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U.S. Research

Frontier Communications Corp.

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Company Comment

(FTR:NYSE)

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Telecommunications Services: Wireline

FTR: Notes from Investor Meetings

- Last week, we traveled with Frontier Communications CFO Don Shassian to meet with investors. The meetings were well received and gathered significant interest from clients new to the story, existing holders, and Verizon (VZ/$30.58/Market Perform) holders that stand to get some Frontier shares once the deal closes. We believe the company continues to progress well on the Verizon acquisition, and has a very well thought out plan to make a smooth transition, which was the main topic of conversation.
- Frontier remains a simple, low to no growth, steady return company, and that is exactly what we like about this sort of predictable investment. The company is aggressively pursuing new sources of revenue from broadband, wholesale, and commercial, all of which nicely offset the pressure from the voice business, and allow it to remain a steady, predictable FCF producer that returns significant cash to shareholders.
- One of the key benefits from the Verizon deal is the overall lower ratio of debt to operating cash flow that Frontier will inherit, making the company more flexible with an improved balance sheet and potential investment grade status. We believe the improved financial flexibility will also allow Frontier to increase the amount of capital investment in the local networks significantly from the levels that Verizon is currently putting in, which should be a benefit to customers and drive higher revenue and returns over time. Verizon currently spends about 9% of revenue on "business as usual" cap ex, and we believe Frontier will push this up to 12%, with even higher levels over the first three years.
- We are maintaining our **Outperform** rating, as we are attracted to the ~13% dividend yield, which will drop to a still attractive 10.5% following the merger close. We are maintaining our $10.00 price target, which is based on ~8x our 2010 levered FCF per share estimate of $1.20, a discount to the group's historical average of 10.5x. We note that the company will be lowering the dividend to $0.75 per share following the transaction with Verizon, which is offset by the substantial deleverage to an estimated 2.6x debt/EBITDA from the current level of 3.9x, and an improved payout ratio target of 43%, down from 72%.

Non-GAAP EPS	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year	GAAP EPS Full Year	Revenues (mil.)
2008A	$0.14	$0.17	$0.15	$0.11	$0.57	$0.57	$2,237
Old 2009E	0.14A	0.09A	0.17A	0.19	0.59	0.56	2,128
New 2009E	**0.14A**	**0.09A**	**0.17A**	**0.19**	**0.59**	**0.56**	**2,128**
Old 2010E	0.19	0.19	0.16	0.16	0.71	0.71	4,003
New 2010E	**0.19**	**0.19**	**0.16**	**0.16**	**0.71**	**0.71**	**4,003**

Rows may not add due to rounding. Non-GAAP EPS excludes non-recurring items.

Rating

Outperform 2

Current and Target Price

Current Price (1/15/2010)	$7.49
Target Price:	$10.00
52-Week Range	$8.64 - $5.32
Suitability	Total Return

Market Data

Shares Out. (mil.)	310.1
Market Cap. (mil.)	$2,323
Avg. Daily Vol. (10 day)	3,049,020
Dividend/Yield	$1.00/13.4%
BVPS (09/09)	$1.38
ROE	35%
LT Debt (mil.)/% Cap.	$4,898/68%

Earnings & Valuation Metrics

	2008A	2009E	2010E
P/E Ratios (Non-GAAP)	13.1x	12.7x	10.5x
Levered FCF/Share			
Old	$1.28	$1.46	$1.20
New	$1.28	$1.46	$1.20

Company Description

Headquartered in Stamford, Connecticut, Frontier Communications Corp. (formerly Citizens Communications) was founded in 1935 and provides local, long-distance, data, and Internet services in the northeastern, central, and western U.S., with more than two million access lines and over 500,000 xDSL customers.

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

Please read domestic and foreign disclosure/risk information beginning on page 5 and Analyst Certification on page 5.

