, and in each case Verizon will use all commercially reasonable efforts to make the benefits of any such contract available to the combined company for the duration of such contract (excluding any renewal period that will come into effect after six months following the closing of the merger).

Verizon and Frontier have also agreed to use all commercially reasonable efforts to obtain any necessary consent from the counterparty to any blended customer contract to separate the portion of that contract relating to the goods or services purchased from or supplied to the Spingo business under the contract and transfer such portion to Spingo.

The merger agreement also provides that with respect to certain retained customer accounts, with respect to any customer contract that is required to be transferred pursuant to the distribution agreement but not assigned and with respect to any blended customer contract that is not assumed due to the failure to obtain the necessary consent, (a) to the extent that contract involves the provision of incumbent local exchange carrier services that are part of the Spingo business, Verizon will use the combined company to provide those services and (b) to the extent that contract involves the provision of services other than incumbent local exchange carrier services, Verizon will continue to provide specified services to the customer in accordance with such contract. Verizon agreed to make certain payments to the combined company in connection with the delivery of those services to the applicable customers.

Employee Matters

The merger agreement provides that throughout the internal restructurings taken in contemplation of the merger agreement, including the contribution, the distribution and the merger, the employees of the Spingo business will maintain uninterrupted continuity of employment, compensation and benefits (and with respect to union-represented employees, uninterrupted continuity of representation for purposes of collective bargaining and uninterrupted continuity of coverage under their collective bargaining agreements), as contemplated by the employee matters agreement. See “—Additional Agreements Between Frontier, Verizon and Their Affiliates—The Employee Matters Agreement.”

No Solicitation

The merger agreement contains detailed provisions restricting Frontier’s ability to seek an alternative transaction. Under these provisions, Frontier agrees that it and its subsidiaries will not, and will use all commercially reasonable efforts to cause its and its subsidiaries’ officers, directors, employees, advisors and agents not to, directly or indirectly:

- knowingly solicit, initiate or encourage any inquiry or proposal that constitutes or could reasonably be expected to lead to an acquisition proposal;
- provide any non-public information or data to any person relating to or in connection with an acquisition proposal, engage in any discussions or negotiations concerning an acquisition proposal, or otherwise knowingly facilitate any effort or attempt to make or implement an acquisition proposal;

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- approve, recommend, agree to or accept, or propose publicly to approve, recommend, agree to or accept, any acquisition proposal; or
- approve, recommend, agree to or accept, or propose to approve, recommend, agree to or accept, or execute or enter into, any letter of intent, agreement in principle, merger agreement, acquisition agreement, option agreement or other similar agreement related to any acquisition proposal.

Frontier also agreed to cease and cause to be terminated any existing activities, discussions or negotiations with any persons conducted prior to the execution of the merger agreement with respect to any acquisition proposal.

The merger agreement provides that the term “acquisition proposal” means any proposal regarding:

- any merger, consolidation, share exchange, business combination, recapitalization or other similar transaction or series of related transactions involving Frontier or any of its significant subsidiaries;
- any direct or indirect purchase or sale, lease, exchange, transfer or other disposition of the consolidated assets (including stock of Frontier’s subsidiaries) of Frontier and its subsidiaries, taken as a whole, constituting 15% or more of the total consolidated assets of Frontier and its subsidiaries, taken as a whole, or accounting for 15% or more of the total consolidated revenues of Frontier and its subsidiaries, taken as a whole, in any one transaction or in a series of transactions;
- any direct or indirect purchase or sale of or tender offer, exchange offer or any similar transaction or series of related transactions engaged in by any person following which any person or group of persons would own 15% or more of the outstanding shares of Frontier common stock; or
- any other substantially similar transaction or series of related transactions that would reasonably be expected to prevent or materially impair or delay the consummation of the transactions contemplated by the merger agreement or the other agreements executed in connection therewith.

The merger agreement does not prevent Frontier or its board of directors from engaging in any discussions or negotiations with, or providing any non-public information to, any person in response to an unsolicited bona fide superior proposal or acquisition proposal that the Frontier board, after consulting with a financial advisor of nationally recognized reputation, determines in good faith would reasonably be expected to lead to a superior proposal. However, Frontier or its board of directors may take such actions only if and to the extent that:

- Frontier stockholders have not yet approved the merger proposals;
- the Frontier board, after consulting with its legal advisors, determines in good faith that failure to take such action would reasonably be expected to result in a breach of its fiduciary duties to Frontier stockholders under applicable laws; and
- before providing any information or data to any person in connection with an acquisition proposal by that person, such information is provided to Verizon at the same time it is provided to that person (to the extent not previously provided or made available to Verizon);

and before providing any non-public information or data to any person or entering into discussions or negotiations with any person, the Frontier board promptly notifies Verizon of any such inquiry, proposal or offer or any request for information, or any discussions or negotiations sought to be initiated or continued with Frontier, and identifies the material terms and conditions of the acquisition proposal and the identity of the person making such acquisition proposal. Frontier has agreed to keep Verizon reasonably informed on a reasonably prompt basis (and in any event within 24 hours following receipt of any acquisition proposal or changes thereto) of the status and material terms of any proposals or offers and the status of discussions and negotiations.

The merger agreement provides that the term “superior proposal” means any proposal or offer made by a third party to acquire, directly or indirectly, by merger, consolidation or otherwise, for consideration consisting of cash and/or securities, at least a majority of the shares of Frontier’s common stock then outstanding or all or

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substantially all of the assets of Frontier and its subsidiaries and otherwise on terms which the Frontier board, after consultation with its legal and financial advisors, determines in its good faith judgment to be more favorable to Frontier stockholders than the merger (taking into account all of the terms and conditions of such proposal and of the merger agreement as well as any other factors deemed relevant by the Frontier board) and reasonably capable of being consummated on the terms so proposed, taking into account all financial, regulatory, legal and other aspects of such proposal.

Prior to the approval of the merger proposals by Frontier stockholders, the Frontier board may withdraw or modify its recommendation that Frontier stockholders vote for the merger proposals if, after consulting with its legal advisors, it concludes in good faith that failure to take such action would reasonably be expected (taking into account any new or revised proposals made by Verizon) to result in a breach of its fiduciary duties to Frontier stockholders under applicable law, but only if:

- Frontier provides Verizon with written notice at least five business days before taking such action and indicates in its notice (A) if the change of recommendation is not being made as a result of a superior proposal, the Frontier board's reasons for taking such action, and (B) if the change of recommendation is being made as a result of a superior proposal or involves the recommendation of a superior proposal, the material terms and conditions of the superior proposal (including the identity of the party making such superior proposal); and
- prior to effecting the change in recommendation or recommending a superior proposal, Frontier provides Verizon the opportunity to submit an amended written proposal or to make a new written proposal to Frontier during the five business day notice period.

Frontier is required to deliver a new written notice to Verizon in the event of material revisions to such a third-party acquisition proposal and again comply with the above requirements, except the notice period will be reduced to two business days.

In addition, the merger agreement does not prevent Frontier from disclosing to Frontier stockholders a position with respect to a tender offer as required by law or from making any disclosure to Frontier stockholders if, in the good faith judgment of the Frontier board, after consultation with its legal advisors, it is required to do so in order to comply with its fiduciary duties to Frontier stockholders under applicable law.

Frontier is required to submit the merger agreement to a stockholder vote even if the Frontier board changes its recommendation of the merger (including in connection with a superior proposal), and Frontier may not terminate the merger agreement to accept a superior proposal.

Financing Matters

Pursuant to the distribution agreement, Verizon is entitled to receive a special cash payment from Spinco immediately prior to the distribution. This special cash payment is contemplated to be financed through the special cash payment financing. Additionally, in certain circumstances, Spinco debt securities may be issued to Verizon pursuant to the distribution agreement. The merger agreement contains various covenants of Verizon, Frontier and Spinco relating to the special cash payment financing and the Spinco debt securities, including agreements by Verizon and Frontier:

- to meet from time to time to discuss strategy and timing for seeking proposals from reputable lenders or underwriters to provide, arrange or underwrite the special cash payment financing (which may be negotiated, drawn down or issued in one or more tranches);
- to jointly solicit proposals from reputable financing sources no later than nine months after the date of the merger agreement, with Frontier having the right to select from among the proposals received one or more which Frontier reasonably determines to be the most favorable and to take the lead in negotiations with financing sources (subject to the obligation to keep Verizon informed of all material developments and to allow Verizon to participate in the negotiations);

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- to use all commercially reasonable efforts to finalize all documentation with respect to the special cash payment financing and, subject to the extension rights and Frontier's rights to not accept the financing as described below, to accept and execute (and to cause Spinco to execute) documentation relating thereto;
- if Spinco debt securities are to be issued, to have Frontier (A) take the lead in the negotiation of the terms and conditions thereof with the financial institutions selected by Verizon to be party to any debt exchange elected to be consummated by Verizon, subject to keeping Verizon informed of all material developments and providing Verizon with an opportunity to participate in all negotiations relating to the terms of such Spinco debt securities and (B) determine, in consultation with Verizon, the final form of the Spinco debt securities and related agreements (including registration rights arrangements and indenture) consistent with the terms described in this proxy statement/prospectus under the heading "Financing of the Combined Company," provided that the covenants and economic terms thereof would reasonably be expected to result in the Spinco debt securities being exchanged for Verizon obligations in an equal principal amount; and
- if Spinco debt securities are to be issued and if Verizon elects to consummate the debt exchange, to allow Verizon to have the sole right to structure the arrangements relating thereto with underwriters, arrangers and other third parties relating to the debt exchange, provided that Verizon keeps Frontier reasonably informed regarding such arrangements.

The merger agreement provides the parties with certain rights to defer consummating the financing (and thereby defer the closing). Specifically, if at the time proposed for acceptance and execution of documentation relating to the special cash payment financing and, if required, the Spinco debt securities, the negotiated terms do not satisfy the requirements for the financing that are described in the immediately following paragraph, and if at that time the other conditions to closing have been satisfied (other than those that would be satisfied by action at the closing and other than the condition to the obligation of Verizon related to its receipt of financing proceeds), either Verizon or Frontier may elect to defer the closing (subject to the satisfaction of the closing conditions on such deferral date) until the final business day of the next calendar month. If elected, the parties will cooperate in seeking to improve the proposed terms of the special cash payment financing and, if applicable, the Spinco debt securities during such deferral period. This right of deferral may be elected on one or more occasions but no more than four times in total by Frontier and Verizon, and, if elected for a fourth time, the period of such deferral will last until the final business day of the second calendar month following the date on which such deferral is elected.

Frontier is not obligated under the merger agreement to accept or execute documentation relating to the special cash payment financing or, if required, the Spinco debt securities if:

- either (A) the weighted average life of the aggregate of such financing and securities, together with any distribution date indebtedness, is less than five years or (B) any of the special cash payment financing or the Spinco debt securities would have a final maturity of earlier than January 1, 2014, other than any bridge financing with a maturity of at least 364 days in an aggregate amount not in excess of \$600 million;
- such financing or securities or any distribution date indebtedness would be secured by any assets of any operating company;
- the terms or provisions of such financing or securities or of any distribution date indebtedness would cause their incurrence or assumption by Frontier in or as a result of the merger to be prohibited by or cause (with or without notice or the lapse of time) a default under Frontier's existing credit agreements or indentures as in effect on the date of the merger agreement; or
- both (I) the proposed covenants and other terms and conditions in such documentation (excluding (A) any terms of the Spinco debt securities described in this proxy statement/prospectus under the heading "Financing of the Combined Company," and (B) the rate, yield or tenor thereof) are not, in the aggregate, substantially in accordance with then prevailing market terms for similarly sized term loan

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bank borrowings and/or capital market issuances by companies of a size and with credit ratings similar to the combined company and (II) the effect of such covenants and other terms and conditions that are not in accordance with the prevailing market terms (excluding (A) any terms of the Spinco debt securities described in this proxy statement/prospectus under the heading "Financing of the Combined Company," and (B) the rate, yield or tenor thereof) would, in the aggregate, be materially adverse to the combined company.

Additionally, Frontier is not obligated to accept or execute documentation relating to the special cash payment financing or the Spinco debt securities if as a result thereof the weighted average annual cash interest rate (including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount) payable on the aggregate of the special cash payment financing, the Spinco debt securities and any distribution date indebtedness would exceed 9.5%, unless Frontier reasonably determines in good faith that these coverage costs would not be unduly burdensome.

Frontier has agreed to discuss and consider from time to time, at the request of Verizon, the possibility of Frontier allowing Verizon to cause Spinco to incur a portion of the special cash payment financing in advance of the closing, but is under no obligation to do so.

Not later than 60 days prior to the reasonably anticipated closing date, Verizon will deliver to Frontier a certificate setting forth the anticipated amount of the special cash payment, along with Verizon's then-current estimate of (1) distribution date indebtedness and (2) Verizon's tax basis in Spinco as of the distribution. Verizon will have the right to update such certificate up to 15 days prior to the closing of the merger in light of any updated information of Verizon regarding its tax basis in Spinco and the amount of distribution date indebtedness.

Realignment Activities of Verizon

Verizon has agreed to segregate the operation of the Spinco business in the Spinco territory (other than West Virginia) from Verizon's other businesses, referred to as the realignment, such that the "sufficiency of assets" representation of Verizon included in the merger agreement will be accurate as of the closing of the merger in accordance with the closing condition set forth in the merger agreement. The sufficiency of assets representation is subject to qualifications and assumptions and should be read in its entirety. No later than 60 days prior to the reasonably anticipated closing date, Verizon will notify Frontier stating that the realignment has been completed as of the date of such notice, and Frontier will be granted reasonable rights of access from time to time to validate and confirm the completion of the realignment (including the functioning of principal operating systems) in accordance with the merger agreement. Verizon has agreed that it will not take any action in connection with the realignment that would result in any material increase in the number of employees performing each material function of the Spinco business above the number of employees performing such function as of the date of the merger agreement.

Verizon has also agreed to create a separate instance of the Verizon proprietary software systems used in the conduct of the Spinco business in the Spinco territory (other than West Virginia) and to install that software on equipment the majority of which will be located in a data center in Fort Wayne, Indiana, that will be owned by a subsidiary of Spinco as of the closing of the merger (with the balance of this equipment to be made available on a firewall basis from Verizon after the closing of the merger and to be transferred by Verizon to the Fort Wayne data center within one year following the closing of the merger).

Director and Officer Insurance and Release

Under the terms of the merger agreement, the parties have agreed that Frontier, the combined company and each of their respective subsidiaries will assist Verizon in maintaining after the closing of the merger, at Verizon's expense, directors' and officers' liability insurance policies and fiduciary liability insurance policies covering certain officers, directors, trustees and fiduciaries of Verizon, its subsidiaries and certain other entities,

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referred to as the covered persons. The parties also agreed that as of the effective time of the merger, the combined company, on behalf of itself, its subsidiaries and their respective successors and assigns, will execute releases releasing the covered persons from any and all claims pertaining to acts or omissions by the covered persons prior to the closing of the merger, provided that such covered persons also execute such releases releasing the combined company, its subsidiaries and their respective successors and assigns from any and all claims that such covered persons have or may have of any kind.

Tax Matters

The merger agreement contains certain additional representations, warranties and covenants relating to the preservation of the tax-free status of (i) the series of preliminary restructuring transactions to be engaged in by Verizon, (ii) the contribution transactions, (iii) the distribution transactions, (iv) the exchange of the Spinco debt securities for Verizon debt and (v) the merger of Spinco and Frontier (which the merger agreement refers to collectively as the tax-free status of the transactions). Additional representations, warranties and covenants relating to the tax-free status of the transactions are contained in the tax sharing agreement. Indemnification for all matters relating to taxes is governed by the terms, provisions and procedures described in the tax sharing agreement. See “—Additional Agreements Between Frontier, Verizon and Their Affiliates—The Tax Sharing Agreement.”

Certain Other Covenants and Agreements

The merger agreement contains certain other covenants and agreements, including covenants (with certain exceptions specified in the merger agreement) relating to:

- post-signing disclosure that Verizon will make available to Frontier (and thereby modify applicable representations) regarding the California operations of the Spinco business;
- financial statements for the Spinco business that Verizon will provide on a quarterly basis between the signing of the merger agreement and the closing;
- actions to be taken by the independent auditors of Frontier and Verizon;
- ensuring effectiveness of internal controls over financial reporting of the combined company;
- certain ancillary agreements that may be entered into between Verizon and/or its affiliates, on the one hand, and Spinco and/or affiliates of Frontier, on the other hand, regarding video transport services, and back office support for certain large enterprise and governmental customers to be served by both Verizon and Frontier;
- certain telephone directories agreements that Spinco will offer to enter into with Directories Media Inc. (a former affiliate of Verizon) to the extent such agreements are binding upon the Spinco business as of immediately prior to the time of the merger; and
- the negotiation of a joint defense agreement setting forth the procedures for defending and resolving any matters of common interest to Verizon and Frontier arising from the transactions contemplated by the merger agreement, distribution agreement and related agreements.

Conditions to the Completion of the Merger

The respective obligations of Frontier, Verizon and Spinco to complete the merger are subject to the satisfaction or waiver of various conditions, including:

- the completion of the distribution in accordance with the terms of the distribution agreement;
- the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Act;
- receipt of the requisite consents of telecommunications regulatory agencies;

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- the absence of conditions imposed in connection with obtaining telecommunications regulatory consents that constitute a materially adverse regulatory condition (which means any condition, obligation or restriction sought to be imposed in connection with obtaining a telecommunications regulatory consent that, taken together with any other conditions or restrictions sought to be imposed to obtain any other telecommunications regulatory consent, would reasonably be expected to be materially adverse to Frontier, to Spinco or to Verizon (assuming for this purpose that the business, assets, properties and liabilities of each of (i) Verizon and all Verizon subsidiaries and (ii) Frontier and all Frontier subsidiaries are comparable in size to those of Spinco and all Spinco subsidiaries), disregarding for this purpose any condition or requirement on Frontier or the combined company (a) to make capital expenditures substantially consistent with the amounts and general categories of expenditures set forth in (1) Frontier's 2009 capital expenditure budget or (2) Verizon's 2009 capital expenditure budget for the Spinco business, (b) that is offered by Frontier in its discretion at any time within nine months of the date of the merger agreement in an application for an order approving the transactions contemplated by the merger agreement or in any related filing or testimony made within nine months of the date of the merger agreement or (c) to abide by any written binding commitments made by Verizon or any Verizon subsidiary with respect to the Spinco business, or by Frontier or any of its subsidiaries, to any governmental authority prior to the date of the merger agreement);
- the effectiveness of the registration statement of which this proxy statement/prospectus is a part and the receipt of all necessary permits and authorizations under state and federal securities laws;
- the approval for listing on the NYSE of the Frontier common stock to be issued pursuant to the merger agreement;
- the approval of the merger proposals by Frontier stockholders at the special meeting, in accordance with applicable law and the rules and regulations of the NYSE;
- the absence of any decree, judgment, injunction, writ, ruling or other order issued by a court or governmental authority which restrains, enjoins or prohibits the contribution transactions, the distribution transaction or the merger;
- the absence of any action taken, and the absence of any statute, rule, regulation or executive order having been enacted, entered, promulgated or enforced by any governmental authority, having the effect of (1) restraining, enjoining or prohibiting the contribution, the distribution, the merger or the other transactions contemplated by the merger agreement, the distribution agreement or the employee matters agreement, or (2) imposing any burdens, liabilities, restrictions or requirements on such transactions or on Verizon, Spinco or Frontier with respect to such transactions that would reasonably be expected to have a material adverse effect on Verizon (assuming for such purposes that Verizon were the size of the combined company) or the combined company;
- receipt by Verizon and Spinco of the IRS ruling, unless an alternative structure for the transaction is implemented;
- receipt by each of Verizon and Spinco, on the one hand, and Frontier, on the other hand, of a legal opinion stating that the merger will constitute a reorganization under Section 368(a) of the Code;
- receipt by Verizon of a legal opinion from Verizon's counsel to the effect that the distribution will qualify as tax-free to Verizon, Spinco and the stockholders of Verizon under Section 355 and related provisions of the Code, which opinion will rely on the IRS ruling as to matters covered by the ruling; and
- receipt by Verizon and Frontier of a customary "solvency" opinion of a nationally recognized independent valuation firm selected by Verizon attesting to the solvency of the combined company on a pro forma basis immediately after the closing of the merger.

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Verizon and Spinco's obligations to complete the merger are also subject to the satisfaction or waiver of the following additional conditions:

- performance by Frontier, in all material respects, of all its obligations and compliance by Frontier, in all material respects, with all covenants required by the merger agreement to be performed or complied with prior to closing, as certified in writing by a senior officer of Frontier;
- the accuracy of Frontier's representations and warranties set forth in the merger agreement (subject to certain exceptions), without any qualification as to materiality or material adverse effect set forth therein, except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Frontier and its subsidiaries, as certified in writing by a senior officer of Frontier;
- receipt by Verizon of the special cash payment, and, if required, a principal amount of Spinco debt securities that, together with the amount of any distribution date indebtedness, totals \$3.333 billion, and, if Spinco debt securities are issued and if Verizon desires to consummate a debt exchange, the consummation of the debt exchange with respect to a principal amount of Spinco debt securities equal to (x) \$3.333 billion minus (y) the sum of (A) the amount of the special cash payment and (B) the amount of any distribution date indebtedness;
- the absence of any state of fact, change, development, event, effect, condition or occurrence since December 31, 2008 that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Frontier; and
- execution and, to the extent applicable, timely performance by Frontier in all material respects of the transaction agreements.

Frontier's obligation to complete the merger is also subject to the satisfaction or waiver of the following additional conditions:

- performance by Verizon and Spinco, in all material respects, of all their respective obligations and compliance by Verizon and Spinco, in all material respects, with all covenants required by the merger agreement to be performed or complied with prior to closing, as certified in writing by a senior officer of each of Verizon and Spinco;
- the accuracy of Verizon and Spinco's representations and warranties set forth in the merger agreement (subject to certain exceptions), without any qualification as to materiality or material adverse effect set forth therein, except where the failure of such representations and warranties to be true and correct would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Verizon, Spinco or the Spinco business, as certified in writing by a senior officer of each of Verizon and Spinco;
- execution and, to the extent applicable, timely performance by Spinco and Verizon (or a subsidiary thereof) in all material respects of the distribution agreement and the other ancillary transaction agreements; and
- the absence of any state of fact, change, development, event, effect, condition or occurrence since December 31, 2008 that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Spinco or the Spinco business.

Termination

The merger agreement may be terminated by:

- the mutual written consent of the parties;
- any of the parties if the merger is not consummated by July 31, 2010, referred to as the end date (such date may be extended in certain circumstances by either Verizon or Frontier for one month periods that

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shall not exceed four months in the aggregate in order to obtain outstanding regulatory consents or one month and two month periods that shall not exceed five months in the aggregate in order to complete certain financing transactions as described above under “—Financing Matters”);

- any of the parties if the merger is permanently enjoined or prohibited, or if a final, non-appealable order has been entered into that would constitute a materially adverse regulatory condition;
- Frontier, on the one hand, or Verizon and Spinco, on the other hand, if the other party or parties breach the merger agreement in a way that would entitle the party or parties seeking to terminate the agreement not to consummate the merger, subject to the right of the breaching party or parties to cure the breach;
- Frontier, on the one hand, or Verizon and Spinco, on the other hand, if the requisite Frontier stockholder approvals have not been obtained at the special meeting, except that Frontier will not be permitted to terminate the merger agreement because of the failure to obtain the stockholder approval if that failure was caused by Frontier's actions or inactions that constitute a material breach of the merger agreement;
- Verizon and Spinco, if (1) the Frontier board withdraws or adversely modifies its recommendation of the merger proposals (including recommending a competing acquisition proposal) or (2) Frontier fails to call and hold the special meeting within 60 days after the date on which the SEC shall have completed its review of this proxy statement/prospectus and, if required by the SEC as a condition to the mailing of this proxy statement/prospectus, the date of effectiveness of the registration statement of which it is a part; or
- Verizon and Spinco on any date, if on that date (1) the average of the volume-weighted averages of the trading prices of the Frontier common stock for any period of 60 consecutive trading days that ended within three business days prior to that date is below \$3.87 and (2) Verizon and Spinco notify Frontier in writing that they are terminating the merger agreement in accordance with this provision.

Termination Fee Payable in Certain Circumstances

Frontier has agreed to pay Verizon a termination fee of \$80 million in the event that:

- Verizon and Spinco terminate the merger agreement as a result of the Frontier board withdrawing or adversely modifying its recommendation of the merger proposals (including recommending a competing acquisition proposal) or Frontier failing to call and hold the special meeting within 60 days after the date on which the SEC shall have completed its review of this proxy statement/prospectus and, if required by the SEC as a condition to the mailing of this proxy statement/prospectus, the date of effectiveness of the registration statement of which it is a part, or
- (i) Frontier receives a competing acquisition proposal after the date of the merger agreement, (ii) one of the parties terminates the merger agreement due to the passing of the end date or Verizon and Spinco terminate the merger agreement because Frontier breaches certain specified provisions of the merger agreement, or a competing acquisition proposal has been publicly announced prior to Frontier stockholders' meeting and Frontier stockholders fail to approve the merger proposals and (iii) within 12 months after such termination of the merger agreement, Frontier consummates a business combination transaction or enters into a definitive agreement with respect to such a transaction.

Indemnification

The representations and warranties made by the parties in the merger agreement and the pre-closing covenants of the parties thereunder do not survive the closing of the merger and, except as described below, the merger agreement does not contain any post-closing indemnification obligations with respect to these matters.

Under the merger agreement, the combined company is obligated to indemnify Verizon and its affiliates against all losses and expenses arising out of:

- its failure to timely pay for liabilities related to the Spinco business;

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- its failure to perform certain obligations under the merger agreement and the distribution agreement; and
- any untrue statement or alleged untrue statement of a material fact contained in this proxy statement/prospectus, or the registration statement of which it is part, or any omission or alleged omission to state a material fact necessary to make the statements contained herein or therein not misleading (the combined company is not responsible, however, for certain information provided by Verizon as to itself and its subsidiaries, including Spinco).

The merger agreement also provides that Verizon will indemnify the combined company and its affiliates against all losses and expenses arising out of:

- its failure to timely pay for liabilities related to its business other than liabilities assumed by Spinco in the contribution;
- any amount of indebtedness of Spinco on the distribution date to the extent not included in an estimate of such amount that Verizon is required to provide to Frontier prior to the closing;
- its failure to perform certain obligations under the merger agreement and the distribution agreement (provided that any claim for indemnification arising from any failure to transfer any Spinco asset to Spinco must be asserted within 18 months following the closing of the merger); and
- any untrue statement or alleged untrue statement of a material fact contained in this proxy statement/prospectus, or the registration statement to which it is part, or any omission or alleged omission to state a material fact necessary to make the statements contained herein or therein not misleading, but only with respect to information provided by Verizon as to itself and its subsidiaries, including Spinco.

Expenses

The merger agreement provides that, except as otherwise set forth in any of the transaction agreements, each party will pay its own fees and expenses in connection with the merger agreement, the merger and the transactions contemplated by the merger agreement, provided that:

- if the merger is consummated, Verizon and the combined company will each bear 50% of all transfer taxes arising from the transactions and all recording, application and filing fees associated with the transfer of the Spinco assets in connection with the contribution and distribution;
- if the debt exchange is consummated, Verizon will pay and be responsible for any fees and reimbursable expenses of the counterparties to such debt exchange and financial and legal advisors and Verizon and the combined company will each bear 50% of all other costs and expenses in connection with the debt exchange (including any printing costs, trustees fees and roadshow expenses);
- Verizon will pay the fees and reimbursable expenses of the independent valuation firm incurred in connection with the preparation and delivery of the solvency opinion; and
- Verizon and Frontier will each bear 50% of the costs of any filing fees or any advisor or consultant hired by any governmental agency with the mutual consent of Verizon and Frontier (or to which neither party has the right to disapprove), regardless of which party is allocated such cost by law.

If a party pays an amount that is the responsibility of the other party, the paying party will be promptly reimbursed for such amount.

Amendments

The merger agreement may be amended by the parties at any time before or after approval by Frontier stockholders, provided that, after approval by Frontier stockholders, no amendment which by law or under the rules of any relevant stock exchange or automated inter-dealer quotation system requires further stockholder approval may be made to the merger agreement without obtaining that further approval. All amendments to the merger agreement must be in writing and signed by each party.

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The Distribution Agreement

The following is a summary of selected material provisions of the distribution agreement. This summary is qualified in its entirety by reference to the Distribution Agreement, dated as of May 13, 2009, and Amendment No. 1 thereto, dated as of July 24, 2009. The composite form of the distribution agreement, reflecting Amendment No. 1 thereto, is incorporated by reference in its entirety and attached to this proxy statement/prospectus as Annex A-2. The rights and obligations of the parties are governed by the express terms and conditions of the distribution agreement and not by this summary or any other information included in this proxy statement/prospectus. Stockholders of Frontier and Verizon are urged to read the distribution agreement in its entirety. The distribution agreement has been included to provide Frontier stockholders and Verizon stockholders with information regarding its terms. It is not intended to provide any other factual information about Verizon, Spinco, Frontier or the combined company. Information about Verizon, Spinco, Frontier and the combined company can be found elsewhere in this proxy statement/prospectus.

Descriptions regarding the assets and liabilities conveyed to Spinco and retained by Verizon contained in the distribution agreement are qualified by certain information that has been exchanged between Verizon and Spinco and that is not reflected in the distribution agreement. Accordingly, Frontier stockholders and Verizon stockholders should not rely on the general descriptions of assets and liabilities in the distribution agreement, as they have been modified in important ways by the information exchanged between Verizon and Spinco. Frontier does not believe that securities laws require Frontier to disclose publicly any information related to the distribution agreement other than information that has already been so disclosed.

General

The distribution agreement between Verizon and Spinco provides for, among other matters, the principal corporate transactions required to effect the proposed contribution of the Spinco business to Spinco and distribution of Spinco common stock to Verizon stockholders and certain other terms governing the relationship between Verizon and Spinco with respect to or in consequence of the contribution and the distribution.

Preliminary Transactions

Transfer of Assets. Pursuant to the distribution agreement, and subject to certain exclusions, Verizon will transfer or cause to be transferred to Spinco subsidiaries the rights of Verizon in the assets primarily used or held for use in or that primarily arise from the conduct of the Spinco business, including current assets (other than cash), which are the subject of the post-closing working capital adjustment described below. This business consists of local exchange service, designated intrastate and interstate long distance service, network access service, Internet access service, enhanced voice and data services, DSL, fiber-to-the-premises voice, broadband and video services, wholesale services, operator services, directory assistance services, customer service to end users, and, in connection with the foregoing, repairs, billing and collections, as well as other specified activities of Verizon in the Spinco territory. The conveyed assets will specifically include designated fiber-to-the-premises network elements and customer premises equipment at fiber-to-the-premises subscriber locations in the states of Indiana, Oregon and Washington and specified related transmission facilities.

The Spinco business also includes the origination of central office voice switched long distance services in the Spinco territory switched by wire centers that are Spinco assets and providing dial-up and broadband Internet access services and related value-added services provided to broadband customers located in the Spinco territory.

Neither Cellco nor any of its subsidiaries is deemed to be a subsidiary or an affiliate of Verizon for purposes of the distribution agreement or the merger agreement.

Transfer of Liabilities. The transfer of assets to Spinco is made subject to the assumption by subsidiaries of Spinco of certain liabilities of Verizon or its subsidiaries to the extent relating to or arising from the Spinco business or the transferred assets, subject to certain exceptions. These include current liabilities that are the subject of the working capital adjustment described below.

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Exceptions to Transfers. The distribution agreement does not purport to transfer assets or liabilities in respect of taxes (except for certain pre-closing tax assets and liabilities associated with the Spinco business that are taken into account in the working capital adjustment described below), intellectual property assets or employee benefit plans and arrangements, which are the subject of other transaction agreements described below. Additionally, certain assets and liabilities, including certain affiliate agreements, and assets (other than customer relationships) of the dial-up, DSL and dedicated Internet access services and related DSL value-added services taken by DSL customers and long distance portions of the business are excluded from these transfers, as described in the distribution agreement. Transfers of assets and liabilities are subject to receipt of applicable consents, waivers and approvals.

Consideration. Following certain preliminary transfers of assets and liabilities, and immediately prior to the effective time of the merger, Verizon will contribute all of the stock of the Spinco subsidiaries to Spinco in exchange for:

- a special cash payment to Verizon in an amount not to exceed the lesser of (i)(x) \$3.333 billion minus (y) the distribution date indebtedness and (ii) Verizon's estimate of its tax basis in the assets transferred to Spinco, and
- if the total amount of the special cash payment plus the amount of any distribution date indebtedness is less than \$3.333 billion, a distribution by Spinco to Verizon of the Spinco debt securities having a principal amount equal to such shortfall, which securities Verizon may exchange for outstanding debt obligations of Verizon or otherwise transfer to Verizon stockholders or creditors.

As a result of these transactions, Verizon will receive \$3.333 billion in aggregate value in the form of the special cash payment, the Verizon debt reduction and, if required, Spinco debt securities. The financing associated with these transactions is described further in "—The Merger Agreement—Financing Matters." Also in connection with these transactions, Spinco will issue additional shares of Spinco common stock to Verizon, which will be distributed in the spin-off.

Working Capital Adjustment

The parties to the distribution agreement have agreed that within 90 days after the closing of the merger, Verizon will cause to be prepared and delivered to the combined company a statement setting forth the working capital of Spinco and its subsidiaries (as defined in the distribution agreement) as of the opening of business on the distribution date. If the distribution date working capital of Spinco exceeds zero, no payment will be made by either party with respect to such excess. If the distribution date working capital of Spinco is less than zero, Verizon will pay to the combined company an amount equal to the full amount of the deficit. In the event that the combined company disagrees with Verizon's calculation of the distribution date working capital, the combined company may dispute that calculation if the amount in dispute exceeds \$250,000.

Covenants

Each of Verizon and Spinco has agreed to take specified actions after the signing of the distribution agreement. These actions include the following:

- immediately prior to the distribution, terminating all material contracts, licenses, agreements, commitments and other arrangements, formal and informal (including with respect to intercompany cash balances and accounts and notes payable), (x) between Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred), on the one hand, and either Spinco or any of its subsidiaries, collectively referred to as the Spinco Group on the other hand, or (y) between Cellco or any of its subsidiaries, on the one hand, and the Spinco Group, on the other hand (except as contemplated by the other agreements executed in connection with the transactions); and

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- cooperating in seeking to release Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred), on the one hand, and the Spinco Group, on the other hand, from guarantee obligations that either group may have entered into with respect to the other's business.

Conditions to the Completion of the Spin-Off

The distribution agreement provides that the distribution of Spinco common stock will occur only if each condition to the obligations of Verizon and Spinco to consummate the merger shall have been fulfilled or waived by Verizon (except for the consummation of the contribution and the distribution). See “—Merger Agreement—Conditions to the Completion of the Merger.”

Subsequent Transfers

In the event that at any time during the 18-month period following the spin-off Verizon becomes aware that it possesses any assets that should have been transferred to Spinco or its subsidiaries as part of the contribution, Verizon will hold those assets in trust and cause the prompt transfer of the assets to Spinco or the combined company as its successor. In the event that at any time during the 18-month period following the spin-off Spinco or its subsidiaries (or the combined company as its successor) becomes aware that it possesses any assets that should not have been transferred to Spinco, Spinco or the combined company as its successor will hold those assets in trust and cause the prompt transfer of the applicable assets to Verizon.

Mutual Release

Spinco and Verizon have each agreed to release the other party and the other party's respective subsidiaries and representatives from any and all liabilities that it may have against the other party which arise out of or relate to events, circumstances or actions taken by the other party occurring or failing to occur or any conditions existing at or prior to the time of the spin-off. The mutual release is subject to specified exceptions set forth in the distribution agreement. The specified exceptions include:

- any liability assumed, transferred, assigned or allocated to Spinco or to Verizon in accordance with, or any liability or obligation (including any liability with respect to payment, reimbursement, indemnification or contribution) of either of them arising under the distribution agreement, any other transaction agreements or any of the contracts or affiliate arrangements contemplated thereby;
- the ability of any person to enforce its rights under the distribution agreement, any other transaction agreements or any of the contracts or affiliate arrangements contemplated thereby; and
- any liability the release of which would result in the release of any person other than Spinco, Verizon or their respective subsidiaries or representatives.

Expenses

All fees and expenses incurred by the parties in connection with the transactions contemplated by the distribution agreement and the other transaction agreements will be paid as provided for in the merger agreement, provided that (i) Spinco will reimburse Verizon for all financial printer costs in connection with the preparation of any information statement and Form 8-K in connection with the transactions contemplated by the merger agreement and distribution agreement and all mailing costs associated with delivery to Verizon stockholders of such information statement and (ii) Spinco will bear the fees and expenses payable to lenders or their advisors in connection with the special cash payment financing. The foregoing costs of Spinco will be excluded from the working capital calculation described above. See “—The Merger Agreement—Expenses.”

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Additional Post-Closing Covenants

The distribution agreement contains additional post-closing covenants of Verizon and Spinco (as the combined company following the merger), including:

- restrictions on the Spinco Group and Verizon using any material showing any affiliation with the other group (and the Verizon name being removed from the corporate names of the Spinco Group) other than as provided in the transaction agreements;
- Verizon's agreement to use commercially reasonable efforts to assert claims under occurrence-based insurance policies with respect to incidents occurring prior to the distribution (subject to cost reimbursement);
- Verizon's agreement to use commercially reasonable efforts to obtain from the relevant third-party insurer an assignment to Spinco of any rights to prosecute claims properly asserted by Spinco prior to the distribution under insurance policies written on a "claims made" basis;
- assert claims under occurrence-based insurance policies with respect to incidents occurring prior to the distribution (subject to cost reimbursement); and
- the terms on which books and records relating to the Spinco business will be made available to the combined company following the distribution.

Termination

Following termination of the merger agreement, the distribution agreement may be terminated and the spin-off abandoned at any time prior to the distribution by and in the sole discretion of Verizon.

Additional Agreements Between Frontier, Verizon and Their Affiliates

Frontier, Spinco and Verizon have entered into or, before the completion of the distribution and the merger, will enter into, certain additional agreements and various interim and ongoing relationships. The following is a summary of the material provisions of those agreements. The rights and obligations of the parties are governed by the express terms and conditions of the respective agreements and not by the summary thereof or any other information included in this proxy statement/prospectus. It is not intended to provide any other factual information about Verizon, Spinco, Frontier or the combined company. Information about Verizon, Spinco, Frontier and the combined company can be found elsewhere in this proxy statement/prospectus.

The Employee Matters Agreement

Verizon, Spinco and Frontier entered into an employee matters agreement to govern their respective rights and obligations with respect to current and former employees of the Verizon companies whose duties relate primarily to the Spinco business. Pursuant to the employee matters agreement, all Verizon employees whose primary duties relate to the Spinco business, excluding those employees designated by Verizon, will continue to be employees of Spinco (or one of its subsidiaries) upon the consummation of the merger, referred to as the Spinco employees. Under the employee matters agreement, (i) Verizon will generally retain all liabilities with respect to employees who are not employees of the Spinco business as of the effective time of the merger and (ii) the combined company will generally assume all liabilities with respect to the Spinco employees, with the exception of certain liabilities relating to Spinco employees that were expressly retained by Verizon. The employee matters agreement addresses certain issues including assuming and honoring any collective bargaining agreements governing the employment of the Spinco employees, the establishment of employee benefit plans and arrangements for the Spinco employees, the transfer of pension plan assets from Verizon's pension plans to pension plans maintained by the combined company for the benefit of the Spinco employees and the treatment of equity and incentive plan awards under Verizon's equity and incentive plans that are held by the Spinco employees, each of which are explained in greater detail below.

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For one year following the consummation of the merger, the combined company (or one of its subsidiaries) will provide Spinco employees who are not represented by a union, referred to as Spinco management employees, with at least the same rate of base salary and annual bonus opportunities at the same target level (using Frontier performance metrics consistent with those used for similarly situated Frontier employees) as in effect immediately prior to consummation of the merger. The consummation of the merger (and the related transactions) will not trigger severance benefits for the Spinco employees. During the first 18 months after the merger, the combined company will not be permitted to terminate the employment, other than for cause, of any of the Spinco employees who, at the time of the merger, are actively employed as installers or technicians or who, at the time of the merger, are installers and technicians on a leave of absence or other authorized absence with a right to reinstatement. There will be uninterrupted continuity of union representation and maintenance of collective bargaining agreements throughout the transactions.

Spinco is required under the employee matters agreement to establish benefit plans for Spinco employees that provide benefits that are identical in all material respects to the benefits received by them under Verizon's health plans, welfare plans, 401(k) saving plans and Verizon's management pension plans and union pension plans, referred to as the Spinco plans. Assets and liabilities will be transferred to the Spinco plans in accordance with the terms set forth in the employee matters agreement. Spinco has the ability to amend the Spinco plans following the consummation of the merger, subject to collective bargaining restrictions for Spinco employees who are represented by a union and subject to the agreement that, for the remainder of the calendar year in which the consummation of the merger occurs, the benefits under Spinco plans for Spinco management employees will be substantially comparable in the aggregate to the benefits provided by Verizon under comparable Verizon plans prior to the merger.

The Spinco plans will include the following benefits:

- Benefits for Spinco employees who are subject to collective bargaining agreements will be provided in accordance with the applicable collective bargaining agreements.
- A defined benefit pension plan and related trust will be established for active Spinco management employees that is identical in all material respects to the applicable Verizon pension plan that covered the Spinco management employees prior to the merger. Assets will be transferred from the applicable Verizon pension plan to the new Spinco pension plan for Spinco management employees based on actuarial assumptions agreed upon by the parties and designed to comply with applicable law.
- Defined benefit pension plans and a related trust will be established for active collectively bargained Spinco employees that are identical in all material respects to the applicable Verizon pension plans that covered the Spinco employees who are covered by collective bargaining agreements prior to the merger. Assets will be transferred from the applicable Verizon pension plans to the applicable new Spinco collectively bargained pension plans based on actuarial assumptions agreed upon by the parties and designed to comply with applicable law.
- A provision has been included to ensure that Verizon's aggregate transfer related to the tax-qualified pension plans is sufficient for full funding of projected liabilities in the aggregate. Specifically, if the aggregate assets transferred from the tax-qualified Verizon pension plans to the tax-qualified Spinco pension plans are less than the aggregate projected benefit obligations for all the Spinco participants under such plans as of the closing of the merger, Verizon will pay to Frontier or to the Spinco pension plans an amount equal to such underfunding. Any such payment to Frontier is required to be contributed by Frontier to one or more of the underfunded Spinco pension plans as soon as practicable.
- A nonqualified excess pension plan also will be established for active Spinco management employees who are eligible for benefits under the Verizon Excess Pension Plan. This new Spinco nonqualified excess pension plan will assume the liabilities related to applicable Spinco management employees, but Verizon will not transfer any assets to this new Spinco nonqualified excess pension plan.
- Defined contribution plans providing for 401(k) contributions and employer matching contributions will be established by Spinco for active Spinco management employees and for Spinco employees who

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are covered by a collective bargaining agreement. Each such plan will be identical in all material respects to the applicable Verizon 401(k) plan that covered the applicable group of Spinco employees prior to the merger. Assets, participant loan liabilities and beneficiary designations will be transferred from the applicable Verizon 401(k) plans to these new Spinco 401(k) plans.

- Benefit plans providing comprehensive medical, life insurance, disability, dependent day care and medical reimbursement accounts and similar benefits that are identical in all material respects to Verizon's corresponding benefit plans will be established by Spinco for Spinco employees. These new Spinco benefit plans will waive all limitations as to pre-existing condition exclusions, service conditions and waiting period limitations, and will give credit for deductibles and co-payments incurred by the Spinco employees under the corresponding Verizon benefit plans during the calendar year in which the merger occurs. No assets will be transferred to Spinco with respect to these medical, life insurance, disability and similar benefit plans, except that a net payment will be made to Spinco representing the net balances in Spinco employees' flexible reimbursement accounts.

Frontier (or one of its subsidiaries) will also provide severance benefits in accordance with the applicable collective bargaining agreements for Spinco employees who are represented by a union. Spinco management employees who are terminated within one year following the consummation of the merger will be provided with severance benefits that are no less favorable in the aggregate than the severance benefits provided by Verizon prior to the execution of the merger agreement.

Verizon will retain liabilities under its long-term incentive plans. Outstanding Verizon stock options held by Spinco employees are currently fully vested and will continue to be exercisable until the original expiration date under the terms of the option grants. Restricted stock units and performance stock units will remain payable under the terms and conditions of the Verizon long-term incentive plan and the applicable award agreements. The units held by Spinco employees will immediately vest upon the consummation of the merger, subject to the attainment of any applicable performance goals, and will be payable on their regularly scheduled date. No further deferrals of these units will be allowed by Spinco employees. To the extent not already vested, balances under Verizon's deferred compensation plans will become 100% vested for Spinco employees but will remain with Verizon and will be paid out as provided for under the terms of the Verizon plans.

Accrued time off and leave, incentive and commission bonus programs, and worker's compensation liabilities will be assumed in full by Spinco for all Spinco employees.

The solicitation and hiring of each other's employees is limited by various provisions applicable to Verizon, on the one hand, and to Frontier and Spinco and their subsidiaries (such subsidiaries determined assuming that the merger has occurred), referred to in this section as the Frontier Group, on the other hand. The following restrictive provisions generally apply, unless Verizon and Frontier otherwise mutually agree to make an exception:

- During the time period beginning May 13, 2009 and ending one year after the consummation of the merger, Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred) may not hire an employee of the Frontier Group who voluntarily terminates employment with the Frontier Group until the date that is six months following such termination.
- During the time period beginning May 13, 2009 and ending one year after the consummation of the merger, the Frontier Group may not hire an employee of Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred) who voluntarily terminates employment with Verizon until the date that is six months following such termination.
- During the time period beginning May 13, 2009 and ending one year after the consummation of the merger, Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred) may not solicit for hire any employee of the Frontier Group and the Frontier Group may not solicit for hire any employee of Verizon and its subsidiaries (such subsidiaries determined assuming that the distribution has occurred).

Table of Contents***The Tax Sharing Agreement***

The tax sharing agreement will govern the respective rights, responsibilities and obligations of the combined company and Verizon after the distribution and the merger with respect to taxes, including Frontier's and Verizon's obligations to file tax returns and remit taxes, Frontier's and Verizon's control over tax contests and Frontier's and Verizon's obligations to cooperate after the merger in tax return preparation and record-keeping matters.

The tax sharing agreement generally provides that Verizon will be responsible for all taxes (other than taxes on the spin-off and related transactions) for periods before the distribution that are reportable on any tax return that includes Verizon or one of its non-Spinco subsidiaries, on the one hand, and Spinco or one of its subsidiaries, on the other hand. Spinco and Frontier will be responsible for all such taxes reportable on any tax return that includes Spinco or its subsidiaries but does not include any non-Spinco subsidiaries. Additional rules apply to subsidiaries engaged in both the retained Verizon business and the Spinco business prior to the merger. The responsibility for transfer taxes is determined under the merger agreement.

The tax sharing agreement further provides that Frontier, Spinco and certain Spinco subsidiaries will indemnify Verizon for (i) taxes on the spin-off and related transactions resulting from (A) any of their actions (or failures to take certain actions) that disqualify the spin-off and related transactions as tax-free or (B) any issuance of stock by Frontier or any of its affiliates or change in ownership of any such entities (other than changes in ownership solely caused by Verizon) that would cause Section 355(d), Section 355(e) and/or Section 355(f) of the Code to apply to the distribution or any internal spin-off, (ii) taxes on the spin-off and related transactions resulting from the disqualification of the spin-off due to breaches by Frontier or, after the merger, Spinco of representations and covenants and (iii) taxes of Spinco attributable to the Spinco business for which Verizon is not otherwise responsible and that are not related to the spin-off or any related transaction. The indemnification requirement under clauses (i)(A) and (ii) does not extend to taxes related to the spin-off and related transactions that would have been imposed or incurred in the absence of any event described in those clauses. Verizon will indemnify Frontier for (i) the taxes of Verizon and (ii) taxes of Spinco resulting from the spin-off and related transactions unless, in each case, Frontier, Spinco or the Spinco subsidiaries are otherwise responsible for such taxes as described above. However, if the spin-off is taxable as a result of certain actions by both parties, the liability for such taxes is shared equally between Frontier and Verizon.

All parties to the tax sharing agreement have agreed to report the spin-off and the merger as tax-free. Frontier has agreed to adhere to Verizon's determination of the tax basis of the Spinco assets and the value of any tax attribute, such as a net operating loss carryover, absent a final determination to the contrary or manifest error.

To preserve the tax-free status of the distribution, the tax sharing agreement provides for certain restrictions on Frontier's ability to pursue strategic or other transactions. Additionally, Frontier has agreed not to take certain actions which could cause the spin-off to be disqualified as a tax-free spin-off, including: for two full years after the spin-off, Frontier will not enter into any agreement, understanding or arrangement or any substantial negotiations involving the acquisition of stock of Frontier (including by Frontier or its subsidiaries) or a shift of ownership of Frontier, and will not issue additional shares of stock, modify any organizational document or transfer or modify any option, warrant or convertible instrument that is related to an equity interest in Frontier, other than (i) certain issuances to service providers or with respect to a Frontier retirement plan as provided in an applicable "safe harbor" of the Treasury Regulations or (ii) pursuant to a Frontier stockholder rights plan that meets the requirements of an IRS revenue ruling; for two years after the spin-off Frontier may not repurchase any stock except as allowed under an IRS revenue procedure; and for two years after the spin-off, (a) the Spinco business must actively continue to operate and (b) Frontier will not dissolve, liquidate, merge or consolidate unless it is the survivor in a merger or consolidation. Frontier has also agreed not to pre-pay, pay down, retire, acquire or significantly modify the Spinco debt securities prior to their maturity. However, Frontier may engage in these activities (without limiting its indemnity obligations) if it receives an IRS ruling, Verizon's consent or a legal opinion reasonably satisfactory to Verizon that the tax-free status of the spin-off and the merger will not be adversely affected.

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The Cutover Plan Support Agreement

The following is a summary of selected material provisions of the cutover plan support agreement that relates to Verizon's local exchange business in West Virginia.

The cutover plan support agreement, dated as of May 13, 2009, by and between Frontier and Verizon Information Technologies LLC, referred to as the supplier, sets forth the terms and conditions for the provision by the supplier to Frontier, prior to the consummation of the merger, of services relating to the operation by Frontier following the merger of Verizon's local exchange business in West Virginia.

The term of the cutover plan support agreement extends from May 13, 2009 until the earlier of (i) the termination date of the merger agreement and (ii) the cutover date, which is anticipated to be on or shortly after the closing date of the merger.

The services will consist of preparatory work necessary to implement an effective cutover plan such that Frontier receives the information and data regarding the business of Verizon West Virginia Inc. necessary to accomplish a transition at the closing of the merger from Verizon's systems and procedures to Frontier's systems and procedures for Verizon's local exchange business in West Virginia and establish certain interfaces with Frontier's systems.

The cutover plan support agreement requires Frontier and the supplier to establish, and they have established, a planning committee consisting of representatives of both Frontier and the supplier to discuss, plan and organize a process to facilitate the independent operation of Verizon's local exchange business in West Virginia by the combined company upon the closing of the merger.

Frontier will not pay the supplier any fees for its services other than \$150 per hour for the services of subject matter experts provided by the supplier, at Frontier's request, to answer questions relating to systems and operations that are not related to the cutover plan or specific to Verizon's methods and manner of conducting Verizon's local exchange business in West Virginia, plus the reasonable out-of-pocket travel related costs and expenses incurred by the supplier in connection with such services.

Neither party will be liable to the other party for any indirect, special, consequential, punitive or exemplary damages. The supplier will not be liable to Frontier for any claim or any damages of any kind or nature other than claims arising out of or resulting from the supplier's willful misconduct in performing the supplier's obligations under the cutover plan support agreement.

Intellectual Property Agreements

Verizon and Spinco have agreed to enter into agreements as of the closing of the spin-off relating to intellectual property containing substantially the following terms:

The Intellectual Property Agreement

Assignments. Pursuant to the intellectual property agreement, Spinco and its subsidiaries, subject to previously granted licenses, will assign to Verizon all (i) statutory intellectual property (e.g., U.S. patents and patent applications, copyrights, works of authorship, trademarks, trade names, service marks and domain names, together with all goodwill associated therewith, all applications or registrations, as applicable, for any of the foregoing, and any rights or licenses in the foregoing) and (ii) "soft" intellectual property (e.g., unpatented inventions, trade secrets, know how and other proprietary information), together with any rights or licenses thereto, but excluding customer listing data and the copyrights therein, in each case to the extent owned by Spinco or its subsidiaries prior to closing.

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Subject to any previously granted licenses, Verizon, at closing, will convey to the combined company (i) an undivided joint ownership of all non-technical, non-public information included in the "soft" intellectual property owned by Verizon as of the closing after giving effect to the assignment in the preceding paragraph and used in the Spinco business at any time during the twelve-months prior to the closing date, but excluding the customer listing data; and (ii) all right, title and interest of Verizon in all customer data and personnel information of Verizon or its affiliates who are in the employ of Verizon immediately prior to the closing, and in the employ of Spinco after the closing. The customer data consists of all customer information obtained in connection with the Spinco business related to providing products and services to customers in the Spinco territory, including, among other things, names, customer addresses, accounts and transaction data. Verizon will have no restrictions on the use or disclosure of any such customer data to the extent it is already in the possession of Verizon or any of its U.S. affiliates but was collected or used other than in connection with the Spinco business.

License Grants. After giving effect to the assignments described in the above section, Spinco will grant to Verizon and its affiliates a personal, royalty-free, fully paid-up, irrevocable, non-exclusive, perpetual and worldwide license to use, publish and create derivative works of the Spinco customer listing data, and to provide directory products or services without in any way accounting to the combined company, Spinco or their respective affiliates.

After giving effect to the assignments described in the above section, Verizon will grant to the combined company and its subsidiaries a personal, non-exclusive, royalty free, fully paid up, irrevocable (except if terminated) and non-transferable (except as otherwise permitted) license under the licensed intellectual property, which includes (1) the "soft" intellectual property (but excluding (i) non-technical, non-public information owned by Verizon as of the closing and used in the Spinco business at any time during the twelve-months prior to the closing, (ii) Spinco customer listing data and (iii) Verizon proprietary software), and (2) all U.S. patents and patent applications, copyrights, works of authorship, and all applications or registrations, as applicable, for any of the foregoing that, in each case, is used in the Spinco business at any time during the period commencing twelve-months prior to the closing and is owned by Verizon as of the closing, solely for use in connection with the Spinco business (as conducted during the twelve-month period immediately preceding the closing date in the Spinco territory, as reflected in the products and services offered by Spinco in the Spinco territory during such twelve-month period) conducted by the combined company or its subsidiaries in the Spinco territory. The licensed intellectual property excludes: (a) patents and patent applications claiming a filing date after the closing date, (b) copyrights in material created after the filing date, (c) all trademarks and domain names (other than a limited phase-out license), (d) Verizon proprietary software (which is licensed pursuant to a separate agreement), (e) all other intellectual property owned by Verizon, (f) all third-party intellectual property and (g) all Verizon intellectual property related to FiOS products and services (which are licensed under a separate agreement with similar terms and conditions). The license does not include the right to (i) use the licensed intellectual property outside of the Spinco territory (other than by third-party service providers in support of the Spinco business in the Spinco territory in the licensed field of use), (ii) disclose the licensed intellectual property to any person (other than third-party service providers), (iii) grant sublicenses to any person, (iv) assign the license other than to permitted successors and assigns or (v) use the licensed intellectual property for any modifications, improvements, enhancements, additions or derivations of the Spinco business after the closing date that are outside of the licensed field of use.

Verizon also agrees not to sue Spinco and its subsidiaries for (i) modifications and improvements to products and services that are used in the Spinco business by Spinco and its subsidiaries in the Spinco territory that are a reasonably foreseeable expansion of the Spinco business, as reflected by the products and services offered by Spinco as of the closing date, and throughout the term of the agreement, and (ii) products and services in the Spinco business that are bundled with the products and services identified in (i), provided that, in each case, the covenant not to sue excludes any products and services that are wireless or wireless access products or services, VoIP products, products or services based on the Long Term Evolution technology (Cellco's next generation network access technology), long-haul or backbone products or services or their terminations.

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Verizon will grant to the combined company and its subsidiaries a limited right, for a phase-out period not to exceed 120 days following the closing, to use those Verizon marks used in the Spincos business as of the closing date solely for conducting the Spincos business in the Spincos territory. During the phase-out period, the combined company is required to replace, remove or cover over the licensed Verizon marks affixed to Spincos assets no later than 120 days following the closing date, provided that the combined company will have (i) six months to remove the licensed Verizon marks from signs and motor vehicles and (ii) nine months to remove the licensed Verizon marks from tools, equipment or written materials that are used solely for internal purposes and are not visible by the public. In addition, for up to 120 days following the closing date the combined company may use the licensed Verizon marks in a non-trademark manner for purposes of conveying to customers or the general public of the change in ownership and that the name of business has changed. Beginning on the closing date, as soon as practicable following discovery of any use, the combined company, Spincos and its subsidiaries must destroy or deliver to Verizon all items carrying the licensed Verizon marks that have no continuing use in the operation of the Spincos business to the extent that the use of such items could reasonably be construed to create a legal obligation on behalf of Verizon. The combined company, Spincos and its subsidiaries, acknowledging Verizon's exclusive rights in the Verizon marks, agree not to contest Verizon's ownership in, or the validity of, the Verizon marks. The combined company, Spincos and its subsidiaries agree to cooperate reasonably with Verizon in the procurement of any registration of the Verizon marks, including providing evidence of use of such marks.

