FRONTIER COMMUNICATIONS CORP
Form 10-K
February 26, 2010

FRONTIER COMMUNICATIONS CORPORATION

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ___________

Commission file number 001-11001

FRONTIER COMMUNICATIONS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	06-0619596
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3 High Ridge Park Stamford, Connecticut	06905
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (203) 614-5600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.25 per share	New York Stock Exchange
Series A Participating Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No X

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X

No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes __ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [X] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes No X

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2009 was approximately $2,211,628,000 based on the closing price of $7.14 per share on such date.

The number of shares outstanding of the registrant's Common Stock as of February 16, 2010 was 312,284,000.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Company's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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PART I

Item 1. Business

Frontier Communications Corporation (Frontier) (formerly known as Citizens Communications Company through July 30, 2008) and its subsidiaries are referred to as the "Company," "we," "us" or "our" throughout this report and references to the "combined company" refer to the Company following the completion of the Verizon Transaction (as defined below). Frontier was incorporated in the State of Delaware in 1935 as Citizens Utilities Company.

Our mission is to be the leader in providing communications services to residential and business customers in our markets. We are committed to delivering innovative and reliable products and solutions with an emphasis on convenience, service and customer satisfaction. We offer a variety of voice, data, internet, and television services that are available as bundled or packaged solutions and for some products, á la carte. We believe that our local management structure, superior customer service and innovative product positioning will continue to differentiate us from our competitors in the markets in which we compete.

We are a communications company providing services to rural areas and small and medium-sized towns and cities. Revenue was $2.1 billion in 2009. Among the highlights for 2009:

· Verizon Transaction

As previously announced, on May 13, 2009, we entered into an Agreement and Plan of Merger (the merger agreement), which provides for a merger (the merger) in which New Communications Holdings, Inc. (Spinco), a newly formed subsidiary of Verizon Communications, Inc. (Verizon) will be merged into Frontier (the Verizon Transaction). We expect the merger to close during the second quarter of 2010.

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 6.3 million access lines, 8 million voice and broadband connections and 15,000 employees in 27 states on a pro forma basis as of December 31, 2009. The combined company will offer voice, data and video services to customers in its expanded geographic footprint.

Assuming the Verizon Transaction closes, based on the lower level of Spinco debt we will be assuming from Spinco relative to Spinco's projected operating cash flows, the combined company's overall debt will increase but its capacity to service the debt will be significantly enhanced as compared to Frontier's capacity today. At December 31, 2009, Frontier's net debt to 2009 operating cash flow ("leverage ratio") was 3.9 times. It is expected that the combined company's leverage ratio will be significantly lower at closing.

· Debt Refinancing

During 2009, we completed two registered offerings of senior unsecured notes for an aggregate $1.2 billion principal amount. The proceeds were used to repurchase approximately $1.1 billion of our long-term debt, primarily with maturities in 2011 and 2013. As a result of these debt transactions, as of December 31, 2009, we had reduced our debt maturities through 2013 to approximately $7.2 million maturing in 2010, $280.0 million maturing in 2011, $180.4 million maturing in 2012, and $709.9 million maturing in 2013. We do not expect the Verizon Transaction to change the amount of these near-term debt maturities.

· Stockholder Value

During 2009, we continued to pay an annual dividend of $1.00 per common share. In connection with the Verizon Transaction, we announced that the annual dividend would be reduced to $0.75 per share upon completion of the Verizon Transaction. Payment of dividends is at the discretion of our Board of Directors.

- Product Growth
  During 2009, we added approximately 56,000 new High-Speed Internet (HSI) subscribers. At December 31, 2009, we had approximately 636,000 HSI customers. We offer a television product with the DISH Network (DISH), and we added approximately 53,000 DISH subscribers during 2009. At December 31, 2009, we had approximately 173,000 DISH customers.

- Customer Revenue
  During 2009, our customer revenue from both residential and business customers declined by $74.0 million, or 4%, although our average monthly customer revenue per access line improved by $1.81, or 3%.

- Access Lines
  During 2009, our rate of access line loss for both residential and business access lines improved from the prior year. We believe this is primarily attributable to the customer recognition of the value of our product bundles, fewer residential moves out of territory, fewer moves by businesses to competitors and our ability to compete with cable telephony in a maturing market place.

Communications Services

As of December 31, 2009, we operated as an incumbent local exchange carrier (ILEC) in 24 states.

The communications industry is undergoing significant changes and difficulties and our financial results reflect the impact of this challenging environment. Accordingly, as discussed in more detail in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (MD&A), our revenues have decreased in 2009.

Our business is with both residential and business customers. Our services include:

- access services;
- local services;
- long distance services;
- data and internet services;
- directory services;
- television services; and
- wireless services.

Frontier is typically the leading incumbent carrier in the markets we serve and provides the "last mile" of telecommunications services to residential and business customers in these markets.

Access services. Switched access services allow other carriers to use our 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 billed on a minutes-of-use basis. Access charges are based on access rates filed with the Federal Communications Commission (FCC) for interstate services and with the respective state regulatory agency for intrastate services. In addition, subsidies received from state and federal universal service funds based on the higher cost of providing telephone service to certain rural areas are a part of our access services revenue.

Revenue is recognized when services are provided to customers or when products are delivered to customers. Monthly recurring access service fees are billed in advance. The unearned portion of this revenue is initially deferred as a component of other liabilities on our balance sheet and recognized as revenue over the period that the services are provided.

Local services. We provide basic telephone wireline services to residential and business customers in our service areas. We also provide enhanced services to our customers by offering a number of calling features, including call forwarding, conference calling, caller identification, voicemail and call waiting. We also offer packages of communications services. These packages permit customers to bundle their basic telephone line service with their choice of enhanced, long distance, television and internet services for a monthly fee and/or usage fee depending on the plan.

We intend to continue our efforts to increase the penetration of our enhanced services. We believe that increased sales of such services will produce revenue with higher operating margins due to the relatively low marginal operating costs necessary to offer such services. We believe that our ability to integrate these services with other services will provide us with the opportunity to capture an increased percentage of our customers' communications expenditures (wallet share).

Long distance services. We offer long distance services in our territories to our customers. We believe 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 our operating territories is provided by interconnection with the facilities of interexchange carriers (IXCs). Our long distance services are billed either as unlimited/fixed number of minutes in advance or on a per minute-of-use basis.

Data and internet services. We offer data services including internet access (via high-speed or dial up internet access), portal and e-mail products frame relay, Metro Ethernet, asynchronous transfer mode (ATM), switching services, hard drive back-up services and 24-7 help desk PC support. We offer other data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity circuits ranging from DS-1’s to Gig E. 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.

