

FRONTIER COMMUNICATIONS CORPORATION

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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

(State or other jurisdiction of
incorporation or organization)

06-0619596

(I.R.S. Employer Identification No.)

3 High Ridge Park
Stamford, Connecticut

(Address of principal executive offices)

06905

(Zip Code)

(203) 614-5600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 X No ___

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 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

The number of shares outstanding of the registrant’s Common Stock as of July 23, 2010 was 992,020,000.

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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Explanatory Note

Effective July 1, 2010, Frontier's scope of operations and balance sheet capitalization changed materially as a result of the completion of the Verizon Transaction, as described in Note 3 of the Notes to Consolidated Financial Statements. Historical financial and operating data presented for Frontier is not indicative of future results. The financial discussion represents an analysis of our results of operations on a historical basis for our Frontier legacy operations as of and for the three and six months ended June 30, 2010 and 2009.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(\$ in thousands)

	(Unaudited) June 30, 2010	December 31, 2009
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 231,155	\$ 358,693
Transaction escrow	125,518	-
Accounts receivable, less allowances of \$30,761 and \$30,171, respectively	201,757	190,745
Prepaid expenses	21,520	28,081
Income taxes and other current assets	60,360	102,561
Total current assets	<u>640,310</u>	<u>680,080</u>
Property, plant and equipment, net	3,116,201	3,133,521
Goodwill, net	2,642,323	2,642,323
Other intangibles, net	219,622	247,527
Other assets	177,366	174,804
Total assets	<u>\$ 6,795,822</u>	<u>\$ 6,878,255</u>
<u>LIABILITIES AND EQUITY</u>		
Current liabilities:		
Long-term debt due within one year	\$ 7,215	\$ 7,236
Accounts payable	110,424	139,556
Other current liabilities	246,130	245,885
Total current liabilities	<u>363,769</u>	<u>392,677</u>
Deferred income taxes	736,401	722,192
Other liabilities	625,297	630,187
Long-term debt	4,798,822	4,794,129
Equity:		
Shareholders' equity of Frontier:		
Common stock, \$0.25 par value (1,750,000,000 and 600,000,000 authorized shares, respectively, 313,392,000 and 312,328,000 outstanding, respectively, and 349,456,000 issued at June 30, 2010 and December 31, 2009)	87,364	87,364
Additional paid-in capital	866,423	956,401
Retained earnings	2,091	2,756
Accumulated other comprehensive loss, net of tax	(237,565)	(245,519)
Treasury stock	(458,465)	(473,391)
Total shareholders' equity of Frontier	<u>259,848</u>	<u>327,611</u>
Noncontrolling interest in a partnership	11,685	11,459
Total equity	<u>271,533</u>	<u>339,070</u>
Total liabilities and equity	<u>\$ 6,795,822</u>	<u>\$ 6,878,255</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION (Continued)

**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009
(\$ in thousands, except for per-share amounts)
(Unaudited)**

	<u>2010</u>	<u>2009</u>
Revenue	\$ 516,137	\$ 532,142
Operating expenses:		
Network access expenses	53,139	59,203
Other operating expenses	189,649	192,754
Depreciation and amortization	99,974	132,818
Acquisition and integration costs	<u>36,964</u>	<u>10,751</u>
Total operating expenses	<u>379,726</u>	<u>395,526</u>
Operating income	136,411	136,616
Investment income	3,500	1,263
Other income, net	6,334	3,355
Interest expense	<u>93,968</u>	<u>98,670</u>
Income before income taxes	52,277	42,564
Income tax expense	<u>16,338</u>	<u>14,254</u>
Net income	35,939	28,310
Less: Income attributable to the noncontrolling interest in a partnership	<u>818</u>	<u>392</u>
Net income attributable to common shareholders of Frontier	<u>\$ 35,121</u>	<u>\$ 27,918</u>
Basic and diluted net income per common share attributable to common shareholders of Frontier	<u>\$ 0.11</u>	<u>\$ 0.09</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION (Continued)

**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(\$ in thousands, except for per-share amounts)
(Unaudited)**

	<u>2010</u>	<u>2009</u>
Revenue	\$ <u>1,035,986</u>	\$ <u>1,070,098</u>
Operating expenses:		
Network access expenses	106,682	119,887
Other operating expenses	382,674	392,958
Depreciation and amortization	201,023	270,376
Acquisition and integration costs	<u>47,334</u>	<u>10,751</u>
Total operating expenses	<u>737,713</u>	<u>793,972</u>
Operating income	298,273	276,126
Investment income	5,997	4,825
Other income, net	11,290	8,040
Interest expense	<u>187,755</u>	<u>187,419</u>
Income before income taxes	127,805	101,572
Income tax expense	<u>48,394</u>	<u>36,307</u>
Net income	79,411	65,265
Less: Income attributable to the noncontrolling interest in a partnership	<u>1,725</u>	<u>1,044</u>
Net income attributable to common shareholders of Frontier	\$ <u><u>77,686</u></u>	\$ <u><u>64,221</u></u>
Basic and diluted net income per common share attributable to common shareholders of Frontier	\$ <u><u>0.25</u></u>	\$ <u><u>0.20</u></u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION (Continued)

**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY**

FOR THE SIX MONTHS ENDED JUNE 30, 2009, THE SIX MONTHS ENDED DECEMBER 31, 2009 AND THE SIX MONTHS ENDED JUNE 30, 2010

**(\$ and shares in thousands, except for per-share amounts)
(Unaudited)**

	Frontier Shareholders								Total Equity
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Noncontrolling Interest	
	Shares	Amount				Shares	Amount		
Balance January 1, 2009	349,456	\$ 87,364	\$ 1,117,936	\$ 38,163	\$ (237,152)	(38,142)	\$ (487,266)	\$ 10,561	\$ 529,606
Stock plans	-	-	(11,188)	-	-	1,049	14,113	-	2,925
Dividends on common stock of \$0.50 per share	-	-	(78,085)	(78,099)	-	-	-	-	(156,184)
Net income	-	-	-	64,221	-	-	-	1,044	65,265
Other comprehensive income, net of tax	-	-	-	-	8,049	-	-	-	8,049
Distributions	-	-	-	-	-	-	-	(1,500)	(1,500)
Balance June 30, 2009	349,456	87,364	1,028,663	24,285	(229,103)	(37,093)	(473,153)	10,105	448,161
Stock plans	-	-	5,829	-	-	(35)	(238)	-	5,591
Dividends on common stock of \$0.50 per share	-	-	(78,091)	(78,091)	-	-	-	-	(156,182)
Net income	-	-	-	56,562	-	-	-	1,354	57,916
Other comprehensive loss, net of tax	-	-	-	-	(16,416)	-	-	-	(16,416)
Balance December 31, 2009	349,456	87,364	956,401	2,756	(245,519)	(37,128)	(473,391)	11,459	339,070
Stock plans	-	-	(11,623)	-	-	1,064	14,926	-	3,303
Dividends on common stock of \$0.50 per share	-	-	(78,355)	(78,351)	-	-	-	-	(156,706)
Net income	-	-	-	77,686	-	-	-	1,725	79,411
Other comprehensive income, net of tax	-	-	-	-	7,954	-	-	-	7,954
Distributions	-	-	-	-	-	-	-	(1,499)	(1,499)
Balance June 30, 2010	<u>349,456</u>	<u>\$ 87,364</u>	<u>\$ 866,423</u>	<u>\$ 2,091</u>	<u>\$ (237,565)</u>	<u>(36,064)</u>	<u>\$ (458,465)</u>	<u>\$ 11,685</u>	<u>\$ 271,533</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(\$ in thousands)
(Unaudited)**

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
Net income	\$ 35,939	\$ 28,310	\$ 79,411	\$ 65,265
Other comprehensive income, net of tax	<u>3,977</u>	<u>4,018</u>	<u>7,954</u>	<u>8,049</u>
Comprehensive income	39,916	32,328	87,365	73,314
Less: Comprehensive income attributable to the noncontrolling interest in a partnership	<u>(818)</u>	<u>(392)</u>	<u>(1,725)</u>	<u>(1,044)</u>
Comprehensive income attributable to the common shareholders of Frontier	<u>\$ 39,098</u>	<u>\$ 31,936</u>	<u>\$ 85,640</u>	<u>\$ 72,270</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION (Continued)

**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(\$ in thousands)
(Unaudited)**

	<u>2010</u>	<u>2009</u>
Cash flows provided by (used in) operating activities:		
Net income	\$ 79,411	\$ 65,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	201,023	270,376
Stock based compensation expense	5,228	4,561
Pension costs	12,159	16,454
Gain on extinguishment of debt	-	(3,664)
Other non-cash adjustments	(3,423)	(1,702)
Deferred income taxes	6,236	8,319
Change in accounts receivable	(6,537)	10,231
Change in accounts payable and other liabilities	(24,751)	(21,287)
Change in prepaid expenses, income taxes and other current assets	48,224	(18,223)
Net cash provided by operating activities	<u>317,570</u>	<u>330,330</u>
Cash flows provided from (used by) investing activities:		
Capital expenditures - Business operations	(93,350)	(107,757)
Capital expenditures - Integration activities	(62,353)	(2,607)
Transaction escrow	(125,518)	-
Other assets purchased and distributions received, net	(134)	628
Net cash used by investing activities	<u>(281,355)</u>	<u>(109,736)</u>
Cash flows provided from (used by) financing activities:		
Long-term debt borrowings	-	538,830
Long-term debt payments	(1,955)	(309,954)
Financing costs paid	(3,225)	(911)
Issuance of common stock	-	680
Dividends paid	(156,706)	(156,184)
Repayment of customer advances for construction and distributions to noncontrolling interests	(1,867)	(2,580)
Net cash (used by) provided from financing activities	<u>(163,753)</u>	<u>69,881</u>
Increase (decrease) in cash and cash equivalents	(127,538)	290,475
Cash and cash equivalents at January 1,	358,693	163,627
Cash and cash equivalents at June 30,	<u>\$ 231,155</u>	<u>\$ 454,102</u>
Cash paid during the period for:		
Interest	\$ 180,863	\$ 181,066
Income taxes (refunds)	\$ (805)	\$ 40,458

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies:

(a) Basis of Presentation and Use of Estimates:

Frontier Communications Corporation and its subsidiaries are referred to as “we,” “us,” “our,” or the “Company” in this report. Our unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2009. Certain reclassifications of balances previously reported have been made to conform to the current presentation. All significant intercompany balances and transactions have been eliminated in consolidation. These unaudited consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the results for the interim periods shown. For our financial statements as of and for the periods ended June 30, 2010, we evaluated subsequent events through the date that we filed this quarterly report on Form 10-Q with the Securities and Exchange Commission (SEC).

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates. Estimates and judgments are used when accounting for allowance for doubtful accounts, impairment of long-lived assets, intangible assets, depreciation and amortization, income taxes, purchase price allocations, contingencies, and pension and other postretirement benefits, among others. Certain information and footnote disclosures have been excluded and/or condensed pursuant to Securities and Exchange Commission rules and regulations. The results of the interim periods are not necessarily indicative of the results for the full year.

(b) Revenue Recognition:

Revenue is recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes: monthly recurring network access services, special access services and monthly recurring local line and unlimited fixed long distance bundle charges. The unearned portion of these fees is initially deferred as a component of other liabilities on our consolidated balance sheet and recognized as revenue over the period that the services are provided. Revenue that is billed in arrears includes: non-recurring network access services, switched access services, non-recurring local services and long-distance services. The earned but unbilled portion of these fees is recognized as revenue in our consolidated statements of operations and accrued in accounts receivable in the period that the services are provided. Excise taxes are recognized as a liability when billed. Installation fees and their related direct and incremental costs are initially deferred and recognized as revenue and expense over the average term of a customer relationship. We recognize as current period expense the portion of installation costs that exceeds installation fee revenue.

The Company collects various taxes from its customers and subsequently remits such funds to governmental authorities. Substantially all of these taxes are recorded through the consolidated balance sheet and presented on a net basis in our consolidated statements of operations. We also collect Universal Service Fund (USF) surcharges from customers (primarily federal USF) which we have recorded on a gross basis in our consolidated statements of operations and included in revenue and other operating expenses at \$11.4 million and \$8.7 million for the three months ended June 30, 2010 and 2009, respectively, and \$21.7 million and \$16.2 million for the six months ended June 30, 2010 and 2009, respectively.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(c) Goodwill and Other Intangibles:

Intangibles represent the excess of purchase price over the fair value of identifiable tangible net assets acquired. We undertake studies to determine the fair values of assets and liabilities acquired and allocate purchase prices to assets and liabilities, including property, plant and equipment, goodwill and other identifiable intangibles. We annually (during the fourth quarter) or more frequently, if appropriate, examine the carrying value of our goodwill and trade name to determine whether there are any impairment losses. We test for goodwill impairment at the “operating segment” level, as that term is defined in Accounting Standards Codification (ASC) Topic 350 (formerly Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets”). The Company has three “operating segments.” Our “operating segments” are aggregated into one reportable segment.

ASC Topic 350 requires that intangible assets with estimated useful lives be amortized over those lives and be reviewed for impairment in accordance with ASC Topic 360 (formerly SFAS No. 144, “Accounting for Impairment or Disposal of Long-Lived Assets”) to determine whether any changes to these lives are required. We periodically reassess the useful lives of our intangible assets to determine whether any changes are required.

(2) Recent Accounting Literature and Changes in Accounting Principles:

Business Combinations

In December 2007, the FASB revised SFAS No. 141, “Business Combinations” (currently ASC Topic 805). The revised statement, SFAS No. 141R (ASC Topic 805), as amended by FSP SFAS No. 141(R)-1 (ASC Topic 805), requires an acquiring entity to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date at fair value, to recognize and measure preacquisition contingencies, including contingent consideration, at fair value (if possible), to remeasure liabilities related to contingent consideration at fair value in each subsequent reporting period and to expense all acquisition related costs. The effective date of SFAS No. 141R (ASC Topic 805) was for business combinations for which the acquisition date was on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We will account for our acquisition of approximately 4.0 million access lines (as of the date of closing on July 1, 2010) from Verizon Communications Inc. (Verizon) (the Verizon Transaction) using the guidance included in SFAS No. 141R (ASC Topic 805). We incurred approximately \$37.0 million and \$10.8 million of acquisition and integration costs in connection with the Verizon Transaction during the three months ended June 30, 2010 and 2009, respectively, and approximately \$47.3 million and \$10.8 million for the six months ended June 30, 2010 and 2009, respectively. In accordance with SFAS No. 141R (ASC Topic 805), such costs are required to be expensed as incurred and are reflected in “Acquisition and integration costs” in our consolidated statements of operations.

(3) The Verizon Transaction:

On July 1, 2010, pursuant to an Agreement and Plan of Merger, dated as of May 13, 2009, as amended, by and among Verizon, New Communications Holdings Inc. (Spinco) and Frontier (the Merger Agreement), Spinco merged with and into Frontier, with Frontier surviving as the combined company and conducting the combined business operations of Frontier and the Spinco business, as defined below (the Merger). Immediately prior to the Merger, Spinco, a subsidiary of Verizon holding the 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 (the Spinco business), was spun off to Verizon shareholders (the Spin-Off and, together with the Merger and other related transactions, the Verizon Transaction). As a result of the Merger, Frontier also serves approximately 300 customers in a portion of Virginia bordering West Virginia.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of July 1, 2010, Spinco had approximately 4.0 million access lines in 14 states and approximately 9,200 employees. Spinco had operating revenues of approximately \$4.1 billion for the year ended December 31, 2009 and approximately \$1.9 billion for the six months ended June 30, 2010.

On March 24, 2010, we entered into a new \$750.0 million revolving credit facility (the New Credit Facility) that became effective on July 1, 2010, concurrently with the closing of the Merger and the termination of the Company's previously existing revolving credit facility. The terms of the New Credit Facility are set forth in the Credit Agreement, dated as of March 23, 2010, among the Company, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (the Credit Agreement). Associated facility fees under the New Credit Facility will vary from time to time depending on the Company's credit rating (as defined in the Credit Agreement). The New Credit Facility is scheduled to terminate on January 1, 2014. During the term of the New Credit Facility, the Company may borrow, repay and reborrow funds, and may obtain letters of credit, subject to customary borrowing conditions. Loans under the New Credit Facility will bear interest based on the alternate base rate or the adjusted LIBOR rate (each as determined in the Credit Agreement), at the Company's election, plus a margin specified in the Credit Agreement based on the Company's credit rating. Letters of credit issued under the New Credit Facility will also be subject to fees that vary depending on the Company's credit rating. The New Credit Facility will be available for general corporate purposes but may not be used to fund dividend payments.

On April 12, 2010, Spinco completed a private offering for \$3.2 billion aggregate principal amount of Senior Notes (the Senior Notes). The gross proceeds of the offering, plus \$125.5 million (equal to the amount of interest that will accrue on the notes from April 12, 2010 to October 1, 2010; the Transaction Escrow) contributed by Frontier, were deposited into an escrow account. Immediately prior to the Spin-Off and the completion of the Merger, the proceeds of the notes offering (less the initial purchasers' discount) were released from the escrow account and used to make a special cash payment by Spinco to Verizon, as contemplated by the Verizon Transaction, with amounts in excess of the special cash payment and the initial purchaser's discount retained by the Company (approximately \$53.0 million). In addition, the \$125.5 million Transaction Escrow was returned to the Company.

The Senior Notes consist of \$500.0 million aggregate principal amount of Senior Notes due 2015 (the 2015 Notes), \$1.1 billion aggregate principal amount of Senior Notes due 2017 (the 2017 Notes), \$1.1 billion aggregate principal amount of Senior Notes due 2020 (the 2020 Notes) and \$500.0 million aggregate principal amount of Senior Notes due 2022 (the 2022 Notes).

The 2015 Notes have an interest rate of 7.875% per annum, the 2017 Notes have an interest rate of 8.25% per annum, the 2020 Notes have an interest rate of 8.50% per annum and the 2022 Notes have an interest rate of 8.75% per annum. The Senior Notes were issued at a price equal to 100% of their face value. The Senior Notes were sold in a private placement that was exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). We have filed with the SEC a registration statement on Form S-4 for the purpose of exchanging up to the entire amount of outstanding Senior Notes for registered notes (the Exchange Offer). We commenced the Exchange Offer on July 15, 2010.

Upon completion of the Merger on July 1, 2010, we entered into a supplemental indenture with The Bank of New York Mellon, as Trustee, pursuant to which we assumed the obligations under the Senior Notes.

With respect to our acquisition of Spinco, the final allocation of the purchase price will be based on the fair values of assets acquired and liabilities assumed as of July 1, 2010, the effective date of the Merger. The final allocation is dependent upon valuations and other studies that have not been completed. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete at this time. As a result, we are unable to provide the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed. We will

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

include this information in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010. On July 1, 2010, as a result of the Merger, the Company's equity balance increased by \$5.25 billion upon the issuance of 678,530,386 shares of Frontier common stock and its long-term debt balance increased by \$3.5 billion for long-term debt assumed by the Company.

The fair value of consideration issued to acquire Spincor amounted to \$5.3 billion and included \$5.25 billion for the issuance of Frontier common shares. As a result of the Merger, Verizon stockholders received 678,530,386 shares of Frontier common stock which is an amount equal to (1) \$5,247,000,000, divided by (2) \$7.7329, which was the average of the volume-weighted averages of the trading prices of Frontier common stock for the 30 consecutive trading days ending on the third trading day before the closing of the Merger, provided that the trading price for a share of Frontier common stock for each day before the stock began trading ex-dividend during this 30 day period was reduced for purposes of this calculation by the amount of the dividend payable. Immediately after the closing of the Merger, Verizon stockholders owned approximately 68.4% of the combined company's outstanding equity, and existing Frontier stockholders owned approximately 31.6% of the combined company's outstanding equity.

For federal income tax purposes, the Merger of Spincor into Frontier on July 1, 2010 is treated as an acquisition of Frontier by Verizon shareholders since Verizon shareholders, after the Merger, owned a majority of the shares of the combined companies. Because the Merger was a stock for stock transaction, Spincor's and Frontier's assets will retain their historical tax bases and holding periods. In the third quarter of 2010, Frontier will write off certain deferred tax assets currently estimated at approximately \$12 million related to transaction costs which are not tax deductible. These costs were incurred to facilitate the Merger and as such must be capitalized for tax purposes. As a result, Frontier's effective tax rate for the third quarter and 2010 tax year will increase relative to prior periods.

Since the initial accounting for the business combination is incomplete at this time, as discussed above, we are unable to provide the pro forma revenues and earnings of the combined company. We will include this information in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Accounts Receivable:

The components of accounts receivable, net at June 30, 2010 and December 31, 2009 are as follows:

<u>(\$ in thousands)</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
End user	\$ 211,420	\$ 205,384
Other	21,098	15,532
Less: Allowance for doubtful accounts	<u>(30,761)</u>	<u>(30,171)</u>
Accounts receivable, net	<u>\$ 201,757</u>	<u>\$ 190,745</u>

We maintain an allowance for estimated bad debts based on our estimate of our ability to collect our accounts receivable. Bad debt expense, which is recorded as a reduction to revenue, was \$5.2 million and \$7.6 million for the three months ended June 30, 2010 and 2009, respectively and \$11.4 million and \$14.3 million for the six months ended June 30, 2010 and 2009, respectively.