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Last week, we were with Frontier Communications CFO Don Shassian meeting with investors. The meetings were well received and gathered significant interest from clients new to the story, existing holders, and Verizon holders that stand to get some Frontier shares once the deal closes. We believe the company continues to progress well on the Verizon acquisition, and has a very well thought out plan to make a smooth transition, which was the main topic of conversation. We have the following observations:

Broadband offerings, relatively no growth (*boring*). Frontier remains a simple, low to no growth, steady return company, and that is exactly what we like about this sort of predictable investment. The company is aggressively pursuing new sources of revenue from broadband, wholesale, and commercial, all of which nicely offset the pressure from the voice business, and allow it to remain a steady, predictable FCF producer that returns significant cash to shareholders. We believe the upcoming Verizon transaction will allow it to continue to do just that as it draws out untapped revenue from underserved customers.

It's all about the systems. Systems conversion is the key to making the Verizon transaction work, and we believe the company is well on its way to making that happen. The West Virginia conversion appears to be progressing nicely, and management appears highly committed to making sure that occurs before closing. Additionally, the company has a 60-day window to test the Verizon code it will be using in the other 13 states prior to close, which we believe is prudent. While there were many other issues with the much touted FairPoint and Hawaii Telecom sales by Verizon, systems conversion (or lack thereof) were some of the most significant and least understood problems that led to those carriers' demise. Frontier has taken great care, in our opinion, to protect itself from the issues these other companies faced with regard to systems.

Additionally, after almost 10 years following the company, we have seen it acquire almost 2 million lines, and we believe management has significant experience with systems conversion, and has converted lines on these same systems in the past. With a single platform at legacy Frontier properties, the company is in a good position to handle the cutover over the next two years. We believe this is the critical issue for Frontier to address, followed by new product introduction and broadband deployment to successfully expand the business in the acquired properties.

Attack of the gearheads. The company has recently hired several individuals to expand its telecom equipment sales to commercial customers. We find sales of customer premise equipment (CPE) to be an excellent way to get in the door and retain commercial customers. Businesses are very loyal to their equipment vendors, and often follow their lead when it comes to services as well. Margins in this business are weak to non-existent, but the key is to use this revenue to drive higher levels of commercial sales over time. We expect this to be very useful in the Verizon markets as well.

Other benefits from the Verizon deal. First off, the obvious benefit from the deal is the overall lower ratio of debt to operating cash flow that Frontier will inherit, which makes the company more flexible with an improved balance sheet and potential investment grade status. This should allow for better use of capital, and give investors comfort that the company can successfully deploy critical broadband facilities out in the network, and give it the financial flexibility to operate the business.

We believe the improved financial flexibility will allow Frontier to increase the amount of capital investment in the local networks significantly from the levels Verizon is currently putting in, which should be a benefit to customers and drive higher revenue and returns over time. Verizon currently spends about 9% of revenue on "business as usual" cap ex, and we believe Frontier will push this up to 12%, with even higher levels over the first three years.

Second, we believe the Verizon customers are being served inefficiently and without specific local marketing campaigns that we believe are crucial to the success of any rural carrier. Once Frontier makes the adjustments to the local approach and trains employees to help sell products, and makes new products available, we believe revenue can increase in the markets and customer losses will significantly abate.

Third, the introduction of new products should make the company's offerings more relevant to customers, and improve retention. Broadband is the obvious one, with Frontier having 91% of its lines with 1.5 Mbps of xDSL or higher available (an enviable statistic for a carrier with average line density of 13 lines per mile), compared to the Verizon properties at 62%. Just making a double play offering possible for a larger percentage of customers should be a huge improvement. Peace of Mind Internet technical support, security offerings, and higher levels of customer service should also benefit. We expect these products and services to begin to be deployed over the first four to five quarters of operations.

Comparison to FairPoint ungrounded. The situation at FairPoint has been compared to Frontier's pending acquisition of Verizon lines, which is not a fair judgment, in our opinion. There are many differences in the terms, conditions, properties, and the buyer than existed with FairPoint's three-state Verizon deal, so the risk profile for all involved (investors, regulators, and employees) is significantly different. We discuss several of these earlier in this report; however given the number of investors that are new to Frontier that stand to own the shares after the deal, we wanted to reiterate the key differences as they relate to FairPoint's Reverse Morris Trust transaction from a few years ago, and why FairPoint's experience leading up to its bankruptcy filing should have no bearing on Frontier's ability to acquire more Verizon lines:

1) Leverage. This is a de-levering deal for Frontier, which generally decreases its risk, and it is cutting its dividend, thus improving the payout ratio and financial flexibility, which should make both operations more stable than they are on a stand-alone basis. FairPoint was a levering transaction that put financial stress on the organization, plagued by unsuccessful and costly billing and IT systems conversions.