Directory services. Directory services involves the provision of white and yellow page directories for residential and business listings. We provide this service through two third-party contractors. In the majority of our markets, the contractor is paid a percentage of revenues from the sale of advertising in these directories. In the remaining markets, we receive a flat fee from the contractor. Our directory service also includes “Frontier Pages,” an internet-based directory service which generates digital advertising revenue.

Television services. We offer a television product in an agency relationship with DISH. We provide access to all-digital television channels featuring movies, sports, news, music and high-definition TV programming. We offer packages of 100, 200 or 250 channels and include high-definition channels, premium channels, family channels and foreign language channels. We also provide access to local channels. We bill the customer for the monthly services and remit those billings to DISH without recognizing any revenue. We in turn receive from DISH and recognize as revenue activation fees, other residual fees and nominal management, billing and collection fees.

Wireless services. During 2006, we began offering wireless data services in certain markets. As of December 31, 2009, we provided wireless data WiFi networks in 19 municipalities and to five colleges and universities and over 360 business establishments. Certain contracts are billed in advance on an annual or semi-annual basis. Colleges, universities and businesses are billed on a monthly recurring basis for a fixed number of users. Hourly, daily and weekly casual end-users are billed by credit card at the time of use.

The following table sets forth the aggregate number of our access lines and HSI subscribers by state as of December 31, 2009 and 2008.

State	Access Lines and High-Speed Internet Subscribers at December 31, 2009	2008
New York…………………………………..	782,700	825,700
Pennsylvania………………..…..……………	487,900	506,100
Minnesota……………………...……….	276,500	280,500
Arizona…………………………………..	189,600	192,800
West Virginia………………………………	189,100	188,200
California……………………………..……	188,100	193,200
Illinois………………………………………	129,000	127,900
Tennessee………………………………….	102,100	105,300
Wisconsin………………………………….	77,600	79,100
Iowa…………………………………...…	56,000	56,900
Nebraska……………….……………..……..	50,000	51,400
All other states (13)…………….……….	224,900	227,200
Total	2,753,500	2,834,300

Change in the number of our access lines is one factor that is important to our revenue and profitability. We have lost access lines primarily as a result of competition and business downsizing, and because of changing consumer behavior (including wireless substitution), economic conditions, changing technology and by some customers disconnecting second lines when they add HSI. We lost approximately 136,800 access lines (net) during the year ended December 31, 2009, but added approximately 56,000 HSI subscribers (net) during this same period. With respect to the access lines we lost in 2009, 104,700 were residential customer lines and 32,100 were business customer lines. Without taking into account the Verizon Transaction, we expect to continue to lose access lines but to partially offset those losses with an increase in HSI subscribers during 2010. A substantial further loss of access lines, combined with increased competition and the other factors discussed in MD&A, may cause our revenues, profitability and cash flows to decrease during 2010.

Our Company, like others in the industry, utilizes reporting metrics focused on units. Consistent with our strategy to focus on the customer, we also utilize residential customer metrics that, when combined with unit counts provides additional insight into the results of our strategic initiatives outlined above.

	As of or for the year ended December 31, 2009	2008
Residential:		
Customers	1,254,500	1,347,400
Revenue (in ‘000’s)	$ 899,800	$ 949,284
Average monthly residential customer revenue per customer	$ 57.62	$ 56.42
Percent of customers on price protection plans	53.2 %	44.6 %
Customer monthly churn	1.47 %	1.57 %
Products per residential customer*	2.54	2.37

* Products per Residential Customer: Primary Residential Voice line, HSI, Video products have a value of 1. FTR long distance, POM, second lines, Feature Packages and Dial-up have a value of 0.5.

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Regulatory Environment

General

The majority of our operations are regulated by the FCC and various state regulatory agencies, often called public service or utility commissions.

Certain of our revenue is subject to regulation by the FCC and various state regulatory agencies. We expect federal and state lawmakers to continue to review the statutes governing the level and type of regulation for telecommunications services.

The Telecommunications Act of 1996, or the 1996 Act, dramatically changed the telecommunications industry. The main purpose of the 1996 Act was to open local telecommunications marketplaces to competition. The 1996 Act preempts state and local laws to the extent that they prevent competition with respect to communications services. Under the 1996 Act, however, states retain authority to impose requirements on carriers necessary to preserve universal service, protect public safety and welfare, ensure quality of service and protect consumers. States are also responsible for mediating and arbitrating interconnection agreements between competitive local exchange carriers (CLECs) and ILECs if voluntary negotiations fail. In order to create an environment in which local competition is a practical possibility, the 1996 Act imposes a number of requirements for access to network facilities and interconnection on all local communications providers. Incumbent local carriers must interconnect with other carriers, unbundle some of their services at wholesale rates, permit resale of some of their services, enable collocation of equipment, provide local telephone number portability and dialing parity, provide access to poles, ducts, conduits and rights-of-way, and complete calls originated by competing carriers under termination arrangements.

At the federal level and in a number of the states in which we operate, we are subject to price cap or incentive regulation plans under which prices for regulated services are capped in return for the elimination or relaxation of earnings oversight. The goal of these plans is to provide incentives to improve efficiencies and increased pricing flexibility for competitive services while ensuring that customers receive reasonable rates for basic services. Some of these plans have limited terms and, as they expire, we may need to renegotiate with various states. These negotiations could impact rates, service quality and/or infrastructure requirements which could impact our earnings and capital expenditures. In other states in which we operate, we are subject to rate of return regulation that limits levels of earnings and returns on investments. We continue to advocate our position for no regulation with various regulatory agencies. In some of our states, we have been successful in reducing or eliminating price regulation on end-user services under state commission jurisdiction.

For interstate services regulated by the FCC, we have elected to comply with price caps for most of our operations. In May 2000, the FCC adopted a methodology for regulating the interstate access rates of price cap providers through May 2005. The program, known as the Coalition for Affordable Local and Long Distance Services, or CALLS plan, reduced prices for interstate-switched access services and phased out many of the implicit subsidies in interstate access rates. The CALLS program expired in 2005 but continues in effect until the FCC takes further action.

Another goal of the 1996 Act was to remove implicit subsidies from the rates charged by local telecommunications companies. The CALLS plan addressed this requirement for interstate services. Some state legislatures and regulatory agencies are looking to reduce the implicit subsidies in intrastate rates. The most common subsidies are in intrastate access rates that historically have been priced above their costs to allow basic local rates to be priced below cost. Legislation has been considered in several states to require regulators to eliminate these subsidies and implement state universal service programs where necessary to maintain reasonable basic local rates. However, not all the reductions in access charges would be fully offset. We anticipate additional state legislative and regulatory pressure to lower intrastate access rates.