(5) Property, Plant and Equipment:

Property, plant and equipment at June 30, 2010 and December 31, 2009 is as follows:

<u>(\$ in thousands)</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Property, plant and equipment	\$ 7,939,604	\$ 7,803,062
Less: Accumulated depreciation	<u>(4,823,403)</u>	<u>(4,669,541)</u>
Property, plant and equipment, net	<u>\$ 3,116,201</u>	<u>\$ 3,133,521</u>

Depreciation expense is principally based on the composite group method. Depreciation expense was \$85.9 million and \$91.4 million for the three months ended June 30, 2010 and 2009, respectively, and \$172.9 million and \$184.3 million for the six months ended June 30, 2010 and 2009, respectively. Effective with the completion of an independent study of the estimated useful lives of our plant assets we adopted new lives beginning October 1, 2009.

(6) Other Intangibles:

The components of other intangibles at June 30, 2010 and December 31, 2009 are as follows:

<u>(\$ in thousands)</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Customer base	\$ 270,309	\$ 270,309
Trade name and license	<u>134,880</u>	<u>134,680</u>
Other intangibles	405,189	404,989
Less: Accumulated amortization	<u>(185,567)</u>	<u>(157,462)</u>
Total other intangibles, net	<u>\$ 219,622</u>	<u>\$ 247,527</u>

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amortization expense was \$14.1 million and \$41.4 million for the three months ended June 30, 2010 and 2009, respectively, and \$28.2 million and \$86.1 million for the six months ended June 30, 2010 and 2009, respectively. Amortization expense for the three and six months ended June 30, 2010 and 2009 included \$14.1 million and \$28.2 million, respectively, for intangible assets (customer base and trade name) that were acquired in the acquisitions of Commonwealth Telephone Enterprises, Inc., Global Valley Networks, Inc. and GVN Services. Amortization expense for the three and six months ended June 30, 2009 included \$27.3 million and \$57.9 million, respectively, for amortization associated with certain Frontier legacy properties, which were fully amortized in June 2009.

(7) Fair Value of Financial Instruments:

The following table summarizes the carrying amounts and estimated fair values for certain of our financial instruments at June 30, 2010 and December 31, 2009. For the other financial instruments, representing cash, accounts receivable, long-term debt due within one year, accounts payable and other current liabilities, the carrying amounts approximate fair value due to the relatively short maturities of those instruments. Other equity method investments, for which market values are not readily available, are carried at cost, which approximates fair value.

The fair value of our long-term debt is estimated based on quoted market prices at the reporting date for those financial instruments.

(\$ in thousands)

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 4,798,822	\$ 4,575,147	\$ 4,794,129	\$ 4,628,132

(8) Long-Term Debt:

The activity in our long-term debt from December 31, 2009 to June 30, 2010 is summarized as follows:

(\$ in thousands)	December 31, 2009	Six months ended June 30, 2010		June 30, 2010	Interest Rate* at June 30, 2010
		Payments	New Borrowings		
Rural Utilities Service Loan Contracts	\$ 15,600	\$ (530)	\$ -	\$ 15,070	6.07%
Senior Unsecured Debt	4,855,001	(1,425)	-	4,853,576	7.88%
Industrial Development Revenue Bonds	13,550	-	-	13,550	6.33%
TOTAL LONG-TERM DEBT	\$ 4,884,151	\$ (1,955)	\$ -	\$ 4,882,196	7.87%
Less: Debt Discount	(82,786)			(76,159)	
Less: Current Portion	(7,236)			(7,215)	
	<u>\$ 4,794,129</u>			<u>\$ 4,798,822</u>	

* Interest rate includes amortization of debt issuance costs, debt premiums or discounts, and deferred gain on interest rate swap terminations. The interest rates at June 30, 2010 represent a weighted average of multiple issuances.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Additional information regarding our Senior Unsecured Debt as of June 30, 2010 and December 31, 2009 is as follows:

<i>(\$ in thousands)</i>	June 30, 2010		December 31, 2009	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Senior Notes:				
Due 5/15/2011	\$ 76,089	9.250%	\$ 76,089	9.250%
Due 10/24/2011	200,000	6.270%	200,000	6.270%
Due 12/31/2012	144,750	2.000% (Variable)	145,500	1.625% (Variable)
Due 1/15/2013	580,724	6.250%	580,724	6.250%
Due 12/31/2013	131,963	2.375% (Variable)	132,638	2.000% (Variable)
Due 5/1/2014	600,000	8.250%	600,000	8.250%
Due 3/15/2015	300,000	6.625%	300,000	6.625%
Due 10/1/2018	600,000	8.125%	600,000	8.125%
Due 3/15/2019	434,000	7.125%	434,000	7.125%
Due 1/15/2027	345,858	7.875%	345,858	7.875%
Due 8/15/2031	945,325	9.000%	945,325	9.000%
	4,358,709		4,360,134	
Debentures:				
Due 11/1/2025	138,000	7.000%	138,000	7.000%
Due 8/15/2026	1,739	6.800%	1,739	6.800%
Due 10/1/2034	628	7.680%	628	7.680%
Due 7/1/2035	125,000	7.450%	125,000	7.450%
Due 10/1/2046	193,500	7.050%	193,500	7.050%
	458,867		458,867	
Subsidiary Senior				
Notes due 12/1/2012	36,000	8.050%	36,000	8.050%
	36,000		36,000	
Total	\$ 4,853,576	7.88%	\$ 4,855,001	7.86%

On April 9, 2009, we completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of our 9.25% Senior Notes due May 15, 2011, \$40.0 million of our 7.875% Senior Notes due January 15, 2027 and \$16.0 million of our 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in other income, net in our consolidated statements of operations for the three and six months ended June 30, 2009.

As of June 30, 2010, we had an available line of credit under our revolving credit facility with seven financial institutions in the aggregate amount of \$250.0 million. This facility was replaced on July 1, 2010 with a \$750.0 million credit facility upon completion of the Verizon Transaction (see Note 3).

As of June 30, 2010, we were in compliance with all of our debt and credit facility financial covenants.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our principal payments for the next five years are as follows as of June 30, 2010:

<i>(\$ in thousands)</i>	Principal Payments	Debt Assumed Upon Merger
2010 (remaining six months)	\$ 5,281	\$ -
2011	\$ 279,956	\$ -
2012	\$ 180,366	\$ -
2013	\$ 709,855	\$ -
2014	\$ 600,517	\$ -
2015	\$ 300,549	\$ 500,000

(9) Net Income Per Common Share:

The reconciliation of the net income per common share calculation for the three and six months ended June 30, 2010 and 2009, respectively, is as follows:

<i>(\$ in thousands, except per share amounts)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
<u>Net income used for basic and diluted earnings per common share:</u>				
Net income attributable to common shareholders of Frontier	\$ 35,121	\$ 27,918	\$ 77,686	\$ 64,221
Less: Dividends allocated to unvested restricted stock awards	(734)	(566)	(1,375)	(1,142)
Total basic and diluted net income attributable to common shareholders of Frontier	\$ 34,387	\$ 27,352	\$ 76,311	\$ 63,079
<u>Basic earnings per common share:</u>				
Total weighted-average shares and unvested restricted stock awards outstanding - basic	313,401	312,361	313,095	312,052
Less: Weighted-average unvested restricted stock awards	(2,737)	(2,266)	(2,583)	(2,109)
Total weighted-average shares outstanding - basic	310,664	310,095	310,512	309,943
Net income per share attributable to common shareholders of Frontier	\$ 0.11	\$ 0.09	\$ 0.25	\$ 0.20
<u>Diluted earnings per common share:</u>				
Total weighted-average shares outstanding - basic	310,664	310,095	310,512	309,943
Effect of dilutive restricted stock awards	-	-	286	-
Effect of dilutive units	473	-	-	-
Total weighted-average shares outstanding - diluted	311,137	310,095	310,798	309,943
Net income per share attributable to common shareholders of Frontier	\$ 0.11	\$ 0.09	\$ 0.25	\$ 0.20

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock Options

For the three and six months ended June 30, 2010 and 2009, options to purchase 3,547,000 shares and 3,565,000 shares, respectively, (at exercise prices ranging from \$8.19 to \$18.46) issuable under employee compensation plans were excluded from the computation of diluted earnings per share (EPS) for those periods because the exercise prices were greater than the average market price of our common stock and, therefore, the effect would be antidilutive. In calculating diluted EPS we apply the treasury stock method and include future unearned compensation as part of the assumed proceeds.

In addition, for the three and six months ended June 30, 2010 and 2009, the impact of dividends paid on unvested restricted stock awards have been deducted from net income attributable to common shareholders of Frontier in accordance with FSP EITF No. 03-6-1, (ASC Topic 260) which we adopted in the first quarter of 2009 on a retrospective basis.

Stock Units

At June 30, 2010 and 2009, we had 472,120 and 411,889 stock units, respectively, issued under our Non-Employee Directors' Deferred Fee Equity Plan (Deferred Fee Plan) and the Non-Employee Directors' Equity Incentive Plan (Directors' Equity Plan). These securities have not been included in the diluted income per share of common stock calculation because their inclusion would have an antidilutive effect.

(10) Stock Plans:

At June 30, 2010, we had five stock-based compensation plans under which grants have been made and awards remained outstanding. At June 30, 2010, there were 12,540,761 shares authorized for grant under these plans and 10,698,568 shares available for grant under two of the plans. No further awards may be granted under three of the plans: the 1996 Equity Incentive Plan, the Amended and Restated 2000 Equity Incentive Plan (collectively, together with the 2009 Equity Incentive Plan that was adopted on May 14, 2009, the EIP) and the Deferred Fee Plan.

The following summary presents information regarding outstanding stock options as of June 30, 2010 and changes during the six months then ended with regard to options under the EIP:

	<i>Shares Subject to Option</i>		<i>Weighted Average Option Price Per Share</i>		<i>Weighted Average Remaining Life in Years</i>		<i>Aggregate Intrinsic Value</i>
Balance at January 1, 2010	3,551,000	\$	13.74		1.5	\$	-
Options granted	-	\$	-			\$	-
Options exercised	-	\$	-			\$	-
Options canceled, forfeited or lapsed	(4,000)	\$	10.98			\$	-
Balance at June 30, 2010	3,547,000	\$	13.74		1.0	\$	-
Exercisable at June 30, 2010	3,547,000	\$	13.74		1.0	\$	-

There were no options granted during the first six months of 2010. No cash was received upon the exercise of options during the first six months of 2010.

The total intrinsic value of stock options exercised during the first six months of 2009 was \$0.7 million. The total intrinsic value of stock options outstanding and exercisable at June 30, 2009 was zero. There were no options granted during the first six months of 2009. Cash received upon the exercise of options during the first six months of 2009 totaled \$0.7 million.

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following summary presents information regarding unvested restricted stock as of June 30, 2010 and changes during the six months then ended with regard to restricted stock under the EIP:

	<i>Number of Shares</i>	<i>Weighted Average Grant Date Fair Value</i>	<i>Aggregate Fair Value</i>
Balance at January 1, 2010	2,193,000	\$ 10.41	\$ 17,126,000
Restricted stock granted	1,318,000	\$ 7.70	\$ 9,370,000
Restricted stock vested	(749,000)	\$ 11.20	\$ 5,322,000
Restricted stock forfeited	(38,000)	\$ 8.93	
Balance at June 30, 2010	2,724,000	\$ 8.91	\$ 19,370,000

For purposes of determining compensation expense, the fair value of each restricted stock grant is estimated based on the average of the high and low market price of a share of our common stock on the date of grant. Total remaining unrecognized compensation cost associated with unvested restricted stock awards at June 30, 2010 was \$20.2 million and the weighted average period over which this cost is expected to be recognized is approximately two years.

The total fair value of shares granted and vested during the six months ended June 30, 2009 was approximately \$7.8 million and \$3.7 million, respectively. The total fair value of unvested restricted stock at June 30, 2009 was \$16.2 million. The weighted average grant date fair value of restricted shares granted during the six months ended June 30, 2009 was \$8.44. Shares granted during the first six months of 2009 totaled 1,098,000.

(11) Segment Information:

We operate in one reportable segment, Frontier. Frontier provides both regulated and unregulated voice, data and video services to residential, business and wholesale customers and is typically the incumbent provider in its service areas.

As permitted by ASC Topic 280 (formerly SFAS No. 131), we have utilized the aggregation criteria in combining our operating segments because all of our Frontier properties share similar economic characteristics, in that they provide the same products and services to similar customers using comparable technologies in all of the states in which we operate. The regulatory structure is generally similar. Differences in the regulatory regime of a particular state do not materially impact the economic characteristics or operating results of a particular property.

(12) Investment Income:

The components of investment income for the three and six months ended June 30, 2010 and 2009 are as follows:

<i>(\$ in thousands)</i>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 117	\$ 912	\$ 2,533	\$ 4,200
Investment gain	2,905	-	2,905	-
Equity earnings	478	351	559	625
Total investment income	\$ 3,500	\$ 1,263	\$ 5,997	\$ 4,825

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Other Income, Net:

The components of other income, net for the three and six months ended June 30, 2010 and 2009 are as follows:

<i>(\$ in thousands)</i>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	2010	2009	2010	2009
Gain on debt repurchases	\$ -	\$ 3,664	\$ -	\$ 3,664
Gain on expiration/settlement of customer advances	105	-	4,848	2,513
Split-dollar life insurance policy settlement	4,379	-	4,379	-
Litigation settlement proceeds	1,838	(17)	2,100	2,186
Other, net	12	(292)	(37)	(323)
Total other income, net	<u>\$ 6,334</u>	<u>\$ 3,355</u>	<u>\$ 11,290</u>	<u>\$ 8,040</u>

(14) Retirement Plans:

The following tables provide the components of net periodic benefit cost:

<i>(\$ in thousands)</i>	<u>Pension Benefits</u>		<u>Pension Benefits</u>	
	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	2010	2009	2010	2009
<u>Components of net periodic pension benefit cost</u>				
Service cost	\$ 1,609	\$ 1,435	\$ 3,218	\$ 2,870
Interest cost on projected benefit obligation	12,381	12,964	24,762	25,928
Expected return on plan assets	(11,649)	(11,096)	(23,298)	(22,192)
Amortization of prior service cost/(credit)	(50)	(64)	(100)	(128)
Amortization of unrecognized loss	6,748	6,920	13,496	13,840
Net periodic pension benefit cost	<u>\$ 9,039</u>	<u>\$ 10,159</u>	<u>\$ 18,078</u>	<u>\$ 20,318</u>

<i>(\$ in thousands)</i>	<u>Postretirement Benefits</u>		<u>Postretirement Benefits</u>	
	<u>Other Than Pensions</u>		<u>Other Than Pensions</u>	
	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	2010	2009	2010	2009
<u>Components of net periodic postretirement benefit cost</u>				
Service cost	\$ 99	\$ 113	\$ 198	\$ 226
Interest cost on projected benefit obligation	2,629	2,857	5,258	5,714
Expected return on plan assets	(108)	(109)	(216)	(218)
Amortization of prior service cost/(credit)	(1,929)	(1,938)	(3,858)	(3,876)
Amortization of unrecognized loss	1,581	1,481	3,162	2,962
Net periodic postretirement benefit cost	<u>\$ 2,272</u>	<u>\$ 2,404</u>	<u>\$ 4,544</u>	<u>\$ 4,808</u>

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the first six months of 2010 and 2009, we capitalized \$3.3 million and \$3.9 million, respectively, of pension expense into the cost of our capital expenditures, as the costs that relate to our engineering and plant construction activities. We expect that our 2010 pension and other postretirement benefit expenses will be between \$40.0 million and \$50.0 million for our Frontier legacy operations, as compared to \$48.6 million in 2009. We expect that we will make a \$10.0 million cash contribution to our pension plan in 2010, including payments of \$5.2 million made through July 2010.

The Company's pension plan assets have decreased from \$608.6 million at December 31, 2009 to \$578.9 million at June 30, 2010, a decrease of \$29.7 million, or 5%. This decrease is a result of ongoing benefit payments of \$33.1 million, partially offset by \$3.4 million of positive investment returns and cash contributions during the first six months of 2010.

(15) Commitments and Contingencies:

We anticipate capital expenditures of approximately \$220.0 million to \$240.0 million for 2010 related to our Frontier legacy properties. Although we from time to time make short-term purchasing commitments to vendors with respect to these expenditures, we generally do not enter into firm, written contracts for such activities.

In connection with the Verizon Transaction, the Company undertook activities to plan and implement systems conversions and other initiatives necessary to effectuate the closing, which occurred on July 1, 2010, and continues to engage in activities to enable the Company to implement its "go to market" strategy in its new markets. The Company currently expects to incur operating expenses, including deal costs, and capital expenditures of approximately \$100.0 million and \$180.0 million, respectively, in 2010 related to these integration initiatives. The Company incurred \$47.3 million of acquisition and integration costs and \$62.4 million in capital expenditures related to Verizon integration activities during the first six months of 2010.

In addition, the Federal Communications Commission (FCC) and certain state regulatory commissions, in connection with granting their approvals of the Verizon Transaction, specified certain capital expenditure and operating requirements for our business for specified periods of time post-closing. These requirements focus primarily on a variety of capital investment commitments, including the expansion of broadband availability and speeds to at least 85% of the households throughout the combined company with minimum speeds of 4 megabytes (MB) by the end of 2015. To satisfy all or part of certain capital investment commitments, we have placed an aggregate amount of \$55 million in cash in escrow accounts in July 2010. In addition, to satisfy our capital investment commitments in West Virginia, we agreed to place an aggregate amount of \$60 million in cash in an escrow account and to obtain a letter of credit for \$190 million. The aggregate amount of these escrow accounts and the letter of credit will decrease over time as Frontier incurs the defined capital expenditures in the respective states.

We are party to various legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

We sold all of our utility businesses as of April 1, 2004. However, we have retained a potential payment obligation associated with our previous electric utility activities in the State of Vermont. The Vermont Joint Owners (VJO), a consortium of 14 Vermont utilities, including us, entered into a purchase power agreement with Hydro-Quebec in 1987. The agreement contains "step-up" provisions that state that if any VJO member defaults on its purchase obligation under the contract to purchase power from Hydro-Quebec, then the other VJO participants will assume responsibility for the defaulting party's share on a pro-rata basis. Our pro-rata share of the purchase power obligation is 10%. If any member of the VJO defaults on its obligations under the Hydro-Quebec agreement, then the remaining members of the VJO, including us, may be required to pay for a substantially larger share of the VJO's total purchase power obligation for the remainder of

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the agreement (which runs through 2015). U.S. GAAP rules require that we disclose “the maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee.” U.S. GAAP rules also state that we must make such disclosure “... even if the likelihood of the guarantor’s having to make any payments under the guarantee is remote...” As noted above, our obligation only arises as a result of default by another VJO member, such as upon bankruptcy. Therefore, to satisfy the “maximum potential amount” disclosure requirement we must assume that all members of the VJO simultaneously default, a highly unlikely scenario given that the two members of the VJO that have the largest potential payment obligations are publicly traded with credit ratings equal to or superior to ours, and that all VJO members are regulated utility providers with regulated cost recovery. Despite the remote chance that such an event could occur, or that the State of Vermont could or would allow such an event, assuming that all the members of the VJO defaulted on January 1, 2010 and remained in default for the duration of the contract (another 6 years), we estimate that our undiscounted purchase obligation for 2010 through 2015 would be approximately \$0.6 billion. In such a scenario, the Company would then own the power and could seek to recover its costs. We would do this by seeking to recover our costs from the defaulting members and/or reselling the power to other utility providers or the northeast power grid. There is an active market for the sale of power. We could potentially lose money if we were unable to sell the power at cost. We caution that we cannot predict with any degree of certainty any potential outcome.

(16) Subsequent Events:

On July 1, 2010, Frontier completed its acquisition of local wireline operations from Verizon in 14 states. See Notes 3 and 15 for further discussion.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements. Statements that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) are only predictions or statements of current plans, which we review continuously. Forward-looking statements may differ from actual future results due to, but not limited to, and our future results may be materially affected by, any of the following possibilities:

- For two years after the Merger, we will be limited in the amount of capital stock that we can issue to make acquisitions or to raise additional capital;
- Our indemnity obligation to Verizon may discourage, delay or prevent a third party from acquiring control of us during the two-year period following the Merger in a transaction that stockholders might consider favorable;
- Our ability to successfully integrate the Verizon operations into Frontier's existing operations;
- The effects of increased expenses incurred due to activities related to the Verizon Transaction;
- The risk that the growth opportunities and cost synergies from the Verizon Transaction may not be fully realized or may take longer to realize than expected;
- Our ability to maintain relationships with customers, employees or suppliers;
- The effects of greater than anticipated competition requiring new pricing, marketing strategies or new product or service offerings and the risk that we will not respond on a timely or profitable basis;
- Reductions in the number of our access lines that cannot be offset by increases in High-Speed Internet (HSI) subscribers and sales of other products;
- The effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation;
- The effects of changes in the availability of federal and state universal funding to us and our competitors;
- The effects of competition from cable, wireless and other wireline carriers (through Voice over Internet Protocol (VOIP), DOCSIS 3.0, 4G or otherwise);
- Our ability to adjust successfully to changes in the communications industry and to implement strategies for growth;
- Adverse changes in the credit markets or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability, or increase the cost, of financing;

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

- Continued reductions in switched access revenues as a result of regulation, competition or technology substitutions;
- The effects of changes in both general and local economic conditions on the markets that we serve, which can affect demand for our products and services, customer purchasing decisions, collectability of revenues and required levels of capital expenditures related to new construction of residences and businesses;
- Our ability to effectively manage service quality in our territories;
- Our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to customers;
- Changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulations;
- Our ability to effectively manage our operations, operating expenses and capital expenditures, and to repay, reduce or refinance our debt;
- The effects of customer bankruptcies and home foreclosures, which could result in difficulty in collection of revenues and loss of customers;
- The effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks;
- The effects of increased medical, retiree and pension expenses and related funding requirements;
- Changes in income tax rates, tax laws, regulations or rulings, or federal or state tax assessments;
- The effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company;
- Our ability to successfully renegotiate union contracts expiring in 2010 and thereafter;
- Declines in the value of our pension plan assets, which could require us to make contributions to the pension plan in 2011 and beyond;
- Our ability to pay dividends on our common shares, which may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes and liquidity;
- The effects of any unfavorable outcome with respect to any current or future legal, governmental or regulatory proceedings, audits or disputes;
- The possible impact of adverse changes in political or other external factors over which we have no control; and
- The effects of severe weather events such as hurricanes, tornados, ice storms or other natural or man-made disasters.