The combined company, on behalf of itself, Spincos and Spincos's subsidiaries, agrees that the use of the Verizon marks will be in accordance with the license and in conformity with applicable law and will not reflect adversely upon the good name of Verizon, that the operation of the Spincos business will be of a high standard and skill that is at least commensurate with the standard of the Spincos business immediately prior to the closing, and that Verizon has the right to control the nature and quality of the goods and services rendered by the combined company, Spincos and its subsidiaries in connection with the Verizon marks. The combined company acknowledges that its failure to cease use of the Verizon marks as required by the agreement, or improper use of the Verizon marks, will result in immediate and irreparable harm to Verizon, for which there is no adequate remedy at law, and that in the event of such failure to cease use of the Verizon marks, Verizon will be entitled to immediate equitable relief.

For any customers of the Spincos business who, as of the closing date, have e-mail addresses pursuant to the products or services provided to such customers by the Spincos business that contain a Verizon mark in the e-mail address, Verizon shall redirect e-mail traffic to such customers to e-mail servers operated by the combined company for a period of ninety days, such that the combined company may establish new e-mail addresses for such customers.

Indemnification and Limitation of Liability. The combined company, Spincos and the Spincos subsidiaries will jointly and severally indemnify, defend and hold harmless Verizon from all losses, damages and judgments in connection with third-party claims arising directly or indirectly from the use by the Spincos business of the Verizon marks after the closing.

Verizon is not required to secure or maintain in force any licensed intellectual property, and does not provide any representations or warranties as to (i) the validity or scope of the licensed intellectual property or (ii) that the use of licensed intellectual property or the provision of products and services by the combined company will be free from infringement of the intellectual property of a third party.

Neither party will be liable to the other for any indirect damages, including lost profits, or other special, incidental or consequential damages.

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The Software License Agreement

License Grant. Pursuant to the software license agreement proposed to be entered into among Verizon Information Technologies LLC, an affiliate of Verizon, Spinco and the combined company, referred to as the licensee, and Verizon will grant, and cause its affiliates to grant, to the combined company and its subsidiaries a royalty-free, restricted, non-transferable, and non-exclusive, internal use only license to:

- use certain Verizon proprietary software in the Spinco territory in support of the Spinco business, (a) as it has been conducted in the Spinco territory during the twelve-month period immediately prior to closing, as reflected in the products and services offered by Spinco in the Spinco territory during such twelve-month period, and existing as of the closing; and (b) the Spinco business as conducted by the licensee in the Spinco territory from and after the closing, as reflected in any other products or services, but only to the extent such other products and services are compatible with the licensed software, and specifically excluding products and services that include, relate to, or rely upon the transmission of any digital data over an optical fiber network to the customer's premises to provide audio, video, or data services, including all products and services offered by Verizon under the FiOS brand. The licensed software includes (i) object code versions of the Verizon proprietary software that supports and enables the products, functions and services of the Spinco business during the twelve-month period immediately prior to closing, (ii) updates to such licensed software (if any) in the form they exist within Verizon during the term of the software license agreement (including supporting information), (iii) software modifications made to any third party software by or for Verizon, and (iv) documentation (which, for object code, will be the then current user manuals and other user documentation provided to other users of the licensed software; for any source code, then current documents in existence within Verizon that are reasonably necessary to maintain and modify such licensed software; and for third party software, then current user manuals and other related documentation that Verizon has received from such third party that Verizon has the right to transfer) and updates to the foregoing;
- install updates to the licensed software provided by Verizon to the licensee; and
- copy the licensed software for internal use in the Spinco business as conducted by the licensee.

Verizon will deliver the licensed software to the combined company on a date to be agreed upon by the parties.

License Exclusions. The license granted by Verizon to the combined company excludes:

- the right to use any third-party intellectual property, even if included in or required for the use of the licensed software;
- unless otherwise indicated, the right to obtain or use source code;
- the right to create any modifications or derivative works from the licensed software;
- the right to use the licensed software outside of the Spinco territory or outside the scope of the license granted;
- the right to use the licensed software to provide data processing services to a third party or, unless otherwise indicated, to interconnect with facilities based voice or data telecommunications services of a third party;
- the right to use, access or transport the licensed software outside the United States; and
- a license to any Verizon FiOS related software, which license is the subject of a separate FiOS software license agreement proposed to be entered between the parties.

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Restrictions on the License Granted. Unless otherwise provided by the software license agreement, the licensee will have no right to:

- grant sublicenses to the licensed software, or any portion thereof, other than to its subsidiaries and service providers for the purpose of providing services to the combined company;
- market, disclose, distribute, rent, lease, loan, encumber or otherwise transfer copies of the licensed software, or any portion thereof, to any third party; or
- grant any security interests, or otherwise encumber the licensed software.

The licensee may disclose or otherwise make available the licensed software to any third-party service provider providing services to the licensee, provided that, prior to any such disclosure or transfer, the licensee: has provided written notice to Verizon, obtained such third-party service provider's agreement to a confidentiality obligation that is no less restrictive than the terms set forth in the agreement and to the transfer and ownership restrictions set forth therein, and ensured that the third-party service provider is not in the business of providing facilities-based voice or data telecommunications services to any third party. Any breach of the terms of the software license agreement by the third party service provider will be deemed to be a breach by the licensee.

Verizon will own the licensed software, and all improvements thereto, including improvements made by or for the licensee, which improvements the licensee will assign to Verizon.

Maintenance and Other Support. During the maintenance term (which will start on the closing date of the merger and end on the fifth anniversary thereof, unless earlier terminated), Verizon will offer to provide training services to the combined company, at a date and time mutually agreed upon by the parties, at an agreed rate per hour.

Subject to the payment of an annual maintenance fee of \$94 million, Verizon will provide maintenance services to the licensee during the maintenance term. At any time after six months after the closing, the licensee, upon six months' written notice, may terminate all or a portion of such maintenance services. If a portion of such services are terminated, the annual maintenance fee will be reduced by an appropriate amount, unless Verizon can reasonably demonstrate that the cost of providing maintenance services will not be reduced, in which case the parties will discuss any adjustment to the annual maintenance fee. Beginning on the third anniversary of the closing, Verizon may, upon twelve-months' written notice, inform the licensee that it intends to terminate maintenance services. Further, upon six months' prior written notice, Verizon may notify the combined company that it will no longer provide maintenance services for a portion of the licensed software. Should Verizon (a) terminate the provision of maintenance services for all or a portion of the licensed software during the maintenance term, (b) terminate the software license agreement with respect to a portion of the licensed software, or (c) otherwise stop supporting a portion of the licensed software, Verizon will provide to the licensee the source code for such portion of the licensed software at no charge. Maintenance services do not include the service of hardware, hardware platforms, or any third-party intellectual property, all of which will be obtained by the licensee at its own expense.

The licensee agrees to install all upgrades to the licensed software as may be provided by Verizon, and Verizon will have no obligation to provide maintenance services for the licensed software for which the licensee has failed to install such upgrades, until such upgrades have been installed. If failure to install an upgrade increases the cost or time required to provide maintenance services for any licensed software, the combined company will pay Verizon for such increased cost or time, at a mutually agreed rate per hour.

Upon the expiration of the software license agreement, the parties will negotiate in good faith the terms and conditions for the license of source code for those portions of the licensed software licensed to the licensee immediately prior to the expiration of the agreement. Additionally, if Verizon (i) fails or refuses to provide

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software modifications reasonably requested by the licensee that are consistent with the architecture and direction of the licensed software and do not materially affect the interoperability of the licensed software with other software, (ii) fails or refuses to make software modifications reasonably requested by the combined company, or (iii) makes a general assignment for the benefit of its creditors or files for voluntary bankruptcy under any Chapter of Title 11 of the United States Code, other than a reorganization where Verizon assumes the agreement, Verizon will provide the source code for such portion of the licensed software to the licensee at no charge, provided that the licensee is not in material breach of the software license agreement.

FiOS Agreements

Verizon and Spinco have agreed to enter into a FiOS intellectual property agreement having terms similar to the intellectual property agreement with respect to intellectual property relating to Verizon's FiOS video operations. In addition, the FiOS intellectual property agreement includes a trademark license which would grant the combined company a license to use certain trademarks used by Verizon in the offering of FiOS video services in Indiana, Oregon, and Washington.

Verizon and Spinco have also agreed to enter into a FiOS software license agreement on terms similar to the software license agreement, except that the combined company will have no obligation to pay any maintenance fees for the maintenance of the FiOS software licensed to Spinco.

Ancillary Agreements

Verizon and Frontier intend to cause their respective affiliates to enter into an agreement with respect to video transport service. Pursuant to this agreement, Verizon, subject to obtaining necessary rights from vendors of programming content, will transport certain video programming content purchased from third parties to Frontier's video hub offices for distribution to subscribers in Indiana, Oregon and Washington.

Verizon and Frontier will cause their respective affiliates to enter into an agreement with respect to back office support services. Pursuant to this agreement, Frontier will provide certain ordering, billing and repair services to support Verizon's continuing provision of telecommunications services to enterprise customer accounts in the Spinco territory which were retained by Verizon.

Table of Contents**FINANCING OF THE COMBINED COMPANY**

Immediately following completion of the merger, Frontier's debt financing arrangements existing immediately prior to the closing of the merger will remain in place (subject to any permitted refinancing or repayment thereof by Frontier).

As of June 30, 2009, Frontier had a revolving credit facility with seven financial institutions in the aggregate amount of \$250 million. As of June 30, 2009, the revolving credit facility was undrawn. Associated facility fees vary, depending on Frontier's debt leverage ratio, and were 0.225% per annum as of June 30, 2009. The expiration date for the revolving credit facility is May 18, 2012. During the term of the revolving credit facility, Frontier may borrow, repay and reborrow funds, and may obtain letters of credit under the revolving credit facility to support Frontier's obligations to third parties, subject to customary borrowing conditions. Loans under the revolving credit facility bear interest based on the prime rate or London Interbank Offered Rate, referred to as LIBOR, at Frontier's election, plus a margin which varies depending on Frontier's debt leverage ratio. Letters of credit issued under the revolving credit facility are also subject to fees which vary depending on Frontier's debt leverage ratio. The revolving credit facility is available for general corporate purposes but may not be used to fund dividend payments. The revolving credit facility is unsecured.

On March 28, 2008, Frontier borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest based on the prime rate or LIBOR, at Frontier's election, plus a margin which varies depending on Frontier's debt leverage ratio.

In December 2006, Frontier borrowed \$150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on the prime rate or LIBOR, at Frontier's election, plus a margin which varies depending on Frontier's debt leverage ratio.

On October 24, 2001, Frontier borrowed \$200.0 million under a senior unsecured term loan agreement with the Rural Telephone Finance Cooperative, referred to as the RTFC. The loan matures in 2011 and has a fixed interest rate of 6.27%. The loan agreement contains customary representations and warranties, affirmative and negative covenants, a financial covenant that requires compliance with a leverage ratio and customary events of default.

At June 30, 2009, Frontier's notes and debentures represented approximately \$4.474 billion of its approximately \$4.952 billion of indebtedness outstanding. At such date, Frontier had outstanding:

- \$665.6 million in principal amount of 9.250% Senior Notes due 2011;
- \$700.0 million in principal amount of 6.250% Senior Notes due 2013;
- \$600.0 million in principal amount of 8.250% Senior Notes due 2014;
- \$300.0 million in principal amount of 6.625% Senior Notes due 2015;
- \$434.0 million in principal amount of 7.125% Senior Notes due 2019;
- \$360.0 million in principal amount of 7.875% Senior Notes due 2027;
- \$945.3 million in principal amount of 9.000% Senior Notes due 2031; and
- \$468.7 million in principal amount of Debentures with weighted average interest rates of 7.229% and maturities ranging from 2025-2046.

On April 9, 2009, Frontier completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. Frontier received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, Frontier used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt. Frontier intends to use the remaining net proceeds from the offering to reduce, repurchase or refinance its indebtedness or the indebtedness of its subsidiaries or for general corporate purposes. In addition, Frontier may from time to time repurchase its debt in the open market, through tender offers,

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exchanges of debt securities, by exercising rights to call or in privately negotiated transactions. Frontier may also refinance existing debt or exchange existing debt for newly issued debt obligations.

There are no scheduled principal payments required on any of these notes or debentures until their final maturities. Frontier's outstanding senior notes and debentures are senior, unsecured obligations that rank equally in right of payment with all of its existing and future senior indebtedness and rank senior in right of payment to all of its existing and future subordinated indebtedness.

None of Frontier's revolving credit facility, term loans or outstanding senior notes or debentures are guaranteed by its subsidiaries.

For further discussions of the terms of Frontier's existing debt financing arrangements, see Note 8 in the notes to Frontier's unaudited consolidated financial statements for the quarterly period ended June 30, 2009 and Note 11 in the notes to Frontier's audited consolidated financial statements for the year ended December 31, 2008, in each case included elsewhere in this proxy statement/prospectus, and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Frontier—Liquidity and Capital Resources."

In addition, the combined company will be subject to the following debt financing arrangements of Spingo as a result of the merger.

The merger agreement and the distribution agreement provide that, prior to the spin-off, Spingo will enter into the special cash payment financing to finance the distribution to Verizon of the special cash payment in an amount not to exceed the lesser of (i)(x) \$3.333 billion minus (y) the aggregate amount of distribution date indebtedness and (ii) Verizon's estimate of its tax basis in the assets transferred to Spingo. No later than nine months after the date of the merger agreement, Frontier and Verizon will jointly solicit proposals from reputable financing sources to provide the special cash payment financing, and Frontier will select from among the proposals one or more that Frontier reasonably determines to be the most favorable to Spingo. Frontier will lead the negotiations with such financing sources and keep Verizon informed of all material developments and provide Verizon with an opportunity to participate in the negotiations. Spingo will bear the fees and expenses payable to lenders or their advisors in connection with the special cash payment financing.

The merger agreement and the distribution agreement also provide that, if required, debt securities of Spingo may be issued to Verizon prior to the spin-off. The Spingo debt securities will be in a principal amount equal to (1) \$3.333 billion minus (2) the sum of (A) the total amount of the special cash payment and (B) the aggregate amount of distribution date indebtedness. The Spingo debt securities will be senior unsecured notes, will mature on the ten-year anniversary of issuance, will not be callable at the option of the combined company for five years after issuance and will rank equally with all existing and future senior unsecured debt and senior to all existing and future subordinated debt of the combined company. The covenants and economic terms of the Spingo debt securities will be in a form that would reasonably be expected to result in the Spingo debt securities being exchanged for existing debt obligations of Verizon or its affiliates in equal principal amount. See "The Transaction Agreements—The Merger Agreement—Financing Matters." The parties do not expect that any Spingo debt securities will be issued.

Frontier will not be obligated to accept terms of the special cash payment financing or, if required, the Spingo debt securities, if (1) either (A) the weighted average life of the aggregate of such financing and securities, together with the aggregate amount of the distribution date indebtedness, is less than five years or (B) any of the special cash payment financing or the Spingo debt securities would have a final maturity of earlier than January 1, 2014, other than any bridge financing with a maturity of at least 364 days in an aggregate amount not in excess of \$600 million, (2) such financing or securities or distribution date indebtedness would be secured by any assets of any operating subsidiary of the combined company, (3) the terms or provisions of such financing or securities or distribution date indebtedness would cause their incurrence or assumption by the combined company in or as a result of the merger to be prohibited by or cause (with or without notice or the lapse of time) a default under Frontier's existing credit agreements or indentures as in effect on the date of the merger agreement, or (4) both (A) the proposed covenants and other terms and conditions (excluding (I) certain terms of the Spingo debt securities described above and (II) the rate, yield or tenor thereof) are not, in the aggregate, substantially in accordance with then prevailing market terms for similarly sized term loan bank borrowings or capital market

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issuances by companies of a size and with credit ratings similar to the combined company and (B) the effect of such covenants and other terms and conditions that are not in accordance with the prevailing market terms would, in the aggregate, be materially adverse to the combined company. In addition, Frontier will not be obligated to accept terms of the special cash payment financing and, if required, the Spinco debt securities, if as a result thereof the weighted average annual cash interest rate (including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount) payable on the aggregate of the special cash payment financing, the Spinco debt securities and the distribution date indebtedness would exceed 9.5%, unless Frontier reasonably determines in good faith that such weighted average annual cash interest rate (including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount) would not be unduly burdensome. The level of Frontier's aggregate after-tax interest expense and aggregate dividend payments will determine whether or not such weighted average annual cash interest rate would be unduly burdensome.

Verizon has the right to elect to undertake an exchange of the Spinco debt securities for debt obligations of Verizon or its affiliates, or transfer the Spinco debt securities to Verizon stockholders or creditors and, if it elects to do so concurrently with the closing of the merger, Verizon has the right to condition the spin-off of Spinco on its ability to consummate that exchange concurrently, but only up to a principal amount of Spinco debt securities equal to (1) \$3.333 billion minus (2) the sum of (A) the total amount of the special cash payment and (B) the aggregate amount of distribution date indebtedness. See "The Transaction Agreements—The Distribution Agreement—Conditions to the Completion of the Spin-Off." If Verizon elects to effect an exchange or distribution of the Spinco debt securities, it may be deemed to be an "underwriter" for purposes of the Securities Act.

The tax sharing agreement imposes certain limitations on the combined company's ability to modify the terms of the Spinco debt securities or take certain other actions relating to the Spinco debt securities following the closing of the merger. See "The Transaction Agreements—Additional Agreements Between Frontier, Verizon and Their Affiliates—The Tax Sharing Agreement."

Description of Distribution Date Indebtedness

As of June 30, 2009, Verizon's Separate Telephone Operations had approximately \$625 million aggregate principal amount of indebtedness. Verizon anticipates that approximately \$200 million of such indebtedness will be repaid in the first quarter of 2010. The parties therefore anticipate that distribution date indebtedness will consist of:

- \$50 million in principal amount of 8.40% Debentures due 2029 of Verizon West Virginia, as obligor;
- \$200 million in principal amount of 6.73% Debentures, Series G, due 2028 of Verizon North, as obligor; and
- \$175 million in principal amount of 6.30% Debentures, Series C, due 2010 of Verizon Northwest, as obligor;

provided, however, that if the \$175 million in principal amount of 6.30% Debentures, Series C, due 2010, which are scheduled to mature on June 1, 2010, mature prior to the closing date of the merger, the obligations under the 6.30% Debentures, Series C, due 2010 will not constitute distribution date indebtedness.

There are no scheduled principal payments required on any of these debentures until their final maturities. These debentures will be senior, unsecured obligations of subsidiaries of Spinco (and, as a result of the merger, the combined company) that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

For a further discussion of the terms of the distribution date indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Verizon's Separate Telephone Operations—Liquidity and Capital Resources."

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements of Frontier and Verizon's Separate Telephone Operations and the notes thereto included elsewhere in this proxy statement/prospectus. Verizon's Separate Telephone Operations' financial information is included elsewhere in this proxy statement/prospectus before taking into account any of the pro forma adjustments detailed in "Unaudited Pro Forma Condensed Combined Financial Information." This financial information, together with the pro forma adjustments detailed in "Unaudited Pro Forma Condensed Combined Financial Information," reflects the operations that will comprise the Spinco business in connection with the spin-off. The following discussion includes forward-looking statements. For a discussion of important factors, including the integration of the Spinco business into Frontier's existing business, the continuing development of the combined company's business following the merger, actions of regulatory authorities and competitors and other factors that could cause actual results of Frontier, Verizon's Separate Telephone Operations or the combined company to differ materially from the results referred to in the forward-looking statements, see "Risk Factors" and "Cautionary Statements Regarding Forward-Looking Statements."

The Combined Company

Overview

After completion of the merger, the combined company is expected to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest incumbent local exchange carrier, with more than 7,000,000 access lines, 8,600,000 voice and broadband connections and 16,000 employees in 27 states on a pro forma basis as of December 31, 2008. The combined company will offer voice, data and video services to customers in its expanded geographic footprint. Assuming the merger had occurred on January 1, 2008, the combined company's revenues on a pro forma basis would have been approximately \$6.5 billion for the year ended December 31, 2008, and approximately \$3.1 billion for the six months ended June 30, 2009.

The following table lists selected summary financial and operating information for Frontier and Verizon's Separate Telephone Operations for the six months ended June 30, 2009 and the year ended December 31, 2008:

	Six Months Ended June 30, 2009		Year Ended December 31, 2008	
	Frontier	Verizon's Separate Telephone Operations	Frontier	Verizon's Separate Telephone Operations
	(dollars in millions)		(dollars in millions)	
Access lines (as of end of period)	2,189,127	4,491,815	2,254,333	4,766,468
Revenues	\$ 1,070	\$ 2,074	\$ 2,237	\$ 4,352
Cash provided by operating activities	\$ 330	\$ 639	\$ 739	\$ 1,426
Capital expenditures	\$ 110	\$ 279	\$ 288	\$ 730

Results of Operations

Revenues

The combined company is expected to derive its revenues from:

Local services. The combined company will provide basic telephone wireline services to residential and business customers in its service areas. The combined company's service areas will be largely residential and generally less densely populated than the primary service areas of the largest incumbent local exchange carriers. The combined company will also provide enhanced services to its customers by offering a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. All of these local services will be billed monthly in advance. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company's balance sheet and recognized as revenue

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over the period that the services are provided. The combined company will also offer packages of communications services. These packages permit customers to bundle their basic telephone line service with their choice of enhanced, long distance, video and Internet services for a monthly fee or usage fee, depending on the plan. The combined company intends to seek to increase the penetration of those enhanced and other services described above. Frontier believes that increased sales of such services will produce revenues with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. Frontier believes that its ability to integrate these services with other services will provide the combined company with the opportunity to capture an increased percentage of its customers' communications expenditures.

Data and Internet services. The combined company will offer data services, including Internet access (via high-speed or dial up Internet access), frame relay, Metro ethernet and asynchronous transfer mode, referred to as ATM, switching services. The combined company will offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and Internet services are typically billed monthly in advance. The unearned portion of these fees will be initially deferred as a component of other liabilities on the combined company's balance sheet and recognized as revenue over the period that the services are provided.

Access services. Switched access services will allow other carriers to use the combined company's facilities to originate and terminate their long distance voice and data traffic. These services are generally offered on a month-to-month basis and the service is generally billed on a minutes-of-use basis. Access charges are based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and the USF based on the high cost of providing telephone service to certain rural areas will be a part of the combined company's access services revenues. Revenue is recognized when services are provided to customers or when products are delivered to customers. Monthly recurring access service fees will be billed in advance. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company's balance sheet and recognized as revenue over the period that the services are provided.

Long distance services. The combined company will offer long distance services to customers in its territories. Frontier believes that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside of the combined company's operating territories will be provided by interconnection with the facilities of interexchange carriers. The combined company's long distance services will be billed either on an unlimited or fixed number of minutes basis in advance or on a per minute-of-use basis in arrears. The earned but unbilled portion of these fees will be recognized as revenue and accrued in accounts receivable in the period that the services are provided.

Directory services. Directory services involves the provision of white and yellow page directories for residential and business listings. The combined company will provide this service through third-party contractors. In most of the combined company's markets that were Frontier's markets prior to the merger, the third-party contractors will be paid a percentage of revenues from the sale of advertising in these directories. In the remaining markets that were Frontier markets prior to the merger, the combined company will receive a flat fee from the contractors. In the Spinco territory, the directory services are expected to be provided through a third-party contractor, but the combined company will not receive any fees for listing or advertising. The combined company's directory service will also include "Frontier Pages," an Internet-based directory service which generates advertising revenues.

Other services. Other services expected to be provided by the combined company include:

Video services. The combined company will continue to offer a video product under an agency relationship with DISH Network in the areas in which Frontier currently operates and will also seek to offer a satellite video

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product in the Spinco territory under an agency relationship. In each case the combined company will bill the customer for the monthly services and remit those billings to the satellite video provider without recognizing any revenue. The combined company will in turn receive from the satellite video provider and recognize as revenue activation fees, other residual fees and nominal management, billing and collection fees. Additionally, the combined company will continue to offer broadband video services that are similar to FiOS in the states of Indiana, Oregon and Washington.

Wireless services. The combined company will offer wireless data services in select markets. The combined company's wireless data services will utilize technologies that are relatively new, and the combined company will depend to some degree on the representations of equipment vendors, lab testing and the experiences of others who have been successful at deploying these new technologies. Revenue will be recognized when services are provided to customers. Long-term contracts will be billed in advance on an annual or semi-annual basis. End-user subscribers will be billed in advance on a monthly recurring basis and colleges, universities and businesses will be billed on a monthly recurring basis for a fixed number of users. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company's balance sheet and later recognized as revenue over the period that the services are provided. Hourly, daily and weekly casual end-users are billed by credit card at the time of use.

Historically, Frontier and Verizon did not compete in the offering of incumbent local exchange services in their respective service areas, as their incumbent local exchange footprints did not overlap. However, Verizon has historically offered other services in the Spinco territory in addition to those offered by the Spinco business. Following the merger, the combined company will compete with Verizon with respect to the following services, which Verizon has indicated that it will continue to offer in the Spinco territory:

- the offering of long distance services;
- the offering of products and services to business and government customers other than as the incumbent local exchange carrier, including but not limited to carrier services, data customer premises equipment and software, structured cabling, call center solutions and the products and services formerly offered by MCI, Inc.; and
- the offering of wireless voice, wireless data and other wireless services.

The combined company will offer long distance services in the Spinco territory and will compete with Verizon for these services. To the extent that the combined company offers services to businesses and government customers in these states, it will also compete directly with Verizon.

Expenses

The combined company's expenses are expected to be categorized as network access expenses, other operating expenses and depreciation and amortization expenses.

- **Network Access Expenses.** Network access expenses generally comprise of costs associated with the interconnection and routing of traffic to or from customers in the combined company's service territories with territories outside its service markets. Typical examples include costs to provide long distance services and Internet services. Access expenses also include equipment installed at customer locations.
- **Other Operating Expenses.** Other operating expenses include wages, benefits, property taxes, utilities, facilities, marketing, consulting and other direct costs of the business.
- **Depreciation and Amortization Expenses.** Depreciation and amortization expenses include: (i) the estimated periodic charge (depreciation) for the use of property, plan and equipment and (ii) the estimated periodic charge (amortization) associated with acquired intangible assets, primarily customer relationships.

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Because the Spinco business has been operated as a local exchange carrier division of Verizon in the Spinco territory, utilizing certain shared services and resources, and not as a stand-alone communications provider, the historical operating results of Verizon's Separate Telephone Operations for the year ended December 31, 2008 and the six months ended June 30, 2009 include approximately \$749 million and \$434 million, respectively, of expenses for services provided by Verizon and its affiliates, including information systems and information technology, shared assets including office space outside of the Spinco territory, supplemental customer sales and service and operations. The combined company will receive these services from internal operations or from third-party service providers.

Frontier estimates that, by 2013, the combined company's annualized net cost savings will reach approximately \$500 million, which represents approximately 21% of the cash operating expenses of the Spinco business in 2008, from consolidating and internalizing a variety of services through the integration of the Spinco business into Frontier's existing business. However, there can be no assurance that these or any cost savings will actually be achieved. In addition, the combined company will assume post-employment benefits and retirement liabilities with respect to the active employees continuing with Spinco and will also incur operating expenses in connection with these liabilities. See "Risk Factors—Risks Relating to the Spin-Off and the Merger—The combined company may not realize the growth opportunities and cost synergies that are anticipated from the merger."

Liquidity and Capital Resources

Frontier anticipates that the combined company's operating cash flows, together with any cash balances and borrowing capacity under its revolving credit facility (or any permitted refinancing or replacement thereof by Frontier), will be adequate to finance the combined company's working capital requirements, fund capital expenditures, make required debt payments, pay taxes, pay dividends to its stockholders in accordance with its dividend policy and support its short-term and long-term operating strategies. However, a number of factors, including but not limited to losses of access lines, increases in competition, lower subsidy and access revenues and the impact of the current economic environment, may reduce the combined company's operating cash flows.

In connection with the spin-off and the merger, the combined company will assume substantial amounts of indebtedness, including the special cash payment financing, the distribution date indebtedness and, if required, the Spinco debt securities. Interest payments on this indebtedness will be a significant use of the combined company's operating cash flows. The amount of interest payments on this indebtedness will depend on the final terms of the special cash payment financing and, if required, the Spinco debt securities, which have not yet been determined. See "Financing of the Combined Company."

Frontier

Overview

Frontier is a full-service communications provider and one of the largest exchange telephone carriers in the country. On July 31, 2006, Frontier sold its competitive local exchange carrier, referred to as a CLEC, Electric Lightwave, LLC, referred to as ELI. Frontier accounted for ELI as a discontinued operation in its consolidated statements of operations. On March 8, 2007, Frontier completed the acquisition of Commonwealth, which included a small CLEC component. This acquisition expanded Frontier's presence in Pennsylvania and strengthened Frontier's position as a leading full-service communications provider to rural areas and small and medium sized towns and cities. On October 31, 2007, Frontier completed the acquisition of GVN, which expanded its presence in California and also strengthened its rural position. As of June 30, 2009, Frontier operated in 24 states with approximately 5,400 employees.

Competition in the communications industry is intense and increasing. Frontier experiences competition from many communications service providers. These providers include cable operators offering video and VoIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and

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other wireline carriers. Frontier believes that as of June 30, 2009, approximately 68% of the households in its territories had VoIP as an available service option from cable operators. Frontier also believes that competition will continue to intensify in 2009 and may result in reduced revenues. Frontier's business experienced a decline in access lines and switched access minutes in 2007 and 2008 and in the first six months of 2009 primarily as a result of competition and business downsizing. Frontier also experienced a reduction in revenues for the first six months of 2009 as compared to the same period in 2008, and a reduction in revenues in 2008 compared to 2007.

The recent severe contraction in the global financial markets and ongoing recession is impacting customer behavior to reduce expenditures by not purchasing Frontier's services or by discontinuing some or all of its services. The ongoing recession and downturn in the economy has also affected Frontier's business customers, resulting in a decline in revenues for the first six months of 2009 as compared to the same period in 2008. These trends are likely to continue and may result in a challenging revenue environment. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect Frontier's ability to collect money owed to it by residential and business customers.

Frontier employs a number of strategies to combat the competitive pressures and changes to consumer behavior noted above. Frontier's strategies are focused on customer retention, upgrading and up-selling services to its existing customer base, new customer growth, win backs of former customers, new product deployment, and operating expense and capital expenditure reductions.

Frontier seeks to achieve its customer retention goals by bundling services around the local access line and providing exemplary customer service. Bundled services include high-speed Internet, referred to as HSI, unlimited long distance calling, enhanced telephone features and video offerings. Frontier tailors these services to the needs of its residential and business customers in the markets it serves and continually evaluates the introduction of new and complementary products and services, which can also be purchased separately. Customer retention is also enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing or promotional offers. Additionally, Frontier is focused on enhancing the customer experience as it believes exceptional customer service will differentiate it from its competition. Its commitment to providing exemplary customer service is demonstrated by the expansion of its customer service hours, shorter scheduling windows for in-home appointments and the implementation of call reminders and follow-up calls for service appointments. In addition, Frontier's 70 local area markets are operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets.

Frontier utilizes targeted and innovative promotions to attract new customers, including those moving into Frontier's territory, win back former customers, upgrade and up-sell existing customers a variety of service offerings including HSI, video, and enhanced long distance and feature packages in order to maximize the average revenue per access line (wallet share) paid to Frontier. Depending upon market and economic conditions, Frontier may offer such promotions to drive sales in the future.

Frontier has restructured and augmented its sales distribution channels to improve coverage of all segments of its commercial customer base. This included adding new sales teams dedicated to small business customers and enhancing the skills in its customer sales and service centers. In addition, Frontier is introducing new products utilizing wireless and Internet technologies. Frontier believes the combination of new products and distribution channel improvements will help Frontier improve commercial customer acquisition and retention efforts.

Frontier is also focused on introducing a number of new products, including unlimited long distance minutes, bundles of long distance minutes, wireless data, Internet portal advertising and the "Frontier Peace of Mind" product suite. This last category is a suite of products aimed at managing the total communications and personal computing experience for Frontier's customers. The "Frontier Peace of Mind" products and services are

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designed to provide value and simplicity to meet customers' ever-changing needs. The "Frontier Peace of Mind" products and services suite includes services such as an in-home, full installation of Frontier's HSI product, two hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance. Although Frontier is optimistic about the opportunities provided by each of these initiatives, it can provide no assurance about their long term profitability or impact on revenue.

Frontier believes that the combination of offering multiple products and services to its customers pursuant to price protection programs, billing them on a single bill, providing superior customer service, and being active in Frontier's local communities will make its customers more loyal, and will help it generate new, and retain existing, customer revenue.

Revenues from data and Internet services such as HSI continue to increase as a percentage of Frontier's total revenues and revenues from services such as local line and access charges (including federal and state subsidies) are decreasing as a percentage of its total revenues. Federal and state subsidy revenue, including surcharges billed to customers which are remitted to the FCC, was \$51.7 million for the six months ended June 30, 2009, or 5% of Frontier's revenues, down from \$58.2 million for the six months ended June 30, 2008, or 5% of its revenues. Federal and state subsidy revenue, including surcharges billed to customers which are remitted to the FCC, was \$119.8 million in 2008, or 5% of Frontier's revenues, down from \$130.0 million in 2007, or 6% of its revenues. Frontier expects this trend to continue during the remainder of 2009. The decreasing revenue from traditional sources, along with the potential for increasing operating costs, could cause Frontier's profitability and its cash generated by operations to decrease.

Results of Operations

Three and Six Months Ended June 30, 2009

Revenue

Revenue is generated primarily through the provision of local, network access, long distance, and data and Internet services. Such revenues are generated through either a monthly recurring fee or a fee based on usage at a tariffed rate and revenue recognition is not dependent upon significant judgments by management, with the exception of a determination of a provision for uncollectible amounts.

Revenue for the three months ended June 30, 2009 decreased \$30.4 million, or 5%, as compared with the prior year period. Revenue for the six months ended June 30, 2009 decreased \$61.7 million, or 5%, as compared with the prior year period. This decline during the first half of 2009 is a result of lower local services revenue, switched access revenue, long distance services revenue and subsidy revenue, partially offset by a \$19.3 million, or 6%, increase in data and Internet services revenue, each as described in more detail below.

Change in the number of Frontier's access lines is one factor that is important to Frontier's revenue and profitability. Frontier has lost access lines primarily because of changing consumer behavior (including wireless substitution), economic conditions, changing technology, competition, and by some customers disconnecting second lines when they add HSI or cable modem service. Frontier lost approximately 65,200 access lines (net), including 5,900 second lines, during the six months ended June 30, 2009, but added approximately 33,900 HSI subscribers during this same period. Frontier expects to continue to lose access lines but to increase HSI subscribers and wireless Internet customers during the remainder of 2009 (although not enough to offset access line losses).

While the number of access lines is an important metric to gauge certain revenue trends, it is not necessarily the best or only measure to evaluate Frontier's business. Frontier management believes that understanding different components of revenue is most important. For this reason, presented in the table titled "Other Financial and Operating Data" below is a breakdown that categorizes revenue into customer revenue and regulatory revenue (switched access and subsidy revenue). Despite the decline in access lines, Frontier's customer revenue,

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which is all revenue except switched access and subsidy revenue, has declined in the second quarter and first six months of 2009 by less than 3 percent as compared to the prior year periods. The average monthly customer revenue per access line has improved and resulted in an increased wallet share, primarily from residential customers. A substantial further loss of access lines, combined with increased competition and the other factors discussed herein, may cause Frontier's revenue, profitability and cash flows to decrease in 2009.

The financial tables below include a comparative analysis of Frontier's results of operations on a historical basis for the three and six months ended June 30, 2009 and 2008.

REVENUE

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Local services	\$198,296	\$214,703	\$(16,407)	-8%	\$ 399,192	\$ 431,861	\$(32,669)	-8%
Data and Internet services	160,551	151,655	8,896	6%	316,944	297,637	19,307	6%
Access services	87,427	101,003	(13,576)	-13%	177,492	208,821	(31,329)	-15%
Long distance services	40,560	46,912	(6,352)	-14%	81,972	93,365	(11,393)	-12%
Directory services	27,211	29,070	(1,859)	-6%	54,916	57,698	(2,782)	-5%
Other	18,097	19,207	(1,110)	-6%	39,582	42,373	(2,791)	-7%
	<u>\$532,142</u>	<u>\$562,550</u>	<u>\$(30,408)</u>	<u>-5%</u>	<u>\$1,070,098</u>	<u>\$1,131,755</u>	<u>\$(61,657)</u>	<u>-5%</u>

Local Services

Local services revenue for the three months ended June 30, 2009 decreased \$16.4 million, or 8%, to \$198.3 million, as compared with the three months ended June 30, 2008. The loss of access lines accounted for \$12.2 million of the decline in local services revenue.

Local services revenue for the six months ended June 30, 2009 decreased \$32.7 million, or 8%, to \$399.2 million, as compared with the six months ended June 30, 2008, primarily due to the continued loss of access lines which accounted for \$23.8 million of the decline and a reduction in all other related services of \$8.9 million. Enhanced services revenue in the first six months of 2009 decreased \$7.0 million, as compared with the first six months of 2008, primarily due to a decline in access lines and a shift in customers purchasing Frontier's unlimited voice communications packages with features included in the bundle instead of purchasing individual features.

Economic conditions and/or increasing competition could make it more difficult for Frontier to sell its packages and bundles, and cause Frontier to increase its promotions and/or lower its prices for those products and services, which would adversely affect its revenue, profitability and cash flow.

Data and Internet Services

Data and Internet services revenue for the three months ended June 30, 2009 increased \$8.9 million, or 6%, to \$160.6 million, as compared with the three months ended June 30, 2008, primarily due to growth in data and HSI services.

Data and Internet services revenue for the six months ended June 30, 2009 increased \$19.3 million, or 6%, to \$316.9 million, as compared with the six months ended June 30, 2008, primarily due to the overall growth in the number of data and HSI customers. As of June 30, 2009, the number of Frontier's HSI subscribers had increased by approximately 54,500, or 10%, since June 30, 2008. Data and Internet services also include revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity Internet and ethernet circuits. Revenue from these dedicated high-capacity circuits increased \$6.1 million in 2009, as compared with 2008, primarily due to growth in the number of those circuits.

In February 2009, President Obama signed into law an economic stimulus package that includes \$7.2 billion in funding, through grants and loans, for new broadband investment and adoption in unserved and underserved communities. The federal agencies responsible for administering the programs released rules and evaluation

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criteria for the first round of funding on July 9, 2009. Frontier has submitted applications for \$55 million of such funding for use in the state of West Virginia to expand broadband availability. If granted, Frontier would be required to spend \$14 million in matching funds.

Access Services

Access services revenue for the three months ended June 30, 2009 decreased \$13.6 million, or 13%, to \$87.4 million, as compared with the three months ended June 30, 2008. Switched access revenue in the three months ended June 30, 2009 of \$63.1 million decreased \$9.6 million, or 13%, as compared with the three months ended June 30, 2008, primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, e-mail and other communications services. Access services revenue includes subsidy payments Frontier receives from federal and state agencies, including surcharges billed to customers which are remitted to the FCC. Subsidy revenue, including surcharges billed to customers, for the three months ended June 30, 2009 of \$24.3 million decreased \$4.0 million, or 14%, as compared with the three months ended June 30, 2008, primarily due to lower receipts under the Federal High Cost Fund program resulting from Frontier's reduced cost structure and an increase in the program's National Average Cost per Local Loop, referred to as the NACPL, used by the FCC to allocate funds among all recipients.

Access services revenue for the six months ended June 30, 2009 decreased \$31.3 million, or 15%, to \$177.5 million, as compared with the six months ended June 30, 2008. Switched access revenue in the six months ended June 30, 2009 of \$125.8 million decreased \$24.9 million, or 17%, as compared with the six months ended June 30, 2008, primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, e-mail and other communications services. Reserves established for disputed access charges also impacted access revenues in 2009 compared to 2008. Subsidy revenue, including surcharges billed to customers, for the six months ended June 30, 2009 of \$51.7 million decreased \$6.4 million, or 11%, as compared with the six months ended June 30, 2008, primarily due to lower receipts under the Federal High Cost Fund program resulting from Frontier's reduced cost structure and an increase in the program's NACPL.

Many factors may lead to further increases in the NACPL, thereby resulting in decreases in Frontier's federal subsidy revenue in the future. The FCC and state regulatory agencies are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. On May 1, 2008, the FCC issued an order to cap CETC receipts from the high cost USF.

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation and would revise the USF funding and disbursement mechanisms. When and how these proposed changes will be addressed are unknown and, accordingly, Frontier is unable to predict the impact of future changes on its results of operations. However, future reductions in Frontier's subsidy and access revenues will directly affect Frontier's profitability and cash flows as those regulatory revenues do not have associated variable expenses.

Certain states have open proceedings to address reform to intrastate access charges and other intercarrier compensation. Frontier cannot predict when or how these matters will be decided or the effect on Frontier's subsidy or access revenues. In addition, Frontier has been approached by, and/or is involved in formal state proceedings with, various carriers seeking reductions in intrastate access rates in certain states.

Long Distance Services

Long distance services revenue for the three months ended June 30, 2009 decreased \$6.4 million, or 14%, to \$40.6 million, as compared with the three months ended June 30, 2008.

Long distance services revenue for the six months ended June 30, 2009 decreased \$11.4 million, or 12%, to \$82.0 million, as compared with the six months ended June 30, 2008. Frontier's long distance services revenue is trending downward due to a reduction in the overall average revenue per minute of use. Frontier has actively

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marketed a package of unlimited long distance minutes with its digital phone and state unlimited bundled service offerings. While these package offerings have grown Frontier's long distance customer base, those customers who still pay on a per minute of use basis have significantly reduced their calling volumes, resulting in a decrease in Frontier's overall average revenue per minute of use.

Frontier's long distance minutes of use decreased by 5% during the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. Average revenue per minute of use has also declined. Frontier's long distance services revenue may decrease in the future due to further declines in rates and/or minutes of use. Competing services such as wireless, VoIP and cable telephony are resulting in a loss of customers, minutes of use and further declines in the rates Frontier charges its customers. Frontier expects these factors will continue to adversely affect its long distance revenue in the future.

Directory Services

Directory services revenue for the three months ended June 30, 2009 decreased \$1.9 million, or 6%, to \$27.2 million, as compared with the three months ended June 30, 2008. Directory services revenue for the six months ended June 30, 2009 decreased \$2.8 million, or 5%, to \$54.9 million, as compared with the six months ended June 30, 2008, primarily due to lower revenues from yellow pages advertising.

Other

Other revenue for the three months ended June 30, 2009 decreased \$1.1 million, or 6%, to \$18.1 million, as compared with the three months ended June 30, 2008, primarily due to DISH video promotional discounts that are charged against revenue. Reduced service activation fee revenue also contributed to the decline.

Other revenue for the six months ended June 30, 2009 decreased \$2.8 million, or 7%, to \$39.6 million, as compared with the six months ended June 30, 2008, primarily due to a decrease in service activation fee revenue, lower collocation and rental revenue and decreased "bill and collect" fee revenue, partially offset by higher wireless revenues and lower bad debt expenses.

OTHER FINANCIAL AND OPERATING DATA

	As of June 30, 2009		As of June 30, 2008		% Change
Access lines:					
Residential	1,405,258		1,516,402		-7%
Business	783,869		824,310		-5%
Total access lines	2,189,127		2,340,712		-6%
HSI subscribers	613,810		559,345		10%
Video subscribers	157,353		107,596		46%

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Revenue:								
Residential	\$227,580	\$239,633	\$ (12,053)	-5%	\$ 458,046	\$ 480,995	\$ (22,949)	-5%
Business	217,135	221,914	(4,779)	-2%	434,560	441,939	(7,379)	-2%
Total customer revenue	444,715	461,547	(16,832)	-4%	892,606	922,934	(30,328)	-3%
Regulatory (Access Services)	87,427	101,003	(13,576)	-13%	177,492	208,821	(31,329)	-15%
Total revenue	\$532,142	\$562,550	\$ (30,408)	-5%	\$1,070,098	\$1,131,755	\$ (61,657)	-5%
Switched access minutes of use (in millions)	2,213	2,538		-13%	4,589	5,141		-11%
Average monthly total revenue per access line	\$ 80.52	\$ 79.34		2%	\$ 80.33	\$ 79.08		2%
Average monthly customer revenue per access line	\$ 67.29	\$ 65.10		3%	\$ 67.01	\$ 64.49		4%

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Expenses

OPERATING EXPENSES
NETWORK ACCESS EXPENSES

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Network access	\$59,203	\$53,998	\$ 5,205	10%	\$119,887	\$114,547	\$ 5,340	5%

Network access expenses for the three months ended June 30, 2009 increased \$5.2 million, or 10%, to \$59.2 million, as compared with the three months ended June 30, 2008, primarily due to higher long distance carriage costs and costs for new personal computers, as described in more detail below.

Network access expenses for the six months ended June 30, 2009 increased \$5.3 million, or 5%, to \$119.9 million, as compared with the six months ended June 30, 2008. In the first half of 2009, Frontier expensed \$9.9 million for the cost of new personal computers provided to customers in connection with its "Rolling Thunder" promotion which resulted in additional DISH video and HSI subscribers. The first half of 2008 included costs of \$3.0 million associated with HSI promotions that subsidized the cost of a flat screen television provided to customers.

As Frontier continues to increase its sales of data products such as HSI and expand the availability of its unlimited long distance calling plans, Frontier's network access expense may increase in the future. A decline in expenses associated with access line losses has offset some of the increase.

OTHER OPERATING EXPENSES

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Wage and benefit expenses	\$ 86,206	\$ 95,847	\$(9,641)	-10%	\$179,073	\$196,523	\$(17,450)	-9%
Pension costs	8,208	(530)	8,738	NM	16,454	(1,060)	17,514	NM
Severance and early retirement costs	11	480	(469)	-98%	2,567	3,371	(804)	-24%
Stock based compensation	2,439	3,145	(706)	-22%	4,561	6,164	(1,603)	-26%
All other operating expenses	95,890	103,391	(7,501)	-7%	190,303	2 00,599	(10,296)	-5%
	<u>\$192,754</u>	<u>\$202,333</u>	<u>\$(9,579)</u>	<u>-5%</u>	<u>\$392,958</u>	<u>\$405,597</u>	<u>\$(12,639)</u>	<u>-3%</u>

Wage and benefit expenses

Wage and benefit expenses for the three months ended June 30, 2009 decreased \$9.6 million, or 10%, to \$86.2 million, as compared to the three months ended June 30, 2008. Wage and benefit expenses for the six months ended June 30, 2009 decreased \$17.5 million, or 9%, to \$179.1 million, as compared to the six months ended June 30, 2008, primarily due to headcount reductions and associated decreases in compensation and benefit expenses.

Pension costs

The decline in the value of Frontier's pension plan assets during 2008 has resulted in an increase in its pension expense in 2009. Pension costs for the three months ended June 30, 2009 and 2008 were approximately

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\$8.2 million and \$(0.5) million, respectively. The second quarter of 2009 pension costs represent an increase of \$8.7 million over the prior year period. Pension costs include pension expense of \$10.2 million and \$(0.7) million, less amounts capitalized into the cost of capital expenditures of \$2.0 million and \$(0.2) million for the three months ended June 30, 2009 and 2008, respectively.

Pension costs for the six months ended June 30, 2009 and 2008 were approximately \$16.5 million and \$(1.1) million, respectively. The first six months of 2009 pension costs represent an increase of \$17.5 million over the prior year period. Pension costs include pension expense of \$20.4 million and \$(1.3) million, less amounts capitalized into the cost of capital expenditures of \$3.9 million and \$(0.2) million for the six months ended June 30, 2009 and 2008, respectively.

Frontier's pension plan assets have declined from \$589.8 million at December 31, 2008 to \$578.1 million at June 30, 2009, a decrease of \$11.7 million, or 2%. This decrease is a result of ongoing benefit payments of \$26.6 million, partially offset by positive investment returns of \$14.9 million during the first six months of 2009.

Based on current assumptions and plan asset values, Frontier estimates that its 2009 pension and other postretirement benefit expenses (which were \$11.2 million in 2008) will be approximately \$50.0 million to \$55.0 million. No contributions are expected to be made by Frontier to its pension plan until 2011, although pension asset volatility could require Frontier to make a contribution in 2010, at the earliest.

Severance and early retirement costs

Severance and early retirement costs for the three months ended June 30, 2009 decreased \$0.5 million as compared with the prior year period.

Severance and early retirement costs for the six months ended June 30, 2009 decreased \$0.8 million to \$2.6 million as compared with the prior year period, primarily due to charges recorded in the first half of 2008 related to employee early retirements and terminations.

Stock based compensation

Stock based compensation for the three months ended June 30, 2009 decreased \$0.7 million, or 22%, to \$2.4 million as compared with the prior year period, primarily due to costs recorded in 2008 for a long-term incentive program that is no longer in effect.

Stock based compensation for the six months ended June 30, 2009 decreased \$1.6 million, or 26%, to \$4.6 million as compared with the prior year period, due to costs recorded in 2008 for a long-term incentive program that is no longer in effect and reduced costs associated with stock units, partially offset by increased costs for unvested restricted stock awards.

All other operating expenses

All other operating expenses for the three months ended June 30, 2009 decreased \$7.5 million, or 7%, to \$95.9 million, as compared with the three months ended June 30, 2008. All other operating expenses for the six months ended June 30, 2009 decreased \$10.3 million, or 5%, to \$190.3 million, as compared to the six months ended June 30, 2008, due to reduced costs for consulting fees and other outside services, partially offset by higher marketing expenses.

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DEPRECIATION AND AMORTIZATION EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Depreciation expense	\$ 91,430	\$ 98,367	\$ (6,937)	-7%	\$184,318	\$193,512	\$ (9,194)	-5%
Amortization expense	41,388	45,883	(4,495)	-10%	86,058	91,818	(5,760)	-6%
	<u>\$132,818</u>	<u>\$144,250</u>	<u>\$(11,432)</u>	<u>-8%</u>	<u>\$270,376</u>	<u>\$285,330</u>	<u>\$(14,954)</u>	<u>-5%</u>

Depreciation and amortization expense for the three months ended June 30, 2009 decreased \$11.4 million, or 8%, to \$132.8 million, as compared to the three months ended June 30, 2008. Depreciation and amortization expense for the six months ended June 30, 2009 decreased \$15.0 million, or 5%, to \$270.4 million, as compared to the six months ended June 30, 2008, primarily due to reduced amortization expense, as discussed below, and a declining net asset base, partially offset by changes in the remaining useful lives of certain assets. An independent study updating the estimated remaining useful lives of Frontier's plant assets is performed annually. Frontier adopted the remaining useful lives proposed in the last study effective October 1, 2008. Frontier's "composite depreciation rate" increased from 5.5% to 5.6% as a result of the study. Frontier anticipates depreciation expense of approximately \$350.0 million to \$370.0 million and amortization expense of approximately \$115.0 million for 2009. Amortization expense for the six months ended June 30, 2009 is comprised of \$57.9 million for amortization associated with Frontier's legacy properties, which were fully amortized in June 2009, and \$28.2 million for intangible assets (customer base and trade name) that were acquired in the Commonwealth and GVN acquisitions.

ACQUISITION RELATED COSTS

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Acquisition related costs	\$10,751	\$	\$10,751	100%	\$10,751	\$	\$10,751	100%

Acquisition related costs primarily represent fees paid to Frontier's advisers for services rendered in connection with the pending transactions. Frontier expects to incur acquisition costs of approximately \$35.0 million in 2009 related to the pending transactions.

INVESTMENT AND OTHER INCOME, NET / INTEREST EXPENSE /
INCOME TAX EXPENSE

(\$ in thousands)	For the three months ended June 30,				For the six months ended June 30,			
	2009	2008	\$ Change	% Change	2009	2008	\$ Change	% Change
Investment and other income, net	\$ 4,618	\$ 6,841	\$(2,223)	-32%	\$1 2,865	\$ 5,934	\$ 6,931	117%
Interest expense	98,670	90,710	7,960	9%	1 87,419	181,570	5,849	3%
Income tax expense	14,254	2 1,874	(7,620)	-35%	36,307	48,502	(12,195)	-25%
Income attributable to the noncontrolling interest in a partnership	392	448	(56)	-13%	1,044	776	268	35%

Investment and other income, net

Investment and other income, net for the three months ended June 30, 2009 decreased \$2.2 million, or 32%, to \$4.6 million, as compared with the three months ended June 30, 2008, primarily due to a decline of \$2.9 million in income recognized on the termination of construction advances, reduced equity earnings of \$2.5 million and \$0.5 million in lower income from short-term investments of cash, partially offset by an increase of \$3.6 million in gain on debt repurchases.

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Investment and other income, net for the six months ended June 30, 2009 improved \$6.9 million, or 117%, as compared with the six months ended June 30, 2008, primarily due to the loss on retirement of debt of \$6.3 million recognized during the first quarter of 2008, combined with litigation settlement proceeds of \$2.2 million and gain on debt repurchases of \$3.7 million in 2009. These improvements were partially offset by reduced equity earnings of \$2.3 million and a decrease of \$2.3 million in income from short-term investments of cash and cash equivalents due to lower interest rates in 2009.

Frontier's average cash balance was \$265.1 million and \$211.0 million for the six months ended June 30, 2009 and 2008, respectively.

Interest expense

Interest expense for the three months ended June 30, 2009 increased \$8.0 million, or 9%, to \$98.7 million, as compared with the three months ended June 30, 2008, primarily due to higher average debt levels and interest rates in 2009. Frontier's average debt outstanding was \$4,875.2 million and \$4,757.9 million for the three months ended June 30, 2009 and 2008, respectively. Frontier's debt levels have risen due to its \$600 million debt offering on April 9, 2009. Frontier intends to use the net proceeds from the offering to reduce, repurchase, or refinance its indebtedness or for general corporate purposes. During the second quarter of 2009, Frontier used \$308.0 million of the proceeds to retire \$311.7 million principal amount of debt, including \$255.7 million of debt maturing in 2011. Excess proceeds from this offering are invested in cash equivalents.

Interest expense for the six months ended June 30, 2009 increased \$5.8 million, or 3%, to \$187.4 million, as compared with the six months ended June 30, 2008, primarily due to higher average debt levels and interest rates in 2009, as discussed above. Frontier's average debt outstanding was \$4,827.6 million and \$4,758.8 million for the six months ended June 30, 2009 and 2008, respectively. Frontier's composite average borrowing rate as of June 30, 2009 as compared with the prior year was 24 basis points higher, increasing from 7.63% to 7.87%.

Income tax expense

Income tax expense for the three and six months ended June 30, 2009 decreased \$7.6 million, or 35%, to \$14.3 million, and \$12.2 million, or 25%, to \$36.3 million, respectively, as compared with the three and six months ended June 30, 2008, primarily due to lower taxable income. The second quarter of 2008 includes a reduction in income tax expense of \$7.5 million that resulted from the expiration of certain statute of limitations on April 15, 2008. The effective tax rate for the first six months of 2009 and 2008 was 35.7% and 32.2%, respectively. Frontier's cash taxes paid for the six months ended June 30, 2009 were \$40.5 million, a decrease of \$9.1 million from the first six months of 2008. Frontier expects to pay approximately \$90.0 million to \$100.0 million for the full year of 2009. Frontier's 2009 cash tax estimate reflects the anticipated favorable impact of bonus depreciation that is part of the economic stimulus package signed into law by President Obama.

There were no material changes to the liabilities on Frontier's books as of December 31, 2008 related to uncertain tax positions recorded under FASB Interpretation No. (FIN) 48 (ASC Topic 740) for the six months ended June 30, 2009.

Fiscal Year Ended December 31, 2008

Frontier's historical results include the results of operations of CTE from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. Accordingly, results of operations for 2008, 2007 and 2006 are not directly comparable as 2008 results reflect the inclusion of a full year of operations of CTE and GVN, whereas 2007 results reflect the inclusion of approximately ten months of operations of CTE and of two months of operations of GVN and 2006 results do not reflect the results of operations of CTE or GVN.

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Revenue

Consolidated revenue for 2008 decreased \$51.0 million, or 2%, to \$2,237.0 million as compared to 2007. Excluding additional revenue attributable to the CTE and GVN acquisitions for a full year in 2008 and for a partial period in 2007, Frontier's revenue decreased \$107.3 million during 2008, or 5%, as compared to 2007. During the first quarter of 2007, Frontier had a significant favorable settlement of a carrier dispute that resulted in a favorable one-time impact to its revenue of \$38.7 million. Excluding the additional revenue due to the one-time favorable settlement in the first quarter of 2007 and the additional revenue attributable to the CTE and GVN acquisitions in 2008 and 2007, Frontier's revenue for the year ended December 31, 2008 declined \$68.6 million, or 3%, as compared to the prior year. This decline is a result of lower local services revenue, subsidy revenue and switched access revenue, partially offset by a \$37.3 million, or 8%, increase in data and Internet services revenue.

Consolidated revenue for 2007 increased \$262.6 million, or 13%, to \$2,288.0 million as compared to 2006. Excluding the additional revenue attributable to the CTE and GVN acquisitions in 2007, and the one-time favorable settlement as referenced above in 2007, Frontier's revenue for 2007 was \$1,982.7 million, a decrease of \$42.7 million, or 2%, as compared to 2006, primarily resulting from a reduction of \$39.9 million in subsidies received from federal and state funds.