Recent and Potential Regulatory Developments

Federal legislators, the FCC and state regulators 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. In May 2008, the FCC issued an order to cap Competitive Eligible Telecommunications Companies (CETC) receipts from the high cost Federal Universal Service Fund. In 2009, the federal court upheld the FCC's order and the cap remains in place pending any future reform.

The FCC is considering proposals that may significantly change interstate, intrastate and local intercarrier compensation and would revise the Federal Universal Service funding and disbursement mechanisms to incent expanded broadband availability. When and how these proposed changes will be addressed are unknown and, accordingly, we are unable to predict the impact of future changes on our results of operations. However, future reductions in our subsidy and access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have associated variable expenses. As discussed in MD&A, our access and subsidy revenues declined in 2009 compared to 2008. Our access and subsidy revenues are both likely to decline further in 2010.

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

Regulators at both the federal and state levels continue to address whether voice over internet protocol (VOIP) services are subject to the same or different regulatory and financial models as traditional telephony. The FCC has concluded that certain VOIP services are jurisdictionally interstate in nature and are thereby exempt from state telecommunications regulations. The FCC has not addressed other related issues, such as: whether or under what terms VOIP originated traffic may be subject to intercarrier compensation; and whether VOIP services are subject to general state requirements relating to taxation and general commercial business requirements. The FCC has stated its intent to address these open questions in subsequent orders in its ongoing "IP-Enabled Services Proceeding." Internet telephony may have an advantage over our traditional services if it remains less regulated.

In January 2008, the FCC released public notices requesting comments on two petitions that have been filed regarding net neutrality and the application of the FCC's Internet Policy Statement. In addition, in October 2009 the FCC issued a proposed rulemaking looking at rules to "Preserve a Free and Open Internet." The timing and the impact of any decision by the FCC are unknown.

Some state regulators have in the past considered imposing on regulated companies (including us) cash management practices that could limit the ability of a company to transfer cash between its subsidiaries or to its parent company. None of the existing state requirements (New York) materially affect our cash management but future changes by state regulators could affect our ability to freely transfer cash within our consolidated companies.

In February 2009, the President signed into law an economic stimulus package, the American Recovery and Reinvestment Act (ARRA), that includes $7.2 billion in funding, through grants and loans, for new broadband investment and adoption in unserved and underserved communities. We filed applications for the first round of stimulus funding in West Virginia, but were notified in February 2010 that we were not selected. The federal agencies responsible for administering the programs released rules and evaluation criteria for the second round of funding, with applications due by March 15, 2010. The Company will evaluate opportunities but has not made a decision on whether it will apply for any funding in this round.

Under the ARRA, the FCC is required to create a National Broadband Plan by February 17, 2010. This date has been extended to March 17, 2010. The Commission has requested comments from the public on a variety of topics, including but not limited to availability, adoption, public safety and the roles of Universal Service and Intercarrier Compensation in the Plan. The outcome of the Plan is likely to lead to a series of proposed rulemakings from the Commission, and the timing and impact of the outcome on Frontier are unknown.

Competition

Competition in the communications industry is intense and increasing. We experience competition from many communications service providers. These providers include cable operators offering video, data and VOIP products, wireless carriers, long distance providers, competitive local exchange carriers, Internet providers and other wireline carriers. We believe that as of December 31, 2009, approximately 73% of the households in our territories had VOIP as an available service option. We also believe that competition will continue in 2010 and may result in reduced revenues.

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The lingering impact of the severe contraction in the global financial markets that occurred in 2008 and 2009 and the subsequent recession has impacted residential and business customer behavior to reduce expenditures by not purchasing our services, reducing usage of our services or by discontinuing some or all of our services. These trends may continue and may result in a continued challenging revenue environment. These factors could also result in increased delinquencies and bankruptcies and, therefore, affect our ability to collect money owed to us by residential and business customers.

We employ a number of strategies to combat the competitive pressures and changes in consumer behavior noted above. Our strategies are focused on preserving and generating new revenue through customer retention, upgrading and up-selling services to our existing customer base, new customer growth, win backs of former customers, new product deployment, and upon managing our profitability and cash flow through targeted reductions in operating expenses and capital expenditures.

We seek to achieve our customer retention goals by offering attractive packages of value-added services to our access line customers and providing exemplary customer service. Bundled services include HSI, unlimited long distance calling, enhanced telephone features and video offerings. We tailor these services to the needs of our residential and business customers and continually evaluate the introduction of new and complementary products and services, many of 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 and/or promotional offers. Additionally, we are focused on enhancing the customer experience as we believe exceptional customer service will continue to differentiate us from our competition. Our commitment to providing exemplary customer service is demonstrated by the expansion of our customer services hours, shorter scheduling windows for in-home appointments and the implementation of call reminders and follow up calls for service appointments. In addition, our 70 local area markets are operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. Customers in our markets have direct access to those local managers to help them manage their communications needs.

We utilize targeted and innovative promotions like “aspirational gifts” (e.g., personal computers) or promotional credits to attract new customers, including those moving into our territory, to win back former customers and to 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 customer (wallet share) paid to Frontier. Depending upon market and economic conditions, we may offer such promotions to drive sales in the future.

We have restructured and augmented our sales distribution channels to improve coverage of all segments of our business customer base. This includes adding new sales teams dedicated to small business customers and enhancing the business selling and support skills in our customer sales and service centers. We have also increased our focus on customer premise equipment (CPE) sales for customers requiring an equipment solution, and have extended our CPE sales reach beyond a handful of markets. In addition, we are introducing new products utilizing wireless and Internet technologies. We believe the combination of new products and distribution channel improvements will help us improve business customer acquisition and retention.

We are also focused on increasing sales of newer 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 that is aimed at managing the total communications and personal computing experience for our customers and designed to provide value and simplicity to meet our customers’ ever-changing needs. The Frontier Peace of Mind products and services suite includes services such as an in-home, full installation of our HSI product, two hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance (when bundled). In 2009, the Frontier Peace of Mind products generated approximately $3.2 million in revenue. Most recently, we introduced our myfitv.com website which provides easy online access to video content, entertainment and news available on the worldwide web. Although we are optimistic about the opportunities provided by each of these initiatives to increase revenue and reduce churn, we can provide no assurance about their long term profitability or impact on revenue. Our hard drive back-up services, 24-7 help desk PC support and myfitv.com services are also available outside of our service territories.