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Any of the foregoing events, or other events, could cause financial information to vary from management's forward-looking statements included in this report. You should consider these important factors, as well as the risks set forth under Item 1A. "Risk Factors" in this report and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 in evaluating any statement in this report on Form 10-Q or otherwise made by us or on our behalf. The following information is unaudited and should be read in conjunction with the consolidated financial statements and related notes included in this report. We have no obligation to update or revise these forward-looking statements.

Overview

On July 1, 2010, pursuant to an Agreement and Plan of Merger, dated as of May 13, 2009, as amended, by and among Verizon, Spinco and Frontier, Spinco merged with and into Frontier, with Frontier surviving as the combined company and conducting the combined business operations of Frontier and Spinco. Immediately prior to the Merger, Spinco, which was a subsidiary of Verizon and held the defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin and in portions of California bordering Arizona, Nevada and Oregon, including Internet access and long distance services and broadband video provided to designated customers in the Spinco territory, was spun off to Verizon shareholders. As a result of the Merger, Frontier also serves approximately 300 customers in a portion of Virginia bordering West Virginia. The Verizon Transaction was financed with approximately \$5.3 billion of common stock plus the assumption of approximately \$3.5 billion in debt (including \$3.2 billion of Senior Notes plus the assumption of \$250.0 million of other debt). As of July 1, 2010, Spinco had approximately 4.0 million access lines in 14 states and approximately 9,200 employees.

We believe that the combined company is 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 (ILEC), with approximately 6.0 million access lines, 1.7 million broadband connections and 14,800 employees in 27 states as of July 1, 2010. On a pro forma basis, the combined company's revenues would have been approximately \$6.1 billion for the year ended December 31, 2009 and approximately \$2.9 billion for the six months ended June 30, 2010.

Based on the level of debt and projected cash flows that we assumed from Spinco on July 1, 2010, our overall debt increased but our capacity to service the debt has been significantly enhanced as compared to our capacity at June 30, 2010.

Competition in the communications industry is intense and increasing. We expect that we will 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 also believe that competition will continue to intensify in 2010 and beyond and may result in reduced revenues for the combined company.

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, causing them to reduce expenditures by not purchasing 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 will employ a number of strategies to combat the competitive pressures and changes in customer behavior noted above. These strategies will focus on preserving and generating new revenues through customer retention, upgrading and up-selling services to existing customers, new customer growth, win backs of former customers, new product deployment, and managing our profitability and cash flow through targeted reductions in operating expenses and capital expenditures.

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We will seek to achieve our customer retention goals by offering attractive packages of value-added services to our local access line customers and providing exemplary customer service. Bundled services include HSI, unlimited long distance calling, enhanced telephone features and video offerings (direct broadcast satellite services from DIRECTV and EchoStar, FiOS services in certain states and over-the-top like video on myfitv.com). We will 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 will also be enhanced by offering one-, two- and three-year price protection plans where customers commit to a term in exchange for predictable pricing and/or promotional offers. Additionally, we will focus on enhancing the customer experience, as we believe exceptional customer service will differentiate us from our competition. We will demonstrate our commitment to providing exemplary customer service by continuing our expanded customer service hours, shorter scheduling windows for in-home appointments and the call reminders and follow-up calls for service appointments. In addition, the combined company's local area markets will be operated by local managers with responsibility for the customer experience, as well as the financial results, in those markets. Customers in its markets will have direct access to those local managers to help them manage their communications needs.

We will 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 us. Depending upon market and economic conditions, we may offer such promotions to drive sales in the future.

We will also focus 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 is designed to provide value and simplicity to meet customers' ever-changing needs. The Frontier Peace of Mind products and services suite includes services such as an in-home, full installation of the combined company's HSI product, two-hour appointment windows for the installation, hard drive back-up services, 24-7 help desk PC support and inside wire maintenance (when bundled). In 2009 and in the six months ended June 30, 2010, the Frontier Peace of Mind products generated approximately \$3.2 million and \$2.5 million, respectively, in revenue for Frontier and we plan to make it available to all of the combined company's customers. We will also continue to offer the myfitv.com website, which provides easy online access to free television programs, video on demand movies and other entertainment. Hard drive back-up services, 24-7 help desk PC support and myfitv.com services will also be available outside of the combined company's service territories. Although we are optimistic about the opportunities provided by each of these initiatives to increase revenue and reduce customer churn (i.e., customer attrition), we cannot provide assurance about their long-term profitability or impact on revenue.

The combination of offering multiple products and services to the combined company's customers pursuant to price protection programs, billing them on a single bill, providing superior customer service, and being active in our local communities may make our customers more loyal, and, as a result, may help us generate new, and retain existing, customer revenue.

Revenues for the Frontier legacy operations declined in the first half of 2010 as compared to 2009. Revenues from data and internet services such as HSI grew and increased for our Frontier legacy properties as a percentage of our total revenues and revenues from local and long distance services and from switched access and subsidy (including federal and state subsidies) declined and decreased as a percentage of our total revenues. Switched access and subsidy revenue represented 16% of our revenues for the six months ended June 30, 2010. Switched access revenue was \$115.3 million for the six months ended June 30, 2010, or 11% of our revenues, down from \$125.8 million for the six months ended June 30, 2009, or 12% of our revenues. Federal and state subsidy revenue, including surcharges of \$21.7 million billed to customers which are remitted to the FCC, was \$53.7 million for the six months ended June 30, 2010, or 5% of our revenues, up from \$51.7 million for the six months ended June 30, 2009, or 5% of our revenues. We expect declining revenue trends in switched access and subsidy revenue during the remainder of 2010 for our Frontier legacy operations.

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Expected Cost Savings Resulting from the Merger

Based on current estimates and assumptions, we expect to achieve significant cost savings and other synergies as a result of the Merger, principally (1) by leveraging the scalability of our existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions and (2) by internalizing certain functions formerly provided by third-party service providers to the Spinco business. We expect that these cost savings will have significant effects on the combined company's results of operations that are not reflected in the unaudited pro forma condensed combined financial information included elsewhere in this Form 10-Q.

Effective with the closing of the Merger on July 1, 2010, the Spinco business (other than with respect to West Virginia) has been operating on its existing single platform on an independent basis, and the Spinco business with respect to West Virginia has been integrated into Frontier's existing systems. The main integration effort required for us to operate the Spinco business immediately following the Merger was completed prior to the closing of the Merger, freeing up the combined company's resources to implement further strategies to achieve cost savings and drive revenue enhancements.

We estimate that, by 2013, our annual net cost savings will reach approximately \$500 million, which represents approximately 18% of the operating expenses, excluding depreciation and amortization expense, of the Spinco business in 2009. The realization of these annual cost savings is expected to be fully achieved in 2013, when the Spinco business's network and information technology systems and processes are fully integrated with those of Frontier.

The foregoing cost savings and synergies are based on estimates and assumptions made by us that are inherently uncertain, though considered reasonable by us. These expected cost savings and synergies are subject to significant business, economic, competitive and regulatory uncertainties and contingencies, all of which are difficult to predict and many of which are beyond our control. As a result, there can be no assurance that these or any other cost savings or synergies will actually be realized.

Post Merger Strategies of the Combined Company

We expect that the key elements of the combined company's strategy will be as follows:

Expand broadband footprint. We will concentrate on broadband as a core component of our service offering and growth. As of June 30, 2010, approximately 92% of the households in Frontier's territories had access to Frontier's broadband products, whereas only approximately 64% of the households in the Spinco territory had access to Verizon's broadband products. We will earmark capital expenditures for the expansion of broadband availability in the Spinco territory and view this expansion as an opportunity to satisfy customer needs and expectations, retain a greater number of customers and increase average revenue per customer. In addition, in connection with the approval of the transactions by the FCC and certain state regulatory commissions, we have committed to expand broadband availability and speeds to at least 85% of the households throughout the combined company with minimum speeds of 4 MB by the end of 2015.

Increase revenue per customer. The combined company will continue to apply the sales and marketing practices that Frontier has historically employed throughout its markets, including the sale of voice, data and video services as bundled packages and the use of promotions and incentives, including gifts such as personal computers, digital cameras and gift cards, to drive market share. We believe that these marketing strategies will present a significant opportunity to increase revenue per customer, as well as strengthen customer relationships and improve customer retention. We will tailor our services to the needs of our residential and business customers in the markets we serve and continually evaluate the introduction of new and complementary products and services. We will increase broadband availability to the former Spinco customer base and, through innovative packages and promotions, improve subscription rates for broadband services in the Spinco territory. We will continue to offer direct broadcast satellite services from DIRECTV and Echostar, FiOS services in certain states and over-the-top like video on myfitv.com. As we strive to provide our customers with a diverse range of communications service, we will

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consider entering into and enhancing partnerships for other services that we do not currently provide in our markets. In addition, we have implemented, and will continue to implement, several growth initiatives that will affect us, including efforts to increase our marketing expenditures and launching new products and services with a focus on areas that are growing or demonstrate meaningful demand, such as wireline and wireless HSI, video products and the “Frontier Peace of Mind” computer technical support. We will also focus on providing a number of different service offerings, including unlimited long distance minutes, bundles of long distance minutes, wireless data and Internet services.

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

Ensure integration of the Spinco business. Effective with the closing of the Merger on July 1, 2010, the Spinco business (other than with respect to West Virginia) has been operating on its existing single platform on an independent basis, and the Spinco business with respect to West Virginia has been integrated into Frontier’s existing systems. The main integration effort required for us to operate the Spinco business immediately following the Merger was completed prior to the closing of the Merger, freeing up the combined company’s resources to implement further strategies to achieve cost savings and drive revenue enhancements.

Increase operating efficiencies and realize cost savings. We will aim to achieve cost savings by applying Frontier’s existing corporate administrative functions and information technology and network systems to cover certain existing Spinco business functions (including certain functions formerly provided by Verizon, or other third-party service providers, to the Spinco business). The realization of these annual cost savings is expected to be fully achieved in 2013, when the Spinco business’s network and information technology systems and processes are fully integrated with those of Frontier. However, there can be no assurance that these or any other cost savings will actually be realized.

Growth through selective acquisitions. We will continue to evaluate and pursue select strategic acquisitions that would enhance revenues and cash flows, although for two years following the completion of the Merger we have certain restrictions as a result of the tax-free nature of the Verizon Transaction involving the acquisition, issuance, repurchase, or change of ownership of the combined company’s capital stock. We will continue to adhere to our traditional selective criteria in our acquisition analysis.

a) Liquidity and Capital Resources

As of June 30, 2010, we had cash and cash equivalents aggregating \$231.2 million. Our primary source of funds continued to be cash generated from operations. For the six months ended June 30, 2010, we used cash flow from operations and cash on hand to fund all of our investing and financing activities.

We believe our operating cash flows, existing cash balances, and new revolving credit facility will be adequate to finance our working capital requirements, fund capital expenditures, make required debt payments, pay taxes, pay dividends to our stockholders in accordance with our dividend policy, pay our acquisition and integration costs and capital expenditures, and support our short-term and long-term operating strategies through 2010. However, a number of factors, including but not

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limited to, losses of access lines, pricing pressure from increased competition, lower subsidy and switched access revenues and the impact of the current economic environment are expected to reduce our cash generated from operations by our Frontier legacy operations. In addition, although we believe, based on information available to us, that the financial institutions syndicated under our new revolving credit facility (that replaced the previously existing revolving credit facility upon closing of the Verizon Transaction) would be able to fulfill their commitments to us, given the current economic environment and the severe contraction in the global financial markets, this could change in the future. Further, our below-investment grade credit ratings may also make it more difficult and expensive to refinance our maturing debt. As of June 30, 2010, we have approximately \$5.3 million of debt maturing during the last six months of 2010 and approximately \$280.0 million and \$180.4 million of debt maturing in 2011 and 2012, respectively.

The consummation of the Verizon Transaction resulted in a combined company with significantly larger business operations and, consequently, greater working capital, capital expenditure and other liquidity needs. Upon consummation of the Verizon Transaction, we assumed approximately \$3.5 billion of Spinco debt (including \$3.2 billion of Senior Notes plus the assumption of \$250.0 million of other debt). As a result of the greater liquidity requirements of the combined company, we entered into a new revolving credit facility which increased our line of credit to \$750.0 million in order to provide the combined company sufficient flexibility to meet its liquidity needs.

As a result of the Verizon Transaction, based on the lower level of Spinco debt we have assumed from Spinco relative to Spinco's projected operating cash flows, the combined company's overall debt has increased but its capacity to service the debt has been significantly enhanced as compared to Frontier's capacity at June 30, 2010. At June 30, 2010, the ratio for Frontier's net debt to operating cash flow ("leverage ratio") was 4.0 times. It is expected that the combined company's leverage ratio will be significantly lower in the third quarter of 2010.

In addition, the FCC and certain state regulatory commissions, in connection with granting their approvals of the Verizon Transaction, specified certain capital expenditure and operating requirements for our business for specified periods of time post-closing. These requirements focus primarily on a variety of capital investment commitments, including the expansion of broadband availability and speeds to at least 85% of the households throughout the combined company with minimum speeds of 4 MB by the end of 2015. To satisfy all or part of certain capital investment commitments, we have placed an aggregate amount of \$55 million in cash in escrow accounts in July 2010. In addition, to satisfy our capital investment commitments in West Virginia, we agreed to place an aggregate amount of \$60 million in cash in an escrow account and to obtain a letter of credit for \$190 million. The aggregate amount of these escrow accounts and the letter of credit will decrease over time as Frontier incurs the defined capital expenditures in the respective states.

Cash Flow provided by Operating Activities

Cash flow provided by operating activities declined \$12.8 million, or 4%, for the six months ended June 30, 2010 as compared with the prior year period. The decline was primarily the result of a drop in operating income (before depreciation and amortization), partially offset by reduced cash needs for working capital items.

We expect that for the full year of 2010 our cash taxes will be less than \$10.0 million for our Frontier legacy operations.

In connection with the Verizon Transaction, the Company undertook activities to plan and implement systems conversions and other initiatives necessary to effectuate the closing, which occurred on July 1, 2010, and continues to engage in activities to enable the Company to implement its "go to market" strategy in its new markets. As a result, the Company incurred \$47.3 million of acquisition and integration costs and \$62.4 million in capital expenditures related to Verizon integration activities during the first six months of 2010. We currently expect to incur operating expenses, including deal costs, and capital expenditures of approximately \$100.0 million and \$180.0 million, respectively, in 2010 related to these integration activities.

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Cash Flow used by Investing Activities

Capital Expenditures

For the six months ended June 30, 2010 and 2009, our capital expenditures were \$155.7 million (including \$62.4 million of Verizon integration-related capital expenditures) and \$110.4 million (including \$2.6 million of Verizon integration-related capital expenditures), respectively. We continue to closely scrutinize all of our capital projects, emphasize return on investment and focus our capital expenditures on areas and services that have the greatest opportunities with respect to revenue growth and cost reduction. We anticipate capital expenditures of approximately \$220.0 million to \$240.0 million for 2010 related to our Frontier legacy properties.

In connection with the Verizon Transaction, the Company undertook activities to plan and implement systems conversions and other initiatives necessary to effectuate the closing, which occurred on July 1, 2010, and continues to engage in activities to enable the Company to implement its “go to market” strategy in its new markets. As a result, the Company expects to incur capital expenditures of approximately \$180.0 million in 2010 related to these integration activities.

In February 2009, the President signed into law an economic stimulus package, the 2009 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 State of West Virginia was selected to receive \$130.0 million in stimulus funding and Frontier will work with the state on certain projects. Frontier filed a single application for \$5.0 million in the second round of funding for a middle mile project in Idaho, which is currently pending.

Cash Flow used by and provided from Financing Activities

Debt Reduction

During the first six months of 2010, we retired an aggregate principal amount of \$1.9 million of debt, consisting of \$1.4 million of senior unsecured debt and \$0.5 million of rural utilities service loan contracts.

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

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

Issuance of Debt Securities

On April 12, 2010, Spinco completed a private offering of \$3.2 billion aggregate principal amount of Senior Notes. The gross proceeds of the offering, plus \$125.5 million (equal to the amount of interest that will accrue on the notes from April 12, 2010 to October 1, 2010; the Transaction Escrow) contributed by Frontier, were deposited into an escrow account. Immediately prior to the Spin-Off and the completion of the Merger, the proceeds of the notes offering (less the initial purchasers’ discount) were released from the escrow account and used to make a special cash payment by Spinco to Verizon, as contemplated by the Verizon Transaction, with amounts in excess of the special cash payment and the initial purchaser’s discount retained by the Company (approximately \$53.0 million). In addition, the \$125.5 million Transaction Escrow was returned to the Company.

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The Senior Notes consist of \$500.0 million aggregate principal amount of Senior Notes due 2015 (the 2015 Notes), \$1.1 billion aggregate principal amount of Senior Notes due 2017 (the 2017 Notes), \$1.1 billion aggregate principal amount of Senior Notes due 2020 (the 2020 Notes) and \$500.0 million aggregate principal amount of Senior Notes due 2022 (the 2022 Notes).

The 2015 Notes have an interest rate of 7.875% per annum, the 2017 Notes have an interest rate of 8.25% per annum, the 2020 Notes have an interest rate of 8.50% per annum and the 2022 Notes have an interest rate of 8.75% per annum. The Senior Notes were issued at a price equal to 100% of their face value. The Senior Notes were sold in a private placement that was exempt from the registration requirements of the Securities Act of 1933. We have filed with the SEC a registration statement on Form S-4 for the purpose of exchanging up to the entire amount of outstanding Senior Notes for registered notes. We commenced the Exchange Offer on July 15, 2010.

Upon completion of the Merger on July 1, 2010, we entered into a supplemental indenture with The Bank of New York Mellon, as Trustee, pursuant to which we assumed the obligations under the Senior Notes.

On April 9, 2009, we completed a registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014. The issue price was 91.805% of the principal amount of the notes. We received net proceeds of approximately \$538.8 million from the offering after deducting underwriting discounts. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase \$311.7 million principal amount of debt, consisting of \$255.7 million of our 9.25% Senior Notes due May 15, 2011 (the 2011 Notes), \$40.0 million of our 7.875% Senior Notes due January 15, 2027 and \$16.0 million of our 7.125% Senior Notes due March 15, 2019. As a result of these repurchases, a \$3.7 million gain was recognized and included in other income, net in our consolidated statements of operations for the three and six months ended June 30, 2009. We used the remaining proceeds from the offering to finance a cash tender offer for the 2011 Notes and our 6.250% Senior Notes due January 15, 2013 (the 2013 Notes) in the fourth quarter of 2009.

Credit Facilities

As of June 30, 2010, we had an available line of credit under our revolving credit facility with seven financial institutions in the aggregate amount of \$250.0 million. This facility was replaced on July 1, 2010, as discussed below.

On March 24, 2010, we entered into a new \$750.0 million revolving credit facility (the New Credit Facility) that became effective on July 1, 2010, concurrently with the closing of the Merger and the termination of the Company's previously existing revolving credit facility. The terms of the New Credit Facility are set forth in the Credit Agreement, dated as of March 23, 2010, among the Company, the Lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (the Credit Agreement). Associated facility fees under the New Credit Facility will vary from time to time depending on the Company's credit rating (as defined in the Credit Agreement). The New Credit Facility is scheduled to terminate on January 1, 2014. During the term of the New Credit Facility, the Company may borrow, repay and reborrow funds, and may obtain letters of credit, subject to customary borrowing conditions. Loans under the New Credit Facility will bear interest based on the alternate base rate or the adjusted LIBOR rate (each as determined in the Credit Agreement), at the Company's election, plus a margin specified in the Credit Agreement based on the Company's credit rating. Letters of credit issued under the New Credit Facility will also be subject to fees that vary depending on the Company's credit rating. The New Credit Facility will be available for general corporate purposes but may not be used to fund dividend payments.

Covenants

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

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Our \$200.0 million term loan facility with the Rural Telephone Finance Cooperative (RTFC), which matures in 2011, our existing \$250.0 million credit facility (prior to its termination on July 1, 2010), our new \$750.0 million credit facility (upon its effective date of July 1, 2010), and our \$150.0 million and \$135.0 million senior unsecured term loans, each contain a maximum leverage ratio covenant. Under those covenants, we are required to maintain a ratio of (i) total indebtedness minus cash and cash equivalents in excess of \$50.0 million to (ii) consolidated adjusted EBITDA (as defined in the agreements) over the last four quarters no greater than 4.50 to 1.

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

As of June 30, 2010, we were in compliance with all of our debt and credit facility covenants.

Proceeds from the Sale of Equity Securities

We receive proceeds from the issuance of our common stock upon the exercise of options pursuant to our stock-based compensation plans. For the six months ended June 30, 2009, we received approximately \$0.7 million upon the exercise of outstanding stock options.