2) IT experience. Frontier is a much larger company that has undergone significant acquisitions and we believe has the IT expertise to convert the Verizon IT systems (it has experience converting Verizon lines with these same systems). Also, Frontier has gone to great lengths to address this potential risk in the structure of the deal, which we believe adequately protects investors and customers from a similar experience. FairPoint was an experienced acquirer, but not at this scale or with the IT requirements it took to take on a Regional Bell Operating Company (RBOC) [prior FairPoint deals were of small incumbent local exchange carriers (ILECs), not a group of lines separated from an RBOC], which is a vastly different proposition than a single system rural ILEC acquisition.

3) Long lead time. The systems conversion process has a very long runway for Frontier to complete (possibly five years), and the annual price paid to Verizon to lease the systems for over 4 million lines is 30% less than FairPoint was paying for 1.5 million lines. Again, at the heart of FairPoint's problems lies its systems conversions, which we do not see as an issue because of the structure Frontier has established, the lead times available to get off Verizon systems, and the aforementioned in-house experience.

4) Financially stable buyer. We do not believe Frontier necessarily has to do this deal, while FairPoint appeared to have few options financially at the time of its transaction. Additionally, Frontier can break up the deal if costly conditions or situations emerge, a negotiating point that FairPoint lacked.

5) Quality of the assets. Frontier is getting the good with the not so good. We have heard from industry contacts that in the past when Verizon sought to sell lines, it also intended to keep more attractive aspects of the business in those states [such as the Fiber Optic Service (FiOS) properties or other denser territory], which greatly diminished the quality of the deals. We believe Vermont, Maine, and New Hampshire lines that FairPoint acquired were probably not the most lucrative assets in Verizon's network. Alternatively, Frontier is getting denser, more valuable properties and customers than Verizon may have shopped in years past. The result should be more value that Frontier can drive from this base than FairPoint may have been able to with its acquisition. Ultimately, we do not believe comparisons between the two transactions have merit, and investors should focus on other business items rather than chase these concerns.

Conclusion. We believe the story will become more compelling over the next few months as we head toward our anticipated late 2Q10 closing of the Verizon deal. We expect the stock to lag the group a bit due to the perception that it will sell off at the close. While we do not believe all of the Verizon holders that will be given shares will immediately sell, (particularly given Verizon's large base of retail holders that may be attracted to FTR's dividend), history would suggest that the stock will be the trading pattern at the outset. We note that these trading anomalies can offer investors attractive buying opportunities over the next six months, especially for accounts with long-term investment horizons looking to take a larger position over time.

We are maintaining our **Outperform** rating, as we believe that the company remains undervalued with an approximate 13% dividend yield, which we view as very attractive. We are maintaining our price target of $10.00, which is based on ~8x our 2010 levered FCF per share estimate, a discount to the group's historical average of 10.5x. We note that the company will be lowering the dividend to $0.75/share following the transaction with Verizon, which is offset by the substantial deleverage to an estimated 2.6x debt/EBITDA from the current level of 3.9x, and an improved payout ratio targeted at 43% from 72%.