Frontier lost approximately 174,800 access lines (net), including 22,200 second lines, during 2008, but added approximately 57,100 HSI subscribers (net) during this same period. Despite the decline in access lines, Frontier's customer revenue also improved by more than 1.3 percent in 2008 versus 2007. Presented in the table titled "Other Financial and Operating Data" below is a breakdown that categorizes revenue into customer service revenue and regulatory revenue (switched and subsidy revenue).

Frontier's historical results include the results of operations of CTE from the date of its acquisition on March 8, 2007 and of GVN from the date of its acquisition on October 31, 2007. The financial tables below include a comparative analysis of Frontier's results of operations on a historical basis for 2008, 2007 and 2006. Frontier has also presented an analysis of each category for 2007 for the results of Frontier (excluding CTE and GVN) and the results of its acquisitions: CTE from March 8, 2007 through December 31, 2007, and the results of GVN for the last two months of 2007, as included in the consolidated results of operations. The figures in each of the charts in this section for 2007 relate to Frontier legacy properties (excluding CTE and GVN).

REVENUE

	2008			2007					2006
	Amount	\$ Change	% Change	Amount	Acquisitions	Frontier (excluding CTE and GVN)	\$ Change	% Change	Amount
(S in thousands)									
Local services	\$ 848,393	\$(27,369)	-3%	\$ 875,762	\$ 95,197	\$ 780,565	\$(29,019)	-4%	\$ 809,584
Data and Internet services	605,615	61,851	11%	543,764	58,934	484,830	60,621	14%	424,209
Access services	404,713	(74,749)	-16%	479,462	70,235	409,227	(18,732)	-4%	427,959
Long distance services	182,559	2,034	1%	180,525	27,070	153,455	183	0%	153,272
Directory services	113,347	(1,239)	-1%	114,586	1,264	113,322	(816)	-1%	114,138
Other	82,391	(11,525)	-12%	93,916	13,908	80,008	(16,197)	-17%	96,205
	<u>\$2,237,018</u>	<u>\$(50,997)</u>	<u>-2%</u>	<u>\$2,288,015</u>	<u>\$ 266,608</u>	<u>\$2,021,407</u>	<u>\$(3,960)</u>	<u>0%</u>	<u>\$2,025,367</u>

Local Services

Local services revenue for 2008 decreased \$27.4 million, or 3%, to \$848.4 million as compared to 2007. Excluding the additional local services revenue attributable to the CTE and GVN acquisitions for 2008 and 2007, local services revenue for 2008 decreased \$47.8 million, or 6%, as compared to 2007, primarily due to the

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continued loss of access lines which accounted for \$40.4 million of the decline and a reduction in all other related services of \$7.4 million. Enhanced services revenue for 2008, excluding the impact of the CTE and GVN acquisitions for 2008 and 2007, decreased \$5.6 million, or 3%, as compared to 2007, primarily due to a decline in access lines and a shift in customers purchasing Frontier's unlimited voice communications packages instead of individual features. Rate increases that were effective August 2007 resulted in a favorable 2008 impact of \$3.0 million.

Local services revenue for 2007 increased \$66.2 million, or 8%, to \$875.8 million as compared to 2006. Excluding the additional local services revenue attributable to the CTE and GVN acquisitions of \$95.2 million in 2007, local services revenue for 2007 decreased \$29.0 million, or 4%, to \$780.6 million as compared to 2006. The loss of access lines accounted for \$28.7 million of this decline in local services revenue, partially offset by rate increases in Rochester, New York on residential lines that became effective August 2006 and 2007.

Data and Internet Services

Data and Internet services revenue for 2008 increased \$61.9 million, or 11%, to \$605.6 million as compared to 2007. Data and Internet services revenue for 2008, excluding the additional data and Internet services revenue attributable to the CTE and GVN acquisitions for 2008 and 2007 increased \$37.3 million, or 8%, as compared to 2007, primarily due to the overall growth in the number of data and HSI customers. As of December 31, 2008, the number of Frontier's HSI subscribers increased by approximately 57,100, or 11%, since December 31, 2007. Revenue from dedicated high-capacity circuits, including the impact of \$10.5 million attributable to the CTE and GVN acquisitions, increased \$26.9 million in 2008, as compared to 2007, primarily due to growth in the number of those circuits.

Data and Internet services revenue for 2007 increased \$119.6 million, or 28%, to \$543.8 million as compared to 2006. Excluding the additional data and Internet services revenue attributable to the CTE and GVN acquisitions for 2007, data and Internet services revenue for 2007 increased \$60.6 million, or 14%, as compared to 2006, primarily due to growth in the number of data and HSI customers. As of December 31, 2007, the number of Frontier's HSI subscribers increased by approximately 66,700, or 17%, since December 31, 2006. Revenue from dedicated high-capacity circuits increased \$19.8 million in 2007, primarily due to growth in the number of those circuits.

Access Services

Access services revenue for 2008 decreased \$74.7 million, or 16%, to \$404.7 million as compared to 2007. Excluding the additional access services revenue attributable to the CTE and GVN acquisitions for 2008 and 2007, access services revenue for 2008 decreased \$77.3 million, or 19%, as compared to 2007, for Frontier's legacy operations. Switched access revenue for 2008, excluding the unfavorable impact of the CTE and GVN acquisitions, decreased \$56.8 million, or 20%, as compared to 2007, primarily due to the settlement of a carrier dispute resulting in a favorable impact on Frontier's 2007 revenue of \$38.7 million (a one-time event), and the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, e-mail and other communications services. Excluding the impact of that one-time favorable settlement in 2007, Frontier's switched access revenue for 2008 declined by \$18.1 million, or 7% from 2007. Subsidy revenue for 2008, excluding the additional subsidy revenue attributable to the CTE and GVN acquisitions in 2008 and 2007, decreased \$20.6 million, or 16%, in 2008 to \$104.1 million, as compared to 2007, primarily due to lower receipts under the Federal High Cost Loop Fund program resulting from Frontier's reduced cost structure and an increase in the program's NACPL used by the FCC to allocate funds among all recipients. Subsidy revenue in 2008 was also negatively impacted by \$2.5 million in unfavorable adjustments resulting from audits of the Federal High Cost Fund program.

Access services revenue for 2007 increased \$51.5 million, or 12%, to \$479.5 million as compared to 2006. Excluding the additional access services revenue attributable to the CTE and GVN acquisitions of \$70.2 million

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in 2007, access services revenue for 2007 decreased \$18.7 million, or 4%, as compared to 2006. Switched access revenue of \$284.6 million increased \$21.2 million, or 8%, as compared to 2006, primarily due to the settlement in the first quarter of 2007 of a dispute with a carrier resulting in a favorable impact on Frontier's revenue in 2007 of \$38.7 million (a one-time event), partially offset by the impact of a decline in minutes of use related to access line losses. Subsidy revenue for 2007 of \$124.7 million decreased \$39.9 million, or 24%, as compared to 2006, primarily due to lower receipts under the Federal High Cost Loop Fund program resulting from Frontier's reduced cost structure and an increase in the program's NACPL. In addition, in 2007, revenue from USF surcharges was reduced due to the elimination of HSI units from the USF calculation. Frontier's expenses in 2007 related to USF contributions also was reduced due to the same factors that led to the surcharge reduction.

Long Distance Services

Long distance services revenue for 2008 increased \$2.0 million, or 1%, to \$182.6 million as compared to 2007. Excluding the additional long distance services revenue attributable to CTE and GVN acquisitions, long distance services revenue in 2008 decreased \$3.8 million, or 2%, as compared to 2007.

Long distance services revenue for 2007 increased \$27.3 million, or 18%, to \$180.5 million as compared to 2006. Excluding the additional long distance services revenue attributable to the CTE and GVN acquisitions of \$27.1 million in 2007, long distance services revenue for 2007 was relatively unchanged as compared to 2006, despite an increase of 13% in Frontier's long distance minutes of use due to more customers selecting Frontier's unlimited minutes of use package.

Frontier's long distance minutes of use increased during 2008 and 2007, as compared with the prior years and, as noted below in network access expenses, has increased Frontier's cost of services provided. At the same time, average revenue per minute of use has declined.

Directory Services

Directory services revenue for 2008 decreased \$1.2 million, or 1%, to \$113.3 million as compared to 2007. Excluding the additional directory services revenue attributable to the CTE and GVN acquisitions in 2008 and 2007, directory services revenue for 2008 decreased \$4.0 million, or 4%, as compared to 2007. Directory services revenue in 2008 reflected lower revenues from yellow pages advertising, mainly in Rochester, New York.

Directory services revenue for 2007 increased \$0.4 million to \$114.6 million as compared to 2006. Excluding the additional directory services revenue attributable to the CTE and GVN acquisitions of \$1.3 million in 2007, directory services revenue for 2007 decreased \$0.8 million, or 1%, as compared to 2006, reflecting slightly lower revenues from yellow pages advertising, mainly in Rochester, New York.

Other

Other revenue for 2008 decreased \$11.5 million, or 12%, to \$82.4 million as compared to 2007. Other revenue was impacted by a decrease in equipment sales of \$7.0 million, a decrease in service activation fee revenue of \$3.3 million and decreased "bill and collect" fee revenue of \$3.2 million, partially offset by higher DISH video revenue of \$3.3 million.

Other revenue for 2007 decreased \$2.3 million, or 2%, to \$93.9 million as compared to 2006. Excluding the additional other revenue attributable to the CTE and GVN acquisitions of \$13.9 million in 2007, other revenue for 2007 decreased \$16.2 million, or 17%, as compared to 2006, primarily due to a \$9.9 million increase in bad debt expense, the impact of a \$3.4 million reduction in revenue for Frontier's free video promotions with a multi-year customer commitment in some of Frontier's markets, a decrease in service activation billing of \$2.5 million and a decrease of \$1.8 million in wireless revenue from the Mohave Cellular Limited Partnership.

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OTHER FINANCIAL AND OPERATING DATA

	As of December 31, 2008	% Change	As of December 31, 2007	% Change	As of December 31, 2006
Access lines:					
Residential	1,454,268	-8%	1,587,930	8%	1,476,802
Business	800,065	-5%	841,212	29%	649,772
Total access lines	2,254,333	-7%	2,429,142	14%	2,126,574
HSI subscribers	579,943	11%	522,845	33%	393,184
Video subscribers	119,919	28%	93,596	49%	62,851

(S in thousands)	For the year ended December 31,					
	2008	\$ Change	% Change	2007	% Change	2006
Revenue:						
Residential	\$ 944,786	\$(13,667)	-1%	\$ 958,453		
Business	887,519	37,419	4%	850,100		
Total customer revenue	1,832,305	23,752	1%	1,808,553		
Regulatory (Access Services)	404,713	(74,749)	-16%	479,462		
Total revenue	\$2,237,018	\$(50,997)	-2%	\$2,288,015		
Switched access minutes of use (in millions)	10,027		-5%	10,592	4%	10,227
Average monthly total revenue per access line	\$ 83.05 ⁽¹⁾		4%	\$ 79.94 ⁽²⁾	3%	\$ 77.25
Average monthly customer revenue per access line	\$ 68.65 ⁽¹⁾		6%	\$ 65.00 ⁽¹⁾		

(1) For the years ended December 31, 2008 and 2007, the calculations exclude CTE and GVN data.

(2) For the year ended December 31, 2007, the calculation excludes CTE and GVN data and excludes the \$38.7 million favorable one-time impact from the first quarter 2007 settlement of a switched access dispute. The amount is \$81.50 with the \$38.7 million favorable one-time impact from the settlement.

Expenses

OPERATING EXPENSES
NETWORK ACCESS EXPENSES

(S in thousands)	2008			2007			2006		
	Amount	\$ Change	% Change	Amount	Acquisitions	Frontier (excluding CTE and GVN)	\$ Change	% Change	Amount
Network access	\$222,013	\$(6,229)	-3%	\$228,242	\$ 35,781	\$192,461	\$21,214	12%	\$171,247

Network access

Consolidated network access expenses for 2008 decreased \$6.2 million, or 3%, to \$222.0 million as compared to 2007 primarily due to decreasing rates resulting from more efficient circuit routing for Frontier's long distance and data products. Excluding the additional network access expenses attributable to the CTE and GVN acquisitions for 2008 and 2007, network access expenses decreased \$15.1 million, or 8%, in 2008 as compared to 2007. Excluding the additional network access expenses attributable to the CTE and GVN acquisitions of \$35.8 million in 2007, network access expenses for 2007 increased \$21.2 million, or 12%, as compared to 2006, primarily due to increasing rates and usage related to Frontier's long distance product and its data backbone.

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In the fourth quarter of 2008, Frontier expended \$4.2 million of promotional costs for Master Card gift cards issued to new HSI customers entering into a two-year price protection plan and to existing customers who purchased additional services under a two-year price protection plan. In the first quarter of 2008, Frontier expended \$2.6 million for a flat screen television promotion. Additionally, in the fourth quarters of 2007 and 2006, Frontier expended \$11.4 million and \$9.7 million, respectively, of promotional costs associated with fourth quarter HSI promotions that subsidized the cost of a new personal computer or a new digital camera in 2007, and a new personal computer in 2006, provided to customers entering into a multi-year commitment for certain bundled services.

OTHER OPERATING EXPENSES

	2008			2007			2006		
				Frontier (excluding CTE and GVN)					
(\$ in thousands)	Amount	\$ Change	% Change	Amount	Acquisitions	\$ Change	% Change	Amount	
Wage and benefit expenses	\$383,887	\$ 2,561	1%	\$381,326	\$ 28,907	\$352,419	\$ (6,408)	-2%	\$358,827
Severance and early retirement costs	7,598	(6,276)	-45%	13,874	—	13,874	6,681	93%	7,193
Stock based compensation	7,788	(1,234)	-14%	9,022	—	9,022	(1,318)	-13%	10,340
All other operating expenses	4 11,475	7,196	2%	404,279	72,086 ⁽¹⁾	3 32,193	(24,590)	-7%	3 56,783
	<u>\$810,748</u>	<u>\$ 2,247</u>	0%	<u>\$808,501</u>	<u>\$ 100,993</u>	<u>\$707,508</u>	<u>\$(25,635)</u>	-3%	<u>\$733,143</u>

(1) Includes \$33.0 million of common corporate costs allocated to CTE operations during 2007.

Consolidated other operating expenses for 2008 increased \$2.2 million, to \$810.7 million as compared to 2007, primarily the result of Frontier's CTE and GVN acquisitions which was largely offset by synergies and cost reductions relating to the legacy Frontier operations.

Wage and benefit expenses

Wage and benefit expenses for 2008 increased \$2.6 million, or 1%, to \$383.9 million as compared to 2007. Wage and benefit expenses attributable to the CTE and GVN acquisitions increased \$10.2 million, or 35%, in 2008 versus 2007, primarily due to the pension curtailment gain of \$14.4 million recognized in 2007, as discussed below. These additional costs were offset by a decrease of \$7.6 million primarily due to headcount reductions and associated decreases in compensation and benefit costs attributable to the integration of the back office, customer service and administrative support functions of the CTE and GVN operations acquired in 2007.

Wage and benefit expenses for 2007 increased \$22.5 million, or 6%, to \$381.3 million as compared to 2006. Excluding the additional wage and benefit expenses attributable to the CTE and GVN acquisitions of \$28.9 million in 2007, wage and benefit expenses for 2007 decreased \$6.4 million, or 2%, as compared to 2006, primarily due to headcount reductions and associated decreases in compensation and benefit costs.

Included in Frontier's wage and benefit expenses are pension and other postretirement benefit expenses. The amounts for 2007 include the costs for Frontier's CTE plans acquired in 2007 and reflect the positive impact of a pension curtailment gain of \$14.4 million, resulting from the freeze placed on certain pension benefits of the former CTE non-union employees. No contribution was made to Frontier's pension plan during 2008 and none is expected to be made in 2009. Also, effective December 31, 2007, the CTE Employees' Pension Plan was merged into the Frontier Pension Plan.

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As a result of negative investment returns and ongoing benefit payments, Frontier's pension plan assets have declined from \$822.2 million at December 31, 2007 to \$589.8 million at December 31, 2008, a decrease of \$232.4 million, or 28%. This decrease represents a decline in asset value of \$162.9 million, or 20%, and benefits paid of \$69.5 million, or 8%. The decline in pension plan assets did not impact Frontier's results of operations, liquidity or cash flows in 2008.

Severance and early retirement costs

Severance and early retirement costs for 2008 decreased \$6.3 million, or 45%, as compared to 2007. Severance and early retirement costs of \$7.6 million in 2008 include charges recorded in the first half of 2008 of \$3.4 million related to employee early retirements and terminations for 42 Rochester, New York employees. Additional severance costs of \$4.0 million were recorded in the fourth quarter of 2008, including \$1.7 million of enhanced early retirement pension benefits related to 55 employees.

Severance and early retirement costs of \$13.9 million in 2007 include a third quarter charge of approximately \$12.1 million related to initiatives to enhance customer service, streamline operations and reduce costs. Approximately 120 positions were eliminated as part of this 2007 initiative, most of which were filled by new employees at Frontier's remaining call centers. In addition, approximately 50 field operations employees agreed to participate in an early retirement program and another 30 employees from a variety of functions left Frontier in 2007.

Severance and early retirement costs for 2007 increased \$6.7 million, or 93%, as compared to 2006, primarily due to the 2007 charge of approximately \$12.1 million related to initiatives to enhance customer service, streamline operations and reduce costs, as discussed above.

Stock based compensation

Stock based compensation for 2008 decreased \$1.2 million, or 14%, as compared to 2007 due to reduced costs associated with stock units and stock options.

Stock based compensation for 2007 decreased \$1.3 million, or 13%, as compared to 2006 due to reduced costs associated with stock options, since fewer stock option grants remained unvested as compared to 2006.

All other operating expenses

All other operating expenses for 2008 increased \$7.2 million, or 2%, to \$411.5 million as compared to 2007, primarily due to the additional expenses attributable to the CTE and GVN acquisitions of \$10.0 million in 2008 versus 2007, as 2008 includes a full year of expenses for CTE and GVN while 2007 included approximately ten months of costs for CTE and two months of costs for GVN. Frontier's purchase of CTE has enabled Frontier to realize cost savings by leveraging its centralized back office, customer service and administrative support functions over a larger customer base.

All other operating expenses for 2007 increased \$47.5 million, or 13%, to \$404.3 million as compared to 2006. Excluding the additional expenses attributable to the CTE and GVN acquisitions of \$72.1 million in 2007, all other operating expenses for 2007 decreased \$24.6 million, or 7%, as compared to 2006, primarily due to the allocation of common corporate costs over a larger base of operations, which now includes CTE. Additionally, Frontier's USF contribution rate and public utility commission fees decreased from 2006, resulting in a reduction in costs of \$13.1 million in 2007. An increase in consulting and other outside services of \$11.7 million for 2007 offset some of the decrease in expenses noted above.

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DEPRECIATION AND AMORTIZATION EXPENSE

	2008			2007					2006
						Frontier (excluding CTE and GVN)			
(S in thousands)	Amount	\$ Change	% Change	Amount	Acquisitions		\$ Change	% Change	Amount
Depreciation expense	\$379,490	\$ 5,055	1%	\$374,435	\$ 45,289	\$329,146	\$(20,961)	-6%	\$350,107
Amortization expense	1 82,311	1 0,890	6%	1 71,421	45,042 ⁽¹⁾	1 26,379	— ⁽¹⁾	0%	1 26,380
	<u>\$561,801</u>	<u>\$15,945</u>	3%	<u>\$545,856</u>	<u>\$ 90,331</u>	<u>\$455,525</u>	<u>\$(20,962)</u>	-4%	<u>\$476,487</u>

(1) Represents amortization expense related to the customer base acquired in the CTE and GVN acquisitions, and the Commonwealth trade name. Frontier's assessment of the value of the customer base and trade name, and associated expected useful life, are based upon management estimate and independent appraisal.

Depreciation and amortization expense for 2008 increased \$15.9 million, or 3%, to \$561.8 million as compared to 2007. Excluding the depreciation and amortization expense for 2008 and 2007 attributable to the CTE and GVN acquisitions, depreciation and amortization expense for 2008 decreased \$10.7 million, or 2%, as compared to 2007, primarily due to a declining net asset base for Frontier's legacy properties, partially offset by changes in the remaining useful lives of certain assets.

Consolidated depreciation and amortization expense for 2007 increased \$69.4 million, or 15%, to \$545.9 million as compared to 2006 as a result of Frontier's 2007 acquisitions of CTE and GVN. Excluding the impact of the CTE and GVN acquisitions, depreciation expense for 2007 decreased \$21.0 million, or 6%, as compared to 2006 due to a declining net asset base partially offset by changes in the remaining useful lives of certain assets.

INVESTMENT INCOME/OTHER INCOME (LOSS), NET / INTEREST EXPENSE /
INCOME TAX EXPENSE

	2008			2007					2006
						Frontier (excluding CTE and GVN)			
(S in thousands)	Amount	\$ Change	% Change	Amount	Acquisitions		\$ Change	% Change	Amount
Investment income	\$1 6,118	\$(21,523)	-57%	\$ 37,641	\$ 402	\$ 37,239	\$(46,510)	-56%	\$8 3,749
Other income (loss), net	(5,170)	12,663	71%	(17,833)	4,978	(22,818)	(25,818)	-859%	3,007
Interest Expense	3 62,634	(18,062)	-5%	380,696	(260)	3 80,956	44,510	13%	3 36,446
Income tax expense	1 06,496	(21,518)	-17%	128,014	27,013	1 01,001	(35,478)	-26%	1 36,479
Income attributable to the noncontrolling interest in a partnership	1,614	(246)	-13%	1,860	—	1,860	(2,453)	-57%	4,313

Investment income

Investment income for 2008 decreased \$21.5 million, or 57%, to \$16.1 million as compared to 2007, primarily due to a decrease of \$22.1 million in income from short-term investments of cash and cash equivalents due to a lower investable cash balance.

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Investment income for 2007 decreased \$46.1 million, or 55%, to \$37.6 million as compared to 2006. Excluding the investment income attributable to the CTE and GVN acquisitions of \$0.4 million, investment income for 2007 decreased \$46.5 million, or 56%, as compared to 2006, primarily due to the \$64.6 million in proceeds received in 2006 from the Rural Telephone Bank, referred to as RTB, liquidation and dissolution, partially offset by an increase of \$10.8 million in income from short-term investments of cash.

Frontier borrowed \$550.0 million in December 2006 in anticipation of the Commonwealth acquisition in 2007. Frontier's average cash balances were \$177.5 million, \$594.2 million and \$429.5 million for 2008, 2007 and 2006, respectively.

Other income (loss), net

Other income (loss), net for 2008 improved \$12.7 million, or 71%, to \$(5.2) million as compared to 2007. Other income (loss), net improved in 2008 primarily due to a reduction in the loss on retirement of debt of \$11.9 million and the \$4.1 million expense of a bridge loan fee recorded during the first quarter of 2007.

Other income (loss), net for 2007 decreased \$20.8 million to (\$17.8) million as compared to 2006. Excluding the other income attributable to the CTE and GVN acquisitions of \$5.0 million, other income (loss), net for 2007 decreased \$25.8 million to (\$22.8) million as compared to 2006, primarily due to the premium paid of \$18.2 million on the early retirement of debt during 2007 and a bridge loan fee of \$4.1 million.

Interest expense

Interest expense for 2008 decreased \$18.1 million, or 5%, to \$362.6 million as compared to 2007, primarily due to the amortization of the deferred gain associated with the termination of Frontier's interest rate swap agreements and retirement of related debt during the first quarter of 2008, along with slightly lower average debt levels and average interest rates. Frontier's composite average borrowing rate as of December 31, 2008, as compared to 2007, was 40 basis points lower, decreasing from 7.94% to 7.54%.

Interest expense for 2007 increased \$44.5 million, or 13%, to \$381.0 million as compared to 2006, primarily due to \$637.6 million of higher average debt in 2007 resulting from financing the CTE acquisition. Frontier's composite average borrowing rate as of December 31, 2007, as compared with its composite average borrowing rate as of December 31, 2006 was 18 basis points lower, decreasing from 8.12% to 7.94%.

Frontier's average debt outstanding was \$4,753.0 million, \$4,834.5 million and \$4,196.9 million for 2008, 2007 and 2006, respectively.

Income tax expense

Income tax expense for 2008 decreased \$21.5 million, or 17%, as compared to 2007, primarily due to lower taxable income and the reduction in income tax expense of \$7.5 million recorded in the second quarter of 2008 that resulted from the expiration of certain statute of limitations on April 15, 2008, as discussed below.

The effective tax rate for 2008 was 36.6% as compared with 37.2% for 2007. Frontier's effective tax rate decreased in 2008 mainly due to the impact of the favorable tax reserve adjustment recorded in the second quarter of 2008. Frontier paid \$78.9 million in cash taxes during 2008, an increase of \$24.5 million over 2007, reflecting the utilization of Frontier's tax loss carryforwards in prior years.

As a result of the expiration of certain statute of limitations on April 15, 2008, the liabilities on Frontier's books as of December 31, 2007 related to uncertain tax positions recorded under FASB Interpretation No. (FIN) 48 were reduced by \$16.2 million in the second quarter of 2008. This reduction lowered income tax expense by \$7.5 million, goodwill by \$3.0 million and deferred income tax assets by \$5.7 million during the second quarter of 2008.

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Excluding the income tax expense attributable to the CTE and GVN acquisitions of \$27.0 million, income tax expense for 2007 decreased \$35.5 million, or 26%, as compared to 2006, primarily due to changes in taxable income. Frontier's effective tax rate for 2007 was 37.2% as compared with an effective tax rate of 34.6% for 2006. Frontier's effective tax rate increased in 2007 mainly due to changes in permanent difference items and tax contingencies.

DISCONTINUED OPERATIONS

<u>(\$ in thousands)</u>	<u>2006</u> <u>Amount</u>
Revenue	\$ 100,612
Operating income	\$ 27,882
Income taxes	\$ 11,583
Net income	\$ 18,912
Gain on disposal of ELI, net of tax	\$ 71,635

On July 31, 2006, Frontier sold its CLEC business, ELI, for \$255.3 million (including a later sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. Frontier recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Frontier's after-tax gain on the sale was \$71.6 million. Frontier's cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the federal and state level.

Liquidity and Capital Resources

For discussions of the terms of Frontier's existing debt financing arrangements, see Note 8 in the notes to Frontier's unaudited consolidated financial statements and Note 11 in the notes to Frontier's audited consolidated financial statements, in each case included elsewhere in this proxy statement/prospectus, and "Financing of the Combined Company."

Three and Six Months Ended June 30, 2009

As of June 30, 2009, Frontier had cash and cash equivalents aggregating \$454.1 million, including a portion of the net proceeds from a registered debt offering completed on April 9, 2009. Frontier's primary source of funds continued to be cash generated from operations. For the six months ended June 30, 2009, Frontier used cash flow from operations, incremental borrowing and cash on hand to fund all of its investing and financing activities, including debt repayments.

Frontier believes its operating cash flows, existing cash balances, and revolving credit facility will be adequate to finance its working capital requirements, fund capital expenditures, make required debt payments through 2009, pay taxes, pay dividends to its stockholders in accordance with its dividend policy, pay its acquisition related costs and capital expenditures and support its short-term and long-term operating strategies. However, a number of factors, including but not limited to, increased cash taxes, losses of access lines, increases in competition, lower subsidy and access revenues and the impact of the current economic environment are expected to reduce its cash generated by operations. In addition, although Frontier believes, based on information available to it, that the financial institutions syndicated under its revolving credit facility would be able to fulfill their commitments to it, given the current economic environment and the recent severe contraction in the global financial markets, this could change in the future. The current credit market turmoil and Frontier's below-investment grade credit ratings may also make it more difficult and expensive to refinance its maturing debt, although Frontier does not have any significant maturities until 2011. Frontier has approximately \$1.9 million of debt maturing during the last six months of 2009 and approximately \$7.2 million and \$869.5 million of debt maturing in 2010 and 2011, respectively.

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Cash Flow provided by Operating Activities

Cash provided by operating activities declined \$8.5 million, or 3%, for the six months ended June 30, 2009 as compared with the prior year period. Frontier's operating income decreased during the first six months of 2009 as compared to the first six months of 2008, and was mostly offset by Frontier's reduced cash needs for working capital items during the first six months of 2009 as compared to the first six months of 2008.

Frontier has in recent years paid relatively low amounts of cash taxes. Frontier expects that in 2009 and beyond its cash taxes will increase substantially, as its federal net operating loss carryforwards and alternative minimum tax credit carryforwards have been fully utilized. Frontier paid \$40.5 million in cash taxes during the first six months of 2009 and expects to pay approximately \$90.0 million to \$100.0 million for the full year of 2009. Frontier's 2009 cash tax estimate reflects the anticipated favorable impact of bonus depreciation that is part of the economic stimulus package signed into law by President Obama.

Cash Flow used by Investing Activities

Capital Expenditures

For the six months ended June 30, 2009 and 2008, Frontier's capital expenditures were \$110.4 million and \$123.7 million, respectively. Frontier continues to closely scrutinize all of its capital projects, emphasizes return on investment and focuses its capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. Frontier anticipates capital expenditures of approximately \$250.0 million to \$270.0 million for 2009 related to its currently owned properties.

In connection with the transactions, Frontier has commenced activities to obtain the necessary regulatory approvals, plan and implement systems and other initiatives necessary to effectuate the closing, which is expected to occur during the second quarter of 2010, and enable the combined company to implement its "go to market" strategy at closing. As a result, Frontier expects to incur operating expenses and capital expenditures of approximately \$35.0 million and \$25.0 million, respectively, in 2009 related to the transactions. Frontier incurred \$10.8 million of acquisition related costs in the second quarter of 2009.

Cash Flow used by and provided from Financing Activities

Debt Reduction

During the first six months of 2009, Frontier retired an aggregate principal amount of \$313.6 million of debt, consisting of \$313.1 million of senior unsecured debt, as described in more detail below, and \$0.5 million of rural utilities service loan contracts.

For the six months ended June 30, 2008, Frontier retired an aggregate principal amount of \$130.4 million of debt, consisting of \$128.7 million principal amount of its 9.25% Senior Notes due 2011, \$1.6 million of other senior unsecured debt and rural utilities service loan contracts, and \$0.1 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities, referred to as EPPICS, that were converted into Frontier common stock.

Frontier may from time to time repurchase its debt in the open market, through tender offers, exchanges of debt securities, by exercising rights to call or in privately negotiated transactions. Frontier may also refinance existing debt or exchange existing debt for newly issued debt obligations.

Issuance of Debt Securities

On April 9, 2009, Frontier completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes.

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Frontier received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, Frontier used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of its 9.25% Senior Notes due May 15, 2011, \$40.0 million of its 7.875% Senior Notes due January 15, 2027 and \$16.0 million of its 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in investment and other income, net in Frontier's consolidated statements of operations for the three and six months ended June 30, 2009. Frontier intends to use the remaining net proceeds from the offering to reduce, repurchase or refinance its indebtedness or the indebtedness of its subsidiaries or for general corporate purposes.

On March 28, 2008, Frontier borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.18% as of June 30, 2009. The interest rate is based on the prime rate or LIBOR, at Frontier's election, plus a margin which varies depending on Frontier's debt leverage ratio. Frontier used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of its 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

Credit Facilities

As of June 30, 2009, Frontier had an available line of credit with seven financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on Frontier's debt leverage ratio, and were 0.225% per annum as of June 30, 2009. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility Frontier may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments. Although Frontier believes, based on information available to it, that the financial institutions syndicated under its revolving credit facility would be able to fulfill their commitments to it, given the current economic environment and the recent severe contraction in the global financial markets, this could change in the future.

Covenants

The terms and conditions contained in Frontier's indentures and credit facility agreements include the timely payment of principal and interest when due, the maintenance of Frontier's corporate existence, keeping proper books and records in accordance with U.S. GAAP, restrictions on the allowance of liens on its assets, and restrictions on asset sales and transfers, mergers and other changes in corporate control. Frontier currently has no restrictions on the payment of dividends either by contract, rule or regulation, other than those imposed by the General Corporation Law of the State of Delaware, referred to as the DGCL. However, Frontier would be restricted under its credit facilities from declaring dividends if an event of default has occurred and is continuing at the time or will result from the dividend declaration. Frontier is also restricted from increasing the amount of its dividend by the terms of the merger agreement.

Frontier's \$200.0 million term loan facility with the RTFC, which matures in 2011, contains a maximum leverage ratio covenant. On May 6, 2009, Frontier and the RTFC amended the terms of the maximum leverage ratio covenant. Under the amended leverage ratio covenant, Frontier is required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreement) over the last four quarters no greater than 4.50 to 1.

Frontier's \$250.0 million credit facility, and its \$150.0 million and \$135.0 million senior unsecured term loans, each contain a maximum leverage ratio covenant. Under the leverage ratio covenant, Frontier is required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters no greater than 4.50 to 1. Although all of these facilities are unsecured, they will be equally and ratably secured by certain liens and equally and ratably guaranteed by certain of Frontier's subsidiaries if it issues debt that is secured or guaranteed.

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Frontier's credit facilities and certain indentures for its senior unsecured debt obligations limit its ability to create liens or merge or consolidate with other companies and its subsidiaries' ability to borrow funds, subject to important exceptions and qualifications.

As of June 30, 2009, Frontier was in compliance with all of its debt and credit facility covenants.

Proceeds from the Sale of Equity Securities

Frontier received proceeds from the issuance of Frontier common stock upon the exercise of options pursuant to its stock-based compensation plans. For the six months ended June 30, 2009 and 2008, Frontier received approximately \$0.7 million and \$1.0 million, respectively, upon the exercise of outstanding stock options.

Dividends

Frontier intends to pay regular quarterly dividends. Its ability to fund a regular quarterly dividend will be impacted by its ability to generate cash from operations. The declarations and payment of future dividends will be at the discretion of the Frontier board, and will depend upon many factors, including Frontier's financial condition, results of operations, growth prospects, funding requirements, applicable law, restrictions in agreements governing its indebtedness and other factors the Frontier board deems relevant. In connection with the transactions, Frontier announced that after the closing of the transactions Frontier intends to reduce its annual cash dividend from \$1.00 per share to \$0.75 per share, subject to applicable law and agreements governing the combined company's indebtedness and within the discretion of the Frontier board, as discussed above.

Off-Balance Sheet Arrangements

Frontier does not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon its financial statements.

Critical Accounting Policies and Estimates

Other than as set forth below, there have been no material changes to Frontier's critical accounting policies and estimates in the six months ended June 30, 2009. See "—Fiscal Year Ended December 31, 2008—Critical Accounting Policies and Estimates."

Intangibles—Goodwill. Frontier reorganized its management and operating structure during the first quarter of 2009 incorporating its Rochester market with its existing New York State properties and the rest of the East Region. Frontier's new structure is consistent with how its Chief Operating Decision Makers (CEO, CFO, COO) now review its results on a daily, weekly and monthly basis. As a result of the change, Frontier's operating segments (reporting units) have decreased from 4 (at December 31, 2008) to 3 (at June 30, 2009). After making the change in its operating segments, Frontier reviewed its goodwill impairment test by comparing the EBITDA multiples for each reporting unit to their carrying values noting that no impairment indicator was present. Frontier also compared its market capitalization to its shareholders equity. Market capitalization at June 30, 2009 of \$2.2 billion (\$7.14/share x 312,363,000 shares) exceeded shareholders equity of Frontier of \$438.0 million by \$1.8 billion. Further, Frontier determined that no impairment was indicated at December 31, 2008 or June 30, 2009 for either the East or Rochester reporting units and combining them would not alter the conclusion at either date. No potential impairment was indicated and no further analysis was deemed necessary.

Fiscal Year Ended December 31, 2008

As of December 31, 2008, Frontier had cash and cash equivalents aggregating \$163.6 million. Frontier's primary source of funds continued to be cash generated from operations. For the year ended December 31, 2008, Frontier used cash flow from operations, incremental borrowings and cash on hand to fund all of its investing and financing activities, including debt repayments and stock repurchases.

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Cash Flow provided by and used in Operating Activities

Cash provided by operating activities declined \$82.4 million, or 10%, for 2008 as compared to 2007. The decline resulted from a drop in operating income, as adjusted for non-cash items, lower investment income, a decrease in accounts payable and an increase in current income tax expenditures. These declines were partially offset by a decrease in accounts receivable that positively impacted Frontier's cash position as compared to the prior year. Frontier paid \$78.9 million in cash taxes during 2008.

Cash Flow used by and provided from Investing Activities

Acquisitions

On March 8, 2007, Frontier acquired Commonwealth in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. Frontier paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued Frontier common stock with a value of approximately \$249.8 million.

In connection with the acquisition of Commonwealth, Frontier assumed \$35.0 million of debt under a revolving credit facility and \$191.8 million face amount of Commonwealth convertible notes (fair value of \$209.6 million). During March 2007, Frontier paid down the \$35.0 million credit facility. Frontier retired all of the Commonwealth notes as of December 31, 2008.

On October 31, 2007, Frontier acquired GVN for a total cash consideration of \$62.0 million.

Rural Telephone Bank

Frontier received approximately \$64.6 million in cash from the dissolution of the RTB in April 2006, which resulted in the recognition of a pre-tax gain of approximately \$61.4 million during the second quarter of 2006, as reflected in investment income in the consolidated statements of operations for the year ended December 31, 2006. Frontier's tax net operating losses were used to absorb the cash liability for taxes.

Sale of ELI

During 2006, Frontier sold ELI, its CLEC business (including its associated real estate), for \$255.3 million in cash plus the assumption of approximately \$4.0 million in capital lease obligations.

Capital Expenditures

In 2008, Frontier's capital expenditures were \$288.3 million. Frontier's 2008 capital spending was broken down into two major areas—Network/Infrastructure support and Strategic Projects. Frontier spent approximately \$224 million on Network/Infrastructure support consisting of Network support and maintenance, network to new homes and business, company vehicle, routine information systems projects, and network expansion projects. Strategic projects spending totaling approximately \$64 million included expansion of Frontier's National Data Backbone, HSI market expansion and speed upgrades, strategic IT projects, wireless data projects, and enhancements of Frontier's Internet operations.

Cash Flow used by and provided from Financing Activities

Debt Reduction and Debt Exchanges

In 2008, Frontier retired an aggregate principal amount of \$144.7 million of debt, consisting of \$128.7 million principal amount of Frontier's 9.25% Senior Notes due 2011, \$12.0 million of other senior unsecured debt and rural utilities service loan contracts, and \$4.0 million of its EPPICS.

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In 2007, Frontier retired an aggregate principal amount of \$967.2 million of debt, including \$3.3 million of EPPICS, and \$17.8 million of 3.25% Commonwealth convertible notes that were converted into Frontier common stock. On April 26, 2007, Frontier redeemed \$495.2 million principal amount of its 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. During the first quarter of 2007, Frontier borrowed and repaid \$200.0 million utilized to temporarily fund the acquisition of Commonwealth, and paid down the \$35.0 million Commonwealth credit facility. Through December 31, 2007, Frontier retired \$183.3 million face amount of Commonwealth convertible notes for which it paid \$165.4 million in cash and \$36.7 million in common stock. Frontier also paid down \$44.6 million of industrial development revenue bonds and \$4.3 million of rural utilities service loan contracts.

In 2006, Frontier retired an aggregate principal amount of \$251.0 million of debt, including \$15.9 million of EPPICS that were converted into Frontier common stock. During the first quarter of 2006, Frontier entered into two debt-for-debt exchanges of its debt securities. As a result, \$47.5 million of Frontier's 7.625% notes due 2008 were exchanged for approximately \$47.4 million of Frontier's 9.00% notes due 2031. During the fourth quarter of 2006, Frontier entered into four debt-for-debt exchanges and exchanged \$157.3 million of its 7.625% notes due 2008 for \$149.9 million of its 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions. However, with respect to the first quarter debt exchanges, a non-cash pre-tax loss of approximately \$2.4 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net.

On June 1, 2006, Frontier retired at par its entire \$175.0 million principal amount of 7.60% Debentures due June 1, 2006. On June 14, 2006, Frontier repurchased \$22.7 million of its 6.75% Senior Notes due August 17, 2006 at a price of 100.181% of par. On August 17, 2006, Frontier retired at par the \$29.1 million remaining balance of the 6.75% Senior Notes.

Issuance of Debt Securities

On March 28, 2008, Frontier borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest based on the prime rate or LIBOR, at Frontier's election, plus a margin which varies depending on its debt leverage ratio. Frontier used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of Frontier's 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

On March 23, 2007, Frontier issued in a private placement an aggregate \$300.0 million principal amount of 6.625% Senior Notes due 2015 and \$450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down \$200.0 million principal amount of indebtedness incurred on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth and redeem, on April 26, 2007, \$495.2 million principal amount of Frontier's 7.625% Senior Notes due 2008. In the second quarter of 2007, Frontier completed an exchange offer (to publicly register the debt) for the \$750.0 million in total of private placement notes described above, in addition to the \$400.0 million principal amount of 7.875% Senior Notes due 2027 issued in a private placement on December 22, 2006, for registered notes.

On December 22, 2006, Frontier issued in a private placement, \$400.0 million principal amount of 7.875% Senior Notes due January 15, 2027. Proceeds from the sale were used to partially finance Frontier's acquisition of Commonwealth. These notes were exchanged for registered securities, as described above.

In December 2006, Frontier borrowed \$150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on an average prime rate or LIBOR, at Frontier's election, plus a margin which varies depending on Frontier's debt leverage ratio. Frontier used the proceeds to partially finance its acquisition of Commonwealth.

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EPPICS

As of December 31, 2008, there was no EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issuance.

In 1996, Frontier's consolidated wholly owned subsidiary, Citizens Utilities Trust, referred to as the Trust, issued, in an underwritten public offering, 4,025,000 shares of EPPICS, representing preferred undivided interests in the assets of the Trust, with a liquidation preference of \$50 per security (for a total liquidation amount of \$201.3 million). These securities had an adjusted conversion price of \$11.46 per share of Frontier common stock. The conversion price was reduced from \$13.30 to \$11.46 during the third quarter of 2004 as a result of the \$2.00 per share of common stock special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase \$207.5 million aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly owned consolidated subsidiary, Citizens Utilities Capital L.P., referred to as the Partnership. The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from Frontier \$211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust were the Partnership Convertible Preferred Securities, and Frontier's Convertible Subordinated Debentures were substantially all the assets of the Partnership. Frontier's obligations under the agreements relating to the issuances of such securities, taken together, constituted a full and unconditional guarantee by Frontier of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, Frontier paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2008, 2007 and 2006. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2008, EPPICS representing a total principal amount of \$197.8 million have been converted into 15,969,645 shares of Frontier common stock. There were no outstanding EPPICS as of December 31, 2008. As a result of the redemption of all outstanding EPPICS as of December 31, 2008, the \$10.5 million in debt with related parties was reclassified by Frontier against an offsetting investment.

Interest Rate Management

On January 15, 2008, Frontier terminated all of its interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with its Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet and is being amortized into interest expense over the term of the associated debt. For 2008, Frontier recognized \$5.0 million of deferred gain. Frontier recognized \$3.2 million and \$3.4 million of deferred gain during the first six months of 2009 and 2008, respectively, and anticipates recognizing \$1.4 million during the remainder of 2009.

The notional amounts of fixed-rate indebtedness hedged as of December 31, 2007 were \$400.0 million. Such contracts required Frontier to pay variable rates of interest (estimated average pay rates of approximately 8.54% as of December 31, 2007) and receive fixed rates of interest (average receive rate of 8.50% as of December 31, 2007). All swaps were accounted for under Statement of Financial Accounting Standards No. 133 (as amended) as fair value hedges. For 2007 and 2006, the interest expense resulting from these interest rate swaps totaled approximately \$2.4 million and \$4.2 million, respectively.

Credit Facility

As of December 31, 2008, Frontier had available lines of credit with seven financial institutions in the aggregate amount of \$250.0 million and there were no outstanding standby letters of credit issued under the facility. Associated facility fees were 0.225% per annum as of December 31, 2008.

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Proceeds from the Sale of Equity Securities

For the years ended December 31, 2008, 2007 and 2006, Frontier received approximately \$1.4 million, \$13.8 million and \$27.2 million, respectively, upon the exercise of outstanding stock options.

Share Repurchase Programs

In February 2008, the Frontier board authorized Frontier to repurchase up to \$200.0 million of Frontier common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 4, 2008 and was completed on October 3, 2008. During 2008, Frontier repurchased 17,778,300 shares of Frontier common stock at an aggregate cost of \$200.0 million.

In February 2007, the Frontier board authorized Frontier to repurchase up to \$250.0 million of its common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 19, 2007 and was completed on October 15, 2007. During 2007, Frontier repurchased 17,279,600 shares of its common stock at an aggregate cost of \$250.0 million.

In February 2006, the Frontier board authorized Frontier to repurchase up to \$300.0 million of its common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 6, 2006. During 2006, Frontier repurchased 10,199,900 shares of its common stock at an aggregate cost of approximately \$135.2 million. No further purchases were made prior to expiration of this authorization.

Future Commitments

A summary of Frontier's future contractual obligations and commercial commitments as of December 31, 2008 is as follows:

Contractual Obligations:

(\$ in thousands)	Total	Payment due by period				
		2009	2010	2011	2012-2013	Thereafter
Long-term debt obligations, excluding interest	\$ 4,732,488	\$ 3,857	\$ 7,236	\$ 1,125,143	\$ 1,009,497	\$ 2,586,755
Interest on long-term debt	4,507,391	357,600	360,361	315,801	494,675	2,978,954
Operating lease obligations	66,500	22,654	11,288	10,211	12,781	9,566
Purchase obligations	34,142	23,286	9,937	259	330	330
FIN No. 48 liability	48,711	1,493	22,086	12,347	12,780	5
Total	<u>\$ 9,389,232</u>	<u>\$ 408,890</u>	<u>\$ 410,908</u>	<u>\$ 1,463,761</u>	<u>\$ 1,530,063</u>	<u>\$ 5,575,610</u>

At December 31, 2008, Frontier had outstanding performance letters of credit totaling \$21.9 million.

Divestitures

On August 24, 1999, the Frontier board approved a plan to divest its public utilities services businesses, which included gas, electric and water and wastewater businesses. Frontier has sold all of these properties. All of the agreements relating to the sales provide that Frontier will indemnify the buyer against certain liabilities (typically liabilities relating to events that occurred prior to sale), including environmental liabilities, for claims made by specified dates and that exceed threshold amounts specified in each agreement.

Discontinued Operations

On July 31, 2006, Frontier sold its CLEC business, ELI, for \$255.3 million (including a later sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations.

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Frontier recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Frontier's after-tax gain on the sale was \$71.6 million. Frontier's cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the federal and state level.

Critical Accounting Policies and Estimates

Frontier reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from those estimates and changes to estimates could occur in the near term. The preparation of Frontier's financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, pension and other postretirement benefits, income taxes, contingencies and purchase price allocations, among others.

Frontier management has discussed the development and selection of these critical accounting estimates with the audit committee of the Frontier board and the audit committee has reviewed the disclosures relating to such estimates.

Allowance for Doubtful Accounts

Frontier maintains an allowance for estimated bad debts based on its estimate of collectability of its accounts receivable through a review of aging categories and specific customer accounts. In 2008 and 2007, Frontier had no "critical estimates" related to telecommunications bankruptcies.

Asset Impairment

In 2008 and 2007, Frontier had no "critical estimates" related to asset impairments.

Intangibles

Frontier's indefinite lived intangibles consist of goodwill and trade name, which resulted from the purchase of ILEC properties. Frontier tests for impairment of these assets annually, or more frequently, as circumstances warrant. All of Frontier's ILEC properties share similar economic characteristics and as a result, Frontier aggregates its four operating segments into one reportable segment. In determining fair value of goodwill during 2008, Frontier compared the net book value of the reporting units to current trading multiples of ILEC properties as well as trading values of its publicly traded common stock. Additionally, Frontier utilized a range of prices to gauge sensitivity. Frontier's test determined that fair value exceeded book value of goodwill for each of its reporting units.

Frontier evaluates goodwill at least annually at December 31, and more often if and when impairment indicators are present. Goodwill by reporting unit (operating segment) at December 31, 2008 is as follows:

(\$ in thousands)	Reporting Units			
	East	West	Central	Rochester
Goodwill	\$501,743	\$34,736	\$1,406,200	\$699,644

Frontier did not have any changes to its operating segments, reporting units, or changes in the allocation of goodwill by reporting unit during the years ended December 31, 2007 and 2008. During the first quarter of 2007 Frontier acquired Commonwealth and included their operations and any related goodwill in Frontier's Central region.

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Each of the above noted reporting units is an operating segment. The first step in the goodwill impairment test compares the carrying value of net assets of the reporting unit to its fair value. The result of this first step indicated that fair value of each reporting unit exceeded the carrying value of such reporting units by a wide margin. As a result, the second step of the goodwill impairment test was not required.

Frontier estimates fair value in two ways: (1) market or transaction based and (2) equity based utilizing Frontier's share price. Market values for rural ILEC properties are typically quoted as a multiple of cash flow or EBITDA. Marketplace transactions and analyst reports support a range of values around a multiple of 6 times annualized EBITDA. For the purpose of the goodwill impairment test Frontier defines EBITDA as operating income plus depreciation and amortization. Frontier determined the fair value estimates using 6 times EBITDA but also used lower EBITDA multiples to gauge the sensitivity of the estimate and its effect on the margin of excess of fair value over the carrying values of the reporting units. Additionally, a second test was performed using Frontier's public market equity value or market capitalization. Market capitalization (current market stock price times total shares outstanding) is a public market indicator of equity value and is useful in corroborating the 6 times EBITDA valuation because Frontier is singularly engaged in rural ILEC operating activities. Equity value at December 31, 2008 was determined using an average stock price of \$8 per share (the stock price on December 31, 2008 was \$8.74) and when compared to the fair value using the EBITDA multiple obtained above, exceeded such value. Frontier also used lower per share stock prices to gauge the sensitivity of the estimate and its effect on the margin of excess fair value over the carrying value. Total market capitalization determined in this manner is then allocated to the reporting units based upon each unit's relative share of consolidated EBITDA. Frontier's method of determining fair value has been consistently applied for the three years ending December 31, 2008.

Depreciation and Amortization

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and identifiable intangible assets. An independent study updating the estimated remaining useful lives of Frontier's plant assets is performed annually.

Pension and Other Postretirement Benefits

Frontier's estimates of pension expense, other postretirement benefits including retiree medical benefits and related liabilities are "critical accounting estimates." Frontier sponsors noncontributory defined benefit pension plans covering a significant number of current and former employees and other postretirement benefit plans that provide medical, dental, life insurance and other benefits for covered retired employees and their beneficiaries and covered dependents. The pension plans for the majority of Frontier's current employees are frozen. All of the employees who are still accruing pension benefits are represented employees. The accounting results for pension and post retirement benefit costs and obligations are dependent upon various actuarial assumptions applied in the determination of such amounts. These actuarial assumptions include the following: discount rates, expected long-term rate of return on plan assets, future compensation increases, employee turnover, healthcare cost trend rates, expected retirement age, optional form of benefit and mortality. Frontier reviews these assumptions for changes annually with its independent actuaries. Frontier considers its discount rate and expected long-term rate of return on plan assets to be its most critical assumptions.

The discount rate is used to value, on a present basis, Frontier's pension and postretirement benefit obligation as of the balance sheet date. The same rate is also used in the interest cost component of the pension and postretirement benefit cost determination for the following year. The measurement date used in the selection of Frontier's discount rate is the balance sheet date. Frontier's discount rate assumption is determined annually with assistance from its actuaries based on the pattern of expected future benefit payments and the prevailing rates available on long-term, high quality corporate bonds that approximate the benefit obligation. In making this determination Frontier considers, among other things, the yields on the Citigroup Pension Discount Curve, the

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Citigroup Above-Median Pension Curve, the general movement of interest rates and the changes in those rates from one period to the next. This rate can change from year-to-year based on market conditions that affect corporate bond yields. Frontier's discount rate was 6.50% at year-end 2008 and 2007.

The expected long-term rate of return on plan assets is applied in determining the periodic pension and postretirement benefit cost as a reduction in the computation of the expense. In developing the expected long-term rate of return assumption, Frontier considered published surveys of expected market returns, 10 and 20 year actual returns of various major indices, and Frontier's historical 5 year, 10 year and 20 year investment returns. The expected long-term rate of return on plan assets is based on an asset allocation assumption of 35% to 55% in fixed income securities, 35% to 55% in equity securities and 5% to 15% in alternative investments. Frontier reviews its asset allocation at least annually and makes changes when considered appropriate. Frontier's asset return assumption is made at the beginning of its fiscal year. In 2008, Frontier did not change its expected long-term rate of return from the 8.25% used in 2007. Frontier's pension plan assets are valued at actual market value as of the measurement date.

No contribution was made to its pension plan during 2008.

Income Taxes

Frontier's effective tax rates in 2006, 2007 and 2008 were approximately at the statutory rates.

Contingencies

At December 31, 2006, Frontier had a reserve of \$8.0 million in connection with a potential environmental claim in Bangor, Maine. This claim was settled with a payment of \$7.625 million plus additional expenses during the third quarter of 2007.

Purchase Price Allocation – Commonwealth and GVN

The allocation of the approximate \$1.1 billion paid to the "fair market value" of the assets and liabilities of Commonwealth is a critical estimate. Frontier finalized its estimate of the fair values assigned to plant, customer list and goodwill, as more fully described in Notes 3 and 7 in the notes to Frontier's audited consolidated financial statements included elsewhere in this proxy statement/prospectus. Additionally, the estimated expected life of a customer (used to amortize the customer list) is a critical estimate.

Verizon's Separate Telephone Operations

Overview

Verizon's wireline business provides communications services, including voice, broadband data and video services, network access, nationwide long distance and other communications products and services. Verizon's Separate Telephone Operations represent a portion of Verizon's wireline business but have not been operated as a distinct business separate from Verizon's wireline business and do not constitute a separate legal entity. Consequently, financial statements had not historically been prepared for Verizon's Separate Telephone Operations. Verizon has a highly diverse workforce of approximately 235,000 employees, including approximately 10,700 employed by Verizon's Separate Telephone Operations.

Verizon's Separate Telephone Operations are comprised of the local exchange business and related landline activities of Verizon in the states of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, including long distance services, Internet access and broadband video provided to designated customers in those states.

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Verizon's Separate Telephone Operations are comprised of portions of Verizon California Inc. and Verizon South Inc., and the stock of Contel of the South, Inc., Verizon Northwest, Verizon North, and Verizon West Virginia Inc. (after the transfer of certain operations, assets and liabilities of Verizon North and Verizon Northwest); also included in Verizon's Separate Telephone Operations are portions of Verizon Long Distance LLC and Verizon Enterprise Solutions LLC and Verizon Online LLC. Verizon's Separate Telephone Operations exclude all activities of Verizon Business Global LLC and Celco.

Verizon California Inc., Verizon Northwest, Verizon North, Verizon South Inc. and Contel of the South, Inc., are wholly owned subsidiaries of GTE Corporation, which is a subsidiary of Verizon. Verizon West Virginia Inc. is a wholly owned subsidiary of Verizon. Verizon Long Distance LLC, Verizon Enterprise Solutions LLC and Verizon Online LLC are indirect wholly owned subsidiaries of Verizon.

Verizon's Separate Telephone Operations have one reportable segment, servicing territories consisting of local access and transport areas, referred to as LATAs, in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin. These LATAs are generally centered on a city or based on some other identifiable common geography. Verizon's Separate Telephone Operations include regulated and unregulated carrier business in thirteen states, consisting principally of:

- local wireline customers and related operations and assets used to deliver:
 - local exchange service,
 - intraLATA toll service,
 - network access service,
 - enhanced voice and data services, and
 - products at retail stores;
- consumer and small business switched long distance customers (excluding any customers of Verizon Business Global LLC);
- dial-up, high-speed Internet (or digital subscriber line) and fiber-to-the-premises Internet service provider customers; and
- broadband video in areas of Indiana, Oregon and Washington.

Many of the communications services Verizon's Separate Telephone Operations provide are subject to regulation by the state regulatory commissions of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, with respect to intrastate rates and services and other matters. In Idaho, Verizon's Separate Telephone Operations has made the election under a statutory amendment into a deregulatory regime that phases out all price regulation. The FCC regulates rates that Verizon's Separate Telephone Operations charge long distance carriers and end-user subscribers for interstate access services and interstate traffic. All of the broadband video services Verizon's Separate Telephone Operations provides, including the payment of franchise fees, are subject to regulation by state regulatory commissions or local governmental authorities.

The sections that follow provide information about the important aspects of Verizon's Separate Telephone Operations and discuss their results of operations, financial position and sources and uses of cash and investments. Also highlighted are key trends and uncertainties related to Verizon's Separate Telephone Operations to the extent practicable. In its operation of Verizon's Separate Telephone Operations, Verizon management also monitors several key economic indicators as well as the state of the United States economy in general in evaluating operating results and assessing the potential impacts of these trends on Verizon's businesses. While most key economic indicators, including gross domestic product, affect Verizon's operations

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to some degree, Verizon management historically has noted higher correlations to non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflationary or recessionary trends and housing starts.

Verizon's Separate Telephone Operations' results of operations, financial position and sources and uses of cash in the periods presented have reflected, and prior to the merger are expected to continue to reflect, a focus on the following strategic imperatives:

Revenue Growth. To generate revenue growth, Verizon management, including in managing Verizon's Separate Telephone Operations, is devoting resources to higher growth markets such as broadband markets as well as continuing to develop and market innovative product bundles to include local, long distance and broadband services for consumer and general business retail customers. Verizon management believes these efforts will help counter the effects of competition and technology substitution that have resulted in access line losses.