Dividends

We intend to pay regular quarterly dividends. Our ability to fund a regular quarterly dividend will be impacted by our ability to generate cash from operations. The declarations and payment of future dividends will be at the discretion of our Board of Directors, and will depend upon many factors, including our financial condition, results of operations, growth prospects, funding requirements, applicable law, restrictions in agreements governing our indebtedness and other factors our Board of Directors deems relevant. Effective July 1, 2010, we reduced our annual cash dividend policy from \$1.00 per share to \$0.75 per share, subject to applicable law and within the discretion of our Board of Directors.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and our Audit Committee has reviewed our disclosures relating to such estimates.

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2009.

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(b) Results of Operations

Effective July 1, 2010, the Company's scope of operations and balance sheet capitalization changed materially as a result of the completion of the Verizon Transaction. Historical financial and operating data presented for Frontier is not indicative of future results. The financial discussion and tables below include a comparative analysis of our results of operations on a historical basis for our Frontier legacy operations as of and for the three and six months ended June 30, 2010 and 2009.

REVENUE

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

Revenue for the three months ended June 30, 2010 decreased \$16.0 million, or 3%, to \$516.1 million as compared with the prior year period. Revenue for the six months ended June 30, 2010 decreased \$34.1 million, or 3%, to \$1,036.0 million as compared with the prior year period. This decline during the first half of 2010 is a result of decreases in the number of residential and business customers, switched access revenue and directory revenue, partially offset by a \$12.0 million, or 4%, increase in data and internet services revenue, each as described in more detail below.

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 because of changing consumer behavior (including wireless substitution), economic conditions, changing technology, competition, and by some customers disconnecting second lines when they add HSI or cable modem service. We lost approximately 65,500 access lines (net) during the six months ended June 30, 2010, or 6.3% on an annual basis, comparable to the 65,200 access lines (net) lost during the six months ended June 30, 2009. Economic conditions and/or increasing competition could make it more difficult to sell our bundles, and cause us to increase our promotions and/or lower our prices for our products and services, which would adversely affect our revenue profitability and cash flow.

During the six months ended June 30, 2010, we added approximately 11,500 HSI subscribers. We expect to continue to increase HSI subscribers during the remainder of 2010 (although not enough to offset the expected continued loss in access lines).

While the number of access lines is an important metric to gauge certain revenue trends, it is not necessarily the best or only measure to evaluate our business. Management believes that customer counts and understanding different components of revenue is most important. For this reason, presented in the table titled "Other Financial and Operating Data" below is a breakdown that presents residential customer counts, average monthly revenue, percentage of customers on price protection plans and chum. It also categorizes revenue into customer revenue (residential and business) and regulatory revenue (switched access and subsidy revenue). Despite the 7% decline in residential customers and the 6% decline in total access lines, our customer revenue, which is all revenue except switched access and subsidy revenue, declined in the first half of 2010 by less than 3 percent as compared to the prior year period. The decline in customers and access lines is partially offset by increased penetration of additional products sold to both residential and business customers, which has increased our average monthly revenue per customer. A substantial further loss of customers and access lines, combined with increased competition and the other factors discussed herein may cause our revenue, profitability and cash flows to decrease in 2010 for our Frontier legacy operations.

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OTHER FINANCIAL AND OPERATING DATA

	As of	As of	% Increase				% Increase	
	June 30, 2010	June 30, 2009	(Decrease)				(Decrease)	
Access lines:								
Residential	1,296,471	1,405,258	(8)%					
Business	<u>755,548</u>	<u>783,869</u>	(4)%					
Total access lines	<u>2,052,019</u>	<u>2,189,127</u>	(6)%					
High-Speed Internet (HSI) subscribers	647,487	613,810	5%					
Video subscribers	179,559	157,353	14%					
	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Revenue (in 000's):								
Residential	\$ 220,934	\$ 227,580	\$ (6,646)	(3)%	\$ 441,330	\$ 458,046	\$ (16,716)	(4)%
Business	<u>214,916</u>	<u>217,135</u>	<u>(2,219)</u>	(1)%	<u>425,585</u>	<u>434,560</u>	<u>(8,975)</u>	(2)%
Total customer revenue	<u>435,850</u>	<u>444,715</u>	<u>(8,865)</u>	(2)%	<u>866,915</u>	<u>892,606</u>	<u>(25,691)</u>	(3)%
Regulatory (Switched access and subsidy)	<u>80,287</u>	<u>87,427</u>	<u>(7,140)</u>	(8)%	<u>169,071</u>	<u>177,492</u>	<u>(8,421)</u>	(5)%
Total revenue	<u>\$ 516,137</u>	<u>\$ 532,142</u>	<u>\$ (16,005)</u>	(3)%	<u>\$ 1,035,986</u>	<u>\$ 1,070,098</u>	<u>\$ (34,112)</u>	(3)%
Switched access minutes of use (in millions)	2,021	2,213		(9)%	4,098	4,589		(11)%
Average monthly total revenue per access line	\$ 83.22	\$ 80.52		3%	\$ 82.85	\$ 80.33		3%
Average monthly customer revenue per access line	\$ 70.27	\$ 67.29		4%	\$ 69.33	\$ 67.01		3%
	As of or for the three months ended June 30,				As of or for the six months ended June 30,			
	2010	2009	% Increase (Decrease)		2010	2009	% Increase (Decrease)	
Residential customer metrics:								
Customers	1,206,599	1,304,244	(7)%		1,206,599	1,304,244	(7)%	
Revenue (in 000's)	\$ 220,934	\$ 227,580	(3)%		\$ 441,330	\$ 458,046	(4)%	
Average monthly residential revenue per customer	\$ 60.44	\$ 57.74	5%		\$ 59.78	\$ 57.62	4%	
Percent of customers on price protection plans	56.8%	49.6%	15%		56.8%	49.6%	15%	
Customer monthly churn	1.37%	1.40%	(2)%		1.37%	1.45%	(6)%	
Products per residential customer ⁽¹⁾	2.57	2.46	4%		2.57	2.46	4%	
Business customer metrics:								
Customers	138,528	146,833	(6)%		138,528	146,833	(6)%	
Revenue (in 000's)	\$ 214,916	\$ 217,135	(1)%		\$ 425,585	\$ 434,560	(2)%	
Average monthly business revenue per customer	\$ 517.71	\$ 487.83	6%		\$ 509.67	\$ 483.15	5%	

⁽¹⁾ Products per residential customer: primary residential voice line, HSI and video products have a value of 1. Frontier long distance, Frontier Peace of Mind, second lines, feature packages and dial-up have a value of 0.5.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

REVENUE

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Local and long distance services	\$ 223,281	\$ 238,856	\$ (15,575)	(7)%	\$ 446,862	\$ 481,164	\$ (34,302)	(7)%
Data and internet services	166,349	160,997	5,352	3%	329,717	317,727	11,990	4%
Switched access and subsidy	80,287	87,427	(7,140)	(8)%	169,071	177,492	(8,421)	(5)%
Directory services	24,334	27,211	(2,877)	(11)%	48,951	54,916	(5,965)	(11)%
Other	21,886	17,651	4,235	24%	41,385	38,799	2,586	7%
	\$ 516,137	\$ 532,142	\$ (16,005)	(3)%	\$ 1,035,986	\$ 1,070,098	\$ (34,112)	(3)%

Local and Long Distance Services

Local and long distance services revenue for the three and six months ended June 30, 2010 decreased \$15.6 million, or 7%, to \$223.3 million, and \$34.3 million, or 7%, to \$446.9 million, respectively, as compared with the three and six months ended June 30, 2009. Local and enhanced services revenue declined \$18.1 million and \$36.5 million for the three and six month periods, respectively, primarily due to the continued loss of access lines and, to a lesser extent, decreases in private line services and feature packages.

Long distance services revenue for the three and six months ended June 30, 2010 increased \$2.5 million and \$2.2 million, respectively, as compared with the three and six months ended June 30, 2009, primarily due to an increase in the number of long distance customers using our bundled service offerings partially offset by lower minutes of use and average revenue per minute of use. We expect our long distance services revenue to trend downward for our Frontier legacy operations. We have actively marketed a package of unlimited long distance minutes with our digital phone and state unlimited bundled service offerings. These offerings have resulted in an increase in long distance customers, and an increase in the minutes used by these customers. This has lowered our overall average rate per minute billed. While these package offerings have grown our long distance customer base, those customers who still pay on a per minute of use basis have reduced their calling volumes.

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

Data and Internet Services

Data and Internet services revenue for the three and six months ended June 30, 2010 increased \$5.4 million, or 3%, to \$166.3 million, and \$12.0 million, or 4%, to \$329.7 million, respectively, as compared with the three and six months ended June 30, 2009, primarily due to the overall growth in the number of HSI subscribers and high-capacity Internet and ethernet circuits purchased by customers. Data services revenue increased \$3.5 million to \$93.1 million and \$6.5 million to \$183.8 million, for the three and six months ended June 30, 2010, respectively, as compared with the comparable periods of 2009. As of June 30, 2010, the number of the Company's HSI subscribers had increased by approximately 33,700, or 5%, since June 30, 2009. We have used "aspirational gifts" or promotional credits to drive growth in HSI subscribers. Data and internet services also includes revenue from data transmission services to other carriers and high-volume commercial customers with dedicated high-capacity Internet and ethernet circuits. Nonswitched access revenue increased \$1.9 million to \$73.2 million and \$5.5 million to \$145.9 million, in the three and six months ended June 30, 2010, respectively, as compared with the comparable periods of 2009, primarily due to growth in the number of those circuits.

PART I FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

On March 16, 2010, the FCC released, as required under the ARRA, its National Broadband Plan. The National Broadband Plan proposes a series of actions that could result in additional regulatory requirements for broadband services as well as a series of other regulatory reforms. The FCC has initiated the first of multiple proceedings on a broad number of topics, including reform of the Universal Service Fund and the potential shift of future Universal Service funding to support broadband deployment. Frontier cannot predict, however, what outcomes or impacts these proposals may have on our business.

Switched Access and Subsidy

Switched access and subsidy revenue for the three and six months ended June 30, 2010 decreased \$7.1 million, or 8%, to \$80.3 million and \$8.4 million, or 5%, to \$169.1 million, respectively, as compared with the three and six months ended June 30, 2009. Switched access revenue for the six months of 2010 of \$115.4 million decreased \$10.4 million, or 8%, as compared with the same period of 2009. Switched access revenue for the second quarter of 2010 of \$56.5 million decreased \$6.6 million, or 10%, as compared with the second quarter of 2009. These decreases were primarily due to the impact of a decline in minutes of use related to access line losses and the displacement of minutes of use by wireless, email and other communications services. Switched access and subsidy revenue includes subsidy payments we receive from federal and state agencies, including surcharges billed to customers which are remitted to the FCC. Subsidy revenue, including surcharges billed to customers of \$11.4 million, for the second quarter of 2010 of \$23.8 million decreased \$0.5 million, or 2%, as compared with the same period of 2009, primarily due to decreased support for local switching and the Federal High Cost Fund. Subsidy revenue, including surcharges billed to customers of \$21.7 million, for the six months ended June 30, 2010 of \$53.7 million increased \$2.0 million, or 4%, as compared with the six months ended June 30, 2009, primarily due to higher receipts under the end user and long distance USF program related to an increase in the contribution factor in 2010.

Federal subsidies are driven by many factors, including the National Average Cost per Local Loop (NACPL). Many factors may lead to further increases in the NACPL, thereby resulting in decreases in our federal subsidy revenue in the future. The FCC and state regulatory agencies are currently considering a number of proposals for changing the manner in which eligibility for federal subsidies is determined as well as the amounts of such subsidies. On May 1, 2008, the FCC issued an order to cap 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. 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 switched access revenues will directly affect our profitability and cash flows as those regulatory revenues do not have associated variable expenses.

Certain states have open proceedings to address reform to intrastate access charges and other intercarrier compensation. We cannot predict when or how these matters will be decided or the effect on our subsidy or switched 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.

Directory Services

Directory services revenue for the three and six months ended June 30, 2010 decreased \$2.9 million, or 11%, to \$24.3 million, and \$6.0 million, or 11%, to \$49.0 million, respectively, as compared with the three and six months ended June 30, 2009, due to a decline in yellow pages advertising.

Other

Other revenue for the three months ended June 30, 2010 increased \$4.2 million, or 24%, to \$21.9 million, as compared with the three months ended June 30, 2009, primarily due to reduced DISH video credits and lower bad debt expenses that are charged against revenue.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Other revenue for the six months ended June 30, 2010 increased \$2.6 million, or 7%, to \$41.4 million as compared with the six months ended June 30, 2009, primarily due to reduced DISH video credits and lower bad debt expenses, partially offset by decreases in equipment sales and “bill and collect” fee revenue.

OPERATING EXPENSES

NETWORK ACCESS EXPENSES

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Network access	\$ 53,139	\$ 59,203	\$ (6,064)	(10)%	\$ 106,682	\$ 119,887	\$ (13,205)	(11)%

Network access expenses for the three and six months ended June 30, 2010 decreased \$6.1 million, or 10%, to \$53.1 million, and \$13.2 million, or 11%, to \$106.7 million, as compared with the three and six months ended June 30, 2009, primarily due to lower “aspirational gift” and long distance carriage costs in 2010. In the second quarter and first half of 2009, we expensed \$3.2 million and \$9.9 million, respectively, for the cost of new personal computers provided to customers in connection with our “Rolling Thunder” promotion which resulted in additional DISH video and HSI subscribers.

As we continue to offer “aspirational gifts” as part of our promotions, increase our sales of data products such as HSI and increase the penetration of our unlimited long distance calling plans, the network access expenses for our Frontier legacy operations may increase in the future.

OTHER OPERATING EXPENSES

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Wage and benefit expenses	\$ 95,146	\$ 96,864	\$ (1,718)	(2)%	\$ 200,133	\$ 202,655	\$ (2,522)	(1)%
All other operating expenses	94,503	95,890	(1,387)	(1)%	182,541	190,303	(7,762)	(4)%
	<u>\$ 189,649</u>	<u>\$ 192,754</u>	<u>\$ (3,105)</u>	(2)%	<u>\$ 382,674</u>	<u>\$ 392,958</u>	<u>\$ (10,284)</u>	(3)%

Wage and benefit expenses

Wage and benefit expenses for the three months ended June 30, 2010 decreased \$1.7 million, or 2%, to \$95.1 million, as compared to the three months ended June 30, 2009. Wage and benefit expenses for the six months ended June 30, 2010 decreased \$2.5 million, or 1%, to \$200.1 million as compared to the six months ended June 30, 2009. These decreases are primarily due to lower compensation costs due to headcount reductions, partially offset by higher benefit costs.

Pension costs are included in our wage and benefit expenses. The decline in the value of our pension plan assets during 2008 resulted in an increase in our pension expense in 2009 and 2010. Pension costs for the three months ended June 30, 2010 and 2009 were approximately \$7.4 million and \$8.2 million, respectively. Pension costs include pension expense of \$9.1 million and \$10.2 million, less amounts capitalized into the cost of capital expenditures of \$1.6 million and \$2.0 million for the three months ended June 30, 2010 and 2009, respectively.

Pension costs for the six months ended June 30, 2010 and 2009 were approximately \$14.8 million and \$16.5 million, respectively. Pension costs include pension expense of \$18.1 and \$20.4 million, less amounts capitalized into the cost of capital expenditures of \$3.3 million and \$3.9 million for the six months ended June 30, 2010 and 2009, respectively.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

The Company's pension plan assets have decreased from \$608.6 million at December 31, 2009 to \$578.9 million at June 30, 2010, a decrease of \$29.7 million, or 5%. This decrease is a result of ongoing benefit payments of \$33.1 million partially offset by \$3.4 million of positive investment returns and cash contributions during the first six months of 2010.

Based on current assumptions and plan asset values, we estimate that our 2010 pension and other postretirement benefit expenses (which were \$48.6 million in 2009) will be approximately \$40.0 million to \$50.0 million for our Frontier legacy operations. We expect that we will make a \$10.0 million cash contribution to our pension plan in 2010, including payments of \$5.2 million made through July 2010.

All other operating expenses

All other operating expenses for the three months ended June 30, 2010 decreased \$1.4 million, or 1%, to \$94.5 million, as compared with the three months ended June 30, 2009. All other operating expenses for the six months ended June 30, 2010 decreased \$7.8 million, or 4%, to \$182.5 million as compared to the six months ended June 30, 2009. These decreases were primarily due to lower marketing expenses and consulting fees.

DEPRECIATION AND AMORTIZATION EXPENSE

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
	Depreciation expense	\$ 85,922	\$ 91,430	\$ (5,508)	(6)%	\$ 172,918	\$ 184,318	\$ (11,400)
Amortization expense	14,052	41,388	(27,336)	(66)%	28,105	86,058	(57,953)	(67)%
	<u>\$ 99,974</u>	<u>\$ 132,818</u>	<u>\$ (32,844)</u>	<u>(25)%</u>	<u>\$ 201,023</u>	<u>\$ 270,376</u>	<u>\$ (69,353)</u>	<u>(26)%</u>

Depreciation and amortization expense for the three months ended June 30, 2010 decreased \$32.8 million, or 25%, to \$100.0 million, as compared to the three months ended June 30, 2009. Depreciation and amortization expense for the six months ended June 30, 2010 decreased \$69.4 million, or 26%, to \$201.0 million as compared to the six months ended June 30, 2009. The decrease is primarily due to reduced amortization expense, as discussed below, and a declining net asset base, partially offset by changes in the remaining useful lives of certain assets. An independent study updating the estimated remaining useful lives of our plant assets is performed annually. We revised our useful lives based on the study effective October 1, 2009. Our "composite depreciation rate" decreased from 5.6% to 5.2% as a result of the study. We anticipate depreciation expense of approximately \$340.0 million to \$345.0 million and amortization expense of approximately \$56.2 million for 2010 related to our Frontier legacy properties. Amortization expense for the three and six months ended June 30, 2009 is comprised of \$27.3 million and \$57.9 million, respectively, for amortization associated with certain Frontier legacy properties, which were fully amortized in June 2009, and \$14.1 million and \$28.2 million, respectively, for intangible assets (customer base and trade name) that were acquired in the Commonwealth and Global Valley acquisitions.

ACQUISITION AND INTEGRATION COSTS

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
	Acquisition and integration costs	\$ 36,964	\$ 10,751	\$ 26,213	244%	\$ 47,334	\$ 10,751	\$ 36,583

Acquisition and integration costs represent expenses incurred to close the Verizon Transaction (legal, financial advisory, accounting, regulatory and other related costs) and integrate the network and information technology platforms. While the Company continues to evaluate certain expenses, we currently expect to incur acquisition and integration costs of approximately \$100.0 million in 2010.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

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

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Investment income	\$ 3,500	\$ 1,263	\$ 2,237	177%	\$ 5,997	\$ 4,825	\$ 1,172	24%
Other income, net	\$ 6,334	\$ 3,355	\$ 2,979	89%	\$ 11,290	\$ 8,040	\$ 3,250	40%
Interest expense	\$ 93,968	\$ 98,670	\$ (4,702)	(5)%	\$ 187,755	\$ 187,419	\$ 336	0%
Income tax expense	\$ 16,338	\$ 14,254	\$ 2,084	15%	\$ 48,394	\$ 36,307	\$ 12,087	33%

Investment Income

Investment income for the three and six months ended June 30, 2010 improved \$2.2 million to \$3.5 million and \$1.2 million to \$6.0 million, respectively, as compared with the three and six months ended June 30, 2009, primarily due to a \$2.9 million gain associated with cash received on our previously written-off investment in Adelphia, partially offset by a decrease of \$0.8 million and \$1.7 million, respectively, in income from short-term investments of cash and cash equivalents, as higher cash balances were more than offset by lower short-term investment rates.

Our average cash balance was \$307.0 million and \$265.1 million for the six months ended June 30, 2010 and 2009, respectively.

Other Income, Net

Other income, net for the three months ended June 30, 2010 improved \$3.0 million to \$6.3 million, as compared with the three months ended June 30, 2009, primarily due to \$4.4 million in a split-dollar life insurance policy settlement, and an increase of \$1.8 million in litigation settlement proceeds, partially offset by a decrease of \$3.7 million in gain on debt repurchases.

Other income, net for the six months ended June 30, 2010 improved \$3.3 million to \$11.3 million as compared with the six months ended June 30, 2009, primarily due to \$4.4 million in a split-dollar life insurance policy settlement, and an increase of \$2.3 million in settlement of customer advances, partially offset by a decrease of \$3.7 million in gain on debt repurchases.

Interest expense

Interest expense for the three months ended June 30, 2010 decreased \$4.7 million, or 5%, to \$94.0 million, as compared with the three months ended June 30, 2009, primarily due to lower average debt levels in 2010.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Interest expense increased during the second quarter of 2009 due to the registered offering of \$600.0 million aggregate principal amount of 8.25% senior unsecured notes due 2014, completed in April 2009. During the second quarter of 2009, we used \$308.0 million of the proceeds to repurchase debt, as previously discussed. We used the remaining proceeds from the offering to finance a cash tender offer for the 2011 Notes and the 2013 Notes in the fourth quarter of 2009.

Interest expense for the six months ended June 30, 2010 increased \$0.3 million to \$187.8 million, as compared with the six months ended June 30, 2009. Our average debt outstanding was \$4,883.2 million and \$4,827.6 million for the six months ended June 30, 2010 and 2009, respectively. Our composite average borrowing rate as of June 30, 2010 and 2009 was 7.87%.