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	Q1:08A	Q2:08A	Q3:08A	Q4:08A	2008A	Q1:09A	Q2:09A	Q3:09A	Q4:09E	2009E	Q1:10E	Q2:10E	Q3:10E	Q4:10E	2010E
Revenue															
Citizens Communications															
Network access	107.8	101.0	99.6	96.3	404.7	90.1	87.4	91.2	89.6	358.4	88.3	83.8	85.5	84.2	341.8
Local network services	217.2	214.7	210.7	205.8	848.4	200.9	198.3	193.6	192.1	784.9	187.8	185.0	182.0	179.1	734.0
Long distance	46.5	46.9	46.4	42.8	182.6	41.4	40.6	42.4	41.9	166.3	41.5	40.7	39.9	38.3	160.4
Directory services	28.6	29.1	28.1	27.5	113.3	27.7	27.2	26.5	26.5	107.9	26.7	26.7	25.1	25.2	103.7
Other	23.2	19.2	19.0	21.0	82.4	21.5	18.1	13.1	18.0	70.7	17.0	16.0	15.0	18.0	66.0
Data and Internet	146.0	151.7	154.0	153.9	605.6	156.4	160.6	160.0	162.8	639.7	166.4	169.7	173.2	176.9	686.2
TOTAL Citizens	**\$569.2**	**\$562.6**	**\$557.9**	**\$547.4**	**\$2,237.0**	**\$538.0**	**\$532.1**	**\$526.8**	**\$531.0**	**\$2,127.9**	**\$527.7**	**\$522.0**	**\$520.8**	**\$521.7**	**\$2,092.1**
Y/Y Growth															
Verizon properties													954.4	956.4	1,910.7
Total company revenue	**\$569.2**	**\$562.6**	**\$557.9**	**\$547.4**	**\$2,237.0**	**\$538.0**	**\$532.1**	**\$526.8**	**\$531.0**	**\$2,127.9**	**\$527.7**	**\$522.0**	**\$1,475.1**	**\$1,478.1**	**\$4,002.8**
Y/Y Growth	*2.3%*	*-2.8%*	*-3.1%*	*-5.2%*	*-2.2%*	*-5.5%*	*-5.4%*	*-5.6%*	*-3.0%*	*-4.9%*	*-1.9%*	*-1.9%*	*180.0%*	*178.4%*	*88.1%*
Operating expenses															
Frontier	263.8	256.3	256.0	256.6	1,032.8	260.9	252.0	247.5	250.1	1,010.4	249.6	245.3	245.3	245.2	985.4
Restructuring Expense															
Total operating expenses	**263.8**	**256.3**	**256.0**	**256.6**	**1,032.8**	**260.9**	**252.0**	**247.5**	**250.1**	**1,010.4**	**249.6**	**245.3**	**245.3**	**245.2**	**985.4**
EBITDA - Frontier	305.4	306.2	301.9	290.7	1,204.3	277.1	280.2	279.3	280.9	1,117.5	278.1	276.6	275.5	276.5	1,106.7
Y/Y Growth	*-2.1%*	*10.7%*	*12.5%*	*-9.2%*	*2.3%*	*-9.3%*	*-8.5%*	*-7.5%*	*-3.4%*	*-7.2%*	*0.4%*	*-1.3%*	*-1.4%*	*-1.6%*	*-1.0%*
EBITDA - Non-recurring and Verizon	2.9		2.5	5.2		10.8	8.2	8.2					420	424	843.6
Y/Y Growth															
Total EBITDAS from Continuing Ops	**311.3**	**309.8**	**307.4**	**297.4**	**1,225.9**	**290.0**	**290.8**	**289.9**	**282.9**	**1,153.8**	**280.1**	**278.6**	**697.4**	**702.2**	**1,958.3**
Y/Y Growth	*-2.4%*	*-1.3%*	*-3.5%*	*-3.1%*	*-2.5%*	*-6.8%*	*-6.1%*	*-5.7%*	*-4.9%*	*-5.9%*	*-3.4%*	*-4.2%*	*140.5%*	*148.2%*	*69.8%*