Profitability Improvement. Verizon management, including in managing Verizon's Separate Telephone Operations, continues to be sharply focused on cost controls with the objective of driving efficiencies to offset access line losses.

Operational Efficiency. While focusing resources on revenue growth and market share gains, Verizon management, including in managing Verizon's Separate Telephone Operations, is continually challenging its team to lower expenses, particularly through technology-assisted productivity improvements, including self-service initiatives. The effect of these and other efforts, such as real estate consolidation, call center routing improvements, access to Verizon's centralized shared services organization, information technology and marketing efforts, has led to changes in Verizon's cost structure, including in managing Verizon's Separate Telephone Operations, as well as maintaining and improving operating income margins.

Customer Service. Verizon management's goal is to be the leading company in customer service in every market Verizon serves. Verizon management, including in managing Verizon's Separate Telephone Operations, views superior product offerings and customer service experiences as a competitive differentiator and a catalyst to growing revenues and gaining market share. It is committed to providing high-quality customer service and continually monitoring customer satisfaction.

Performance-Based Culture. Verizon management, including in managing Verizon's Separate Telephone Operations, embraces a culture of accountability, based on individual and team objectives that are performance-based and tied to Verizon's strategic imperatives. Key objectives of Verizon's compensation programs are pay-for-performance and the alignment of executives' and shareowners' long-term interests. Verizon, including Verizon's Separate Telephone Operations, also employs a highly diverse workforce, since respect for diversity is an integral part of Verizon's culture and a critical element of its competitive success.

Verizon's Separate Telephone Operations create value by investing the cash flows generated by their business in opportunities and transactions that support their strategic imperatives, thereby increasing customer satisfaction and usage of Verizon's Separate Telephone Operations' products and services. Verizon's Separate Telephone Operations' net cash provided by operating activities for the six months ended June 30, 2009 of \$639 million increased by \$50 million from \$589 million for the six months ended June 30, 2008, despite 566,000 access line losses and lower operating revenues of \$127 million over that same period.

Basis of Presentation

Historically, financial statements have not been prepared for Verizon's Separate Telephone Operations, as they were not operated as a distinct business separate from Verizon's wireline business and do not constitute a separate legal entity. The accompanying combined special-purpose financial statements have been prepared to present the statements of selected assets, selected liabilities and parent funding, and statements of income, parent

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funding and cash flows of Verizon's Separate Telephone Operations in contemplation of a potential spin-off or business combination involving Verizon's Separate Telephone Operations. The accompanying combined special-purpose financial statements have been prepared in accordance with U.S. GAAP using specific information where available and allocations where data is not maintained on a state-specific basis within Verizon's books and records. The allocations impacted substantially all of the income statement items other than operating revenues and balance sheet items with the exception of plant, property and equipment, accumulated depreciation and materials and supplies, which were maintained at the state level. Verizon management believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related assets, liabilities, revenues and expenses of Verizon's Separate Telephone Operations. The financial statements of Verizon's Separate Telephone Operations reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the years and interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year.

The combined special-purpose financial statements include the wireline-related businesses, Internet access and long distance services provided by Verizon's Separate Telephone Operations to customers in the thirteen states in which it operates. All significant intercompany transactions have been eliminated.

*Results of Operations***Three and Six Months Ended June 30, 2009 Compared to the Three and Six Months Ended June 30, 2008**

(\$ in millions)	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2009	2008		2009	2008	
Operating revenues	\$ 1,031	\$ 1,102	(6.4)	\$ 2,074	\$ 2,201	(5.8)
Operating expenses						
Cost of services and sales (exclusive of items shown below)	349	354	(1.4)	677	731	(7.4)
Selling, general and administrative expense	362	252	43.7	598	489	22.3
Depreciation and amortization expense	196	190	3.2	388	378	2.6
Total operating expenses	907	796	13.9	1,663	1,598	4.1
Operating income	124	306	(59.5)	411	603	(31.8)
Other income, net	—	2	(100.0)	—	5	(100.0)
Interest expense	23	45	(48.9)	48	92	(47.8)
Income tax provision	36	86	(58.1)	126	181	(30.4)
Net income	<u>\$ 65</u>	<u>\$ 177</u>	(63.3)	<u>\$ 237</u>	<u>\$ 335</u>	(29.3)
Operating data (in thousands)						
Switched access lines in service				4,492	5,058	(11.2)
Minutes of use (MOUs)				8,345,000	9,845,000	(15.2)
FiOS Internet subscribers				140	90	55.6
FiOS TV subscribers				103	47	119.1
High-Speed Internet subscribers				908	873	4.0

Operating Revenues

Operating revenues during the three months ended June 30, 2009 declined \$71 million, or 6.4%, and \$127 million, or 5.8%, for the six months ended June 30, 2009, compared to the similar periods in 2008. These decreases were principally related to 11.2% fewer switched access lines in service as of June 30, 2009 compared

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to June 30, 2008, driven by competition and technology substitution, partially offset by revenue growth associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions of 55.6%, 119.1% and 4.0%, respectively. Fewer access lines resulted in lower local exchange service revenues and lower Universal Service Fund and end-user common line charge revenues. However, increases in Internet and video revenues resulting principally from increased FiOS and high-speed Internet subscribers totaled \$19 million and \$39 million for the three and six months ended June 30, 2009, respectively, compared to the similar periods in 2008.

Operating Expenses

Cost of services and sales. Cost of services and sales during the three months ended June 30, 2009 declined \$5 million, or 1.4%, and \$54 million, or 7.4%, for the six months ended June 30, 2009, compared to the similar periods in 2008. The decreases were primarily the result of a decline in MOUs of 15.2% for the six months ended June 30, 2009 compared to the similar period in 2008, reduced repair and maintenance expenses and lower Universal Service Fund charges, driven by 11.2% fewer access lines as of June 30, 2009 compared to June 30, 2008, as well as productivity improvements. Partially offsetting this decrease in cost of services and sales were higher costs associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions and a year-to-date adjustment for allocated real estate costs in the second quarter of 2009.

Selling, general and administrative expense. Selling, general and administrative expense during the three months ended June 30, 2009 increased \$110 million, or 43.7%, and \$109 million, or 22.3%, for the six months ended June 30, 2009, compared to the similar periods in 2008. In the second quarter of 2009, pension settlement losses of \$139 million were recorded related to employees that received lump-sum distributions primarily resulting from previous separation plans in which prescribed payment thresholds have been reached. This increase, and higher advertising, contractor and other costs associated with the growth of FiOS Internet, FiOS TV and the high-speed Internet business, in both the three and six months ended June 30, 2009, compared to the similar periods in 2008, were partially offset by lower salary and benefits costs associated with lower allocated headcount and cost reduction initiatives.

Depreciation and amortization. Depreciation and amortization expense during the three months ended June 30, 2009 increased \$6 million, or 3.2%, and \$10 million, or 2.6%, for the six months ended June 30, 2009, compared to the similar periods in 2008. These increases were primarily driven by growth in depreciable telephone plant and equipment from additional capital spending and the impact of asset life changes effective January 1, 2009, partially offset by lower rates of depreciation.

Other Results

Other income, net. Other income, net includes interest income and other non-operating income and expense items. Other income, net during the three months ended June 30, 2009 decreased \$2 million, or 100.0%, and \$5 million, or 100.0%, for the six months ended June 30, 2009, compared to the similar periods in 2008. These decreases were the result of lower income on short-term investments, driven by lower average short-term investment balances during the three and six months ended June 30, 2009, compared to the similar periods in 2008.

Interest expense. Interest expense during the three months ended June 30, 2009 decreased \$22 million, or 48.9%, and \$44 million, or 47.8%, for the six months ended June 30, 2009, compared to the similar periods in 2008. These decreases were primarily driven by lower average debt balances during the three and six months ended June 30, 2009 compared to the similar periods in 2008. During the fourth quarter of 2008, \$700 million of long-term debt with a weighted-average interest rate of 6.1% was repaid. In addition, the average interest rate on affiliate payables was lower during the three and six months ended June 30, 2009 compared to the similar periods in 2008.

Income taxes. The effective income tax rate is the income tax provision stated as a percentage of income before the provision for income taxes. The effective income tax rate for Verizon's Separate Telephone Operations during the three and six months ended June 30, 2009 were 35.6% and 34.7%, respectively, compared

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to 32.7% and 35.1% during the three and six months ended June 30, 2008, respectively. The increase in the three months ended June 30, 2009, compared to the similar period in 2008, was primarily due to a tax benefit recorded in the second quarter of 2008 related to a settlement of uncertain tax positions.

Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

(\$ in millions)	Year Ended December 31,		% Change
	2008	2007	
Operating revenues	\$ 4,352	\$ 4,527	(3.9)
Operating expenses			
Cost of services and sales (exclusive of items shown below)	1,435	1,523	(5.8)
Selling, general and administrative expense	1,114	1,049	6.2
Depreciation and amortization expense	759	796	(4.6)
Total operating expenses	3,308	3,368	(1.8)
Operating income	1,044	1,159	(9.9)
Other income, net	7	10	(30.0)
Interest expense	186	203	(8.4)
Income tax provision	313	363	(13.8)
Net income	\$ 552	\$ 603	(8.5)
Operating data (in thousands)			
Switched access lines in service	4,766	5,307	(10.2)
Minutes of use (MOUs)	1 8,711,000	2 0,902,000	(10.5)
FiOS Internet subscribers	110	71	54.9
FiOS TV subscribers	69	26	165.4
High-Speed Internet subscribers	887	848	4.6

Operating Revenues

Operating revenues during 2008 of \$4,352 million declined \$175 million, or 3.9% compared to 2007. This decrease was principally related to 10.2% fewer switched access lines in service driven by competition and technology substitution, partially offset by revenue growth associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions of 54.9%, 165.4% and 4.6%, respectively. Fewer access lines resulted in lower local exchange service revenues and lower Universal Service Fund and end-user common line charge revenues. However, increases in Internet and video revenues resulting principally from increased FiOS and high-speed Internet subscribers totaled \$92 million.

Operating Expenses

Cost of services and sales. Cost of services and sales in 2008 of \$1,435 million declined \$88 million, or 5.8% compared to 2007. The decrease was primarily the result of lower MOUs of 10.5%, reduced repair and maintenance expenses and lower Universal Service Fund charges, driven by 10.2% fewer access lines, as well as productivity improvements. Partially offsetting this decrease in cost of services and sales were higher costs associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions.

Selling, general and administrative expense. Selling, general and administrative expense in 2008 of \$1,114 million increased \$65 million, or 6.2% compared to 2007. Higher advertising, contractor and other costs associated with the growth of FiOS Internet, FiOS TV and the high-speed Internet business and lower gains on asset sales in 2008 as well as pension settlement losses were partially offset by lower salary and benefits costs associated with lower allocated headcount and cost reduction initiatives.

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Depreciation and amortization. Depreciation and amortization expense in 2008 of \$759 million decreased \$37 million, or 4.6% compared to 2007 primarily driven by lower rates of depreciation, partially offset by growth in depreciable telephone plant and equipment from additional capital spending.

Other Results

Other income, net. Other income, net in 2008 of \$7 million declined \$3 million, or 30.0% compared to 2007 as a result of lower income on short-term investments, driven by lower average short-term investment balances during 2008 compared to 2007.

Interest expense. Interest expense in 2008 of \$186 million declined \$17 million, or 8.4% compared to 2007. The decrease was primarily driven by lower average debt balances during 2008 compared to 2007. During the fourth quarter of 2008, \$700 million of long-term debt with a weighted-average interest rate of 6.1% was repaid. In addition, the average interest rate on affiliate payables was lower during 2008 compared to 2007. These decreases were partially offset by higher average affiliate payables in 2008 compared to 2007.

Income taxes. The effective income tax rate for Verizon's Separate Telephone Operations during 2008 was 36.2% compared to 37.6% during 2007. The decline in the effective income tax rate was primarily due to a tax benefit recorded in 2008 related to interest on uncertain tax positions.

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

(\$ in millions)	Year Ended December 31,		% Change
	2007	2006	
Operating revenues	\$ 4,527	\$ 4,674	(3.1)
Operating expenses			
Cost of services and sales (exclusive of items shown below)	1,523	1,540	(1.1)
Selling, general and administrative expense	1,049	1,065	(1.5)
Depreciation and amortization expense	796	907	(12.2)
Total operating expenses	3,368	3,512	(4.1)
Operating income	1,159	1,162	(0.3)
Other income, net	10	54	(81.5)
Interest expense	203	199	2.0
Income tax provision	363	379	(4.2)
Net income	<u>\$ 603</u>	<u>\$ 638</u>	(5.5)
Operating data (in thousands)			
Switched access lines in service	5,307	5,767	(8.0)
Minutes of use (MOUs)	2 0,902,000	2 3,496,000	(11.0)
FiOS Internet subscribers	71	36	97.2
FiOS TV subscribers	26	—	100.0
High-speed Internet subscribers	848	742	14.3

Operating Revenues

Operating revenues during 2007 of \$4,527 million declined \$147 million, or 3.1% compared to 2006. This decrease was principally related to 8.0% fewer switched access lines in service driven by competition and technology substitution, partially offset by revenue growth associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions of 97.2%, 100.0% and 14.3%, respectively. Fewer access lines resulted in lower local exchange service revenues and lower Universal Service Fund and end-user common line charge revenues. However, increases in Internet and video revenues resulting principally from increased FiOS and high-speed Internet subscribers totaled \$66 million.

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Operating Expenses

Cost of services and sales. Cost of services and sales in 2007 of \$1,523 million declined \$17 million, or 1.1% compared to 2006. The decrease was primarily the result of lower MOUs of 11.0%, reduced repair and maintenance expenses and lower Universal Service Fund charges, driven by 8.0% fewer access lines, as well as productivity improvements. Largely offsetting this decrease in cost of services and sales were higher costs associated with FiOS Internet, FiOS TV and high-speed Internet subscriber additions.

Selling, general and administrative expense. Selling, general and administrative expense in 2007 of \$1,049 million decreased \$16 million, or 1.5% compared to 2006. Lower salary and benefits costs associated with lower allocated headcount and cost reduction initiatives and higher gains on asset sales in 2007 were largely offset by higher advertising, contractor and other costs associated with the growth of FiOS Internet, FiOS TV and the high-speed Internet business.

Depreciation and amortization. Depreciation and amortization expense in 2007 of \$796 million decreased \$111 million, or 12.2% compared to 2006 primarily driven by lower rates of depreciation, including the impact of asset life changes effective January 1, 2007, partially offset by growth in depreciable telephone plant and equipment from additional capital spending.

Other Results

Other income, net. Other income, net in 2007 of \$10 million declined \$44 million, or 81.5% compared to 2006 as a result of lower income on short-term investments, driven by stock sales and gains on the early retirement of debt in 2006.

Interest expense. Interest expense in 2007 of \$203 million increased \$4 million, or 2.0% compared to 2006. The increase was primarily driven by higher affiliated payable balances in 2007 compared to 2006, partially offset by lower average debt balances during 2007 compared to 2006. During 2006, \$392 million of long-term debt with a weighted average interest rate of 7.8% was repaid.

Income taxes. The effective income tax rate for Verizon's Separate Telephone Operations during 2007 was 37.6% compared to 37.3% during 2006.

Off-Balance Sheet Arrangements

Verizon's Separate Telephone Operations do not have any off-balance sheet arrangements.

Critical Accounting Policies

Verizon's Separate Telephone Operations' critical accounting policies are as follows:

- accounting for pension and other postretirement benefits;
- accounting for income taxes; and
- depreciation of plant, property and equipment.

Accounting for Pension and Other Postretirement Benefits. Most of Verizon's Separate Telephone Operations' employees participate in Verizon's defined benefit pension plans and other postretirement benefit plans. In the aggregate, pension plan obligations exceed the fair value of pension plan assets, which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant pension and other postretirement benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets, and medical cost trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations.

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Accounting for Income Taxes. Verizon's Separate Telephone Operations' current and deferred income taxes, and any associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. Verizon's Separate Telephone Operations account for tax benefits taken or expected to be taken in Verizon's tax returns in accordance with Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

Depreciation of Plant, Property and Equipment. Verizon's Separate Telephone Operations recognize depreciation on plant, property, and equipment principally on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the markets where Verizon's Separate Telephone Operations operate, can have a significant impact on asset balances and depreciation expense.

All of Verizon's Separate Telephone Operations' significant accounting policies are described in Note 1 to the combined special-purpose financial statements of Verizon's Separate Telephone Operations included elsewhere in this proxy statement/prospectus.

Transactions with Affiliates

Operating revenue reported by Verizon's Separate Telephone Operations includes transactions with Verizon for the provision of local telephone services, network access, billing and collection services, interconnection agreements and the rental of facilities and equipment. These services were reimbursed by Verizon based on tariffed rates, market prices, negotiated contract terms that approximated market rates, or actual costs incurred by Verizon's Separate Telephone Operations.

Verizon was reimbursed by Verizon's Separate Telephone Operations for specific goods and services it provided to, or arranged for, Verizon's Separate Telephone Operations based on tariffed rates, market prices or negotiated terms that approximated market rates. These goods and services included items such as communications and data processing services, office space, professional fees and insurance coverage.

Verizon was also reimbursed by Verizon's Separate Telephone Operations for Verizon's Separate Telephone Operations' share of costs incurred by Verizon to provide services on a common basis to all of its subsidiaries. These costs included allocations for marketing, sales, accounting, finance, materials management, procurement, labor relations, legal, security, treasury, human resources, and tax and audit services. The allocations were based on actual costs incurred by Verizon and periodic studies that identified employees or groups of employees who were totally or partially dedicated to performing activities that benefited Verizon's Separate Telephone Operations. These allocations were also based on the size of Verizon's Separate Telephone Operations relative to other Verizon subsidiaries. Verizon management believes that these cost allocations are reasonable for the services provided and also believes that these cost allocations are consistent with the nature and approximate amount of the costs that Verizon's Separate Telephone Operations would have incurred on a stand-alone basis.

Verizon's Separate Telephone Operations also recognized an allocated portion of interest expense in connection with their contractual agreements with Verizon for the provision of short-term financing and cash management services. Verizon issues commercial paper and obtains bank loans to fund its working capital requirements, including those of Verizon's Separate Telephone Operations, and invests funds in temporary investments.

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The affiliate operating revenue and expense amounts included only Verizon's Separate Telephone Operations local exchange business and related landline activities. Because operating expenses associated with Verizon's Separate Telephone Operations' long distance and Internet operations were determined predominantly through allocations, separate identification of the affiliate transactions was not available.

Liquidity and Capital Resources

Verizon's Separate Telephone Operations use net cash generated from operations to fund capital expenditures and repay external and affiliate debt.

Cash Flows Provided By Operating Activities. Net cash provided by operating activities was \$639 million and \$589 million for the six months ended June 30, 2009 and 2008, respectively, and \$1,426 million, \$1,181 million and \$1,562 million for the years ended December 31, 2008, 2007 and 2006, respectively. Historically, Verizon's Separate Telephone Operations' principal source of funds was cash generated from operations.

In the six months ended June 30, 2009, cash from operating activities increased \$50 million compared to the similar period in 2008 primarily as a result of favorable working capital requirements. The decrease in working capital requirements was driven by an increase in accounts payable and accrued liabilities as a result of an increase in taxes payable.

In 2008, cash from operating activities increased \$245 million compared to 2007 as a result of an increase in accrued employee retirement benefits and a decrease in working capital requirements. The decrease in working capital requirements was driven by an increase in accounts payable and accrued liabilities.

In 2007, the decrease in cash from operating activities of \$381 million compared to 2006 was primarily driven by a decrease in earnings, depreciation and amortization and accrued employee retirement benefits and an increase in working capital requirements. The increase in working capital requirements was principally driven by the decrease in accounts payables and accrued liabilities.

Cash Flows Used In Investing Activities. Net cash used in investing activities was \$253 million and \$294 million for the six months ended June 30, 2009 and 2008, respectively, and \$578 million, \$660 million and \$705 million for years ended December 31, 2008, 2007 and 2006, respectively. Capital expenditures were Verizon's Separate Telephone Operations' primary use of capital resources and facilitated the introduction of new products and services, enhanced responsiveness to competitive challenges and increased the operating efficiency and productivity of Verizon's Separate Telephone Operations' networks. Including capitalized software, Verizon's Separate Telephone Operations invested \$279 million and \$364 million during the six months ended June 30, 2009 and 2008, respectively, and \$730 million, \$703 million and \$702 million during the years ended December 31, 2008, 2007 and 2006, respectively. The decrease in capital spending in the six months ended June 30, 2009 compared to the similar period in 2008 was primarily due to lower capital spending levels across Verizon's wireline operations. The increase in capital spending in 2008 was primarily due to increased spending in high growth areas, including FiOS Internet, FiOS TV and high-speed Internet.

Verizon's Separate Telephone Operations' short-term investments principally include cash equivalents held in trust accounts for payment of employee benefits. In 2008, 2007 and 2006, Verizon's Separate Telephone Operations invested \$13 million, \$160 million and \$189 million, respectively, in short-term investments, to pre-fund active employees' health and welfare benefits. In 2008, Verizon's Separate Telephone Operations significantly decreased its annual trust funding. In the six months ended June 30, 2009 and 2008, Verizon's Separate Telephone Operations received proceeds from the sale of short-term investments by employee benefit trust accounts for the payments of employee benefits of \$26 million and \$66 million, respectively. Proceeds from the sales of all short-term investments, principally for the payment of employee benefits, were \$161 million, \$175 million and \$174 million in 2008, 2007 and 2006, respectively.

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Cash Flows Used In Financing Activities. Net cash used in financing activities was \$386 million and \$295 million for the six months ended June 30, 2009 and 2008, respectively, and \$848 million, \$521 million and \$857 million for the years ended December 31, 2008, 2007 and 2006, respectively. The funding sources of Verizon's Separate Telephone Operations are included in parent funding in the combined statements of selected assets, selected liabilities and parent funding of Verizon's Separate Telephone Operations without regard to whether the funding represents intercompany debt or equity. Verizon's Separate Telephone Operations participate in the centralized cash management services provided by Verizon. Verizon issued commercial paper and obtained bank loans to fund the working capital requirements of Verizon subsidiaries, including the companies that historically comprised Verizon's Separate Telephone Operations, and invested funds in temporary investments on their behalf.

During the fourth quarter of 2008, Verizon North's 5.65% debentures of \$250 million, Verizon Northwest's 5.55% debentures of \$200 million and Verizon North's 6.9% debentures of \$250 million matured and were repaid.

During the second quarter of 2006, \$392 million of debt was repaid, including Verizon North's 7.625% debentures of \$200 million, Verizon Northwest's 7.875% debentures of \$175 million and \$17 million of other debt.

Summary of Contractual Obligations

The following table discloses aggregate information about Verizon's Separate Telephone Operations' contractual obligations as of December 31, 2008 and the periods in which payments are due:

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual obligations:					
Long-term debt, including current maturities	\$ 622	\$ —	\$372	\$—	\$ 250
Interest on long-term debt	374	41	42	35	256
Operating leases	33	10	13	7	3
Total contractual obligations	\$1,029	\$ 51	\$427	\$ 42	\$ 509

Note: Verizon management is not able to make a reliable estimate of when the balance of \$47 million of unrecognized tax benefits and related interest and penalties that exist at December 31, 2008 will be settled with the respective taxing authorities until issues or examinations are further developed. Consequently, no amounts related to these tax benefits were included in the table above.

Distribution Date Indebtedness

Prior to the distribution date, all intercompany loans from Verizon to the Spinco business will be settled. It is anticipated that \$200 million in principal amount of 6.375% Debentures Series F, due February 15, 2010, originally issued by GTE North Incorporated, that was outstanding as of June 30, 2009 will mature prior to the closing date of the merger. As a result, the parties anticipate that distribution date indebtedness will consist of the debentures described below. However, if the \$175 million in principal amount of 6.30% Debentures, Series C, due June 1, 2010 issued by GTE Northwest Incorporated, referred to as the GTE Northwest debentures, mature prior to the closing date of the merger, the obligations under the GTE Northwest debentures will not be included in the distribution date indebtedness.

\$50,000,000 8.40% Debentures due 2029

In October 1989, The Chesapeake and Potomac Telephone Company of West Virginia, a subsidiary of Verizon renamed Verizon West Virginia Inc. that will become a Spinco subsidiary, issued \$50.0 million in

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aggregate principal amount of 8.40% Debentures due October 15, 2029, referred to as the West Virginia debentures, in a private placement. The West Virginia debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

GTE North Incorporated \$200,000,000 6.73% Debentures, Series G, due 2028

In February 1998, GTE North Incorporated, a subsidiary of Verizon renamed Verizon North Inc. that will become a Spinco subsidiary, issued \$200,000,000 in aggregate principal amount of 6.73% Debentures, Series G, due February 15, 2028, referred to as the GTE North debentures, in a transaction registered under the Securities Act. The GTE North debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

GTE Northwest Incorporated \$175,000,000 6.30% Debentures, Series C, due 2010

In June 1998, GTE Northwest Incorporated, a subsidiary of Verizon renamed GTE Northwest Inc. that will become a Spinco subsidiary, issued \$175,000,000 in aggregate principal amount of 6.30% Debentures, Series C, due June 1, 2010, referred to as the GTE Northwest debentures, in a transaction registered under the Securities Act. The GTE Northwest debentures are the obligor's senior, unsecured obligations that rank equally in right of payment with all of the obligor's existing and future senior indebtedness and rank senior in right of payment to all of the obligor's existing and future subordinated indebtedness. None of these debentures have been, or will be, guaranteed by Spinco or any of its subsidiaries.

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DESCRIPTION OF THE BUSINESS OF THE COMBINED COMPANY

General

After completion of the merger, the combined company is expected to be the nation's largest communications services provider focused on rural areas and small and medium-sized towns and cities, and the nation's fifth largest incumbent local exchange carrier, with more than 7,000,000 access lines, 8,600,000 voice and broadband connections and 16,000 employees in 27 states on a pro forma basis as of December 31, 2008. The combined company will offer voice, data and video services to customers in its expanded geographic footprint. Assuming the merger had occurred on January 1, 2008, the combined company's revenues on a pro forma basis would have been approximately \$6.5 billion for the year ended December 31, 2008, and approximately \$3.1 billion for the six months ended June 30, 2009.

Competitive Strengths

Frontier believes that, following the merger, the combined company will be distinguished by the following competitive strengths:

Enhanced scale and scope. The increased scale and scope of the combined company will allow Frontier to leverage its common support functions and systems (such as corporate administrative functions and information technology and network systems) to achieve both operating expense and capital expenditure synergies. Frontier currently anticipates that, by 2013, the combined company's annualized cost synergies will reach approximately \$500 million, which represents approximately 21% of the cash operating expenses of Verizon's Separate Telephone Operations in 2008.

Broader footprint and greater revenue opportunities. Although Frontier currently operates in 11 of the 14 states in which the Spincor business operates, the existing incumbent local exchange footprints of the businesses do not overlap. In addition, the customers of the Spincor business generally have a profile similar in characteristics such as age, income and property ownership to Frontier's existing customers. The combined company therefore will have a broader operating footprint that will provide greater revenue opportunities through the expansion of Frontier's existing operating strategies into the Spincor territory, as well as through greater broadband penetration and new product and services offerings (such as bundled service packages) in the Spincor territory.

Strong financial profile with lower leverage. The combined company would have had 2008 pro forma revenue of approximately \$6.5 billion, compared to revenue of approximately \$2.2 billion for Frontier on a stand-alone basis in the year ended December 31, 2008. Taking into account the significant decrease in the combined company's leverage and the combined company's anticipated decrease in the annual dividend to \$0.75 per share of common stock, the combined company is expected to have a strengthened financial profile, with a more sustainable dividend payout ratio and the ability to achieve an investment grade credit rating within a reasonable period of time following the merger.

Experienced management team with proven track record. The combined company will be managed by Frontier's current senior management team with a proven track record of successful business integration, as demonstrated by its integration of the former GTE properties and former Rochester Telephone, Commonwealth and GVN businesses into Frontier, as well as its consolidation of five billing systems covering 1.7 million access lines into a single system over the past five years.

Strategy

Following the merger, Frontier expects that the key elements of the combined company's strategy will be to:

Expand broadband footprint. The combined company will concentrate on broadband as a core component of its service offering and growth. As of June 30, 2009, approximately 92% of Frontier's current customer base had access to Frontier's broadband or other high-speed data products, whereas only 62.5% of the customers of

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the Spinco business had access to Verizon's broadband or other high-speed data products. Frontier plans to focus its capital expenditures on the expansion of broadband availability in the Spinco markets and views this expansion as an opportunity to satisfy customer needs and expectations, retain a greater number of customers and increase average revenue per customer.

Increase revenue per customer. The combined company will leverage the successful sales and marketing practices that Frontier currently employs throughout its markets, including the sale of voice, data and video services as bundled packages and the use of promotions and incentives, including gifts such as personal computers, digital cameras and gift cards, to drive market share. Frontier believes these marketing strategies will present a significant opportunity to increase revenue per access line as well as strengthen customer relationships and improve customer retention. The combined company will tailor its services to the needs of its residential and business customers in the markets it serves and continually evaluate the introduction of new and complementary products and services. Frontier expects the combined company, over time, to increase broadband availability to the current Spinco customer base and, through innovative packages and promotions, improve subscription rates for broadband services in the Spinco territory. The combined company may also develop broadband video services in certain parts of the combined company's territories and incorporate these services into its offerings, while at the same time continue to offer satellite video products. Frontier expects that, as the combined company strives to provide its customers with a diverse range of communications services, it will consider entering into and enhancing partnerships for other services that Frontier or the Spinco business does not currently provide in its markets. In addition, Frontier has implemented and will continue to implement several growth initiatives that will affect the combined company, including efforts to increase Frontier's marketing expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand, such as wireline and wireless HSI, satellite video products and the "Frontier Peace of Mind" computer technical support. The combined company will also focus on providing a number of different service offerings, including unlimited long distance minutes, bundles of long distance minutes, wireless data and Internet portal advertising.

Enhance customer loyalty through local engagement. The combined company will continue Frontier's existing strategy of engaging the markets at the local level to ensure that it has a customer-driven sales and service focus, including differentiating the service offerings and bundled packages to customers in different markets to ensure that customers are satisfied based on their specific needs. Local markets of the combined company will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. The combined company will also continue the current community involvement practices of Frontier and the Spinco business to create a competitive advantage through long-term customer loyalty. The combined company will be committed to providing best-in-class service throughout its markets and, by doing so, expects to maximize retention of its customers and gain new customers.

Ensure integration of the Spinco business. Pursuant to the merger agreement and the other transaction agreements, Frontier expects the Spinco business (other than with respect to West Virginia) will continue to operate with its existing single platform on an independent basis immediately following the merger, and the Spinco business with respect to West Virginia will be integrated into Frontier's existing systems contemporaneously with the closing of the merger. The main integration effort required for the combined company to operate the Spinco business immediately following the merger will therefore be completed prior to the closing of the merger, freeing up the resources of the combined company to implement further consolidation strategies to achieve cost savings.

Increase operating efficiencies and realize cost savings. Frontier estimates that, by 2013, the combined company's annualized cost savings will reach approximately \$500 million by leveraging the scalability of Frontier's existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions (including certain functions formerly provided by Verizon, or other third-party service providers, to the Spinco business). The realization of these annualized cost savings is expected to be achieved during the first two and a half years after the closing of the merger as the Spinco business's

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network and information technology systems and processes are fully integrated with those of Frontier. However, there can be no assurance that these or any other cost savings will actually be realized. See “Risk Factors—Risks Relating to the Spin-Off and the Merger—The combined company may not realize the growth opportunities and cost synergies that are anticipated from the merger.”

Growth through selective acquisitions. Following the closing of the merger, Frontier expects that the combined company will evaluate and pursue select strategic acquisitions that would enhance revenues and cash flows, although for two years following the closing of the merger the combined company may not enter into any agreement, understanding or arrangement with respect to any transaction involving the acquisition, issuance, repurchase, or change of ownership of the combined company’s capital stock. See “The Transaction Agreements—Additional Agreements Between Frontier, Verizon and their Affiliates—The Tax Sharing Agreement.” Frontier expects that the combined company will continue to adhere to Frontier’s traditional selective criteria in its acquisition analysis.

Services

The combined company will offer a broad portfolio of high-quality communications services for residential and business customers in each of the markets in which Frontier and the Spinco business currently operate. These include services traditionally associated with local telephone companies, as well as other services such as long distance, Internet access and broadband-enabled services as well as video services. Based on its understanding of local customers’ needs, the combined company will offer bundled service packages designed to simplify customer purchasing decisions as well as to provide pricing discounts. The combined company will also offer incentives and promotions such as gifts to influence customers to purchase or retain certain services. Customer retention will also be enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing or other incentives and promotions. The combined company will be staffed locally with skilled technicians and supervisory personnel, which will enable it to provide efficiently and reliably an array of communications services to meet its customers’ needs. Local markets of the combined company will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets.

Generation of Revenue

The combined company will primarily generate revenue through the provision of basic local telephone wireline services to residential and business customers in its service areas; network access to interexchange carriers for origination and termination of long distance voice and data traffic; long distance services; data and Internet services; directory listing and advertising; sales of third-party and owned video services; and wireless data services.

Local services. The combined company will provide basic telephone wireline services to residential and business customers in its service areas. The combined company’s service areas will be largely residential and generally less densely populated than the primary service areas of the largest incumbent local exchange carriers. The combined company will also provide enhanced services to its customers by offering a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. All of these local services will be billed monthly in advance. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company’s balance sheet and recognized as revenue over the period that the services are provided. The combined company will also offer packages of communications services. These packages permit customers to bundle their basic telephone line service with their choice of enhanced, long distance, video and Internet services for a monthly fee or usage fee, depending on the plan. The combined company intends to seek to increase the penetration of those enhanced and other services described above. Frontier believes that increased sales of such services will produce revenues with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. Frontier believes that its ability to integrate these services with other services will provide the combined company with the opportunity to capture an increased percentage of its customers’ communications expenditures.

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Data and Internet services. The combined company will offer data services, including Internet access (via high-speed or dial-up Internet access), frame relay, Metro ethernet and ATM switching services. The combined company will offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits. Such services are generally offered on a contract basis and the service is billed on a fixed monthly recurring charge basis. Data and Internet services are typically billed monthly in advance. The unearned portion of these fees will be initially deferred as a component of other liabilities on the combined company's balance sheet and recognized as revenue over the period that the services are provided.

Access services. Switched access services allow other carriers to use the combined company's facilities to originate and terminate their long distance voice and data traffic. These services are generally offered on a month-to-month basis and the service is generally billed on a minutes-of-use basis. Access charges are based on access rates filed with the FCC for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and the USF based on the high cost of providing telephone service to certain rural areas will be a part of the combined company's access services revenues. Revenue is recognized when services are provided to customers or when products are delivered to customers. Monthly recurring access service fees will be billed in advance. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company's balance sheet and recognized as revenue over the period that the services are provided.

Long distance services. The combined company will offer long distance services to customers in its territories. Frontier believes that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Long distance network service to and from points outside of the combined company's operating territories will be provided by interconnection with the facilities of interexchange carriers. The combined company's long distance services will be billed either on an unlimited or fixed number of minutes basis in advance or on a per minute-of-use basis in arrears. The earned but unbilled portion of these fees will be recognized as revenue and accrued in accounts receivable in the period that the services are provided.

Directory services. Directory services involves the provision of white and yellow page directories for residential and business listings. The combined company will provide this service through third-party contractors. In most of the combined company's markets that were Frontier's markets prior to the merger, the third-party contractors will be paid a percentage of revenues from the sale of advertising in these directories. In the remaining markets that were Frontier's markets prior to the merger, the combined company will receive a flat fee from the contractors. In the Spincos territory, the directory services are expected to be provided through a third-party contractor, but the combined company will not receive any fees for listing or advertising. The combined company's directory service will also include "Frontier Pages," an Internet-based directory service which generates advertising revenues.

Other services. Other services that Frontier expects the combined company to provide include:

Video services. The combined company will continue to offer a video product under an agency relationship with DISH Network in the areas in which Frontier currently operates and will also seek to offer a satellite video product in the Spincos territory under an agency relationship. In each case the combined company will bill the customer for the monthly services and remit those billings to the satellite video provider without recognizing any revenue. The combined company will in turn receive from the satellite video provider and recognize as revenue activation fees, other residual fees and nominal management, billing and collection fees. Additionally, the combined company will continue to offer broadband video services that are similar to FiOS in the states of Indiana, Oregon and Washington.

Wireless services. The combined company will offer wireless data services in select markets. The combined company's wireless data services will utilize technologies that are relatively new, and the combined company will depend to some degree on the representations of equipment vendors, lab testing and the experiences of

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others who have been successful at deploying these new technologies. Revenue will be recognized when services are provided to customers. Long-term contracts will be billed in advance on an annual or semi-annual basis. End-user subscribers will be billed in advance on a monthly recurring basis and colleges, universities and businesses will be billed on a monthly recurring basis for a fixed number of users. The unearned portion of this revenue will be initially deferred as a component of other liabilities on the combined company's balance sheet and later recognized as revenue over the period that the services are provided. Hourly, daily and weekly casual end-users are billed by credit card at the time of use.

Service Areas

Following the merger, the combined company will serve approximately 24 homes per square mile. Based on the number of access lines operated by Frontier and the Spinco business as of December 31, 2008, approximately 65% of the combined company's access lines would have been residential, 33% business and 2% wholesale.

The following table sets forth the combined number of access lines in the states in which Frontier and the Spinco business operated as of December 31, 2008.

<u>State</u>	<u>Access Lines of Frontier</u>	<u>Access Lines of the Spinco Business</u>	<u>Access Lines of the Combined Company</u>	<u>Percentage of Access Lines of the Combined Company</u>
West Virginia	143,982	617,036	761,018	10.8%
Indiana	4,647	718,251	722,898	10.2
New York	683,880	—	683,880	9.7
Illinois	97,461	573,321	670,782	9.5
Ohio	552	634,153	634,705	9.0
Washington	—	578,506	578,506	8.2
Michigan	19,102	507,462	526,564	7.5
Pennsylvania	427,489	—	427,489	6.1
Wisconsin	62,007	281,350	343,357	4.9
Oregon	12,626	309,904	322,530	4.6
North Carolina	—	263,479	263,479	3.7
Minnesota	210,983	—	210,983	3.0
California	143,871	24,205	168,076	2.4
Arizona	145,241	6,297	151,538	2.2
Idaho	20,035	113,002	133,037	1.9
South Carolina	—	127,718	127,718	1.8
Other States ⁽¹⁾	282,457	35,989	318,446	4.5
Total:	2,254,333	4,790,673	7,045,006	100.0

(1) Includes Tennessee, Nevada, Iowa, Nebraska, Alabama, Utah, Georgia, New Mexico, Montana, Mississippi and Florida.

Sales and Marketing

The combined company will focus on service to local communities, utilizing Frontier's local leadership model in the execution of sales, marketing and service initiatives. The combined company will also maintain Frontier's traditional focus on individual customers. Frontier plans for the combined company to invest in infrastructure improvements and enhancements each year, recognizing that the economic livelihood of the communities it serves will affect opportunities to grow the business. The combined company will therefore have a vested interest in the economic development of the communities it serves.

The combined company will seek to differentiate itself from its competitors by providing an attractive range of services and a superior level of service to each of its customers, supported by local sales and service

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representatives, technicians and supervisory personnel. Local market operations of the combined company will be managed by local leadership with responsibility for the customer experience, as well as the financial results, in those markets. The combined company will offer competitively priced bundled services across voice, data and video products and other incentives and promotions (such as gifts) to further enhance its market position.

As the combined company strives to provide its customers with a diverse range of communications services, it will also consider entering into and enhancing partnerships for other services that it does not currently provide through its own network. Frontier has implemented and will continue to implement several growth initiatives that will benefit the combined company, including the launch of new products and services with a focus on areas that are growing or demonstrate meaningful demand. Some of those areas in which Frontier has already launched products and services include unlimited long distance minutes, wireline and wireless HSI, satellite video products, "Frontier Peace of Mind" computer technical support, Internet-based directory services and Internet portal advertising. The combined company will continue to focus on growing those products and services and to offer new ones that would be attractive to its customers.

Network Architecture and Technology

The combined company's local exchange carrier networks will consist of central office hosts and remote sites, primarily equipped with digital switches. The outside plant will consist of transport and distribution delivery networks connecting the combined company's host central office with remote central offices and ultimately with its customers. The combined company will own fiber optic and copper cable, which have been deployed in Frontier's and the Spinco business's networks and will be the primary transport technologies between the combined company's host and remote central offices and interconnection points with other incumbent carriers.

The combined company's fiber optic and copper transport system will be capable of supporting increasing customer demand for high bandwidth transport services. This system supports advanced services including ATM, Frame Relay, VoIP, Ethernet, and Internet Protocol Transport, facilitating delivery of advanced services as demand warrants.

As of June 30, 2009, approximately 92% of Frontier's customer base had access to Frontier's broadband or other high-speed data products. As of June 30, 2009, approximately 62.5% of the customer base of the Spinco business had access to Verizon's broadband or other high-speed data products.

Rapid and significant changes in technology are expected in the communications industry. The combined company's success will depend, in part, on its ability to anticipate and adapt to technological changes. Frontier believes that its network architecture will enable the combined company to respond to these technological changes efficiently. In addition, Frontier expects the combined company to improve profitability by reducing costs through the sharing of best practices across operations, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability.

Competition

Competition in the communications industry is intense and increasing. Frontier expects that the combined company will experience competition from many communications providers with a full array of products and services. Those providers include cable operators offering VoIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and other wireline carriers. Frontier also believes that competition will continue to intensify in the remainder of 2009 and beyond and may result in reduced revenues for Frontier and the Spinco business. Both Frontier's business and the Spinco business

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experienced erosion in access lines and switched access minutes in 2008 and the first half of 2009 primarily as a result of competition and business downsizing, as well as reductions in revenue.

The recent severe contraction in the global financial markets and ongoing recession may affect consumer behavior to reduce household expenditures by not purchasing the combined company's services and/or by discontinuing existing services of Frontier or the Spinco business. These trends are likely to continue and may result in a challenging revenue environment. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect the combined company's ability to collect money owed to it by residential and business customers.

The combined company will employ a number of strategies to combat the competitive pressures and changes to consumer behavior noted above. Such strategies will focus in the following areas: customer retention, upgrading and up-selling services to the existing customer base of Frontier and the Spinco business, new customer growth, win backs of former customers, new product deployment, and operating expense reductions.

The combined company will aim to achieve its customer retention goals by bundling services around the local access line and providing exemplary customer service. Bundled services include HSI, unlimited long distance calling, enhanced telephone features and video offerings. The combined company will tailor these services to the needs of its residential and business customers in the markets it serves and continually evaluate the introduction of new and complementary products and services, which can also be purchased separately. Customer retention will also be enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing or promotional offers. Additionally, the combined company will focus on enhancing the customer experience and providing exceptional customer service to differentiate itself from the competition. Frontier has previously expanded its customer service hours, shortened the scheduling windows for in-home appointments and implemented call reminders and follow-up calls for service appointments. In addition, local markets of the combined company will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets.

The combined company will utilize targeted and innovative promotions to attract new customers, including those moving into the combined company's territory, win back former customers, upgrade and up-sell existing customers on a variety of service offerings including HSI, video, and enhanced long distance and feature packages in order to maximize the average revenue per access line (wallet share) paid to the combined company. Depending upon market and economic conditions, the combined company may offer such promotions to drive sales and may offer additional promotions in the future.

Lastly, the combined company will focus on a number of different service offerings, including unlimited long distance minutes, bundles of long distance minutes, wireless data, Internet portal advertising and the "Frontier Peace of Mind" product suite. This last category is a suite of products aimed at managing the total communications and personal computing experience for customers. The "Frontier Peace of Mind" product and services are designed to provide value and simplicity to meet customers' ever-changing needs. The "Frontier Peace of Mind" product suite includes services such as an in-home, full installation of the combined company's high-speed product, two hour appointment windows for the installation, hard drive back-up services, enhanced help desk PC support and inside wire maintenance. The combined company will offer a portion of the "Frontier Peace of Mind" services, including hard drive back-up services and enhanced help desk PC support, both to its customers and to other users inside and outside of the combined company's service territories.

Although Frontier is optimistic about the opportunities provided by each of these initiatives, it can provide no assurance about their long term profitability or impact on revenue.

Frontier believes that the combination of offering multiple products and services to customers pursuant to price protection programs, billing customers on a single bill, providing superior customer service, and being active in local communities will increase customer loyalty for the combined company, and will help generate new, and retain existing, customer revenue.

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Employees

Had the merger been completed on December 31, 2008, Frontier estimates that the combined company would have had approximately 16,000 employees, of whom an estimated 70% would have been represented by a labor union and whose employment therefore would have been subject to a collective bargaining agreement. Frontier believes labor relations with its employees have historically been good.

Properties

Frontier currently owns or leases from third parties, and the Spinco business, immediately prior to the spin-off, will own or lease from third parties, all of the properties material to their respective businesses. The headquarters of the combined company will be located in leased premises at 3 High Ridge Park, Stamford, Connecticut, which currently serves as the headquarters of Frontier. Frontier believes that the combined company's properties will be suitable and adequate for the business conducted therein and will have sufficient capacity for their intended purposes.

Intellectual Property

Frontier believes the combined company will have the trademarks, trade names and intellectual property licenses that are necessary for the operation of its business as it currently is expected to be conducted after the merger.

Legal Proceedings

From time to time, Frontier and the Spinco business are involved, and the combined company may be involved, in litigation and regulatory proceedings arising out of their respective operations. See "—Regulatory Environment," Note 24 to the audited consolidated financial statements of Frontier and Note 11 to the audited combined financial statements of Verizon's Separate Telephone Operations, in each case included elsewhere in this proxy statement/prospectus. Frontier believes that if the merger had occurred as of the date of this proxy statement/prospectus, the combined company would not be a party to any legal proceedings, the adverse outcome of which, individually or in the aggregate, would have a material adverse effect on the combined company's financial position (although such adverse outcome could have a material adverse effect on the combined company's results of operations).

Regulatory Environment

The following summary does not describe all present and proposed federal, state and local legislation and regulations affecting the communications industry. Some legislation and regulations are or could in the future be the subject of judicial proceedings, legislative hearings and administrative proposals which could change the manner in which this industry operates. Neither the outcome of any of these developments, nor their potential impact on the combined company, can be predicted at this time. Regulation can change rapidly in the communications industry, and such changes may have an adverse effect on the combined company in the future. See "Risk Factors—Risks Relating to the Combined Company's Regulatory Environment—The combined company will be subject to significant regulations that could change in a manner adverse to the combined company."

The merger of Frontier and Spinco will affect the regulatory operations and risks of Frontier in several specific ways:

- The closing of the merger is subject to certain state and federal regulatory approvals. Frontier and Verizon may be delayed in or unable to obtain the necessary approvals, which could delay or prevent the consummation of the merger.
- Most of Frontier and some parts of Spinco business have previously operated under different statutory classifications that can affect their obligations to interconnect with competing carriers and, under

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current FCC rules, also affect the computation of USF funds. All of Frontier's current incumbent local exchange carrier operations other than Rochester Telephone are defined as "rural telephone companies" under Section 3(37) of the Communications Act, while at least some of the current operations of the Spinco business are non-rural telephone companies. Irrespective of whether they are statutorily classified as rural telephone companies, none of the current operations of the Spinco business have reduced obligations to interconnect with competing carriers because of their status as rural telephone companies.

- Prior to the transaction, Frontier served fewer than 2% of the wireline subscriber lines in aggregate nationwide, which permitted Frontier to have reduced regulatory obligations. Following the transaction, the combined company will serve more than 2% of the wireline subscriber lines in aggregate nationwide, which will mean that Frontier is no longer eligible for those reduced obligations.

The combined company's regulated communications services will continue to be subject to extensive federal, state and local regulation. The combined company will hold various regulatory authorizations for its current service offerings. At the federal level, the FCC generally exercises jurisdiction over all facilities and services of communications common carriers, such as the combined company, to the extent those facilities are used to provide, originate, or terminate interstate or international communications. State regulatory commissions generally exercise jurisdiction over common carriers' facilities and services to the extent those facilities are used to provide, originate or terminate intrastate communications. In addition, pursuant to the Telecommunications Act of 1996, referred to as the Telecommunications Act, state and federal regulatory agencies share responsibility for implementing and enforcing the domestic pro-competitive policies introduced by that legislation. In particular, state regulatory agencies have substantial oversight over the provision by incumbent telephone companies of interconnection and non-discriminatory network access to competitive communications providers. Local governments often regulate the public rights-of-way necessary to install and operate networks, and may require communications services providers to obtain licenses or franchises regulating their use of public rights-of-way. Additionally, municipalities and other local government agencies may regulate limited aspects of the combined company's business, including its use of public rights-of-way, and by requiring the combined company to obtain construction permits and abide by building codes.

Frontier believes that competition in the combined company's telephone service areas will increase in the future as a result of the Telecommunications Act and actions taken by the FCC and state regulatory authorities, and through increased deployment of various types of technology, although the ultimate form and degree of competition cannot be predicted at this time. Competition may lead to loss of revenues and profitability as a result of loss of customers; reduced usage of the combined company's network by its customers who may use alternative providers for long distance, voice and data services; and reductions in prices for its services which may be necessary to meet competition.

Federal Regulation

The combined company must comply with the Communications Act, which requires, among other things, that communications carriers offer communications services at just and reasonable rates and on terms and conditions that are not unreasonably discriminatory. The amendments to the Communications Act contained in the Telecommunications Act dramatically changed, and are expected to continue to change, the landscape of the communications industry. The stated aim of the Telecommunications Act was to open local communications marketplaces to competition while enhancing universal service. Most significantly, the Telecommunications Act addresses the removal of barriers to market entry into local telephone services, requires incumbent local exchange carriers to interconnect with competitors, establishes procedures pursuant to which incumbent local exchange carriers may provide other services, such as the provision of long distance services by regional Bell operating companies, and imposes on incumbent local exchange carriers duties to negotiate interconnection arrangements in good faith.

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Removal of Entry Barriers. Prior to the enactment of the Telecommunications Act, many states limited the services that could be offered by a company competing with an incumbent local exchange carrier. The Telecommunications Act generally preempts state and local laws that prevent competitive entry. Since the passage of the Telecommunications Act, Frontier and the Spinco business have experienced competition from a number of providers, including cable and wireless service providers and competitive local exchange providers. Furthermore, cable operators and other providers have been introducing VoIP local service offerings that increase their ability to compete with the combined company for customer lines.

Access Charges. The FCC regulates the prices that incumbent local telephone companies charge for the use of their local telephone facilities in originating or terminating interstate transmissions. The FCC has structured these prices, also referred to as "access charges," as a combination of flat monthly charges paid by the end-users and generally usage sensitive charges paid by long distance carriers. State regulatory commissions regulate intrastate access charges. Some states mirror the FCC price structure. The amount of access charge revenue that the combined company will receive is based on rates permitted by federal and state regulatory bodies, and those rates are subject to change.

The FCC oversees the levels of interstate access charges under two different regulatory regimes. In larger telephone company service areas, interstate access charges are regulated under a form of price cap regulation. These price caps can be adjusted based on various formulae, such as inflation and productivity, and otherwise through regulatory proceedings. The substantial majority of Frontier's existing lines operate under price cap regulation for interstate access charges, as do all the lines that Frontier is acquiring from Verizon. A small number of Frontier access lines operate under average schedule regulation for interstate access charges, a variation of rate-of-return regulation. Frontier expects that as a result, a substantial majority of the combined company's local exchange carrier operations' access charges will be determined pursuant to the federal price cap mechanism.

The FCC has made, and is continuing to consider, various reforms to the existing rate structure for charges assessed on long distance carriers for connection to local networks. Previously, the FCC has implemented access reform plans for both price cap and rate of return carriers.

The current framework for interstate access charges for price cap carriers was established in the Coalition for Affordable Local and Long Distance Services, referred to as CALLS, plan, which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it established portable interstate access universal service support of \$650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplified the common line charges into one subscriber line charge, and provided for de-averaging of the subscribed line charge by zones and class of customer. Third, the plan adopted a transition mechanism to reach a target switched access rate of \$0.0055-\$0.0095 per minute, depending on the company and, in some cases, its access line density. Some of Frontier's existing companies had a \$0.0065 per minute target rate, while others had a \$0.0095 per minute target rate. Once the target rate was reached, carriers were no longer required to make further annual price cap reductions to their switched access prices. The FCC has also adopted rules for special access services offered by price cap carriers that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met.

In November 2001, the FCC adopted an order, referred to as the MAG Plan Order, implementing a plan to reform the access charge system for rate of return carrier serving areas. The MAG Plan Order was designed to be revenue neutral to rate of return operating companies. Among other things, MAG Plan Order reduced access charges and shifted a portion of cost recovery, which historically has been based on minutes-of-use, to flat-rate, monthly per-line charges on end-user customers rather than long distance carriers. As a result, the aggregate amount of access charges paid by long distance carriers to access providers, such as the rate of return local exchange carriers that will be operated by the combined company, has decreased and may continue to decrease. In adopting the MAG Plan Order, the FCC also determined that rate of return carriers, including average schedule carriers, will continue to be permitted to set rates based on the authorized rate of return of 11.25%.

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Because the local exchange operating areas of Frontier and the Spinco business are subject to competition and as wireline long distance traffic decreases, access charges paid to the combined company may decrease. Additionally, the access charges that the combined company will receive may be reduced as a result of competition by other service providers such as wireless voice and data services and VoIP services. This could have a material adverse effect on the financial condition and results of operations of the combined company.

In addition, the FCC has sought comment on broad policy changes that could harmonize the rate structure and levels of all forms of intercarrier compensation, and could, as a result, substantially modify the current forms of carrier-to-carrier payments for interconnected traffic. In November 2008, the FCC issued a further notice of proposed rulemaking containing several proposals to change and unify intercarrier compensation mechanisms, including interstate and intrastate access charges, which would substantially reduce the level of such charges and also alter the current system of federal universal service payments, including some proposals to utilize reverse auctions for such payments. Frontier cannot predict what changes, if any, the FCC may eventually adopt and the effect that any of these changes may have on the combined company's business.

Local Exchange Carrier Services Regulation. Local exchange carrier services revenue is subject to regulation, including regulation by the FCC and regulation by various state regulatory commissions under both traditional forms of regulation and newer alternative forms of regulation, including incentive regulation. State lawmakers will likely continue to review the statutes governing the level and type of regulation for communications services. Over the next few years, legislative and regulatory actions may provide opportunities to restructure rates and introduce more flexible incentive regulation programs. Some states have already reduced the overall level of regulation. The election or assumption of incentive regulation plans and the expected reduction in the overall level of regulation would allow the combined company to introduce new services, bundling of services and pricing changes more expeditiously than in the past. At the same time, however, the implementation of new programs may also lead to reductions in intrastate access charges.

The FCC generally must approve in advance most transfers of control and assignments of operating authorizations by FCC-regulated entities. Frontier is currently in the process of obtaining approval from the FCC for the licenses and authorizations relevant to the local exchange service areas to be acquired in the merger. In addition, if the combined company seeks in the future to acquire companies that hold FCC authorizations, in most instances it will be required to seek approval from the FCC prior to completing those acquisitions. The FCC has the authority to condition, modify, cancel, terminate or revoke operating authority for failure to comply with applicable federal laws or rules, regulations and policies of the FCC. Fines or other penalties also may be imposed for such violations. The interstate common carrier services that will be provided by the combined company will also be subject to nondiscrimination requirements and requirements that rates be just and reasonable.

The FCC has required that incumbent independent local exchange carriers that provide interstate long distance services originating from their local exchange service territories must do so in accordance with "non-structural separation" rules. These rules require that the combined company's long distance affiliates (i) maintain separate books of account, (ii) not own transmission or switching facilities jointly with the local exchange affiliate, and (iii) acquire any services from their affiliated local exchange telephone company at tariffed rates, terms and conditions. Spinco and its future subsidiaries are no longer subject to these rules. The FCC has initiated a rulemaking proceeding to examine whether there is a continuing need for these requirements for other incumbent local exchange carriers; however, Frontier cannot predict the outcome of that proceeding.

Frontier is subject to a number of other statutory and regulatory obligations at the federal level. For example, the Communications Assistance for Law Enforcement Act requires telecommunications carriers to modify equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Further, the FCC mandates rules that limit how carriers may use customer proprietary network information for marketing purposes and specify what carriers must do to safeguard customer proprietary network information held by third parties. Congress has enacted, and state legislatures are considering, legislation to

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criminalize the sale of call detail records and to further restrict the manner in which carriers make such information available. The FCC has recently amended its rules to address these practices, and such rule changes could result in additional costs to Frontier, including administrative or operational burdens on Frontier's customer care, sales, marketing and information technology systems.

State Regulation

Most states have certification requirements that require providers of communications services to obtain authority from the state regulatory commission prior to offering common carrier services. Most of the local exchange companies that will be operated by the combined company will operate as incumbent carriers in the states in which they operate and are certified in those states to provide local telephone services. State regulatory commissions generally regulate the rates incumbent local exchange carriers charge for intrastate services, including rates for intrastate access services paid by providers of intrastate long distance services. Although the FCC has preempted certain state regulations pursuant to the Telecommunications Act, many states have retained authority to regulate rates for intrastate services and to impose requirements on carriers necessary to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. For instance, incumbent local exchange carriers must file tariffs setting forth the terms, conditions and prices for their intrastate services, and those tariffs may be challenged by third parties. From time to time, rate of return states conduct rate cases or "earnings" reviews. These reviews may result in the disallowance of certain investments or expenses for ratemaking purposes.