Income tax expense

The effective tax rate for the first six months of 2010 and 2009 was 37.9% and 35.7%, respectively. Income tax expense for the three and six months ended June 30, 2010 increased \$2.1 million, or 15%, to \$16.3 million, and \$12.1 million, or 33%, to \$48.4 million, respectively, as compared with the three and six months ended June 30, 2009, primarily due to higher taxable income. The first six months of 2010 includes the impact of \$4.1 million resulting from health care reform legislation associated with the passage of the Patient Protection and Affordable Care Act and of the Health Care and Education Reconciliation Act of 2010 (the Acts), partially offset by a release of \$0.9 million in the reserve related to uncertain tax positions and the permanent difference on a split-dollar life insurance policy settlement for \$1.6 million. The health care reform legislation enacted in March 2010 under the Acts has eliminated the tax deduction for the subsidy that the Company receives under Medicare Part D for prescription drug costs. We received \$0.8 million in cash tax refunds during the six months ended June 30, 2010, a decrease of \$41.3 million as compared to \$40.5 million in cash taxes paid for the first six months of 2009. We expect that our cash taxes in 2010 will be less than \$10.0 million for our Frontier legacy operations.

INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST IN A PARTNERSHIP

<i>(\$ in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)	2010	2009	\$ Increase (Decrease)	% Increase (Decrease)
Income attributable to the noncontrolling interest in a partnership	\$ 818	\$ 392	\$ 426	109%	\$ 1,725	\$ 1,044	\$ 681	65%

Income attributable to the noncontrolling interest relates to our joint venture, Mohave Cellular LP.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Disclosure of primary market risks and how they are managed

We are exposed to market risk in the normal course of our business operations due to ongoing investing and funding activities, including those associated with our pension assets. Market risk refers to the potential change in fair value of a financial instrument as a result of fluctuations in interest rates and equity prices. We do not hold or issue derivative instruments, derivative commodity instruments or other financial instruments for trading purposes. As a result, we do not undertake any specific actions to cover our exposure to market risks, and we are not party to any market risk management agreements. Our primary market risk exposures are interest rate risk and equity price risk as follows:

Interest Rate Exposure

Our exposure to market risk for changes in interest rates relates primarily to the interest-bearing portion of our investment portfolio. Our long-term debt as of June 30, 2010 was approximately 94% fixed rate debt with minimal exposure to interest rate changes. We had no interest rate swap agreements related to our fixed rate debt in effect at June 30, 2010.

Our objectives in managing our interest rate risk are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, all but \$276.7 million of our outstanding borrowings at June 30, 2010 have fixed interest rates. Our new \$750.0 million revolving credit facility has interest rates that float with LIBOR, as defined. Consequently, we have limited material future earnings or cash flow exposures from changes in interest rates on our long-term debt. An adverse change in interest rates would increase the amount that we pay on our variable obligations and could result in fluctuations in the fair value of our fixed rate obligations. Based upon our overall interest rate exposure at June 30, 2010, a near-term change in interest rates would not materially affect our consolidated financial position, results of operations or cash flows.

At June 30, 2010, the fair value of our long-term debt was estimated to be approximately \$4.6 billion, based on our overall weighted average borrowing rate of 7.87% and our overall weighted average maturity of approximately 11 years. As of June 30, 2010, there has been no material change in the weighted average maturity applicable to our obligations since December 31, 2009.

Equity Price Exposure

Our exposure to market risks for changes in security prices as of June 30, 2010 is limited to our pension assets. We have no other security investments of any material amount.

During 2008 and 2009, the diminished availability of credit and liquidity in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had an adverse impact on investment portfolios.

The decline in the value of our pension plan assets during 2008 resulted in an increase in our pension expense in 2009 and 2010. The Company's pension plan assets have decreased from \$608.6 million at December 31, 2009 to \$578.9 million at June 30, 2010, a decrease of \$29.7 million, or 5%. This decrease is a result of ongoing benefit payments of \$33.1 million, partially offset by \$3.4 million of positive investment returns and cash contributions during the first six months of 2010. We expect that we will make a \$10.0 million cash contribution to our pension plan in 2010, including payments of \$5.2 million made through July 2010.

PART I. FINANCIAL INFORMATION (Continued)
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, our principal executive officer and principal financial officer concluded, as of the end of the period covered by this report, June 30, 2010, that our disclosure controls and procedures were effective.

(b) Changes in internal control over financial reporting

We reviewed our internal control over financial reporting at June 30, 2010. There has been no change in our internal control over financial reporting identified in an evaluation thereof that occurred during the second fiscal quarter of 2010 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 1. Legal Proceedings

There have been no material changes to our legal proceedings from the information provided in Item 3. "Legal Proceedings" included in our Annual Report on Form 10-K for the year ended December 31, 2009.

We are party to various legal proceedings arising in the normal course of our business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our cash flows.

Item 1A. Risk Factors

Other than as set forth below, there have been no other material changes to our risk factors from the information provided in Item 1A. "Risk Factors" included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, which updated the information provided in Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Regulatory authorities, in connection with their approval of the spin-off and the merger, imposed on us certain conditions relating to our capital expenditures and business operations.

In connection with its approval of the merger, the FCC imposed certain conditions relating to Frontier's capital expenditures and operating requirements. These conditions include the expansion of broadband availability over the transferred lines at minimum speeds, with thresholds to be met over time, wholesale competitive requirements and data collection and reporting. In addition, the FCC and certain state regulatory commissions, in connection with granting their approvals, specified certain capital expenditure and operating requirements for Frontier's business for specified periods of time post-closing. These requirements focus primarily on a variety of capital investment commitments, including the expansion of broadband availability and speeds to at least 85% of the households throughout the combined company with minimum speeds of 4 MB by the end of 2015. To satisfy all or part of certain capital investment commitments, Frontier has placed an aggregate amount of \$55 million in cash in escrow accounts in July 2010. In addition, to satisfy Frontier's capital investment commitments in West Virginia, Frontier agreed to place an aggregate amount of \$60 million in cash in an escrow account and to obtain a letter of credit for \$190 million. The aggregate amounts of these escrow accounts and the letter of credit will decrease over time as Frontier incurs the defined capital expenditures in the respective states.

In addition, in certain states, Frontier is subject to operating restrictions such as rate caps (including maintenance of the rates on residential and business products and the prices and terms of interconnection agreements with competitive local exchange carriers and arrangements with carriers that, in each case, existed as of the time of the merger), continuation of product bundle offerings that Frontier offered before the merger, waiver of certain customer early termination fees and restrictions on others, restrictions on caps on usage of broadband capacity, and certain minimum service quality standards for a defined period of time (the failure of which to meet, in one state, will result in penalties, including cash management restrictions on certain of Frontier's subsidiaries in that state). In one state, Frontier's subsidiaries will be subject to cash management restrictions for a period of approximately four years. Frontier is also required to report certain financial information and adhere for a period of time to certain conditions regulating competition and consumer protection.

The foregoing conditions may restrict Frontier's ability to expend cash for other uses and to modify the operations of its business in response to changing circumstances for a period of time.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of equity securities during the quarter ended June 30, 2010.

PART II. OTHER INFORMATION
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share
April 1, 2010 to April 30, 2010 Employee Transactions (1)	4,765	\$ 7.77
May 1, 2010 to May 31, 2010 Employee Transactions (1)	206	\$ 7.90
June 1, 2010 to June 30, 2010 Employee Transactions (1)	815	\$ 7.75
Totals April 1, 2010 to June 30, 2010 Employee Transactions (1)	5,786	\$ 7.77

(1) Includes restricted shares withheld (under the terms of grants under employee stock compensation plans) to offset minimum tax withholding obligations that occur upon the vesting of restricted shares. The Company's stock compensation plans provide that the value of shares withheld shall be the average of the high and low price of the Company's common stock on the date the relevant transaction occurs.

Item 5. Other Information

As disclosed in our Proxy Statement for the 2010 Annual Meeting, proposals that stockholders wish to include in our Proxy Statement and form of proxy for our 2011 annual stockholders meeting must be received by the Secretary of the Company no later than December 10, 2010. For a stockholder proposal that is not intended to be included in our Proxy Statement for our 2011 Annual Meeting, the proposal must be received by the Secretary of the Company not earlier than January 13, 2011 nor later than February 12, 2011 in order to be properly presented at the 2011 Annual Meeting. Furthermore, in accordance with the proxy rules and regulations of the Securities and Exchange Commission, if a stockholder does not notify us of a proposal by February 12, 2011, then our proxies would be able to use their discretionary voting authority if a stockholder's proposal is raised at the meeting.

PART II. OTHER INFORMATION
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Item 6. Exhibits

a) Exhibits:

- 4.1 Indenture, dated as of January 1, 1994, between Frontier North Inc. (formerly GTE North Incorporated) and Bank of New York Mellon (as successor to The First National Bank of Chicago), as Trustee (the “Frontier North Indenture”).
- 4.2 First Supplemental Indenture to the Frontier North Indenture, dated as of May 1, 1996, between Frontier North Inc. (formerly GTE North Incorporated) and Bank of New York Mellon (as successor to The First National Bank of Chicago), as Trustee.
- 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.PRE XBRL Taxonomy Presentation Linkbase Document.
- 101.CAL XBRL Taxonomy Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Label Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

PART II. OTHER INFORMATION
FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FRONTIER COMMUNICATIONS CORPORATION
(Registrant)

By: /s/ Robert J. Larson
Robert J. Larson
Senior Vice President and
Chief Accounting Officer

Date: August 5, 2010

GTE NORTH INCORPORATED
AND
THE FIRST NATIONAL BANK OF CHICAGO
TRUSTEE

INDENTURE
Dated as of January 1, 1994

Securities

CROSS-REFERENCE TABLE

Section of Trust Indenture Act of 1939, as amended	Section of Indenture
310(a)	7.09
310(b)	7.08
	7.10
310(c)	Inapplicable
311(a)	7.13(a)
311(b)	7.13(b)
311(c)	Inapplicable
312(a)	5.01
	5.02(a)
312(b)	5.02(b)
312(c)	5.02(c)
313(a)	5.04(a)
313(b)	5.04(b)
313(c)	5.04(a)
	5.04(b)
313(d)	5.04(c)
314(a)	5.03
314(b)	Inapplicable
314(c)	13.06
314(d)	Inapplicable
314(e)	13.06
314(f)	Inapplicable
315(a)	7.01(a)
	7.02
315(b)	6.07
315(c)	7.01
315(d)	7.01(b)
	7.01(c)
315(e)	6.08
316(a)	6.06
	8.04
316(b)	6.04
316(c)	8.01
317(a)	6.02
317(b)	4.04
318(a)	13.08

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THIS INDENTURE, dated as of the 1 st day of January, 1994, between GTE NORTH INCORPORATED, a corporation duly organized and existing under the laws of the State of Wisconsin (hereinafter sometimes referred to as the ,Company,), and THE FIRST NATIONAL BANK OF CHICAGO, a national banking association organized and existing under the laws of the United States of America (hereinafter sometimes referred to as the ,Trustee,):

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the execution and delivery of this Indenture to provide for the issuance of unsecured securities, debentures, notes or other evidences of indebtedness (hereinafter referred to as the ,Securities,), in an unlimited aggregate principal amount to be issued from time to time in one or more series as in this Indenture provided as registered Securities without coupons, to be authenticated by the certificate of the Trustee;

WHEREAS, to provide the terms and conditions upon which the Securities are to be authenticated, issued and delivered, the Company has duly authorized the execution of this Indenture;

WHEREAS, the Securities and the certificate of authentication to be borne by the Securities (the ,Certificate of Authentication,) are to be substantially in such forms as may be approved by the Board of Directors (as defined below) or set forth in any indenture supplemental to this Indenture;

AND WHEREAS, all acts and things necessary to make the Securities issued pursuant hereto, when executed by the Company and authenticated and delivered by the Trustee as in this Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid indenture and agreement according to its terms, have been done and performed or will be done and performed prior to the issuance of such Securities, and the execution of this Indenture and the issuance hereunder of the Securities have been or will be prior to issuance in all respects duly authorized, and the Company, in the exercise of the legal right and power in it vested, executes this Indenture and proposes to make, execute, issue and deliver the Securities;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Securities are and are to be authenticated, issued and delivered, and in consideration of the premises, of the purchase and acceptance of the Securities by the holders thereof and of the sum of one dollar (\$1.00) to it duly paid by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company covenants and agrees with the Trustee, for the equal and proportionate benefit (subject to the provisions of this Indenture) of the respective holders from time to time of the Securities, without any discrimination, preference or priority of any one Security over any other by reason of priority in the time of issue, sale or negotiation thereof, or otherwise, except as provided herein, as follows:

ARTICLE ONE
Definitions

SECTION 1.01. The terms defined in this Section (except as in this Indenture otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture, any resolution of the Board of Directors of the Company and of any indenture supplemental hereto shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended, or which are by reference in such Act defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this instrument.

Affiliate:

The term „Affiliate, of the Company shall mean any company at least a majority of whose outstanding voting stock shall at the time be owned by GTE Corporation, a New York corporation, or by one or more direct or indirect subsidiaries of GTE Corporation or by GTE Corporation and one or more direct or indirect subsidiaries of GTE Corporation. For the purposes only of this definition of the term „Affiliate,, the term „voting stock,, as applied to the stock of any company, shall mean stock of any class or classes having ordinary voting power for the election of a majority of the directors of such company, other than stock having such power only by reason of the occurrence of a contingency.

Authenticating Agent:

The term „Authenticating Agent, means an authenticating agent with respect to all or any of the series of Securities, as the case may be, appointed with respect to all or any series of the Securities, as the case may be, by the Trustee pursuant to Section 2.10.

Board of Directors:

The term „Board of Directors, shall mean the Board of Directors of the Company, or an Executive or Special Committee of such Board.

Board Resolution:

The term „Board Resolution, shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

Business day:

The term „business day,, with respect to any series of securities, shall mean any day other than a day on which banking institutions in the City of Chicago, County of Cook, State of Illinois or the Borough of Manhattan, the City and State of New York, as the case may be (depending on whether an office or agency of the Company is being maintained in either such city with respect to any such series), are authorized or obligated by law or executive order to close.

Certificate:

The term **Certificate**, shall mean a certificate signed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company. The Certificate need not comply with the provisions of Section 13.06.

Corporate Trust Office:

The term **Corporate Trust Office**, shall mean the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of the execution of this Indenture is located at One First National Plaza, Chicago, Illinois 60670.

Company:

The term **Company**, shall mean GTE North Incorporated, a Wisconsin corporation, and, subject to the provisions of Article Ten, shall also include its successors and assigns.

Default:

The term **Default**, shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

Event of Default:

The term **Event of Default**, with respect to Securities of a particular series shall mean any event specified in Section 6.01, continued for the period of time, if any, therein designated.

First Mortgage Bonds:

The term **First Mortgage Bonds**, shall mean (a) the bonds outstanding from time to time issued by the Company under and secured by the (i) Indenture of Mortgage and Deed of Trust dated as of February 1, 1940, between General Telephone Company of Indiana, Inc. (later named GTE MTO Inc. and now the Company), The First National Bank of Chicago, as trustee and Richard D. Manella as co-trustee, as supplemented and amended; (ii) Indenture of Mortgage and Deed of Trust dated as of June 1, 1940, between Illinois Commercial Telephone Company (later named General Telephone Company of Illinois and now the Company) and Continental Illinois National Bank and Trust Company of Chicago, as trustee, as supplemented and amended; (iii) Indenture of Mortgage and Deed of Trust dated as of November 1, 1938, between Michigan Associated Telephone Company (later named General Telephone Company of Michigan and now the Company), Continental Illinois National Bank and Trust Company of Chicago and M. J. Kruger (originally Harold P. Smith), as trustees, as supplemented and amended; (iv) Indenture of Mortgage and Deed of Trust dated as of September 1, 1946, between Ohio Associated Telephone Company (later named General Telephone Company of Ohio and now the Company) and City National Bank (Successor by merger to The National City Bank of Cleveland), as trustee, as supplemented and amended; (v) Indenture of Mortgage and Deed of Trust dated as of July 1, 1945, between Pennsylvania Telephone Corporation (later named General Telephone Company of Pennsylvania and now the Company) and Bankers Trust Company, as trustee, as supplemented and amended; (vi) Indenture of Mortgage and Deed of Trust dated as of October 1, 1940, between Commonwealth Telephone Company (later named General Telephone Company of Wisconsin and now the Company), Continental Illinois National Bank and Trust Company of Chicago and M. J. Kruger (originally Harold P. Smith), as trustees, as supplemented and amended; (vii) Indenture of Mortgage and Deed of Trust dated as of January 1, 1974, between Continental Telephone Company of Illinois (later named as Contel of Illinois, Inc. and now the Company) and Mercantile Trust Company National Association (now named Mercantile Bank of St. Louis National Association), as trustee, as supplemented and amended; (viii) Indenture of Mortgage and Deed of Trust dated as of April 1, 1977, between Continental Telephone Company of Indiana, Inc. (later named Contel of Indiana, Inc. and now the Company), Mercantile Trust Company National Association (now named Mercantile Bank of St. Louis National Association) and American Fletcher National Bank and Trust Company (now named Bank One, Indianapolis, NA), as co-trustees, as supplemented and amended; and (ix) Indenture of Mortgage and Deed of Trust dated as of July 1, 1986, between Continental Telephone Company of Pennsylvania (later named Contel of Pennsylvania, Inc. and now the Company) and Fidelity Bank, National Association, as trustee, as supplemented and amended and (b) the loans and notes by the United States of America acting through the Rural Electrification Administration (REA) or the Rural Telephone Bank (RTB) which have been assumed by the Company.

Governmental Obligations:

The term, „Governmental Obligations, shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such Governmental Obligation or a specific payment of principal of or interest on any such Governmental Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Governmental Obligation or the specific payment of principal of or interest on the Governmental Obligation evidenced by such depository receipt.

Indenture:

The term „Indenture, shall mean this instrument as originally executed, or, if amended or supplemented as herein provided, as so amended or supplemented.

Interest payment date:

The term „interest payment date, when used with respect to any installment of interest on a Security of a particular series shall mean the date specified in such Security or in a Board Resolution or in an indenture supplemental hereto with respect to such series as the fixed date on which an installment of interest with respect to Securities of that series is due and payable.

Officers, Certificate:

The term Officers, Certificate, shall mean a certificate signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Controller or an Assistant Controller or the Secretary or an Assistant Secretary of the Company. Each such certificate shall include the statements provided for in Section 13.06, if and to the extent required by the provisions thereof.

Opinion of Counsel:

The term Opinion of Counsel, shall mean an opinion in writing signed by legal counsel, who shall be satisfactory to the Trustee and who may be an employee of or counsel for the Company. Each such opinion shall include the statements provided for in Section 13.06, if and to the extent required by the provisions thereof.

Outstanding:

The term outstanding, when used with reference to Securities of any series, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Securities of that series theretofore authenticated and delivered by the Trustee under this Indenture, except (a) Securities theretofore cancelled by the Trustee or any paying agent, or delivered to the Trustee or any paying agent for cancellation or which have previously been cancelled; (b) Securities or portions thereof for the payment or redemption of which moneys or Governmental Obligations in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided, however, that if such Securities or portions of such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article Three provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and (c) Securities in lieu of or in substitution for which other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.07.

Predecessor Security:

The term Predecessor Security, of any particular Security shall mean every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.07 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

Responsible officer:

The term responsible officer, when used with respect to the Trustee shall mean the chairman of the board of directors, the president, any vice president, the secretary, the treasurer, any trust officer, any corporate trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

Security or Securities:

The term „Security, or „Securities, shall mean any Security or Securities, as the case may be, authenticated and delivered under this Indenture.

Securityholder:

The term „Securityholder, „holder of Securities, „registered holder, or other similar term, shall mean the person or persons in whose name or names a particular Security shall be registered on the books of the Company kept for that purpose in accordance with the terms of this Indenture.

Subsidiary:

The term „Subsidiary, shall mean any corporation at least a majority of whose outstanding voting stock shall at the time be owned by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries. For the purposes only of this definition of the term „Subsidiary, the term „voting stock, as applied to the stock of any corporation, shall mean stock of any class or classes having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the occurrence of a contingency.

Trustee:

The term „Trustee, shall mean The First National Bank of Chicago and, subject to the provisions of Article Seven, shall also include its successors and assigns, and, if at any time there is more than one person acting in such capacity hereunder, „Trustee, shall mean each such person. The term „Trustee, as used with respect to a particular series of the Securities shall mean the trustee with respect to that series.

Trust Indenture Act of 1939, as amended:

The term „Trust Indenture Act of 1939, as amended, subject to the provisions of Sections 9.01, 9.02, and 10.01, shall mean the Trust Indenture Act of 1939, as amended and in effect at the date of execution of this Indenture.