Stock Option Expense	**3.02**	**3.60**	**3.05**	**1.42**	**11.1**	**2.12**	**2.44**	**2.41**	**2.00**	**9.0**	**2.00**	**2.00**	**2.00**	**2.00**	**8.0**
Total Depreciation & Amortization	141.1	144.3	137.7	138.8	561.8	137.6	132.8	103.1	100.0	473.5	97.0	94.1	289.1	286.2	766.5
Acquisition Costs							10.8	3.7							
Operating income (loss) - Frontier	164.3	162.0	164.2	151.9	642.5	139.5	136.6	172.5	180.9	629.5	181.1	182.5	406.3	413.9	1,183.8
Y/Y Growth	*-16.5%*	*18.9%*	*4.5%*	*-27.4%*	*-8.2%*	*-15.1%*	*-15.7%*	*5.0%*	*19.0%*	*-2.0%*	*29.8%*	*33.6%*	*135.5%*	*128.9%*	*88.1%*
Operating income (loss) - Other															
Y/Y Growth															
Operating income (loss)	**164.3**	**162.0**	**164.2**	**151.9**	**642.5**	**139.5**	**136.6**	**172.5**	**180.9**	**629.5**	**181.1**	**182.5**	**406.3**	**413.9**	**1,183.8**
Y/Y Growth	*-15.0%*	*-5.4%*	*-1.0%*	*-13.1%*	*-8.9%*	*-15.1%*	*-15.7%*	*5.0%*	*19.0%*	*-2.0%*	(0.0)	*33.6%*	*135.5%*	*128.9%*	*88.1%*
Investment and other income	(1.2)	6.4	1.3	2.9	9.3	8.2	4.6	5.9	3.0	21.7	3.0	3.0	3.0	3.0	12.0
Gain on Sale															
Interest income (expense)	(90.9)	(90.7)	(90.3)	(90.7)	(362.6)	(88.7)	(98.7)	(96.6)	(95.4)	(379.4)	(93.9)	(92.9)	(168.8)	(167.2)	(522.8)
Total other income (expenses)	(92.1)	(84.3)	(89.0)	(87.9)	(353.3)	(80.5)	(94.1)	(90.7)	(92.4)	(357.7)	(90.9)	(89.9)	(165.8)	(164.2)	(510.8)
Income before income taxes	**72.2**	**77.7**	**75.2**	**64.1**	**289.2**	**59.0**	**42.6**	**81.8**	**88.5**	**271.8**	**90.2**	**92.6**	**240.5**	**249.7**	**673.0**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*
Income taxes	26.6	21.9	28.2	29.8	106.5	22.1	14.3	29.0	31.0	96.3	31.6	32.4	84.2	87.4	235.5
Tax Rate	*36.9%*	*28.2%*	*37.5%*	*46.5%*	*36.8%*	*37.4%*	*33.5%*	*35.5%*	*35.0%*	*35.4%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Dividends on convertible preferred	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less special items, net of tax															
Net income (loss) - recurring	**\$45.6**	**\$55.8**	**\$47.0**	**\$34.3**	**\$182.7**	**\$37.0**	**\$28.3**	**\$52.7**	**\$57.5**	**\$175.5**	**\$58.6**	**\$60.2**	**\$156.3**	**\$162.3**	**\$437.4**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*-14.9%*	*NMF*	*NMF*	*NMF*	*NMF*	*-3.9%*	*NMF*	*NMF*	*NMF*	*NMF*	*149.2%*
Income from discontinued, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
interest in noncontrolling partnership						(0.7)	(0.4)	(0.6)							