Under the Telecommunications Act, state regulatory commissions have jurisdiction to arbitrate and review interconnection disputes and agreements between incumbent local exchange carriers and competitive local exchange carriers, in accordance with rules set by the FCC. State regulatory commissions may also formulate rules regarding fees imposed on providers of communications services within their respective states to support state universal service programs. States often require prior approvals or notifications for certain acquisitions and transfers of assets, customers, or ownership of regulated entities. Frontier is currently in the process of obtaining pre-closing approval from the Arizona, California, Illinois, Nevada, Ohio, Oregon, South Carolina, Washington, and West Virginia commissions for Spinco's local exchange service areas. Frontier and Verizon currently expect that the transactions contemplated by the merger agreement will require approval of the state regulatory agencies of the following states in their capacities as regulatory agencies of incumbent local exchange and intrastate toll carrier operations of Verizon or Frontier: Arizona, California, Illinois, Nevada, Ohio, Oregon, South Carolina, Washington and West Virginia. State regulatory agencies in other states, however, may require that Frontier, Verizon or both obtain approval or authorization for the transactions in those states as well. At the request of third parties, certain state regulatory agencies are considering whether approval of the transactions is required. Also, the regulatory agency in Pennsylvania must approve the transfer of Verizon's incumbent local exchange operations in that state, which Verizon will retain, to a newly created Verizon operating company. In most instances, the combined company will be required to seek state approval prior to completing new acquisitions of rural local exchange carriers in the future. States generally retain the right to sanction a carrier or to revoke certifications if a carrier materially violates relevant laws or regulations.

Local Government Authorizations

The combined company may be required to obtain from municipal authorities permits for street opening and construction or operating franchises to install and expand facilities in certain communities. Some of these franchises may require the payment of franchise fees. Frontier has historically obtained municipal franchises as required. In some areas, the combined company will not need to obtain permits or franchises because the subcontractors or electric utilities with which the combined company will have contracts already possess the requisite authorizations to construct or expand the combined company's networks.

Promotion of Local Service Competition and Traditional Telephone Companies. As discussed above, the Telecommunications Act provides, in general, for the removal of barriers to entry into the communications

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industry in order to promote competition for the provision of local service. As a result, competition in the combined company's local exchange service areas will continue to increase from providers of competitive local exchange carriers, wireless providers, cable companies, Internet service providers, electric companies and other providers of network services. Many of these competitors have a significant market presence and brand recognition, which could lead to more competition and a greater challenge to the combined company's future revenue growth.

Pursuant to the Telecommunications Act, all local exchange carriers, including both incumbents and new competitive carriers, are required to: (i) allow others to resell their services; (ii) ensure that customers can keep their telephone numbers when changing carriers; (iii) ensure that competitors' customers can use the same number of digits when dialing and receive nondiscriminatory access to telephone numbers, operator service, directory assistance and directory listing; (iv) ensure access to telephone poles, ducts, conduits and rights of way; and (v) compensate competitors for the competitors' costs of completing calls to competitors' customers. Competitors are required to *compensate the incumbent telephone company for the cost of providing these services.*

The Telecommunications Act, with certain exceptions, also imposes the following additional duties on incumbent telephone companies by requiring them to: (i) interconnect their facilities and equipment with any requesting telecommunications carrier at any technically feasible point on the ILEC's network; (ii) unbundle and provide nondiscriminatory access to network elements such as local loops, switches and transport facilities, at nondiscriminatory rates and on nondiscriminatory terms and conditions; (iii) offer their retail services for resale at wholesale rates; (iv) provide reasonable notice of changes in the information necessary for transmission and routing of services over the incumbent telephone company's facilities or in the information necessary for interoperability; and (v) provide, at rates, terms and conditions that are just, reasonable and nondiscriminatory, for the physical co-location of equipment necessary for interconnection or access to unbundled network elements at the premises of the incumbent telephone company.

Pursuant to the Telecommunications Act, rural telephone companies, including the combined company's rural local exchange carriers, were initially automatically exempt from the additional incumbent telephone company requirements. The exemption remains effective until an incumbent rural local telephone company receives a bona fide request for these additional interconnection services and the applicable state authority determines that the request is not unduly economically burdensome, is technically feasible, and is consistent with the universal service objectives set forth in the Telecommunications Act. The exemption has been terminated for Spincor and its future subsidiaries and for some Frontier subsidiaries. If a state regulatory commission rescinds an exemption in whole or in part and does not allow the combined company adequate compensation for the costs of providing the interconnection, the combined company's costs could increase significantly; the combined company could face new competitors in that state; and it could suffer a significant loss of customers and incur a material adverse effect on its results of operations and financial condition. In addition, the combined company could incur additional administrative and regulatory expenses as a result of the interconnection requirements.

Unbundling of Network Elements. On February 4, 2005, the FCC revised its rules defining the obligations of incumbent local exchange carriers not covered by the rural exemption to provide competing carriers with access to unbundled network elements, referred to as UNEs. These rules generally required incumbent local exchange carriers to provide UNEs to competing carriers that would be "impaired" without them. With respect to broadband facilities, such as mass market fiber-to-the-premises loops and packet switching, as well as switching and the combination of UNEs known as the "UNE Platform," the FCC's ruling generally removed unbundling obligations under Section 251 of the Telecommunications Act. In addition, as to loops and transport, the FCC set specific criteria that, when met, would permit the incumbent local exchange carrier to cease offering those UNEs at regulated rates.

Broadband. The FCC has adopted a series of orders that recognize the competitive nature of the broadband market, and impose lesser regulatory requirements on broadband services and facilities than apply to

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narrowband. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber-to-the-premises loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies, cable companies, electric utilities, wireless providers and their affiliates qualify as largely deregulated information services. The FCC has also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. In addition, a Verizon petition asking the FCC to forbear from applying common carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law on March 19, 2006 when the FCC did not deny the petition by the statutory deadline. Frontier received similar relief for these services.

Promotion of Universal Service. Current FCC rules provide different methodologies for the determination of universal service payments to rural and non-rural telephone company areas. In general, the rules provide high-cost support to rural telephone company study areas where the company's actual costs exceed a preset nationwide benchmark level. High-cost support for non-rural telephone company areas, on the other hand, is determined by a nationwide proxy cost model. The FCC's current rules for support to high-cost areas served by non-rural local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. The Federal-State Joint Board on Universal Service is also considering proposals to update the proxy model upon which non-rural high-cost funding is determined. The CALLS plan for intercarrier compensation reform also created a new explicit support mechanism to replace implicit support that was previously recovered in interstate access charges for carriers subject to price-cap regulation. Most of the combined company's price-cap regulated study areas will receive this interstate access support.

The payments received by the combined company's rural local exchange carriers from the rural and high cost portions of the USF are intended to support the high cost of its operations in rural markets. Various parts of the federal rural and the high cost USF are subject to caps that can reduce the amount of support provided from year to year. For example, payments from the USF will fluctuate based upon the combined company's average cost per loop in a study area compared with the national average cost per loop. For areas classified as rural telephone companies, if the national average cost per loop increases and the combined company's operating costs and average cost per loop increase at a lower rate, remain constant or decrease, the payments the combined company will receive from the USF will decline. Conversely, if the national average cost per loop decreases and the combined company's operating costs and average cost per loop decrease at a lower rate, remain constant or increase, the payments the combined company will receive from the USF will increase. Over the past year, the national average cost per loop in relation to the average cost per loop for the majority of Frontier study areas has increased, and Frontier believes the national average cost per loop will likely continue to increase in relation to the combined company's average cost per loop. As a result, the payments from the rural portions of the USF that the combined company will receive with respect to the operations of the current Frontier business will likely decline. In addition, subsidy revenue received under the federal interstate access support fund may also decline, as that fund is also subject to a national cap and the formula used to allocate funds among recipients may cause the combined company's support to decline, as occurred for the Frontier business and the Spingo business in 2008. Furthermore, the consideration of changes in the federal rules governing both the collection and distribution of the USF is pending before the FCC. If the combined company's rural local exchange carriers were unable to receive USF payments, or if those payments were reduced, many of the combined company's rural local exchange carriers may operate less profitably as they have historically under Frontier in the absence of the combined company's implementation of increases in charges for other services. Moreover, if the combined company raises prices for services to offset loss of USF payments, the increased pricing of the combined company's services may disadvantage it competitively in the marketplace, resulting in additional potential revenue loss.

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Universal service rules have been adopted by both the FCC and some state regulatory commissions. USF disbursements may be distributed only to carriers that are designated as eligible telecommunications carriers by a state regulatory commission. All of the rural local exchange carriers that will be operated by the combined company have been designated as eligible telecommunications carriers pursuant to the Telecommunications Act. However, under the Telecommunications Act, competitors could obtain the same support payments as will the combined company if a state regulatory commission determined that granting support payments to competitors would be in the public interest, although the Commission placed a temporary cap on high-cost support paid to CETCs in May 2008. The Federal-State Joint Board on Universal Service and the FCC are currently considering revisions to the distribution mechanisms for universal service funds.

In May 2007, the FCC requested comment on the possible use of reverse auctions to determine recipients of high-cost universal service reform, as well as on other rule changes that could reduce support in the future, or provide for new support, such as for broadband services. The FCC issued a Further Notice of Proposed Rulemaking on November 5, 2008, with a range of different proposals. Some of these proposals would likely substantially reduce the universal service support Frontier would receive, if ultimately adopted without change. Frontier cannot predict what course the FCC will take on universal service distribution reform, but it is possible that the remedy selected by the FCC could materially affect the amount of universal service funding the combined company will receive. It is possible that the Joint Board will recommend and the FCC will adopt additional mechanisms to reduce the amount of high-cost universal service support disbursed in rural areas to incumbent local exchange carriers, as it recently did with respect to CETCs.

Universal service funding is currently collected through a surcharge on interstate and international end-user revenues. Declining long distance revenues, the popularity of service bundles that include local and long distance services, and the growth in the size of the fund, due primarily to increased funding to CETCs, are all causing the FCC to consider alternative and more sustainable means for collecting this funding. One alternative under active consideration would be to impose surcharges on telephone numbers or network connections. As an interim step, in June 2006, the FCC ordered that providers of certain VoIP services are subject to federal universal service obligations. The FCC also increased the percentage of revenues subject to federal universal service obligations that wireless providers may use as a safe harbor. The FCC is considering revisions to the contribution methodology for funding universal service. Any further change in the current assessment mechanism could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would be collected from customers.

Frontier cannot predict whether the FCC or Congress will require modification to any of the universal service rules, or the ultimate impact that any such modification might have on the combined company.

Current and Potential Internet Regulatory Obligations

In connection with the combined company's Internet access offerings, the combined company could become subject to laws and regulations as they are adopted or applied to the Internet. There is currently only limited regulation applicable to the Internet. As the significance of the Internet expands, federal, state and local governments may adopt rules and regulations, or apply existing laws and regulations to the Internet, and related matters are under consideration in both federal and state legislative and regulatory bodies. Frontier cannot predict whether the outcome of pending or future proceedings will prove beneficial or detrimental to the combined company's competitive position.

The FCC adopted orders which put wireline broadband Internet access service, commonly delivered by DSL technology, as well as mobile wireless based broadband Internet access service, on an equal regulatory footing with cable modem service. This approach is consistent with a United States Supreme Court decision upholding the FCC's light regulatory treatment of cable modem service. Specifically, the FCC has determined that wireline and wireless broadband Internet access services are information services functionally integrated with a telecommunications component. In the past, the FCC required facilities-based providers to offer wireline

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broadband transmission components separately from their Internet service as a stand-alone service on a common-carrier basis, and thus classified that component as a telecommunications service. The FCC order also provides an option which allows rate of return carriers the option to continue providing DSL service as a common-carrier offering. In a separate decision, the FCC preempted some state regulation of VoIP; the United States Court of Appeals for the Eighth Circuit recently upheld that decision.

The FCC has imposed particular regulatory obligations on broadband services. It has concluded that VoIP and facilities-based broadband Internet access providers must comply with the Communications Assistance for Law Enforcement Act, a decision that the United States Court of Appeals for the District of Columbia Circuit has upheld. The FCC has also required these entities to provide enhanced 911 emergency calling capabilities. Recently there have also been discussions among policymakers concerning "net neutrality" or the potential requirement for non-discriminatory treatment of traffic over broadband networks. The FCC has sought comment on industry practices in connection with this issue. However, Frontier cannot predict what, if any, impact this may have on the combined company's business.

Video Programming. The combined company will provide video programming in Oregon, Washington, and Indiana, pursuant to franchises, permits, and similar authorizations issued by local franchising authorities. Each local franchising authority in Oregon and Washington often must approve a transfer to another party. Most franchises are subject to termination proceedings in the event of a material breach. In addition, most franchises require payment of a franchise fee to the granting authority.

Many franchises establish comprehensive facilities and service requirements, as well as specific customer service standards and monetary penalties for non-compliance. In many cases, franchises are terminable if the franchisee fails to comply with significant provisions set forth in the franchise agreement governing system operations. Franchises are generally granted for fixed terms of at least ten years and must be periodically renewed. Local franchising authorities may resist granting a renewal if either past performance or the prospective operating proposal is considered inadequate.

Frontier and Verizon have applied to 41 local franchising authorities in Oregon and Washington for consent and approval to transfer control of Verizon's franchises to provide video services in those states to Frontier. Ten authorities have already granted approval to transfer control of Verizon's franchise to Frontier. In addition, prior to closing, Verizon will provide notice to Indiana of the transfer of control of its statewide franchise to Frontier.

Federal, state and local governments extensively regulate the video services industry. The combined company's video programming operations will be subject to, among other things, subscriber privacy regulations; requirements that it carry a local broadcast station or obtain consent to carry a local or distant broadcast station; rules for franchise renewals and transfers; the manner in which program packages are marketed to subscribers; and program access requirements.

Environmental Regulations

Like all other local telephone companies, the local exchange carrier subsidiaries that will be operated by the combined company are subject to federal, state and local laws and regulations governing the use, storage, disposal of, and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. As an owner and former owner of property, the combined company could be subject to environmental laws that impose liability for the entire cost of cleanup at contaminated sites, including sites formerly owned by Frontier or the Spinco business, regardless of fault or the lawfulness of the activity that resulted in contamination. Frontier believes that the combined company's operations will be in substantial compliance with applicable environmental laws and regulations.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is based upon the historical consolidated financial information of Frontier and the historical combined special-purpose financial information of Verizon's Separate Telephone Operations included elsewhere in this proxy statement/prospectus, and has been prepared to reflect the transactions based on the acquisition method of accounting. The unaudited pro forma condensed combined financial information presents the combination of the historical financial statements of Frontier and the historical financial statements of Verizon's Separate Telephone Operations, adjusted to give effect to (1) the transfer of specified assets and liabilities from Verizon to Spinco in the distribution immediately prior to the spin-off that are not included in Verizon's Special Telephone Operations' historical balance sheet as of June 30, 2009 and the retention of specified assets and liabilities by Verizon that are included in Verizon's Separate Telephone Operations' historical balance sheet as of June 30, 2009, as more fully described in note 4(c) below, (2) the incurrence by Spinco of new debt to finance the special cash payment to Verizon, as more fully described in note 4(a) below, (3) the distribution of shares of Spinco common stock to a third-party distribution agent for the benefit of Verizon stockholders, (4) the receipt by Verizon from Spinco of \$3,333 million in aggregate value in the form of the special cash payment and the Verizon debt reduction as more fully described in note 4(a) below and (5) the merger of Spinco with and into Frontier, with Frontier considered the accounting acquirer, based on the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information. The historical financial information has been adjusted to give effect to events that are directly attributable to the transactions and factually supportable and, in the case of the statements of operations information, that are expected to have a continuing impact.

The unaudited pro forma condensed combined balance sheet information has been prepared as of June 30, 2009, and gives effect to the transactions as if they had occurred on that date. The unaudited pro forma condensed combined statements of operations information, which has been prepared for the six months ended June 30, 2009, and for the year ended December 31, 2008, give effect to the transactions as if they had occurred on January 1, 2008.

The unaudited pro forma condensed combined financial information was prepared using (1) the unaudited interim condensed combined special-purpose financial statements of Verizon's Separate Telephone Operations as of and for the six months ended June 30, 2009, included in this proxy statement/prospectus, (2) the audited combined special-purpose financial statements of Verizon's Separate Telephone Operations for the year ended December 31, 2008, included in this proxy statement/prospectus, (3) the unaudited interim condensed consolidated financial statements of Frontier as of and for the six months ended June 30, 2009, included in this proxy statement/prospectus and (4) the audited consolidated financial statements of Frontier for the year ended December 31, 2008, included in this proxy statement/prospectus.

The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have been achieved had the transactions been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or results of operations of the combined company after completion of the merger. In the opinion of Frontier's management, all adjustments considered necessary for a fair presentation have been included.

The unaudited pro forma condensed combined financial information does not give effect to any potential cost savings or other operating efficiencies that could result from the merger. In addition, the fair value of the assets acquired and liabilities assumed are based upon estimates. The final allocation is dependent upon valuations and other studies that will not be completed until after the merger is consummated. Accordingly, pro forma adjustments for the allocation of the value of Frontier common stock to be issued by Frontier as consideration as discussed in note (2) below are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information in this proxy statement/prospectus.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA BALANCE SHEET INFORMATION
AS OF JUNE 30, 2009
(\$ in millions)

		Verizon's Separate Telephone Operations						
	Frontier	Verizon's Separate Telephone Operations As Reported	Incurrence of New Debt ^(4a)	Special Cash Payment ^(4b)	Additional Transfer of Assets and Liabilities to/from Verizon ^(4c)	Verizon's Separate Telephone Operations as Adjusted	Pro Forma Adjustments ^(4d)	Pro Forma Combined
ASSETS:								
Cash and cash equivalents	\$ 454	\$ —	\$ 2,703	\$ (2,703)	\$ —	\$ —	\$ —	\$ 454
Accounts receivable, net	217	418				418		635
Other current assets	88	372			(185)	187		275
Total current assets	759	790	2,703	(2,703)	(185)	605		1,364
Property, plant and equipment, net	3,166	5,382			70	5,452		8,618
Goodwill, net	2,642						3,391	6,033
Other intangibles, net	276						1,250	1,526
Other assets	175	2,578	55		(2,523)	110		285
Total assets	<u>\$7,018</u>	<u>\$ 8,750</u>	<u>\$ 2,758</u>	<u>\$ (2,703)</u>	<u>\$ (2,638)</u>	<u>\$ 6,167</u>	<u>\$ 4,641</u>	<u>\$ 17,826</u>
LIABILITIES AND STOCKHOLDERS' EQUITY								
Long-term debt due within one year	\$ 7	\$ 375	\$ —	\$ —	\$ —	\$ 375	\$ —	\$ 382
Accounts payable and other current liabilities	352	772			(268)	504	44	900
Total current liabilities	359	1,147			(268)	879	44	1,282
Deferred income taxes	685	1,266			(683)	583	462	1,730
Other liabilities	581	1,285			(661)	624		1,205
Long-term debt	4,945	249	2,758		6	3,013		7,958
Total long-term liabilities	6,211	2,800	2,758		(1,338)	4,220	462	10,893
Stockholders' equity	448	4,803		(2,703)	(1,032)	1,068	4,135	5,651
Total liabilities and stockholders' equity	<u>\$7,018</u>	<u>\$ 8,750</u>	<u>\$ 2,758</u>	<u>\$ (2,703)</u>	<u>\$ (2,638)</u>	<u>\$ 6,167</u>	<u>\$ 4,641</u>	<u>\$ 17,826</u>

SEE NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008
(\$ in millions, except per share amounts)

	<u>Frontier</u>	<u>Verizon's Separate Telephone Operations</u>	<u>Adjustments</u>		<u>Pro Forma Combined</u>
Revenue	\$2,237	\$ 4,352	\$ 17	(5a)	\$ 6,494
			(47)	(5b)	
			(65)	(5d)	
Cost and expenses (exclusive of depreciation and amortization)	1,033	2,549	10	(5a)	3,400
			(42)	(5b)	
			(85)	(5c)	
			(65)	(5d)	
Depreciation and amortization	562	759	250	(5e)	1,587
			3	(5a)	
			13	(5f)	
Total operating expenses	<u>1,595</u>	<u>3,308</u>	<u>84</u>		<u>4,987</u>
Operating income	642	1,044	(179)		1,507
Investment and other income (expense), net	9	7	(2)	(5a)	14
Interest expense	362	186	234	(5g)	637
			(145)	(5h)	
Income tax expense (benefit)	106	313	(100)	(5i)	319
Net income (loss)	<u>\$ 183</u>	<u>\$ 552</u>	<u>\$ (170)</u>		<u>\$ 565</u>
Basic and diluted income per common share:	<u>\$ 0.57</u>				<u>\$ 0.57</u> (3)
Weighted-average shares outstanding (in millions)	<u>318</u>				<u>995</u> (3)

SEE NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA STATEMENT OF OPERATIONS INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(\$ in millions, except per share amounts)

	<u>Frontier</u>	<u>Verizon's Separate Telephone Operations</u>	<u>Adjustments</u>		<u>Pro Forma Combined</u>
Revenue	\$1,070	\$ 2,074	\$ 8	(5a)	\$ 3,103
			(21)	(5b)	
			(28)	(5d)	
Cost and expenses (exclusive of acquisition related costs, depreciation and amortization)	513	1,275	5	(5a)	1,613
			(18)	(5b)	
			(134)	(5c)	
			(28)	(5d)	
Depreciation and amortization	270	388	125	(5e)	793
			1	(5a)	
			9	(5f)	
Acquisition related costs	11	—	(11)	(1)	—
Total operating expenses	<u>794</u>	<u>1,663</u>	<u>(51)</u>		<u>2,406</u>
Operating income	276	411	10		697
Investment and other income (expense), net	11				11
Interest expense	187	48	117	(5g)	325
			(27)	(5h)	
Income tax expense (benefit)	36	126	(30)	(5i)	132
Net income (loss)	<u>\$ 64</u>	<u>\$ 237</u>	<u>\$ (50)</u>		<u>\$ 251</u>
Basic and diluted income per common share:	<u>\$0 .20</u>				<u>\$ 0.25</u>
Weighted-average shares outstanding (in millions)	<u>310</u>				<u>987</u>

SEE NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION.

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NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Description of the Transactions

On May 13, 2009, Verizon, Frontier and Spinco, a wholly owned subsidiary of Verizon, entered into the merger agreement pursuant to which Spinco will merge with and into Frontier, with Frontier surviving the merger as the combined company. Pursuant to the merger agreement, Verizon stockholders will receive shares of Frontier common stock in an amount to be determined at the closing of the merger, which shares of Frontier common stock are assumed for purposes of the pro forma condensed combined financial information to have a value of \$5,247 million.

Immediately prior to the merger, Spinco (1) will hold defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, and in portions of California bordering Arizona, Nevada and Oregon, including Internet access and long distance services and broadband video provided to designated customers in those states, and (2) will be spun off to Verizon stockholders. In connection with the spin-off, Verizon will receive from Spinco \$3,333 million in aggregate value in the form of the special cash payment, the Verizon debt reduction and, if required, Spinco debt securities. The parties expect, and it is assumed for purposes of the pro forma condensed combined financial information, that no Spinco debt securities will be issued to Verizon in connection with the transactions.

The exact number of shares to be issued by Frontier will be determined based on the average of the volume-weighted averages of the trading prices of Frontier common stock for the 30 consecutive trading days ending on the third trading day before the closing of the merger, subject to a collar such that in no case will such average Frontier common stock price, for the purpose of determining the number of shares of Frontier common stock to be issued to Verizon stockholders at the closing of the merger, be lower than \$7.00 or higher than \$8.50. Depending on the trading prices of Frontier common stock prior to the closing of the merger, immediately after the closing of the merger, Verizon stockholders will own between approximately 66% and 71% of the combined company's outstanding equity, and Frontier stockholders will own between approximately 29% and 34% of the combined company's outstanding equity (in each case, before accounting for the elimination of fractional shares). Additionally, the aggregate consideration to be received by Verizon stockholders referred to above is subject to increase by any amounts paid, payable or forgone by Verizon pursuant to orders or settlements that are issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off. As a result, the number of shares of Frontier common stock issuable pursuant to the merger agreement may increase. Verizon will not own any shares of Frontier after the merger.

Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon stockholders in lieu of fractional shares.

The pro forma condensed combined financial information was prepared using the guidance of Statement of Financial Accounting Standards No. 141 (R), *Business Combinations* (SFAS 141(R)). The aggregate estimated transaction costs (other than the estimated debt incurrence fees of \$55 million as described in Note 4(a)) are expected to be approximately \$55 million and include estimated costs associated with investment banker advisory fees, legal fees, and regulatory and auditor services of Frontier. Approximately \$10.8 million of such costs were recognized by Frontier during the three month period ended June 30, 2009 and the balance of \$44 million is reflected as an accrual in the Pro Forma Adjustments column on the Unaudited Pro Forma Balance Sheet. These costs are eliminated as a pro forma adjustment in the pro forma condensed combined statement of operations for the six months ended June 30, 2009. In addition, the combined company will incur integration costs primarily related to information systems, network and process changes and enhancements (including hardware and software costs). The specific details of these integration plans will be refined as the integration is implemented over the next three years and will be recorded based on the nature and timing of the specific action.

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For purposes of the pro forma condensed combined financial information, it is assumed that no amounts will be paid, payable or forgone by Verizon pursuant to orders or settlements issued or entered into in order to obtain governmental approvals in the Spinco territory that are required to complete the merger or the spin-off.

Frontier is considered the accounting acquirer for purposes of the preparation of the pro forma condensed combined financial information. This conclusion is based upon Frontier's consideration of all relevant factors included in SFAS 141(R), including (1) the issuance by Frontier of its common stock to Verizon stockholders to acquire the Spinco business through the merger of Spinco with and into Frontier, (2) the composition of the board of directors of the combined company, which will initially consist of nine Frontier-selected directors and three Verizon-selected directors, and (3) the composition of the executive management team of the combined company, which will be led by current Frontier executives, including its Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

The merger is subject to customary closing conditions, including the approval of Frontier stockholders and regulatory approvals. Subject to these conditions, it is anticipated that the merger will be completed during the second quarter of 2010.

2. Basis of Preliminary Estimated Transaction Consideration Allocation

The allocation presented represents the effect of recording on a preliminary basis the value of Frontier common stock to be issued by Frontier as consideration in the merger under the acquisition method of accounting as follows (dollars in millions):

Estimated transaction consideration:		\$5,247
Current assets	\$ 605	
Property, plant & equipment—net	5,452	
Goodwill	3,391	
Customer list	1,250	
Other assets	110	
Current liabilities	(879)	
Deferred income taxes	(1,045)	
Long-term debt	(3,013)	
Other liabilities	(624)	
Total net assets acquired	<u>\$ 5,247</u>	

The allocation of the value of the Frontier common stock to be issued by Frontier as consideration in the merger to assets and liabilities is preliminary. The final allocation of the value of the Frontier common stock to be issued by Frontier as consideration in the merger will be based on the actual value of the Frontier common stock to be issued by Frontier as consideration in the merger and the fair values of assets acquired and liabilities assumed as of the effective time of the merger, determined based upon a third-party valuation. The valuation will be completed after consummation of the merger. There can be no assurance that the actual allocation will not differ significantly from the preliminary allocation.

The above noted preliminary allocation includes deferred taxes that are established at acquisition. Deferred taxes represent the tax effect at 37% of the non-deductible step-up in value of the customer list (\$1,250 million x 0.37) = \$462 million. The offsetting entry to establish the deferred tax liability is recorded as goodwill.

Table of Contents**3. Frontier common stock to be issued:**

The following assumptions have been made regarding the number of shares to be issued by Frontier and show the resulting impact on relative share ownership and earnings per share:

Projected Value of shares to be issued (millions)	\$5,247	\$5,247	\$5,247
Divided by Price Per Share	<u>\$7.00</u>	<u>\$ 7.75</u>	<u>\$ 8.50</u>
Projected Shares to be Issued to Verizon stockholders (in millions)	750	677	617
Frontier Shares Outstanding at December 31, 2008, pre-merger (in millions)	<u>311</u>	<u>311</u>	<u>311</u>
Total Shares after merger (in millions)	<u>1,061</u>	<u>988</u>	<u>928</u>
Percentage ownership by Frontier stockholders after merger	29%	31%	34%
Percentage ownership by Verizon stockholders after merger	71%	69%	66%

Impact on Pro Forma Earnings Per Share (basic and diluted), Year Ended December 31, 2008:

Pro Forma Weighted Average Shares outstanding (in millions):			
Frontier pre merger	318	318	318
Plus shares issued in the merger	<u>750</u>	<u>677</u>	<u>617</u>
Total Pro Forma Weighted Average shares outstanding	<u>1,068</u>	<u>995</u>	<u>935</u>
Pro Forma Net Income (dollars in millions)	<u>\$ 565</u>	<u>\$ 565</u>	<u>\$ 565</u>
Pro Forma Earnings Per Share (basic and diluted)	<u>\$ 0.53</u>	<u>\$0.57</u>	<u>\$0.60</u>

4. Balance Sheet Adjustments:

- (a) Prior to or substantially contemporaneous with the contribution of the Spinco business to Spinco by Verizon, Spinco will raise up to \$3,333 million through the incurrence of one or more term loan bank borrowings or capital markets issuances to finance the special cash payment to Verizon. The amount of the special cash payment is subject to a limit of \$3,333 million and will be reduced by the amount of long-term debt (including current maturities) of Verizon that becomes the consolidated indebtedness of Spinco prior to the spin-off. At June 30, 2009, Verizon's Separate Telephone Operations had long-term debt, including current maturities, of \$624 million. Pro forma adjustments include \$6 million of additional long-term debt that will be transferred to Spinco related to the transfer of leased vehicles. The adjustment presented therefore assumes debt incurrence of \$2,758 million with net cash proceeds to Spinco of \$2,703 million after estimated debt incurrence fees of \$55 million. The new debt is assumed to be long-term debt issued at par and to bear interest at a weighted average rate of 8.5%.

Total cash to be paid to Verizon of \$2,703 million plus distribution date indebtedness of Verizon's Separate Telephone Operations of \$624 million plus additional debt of \$6 million that will be transferred to Spinco provides Verizon with total value of \$3,333 million.

It is anticipated that prior to the actual merger date, a portion of the \$624 million of Verizon's Separate Telephone Operations' debt as of June 30, 2009 will be repaid by Verizon as it matures. The amount of new debt to be incurred by Spinco will increase in an amount that corresponds to the amount of such reduction, plus additional debt incurrence fees associated with raising such additional new debt. For example, if \$400 million of debt is repaid at maturity prior to the closing date of the merger, Spinco will then borrow \$3,166 million (\$2,758 million as shown in the column titled "Incurrence of New Debt", plus \$400 million in aggregate principal amount of additional borrowings and \$8 million of estimated additional debt incurrence fees). The repayment at maturity of the debt by Verizon does not impact the total "as adjusted" debt of

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Verizon's Separate Telephone Operations or the debt of the combined company, except to the extent necessary to finance additional debt incurrence fees. Interest expense is expected to rise slightly based upon the rate differential between Verizon's Separate Telephone Operations' existing debt and the assumed interest rate applicable to the new debt to be incurred by Spingo. A change in the assumed interest rate applicable to the additional debt to be incurred by Spingo of 2% would result in annualized interest expense of the combined company changing by \$8 million.

The parties expect, and it has been assumed for purposes of the pro forma condensed combined financial information, that no Spingo debt securities will be issued to Verizon in connection with the transactions.

- (b) This adjustment represents a special cash payment to Verizon by Spingo from the net cash proceeds of the assumed debt offering described in 4(a) above.
- (c) Verizon's Separate Telephone Operations are adjusted to (1) include assets and liabilities that will be transferred to Spingo but are not included in Verizon's Separate Telephone Operations' financial statements provided elsewhere in this proxy statement/prospectus and (2) exclude assets and liabilities that will be retained by Verizon that are included in Verizon's Separate Telephone Operations' financial statements provided elsewhere in this proxy statement/prospectus. A brief description of these items follows (dollars in millions):

<u>Balance</u>	<u>Amount</u>	<u>Reason</u>
Other current assets	\$ (141)	Intercompany receivables retained by Verizon
	(1)	Short-term investment retained by Verizon
	(2)	Receivables related to businesses retained by Verizon
	1	Receivables related to approx. 24,000 California access lines transferred to Spingo but not included in Verizon's Separate Telephone Operations financial information
	(40)	Inventory net transfer
	(2)	Deferred income taxes on adjustments herein
	<u>\$ (185)</u>	
Property, plant and equipment, net	\$ 25	Fixed assets related to approx. 24,000 California access lines referenced above
	(31)	Fixed assets related to Verizon's national operations to be retained by Verizon
	70	Verizon corporate real estate in the Spingo territory transferred to Spingo
	6	Verizon corporate leased vehicles in the Spingo territory transferred to Spingo
	<u>\$ 70</u>	
Prepaid pension asset	<u>\$ (2,523)</u>	Prepaid pension in excess of actuarial liability retained by Verizon
Accounts payable and other current liabilities	\$ (179)	Intercompany payables retained by Verizon
	(97)	Accrued income taxes retained by Verizon
	8	Accounts payable and accrued liabilities related to approx. 24,000 California access lines referenced above
	<u>\$ (268)</u>	
Long term debt	<u>\$ 6</u>	Verizon corporate leased vehicles in the Spingo territory transferred to Spingo

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<u>Balance</u>	<u>Amount</u>	<u>Reason</u>
Other liabilities	\$ (628)	Pension, other postretirement employee benefits of retirees, stock-based compensation and postemployment benefits retained by Verizon
	(33)	Accrued uncertain tax position liability retained by Verizon
	<u>\$ (661)</u>	
Deferred income taxes	\$ 1	Deferred income taxes related to approx. 24,000 California access lines referenced above
	(684)	Deferred income taxes on the adjustments above
	<u>\$ (683)</u>	
Parent funding	<u><u>\$ (1,032)</u></u>	Reflects the aggregate impact of the above noted entries

The pension and other postretirement employee benefits adjustments are based on a preliminary actuarial evaluation obtained from a third party. The final actuarial evaluation completed at the time of completion of the merger may be different from that reflected in the pro forma condensed combined financial information. This difference including the related impact on deferred taxes may be material.

- (d) (i) This adjustment in the amount of \$3,391 million (\$2,929 million + \$462 million) reflects the goodwill associated with the excess of the transaction consideration issued over the preliminary estimated fair value of the underlying identifiable net tangible and intangible assets at June 30, 2009 (\$2,929 million), and reflects the impact of the deferred taxes established in (iii) below (\$462 million).
- (ii) This adjustment in the amount of \$1,250 million reflects the preliminary fair value of the identifiable intangible asset (customer list) which was estimated by Frontier's management based on the fair values assigned to similar assets in recently completed acquisitions (a market approach). A third party valuation firm will be utilized to help determine the final fair value after the merger is completed. The estimated useful life of the customer list asset was assumed to be five years.
- (iii) This adjustment in the amount of \$462 million reflects the deferred taxes associated with the non-deductible customer list asset (\$1,250 million x 37% = \$462 million) based on an assumed tax rate of 37%.
- (iv) This adjustment in the amount of \$44 million records the estimated unpaid non-recurring costs for acquisition related transaction costs, primarily bankers, lawyers and consulting advisory fees.
- (v) This adjustment in the amount of \$4,135 million (\$5,247 million – \$1,068 million – \$44 million) eliminates the "as adjusted" net equity of Verizon's Separate Telephone Operations (\$1,068 million) and reflects Frontier's issuance of common stock to Verizon stockholders (\$5,247 million) less unpaid estimated transaction costs of \$44 million as of June 30, 2009.

5. Income Statement Adjustments:

- (a) This adjustment reflects results of operations related to the transfer of approximately 24,000 California access lines, representing a portion of the Spinco business not included in Verizon's Separate Telephone Operations, to the combined company.
- (b) This adjustment reflects results of operations of wireless directory assistance, long distance revenues from calling cards and discontinued services that will not be transferred to the combined company.
- (c) This adjustment reflects pension, other postretirement employee benefits of retirees, stock-based compensation and postemployment benefits retained by Verizon.
- (d) This adjustment conforms the classification of bad debt expenses by Verizon's Separate Telephone Operations to the classification policy of Frontier.
- (e) This adjustment reflects amortization expense associated with the customer list asset estimated in note 4(d) above assuming an estimated useful life of five years which corresponds to an increase in depreciation and amortization of \$250 million for the year ended December 31, 2008 and \$125 million for the six months ended June 30, 2009.

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The actual depreciation and amortization expense will be based on the final fair value attributed to the identifiable tangible and intangible assets based upon the results of the third-party valuation of the acquired assets. The depreciation and amortization rates may also change based on the results of this third-party valuation. There can be no assurance that the actual depreciation and amortization expense will not differ significantly from the pro forma adjustment presented.

- (f) This adjustment reflects depreciation on Verizon corporate real estate in the Spinco territory transferred to Spinco.
- (g) This adjustment reflects additional interest expense on \$2,758 million of new debt to be incurred by Spinco prior to the merger, based on an assumed weighted average interest rate of 8.5%. Assuming the principal amount of new debt does not change, a 0.5% increase or decrease in the assumed interest rate would change interest expense by \$14 million annually.
- (h) This adjustment adjusts interest expense of Spinco to represent the annualized third party interest charge on the long-term debt, including current maturities (\$625 million) contributed by Verizon to Spinco.
- (i) This adjustment reflects the tax effect of the adjustments described in notes 5(a) through 5(h) above, using an estimated effective income tax rate of 37%.

Table of Contents**MANAGEMENT OF THE COMBINED COMPANY****Board of Directors**

Pursuant to the terms of the merger agreement, immediately prior to the effective time of the merger, the Frontier board (which will become the board of directors of the combined company) will consist of twelve directors, three of whom will be initially designated by Verizon and nine of whom will be initially designated by Frontier. Verizon's director designees may not be employees of Verizon, its affiliates or Celco or any of its subsidiaries, and must satisfy director independence requirements of the SEC and the NYSE. Verizon will notify Frontier of the identity of its three designees prior to November 13, 2009, and Frontier will notify Verizon of the identity of its nine designees within 20 days after such notice by Verizon. Frontier expects that Mary Agnes Wilderotter, Frontier's current Chairman of the Board of Directors, President and Chief Executive Officer, will continue to serve in those roles with the combined company.

Committees of the Board of Directors

The members of the committees of the combined company's board of directors will not be determined until the board of directors is fully constituted and holds its initial meeting. Upon completion of the merger, the combined company's then existing board of directors will make determinations with respect to each committee member's independence in accordance with the director independence requirements of the SEC and the NYSE.

Audit Committee

Upon completion of the merger, the board of directors of the combined company will make determinations regarding the financial literacy and financial expertise of each member of the audit committee in accordance with the requirements of the SEC and the NYSE.

The audit committee will select the independent registered public accounting firm for the combined company. The audit committee will also assist the board of directors in undertaking and fulfilling its responsibilities in monitoring (1) the integrity of the combined company's consolidated financial statements, (2) the combined company's compliance with legal and regulatory requirements, (3) the qualifications of the combined company's internal auditors and the independence and qualifications of the independent registered public accounting firm for the combined company and (4) the performance of the combined company's internal audit function and independent registered public accounting firm.

In accordance with the Sarbanes-Oxley Act of 2002 and the rules of the SEC and the NYSE, the audit committee will pre-approve all auditing and permissible non-auditing services that will be provided by the combined company's independent registered public accounting firm.

In accordance with the rules of the SEC, the audit committee of the combined company will continue Frontier's established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls, or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Compensation Committee

The compensation committee will review the combined company's general compensation strategies; act as the committee for the combined company's incentive compensation plans; and establish and review compensation for the Chief Executive Officer and other senior executive officers of the combined company. The compensation committee will also oversee and approve compensation policy and incentive plan design, costs and administration.

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Specifically, the compensation committee's responsibilities, as set forth in its existing charter, will include, among other duties, the responsibility to:

- annually review and approve, for the Chief Executive Officer and the other senior executive officers of the combined company, (1) the annual base salary level, (2) the annual incentive opportunity level, (3) the long-term incentive compensation opportunity level, (4) employment agreements, severance arrangements, and change in control agreements/provisions, in each case as, when and if appropriate, and (5) any special or supplemental benefits;
- review periodically and recommend to the board, the compensation of all directors;
- review the combined company's incentive compensation plans and equity-based plans and recommend to the board changes in such plans as needed; the compensation committee will exercise all authority of the board with respect to the administration of such plans; and
- review and approve all grants of awards, including the award of shares or options to purchase shares, pursuant to the combined company's incentive and equity-based compensation plans.

The Chief Executive Officer of the combined company will make recommendations with respect to the compensation for the other senior executive officers of the combined company to the compensation committee for their final review and approval.

The compensation committee may form, and delegate any of its responsibilities to, a subcommittee so long as such subcommittee is composed solely of one or more members of the compensation committee. The compensation committee will engage compensation consultants from time to time to assist the committee in evaluating the design and assessing the competitiveness of its executive compensation program.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will recommend candidates for election to the board of directors. The nominating and corporate governance committee will use a variety of means of identifying nominees for director, including recommendations from existing board members and from stockholders. In determining whether to nominate a candidate, the nominating and corporate governance committee will consider the then-existing composition and capabilities of serving board members, as well as additional capabilities considered necessary or desirable in light of the combined company's then-existing needs, and assess the need for new or additional members to provide those capabilities. In addition, the nominating and corporate governance committee will take a leadership role in shaping the combined company's corporate governance, including making recommendations on matters relating to the composition of the board of directors and its various committees and the combined company's corporate governance guidelines.

Retirement Plan Committee

The retirement plan committee will oversee the combined company's retirement plans, including reviewing the investment strategies and asset performance of the plans, compliance with the plans and the overall quality of the asset managers, plan administrators and communications with employees.

Management

Pursuant to the merger agreement, the officers of Frontier immediately prior to the merger will become the initial officers of the combined company. Frontier anticipates that its senior management team will continue to manage the business of the combined company. In addition, Frontier expects to supplement its current senior management team with members of Verizon's current regional management team who currently manage the Spinco business.

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Set forth below are the name, age and biographical information of each person who is currently expected to be a member of the combined company's senior management immediately following the merger.

MARY AGNES WILDEROTTER, 54, has been with Frontier since November 2004. She was elected President and Chief Executive Officer in November 2004 and Chairman of the Board in December 2005. Prior to joining Frontier, she was Senior Vice President—Worldwide Public Sector of Microsoft Corp. from February 2004 to November 2004 and Senior Vice President—Worldwide Business Strategy of Microsoft Corp. from 2002 to 2004. Prior to that she was President and Chief Executive Officer of Wink Communications from 1997 to 2002.

DONALD R. SHASSIAN, 54, has been with Frontier since April 2006. He is currently Executive Vice President and Chief Financial Officer. Previously, he was Chief Financial Officer from April 2006 to February 2008. Prior to joining Frontier, Mr. Shassian had been an independent consultant since 2001, primarily providing M&A advisory services to several organizations in the communications industry. In his role as independent consultant, Mr. Shassian also served as Interim Chief Financial Officer of the Northeast region of Health Net, Inc. for a short period of time, and assisted in the evaluation of acquisition, disposition and capital raising opportunities for several companies in the communications industry, including AT&T, Consolidated Communications and smaller companies in the rural local exchange business. Mr. Shassian is a certified public accountant, and served for five years as the Senior Vice President and Chief Financial Officer of Southern New England Telecommunications Corporation and for more than 16 years at Arthur Andersen, where his last position was as the Partner-in-Charge of the Telecommunications Industry Practice for North America.

HILARY E. GLASSMAN, 47, has been with Frontier as Senior Vice President, General Counsel and Secretary since July 2005. Prior to joining Frontier, from February 2003, she was associated with Sandler O'Neill & Partners, L.P., an investment bank with a specialized financial institutions practice, first as Managing Director, Associate General Counsel and then as Managing Director, Deputy General Counsel. From February 2000 through February 2003, Ms. Glassman was Vice President and General Counsel of Newview Technologies, Inc. (formerly e-Steel Corporation), a privately-held software company.

PETER B. HAYES, 51, has been with Frontier since February 2005. He is currently Executive Vice President, Commercial Sales. Previously, he was Executive Vice President, Sales, Marketing and Business Development from December 2005 to August 2009 and prior to that, Senior Vice President, Sales, Marketing and Business Development from February 2005 to December 2005. Prior to joining Frontier, he was associated with Microsoft Corp. and served as Vice President, Public Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and General Manager, Microsoft U.S. Government from 1997 to 2003.

ROBERT J. LARSON, 50, has been with Frontier since July 2000. He was elected Senior Vice President and Chief Accounting Officer of Frontier in December 2002. Previously, he was Vice President and Chief Accounting Officer from July 2000 to December 2002. Prior to joining Frontier, he was Vice President and Controller of Century Communications Corp.

DANIEL J. McCARTHY, 45, has been with Frontier since December 1990. He is currently Executive Vice President and Chief Operating Officer. Previously, he was Senior Vice President, Field Operations from December 2004 to December 2005. He was Senior Vice President Broadband Operations from January 2004 to December 2004, President and Chief Operating Officer of ELI from January 2002 to December 2004, President and Chief Operating Officer, Public Services Sector from November 2001 to January 2002, Vice President and Chief Operating Officer, Public Services Sector from March 2001 to November 2001 and Vice President, Citizens Arizona Energy from April 1998 to March 2001.

CECILIA K. McKENNEY, 46, has been with Frontier since February 2006. She is currently Executive Vice President, Human Resources and Call Center Sales & Service. Previously, she was Senior Vice President, Human Resources from February 2006 to February 2008. Prior to joining Frontier, she was the Group Vice President of Headquarters of Human Resources of The Pepsi Bottling Group, referred to as PBG, from 2004 to 2005. Previously at PBG Ms. McKenney was the Vice President, Headquarters Human Resources from 2000 to 2004.

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MELINDA WHITE, 49, has been with Frontier since January 2005. She is currently Senior Vice President and General Manager, Marketing and New Business Operations. Previously, she was Senior Vice President and General Manager of New Business Operations from October 2007 to July 2009 and prior to that, Senior Vice President, Commercial Sales and Marketing from January 2006 to October 2007. Ms. White was Vice President and General Manager of ELI from January 2005 to July 2006. Prior to joining Frontier, she was Executive Vice President, National Accounts/Business Development for Wink Communications from 1996 to 2002. From 2002 to 2005, Ms. White pursued a career in music.

Table of Contents**COMPENSATION OF EXECUTIVE OFFICERS OF THE COMBINED COMPANY**

Pursuant to the merger agreement, the officers of Frontier immediately prior to the merger will become the officers of the combined company. The compensation committee of the board of directors of the combined company will oversee the compensation of the combined company's chief executive officer and other executive officers and senior management. Frontier's compensation committee is expected to review its compensation policies with respect to the executive officers of the combined company following the merger but has not yet made any determinations with respect to the compensation of those officers following the merger.

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EXECUTIVE COMPENSATION OF FRONTIER

Compensation Discussion and Analysis

This section provides information regarding the 2008 compensation program in place for Frontier's Chairman, President and Chief Executive Officer, referred to as the Frontier CEO, Frontier's Chief Financial Officer, referred to as the Frontier CFO, and the three most highly-compensated executive officers other than the Frontier CEO and Frontier CFO. These are the executive officers, referred to as the named executive officers, named in the Summary Compensation Table presented in this proxy statement/prospectus. This section includes information regarding Frontier's executive compensation philosophy, the overall objectives of Frontier's compensation program and each component of compensation that Frontier provides. This section also describes the key factors the compensation committee of the Frontier board, referred to as the compensation committee, considered in determining the compensation for the named executive officers in 2008.

Executive Compensation Philosophy

Frontier's executive compensation philosophy is designed to achieve a number of objectives:

Establish clear alignment between the interests of Frontier's executives and those of Frontier's stockholders. Frontier's executive compensation program is designed to align the interests of Frontier's executives with those of Frontier's stockholders by rewarding performance measured by certain key financial metrics, including revenue growth, earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, and EBITDA less capital expenditures, referred to as operating free cash flow, and specific operating goals. In the case of annual awards, these metrics and goals are derived from Frontier's annual business plan and are discussed in more detail below.

Additionally, the executives' interests are aligned with Frontier's stockholders' interests through the use of restricted stock awards rather than cash as a significant component of annual compensation. This encourages Frontier's executives to focus their attention on decisions that emphasize long-term returns for Frontier's stockholders. Frontier also has established and maintains minimum stock ownership guidelines for the Frontier CEO and her direct reports who are members of Frontier's Senior Leadership Team (which includes all named executive officers and two other executive officers). In March 2008, Frontier adopted the Long-Term Incentive Plan, referred to as the LTIP, which will further promote the alignment of executive and stockholder interests by linking long-term incentive awards granted to Frontier's executives, which are payable in shares of Frontier common stock, to aggressive growth goals over three-year performance periods.

Reinforce Frontier's performance culture. Frontier's executive compensation program is designed to reward superior performance. Frontier does this by making a majority of Frontier's named executive officers' compensation "at risk" and contingent upon achievement of specified company and individual performance goals. The components of executive compensation that are at risk are: the annual cash bonus, restricted stock awards, the profit sharing contribution and the LTIP.

- **Annual cash bonuses** are paid based upon achievement of specified company level financial and non-financial targets and individual performance.
- **Restricted stock** is awarded annually to executives based on achievement of specified company level financial targets and individual performance. In addition to the value executives derive from the restricted stock award itself, they also receive long-term value from any increases in the market value of the company's common stock over time and from the dividends they receive from the vested and unvested shares that they have been awarded.
- **Profit Sharing contributions** are made to executives' 401(k) accounts if Frontier exceeds its EBITDA goal. These awards are made in the exact same manner to all of Frontier's participating non-union employees.

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- The LTIP is designed to promote long-term performance by rewarding the achievement of specified company level financial targets over three-year performance periods. LTIP awards are payable in shares of the company's common stock at the end of the applicable three-year performance period.

Compensation based on the achievement of specified goals and targets reinforces Frontier's performance culture, which is one of its company priorities. Given the intensely competitive environment in the communications services industry, Frontier believes that it is important that it has a culture that rewards performance with respect to critical strategic, financial and operational goals.

Hire and retain talented executives. The quality of the individuals Frontier employs at all levels of the organization is a key driver of its performance as a company, both in the short-term and in the long-term. Accordingly, it is critical for Frontier to be able to hire and retain the best executive talent in the marketplace and one of the important tools to do so is to pay competitive total compensation.

In order for Frontier to hire and retain high performing executives with the skills critical to the long-term success of Frontier, it has implemented a compensation program that is competitive with compensation that is paid to executives in comparable companies. Frontier has also established multi-year vesting schedules for restricted stock awards and LTIP award opportunities that are designed to help it retain valuable executives notwithstanding the competition for talent.

Ensure company goals are fully aligned throughout the organization. Each year, Frontier establishes goals in three broad categories that it refers to as the "3Ps" (People, Product and Profit). These goals reflect the performance objectives that it has established for the upcoming year for all employees, including the named executive officers. In the fourth quarter of 2007, Mary Agnes Wilderotter, the Frontier CEO, along with the top company leaders, created Frontier's business plan for 2008. The 3Ps for 2008 were derived from the 2008 business plan, both of which were reviewed by the compensation committee and adopted by the Frontier board. Following their approval, the 3P goals were communicated to all employees in the first quarter of 2008 to drive company performance. The named executive officers are accountable for leading Frontier to achieve the 3P goals each year and are rewarded based on achieving specified 3P goals that are the key priorities for Frontier's business.

Compensation Program Design

To achieve the objectives described above, Frontier offers a straightforward executive compensation program that is designed to reward its executives for both short term (one year) and long term performance. For 2008, five primary components of compensation were available to Frontier's executives: base salary, an annual cash bonus opportunity, restricted stock awards, a profit sharing contribution and an LTIP award opportunity. Of these, only base salary represented "fixed" compensation. Each of the other components was "variable" based on the performance of both Frontier and, except for the profit sharing contribution, the individual executive, measured against specific pre-established goals and targets.

The compensation committee considers many factors in determining the amount of total compensation and the individual components of that compensation for each named executive officer, including the executive's experience level, value to Frontier and scope of responsibility. As the market for talented executives is highly competitive, Frontier also considers the compensation that is paid to executives in comparable companies with whom it competes for talent, which Frontier refers to as its "peer group." See "—Market and Peer Group Reviews." The peer group information provides valuable comparative insights and is one of many factors considered by the compensation committee in setting executive compensation. In general, it is Frontier's aim to offer total compensation to its executives that would place them in the 50th to 75th percentile rank for the peer group. By targeting the 50th to 75th percentile of its peer group for total compensation, Frontier believes it can successfully hire, motivate and retain talented executives.

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Roles and Responsibilities

As described in its charter, the compensation committee is responsible for overseeing and approving Frontier's executive compensation philosophy and compensation programs, as well as determining and approving the compensation for the Frontier CEO and other key senior executives. At the beginning of each year, the compensation committee reviews and approves the 3Ps, as well as individual performance goals for the named executive officers, and approves the target levels for each of the compensation components that apply to the named executive officers for the upcoming year. Each year, at its February committee meeting, the compensation committee assesses the Frontier CEO's performance for the year just ended to determine the appropriate award for each component of her total compensation. The compensation committee then reviews their recommendations for the Frontier CEO with the non-management directors before finalizing their decision.

Frontier's CEO annually reviews the performance of the other key senior executives for the year just ended, including the named executive officers, and presents to the compensation committee her performance assessments and compensation recommendations, including the award for each component of the executive's total compensation. Mrs. Wilderotter's review consists of an assessment of the executive's performance against the company level and individual goals and targets. The compensation committee then follows a review process with respect to these executives similar to that undertaken for Mrs. Wilderotter. After review, the compensation committee approves the compensation decisions for these executives.

The compensation committee retains an independent executive compensation consultant to assist in the development of compensation programs, evaluation of compensation practices and the determination of compensation awards. The role of the compensation consultant is to provide objective third-party data, advice and expertise in executive compensation matters. In 2008, the compensation committee again engaged Compensia, Inc. as its independent executive compensation consultant. The decisions made by the compensation committee are the responsibility of the compensation committee and reflect factors and considerations in addition to the information and recommendations provided by the compensation consultant.

The compensation committee reviews on a periodic basis Frontier management compensation programs, including any management incentive compensation plans, to determine whether they are appropriate, properly coordinated and achieve their intended purposes(s), and recommend to the Frontier board any modifications or new plans or programs.

Components of the Executive Compensation Program

The following components comprise Frontier's executive compensation program and post-employment compensation, the rationale for each component and how awards were determined for 2008.

Cash Compensation

Base Salary. Base salary levels for Frontier's executives are set at approximately the 50th percentile for comparable executives within its peer group. Frontier believes a salary scale set at this level, when considered together with the other components of compensation, is sufficient to attract and retain talented executives. Frontier conducts an annual merit review of its executives, generally held in February of each year, where each executive's performance for the year just ended is reviewed against his or her individual and company goals. The overall budget for merit increases is set by management using an average of the merit increase percentages in national compensation surveys in each year and company performance. Executives are eligible for increases to their base salary based on individual performance.

Executives may also receive an increase to their base salary when they are promoted, if they are given increased responsibility or if an executive's base salary is determined to be below the 50th percentile of Frontier's peer group. The compensation committee determines all changes to the base salary of Mrs. Wilderotter, which are then subsequently reviewed by the non-management directors of the Frontier board.

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Mrs. Wilderotter recommends changes in the base salary for Frontier's other named executive officers to the compensation committee for its review and approval. Base salary represented between approximately 20 and 30 percent of each named executive officer's total compensation for 2008 (for this purpose, consisting of base salary, the annual cash bonus payment and the grant date fair market value of restricted stock awards; the annualized LTIP award opportunity was excluded from this calculation because it was cancelled). This is consistent with Frontier's philosophy of having a majority of the named executive officer's compensation "at risk" and contingent upon specified company and individual performance goals.

Annual Bonus. The named executive officers participate in the Frontier Bonus Plan (formerly called Citizens Incentive Plan), which is the same bonus plan in which all of Frontier's non-union employees participate. This component of executive compensation is designed to incentivize and reward Frontier's executives for achieving pre-established and measurable performance goals. Target bonuses are established at the beginning of each year and are set as a percentage of the named executive officer's base salary, ranging from 75% to 100% of base salary. The target bonus for Mrs. Wilderotter is 100% of her base salary in accordance with the terms of her employment agreement. See "— Employment Arrangements; Potential Payments upon Termination or Change-in-Control." Annual cash bonuses represented between approximately 20 and 30 percent of each named executive officer's total compensation for 2008.

The performance goals for the Frontier Bonus Plan are based on its 3P goals and each of the named executives has his or her individual goals, which are consistent with Frontier's overall 3P goals. These goals are "stretch" goals that are designed to incentivize Frontier's executives to drive high performance and achieve the Frontier's strategic operational and financial objectives. As a result, Frontier believes the goals will be difficult to achieve but are attainable with significant effort. In the last three years, Frontier has performed at varying levels of the established 3P goals; for certain goals the performance was below the target, others were met and some goals were exceeded.

Bonuses may be paid upon partial or full achievement of company and individual goals. Eighty-five percent of an executive's bonus is determined based on the performance against certain 3P goals for Profit and Product. The remaining 15 percent of the executive's bonus is based on his or her leadership and performance against certain 3P goals for People and the individual goals set for him or her for the applicable year. The actual bonus payout is within a range of 0–120% of each executive's target bonus opportunity. The compensation committee determines the actual bonus payout for Mrs. Wilderotter (subject to the same range), which is then subsequently reviewed by the non-management directors of the Frontier board. Mrs. Wilderotter recommends bonus payouts for the other named executive officers to the compensation committee for its review and approval.