ARTICLE TWO
Issue, Description, Terms, Execution,
Registration and Exchange of Securities

SECTION 2.01. The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series up to the aggregate principal amount of Securities of that series from time to time authorized by or pursuant to a Board Resolution or pursuant to one or more indentures supplemental hereto, prior to the initial issuance of Securities of a particular series. Prior to the initial issuance of Securities of any series, there shall be established in or pursuant to a Board Resolution, and set forth in an Officers, Certificate, or established in one or more indentures supplemental hereto:

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);

- (2) any limit upon the aggregate principal amount of the Securities of that series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of that series);
- (3) the date or dates on which the principal of the Securities of the series is payable;
- (4) the rate or rates at which the Securities of the series shall bear interest or the manner of calculation of such rate or rates, if any, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the manner of determination of such interest payment dates;
- (5) the period or periods within which, the price or prices at which and the terms and conditions upon which, Securities of the series may be redeemed, in whole or in part, at the option of the Company;
- (6) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions (including payments made in cash in anticipation of future sinking fund obligations) or at the option of a holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- (7) the form of the Securities of the series including the form of the Certificate of Authentication for such series;
- (8) if other than denominations of \$1,000 or any integral multiple thereof, the denominations in which the Securities of the series shall be issuable; and
- (9) any and all other terms with respect to such series (which terms shall not be inconsistent with the terms of this Indenture).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to any such Board Resolution or in any indentures supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

SECTION 2.02. The Securities of any series and the Trustee's Certificate of Authentication to be borne by such Securities shall be substantially of the tenor and purport as set forth in one or more indentures supplemental hereto or as provided in a Board Resolution and as set forth in an Officers' Certificate, and may have such letters, numbers or other marks of identification or designation and such legends or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which Securities of that series may be listed, or to conform to usage.

SECTION 2.03. The Securities shall be issuable as registered Securities and in the denominations of \$1,000 or any multiple thereof, subject to Section 2.01(8). The Securities of a particular series shall bear interest payable on the dates and at the rate specified with respect to that series. The principal of and the interest on the Securities of any series, as well as any premium thereon in case of redemption thereof prior to maturity, shall be payable in the coin or currency of the United States of America which at the time is legal tender for public and private debt, at the office or agency of the Company maintained for that purpose in either the City of Chicago, County of Cook, State of Illinois or the Borough of Manhattan, the City and State of New York. Each Security shall be dated the date of its authentication. Interest on the Securities shall be computed on the basis of a 360-day year composed of twelve 30-day months; provided that interest on Securities bearing interest of a floating rate shall be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

The interest installment on any Security which is payable, and is punctually paid or duly provided for, on any interest payment date for Securities of that series shall be paid to the person in whose name said Security (or one or more Predecessor Securities) is registered at the close of business on the regular record date for such interest installment. In the event that any Security of a particular series or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any interest payment date and prior to such interest payment date, interest on such Security will be paid upon presentation and surrender of such Security as provided in Section 3.03.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any interest payment date for Securities of the same series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its election, as provided in clause (1) or clause (2) below:

(1) The Company may make payment of any Defaulted Interest on Securities to the persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register (as hereinafter defined), not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names such Securities (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

The term ,regular record date, as used in this Section with respect to a series of Securities with respect to any interest payment date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the first day of a month, or the last day of the month immediately preceding the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the fifteenth day of a month, whether or not such date is a business day.

Subject to the foregoing provisions of this Section, each Security of a series delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Security of such series shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 2.04. The Securities shall, subject to the provisions of Section 2.06, be printed on steel engraved borders or fully or partially engraved, or legibly typed, as the proper officers of the Company may determine, and shall be signed on behalf of the Company by its President or one of its Vice Presidents, under its corporate seal attested by its Secretary or one of its Assistant Secretaries. The signature of the President or a Vice President and/or the signature of the Secretary or an Assistant Secretary in attestation of the corporate seal, upon the Securities, may be in the form of a facsimile signature of a present or any future President or Vice President and of a present or any future Secretary or Assistant Secretary and may be imprinted or otherwise reproduced on the Securities and for that purpose the Company may use the facsimile signature of any person who shall have been a President or Vice President, or of any person who shall have been a Secretary or Assistant Secretary, notwithstanding the fact that at the time the Securities shall be authenticated and delivered or disposed of such person shall have ceased to be the President or a Vice President, or the Secretary or an Assistant Secretary, of the Company, as the case may be. The seal of the Company may be in the form of a facsimile of the seal of the Company and may be impressed, affixed, imprinted or otherwise reproduced on the Securities.

Only such Securities as shall bear thereon a certificate of authentication substantially in the form established for such Securities, executed manually by an authorized officer of the Trustee, or by any Authenticating Agent with respect to such Securities, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate executed by the Trustee, or by any Authenticating Agent appointed by the Trustee with respect to such Securities, upon any Security executed by the Company shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a written order of the Company for the authentication and delivery of such Securities, signed by its President or any Vice President and its Treasurer or any Assistant Treasurer, and the Trustee in accordance with such written order shall authenticate and deliver such Securities.

In authenticating such Securities and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel stating that the form and terms thereof have been established in conformity with the provisions of this Indenture and that such Securities, when authenticated and delivered by the Trustee, will be duly authorized, executed and delivered and will constitute the legal, valid and binding obligations of the Company, enforceable against it in accordance with their terms.

The Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

SECTION 2.05. (a) Securities of any series may be exchanged upon presentation thereof at the office or agency of the Company designated for such purpose in either the City of Chicago, County of Cook, State of Illinois or the Borough of Manhattan, the City and State of New York, for other Securities of such series of authorized denominations, and for a like aggregate principal amount, upon payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, all as provided in this Section. In respect of any Securities so surrendered for exchange, the Company shall execute, the Trustee shall authenticate and such office or agency shall deliver in exchange therefor the Security or Securities of the same series which the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

(b) The Company shall keep, or cause to be kept, at its office or agency designated for such purpose in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, or such other location designated by the Company a register or registers (herein referred to as the Security Register.) in which, subject to such reasonable regulations as it may prescribe, the Company shall register the Securities and the transfers of Securities as in this Article provided and which at all reasonable times shall be open for inspection by the Trustee. The registrar for the purpose of registering Securities and transfer of Securities as herein provided shall be appointed by the Board of Directors by Board Resolution (the Security Registrar.).

Upon surrender for transfer of any Security at the office or agency of the Company designated for such purpose in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, the Company shall execute, the Trustee shall authenticate and such office or agency shall deliver in the name of the transferee or transferees a new Security or Securities of the same series as the Security presented for a like aggregate principal amount.

All Securities presented or surrendered for exchange or registration of transfer, as provided in this Section, shall be accompanied (if so required by the Company or the Security Registrar) by a written instrument or instruments of transfer, in form satisfactory to the Company or the Security Registrar, duly executed by the registered holder or by his duly authorized attorney in writing.

(c) No service charge shall be made for any exchange or registration of transfer of Securities, or issue of new Securities in case of partial redemption of any series, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, other than exchanges pursuant to Section 2.06, the second paragraph of Section 3.03 and Section 9.04 not involving any transfer.

(d) The Company shall not be required (a) to issue, exchange or register the transfer of any Securities during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the outstanding Securities of the same series and ending at the close of business on the day of such mailing, nor (b) to register the transfer of or exchange any Securities of any series or portions thereof called for redemption.

SECTION 2.06. Pending the preparation of definitive Securities of any series, the Company may execute, and the Trustee shall authenticate and deliver, temporary Securities (printed, lithographed or typewritten) of any authorized denomination, and substantially in the form of the definitive Securities in lieu of which they are issued, but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Company. Every temporary Security of any series shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities of such series. Without unnecessary delay the Company will execute and will furnish definitive Securities of such series and thereupon any or all temporary Securities of such series may be surrendered in exchange therefor (without charge to the holders), at the office or agency of the Company designated for the purpose in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, and the Trustee shall authenticate and such office or agency shall deliver in exchange for such temporary Securities an equal aggregate principal amount of definitive Securities of such series. Until so exchanged, the temporary Securities of such series shall be entitled to the same benefits under this Indenture as definitive Securities of such series authenticated and delivered hereunder.

SECTION 2.07. In case any temporary or definitive Security shall become mutilated or be destroyed, lost or stolen, the Company (subject to the next succeeding sentence) shall execute, and upon its request the Trustee (subject as aforesaid) shall authenticate and deliver, a new Security of the same series bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Security, or in lieu of and in substitution for the Security so destroyed, lost or stolen. In every case the applicant for a substituted Security shall furnish to the Company and to the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of the applicant's Security and of the ownership thereof. The Trustee may authenticate any such substituted Security and deliver the same upon the written request or authorization of any officer of the Company. Upon the issue of any substituted Security, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Security) if the applicant for such payment shall furnish to the Company and to the Trustee such security or indemnity as they may require to save them harmless, and, in case of destruction, loss or theft, evidence to the satisfaction of the Company and the Trustee of the destruction, loss or theft of such Security and of the ownership thereof.

Every Security issued pursuant to the provisions of this Section in substitution for any Security which is mutilated, destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of the same series duly issued hereunder. All Securities shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities, and shall preclude (to the extent lawful) any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.08. All Securities surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Company or any paying agent, be delivered to the Trustee for cancellation, or, if surrendered to the Trustee, shall be cancelled by it, and no Securities shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Indenture. On request of the Company, the Trustee shall deliver to the Company cancelled Securities held by the Trustee. In the absence of such request the Trustee may dispose of cancelled Securities in accordance with its standard procedures and deliver a certificate of disposition to the Company. If the Company shall otherwise acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.09. Nothing in this Indenture or in the Securities, express or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and the holders of the Securities, any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all such covenants, conditions and provisions being for the sole benefit of the parties hereto and of the holders of the Securities.

SECTION 2.10. So long as any of the Securities of any series remain outstanding there may be an Authenticating Agent for any or all such series of Securities which the Trustee shall have the right to appoint. Said Authenticating Agent shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, transfer or partial redemption thereof, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. All references in this Indenture to the authentication of Securities by the Trustee shall be deemed to include authentication by an Authenticating Agent for such series except for authentication upon original issuance or pursuant to Section 2.07 hereof. Each Authenticating Agent shall be acceptable to the Company and shall be a corporation which has a combined capital and surplus, as most recently reported or determined by it, sufficient under the laws of any jurisdiction under which it is organized or in which it is doing business to conduct a trust business, and which is otherwise authorized under such laws to conduct such business and is subject to supervision or examination by Federal or State authorities. If at any time any Authenticating Agent shall cease to be eligible in accordance with these provisions, it shall resign immediately.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time (and upon request by the Company shall) terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon resignation, termination or cessation of eligibility of any Authenticating Agent, the Trustee may appoint an eligible successor Authenticating Agent acceptable to the Company. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor hereunder as if originally named as an Authenticating Agent pursuant hereto.

ARTICLE THREE

Redemption of Securities and Sinking Fund Provisions

SECTION 3.01. The Company may redeem the Securities of any series issued hereunder on and after the dates and in accordance with the terms established for such series pursuant to Section 2.01 hereof.

SECTION 3.02. (a) In case the Company shall desire to exercise such right to redeem all or, as the case may be, a portion of the Securities of any series in accordance with the right reserved so to do, it shall give notice of such redemption to holders of the Securities of such series to be redeemed by mailing, first class postage prepaid, a notice of such redemption not less than 30 days and not more than 60 days before the date fixed for redemption of that series to such holders at their last addresses as they shall appear upon the Security Register. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the registered holder receives the notice. In any case, failure duly to give such notice to the holder of any Security of any series designated for redemption in whole or in part, or any defect in the notice, shall not affect the validity of the proceedings for the redemption of any other Securities of such series or any other series. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers Certificate evidencing compliance with any such restriction.

Each such notice of redemption shall specify the date fixed for redemption and the redemption price at which Securities of that series are to be redeemed, and shall state that payment of the redemption price of such Securities to be redeemed will be made at the office or agency of the Company in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that from and after said date interest will cease to accrue and that the redemption is for a sinking fund, if such is the case. If less than all the Securities of a series are to be redeemed, the notice to the holders of Securities of that series to be redeemed in whole or in part shall specify the particular Securities to be so redeemed. In case any Security is to be redeemed in part only, the notice which relates to such Security shall state the portion of the principal amount thereof to be redeemed, and shall state that on and after the redemption date, upon surrender of such Security, a new Security or Securities of such series in principal amount equal to the unredeemed portion thereof will be issued.

(b) If less than all the Securities of a series are to be redeemed, the Company shall give the Trustee at least 45 days, notice in advance of the date fixed for redemption as to the aggregate principal amount of Securities of the series to be redeemed, and thereupon the Trustee shall select, in such manner as it shall deem appropriate and fair in its discretion and which may provide for the selection of a portion or portions (equal to \$1,000 or any multiple thereof) of the principal amount of such Securities of a denomination larger than \$1,000, the Securities to be redeemed and shall thereafter promptly notify the Company in writing of the numbers of the Securities to be redeemed, in whole or in part.

The Company may, if and whenever it shall so elect, by delivery of instructions signed on its behalf by its President or any Vice President, instruct the Trustee or any paying agent to call all or any part of the Securities of a particular series for redemption and to give notice of redemption in the manner set forth in this Section, such notice to be in the name of the Company or its own name as the Trustee or such paying agent may deem advisable. In any case in which notice of redemption is to be given by the Trustee or any such paying agent, the Company shall deliver or cause to be delivered to, or permit to remain with, the Trustee or such paying agent, as the case may be, such Security Register, transfer books or other records, or suitable copies or extracts therefrom, sufficient to enable the Trustee or such paying agent to give any notice by mail that may be required under the provisions of this Section.

SECTION 3.03. (a) If the giving of notice of redemption shall have been completed as above provided, the Securities or portions of Securities of the series to be redeemed specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption and interest on such Securities or portions of Securities shall cease to accrue on and after the date fixed for redemption, unless the Company shall default in the payment of such redemption price and accrued interest with respect to any such Security or portion thereof. On presentation and surrender of such Securities on or after the date fixed for redemption at the place of payment specified in the notice, said Securities shall be paid and redeemed at the applicable redemption price for such series, together with interest accrued thereon to the date fixed for redemption (but if the date fixed for redemption is an interest payment date, the interest installment payable on such date shall be payable to the registered holder at the close of business on the applicable record date pursuant to Section 2.03).

(b) Upon presentation of any Security of such series which is to be redeemed in part only, the Company shall execute and the Trustee shall authenticate and the office or agency where the Security is presented shall deliver to the holder thereof, at the expense of the Company, a new Security or Securities of the same series, of authorized denominations in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 3.04. The provisions of Sections 3.04, 3.05 and 3.06 shall be applicable to any sinking fund for the retirement of Securities of a series, except as otherwise specified as contemplated by Section 2.01 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a ,mandatory sinking fund payment, and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an ,optional sinking fund payment,. If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 3.05. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

SECTION 3.05. The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the redemption price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 3.06. Not less than 45 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers, Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 3.05 and the basis for such credit and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3.02. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Section 3.03.

ARTICLE FOUR
Particular Covenants of the Company

The Company covenants and agrees for each series of the Securities as follows:

SECTION 4.01. The Company will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on the Securities of that series at the time and place and in the manner provided herein and established with respect to such Securities.

SECTION 4.02. So long as any series of the Securities remain outstanding, the Company agrees to maintain an office or agency in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, with respect to each such series and at such other location or locations as may be designated as provided in this Section 4.02, where (i) Securities of that series may be presented for payment, (ii) Securities of that series may be presented as hereinabove authorized for registration of transfer and exchange, and (iii) notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be given or served. As to such office or agency in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, the Company shall, designate the required office or agency to be located in either the City of Chicago, County of Cook, State of Illinois, or the Borough of Manhattan, the City and State of New York, for each Series of Securities, such designation to continue with respect to such office or agency until the Company shall, by written notice signed by its President or a Vice President and delivered to the Trustee, designate some other office or agency for such purposes or any of them. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, notices and demands.

SECTION 4.03. (a) If the Company shall appoint one or more paying agents for all or any series of the Securities, other than the Trustee, the Company will cause each such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section,

- (1) that it will hold all sums held by it as such agent for the payment of the principal of (and premium, if any) or interest on the Securities of that series (whether such sums have been paid to it by the Company or by any other obligor on such securities) in trust for the benefit of the persons entitled thereto;
- (2) that it will give the Trustee notice of any failure by the Company (or by any other obligor on such Securities) to make any payment of the principal of (and premium, if any) or interest on the Securities of that series when the same shall be due and payable;
- (3) that it will, at any time during the continuance of any failure referred to in the preceding paragraph (a)(2) above, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent; and
- (4) that it will perform all other duties of paying agent as set forth in this Indenture.

(b) If the Company shall act as its own paying agent with respect to any series of the Securities, it will on or before each due date of the principal of (and premium, if any) or interest on Securities of that series, set aside, segregate and hold in trust for the benefit of the persons entitled thereto a sum sufficient to pay such principal (and premium, if any) or interest so becoming due on Securities of that series until such sums shall be paid to such persons or otherwise disposed of as herein provided and will promptly notify the Trustee of such action, or any failure (by it or any other obligor on such Securities) to take such action. Whenever the Company shall have one or more paying agents for any series of Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities of that series, deposit with a paying agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the persons entitled to such principal, premium or interest, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

(c) Anything in this Section to the contrary notwithstanding, (i) the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 11.05, and (ii) the Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or direct any paying agent to pay, to the Trustee all sums held in trust by the Company or such paying agent, such sums to be held by the Trustee upon the same terms as those upon which such sums were held by the Company or such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

SECTION 4.04. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.05. The Company will not, while any of the Securities remain outstanding, create, or suffer to be created or to exist, any mortgage, lien, pledge, security interest or other encumbrance of any kind upon any property of any character of the Company whether now owned or hereafter acquired or upon any of the income or profits therefrom unless it shall make effective provision whereby the Securities then outstanding shall be secured by such mortgage, lien, pledge, security interest or other encumbrance equally and ratably with any and all obligations and indebtedness thereby secured so long as any such obligations and indebtedness shall be so secured; provided, however, that nothing in this Section shall be construed to prevent the Company from creating, or from suffering to be created or to exist, any mortgages, liens, pledges, security interests or other encumbrances, or any agreements, with respect to:

(1) Purchase money mortgages, or other purchase money liens, pledges or encumbrances of any kind upon property hereafter acquired by the Company, or mortgages, liens, pledges, security interests or other encumbrances of any kind existing on such property at the time of the acquisition thereof, or conditional sales agreements or other title retention agreements with respect to any property hereafter acquired; provided, however, that no such mortgage, lien, pledge, security interest or other encumbrance, and no such agreement, shall extend to or cover any other property of the Company;

(2) The replacement, extension or renewal of any such mortgage, lien, pledge, security interest or other encumbrance, or of any such agreement, permitted by the foregoing clause (1), or the replacement, extension or renewal (without increase) of the indebtedness secured thereby;

(3) Liens for taxes or assessments or governmental charges or levies; pledges or deposits to secure obligations under workmen's compensation laws or similar legislation; pledges or deposits to secure performance in connection with bids, tenders, contracts (other than contracts for the payment of money) or leases to which the Company is a party; deposits to secure public or statutory obligations of the Company; materialmen's, mechanics', carriers', workers', repairmen's or other like liens in the ordinary course of business, or deposits to obtain the release of such liens; deposits to secure surety and appeal bonds to which the Company is a party; other pledges or deposits for similar purposes in the ordinary course of business; liens created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; leases made, or existing on property acquired, in the ordinary course of business; landlord's liens under leases to which the Company is a party; zoning restrictions, easements, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such property in the operation of the business of the Company or the value of such property for the purpose of such business; or the lien of the Trustee described in Section 7.06 hereof;

(4) First Mortgage Bonds outstanding on the date hereof and any replacement, extension or renewal (without increase) of such outstanding First Mortgage Bonds;

(5) First Mortgage Bonds which may be issued by the Company in connection with a consolidation or merger of the Company with or into any Affiliate in exchange for or otherwise in substitution for indebtedness of such Affiliate which by its terms in effect requires the Company as a result of such consolidation or merger to equally and ratably secure such indebtedness with the First Mortgage Bonds or by its terms prohibits long-term senior secured indebtedness from being incurred by such Affiliate or a successor thereto unless such First Mortgage Bonds are issued; or

(6) Indebtedness assumed by the Company of the character specified in the first proviso of Section 4.06 hereof.

SECTION 4.06. The Company will not, while any of the Securities remain outstanding, consolidate with, or merge into, or merge into itself, or sell or convey all or substantially all of its property to, any other Company unless the provisions of Article Ten hereof are complied with.

If upon any such consolidation or merger, or sale or conveyance, any of the property of the Company owned by the Company prior thereto would thereupon become subject to any mortgage, security interest, pledge or lien, the Company prior to such consolidation, merger, sale or conveyance will secure the outstanding Securities, or cause the same to be secured, equally and ratably with the other indebtedness or obligations secured by such mortgage, security interest, pledge or lien so long as such other indebtedness or obligations shall be so secured; provided, however, that the subjection of the property of the Company to any mortgage, security interest, pledge or lien securing indebtedness of an Affiliate which is required to be assumed by the Company in connection with any merger or consolidation of such Affiliate shall be deemed excluded from the operation of this Section and shall not require that any of the Securities be secured; and provided, further, that the subjection of property of the Company to any mortgage, security interest, pledge or lien of the character referred to in clauses (1), (2), (3), (4) and (5) of Section 4.05 shall be deemed excluded from the operation of this Section and shall not require that any of the Securities be secured.

ARTICLE FIVE
Securityholders, Lists and Reports by the Company and the Trustee

SECTION 5.01. The Company will furnish or cause to be furnished to the Trustee (a) semi-annually, not more than 15 days after each regular record date (as defined in Section 2.03), a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of each series of Securities as of such regular record date and (b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, no such list need be furnished for any series for which the Trustee shall be the Security Registrar.

SECTION 5.02. (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Securities contained in the most recent list furnished to it as provided in Section 5.01 and as to the names and addresses of holders of Securities received by the Trustee in its capacity as Security Registrar (if acting in such capacity).