Net income (loss) - reported	**\$45.6**	**\$55.8**	**\$47.0**	**\$34.3**	**\$182.7**	**\$36.3**	**\$27.9**	**\$52.2**	**\$57.5**	**\$173.9**	**\$58.6**	**\$60.2**	**\$156.3**	**\$162.3**	**\$437.4**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*
Recurring EPS	**\$0.14**	**\$0.17**	**\$0.15**	**\$0.11**	**\$0.57**	**\$0.14**	**\$0.09**	**\$0.17**	**\$0.19**	**\$0.59**	**\$0.19**	**\$0.19**	**\$0.16**	**\$0.16**	**\$0.71**
Non-recurring charge	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Reported EPS	**\$0.14**	**\$0.17**	**\$0.15**	**\$0.11**	**\$0.57**	**\$0.12**	**\$0.09**	**\$0.17**	**\$0.19**	**\$0.56**	**\$0.19**	**\$0.19**	**\$0.16**	**\$0.16**	**\$0.71**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*
Diluted shares	326.2	320.8	313.0	309.6	317.4	309.8	310.1	310.1	310.1	310.0	310.1	310.1	989.0	989.0	649.6
Dividends	\$0.25	\$0.25	\$0.25	\$0.25	\$1.00	\$0.25	\$0.25	\$0.25	\$0.25	\$1.00	\$0.25	\$0.25	\$0.19	\$0.19	\$0.88
Free Cash Flow Analysis															
+ EBITDAS	311.3	309.8	307.4	297.4	1,225.9	290.0	290.8	289.9	282.9	1,153.6	280.1	278.6	697.4	702.2	1,958.3
- Cash operating taxes	(24.8)	(20.3)	(26.2)	(27.7)	(99.0)	(22.1)	(18.5)	(19.4)	(31.0)	(90.9)	(26.6)	(27.4)	(84.2)	(87.4)	(225.5)
- Capital expenditures from continuing	48.0	75.7	80.5	84.1	288.3	54.6	55.8	54.1	75.0	239.5	60.0	65.0	170.0	170.0	465.0
- Increase (Decrease) in NWC	47.7	(0.8)	24.1	0.1	71.2	40.4	(12.3)	47.1	(66.7)	8.4	0.5	0.9	-	(0.5)	0.9
Total free cash flow to investors	**190.9**	**214.5**	**176.8**	**185.5**	**767.5**	**173.0**	**228.9**	**189.2**	**243.8**	**814.8**	**193.0**	**185.4**	**443.2**	**445.2**	**1,266.8**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*6.2%*	*NMF*	*NMF*	*NMF*	*NMF*	*55.5%*
- interest expense	(\$92.4)	(\$87.6)	(\$90.3)	(\$89.8)	(\$360.0)	(\$81.3)	(\$94.8)	(\$91.5)	(\$93.1)	(\$360.7)	(\$91.7)	(\$90.7)	(\$166.5)	(\$165.0)	(\$513.8)
Levered free cash flow	**\$98.5**	**\$126.9**	**\$86.3**	**\$95.7**	**\$407.4**	**\$91.7**	**\$134.1**	**\$77.8**	**\$150.5**	**\$454.1**	**\$101.4**	**\$94.7**	**\$276.7**	**\$280.3**	**\$753.0**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*11.5%*	*NMF*	*NMF*	*NMF*	*NMF*	*65.8%*
Levered free cash flow per share	**\$0.30**	**\$0.40**	**\$0.28**	**\$0.31**	**\$1.28**	**\$0.30**	**\$0.43**	**\$0.25**	**\$0.49**	**\$1.46**	**\$0.33**	**\$0.31**	**\$0.28**	**\$0.28**	**\$1.20**
Y/Y Growth	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*NMF*	*14.2%*	*NMF*	*NMF*	*NMF*	*NMF*	*-18.4%*