For 2008, the 3P goals for Profit included achieving specified target levels for revenue, EBITDA, capital expenditures, operating free cash flow and acquisition integration. The 3P goals for Product included Internet and wireless data revenue growth, implementing critical customer service plans, completing system upgrades/conversions and achieving specified sales target levels for Frontier products. The Profit and Product goals were weighted at 85% for the Senior Leadership Team. The 3P goals for People included initiatives to hire and retain talented employees and reinforce Frontier's performance culture and were part of the executive's individual leadership component which was weighted at 15%. The bonus pool for 2008 was established in proportion to Frontier's performance on the Profit and Product goals.

In determining bonus payouts for the named executive officers for 2008, Frontier's performance against the Profit goals was as follows:

- revenue, 95.8%, with actual revenue of \$2,237.0 million versus a target of \$2,335.0 million;
- EBITDA (defined as operating income plus depreciation and amortization), 94.9%, with actual EBITDA of \$1,204.3 million versus a target of \$1,269.2 million;
- capital expenditures, 100.0%, with actual capital expenditures of \$288.3 million versus a target of \$310.0 million; and

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- operating free cash flow, 95.5%, with actual operating free cash flow of \$916.0 million versus a target of \$959.2 million.

The Profit goals also included a number of integration objectives for the two acquisitions made in 2007, which were accomplished.

For the Product goals, Frontier's performance against the quantifiable goals, such as total product units and Internet and wireless data revenues, was 93.1%, measured as a percentage of achievement versus the targets for those goals. The Product goals also included the execution of the customer service enhancements and development of Local Manager training and tools. The customer service enhancements included billing system conversions, system upgrades, call center operations performance improvement and formation of local sales and service queues. Performance against these goals was determined by the compensation committee based on its subjective evaluation of Frontier's progress against these objectives.

The payout for Profit goals was 95.3% and the payout for Product goals was 93.2%, for an aggregate bonus payout on Profit and Product goals of 94.1% of each executive's target bonus opportunity. For each named executive officer (other than herself), Mrs. Wilderotter provided to the compensation committee an evaluation of his or her performance against his or her People goals, including a qualitative assessment of the executive's contributions and effectiveness on an individual basis and as a leader in the organization. The payout for People goals were 97.5% for Mr. Shassian, 100.0% for Mr. McCarthy, 90.0% for Mr. Hayes and 100.0% for Ms. McKenney. For Mrs. Wilderotter, the compensation committee performed a similar assessment. The payout for People goals for Mrs. Wilderotter was 100.0%. Total bonus payouts, as a percent of the executive's target were then determined for each named executive officer as follows: Mrs. Wilderotter, 95.0%, Mr. Shassian, 94.6%, Mr. McCarthy, 95.0%, Mr. Hayes, 93.5% and Ms. McKenney, 95.0%.

For 2009, the Profit goals include targets for revenue, EBITDA, capital expenditures and operating free cash flow. The Product goals include the implementation of critical customer sales and service enhancements and achieving sales targets for voice, broadband, video and bundled products. The Profit and Product goals are weighted at 85% for the Senior Leadership Team. The People goals are part of the executive's individual leadership component which is weighted at 15% for the Senior Leadership Team. The bonus pool for 2009 will be established based on the company's performance on the Profit and Product goals.

Profit Sharing Contribution. Consistent with Frontier's pay-for-performance philosophy, in years when Frontier exceeds its annual EBITDA target, it provides eligible employees with a profit sharing match to their 401(k) account. For each 1% that Frontier exceeds the EBITDA target, Frontier makes a matching contribution of 0.5% of eligible base salary up to a maximum contribution of 3%. The eligible base salary is capped at the annual compensation limit in Section 401(a)(17) of the Code, as adjusted for increases in the cost of living. The maximum eligible base salary for 2008 was \$230,000. Executives are eligible to participate in this arrangement on the same basis as all of Frontier's non-union, full-time employees. In order to receive the profit sharing award, the executive must contribute a minimum of 1% of his or her base salary to Frontier's 401(k) plan. Frontier created the profit sharing plan in 2003, the year it froze the Frontier Pension Plan for all eligible non-union employees. The profit sharing plan was implemented to reinforce Frontier's performance culture with another component of performance-based compensation. Frontier did not make profit sharing contributions in 2008 because Frontier did not exceed the specified EBITDA target for the year.

Perquisites and Other Benefits. Frontier provides perquisites to the named executive officers in limited situations where it believes it is appropriate to assist the executives in the performance of their duties, to make its executives more efficient and effective and for recruitment and retention purposes. Perquisites provided to the named executive officers during 2008 included a housing allowance in connection with relocation and reimbursement of travel expenses for spouses of the named executive officers who attended a company recognition function. Frontier believes that providing the housing allowance was necessary to hire and retain a talented executive critical to Frontier's long term success. Frontier believes that the participation of spouses at

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the recognition function contributed to its effectiveness. The recognition function expenses for spouses were de minimis. Frontier also provided tax gross-up payments on these perquisites because it believes that the executive should not be responsible for the taxes on Frontier-related expenses.

In addition, Frontier provides other benefits to its named executive officers on the same basis as all of its non-union, full-time employees. These benefits include medical, dental and vision insurance, basic life and disability insurance and matching contributions to Frontier's 401(k) plan for employees who participate in the plan.

Equity Compensation

Restricted Stock Awards. Frontier uses restricted stock awards to achieve three primary objectives:

- (1) to incentivize and reward the executives for annual company performance;
- (2) to enable Frontier to hire and retain talented executives; and
- (3) to align the interests of Frontier's executives with those of its stockholders through long-term executive ownership of Frontier common stock.

Restricted stock awards are granted each year based on performance to the Frontier CEO, the other named executive officers, Senior Vice Presidents, Vice Presidents and approximately 30% of Directors, Regional Vice Presidents and Assistant Vice Presidents, a total of approximately 75 employees. For the named executive officers, restricted stock awards, taken together with any annualized LTIP award opportunities then available, are targeted at the 75th percentile of Frontier's peer group for long term compensation consistent with Frontier's philosophy of targeting the 50th--75th percentile for total compensation.

Based on this criterion, the compensation committee sets a target dollar range for restricted stock awards for each named executive officer. The restricted stock plan has a minimum financial performance "gate" in order for any restricted stock grants to be awarded (except in the case of Mrs. Wilderotter whose employment contract requires a minimum restricted stock award be made in each year). The compensation committee set a minimum performance threshold of 90% of each of the three approved budgeted levels for revenue, EBITDA and operating free cash flow for any restricted stock awards to be granted in 2008. The actual dollar value of restricted stock that is awarded to each executive is based on his or her position level and individual performance. This dollar amount is then converted to a number of shares of restricted stock based on the market price of Frontier's common stock on the date of grant. All restricted stock awards for named executive officers vest in 25% increments over four years, except for Mrs. Wilderotter whose stock awards prior to 2007 vest in 20% increments over five years. Restricted stock awards have no market or performance conditions to vesting. In March 2007, the compensation committee altered the vesting schedule of Mrs. Wilderotter's February 2007 grant and future grants to be consistent with the vesting schedule for all the other named executive officers, which is 25% per year. The value of the restricted stock awards represented between approximately 40 and 60 percent of the named executive officers' total compensation for 2008, which is consistent with Frontier's philosophy of having a majority of the named executive officer's compensation "at risk" and contingent upon specified company and individual performance goals. In February 2009, the compensation committee granted restricted stock awards to the named executive officers as set forth below under "2008 Named Executive Officer Compensation."

Dividends are paid on shares of vested and unvested restricted stock at the same rate and at the same time that Frontier pays dividends on shares of Frontier common stock. Frontier pays dividends on unvested restricted stock in order to reward executives for the performance of Frontier on the same basis as stockholders, thereby more closely aligning the interests of its executives with those of its stockholders.

Mrs. Wilderotter's employment agreement provides that she will receive an annual minimum restricted stock award valued at between \$1,000,000 and \$2,000,000, as determined by the compensation committee. The compensation committee has the discretion to increase the size of her annual restricted stock award to an amount

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greater than her contractually-guaranteed award in order to align her compensation with Frontier's peer group, reward performance or achieve other company goals. Mrs. Wilderotter's restricted stock award provides incentive for her to drive Frontier performance and to remain with Frontier. It is also consistent with the goal of making the majority of her compensation performance-based. The compensation committee determines the actual amount of the restricted stock award for Mrs. Wilderotter based on Frontier's performance and her individual performance, which is then subsequently reviewed by the non-management directors. Mrs. Wilderotter recommends the restricted stock awards for the other executives, including the other named executive officers, to the compensation committee for their final review and approval.

The compensation committee follows a general practice of making all restricted stock awards to Frontier's executives, including the named executive officers, on a single date each year, with the exception of awards to eligible new hires, which are awarded as of the date of hire. Typically, the compensation committee makes these restricted stock grants at its meeting in February based on the prior year's results.

Long-Term Incentive Program Awards. In March 2008, the compensation committee, in consultation with the non-management directors and the compensation committee's independent executive compensation consultant, adopted the LTIP. The LTIP covers the named executive officers and certain other officers. The LTIP is designed to incentivize and reward Frontier's senior executives if they achieve aggressive growth goals over three year performance periods, referred to as measurement periods. LTIP awards will be granted in shares of Frontier common stock following the applicable measurement period if pre-established performance goals are achieved over the measurement period.

In March 2008, the compensation committee approved LTIP target award opportunities for each of the named executive officers, as set forth below in the Grant of Plan-Based Awards table, as well as the target level for each performance metric for the 2008–2010 measurement period. For the 2008–2010 measurement period, the performance metrics were revenue and free cash flow. Revenue and free cash flow were selected as metrics for the 2008–2010 measurement period because of the compensation committee's belief that these metrics drive strong alignment between management and its stockholders with respect to Frontier's long term performance. For purposes of the 2008–2010 measurement period, revenue was defined as Frontier's total revenues less regulatory revenues, and free cash flow was defined as Frontier's publicly reported free cash flow, adjusted to reflect Frontier as a full cash taxpayer during the 2008–2010 measurement period. The growth in these numbers was to be measured from a 2007 base, which, in the case of free cash flow, was also to be adjusted to reflect Frontier as a full cash taxpayer and for certain other items. The compensation committee had the discretion to include or exclude certain items from the calculations of free cash flow.

There were minimum financial performance "gates" that had to be achieved with respect to revenue and free cash flow growth over the 2008–2010 measurement period for any LTIP award to be granted. In February 2009, the compensation committee determined that the minimum performance gates were no longer achievable and cancelled the award opportunities for the 2008–2010 measurement period. Accordingly, there will be no payouts under the LTIP for the 2008–2010 measurement period. It is anticipated that new measurement periods and related targets will be established in the future, but not in 2009.

Stock Options. Frontier does not make stock option awards to executive officers and has not done so since 2002. Given the historical price range of Frontier common stock, the stock's volatility characteristics and Frontier's common stock dividend, Frontier believes a selective restricted stock grant is more valuable and appropriate than an option grant and, therefore, a stronger hiring and retention tool. Further, restricted stock awards result in the issuance of fewer shares.

Stock Ownership Guidelines. To further align Frontier's executives' interests with those of its stockholders, in 2007 the Frontier board approved new stock ownership guidelines for the Frontier CEO and the other members of the Senior Leadership Team. The Frontier CEO is expected to own shares of Frontier common stock having a minimum value of two times her base salary and each other member of the Senior Leadership Team is expected

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to own shares of Frontier common stock having a minimum value of one times his or her base salary. The Frontier CEO and the other members of the Senior Leadership Team have three years after joining the Senior Leadership Team to comply with this guideline and must retain ownership of at least that amount as long as he or she serves on the Senior Leadership Team. The guidelines are based on a survey of similar policies among the companies in Frontier's peer group and the Frontier board's judgment regarding a meaningful investment in Frontier. Restricted stock awards are counted for purposes of fulfilling this requirement. Currently, all members of the Senior Leadership Team, including the Frontier CEO, are in compliance with these guidelines.

Post-Employment Compensation

Frontier Pension Plan. This defined benefit pension plan was frozen for all non-union participants in 2003 or earlier depending on the participant's employment history. The plan was frozen both with respect to participation and benefit accruals. Daniel McCarthy, Executive Vice President and Chief Operating Officer, is the only named executive officer for 2008 who has vested benefits under the Frontier Pension Plan, as all other named executive officers joined Frontier after the plan was frozen.

Termination of Employment and Change-in-Control Arrangements. To attract talented executives, Frontier provides certain post-employment benefits to the named executive officers. These benefits vary among the named executive officers depending on the arrangements negotiated with the individual executive upon his or her joining Frontier. Frontier's change-in-control arrangements promote the unbiased and disinterested efforts of its executives to maximize stockholder value before, during and after a change-in-control of Frontier which may affect the employment status of the executives. See "—Employment Arrangements; Potential Payments upon Termination or Change-in-Control."

Other Benefits. Frontier currently offers to retired members of the Frontier board the opportunity to continue their medical, dental and vision coverage from Frontier for themselves and their spouses, with the retired board member paying 100% of the cost. As a member of the Frontier board, Mrs. Wilderotter will be eligible, following post-employment coverage she may receive under her employment agreement, to continue her medical, dental and vision coverage if she so elects by paying 100% of the cost of such coverage when she leaves the Frontier board, if such coverage is available at that time. No other named executive officer is on the Frontier board and thus none of them are eligible for this benefit.

Market and Peer Group Reviews

To assess the competitiveness of Frontier's executive compensation levels, the compensation committee directed its independent executive compensation consultant to develop a peer group and then conduct a comprehensive study with respect to the compensation of the Senior Leadership Team. The study included comparing the compensation of certain senior executives to the compensation of executives holding comparable positions at companies in the peer group as reported in publicly-available documents. The peer group companies included in this study were:

CenturyTel, Inc.
Charter Communications Inc.
Cincinnati Bell Inc.
Embarq Corporation
Fairpoint Communications, Inc.

Mediacom Communications Corp.
PAETEC Holding Corp.
Qwest Communications International Inc.
Time Warner Telecom Inc.
Windstream Corporation

The peer group was changed from the 2007–2008 peer group by removing IDT, Level 3 Communications, Telephone and Data Systems, MetroPCS Communication Inc. and XO Communications Inc. These companies did not meet the peer group criteria which included quantitative and qualitative measures. Charter Communications, Fairpoint Communications and Qwest Communications were added to the peer group because the compensation committee believed these companies more closely match Frontier's peer group criteria and are companies with whom Frontier competes for executive talent.

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In the case of executives for whom there was no publicly available data or no comparable position at the companies in the peer group, the results from the following two published executive compensation surveys were analyzed:

- 2008 Mercer Benchmark Database Executive Survey
- 2007-2008 Watson Wyatt Top Management CompQuest Survey

To determine the best job match for the positions to be evaluated based in the Watson Wyatt Survey, companies with revenues of between \$1 billion and \$5 billion in general industry were identified. For the Mercer Survey, companies in the telecommunications industry and general industry were identified with revenues between \$500 million and \$2.5 billion. The analysis included examining how each executive's compensation compared to the results in the two surveys for base salary, total cash compensation, long term incentives and total direct compensation.

The peer review study indicated that the total compensation for all of the named executive officers was between the 50th and 75th percentile with the exception of Mr. McCarthy whose total compensation fell below the 50th percentile. The compensation committee reviewed and considered the results of the study and other factors as described above under "Compensation Program Design" in determining the Frontier CEO's compensation and that of the Senior Leadership Team for performance in 2008.

2008 Named Executive Officer Compensation

In February 2009, the compensation committee met to evaluate the performance of the Frontier CEO and the other named executive officers, and to determine merit increases to 2009 base salaries, as well as annual cash bonus payouts and restricted stock awards related to 2008 performance.

For Mrs. Wilderotter, the compensation committee reviewed Frontier's financial performance (as measured by revenue, EBITDA, capital expenditures and operating free cash flow), Frontier's performance on the 3P goals and her performance against her specific individual 2008 goals, including acquisition integration, achievement of customer satisfaction ratings and development of the executive team. The compensation committee also took into account competitive market data provided by its independent executive compensation consultant. Based on this review and the factors discussed above under "Components of the Executive Compensation Program," the compensation committee, in consultation with the other non-management directors of the Frontier board, approved for Mrs. Wilderotter a merit increase to her 2009 base salary, an annual cash incentive bonus payout and a restricted stock award (each in the amount set forth below) for 2008 performance. These compensation decisions place her total compensation for 2008 in the 50th and 75th percentile of Frontier's peer group. Mrs. Wilderotter later declined to accept the merit increase to her 2009 base salary based on the current unprecedented economic conditions.

For the other named executive officers whose performance was judged based on the same 3P criteria as Mrs. Wilderotter, the compensation committee reviewed Mrs. Wilderotter's performance assessments for each executive and her recommendations with respect to merit increases in base salary, annual cash incentive bonus payouts and restricted stock awards. The compensation committee then discussed their assessments of each named executive officer and approved the base salaries for 2009, annual cash bonus payouts and restricted stock awards set forth below. Mrs. Wilderotter later determined not to award merit increases to the other named executive officers and many other employees for 2009 based on the current unprecedented economic conditions.

Name	2009 Base Salary ⁽¹⁾	2008 Incentive Bonus Payout	Grant Date Fair Value of Stock Award ⁽²⁾
Mrs. Wilderotter	\$ 925,000	\$ 878,611	\$ 3,000,000
Mr. Shassian	\$ 450,000	\$ 425,790	\$ 925,000
Mr. McCarthy	\$ 342,400	\$ 303,968	\$ 500,000
Mr. Hayes	\$ 300,000	\$ 280,470	\$ 423,450
Ms. McKenney	\$ 290,000	\$ 206,078	\$ 450,000

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- (1) For Mr. McCarthy, includes a market-based adjustment to his base salary based on the results of the peer review study, as discussed previously under the “Market and Peer Group Reviews.” The named executive officers did not receive a merit increase for 2009.
- (2) The amounts in this column represent the grant date fair value of restricted stock awards made in February 2009 in recognition of 2008 performance.

Internal Revenue Code Section 162(m) Policy

Section 162(m) of the Code generally disallows a tax deduction to public companies for compensation over \$1,000,000 paid to the chief executive officer or any of the four most highly compensated executive officers (other than the chief executive officer). Section 162(m) provides that qualifying “performance-based compensation” will not be subject to the tax deduction limit if certain requirements are met. The compensation committee believes it is important to maximize the corporate tax deduction, thereby minimizing the company’s tax liabilities. Accordingly, the compensation committee has designed the 2008 Frontier Bonus Plan and amended the 2000 Equity Incentive Plan to make compensation awarded under these plans deductible under Section 162(m) as “performance based compensation.” These plans went into effect with respect to 2008 compensation, which was paid in February and March 2009. Amounts that are guaranteed under Frontier’s existing employment agreements with the named executive officers are not deductible by Frontier under Section 162(m) as such amounts do not qualify as “performance-based compensation.”

Frontier may award amounts in the future that are not deductible under Section 162(m) if the compensation committee determines that it is in the best interests of Frontier and its stockholders to do so.

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Summary Compensation Table

The following table sets forth, for services rendered to Frontier and its subsidiaries for each of the fiscal years ended December 31, 2008, 2007 and 2006, the compensation awarded to, earned by, or paid to Frontier's Chief Executive Officer, Chief Financial Officer and each of its other three most highly compensated current executive officers in 2008.

Name and Principal Position(s)	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Mary Agnes Wilderotter	2008	\$920,833	—	\$3,649,817	—	\$ 878,611	\$ 4,049	\$5,453,310
Chairman of the Board of Directors,	2007	\$875,000	—	\$1,366,383	—	\$ 895,410	\$ 2,071	\$3,138,864
President and Chief Executive Officer	2006	\$737,500	—	\$ 779,250	—	\$ 825,000	\$ 19,433	\$2,361,183
Donald R. Shassian	2008	\$448,000	\$2 ,500	\$ 511,321	—	\$ 425,790	\$ 8,624	\$1,396,235
Executive Vice President and	2007	\$435,834	\$50,000	\$ 305,108	—	\$ 439,051	\$ 9,154	\$1,239,147
Chief Financial Officer (5)	2006	\$301,042	\$25,000	\$ 125,156	—	\$ 350,000	\$ 2,748	\$ 803,946
Daniel J. McCarthy	2008	\$315,000	\$1 ,000	\$ 385,053	—	\$ 303,968	\$ 7,921	\$1,012,942
Executive Vice President and Chief	2007	\$288,334	—	\$ 322,079	—	\$ 287,448	\$ 7,262	\$ 905,123
Operating Officer	2006	\$276,250	—	\$ 490,770	\$ 14,987	\$ 238,000	\$ 6,674	\$1,026,681
Peter B. Hayes	2008	\$298,667	—	\$ 355,696	—	\$ 280,470	\$ 53,121	\$ 987,954
Executive Vice President, Sales,	2007	\$290,542	—	\$ 448,054	—	\$ 286,082	\$ 70,302	\$1,094,980
Marketing & Business Development	2006	\$281,128	—	\$ 318,550	—	\$ 240,763	\$ 70,990	\$ 911,431
Cecilia K. McKenney	2008	\$288,875	\$1 ,000	\$ 299,976	—	\$ 206,078	\$ 7,799	\$ 803,728
Executive Vice President, Human	2007	\$281,876	—	\$ 192,664	—	\$ 214,603	\$ 8,033	\$ 697,176
Resources and Call Center Sales & Service (6)								

(1) The stock awards referred to in this column consist of grants of restricted stock and, for Mrs. Wilderotter, a one-time grant of 120,000 shares of common stock for 2007. The amounts shown in this column represent the dollar amount recognized by Frontier for stock awards for financial statement reporting purposes with respect to 2008, 2007 and 2006 in accordance with FAS 123R. As such, it may include amounts related to awards granted in and prior to 2008, 2007 and 2006. For a discussion of valuation assumptions, see Note 17 in the notes to Frontier's audited consolidated financial statements. For additional details regarding the restricted stock awards, see the Grant of Plan-Based Awards table below and the accompanying narrative.

(2) The amounts shown in this column represent the dollar amount recognized by Frontier for stock option awards for financial reporting purposes with respect to 2006 in accordance with FAS 123R. No stock options were awarded in 2008, 2007 or 2006. As such, these amounts relate to awards granted prior to 2006. For a discussion of valuation assumptions, see Note 17 in the notes to Frontier's audited consolidated financial statements.

(3) The amounts shown in this column represent awards made under the Frontier Bonus Plan (formerly called the Citizens Incentive Plan) for 2008, but were paid in 2009.

(4) The All Other Compensation column includes, among other things, the items described below. The SEC requires Frontier to identify and quantify any individual item of compensation exceeding \$10,000, except as discussed below under "Perquisites and Other Personal Benefits."

Perquisites and Other Personal Benefits. Disclosure of perquisites and other personal benefits is omitted for a named executive officer if they aggregate less than \$10,000 in the fiscal year. Accordingly, for 2008, perquisites and other personal benefits are included in this column only for Mr. Hayes and consist of a housing allowance (\$32,000).

Tax Gross-Ups. For 2008, the amounts in this column for Mr. Hayes also include tax gross-up payments in the amount of \$15,987.

Note that the amounts in this column for 2007 and 2006 (and the related "Total" amounts) for each of the named executive officers have been revised from those previously disclosed. Dividends are factored into the grant date fair value of the awards in accordance with FASB 123R and, therefore, are not required to be reported in this column. Amounts have been adjusted accordingly.

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- (5) Mr. Shassian joined Frontier as Chief Financial Officer effective April 17, 2006 and became an Executive Vice President on February 21, 2008. In accordance with his letter agreement with Frontier, he received a sign-on bonus of \$25,000 and a grant of 50,000 shares of restricted stock on his date of hire and a sign-on bonus of \$50,000 on April 17, 2007. See “—Employment Arrangements; Potential Payments Upon Termination or Change-in-Control—Donald R. Shassian.”
- (6) Ms. McKenney joined Frontier as Senior Vice President, Human Resources effective February 7, 2006 and became Executive Vice President, Human Resources and Call Center Sales & Service on February 21, 2008. Information for 2006 is not provided for Ms. McKenney because she was not a named executive officer for 2006.

Grant of Plan-Based Awards

The following table sets forth information concerning cash awards under Frontier’s non-equity incentive compensation plan (the Frontier Bonus Plan, formerly called the Citizens Incentive Plan) for 2008, award opportunities under the LTIP announced in 2008 and grants of stock made during 2008 to the named executive officers.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock	Grant Date Fair Value of Stock Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (#)		
Mary Agnes Wilderotter	—	\$ 0	\$925,000	\$1,110,000	N/A	N/A	N/A	—	—
	February 21, 2008	—	—	—	—	—	—	347,985	\$3,911,351
	February 21, 2008	—	—	—	—	—	—	120,000	\$1,348,800
Donald R. Shassian	—	\$ 0	\$450,000	\$ 540,000	N/A	N/A	N/A	—	—
	February 21, 2008	—	—	—	—	—	—	77,381	\$ 834,941
Daniel J. McCarthy	—	\$ 0	\$320,000	\$ 384,000	N/A	N/A	N/A	—	—
	February 21, 2008	—	—	—	—	—	—	41,209	\$ 444,645
Peter B. Hayes	—	\$ 0	\$300,000	\$ 360,000	N/A	N/A	N/A	—	—
	February 21, 2008	—	—	—	—	—	—	40,934	\$ 441,578
Cecilia K. McKenney	—	\$ 0	\$217,500	\$ 261,000	N/A	N/A	N/A	—	—
	February 21, 2008	—	—	—	—	—	—	39,377	\$ 424,878

- (1) In February 2009, the compensation committee cancelled award opportunities under the LTIP for the 2008–2010 measurement period and, accordingly, no payouts for such measurement period will be made. The compensation committee had approved award opportunities in March 2008 for the named executive officers for the 2008–2010 measurement period as follows: Mrs. Wilderotter, \$5,000,000; Mr. Shassian, \$2,500,000; Mr. McCarthy, \$1,500,000; Mr. Hayes, \$750,000; and Ms. McKenney, \$750,000.

Awards under the Frontier Bonus Plan for 2008 shown under the Estimated Possible Payouts Under Non-Equity Incentive Plan Awards columns were paid in March 2009 based on performance metrics set for 2008 and achievement of individual goals, as described above under “Compensation Discussion and Analysis.” Target awards under the Frontier Bonus Plan are set as a percentage of base salary. Targets for 2008 were set at 100% of base salary for each of the named executive officers other than Ms. McKenney, whose target was set at 75% of her base salary. Payouts can range from 0% to 120% of the target. The actual amounts of these awards for 2008 for the named executive officers are reported above in the Summary Compensation Table in the column entitled “Non-Equity Incentive Plan Compensation.”

Except as noted below, the stock awards referred to in the above table are grants of restricted stock. The grants vest in four equal annual installments commencing one year after the grant date. All such grants of restricted stock were made under Frontier’s Amended and Restated 2000 Equity Incentive Plan in 2008. Each of the named executive officers is entitled to receive dividends on shares of restricted stock at the same rate and at the same time Frontier pays dividends on shares of Frontier common stock. The common stock dividend rate for 2008 was \$1.00 per share, paid quarterly. No above-market or preferential dividends were paid with respect to any restricted shares. For Mrs. Wilderotter, the stock awards include a one-time grant of 120,000 shares of Frontier common stock.

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In March 2008, the compensation committee approved LTIP target award opportunities for each of the named executive officers and the performance goals for the 2008–2010 measurement period, as described above under “Components of the Executive Compensation Program—Equity Compensation—Long Term Incentive Program Awards.” In February 2009, the compensation committee determined that the minimum performance gates for awards to be made were not achievable and cancelled the award opportunities for the 2008–2010 measurement period. Accordingly, there will be no payouts under the LTIP for the 2008–2010 measurement period.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding outstanding shares of restricted stock held by the named executive officers at year-end and award opportunities at such date under the LTIP. None of the named executive officers held any options to purchase Frontier common stock at year-end.

Name	Number of Shares of Stock That Have Not Vested ⁽¹⁾	Market Value of Shares of Stock That Have Not Vested ⁽²⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested ⁽³⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ⁽³⁾
	(#)	(\$)	(#)	(\$)
Mary Agnes Wilderotter	593,985	\$ 5,191,429	(4)	\$ 0
Donald R. Shassian	132,381	\$ 1,157,010	(4)	\$ 0
Daniel J. McCarthy	86,584	\$ 756,744	(4)	\$ 0
Peter B. Hayes	83,184	\$ 727,028	(4)	\$ 0
Cecilia K. McKenney	75,315	\$ 658,253	(4)	\$ 0

(1) The shares of restricted stock held by the named executive officers as of December 31, 2008 vest as follows:

- Mrs. Wilderotter: 30,000 restricted shares vest on November 1, 2009; 216,000 restricted shares vest in three equal annual installments commencing February 22, 2009; and 347,985 restricted shares vest in four equal annual installments commencing February 26, 2009.
- Mr. Shassian: 25,000 restricted shares vest in two equal annual installments commencing April 17, 2009; 30,000 restricted shares vest in three equal annual installments commencing February 22, 2009; and 77,381 restricted shares vest in four equal annual installments commencing February 21, 2009.
- Mr. Hayes: 16,000 restricted shares vest in two equal annual installments commencing February 22, 2009; 26,250 restricted shares vest in three equal annual installments commencing February 22, 2009; and 40,934 restricted shares vest in four equal annual installments commencing February 21, 2009.
- Mr. McCarthy: 4,125 restricted shares vested on March 15, 2009; 15,000 restricted shares vest in two equal annual installments commencing February 22, 2009; 26,250 restricted shares vest in three equal annual installments commencing February 22, 2009; and 41,209 restricted shares vest in four equal annual installments commencing February 21, 2009.
- Ms. McKenney: 15,000 restricted shares vest in two equal annual installments commencing February 7, 2009; 20,938 restricted shares vest in three equal annual installments commencing February 22, 2009; and 39,377 restricted shares vest in four equal annual installments commencing February 21, 2009.

(2) The market value of shares of common stock reflected in the table is based upon the closing price of Frontier common stock on December 31, 2008, which was \$8.74 per share.

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- (3) Amounts in these columns relate to award opportunities under the LTIP for the 2008–2010 measurement period. In February 2009, the compensation committee determined that the goals were not achievable and cancelled the award opportunities for the 2008–2010 measurement period. Accordingly, there will be no payouts under the LTIP for the 2008–2010 measurement period.
- (4) The number of shares that may be awarded under the LTIP is based on the closing price of Frontier's common stock at the time the award is made following the end of the three-year performance period. Accordingly, the number of shares cannot be determined until the time of payout.

Option Exercises and Stock Vested

The following table sets forth information regarding the shares of restricted stock that vested for each of the named executive officers in 2008. No named executive officer acquired any shares upon the exercise of stock options in 2008. The value of restricted stock realized upon vesting is based on the closing price of the shares on the vesting date.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting
	(#)	(\$)
Mary Agnes Wilderotter	102,000	\$ 1,016,700
Donald R. Shassian	22,500	\$ 237,750
Daniel J. McCarthy	20,375	\$ 219,848
Peter B. Hayes	16,750	\$ 183,413
Cecilia K. McKenney	14,479	\$ 158,545

Pension Benefits

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
		(#)	(\$)	(\$)
Mary Agnes Wilderotter	—	—	—	—
Donald R. Shassian	—	—	—	—
Daniel J. McCarthy	Frontier Pension Plan	11.0	\$ 65,687	—
Peter B. Hayes	—	—	—	—
Cecilia K. McKenney	—	—	—	—

Frontier has a noncontributory, qualified retirement plan, the Frontier Pension Plan, covering a majority of Frontier's employees that provides benefits that, in most cases, are based on formulas related to base salary and years of service. The Frontier Pension Plan has been amended to provide that, effective February 1, 2003, no further benefits will be accrued under the plan by most non-union participants (including all executive officers). Mr. McCarthy is the only named executive officer who has vested benefits under the plan, which is referred to as "frozen." The estimated annual pension benefits (assumed to be paid in the normal form of an annuity) for Mr. McCarthy is \$22,641. This amount is calculated under the plan based on his 11 years of service credit at the time the plan was frozen and the compensation limits established in accordance with federal tax law in the computation of retirement benefits under qualified plans. Benefits are not subject to reduction for Social Security payments or other offset amounts. For a discussion of valuation assumptions, see Note 23 in the notes to Frontier's audited consolidated financial statements.

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Employment Arrangements; Potential Payments Upon Termination or Change-in-Control**Mary Agnes Wilderotter**

Frontier entered into an employment agreement with Mary Agnes Wilderotter, dated as of November 1, 2004, pursuant to which Mrs. Wilderotter was appointed President and Chief Executive Officer of Frontier. The employment agreement was amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A of the Code, referred to as Section 409A. In December 2005, Mrs. Wilderotter was appointed Chairman of the Frontier board. Under the terms of Mrs. Wilderotter's employment agreement, her initial annual base salary was \$700,000, which can be and has been increased from time to time by the compensation committee. The employment agreement has an initial term of five years, which expires in November of 2009. The agreement automatically renews at the end of the initial or any renewal term for an additional one-year term, unless either party provides prior notice of non-renewal. Mrs. Wilderotter is also entitled to a target bonus amount equal to 100% of her base salary. Upon commencement of her employment, Mrs. Wilderotter received a grant of 150,000 restricted shares of Frontier common stock. With respect to each fiscal year during the employment term after 2004, Mrs. Wilderotter will receive a minimum grant of restricted shares of Frontier common stock with an aggregate value on the date of each grant equal to between \$1,000,000 and \$2,000,000, as determined by the compensation committee. The agreement provides that these restricted stock grants each vest ratably over five years. In March 2007, the compensation committee altered the vesting schedule of Mrs. Wilderotter's February 2007 grant and future grants to be consistent with the vesting schedule for all other named executive officers, which is 25% per year.

If Mrs. Wilderotter's employment is terminated without "cause" or by Mrs. Wilderotter with "good reason" (each as defined in the employment agreement), or Frontier does not renew her employment agreement at the end of a term, Frontier would be required to pay Mrs. Wilderotter an amount equal to her base salary through the date of termination and any bonus earned but unpaid as of the date of termination for any previously completed fiscal year, plus the sum of three times her base salary and two times her target bonus (payable in equal installments over 36 months) and one times her target bonus (payable in a lump sum within 2-1/2 months following the end of the calendar year of termination), and all of her restricted shares will vest. Mrs. Wilderotter is also entitled to receive reimbursement for any unreimbursed business expenses, any accrued but unpaid vacation and continued medical, dental and life insurance and other health benefits until the end of the severance period or the date on which Mrs. Wilderotter becomes eligible to receive comparable benefits from any subsequent employer, whichever is earlier, for which Frontier will provide a lump sum for her for the cost to her of such benefits. As a director of Frontier, Mrs. Wilderotter may continue to participate in these plans following the severance period at her cost.

If Mrs. Wilderotter's employment is terminated due to her death or in connection with a disability, she or her estate will be entitled to payment of base salary for six months following the termination and a prorated portion of the target bonus, and all restricted shares will vest. Mrs. Wilderotter is also entitled to receive reimbursement for any unreimbursed business expenses, any accrued but unpaid vacation, pension, profit sharing, medical, dental and life insurance and other employee benefit plans to which Mrs. Wilderotter is entitled upon termination of her employment for a period of two years, for which Frontier will provide a lump sum to her for the cost to her of such benefits.

In the event of a constructive termination following a "change in control" (as defined in the employment agreement), Mrs. Wilderotter will be entitled to the amounts she would receive in connection with a termination by Frontier without cause or by her with good reason, potentially subject to reduction if such amounts would be subject to excise taxes under Section 4999 of the Code. If the amounts payable by Frontier, less such excise taxes payable by Mrs. Wilderotter, are in the aggregate at least 125% of the amounts payable without causing the loss of deduction to Frontier under Section 280G of the Code, Mrs. Wilderotter will be entitled to additional amounts to make her whole for such excise taxes. If the amounts payable by Frontier, less such excise taxes payable by Mrs. Wilderotter, are in the aggregate less than 125% of the amount payable without causing the loss of

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deduction to Frontier and the imposition of excise taxes to Mrs. Wilderotter under Sections 280G and 4999 of the Code, the amount payable by Frontier will be reduced to the extent necessary such that Frontier will not lose its deduction under Section 280G of the Code and such that Mrs. Wilderotter will not be subject to excise taxes.

The following table sets forth the amounts Mrs. Wilderotter would have been entitled to from Frontier under the various provisions of her employment agreement had her employment been terminated as of December 31, 2008.

<u>Termination Event</u>	<u>Base Salary ⁽¹⁾</u>	<u>Bonus ⁽¹⁾</u>	<u>Value of Accelerated Restricted Stock ⁽²⁾</u>	<u>Benefits ⁽³⁾</u>	<u>Total</u>
Without cause, for good reason or non-renewal of agreement	\$ 2,775,000	\$2,775,000	\$5,191,429	\$ 51,704	\$10,793,133
Death	\$ 462,500	\$ 462,500	\$5,191,429	\$ 23,741	\$ 6,140,170
Disability	\$ 462,500	\$ 462,500	\$5,191,429	\$ 34,072	\$ 6,150,501
Change-in-control	\$ 2,775,000	\$2,775,000	\$5,191,429	\$1,372,994	\$12,114,423
With cause or without good reason	—	—	—	—	—

- (1) Base salary and two-thirds of the bonus amount payable in equal installments over 36 months. The remaining bonus amount payable in a lump sum within 2-1/2 months following the end of the calendar year of termination.
- (2) Dollar value of 593,985 shares of restricted stock held by Mrs. Wilderotter on December 31, 2008 based on the closing sales price of \$8.74 per share of Frontier common stock on December 31, 2008.
- (3) Value of continued medical, dental, vision and life insurance benefits for Mrs. Wilderotter, her spouse and eligible child, as applicable, under the terms of her employment agreement as described above. For change-in-control, also includes a tax gross-up for excise taxes on post-termination payments.

Donald R. Shassian

Frontier entered into a letter agreement with Donald R. Shassian, dated March 7, 2006, pursuant to which Mr. Shassian was appointed Chief Financial Officer of Frontier. The letter agreement was amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A and superseded the July 2007 arrangement with him regarding the vesting of his restricted stock. In February 2008, Mr. Shassian was appointed Executive Vice President and Chief Financial Officer of Frontier. Under the terms of Mr. Shassian's letter agreement, his initial annual base salary was \$425,000, which can be and has been increased from time to time by the compensation committee. The letter agreement provides for a target annual incentive bonus of 100% of his base salary. In addition, Mr. Shassian received two sign-on bonuses: \$25,000 payable 30 days after his start date and \$50,000 payable on the first anniversary of his start date. Mr. Shassian also received a sign-on grant of 50,000 shares of restricted stock that vests ratably over four years. Additionally, with respect to each fiscal year during his employment term commencing with 2007, Mr. Shassian is eligible to receive a grant of restricted shares of Frontier common stock in an amount to be determined by the compensation committee.

If, within one year following a "change in control" (as defined in the letter agreement) of Frontier, (a) Mr. Shassian is terminated by Frontier without cause or (b) he terminates his employment as a result of (i) a material decrease in his base salary, target bonus or long term incentive compensation target from those in effect immediately prior to the change in control for any reason other than cause, (ii) a material relocation of his principal office (with greater than 50 miles from Frontier's Stamford, Connecticut headquarters deemed to be material), or (iii) a material decrease in his responsibilities or authority for any reason other than cause, Mr. Shassian will be entitled to two years of base salary and target bonus and all restrictions on restricted shares held by him will immediately lapse and his restricted shares shall become non-forfeitable. The following table

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sets forth the amounts Mr. Shassian would have been entitled to from Frontier had his employment been terminated as of December 31, 2008 following a change in control. Mr. Shassian would not be entitled to any severance amounts upon termination for any other reason.

<u>Termination Event</u>	<u>Base Salary ⁽¹⁾</u>	<u>Bonus ⁽¹⁾</u>	<u>Value of Accelerated Restricted Stock ⁽²⁾</u>	<u>Total</u>
Change in control	\$ 900,000	\$900,000	\$1,157,010	\$2,957,010

(1) Payable in a lump sum upon termination.

(2) Dollar value of 132,381 shares of restricted stock held by Mr. Shassian on December 31, 2008 based on the closing sales price of \$8.74 per share of Frontier's common stock on December 31, 2008.

Daniel J. McCarthy

In July 2007, Frontier agreed with Daniel J. McCarthy, Executive Vice President and Chief Operating Officer of Frontier, that all restrictions on restricted shares held by him will lapse and become non-forfeitable after a change in control of Frontier under the same circumstances as described above for Mr. Shassian. Had Mr. McCarthy's employment been terminated as of December 31, 2008 following a change in control, the value of his accelerated restricted shares would have been \$756,744, which is the dollar value of 86,584 shares of restricted stock held by him on December 31, 2008 based on the closing sales price of \$8.74 per share of Frontier common stock on December 31, 2008. Mr. McCarthy would not be entitled to any severance amounts upon termination for any other reason. In addition, Mr. McCarthy is also entitled to his pension benefit as set forth under "Pension Benefits."

Peter B. Hayes

Frontier entered into a letter agreement with Peter B. Hayes, dated December 31, 2004, pursuant to which Mr. Hayes was appointed Senior Vice President, Sales, Marketing & Business Development of Frontier. The letter agreement was amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A and superseded the July 2007 arrangement with him regarding the vesting of his restricted stock. In December 2005, Mr. Hayes was appointed Executive Vice President, Sales, Marketing & Business Development of Frontier. Under the terms of Mr. Hayes letter agreement, his initial annual base salary was \$275,000, which can be and has been increased from time to time by the compensation committee. The letter agreement provides for a target annual incentive bonus of 75% of his base salary, which was increased to 85% for 2006 and to 100% for 2007. Mr. Hayes also received a sign-on grant of 50,000 shares of restricted stock that vested ratably over three years.

If, within one year following a "change in control" (as defined in the letter agreement) of Frontier, (a) Mr. Hayes is terminated by Frontier without cause or (b) he terminates his employment as a result of (i) a material decrease in his base salary, target bonus or long term incentive compensation target from those in effect immediately prior to the change in control for any reason other than cause, (ii) a material relocation of his principal office (with greater than 50 miles from Frontier's Stamford, Connecticut headquarters deemed to be material), or (iii) a material decrease in his responsibilities or authority for any reason other than cause, Mr. Hayes will be entitled to one year of base salary and 100% of his bonus target prorated for the plan year and all restrictions on restricted shares held by him will immediately lapse and his restricted shares shall become non-forfeitable. Mr. Hayes will also be entitled to one year of continued medical benefits, for which Frontier will provide a lump sum for him for the cost to him of such benefits.

Under the terms of the letter agreement, Mr. Hayes was reimbursed for the cost of relocation and is paid a housing allowance until June 30, 2010.

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The following table sets forth the amounts Mr. Hayes would have been entitled to from Frontier had his employment been terminated as of December 31, 2008 following a change in control. Mr. Hayes would not be entitled to any severance amounts upon termination for any other reason.

<u>Termination Event</u>	<u>Base Salary ⁽¹⁾</u>	<u>Bonus ⁽¹⁾</u>	<u>Value of Accelerated Restricted Stock ⁽²⁾</u>	<u>Benefits ⁽³⁾</u>	<u>Total</u>
Change-in-control	\$ 300,000	\$300,000	\$ 727,028	\$ 14,972	\$1,342,000

- (1) Payable in a lump sum upon termination.
- (2) Value of continued medical coverage for one year for Mr. Hayes, his spouse and children.
- (3) Dollar value of 83,184 shares of restricted stock held by Mr. Hayes on December 31, 2008 based on the closing sales price of \$8.74 per share of Frontier's common stock on December 31, 2008.

Cecilia K. McKenney

Frontier entered into a letter agreement with Cecilia K. McKenney, dated January 13, 2006, pursuant to which Ms. McKenney was appointed Senior Vice President, Human Resources of Frontier. The letter agreement was amended in December 2008 in connection with the deferred compensation rules imposed by Section 409A and superseded the July 2007 arrangement with her regarding the vesting of her restricted stock. In February 2008, Ms. McKenney was appointed Executive Vice President, Human Resources and Call Center Sales & Service of Frontier. Under the terms of Ms. McKenney's letter agreement, her initial annual base salary was \$275,000, which can be and has been increased from time to time by the compensation committee. The letter agreement provides for a target annual incentive bonus of 60% of her base salary, which was increased to 75% for 2007. In addition, Ms. McKenney received a sign-on bonus of \$50,000 payable 30 days after her start date. Ms. McKenney also received a sign-on grant of 30,000 shares of restricted stock that vests ratably over four years. Additionally, with respect to each fiscal year during her employment term commencing with 2007, Ms. McKenney is eligible to receive a grant of restricted shares of Frontier common stock in an amount to be determined by the compensation committee.

If, within one year following a "change in control" (as defined in the letter agreement) of Frontier, (a) Ms. McKenney is terminated by Frontier without cause or (b) she terminates her employment as a result of (i) a material decrease in her base salary, target bonus or long term incentive compensation target from those in effect immediately prior to the change in control for any reason other than cause, (ii) a material relocation of her principal office (with greater than 50 miles from Frontier's Stamford, Connecticut headquarters deemed to be material), or (iii) a material decrease in her responsibilities or authority for any reason other than cause, Ms. McKenney will be entitled to one year of base salary and target bonus and all restrictions on restricted shares held by her will immediately lapse and her restricted shares shall become non-forfeitable.

The following table sets forth the amounts Ms. McKenney would have been entitled to from Frontier had her employment been terminated as of December 31, 2008 following a change in control. Ms. McKenney would not be entitled to any severance amounts upon termination for any other reason.

<u>Termination Event</u>	<u>Base Salary ⁽¹⁾</u>	<u>Bonus ⁽¹⁾</u>	<u>Value of Accelerated Restricted Stock ⁽²⁾</u>	<u>Total</u>
Change in control	\$ 290,000	\$217,500	\$658,253	\$1,165,753

- (1) Payable in a lump sum upon termination.
- (2) Dollar value of 75,315 shares of restricted stock held by Ms. McKenney on December 31, 2008 based on the closing sales price of \$8.74 per share of Frontier's common stock on December 31, 2008.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND EXECUTIVE OFFICERS OF FRONTIER

The following table sets forth the ownership of Frontier common stock as of September 1, 2009, for each director, each named executive officer, by all directors and executive officers of Frontier as a group and by each person known to Frontier to be the beneficial owner of 5% or more of the outstanding shares of its common stock. Except as otherwise stated, the business address of each person listed is c/o Frontier Communications Corporation, 3 High Ridge Park, Stamford, Connecticut 06905. Except as otherwise described below, each of the persons named in the table has sole voting and investment power with respect to the common stock beneficially owned and has not pledged such common stock as security for any obligations.

The information (other than with respect to Frontier's directors and executive officers) is based on a review of statements filed with the SEC pursuant to Sections 13(d), 13(f) and 13(g) of the Exchange Act with respect to Frontier common stock. The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. All persons listed have sole voting and investment power with respect to their shares unless otherwise indicated.

Name and Address of Beneficial Owner	Common Stock Beneficially Owned	
	Number of Shares	Percent of Class
Group consisting of: V. Prem Watsa, 1109519 Ontario Limited, The Sixty Two Investment Company Limited, 810679 Ontario Limited and Fairfax Financial Holdings Limited ^(a)	15,593,600	5.0%
Kathleen Q. Abernathy	78,036 ^(b)	*
Leroy T. Barnes, Jr.	34,073 ^(c)	*
Peter C.B. Bynoe	34,213 ^(d)	*
Michael T. Dugan	23,880 ^(e)	*
Jeri B. Finard	75,519 ^(f)	*
Lawton Wehle Fitt	82,566 ^(g)	*
Peter B. Hayes	263,046 ^(h)	*
William M. Kraus	33,170 ⁽ⁱ⁾	*
Daniel J. McCarthy	242,944 ⁽ⁱ⁾	*
Cecilia K. McKenney	175,548 ^(k)	*
Howard L. Schrott	54,896 ^(l)	*
Lorraine D. Segil	58,294 ^(m)	*
Donald R. Shassian	259,397 ⁽ⁿ⁾	*
David H. Ward	43,249 ^(o)	*
Myron A. Wick, III	69,257 ^(p)	*
Mary Agnes Wilderotter	1,230,646 ^(q)	*
All directors and executive officers as a group (19 persons)	3,223,937 ^(r)	1.0%

* Less than 1%.

- (a) The business address of these beneficial owners is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7, except for 1109519 Ontario Limited, whose business address is 1600 Cathedral Place, 925 West Georgia Street, Vancouver, British Columbia, Canada V6C 3L3. Based on a statement on Schedule 13G filed on February 17, 2009 by V. Prem Watsa, 1109519 Ontario Limited, The Sixty Two Investment Company Limited, 810679 Ontario Limited and Fairfax Financial Holdings Limited, referred to as Fairfax. Such Schedule 13G discloses that certain of the shares beneficially owned by the reporting persons are held by subsidiaries of Fairfax and by the pension plans of certain subsidiaries of Fairfax.

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- (b) Includes 10,000 shares that may be acquired upon the exercise of stock options as of April 20, 2009 or within 60 days thereafter. We refer to these stock options as "currently exercisable." Also includes 43,961 shares that may be acquired upon the redemption of stock units. Directors may elect to redeem stock units upon termination of service in the form of cash or shares of Frontier common stock.
- (c) Includes 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 22,073 shares that may be acquired upon the redemption of stock units.
- (d) Includes 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 20,363 shares that may be acquired upon the redemption of stock units.
- (e) Consists of 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 13,880 shares that may be acquired upon the redemption of stock units.
- (f) Includes 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 60,019 shares that may be acquired upon the redemption of stock units.
- (g) Consists of 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 72,566 shares that may be acquired upon the redemption of stock units.
- (h) Includes 106,312 restricted shares over which Mr. Hayes has sole voting power but no dispositive power and 101,734 shares held by a family trust.
- (i) Includes 22,170 shares that may be acquired upon the redemption of stock units and 1,718 shares held in the William M. Kraus Trust.
- (j) Includes 115,079 restricted shares over which Mr. McCarthy has sole voting power but no dispositive power and 10,356 shares held in a 401(k) plan.
- (k) Includes 104,245 restricted shares over which Ms. McKenney has sole voting power but no dispositive power.
- (l) Includes 5,000 shares that may be acquired upon the exercise of currently exercisable stock options and 44,896 shares that may be acquired upon the redemption of stock units.
- (m) Includes 10,000 shares that may be acquired upon the exercise of currently exercisable stock options and 44,294 shares that may be acquired upon the redemption of stock units.
- (n) Includes 200,003 restricted shares over which Mr. Shassian has sole voting power but no dispositive power.
- (o) Consists of 22,170 shares that may be acquired upon the exercise of currently exercisable stock options and 21,420 shares that may be acquired upon the redemption of stock units.
- (p) Consists of 10,000 shares that may be acquired upon the exercise of currently exercisable stock options, 51,257 shares that may be acquired upon the redemption of stock units and 8,000 shares held in the Myron A. Wick, III Trust U/A/D 2/21/56.
- (q) Includes 790,019 restricted shares over which Mrs. Wilderotter has sole voting power but no dispositive power and 425,627 shares held by a family trust.
- (r) Includes 1,523,260 restricted shares over which executive officers have sole voting power but no dispositive power, 106,079 shares that may be acquired pursuant to the exercise of currently exercisable stock options by directors, 111,648 shares that may be acquired pursuant to the exercise of currently exercisable stock options by executive officers and 417,649 shares that may be acquired upon the redemption of stock units.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Frontier's directors and officers and persons who beneficially own more than 10% of the Frontier common stock to file reports of ownership and changes in ownership with the SEC and the NYSE. Such directors, officers and greater than 10% stockholders are also required to furnish Frontier with copies of all such filed reports.

Based solely upon a review of the copies of such reports furnished to Frontier, or representations that no reports were required, Frontier believes that during the year ended December 31, 2008, all persons subject to the reporting requirements of Section 16(a) filed the required reports on a timely basis.

Table of Contents**DESCRIPTION OF CAPITAL STOCK OF FRONTIER AND THE COMBINED COMPANY**

The following summary describes the material terms of Frontier's restated certificate of incorporation and by-laws but it does not purport to describe all of the terms thereof. The full text of Frontier's restated certificate of incorporation is filed as an exhibit to the registration statement of which this proxy statement/prospectus is a part. All stockholders are urged to read the restated certificate of incorporation in its entirety. After the merger, Frontier's restated certificate of incorporation and by-laws will remain unchanged except for, to the extent authorized by the stockholders, an increase in the number of authorized shares of Frontier common stock, and Frontier's restated certificate of incorporation and by-laws will be the certificate of incorporation and by-laws of the combined company. This summary is qualified in its entirety by the DGCL.

Under Frontier's restated certificate of incorporation, the total authorized capital stock of Frontier consists of 50,000,000 shares of preferred stock, par value \$.01 per share, and 600,000,000 shares of common stock, par value \$.25 per share. If Frontier stockholders at the special meeting approve the proposal to amend the restated certificate of incorporation to increase the number of authorized shares of Frontier common stock, the number of authorized shares of common stock will increase to 1,750,000,000 pursuant to an amendment to the restated certificate of incorporation to be filed by Frontier.

Frontier common stock began trading on the NYSE under the symbol "FTR" on July 31, 2008. Prior to that time, the common stock of Frontier, then named Citizens Communications Company, was traded on the NYSE under the symbol "CZN."

As of June 30, 2009, there were approximately 24,200 holders of record of Frontier common stock.

Common Stock

All shares of Frontier common stock to be outstanding upon consummation of the merger will be validly issued, fully paid and nonassessable.

Dividends

Holders of shares of Frontier common stock will be entitled to receive dividends and other distributions in cash, stock or property of Frontier as may be declared by its board of directors from time to time at its sole discretion out of Frontier's assets or funds legally available for dividends or other distributions. Dividends on Frontier common stock will not be cumulative. Consequently, if dividends on Frontier common stock are not declared or paid at the targeted level, Frontier stockholders will not be entitled to receive such payments in the future.

Frontier currently pays an annual cash dividend of \$1.00 per share of Frontier common stock. After the closing of the merger, Frontier intends to pay an annual cash dividend of \$0.75 per share of common stock of the combined company. The Frontier board may, in its sole discretion, amend or repeal this dividend policy.

Rights upon Liquidation

In the event of Frontier's voluntary or involuntary liquidation, dissolution or winding up, holders of shares of Frontier common stock will be entitled to share in its assets remaining after payment of all debts and other liabilities, subject to the liquidation preference of any outstanding preferred stock.

Voting Rights

Each holder of Frontier common stock is entitled to one vote for each share held of record and may not cumulate votes for the election of directors.

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Except as otherwise required by the DGCL and Frontier's restated certificate of incorporation and by-laws, action requiring stockholder approval may be taken by a vote of the holders of a majority of the Frontier common stock at a meeting at which a quorum is present.

Other Rights

Holders of shares of Frontier common stock have no preemptive rights. The holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that Frontier may designate and issue in the future.

Preferred Stock

Frontier's restated certificate of incorporation provides that it may issue up to 50,000,000 shares of its preferred stock in one or more series as may be determined by the Frontier board.

The Frontier board has broad discretionary authority with respect to the rights of issued series of Frontier's preferred stock and may take several actions without any vote or action of the holders of Frontier common stock, including:

- determining the number of shares to be included in each series;
- fixing the designation, powers, preferences and relative, participating optional, conversion and other rights of the shares of each series and any qualifications, limitations or restrictions with respect to each series; and
- increasing or decreasing the number of shares of any series.

The Frontier board may authorize, without approval of holders of Frontier common stock, the issuance of preferred stock with voting and conversion rights that could adversely affect the voting power and other rights of holders of Frontier common stock. For example, Frontier's preferred stock may rank prior to its common stock as to dividend rights, liquidation preferences or both, may have full or limited voting rights and may be convertible into shares of Frontier common stock.

Frontier's preferred stock could be issued quickly with terms designed to delay or prevent a change in the control of Frontier or to make the removal of Frontier management more difficult. This could have the effect of discouraging third-party bids for Frontier common stock or may otherwise adversely affect the market price of its common stock.

Frontier believes that the ability of its board of directors to issue one or more series of Frontier's preferred stock provides Frontier with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs that might arise. The authorized shares of Frontier's preferred stock, as well as shares of its common stock, are available for issuance without action by Frontier common stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which Frontier's securities may be listed or traded.

As further detailed below, see "Certain Anti-Takeover Effects of Various Provisions of Delaware Law and Frontier's Restated Certificate of Incorporation, By-Laws and Rights Plan," the Frontier board has also adopted a stockholder rights plan that declared a dividend of one preferred stock purchase right for each outstanding share of Frontier common stock to stockholders of record at the close of business on March 6, 2002. Each share issued after that date is also issued with a preferred stock purchase right. In the event that this purchase right is exercised, each record stockholder would be entitled to purchase from Frontier a unit consisting of one one-thousandth of a share of Series A Participating Preferred Stock at a purchase price of \$47 per unit, subject to adjustment. The exercise of this right could impede the completion of a merger, tender offer or other takeover attempt of Frontier.

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The Frontier board could also issue preferred stock having terms that could discourage an acquisition attempt through which an acquirer may be able to change the composition of the board of directors, including a tender offer or other transaction that some, or a majority, of Frontier common stockholders might believe to be in their best interest or in which stockholders might receive a premium for their stock over the then best current market price.