(b) The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(c) In case three or more holders of Securities of a series (hereinafter referred to as applicants,) apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of Securities of such series or holders of all Securities with respect to their rights under this Indenture or under such Securities, and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(1) afford to such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section, or

(2) inform such applicants as to the approximate number of holders of Securities of such series or of all Securities, as the case may be, whose names and addresses appear in the information preserved at the time by the Trustee, in accordance with the provisions of subsection (a) of this Section, and as to the approximate cost of mailing to such Securityholders the form of proxy or other communication, if any, specified in such application.

(d) If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each holder of such series or of all Securities, as the case may be, whose name and address appears in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section, a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants and file with the Securities and Exchange Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the holders of Securities of such series or of all Securities, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Securityholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(e) Each and every holder of the Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any paying agent nor any Security Registrar shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Securities in accordance with the provisions of subsection (b) of this Section, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

SECTION 5.03. (a) The Company covenants and agrees to file with the Trustee, within 15 days after the Company is required to file the same with the Securities and Exchange Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as said Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with said Commission pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and said Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Company covenants and agrees to file with the Trustee and the Securities and Exchange Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to transmit by mail, first class postage prepaid, or reputable over-night delivery service which provides for evidence of receipt, to the Securityholders, as their names and addresses appear upon the Security Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section as may be required by rules and regulations prescribed from time to time by the Securities and Exchange Commission.

(d) The Company covenants and agrees to furnish to the Trustee, on or before May 15 in each calendar year in which any of the Securities are outstanding, or on or before such other day in each calendar year as the Company and the Trustee may from time to time agree upon, a certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture. For purposes of this subsection (d), such compliance shall be determined without regard to any period of grace or requirement of notice provided under this Indenture.

SECTION 5.04. (a) On or before July 15 in each year in which any Securities are outstanding hereunder, the Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report dated as of the preceding May 15, with respect to any of the following events which may have occurred within the previous twelve months (but if no such event has occurred within such period no report need be transmitted):

(1) any change to its eligibility under Section 7.09, and its qualifications under Section 7.08;

(2) the creation of or any material change to a relationship specified in paragraphs (1) through (10) of subsection (c) of Section 7.08;

(3) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any property or funds held or collected by it as Trustee if such advances so remaining unpaid aggregate more than 1/2 of 1 % of the principal amount of the Securities outstanding on the date of such report;

(4) any change to the amount, interest rate, and maturity date of all other indebtedness owing by the Company, or by any other obligor on the Securities, to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except any indebtedness based upon a creditor relationship arising in any manner described in paragraphs (2), (3), (4), or (6) of subsection (b) of Section 7.13;

(5) any change to the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;

(6) any release, or release and substitution, of property subject to the lien of this Indenture (and the consideration thereof, if any) which it has not previously reported;

(7) any additional issue of Securities which the Trustee has not previously reported; and

(8) any action taken by the Trustee in the performance of its duties under this Indenture which it has not previously reported and which in its opinion materially affects the Securities or the Securities of any series, except any action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 6.07.

(b) The Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee as such since the date of the last report transmitted pursuant to the provisions of subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this Indenture), for the reimbursement of which it claims or may claim a lien or charge prior to that of the Securities of any series on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this subsection if such advances remaining unpaid at any time aggregate more than 10% of the principal amount of Securities of such series outstanding at such time, such report to be transmitted within 90 days after such time.

(c) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Trustee with the Company, with each stock exchange upon which any Securities are listed (if so listed) and also with the Securities and Exchange Commission. The Company agrees to notify the Trustee when any Securities become listed on any stock exchange.

ARTICLE SIX
Remedies of the Trustee and Securityholders on Event of Default

SECTION 6.01. (a) Whenever used herein with respect to Securities of a particular series, „Event of Default, means any one or more of the following events which has occurred and is continuing:

(1) default in the payment of any installment of interest upon any of the Securities of that series, as and when the same shall become due and payable, and continuance of such default for a period of 30 business days;

(2) default in the payment of the principal of (or premium, if any, on) any of the Securities of that series as and when the same shall become due and payable whether at maturity, upon redemption, by declaration or otherwise, or in any payment required by any sinking or analogous fund established with respect to that series;

(3) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company with respect to that series contained in such Securities or otherwise established with respect to that series of Securities pursuant to Section 2.01 hereof or contained in this Indenture (other than a covenant or agreement which has been expressly included in this Indenture solely for the benefit of one or more series of Securities other than such series) for a period of 90 days after the date on which written notice of such failure, requiring the same to be remedied and stating that such notice is a Notice of Default, hereunder, shall have been given to the Company by the Trustee, by registered or certified mail, or to the Company and the Trustee by the holders of at least 25% in principal amount of the Securities of that series at the time outstanding;

(4) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking liquidation or reorganization of the Company under the Federal Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued unvacated and unstayed for a period of 90 days; or an involuntary case shall be commenced under such Code in respect of the Company and shall continue undismissed for a period of 90 days or an order for relief in such case shall have been entered; or a decree or order of a court having jurisdiction in the premises shall have been entered for the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or of its property, or for the winding up or liquidation of its affairs, and such decree or order shall have remained in force unvacated and unstayed for a period of 90 days; or

(5) the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking liquidation or reorganization under the Federal Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors.

(b) In each and every such case, unless the principal of all the Securities of that series shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities of that series then outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by such Securityholders), may declare the principal of all the Securities of that series to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in this Indenture or in the Securities of that series or established with respect to that series pursuant to Section 2.01 hereof to the contrary notwithstanding.

(c) This provision, however, is subject to the condition that if, at any time after the principal of the Securities of that series shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all the Securities of that series and the principal of (and premium, if any, on) any and all Securities of that series which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that such payment is enforceable under applicable law, upon overdue installments of interest, at the rate per annum expressed in the Securities of that series to the date of such payment or deposit) and the amount payable to the Trustee under Section 7.06, and any and all defaults under the Indenture, other than the nonpayment of principal on Securities of that series which shall not have become due by their terms, shall have been remedied or waived as provided in Section 6.06 then and in every such case the holders of a majority in aggregate principal amount of the Securities of that series then outstanding, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon.

(d) In case the Trustee shall have proceeded to enforce any right with respect to Securities of that series under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceedings had been taken.

SECTION 6.02. (a) The Company covenants that (1) in case default shall be made in the payment of any installment of interest on any of the Securities of a series, or any payment required by any sinking or analogous fund established with respect to that series as and when the same shall become due and payable, and such default shall have continued for a period of 30 business days, or (2) in case default shall be made in the payment of the principal of (or premium, if any, on) any of the Securities of a series when the same shall have become due and payable, whether upon maturity of the Securities of a series or upon redemption or upon declaration or otherwise--then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Securities of that series, the whole amount that then shall have become due and payable on all such Securities for principal (and premium, if any) or interest, or both, as the case may be, with interest upon the overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law) upon overdue installments of interest at the rate per annum expressed in the Securities of that series; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, and the amount payable to the Trustee under Section 7.06.

(b) In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or other obligor upon the Securities of that series and collect in the manner provided by law out of the property of the Company or other obligor upon the Securities of that series wherever situated the moneys adjudged or decreed to be payable.

(c) In case of any receivership, insolvency, liquidation, bankruptcy, reorganization, readjustment, arrangement, composition or other judicial proceedings affecting the Company, any other obligor on such Securities, or the creditors or property of either, the Trustee shall have power to intervene in such proceedings and take any action therein that may be permitted by the court and shall (except as may be otherwise provided by law) be entitled to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of Securities of such series allowed for the entire amount due and payable by the Company or such other obligor under the Indenture at the date of institution of such proceedings and for any additional amount which may become due and payable by the Company or such other obligor after such date, and to collect and receive any moneys or other property payable or deliverable on any such claim, and to distribute the same after the deduction of the amount payable to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the holders of Securities of such series to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to such Securityholders, to pay to the Trustee any amount due it under Section 7.06.

(d) All rights of action and of asserting claims under this Indenture, or under any of the terms established with respect to Securities of that series, may be enforced by the Trustee without the possession of any of such Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for payment to the Trustee of any amounts due under Section 7.06, be for the ratable benefit of the holders of the Securities of such series.

In case of an Event of Default hereunder the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities of that series or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 6.03. Any moneys collected by the Trustee pursuant to Section 6.02 with respect to a particular series of Securities shall be applied in the order following, at the date or dates fixed by the Trustee and, in case of the distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the several Securities of that series, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and of all amounts payable to the Trustee under Section 7.06;

SECOND: To the payment of the amounts then due and unpaid upon Securities of such series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively.

SECTION 6.04. No holder of any Security of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to Securities of such series specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Securities of such series then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have failed to institute any such action, suit or proceeding; it being understood and intended, and being expressly covenanted by the taker and holder of every Security of such series with every other such taker and holder and the Trustee, that no one or more holders of Securities of such series shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other of such Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities of such series. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provisions of this Indenture, however, the right of any holder of any Security to receive payment of the principal of (and premium, if any) and interest on such Security, as therein provided, on or after the respective due dates expressed in such Security (or in the case of redemption, on the redemption date), or to institute suit for the enforcement of any such payment on or after such respective dates or redemption date, shall not be impaired or affected without the consent of such holder.

SECTION 6.05. (a) All powers and remedies given by this Article to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any others thereof or of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to such Securities.

(b) No delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 6.06. The holders of a majority in aggregate principal amount of the Securities of any series at the time outstanding, determined in accordance with Section 8.04, shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such series; provided, however, that such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudicial to the rights of holders of Securities of any other series at the time outstanding determined in accordance with Section 8.04, not parties thereto. Subject to the provisions of Section 7.01, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a responsible officer or officers of the Trustee, determine that the proceeding so directed would involve the Trustee in personal liability. The holders of a majority in aggregate principal amount of the Securities of any series at the time outstanding, determined in accordance with Section 8.04, may on behalf of the holders of all of the Securities of that series waive any past default in the performance of any of the covenants contained herein or established pursuant to Section 2.01 with respect to such series and its consequences, except a default in the payment of the principal of, or premium, if any, or interest on, any of the Securities of that series as and when the same shall become due by the terms of such Securities or a call for redemption of Securities of that series. Upon any such waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Securities of that series shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 6.07. The Trustee shall, within 90 days after the occurrence of a default with respect to a particular series, transmit by mail, first class postage prepaid, to the holders of Securities of that series, as their names and addresses appear upon the Security Register, notice of all defaults with respect to that series known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purposes of this Section being hereby defined to be the events specified in subsections (1), (2), (3), (4) and (5) of Section 6.01(a), not including any periods of grace provided for therein and irrespective of the giving of notice provided for by subsection (3) of Section 6.01(a)); provided, that, except in the case of default in the payment of the principal of (or premium, if any) or interest on any of the Securities of that series or in the payment of any sinking or analogous fund installment established with respect to that series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or responsible officers, of the Trustee in good faith determine that the withholding of such notice is in the interests of the Securityholders of Securities of that series; provided further, that in the case of any default of the character specified in Section 6.01(a)(3) with respect to Securities of such series no such notice to the holders of the Securities of that series shall be given until at least 30 days after the occurrence thereof.

The Trustee shall not be deemed to have knowledge of any default, except (i) a default under subsections (a)(1) or (a)(2) of Section 6.01 as long as the Trustee is acting as paying agent for such series of Securities or (ii) any default as to which the Trustee shall have received written notice or a responsible officer charged with the administration of this Indenture shall have obtained actual knowledge.

SECTION 6.08. All parties to this Indenture agree, and each holder of any Securities by his or her acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding more than 10% in aggregate principal amount of the outstanding Securities of any series, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security of such series, on or after the respective due dates expressed in such Security or established pursuant to this Indenture.

ARTICLE SEVEN
Concerning the Trustee

SECTION 7.01. (a) The Trustee, prior to the occurrence of an Event of Default with respect to Securities of a series and after the curing of all Events of Default with respect to Securities of that series which may have occurred, shall undertake to perform with respect to Securities of such series such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustee. In case an Event of Default with respect to Securities of a series has occurred (which has not been cured or waived), the Trustee shall exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) prior to the occurrence of an Event of Default with respect to Securities of a series and after the curing or waiving of all such Events of Default with respect to that series which may have occurred:

(i) the duties and obligations of the Trustee shall with respect to Securities of such series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to Securities of such series except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may with respect to Securities of such series conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or responsible officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities of any series at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to the Securities of that series; and

(4) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 7.02. Except as otherwise provided in Section 7.01:

(a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by a Board Resolution or an instrument signed in the name of the Company by the President or any Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer (unless other evidence in respect thereof is specifically prescribed herein);

(c) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby; nothing herein contained shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to a series of the Securities (which has not been cured or waived) to exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(e) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security, or other papers or documents, unless requested in writing so to do by the holders of not less than a majority in principal amount of the outstanding Securities of the particular series affected thereby (determined as provided in Section 8.04); provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such costs, expenses or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Company or, if paid by the Trustee, shall be repaid by the Company upon demand; and

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 7.03. (a) The recitals contained herein and in the Securities (other than the Certificate of Authentication on the Securities) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same.

(b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities.

(c) The Trustee shall not be accountable for the use or application by the Company of any of the Securities or of the proceeds of such Securities, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture or established pursuant to Section 2.01, or for the use or application of any moneys received by any paying agent other than the Trustee.

SECTION 7.04. The Trustee or any paying agent or Security Registrar, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Trustee, paying agent or Security Registrar.

SECTION 7.05. Subject to the provisions of Section 11.05, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder except such as it may agree with the Company to pay thereon.

SECTION 7.06. (a) The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel (including in-house counsel) and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify the Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises.

(b) The obligations of the Company under this Section to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

SECTION 7.07. Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers, Certificate delivered to the Trustee and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.08. (a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section, with respect to the Securities of any series and if the Default to which such conflicting interest relates has not been cured, duly waived or otherwise eliminated, within 90 days after ascertaining that it has such conflicting interest, it shall either eliminate such conflicting interest, except as otherwise provided herein, or resign with respect to the Securities of that series in the manner and with the effect specified in Section 7.10 and the Company shall promptly appoint a successor Trustee in the manner provided herein.

(b) In the event that the Trustee shall fail to comply with the provisions of subsection (a) of this Section, with respect to the Securities of any series the Trustee shall, within ten days after the expiration of such 90-day period, transmit notice of such failure by mail, first class postage prepaid, to the Securityholders of that series as their names and addresses appear upon the registration books.

(c) For the purposes of this Section the Trustee shall be deemed to have a conflicting interest with respect to the Securities of any series if a Default has occurred and is continuing and:

(1) the Trustee is trustee under this Indenture with respect to the outstanding Securities of any series other than that series, or is trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Securities issued under this Indenture; provided that there shall be excluded from the operation of this paragraph the Securities of any series other than that series and any other indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding if (i) this Indenture and such other indenture or indentures and all series of securities issuable thereunder are wholly unsecured and rank equally and such other indenture or indentures (and such series) are hereafter qualified under the Trust Indenture Act of 1939, as amended, unless the Securities and Exchange Commission shall have found and declared by order pursuant to subsection (b) of Section 305 or subsection (c) of Section 307 of the Trust Indenture Act of 1939, as amended, that differences exist between (A) the provisions of this Indenture with respect to Securities of that series and with respect to one or more other series or (B) the provisions of this Indenture and the provisions of such other indenture or indentures (or such series), which are so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to the Securities of that series and such other series or such other indenture or indentures, or (ii) the Company shall have sustained the burden of proving, on application to the Securities and Exchange Commission and after opportunity for hearing thereon, that the trusteeship under this Indenture with respect to Securities of that series and such other series or such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture with respect to Securities of that series and such other series or under such other indentures;

(2) the Trustee or any of its directors or executive officers is an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (A) one individual may be a director and/or an executive officer of the Trustee and a director and/or an executive officer of the Company, but may not be at the same time an executive officer of both the Trustee and the Company; (B) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director and/or an executive officer of the Trustee and a director of the Company; and (C) the Trustee may be designated by the Company or by an underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, fiscal agent, escrow agent, or depository, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this subsection (c), to act as trustee whether under an indenture or otherwise;

(5) 10% or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner, or executive officer thereof, or 20% or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or 10% or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner, or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), (A) 5% or more of the voting securities, or 10% or more of any other class of security, of the Company, not including the Securities issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (B) 10% or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), 5% or more of the voting securities of any person who, to the knowledge of the Trustee, owns 10% or more of the voting securities of, or controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default (as hereinafter in this subsection (c) defined), 10% or more of any class of security of any person who, to the knowledge of the Trustee, owns 50% or more of the voting securities of the Company;

(9) the Trustee owns, on the date of Default upon the Securities of any series or any anniversary of such Default while such Default upon the Securities issued under this Indenture remains outstanding, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25% or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraph (6), (7), or (8) of this subsection (d). As to any such securities of which the Trustee acquired ownership through becoming executor, administrator or testamentary trustee of an estate which include them, the provisions of the preceding sentence shall not apply, for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25% of such voting securities or 25% of any such class of security. Promptly after the dates of any such Default upon the Securities issued under this Indenture and annually in each succeeding year that the Securities issued under this Indenture remain in Default, the Trustee shall make a check of its holding of such securities in any of the above-mentioned capacities as of such dates. If the Company fails to make payment in full of principal of or interest on any of the Securities when and as the same becomes due and payable, and such failure continues for 30 days thereafter, the Trustee shall make a prompt check of its holding of such securities in any of the above-mentioned capacities as of the date of the expiration of such 30-day period, and after such date, notwithstanding the foregoing provisions of this paragraph (9), all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this subsection (c); or

(10) except under the circumstances described in paragraphs (1), (3), (4), (5) or (6) of subsection (b) of Section 7.13 the Trustee shall be or shall become a creditor of the Company.

For purposes of paragraph (1) of this subsection (c), and of Section 6.06, the term „series of Securities, or „series, means a series, class or group of securities issuable under an indenture pursuant to whose terms holders of one such series may vote to direct the indenture trustee, or otherwise take action pursuant to a vote of such holders, separately from holders of another such series; provided, that „series of securities, or „series, shall not include any series of securities issuable under an indenture if all such series rank equally and are wholly unsecured.

The specification of percentages in paragraphs (5) to (9), inclusive, of this subsection (c) shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary or sufficient to constitute direct or indirect control for the purposes of paragraph (3) or (7) of this subsection (c).

For the purposes of paragraphs (6), (7), (8) and (9) of this subsection (c) only, (A) the terms „security, and „securities, shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (B) an obligation shall be deemed to be in „default, when a default in payment of principal shall have continued for 30 days or more and shall not have been cured; and (C) the Trustee shall not be deemed to be the owner or holder of (i) any security which it holds as collateral security (as trustee or otherwise) for any obligation which is not in default as defined in clause (B) above, or (ii) any security which it holds as collateral security under this Indenture, irrespective of any Default hereunder, or (iii) any security which it holds as agent for collection, or as custodian, escrow agent or depositary, or in any similar representative capacity.

Except as above provided, the word „security, or „securities, as used in this Indenture shall mean any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, or, in general, any interest or instrument commonly known as a „security, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(d) For the purposes of this Section:

(1) The term „underwriter, when used with reference to the Company shall mean every person, who, within one year prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such term shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors, or sellers, commission.

(2) The term director shall mean any member of the board of directors of a corporation or any individual performing similar functions with respect to any organization whether incorporated or unincorporated.

(3) The term person shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization or a government or political subdivision thereof. As used in this paragraph, the term trust shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term voting security shall mean any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term Company shall mean any obligor upon the Securities.

(6) The term executive officer shall mean the president, every vice president, every assistant vice president, every trust officer, the cashier, the secretary, and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated, but shall not include the chairman of the board of directors.

(e) The percentages of voting securities and other securities specified in this Section shall be calculated in accordance with the following provisions:

(1) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section (each of whom is referred to as a person, in this paragraph) means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(2) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(3) The term amount, when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares, and the number of units if relating to any other kind of security.

(4) The term outstanding means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

- (i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class,
- (ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise,
- (iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise,
- (iv) securities held in escrow if placed in escrow by the issuer thereof.

Provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(5) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges; provided, however, that, in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes; and provided, further, that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

(f) Except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Securities issued under this Indenture, or in the payment of any sinking or analogous fund installment, the Trustee shall not be required to resign as provided by this Section 7.08 if such Trustee shall have sustained the burden of proving, on application to the Securities and Exchange Commission and after opportunity for hearing thereon, that (i) the default under the Indenture may be cured or waived during a reasonable period and under the procedures described in such application and (ii) a stay of the Trustee's duty to resign will not be inconsistent with the interests of Securityholders. The filing of such an application shall automatically stay the performance of the duty to resign until the Securities and Exchange Commission orders otherwise.

Any resignation of the Trustee shall become effective only upon the appointment of a successor trustee and such successor's acceptance of such an appointment.

SECTION 7.09. There shall at all times be a Trustee with respect to the Securities issued hereunder which shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or other person permitted to act as trustee by the Securities and Exchange Commission, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million dollars, and subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10. (a) The Trustee or any successor hereafter appointed, may at any time resign with respect to the Securities of one or more series by giving written notice thereof to the Company and by transmitting notice of resignation by mail, first class postage prepaid, to the Securityholders of such series, as their names and addresses appear upon the Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee with respect to Securities of such series by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Securities of such series, or any Securityholder of that series who has been a bona fide holder of a Security or Securities for at least six months may, subject to the provisions of Section 6.08, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur--

(1) the Trustee shall fail to comply with the provisions of subsection (a) of Section 7.08 after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder of Securities, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Company may remove the Trustee with respect to all Securities and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.08, unless the Trustee's duty to resign is stayed as provided herein, any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities of any series at the time outstanding may at any time remove the Trustee with respect to such series and appoint a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee with respect to the Securities of a series pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

(e) Any successor trustee appointed pursuant to this Section may be appointed with respect to the Securities of one or more series or all of such series, and at any time there shall be only one Trustee with respect to the Securities of any particular series.

SECTION 7.11. (a) In case of the appointment hereunder of a successor trustee with respect to all Securities, every such successor trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor trustee all the rights, powers, and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates, (2) shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any act or failure to act on the part of any other Trustee hereunder; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Securities of that or those series to which the appointment of such successor trustee relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture, and each such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates; but, on request of the Company or any successor trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor trustee relates.

(c) Upon request of any such successor trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor trustee shall accept its appointment unless at the time of such acceptance such successor trustee shall be qualified and eligible under this Article.

(e) Upon acceptance of appointment by a successor trustee as provided in this Section, the Company shall transmit notice of the succession of such trustee hereunder by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register. If the Company fails to transmit such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be transmitted at the expense of the Company.

SECTION 7.12. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 7.13. (a) Subject to the provisions of subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company within three months prior to a default, as defined in subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the holders of the Securities and the holders of other indenture securities (as defined in subsection (c) of this Section)

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such three months period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such three months period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee

(A) to retain for its own account (i) payments made on account of any such claim by any person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities, or other property in respect of claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such three months period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such three months period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in subsection (c) of this Section, would occur within three months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in such paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such three months period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any preexisting claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Securityholders and the holders of other indenture securities in such manner that the Trustee, the Securityholders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, the Securityholders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term ,dividends, shall include any distribution with respect to such claim, in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or a case for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the Securityholders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee, the Securityholders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee who has resigned or been removed after the beginning of such three months, period shall be subject to the provisions of this subsection (a) as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such three months, period, it shall be subject to the provisions of this subsection (a) if and only if the following conditions exist:

- (i) the receipt of property or reduction of claim which would have given rise to the obligation to account, if such Trustee had continued as trustee, occurred after the beginning of such three months, period; and
- (ii) such receipt of property or reduction of claim occurred within three months after such resignation or removal.

(b) There shall be excluded from the operation of subsection (a) of this Section a creditor relationship arising from

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property other than cash which shall at any time be subject to the lien, if any, of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advance and of the circumstances surrounding the making thereof is given to the Securityholders at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, subscription agent, fiscal agent or depositary, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in subsection (c) of this Section;

(5) the ownership of stock or of other securities of a Company organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper as defined in subsection (c) of this Section.

(c) As used in this Section:

(1) The term *default*, shall mean any failure to make payment in full of the principal of (or premium, if any) or interest upon any of the Securities or upon the other indenture securities when and as such principal (or premium, if any) or interest becomes due and payable.

(2) The term *other indenture securities*, shall mean securities upon which the Company is an obligor (as defined in the Trust Indenture Act of 1939, as amended) outstanding under any other indenture (A) under which the Trustee is also trustee, (B) which contains provisions substantially similar to the provisions of subsection (a) of this Section, and (C) under which a default exists at the time of the apportionment of the funds and property held in said special account.

(3) The term *cash transaction*, shall mean any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

(4) The term ,self-liquidating paper, shall mean any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

(5) The term ,Company, shall mean any obligor upon any of the Securities.

ARTICLE EIGHT
Concerning the Securityholders

SECTION 8.01. Whenever in this Indenture it is provided that the holders of a majority or specified percentage in aggregate principal amount of the Securities of a particular series may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such majority or specified percentage of that series have joined therein may be evidenced by any instrument or any number of instruments of similar tenor executed by such holders of Securities of that series in person or by agent or proxy appointed in writing.

If the Company shall solicit from the Securityholders of any series any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers Certificate, fix in advance a record date for such series for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Securities of that series have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the outstanding Securities of that series shall be computed as of the record date; provided that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 8.02. Subject to the provisions of Section 7.01, proof of the execution of any instrument by a Securityholder (such proof will not require notarization) or his agent or proxy and proof of the holding by any person of any of the Securities shall be sufficient if made in the following manner:

(a) The fact and date of the execution by any such person of any instrument may be proved in any reasonable manner acceptable to the Trustee.

(b) The ownership of Securities shall be proved by the Security Register of such Securities or by a certificate of the Security Registrar thereof.

(c) The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 8.03. Prior to the due presentment for registration of transfer of any Security, the Company, the Trustee, any paying agent and any Security Registrar may deem and treat the person in whose name such Security shall be registered upon the books of the Company as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notice of ownership or writing thereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal of, premium, if any, and (subject to Section 2.03) interest on such Security and for all other purposes; and neither the Company nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

SECTION 8.04. In determining whether the holders of the requisite aggregate principal amount of Securities of a particular series have concurred in any direction, consent or waiver under this Indenture, Securities of that series which are owned by the Company or any other obligor on the Securities of that series or by any person directly or indirectly controlling or controlled by or under common control with the Company or any other obligor on the Securities of that series shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Securities of such series which the Trustee knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 8.05. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of the majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action, any holder of a Security of that series which is shown by the evidence to be included in the Securities the holders of which have consented to such action may, by filing written notice with the Trustee, and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange therefor, on registration of transfer thereof or in place thereof, irrespective of whether or not any notation in regard thereto is made upon such Security. Any action taken by the holders of the majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action shall be conclusively binding upon the Company, the Trustee and the holders of all the Securities of that series.

ARTICLE NINE
Supplemental Indentures

SECTION 9.01. In addition to any supplemental indenture otherwise authorized by this Indenture, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect), without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Company, and the assumption by any such successor of the covenants of the Company contained herein or otherwise established with respect to the Securities; or

(b) to add to the covenants of the Company such further covenants, restrictions, conditions or provisions for the protection of the holders of the Securities of all or any series as the Board of Directors and the Trustee shall consider to be for the protection of the holders of Securities of all or any series, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions, conditions or provisions a default or an Event of Default with respect to such series permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction, condition or provision such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the holders of a majority in aggregate principal amount of the Securities of such series to waive such default; or

(c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture as shall not be inconsistent with the provisions of this Indenture and shall not adversely affect the interests of the holders of the Securities of any series; or

(d) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Security outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. With the consent (evidenced as provided in Section 8.01) of the holders of not less than a majority in aggregate principal amount of the Securities of each series affected by such supplemental indenture or indentures at the time outstanding, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Security so affected, or (ii) reduce the aforesaid percentage of Securities, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Security then outstanding and affected thereby.

Upon the request of the Company, accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders required to consent thereto as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the Securityholders of any series affected thereby under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, setting forth in general terms the substance of such supplemental indenture, to the Securityholders of all series affected thereby as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. Upon the execution of any supplemental indenture pursuant to the provisions of this Article or of Section 10.01, this Indenture shall, with respect to such series, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities of the series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Securities of any series, affected by a supplemental indenture, authenticated and delivered after the execution of such supplemental indenture pursuant to the provisions of this Article or of Section 10.01, may bear a notation in form approved by the Trustee, provided such form meets the requirements of any exchange upon which such series may be listed, as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Securities of that series so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Securities of that series then outstanding.

SECTION 9.05. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

ARTICLE TEN
Consolidation, Merger and Sale

SECTION 10.01. Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (premium, if any) and interest on all of the Securities of all series in accordance with the terms of each series, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series pursuant to Section 2.01 to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the Company formed by such consolidation, or into which the Company shall have been merged, or by the corporation which shall have acquired such property.

SECTION 10.02. (a) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities of all series outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Securities pursuant to Section 2.01 to be performed by the Company with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company or any other predecessor obligor on the Securities, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor company, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities which previously shall have been signed and delivered by the officers of the predecessor Company to the Trustee for authentication, and any Securities which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

(b) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition such changes in phraseology and form (but not in substance) may be made in the Securities thereafter to be issued as may be appropriate.

(c) Nothing contained in this Indenture or in any of the Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

SECTION 10.03. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

ARTICLE ELEVEN
Satisfaction and Discharge of Indenture;
Unclaimed Moneys

SECTION 11.01. If at any time: (a) the Company shall have delivered to the Trustee for cancellation all Securities of a series theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.07) and Securities for whose payment money or Governmental Obligations has theretofore been deposited in trust or segregated and held in trust by the Company (and thereupon repaid to the Company or discharged from such trust, as provided in Section 11.05); (b) all such Securities of a particular series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit or cause to be deposited with the Trustee as trust funds the entire amount in moneys or Governmental Obligations sufficient; or (c) a combination thereof, sufficient, without reinvestment, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay at maturity or upon redemption all Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder with respect to such series by the Company, then this Indenture shall thereupon cease to be of further effect with respect to such series except for the provisions of Sections 2.05, 2.07, 4.02 and 7.10, which shall survive until the date of maturity or redemption date, as the case may be, and Sections 7.06 and 11.05 which shall survive to such date and thereafter, and the Trustee, on demand of the Company and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture with respect to such series.

SECTION 11.02. If at any time all such Securities of a particular series not heretofore delivered to the Trustee for cancellation or which have not become due and payable as described in Section 11.01 shall have been paid by the Company by depositing irrevocably with the Trustee as trust funds moneys or an amount of Governmental Obligations sufficient to pay at maturity or upon redemption all such Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder by the Company with respect to such series, then after the date such moneys or Governmental Obligations, as the case may be, are deposited with the Trustee the obligations of the Company under this Indenture with respect to such series shall cease to be of further effect except for the provisions of Sections 2.05, 2.07, 4.02, 7.06, 7.10 and 11.05 hereof which shall survive until such Securities shall mature and be paid. Thereafter, Sections 7.06 and 11.05 shall survive.

SECTION 11.03. All moneys or Governmental Obligations deposited with the Trustee pursuant to Sections 11.01 or 11.02 shall be held in trust and shall be available for payment as due, either directly or through any paying agent (including the Company acting as its own paying agent), to the holders of the particular series of Securities for the payment or redemption of which such moneys or Governmental Obligations have been deposited with the Trustee.

SECTION 11.04. In connection with the satisfaction and discharge of this Indenture all moneys or Governmental Obligations then held by any paying agent under the provisions of this Indenture shall, upon demand of the Company, be paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys or Governmental Obligations.

SECTION 11.05. Any moneys or Governmental Obligations deposited with any paying agent or the Trustee, or then held by the Company, in trust for payment of principal of or premium or interest on the Securities of a particular series that are not applied but remain unclaimed by the holders of such Securities for at least two years after the date upon which the principal of (and premium, if any) or interest on such Securities shall have respectively become due and payable, shall be repaid to the Company on May 31 of each year or (if then held by the Company) shall be discharged from such trust; and thereupon the paying agent and the Trustee shall be released from all further liability with respect to such moneys or Governmental Obligations, and the holder of any of the Securities entitled to receive such payment shall thereafter, as an unsecured general creditor, look only to the Company for the payment thereof.

ARTICLE TWELVE
Immunity of Incorporators, Stockholders, Officers and Directors

SECTION 12.01. No recourse under or upon any obligation, covenant or agreement of this Indenture, or of any Security, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, past, present or future as such, of the Company or of any predecessor or successor corporation, either directly or through the Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors as such, of the Company or of any predecessor or successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Securities.

ARTICLE THIRTEEN
Sundry Provisions

SECTION 13.01. All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 13.02. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the corresponding board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. The Company by instrument in writing executed by authority of two-thirds of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company and thereupon such power so surrendered shall terminate both as to the Company and as to any successor corporation.

SECTION 13.04. Except as otherwise expressly provided herein any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Company may be given or served by being deposited first class postage prepaid in a post-office letterbox addressed (until another address is filed in writing by the Company with the Trustee), as follows: GTE North Incorporated, 19845 North U.S. 31, P.O. Box 407, Westfield, Indiana 46074, Attention: Secretary. Any notice, election, request or demand by the Company or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the Corporate Trust Office of the Trustee, Attention: Corporate Trustee Administration Department.

SECTION 13.05. This Indenture and each Security shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State.

SECTION 13.06. (a) Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers, Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

(b) Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant in this Indenture (other than the certificate provided pursuant to Section 5.03(d) of this Indenture) shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.07. In any case where the date of maturity of interest or principal of any Security or the date of redemption of any Security shall not be a business day then payment of interest or principal (and premium, if any) may be made on the next succeeding business day with the same force and effect as if made on the nominal date of maturity or redemption, and no interest shall accrue for the period after such nominal date.

SECTION 13.08. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939, as amended, such imposed duties shall control.

SECTION 13.09. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 13.10. In case any one or more of the provisions contained in this Indenture or in the Securities of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Securities, but this Indenture and such Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

THE FIRST NATIONAL BANK OF CHICAGO hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

GTE NORTH INCORPORATED

By _____
Vice President

Attest:

By _____
Secretary

**THE FIRST NATIONAL BANK OF CHICAGO
as Trustee**

By _____
Vice President

Attest:

By _____
Assistant Secretary

GTE NORTH INCORPORATED
AND
THE FIRST NATIONAL BANK OF CHICAGO
AS TRUSTEE

FIRST SUPPLEMENTAL INDENTURE

Dated as of May 1, 1996

TO

INDENTURE

Dated as of January 1, 1994

FIRST SUPPLEMENTAL INDENTURE, dated as of the 1st day of May, 1996 (herein called the „First Supplemental Indenture,“), between GTE NORTH INCORPORATED, a corporation duly organized and existing under the laws of the State of Wisconsin (hereinafter referred to as the „Company,“), and The First National Bank of Chicago, a banking association organized and existing under the laws of the United States (hereinafter referred to as the „Trustee,“) under the Indenture dated as of January 1, 1994, between the Company and the Trustee (hereinafter referred to as the „Original Indenture,“). Capitalized terms used in this First Supplemental Indenture and not otherwise defined herein shall have the meanings set forth in the Original Indenture.

WHEREAS, in accordance with Section 9.01(c) of the Original Indenture, the Company and the Trustee may enter into supplemental indentures to the Original Indenture without the consent of the Securityholders to cure any ambiguity or to correct or supplement any provision which may be defective or inconsistent with the Original Indenture or any supplemental indenture, or to make such other provisions in regard to matters or questions arising under the Original Indenture as shall not be inconsistent with the provisions of the Original Indenture and not adversely affect the interests of the holders of the Securities of any series; and

WHEREAS, the Company desires to amend the Original Indenture in accordance with Section 9.01(c) and has determined that the requirements of Section 9.01(c) have been satisfied and has requested the Trustee to join with it in the execution and delivery of this First Supplemental Indenture; all requirements necessary to make this First Supplemental Indenture a valid instrument, in accordance with its terms, have been met; and the execution and delivery hereof have been in all respects duly authorized;

NOW, THEREFORE, for good and valuable consideration the sufficiency of which is hereby recognized, the Company covenants and agrees with the Trustee as follows:

**ARTICLE ONE
AMENDMENTS TO TERMS OF THE INDENTURE**

Section 1.01 Certain Definitions. The Company and Trustee hereby amend Section 1.01 of the Original Indenture pursuant to Section 9.01(c) of the Original Indenture to add the following definitions in alphabetical order:

„Depository:

The term „Depository,“ shall mean, with respect to Securities of any series for which the Company shall determine that such Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Securities and Exchange Act of 1934, as amended, or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to either Section 2.01 or 2.11.

and

Global Security:

The term Global Security, shall mean, with respect to any series of Securities, one or more Securities executed by the Company and authenticated and delivered by the Trustee to the Depository or pursuant to the Depository's written instruction (if acceptable to the Trustee) held by the Trustee as custodian for the Depository, all in accordance with this Indenture, which shall be registered in the name of the Depository or its nominee.

Section 1.02 Terms of the Securities. The Company and Trustee hereby amend Section 2.01 of the Original Indenture pursuant to Section 9.01(c) of the Original Indenture to add a new paragraph (9) to read as follows:

(9) whether the Securities of the series are issuable as a Global Security and, in such case, the identity of the Depository for such series; and, and to renumber the existing paragraph (9) as paragraph (10).

Section 1.03 Regular Record Date. The Company and Trustee hereby amend the next to last paragraph of Section 2.03 of the Original Indenture in its entirety pursuant to Section 9.01(c) of the Original Indenture, to read as follows:

Unless otherwise set forth in a Board Resolution or one or more indentures supplemental hereto establishing the terms of any series of Securities pursuant to Section 2.01 hereof, the term regular record date, as used in this Section with respect to a series of Securities with respect to any interest payment date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the first day of a month, or the first day of the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the fifteenth day of a month, whether or not such date is a business day.

Section 1.04 Exchange of Securities. The Company and Trustee hereby amend Section 2.05 of the Original Indenture pursuant to Section 9.01(c) of the Original Indenture to insert a new paragraph at the end of Section 2.05 which reads as follows:

The provisions of this Section 2.05 are, with respect to any Global Security, subject to Section 2.11 hereof.

Section 1.05 Global Securities. The Company and Trustee hereby amend Article II of the Original Indenture pursuant to Section 9.01(c) of the Original Indenture to insert a new Section 2.11 at the end of Article II which reads as follows:

Section 2.11 (a) If the Company shall establish pursuant to Section 2.01 that the Securities of a particular series are to be issued as a Global Security, then the Company shall execute and the Trustee shall, in accordance with Section 2.04, authenticate and deliver, a Global Security which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, all of the Outstanding Securities of such series, (ii) shall be registered in the name of the Depository or its nominee,

(iii) shall be delivered by the Trustee to the Depository or pursuant to the Depository's written instruction or (if acceptable to the Trustee) held by the Trustee as custodian for the Depository, and (iv) shall bear a legend substantially to the following effect: Except as otherwise provided in Section 2.11 of the Indenture, this Security may be transferred, in whole but not in part, only to another nominee of the Depository or to a successor Depository or to a nominee of such successor Depository.

(b) Notwithstanding the provisions of Section 2.05, the Global Security of a series may be transferred, in whole but not in part and in the manner provided in Section 2.05, only to another nominee of the Depository for such series, or to a successor Depository for such series selected or approved by the Company or to a nominee of such successor Depository.

(c) If at any time the Depository for a series of Securities notifies the Company that it is unwilling or unable to continue as Depository for such series or if at any time the Depository for such series shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor Depository for such series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, this Section 2.11 shall no longer be applicable to the Securities of such series and the Company will execute, and subject to Section 2.05, the Trustee will authenticate and deliver, Securities of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security of such series in exchange for such Global Securities. In addition, the Company may at any time determine that the Securities of any series shall no longer be represented by a Global Security and that the provisions of this Section 2.11 shall no longer apply to the Securities of such series. In such event the Company will execute and subject to Section 2.05, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and deliver Securities of such series in definitive registered form without coupons, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security of such series in exchange for such Global Security. Upon the exchange of the Global Security for such Securities in definitive registered form without coupons, in authorized denominations, the Global Security shall be cancelled by the Trustee. Such Securities in definitive registered form issued in exchange for the Global Security pursuant to this Section 2.11(c) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Securities to the Depository for delivery to the persons in whose names such Securities are so registered.

ARTICLE TWO MISCELLANEOUS

Section 2.01 Effectiveness of Provisions. The provisions of this First Supplemental Indenture shall be effective only with respect to series of Securities issued after the date hereof.

Section 2.02 Execution of Supplemental Indenture. This First Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Original Indenture and, as provided in the Original Indenture, this First Supplemental Indenture forms a part thereof.

Section 2.03 Conflict with Trust Indenture Act. If and to the extent that any provision hereof limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939, as amended, such imposed duties shall control.

Section 2.04 Successors and Assigns. All covenants and agreements in this First Supplemental Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 2.05 Separability Clause. In case any one or more of the provisions contained in this First Supplemental Indenture, the Original Indenture or in the Securities of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this First Supplemental Indenture, the Original Indenture or of such Securities, but this First Supplemental Indenture, the Original Indenture and such Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

Section 2.06 Benefits of First Supplemental Indenture. Nothing in this First Supplemental Indenture or in the Original Indenture, express or implied, shall give to any person, other than the parties hereto and their successors hereunder and the Securityholders (to the extent specified herein or therein), any benefit or any legal or equitable right, remedy or claim under this First Supplemental Indenture.

Section 2.07 Governing Law. This First Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with the laws of said State.

Section 2.08 Execution and Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

GTE NORTH INCORPORATED

By: /s/ PETER K. PLAUT
Vice President

Attest:

By: /s/ J. WILMA ALY
Assistant Secretary

**THE FIRST NATIONAL BANK OF CHICAGO
as TRUSTEE**

By: /s/ STEVEN M. WAGNER
Title: Vice President

Attest:

By: /s/ T. MARSHALL
Title: Assistant Secretary

CERTIFICATIONS

I, Mary Agnes Wilderotter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Frontier Communications Corporation;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Mary Agnes Wilderotter
Mary Agnes Wilderotter
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Donald R. Shassian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Frontier Communications Corporation;
 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
 4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Donald R. Shassian
Donald R. Shassian
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly Report of Frontier Communications Corporation (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mary Agnes Wilderotter, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary Agnes Wilderotter
Mary Agnes Wilderotter
Chairman and Chief Executive Officer
August 5, 2010

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Frontier Communications Corporation and will be retained by Frontier Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly Report of Frontier Communications Corporation (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald R. Shassian, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Donald R. Shassian
Donald R. Shassian
Executive Vice President and Chief Financial Officer
August 5, 2010

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Frontier Communications Corporation and will be retained by Frontier Communications Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