We believe that the combination of offering multiple products and services to our customers pursuant to price protection programs, billing customers in a single bill, providing superior customer service, and being active in our local communities will make our customers more loyal, and will help us generate additional, and retain existing, customer revenue.

Additional Information on Verizon Transaction

Pursuant to the Verizon Transaction, Spinco will merge with and into Frontier, and Frontier will survive as the combined company conducting the combined business operations of Frontier and Spinco. Spinco 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 (collectively, the Spinco territory), including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory (collectively, the Spinco business). Immediately prior to the merger, Spinco will be spun off to Verizon stockholders. The merger will result in Frontier acquiring approximately 4.2 million access lines, based on access lines of the Spinco business as of December 31, 2009, and certain related business assets from Verizon. The Spinco business generated revenues of approximately $4.4 billion for the year ended December 31, 2008, the last full year of available revenue for Spinco, and $3.1 billion for the nine months ended September 30, 2009. Following the merger, the separate existence of Spinco will cease and the combined company will continue to operate under the Frontier name. The forgoing transactions are collectively referred to as the “Verizon Transaction.” The completion of the Verizon Transaction is subject to a number of conditions.

Our stockholders have approved proposals related to the Verizon Transaction at a special meeting of stockholders on October 27, 2009. No vote by Verizon stockholders is required in connection with the Verizon Transaction; Verizon, as the sole stockholder of Spinco, has already approved the Verizon Transaction. The completion of the Verizon Transaction is subject to a number of conditions, including availability of financing on terms that satisfy certain requirements, receipt of regulatory approvals and other customary closing conditions. As of February 26, 2010, we have received approval for the Verizon Transaction from state regulatory commissions in Arizona, California, Nevada, Ohio and South Carolina. Commission hearings have been completed in all of the four remaining states where we expect regulatory approval to be required (Illinois, Oregon, Washington and West Virginia) and we have reached settlement or an agreement with most of the intervening parties in all of those remaining states. We have also received, as of such date, all of the required video local franchise approvals for the Verizon Transaction subject to the satisfaction of certain conditions. Verizon has received a favorable ruling from the IRS regarding the tax consequences of the Verizon Transaction which was a condition to the Merger Agreement. As of February 26, 2010, none of the conditions imposed in the approval orders or settlements (which have generally focused on local rate stability; service quality metrics and reporting, capital investment (including commitments to expand broadband availability), pre-funding certain broadband expansion into restricted cash accounts at closing, and periodic reporting of certain operational and financial information) are expected to have a material impact on our plans to operate the Spinco properties.

Segment Information

We currently operate in only one reportable segment.

Financial Information about Foreign and Domestic Operations and Export Sales

We have no foreign operations.

General

Order backlog is not a significant consideration in our business. We have no material contracts or subcontracts that may be subject to renegotiation of profits or termination at the election of the Federal government. We hold no patents, licenses or concessions that are material.

Employees

As of December 31, 2009, we had approximately 5,400 employees. Approximately 2,800 of our employees are affiliated with a union. The number of union employees covered by agreements expiring during 2010 is approximately 750. We consider our relations with our employees to be good.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding the Company and other issuers that file electronically. Material filed by us can also be inspected at the offices of the New York Stock Exchange, Inc. (NYSE), 20 Broad Street, New York, NY 10005, on which our common stock is listed.

We make available, free of charge on our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as practicable after we electronically file these documents with, or furnish them to, the SEC. These documents may be accessed through our website at www.frontier.com under “Investor Relations.” The information posted or linked on our website is not part of this report.

We also make available on our website, or in printed form upon request, free of charge, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for the Audit, Compensation, and Nominating and Corporate Governance committees of the Board of Directors. Stockholders may request printed copies of these materials by writing to: 3 High Ridge Park, Stamford, Connecticut 06905 Attention: Corporate Secretary. Our website address is www.frontier.com.

Item 1A. Risk Factors

Before you make an investment decision with respect to any of our securities, you should carefully consider all the information we have included or incorporated by reference in this Form 10-K and our subsequent periodic filings with the SEC. In particular, you should carefully consider the risk factors described below and read the risks and uncertainties related to “forward-looking statements” as set forth in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Form 10-K. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties that are not presently known to us or that we currently deem immaterial or that are not specific to us, such as general economic conditions, may also adversely affect our business and operations. The following risk factors should be read in conjunction with MD&A and the consolidated financial statements and related notes included in this report.

Risks Related to the Verizon Transaction

References to "the Company" in this section refer to Frontier as the combined company following the closing of the Verizon Transaction, assuming the Verizon Transaction closes.

The Verizon Transaction may not be consummated on the terms or timeline currently contemplated or at all.

The consummation of the Verizon Transaction is subject to certain conditions, including (i) the availability of financing on terms that satisfy certain requirements (including with respect to pricing and maturity) and the receipt of the proceeds thereof that, taken together with any Spinco debt securities and the aggregate amount of Spinco indebtedness at the distribution date, equal $3.333 billion, (ii) the absence of a governmental order that would constitute a materially adverse regulatory condition, (iii) the receipt of applicable regulatory consents, (iv) the receipt of certain favorable tax rulings from the Internal Revenue Service (which have been obtained) and certain tax opinions, (v) the absence of a material adverse effect on Frontier or on Spinco or the Spinco business and (vi) other customary closing conditions. We can make no assurances that the Verizon Transaction will be consummated on the terms or timeline currently contemplated, or at all. We have and will continue to expend a significant amount of capital and management's time and resources on the Verizon Transaction, and a failure to consummate the transaction as currently contemplated, or at all, could have a material adverse effect on our business and results of operations. In addition, Spinco may (with Frontier's consent and participation) choose to raise all or a portion of the financing required to complete the Verizon Transaction described above prior to the closing of the Verizon Transaction. If Spinco does so, and if the Verizon transaction is ultimately not consummated or is delayed for a significant period of time, we could be obligated to pay significant interest expense and other costs in connection with the financing without ever achieving the expected benefits of the Verizon Transaction. The trading price of our securities could be adversely affected if the Verizon Transaction is not consummated as currently contemplated, or at all.

Frontier's effort to combine Frontier's business and the Spinco business may not be successful.