Source: Company Reports & Raymond James estimates

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

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

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

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Buy (2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.
Hold (3) Expected to perform in line with the underlying country index.
Underperform (4) Expected to underperform the underlying country index.

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Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.
Buy (2) Absolute return expected to be at least 10% over the next 12 months.
Fair Value (3) Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.
Sell (4) Expected absolute drop in the share price of more than 10% in next 12 months.

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Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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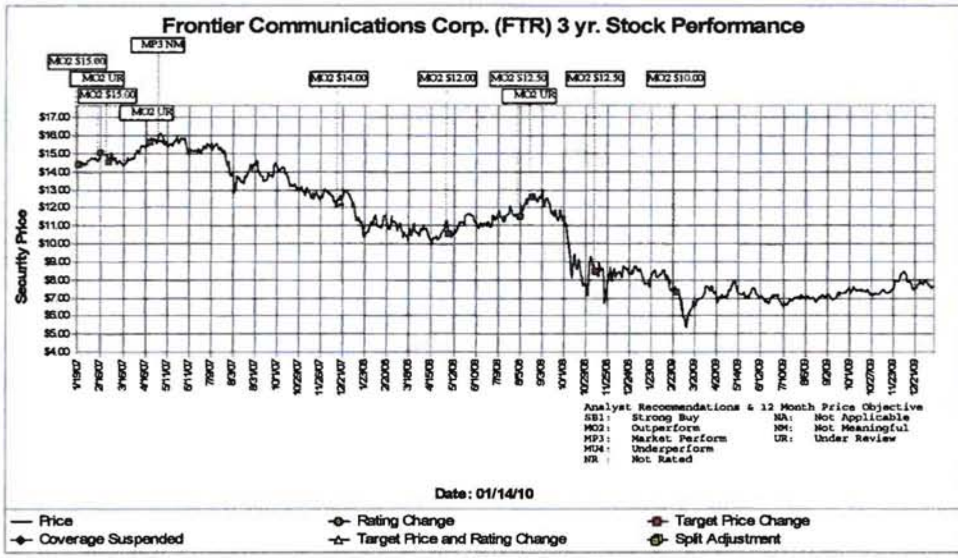

Update Date	Closing Price	Target Price	Rating
2/25/09	7.30	10.00	2
11/10/08	8.52	12.50	2
8/20/08	12.60	UR	2
8/5/08	11.54	12.50	2
5/5/08	10.55	12.00	2
12/18/07	12.41	14.00	2
5/3/07	15.91	NM	3
4/20/07	15.62	UR	2
2/28/07	14.53	15.00	2
2/16/07	15.08	UR	2
1/19/07	14.39	15.00	2

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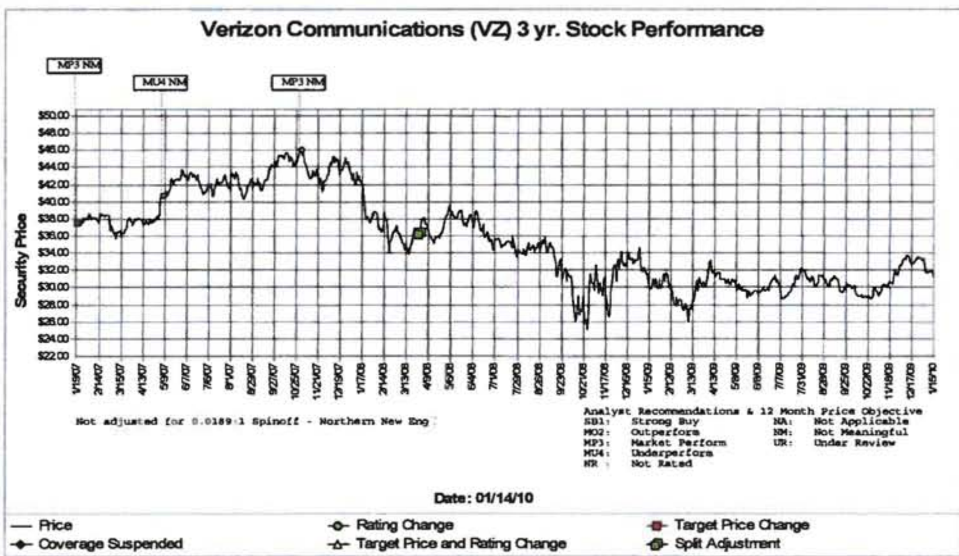
The information below indicates target price and rating changes for other subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
10/30/07	45.99	NM	3
5/7/07	40.66	NM	4
1/19/07	37.57	NM	3

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Specific Investment Risks Related to the Industry or Issuer

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

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

Company-Specific Risks for Verizon Communications
Verizon faces a significant amount of competition from both facilities-based CLECs (competitive local exchange carriers) and UNE-P (unbundled network element - platform) providers, which could significantly impact the company's revenue and earnings. In turn, competition could negatively impact pricing, both for traditional telephony services and for xDSL, wireless, and other services. These growing services are offsetting currently declining traditional telephony services, a mix-shift that could negatively impact overall company margins. Other risks include, but are not limited to, increasing pension expenses, a highly unionized workforce, a large debt load, Vodafone's (VOD/$23.26) ability to put its interest in Verizon Wireless, and a continued weak business spending environment.

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