Rights of Appraisal

Under the DGCL, stockholders have the right to dissent from any plan of merger or consolidation to which the corporation is a party and to demand payment for the fair value of their shares. However, unless the certificate of incorporation otherwise provides, the DGCL states that stockholders do not have a right to dissent from any plan of merger or consolidation with respect to shares:

- listed on a national securities exchange or held of record by more than 2,000 holders; or
- for which, pursuant to the plan of merger or consolidation, stockholders will receive (1) shares or depositary receipts of another corporation which at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders, (2) shares of stock or depositary receipts of the surviving corporation in the merger or consolidation, (3) cash for fractional shares or (4) any combination of (1)–(3). In addition, the DGCL provides that, unless the certificate of incorporation provides otherwise, stockholders of a surviving corporation do not have the right to dissent from a plan of merger if the merger did not require for its approval the vote of the stockholders.

Frontier's restated certificate of incorporation and by-laws are silent as to appraisal rights. Appraisal rights are not available to Frontier stockholders or Verizon stockholders with respect to the spin-off and the merger.

Board of Directors

The Frontier by-laws provide that the total number of Frontier directors will be not less than seven and not more than 15, as determined by the Frontier board from time to time. Frontier currently has 12 directors. In accordance with the merger agreement, immediately prior to the effectiveness of the merger, the Frontier board (which will become the board of directors of the combined company after the merger) will consist of 12 directors, three of whom will be initially designated by Verizon and the remainder of whom will be initially designated by Frontier.

All directors are elected at each annual meeting of stockholders to serve until the next annual meeting. Frontier's restated certificate of incorporation provides that directors need not be elected by ballot, unless voting by ballot is requested by the holders of 10% or more of the shares of stock represented at the meeting of stockholders at which the directors are to be elected. The Frontier by-laws do not provide for cumulative voting in the election of directors. The Frontier by-laws provide that vacancies on the Frontier board may be filled by appointment made by a majority vote of the directors then in office, except for vacancies resulting from the removal of directors by stockholders.

Nominations of persons for election to the Frontier board may be made at a regular or special meeting of stockholders by or at the direction of the board of directors or its Nominating and Corporate Governance Committee or by any stockholder entitled to vote in such meeting who provides timely notice to Frontier's secretary.

Directors will be elected at a stockholders' meeting by a majority of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote.

Any directors may be removed, with or without cause, by the holders of a majority of shares then entitled to vote at an election of directors, subject to certain limitations.

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The Frontier board may hold regular meetings without notice according to a resolution of the board. Special meetings may be held at any time upon the call of two directors, the chairman of the board or the chief executive officer. A majority of the total number of directors will constitute a quorum, and directors present at any meeting at which a quorum is present may act by majority vote.

Stockholders

Frontier's by-laws provide that an annual meeting of stockholders for the purpose of electing directors and of transacting any other business as may properly come before it will be held each year. A stockholder may bring business before an annual meeting of stockholders by giving timely notice in writing to Frontier's secretary in accordance with the provisions of Frontier's by-laws.

Under the DGCL, a special meeting of the stockholders may be called by the board of directors of the corporation or by any other person authorized to do so in the certificate of incorporation or by-laws. Under the Frontier by-laws, a special meeting of the stockholders may be called by the chairman of the board of directors or the chief executive officer and must be called on the request in writing or by vote of a majority of the Frontier board or on request in writing of stockholders of record owning 50% of the capital stock outstanding and entitled to vote.

The DGCL provides that written notice of the time, place and purpose or purposes of every meeting of stockholders must be given not less than 10 days and not more than 60 days before the date of the meeting to each stockholder of record entitled to vote at the meeting. Frontier's by-laws provide that the holders of a majority of the stock outstanding and entitled to vote shall constitute a quorum.

Amendment of the Restated Certificate of Incorporation

Under the DGCL, a proposed amendment to a corporation's certificate of incorporation requires approval by its board of directors and adoption by an affirmative vote of a majority of the outstanding stock entitled to vote on the amendment. Frontier's restated certificate of incorporation provides that it may be amended in any manner prescribed by law.

Amendment of the By-laws

Under Frontier's restated certificate of incorporation, the board of directors is expressly authorized to amend, alter, change or repeal Frontier's by-laws. The stockholders also have the ability to change or repeal the by-laws by a majority vote of the stockholders present and represented at any annual meeting or at any special meeting called for such purpose.

Listing

After the merger, shares of Frontier will continue to trade on the NYSE under the symbol "FTR."

Transfer Agent and Registrar

The transfer agent and registrar for Frontier common stock is the Illinois Stock Transfer Company.

Table of Contents**DESCRIPTION OF SPINCO CAPITAL STOCK****Overview**

The following summary describes the material terms of Spinco's capital stock and provisions of the certificate of incorporation and the by-laws of Spinco, in each case as currently in effect, but it does not purport to describe all of the terms thereof.

Common Stock**General Provisions Relating to Spinco's Common Stock**

Authorized Shares. The Spinco certificate of incorporation authorizes 100 shares, without par value, all of which are currently outstanding and all of which are held by Verizon. Prior to the spin-off and the merger, Spinco will amend its certificate of incorporation to increase the number of authorized shares of its common stock, and will issue additional shares to Verizon in connection with the distribution.

Voting Rights. Each holder of Spinco's common stock is entitled to one vote per share on all matters to be voted on by stockholders. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election.

Dividends. The holders of Spinco's common stock are entitled to receive any dividends and other distributions that may be declared by Spinco's board of directors, subject to funds being legally available for that purpose. Dividends are not guaranteed, and Spinco's board of directors may decide, in its absolute discretion, not to pay dividends. Dividends on Spinco's common stock are not cumulative. All decisions regarding the declaration and payment of dividends will be at the discretion of Spinco's board of directors. Spinco does not currently intend to pay dividends on its common stock, apart from any dividends which may be paid in connection with the spin-off.

Liquidation Rights. In the event of Spinco's liquidation, dissolution or winding up, holders of Spinco common stock will be entitled to receive proportionately any assets remaining after the payment of Spinco's liabilities.

Preemptive Rights. Holders of Spinco's common stock have no preemptive, subscription, redemption or conversion rights in respect of Spinco's common stock.

Limitation of Liability of Directors; Indemnification of Directors

Spinco's certificate of incorporation provides that no director will be personally liable to Spinco or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that this limitation on or exemption from liability is not permitted by the DGCL and any amendments to that law.

The principal effect of the limitation on liability provision is that a stockholder will be unable to prosecute an action for monetary damages against a director unless the stockholder can demonstrate a basis for liability for which indemnification is not available under the DGCL. This provision, however, does not eliminate or limit director liability arising in connection with causes of action brought under the federal securities laws. The Spinco certificate of incorporation does not eliminate its directors' duty of care. The inclusion of this provision in the Spinco certificate of incorporation may, however, discourage or deter stockholders or management from bringing a lawsuit against Spinco directors for a breach of their fiduciary duties, even though such an action, if successful, might otherwise have benefited Spinco and its stockholders. This provision should not affect the availability of equitable remedies such as injunction or rescission based upon a director's breach of the duty of care.

The by-laws of Spinco provide that Spinco is required to indemnify and advance expenses to its authorized representatives (which term includes Spinco's directors) to the fullest extent permitted by law, where it is determined by Spinco that indemnification of the authorized representative is appropriate in the circumstances

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because the person seeking indemnification has either met the applicable standard of conduct set forth in Spinco's by-laws or has been successful on the merits or otherwise as set forth in Spinco's by-laws. The determination that indemnification is appropriate will be made:

- by Spinco's board of directors, acting by majority vote of a quorum consisting of directors who were not parties to the action in which indemnification is sought; or
- if a quorum of directors who were not parties to the action in which indemnification is sought is not obtainable (or, even if obtainable, if a majority of that quorum so directs), by independent legal counsel in a written opinion; or
- by the stockholders of Spinco.

Amendment of By-Laws

To the extent permissible under the DGCL and the certificate of incorporation of Spinco, Spinco's by-laws may be amended, repealed or replaced by its board of directors at any meeting by majority vote of the directors in office or by majority vote of the stockholders entitled to vote at an annual or special meeting.

Table of Contents**COMPARISON OF THE RIGHTS OF STOCKHOLDERS BEFORE AND AFTER THE TRANSACTIONS**

Each of Frontier, Verizon and Spinco is a Delaware corporation and is subject to the DGCL. Frontier believes that a point-by-point comparison of the rights of its stockholders to the rights of Verizon stockholders is not material, as the rights of Frontier stockholders are generally similar to those of Verizon stockholders. However, Frontier currently has a stockholder rights plan in place, while Verizon does not. The Frontier stockholder rights plan might impede the completion of a merger, tender offer or other takeover attempt of Frontier. Following the merger, Verizon stockholders will continue to hold shares of Verizon common stock, subject to the same rights as prior to the spin-off and merger, except that their shares of Verizon common stock will represent an interest in Verizon that no longer reflects the ownership and operation of the Spinco business. In addition, Verizon stockholders will also hold shares of common stock of the combined company following the merger. See "Description of Capital Stock of Frontier and the Combined Company" for information regarding the rights of stockholders of Frontier and the combined company. Verizon stockholders will hold Spinco common stock through a third-party distribution agent only momentarily, immediately following the spin-off and prior to the merger.

Table of Contents**CERTAIN ANTI-TAKEOVER EFFECTS OF VARIOUS PROVISIONS OF DELAWARE LAW AND FRONTIER'S RESTATED CERTIFICATE OF INCORPORATION, BY-LAWS AND RIGHTS PLAN**

Provisions of the DGCL and Frontier's restated certificate of incorporation, by-laws and rights plan contain provisions that may have anti-takeover effects and could delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by stockholders.

Delaware Anti-Takeover Statute

Frontier is subject to Section 203 of the DGCL. Subject to specific exceptions, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time the person became an interested stockholder, unless:

- the business combination, or the transaction in which the stockholder became an interested stockholder, is approved by the Frontier board prior to the time the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or after the time a person became an interested stockholder, the business combination is approved by the Frontier board and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

"Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to various exceptions, in general an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the shares of the corporation's outstanding voting stock. These restrictions could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to Frontier and, therefore, may discourage attempts to acquire Frontier.

In addition, provisions of Frontier's restated certificate of incorporation and by-laws, which are summarized in the following paragraphs, may have an anti-takeover effect.

Quorum Requirements; Removal of Directors

Frontier's by-laws provide that the holders of a majority of the stock outstanding and entitled to vote shall constitute a quorum.

Neither Frontier's restated certificate of incorporation nor its by-laws contain any express provisions with respect to the removal of directors; however, the DGCL provides that directors may be removed, with or without cause, by the holders of a majority of shares then entitled to vote at an election of directors, subject to certain limitations.

No Cumulative Voting

The DGCL provides that stockholders' votes may not be cumulative with respect to the election of directors unless a corporation's certificate of incorporation expressly provides otherwise. Frontier's restated certificate of incorporation does not expressly address cumulative voting.

Table of Contents**Calling of Special Meeting of Stockholders**

Frontier's by-laws provide that special meetings of Frontier stockholders may be called by the chairman of the board of directors or the chief executive officer and must be called on the request in writing or by vote of a majority of the Frontier board or on request in writing of stockholders of record owning 50% of the capital stock outstanding and entitled to vote.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

The DGCL provides that written notice of the time, place and purpose or purposes of every meeting of stockholders must be given not less than 10 days and not more than 60 days before the date of the meeting to each stockholder of record entitled to vote at the meeting. The Frontier by-laws further provide that the only matters that may be considered and acted upon at an annual meeting of stockholders are those matters brought before the meeting:

- through the notice of meeting;
- by the Frontier board; or
- by a stockholder of record entitled to vote at such meeting.

Frontier's by-laws require a stockholder who intends to bring matters before or to nominate candidates for election as directors at an annual meeting to provide advance notice of such intended action not less than 90 days or more than 120 days prior to the date of the proxy statement relating to the prior year's annual meeting of stockholders. Frontier's by-laws also specify requirements as to the form and content of a stockholder's notice. The notice must contain, among other things, a brief description of the business desired to be brought before the meeting and must identify any personal or other material interest of the stockholder in such proposed business. The person presiding at the meeting will have the discretion to determine whether any item of business proposed by a stockholder was properly brought before such meeting. These provisions may impede stockholders' ability to bring matters before an annual meeting of stockholders or make nominations for directors at an annual meeting of stockholders. Stockholder nominations for the election of directors at a special meeting must be received by Frontier's corporate secretary by the later of 10 days following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made or 90 days prior to the date that meeting is proposed to be held and not more than 120 days prior to such meeting.

Limitations on Liability and Indemnification of Officers and Directors

Under the DGCL, a corporation may indemnify any director, officer, employee or agent of the corporation against liabilities and expenses actually and reasonably incurred by such person in connection with any proceeding involving such person by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, provided that such person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal proceeding, such person had no reasonable cause to believe his conduct was unlawful.

Frontier's restated certificate of incorporation provides that a director will not be personally liable to Frontier or to its stockholders for monetary damages for a breach of fiduciary duty as a director, except for liability:

- for any breach of the directors' duty of loyalty to Frontier or its stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for acts relating to the unlawful payment of a dividend or an unlawful stock purchase or redemption; or
- for any transaction from which the director derived an improper personal benefit.

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The Frontier by-laws provide that, to the fullest extent permitted under the DGCL, Frontier will indemnify any person who was or is involved or was or is threatened to be made involved in any threatened, pending or completed investigation, claim, action suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director or officer of Frontier or is or was serving at the request of Frontier as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, against all expenses, liability and loss actually and reasonably incurred by him or her in connection with such proceeding. The Frontier by-laws provide further that the right to indemnification includes the right to receive payment of all reasonable expenses incurred by the indemnified person in connection with such proceeding in advance of the final disposition of the proceeding.

The limitation of liability and indemnification provisions in Frontier's by-laws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit Frontier and its stockholders. In addition, a stockholder's investment may be adversely affected to the extent that, in a class action or direct suit, Frontier pays the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

Authorized but Unissued Shares

Frontier's authorized but unissued shares of common stock and preferred stock are available for future issuance without the approval of Frontier stockholders. Frontier may use additional shares for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of Frontier by means of a proxy contest, tender offer, merger or otherwise.

No Supermajority Provisions

The DGCL provides generally that the affirmative vote of a majority in voting power of the outstanding shares entitled to vote is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage. Frontier's restated certificate of incorporation does not require a greater percentage of shares to amend any provision of the restated certificate of incorporation and provides that it may be amended in any manner prescribed by law.

Frontier's restated certificate of incorporation grants its board of directors the authority to amend and repeal Frontier's by-laws without a stockholder vote. However, such authority of the Frontier board is subject to the power of the stockholders to change or repeal any by-laws by a majority vote of the stockholders present and represented at any annual meeting or at any special meeting called for such purpose.

Stockholder Rights Plan

The Frontier board adopted a stockholder rights plan on March 6, 2002. To implement the stockholder rights plan, on the same date, Frontier declared a dividend of one preferred stock purchase right, referred to as a right, for each outstanding share of Frontier common stock to stockholders of record at the close of business on March 6, 2002. Each share issued after that date is also issued with a right. Each right entitles the registered holder to purchase from Frontier a unit consisting of one one-thousandth of a share of Series A Participating Preferred Stock at a purchase price of \$47 per unit, subject to adjustment.

The rights are not exercisable until the earlier of:

- ten business days following a public announcement that a person or group, subject to certain exceptions, has acquired 15% or more of the outstanding shares of Frontier common stock (thereby becoming an "acquiring person" under the stockholder rights plan);

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- ten business days following the commencement of a tender offer or exchange offer that would result in a person or group becoming an acquiring person; or
- a merger or other business combination transaction involving Frontier.

The rights expire at 5:00 p.m. (New York City time) on March 6, 2012, unless earlier redeemed, exchanged, extended or terminated by Frontier.

The stockholder rights plan might impede the completion of a merger, tender offer or other takeover attempt of Frontier. On May 12, 2009, Frontier amended its stockholder rights plan so that the transactions proposed in this proxy statement/prospectus will not trigger rights under the plan.

Table of Contents**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS****Code of Business Conduct and Ethics**

Frontier has a Code of Business Conduct and Ethics, referred to as the Code of Conduct, to which all employees, executive officers and directors, which for purposes of the Code of Conduct are collectively referred to as employees, are required to adhere in addressing the legal and ethical issues encountered in conducting their work. The Code of Conduct requires that all employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity. Employees are required to report any conduct that they believe, in good faith, is an actual or apparent violation of the Code of Conduct and may do so anonymously by using Frontier's Ethics Hotline. The Code of Conduct includes specific provisions applicable to Frontier's principal executive officer and senior financial officers. These officers are required to certify as to any actual or potential conflicts of interest involving them and Frontier. Frontier posts amendments to or waivers from the provisions applicable to its senior executives on its website. A copy of the Code of Conduct is available upon request to Frontier's Secretary or may be viewed or downloaded from Frontier's website at www.frontier.com.

Frontier expects the code of business conduct and ethics to apply to the combined company after the merger.

Related Person Transactions Policy

The Frontier board adopted a policy addressing Frontier's procedures with respect to the review, approval and ratification of "related person transactions" that are required to be disclosed pursuant to SEC regulations. The policy provides that any transaction, arrangement or relationship, or series of similar transactions, in which Frontier is involved, with a "related person" (as defined in the SEC regulations) who has or will have a direct or indirect material interest and which exceeds \$120,000 in the aggregate, shall be subject to review, approval or ratification by the Nominating and Corporate Governance Committee. In its review of related person transactions, the Nominating and Corporate Governance Committee shall review the material facts and circumstances of the transaction and shall take into account certain factors, where appropriate, based on the particular facts and circumstances, including (i) the nature of the "related person's" interest in the transaction, (ii) the significance of the transaction to Frontier and to the "related person" and (iii) whether the transaction is likely to impair the judgment of the "related person" to act in the best interest of Frontier.

No member of the Nominating and Corporate Governance Committee may participate in the review, approval or ratification of a transaction with respect to which he or she is a "related person" provided that such person can be counted for purposes of a quorum and shall provide such information with respect to the transaction as may be reasonably requested by other members of the committee or the board.

Frontier expects this related person transactions policy to apply to the combined company after the merger.

Material Transactions between Frontier and Verizon

Frontier provides switched access and special access services to Verizon. Frontier receives per-minute terminating switched access compensation from Verizon when Frontier's switched network is used for the origination or termination of Verizon's traffic. Frontier also receives special access compensation from Verizon on a per-unit basis, the amount of the per-unit price depending on the amount of bandwidth utilized. Frontier received approximately \$187 million from Verizon for these services in 2008.

Verizon provides Frontier (a) long distance services to support both residential and business customers of Frontier, (b) unbundled network element loops to support Frontier customers, (c) unbundled network element and expanded extended loop TJs to support Frontier's customers, (d) circuits to support Frontier internal requirements (including Internet backhaul and Interoffice connections) and (e) space in Verizon central offices to support interconnection with Verizon. Frontier paid Verizon approximately \$94 million for these services in 2008.

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A Frontier subsidiary holds a 33.33% general partnership interest in, and is the managing partner of, Mohave Cellular Limited Partnership, referred to as Mohave Cellular, which provides cellular phone service in Mohave County, Arizona. A Verizon subsidiary holds a 33.33% limited partnership interest in Mohave Cellular. The remaining 33.33% limited partnership interest in Mohave Cellular is held by an unrelated third party. Mohave Cellular declared a \$5.25 million (\$1.75 million per partner) distribution in May 2008 and paid this amount to its partners. Mohave Cellular may declare similar distributions from time to time, as permitted by the terms of its partnership agreement.

LEGAL MATTERS

The validity of the issuance of common stock by Frontier pursuant to the merger agreement will be passed upon for Frontier by Cravath, Swaine & Moore LLP. Cravath, Swaine & Moore LLP will provide to Frontier a legal opinion regarding certain federal income tax matters relating to the merger. Debevoise & Plimpton LLP will provide to Verizon and Spincor a legal opinion regarding certain federal income tax matters relating to the spin-off and the merger.

EXPERTS

The consolidated financial statements of Frontier and subsidiaries as of December 31, 2008 and 2007 and for each of the years in the three-year period ended December 31, 2008, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, are included in this proxy statement/prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere in this proxy statement/prospectus, and upon the authority of said firm as experts in accounting and auditing. The audit report covering these consolidated financial statements contains an explanatory paragraph regarding the change in the method of accounting for uncertain tax positions in 2007, effects of prior year misstatements and share-based payments and pension and postretirement benefits in 2006, and the retrospective revision of the presentation of noncontrolling interests and the impact of the treatment of participating securities for all periods presented.

The combined financial statements of Verizon's Separate Telephone Operations at December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008, included in this proxy statement/prospectus have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2009 (UNAUDITED)
AND DECEMBER 31, 2008
(\$ in thousands)

	(Unaudited) June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 454,102	\$ 163,627
Accounts receivable, less allowances of \$26,456 and \$40,125, respectively	216,611	222,247
Prepaid expenses and other current assets	88,308	82,085
Total current assets	759,021	467,959
Property, plant and equipment, net	3,165,917	3,239,973
Goodwill, net	2,642,323	2,642,323
Other intangibles, net	275,632	359,674
Other assets	175,291	178,747
Total assets	<u>\$7,018,184</u>	<u>\$ 6,888,676</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 7,266	\$ 3,857
Accounts payable and other current liabilities	351,460	378,918
Total current liabilities	358,726	382,775
Deferred income taxes	684,881	670,489
Other liabilities	581,427	584,121
Long-term debt	4,944,989	4,721,685
Equity:		
Shareholders' equity of Frontier:		
Common stock, \$0.25 par value (600,000,000 authorized shares; 312,363,000 and 311,314,000 outstanding, respectively, and 349,456,000 issued at June 30, 2009 and December 31, 2008)	87,364	87,364
Additional paid-in capital	1,028,663	1,117,936
Retained earnings	24,285	38,163
Accumulated other comprehensive loss, net of tax	(229,103)	(237,152)
Treasury stock	(473,153)	(487,266)
Total shareholders' equity of Frontier	438,056	519,045
Noncontrolling interest in a partnership	10,105	10,561
Total equity	448,161	529,606
Total liabilities and equity	<u>\$7,018,184</u>	<u>\$ 6,888,676</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(\$ in thousands, except for per-share amounts)

	<u>2009</u>	<u>2008</u>
Revenue	\$ 532,142	\$ 562,550
Operating expenses:		
Network access expenses	59,203	53,998
Other operating expenses	192,754	202,333
Depreciation and amortization	132,818	144,250
Acquisition related costs	10,751	—
Total operating expenses	<u>395,526</u>	<u>400,581</u>
Operating income	136,616	161,969
Investment and other income, net	4,618	6,841
Interest expense	<u>98,670</u>	<u>90,710</u>
Income before income taxes	42,564	78,100
Income tax expense	<u>14,254</u>	<u>21,874</u>
Net income	28,310	56,226
Less: Income attributable to the noncontrolling interest in a partnership	392	448
Net income attributable to common shareholders of Frontier	<u>\$ 27,918</u>	<u>\$ 55,778</u>
Basic and diluted income per common share attributable to common shareholders of Frontier	<u>\$ 0.09</u>	<u>\$ 0.17</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(\$ in thousands, except for per-share amounts)

	<u>2009</u>	<u>2008</u>
Revenue	\$ 1,070,098	\$ 1,131,755
Operating expenses:		
Network access expenses	119,887	114,547
Other operating expenses	392,958	405,597
Depreciation and amortization	270,376	285,330
Acquisition related costs	10,751	—
Total operating expenses	<u>793,972</u>	<u>805,474</u>
Operating income	276,126	326,281
Investment and other income, net	12,865	5,934
Interest expense	<u>187,419</u>	<u>181,570</u>
Income before income taxes	101,572	150,645
Income tax expense	<u>36,307</u>	<u>48,502</u>
Net income	65,265	102,143
Less: Income attributable to the noncontrolling interest in a partnership	1,044	776
Net income attributable to common shareholders of Frontier	<u>\$ 64,221</u>	<u>\$ 101,367</u>
Basic and diluted income per common share attributable to common shareholders of Frontier	<u>\$ 0.20</u>	<u>\$ 0.31</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2008,
DECEMBER 31, 2008 AND JUNE 30, 2009 (UNAUDITED)**

(\$ and shares in thousands, except for per-share amounts)

	Frontier Shareholders								
	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Noncontrolling	Total
	Shares	Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Shares	Amount	Interest	Equity
Balance January 1, 2008	349,456	\$ 87,364	\$ 1,280,508	\$ 14,001	\$ (77,995)	(21,707)	\$(305,979)	\$ 12,447	\$1,010,346
Stock plans	—	—	(9,883)	—	—	1,047	14,912	—	5,029
Acquisition of Commonwealth	—	—	—	—	—	1	23	—	23
Conversion of EPPICS	—	—	(13)	—	—	7	93	—	80
Dividends on common stock of \$0.50 per share	—	—	(82,103)	(80,221)	—	—	—	—	(162,324)
Shares repurchased	—	—	—	—	—	(10,383)	(112,659)	—	(112,659)
Net income	—	—	—	101,367	—	—	—	776	102,143
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	834	—	—	—	834
Distributions	—	—	—	—	—	—	—	(3,500)	(3,500)
Balance June 30, 2008	349,456	87,364	1,188,509	35,147	(77,161)	(31,035)	(403,610)	9,723	839,972
Stock plans	—	—	8,124	—	—	49	632	—	8,756
Acquisition of Commonwealth	—	—	1	—	—	2	15	—	16
Conversion of EPPICS	—	—	(61)	—	—	44	571	—	510
Conversion of Commonwealth Notes	—	—	(801)	—	—	193	2,467	—	1,666
Dividends on common stock of \$0.50 per share	—	—	(77,836)	(78,277)	—	—	—	—	(156,113)
Shares repurchased	—	—	—	—	—	(7,395)	(87,341)	—	(87,341)
Net income	—	—	—	81,293	—	—	—	838	82,131
Other comprehensive loss, net of tax and reclassification adjustments	—	—	—	—	(159,991)	—	—	—	(159,991)
Balance December 31, 2008	349,456	87,364	1,117,936	38,163	(237,152)	(38,142)	(487,266)	10,561	529,606
Stock plans	—	—	(11,188)	—	—	1,049	14,113	—	2,925
Dividends on common stock of \$0.50 per share	—	—	(78,085)	(78,099)	—	—	—	—	(156,184)
Net income	—	—	—	64,221	—	—	—	1,044	65,265
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	8,049	—	—	—	8,049
Distributions	—	—	—	—	—	—	—	(1,500)	(1,500)
Balance June 30, 2009	349,456	\$ 87,364	\$ 1,028,663	\$ 24,285	\$ (229,103)	(37,093)	\$(473,153)	\$ 10,105	\$ 448,161

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(\$ in thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Net income	\$ 28,310	\$ 56,226	\$ 65,265	\$102,143
Other comprehensive income, net of tax and reclassification adjustments	4,018	417	8,049	834
Comprehensive income	32,328	56,643	73,314	102,977
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	392	448	1,044	776
Comprehensive income attributable to the common shareholders of Frontier	<u>\$ 31,936</u>	<u>\$ 56,195</u>	<u>\$ 72,270</u>	<u>\$102,201</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008 (UNAUDITED)
(\$ in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows provided by (used in) operating activities:		
Net income	\$ 65,265	\$ 102,143
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	270,376	285,330
Stock based compensation expense	4,561	6,164
Pension expense	16,454	(1,060)
(Gain)/loss on extinguishment of debt	(3,664)	6,290
Other non-cash adjustments	(1,702)	(8,079)
Deferred income taxes	8,319	(8,996)
Change in accounts receivable	10,231	8,039
Change in accounts payable and other liabilities	(21,287)	(57,537)
Change in prepaid expenses and other current assets	(18,223)	6,561
Net cash provided by operating activities	330,330	338,855
Cash flows provided from (used by) investing activities:		
Capital expenditures	(110,364)	(123,723)
Other assets (purchased) distributions received, net	628	(1,277)
Net cash used by investing activities	(109,736)	(125,000)
Cash flows provided from (used by) financing activities:		
Long-term debt borrowings	538,830	135,000
Long-term debt payments	(309,954)	(130,281)
Settlement of interest rate swaps	—	15,521
Financing costs paid	(911)	(857)
Premium paid to retire debt	—	(6,290)
Issuance of common stock	680	955
Common stock repurchased	—	(112,659)
Dividends paid	(156,184)	(162,324)
Repayment of customer advances for construction and distributions to noncontrolling interests	(2,580)	(512)
Net cash provided from (used by) financing activities	69,881	(261,447)
Increase (decrease) in cash and cash equivalents	290,475	(47,592)
Cash and cash equivalents at January 1,	163,627	226,466
Cash and cash equivalents at June 30,	<u>\$ 454,102</u>	<u>\$ 178,874</u>
Cash paid during the period for:		
Interest	\$ 181,066	\$ 184,552
Income taxes	\$ 40,458	\$ 49,585
Non-cash investing and financing activities:		
Change in fair value of interest rate swaps	\$ —	\$ 7,909
Conversion of EPPICS	\$ —	\$ 80

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Table of Contents**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****(I) Summary of Significant Accounting Policies:****(a) Basis of Presentation and Use of Estimates:**

Frontier Communications Corporation (formerly Citizens Communications Company through July 30, 2008) and its subsidiaries are referred to as "we," "us," "our," or the "Company" in this report. Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2008. Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation. These unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the results for the interim periods shown.

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, income taxes, purchase price allocations, contingencies, and pension and other postretirement benefits, among others. Certain information and footnote disclosures have been excluded and/or condensed pursuant to Securities and Exchange Commission rules and regulations. The results of the interim periods are not necessarily indicative of the results for the full year.

(b) Revenue Recognition:

Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes: monthly recurring network access services, special access services and monthly recurring local line charges. The unearned portion of this revenue is initially deferred as a component of other liabilities on our consolidated balance sheet and recognized in revenue over the period that the services are provided. Revenue that is billed in arrears includes: non-recurring network access services, switched access services, non-recurring local services and long-distance services. The earned but unbilled portion of this revenue is recognized in revenue in our consolidated statements of operations and accrued in accounts receivable in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

The Company collects various taxes from its customers and subsequently remits such funds to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) which we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses of \$8.7 million and \$9.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$16.2 million and \$18.5 million for the six months ended June 30, 2009 and 2008, respectively.

(c) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable

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intangibles. We annually (during the fourth quarter) examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for impairment at the “operating segment” level, as that term is defined in Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets” (Accounting Standards Codification) (ASC Topic 350). The Company revised its management and operating structure during the first quarter of 2009 and now has three “operating segments.” Our “operating segments” are aggregated into one reportable segment.

SFAS No. 142 (ASC Topic 350) requires that intangible assets with estimated useful lives be amortized over those lives and be reviewed for impairment in accordance with SFAS No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets” (ASC Topic 360) to determine whether any changes to these lives are required. We periodically reassess the useful lives of our intangible assets to determine whether any changes are required.

(2) Recent Accounting Literature and Changes in Accounting Principles:

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (ASC Topic 820) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB amended SFAS No. 157 (ASC Topic 820) to defer the application of this standard to nonfinancial assets and liabilities until 2009. The provisions of SFAS No. 157 (ASC Topic 820) related to financial assets and liabilities were effective as of the beginning of our 2008 fiscal year. Our partial adoption of SFAS No. 157 (ASC Topic 820) in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows. The adoption of SFAS No. 157 (ASC Topic 820), as amended, in the first quarter of 2009 with respect to its effect on nonfinancial assets and liabilities had no impact on our financial position, results of operations or cash flows.

Business Combinations

In December 2007, the FASB revised SFAS No. 141, “Business Combinations” (ASC Topic 805). The revised statement, SFAS No. 141R (ASC Topic 805), as amended by FSP SFAS No. 141(R)-1 (ASC Topic 805), requires an acquiring entity to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to recognize and measure preacquisition contingencies, including contingent consideration, at fair value (if possible), to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R (ASC Topic 805) was for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will account for our pending acquisition of approximately 4.8 million access lines from Verizon Communications Inc. (Verizon) using the guidance included in SFAS No. 141R (ASC Topic 805). During the three and six months ended June 30, 2009, we incurred approximately \$10.8 million of acquisition related costs in connection with our pending acquisition from Verizon. In accordance with SFAS No. 141R (ASC Topic 805), such costs are required to be expensed as incurred and are reflected in “Acquisition related costs” in our consolidated statements of operations.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements” (ASC Topic 810). SFAS No. 160 (ASC Topic 810) establishes requirements for ownership interest in subsidiaries held by parties other than the Company (sometimes called “minority interest”) be clearly identified, presented and disclosed in the consolidated statement of financial position within shareholder equity, but separate from the parent’s equity. All changes in the parent’s ownership interest are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in unconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 (ASC Topic 810) was effective, on a prospective basis, for fiscal years

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beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The adoption of SFAS No. 160 (ASC Topic 810) in the first quarter of 2009 did not have a material impact on our financial position, results of operations or cash flows.

Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities

In June 2008, the FASB ratified FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" (ASC Topic 260). FSP EITF No. 03-6-1 (ASC Topic 260) addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF No. 03-6-1 (ASC Topic 260) was effective, on a retrospective basis, for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Our outstanding non-vested restricted stock is a participating security in accordance with FSP EITF No. 03-6-1 (ASC Topic 260) and we have adjusted our previously reported basic and diluted income per common share. The adoption of FSP EITF No. 03-6-1 (ASC Topic 260) in the first quarter of 2009 did not have a material impact on our basic and diluted income per common share for the three and six months ended June 30, 2009 and 2008.

Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP SFAS No. 132 (R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (ASC Topic 715). FSP SFAS No. 132 (R)-1 (ASC Topic 715) amends SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," (ASC Topic 230) to provide guidance on an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS No. 132 (R)-1 (ASC Topic 715) requires additional disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The disclosures about plan assets required by FSP SFAS No. 132 (R)-1 (ASC Topic 715) are effective for fiscal years ending after December 15, 2009. We do not expect the adoption of FSP SFAS No. 132 (R)-1 (ASC Topic 715) to have a material impact on our financial position, results of operations or cash flows. We will adopt the disclosure requirements of FSP SFAS No. 132 (R)-1 (ASC Topic 715) in the annual report for our fiscal year ending December 31, 2009.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (ASC Topic 855), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, SFAS No. 165 (ASC Topic 855) sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 (ASC Topic 855) is effective for interim or annual reporting periods ending after June 15, 2009. The adoption of SFAS No. 165 (ASC Topic 855) in the second quarter of 2009 had no impact on our financial position, results of operations or cash flows. For our financial statements as of and for the periods ended June 30, 2009, we evaluated subsequent events through August 4, 2009, the date that we filed our Form 10-Q quarterly report for the period ended June 30, 2009 with the Securities and Exchange Commission.

Accounting Standards Codification

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principals" (ASC Topic 105). SFAS No. 168 (ASC Topic 105) replaces the guidance that previously-existed in SFAS No. 162, entitled "The Hierarchy of Generally Accepted

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Accounting Principals” and designates the FASB Accounting Standards Codification as the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the Codification now is considered to be non-authoritative. SFAS No. 168 (ASC Topic 105) is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will fully adopt SFAS No. 168 (ASC Topic 105) in the third quarter of 2009.

(3) Pending Acquisition:

On May 13, 2009, we entered into a definitive agreement with Verizon Communications Inc. under which Frontier will acquire approximately 4.8 million access lines (as of December 31, 2008) from Verizon. The \$8.6 billion transaction represents approximately \$5.3 billion of common stock plus the assumption of approximately \$3.33 billion in debt. Completion of the transaction is subject to approval by Frontier’s shareholders, the receipt of regulatory approvals, including approvals from the Federal Communications Commission (FCC) and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction during the second quarter of 2010.

(4) Accounts Receivable:

The components of accounts receivable, net at June 30, 2009 and December 31, 2008 are as follows:

<u>(\$ in thousands)</u>	<u>June 30, 2009</u>	<u>December 31, 2008</u>
End user	\$ 224,987	\$ 244,395
Other	18,080	17,977
Less: Allowance for doubtful accounts	(26,456)	(40,125)
Accounts receivable, net	<u>\$ 216,611</u>	<u>\$ 222,247</u>

We maintain an allowance for estimated bad debts based on our estimate of collectibility of our accounts receivable. Bad debt expense, which is recorded as a reduction of revenue, was \$7.6 million and \$8.4 million for the three months ended June 30, 2009 and 2008, respectively, and \$14.3 million and \$15.6 million for the six months ended June 30, 2009 and 2008, respectively.

(5) Property, Plant and Equipment:

Property, plant and equipment at June 30, 2009 and December 31, 2008 is as follows:

<u>(\$ in thousands)</u>	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Property, plant and equipment	\$ 7,673,198	\$ 7,581,060
Less: Accumulated depreciation	(4,507,281)	(4,341,087)
Property, plant and equipment, net	<u>\$ 3,165,917</u>	<u>\$ 3,239,973</u>

Depreciation expense is principally based on the composite group method. Depreciation expense was \$91.4 million and \$98.3 million for the three months ended June 30, 2009 and 2008, respectively, and \$184.3 million and \$193.5 million for the six months ended June 30, 2009 and 2008, respectively. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2008.

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(6) Other Intangibles:

Other intangibles at June 30, 2009 and December 31, 2008 are as follows:

<i>(\$ in thousands)</i>	June 30, 2009	December 31, 2008
Customer base	\$ 1,265,052	\$ 1,265,052
Trade name and license	134,680	132,664
Other intangibles	1,399,732	1,397,716
Less: Accumulated amortization	(1,124,100)	(1,038,042)
Total other intangibles, net	<u>\$ 275,632</u>	<u>\$ 359,674</u>

Amortization expense was \$41.4 million and \$45.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$86.1 million and \$91.8 million for the six months ended June 30, 2009 and 2008, respectively. Amortization expense for the three and six months ended June 30, 2009 is comprised of \$27.3 million and \$57.9 million, respectively, for amortization associated with our "legacy" properties, which were fully amortized in June 2009, and \$14.1 million and \$28.2 million, respectively, for intangible assets (customer base and trade name) that were acquired in the acquisitions of Commonwealth Telephone Enterprises, Inc., Global Valley Networks, Inc. and GVN Services.

(7) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at June 30, 2009 and December 31, 2008. For the other financial instruments, representing cash, accounts receivable, long-term debt due within one year, accounts payable and other current liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments, for which market values are not readily available, are carried at cost, which approximates fair value.

The fair value of our long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments.

<i>(\$ in thousands)</i>	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$4,944,989	\$4,318,648	\$4,721,685	\$3,651,924

(8) Long-Term Debt:

The activity in our long-term debt from December 31, 2008 to June 30, 2009 is as follows:

<i>(\$ in thousands)</i>	Six months ended June 30, 2009				Interest Rate* at June 30, 2009
	December 31, 2008	Retirements	New Borrowings	June 30, 2009	
Rural Utilities Service Loan Contracts	\$ 16,607	\$ (500)	\$ —	\$ 16,107	6.07%
Senior Unsecured Debt	4,702,331	(313,118)	600,000	4,989,213	7.88%
Industrial Development Revenue Bonds	13,550	—	—	13,550	6.33%
TOTAL LONG-TERM DEBT	<u>\$4,732,488</u>	<u>\$(313,618)</u>	<u>\$600,000</u>	<u>\$5,018,870</u>	7.87%
Less: Debt Discount	(6,946)			(66,615)	
Less: Current Portion	(3,857)			(7,266)	
	<u>\$4,721,685</u>			<u>\$4,944,989</u>	

* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates represent a weighted average of multiple issuances.

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During the first six months of 2009, we retired an aggregate principal amount of \$313.6 million of debt, consisting of \$313.1 million of senior unsecured debt and \$0.5 million of rural utilities service loan contracts.

On April 9, 2009, we completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of our 9.25% Senior Notes due May 15, 2011, \$40.0 million of our 7.875% Senior Notes due January 15, 2027 and \$16.0 million of our 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in investment and other income, net in our consolidated statements of operations for the three and six months ended June 30, 2009. We intend to use the remaining net proceeds from the offering to reduce, repurchase or refinance our indebtedness or the indebtedness of our subsidiaries or for general corporate purposes.

As of June 30, 2009, we had an available line of credit with seven financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of June 30, 2009. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

On March 28, 2008, we borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.18% as of June 30, 2009. The interest rate is based on the prime rate or LIBOR, at our election, plus a margin which varies depending on our debt leverage ratio. We used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of our 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

As of June 30, 2009, we were in compliance with all of our debt and credit facility financial covenants.

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(9) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the three and six months ended June 30, 2009 and 2008, respectively, is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
<i>(\$ in thousands, except per share amounts)</i>				
<i>Net income used for basic and diluted earnings per common share:</i>				
Net income attributable to common shareholders of Frontier	\$ 27,918	\$ 55,778	\$ 64,221	\$ 101,367
Less: Dividends allocated to unvested restricted stock awards	(566)	(437)	(1,142)	(884)
Total basic net income available for common shareholders of Frontier	27,352	55,341	63,079	100,483
Effect of conversion of preferred securities—EPPICS	—	31	—	62
Total diluted net income available for common shareholders of Frontier	<u>\$ 27,352</u>	<u>\$ 55,372</u>	<u>\$ 63,079</u>	<u>\$ 100,545</u>
<i>Basic earnings per common share:</i>				
Total weighted average shares and unvested restricted stock awards outstanding—basic	312,361	322,592	312,052	324,942
Less: Weighted average unvested restricted stock awards	(2,266)	(1,754)	(2,109)	(1,602)
Total weighted average shares outstanding—basic	<u>310,095</u>	<u>320,838</u>	<u>309,943</u>	<u>323,340</u>
Net income per share available for common shareholders of Frontier	<u>\$ 0.09</u>	<u>\$ 0.17</u>	<u>\$ 0.20</u>	<u>\$ 0.31</u>
<i>Diluted earnings per common share:</i>				
Total weighted average shares outstanding—basic	310,095	320,838	309,943	323,340
Effect of dilutive shares	—	122	—	286
Effect of conversion of preferred securities—EPPICS	—	347	—	348
Total weighted average shares outstanding—diluted	<u>310,095</u>	<u>321,307</u>	<u>309,943</u>	<u>323,974</u>
Net income per share available for common shareholders of Frontier	<u>\$ 0.09</u>	<u>\$ 0.17</u>	<u>\$ 0.20</u>	<u>\$ 0.31</u>

Stock Options

For the three and six months ended June 30, 2009, options to purchase 3,565,000 shares (at exercise prices ranging from \$8.19 to \$18.46) issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive. In calculating diluted EPS we apply the treasury stock method and include future unearned compensation as part of the assumed proceeds.

For the three and six months ended June 30, 2008, options to purchase 2,640,000 shares (at exercise prices ranging from \$11.15 to \$18.46) issuable under employee compensation plans were excluded from the computation of diluted EPS for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive.

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In addition, for the three and six months ended June 30, 2009 and 2008, the impact of dividends paid on unvested restricted stock awards of 2,265,000 and 1,748,000 shares, respectively, have been deducted in accordance with FSP EITF No. 03-6-1, (ASC Topic 260) which we adopted in the first quarter of 2009 on a retrospective basis.

EPPICS

As of December 31, 2008, we fully redeemed the 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities (EPPICS) related debt outstanding to third parties. As of June 30, 2008, approximately 99% of the originally issued EPPICS, or about \$197.3 million aggregate principal amount of EPPICS, had converted into 15,925,159 shares of our common stock, including shares issued from treasury.

We had 78,707 shares of potentially dilutive EPPICS at June 30, 2008, which were convertible into our common stock at a 4.3615 to 1 ratio at an exercise price of \$11.46 per share. If all remaining EPPICS had been converted, we would have issued approximately 343,281 shares of our common stock as of June 30, 2008. These securities have been included in the diluted income per common share calculation for the three and six months ended June 30, 2008.

Stock Units

At June 30, 2009 and 2008, we had 411,889 and 279,645 stock units, respectively, issued under our Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan), our Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan) and the Non-Employee Directors' Retirement Plan. These securities have not been included in the diluted income per share of common stock calculation because their inclusion would have had an antidilutive effect.

Share Repurchase Programs

In February 2008, our Board of Directors authorized us to repurchase up to \$200.0 million of our common stock in public or private transactions over the following twelve-month period. This share repurchase program commenced on March 4, 2008. As of June 30, 2008, we had repurchased approximately 10,383,000 shares of our common stock at an aggregate cost of approximately \$112.7 million. The \$200.0 million share repurchase program was completed on October 3, 2008 through the repurchase of 17,778,000 shares of our common stock during the full year of 2008.

(10) Stock Plans:

At June 30, 2009, we had six stock-based compensation plans under which grants have been made and awards remained outstanding. At June 30, 2009, there were 26,058,182 shares authorized for grant under these plans and 12,122,294 shares available for grant under two of the plans. No further awards may be granted under four of the plans: the Management Equity Incentive Plan, the 1996 Equity Incentive Plan, the Amended and Restated 2000 Equity Incentive Plan (collectively, together with the 2009 Equity Incentive Plan that was adopted on May 14, 2009, the EIPs) or the Deferred Fee Plan.

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The following summary presents information regarding outstanding stock options as of June 30, 2009 and changes during the six months then ended with regard to options under the EIPs:

	<i>Shares Subject to Option</i>	<i>Weighted Average Option Price Per Share</i>	<i>Weighted Average Remaining Life in Years</i>	<i>Aggregate Intrinsic Value</i>
Balance at January 1, 2009	3,713,000	\$ 13.46	2.5	\$495,000
Options granted	—	\$ —		
Options exercised	(105,000)	\$ 6.45		\$747,000
Options canceled, forfeited or lapsed	(43,000)	\$ 9.08		
Balance at June 30, 2009	<u>3,565,000</u>	\$ 13.72	2.1	\$ —
Exercisable at June 30, 2009	<u>3,559,000</u>	\$ 13.72	2.0	\$ —

There were no options granted during the first six months of 2009. Cash received upon the exercise of options during the first six months of 2009 totaled \$0.7 million.

The total intrinsic value of stock options exercised during the first six months of 2008 was \$0.5 million. The total intrinsic value of stock options outstanding and exercisable at June 30, 2008 was \$2.6 million. There were no options granted during the first six months of 2008. Cash received upon the exercise of options during the first six months of 2008 totaled \$1.0 million.

The following summary presents information regarding unvested restricted stock as of June 30, 2009 and changes during the six months then ended with regard to restricted stock under the EIPs:

	<i>Number of Shares</i>	<i>Weighted Average Grant Date Fair Value</i>	<i>Aggregate Fair Value</i>
Balance at January 1, 2009	1,702,000	\$ 12.52	\$14,876,000
Restricted stock granted	1,098,000	\$ 8.44	\$7,839,000
Restricted stock vested	(514,000)	\$ 12.74	\$3,668,000
Restricted stock forfeited	(21,000)	\$ 12.25	
Balance at June 30, 2009	<u>2,265,000</u>	\$ 10.50	\$16,171,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at June 30, 2009 was \$19.8 million and the weighted average period over which this cost is expected to be recognized is approximately two years.

The total fair value of shares granted and vested during the six months ended June 30, 2008 was approximately \$10.0 million and \$3.7 million, respectively. The total fair value of unvested restricted stock at June 30, 2008 was \$19.8 million. The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2008 was \$11.02. Shares granted during the first six months of 2008 totaled 883,000.

(11) Segment Information:

We operate in one reportable segment, Frontier. Frontier provides both regulated and unregulated voice, data and video services to residential, business and wholesale customers and is typically the incumbent provider in its service areas.

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As permitted by SFAS No. 131 (ASC Topic 280), we have utilized the aggregation criteria in combining our operating segments because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not materially impact the economic characteristics or operating results of a particular property.

(12) Derivative Instruments and Hedging Activities:

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet and is being amortized into interest expense over the term of the associated debt. We recognized \$3.2 million and \$3.4 million of deferred gain during the first six months of 2009 and 2008, respectively, and anticipate recognizing \$1.4 million during the remainder of 2009. At June 30, 2009 and 2008, we did not have any derivative instruments.

(13) Investment and Other Income, Net:

The components of investment and other income, net are as follows:

<u>(\$ in thousands)</u>	<u>For the three months ended</u> <u>June 30,</u>		<u>For the six months ended</u> <u>June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 912	\$ 1,424	\$ 4,200	\$ 6,528
Gain on debt repurchases	3,664	—	3,664	—
Premium on debt repurchases	—	—	—	(6,290)
Litigation settlement proceeds	(17)	—	2,186	—
Gains on expiration/settlement of customer advances	—	2,883	2,513	2,883
Equity earnings	351	2,853	625	2,884
Other, net	(292)	(319)	(323)	(71)
Total investment and other income, net	<u>\$ 4,618</u>	<u>\$ 6,841</u>	<u>\$ 12,865</u>	<u>\$ 5,934</u>

(14) Retirement Plans:

The following tables provide the components of net periodic benefit cost:

<u>(\$ in thousands)</u>	<u>Pension Benefits</u>			
	<u>For the three months ended</u> <u>June 30,</u>		<u>For the six months</u> <u>ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<i>Components of net periodic benefit cost</i>				
Service cost	\$ 1,435	\$ 1,619	\$ 2,870	\$ 3,238
Interest cost on projected benefit obligation	12,964	12,875	25,928	25,750
Expected return on plan assets ⁽¹⁾	(11,096)	(16,354)	(22,192)	(32,708)
Amortization of prior service cost/(credit)	(64)	(64)	(128)	(128)
Amortization of unrecognized loss	6,920	1,272	13,840	2,544
Net periodic benefit cost/(income)	<u>\$ 10,159</u>	<u>\$ (652)</u>	<u>\$ 20,318</u>	<u>\$ (1,304)</u>

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	Postretirement Benefits Other Than Pensions			
	For the three months ended		For the six months ended	
	June 30,		June 30,	
<i>(\$ in thousands)</i>	2009	2008	2009	2008
<i>Components of net periodic benefit cost</i>				
Service cost	\$ 113	\$ 149	\$ 226	\$ 298
Interest cost on projected benefit obligation	2,857	2,742	5,714	5,484
Expected return on plan assets	(109)	(122)	(218)	(244)
Amortization of prior service cost	(1,938)	(1,934)	(3,876)	(3,868)
Amortization of unrecognized loss	1,481	1,404	2,962	2,808
Net periodic benefit cost	<u>\$ 2,404</u>	<u>\$ 2,239</u>	<u>\$ 4,808</u>	<u>\$ 4,478</u>

(1) In 2008, our expected long-term rate of return on plan assets was 8.25%, and for 2009 we have assumed a rate of 8.0%.

During the first six months of 2009 and 2008, we capitalized \$3.9 million and \$(0.2) million, respectively, of pension expenses into the cost of our capital expenditures. We expect that our 2009 pension and other postretirement benefit expenses will be between \$50.0 million and \$55.0 million, as compared to \$11.2 million in 2008.

The Company's pension plan assets have declined from \$589.8 million at December 31, 2008 to \$578.1 million at June 30, 2009, a decrease of \$11.7 million, or 2%. This decrease is a result of ongoing benefit payments of \$26.6 million, offset by positive investment returns of \$14.9 million during the first six months of 2009. No contributions are expected to be made by us to our pension plan until 2011, although pension asset volatility could require us to make a contribution in 2010, at the earliest.

(15) Commitments and Contingencies:

We anticipate capital expenditures of approximately \$250.0 million to \$270.0 million for 2009 related to our currently owned properties. Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into firm, written contracts for such activities.

In connection with the pending acquisition of approximately 4.8 million access lines (as of December 31, 2008) from Verizon, the Company has commenced activities to obtain the necessary regulatory approvals, plan and implement systems conversions and other initiatives necessary to effectuate the closing, which is expected to occur during the second quarter of 2010, and enable the Company to implement its "go to market" strategy at closing. As a result, the Company expects to incur operating expenses and capital expenditures of approximately \$35.0 million and \$25.0 million, respectively, in 2009 related to the pending transaction. The Company incurred \$10.8 million of acquisition related costs in the second quarter of 2009.

We are party to various legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the State of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec, then the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then

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the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total power purchase obligation for the remainder of the agreement (which runs through 2015). Paragraph 13 of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" No. (FIN) 45 (ASC Topic 460-10-50) requires that we disclose "the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee." Paragraph 13 of FIN No. 45 (ASC Topic 460-10-50) also states that we must make such disclosure "... even if the likelihood of the guarantor's having to make any payments under the guarantee is remote..." As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the "maximum potential amount" disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2009 and remained in default for the duration of the contract (another 7 years), we estimate that our undiscounted purchase obligation for 2009 through 2015 would be approximately \$0.8 billion. In such a scenario the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

The Board of Directors and Shareholders
Frontier Communications Corporation:

The management of Frontier Communications Corporation and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2008 and for the period then ended.

Our independent registered public accounting firm, KPMG LLP, has audited the consolidated financial statements included in this report and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

Stamford, Connecticut
February 26, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Frontier Communications Corporation:

We have audited the accompanying consolidated balance sheets of Frontier Communications Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Frontier Communications Corporation and subsidiaries as of December 31, 2008 and 2007 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 18 to the accompanying consolidated financial statements, the Company adopted the recognition and disclosure provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" as of January 1, 2007. As discussed in Note 5, effective January 1, 2006, the Company adopted Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." As discussed in Note 23, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" as of December 31, 2006. Also, as discussed in Note 1(b), the Company retrospectively adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" and FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Frontier Communications Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Stamford, Connecticut
February 26, 2009, except for Note 1(b) which is as of July 24, 2009

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Table of Contents**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders
Frontier Communications Corporation:

We have audited Frontier Communications Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Frontier Communications Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Frontier Communications Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Frontier Communications Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 26, 2009, except for Note 1(b) which is as of July 24, 2009, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Stamford, Connecticut
February 26, 2009

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007

(\$ in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163,627	\$ 226,466
Accounts receivable, less allowances of \$40,125 and \$32,748, respectively	222,247	234,762
Prepaid expenses	33,265	29,437
Other current assets	48,820	33,489
Total current assets	467,959	524,154
Property, plant and equipment, net	3,239,973	3,335,244
Goodwill, net	2,642,323	2,634,559
Other intangibles, net	359,674	547,735
Investments	8,044	21,191
Other assets	170,703	193,186
Total assets	<u>\$6,888,676</u>	<u>\$7,256,069</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year	\$ 3,857	\$ 2,448
Accounts payable	141,940	179,402
Advanced billings	51,225	44,722
Other taxes accrued	25,585	21,400
Interest accrued	102,370	116,923
Other current liabilities	57,798	80,996
Total current liabilities	382,775	445,891
Deferred income taxes	670,489	711,645
Other liabilities	584,121	351,290
Long-term debt	4,721,685	4,736,897
Equity:		
Shareholders' equity of Frontier:		
Common stock, \$0.25 par value (600,000,000 authorized shares; 311,314,000 and 327,749,000 outstanding, respectively, and 349,456,000 issued at December 31, 2008 and 2007)	87,364	87,364
Additional paid-in capital	1,117,936	1,280,508
Retained earnings	38,163	14,001
Accumulated other comprehensive loss, net of tax	(237,152)	(77,995)
Treasury stock	(487,266)	(305,979)
Total shareholders' equity of Frontier	519,045	997,899
Noncontrolling interest in a partnership	10,561	12,447
Total equity	529,606	1,010,346
Total liabilities and equity	<u>\$6,888,676</u>	<u>\$7,256,069</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(\$ in thousands, except for per-share amounts)

	2008	2007	2006
Revenue	\$2,237,018	\$2,288,015	\$2,025,367
Operating expenses:			
Network access expenses	222,013	228,242	171,247
Other operating expenses	810,748	808,501	733,143
Depreciation and amortization	561,801	545,856	476,487
Total operating expenses	<u>1,594,562</u>	<u>1,582,599</u>	<u>1,380,877</u>
Operating income	642,456	705,416	644,490
Investment income	16,118	37,641	83,749
Other income (loss), net	(5,170)	(17,833)	3,007
Interest expense	<u>362,634</u>	<u>380,696</u>	<u>336,446</u>
Income from continuing operations before income taxes	290,770	344,528	394,800
Income tax expense	<u>106,496</u>	<u>128,014</u>	<u>136,479</u>
Income from continuing operations	184,274	216,514	258,321
Discontinued operations (see Note 8):			
Income from discontinued operations before income taxes	—	—	147,136
Income tax expense	—	—	56,589
Income from discontinued operations	—	—	90,547
Net income	184,274	216,514	348,868
Less: Income attributable to the noncontrolling interest in a partnership	1,614	1,860	4,313
Net income attributable to common shareholders of Frontier	<u>\$ 182,660</u>	<u>\$ 214,654</u>	<u>\$ 344,555</u>
Basic income per common share attributable to common shareholders of Frontier:			
Income from continuing operations	\$ 0.57	\$ 0.64	\$ 0.78
Income from discontinued operations	—	—	0.28
Net income per common share	<u>\$ 0.57</u>	<u>\$ 0.64</u>	<u>\$ 1.06</u>
Diluted income per common share attributable to common shareholders of Frontier:			
Income from continuing operations	\$ 0.57	\$ 0.64	\$ 0.78
Income from discontinued operations	—	—	0.28
Net income per common share	<u>\$ 0.57</u>	<u>\$ 0.64</u>	<u>\$ 1.06</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(\$ and shares in thousands, except for per-share amounts)

	Frontier Shareholders								
	Common Stock		Additional	Retained	Accumulated	Treasury Stock		Non-	Total
	Shares	Amount	Paid-In	Earnings	Other	Shares	Amount	controlling	Equity
			Capital	(Deficit)	Comprehensive			Interest	
					Loss				
Balance December 31, 2005	343,956	\$ 85,989	\$1,374,610	\$ (85,344)	\$ (123,242)	(15,788)	\$(210,204)	\$ 6,274	\$1,048,083
Cumulative effect adjustment (see Note 5)	—	—	—	36,392	—	—	—	—	36,392
Stock plans	—	—	(1,875)	—	—	2,908	38,793	—	36,918
Conversion of EPPICS	—	—	(2,563)	—	—	1,389	18,488	—	15,925
Dividends on common stock of \$1.00 per share	—	—	(162,773)	(160,898)	—	—	—	—	(323,671)
Shares repurchased	—	—	—	—	—	(10,200)	(135,239)	—	(135,239)
Net income	—	—	—	344,555	—	—	—	4,313	348,868
Pension liability adjustment, after adoption of SFAS No. 158, net of taxes	—	—	—	—	(83,634)	—	—	—	(83,634)
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	124,977	—	—	—	124,977
Balance December 31, 2006	343,956	85,989	1,207,399	134,705	(81,899)	(21,691)	(288,162)	10,587	1,068,619
Stock plans	—	—	(6,237)	667	—	1,824	25,399	—	19,829
Acquisition of Commonwealth	5,500	1,375	77,939	—	—	12,640	168,121	—	247,435
Conversion of EPPICS	—	—	(549)	—	—	291	3,888	—	3,339
Conversion of Commonwealth notes	—	—	1,956	—	—	2,508	34,775	—	36,731
Dividends on common stock of \$1.00 per share	—	—	—	(336,025)	—	—	—	—	(336,025)
Shares repurchased	—	—	—	—	—	(17,279)	(250,000)	—	(250,000)
Net income	—	—	—	214,654	—	—	—	1,860	216,514
Other comprehensive income, net of tax and reclassification adjustments	—	—	—	—	3,904	—	—	—	3,904
Balance December 31, 2007	349,456	87,364	1,280,508	14,001	(77,995)	(21,707)	(305,979)	12,447	1,010,346
Stock plans	—	—	(1,759)	—	—	1,096	15,544	—	13,785
Acquisition of Commonwealth	—	—	1	—	—	3	38	—	39
Conversion of EPPICS	—	—	(74)	—	—	51	664	—	590
Conversion of Commonwealth notes	—	—	(801)	—	—	193	2,467	—	1,666
Dividends on common stock of \$1.00 per share	—	—	(159,939)	(158,498)	—	—	—	—	(318,437)
Shares repurchased	—	—	—	—	—	(17,778)	(200,000)	—	(200,000)
Net income	—	—	—	182,660	—	—	—	1,614	184,274
Other comprehensive loss, net of tax and reclassification adjustments	—	—	—	—	(159,157)	—	—	—	(159,157)
Distributions	—	—	—	—	—	—	—	(3,500)	(3,500)
Balance December 31, 2008	349,456	\$ 87,364	\$1,117,936	\$ 38,163	\$ (237,152)	(38,142)	\$(487,266)	\$ 10,561	\$ 529,606

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(\$ in thousands)

	2008	2007	2006
Net income	\$ 184,274	\$216,514	\$348,868
Other comprehensive (loss) income, net of tax and reclassification adjustments*	<u>(159,157)</u>	<u>3,904</u>	<u>1 24,977</u>
Total comprehensive income	25,117	2 20,418	4 73,845
Less: Other comprehensive income attributable to the noncontrolling interest in a partnership	<u>(1,614)</u>	<u>(1,860)</u>	<u>(4,313)</u>
Comprehensive income attributable to the common shareholders of Frontier	<u>\$ 23,503</u>	<u>\$218,558</u>	<u>\$469,532</u>

* Consists primarily of amortization of pension and postretirement costs and SFAS No. 158 pension/OPEB liability (see Note 20).

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(\$ in thousands)

	2008	2007	2006
Cash flows provided by (used in) operating activities:			
Net income	\$ 184,274	\$ 216,514	\$ 348,868
Deduct: Gain on sale of discontinued operations, net of tax	—	—	(71,635)
Income from discontinued operations, net of tax	—	—	(18,912)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	561,801	545,856	476,487
Stock based compensation expense	7,788	9,022	10,340
Loss on debt exchange	—	—	2,433
Loss on extinguishment of debt	6,290	20,186	—
Investment gain	—	—	(61,428)
Other non-cash adjustments	(8,658)	(9,458)	878
Deferred income taxes	33,967	81,011	132,031
Legal settlement	—	(7,905)	—
Change in accounts receivable	9,746	(4,714)	15,333
Change in accounts payable and other liabilities	(52,047)	(36,257)	(3,064)
Change other current assets	(3,895)	7,428	(2,148)
Net cash provided by continuing operating activities	739,266	821,683	829,183
Cash flows provided from (used by) investing activities:			
Capital expenditures	(288,264)	(315,793)	(268,806)
Cash paid for acquisitions (net of cash acquired)	—	(725,548)	—
Proceeds from sale of discontinued operations	—	—	255,305
Other assets (purchased) distributions received, net	5,489	6,629	67,050
Net cash (used by) provided from investing activities	(282,775)	(1,034,712)	53,549
Cash flows provided from (used by) financing activities:			
Long-term debt borrowings	135,000	950,000	550,000
Debt issuance costs	(857)	(12,196)	(6,948)
Long-term debt payments	(142,480)	(946,070)	(227,693)
Premium paid to retire debt	(6,290)	(20,186)	—
Settlement of interest rate swaps	15,521	—	—
Issuance of common stock	1,398	13,808	27,200
Common stock repurchased	(200,000)	(250,000)	(135,239)
Dividends paid	(318,437)	(336,025)	(323,671)
Repayment of customer advances for construction	(3,185)	(942)	(264)
Net cash used by financing activities	(519,330)	(601,611)	(116,615)
Cash flows of discontinued operations:			
Operating cash flows	—	—	17,833
Investing cash flows	—	—	(6,593)
Financing cash flows	—	—	—
Net cash provided by discontinued operations	—	—	11,240
(Decrease) increase in cash and cash equivalents	(62,839)	(814,640)	777,357
Cash and cash equivalents at January 1,	226,466	1,041,106	263,749
Cash and cash equivalents at December 31,	<u>\$ 163,627</u>	<u>\$ 226,466</u>	<u>\$1,041,106</u>
Cash paid during the period for:			
Interest	\$ 365,858	\$ 364,381	\$ 332,204
Income taxes	\$ 78,878	\$ 54,407	\$ 5,365
Non-cash investing and financing activities:			
Change in fair value of interest rate swaps	\$ 7,909	\$ 18,198	\$ (1,562)
Conversion of EPPICS	\$ 590	\$ 3,339	\$ 15,925
Conversion of Commonwealth notes	\$ 1,666	\$ 36,731	\$ —
Debt-for-debt exchange	\$ —	\$ —	\$ 2,433
Shares issued for Commonwealth acquisition	\$ 39	\$ 247,435	\$ —
Acquired debt	\$ —	\$ 244,570	\$ —
Other acquired liabilities	\$ —	\$ 112,194	\$ —

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business and Summary of Significant Accounting Policies:**(a) Description of Business:**

Frontier Communications Corporation (formerly known as Citizens Communications Company through July 30, 2008) and its subsidiaries are referred to as "we," "us," "our," or the "Company" in this report. We are a communications company providing services to rural areas and small and medium-sized towns and cities as an incumbent local exchange carrier, or ILEC.

(b) Basis of Presentation and Use of Estimates:

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation.

Our consolidated financial statements have been adjusted on a retrospective basis to reflect the adoption of two new accounting standards: Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements" and FASB Staff Position (FSP) EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." All periods and amounts presented in these consolidated financial statements and notes herein have been adjusted retrospectively in accordance with SFAS No. 160 and FSP EITF No. 03-6-1. See Note 2 for further discussion.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, income taxes, purchase price allocations, contingencies, and pension and other postretirement benefits, among others.

(c) Cash Equivalents:

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(d) Revenue Recognition:

Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes: monthly recurring access services, special access services and monthly recurring local line charges. The unearned portion of this revenue is initially deferred as a component of other liabilities on our consolidated balance sheet and recognized in revenue over the period that the services are provided. Revenue that is billed in arrears includes: non-recurring network access services, switched access services, non-recurring local services and long-distance services. The earned but unbilled portion of this revenue is recognized in revenue in our consolidated statements of operations and accrued in accounts receivable in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

The Company collects various taxes from its customers and subsequently remits such funds to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect USF surcharges from customers (primarily federal USF) which we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses at \$37.1 million, \$35.9 million and \$37.1 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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(e) Property, Plant and Equipment:

Property, plant and equipment are stated at original cost or fair market value for our acquired properties, including capitalized interest. Maintenance and repairs are charged to operating expenses as incurred. The gross book value of routine property, plant and equipment retired is charged against accumulated depreciation.

(f) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses and have determined for the year ended December 31, 2008 that there was no impairment. We test for impairment at the "operating segment" level, as that term is defined in Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." The Company currently has four "operating segments" which are aggregated into one reportable segment.

SFAS No. 142 requires that intangible assets with estimated useful lives be amortized over those lives and be reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" to determine whether any changes to these lives are required. We periodically reassess the useful life of our intangible assets to determine whether any changes to those lives are required.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of:

We review long-lived assets to be held and used and long-lived assets to be disposed of, including intangible assets with estimated useful lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If any assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value.

(h) Derivative Instruments and Hedging Activities:

We account for derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, requires that all derivative instruments, such as interest rate swaps, be recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them.

On the date we enter into a derivative contract that qualifies for hedge accounting, we designate the derivative as either a fair value or cash flow hedge. A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment is a fair value hedge. A hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability is a cash flow hedge. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking the hedge transaction. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we would discontinue hedge accounting prospectively.

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All derivatives are recognized on the balance sheet at their fair value. Changes in the fair value of derivative financial instruments are either recognized in income or shareholders' equity (as a component of other comprehensive income), depending on whether the derivative is being used to hedge changes in fair value or cash flows.

As of December 31, 2007, we had interest rate swap arrangements related to a portion of our fixed rate debt. These arrangements were all terminated on January 15, 2008. These hedge strategies satisfied the fair value hedging requirements of SFAS No. 133, as amended. As a result, the appreciation in value of the swaps through the time of termination is included in the consolidated balance sheet and is recognized as lower interest expense over the duration of the remaining life of the underlying debt.

(i) Investments:*Marketable Securities*

We classify our cost method investments at purchase as available-for-sale. We do not maintain a trading portfolio or held-to-maturity securities. Our marketable securities are insignificant.

Investments in Other Entities

Investments in entities that we do not control, but where we have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method of accounting (see Note 9).

(j) Income Taxes and Deferred Income Taxes:

We file a consolidated federal income tax return. We utilize the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recorded for the tax effect of temporary differences between the financial statement basis and the tax basis of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to reverse.

(k) Stock Plans:

We have various stock-based compensation plans. Awards under these plans are granted to eligible officers, management employees, non-management employees and non-employee directors. Awards may be made in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units or other stock-based awards. We have no awards with market or performance conditions. Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury.

On January 1, 2006, we adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) and elected to use the modified prospective transition method. The modified prospective transition method requires that compensation cost be recognized in the financial statements for all awards granted after the date of adoption as well as for existing awards for which the requisite service had not been rendered as of the date of adoption. Compensation cost for awards that were outstanding at the effective date are recognized over the remaining service period using the compensation cost previously calculated for pro forma disclosure purposes.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position SFAS No. 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We elected to adopt the alternative transition method provided for calculating the tax effects of share-based compensation pursuant to SFAS No. 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R.

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The compensation cost recognized is based on awards ultimately expected to vest. SFAS No. 123R requires forfeitures to be estimated and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

(1) Net Income Per Common Share Attributable to Common Shareholders:

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period being reported on, excluding unvested restricted stock awards. The impact of dividends paid on unvested restricted stock awards have been deducted in the determination of basic and diluted net income attributable to common shareholders of Frontier. Except when the effect would be antidilutive, diluted net income per common share reflects the dilutive effect of the assumed exercise of stock options using the treasury stock method at the beginning of the period being reported on as well as common shares that would result from the conversion of convertible preferred stock (EPPICS) and convertible notes. In addition, the related interest on debt (net of tax) is added back to income since it would not be paid if the debt was converted to common stock.

(2) Recent Accounting Literature and Changes in Accounting Principles:

Accounting for Endorsement Split-Dollar Life Insurance Arrangements

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force (EITF) No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policies, that are associated with a postretirement benefit. EITF No. 06-4 requires that for a split-dollar life insurance arrangement within the scope of the issue, an employer should recognize a liability for future benefits in accordance with SFAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion (APB) No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF No. 06-4 was effective for fiscal years beginning after December 15, 2007. Our adoption of the accounting requirements of EITF No. 06-4 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB amended SFAS No. 157 to defer the application of this standard to nonfinancial assets and liabilities until 2009. The provisions of SFAS No. 157 related to financial assets and liabilities were effective as of the beginning of our 2008 fiscal year. Our adoption of SFAS No. 157 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows. We do not expect the adoption of SFAS No. 157, as amended, in the first quarter of 2009 with respect to its effect on nonfinancial assets and liabilities to have a material impact on our financial position, results of operations or cash flows. Nonfinancial assets and liabilities for which we have not applied the provisions of SFAS No. 157 include those measured at fair value in impairment testing and those initially measured at fair value in a business combination.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 were effective as of the beginning of our 2008 fiscal year. Our adoption of SFAS No. 159 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows.

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Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements

In March 2007, the FASB ratified the consensus reached by the EITF on Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF No. 06-10 provides guidance on an employers' recognition of a liability and related compensation costs for collateral assignment split-dollar life insurance arrangements that provide a benefit to an employee that extends into postretirement periods, and the asset in collateral assignment split-dollar life insurance arrangements. EITF No. 06-10 was effective for fiscal years beginning after December 15, 2007. Our adoption of the accounting requirements of EITF No. 06-10 in the first quarter of 2008 had no impact on our financial position, results of operations or cash flows.

Accounting for the Income Tax Benefits of Dividends on Share-Based Payment Awards

In June 2007, the FASB ratified EITF No. 06-11, "Accounting for the Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF No. 06-11 provides that tax benefits associated with dividends on share-based payment awards be recorded as a component of additional paid-in capital. EITF No. 06-11 was effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The implementation of this standard in the first quarter of 2008 had no material impact on our financial position, results of operations or cash flows.

Business Combinations

In December 2007, the FASB revised SFAS No. 141, "Business Combinations." The revised statement, SFAS No. 141R, requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R is for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This standard does not impact our currently reported results and we do not expect the adoption of SFAS No. 141R in the first quarter of 2009 to have a material impact on our financial position, results of operations or cash flows.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS No. 160 establishes requirements for ownership interest in subsidiaries held by parties other than the Company (sometimes called "minority interest") be clearly identified, presented and disclosed in the consolidated statement of financial position within shareholders' equity, but separate from the parent's equity. All changes in the parent's ownership interest are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in unconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 was effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The adoption of SFAS No. 160 did not have a material impact on our financial position, results of operations or cash flows for current or prior periods.

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. The effective date of SFAS No. 162 was November 15, 2008. Our adoption of SFAS No. 162 during the fourth quarter of 2008 did not result in any changes to our current accounting practices or policies and thereby has not impacted the preparation of the consolidated financial statements.

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Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities

In June 2008, the FASB ratified FSP EITF No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." FSP EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, should be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF No. 03-6-1 was effective, on a retrospective basis, for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Our outstanding non-vested restricted stock is a participating security in accordance with FSP EITF No. 03-6-1 and we have adjusted our previously reported basic and diluted income per common share. The adoption of FSP EITF No. 03-6-1 slightly reduced our basic and diluted income per common share from that previously reported.

Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued FSP SFAS 132 (R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." FSP SFAS 132 (R)-1 amends SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," to provide guidance on an employers' disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP SFAS 132 (R)-1 requires additional disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The disclosures about plan assets required by FSP SFAS 132 (R)-1 are effective for fiscal years ending after December 15, 2009. We do not expect the adoption of FSP SFAS 132 (R)-1 to have a material impact on our financial position, results of operations or cash flows. We will adopt the disclosure requirements of FSP SFAS 132 (R)-1 in the annual report for our fiscal year ending December 31, 2009.

(3) Acquisition of Commonwealth Telephone and Global Valley Networks:

On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. ("Commonwealth" or "CTE") in a cash-and-stock taxable transaction, for a total consideration of approximately \$1.1 billion. We paid \$804.1 million in cash (\$663.7 million net, after cash acquired) and issued common stock with a value of \$249.8 million.

On October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) through the purchase from Country Road Communications, LLC of 100% of the outstanding common stock of Evans Telephone Holdings, Inc., the parent Company of GVN. The purchase price of \$62.0 million was paid with cash on hand.

We have accounted for the acquisitions of Commonwealth and GVN as purchases under U.S. GAAP. Under the purchase method of accounting, the assets and liabilities of Commonwealth and GVN are recorded as of their respective acquisition dates, at their respective fair values, and consolidated with those of Frontier. The reported consolidated financial condition of Frontier as of December 31, 2008, reflects the final allocation of these fair values for Commonwealth and GVN.

The following schedule provides a summary of the final purchase price paid by Frontier in the acquisitions of Commonwealth and GVN:

<u>(\$ in thousands)</u>	<u>Commonwealth</u>	<u>GVN</u>
Cash paid	\$ 804,085	\$62,001
Value of Frontier common stock issued	249,804	—
Accrued closing costs	469	—
Total Purchase Price	\$ 1,054,358	\$62,001

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With respect to our acquisitions of Commonwealth and GVN, the purchase price has been allocated based on fair values to the net tangible and intangible assets acquired and liabilities assumed. The final allocations are as follows:

<u>(\$ in thousands)</u>	<u>Commonwealth</u>	<u>GVN</u>
Allocation of purchase price:		
Current assets ⁽¹⁾	\$ 187,986	\$ 1,581
Property, plant and equipment	387,343	23,578
Goodwill	690,262	34,311
Other intangibles	273,800	7,250
Other assets	11,285	812
Current portion of debt	(35,000)	(17)
Accounts payable and other current liabilities	(80,375)	(626)
Deferred income taxes	(143,539)	(3,740)
Convertible notes	(209,553)	—
Other liabilities	(27,851)	(1,148)
Total Purchase Price	<u>\$ 1,054,358</u>	<u>\$62,001</u>

(1) Includes \$140.6 million of total acquired cash.

The following unaudited pro forma financial information presents the combined results of operations of Frontier, Commonwealth and GVN as if the acquisitions had occurred at the beginning of each period presented. The historical results of the Company include the results of Commonwealth from the date of its acquisition on March 8, 2007, and GVN from the date of its acquisition on October 31, 2007. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisitions been completed at the beginning of each period presented. In addition, the unaudited pro forma financial information does not purport to project the future financial position or operating results of Frontier after completion of the acquisitions.

<u>(\$ in thousands, except per share amounts)</u>	<u>2007</u>	<u>2006</u>
Revenue	\$ 2,362,695	\$ 2,371,143
Operating income	\$ 720,476	\$ 717,312
Income from continuing operations	\$ 218,428	\$ 285,434
Income from discontinued operations	\$ —	\$ 90,547
Net income attributable to common shareholders of Frontier	\$ 218,428	\$ 375,981
Basic income per common share:		
Income from continuing operations	\$ 0.66	\$ 0.83
Income from discontinued operations	—	0.26
Net income per common share	<u>\$ 0.66</u>	<u>\$ 1.09</u>
Diluted income per common share:		
Income from continuing operations	\$ 0.65	\$ 0.82
Income from discontinued operations	—	0.26
Net income per common share	<u>\$ 0.65</u>	<u>\$ 1.08</u>

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The components of property, plant and equipment at December 31, 2008 and 2007 are as follows:

<i>(S in thousands)</i>	Estimated Useful Lives	2008	2007
Land	N/A	\$ 22,631	\$ 23,347
Buildings and leasehold improvements	41 years	344,839	343,826
General support	5 to 17 years	508,825	492,771
Central office/electronic circuit equipment	5 to 11 years	2,959,440	2,855,645
Cable and wire	15 to 60 years	3,623,193	3,484,838
Other	20 to 30 years	24,703	46,620
Construction work in progress		97,429	128,250
		<u>7,581,060</u>	<u>7,375,297</u>
Less: Accumulated depreciation		<u>(4,341,087)</u>	<u>(4,040,053)</u>
Property, plant and equipment, net		<u>\$ 3,239,973</u>	<u>\$ 3,335,244</u>

Depreciation expense is principally based on the composite group method. Depreciation expense was \$379.5 million, \$374.4 million and \$350.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2008.

(5) Retained Earnings—Cumulative Effect Adjustment:

In September 2006, the SEC staff issued Staff Accounting Bulletin (SAB) Topic 1N (SAB No. 108), "Financial Statements—Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements". SAB No. 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the financial statements are materially misstated. Under this guidance, companies should take into account both the effect of a misstatement on the current year balance sheet as well as the impact upon the current year income statement in assessing the materiality of a current year misstatement. Once a current year misstatement has been quantified, the guidance in SAB Topic 1M, "Financial Statements Materiality," (SAB No. 99) will be applied to determine whether the misstatement is material.

SAB No. 108 allowed for a one-time transitional cumulative effect adjustment to retained earnings as of January 1, 2006 for errors that were not previously deemed material as they were being evaluated under a single method but were material when evaluated under the dual approach prescribed by SAB No. 108. The Company adopted SAB No. 108 in connection with the preparation of its financial statements for the year ended December 31, 2006. The adoption did not have any impact on the Company's cash flow or prior year financial statements. As a result of adopting SAB No. 108 in the fourth quarter of 2006 and electing to use the one-time transitional cumulative effect adjustment, the Company made adjustments to the beginning balance of retained earnings as of January 1, 2006 in the fourth quarter of 2006 for the following errors (all of which were determined to be immaterial under the Company's previous methodology):

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Summary of SAB No. 108 entry recorded January 1, 2006:

<u>(\$ in thousands)</u>	<u>Increase/ (Decrease)</u>
Property, Plant & Equipment	\$ 1,990
Goodwill	(3,716)
Other Assets	(20,081)
	<u>\$(21,807)</u>
Current Liabilities	\$ (2,922)
Deferred Taxes	(17,339)
Other Long-Term Liabilities	(13,037)
Long-Term Debt	(24,901)
Retained Earnings	36,392
	<u>\$(21,807)</u>

Deferred Tax Accounting. As a result of adopting SAB No. 108 in the fourth quarter of 2006 we recorded a decrease in deferred income tax liabilities in the amount of approximately \$23.5 million and an increase in retained earnings of approximately \$23.5 million as of January 1, 2006. The change in deferred tax and retained earnings is a result of excess deferred tax liabilities that built up in periods prior to 2004 (approximately \$4 million in 2003, \$5.4 million in 2002 and \$14.1 million in 2001 and prior), resulting primarily from differences between actual state income tax rates and the effective composite state rate utilized for estimating the Company's book state tax provisions.

Goodwill. During 2002, we estimated and booked impairment charges (pre-tax) of \$1.07 billion. We subsequently discovered that the impairment charge recorded was overstated as it exceeded the underlying book value by approximately \$8.1 million. The result was an understatement of goodwill. We corrected this error by reversing the negative goodwill balance of \$8.1 million with an offset to increase retained earnings.

Unrecorded Liabilities. The Company changed its accounting policies associated with the accrual of utilities and vacation expense. Historically, the Company's practice was to expense utility and vacation costs in the period these items were paid, which generally resulted in a full year of utilities and vacation expense in the consolidated statements of operations. The utility costs are now accrued in the period used and vacation costs are accrued in the period earned. The cumulative amount of these changes as of the beginning of fiscal 2006 was approximately \$3.0 million and, as provided in SAB No. 108, the impact was recorded as a reduction of retained earnings as of the beginning of fiscal 2006.

We established an accrual of \$4.5 million for advance billings associated with certain revenue at two telephone properties that the Company operated since the 1930's. For these two properties, the Company's records have not reflected the liability. This had no impact on the revenue reported for any of the five years reported in this Form 10-K.

We recorded a long-term liability of \$2.5 million to recognize a postretirement annuity payment obligation for two former executives of the Company. The liability should have been established in 1999 at the time the two employees elected to exchange their death benefit rights for an annuity payout in accordance with the terms of their respective split-dollar life insurance agreements. We established the liability effective January 1, 2006 in accordance with SAB No. 108 by reducing retained earnings by a like amount.

Long-Term Debt. We recorded a reclassification of \$20.1 million from other assets to long-term debt. The amount represents debt discounts which the Company historically accounted for as a deferred asset. For certain debt issuances the Company amortized the debt discount using the straight line method instead of the effective interest method. We corrected this error by increasing the debt discount by \$4.8 million and increasing retained earnings by a like amount.

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Customer Advances for Construction. Amounts associated with “construction advances” remaining on the Company’s balance sheet (\$92.4 million at December 31, 2005) included approximately \$7.3 million of such contract advances that were transferred to the purchaser of our water and wastewater operations on January 15, 2002 and accordingly should have been included in the gain recognized upon sale during that period. Upon the adoption of SAB No. 108 in the fourth quarter of 2006, this error was corrected as of January 1, 2006 through a decrease in other long-term liabilities and an increase in retained earnings.

Purchase Accounting. During the period 1991 to 2001, Frontier acquired a number of telecommunications businesses, growing its asset base from approximately \$400.0 million in 1991 to approximately \$6.0 billion by the end of 2001. As a result of these acquisitions, we recorded in accordance with purchase accounting standards, all of the assets and liabilities associated with these properties. We have determined that approximately \$18.8 million (net) of liabilities were established in error. Approximately \$18.0 million of the liabilities should have been recorded as a decrease to goodwill and \$4.2 million should have been an increase to property, plant and equipment (\$1.99 million after amortization of \$2.21 million). In addition, \$4.964 million of liabilities should have been reversed in 2001. We corrected this error by reversing the liability to retained earnings.

As permitted by the adoption of SAB No. 108, we have adjusted our previously recorded acquisition entries as follows:

<u>(\$ in thousands)</u>	<u>Increase/ (Decrease)</u>
Property, Plant & Equipment	\$ 1,990
Goodwill	(18,049)
	<u>\$(16,059)</u>
Current Liabilities	\$(10,468)
Other Long-Term Liabilities	(8,345)
Retained Earnings	2,754
	<u>\$(16,059)</u>

Tax Effect. The net effect on taxes (excluding the \$23.5 million entry described above) resulting from the adoption of SAB No. 108 was an increase to deferred tax liabilities of \$6.2 million and an increase to goodwill of \$6.2 million.

(6) Accounts Receivable:

The components of accounts receivable, net at December 31, 2008 and 2007 are as follows:

<u>(\$ in thousands)</u>	<u>2008</u>	<u>2007</u>
End user	\$244,395	\$244,592
Other	17,977	22,918
Less: Allowance for doubtful accounts	(40,125)	(32,748)
Accounts receivable, net	<u>\$222,247</u>	<u>\$234,762</u>

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An analysis of the activity in the allowance for doubtful accounts for the years ended December 31, 2008, 2007 and 2006 is as follows:

<u>Allowance for doubtful accounts</u>	<u>Balance at beginning of Period</u>	<u>Additions</u>			<u>Deductions</u>	<u>Balance at end of Period</u>
		<u>Balance of acquired properties</u>	<u>Charged to bad debt expense*</u>	<u>Charged to other accounts— Revenue</u>		
2006	\$ 31,385	\$ —	\$ 20,257	\$ 80,003	\$ 23,108	\$108,537
2007	108,537	1,499	31,131	(77,898)	30,521	32,748
2008	32,748	1,150	31,700	2,352	27,825	40,125

* Such amounts are included in bad debt expense and for financial reporting purposes are classified as contra-revenue.

We maintain an allowance for estimated bad debts based on our estimate of collectability of our accounts receivable. Bad debt expense is recorded as a reduction to revenue.

Our allowance for doubtful accounts increased by approximately \$78.3 million in 2006 as a result of carrier activity that was in dispute. Our allowance for doubtful accounts (and "end user" receivables) declined from December 31, 2006, primarily as a result of the resolution of our principal carrier dispute. On March 12, 2007, we entered into a settlement agreement with a carrier pursuant to which we were paid \$37.5 million, resulting in a favorable impact on our revenue in the first quarter of 2007 of \$38.7 million.

(7) Other Intangibles:

The components of other intangibles at December 31, 2008 and 2007 are as follows:

<u>(\$ in thousands)</u>	<u>2008</u>	<u>2007</u>
Customer base	\$ 1,265,052	\$1,271,085
Trade name	132,664	132,381
Other intangibles	1,397,716	1,403,466
Less: Accumulated amortization	(1,038,042)	(855,731)
<i>Total other intangibles, net</i>	<u>\$ 359,674</u>	<u>\$ 547,735</u>

Amortization expense was \$182.3 million, \$171.4 million and \$126.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense for 2008 is comprised of \$126.3 million for amortization associated with our "legacy" Frontier properties and \$56.0 million for intangible assets (customer base and trade name) that were acquired in the Commonwealth and Global Valley acquisitions. As of December 31, 2008, \$263.5 million has been allocated to the customer base (five year life) and \$10.3 million to the trade name (five year life) acquired in the Commonwealth acquisition, and \$7.3 million to the customer base (five year life) acquired in the Global Valley acquisition. Amortization expense, based on our estimate of useful lives, is estimated to be \$113.9 million in 2009, \$56.2 million in 2010 and 2011 and \$11.3 million in 2012.

(8) Discontinued Operations:*Electric Lightwave*

On July 31, 2006, we sold our CLEC business, Electric Lightwave, LLC (ELI), for \$255.3 million (including a later sale of associated real estate) in cash plus the assumption of approximately \$4.0 million in capital lease obligations. We recognized a pre-tax gain on the sale of ELI of approximately \$116.7 million. Our after-tax gain on the sale was \$71.6 million. Our cash liability for taxes as a result of the sale was approximately \$5.0 million due to the utilization of existing tax net operating losses on both the Federal and state level.

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In accordance with SFAS No. 144, any component of our business that we dispose of, or classify as held for sale, that has operations and cash flows clearly distinguishable from continuing operations for financial reporting purposes, and that will be eliminated from the ongoing operations, should be classified as discontinued operations. Accordingly, we have classified the results of operations of ELI as discontinued operations in our consolidated statements of operations.

We ceased to record depreciation expense for ELI effective February 2006.

Summarized financial information for ELI for the year ended December 31, 2006 is set forth below:

<u>(\$ in thousands)</u>	<u>2006</u>
Revenue	\$ 100,612
Operating income	\$ 27,882
Income taxes	\$ 11,583
Net income	\$ 18,912
Gain on disposal of ELI, net of tax	\$ 71,635

(9) Investments:

Investments at December 31, 2008 and 2007 include equity method investments of \$8,044 and \$21,191, respectively. Our investments in entities that are accounted for under the equity method of accounting consist of the following: (1) a 50% interest in the C-Don Partnership, acquired in the purchase of Commonwealth, which publishes, manufactures and distributes classified telephone directories in the Commonwealth service territory; (2) a 16.8% interest in the Fairmount Cellular Limited Partnership which is engaged in cellular mobile telephone service in the Rural Service Area (RSA) designated by the FCC as Georgia RSA No. 3; and (3) our investments in CU Capital and CU Trust with relation to our convertible preferred securities that were fully redeemed in the fourth quarter of 2008.

(10) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at December 31, 2008 and 2007. For the other financial instruments, representing cash, accounts receivables, long-term debt due within one year, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments for which market values are not readily available are carried at cost, which approximates fair value.

The fair value of our long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments.

<u>(\$ in thousands)</u>	<u>2008</u>		<u>2007</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt ⁽¹⁾	\$4,721,685	\$3,651,924	\$4,736,897	\$4,708,217

(1) 2007 includes interest rate swaps of \$7.9 million and EPPICS of \$14.5 million.

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(11) Long-Term Debt:

The activity in our long-term debt from December 31, 2007 to December 31, 2008 is summarized as follows:

(\$ in thousands)	Year Ended December 31, 2008						December 31, 2008	Interest Rate* at December 31, 2008
	December 31, 2007	Payments	New Borrowings	Interest Rate Swap	Conversion to Common Stock	Reclassification of Related Party Debt		
Rural Utilities Service Loan Contracts	\$ 17,555	\$ (948)	\$ —	\$ —	\$ —	\$ —	\$ 16,607	6.07%
Senior Unsecured Debt	4,715,013	(138,107)	135,000	(7,909)	(1,666)	—	4,702,331	7.54%
EPPICS (see Note 15)	14,521	(3,425)	—	—	(590)	(10,506)	—	—
Industrial Development Revenue Bonds	13,550	—	—	—	—	—	13,550	6.31%
TOTAL LONG-TERM DEBT	\$ 4,760,639	\$ (142,480)	\$ 135,000	\$ (7,909)	\$ (2,256)	\$ (10,506)	\$ 4,732,488	7.54%
Less: Debt Discount	(21,294)	—	—	—	—	—	(6,946)	—
Less: Current Portion	(2,448)	—	—	—	—	—	(3,857)	—
	\$ 4,736,897						\$ 4,721,685	

* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates for Rural Utilities Service Loan Contracts, Senior Unsecured Debt, and Industrial Development Revenue Bonds represent a weighted average of multiple issuances.

Additional information regarding our Senior Unsecured Debt at December 31:

(\$ in thousands)	2008		2007	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes:				
Due 5/15/2011	\$ 921,276	9.250%	\$ 1,050,000	9.250%
Due 10/24/2011	200,000	6.270%	200,000	6.270%
Due 12/31/2012	147,000	2.448% (Variable)	148,500	6.750% (Variable)
Due 1/15/2013	700,000	6.250%	700,000	6.250%
Due 12/31/2013	133,988	2.250% (Variable)	—	—
Due 3/15/2015	300,000	6.625%	300,000	6.625%
Due 3/15/2019	450,000	7.125%	450,000	7.125%
Due 1/15/2027	400,000	7.875%	400,000	7.875%
Due 8/15/2031	945,325	9.000%	945,325	9.000%
	4,197,589		4,193,825	
Debentures due 2025 – 2046	468,742	7.137%	468,742	7.137%
Subsidiary Senior				
Notes due 12/1/2012	36,000	8.050%	36,000	8.050%
CTE Convertible Notes due 7/23/2023	—	—	8,537	3.250%
Fair value of interest rate swaps	—	—	7,909	—
Total	\$4,702,331		\$4,715,013	

During 2008, we retired an aggregate principal amount of \$144.7 million of debt, consisting of \$128.7 million of 9.25% Senior Notes due 2011, \$12.0 million of other senior unsecured debt and rural utilities service loan contracts, and \$4.0 million of 5% Company Obligated Mandatorily Redeemable Convertible Preferred Securities due 2036 (EPPICS).

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On March 28, 2008, we borrowed \$135.0 million under a senior unsecured term loan facility that was established on March 10, 2008. The loan matures in 2013 and bears interest of 2.250% as of December 31, 2008 based on the prime rate or LIBOR, at our election, plus a margin which varies depending on our debt leverage ratio. We used the proceeds to repurchase, during the first quarter of 2008, \$128.7 million principal amount of our 9.25% Senior Notes due 2011 and to pay for the \$6.3 million of premium on early retirement of these notes.

As of December 31, 2008, EPPICS representing a total principal amount of \$197.8 million have been converted into 15,969,645 shares of our common stock. There were no outstanding EPPICS as of December 31, 2008. As a result of the redemption of all outstanding EPPICS as of December 31, 2008, the \$10.5 million in debt with related parties was reclassified by the Company against an offsetting investment.

As of December 31, 2008, we had an available line of credit with seven financial institutions in the aggregate amount of \$250.0 million. Associated facility fees vary, depending on our debt leverage ratio, and were 0.225% per annum as of December 31, 2008. The expiration date for this \$250.0 million five year revolving credit agreement is May 18, 2012. During the term of the credit facility we may borrow, repay and reborrow funds, subject to customary borrowing conditions. The credit facility is available for general corporate purposes but may not be used to fund dividend payments.

On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt.

During 2007, we retired an aggregate principal amount of \$967.2 million of debt, including \$3.3 million of EPPICS and \$17.8 million of 3.25% Commonwealth convertible notes that were converted into our common stock. As further described below, we temporarily borrowed and repaid \$200.0 million during the month of March 2007, utilized to temporarily fund our acquisition of Commonwealth.

In connection with the acquisition of Commonwealth, we assumed \$35.0 million of debt under a revolving credit facility and approximately \$191.8 million face amount of Commonwealth convertible notes (fair value of approximately \$209.6 million). During March 2007, we paid down the \$35.0 million credit facility, and through December 31, 2007, we retired approximately \$183.3 million face amount (for which we paid \$165.4 million in cash and \$36.7 million in common stock) of the convertible notes (premium paid of \$18.9 million was recorded as \$17.8 million to goodwill and \$1.1 million to other income (loss), net). The remaining outstanding balance of \$8.5 million was fully redeemed in the fourth quarter of 2008.

On March 23, 2007, we issued in a private placement an aggregate \$300.0 million principal amount of 6.625% Senior Notes due 2015 and \$450.0 million principal amount of 7.125% Senior Notes due 2019. Proceeds from the sale were used to pay down \$200.0 million principal amount of indebtedness borrowed on March 8, 2007 under a bridge loan facility in connection with the acquisition of Commonwealth, and redeem, on April 26, 2007, \$495.2 million principal amount of our 7.625% Senior Notes due 2008.

During the first quarter of 2007, we incurred and expensed approximately \$4.1 million of fees associated with the bridge loan facility established to temporarily fund our acquisition of Commonwealth. In the second quarter of 2007, we completed an exchange offer (to publicly register the debt) on the \$750.0 million in total of private placement notes described above, in addition to the \$400.0 million principal amount of 7.875% Senior Notes issued in a private placement on December 22, 2006, for registered Senior Notes due 2027. On April 26, 2007, we redeemed \$495.2 million principal amount of our 7.625% Senior Notes due 2008 at a price of 103.041% plus accrued and unpaid interest. The debt retirement generated a pre-tax loss on the early extinguishment of debt at a premium of approximately \$16.3 million in the second quarter of 2007 and is

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included in other income (loss), net. As a result of this debt redemption, we also terminated three interest rate swap agreements hedging an aggregate \$150.0 million notional amount of indebtedness. Payments on the swap terminations of approximately \$1.0 million were made in the second quarter of 2007.

For the year ended December 31, 2006, we retired an aggregate principal amount of \$251.0 million of debt, including \$15.9 million of EPPICS that were converted into our common stock.

During the first quarter of 2006, we entered into two debt-for-debt exchanges of our debt securities. As a result, \$47.5 million of our 7.625% notes due 2008 were exchanged for approximately \$47.4 million of our 9.00% notes due 2031. During the fourth quarter of 2006, we entered into four debt-for-debt exchanges and exchanged \$157.3 million of our 7.625% notes due 2008 for \$149.9 million of our 9.00% notes due 2031. The 9.00% notes are callable on the same general terms and conditions as the 7.625% notes exchanged. No cash was exchanged in these transactions. However, with respect to the first quarter debt exchanges, a non-cash pre-tax loss of approximately \$2.4 million was recognized in accordance with EITF No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," which is included in other income (loss), net, for the year ended December 31, 2006.

On June 1, 2006, we retired at par our entire \$175.0 million principal amount of 7.60% Debentures due June 1, 2006.

On June 14, 2006, we repurchased \$22.7 million of our 6.75% Senior Notes due August 17, 2006 at a price of 100.181% of par.

On August 17, 2006, we retired at par the \$29.1 million remaining balance of the 6.75% Senior Notes.

On December 22, 2006, we issued in a private placement, an aggregate \$400.0 million principal amount of 7.875% Senior Notes due January 15, 2027. Proceeds from the sale were used to partially finance the Commonwealth acquisition.

In December 2006, we borrowed \$150.0 million under a senior unsecured term loan agreement. The loan matures in 2012 and bears interest based on an average prime rate or London Interbank Offered Rate or LIBOR plus 1 3/8%, at our election. Proceeds were used to partially finance the Commonwealth acquisition.

As of December 31, 2008 we were in compliance with all of our debt and credit facility covenants.

Our principal payments for the next five years are as follows:

<u>(\$ In thousands)</u>	<u>Principal Payments</u>
2009	\$ 3,857
2010	\$ 7,236
2011	\$ 1,125,143
2012	\$ 180,366
2013	\$ 829,131

(12) Derivative Instruments and Hedging Activities:

Interest rate swap agreements were used to hedge a portion of our debt that is subject to fixed interest rates. Under our interest rate swap agreements, we agreed to pay an amount equal to a specified variable rate of interest times a notional principal amount, and to receive in return an amount equal to a specified fixed rate of interest times the same notional principal amount. The notional amounts of the contracts were not exchanged. No other cash payments are made unless the agreement is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination and represents the market value, at the then current rate of interest, of the remaining obligations to exchange payments under the terms of the contracts.

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On January 15, 2008, we terminated all of our interest rate swap agreements representing \$400.0 million notional amount of indebtedness associated with our Senior Notes due in 2011 and 2013. Cash proceeds on the swap terminations of approximately \$15.5 million were received in January 2008. The related gain has been deferred on the consolidated balance sheet, and is being amortized into interest expense over the term of the associated debt. For the year ended December 31, 2008, we recognized \$5.0 million of deferred gain and anticipate recognizing \$3.4 million during 2009.

As of January 16, 2008, we no longer have any derivative instruments. The following disclosure is necessary to understand our historical financial statements.

The interest rate swap contracts are reflected at fair value in our consolidated balance sheets and the related portion of fixed-rate debt being hedged is reflected at an amount equal to the sum of its book value and an amount representing the change in fair value of the debt obligations attributable to the interest rate risk being hedged. Changes in the fair value of interest rate swap contracts, and the offsetting changes in the adjusted carrying value of the related portion of the fixed-rate debt being hedged, are recognized in the consolidated statements of operations in interest expense. The notional amounts of interest rate swap contracts hedging fixed-rate indebtedness as of December 31, 2007 was \$400.0 million. Such contracts required us to pay variable rates of interest (average pay rates of approximately 8.54% as of December 31, 2007) and receive fixed rates of interest (average receive rates of 8.50% as of December 31, 2007). The fair value of these derivatives is reflected in other assets as of December 31, 2007 in the amount of \$7.9 million. The related underlying debt was increased in 2007 by a like amount. For the years ended December 31, 2007 and 2006, the interest expense resulting from these interest rate swaps totaled approximately \$2.4 million and \$4.2 million, respectively.

(13) Investment Income:

The components of investment income for the years ended December 31, 2008, 2007 and 2006 are as follows:

<i>(\$ in thousands)</i>	2008	2007	2006
Interest and dividend income	\$10,928	\$32,986	\$22,172
Gain from Rural Telephone Bank dissolution	—	—	61,428
Equity earnings	5,190	4,655	149
Total investment income	<u>\$16,118</u>	<u>\$37,641</u>	<u>\$83,749</u>

(14) Other Income (Loss), net:

The components of other income (loss), net for the years ended December 31, 2008, 2007 and 2006 are as follows:

<i>(\$ in thousands)</i>	2008	2007	2006
Bridge loan fee	\$ —	\$ (4,069)	\$ —
Premium on debt repurchases	(6,290)	(18,217)	—
Legal fees and settlement costs	(1,037)	—	(1,000)
Gain on expiration/settlement of customer advances, net	4,520	2,031	3,539
Loss on exchange of debt	—	—	(2,433)
Gain on forward rate agreements	—	—	430
Other, net	(2,363)	2,422	2,471
Total other income (loss), net	<u>\$(5,170)</u>	<u>\$(17,833)</u>	<u>\$ 3,007</u>

During the first quarter of 2008, we retired certain debt and recognized a pre-tax loss of \$6.3 million on the early extinguishment of debt at a premium, mainly for the 9.25% Senior Notes due 2011. During the first quarter

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of 2007, we incurred \$4.1 million of fees associated with a bridge loan facility. In 2007, we retired certain debt and recognized a pre-tax loss of \$18.2 million on the early extinguishment of debt at a premium, mainly for the 7.625% Senior Notes due 2008. During 2008, 2007 and 2006, we recognized income of \$4.5 million, \$2.0 million and \$3.5 million, respectively, in connection with certain retained liabilities, that have terminated, associated with customer advances for construction from our disposed water properties. During 2008 and 2006, we recorded legal fees and settlement costs in connection with the Bangor, Maine legal matter of \$1.0 million in each year. In connection with our exchange of debt during the first quarter of 2006, we recognized a non-cash, pre-tax loss of \$2.4 million. 2006 also includes a gain for the changes in fair value of our forward rate agreements of \$0.4 million.

(15) Company Obligated Mandatorily Redeemable Convertible Preferred Securities:

As of December 31, 2008, we fully redeemed the EPPICS related debt outstanding to third parties. The following disclosure provides the history regarding this issue.

In 1996, our consolidated wholly-owned subsidiary, Citizens Utilities Trust (the Trust), issued, in an underwritten public offering, 4,025,000 shares of EPPICS, representing preferred undivided interests in the assets of the Trust, with a liquidation preference of \$50 per security (for a total liquidation amount of \$201.3 million). These securities had an adjusted conversion price of \$11.46 per share of our common stock. The conversion price was reduced from \$13.30 to \$11.46 during the third quarter of 2004 as a result of the \$2.00 per share of common stock special, non-recurring dividend. The proceeds from the issuance of the Trust Convertible Preferred Securities and a Company capital contribution were used to purchase \$207.5 million aggregate liquidation amount of 5% Partnership Convertible Preferred Securities due 2036 from another wholly-owned subsidiary, Citizens Utilities Capital L.P. (the Partnership). The proceeds from the issuance of the Partnership Convertible Preferred Securities and a Company capital contribution were used to purchase from us \$211.8 million aggregate principal amount of 5% Convertible Subordinated Debentures due 2036. The sole assets of the Trust were the Partnership Convertible Preferred Securities, and our Convertible Subordinated Debentures were substantially all the assets of the Partnership. Our obligations under the agreements related to the issuances of such securities, taken together, constituted a full and unconditional guarantee by us of the Trust's obligations relating to the Trust Convertible Preferred Securities and the Partnership's obligations relating to the Partnership Convertible Preferred Securities.

In accordance with the terms of the issuances, we paid the annual 5% interest in quarterly installments on the Convertible Subordinated Debentures in 2008, 2007 and 2006. Cash was paid (net of investment returns) to the Partnership in payment of the interest on the Convertible Subordinated Debentures. The cash was then distributed by the Partnership to the Trust and then by the Trust to the holders of the EPPICS.

As of December 31, 2008, EPPICS representing a total principal amount of \$197.8 million have been converted into 15,969,645 shares of our common stock. There were no outstanding EPPICS as of December 31, 2008. As a result of the redemption of all outstanding EPPICS as of December 31, 2008, the \$10.5 million in debt with related parties was reclassified by the Company against an offsetting investment.

We adopted the provisions of FIN No. 46R (revised December 2003) (FIN No. 46R), "Consolidation of Variable Interest Entities," effective January 1, 2004. Accordingly, the Trust holding the EPPICS and the related Citizens Utilities Capital L.P. were deconsolidated.

(16) Capital Stock:

We are authorized to issue up to 600,000,000 shares of common stock. The amount and timing of dividends payable on common stock are, subject to applicable law, within the sole discretion of our Board of Directors.

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(17) Stock Plans:

At December 31, 2008, we had five stock-based compensation plans under which grants have been made and awards remained outstanding. These plans, which are described below, are the Management Equity Incentive Plan (MEIP), the 1996 Equity Incentive Plan (1996 EIP), the Amended and Restated 2000 Equity Incentive Plan (2000 EIP), the Non-Employee Directors' Deferred Fee Plan (Deferred Fee Plan) and the Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan, and together with the Deferred Fee Plan, the Director Plans).

In accordance with the adoption of SFAS No. 123R as of January 1, 2006, we recorded stock-based compensation expense for the cost of our stock options. Compensation expense, recognized in other operating expenses, of \$0.0 million, \$0.8 million and \$2.2 million in 2008, 2007 and 2006, respectively, has been recorded for the cost of our stock options. Our general policy is to issue shares upon the grant of restricted shares and exercise of options from treasury. At December 31, 2008, there were 16,058,182 shares authorized for grant under these plans and 4,170,361 shares available for grant. No further awards may be granted under the MEIP, the 1996 EIP or the Deferred Fee Plan.

In connection with the Director Plans, compensation costs associated with the issuance of stock units was \$0.8 million, \$1.6 million and \$2.0 million in 2008, 2007 and 2006, respectively. Cash compensation associated with the Director Plans was \$0.5 million in each of 2008, 2007 and 2006. These costs are recognized in other operating expenses.

We have granted restricted stock awards to key employees in the form of our common stock. The number of shares issued as restricted stock awards during 2008, 2007 and 2006 were 887,000, 722,000 and 732,000, respectively. None of the restricted stock awards may be sold, assigned, pledged or otherwise transferred, voluntarily or involuntarily, by the employees until the restrictions lapse, subject to limited exceptions. The restrictions are time based. At December 31, 2008, 1,702,000 shares of restricted stock were outstanding. Compensation expense, recognized in other operating expenses, of \$6.9 million, \$6.6 million and \$6.0 million, for the years ended December 31, 2008, 2007 and 2006, respectively, has been recorded in connection with these grants.

Management Equity Incentive Plan

Prior to its expiration on June 21, 2000, awards of our common stock could have been granted under the MEIP to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, stock appreciation rights (SARs), restricted stock or other stock-based awards.

Since the expiration of the MEIP, no awards have been or may be granted under the MEIP. The exercise price of stock options issued was equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options were not ordinarily exercisable on the date of grant but vested over a period of time (generally four years). All stock options granted under the MEIP are vested. Under the terms of the MEIP, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decreases the average exercise price of outstanding options.

1996 and 2000 Equity Incentive Plans

Since the expiration date of the 1996 EIP on May 22, 2006, no awards have been or may be granted under the 1996 EIP. Under the 2000 EIP, awards of our common stock may be granted to eligible officers, management employees and non-management employees in the form of incentive stock options, non-qualified stock options, SARs, restricted stock or other stock-based awards. As discussed under the Non-Employee Directors' Compensation Plans below, prior to May 25, 2006 non-employee directors received an award of stock options under the 2000 EIP upon commencement of service.

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At December 31, 2008, there were 13,517,421 shares authorized for grant under the 2000 EIP and 1,940,083 shares available for grant, as adjusted to reflect stock dividends. No awards will be granted more than 10 years after the effective date (May 18, 2000) of the 2000 EIP plan. The exercise price of stock options and SARs under the 2000 and 1996 EIP generally shall be equal to or greater than the fair market value of the underlying common stock on the date of grant. Stock options are not ordinarily exercisable on the date of grant but vest over a period of time (generally four years). Under the terms of the EIPs, subsequent stock dividends and stock splits have the effect of increasing the option shares outstanding, which correspondingly decrease the average exercise price of outstanding options.

On March 17, 2008, the Company adopted the Long-Term Incentive Program (LTIP). The LTIP covers the named executive officers and certain other officers. The LTIP is designed to incentivize and reward the Company's senior executives if they achieve aggressive growth goals over three-year performance periods (the measurement periods). LTIP awards will be granted in shares of the Company's common stock following the applicable measurement period if pre-established goals are achieved over the measurement period. At the time that the LTIP was adopted, the Compensation Committee approved LTIP target award opportunities for senior executives, as well as the target level for each performance metric, for the 2008-2010 measurement period. Minimum financial performance "gates" were set that had to be achieved with respect to revenue and free cash flow growth over the 2008-2010 measurement period for any LTIP award to be granted. In February 2009, the Compensation Committee determined that the minimum performance gates were no longer achievable and cancelled the award opportunities for the 2008-2010 measurement period. Accordingly, there will be no payouts under the LTIP for the 2008-2010 measurement period.

The following summary presents information regarding outstanding stock options and changes with regard to options under the MEIP and the EIPs:

	<i>Shares Subject to Option</i>	<i>Weighted Average Option Price Per Share</i>	<i>Weighted Average Remaining Life in Years</i>	<i>Aggregate Intrinsic Value</i>
Balance at January 1, 2006	7,985,000	\$ 11.52	5.3	\$13,980,000
Options granted	22,000	\$ 12.55		
Options exercised	(2,695,000)	\$ 9.85		\$9 ,606,000
Options canceled, forfeited or lapsed	(70,000)	\$ 10.13		
Balance at December 31, 2006	5,242,000	\$ 12.41	4.4	\$14,490,000
Options granted	—	\$ —		
Options exercised	(1,254,000)	\$ 10.19		\$6 ,033,000
Options canceled, forfeited or lapsed	(33,000)	\$ 10.79		
Balance at December 31, 2007	3,955,000	\$ 13.13	3.4	\$5 ,727,000
Options granted	—	\$ —		
Options exercised	(187,000)	\$ 7.38		\$ 743,000
Options canceled, forfeited or lapsed	(55,000)	\$ 10.40		
Balance at December 31, 2008	<u>3,713,000</u>	\$ 13.46	2.5	\$ 495,000

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The following table summarizes information about shares subject to options under the MEIP and the EIPs at December 31, 2008:

<i>Options Outstanding</i>				<i>Option Exercisable</i>	
<i>Number Outstanding</i>	<i>Range of Exercise Prices</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Average Remaining Life in Years</i>	<i>Number Exercisable</i>	<i>Weighted Average Exercise Price</i>
525,000	\$ 6.45 – 8.19	\$ 7.80	2.66	525,000	\$ 7.80
541,000	10.44 – 10.44	10.44	4.40	541,000	10.44
200,000	11.15 – 11.15	11.15	1.80	200,000	11.15
476,000	11.79 – 11.79	11.79	2.38	476,000	11.79
167,000	11.90 – 14.27	13.44	4.77	160,000	13.45
582,000	15.02 – 15.02	15.02	1.75	582,000	15.02
640,000	15.94 – 16.74	16.67	1.73	640,000	16.67
582,000	18.46 – 18.46	18.46	1.75	582,000	18.46
<u>3,713,000</u>	<u>\$ 6.45 – 18.46</u>	<u>\$ 13.46</u>	<u>2.50</u>	<u>3,706,000</u>	<u>\$ 13.46</u>

The number of options exercisable at December 31, 2007 and 2006 were 3,938,000 and 4,791,000, with a weighted average exercise price of \$13.13 and \$12.58, respectively.

Cash received upon the exercise of options during 2008, 2007 and 2006 was \$1.4 million, \$13.8 million and \$27.2 million, respectively. There is no remaining unrecognized compensation cost associated with unvested stock options at December 31, 2008.

For purposes of determining compensation expense, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model which requires the use of various assumptions including expected life of the option, expected dividend rate, expected volatility, and risk-free interest rate. The expected life (estimated period of time outstanding) of stock options granted was estimated using the historical exercise behavior of employees. The risk free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis.

The following table presents the weighted average assumptions used for stock option grants in 2006. No stock option grants were issued in 2007 and 2008 under the MEIP or the EIPs.

	<u>2006</u>
Dividend yield	7.55%
Expected volatility	44%
Risk-free interest rate	4.89%
Expected life	5 years

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The following summary presents information regarding unvested restricted stock and changes with regard to restricted stock under the MEIP and the EIPs:

	<i>Number of Shares</i>	<i>Weighted Average Grant Date Fair Value</i>	<i>Aggregate Fair Value</i>
Balance at January 1, 2006	1,456,000	\$ 12.47	\$17,808,000
Restricted stock granted	732,000	\$ 12.87	\$10,494,000
Restricted stock vested	(642,000)	\$ 12.08	\$9,226,000
Restricted stock forfeited	(372,000)	\$ 12.60	
Balance at December 31, 2006	1,174,000	\$ 12.89	\$16,864,000
Restricted stock granted	722,000	\$ 15.04	\$9,187,000
Restricted stock vested	(587,000)	\$ 12.94	\$7,465,000
Restricted stock forfeited	(100,000)	\$ 13.95	
Balance at December 31, 2007	1,209,000	\$ 14.06	\$15,390,000
Restricted stock granted	887,000	\$ 11.02	\$7,757,000
Restricted stock vested	(367,000)	\$ 13.90	\$3,209,000
Restricted stock forfeited	(27,000)	\$ 13.39	
Balance at December 31, 2008	<u>1,702,000</u>	\$ 12.52	\$14,876,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at December 31, 2008 was \$15.2 million and the weighted average period over which this cost is expected to be recognized is approximately two to three years.

Non-Employee Directors' Compensation Plans

Upon commencement of his or her service on the Board of Directors, each non-employee director receives a grant of 10,000 stock options. These options are currently awarded under the Directors' Equity Plan. Prior to effectiveness of the Directors' Equity Plan on May 25, 2006, these options were awarded under the 2000 EIP. The exercise price of these options, which become exercisable six months after the grant date, is the fair market value (as defined in the relevant plan) of our common stock on the date of grant. Options granted under the Directors' Equity Plan expire on the earlier of the tenth anniversary of the grant date or the first anniversary of termination of service as a director. Options granted to non-employee directors under the 2000 EIP expire on the tenth anniversary of the grant date.

Each non-employee director also receives an annual grant of 3,500 stock units. These units are currently awarded under the Directors' Equity Plan and prior to effectiveness of that plan, were awarded under the Deferred Fee Plan. Since the effectiveness of the Directors' Equity Plan, no further grants have been made under the Deferred Fee Plan. Prior to April 20, 2004, each non-employee director received an award of 5,000 stock options. The exercise price of such options was set at 100% of the fair market value on the date the options were granted. The options were exercisable six months after the grant date and remain exercisable for ten years after the grant date.

In addition, each year, each non-employee director is also entitled to receive a retainer, meeting fees, and, when applicable, fees for serving as a committee chair or as Lead Director. For 2008, each non-employee director had to elect, by December 31 of the preceding year, to receive \$40,000 cash or 5,760 stock units as an annual retainer and to receive meeting fees and Lead Director and committee chair stipends in the form of cash.