The acquisition of the Spinco business is the largest and most significant acquisition Frontier has undertaken. Our management will be required to devote a significant amount of time and attention to the process of integrating the operations of Frontier's business and the Spinco business, which may decrease the time it will have to serve existing customers, attract new customers and develop new services or strategies. We expect that the Spinco business will operate on an independent basis, separate from Verizon's other businesses and operations, immediately prior to the closing of the merger (other than with respect to the portion operated in West Virginia, which is expected to be ready for integration into Frontier's existing business at the closing of the merger) and will not require significant post-closing integration for Frontier to continue the operations of the Spinco business immediately after the merger. However, the size and complexity of the Spinco business and the process of using Frontier's existing common support functions and systems to manage the Spinco business after the merger, if not managed successfully by management, may result in interruptions of the business activities of the Company that could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, management will be required to devote a significant amount of time and attention before completion of the merger to the process of migrating the systems and processes supporting the operations of the Spinco business in West Virginia from systems owned and operated by Verizon to those owned and operated by Frontier. The size, complexity and timing of this migration, if not managed successfully by management, may result in interruptions of Frontier's business activities.

The Company may not realize the growth opportunities and cost synergies that are anticipated from the merger.

The success of the merger will depend, in part, on the ability of the Company to realize anticipated growth opportunities and cost synergies. The Company's success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of Frontier's business and operations and the Spinco business and operations. Even if the Company is able to integrate the Frontier and Spinco businesses and operations successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that Frontier currently expects from this integration within the anticipated time frame or at all. For example, the Company may be unable to eliminate duplicative costs, or the benefits from the merger may be offset by costs incurred or delays in integrating the companies.

After the close of the Verizon Transaction, sales of our common stock may negatively affect its market price.

The market price of Frontier common stock could decline as a result of sales of Frontier common stock in the market after the completion of the Verizon Transaction or the perception that these sales could occur.

Depending on the trading prices of Frontier common stock prior to the closing of the Verizon Transaction and before accounting for (1) the elimination of fractional shares and (2) any additional shares that may be issued as a result of 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 transaction (with the number of additional shares that may be issued under clause (2) above being restricted by certain regulatory and other covenants and conditions to the transaction as agreed to by the parties), Verizon stockholders will collectively own between approximately 66% and 71% of our outstanding equity immediately following the closing of the transaction.

If the assets contributed to Spinco by Verizon are insufficient to operate the Spinco business, it could adversely affect the Company's business, financial condition and results of operations.

Pursuant to the distribution agreement executed in connection with the Verizon Transaction, Verizon will contribute to Spinco defined assets and liabilities of its local exchange business and related landline activities in the Spinco territory, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory. The merger agreement provides that all the contributions will be made so that the Spinco business (other than the portion conducted in West Virginia) is segregated from Verizon's other businesses at least 60 days prior to the closing of the spin-off and merger. However, the contributed assets may not be sufficient to operate all aspects of the Spinco business and the Company may have to use assets or resources from Frontier's existing business or acquire additional assets in order to operate the Spinco business, which could adversely affect the Company's business, financial condition and results of operations.

Pursuant to the distribution agreement, Frontier has certain rights to cause Verizon to transfer to it any assets required to be contributed to Spinco under that agreement that were not contributed as required. If Verizon were unable or unwilling to transfer those assets to the Company, or if Verizon and Frontier were to disagree about whether those assets were required to be contributed to Spinco under the distribution agreement, the Company might not be able to obtain those assets or similar assets from others without significant costs or at all.

The Company's business, financial condition and results of operations may be adversely affected following the merger if it is not able to obtain consents to assign certain Verizon contracts to Spinco.

Certain wholesale, large business, Internet service provider and other customer contracts that are required to be assigned to Spinco by Verizon require the consent of the customer party to the contract to effect this assignment. Verizon and Frontier may be unable to obtain these consents on terms favorable to the Company or at all, which could have a material adverse impact on the Company's business, financial condition and results of operations following the merger.

Regulatory agencies may delay approval of the Verizon Transaction, fail to approve it, or approve it in a manner that may diminish the anticipated benefits of the merger.

Completion of the Verizon Transaction is conditioned upon the receipt of certain government consents, approvals, orders and authorizations. While Frontier and Verizon have obtained certain, and intend to pursue vigorously all other, required governmental approvals and do not know of any reason why they would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before completion of the Verizon Transaction could delay the completion of the Verizon Transaction. Any delay in the completion of the Verizon Transaction could diminish the anticipated benefits of the Verizon Transaction or result in additional transaction costs, loss of revenues or other effects associated with uncertainty about the transaction. Any uncertainty over the ability of the companies to complete the Verizon Transaction could make it more difficult for Frontier to maintain or to pursue particular business strategies. In addition, until the Verizon Transaction is completed, the attention of Frontier management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on obtaining regulatory approvals.

Further, governmental agencies may decline to grant required approvals, or they may impose conditions on their approval of the Verizon Transaction that could have an adverse effect on the Company's business, financial condition and results of operations. 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 Verizon Transaction will increase the aggregate number of shares of Frontier common stock to be issued pursuant to the merger agreement, and any such increase could be significant. If any governmental agency declines to grant any required approval for the Verizon Transaction, then the Verizon Transaction may not be consummated. In addition, conditions imposed by governmental agencies in connection with their approval of the Verizon Transaction (such as service quality or capital expenditure requirements) may restrict the Company's ability to modify the operations of its business in response to changing circumstances for a period of time after the closing of the merger and/or its ability to expend cash for other uses, including for payment of dividends.

The merger agreement contains provisions that may discourage other companies from trying to acquire Frontier.

The merger agreement contains provisions that may discourage a third party from submitting a business combination proposal to Frontier prior to the closing of the merger that might result in greater value to Frontier stockholders than the merger. The merger agreement generally prohibits Frontier from soliciting any acquisition proposal, and Frontier may not terminate the merger agreement in order to accept an alternative business combination proposal that might result in greater value to Frontier stockholders than the merger. If the merger agreement is terminated by Frontier or Verizon in certain circumstances, Frontier may be obligated to pay a termination fee of $80.0 million to Verizon, which would represent an additional cost for a potential third party seeking a business combination with Frontier.

Failure to complete the merger could adversely affect the trading price of Frontier's securities as well as Frontier's business, financial condition and results of operations.

If the merger is not completed for any reason, the trading price of Frontier's common stock may decline to the extent that the market price of the common stock reflects positive market assumptions that the merger will be completed and the related benefits will be realized. Frontier may also be subject to additional risks if the merger is not completed, including:

- the requirement in the merger agreement that, under certain circumstances, Frontier pay Verizon a termination fee of $80.0 million;

- substantial costs related to the merger, such as legal, accounting, filing, financial advisory, financial printing fees, and integration costs that have already been incurred or will continue up to closing. While the Company continues to evaluate certain other expenses, we currently expect to incur approximately $100.0 million of integration expenses and approximately $75.0 million of capital expenditures in 2010;

- substantial interest expense will be incurred if Spinco initiates the financing of the approximately $3.0 billion prior to closing; and

- potential disruption to the business of Frontier and distraction of its workforce and management team.

If the spin-off does not qualify as a tax-free spin-off under Section 355 of the Internal Revenue Code (the Code), including as a result of subsequent acquisitions of stock of Verizon or Frontier, then Verizon or Verizon stockholders may be required to pay substantial U.S. federal income taxes, and Frontier may be obligated to indemnify Verizon for such taxes imposed on Verizon.

The spin-off and merger are conditioned upon Verizon's receipt of a private letter ruling from the IRS to the effect that the spin-off and certain related transactions will qualify as tax-free to Verizon, Spinco and the Verizon stockholders for U.S. federal income tax purposes (the IRS ruling). A private letter ruling from the IRS generally is binding on the IRS. The favorable IRS private letter ruling has been received by Verizon. As expected, the IRS ruling does 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 IRS ruling is based on, among other things, certain representations and assumptions as to factual matters made by Verizon, Spinco 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 IRS ruling. In addition, the IRS ruling is based on current law, and cannot be relied upon if current law changes with retroactive effect.

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. If Section 355(e) applied, Verizon might recognize a very substantial amount of taxable gain.

Under a tax sharing agreement, in certain circumstances, and subject to certain limitations, Frontier is required to indemnify Verizon against 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 merger. In some cases, however, Verizon might recognize gain on the spin-off without being entitled to an indemnification payment under the tax sharing agreement.

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If the merger does not qualify as a tax-free reorganization under Section 368 of the Code, Frontier may be required to pay substantial U.S. federal income taxes.

Frontier expects that the merger will qualify as a tax-free reorganization under Section 368(a) of the Code, and the obligation of Frontier to consummate the merger is conditioned upon receiving an opinion of counsel to that effect. Such opinion will be based upon, among other things, certain representations and assumptions as to factual matters made by Verizon, Spinco 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 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 opinion will be based on current law, and cannot be relied upon if current law changes with retroactive effect. If the merger were 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.

Frontier will be unable to take certain actions after the merger because such actions could jeopardize the tax-free status of the spin-off or the merger, and such restrictions could be significant.

Frontier is prohibited pursuant to a tax sharing agreement from taking actions that could reasonably be expected to cause the spin-off to be taxable or to jeopardize the conclusions of the IRS ruling or opinions of counsel received by Verizon or Frontier. In particular, for two years after the spin-off, Frontier may not:

- enter into any agreement, understanding or arrangement or engage in any substantial negotiations with respect to any transaction involving the acquisition, issuance, repurchase or change of ownership of Frontier capital stock, or options or other rights in respect of Frontier capital stock, subject to certain exceptions relating to employee compensation arrangements, stock splits, open market stock repurchases and stockholder rights plans;

- permit certain wholly owned subsidiaries owned by Spinco at the time of the spin-off to cease the active conduct of the Spinco business to the extent it was conducted immediately prior to the spin-off; or

- voluntarily dissolve, liquidate, merge or consolidate with any other person, unless Frontier survives and the transaction otherwise complies with the restrictions in the tax sharing agreement.

The tax sharing agreement further restricts Frontier from prepaying, or modifying the terms of, the Spinco debt securities, if any.

Nevertheless, Frontier is permitted to take any of the actions described above if it obtains Verizon's consent, or if it obtains a supplemental IRS private letter ruling (or an opinion of counsel that is reasonably acceptable to Verizon) to the effect that the action will not affect the tax-free status of the spin-off or the merger. However, the receipt by Frontier of any such consent, opinion or ruling does not relieve Frontier of any obligation it has to indemnify Verizon for an action it takes that causes the spin-off to be taxable to Verizon.

Because of these restrictions, for two years after the merger, Frontier may be limited in the amount of capital stock that it can issue to make acquisitions or to raise additional capital. Also, Frontier's indemnity obligation to Verizon may discourage, delay or prevent a third party from acquiring control of Frontier during this two-year period in a transaction that stockholders of Frontier might consider favorable.

Investors holding shares of Frontier common stock immediately prior to the merger will, in the aggregate, have a significantly reduced ownership and voting interest after the merger.

After the merger's completion, Frontier stockholders will, in the aggregate, own a significantly smaller percentage of the Company than they will collectively own of Frontier immediately prior to the merger. Depending on the trading prices of Frontier common stock prior to the closing of the merger and before accounting for the elimination of fractional shares and adjustments for 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 and the spin-off, Frontier stockholders will collectively own between approximately 29% and 34% of the Company's outstanding equity immediately following the closing of the merger. Consequently, Frontier stockholder votes, collectively, will have significantly less influence over the policies of the Company than they would be able to exercise over the policies of Frontier immediately prior to the merger. Moreover, the number of shares of Frontier common stock to be issued to Verizon stockholders pursuant to the merger agreement 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 government approvals in the Spinco territory that are required to complete the merger or the spin-off, and any such increase may be significant. In addition, Verizon intends to exercise its right to designate three of the twelve members of the board of directors of the Company.

The pendency of the merger could adversely affect the business and operations of Frontier and the Spinco business.

In connection with the pending merger, some customers of each of Frontier and the Spinco business may delay or defer decisions or may end their relationships with the relevant company, which could negatively affect the revenues, earnings and cash flows of Frontier and the Spinco business, regardless of whether the merger is completed. Similarly, current and prospective employees of Frontier and the Spinco business may experience uncertainty about their future roles with the Company following the merger, which may materially adversely affect the ability of each of Frontier and the Spinco business to attract and retain key personnel during the pendency of the merger.

Risks Related to Frontier and the Company's Business Following the Merger

The risks discussed below in this section refer to the "Company" for ease of reference. The risks apply to Frontier as a stand-alone entity before the Verizon Transaction is completed, will continue to apply to Frontier if the Verizon Transaction is not completed for any reason and will also apply to the combined company assuming the Verizon Transaction closes.

The Company will likely face further reductions in access lines, switched access minutes of use, long distance revenues and federal and state subsidy revenues, which could adversely affect it.

The businesses that will make up the Company have experienced declining access lines, switched access minutes of use, long distance revenues, federal and state subsidies and related revenues because of economic conditions, increasing competition, changing consumer behavior (such as wireless displacement of wireline use, e-mail use, instant messaging and increasing use of VOIP), technology changes and regulatory constraint. For example, Frontier's access lines declined 6% in 2009 and 7% in 2008. In addition, Frontier's switched access minutes of use declined 12% in 2009 and 9% in 2008 (after excluding the switched access minutes added through acquisitons in 2007). The Spinco business's access lines declined 11.6% in 2009 and 10% in 2008. In addition, the Spinco business's switched access minutes of use declined 10% in 2009 and 11% in 2008. These factors, among others, are likely to cause the Company's local network service, switched network access, long distance and subsidy revenues to continue to decline, and these factors may cause the Company's cash generated by operations to decrease.

The Company will face intense competition, which could adversely affect it.

The communications industry is extremely competitive and competition is increasing. The traditional dividing lines between local, long distance, wireless, cable and Internet service providers are becoming increasingly blurred. Through mergers and various service expansion strategies, service providers are striving to provide integrated solutions both within and across geographic markets. The Company's competitors will include competitive local exchange carriers and other providers of services, such as Internet service providers, wireless companies, VOIP providers and cable companies that may provide services competitive with the services that the Company will offer or will intend to introduce. Competition will continue to be intense following the merger, and Frontier cannot assure you that the Company will be able to compete effectively. Frontier also believes that wireless and cable telephony providers have increased their penetration of various services in Frontier's and Spinco's markets. Frontier expects the Company to continue to lose access lines and that competition with respect to all the products and services of the Company will increase.

Frontier expects competition to intensify as a result of the entrance of new competitors, penetration of existing competitors into new markets, changing consumer behavior and the development of new technologies, products and services that can be used in substitution for the Company's products and services. Frontier cannot predict which of the many possible future technologies, products or services will be important in order to maintain the Company's competitive position or what expenditures will be required to develop and provide these technologies, products or services. The Company's ability to compete successfully will depend on the success and cost of capital expenditure investments in the Frontier and Spinco territories as well as the cost of marketing efforts and on the Company's ability to anticipate and respond to various competitive factors affecting the industry, including a changing regulatory environment that may affect the Company and its competitors differently, new services that may be introduced (including wireless broadband offerings), changes in consumer preferences, demographic trends, economic conditions and pricing strategies by competitors. Increasing competition may reduce the Company's revenues and increase the Company's marketing and other costs as well as require the Company to increase its capital expenditures and thereby decrease its cash flow.

Some of the Company's future competitors will have superior resources, which may place the Company at a cost and price disadvantage.

Some of the companies that will be competitors of the Company will have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than those of the Company. In addition, some of these future competitors will be able to raise capital at a lower cost than the Company. Consequently, some of these competitors may be able to develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily and devote greater resources to the marketing and sale of their products and services than the Company. Additionally, the greater brand name recognition of some future competitors may require the Company to price its services at lower levels in order to retain or obtain customers. Finally, the cost advantages of some of these competitors may give them the ability to reduce their prices for an extended period of time if they so choose.

The Company may be unable to grow its revenues and cash flows despite the initiatives Frontier has implemented and intends to continue after the merger.

The Company must produce adequate revenues and cash flows that, when combined with funds available under Frontier's revolving credit facility, will be sufficient to service the Company's debt, fund its capital expenditures, pay its taxes, fund its pension and other employee benefit obligations and pay dividends pursuant to its dividend policy. Frontier has identified some potential areas of opportunity and has implemented and will continue to implement several growth initiatives, including increasing marketing promotions and related 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” suite of products, including computer technical support. Frontier cannot assure you that management will choose the best initiatives to pursue, that their approaches to these opportunities will be successful or that these initiatives will improve the Company’s financial position or its results of operations.

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Weak economic conditions may decrease demand for the Company’s services.

The Company could be sensitive to the ongoing recession if current economic conditions or their effects continue. Downturns in the economy and competition in the Company’s markets could cause some of the Company’s customers to reduce or eliminate their purchases of the Company’s basic and enhanced services, HSI and video services and make it difficult for the Company to obtain new customers. In addition, if current economic conditions continue, they could cause the Company’s customers to delay or discontinue payment for its services.

Disruption in the Company’s networks, infrastructure and information technology may cause the Company to lose customers and incur additional expenses.

To attract and retain customers, the Company will need to provide customers with reliable service. Some of the risks to the Company’s networks, infrastructure and information technology include physical damage, security breaches, capacity limitations, power surges or outages, software defects and disruptions beyond its control, such as natural disasters and acts of terrorism. From time to time in the ordinary course of business, the Company could experience short disruptions in its service due to factors such as cable damage, inclement weather and service failures of the Company’s third-party service providers. The Company could experience more significant disruptions in the future. The Company could also face disruptions due to capacity limitations if changes in the Company’s customers’ usage patterns for its HSI services result in a significant increase in capacity utilization, such as through increased usage of video or peer-to-peer file sharing applications. Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the Company to lose customers and incur additional expenses, and thereby adversely affect its business, revenues and cash flows.

The Company’s business will be sensitive to the creditworthiness of its wholesale customers.

The Company will have substantial business relationships with other telecommunications carriers for whom it will provide service. While bankruptcies of these carriers have not had a material adverse effect on Frontier or the Spinco business in recent years, future bankruptcies in their industry could result in the loss of significant customers by the Company, as well as more price competition and uncollectible accounts receivable. Such bankruptcies may be more likely in the future if current economic conditions continue through 2010 or beyond. As a result, the Company’s revenues and results of operations could be materially and adversely affected.

A significant portion of the Company’s workforce will be represented by labor unions and will therefore be subject to collective bargaining agreements, and if the Company is unable to enter into new agreements or renew existing agreements before they expire, the Company workers subject to collective bargaining agreements could engage in strikes or other labor actions that could materially disrupt the Company’s ability to provide services to its customers.

As of December 31, 2009, Frontier had approximately 5,400 active employees. Approximately 2,800, or 52%, of these employees were represented by unions and were therefore subject to collective bargaining agreements. Of the union-represented employees, approximately 750, or 27%, are subject to collective bargaining agreements that expire in 2010 and approximately 1,200, or 43%, are subject to collective bargaining agreements that expire in 2011.

As of December 31, 2009, assuming the Verizon Transaction had taken place as of that date, Spinco would have had approximately 9,500 active employees. Approximately 6,800, or 72%, of these employees were represented by unions and were therefore subject to collective bargaining agreements. Of the union-represented employees, approximately 3,300, or 49%, are subject to collective bargaining agreements that expire in 2010.

Frontier cannot predict the outcome of negotiations for the collective bargaining agreements of the Company. If the Company is unable to reach new agreements or renew existing agreements, employees subject to collective bargaining agreements may engage in strikes, work slowdowns or other labor actions, which could materially disrupt the Company’s ability to provide services. New labor agreements or the renewal of existing agreements may impose significant new costs on the Company, which could adversely affect its financial condition and results of operations in the future.

The Company may complete a significant strategic transaction that may not achieve intended results or could increase the number of its outstanding shares or amount of outstanding debt or result in a change of control.

The management of the Company will evaluate and may in the future enter into additional strategic transactions. Any such transaction could happen at any time following the closing of the merger, could be material to the Company’s business and could take any number of forms, including, for example, an acquisition, merger or a sale of all or substantially all of the Company’s assets.

Evaluating potential transactions and integrating completed ones may divert the attention of the Company’s management from ordinary operating matters. The success of these potential transactions will depend, in part, on the Company’s ability to realize the anticipated growth opportunities and cost synergies through the successful integration of the businesses the Company acquires with its existing business. Even if the Company is successful in integrating the acquired businesses, Frontier cannot assure you that these integrations will result in the realization of the full benefit of any anticipated growth opportunities or cost synergies or that these benefits will be realized within the expected time frames. In addition, acquired businesses may have unanticipated liabilities or contingencies.

If the Company completes an acquisition, investment or other strategic transaction, the Company may require additional financing that could result in an increase in the number of its outstanding shares or the aggregate amount of its debt, although there are restrictions on the ability of the Company to issue additional shares of stock for these purposes for two years after the merger. See Risks Relating to the Verizon Transaction—“Frontier will be unable to take certain actions after the merger because such actions could jeopardize the tax-free status of the spin-off or the merger, and such restrictions could be significant.” The number of shares of the Company’s common stock or the aggregate principal amount of its debt that it may issue may be significant. A strategic transaction may result in a change in control of the Company or otherwise materially and adversely affect its business.

A significant portion of the Company’s work force is retirement eligible.

As of December 31, 2009, approximately 1,200, or 22%, of Frontier's approximately 5,400 active employees are retirement eligible. It is expected that a significant number of the Spinco employees are or will be retirement eligible at or prior to the time of closing of the Verizon Transaction. If these employees were to retire and could not be promptly replaced, customer service could be negatively impacted, which could have a material impact on the Company’s operations and financial results.

If the Company is unable to hire or retain key personnel, it may be unable to successfully operate its business.

The Company’s success will depend in part upon the continued services of its management. The Company cannot guarantee that these key personnel and others will not leave or compete with it. The loss, incapacity or unavailability for any reason of key members of the management team could have a material impact on the Company’s business. In addition, the Company’s financial results and its ability to compete will suffer should it become unable to attract, integrate or retain other qualified personnel in the future.

Risks Related to Liquidity, Financial Resources and Capitalization

The risks discussed below in this section refer to the "Company" for ease of reference. The risks apply to Frontier as a stand-alone entity before the Verizon Transaction is completed and will continue to apply to Frontier if the Verizon Transaction is not completed for any reason and will also apply to the combined company assuming the Verizon Transaction closes.

If the lingering impact of the severe contraction in the global financial markets and current economic conditions continue through 2010, this economic scenario may have an impact on the Company's business and financial condition.

The diminished availability of credit and liquidity due to the lingering impact of the severe contraction in the global financial markets and current economic conditions may continue through 2010. This economic scenario may affect the financial health of the Company's customers, vendors and partners, which in turn may negatively affect the Company's revenues, operating expenses and cash flows. In addition, although Frontier believes, based on currently available information, that the financial institutions that have outstanding commitments under Frontier's revolving credit facility will be able to fulfill their commitments to the Company, if the current economic environment and the recent severe contraction in the global financial markets continue through 2010 or beyond, this could change in the future. It is Frontier's intention to replace its existing $250.0 million revolving credit facility with a significantly larger facility by the closing date of the Verizon Transaction.

Volatility in asset values related to Frontier's pension plan and our assumption of Spinco's pension plan obligations may require us to make cash contributions to fund pension plan liabilities.

As a result of the ongoing payment of benefits and negative investment returns arising from a contraction in the global financial markets, Frontier's pension plan assets have declined from $822.2 million at December 31, 2007, to $608.6 million at December 31, 2009, a decrease of $213.6 million, or 26%. This decrease consisted of a decline in asset value of $72.8 million, or 9%, and benefits paid of $140.8 million, or 17%. As a result of the continued accrual of pension benefits under the applicable pension plan and the cumulative negative investment returns arising from the contraction of the global financial markets since 2007, Frontier's pension expenses increased in 2009. While the pension asset values have increased in 2009, Frontier expects to make a cash contribution to its pension plan of $10.0 million in 2010. Once the merger is consummated, the Company will maintain Frontier's pension plan and will be responsible for contributions to fund the plan's liabilities, and may be required to continue making these cash contributions in respect of liabilities under Frontier's pension plan. The Company will also, upon consummation of the merger, maintain pension plans that assume the Spinco business's pension plan liabilities for active employees. The applicable Verizon tax-qualified pension plans will transfer assets to the Spinco pension plans pursuant to applicable law and the terms of the employee matters agreement entered into among Verizon, Spinco and Frontier. The aggregate transfer related to the tax-qualified pension plans for active union employees will be sufficient for full funding of projected benefit obligations in the aggregate. Following the merger, the Company will be responsible for making any required contributions to the new pension plans to fund liabilities of the plans, and the ongoing pension expenses of the Spinco business may require the Company to make cash contributions in respect of the Spinco business's pension plan liabilities.

Substantial debt and debt service obligations may adversely affect us.

We have a significant amount of indebtedness, which amounted to approximately $4.8 billion at December 31, 2009. We may also obtain additional long-term debt and working capital lines of credit to meet future financing needs, subject to certain restrictions under the terms of our existing indebtedness, which would increase our total debt. If the Verizon Transaction is completed, the Company will have additional indebtedness in the amount of approximately $3.4 billion at the closing of the Verizon Transaction. Despite the substantial additional indebtedness that the Company would then have, the Company would not be prohibited from incurring even more indebtedness. If the Verizon Transaction is completed and the Company was to incur additional indebtedness, the risks that result from our substantial indebtedness could be magnified.

The potential significant negative consequences on our financial condition and results of operations that could result from our substantial debt include: