December 5, 1997
Overnight

210 N. Park Ave.
P.O. Drawer 200
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oaks Boulevard
Gerald L. Gunter Bldg. Room 270
Tallahassee, FL 32399-0850
(904) 488-4733

DEPOSIT	DATE
D669	DEC 08 1997

971598-TX

RE: Initial Alternative Local Exchange Carrier Application of Frontier Local Services Inc.

Dear Mr. D'Haeseleer:

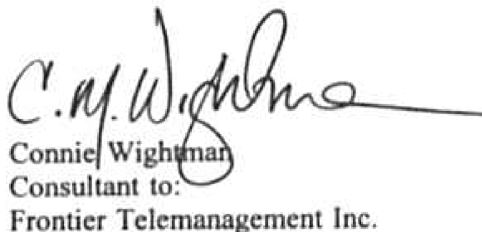
Enclosed for filing are the original and twelve copies of the above referenced application of Fronter Local Services Inc to provide Alternative Local Exchange Carrier Service in Florida.

Also enclosed is our check in the amount of $250 for the filing fee. Questions pertaining to this application or tariff should be directed to my attention at (407) 740-8575.

Please acknowledge receipt of this filing by returning, file-stamped, the extra copy of this cover letter in the self-addressed, stamped envelope enclosed for this purpose.

Thank you for your assistance.

Sincerely,



Connie Wightman
Consultant to:
Frontier Telemanagement Inc.

Enclosures

cc: Michael J. Nighan
File: FLSI - FL ALEC

97 DEC -8 AM 11:26
MAIL ROOM

RECEIVED

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check: AG

DOCUMENT NO.
12521-97
12-8-97

December 5, 1997
Overnight

210 N. Park Ave.
P.O. Drawer 2..0
Winter Park, FL
32790-0200

Tel: 407-740-8575
Fax: 407-740-0613
tmi@tminc.com

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Thank you for your assistance.

Sincerely,

FOR SECURITY PURPOSES, THE BORDER OF THIS DOCUMENT CONTAINS MICROPRINTING

P.O. Drawer 200
Winter Park, FL
32790-0200
210 N. Park Avenue
Winter Park, FL 32789
(407) 740-8575

250 PARK AVENUE
WINTER PARK, FLORIDA 32789

18129

NUMBER
18129

PAY: TWO HUNDRED FIFTY DOLLARS

DATE 12/02/97

AMOUNT *******$250.00

DOCUMENT NO
12521-97
12-8-97

TO THE ORDER OF
FLORIDA PUBLIC SERVICE COMM.
RECORDS & REPORTING
2540 SHUMARD OAK BLVD.
TALLAHASSEE FL 32399-0850

TECHNOLOGIES MANAGEMENT, INC.

THE REVERSE SIDE OF THIS DOCUMENT INCLUDES AN ARTIFICIAL WATERMARK - HOLD AT AN ANGLE TO VIEW

FLORIDA PUBLIC SERVICE COMMISSION
Division of Communications, Certification & Compliance Section
2450 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850
(904) 413-6600

APPLICATION FORM

for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment, or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.

2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

3. Use a separate sheet for each answer which will not fit the allotted space.

4. Any questions regarding completion, contact above.

5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250 made payable to the Florida Public Service Commission at the above address.

APPLICATION FORM FOR AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

1. **This is an application for (check one):**

   (X) Original authority (new company)

   ( ) Approval of transfer (to another certificated company)
   Example: a certificated company purchases an existing company and desires to retain the original certificate authority.

   ( ) Approval of assignment of existing certificate (to a noncertificated company)
   Example: a non-certificated company purchases an existing company and desires to retain the certificate of authority rather then apply for a new certificate.

   ( ) Approval for transfer of control (to another certificated company)
   Example: a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of applicant:**

   Frontier Local Services Inc.

3. A. **National Mailing Address including street name, number, post office box, city, state, zip code and phone number.**

Street:	180 South Clinton Avenue
PO Box	
City:	Rochester
State:	New York
Zip	14646-0700
Phone:	(716) 777-8000

   B. **Florida Mailing Address including street name, number, post office box, city, state, zip code and phone number.**

Street:	180 South Clinton Avenue
PO Box	
City:	Rochester
State:	New York
Zip	14646-0700
Phone:	(716) 777-8000

DOCUMENT NO.
12521-97
12-8-97

C. **Physical Address of alternative local exchange service in Florida including street name, number, post office box, city, state, zip code and phone number.**

Street:	180 South Clinton Avenue
PO Box	
City:	Rochester
State:	New York
Zip	14646-0700
Phone:	(716) 777-8000

4. **Structure of organization:**

( ) Individual	( ) Corporation
(X) Foreign Corporation	( ) Foreign Partnership
( ) General Partnership	( ) Limited Partnership
( ) Joint Venture	( ) Other

5. **If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.**

Corporate charter number:
Taxpayer Identification #

Please see Exhibit I for a copy of the Articles of Incorporation.

6. **Name under which the applicant will do business (d/b/a):**

Frontier Local Services Inc.

7. **If applicable, please provide proof of fictitious name: (d/b/a) registration.**

Fictitious name registration number: not applicable

8. **If applicant is an individual, partnership, or joint venture, please give name and address of each legal entity.**

Not applicable

9. **State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.**

No officer, director or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime. No such action may result from a pending proceeding.

10. **Please provide the title, address, telephone number, internet address and facsimile number of the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application:**

<u>Application contact</u>:

Name:	Connie Wightman
Title:	Consultant
P.O. Box:	P.O. Drawer 200
City:	Winter Park
State:	Florida
Zip:	32790-0200
Phone:	(407) 740-8575
Fax:	(407) 740-0613
Internet Address:	cwightman@tminc.com

<u>Ongoing Liaison</u>:

Name:	Michael J. Nighan
Title:	Director of Regulatory Affairs
P.O. Box:	
Street:	180 South Clinton Avenue
PO Box	
City:	Rochester
State:	New York
Zip	14646-0500
Phone:	(716) 777-8456
Facsimile:	(716) 232-3646
Internet Address:	mnighan@frontiercorp.com

11. **Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service.**

Frontier Local Services Inc. authorized to provide local service in MN, CA and NY. FLSI has applications pending in CO, GA, IL, OH, OR, PA, TX, and WA and is in the process of applying for CLEC authority in additional states. No application has been granted or denied.

12. **Has the applicant been denied certification in any other state?**

Yes( ) No(X)
If so, please list the state and reason for denial.

13. **Have penalties been imposed against the applicant in any other state:**

Yes( ) No(X)
If so, please list the state and reason for penalty.

14. **Please indicate how a customer can file a service complaint with your company.**

Customers may call the company at its toll-free customer service number: 1-800-414-1973. In addition, customers may contact the company in writing at the headquarters address. The toll-free number will be printed on the customers' monthly billing statements. In addition, customers may address written inquiries to the company's customer service center at 2710 Executive Drive, P.O. Box 19052, Green Bay, Wisconsin 54307.

15. **Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.**

A. **Financial capability** (Exhibit II)

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements, including:

1. the balance sheet
2. income statement
3. statement of retained earnings for the most recent 3 years

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statement should then be signed by the applicant's chief executive officer and chief financial officer. The signature should affirm that the financial statements are true and correct.

B. **Managerial capability**

See Exhibit III

C. **Technical capability**

See Exhibit IV

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 and s. 775.083.

Official: Barbara J. LaVerdi **Date:** Nov. 20, 1997

Barbara J. LaVerdi

Title: Assistant Secretary

Address: 180 South Clinton Avenue
Rochester, New York 14646-0700

Phone: (716) 777-7979

Frontier Local Services Inc.

EXHIBIT I

ARTICLES OF INCORPORATION

APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

1. FRONTIER LOCAL SERVICES INC.
(Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.

2. Michigan
(State or country under the law of which it is incorporated)

3. 38-3273802
(FEI number, if applicable)

4. 1-4-95
(Date of Incorporation)

5. perpetual
(Duration: Year corp. will cease to exist or "perpetual")

6. Upon Qualification
(Date first transacted business in Florida. *(See sections 607.1501, 607.1502, and 817.155, F.S.)*

7. 180 South Clinton Avenue

Rochester NY 14646
(Current mailing address)

8. telecommunications services
(Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)

97 SEP 24 AM 9:28
FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS

9. **Name and street address of Florida registered agent:** (P.O. Box or Mail Drop Box **NOT** acceptable)

Name: Corporation Service Company

Office Address: 1201 Hays Street

Tallahassee, Florida, 32301
(Zip Code)

10. **Registered agent's acceptance:**

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

Corporation Service Company

By: [signature]
(Registered agent's signature)

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors: (Street address **ONLY**- P.O. Box **NOT** acceptable)

A. DIRECTORS (Street address only- P.O. Box NOT acceptable)

Chairman: see attached

Address:

Vice Chairman:

Address:

Director:

Address:

Director:

Address:

B. OFFICERS (Street address only- P.O. Box NOT acceptable)

President: see attached

Address:

Vice President:

Address:

Secretary:

Address:

Treasurer:

Address:

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SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 SEP 24 AM 9:48

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. Barbara LaVerdi

(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application.)

14. Barbara LaVerdi, Assistant Secretary

(Typed or printed name and capacity of person signing application)

NAME OF OFFICERS:	TITLE	ADDRESSES OF OFFICERS:
Jeremiah T. Carr	President	180 South Clinton Avenue Rochester, NY 14646
Joseph P. Clayton	Chief Executive Officer	180 South Clinton Avenue Rochester, NY 14646
Richard A. Smith	Chief Financial Officer	180 South Clinton Avenue Rochester, NY 14646
Josephine S. Trubek	Secretary	180 South Clinton Avenue Rochester, NY 14646
Barbara J. LaVerdi	Assistant Secretary	180 South Clinton Avenue Rochester, NY 14646
Joseph Enis	Treasurer	180 South Clinton Avenue Rochester, NY 14646
Michael L. Evans	Assistant Treasurer	180 South Clinton Avenue Rochester, NY 14646
Richard N. Kappler	Assistant Treasurer	180 South Clinton Avenue Rochester, NY 14646

NAMES OF DIRECTORS:	ADDRESSES OF DIRECTORS:
Robert L. Barrett	180 South Clinton Avenue Rochester, NY 14646
Kevin J. Bennis	180 South Clinton Avenue Rochester, NY 14646
Jeremiah T. Carr	180 South Clinton Avenue Rochester, NY 14646
Joseph P. Clayton	180 South Clinton Avenue Rochester, NY 14646
Louis L. Massaro	180 South Clinton Avenue Rochester, NY 14646

FILED
97 SEP 24 AM 9:49

Frontier Local Services Inc.

Supplemental Financial Information

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

   Frontier Local Services Inc. possesses the financial capability to provide the requested service. Frontier Local Services Inc. is a wholly owned subsidiary of Frontier Corporation, The attached annual report of Frontier Corporation provides six years of condensed financial statements. A review of the financial statements demonstrates that the Company possesses the necessary financial capability. Some of the noteworthy items are:

   - 1996 Net Revenues in excess of $2.5 billion
   - Net revenues doubled from 1992 to 1996
   - Total assets of more than $2.5 billion
   - Frontier Corporation began installation of a 13,000 mile fiber optic backbone network connecting 100 cities. The network will be completed in 1998.

   Clearly, Frontier Local Services Inc. has the financial resources and financial management skills to provide Alternative Local Exchange Service in Florida.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

   Please see response to question #1.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

   Please see response to question #1. At this time, Frontier Local Services Inc. intends to provision its services in Florida on a resale basis.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1997

or

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

From the transition period from ______ to ______

Commission file number 1-4166

FRONTIER CORPORATION

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	16-0613330 (I.R.S. Employer Identification No.)
180 South Clinton Avenue, Rochester, NY (Address of principal executive offices)	14646-0700 (Zip Code)

(716) 777-1000
(Registrant's telephone number, including area code)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

$1.00 Par Value Common Stock 164,141,176 shares as of July 31, 1997

FRONTIER CORPORATION

Form 10-Q
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Item 1.	Financial Statements	
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FRONTIER CORPORATION
Business Segment Information
(Unaudited)

In thousands of dollars	3 Months Ended June 30, 1997	3 Months Ended June 30, 1996	6 Months Ended June 30, 1997	6 Months Ended June 30, 1996
Long Distance Communications Services				
Revenues	$ 406,846	$ 497,756	$ 807,981	$ 983,858
Costs and Expenses	387,904	424,885	776,569	847,732
Operating Income (Loss):				
Operating Income Before Other Charge	$ 18,942	$ 72,871	$ 31,412	$ 136,126
Other Charge	-	-	(96,600)	-
Total Operating Income (Loss)	$ 18,942	$ 72,871	$ (65,188)	$ 136,126
Depreciation and Amortization	$ 21,676	$ 20,495	$ 44,044	$ 40,013
Capital Expenditures	$ 35,956	$ 24,755	$ 91,886	$ 61,985
Identifiable Assets	$ 1,163,612	$ 1,005,311	$ 1,163,612	$ 1,005,311
Local Communications Services				
Revenues	$ 166,987	$ 161,383	$ 330,317	$ 319,825
Costs and Expenses	107,036	108,193	210,652	215,784
Operating Income	$ 59,951	$ 53,190	$ 119,665	$ 104,041
Depreciation and Amortization	$ 27,375	$ 25,463	$ 54,660	$ 50,612
Capital Expenditures	$ 28,208	$ 21,654	$ 43,564	$ 41,116
Identifiable Assets	$ 897,082	$ 939,809	$ 897,082	$ 939,809
Corporate Operations and Other				
Revenues	$ 10,879	$ 11,140	$ 19,825	$ 21,745
Costs and Expenses	12,692	14,500	23,522	27,359
Operating Income (Loss)	$ (1,813)	$ (3,360)	$ (3,697)	$ (5,614)
Depreciation and Amortization	$ 903	$ 1,068	$ 1,765	$ 2,089
Capital Expenditures	$ 5,242	$ 5,877	$ 11,975	$ 11,185
Identifiable Assets	$ 221,424	$ 238,904	$ 221,424	$ 238,904
Consolidated				
Revenues	$ 584,712	$ 670,279	$ 1,158,123	$ 1,325,428
Costs and Expenses	507,632	547,578	1,010,743	1,090,875
Operating Income:				
Operating Income Before Other Charge	$ 77,080	$ 122,701	$ 147,380	$ 234,553
Other Charge	-	-	(96,600)	-
Total Operating Income	$ 77,080	$ 122,701	$ 50,780	$ 234,553
Depreciation and Amortization	$ 49,954	$ 47,026	$ 100,469	$ 92,714
Capital Expenditures	$ 69,406	$ 52,286	$ 147,425	$ 114,286
Identifiable Assets	$ 2,282,118	$ 2,184,024	$ 2,282,118	$ 2,184,024

See accompanying Notes to Consolidated Financial Statements

FRONTIER CORPORATION
Consolidated Statements of Income
(Unaudited)

In thousands, except per share data	3 Months Ended June 30, 1997	3 Months Ended June 30, 1996	6 Months Ended June 30, 1997	6 Months Ended June 30, 1996
Revenues	$584,712	$670,279	$1,158,123	$1,325,428
Costs and Expenses				
Operating expenses	442,228	487,882	882,131	973,710
Depreciation and amortization	49,954	47,026	100,469	92,714
Taxes other than income taxes	15,450	12,670	28,143	24,451
Other Charge	-	-	96,600	-
Total Costs and Expenses	507,632	547,578	1,107,343	1,090,875
Operating Income	77,080	122,701	50,780	234,553
Interest expense	11,648	11,818	22,158	23,456
Other income and expense:				
Gain on sale of assets	-	-	18,765	4,976
Equity earnings from unconsolidated wireless interests	2,783	1,685	4,272	3,140
Interest income	699	781	1,390	1,304
Other income (expense)	529	(262)	616	(989)
Income Before Taxes and Cumulative Effect of Change in Accounting Principle	69,443	113,087	53,665	219,528
Income tax expense	26,999	43,881	24,782	85,181
Income Before Cumulative Effect of Change in Accounting Principle	42,444	69,206	28,883	134,347
Cumulative effect of change in accounting principle	-	-	-	(8,018)
Net Income	42,444	69,206	28,883	126,329
Dividends on preferred stock	258	296	511	589
Income Applicable to Common Stock	$ 42,186	$ 68,910	$ 28,372	$ 125,740
Dividends declared on common stock	$ 35,656	$ 35,346	$ 71,309	$ 69,826
Earnings Per Common Share				
Income before cumulative effect of change in accounting principle	$ .26	$ .42	$ .17	$ .82
Cumulative effect of change in accounting principle	-	-	-	(.05)
Earnings Per Common Share	$ .26	$ .42	$ .17	$ .77
Average Common Shares Outstanding (in thousands)	163,837	164,078	163,866	163,803

See accompanying Notes to Consolidated Financial Statements.

FRONTIER CORPORATION
Consolidated Balance Sheets

In thousands of dollars, except share data	June 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Current Assets		
Cash and cash equivalents	$ 23,082	$ 30,948
Accounts receivable, (less allowance for uncollectibles of $22,921 and $30,911, respectively)	371,661	364,256
Materials and supplies	14,180	13,198
Deferred income taxes	29,377	30,349
Prepayments and other	33,171	30,483
Total Current Assets	471,471	469,234
Property, plant and equipment, net	959,997	971,259
Goodwill and customer base	522,206	535,979
Deferred income taxes	31,485	-
Deferred and other assets	296,959	245,048
Total Assets	$2,282,118	$2,221,520
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities		
Accounts payable	$270,957	$ 322,325
Dividends payable	35,915	35,966
Debt due within one year	5,640	6,253
Taxes accrued	43,143	34,963
Other liabilities	62,064	18,596
Total Current Liabilities	417,719	418,103
Long-term debt	777,603	675,043
Deferred income taxes	-	2,542
Deferred employee benefits obligation	69,733	65,479
Total Liabilities	1,265,055	1,161,167
Shareowners' Equity		
Preferred stock	20,125	22,611
Common stock, par value $1.00, authorized 300,000,000 shares; 164,151,350 shares and 163,731,733 shares issued in 1997 and 1996	164,151	163,732
Capital in excess of par value	508,926	500,196
Retained earnings	341,970	385,350
	1,035,172	1,071,889
Less -		
Treasury stock, 10,849 shares in 1997 and 6,375 shares in 1996, at cost	231	147
Unearned compensation - restricted stock plan	17,878	11,389
Total Shareowners' Equity	1,017,063	1,060,353
Total Liabilities and Shareowners' Equity	$2,282,118	$2,221,520

See accompanying Notes to Consolidated Financial Statements.

FRONTIER CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

In thousands of dollars	6 Months Ended June 30, 1997	1996
Operating Activities		
Net income	$ 28,883	$126,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	-	12,396
Other charge	96,600	-
Depreciation and amortization	100,469	92,714
Gain on sale of assets	(18,765)	(4,976)
Equity earnings from unconsolidated wireless interests	(4,272)	(3,140)
Other, net	904	1,724
Changes in operating assets and liabilities, exclusive of impacts of dispositions and acquisitions:		
Increase in accounts receivable	(10,707)	(26,413)
Increase in materials and supplies	(792)	(3,310)
(Increase) decrease in prepayments and other assets	(2,660)	1,333
Increase in deferred and other assets	(21,343)	(23,613)
Decrease in accounts payable	(55,290)	(720)
(Decrease) increase in taxes accrued and other liabilities	(13,036)	59,054
Increase in deferred employee benefits obligation	4,702	6,139
(Increase) decrease in deferred income taxes	(33,056)	7,590
Total adjustments	42,754	118,778
Net cash provided by operating activities	71,637	245,107
Investing Activities		
Expenditures for property, plant and equipment	(106,692)	(114,319)
Deposit for capital projects	(38,893)	-
Investment in cellular partnerships	-	(25,273)
Proceeds from asset sales	32,889	10,441
Other investing activities	3,258	(9,118)
Net cash used in investing activities	(109,438)	(138,269)
Financing Activities		
Proceeds from issuance of long-term debt	297,897	-
Repayments of debt	(191,716)	(70,717)
Dividends paid	(71,871)	(68,659)
Treasury stock, net	(2,468)	-
Issuance of common stock, net	592	29,556
Other financing activities	(2,499)	(8)
Net cash provided by (used in) financing activities	29,935	(109,828)
Net Decrease in Cash and Cash Equivalents	(7,866)	(2,990)
Cash and Cash Equivalents at Beginning of Period	30,948	31,449
Cash and Cash Equivalents at End of Period	$ 23,082	$ 28,459

See accompanying Notes to Consolidated Financial Statements

FRONTIER CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

Note 1: Consolidation

The consolidated financial information includes the accounts of Frontier Corporation and its majority-owned subsidiaries (the "Company" or "Frontier") after elimination of all significant intercompany transactions. Investments in entities in which the Company does not have a controlling interest are accounted for using the equity method.

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to current year presentation.

Note 2 : Other Charge

In March 1997, the Company recorded a $96.6 million pre-tax charge primarily related to the write-off of certain network facilities no longer required as a result of the migration of the Company's major carrier customer's one-plus traffic volume to other networks and the Company's overall network integration efforts. The Company is in the process of decommissioning these redundant facilities and the project is expected to be completed by the second quarter of 1998. As of June 30, 1997, the remaining reserve balance of $50.3 million is included in "Other liabilities" in the Consolidated Balance Sheets.

Note 3: Purchase Acquisitions

In February 1997, the Company completed its purchase of RG Data Incorporated ("RG Data"), a privately held upstate New York based computer and data networking equipment and services company. A total of 110,526 shares of Frontier common stock held in treasury were reissued in exchange for all of the shares of RG Data. The treasury shares were acquired through open market purchases.

In March 1996, the Company acquired a 55 percent interest in the New York RSA No. 3 Cellular Partnership (RSA No. 3). RSA No. 3 is a provider of cellular mobile telephone service in the New York State Rural Service Area No. 3. RSA No. 3

encompasses much of the Southern Tier area of New York state. The Company's interest in RSA No. 3 is managed by Frontier Cellular, a 50/50 owned joint venture with Bell Atlantic/NYNEX Mobile and the operating results are reported using the equity method of accounting. The Company paid $25.3 million in cash for its interest in RSA No. 3.

Note 4 : **Long - Lived Assets to Be Disposed Of**

Effective January 1, 1996, the Company adopted Financial Accounting Standards No. 121 ("FAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." FAS 121 requires that certain long-lived assets and identifiable intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. The statement also requires that certain long-lived assets and identifiable intangibles to be disposed of be reported at fair value less selling costs. The Company's adoption of this standard resulted in a non-cash charge of $8.0 million (net of a tax benefit of $4.4 million) and is reported in the Consolidated Statements of Income as a cumulative effect of a change in accounting principle. The charge represents the cumulative adjustment required by FAS 121 to remeasure the carrying amount of certain assets held for disposal as of January 1, 1996.

These assets held for disposal consist principally of telephone switching equipment in the Company's Local Communications Services segment as a result of management's commitment, in late 1995, to a central office switch consolidation project at its New York local telephone subsidiaries.

Note 5 : **Long-Term Debt**

In May 1997, the Company completed a $300 million offering of 7.25% Notes, maturing 2004. Proceeds from the offering will be used to finance a portion of the cost of constructing a nationwide fiber optic network. Pending such use, proceeds from the offering were used to pay down Frontier's commercial paper borrowings.

Effective June 30, 1997, the Company's subsidiary, Rochester Telephone Corp., reduced its available line of credit under its Revolving Credit Agreement from $100 million to $50 million.

Note 6: **Gain on Sale of Assets**

On January 31, 1997, the Company completed the sale of its 69.5 % equity interest in the South Alabama Cellular Communications Partnership. The sale resulted in an after-tax gain of $11.2 million, or $.07 per share. In March 1996, Frontier sold its minority investment in a Canadian long distance company for an after-tax gain of $3.0 million, or $.02 per share. The Company decided to redeploy resources into more

strategic assets as the assets sold were not critical to the achievement of the Company's overall business strategy.

Note 7: New Accounting Standards

The Company will adopt the provisions of Financial Accounting Standards Board Statement No. 128, "Earnings Per Share" ("FAS 128") effective December 31, 1997. This statement is effective for financial statements issued for periods ending after December 15, 1997; earlier application is not permitted. This statement simplifies the standards for computing earnings per share previously found in Accounting Principles Board Opinion No. 15, "Earnings Per Share", and makes them comparable to international earnings per share ("EPS") standards. FAS 128 requires dual presentation of basic and diluted EPS on the face of the income statement and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS calculation. Basic EPS excludes the effect of common stock equivalents and is computed by dividing income available to common shareowners by the weighted average of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could result if securities or other contracts to issue common stock were exercised or converted into common stock.

Proforma earnings per share computed in accordance with FAS 128 is presented below for informational purposes only.

	Three months ended June 30,		Six months ended June 30,	
	1997	1996	1997	1996
Basic EPS				
Earnings before cumulative effect of change in accounting principle	$ .26	$ .42	$ .17	$ .83
Cumulative effect of change in accounting principle	-	-	-	(.05)
Basic earnings per share	$ .26	$ .42	$ .17	$ .78
Diluted EPS				
Earnings before cumulative effect of change in accounting principle	$ .26	$ .42	$ .17	$ .82
Cumulative effect of change in accounting principle	-	-	-	(.05)
Diluted earnings per share	$ .26	$ .42	$ .17	$ .77

Note 8: **Cash Flows**

For purposes of the Statement of Cash Flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash flows from financing activities includes $29.6 million of cash proceeds from stock options and warrants exercised during the first half of 1996. The resultant tax benefit realized from the exercise of stock options during the first six months of 1996 of $43.8 million is reflected as an adjustment to capital in excess of par value and taxes accrued.

Actual interest paid was $25.9 million and $24.0 million for the six month periods ended June 30, 1997, and June 30, 1996, respectively. Interest costs associated with the construction of capitalized assets, including the nationwide fiber optic network project, are capitalized. Total amounts capitalized for the first six months of 1997 and 1996 were $5.5 million and $1.9 million, respectively. In addition, actual income taxes paid were $54.1 million for the six months ended June 30, 1997, and $23.7 million for the six months ended June 30, 1996.

Note 9: **Commitments and Contingencies**

During 1997, it is anticipated that the Company will expend approximately $525 million to $550 million for additions to property, plant and equipment, including the Company's fiber network expansion project. Construction began on the nationwide fiber optic network in late 1996. The fiber optic network is being constructed under an agreement with Qwest Communications Corporation. Capital expenditures related to the network expansion will approximate $210 million for 1997. Since construction of the nationwide fiber optic network began in 1996, capital expenditures have totaled $107.1 million, $43.4 million of which was incurred during the first six months of 1997. In connection with the total capital program, the Company has made certain commitments for the purchase of materials and equipment.

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

Three Months Ended June 30, 1997 and 1996

The matters discussed throughout this Form 10-Q, except for historical financial results contained herein, may be forward looking in nature or "forward looking statements." Actual results may differ materially from the forecasts or projections presented. Forward looking statements are identified by such words as "expects," "anticipates," "believes," "intends," "plans" and variations of such words and similar expressions. The Company believes that its primary risk factors include, but are not limited to: changes in the overall economy, the nature and pace of technological change, the number and size of competitors in the Company's market, changes in law and regulatory policy and the mix of products and services offered in the Company's markets. Any forward looking statements in the June 30, 1997 Form 10-Q should be evaluated in light of these important risk factors.

DESCRIPTION OF BUSINESS

Frontier Corporation (the "Company" or "Frontier") is a diversified telecommunications company, serving more than 2 million customers throughout the United States and in several foreign countries. Frontier's principal lines of business are long distance and local communications. The Company's other lines of business include cellular and paging operations and telecommunications equipment sales, video and audio conferencing.

RESULTS OF OPERATIONS

Consolidated

Revenues for the second quarter of 1997 were $584.7 million, a decrease of $85.6 million or 12.8% over the comparable period in 1996. Operating income was $77.1 million for the three months ended June 30, 1997 as compared to $122.7 million in 1996. Operating results in the second quarter of 1997 continue to be adversely impacted by the previously announced migration of the Company's largest carrier customer's one-plus traffic from the Frontier network. Results for the second quarter of 1997 include approximately $7 million of one-plus revenue from this customer as compared to revenue of approximately $113 million in the same quarter in 1996. Consolidated operating margins declined from 18.3% for the second quarter of 1996 to 13.2% for the same period of 1997. This decline is attributable to the previously discussed decrease in revenue as well as increased expenses in the long distance segment. Expenses were higher in the long distance segment primarily due to incremental Selling, General and Administrative ("SG&A") costs relating to product

development, promotion and distribution costs. The incremental SG&A costs are expected to positively impact revenue and operating income in future periods.

Business Segments

The Company reports its operating results in three segments: Long Distance Communications Services, Local Communications Services and Corporate Operations and Other. A review of the 1997 and 1996 second quarter results of each business segment follows.

Long Distance Communications Services

Long distance revenues totaled $406.8 million in the second quarter of 1997, a decrease of $90.9 million or 18.3% as compared to the second quarter of 1996. The decrease in long distance revenues is attributable to the migration of the Company's largest customer's one-plus traffic from the Frontier network. Normalized for the effect of this major carrier customer's one-plus traffic, revenue grew approximately 4% as compared to the prior year quarter. Access minutes of use, excluding the Company's major customer, increased approximately 3% in the second quarter of 1997.

The decline in this segment's operating results is largely attributable to the previously discussed migration of the Company's largest customer's one-plus traffic. Total revenue from this customer, including both one-plus services and enhanced services, represented less than 6% of the second quarter 1997 long distance revenue as compared to approximately 26% for the same period in the prior year. The Company anticipates replacing this revenue with growth in existing customer bases and through new initiatives, including the Company's new switched services product, "Frontier Independence" and through innovative agreements and contracts, such as Frontier's credit card services agreement with US West. This agreement is expected to generate in excess of $50 million in incremental revenue for the Company over the 30 month term of the agreement. The Company's new bundled product, "Frontier Independence" (which replaces "Clear Value"), is expected to enhance the Company's performance as a competitive, single-source provider of telecommunications services through a flexible pricing program that provides customers with additional discounts if they purchase value added services. In addition, during the second quarter of 1997, the Company announced plans to complete a national frame relay network by the fourth quarter of 1997 to complement the Company's core voice services business with additional data services products.

Operating income for long distance was $18.9 million for the second quarter of 1997. Operating margin as a percent of revenue decreased from 14.6% in the second quarter of 1996 to 4.7% for the current quarter. The reduction in operating margin in the second quarter is primarily due to lower revenue caused by the migration of the Company's largest customer's one-plus traffic and the incremental SG&A costs

associated with sales and marketing support for new revenue initiatives and distribution channels. The sales and marketing investments driving the incremental SG&A costs are expected to positively impact revenue and operating results in future periods. Cost of access represented 62% of total long distance revenue for the second quarter of 1997, consistent with the same period in 1996. Construction of the Company's fiber optic network together with the integration of existing facilities is expected to reduce network costs and provide new revenue opportunities for Frontier. Construction of the nationwide fiber optic network is on schedule and is expected to be completed by year end 1998. In addition, the Company has made significant progress in the identification and decommissioning of certain network facilities that are no longer required to support the volume of business. The excess network facilities primarily resulted from the migration of the Company's major carrier customer's one-plus traffic. The cost associated with the decommissioning were accrued for in the first quarter of 1997.

Results for sequential quarters in 1997 for the Long Distance segment reflect improvements in operating income and operating margin. Operating income, excluding other charges, increased $6.5 million or 51.9% in the second quarter of 1997 as compared to the previous quarter. Operating margins for the first and second quarters of 1997 were 3.1% and 4.7%, respectively. This positive trend is attributed primarily to the reduction in network access costs as a result of the Company's efforts in the second quarter to consolidate and integrate the network.

The Company expanded its offerings of local service in late 1996 and is competing aggressively with other Alternative Local Exchange Carriers ("A-LECs"). Frontier is now providing local service as an A-LEC, combined with a complete range of long distance products, in 32 markets across the country. The Company currently provides local services as a facilities based A-LEC in New York City and plans to provide facilities based A-LEC services in the midwest by the end of 1997. The Company anticipates that up to six additional switches will be installed by year end 1997 and a similar number will be installed in 1998. Nationwide, Frontier is serving in excess of 79,000 ANIs, or access lines, predominantly through resale, in markets where it is not the incumbent telephone company as of June 30, 1997.

Local Communications Services

Local Communications Services includes the Company's local telephone operations, consisting of 34 telephone operating subsidiaries in 13 states. Also included in this segment are the local service revenues and associated expenses generated from the efforts of Frontier Communications of Rochester, Inc., a competitive telecommunications company formed on January 1, 1995 that provides an array of services on a retail basis in the Rochester marketplace. Consequently, the Local Communications Services segment includes both wholesale and retail local service provided in the Rochester, New York market. As a result of the Company's efforts to consolidate operations within this segment in order to become more efficient

and improve operating results, separate financial reporting of the Rochester, New York operations from the Regional Telephone Companies is no longer meaningful.

Revenues for Local Communications Services were $167.0 million in the three month period ended June 30, 1997, an increase of $5.6 million or 3.5% over the comparable period in 1996. The growth in this segment is driven by a 2.6% increase in access lines and a 5.7% increase in minutes of use over the previous year. Revenue growth during the second quarter of 1997 is also positively influenced by increased demand for internet services. The growth in revenue is partially offset by the elimination of the surcharge on wholesale, flat rate local measured service, as ordered by the New York State Public Service Commission ("NYSPSC") in 1996, an increase in the discount to wholesale providers from 5% to 17%, also ordered by the NYSPSC and the $1.5 million annual rate reduction as stipulated by the Open Market Plan.

Costs and expenses in the second quarter of 1997 for Local Communications Services were $107.0 million, a decrease of $1.2 million or 1.1%; relatively consistent with the same period in the prior year.

Members of the Communications Workers of America ("CWA" or "Union") Local 1170, ratified a tentative agreement with Rochester Telephone Corp. on April 29, 1997. The Rochester company had implemented the terms of its final offer as of April 9, 1996 as contract negotiations were then at an impasse. The differences between the Company's final offer and the agreement that was subsequently reached between the parties and ratified by the CWA membership are not material. The new agreement will provide several operational improvements and will result in a more consistent alignment of benefits with the rest of the Corporation. The Union continues to appeal one issue related to the declaration of impasse with the National Labor Relations Board. Hearings on this issue were completed in June and a decision is anticipated by the end of 1997. This decision may be appealed by either the Union or the Company. At this time, the Company cannot predict the outcome of this matter.

Operating income for the second quarter of 1997 was $60.0 million, an increase of $6.8 million, or 12.7% over the second quarter of 1996. Operating margins for the three month period improved from 33.0% in 1996 to 35.9% in 1997, reflecting the continuing improvements in operating efficiencies as a result of the centralization of administrative functions within the Local Communications segment.

During the fourth quarter of 1995, management committed to a major switch consolidation plan at its New York local telephone subsidiaries. The three-year plan to consolidate host switches by over 60% is projected to improve network efficiency and reduce the cost of maintenance and software upgrades. As of June 1997, the project is progressing as scheduled and six host switches have been consolidated, representing approximately 50% of the total switches to be consolidated. The Company anticipates that this project will be substantially complete by July 1998.

Corporate Operations and Other

Corporate Operations is comprised of the expenses traditionally associated with a holding company, including executive and board of directors expenses, corporate finance and treasury, investor relations, corporate planning, legal services and business development. The Other category is comprised of the Company's majority ownership interest in wireless operations and Frontier Network Systems ("FNS"). Wireless operations for the second quarter of 1997 includes Minnesota RSA No. 10, in which the Company acquired a 100% interest in late March 1995. Results for the second quarter of 1996 include Minnesota RSA No. 10, and the Company's 69.5% interest in Alabama RSAs No. 4 and No. 6. The sale of the Company's interest in Alabama RSAs No. 4 and No. 6 was finalized on January 31, 1997.

Results of operations in the second quarter of 1997 were consistent with the same quarter in the prior year. The impact on operations resulting from the sale of the Company's interest in Alabama RSA No. 4 and No. 6 is substantially offset by the acquisition of RG Data Incorporated ("RG Data"). RG Data's operations are included with FNS for financial reporting purposes.

Other Income Statement Items

Interest Expense

Interest expense was $11.6 million in the second quarter of 1997, a $.2 million decline as compared to the same period in 1996. The overall decrease in interest expense is attributable to $1.2 million additional capitalized interest in the second quarter of 1997 as compared to the prior year quarter, primarily related to the construction of the Company's fiber optic network. The impact of capitalized interest is partially offset by increased gross interest expense in the second quarter of 1997 resulting from higher levels of outstanding debt.

Equity Earnings from Unconsolidated Wireless Interests

The Company's minority interests in wireless operations and its 50% interest in the Frontier Cellular joint venture with Bell Atlantic/NYNEX Mobile are accounted for using the equity method. This method of accounting results in the Company's proportionate share of earnings being reflected in a single line item below operating income.

Equity earnings from the Company's interests in wireless partnerships in the quarter ending June 30, 1997 were $2.8 million, an increase of $1.1 million or 65.2% over the same period in the prior year. The improvement in equity earnings is driven by expense reductions and increased operating efficiencies as compared to the prior year quarter.

Income Taxes

The effective income tax rate for the second quarter of 1997 is 38.9%, consistent with the second quarter of 1996.

Six Months Ended June 30, 1997 and 1996

RESULTS OF OPERATIONS

Consolidated

Revenues for the six months ended June 30, 1997 were $1.2 billion, a decrease of $167.3 million or 12.6% over the comparable period in 1996. Operating income, excluding nonrecurring charges, was $147.4 million for the first two quarters of 1997 as compared to $237.4 million in 1996. Consolidated operating margins, excluding nonrecurring items, declined from 17.9% for the first half of 1996 to 12.7% for the same period of 1997. Operating results in the first half of 1997 were adversely impacted by the overall decline in revenue in the long distance segment. The decline in revenue and operating income is largely attributed to the previously announced migration of the Company's largest carrier customer's one-plus traffic from the Frontier network. Selling, General and Administrative ("SG&A") costs in the long distance segment were higher largely due to an increase in product development, promotion and distribution costs. The sales and marketing investments that are driving the incremental SG&A costs are expected to positively impact revenue and operating income in future periods.

Operating results for 1997 and 1996 were affected by certain one time events. In March 1997, Company recorded a pre-tax charge of $96.6 million or $0.38 per share post-tax, primarily related to the write-off of certain network costs no longer necessary to support long distance traffic volumes due largely to the migration of the Company's major carrier customer's one-plus traffic. As a result of the decline in long distance traffic, an evaluation of the existing network was performed and facilities deemed no longer necessary to support the Company's revenue and traffic levels were identified. The Company is actively pursuing a program to further improve its network cost structure through the integration and consolidation of facilities.

In the first quarter of 1997, the Company also completed the sale of its 69.5% equity interest in the South Alabama Cellular Communications Partnership. The sale resulted in a pre-tax gain of $18.7 million.

The Company sold its minority investment in a Canadian long distance company for a pre-tax gain of $5.0 million during the quarter ended March 31, 1996.

1997 to complement the Company's core voice services business with a portfolio of additional data services products.

Operating income for long distance, excluding nonrecurring charges, decreased 76.9% to $31.4 million for the six months ended June 30, 1997. Operating margin as a percent of revenue decreased from 13.8% in the first half of 1996 to 3.9% for the current year. The reduction in operating margin in 1997 is driven by the decrease in revenue, primarily attributable to the migration of the Company's largest customer's one-plus traffic, increased network costs and the incremental SG&A costs associated with sales and marketing support for new revenue initiatives. Cost of access represented approximately 63% of total long distance revenue for the first six months of 1997 as compared to approximately 62% for the same period in 1996. The increase in the cost of access percentage to revenue is driven by the fact that the Company's fixed costs are currently being covered by a smaller revenue base. Continuing network integration and the construction of the Company's fiber optic network is expected to reduce network costs and provide new revenue opportunities for Frontier. Construction of the fiber optic network is expected to be completed by year end 1998.

The Company expanded its offerings of local service in late 1996 and is competing aggressively with other Alternative Local Exchange Carriers ("A-LECs"). Frontier is now providing local service as an A-LEC, combined with a complete range of long distance products, in 32 markets across the country. The Company currently provides services as a facilities based A-LEC in New York City and plans to provide facilities based A-LEC services in the midwest by the end of 1997. The Company anticipates that up to six additional switches will be installed by year end 1997 and a similar number in 1998. Nationwide, Frontier is serving in excess of 79,000 ANIs, or access lines, predominantly through resale, in markets where it is not the incumbent telephone company as of June 30, 1997.

<u>Local Communications Services</u>

Revenues for Local Communications Services were $330.3 million in the six month period ended June 30, 1997, an increase of $10.5 million or 3.3% over the comparable period in 1996. The growth in this segment is driven by a 2.6% increase in access lines and a 5.7% increase in minutes of use over the previous year. Revenue growth during the first half of 1997 is also influenced by the provision of enhanced services, driven by increased demand for internet services. Revenue growth is partially offset by the elimination of the surcharge on wholesale, flat rate local measured service, as ordered by the New York State Public Service Commission ("NYSPSC") in 1996, an increase in the discount to wholesale providers from 5% to 17%, also ordered by the NYSPSC and the $1.5 million annual rate reduction as stipulated by the Open Market Plan.

Local Communications Services costs and expenses for the first half of 1997 were $210.7 million, representing a decrease of $2.3 million or 1.1% over the same period in

1996, excluding certain one-time charges. During the first six months of 1996, the Rochester telephone operation experienced increased costs and expenses related to higher labor expenses resulting from work stoppage preparation costs. These expenses, which were incurred in connection with contract negotiations with the CWA, were necessary to ensure continued high standards of customer service levels in the event of a work stoppage or slowdown. The contract negotiations were at an impasse and the Rochester company implemented the terms of its final offer as of April 9, 1996. Members of the CWA Local 1170, ratified a tentative agreement with Rochester Telephone Corp. on April 29, 1997 which contained provisions that differed from the Company's final offer implemented at the time of impasse. The differences between the Company's final offer and the agreement that was ratified are not material. The new agreement will provide several operational improvements and will result in a more consistent alignment of benefits with the rest of the Corporation. The Union continues to appeal one issue related to the declaration of impasse with the National Labor Relations Board. Hearings on this issue were completed in June and a decision is anticipated by the end of 1997. This decision may be appealed by either the Union or the Company. At this time, the Company cannot predict the outcome of this matter. Contributing to the overall decrease in expenses is the impact of continuing centralization of the administrative functions for all of the local telephone companies.

Operating income normalized for nonrecurring items was $119.7 million, an increase of $12.8 million, or 11.9%, over the same period in the prior year. Operating margins for the six month period improved from 33.4% in 1996 to 36.2% in 1997, reflecting the continuing improvements in operating efficiencies.

During late 1995, management committed to a major switch consolidation plan at its New York local telephone subsidiaries. The three-year plan to consolidate host switches by over 60% is projected to improve network efficiency and reduce the cost of maintenance and software upgrades. As of June 1997, the project is progressing as scheduled and six host switches have been consolidated, representing approximately 50% of the total switches that will be consolidated. The Company anticipates that this project will be substantially complete by July 1998.

Corporate Operations and Other

Corporate Operations is comprised of the expenses traditionally associated with a holding company, including executive and board of directors expenses, corporate finance and treasury, investor relations, corporate planning, legal services and business development. The Other category is comprised of the Company's majority ownership interest in wireless operations and Frontier Network Systems ("FNS"). Wireless operations for the first six months of 1997 included Minnesota RSA No. 10, in which the Company acquired a 100% interest in late March 1995 and the Company's 69.5% interest in Alabama RSAs No. 4 and No. 6 through January 1997. The sale of the Company's interest in Alabama RSAs No. 4 and No. 6 was finalized January 31, 1997.

The Company completed its purchase of RG Data in February 1997. RG Data was a privately held upstate New York based computer and data networking equipment and services company. A total of 110,526 shares of Frontier common stock held in treasury were reissued in exchange for all of the shares of RG Data. The treasury shares were acquired through open market purchases. This transaction was accounted for as a purchase. RG Data's operations are consolidated with FNS for reporting purposes.

Year-to-date revenues for this segment decreased $1.9 million, or 8.8%, and expenses decreased $3.8 million, or 14%, primarily as a result of the sale of the Company's interest in Alabama RSAs No. 4 and No. 6, the acquisition of RG Data and reduced costs and expenses for the Holding Company.

Other Income Statement Items

Interest Expense

Interest expense was $22.2 million in the first six months of 1997, a $1.3 million reduction from the same period in 1996. The overall decline in interest expense is driven by increased capitalized interest of $3.6 million in the first six months of 1997 as compared to the same period in 1996, primarily attributable to the fiber network build project. The impact of capitalized interest is offset in part by an increase in gross interest expense in the first two quarters of 1997 resulting from higher levels of debt outstanding.

Gain on Sale of Assets

In February 1997, the Company completed the sale of its 69.5% equity interest in the South Alabama Cellular Communications Partnership. The sale resulted in an after-tax gain of $11.2 million, or $.07 per share. During March 1996, the Company recorded an after-tax gain of $3.0 million, or $.02 per share, related to the sale of its minority interest in the stock of a Canadian long distance company. The Company decided to redeploy resources into more strategic assets as the assets sold were not critical to the achievement of the Company's overall business strategy.

Equity Earnings from Unconsolidated Wireless Interests

The Company's minority interests in wireless operations and its 50% interest in the Frontier Cellular joint venture with Bell Atlantic/NYNEX Mobile are accounted for using the equity method. This method of accounting results in the Company's

proportionate share of earnings being reflected in a single line item below operating income.

Equity earnings from the Company's interests in wireless partnerships in the first six months of 1997 were $4.3 million, an increase of $1.1 million or 36.1% over the first six months of 1996. The improvement in equity earnings is driven by expense reductions and increased operating efficiencies as compared to the same period in the prior year.

Income Taxes

The effective income tax rate for the first two quarters of 1997, normalized for nonrecurring items, is 38.8 %, consistent with the first half of 1996.

FINANCIAL CONDITION

Review of Cash Flow Activity

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a common measurement of a company's ability to generate cash flow from operations. EBITDA should be used as a supplement to, and not in place of, cash flow from operating activities. The Company's EBITDA was $247.8 million and $327.3 million, excluding nonrecurring charges, for the periods ending June 30, 1997 and 1996, respectively. The decrease in EBITDA is primarily attributable to the decrease in revenue and increased operating costs in the long distance segment.

Cash provided from operations for the first six months of 1997 decreased $173.5 million or 70.8% as a result of increased working capital requirements and the decrease in revenue. The primary drivers of the changes in cash from operations include an increase in deferred taxes of approximately $30.0 million, relating to the one-time charge recorded by the Company in the first quarter of 1997 and decreased accounts payable balances. The decrease in accounts payable is a function of the timing of payments to vendors.

Cash used for investing activities decreased $28.8 million or 20.9%, primarily due to the proceeds received from the sale of the Company's equity interest in the Southern Alabama Cellular Communications Partnership which closed in the first quarter of 1997 ($32.9 million). This decrease is offset by increases in capital expenditures during the first six months of 1997 of $31.3 million or 27.3% and the purchase of an interest in a cellular partnership in March 1996 ($25.3 million). The increase in capital expenditures is principally due to the fiber optic network build and continued product enhancements.

Cash provided from financing activities increased $139.8 million during the first six months of 1997 as compared to the same period in 1996. This net inflow of cash is driven by increased borrowings during the period, primarily attributable to the Company's capital program.

Debt

The Company's total debt amounted to $783.2 million at June 30, 1997, an increase of $101.9 million from December 31, 1996. This higher debt level is largely driven by the Company's capital program, including the nationwide fiber optic network. In May 1997, the Company completed a $300.0 million offering of 7.25% Notes. Proceeds from the offering will be used to finance a portion of the Company's cost of its nationwide fiber build project. Until such time as additional payments are required to be made to Qwest Communications Corporation, the company constructing the nationwide network, proceeds from the offering were used to pay down a portion of the Company's commercial paper borrowings. The net increase in borrowings is offset by scheduled debt repayments of $3.0 million and by the $7.1 million of debt carried by the Southern Alabama Partnership, which was sold in the first quarter of 1997. This debt was assumed by the purchaser.

Debt Ratio and Interest Coverage

The Company's debt ratio (total debt as a percent of total capitalization) was 43.5% at June 30, 1997, as compared with 39.1% at December 31, 1996. Pre-tax interest coverage, excluding nonrecurring charges, was 5.6 times for the six months ended June 30, 1997, as compared with 9.5 times for the same period in 1996.

Capital Spending

Through June 1997, gross capital expenditures amounted to approximately $147.4 million as compared to $114.3 million in the prior year. The Company plans to spend a total of approximately $525 million to $550 million on its capital program during the full year in 1997, including approximately $210 million for the fiber optic network project. Through June 1997, capital expenditures relating to the fiber optic network totaled $43.4 million. The Company anticipates financing its capital program with a combination of internally generated cash from operations and external financing.

Dividends

On June 16, 1997, the Board of Directors declared the second quarter 1997 dividend of 21.75 cents per share on the Company's common stock, payable August 1, 1997 to shareowners of record on July 15, 1997.

New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Financial Accounting Standard 130 ("FAS 130"), "Reporting Comprehensive Income," effective for fiscal years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components in a full-set of general-purpose financial statements. Comprehensive income is defined as "the change in equity of a company during a period from transactions and other events and circumstances from nonowner sources." It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Early application of this statement is permitted. If comparative financial statements are provided for earlier periods, reclassification to reflect the provisions of this statement is required. The Company will adopt FAS 130 in the first quarter of 1998.

The FASB issued FAS 131, " Disclosures about Segments of an Enterprise and Related Information," effective for financial statements for periods beginning after December 15, 1997. This statement requires that public companies report certain information about operating segments in complete sets of financial statements of the company and in condensed financial statements of interim periods issued to shareholders. It also requires that public companies report certain information about their products and services, the geographic areas in which they operate, and their major customers. In the initial year of application, comparative information for earlier years is to be restated. The Company will adopt FAS 131 in the first quarter of 1998. The Company has not yet fully evaluated the disclosures that will be required by this FAS.

OTHER ITEMS

Open Market Plan

The Rochester, New York local communications' subsidiary began its third year of operations under the Open Market Plan in January 1997. The Open Market Plan promotes telecommunications competition in the Rochester, New York marketplace by providing for (1) interconnection of competing local networks including reciprocal compensation for terminating traffic, (2) equal access to network databases, (3) access to local telephone numbers, (4) service provider telephone number portability, and (5) certain wholesale discounts to resellers of local services. The inherent risk associated with opening the Rochester market to competition is that some customers are able to purchase services from competitors, which may reduce the number of retail customers and potentially cause a decrease in the revenues and profitability for Rochester Telephone. However, results since implementation of the Open Market Plan indicate that a stimulation of demand in the use of the network and new product revenue may offset the losses from customer migration. Increased competition may also lead to additional price decreases for services, adversely impacting Rochester Telephone's margins. An additional positive feature of the Open Market Plan provides that

Rochester Telephone can retain additional earnings achieved through operating efficiencies. Previously these earnings would have been shared with customers.

During the seven year period of the Open Market Plan, rate reductions of $21 million will be implemented for Rochester area consumers, including $11.5 million of which occurred in 1995, $2.5 million which occurred in 1996, and a rate reduction of $1.5 million which commenced in January 1997. Rates charged for basic residential and business telephone service may not be increased during the seven year period of the Plan. The Company is allowed to raise prices on certain enhanced products such as caller ID and call forwarding. Price increases on enhanced products partially offset the rate reductions required under the Plan during 1997.

During the second quarter of 1997, the Federal Communications Commission ("FCC") issued decisions that are intended to implement provisions of the Telecommunications Act of 1996. Of significance were decisions that outlined changes in the structure of universal service support and in the framework that applies to certain interstate rates that are generally characterized as access-related charges. In addition, during the second quarter of 1997, a Federal appeals court rejected parts of an earlier FCC order that set out conditions governing the provisions of interconnection services. A preliminary review of these orders suggests they will not have a material impact on Frontier or any of its business segments.

Under the Telecommunications Act of 1996 and a statewide proceeding, the NYSPSC is considering the prices that local exchange companies in New York may charge for "unbundled" service elements such as links (the wire from the switch to the customers premises), ports (the portion of the switch that terminates the link) and switch usage features. The Company is actively participating in this proceeding and expects the NYSPSC to issue a decision on service elements in 1997.

Management believes there are significant market and business opportunities associated with the Company's Open Market Plan. However, there are also uncertainties associated with the Plan. In the Company's opinion, the most significant risks relate to increased competition in the Rochester, New York market, the risk inherent in the Rate Stabilization Plan and the potential diversification risk.

There can be no assurance that the changing regulatory environment will not have a negative impact on the Company.

Dividend Policy

The Open Market Plan prohibits the payment of dividends by the Company's subsidiary, Rochester Telephone Corp. ("RTC"), to Frontier if (i) RTC's senior debt is downgraded to "BBB" by Standard & Poor's ("S&P"), or the equivalent rating by other rating agencies, or is placed on credit watch for such a downgrade, or (ii) a service quality penalty is imposed under the Open Market Plan. Dividends paid to Frontier also are prohibited unless RTC's directors certify that such dividends will neither impair RTC's service quality nor its ability to finance its short and long term capital needs on reasonable terms while maintaining an S&P debt rating target of "A".

In 1996, RTC failed to achieve the service quality levels required by the Open Market Plan. On December 19, 1996, pursuant to the Open Market Plan, RTC requested the NYSPSC staff to exclude certain months from the calculation used to measure service quality, due to operating conditions considered by management to be abnormal and beyond RTC's control. In April 1997, RTC received notice from the NYSPSC that its request for a waiver of certain conditions in the Open Market Plan related to service quality results was denied. The NYSPSC's ruling will result in a temporary restriction on the flow of cash payments from the Rochester Telephone subsidiary to Frontier and a refund to Rochester Telephone customers of $.9 million. Reserves sufficient to cover the refund were established in 1996. The Company has presented a plan for disposition of the refund to the NYSPSC. A decision is expected by the end of the year.

The temporary restriction of dividend payments from Rochester Telephone to Frontier Corporation remains in place, as RTC has not yet reached 1997 service quality levels that are sufficiently adequate to justify its removal. -

Part II - Other Information

Item 1 - Legal Proceedings

On June 11, 1992, a group of corporate plaintiffs consisting of Cooper Industries, Inc.; Keystone Consolidated Industries, Inc.; The Monarch Machine Tool Company; Niagara Mohawk Corporation and Overhead Door Corporation commenced an action in the United States District Court for the Northern District of New York seeking contribution from fifteen corporate defendants, including Rotelcom Inc., a wholly-owned subsidiary of the registrant held through intervening subsidiaries (now named Frontier Network Systems, Inc. or FNS). The plaintiffs seek environmental "response costs" in the approximate amount of $1.5 million incurred by the plaintiffs pursuant to a consent decree entered into by plaintiffs with the United States Environmental Protection Agency (the "EPA"). Two additional defendants were named in 1994. In addition to FNS, the current defendants are: Agway, Inc.; BMC Industries, Inc.; Borg-Warner Corporation; Elf Atochem North America, Inc.; Mack

Trucks, Inc.; Motor Transportation Services, Inc.; Pall Trinity Micro Corporation; The Raymond Corporation; Redding-Hunter, Inc.; Smith Corona Corporation; Sola Basic Industries, Inc.; Wilson Sporting Goods Company; Phillip A. Rosen; Harvey M. Rosen; City of Cortland and New York State Electric & Gas Corporation.

The consent decree concerned the clean-up of an environmental Superfund site located in Cortland, New York. It is alleged that the corporate defendants disposed of hazardous substances at the site and are therefore liable under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Company is anticipating that a final Record of Decision ("ROD") will be issued by the EPA and will prescribe the remediation requirements for the site. The aggregate amount of remediation costs to be incurred by the plaintiffs will be based on the requirements of the ROD. The total cost of remediation at the site is uncertain, although estimates have ranged from $25 million to $100 million. There has been no allocation of liability as among or between the plaintiffs or defendants. The extent to which plaintiffs can recover any of these costs from the defendants, including FNS, will be determined at trial. The litigation has been delayed by the bankruptcy filing of one of the defendants. FNS has been vigorously defending this lawsuit. The federal government and one or more of the defendants have been in discussions intended to facilitate settlement, but no recommendations have yet been made. The Company believes that it will ultimately be successful, but it is unable to predict the outcome with any certainty at this time.

Since February 1994, a large number of plaintiffs, all of whom are former ASI shareholders, have filed and amended several and various complaints in Hennepin County (Minnesota) District Court. Included among the defendants are ASI, its former principal shareowners, Steven Simon and James Weinert, and Frontier. These suits allege generally that Simon and Weinert, with and through ASI, embarked upon a scheme to gain control of ASI and acquire all of its stock through common law fraud, breach of fiduciary duty and certain violations of the Minnesota Business Corporation Act. This Act requires shareowners in a closely held corporation to act fairly toward one another and refrain from misappropriation. Another action by a few former ASI shareholders who dissented from a cashout merger that finally took ASI private is pending in federal court in Minnesota. The federal lawsuit asserts RICO claims in addition to state common law and statutory violations. The claims against Frontier maintain that Frontier controls the disposition of the restricted Frontier stock which was issued to Simon and Weinert in connection with the acquisition of ASI and that such stock should be held in trust for the benefit of the plaintiffs. Recently, the former owners of over half of the stock who had made claims, entered into a settlement in principle with Simon and Weinert. That settlement is now being submitted to the individual plaintiffs for their review and acceptance. Closure of the agreement is expected in 1997. If the settlements are accepted, the lawsuits of these plaintiffs shall be dismissed.

Although it is too early to determine the outcome of the suits that have not settled, Frontier, ASI and the other defendants each are contesting the claims. In connection with the acquisition of ASI by Frontier, Simon and Weinert agreed to indemnify the Company for these claims.

On April 10, 1997, Jeff Thompson filed a purported class action on behalf of himself and all other similarly-situated persons in Circuit Court for Marengo County Alabama. Named as defendants are Frontier Corporation, Frontier Subsidiary Telco, Inc. and Frontier Communications of the South, Inc. ("defendants"). The complaint also reserves the right to add additional defendants and identifies all of Frontier's telephone subsidiaries. Concomitant with filing the complaint, plaintiff also filed an *ex parte* motion for conditional class certification which the Court granted. It conditionally certified a class consisting of "All persons or entities in the United States who have been charged by defendants or their subsidiaries or affiliates a fee for 'inside wire maintenance' without having given their affirmative acceptance to a repair service contract; specifically excluded from this class, however, are all employees, agents, officers, directors and affiliates of any of the Defendants and all persons or entities who have pending and/or previously filed individual (non-class) lawsuits against any of the defendants for the same claims set forth in the Complaint."

In the complaint, plaintiff alleges that the Company improperly marketed and sold deregulated inside wire maintenance services to defendant subscribers pursuant to a "negative option" or "default sale" approach from January 1, 1987 to the present. Plaintiff alleges that the defendants have never had enforceable contracts with their customers for inside wire maintenance services, and have defrauded their customers. Plaintiff requests a refund of all moneys paid for inside wire maintenance services. This case is similar to a number of cases filed against other carriers with local telephone properties.

The Company believes that the inside wire programs in place in its telephone properties have been implemented in accordance with the law and any applicable regulatory requirements. The liability, if any, is not expected to be material. The Company is vigorously defending against this suit, but cannot predict the outcome at this time.

The Open Market Plan discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operations in Part I, Item 2 of this document is incorporated herein by reference.

Item 4 - Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareowners was held on May 2, 1997 for the purpose of electing a board of directors, approving the appointment of auditors, and voting on the proposals described below.

All of management's nominees for Directors as listed in the proxy statement were elected with the following vote:

		For	Against
1.	Patricia C. Barron	132,939,624	14,857,554
2.	Ronald L. Bittner	130,688,397	17,108,781
3.	Paul E. Cesan	132,994,515	14,802,663
4.	Brenda E. Edgerton	132,982,164	14,815,014
5.	Jairo A. Estrada	132,965,293	14,831,885
6.	Michael E. Faherty	132,810,743	14,986,435
7.	Daniel E. Gill	132,098,903	15,698,275
8.	Alan C. Hasselwander	132,830,634	14,966,544
9.	Robert J. Holland, Jr.	132,820,958	14,976,220
10.	Douglas H. McCorkindale	133,000,674	14,796,504
11.	Leo J. Thomas	133,009,481	14,787,697
12.	Richard J. Uhl	132,970,538	14,826,640

The appointment of Price Waterhouse LLP as independent auditor for the fiscal year 1997 was approved with the following vote:

For	Against	Abstain	Broker Non-Votes
143,517,942	863,464	3,415,771	-

The shareowner proposal regarding executive change in control arrangements was not approved with the following vote:

For	Against	Abstain	Broker Non-Votes
35,756,566	90,833,242	5,539,826	15,667,544

Item 6. Exhibits and Reports on Form 8-K

(a) See Exhibit Index

(b) Reports on Form 8-K filed during the period:

SEC Filing Date	Item No.	Financial Statements
March 23, 1997	7	Yes
March 27, 1997	5	No
April 10, 1997	5	No
June 10, 1997	5	No

The Company filed no reports on Form 8-K subsequent to the quarter ended June 30, 1997.

SIGNATURES

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 CORPORATION

(Registrant)

Dated: August 12, 1997

/s/Louis L. Massaro
By: --------------------------------
Louis L. Massaro
Executive Vice President and Chief Financial/
Administrative Officer
(principal accounting officer)

INDEX TO EXHIBITS

Exhibit Number	Description	
3.1	Restated Certificate of Incorporation	Incorporated by reference to Exhibit 3.1 to Form 10-K for the year ended December 31, 1995.
3.2	Amendment to Restated Certificate of Incorporation	Incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended December 31, 1995.
3.3	Bylaws	Filed herewith
4.1	Indenture, dated as of May 21, 1997, between the Registrant and Chase Manhattan Bank, as Trustee	Incorporated by reference to Exhibit 4.1 to Form 8-K, filed May 23, 1997
10.20	Management contract with Mr. Clayton	Filed herewith
11	Statement re: Computation of Earnings per Share of Common Stock on a Fully Diluted Basis (Unaudited)	Filed herewith
27	Financial Data Schedule	Filed herewith

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

....

FORM 10-K

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

For the fiscal year ended December 31, 1996

Commission File Number 1-4166

....

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

New York **(State or other jurisdiction of incorporation or organization)**	**16-0613330** **(I.R.S. Employer Identification No.)**
180 South Clinton Avenue Rochester, New York **(Address of principal executive offices)**	**14646-0700** **(Zip Code)**

Registrant's telephone number, including area code: (716) 777-1000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

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 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 ✓ No __

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 14, 1997 is $3,511,039,053. The number of shares outstanding of Frontier Corporation's common stock (Par Value $1.00 per share) as of the close of March 14, 1997 is 164,130,495 shares.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the registrant's 1996 Annual Report to Shareowners including Management's Discussion of Results of Operations and Analysis of Financial Condition, Consolidated Financial Statements and Notes to Consolidated Financial Statements, as presented in Exhibit No. 13.1 of this Form 10-K, are incorporated by reference in Parts II and IV hereof.

(2) Portions of the Notice of Annual Meeting and Proxy Statement issued by the registrant in connection with its Annual Meeting of Shareowners to be held May 2, 1997, as presented in Exhibit No. 99 of this Form 10-K, are incorporated by reference in Parts II, III and IV hereof.

mid-1998, the SONET network will interconnect nearly 100 cities, encompass more than 13,000 route miles and provide coast-to-coast connectivity.

A key growth strategy for the Company is to provide integrated communications services for its customers. These integrated services include long distance, wireless and local telephone service as well as selected products and services that the Company will market to customers as a single source provider. Frontier is committed to growth through expansion of its existing businesses, the development of value-added products and services and selected acquisitions.

Long Distance Communications Services 1995 Acquisition Program

The Company complemented its internal growth in the long distance business with a number of strategic acquisitions and a merger in 1995 that approximately doubled the size of the business. A listing of these acquisitions and the merger is included below.

Company Name	1995 Acquisition Date
Confertech International, Inc.	March
American Sharecom, Inc.	March
WCT Communications, Inc.	May
Enhanced TeleManagement, Inc.	July
SCI and Link USA Corporation*	August
ALC Communications Corporation (merger)	August
Link-VTC, Inc.	November

*The Company acquired SCI's 80.8% interest in LinkUSA Corporation in August 1995 and subsequently purchased the remaining 19.2% interest in February 1996.

Long Distance Communications Services

General

Frontier provides long distance telecommunications services primarily to commercial and, to a lesser extent, residential subscribers. It also completes subscriber calls to all directly dialable locations worldwide. Frontier is one of the few nationwide switch based carriers of long distance services and in 1995 commenced operations from offices in Great Britain.

The Company operates its own switches, develops and implements its own products, monitors and deploys its transmission facilities and prepares and designs its own billing and reporting systems. The Company focuses primarily on commercial accounts. In this segment, calling volume consists

Reporting Services-The Company offers a variety of billing options and media aimed primarily at business customers. When a new commercial account is opened, the customer is offered the opportunity to custom design the format of its reports. The Company also offers customers graphic reports of traffic patterns on a nationwide basis by state, within state by area of dominant influence ("ADI") and within ADI by zip code. The Company believes this service is useful to certain customers for direct response advertising and customer service applications. The Company also offers its proprietary personal computer reporting service which allows customers to design their own reports, prepare separate itemized bills, do mark-up reporting and generate numerous other customer reports.

800 Services-These services include area code blocking and routing; time of day routing; Home Connection 800, a fractional 800 service which allows residential customers to access 800 service utilizing a 4 digit security Personal Identification Number ("PIN"); Multi-Point 800 service, which allows customers to use accounting codes on an 800 number or route a single 800 number to numerous locations simultaneously; Follow-Me 800, which allows customers to change call routing and TargetLine 800, which routes calls to the closest location a customer identifies and provides custom prompts based upon a customer specific database.

ALEC Services-The Company provides competitive local telephone service bundled with the Company's other long distance services through its Alternative Local Exchange Services ("ALEC") product offering. The ALEC offering is provided either using the Company's local switching equipment in locations where it is available or on a resale basis. The Company began providing ALEC services in the New York City area late in 1996 and expects to enter additional markets with this product in 1997.

Transmission

The Company endeavors to have sufficient switching capacity, local access circuits and long distance circuits at and between its network switching centers to permit subscribers to obtain access to the switching centers and its long distance circuits on a basis which exceeds industry standards regarding clarity, busy signals or delays.

The network currently utilizes fiber optic and digital microwave transmission circuits to complete long distance calls. With the exception of digital microwave systems located in California, New York and Pennsylvania for which the Company holds Federal Communications Commission ("FCC") licenses and several short fiber optic systems, such facilities have been leased on a fixed price basis under primarily short-term contracts. While the Company still has a handful of longer term lease contracts, these contracts have annual "mark-to-market", "circuit portability", and "commitment buy-

major carrier customer's 1-plus traffic was substantially complete as of December 31, 1996. As a result of the loss of this customer's 1-plus traffic, revenue from this carrier comprised approximately 10% of Frontier's long distance revenue in the fourth quarter of 1996 as compared to 23% in the third quarter. The loss of this customer's 1-plus traffic contributed to the reduction in operating income in the fourth quarter.

Seasonality

The Company's long distance revenue is subject to certain limited seasonal variations. Because most of the long distance revenue is generated by commercial customers, the Company traditionally experiences decreases in long distance usage and revenue from its commercial customers during vacation and holiday periods. The effect of commercial seasonality is evidenced by lower sequential traffic growth in the fourth quarter for these customers.

Local Communications Services

As of December 31, 1996, Rochester Telephone Corp. and the Company's 33 other local exchange companies together served approximately 976,000 access lines in 13 states. The local exchange carriers provide local, toll, access and resale services; sell, install and maintain customer premises equipment and provide directory services.

As of September 30, 1995, the Company discontinued the application of Statement of Financial Accounting Standards No. 71 (FAS 71), "Accounting for the Effects of Certain Types of Regulation" for its local communications companies. The Company discontinued the use of FAS 71 based upon changes in regulation and increasingly rapid advancements in telecommunications technology and other factors creating competitive markets served by the Company.

Since the beginning of 1988, the Company has invested over $790 million in upgrading its Local Communications Services' business and over $480 million for the acquisition of independent telephone companies. Over this period, the Company installed advanced digital switching platforms throughout all of its switching network, making the Company one of the few in the industry to be served by an all digital network for its local exchange companies.

Frontier has achieved substantial cost reductions through the elimination of duplicative services and procedures and the consolidation of administrative functions. The Company believes that additional cost reductions are obtainable. These reductions will be partially driven by technological changes and will be necessary to further improve the

PART I

ITEM 1. BUSINESS

Frontier Corporation ("Frontier" or the "Company") is a diversified telecommunications firm with headquarters in Rochester, New York. The Company was incorporated in 1920 under the laws of New York State to take over and unify the properties of a predecessor company and certain properties of the New York Telephone Company which were located in the same general territory. The Company's principal lines of business are long distance and local communications services. The Long Distance Communications Services segment provides telecommunications services to customers throughout the United States, Canada and Great Britain. The Local Communications Services segment consists of 34 local telephone companies which serve, as of December 31, 1996, approximately 976,000 access lines in thirteen states. The Corporate Operations and Other segment includes expenses traditionally associated with a holding company and the revenues and expenses of the Company's majority owned wireless properties and Frontier Network Systems. Frontier Network Systems markets and installs telecommunications systems and equipment. The Company also owns a 50% interest in a joint venture with Bell Atlantic/Nynex Mobile in upstate New York and Pennsylvania that is managed by the Company and is accounted for using the equity method of accounting. This method of accounting results in the Company's proportionate share of earnings from the joint venture being reflected as equity income rather than being reported as a part of the Corporate Operations and Other segment.

Prior to 1995, Local Communications Services provided the majority of the Company's revenue and income. In 1982, the Company made the strategic decision to enter the long distance business. The geographic reach of the Company's long distance operations has grown, and is now nationwide in scope, largely as a result of merger and acquisition activity which occurred in 1995. Revenues in 1996 from the long distance business and local communications services represent 73% and 25% respectively, of the Company's total business. The Company, based on revenues, is currently the fifth largest domestic provider of long distance services.

On October 21, 1996, the Company announced that it had joined with Qwest Communications as a partner in the construction of a $2 billion nationwide fiber optic network. When complete, this will be the largest single fiber build in United States history. The Company has agreed to invest almost $500 million through 1998 to complete the project. The multi-ring Synchronous Optical Network ("SONET") architecture increases transmission speed and network reliability and is expected to decrease the Company's network transmission costs once installed. When complete in

mid-1998, the SONET network will interconnect nearly 100 cities, encompass more than 13,000 route miles and provide coast-to-coast connectivity.

A key growth strategy for the Company is to provide integrated communications services for its customers. These integrated services include long distance, wireless and local telephone service as well as selected products and services that the Company will market to customers as a single source provider. Frontier is committed to growth through expansion of its existing businesses, the development of value-added products and services and selected acquisitions.

Long Distance Communications Services 1995 Acquisition Program

The Company complemented its internal growth in the long distance business with a number of strategic acquisitions and a merger in 1995 that approximately doubled the size of the business. A listing of these acquisitions and the merger is included below.

Company Name	1995 Acquisition Date
Confertech International, Inc.	March
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General

Frontier provides long distance telecommunications services primarily to commercial and, to a lesser extent, residential subscribers. It also completes subscriber calls to all directly dialable locations worldwide. Frontier is one of the few nationwide switch based carriers of long distance services and in 1995 commenced operations from offices in Great Britain.

The Company operates its own switches, develops and implements its own products, monitors and deploys its transmission facilities and prepares and designs its own billing and reporting systems. The Company focuses primarily on commercial accounts. In this segment, calling volume consists

primarily of calls made during normal business hours, which command peak-hour pricing. The Company's residential subscribers tend to make most of their calls in the evening and on weekends, when business usage is lowest. Neither commercial nor residential subscribers' access to the Company's service is limited as to the time of day or day of week.

Products and Services

The Company provides a variety of long distance products and services to commercial and residential subscribers nationwide. The bulk of the Company's revenue is derived from outbound and inbound long distance services which are generally marketed under the Frontier name. Many of the Company's products, however, differ from those of certain competitors due to the level of value-added services the Company offers and the flexibility of product pricing to maintain competitiveness.

The variety of products offered are categorized by the Company based upon certain primary characteristics: pricing, value-added services, reporting, 800 services and ALEC services.

Pricing-All of the Company's customers are identified by their telephone number, dedicated trunk or validated access code. Customers subscribe to various products which determine the price per minute that they pay on their outbound or inbound long distance calls. Rates typically vary by the volume of usage, the distance of the calls, the time of day that calls are made, the region that originates the call and whether or not the product is being provided on a promotional basis.

Value-added Services-The Company's value-added services are aimed primarily at the business subscriber, although the Company also offers products for residential customers. Value-added services include: Call Delivery, a message delivery service which enables a customer to send a prerecorded message to a number; VoiceQuote, an interactive stock quotation service; InfoReach, numerous audio/text programs such as news and weather; a voice mail service; Option USA, a service to provide calls to the U.S. from selected international locations and three different teleconferencing services.

The Company provides a full spectrum of facsimile services including Broadcast FAX, which allows the customer to send or fax documents to multiple locations at the same time; fax on demand, which allows the customer to make a fax document available to people who call an 800 number; fax mail, which allows a customer to receive facsimile messages in a fax mailbox and pick them up at a later date; PC software, which allows the customer to manage facsimile lists and documents from a PC and special international pricing to accommodate short duration facsimile traffic.

Reporting Services-The Company offers a variety of billing options and media aimed primarily at business customers. When a new commercial account is opened, the customer is offered the opportunity to custom design the format of its reports. The Company also offers customers graphic reports of traffic patterns on a nationwide basis by state, within state by area of dominant influence ("ADI") and within ADI by zip code. The Company believes this service is useful to certain customers for direct response advertising and customer service applications. The Company also offers its proprietary personal computer reporting service which allows customers to design their own reports, prepare separate itemized bills, do mark-up reporting and generate numerous other customer reports.

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Transmission

The Company endeavors to have sufficient switching capacity, local access circuits and long distance circuits at and between its network switching centers to permit subscribers to obtain access to the switching centers and its long distance circuits on a basis which exceeds industry standards regarding clarity, busy signals or delays.

The network currently utilizes fiber optic and digital microwave transmission circuits to complete long distance calls. With the exception of digital microwave systems located in California, New York and Pennsylvania for which the Company holds Federal Communications Commission ("FCC") licenses and several short fiber optic systems, such facilities have been leased on a fixed price basis under primarily short-term contracts. While the Company still has a handful of longer term lease contracts, these contracts have annual "mark-to-market", "circuit portability", and "commitment buy-

out" clauses. These provisions function to keep the price the Company pays at or near current market rates. An important aspect of the Company's operation is planning the mix of the types of circuits and transmission capacity to be used for each network switching center so that calls are completed on a basis which is cost effective for the Company without compromising prompt service and high quality to subscribers. The Company's SONET based fiber optic network build, started in October 1996, will reduce the number of transmission facilities leased and provide for a more dependable and cost-effective transmission system.

The Company's network switching centers house equipment with varying capacities to meet the anticipated needs of the service origination region(s) served by the center. The equipment used by the Company is, for the most part, designed to permit expansion to its capacity by the addition of standard components. If the maximum capacity of the equipment in any center is reached, the Company replaces it with higher capacity switching equipment and attempts to move the replaced unit to a network switching center in a different service origination region. The Company is dependent upon local telephone companies for installing local access circuits and providing related service when establishing a network switching center. International service is primarily provided through participation in the International Carrier Group ("ICG") with another major long distance company. The ICG in turn contracts with other long distance companies to provide high quality international service at competitive rates.

It is anticipated that the network build scheduled for completion in 1998 will lower the Company's current cost structure and expand the Company's transmission capabilities. However, the Company cannot definitively project the change in its cost structure nor assure that the network will enhance Frontier's ability to grow and successfully compete for new business.

Major Customer

The Long Distance Communications Services' growth has been impacted by a major customer whose revenue represented 21% and 14% of long distance revenues in 1996 and 1995, respectively. Pursuant to contract, this customer had been provided volume discounts by the Company as its 1-plus traffic grew at an accelerated pace over the past two years. During 1995, the Company was notified that this customer would be installing its own long distance switching capacity and diversifying its traffic distribution to one or more additional carriers. Effective June 1996, this customer entered into a revised three year agreement with the Company, eliminating the customer's existing minimum monthly commitment for 1-plus service in exchange for an extension of the exclusivity for the Company to carry the customer's higher margin enhanced service traffic. The migration of the

major carrier customer's 1-plus traffic was substantially complete as of December 31, 1996. As a result of the loss of this customer's 1-plus traffic, revenue from this carrier comprised approximately 10% of Frontier's long distance revenue in the fourth quarter of 1996 as compared to 23% in the third quarter. The loss of this customer's 1-plus traffic contributed to the reduction in operating income in the fourth quarter.

Seasonality

The Company's long distance revenue is subject to certain limited seasonal variations. Because most of the long distance revenue is generated by commercial customers, the Company traditionally experiences decreases in long distance usage and revenue from its commercial customers during vacation and holiday periods. The effect of commercial seasonality is evidenced by lower sequential traffic growth in the fourth quarter for these customers.

Local Communications Services

As of December 31, 1996, Rochester Telephone Corp. and the Company's 33 other local exchange companies together served approximately 976,000 access lines in 13 states. The local exchange carriers provide local, toll, access and resale services; sell, install and maintain customer premises equipment and provide directory services.

As of September 30, 1995, the Company discontinued the application of Statement of Financial Accounting Standards No. 71 (FAS 71), "Accounting for the Effects of Certain Types of Regulation" for its local communications companies. The Company discontinued the use of FAS 71 based upon changes in regulation and increasingly rapid advancements in telecommunications technology and other factors creating competitive markets served by the Company.

Since the beginning of 1988, the Company has invested over $790 million in upgrading its Local Communications Services' business and over $480 million for the acquisition of independent telephone companies. Over this period, the Company installed advanced digital switching platforms throughout all of its switching network, making the Company one of the few in the industry to be served by an all digital network for its local exchange companies.

Frontier has achieved substantial cost reductions through the elimination of duplicative services and procedures and the consolidation of administrative functions. The Company believes that additional cost reductions are obtainable. These reductions will be partially driven by technological changes and will be necessary to further improve the

competitive position of its Local Communications Services' business. The Company intends to vigorously pursue additional gains in productivity through reengineering while simultaneously improving customer service.

In March 1995, the Company sold the Ontonagon County Telephone Company and the Midway Telephone Company, both located in the Upper Peninsula of Michigan. In May 1994, the Company sold its Minot Telephone Company property located in Minot, North Dakota. In each case, the telephone properties no longer fit the strategic purposes of the Company.

Of the 976,000 access lines in service on December 31, 1996, 687,000 were residential lines and 289,000 were business lines. Long distance network service to and from points outside of the telephone companies' operating territories is provided by interconnection with the facilities of interexchange carriers.

Frontier is pursuing several alternatives to provide expanded broadband capabilities to its customers. To date, the Company has installed over 13,000 miles of fiber optic facilities (over 650 sheath miles) in the Rochester, New York area to provide its customers with enhanced capacity and to position the Company to offer new products. Throughout its Local Communications Services' operations, Frontier has over 27,000 miles of fiber optic facilities in place. The Company provides expanded broadband services to select customers, including video-distance learning arrangements for educational institutions.

The Company operates 71 central office and remote switching centers in Rochester, New York, and a total of 266 central office and remote switching centers in its other telephone territories. During late 1995, management committed to a major switch consolidation plan at its Rochester Telephone Corp. and Frontier Communications of New York subsidiaries. The three-year plan to consolidate host switches and reduce this number by over 60% is projected to improve network efficiency and reduce the cost of maintenance and software upgrades. As of December 1996, the project is progressing as scheduled and two host switches have been consolidated. The Company anticipates that the project will be substantially complete by July 1998.

In connection with its integration strategy, the Company has developed a program known as "Frontier Long Distance", where its local exchange companies resell Frontier's long distance services. The Company believes that many customers prefer the convenience of obtaining their long distance service through their local telephone company and receiving a single bill. Frontier Long Distance is currently offered in the product lines at fifteen of the Company's local telephone exchange companies. The results of

Frontier Long Distance operations are included as part of the Long Distance Communications Services' segment.

Technological innovation and regulatory change are accelerating the pace of competition for both local exchange and long distance services. New competitors now have the ability to provide basic local telephone service in some markets, including Rochester, New York. To benefit from these technological advances and broaden the scope and quality of its own product and service offerings, the Company has increased fiber and digital switching capacity throughout its networks and has pursued regulatory alternatives such as the Open Market Plan, which is described in more detail below. Currently, the Company continues to be the primary provider of basic local telephone service in Rochester, New York and may be considered the only provider of basic local exchange service in most of the other geographic areas where it has telephone properties.

Legislative and Regulatory Matters

The competitive evolution of the telecommunications industry has resulted in a more fluid regulatory framework. In general, state regulatory agencies exercise authority over the prices charged for the provision of local telephone service and for intrastate long distance service and over the quality of service provided, the issuance of securities, the construction of facilities and other matters. Each of Frontier's local telephone service companies is regulated by the public utility regulatory agency of the state in which that company provides local telephone service and by the FCC. The Company's long distance business is also subject to FCC and state jurisdiction.

(a) Telecommunications Act of 1996. On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996 (the "Act"). The Act substantially revised the Communications Act of 1934. The Act has particular relevance to the Company in three areas. First, the Act creates a duty on the part of the Company to interconnect its networks with those of its competitors and, in particular, creates a duty on the part of the Company's local exchange operations to negotiate in good faith the terms and conditions of such interconnection.

Second, the Act contains a number of provisions that reduce barriers to entry and promote competition in a variety of telecommunications markets, including both long distance and local exchange operations. As a part of this increased emphasis on competition, the Act provides a framework under which the Regional Bell Operating Companies ("RBOCs") may enter the interexchange communications business from which they were barred under the terms of the 1982 AT&T Consent Decree. Under the framework of the Act, a RBOC may provide long distance services in the states where it provides telephone service upon proving to the relevant state regulatory authority and

to the FCC that: (a) it faces competition for local telephone service from at least one facilities-based competitor; and (b) that it satisfies a fourteen point checklist that would purport to show that the RBOC's local exchange operations are open to competition. The Act establishes deadlines within which both the state regulatory agency and the FCC must act upon applications filed by a RBOC to enter the long distance business. The RBOCs can provide long distance services immediately in states where they do not qualify as the incumbent local exchange carrier, and also, with certain restrictions, can provide long distance service in connection with cellular, video and other defined incidental services.

Third, although the Act generally prohibits long distance companies from marketing their services jointly with the local telephone services provided by a RBOC (at least until that RBOC is permitted to enter the long distance business), it contains an exception for companies that serve less than five percent of the nation's presubscribed access lines, such as Frontier. Thus, the Act permits Frontier to continue to market its long distance services jointly with local telephone services whether those local services are provided by Frontier directly or are provided by a RBOC or non-affiliated company.

The FCC has initiated three major proceedings, among others, to implement the Act. First, the Commission adopted regulations implementing the unbundling, interconnection and resale obligations of the Act. The Commission's order has been appealed to the United States Court of Appeals for the Eighth Circuit and that Court has stayed the pricing provisions of the order. A decision from the Court is expected in the next few months.

Second, the FCC has also issued proposed rules addressing the Act's universal service provisions. A final decision from the Commission is expected in May 1997.

Finally, the Commission has issued a notice of proposed rulemaking in which it is proposing changes to its rules governing the assessment and collection of interstate access charges assessed by local exchange carriers.

The Company is evaluating its options in light of the pendency of these three proceedings, but cannot predict the outcome of the ongoing judicial and administrative proceedings.

(b) State Proceedings -- General. A number of states in which the Company has local or long distance operations are conducting proceedings related to the ground rules under which carriers may operate in an increasingly competitive environment. The issues that the regulatory agencies are examining include unbundling of network elements, interconnection obligations, dialing parity for intra-LATA (or short-haul) toll traffic, number portability, resale of local exchange service and universal service. The Act has begun to have an effect on

the timing and outcome of proceedings in many states, as state commissions have begun to review their actions in light of the Act. The Company cannot, at this time, predict how these proceedings will ultimately be resolved, nor when decisions will be forthcoming.

(c) Open Market Plan. The Rochester, New York local communications' subsidiary completed its second full year of operations under the Open Market Plan in 1996. The Open Market Plan promotes telecommunications competition in the Rochester, New York marketplace by providing for (1) interconnection of competing local networks including reciprocal compensation for terminating traffic, (2) equal access to network databases, (3) access to local telephone numbers, (4) service provider telephone number portability, and (5) certain wholesale discounts to resellers of local services. The inherent risk associated with opening the Rochester market to competition is that some customers are able to purchase services from competitors, which may reduce the number of retail customers and potentially cause a decrease in the revenues and profitability for Rochester Telephone. However, results since implementation of the Open Market Plan indicate that a stimulation of demand in the use of the network and new product revenue may offset the losses from customer migration. Increased competition may also lead to additional price decreases for services, adversely impacting Rochester Telephone's margins. An additional positive feature of the Open Market Plan provides that Rochester Telephone can retain additional earnings achieved through operating efficiencies. Previously these earnings would have been shared with customers.

During the seven year period of the Open Market Plan, rate reductions of $21 million will be implemented for Rochester area consumers, including $11.5 million of which occurred in 1995 and an additional $2.5 million which commenced in January 1996. Rate reductions of $1.5 million will occur in 1997. Rates charged for basic residential and business telephone service may not be increased during the seven year period of the Plan. The Company is allowed to raise prices on certain enhanced products such as caller ID and call forwarding. Price increases on enhanced products partially offset the rate reductions required under the Plan during 1996.

AT&T Communications of New York filed a complaint with the New York State Public Service Commission ("NYSPSC") for reconsideration of the Open Market Plan on October 3, 1995. The complaint sought a change in the wholesale discount, a change in the minutes of use surcharge and also changes in a number of operational and support activities. Some of these issues are also being considered in other states in other unrelated local competition proceedings. On July 18, 1996, the NYSPSC issued an order establishing a temporary wholesale discount of 13.5% for services and eliminating the minutes of use surcharge. On November 27, 1996, the NYSPSC set permanent wholesale discounts retroactive to July 24, 1996, of

17.0% for resellers that use the Company's operator services and 19.6% for resellers that provide their own operator services. The Company believes that, currently, all resellers in this market use the Company's operator services.

Under the Telecommunications Act of 1996 and a statewide proceeding, the NYSPSC is also considering the prices that local exchange companies in New York may charge for "unbundled" service elements such as links (the wire from the switch to the customers premises), ports (the portion of the switch that terminates the link) and switch usage features. The Company is actively participating in this proceeding and expects the NYSPSC to issue a decision on service elements in 1997.

Management believes there are significant market and business opportunities associated with the Company's Open Market Plan. However, there are also uncertainties associated with the Plan. In the Company's opinion, the most significant risks relate to increased competition in the Rochester, New York market, the risk inherent in the Rate Stabilization Plan and the potential diversification risk.

There can be no assurance that the changing regulatory environment will not have a negative impact on the Company.

Competition

The telecommunications industry has experienced a significant increase in competition in recent years. Factors such as technological advancement and a more fluid regulatory framework have made it easier for new entrants to commence operations. Frontier is intent on taking advantage of the various business opportunities which competition provides in the markets where it operates. The Company is addressing competition by focusing on improved customer satisfaction, developing and offering new products and services, providing integrated communications services and by reducing its cost base and becoming more efficient.

(a) Long Distance Communications Services. Competition in this line of business is based upon pricing, customer service, network and service quality and value-added services. The Company views the long distance industry as a three tiered industry which is dominated on a volume basis by the nation's four largest long distance providers: American Telephone and Telegraph Company ("AT&T"), MCI Telecommunications Corporation ("MCI"), Sprint Communications, Inc. ("Sprint") and Worldcom, Inc. ("Worldcom"). AT&T, MCI, Sprint and Worldcom generate more than 85% of the nation's domestic and international long distance revenue, which is in excess of $75 billion annually. Frontier is positioned at the top of the second tier with two other companies each with annual revenues believed to be more than $1 billion.

The third tier consists of more than 300 companies with annual revenues of less than $1 billion each, the majority below $50 million each. The Company targets small- and medium-sized commercial customers and seeks to provide a level of focus and attention to customer service that compares favorably with what its larger competitors offer to large commercial customers. Frontier is one of the few long distance companies with the ability to offer high quality integrated local and long distance services to small- and medium-size commercial customers on a nationwide basis. A number of the Company's competitors are primarily regional in nature, limited by the size of their transmission systems or dependent on other parties for their billing services and only offer basic long distance services.

The Company recognizes the need to grow to be able to compete effectively in the changing telecommunications industry and to avail itself of greater economies of scale and scope in its transport and local access facilities and in its back office operations. The Company's acquisitions have expanded it to a national scope enhancing the Company's ability to compete effectively. The Company's growth and investment in additional network facilities in 1995 and 1996 and the construction of a fiber optic network scheduled for completion in 1998 are also designed to provide for a competitive cost structure.

(b) Local Communications Services. The market for equipment connected to common carrier networks is now fully competitive. The Company faces many competitors in the provision of equipment and facilities used in connection with its local exchange networks. The market for the provision of local services itself is now competitive in Rochester, New York as a result of the Open Market Plan, and the Telecommunications Act of 1996 is likely to result in significantly greater competition in other markets. The Open Market Plan enables customers to choose their local telephone service company and will potentially provide them a broader selection of products, services and prices. The Open Market Plan gives the Company greater flexibility to broaden the scope and quality of its own competitive offerings. In the Rochester market, competitors who have entered the local exchange market include Time Warner Communications ("Time Warner"), MFS Telecom, Inc. ("MFS") and AT&T. MFS and Time Warner are alternative facilities based local exchange providers in Rochester. AT&T is remarketing local exchange service in the Rochester, New York marketplace as a reseller of RTC's services, as is Frontier's subsidiary, FCR. The Company believes that it holds more than 96% of the retail market share as of December 31, 1996, which is relatively consistent with the prior year. No significant ALECs are believed to be active in any of the Company's other telephone properties.

Long distance companies largely access their end user customers through interconnection with local telephone companies. These long distance

companies pay access fees to the local telephone companies for this service. The provision of access services in Rochester and elsewhere is considered to be competitive, and the Company has responded with price changes that meet the demands in its individual market areas.

Environmental and Other Matters

Except for site specific issues, environmental issues tend to impact members of the telecommunications industry in consistent ways. The Environmental Protection Agency ("EPA") and other agencies regulate a number of chemicals and other substances that may be present in facilities used in the provision of telecommunications service. These include preservatives in some wood poles, asbestos in certain underground duct systems and lead in some cable sheathing. Some components of the Company's network may include one or more of these substances. The Company believes that in their present uses, any such facilities of the Company pose no significant environmental or health risk derived from EPA regulated substances. If EPA regulation of any such substance is increased, or if any facilities are disturbed or modified in such a way as to require removal, special handling, storage and disposal may be required for any such facilities removed from use. At this time the Company is not subject to any environmental litigation that requires disclosure, except as set out in Item 3, Legal Proceedings.

Employees and Labor Relations

As of December 31, 1996, the Company had 7,900 employees, of which 2,701 were employees of Local Communications Services, 4,376 were employees of Long Distance Communications Services, and 823 were employees of other operations. At the Rochester, New York Operating Company, 689 clerical and service workers were represented by the Rochester Telephone Workers Association ("RTWA") and 619 craft and clerical employees were represented by the Communications Workers of America ("CWA"), Local 1170.

On January 31, 1996, the CWA Local 1170 contract expired. The contract negotiations are currently at an impasse and the Rochester company has implemented the terms of its final offer as of April 9, 1996. The Union filed unfair labor practice charges with the National Labor Relations Board ("NLRB"). In June, Frontier received a favorable determination after review within the Agency, rejecting all unfair labor practice claims that could have affected the declaration of impasse. The Union appealed these decisions within the NLRB. On December 2, 1996 the Office of the General Counsel of the NLRB in Washington, D.C. affirmed the dismissal of three of the four unfair labor practice charges. The fourth charge was returned to the

Regional Office in Buffalo, New York for an administrative hearing. This hearing is scheduled to commence in May 1997.

On December 11, 1996, the Company and the CWA National reached a tentative agreement on a new three year contract. However, on January 27, 1997, the membership of Local 1170 voted against the agreement. The CWA has recently requested that the parties return to the bargaining table. At the present time the terms and conditions of employment, as implemented on April 9, 1996, remain in place.

The International Brotherhood of Electrical Workers ("IBEW") currently represents 180 employees at three of the Company's New York communications subsidiaries. These subsidiaries are Frontier Communications of New York, Frontier Communications of Sylvan Lake and Frontier Communications of AuSable Valley. The contracts between employees of Frontier Communications of New York and Frontier Communications of Sylvan Lake and the IBEW expired February 13, 1997, and November 9, 1996, respectively. The employees of these respective companies are currently working under the terms of each expired contract. The contract between employees of Frontier Communications of AuSable Valley and the IBEW expires May 10, 1998.

The Company cannot predict the final outcome of these matters at this time and there can be no assurance that there will not be a material impact on the results of operations. There can be no assurance that as contracts with the Company's other labor unions expire, successful bargaining of new contract terms will occur.

Risk Factors

The Company is subject to several risk factors that should be considered by current shareowners and prospective investors. This Report on Form 10-K and the documents incorporated by reference include forward-looking statements as described under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those identified in forward looking statements. Forward looking statements are identified by such words as "expects", "anticipates", "believes", "intends", "plans" and variations of such words and similar expressions.

Changes in Rates of Growth of the Economy and the Overall Industry

To some extent, the Company's revenue and earnings per share growth are related to the overall economy and to the telecommunications industry in general. Factors that may influence the Company's performance within the telecommunications industry include product pricing and development, integration of services, the effects of competition and the expansion of the

business. The performance of the economy and the telecommunications industry could cause the Company's actual results to vary significantly.

Competition Risk

Technological innovation and regulatory changes are accelerating the pace of competition for telecommunications services. As a result, the Company faces intensified competition in all aspects of providing telecommunications services.

There are significant uncertainties surrounding the introduction of new products and services and the capital expenditures that will be required by the Company to remain in a competitive position. In addition, there are uncertainties surrounding the impact on competition as a result of the enactment of the Telecommunications Act of 1996.

Acquisition Integration

The primary growth strategy of the Company over the last few years has been through its long distance acquisition program and internal growth. This growth strategy involves certain operational and financial risks. The operational risks include the possibility that implementation of an acquisition does not provide the economies of scale or synergies anticipated by management. Successful integration and expansion of the Company's network as a result of the acquisitions is dependent on management's ability to anticipate market growth, install facilities, consolidate databases, obtain rights of way and negotiate leases economically and efficiently. The integration of a growing employee base and the elimination of redundant operations and facilities has required and will continue to require significant management resources. Although management's plans are to minimize the risks associated with acquisitions, there can be no assurance that acquired businesses will be assimilated effectively into the Company.

Contingent Liabilities

The Company and a number of its subsidiaries are continuously involved in various judicial and administrative proceedings involving matters incidental to the business. Unless otherwise stated specifically, the Company believes that the probable outcome of any of these matters, or the combination of all of the matters, will not have a material adverse effect on the Company's consolidated results of operations or financial statements. However, there can be no assurance that the resolution of these matters will not be contrary to management's expectations.

ITEM 2. PROPERTIES

The Company's Long Distance Communications Services segment owns property which includes: fiber optic and copper cable, switching equipment, microwave equipment, real estate and miscellaneous office and work equipment. The Company's long distance segment also leases facilities or transmission capacity from other carriers.

The Company's Local Communications Services segment owns telephone properties in their respective operating territories which include: connecting lines between customers' premises and the central offices; central office switching equipment; buildings, land and miscellaneous property and customer premise equipment. The central office switching equipment includes digital switches and peripheral equipment. The connecting lines include aerial and underground cable, conduit, poles, wires and microwave equipment. These facilities are located on public streets and highways or on privately owned land. The Company has permission to use these lands pursuant to local governmental consent or lease, permit, easement or other agreement.

The Company owns or leases the land and buildings in which its central offices, warehouse space, office and traffic headquarters are located. Frontier Corporation's headquarters are located in a leased seven story building at 180 South Clinton Avenue, Rochester, New York. The lease expires in 2003 and is renewable for two successive ten year periods.

ITEM 3. LEGAL PROCEEDINGS

On June 11, 1992, a group of corporate plaintiffs consisting of Cooper Industries, Inc.; Keystone Consolidated Industries, Inc.; The Monarch Machine Tool Company; Niagara Mohawk Corporation and Overhead Door Corporation commenced an action in the United States District Court for the Northern District of New York seeking contribution from fifteen corporate defendants, including Rotelcom Inc., a wholly-owned subsidiary of the registrant held through intervening subsidiaries (now named Frontier Network Systems, Inc. or FNS). The plaintiffs seek environmental "response costs" in the approximate amount of $1.5 million incurred by the plaintiffs pursuant to a consent decree entered into by plaintiffs with the United States Environmental Protection Agency (the "EPA"). Two additional defendants were named in 1994. In addition to FNS, the current defendants are: Agway, Inc.; BMC Industries, Inc.; Borg-Warner Corporation; Elf Atochem North America, Inc.; Mack Trucks, Inc.; Motor Transportation Services, Inc.; Pall Trinity Micro Corporation; The Raymond Corporation; Redding-Hunter, Inc.; Smith Corona Corporation; Sola Basic Industries, Inc.; Wilson Sporting Goods Company; Phillip A. Rosen; Harvey M. Rosen; City of Cortland and New York State Electric & Gas Corporation.

The consent decree concerned the clean-up of an environmental Superfund site located in Cortland, New York. It is alleged that the corporate defendants disposed of hazardous substances at the site and are therefore liable under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"). The Company is anticipating that a final Record of Decision ("ROD") will be issued by the EPA and will prescribe the remediation requirements for the site. The aggregate amount of remediation costs to be incurred by the plaintiffs will be based on the requirements of the ROD. The total cost of remediation at the site is uncertain, although estimates have ranged from $25 million to $100 million. There has been no allocation of liability as among or between the plaintiffs or defendants. The extent to which plaintiffs can recover any of these costs from the defendants, including FNS, will be determined at trial. The litigation has been delayed by the bankruptcy filing of one of the defendants. FNS has been vigorously defending this lawsuit. The Company believes that it will ultimately be successful, but it is unable to predict the outcome with any certainty at this time.

Since February 1994, hundreds of plaintiffs, all of who are former ASI shareholders, have filed and amended several and various complaints in Hennepin County (Minnesota) District Court. Included among the defendants are ASI, its former principal shareowners, Steven Simon and James Weinert, and Frontier. These suits allege generally that Simon and Weinert, with and through ASI, embarked upon a scheme to gain control of ASI and acquire all of its stock through common law fraud, breach of fiduciary duty and certain violations of the Minnesota Business Corporation Act. This Act requires shareowners in a closely held corporation to act fairly toward one another and refrain from misappropriation. Another action by a few former ASI shareholders who dissented from the cashout merger that finally took ASI private is pending in federal court in Minnesota. The federal lawsuit asserts RICO claims in addition to state common law and statutory violations. The claims against Frontier maintain that Frontier controls the disposition of the restricted Frontier stock which was issued to Simon and Weinert in connection with the acquisition of ASI and that such stock should be held in trust for the benefit of the plaintiffs. Recently, the owners of over half of the stock who have made claims have entered into a settlement in principle with Simon and Weinert. That settlement is now being submitted to the individual plaintiffs for their review and acceptance. Closure of the agreement is expected in 1997. If the settlements are accepted, the lawsuits of these plaintiffs shall be dismissed.

Although it is too early to determine the outcome of the suits that have not settled, Frontier, ASI and the other defendants each are contesting the claims. To date, no other settlements have been reached. In connection with the acquisition of ASI by Frontier, Simon and Weinert agreed to indemnify the Company for these claims.

On April 10 and 11, 1995, three lawsuits were commenced against ALC Communications Corporation ("ALC") as a result of its announced merger with the Company. In two of those actions, each filed in the Court of Chancery of the State of Delaware, in and for New Castle County by Martin Mayers and Mordecai Cohen, respectively, Frontier was named as a defendant, although it has not yet been served with process. The lawsuits purport to be class actions brought on behalf of all ALC stockholders against ALC and its directors. Among other things, the complaints sought to enjoin the business combination and/or to obtain an award of damages. On June 9, 1995, the Delaware Court entered an order consolidating the three cases for all purposes. Under the terms of that order, Mayers v. Irwin, et al., C.A. No. 14196 is designated as the consolidated complaint and the defendants are required to respond to the consolidated complaint. On July 10, 1995, ALC and its directors answered the consolidated complaint. On February 28 1997, the parties stipulated to a dismissal of these actions without prejudice and the Court entered an order formally dismissing all charges against Frontier, ALC and the ALC directors.

The Regulatory Matters discussion in management's discussion of business in Part 1, Item 1, is incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SECURITY MATTERS

The Company's Common Stock is traded on the New York Stock Exchange (Symbol - FRO). A stock split in the form of a 100 per cent stock dividend was effected during 1994. The information in the table below is adjusted to reflect the effects of that stock split. The historical information has been restated accordingly for the pooling acquisitions of ALC and ASI. The specific information required by this item is as follows:

		1996		1995		1994	
	Quarter	High	Low	High	Low	High	Low
Highest and lowest market prices for the stock by quarter:	1st	$33.25	$28.25	$23.38	$19.25	$22.44	$20.25
	2nd	33.38	27.75	24.13	19.63	25.25	20.81
	3rd	31.25	25.88	28.63	23.75	24.75	21.63
	4th	31.88	19.88	30.00	25.50	24.63	20.50
Common stock dividends declared per share:	1st	$.2125		$.2075		$.2025	
	2nd	$.2125		.2075		.2025	
	3rd	$.2125		.2075		.2025	
	4th	$.2175		.2125		.2075	
Total Dividends per Year		**$.8550**		**$.8350**		**$ .8150**	
Number of Shareowners (at December 31)							
Individuals		29,697		26,184		24,128	
Brokers, nominees and institutions		509		453		480	
Total Shareowners		**30,206**		**26,637**		**24,608**	

On March 14, 1997, the closing price for the Company's stock was $21.50 per share as published in the *Wall Street Journal*.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item should be read in conjunction with the consolidated financial statements and related notes included in Item 14 contained herein, and is as follows (in thousands, except per share data):

	1996	1995	1994	1993	1992
Net Revenues	$2,575,569	$2,143,691	$1,667,545	$1,437,448	$1,252,244
Income from Continuing Operations (before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles)	$ 217,944	$ 144,768	$ 187,254	$ 128,644	$ 107,025
Consolidated Net Income	$ 209,926	$ 22,083	$ 180,057	$ 121,154	$ 105,953
Earnings per Common Share:					
Income before Extraordinary Items and Cumulative Effect of Changes in Accounting Principle	$ 1.32	$ .89	$ 1.16	$ .83	$ .75
Extraordinary Items	---	$ (.75)	---	$ (.05)	$ (.01)
Cumulative Effect of Changes in Accounting Principles	$ (.05)	$ (.01)	$ (.04)	---	---
Earnings per Common Share-Primary	$ 1.27	$ .13	$ 1.12	$ .78	$ .74
Earnings per Common Share-Fully Diluted	$ 1.27	$ .13	$ 1.12	$ .78	$ .74
Cash Dividends Declared per Common Share	$0.855	$0.835	$0.815	$0.795	$0.775
Total Assets	$2,221,520	$2,108,592	$2,060,794	$1,721,545	$1,679,743
Long-Term Debt	$ 675,043	$ 618,867	$ 661,549	$ 581,707	$ 604,157

ITEM 7. MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITION

The information required by this item is presented in pages 14 through 20 of the Company's 1996 Annual Report to Shareowners which is Exhibit 13 to this Form 10-K, and is incorporated by reference into this Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of Price Waterhouse LLP, dated January 27, 1997, is presented on pages 21 through 37 of the Company's 1996 Annual Report to Shareowners, which is Exhibit 13 to this Form 10-K and is incorporated by reference into this Item 8.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

The information required by this item for the Directors of Frontier Corporation is presented on pages 3 through 5 of the definitive proxy statement provided to shareowners on or about March 24, 1997 in connection with the Annual Meeting of Shareowners to be held May 2, 1997, which is Exhibit 99 to this Form 10-K and is incorporated by reference into this Item 10. Exhibit 99 consists of the Notice of Annual Meeting and the Company's Proxy Statement for the May 2, 1997 Annual Meeting of Shareowners.

Executive Officers

Certain information is set forth below regarding the Executive Officers of the Company as of March 14, 1997. Each Officer serves for a period of one year or until a successor is elected.

Name (Age)	Position and Offices Held	Other Positions Held During the Past Five Years
Robert L. Barrett (55)	Executive Vice President and President of Network Systems & Services since March 1996	From May 1995 to March 1996 he was Executive Vice President and Chief Technology Officer of Banc One Corporation[1]. From May 1991 to May 1995 he was President and Chief Operating Officer of Banc One Services Corporation[1].
Kevin J. Bennis (43)	Executive Vice President and President of Frontier Communications since March 1996	From December 1994 to March 1996 he was President and Chief Executive Officer of the Integrated Client Services Division of MCI[2]. From February 1994 to December 1994 he was President and Chief Operating Officer of MCI/BANAMEX[2]. From July 1992 to February 1994 he was Senior Vice President of Business Marketing of MCI. From July 1988 to July 1992 he was Vice President of Sales-Northeast Division of MCI.
Ronald L. Bittner (55)	Chairman, President and Chief Executive Officer since November 1995 and for the period April 1993 to August 1995	From August 1995 to November 1995 he was Chairman and Chief Executive Officer. From February 1992 to April 1993, he was President and Chief Executive Officer.

Jeremiah T. Carr (54)	Executive Vice President since January 1997 and Chairman - Rochester Telephone Corp.	From May 1995 to January 1997 he was Senior Vice President. From January 1995 to May 1995 he was President and Chief Executive Officer of Rochester Telephone Corp., and President Telephone Group. From November 1993 to December 1994 he was Corporate Vice President and President - Telephone Group. From February 1992 to November 1993 he was Corporate Vice President and President Telephone Operations.
Joseph Enis (52)	Treasurer since January 1995	From June 1994 to December 1994 he was Director of Finance. From 1992 to June 1994 he was Treasurer of National Service Industries[3] From 1984 to 1992 he was Treasurer of Cyclops Industries[4]
Dale M. Gregory (48)	Senior Vice President since May 1995 in charge of the Network & Operations Area from June 1995 to October 1996 and the Corporate Development Group since October 1996.	From January 1995 to May 1995 he was President - Frontier Communications Group. From November 1993 to December 1994 he was Corporete Vice President and and the President - Telecommunications Group. From February 1993 to November 1993 he was Corporate Vice President and President-Network Systems and Services. From February 1992 to February 1993 he was Corporate Vice President and President-Telecommunications Services.
Louis L. Massaro (50)	Executive Vice President, Chief Administrative Officer and Chief Financial Officer since May 1996	From August 1995 to May 1996 he was Executive Vice President and Chief Administrative Officer. From December 1994 to August 1995 he was Corporate Vice President. From February 1993 to December 1994, he was Corporate Vice President and Treasurer. From September 1991 to February 1993 he was Corporate Vice President and President-Rochester Operations.
Richard A. Smith (46)	Controller since April 1995	From June 1994 to March 1995 he was President - Frontier Information Technologies, Inc. From February 1993 to June 1994 he was Senior Vice President - Midwest Region of Frontier's Telephone Group. From 1990 to February 1993 he was Vice President - Midwest Telephone

		Operations of Frontier's Telephone Group.
Josephine S. Trubek (54)	Corporate Secretary since April 1993	From January 1990 to April 1993 she was General Counsel and Secretary.

[1] Banc One is one of the 10 largest bank holding companies in the U.S. Banc One Services Corporation is a subsidiary of Banc One.

[2] MCI is the 2nd largest provider of long distance services in the United States. MCI/BANAMEX is an MCI joint venture in Mexico.

[3] National Service Industries is a public company with businesses in lighting, textile rentals and specialty chemicals.

[4] Cyclops Industries is a public manufacturer of specialty steels and curtainwall systems.

PART III

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is presented on page 2 of the Company's Proxy Statement (which was provided to shareowners on or about March 24, 1997 in connection with the Annual Meeting of Shareowners to be held on May 2, 1997) under the caption "Compensation of Directors" and on pages 6 through 13 under the captions "Report of Committee on Management", "Performance Graph", "Compensation of Company Management", and "Compensation Committee Interlocks and Insider Participation in Compensation Decisions", and is incorporated by reference into this Item 11. The Company's Proxy Statement is found at Exhibit 99 to this Form 10-K. Exhibit 99 consists of the Notice of Annual Meeting and the Company's Proxy Statement for the May 2, 1997 Annual Meeting of Shareowners.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is presented in the "Management and Directors Stock Ownership Table as of February 1, 1997" and the "Stock Ownership of Certain Beneficial Owners Table as of February 1, 1997" under the caption "Stock Ownership of Management, Directors and Certain Beneficial Owners" on pages 4 through 5 of the definitive Proxy Statement for the Annual Meeting of Shareowners to be held May 2, 1997, and is incorporated by reference into this Item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is presented under the sub-caption "Employment Contracts" on page 13 of the Definitive Proxy Statement for the Annual Meeting of Shareowners to be held May 2, 1997 and is incorporated by reference into this Item 13.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) 1. Index to Financial Statements

	Page*
Report of Management	21
Report of Audit Committee	21
Report of Independent Accountants	21
Business Segment Information	22
Consolidated Statements of Income	23
Consolidated Balance Sheets	24
Consolidated Statements of Cash Flows	25
Consolidated Statements of Shareowners' Equity	26
Notes to Consolidated Financial Statements	27-37
Report of Ernst & Young LLP	38**

*Pages 21 through 37 are incorporated by reference from the indicated pages of the 1996 Annual Report to Shareowners.

**Set forth herein.

2. Financial Statement Schedule for the years ended December 31, 1996, 1995 and 1994:

Report of Independent Accountants on Financial Statement Schedule

Report of Ernst & Young LLP on Financial Statement Schedule

Valuation and Qualifying Accounts and Reserves - Schedule II

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. See Exhibit Index for list of exhibits filed with this report.

The Registrant hereby agrees to furnish the Commission a copy of each of the Indentures or other instruments defining the rights of security holders of the long-term debt securities of the Registrant and any of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.

(b) Reports on Form 8-K

The Company filed the following three reports during the quarter ended December 31, 1996:

SEC Filing Date	Item No.	Financial Statements
October 22, 1996	5	None
November 19, 1996	5	None
December 17, 1996	5	None

The Company filed the following report subsequent to the quarter ended December 31, 1996 through March 27, 1997:

March 27, 1997	5	None

(c) Refer to Item 14 (a) (3) above for Exhibits required by Item 601 of Regulation S-K.

(d) Schedules other than set forth in response to Item 14 (a) (2) above for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors and
Shareowners of
Frontier Corporation

Our audits of the consolidated financial statements referred to in our report dated January 27, 1997 appearing on page 21 of the 1996 Annual Report to Shareowners of Frontier Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a)(2) of this Form 10-K. We did not audit the Financial Statement Schedule of ALC Communications Corporation, a wholly owned subsidiary, which statement reflects valuation and qualifying accounts and reserves of $40,078,000 and $32,692,000 at December 31, 1995 and 1994, respectively. That Financial Statement Schedule was audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for ALC Communications Corporation, is based solely on the report of the other auditors. In our opinion, based on our audits and the report of other auditors, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Price Waterhouse LLP
PRICE WATERHOUSE LLP

Rochester, New York
January 27, 1997

ERNST & YOUNG LLP

Suite 1700
500 Woodward Avenue
Detroit, Michigan 48226-3426

Phone 313 596 7100

Report of Independent Auditors

Board of Directors
ALC Communications Corporation

We have audited the financial statements of ALC Communications Corporation (ALC) as of December 31, 1995 and 1994 and for the years then ended, and have issued our report thereon dated January 17, 1996. Our audits also included Schedule II of ALC (not presented separately herein) which is included in the related schedule of Frontier Corporation in its Annual Report on Form 10-K for the year ended December 31, 1995. This financial statement schedule is the responsibility of ALC management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule of ALC referred to above, when considered in relation to the ALC basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Ernst + Young LLP

Detroit, Michigan
January 17, 1996

Ernst & Young LLP is a member of Ernst & Young International, Ltd.

FRONTIER CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE YEAR ENDED DECEMBER 31, 1996

(Table 1 of 3)

In thousands of dollars

Description	Balance at beginning of year	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of year
Reserve for uncollectible accounts	$28,515	$74,452	$5,183 (1)	$77,239 (2)	$30,911
Deferred tax asset valuation allowance	$23,887	$0	$0	$4,426	$19,461
Acquisition related reserves	$83,149	$0	$0	$42,353	$40,796 (3)

(1) Primarily recoveries of uncollectible accounts.

(2) Uncollectible accounts written off.

(3) Included primarily in "Property, plant, and equipment" in the Consolidated Balance Sheets.

FRONTIER CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE YEAR ENDED DECEMBER 31, 1995

(Table 2 of 3)

In t ousands of dollars

Description	Balance at beginning of year	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of year
Reserve for uncollectible accounts	$11,407	$36,655	$24,986 [1]	$44,533 [2]	$28,515
Deferred tax asset valuation allowance	$28,500	$0	$7,950 [3]	$12,563	$23,887
Acquisition related reserves	$0	$114,239	$0	$31,090	$83,149 [4]

[1] Primarily recoveries of uncollectible accounts and balances added through acquisitions.

[2] Uncollectible accounts written off.

[3] Balances added through acquisitions.

[4] Included primarily in "Other liabilities" and "Property, plant and equipment" in the Consolidated Balance Sheets.

FRONTIER CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES FOR THE YEAR ENDED DECEMBER 31, 1994

(Table 3 of 3)

In thousands of dollars

Description	Balance at beginning of year	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of year
Reserve for uncollectible accounts	$9,832	$29,526	$11,084 [1]	$39,035 [2]	$11,407
Deferred tax asset valuation allowance	$34,900	$0	$0	$6,400	$28,500

[1] Primarily recoveries of uncollectible accounts.

[2] Uncollectible accounts written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 CORPORATION
(Registrant)

By: /s/Ronald L. Bittner
Ronald L. Bittner
Chairman, President and
Chief Executive Officer

Date: March 21, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:/s/Ronald L. Bittner
Ronald L. Bittner
Chairman, President and
Chief Executive Officer and
Director

Date: March 21, 1997

By:/s/Louis L. Massaro
Louis L. Massaro
Executive Vice President,
Chief Financial Officer and Chief
Administrative Officer
(principal financial officer)

March 21, 1997

By:/s/Richard A. Smith
Richard A. Smith
Controller
(principal accounting officer)

Date: March 21, 1997

*
Patricia C. Barron
Date: March 21, 1997

*
Raul E. Cesan
March 21, 1997

*
Brenda E. Edgerton
Date: March 21, 1997

*
Jairo A. Estrada
March 21, 1997

*
Michael E. Faherty
Date: March 21, 1997

*
Daniel E. Gill
March 21, 1997

*
Alan C. Hasselwander
Date: March 21, 1997

*
Robert J. Holland, Jr.
March 21, 1997

*
Douglas H. McCorkindale
Date: March 21, 1997

*
Leo J. Thomas
March 21, 1997

*
Richard J. Uhl
Date: March 21, 1997

*By:/s/ Josephine S. Trubek
Josephine S. Trubek
Attorney-in-Fact

Manually signed powers of attorney for each Director are attached hereto and filed herewith pursuant to Regulation S-K Item 601(b)24 as Exhibit 24.

FRONTIER CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Reference
3.1	Restated Certificate of Incorporation dated January 24, 1995	Incorporated by reference to Exhibit 3-1 to Form 10-K for the year ended December 31, 1995
3.2	Amendment to Restated Certificate of Incorporation dated April 9, 1995	Incorporated by reference to Exhibit 3-2 to Form 10-K for the year ended December 31, 1995
3.3	By-Laws	Filed herewith
4.1	Copy of Indenture between the Company and Manufacturers Hanover Trust Company, Trustee, dated September 1, 1986	Incorporated by reference to Exhibit 4-12 to Form 10-K for the year ended December 31, 1986
4.2	Copy of First Supplemental Indenture to said Indenture, made by the Company to Manufacturers Hanover Trust Company, Trustee, dated December 1, 1989	Incorporated by reference to Exhibit 4(b) to Registration Statement 33-32035
4.3	Copy of 10.46% Non Negotiable Convertible Debenture due October 27, 2008 from the Company to The Walters Trust	Incorporated by reference to Exhibit 4-14 to Form 10-K for the year ended December 31, 1988
4.4	Copy of 9% Debenture due August 15, 2021	Incorporated by reference to Exhibit 4-16 to Form 10-K for the year ended December 31, 1991
4.5	Copy of Indenture between the Company and Chase Manhattan Bank, N.A. dated August 9, 1995	Incorporated by reference to Exhibit 4-5 to Form 10-K for the year ended December 31, 1995

FRONTIER CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Reference
10.1	Copy of Joint Venture Agreement dated March 9, 1993 by and between Rochester Tel Cellular Holding Corporation and New York Cellular Geographic Service Area, Inc. together with Exhibit A thereto	Incorporated by reference to Exhibit 10-13 to Form 10-K for the year ended December 31, 1992
10.2	Copy of the Plan for the Deferral of Directors Fees	Incorporated by reference to Exhibit 10-34 to Form 10-K for the year ended December 31, 1994
10.3	Copy of the Directors' Common Stock Deferred Growth Plan	Incorporated by reference to Exhibit 10-36 to Form 10-K for the year ended December 31, 1994
10.4	Copy of the Restated Management Pension Plan	Incorporated by reference to Exhibit 10-20 to Form 10-K for the year ended December 31, 1995
10.5	Copy of Executive Bonus Plan	Filed herewith
10.6	Copy of the Management Stock Incentive Plan dated April 26, 1995	Incorporated by reference to Exhibit 10-23 to Form 10-K for the year ended December 31, 1995
10.7	Form of management contracts as amended with each of Messrs. Bittner, Massaro, Carr and Gregory	Filed herewith
10.8	Executive contract with supporting offer letter for Mr. Barrett	Incorporated by reference to Exhibit 10-25 to Form 10-Q for the quarter ended March 31, 1996

FRONTIER CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Reference
10.9	Executive contract with supporting offer letter and note for Mr. Bennis	Incorporated by reference to Exhibit 10-26 to Form 10-Q for the quarter ended March 31, 1996
10.10	Restated Directors Stock Incentive Plan dated April 24, 1996	Incorporated by reference to Exhibit 10-27 to Form 10-Q for the quarter ended March 31, 1996
10.11	IRU Agreement between Qwest Communications Corp. and Frontier Communications International, Inc. dated October 18, 1996.(CONFIDENTIAL TREATMENT REQUESTED FOR CERTAIN PORTIONS OF THIS EXHIBIT)	Filed herewith
10.12	Copy of the Restated Supplemental Management Pension Plan	Filed herewith
10.13	Copy of the Restated Supplemental Retirement Savings Plan	Filed herewith
10.14	Employee Stock Option Plan	Incorporated by reference to Exhibit 10-28 to Form 10-Q for the quarter ended March 31, 1996
11	Computation of Fully Diluted Earnings Per Share	Filed herewith
13.1	Specified portions (pages 14 through 37) of the Company's Annual Report to shareholders for the year ended December 31, 1996	Filed herewith

FRONTIER CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Reference
13.2	Report of Ernst & Young LLP	Filed herewith
21	Subsidiaries of Frontier Corporation	Filed herewith
23.1	Consent of Independent Accountants - Price Waterhouse LLP	Filed herewith
23.2	Consent of Independent Accountants - Ernst & Young LLP	Filed herewith
24	Power of Attorney for a majority of Directors naming Josephine S. Trubek attorney-in-fact	Filed herewith
27	Financial Data Schedule	Filed herewith
99	Proxy Statement for the Annual Meeting of Shareowners to be held May 2, 1997	Filed herewith

Frontier Local Services Inc.

EXHIBIT III

EXECUTIVE BIOGRAPHIES

JOSEPH P. CLAYTON
Chief Operating Officer

Joseph P. Clayton is President and Chief Operating Officer of Frontier Corporation. In this position, he is responsible for the day-to-day operation of this $2.5 billion telecommunications company. In addition, Mr. Clayton works with Frontier's executive management team on the company's vision and strategic direction and serves on Frontier's Board of Directors.

Prior to this position, Mr. Clayton served as Executive V.P. of Marketing and Sales for the Americas and Asia for Thomson Consumer Electronics, the largest electronics company in the United States. During his tenure, Mr. Clayton was responsible for product development, sales and distribution of Thomson's RCA, ProScan and GE brands of consumer electronics products.

With a background of more than 24 years of experience in the consumer electronics industry, Mr. Clayton has served in numerous management positions for RCA, GE and Thomson including Senior Vice President of television division, Vice President of video product management and General Manager of Merchandising and Market Development.

Mr. Clayton holds a master's degree in Marketing and Management from Indiana University in Bloomington, and is a Magna Cum Laude graduate with a bachelor's degree in Business Administration and Economics from Bellarmine College in Louisville, Kentucky. He is on the Board of Directors for the Indianapolis Chamber of Commerce, the Dean's Advisory Board for Indiana University School of Business, is former chairman of the Consumer Electronics Group for the Electronics Industries Association, and is a trustee of Bellarmine College.

JEREMIAH T. CARR
President
Frontier Operations

Jerry Carr manages Frontier Corporation's combined local and long distance operations which includes 34 local exchange companies, a growing C-LEC or competitive local service operation and the fifth largest long distance operations in the country. He also oversees the Company's audio and video conferencing, customer service, provisioning, billing, call centers and international operations.

Carr was given responsibility for the sale and provisioning of integrated communications solutions to the Frontier Telephone Group in May 1995, leading the management of 34 telephone companies in 13 states. He has been the senior executive for the Company's telephone operations since 1992.

Carr was president of Frontier Network Systems, Inc. from January 1991 to February 1992. In this capacity, he reconfigured the organization and increased the focus on the mid-to-large customer markets. Before that, he was general manager of the New York State Region for Telecommunications Services, where he was responsible for the operation of Frontier Communications International Inc., Frontier Network Systems, Inc., and Anixter-Rotelcom. He oversaw the creation of Frontier Cellular in 1985 and served as its president in 1989.

Carr joined Rochester Telephone in 1969. In the 1970's, a period of revolutionary change for the company, Carr chaired the development of programs that paved the way for customer ownership-sale-in-place, bill unbundling, and inside wire sales -- and created new revenue opportunities for the company.

Carr holds a bachelor's degree from St. Bonaventure University and a master's degree in business administration from the William E. Simon Graduate School at the University of Rochester. He serves on the Board of the American Red Cross, the Rochester Visitor's Association, the United Way of Greater Rochester, and Geva Theater. Carr also served as the 1996 United Way area chairman and received the Catholic Family Center 1997 "Man of the Year" award.

ROBERT L. BARRETT
Executive Vice President
Frontier Network Systems and Services

Robert Barrett joined Frontier in 1996 as President of Frontier Network Systems and Services, with responsibility for all network operations, information technology and engineering. In addition, he directs the development of a company-wide full service platform, combining network, customer service and billing on one integrated system. Mr. Barrett is also responsible for two wholly owned subsidiaries: Confer Tech International, the audio and video teleconferencing group and LinkUSA, the principal provider of calling card and prepaid technology to Frontier.

Most recently, Mr. Barrett was Executive Vice President and Chief Technology Officer at Columbus, Ohio-based Banc One Corporation, one of the 10 largest bank holding companies in the U.S. His career at Banc One also included serving as President of Banc One Services Corporation, the technology subsidiary comprised of information systems, bank operations and conversions, client services, administrative services, financial card services and advanced technology.

Before moving to Banc One, Mr. Barrett was Senior Vice President of Allnet Communications Services. In this position, he was in charge of operations, billing, customer service, sales support, engineering and technology and was instrumental in the development of the Allnet billing platform, recognized as one of the most flexible in the telecommunications industry. Before joining Allnet, Mr. Barrett was chairman and CEO for the information technologies and telecommunications subsidiaries of Clark Equipment Company. Prior to joining Clark, he worked in the information systems area of General Motors Corporation.

Mr. Barrett holds a bachelor's degree from Michigan State University.

JOSEPH ENIS
Treasurer

Joe Enis was elected treasurer of Frontier Corporation in December 1994. In this position, he is responsible for commercial banking relationships, capital structure planning, risk management, cash management, pension fund management, taxes and long distance credit and collections.

Mr. Enis joined Frontier in June 1994 as director of finance with eighteen years of broad financial experience in multi-industry environments. Most recently he was treasurer for National Service Industries in Atlanta, Georgia, a lighting, textile rental and specialty chemicals company. Prior to that he held the treasurer position at Cyclops Industries in Pittsburgh, Pennsylvania, a manufacturer of specialty steels and curtainwall systems. He has also held financials positions at Bid Bud Tractors in Havre, Montana and at J. I. Case Company in Racine, Wisconsin.

Mr. Enis is a summa cum laude graduate of the University of Wisconsin with both an M.B.A. and a B.B.A. degree in finance. He is currently a member of the Financial Executives Institute, the National Association of Corporate Treasurers, and the Association for Corporate Growth. Mr. Enis serves on the board of directors of the Rochester Rehabilitation Center and on the board of trustees of the Seneca Zoo Society.

JAMES G. DOLE
Vice President and Controller

Jim Dole is vice president and controller for Frontier Corporation. In this position, he manages financial statements, budgets, product line, P&L's, credit and collections, and financial accountability for all operations.

Previous, Dole was vice president of long distance business development for Frontier. In this position, he provided financial oversight of the long distance business segment and directed responsibility for sales administration and international business development. In 1992, Dole became vice president of corporate development and directed Frontier's acquisition and development program. During his tenure, Frontier positioned itself as the 5th largest long distance provider through a series of long distance and enhanced services acquisitions in 1995. Dole was also involved in the corporate strategic planning process from 1994 - 1996.

Dole joined the company in 1986 as part of the telecommunications services business planning group, and became manager in 1988. In 1990, he was named financial and human resources director for the group overseeing accounting, business planning, human resources and corporate training and development. In 1991, he was named vice president of financial and human resources for telecommunications services. A year later he was named corporate business development director, responsible for coordinating business planning activities company-wide, including acquisition activities in regulated and non-regulated areas. Prior to joining Frontier, Dole worked in Marine Midland Bank's commercial banking sector.

Dole earned a bachelors of science in finance and economics from the State University of New York at Albany and a master's degree in business administration from the William E. Simon Graduate School at the University of Rochester.

Frontier Local Services Inc.

EXHIBIT IV

TECHNICAL CAPABILITY

Frontier Local Services Inc.
TECHNICAL CAPABILITY

Frontier Local Services Inc. is a wholly owned subsidiary of Frontier Corporation. Frontier Corporation (formerly known as Rochester Telephone) provides quality telecommunications services to over two million customers throughout the country. The company has a proven track record for providing high quality services and responsive customer service. Frontier Local Services Inc. (FLSI) possesses all the necessary capabilities to operate as a provider of resold services and unbundled elements.

The company intends to provide local exchange service in Florida as a reseller of unbundled local loops. At some future time, Frontier Local Services Inc. may deploy network where economies of scale make the investment practical. For unbundled local loops, the company will use only reputable underlying carriers to ensure that high quality service is provided to customers. FLSI has an extensive knowledge of how the capabilities of an ILEC can be used by a CLEC and will be able to take full advantage of the resources, expertise and technical capabilities of its underlying carriers, the incumbent local exchange carriers.

The profiles of key personnel provided in Exhibit III of this application provide further evidence of the company's technical capability to provide local services.

To Our Shareowners:

Over the past few years the telecommunications industry encountered so many significant changes and monumental events that we are all accustomed to doing business at a frantic pace. Nineteen ninety-six brought the most sweeping changes and formidable challenges our industry has ever seen, including historic legislation, massive mergers and heightened intensity in the battle for customers.

At the same time, Frontier has experienced—and created—its own unprecedented growth and change. Over the past two years we transformed the company by changing our name, doubling in size, diversifying our business mix and broadening the range of customers we serve. In the midst of all this change and activity, we set our sights on some extraordinary goals and pursued them aggressively. In many ways, Frontier is breaking new ground in a crowded and competitive industry. The next few pages are filled with examples and testimonies of our experiences and successes.

Frontier's repositioning has not come without its growing pains. While revenues for the past year grew at a rate of 20 percent, we planned to grow even faster. Results for 1996 were disappointing but we believe our strategy is sound and will ultimately create significant shareowner value. Skillful execution of strategy is a prerequisite for success in this competitive business. We are confident that we are pursuing the right direction and that the groundwork we laid in 1996 will enable us to reinvigorate our long-standing track record of exceptional financial performance and accelerate our growth opportunities in 1997 and beyond.

We registered a number of significant accomplishments in 1996 that solidified the foundation for our continued growth:

- *We made significant progress in the consolidation of network assets and customer bases of six recently acquired long distance companies.*
- *We began construction of a nationwide state-of-the-art fiber optic network that will dramatically reduce our cost structure and provide the highest-quality service to our customers.*
- *We reorganized our sales force around geographic markets nationwide to ensure that our customers continue to receive the personal service they have come to expect from Frontier.*
- *We launched our first facilities-based Alternative Local Exchange (A-LEC) operation in New York City. In this market we now offer competitive local service combined with a complete range of long distance and wireless products, through a single contact point and billed on a single invoice.*
- *We began an aggressive move into the prepaid calling card market leveraging our own network service capabilities and forming several strategic partnerships that are anticipated to generate significant revenue opportunities in 1997 and beyond.*
- *We reported consolidated earnings from operations of $247.1 million or $1.50 per share, an increase of 13 percent from the $218.7 million or $1.35 per share reported in 1995.*

Change is not new to Frontier; we plan for it, embrace it, and take advantage of the opportunities it creates. We successfully anticipated most of the changes which shaped our industry over the past few years in the areas of regulation, competition and technology, and we carefully planned and implemented a strategy to reposition the company.

Our customers and shareowners benefit from our success in packaging excellent customer service with competitive rates. Two years ago, we led the nation and the industry in opening the Rochester, New York, market to full competition for local service. We retain more than 96 percent of the retail market in Rochester and offer an attractive wholesale distribution strategy for resellers. Frontier was at the forefront of recognizing that open competition provides clear financial benefits and focuses employees on continuously creating competitive advantages in the marketplace.

In 1996, the rest of the industry was drawn to a similar conclusion when, after nearly 20 years of debate, Congress passed the Telecommunications Act. This Act—which incorporates many of the ideas generated in Frontier's revolutionary Open Market Plan—promises to change the face of telecommunications forever by opening the national marketplace to full competition and providing consumers an unprecedented range of choice for their communications services.

Frontier was the first telecommunications company in the nation to offer customers fully integrated services including local service, long distance and wireless. Frontier remains one of the only companies that offers the critical trio of services combined with a wide range of enhanced services on a single invoice. In 1997, we plan to expand on the 27 markets where we already offer our full portfolio of integrated services.

We had the foresight to broaden and strengthen our presence in the long distance market and we are now firmly established as the fifth-largest U.S. provider of long distance services. Our 34 local telephone companies collectively make Frontier one of the largest independent local exchange companies in the nation. This provides Frontier a unique combination of assets and experience that we will maximize as these business segments converge. Frontier is now being recognized for its growing presence in the telecommunications business, confirmed by our addition to the S&P 500 Index in December of 1996.

RONALD L. BITTNER

We have a long history of visualizing opportunities and creating solutions that reap benefits for our shareowners, customers and employees. We are confident that going forward the execution of our strategies will boost Frontier to the premier ranks of operating performance in our industry.

All around us, consolidation of competitive companies continues. Eight major telecommunications companies were reduced to four last year through mergers and acquisitions. In some cases, the combination of local and long distance companies is designed to create the integrated solutions that Frontier has been offering customers for years. In fact, Frontier's growth opportunities are amplified by our competitive advantage as one of only a few players in the industry today with existing assets and experience in both local and long distance service.

While many of our competitors lobby legislators and fight in the courts to enter new businesses, we already enjoy that freedom. Whether through our own facilities or as a reseller, Frontier's clear strategy and opportunity is to continue to expand our integrated services capabilities nationwide and be the easiest company in the industry to do business with.

Our local telephone companies have a track record of excellent performance, with operating margins among the highest in the industry. These companies are a vital resource for the sale of the complete range of Frontier services and provide an essential customer base for the expansion of the Frontier brand.

Regulatory changes have also resulted in new streams of revenue for our carrier services group. As independent local telephone companies look for an efficient means to enter the long distance business, many of them are looking to Frontier, a company very familiar with marketing long distance services to its own local services customers.

Looking forward, 1997 will be a year in which we take further advantage of our capabilities, regulatory freedom and the window of opportunity to create the infrastructure to support the growth of the company well into the future.

Our field sales o[illegible]ization is moving "up market" to serve customers with more sophisticated telecommunications needs. Our sales representatives are focusing on selling new customers more high-end products and services, including T-1 circuits, data and Internet. This strategy is designed to heighten sales productivity, increase customer retention and maximize the revenue growth potential of the firm. Our continued focus and emphasis on small- to medium-sized business customers will be complemented by greater utilization of telemarketing, affinity groups and business partners to reach specific niches within this market, such as the work-at-home segment.

We will redouble our efforts in the client service area with an emphasis on penetrating our existing base of customers to sell them additional value-added services. More and more customers are recognizing the benefits of multiple products and services from Frontier.

The expansion of Frontier's product portfolio will be bolstered by our new nationwide fiber optic network, which will be well on its way to completion by year-end 1997. This next-generation long distance network will provide major customer benefits in the form of higher-quality service and guaranteed reliability as well as dramatically reducing our costs. Owning our network will reduce our transport costs by as much as 50 to 80 percent. Given the rapidly growing demand for higher-bandwidth services such as data and frame relay, the network will accelerate our speed to market with new services, allow us to cost-effectively compete for new business, and set new standards for service excellence and reliability.

Our success in the past as well as our goals for the future rest on our employees, who embrace our objectives and share our vision. As we have become a truly national company, we have complemented our existing seasoned and experienced employee team with additional skilled industry professionals in the areas of sales, marketing, customer service, network management and product development. Together, we are all dedicated to focusing on customer retention; looking for new market opportunities to provide integrated services; expanding the Frontier brand in both traditional and innovative ways; accelerating revenue growth far in excess of industry averages; and engendering the customer loyalty that has already made Frontier the telecommunications choice for millions of customers.

In summary, Frontier is solidly positioned in this rapidly changing market. We strongly believe that the trust and confidence awarded us by our customers and shareowners will be rewarded with outstanding service for our customers and value creation for our shareowners.

Sincerely,

Ronald L. Bittner

Ronald L. Bittner
Chairman and Chief Executive Officer
February 13, 1997

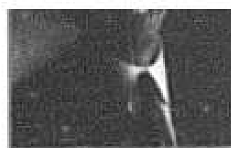
Technology has always been a cornerstone of Frontier's service offerings. For nearly a century, the company has thrived and grown by helping customers do the same. When customers needed computer-to-computer communications, Frontier was there with ISDN and Internet connectivity. When they required additional portability, Frontier responded with a wide range of wireless services. When they requested more efficient data transmission, Frontier supplied frame relay technology.

In 1996, Frontier's deployment of technology took another major leap forward. In partnership with Qwest Communications, and using state-of-the-art fiber from Lucent Technologies, the company began construction of a nationwide fiber optic network. Once completed, this network will hurdle the capabilities of existing networks and be the envy of competitors.

The multi-ring, SONET-based network will offer unprecedented reliability and will eliminate the risk of fiber breaks. Importantly, the new network will dramatically reduce Frontier's reliance on other carriers, saving an estimated 50 to 80 percent in transport costs. This will create an ideal platform for Frontier's continued growth.

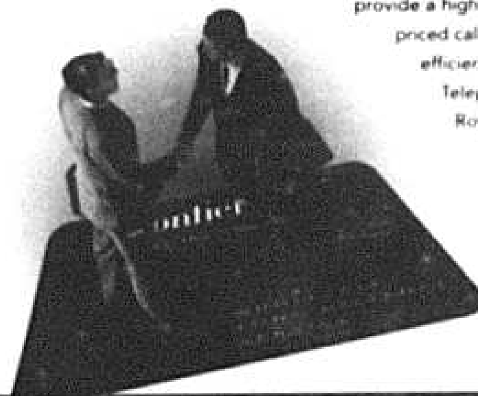
Further evidence of Frontier's state-of-the-art technology can be found in ConferTech International, the company's audio and video conferencing subsidiary. ConferTech has recently signed an agreement with NTT, the Japanese national telephone company, to introduce the first audio conferencing service in Japan. ConferTech also counts five of the Regional Bell companies as customers.

Frontier's advanced technology strengthens customer relationships. Its enhanced billing platform can invoice integrated services and provide customized, in-depth call management reports. In 1996 Frontier modified its billing system for its telephone operations allowing its local service customers to also reap the benefits of getting local and long distance on a single invoice.



Internet @ Frontier: Obtaining access to millions of new customers and sending E-mails around the world has never been easier. Frontier introduced its first dial-up Internet product in select markets. Now considered a business essential, Frontier can bundle Internet service in these markets with long distance, local and wireless services on one bill. Frontier's local telephone companies also offer Internet service with the added value of a 24-hour help desk.

Progressive Partnerships: Frontier's carrier services group gained momentum from industry deregulation. Independent telephone companies, cable companies and competitive local exchange companies are partnering with Frontier for wholesale long distance service. "By aligning with Frontier, we are able to begin our long distance operations and provide a high-quality, economically priced calling card quickly and efficiently," said North State Telephone Vice President Royster Tucker III.



To move closer to customers and more accurately target new markets, Frontier reorganized its sales force into four geographic regions in 1996. This new structure allows Frontier to maintain its consultative face-to-face sales approach with small-to-medium business customers while moving "up market" to target larger customers with more sophisticated requirements. Being close to the customer is fundamental to providing the service-after-the-sale that enhances customer loyalty and extends Frontier's reputation for excellence.

Expanding and diversifying its distribution channels will be the key to Frontier's internal growth, extended market coverage and improved operating margins. For instance, multicultural communities and small business networks present unique opportunities for Frontier to capitalize on its distinct niche marketing strategies.

Frontier is reaching beyond traditional telecommunications to broaden its customer mix. Its agreement with cable company Cox Communications is just one example of how Frontier is looking to proactively partner with a variety of cable and utility companies. This not only broadens Frontier's distribution channels, but also builds on the company's expertise in bundling a variety of services into a simple package.

International expansion will be facilitated through the installation of a switch in the United Kingdom. New switching facilities there will serve as a hub for European traffic and for Frontier's international connections to more than 230 countries, reducing costs and improving service.

Frontier is utilizing innovative brand-building techniques and creative marketing partnerships to build name recognition nationwide. One example is a prepaid calling card partnership with Catalyst Communications that resulted in the Frontier logo being prominently displayed on NASCAR driver Brett Bodine's #11 race car. Through programs like this, the Frontier logo flashes onto millions of television screens and appears in thousands of publications.

Expert Advice: Fortune Personnel built its executive recruitment business around telecommunications. Every day franchisees in more than 80 offices nationwide use Frontier long distance, calling cards and 800 services to conduct interviews. When calling from home, they use Frontier's dial-around service and accounting codes to keep track of their calls. But what they value most is the personalized service they receive from Frontier. Here, Fortune Personnel's President Dennis Inzinna discusses new services with Frontier New York City rep Susan Barton.

Branding A Star: Whether it was winning the Colonial in Fort Worth, Texas, or touring the United States as a member of the Presidents Cup team, PGA Tour star Corey Pavin represented Frontier well in 1996. "Everyone on tour asks me who Frontier is. I tell them it's the first telecommunications company in America with an offering so complete, it rivals the biggest players in the game," said Pavin. His exclusive agreement with Frontier as a company spokesperson includes wearing Frontier's logo while on tour. This high-profile visibility is helping to build Frontier's brand awareness nationwide.

International Acclaim: Mason Kellar International is a London-based travel agency which counts Sting, Seal and Sheryl Crow among its superstar clients, and world tours for The Beatles and Eric Clapton among its finest accomplishments. "We use Frontier Communications International for worldwide telecommunications because they provide personal service, just like ourselves," said Director Brian Osborn, shown here with partner Sandi Kellar. "They're the kind of people we would employ."

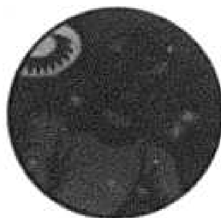
Behind every successful organization are people who excel at what they do, share a common vision and stay focused on the company's objectives.

Frontier is proud to maintain an environment in which dedicated, committed people thrive. Even with the difficulty associated with merging six different companies with completely different cultures into a unified whole, Frontier people remained focused on the ultimate goal—becoming the premier provider of telecommunications services.

Through this consolidation effort, important cost-saving measures were implemented to standardize benefits and business practices across the company. Compensation and bonus programs have been aligned with overall company performance.

During the year, a number of skilled industry professionals were recruited to supplement the existing management team. These include experts in the areas of technology, product development, customer service and sales. In fact, Frontier's industrywide reputation draws résumés from some of the most valued people in the telecommunications business.

Every employee is a contributor, initiating ideas, executing plans—even selling products and generating sales leads through referral programs. Employees' contributions extend well beyond the scope of business and into the communities that Frontier serves. In fact, Frontier has been a leader in corporate volunteerism and community giving for many years. Committed and energetic, Frontier people subscribe to the notion that success is everyone's job.



Operation Hope: As the surgeon starts his incision, a specialist at a video monitor advises from a hospital across town. Frontier connected the two with a single fiber optic strand carrying real-time, crystal-clear voice, video and data. "The multimedia capabilities provided by fiber networks can vastly expand the medical community's ability to provide expert consultation in many situations," said trial participant Dr. Michael Berg.

Caring For Our Communities: When a child is in the hospital, parents want to spend every moment with them. Frontier is helping parents do just that through a donation of voice mail. "The system allows parents to easily update family and friends and leaves parents more time and energy to devote to their child," said Jenny Vonckx of the Seattle Children's Hospital and Medical Center. Frontier funds many creative solutions to benefit the local communities it serves. One significant example is Frontier's "How Was School Today?" program in Rochester, New York. In its third year, this program has touched the lives of more than 350 inner-city students and families, supporting their education and social development.

Financial Review

Frontier Corporation accomplished a great deal in 1996. Revenue grew over 20 percent, to nearly $2.6 billion. Earnings per share, excluding nonrecurring charges, increased more than 11 percent over the prior year, and operating income improved over 10 percent.

For the 37th consecutive year, the company raised the dividend on its common stock. Frontier's financial condition as of December 31, 1996, was excellent and leaves Frontier well-positioned to grow and to meet the challenges of increased competition.

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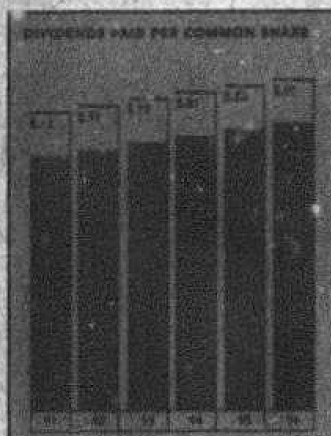
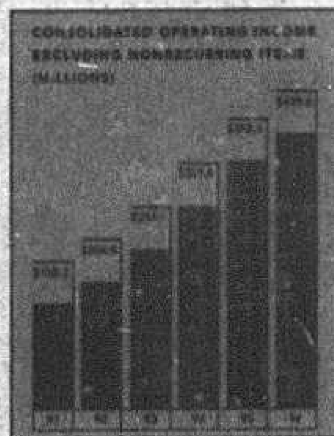
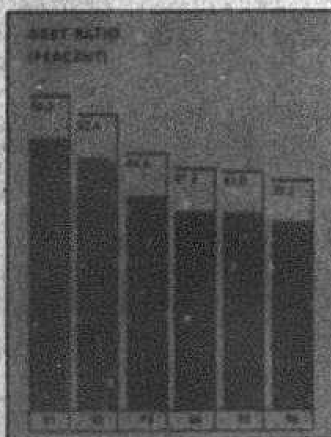






Management's Discussion of Results of Operations and Analysis of Financial Condition

THE INFORMATION PRESENTED IN THIS MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITION SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES OF FRONTIER CORPORATION ("THE COMPANY" OR "FRONTIER") FOR THE THREE YEARS ENDED DECEMBER 31, 1996. ALL HISTORICAL FINANCIAL DATA PRESENTED HAVE BEEN RESTATED FOR 1995 POOLING OF INTERESTS TRANSACTIONS. ❑ THE MATTERS DISCUSSED THROUGHOUT THIS ANNUAL REPORT, EXCEPT FOR HISTORICAL FINANCIAL RESULTS CONTAINED HEREIN, MAY BE FORWARD LOOKING IN NATURE OR "FORWARD LOOKING STATEMENTS." ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THE FORECASTS OR PROJECTIONS PRESENTED. FORWARD LOOKING STATEMENTS ARE IDENTIFIED BY SUCH WORDS AS "EXPECTS," "ANTICIPATES," "BELIEVES," "INTENDS," "PLANS" AND VARIATIONS OF SUCH WORDS AND SIMILAR EXPRESSIONS. THE COMPANY BELIEVES ITS PRIMARY RISK FACTORS INCLUDE, BUT ARE NOT LIMITED TO: CHANGES IN THE OVERALL ECONOMY, THE NATURE AND PACE OF TECHNOLOGICAL CHANGE, THE NUMBER AND SIZE OF COMPETITORS IN FRONTIER'S MARKETS, CHANGES IN LAW AND REGULATORY POLICY, AND THE MIX OF PRODUCTS AND SERVICES OFFERED IN THE COMPANY'S TARGET MARKETS. ANY FORWARD LOOKING STATEMENTS IN THE 1996 ANNUAL REPORT SHOULD BE EVALUATED IN LIGHT OF THESE IMPORTANT RISK FACTORS.

Strategic Developments

This year was a period of transition and positioning for Frontier. The Company continues to make the transformation from a provider of local and long distance services to a nationwide provider of integrated communications services. The Federal Telecommunications Act of 1996 (the "Act") will accelerate the deregulation of the telecommunications industry and will also allow and encourage additional competitors to enter Frontier's businesses. The Act provides the Company greater flexibility and speed to enter into new markets and expand its customer base with bundled telecommunications products that few of Frontier's larger competitors offer or currently have the regulatory freedom to pursue. Throughout 1996, the Company commenced strategic initiatives to better position itself in an increasingly competitive marketplace. A few of the most notable initiatives follow:

The strategic purchases of and mergers with long distance companies that occurred during 1995, were largely integrated in 1996. The anticipated operating synergies resulting from the restructuring of the long distance operations have been achieved and are reflected in the results of operations for the year.

Frontier announced in October 1996 that it had joined Qwest Communications as a partner in the construction of a $2 billion nationwide fiber optic network, which when complete, will be the largest single fiber build in United States history. The Company will invest almost $500 million through 1998 to complete the project. Construction began in October 1996. The multi-ring Synchronous Optical Network ("SONET") architecture increases speed and reliability and is expected to reduce the Company's network transmission costs beginning in mid-year 1997. When complete in 1998, it is planned that Frontier's network will interconnect nearly 100 cities, encompass more than 13,000 route miles and provide coast-to-coast SONET connectivity. The Company expects to finance the project primarily with cash from operations and short to medium-term debt.

The Company began its first offering of competitive local telephone service as an Alternative Local Exchange Carrier (A-LEC) in the fourth quarter of 1996. As an A-LEC, Frontier is providing local service, combined with a complete range of long distance and wireless products, in the New York City area. The Company is utilizing its own switch in conjunction with a local resale agreement with Nynex. Providing local telephone services as an A-LEC is an efficient method of entering large markets and capitalizes on the Company's experience as a provider of bundled telecommunication services. The Company plans to enter other new markets either as a facilities based local carrier or as a reseller of local telecommunications services in 1997.

The Rochester, New York local telephone operation successfully completed its second year under the Open Market Plan. The Open Market Plan promotes telecommunications competition and preceded the Telecommunications Act of 1996. The Company's retail and wholesale market share remained stable versus the prior year, despite the increased discount rates offered to resellers during 1996. The Company believes it will continue to succeed in this market and other competitive markets providing a bundled telecommunication product on one bill.

The Company's goal is to continue to develop its products and customer base and build larger customer clusters in target segments and geographic markets, with the overall objective of expanding its operations across line-of-business boundaries.

Consolidated Results of Operations

Consolidated revenues were $2.6 billion in 1996, a $431.9 million, or 20.1%, increase over 1995. Revenues in 1995 increased $476.1 million or 28.6% over 1994. Normalized for purchase acquisitions, revenues increased 11.8% and 17.2% in 1996 and 1995, respectively. The 1996 revenue increase is attributed to growth in traffic, increased sales and marketing efforts and the promotion of new products and features in the long distance and local telephone segments. The decline in the normalized revenue growth rate in 1996 as compared to 1995 is principally due to the migration of the 1-plus basic long distance service of the Company's major carrier customer from the Frontier network in the fourth quarter of 1996 and lower traffic growth in other sales channels. The normalized revenue growth rate of 17.2% for 1995 is positively impacted by the major carrier customer's business doubling in size over 1994. Normalized for certain nonrecurring events, costs and expenses were $2.1 billion, $1.7 billion, and $1.3 billion in 1996, 1995 and 1994, respectively. This resulted in operating income increases of 10.3% and 22.3% in 1996 and 1995, respectively. Operating margins were 17.1%, 18.6% and 19.5% during 1996, 1995 and 1994, respectively. The decline in operating income growth and the level of margins for 1994 through 1996 is primarily a result of the increasing share of the Company's total business represented by long distance, which operates at a lower margin than the local communications segment. The decline was also influenced by the impact of

the high growth through the fourth quarter of 1996 of the Company's major long distance carrier customer, which occurred at comparatively lower margins than the rest of the Company's business. Pursuant to contract, the Company provided this customer with volume discounts as its traffic grew at an accelerated pace over the past two years. A full discussion of the impact of this customer on the Company's performance is on page 17. Additionally, selling, general and administrative costs ("SG&A") increased in the long distance segment in the last quarter of 1996 primarily as the result of an increase in sales distribution channels and a brand advertising program that was implemented. These costs are expected to positively impact revenue and operating income in 1997.

The Company recorded a $16 million charge in the fourth quarter of 1996 to reflect the resolution of an international traffic dispute with connecting carriers. This charge, which is not material to each of the other quarterly results reported in 1996, reduced reported EPS in the fourth quarter by approximately $.06. International long distance service is a part of the Company's overall product set. Frontier primarily resells the international long distance services of other long distance carriers. The Company is exploring alternatives to resale which could result in the lowering of its cost structure for international traffic in the future.

Earnings per share were $1.27, $.13 and $1.12 for the years ended 1996, 1995 and 1994, respectively. Excluding the impact of the nonrecurring adjustments discussed below, net income amounted to $247.1 million, $218.7 million and $180.1 million in 1996, 1995 and 1994, respectively. Earnings per share, excluding these adjustments, were $1.50, $1.35 and $1.12 for the three years, increases of 11.1% and 20.5%, respectively.

Nonrecurring Adjustments

Consolidated operating results for the years 1994 through 1996 were impacted by a number of nonrecurring adjustments. Net income for these years, normalized for nonrecurring adjustments, is summarized in the chart below and succeeding narrative.

(All dollars, except per share amounts, are in thousands)	1996	1995	1994
Income applicable to common stock	$208,744	$ 20,892	$178,870
Adjustments, net of taxes:			
Acquisition related and other	30,363	78,764	—
Gain on sale of assets	(3,029)	(4,826)	(7,109)
Loss on early retirement of debt	—	9,060	—
Discontinuance of regulatory accounting	—	112,148	—
Adoption of new accounting standards	8,018	1,477	7,197
Work stoppage preparation costs	1,861	—	—
Total adjustments	37,213	196,623	88
Income applicable to common stock, after adjustments	$245,957	$217,515	$178,958
Earnings per share	$ 1.27	$ .13	$ 1.12
Adjustments:			
Acquisition related and other	.19	.49	—
Gain on sale of assets	(.02)	(.03)	(.04)
Loss on early retirement of debt	—	.06	—
Discontinuance of regulatory accounting	—	.69	—
Adoption of new accounting standards	.05	.01	.04
Work stoppage preparation costs	.01	—	—
Total adjustments	.23	1.22	—
Earnings per share, after adjustments	$ 1.50	$ 1.35	$ 1.12

1. Acquisition Related and Other
Frontier's operating results for 1996 include a $30.4 million charge, net of a tax benefit of $18.4 million, resulting from the curtailment of certain company pension plans and a one-time charge associated with the Company's conference calling product line. The pension curtailment comprises $17.3 million of the total post-tax charge and is a result of the Company's efforts to standardize pension benefits. The one-time charge associated with the Company's conference calling product line ($13.1 million, after tax) primarily reflects an adjustment to write-off nonrecoverable product development costs relating to proprietary software.

The Company's 1995 operating results reflect an acquisition related charge of $78.8 million, net of an income tax benefit of $35.4 million, that is associated with the integration of the Company's 1995 acquisitions as well as the ALC Communications Corporation ("ALC") merger related transaction costs. The remaining reserve balance at December 31, 1996 of $28.2 million is primarily for redundant facilities currently being decommissioned.

2. Gain on Sale of Assets
Gain on sale of assets reflects the sales of the Company's minority investment in a Canadian long distance company in 1996 ($5.0 million pre-tax gain, $3.0 million after taxes), the sale of Ontonagon County Telephone Company in 1995 ($4.8 million non-taxable gain) and Minot Telephone in 1994 ($11.3 million pre-tax gain, $7.1 million after taxes).

3. Early Retirement of Debt
In 1995, the Company redeemed, through a tender offer, $76.8 million of ALC's 9% Senior Subordinated Notes for $83.5 million. The early retirement resulted in an extraordinary loss including issuance costs, of $5.8 million, net of applicable income taxes of $3.7 million. In 1995, the Company redeemed its outstanding 9% debentures scheduled to mature in 2020. The Company recorded an extraordinary loss of $3.2 million, net of applicable income taxes of $1.7 million.

4. Discontinuance of Regulatory Accounting
As a result of changes in regulation and increasing competition in the telecommunications industry, the Company discontinued the use of Statement of Financial Accounting Standards ("FAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" as of September 30, 1995 for its local communications companies. This non-cash, extraordinary write-off totaled $112.1 million, net of applicable income taxes of $68.4 million. The write-off was primarily related to the reduction in the recorded values of long lived telephone plant assets.

5. Adoption of New Accounting Standards
Results in 1996 reflect a $12.4 million pre-tax charge for the adoption of FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The assets held for disposal consist principally of telephone switching equipment in the Local Communications segment as a result of the central office switch consolidation project.

Frontier adopted FAS 116, "Accounting for Contributions Received and Made," in September of 1995. FAS 116 requires that companies reflect an accrual in current expenses for the cost of multi-year charitable contributions. The cumulative effect of adopting FAS 116 in 1995 was a charge of $1.5 million, net of applicable income taxes of $0.8 million.

As of January 1, 1994, the Company adopted FAS 112, "Employers' Accounting for Postemployment Benefits," related to the accounting for certain employee benefits costs. The cumulative effect of adopting FAS 112 was an after-tax charge of $7.2 million, net of applicable income taxes of $3.9 million.

6. Work Stoppage Preparation Costs
During the first quarter of 1996, operating costs increased $2.8 million (pre-tax) at the Company's largest telephone subsidiary due to higher labor and related expenses in connection with a union contract negotiation. See page 18 for further discussion of the status of contract negotiations with this union and the impact on the Company's reported results.

Telecommunications Act of 1996

The Telecommunications Act of 1996 was enacted on February 8, 1996. This landmark legislation establishes a framework for increased competition in the local and long distance segments of the Company's business. The Company views this legislation as favorable to its operations. Currently, Frontier companies are providing local service, or negotiating with carriers for interconnection and resale agreements to permit entry into new markets. The Telecommunications Act incorporates many aspects of the Open Market Plan initiated by the Company in Rochester, New York in 1993 and implemented in 1995. The Company believes its experience in providing integrated services and its background with the Rochester, New York Open Market Plan provides it with a competitive advantage.

On August 8, 1996, the Federal Communications Commission ("FCC") released a First Report and Order (the "First Report and Order") in a core rulemaking proceeding to implement the Telecommunications Act of 1996. That First Report and Order established guidelines to promote local competition affecting the Company and all other competitors in local telecommunications markets. The FCC's action is subject to reconsideration and to appellate review. On September 27, 1996, the U.S. Court of Appeals for the Eighth Circuit granted a stay of a significant portion of the First Report and Order, and an appeal of that stay to the Supreme Court was denied. A decision by the appeals court is pending. The Act also requires the FCC to restructure the manner in which universal service operates, and the Commission is currently considering the recommendation of a Federal-State Joint Board released on November 8, 1996. On December 24, 1996, the FCC released a Notice of Proposed Rulemaking requesting comment on how the FCC should change the manner in which it regulates interstate access charges. The Company is considering its options in light of these proceedings.

Competitive Response to the Telecommunications Act of 1996

In the short time since the enactment of the Telecommunications Act of 1996, a number of fundamental changes in the business have occurred or are likely to take place. During 1996, many companies in the industry have announced or completed corporate consolidations or other transactions. As a result, a number of these competitors may be larger in size and may possess financial resources substantially greater than Frontier's. Notwithstanding these business transactions, much of the first year of implementation of the Act has related to activities that have not yet caused significant marketplace impacts. These activities include regulatory activity on both the federal and state levels to implement the new law, and to put in place mechanisms to govern and to deal with new business relationships. They also include government activities designed to open new areas of the radio spectrum, and to permit technological development of new services and improvements in established services.

As new technological and business opportunities emerge, the pace of innovation and business activity will accelerate. New business relationships are developing and can be expected to continue. They are partially the result of provisions in the law that require new forms of pricing agreements between facilities-based carriers and resellers, new interconnection agreements, and arrangements that replace long-standing tariff filing mechanisms. They are also the result of strategic activities designed to address the evolving marketplace. The new law promotes broader competition among incumbent companies in traditional telecommunications lines of business and across such lines of business.

As a result of these events, the way in which individual companies do business is changing. Companies that have operated in traditionally independent lines of business must evaluate methods to build integrated products that incorporate services and capabilities that come from other areas. In the long distance line of business, Frontier anticipated that public policy would continue to evolve in favor of greater competition. As a result, the Company has been positioning itself to confront a marketplace with numerous new competitors in each of its business channels, requiring the development of capabilities necessary to compete aggressively and successfully against all of the competitors in its target channels.

Part of this activity has involved an analysis of the merits of owning additional amounts of facilities in the long distance area. Ownership of facilities can provide a number of benefits, including the advantages of lower unit costs, new strategic pricing opportunities, opportunities to deploy new services, and the ability to offer services that are unique. Another part of this activity is improved marketing. Frontier expects that brand awareness and product development will be an important part of successful marketing in the future telecommunications marketplace. Frontier committed significant resources in 1996 to diversifying its product line and increasing its brand awareness, as well as develop and strengthen its sales force.

Frontier anticipates that, in a few years, a majority of small and medium sized businesses will buy their telecommunications services in "bundles." Markets will be fundamentally open, and many of today's most fundamental structural boundaries and subsidies will be eliminated. As the nature of the business evolves due to technology and changing regulation, Frontier is positioned to take advantage of these trends.

Rochester, New York Open Market Plan

The Rochester, New York local communications' subsidiary completed its second full year of operations under the Open Market Plan in 1996. The Open Market Plan promotes telecommunications competition in the Rochester, New York marketplace by providing for (1) interconnection of competing local networks including reciprocal compensation for terminating traffic, (2) equal access to network databases, (3) access to local telephone numbers, (4) service provider telephone number portability, and (5) certain wholesale discounts to resellers of local services. The inherent risk associated with opening the Rochester market to competition is that some customers are able to purchase services from competitors, which may reduce the number of retail customers and potentially cause a decrease in the revenues and profitability for Rochester Telephone. However, results since implementation of the Open Market Plan indicate that a stimulation of demand in the use of the network and new product revenue may offset the losses from customer migration. Increased competition may also lead to additional price decreases for services, adversely

impacting Rochester Telephone's marginal. An additional positive feature of the Open Market Plan provides that Rochester Telephone can retain additional earnings achieved through operating efficiencies. Previously these earnings would have been shared with customers.

During the seven year period of the Open Market Plan, rate reductions of $21 million will be implemented for Rochester area consumers, including $11.5 million of which occurred in 1995 and an additional $2.5 million which commenced in January 1996. Rate reductions of $1.5 million will occur in 1997. Rates charged for basic residential and business telephone service may not be increased during the seven year period of the Plan. The Company is allowed to raise prices on certain enhanced products such as caller ID and call forwarding. Price increases on enhanced products partially offset the rate reductions required under the Plan during 1996.

AT&T Communications of New York filed a complaint with the New York State Public Service Commission ("NYSPSC") for reconsideration of the Open Market Plan on October 3, 1995. The complaint sought a change in the wholesale discount, a change in the minutes of use surcharge and also changes in a number of operational and support activities. Some of these issues are also being considered in other states in other unrelated local competition proceedings. On July 18, 1996, the NYSPSC issued an order establishing a temporary wholesale discount of 13.5% for services and eliminating the minutes of use surcharge. On November 27, 1996, the NYSPSC set permanent wholesale discounts retroactive to July 24, 1996, of 17.0% for resellers that use the Company's operator services and 19.6% for resellers that provide their own operator services. The Company believes that, currently, all resellers in this market use the Company's operator services.

Under the Telecommunications Act of 1996 and a statewide proceeding, the NYSPSC is also considering the prices that local exchange companies in New York may charge for "unbundled" service elements such as links (the wire from the switch to the customers premises), ports (the portion of the switch that terminates the link) and switch usage features. The Company is actively participating in this proceeding and expects the NYSPSC to issue a decision on service elements in 1997.

Results of Segment Operations

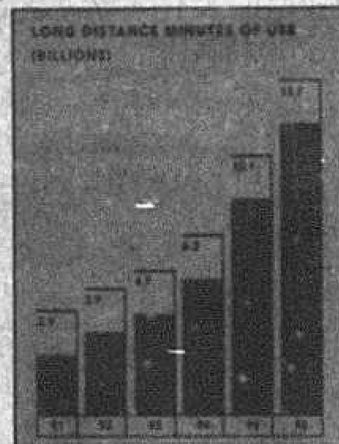
Frontier simplified its business segment reporting at the beginning of 1996 to reflect the predominance of its two major operating segments, long distance and local communications services. The Company currently reports its operating results in three segments: Long Distance Communications Services, Local Communications Services and Corporate Operations and Other. The Company's majority interests in two wireless properties, which were previously reported as a Wireless Communications Services segment, have been consolidated under Corporate Operations and Other.

Each of Frontier's segment results are reviewed below.

Long Distance Communications Services

During 1996 the Company substantially completed the integration of the assets and operations of ALC and its six additional long distance acquisitions of 1995. The restructuring process resulted in the elimination of redundant facilities and staffing. Results for the segment partially reflect operating efficiencies gained as a result of the assimilation of the long distance companies acquired and the consolidation of the long distance switch network. These operating efficiencies were offset by increased SG&A charges during the fourth quarter associated with advertising campaigns and sales and marketing support for new revenue initiatives.

Revenues were $[illegible] billion, $1.5 billion, and $1.0 billion in 1996, 1995 and 1994, respectively, representing a 27.6% increase in 1996 and a 46.5% increase in 1995. Revenues increased 17.9% and 25.5% in 1996 and 1995, respectively, when normalized for purchase acquisitions. Traffic growth, increased sales and marketing efforts and increased sales of enhanced services were the primary drivers of the revenue growth for 1996 as compared to 1995. The decrease in the normalized revenue growth rate percentage from 1995 to 1996 is largely due to the migration of the 1-plus basic long distance service of the Company's major carrier customer from the Frontier network in the fourth quarter of 1996 and lower traffic growth in other sales channels. The increase in revenue from 1994 to 1995 was caused by increased traffic volumes due to internal growth, the growth of the Company's major carrier customer and purchase acquisitions.



Revenue for all years includes the major carrier customer whose revenue represented 21% and 14% of long distance revenues in 1996 and 1995, respectively. Pursuant to contact, this customer had been provided volume discounts by the Company as its 1-plus traffic grew at an accelerated pace over the past two years. During 1995, the Company was notified that this customer would be installing its own long distance switching capacity and diversifying its traffic distribution to one or more additional carriers. Effective June 1996, this customer entered into a revised three year agreement with the Company, eliminating the customer's existing minimum monthly commitment for 1-plus service in exchange for an extension of the exclusivity for the Company to carry the customer's higher margin enhanced service traffic. The migration of the major carrier customer's 1-plus traffic was substantially complete as of December 31, 1996. As a result of the loss of this customer's 1-plus traffic from Frontier, revenue from this carrier comprised approximately 10% of Frontier's long distance revenue in the fourth quarter of 1996 as compared to 23% in the third quarter. The loss of this customer's 1-plus traffic contributed to a decrease in operating income in the fourth quarter as lower overall traffic levels resulted in a higher level of fixed network costs than required by the remaining volume of business carried by the Company during the quarter.

Costs and expenses for the long distance operation were $1.7 billion, $1.3 billion and $.9 billion in 1996, 1995 and 1994, respectively, excluding nonrecurring charges. The increase in costs and expenses in 1996 as compared to 1995 is primarily due to increased traffic resulting in higher cost of access. In addition, SG&A expenses increased in the last half of 1996 as the Company began to position itself for new revenue opportunities in 1997 and beyond. The increase in costs from 1994 to 1995 was caused by increased traffic volumes due to internal growth, the Company's major carrier customer and purchase acquisitions.

Cost of access as a percentage of revenues was 63% in 1996, 58% in 1995 and 56% in 1994. The higher cost of access percentages reported for all periods is primarily due to the increased discounts provided to the Company's major

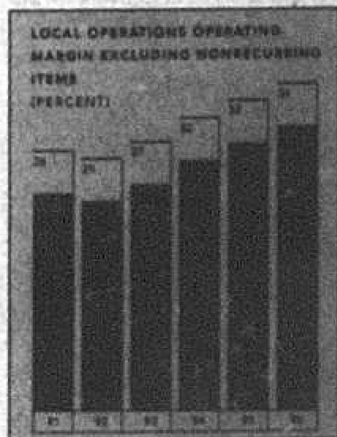
carrier customer pursuant to contract as [illegible]ffic levels grew at an accelerated rate. Also, as this customer removed its traffic in the fourth quarter of 1996, there was a higher proportion of fixed network costs than would have been required for the volume of minutes actually carried by the Company's network during that period. The Company has implemented actions designed to lower its cost of access and improve the cost efficiency of its network.

SG&A as a percentage of revenues was 20.7% in 1996, 23.1% in 1995 and 24.0% in 1994. These reductions as a percentage of revenues are principally due to increasing revenues without corresponding cost increases from 1994 through the first half of 1996. Total headcount increased in the sales and marketing areas in the last half of 1996. The increase is intended to accelerate revenue growth in 1997 from the Company's small business customers, to permit the Company to move "up market" by selling Frontier services to larger customers and to generate sales of newer services, such as prepaid calling cards and facilities based local services. Depreciation and amortization increased by $21.7 million and $20.2 million due primarily to the impact of the purchase acquisitions in 1996 and 1995, respectively.

Operating income, excluding nonrecurring charges, rose 9.6% and 30.6% in 1996 and 1995, respectively. Operating margin was 12.2% in 1996, 14.2% in 1995 and 15.9% in 1994. The timing of the additional expenses to support 1997 revenue growth and the increases in cost of access as a percentage of revenue had a negative impact on 1996 operating margin. The Company anticipates improved operating margins during 1997 as higher revenue levels are achieved, excess fixed costs are removed from its network and additional operating efficiencies are introduced. Additionally, construction of the national fiber optic network is expected to reduce the Company's cost structure. Frontier anticipates that savings will be realized as the various segments of the network are completed during 1997 and 1998.

Local Communications Services

Local Communications Services includes Frontier's local telephone operations in Rochester, New York and the Regional Operations, which are comprised of 33 telephone subsidiaries in 13 states. Also included with the Rochester, New York operation are the local service revenues and associated expenses generated by Frontier Communications of Rochester, a competitive telecommunications company formed on January 1, 1995, that provides an array of services on a retail basis in the Rochester marketplace. Consequently, the Local Communications Services segment includes both wholesale and retail local service associated with the Rochester, New York market.



In addition to consistent profitability and strong cash flows, the local communications companies have been successful in marketing and selling integrated services to their customers. Revenues for 1996 were $643.0 million, an increase of $21.[illegible] million or 3.4%. Revenues for 1995 increased 2.0% over the prior year, or 3.5% adjusting for the sales of Ontonagon County Telephone Company in March 1995, and Minot Telephone Company in May 1994. Revenue growth in 1996 was driven in part by the introduction of new products and features and a higher demand for services in the open market environment. See a discussion of the Open Market Plan for the Rochester, New York market on pages 16-17. Total access lines increased 2.8% and minutes of use increased 6.7% in 1996 over the prior year. Revenue growth in 1996 in the Rochester, New York market was 3.1%, consistent with the rate of growth in 1995. In general, prices being charged both to customers and to long distance companies for access service usage have declined over the past three years. This is due not only to regulatory requirements, but also to increased competition in the Company's largest markets. Prices charged to customers and access prices charged to long distance companies may continue to decline as competition increases and regulatory controls are relaxed.

Costs and expenses for the local communications segment, excluding nonrecurring charges, were $424.5 million in 1996, an increase of $1.1 million, which was relatively flat as compared to 1995. The Company continued the centralization of certain administrative functions in 1996, resulting in lower operating costs. Lower administrative costs were offset by increased costs for the Rochester, New York telephone operation as a result of higher expenses associated with union contract negotiations. These costs, which were incurred in connection with contract negotiations with Communications Workers of America, Local 1170, were necessary to ensure continued high standards of customer service in the event of a work stoppage. The contract negotiations are currently at an impasse and the Rochester company implemented the terms of its final offer as of April 9, 1996. The Union filed unfair labor practice complaints with the National Labor Relations Board (the "NLRB"). In June, Frontier received a favorable determination after review within the agency which rejects all unfair labor practice claims that could have impacted the declaration of impasse. The Union appealed these decisions within the NLRB and on December 2, 1996, the agency remanded the matter back to its regional office to hold a hearing on the declaration of impasse, while upholding the other actions and dismissing those other unfair labor practice charges. The remanded matter will go back to hearing in mid-1997.

Costs and expenses decreased $6.0 million in 1995 as compared to 1994. This decrease was due to the sales of Ontonagon County Telephone in 1995 and Minot Telephone in 1994, ongoing cost controls, and was partially offset by increased selling and marketing costs.

Operating margins for the Local Communications segment continue to improve. Operating margins, excluding nonrecurring items, were 34.0% in 1996, 31.9% in 1995 and 29.6% in 1994. This improvement is reflective of the continuing improvement in operating efficiencies coupled with consistent revenue growth.

During late 1995, management committed to a major switch consolidation plan at its Rochester Telephone Corp. and Frontier Communications of New York subsidiaries. The three-year plan to consolidate host switches and reduce the number by over 60% is projected to improve network efficiency and reduce the cost of maintenance and software upgrades. As of December 1996, the project is progressing as scheduled and two host switches have been consolidated. The Company anticipates that the project will be substantially complete by July 1998.

Corporate Operations and Other

Corporate Operations comprise the expenses traditionally associated with a holding company, including executive expenses, corporate finance and treasury, investor relations, corporate communications, corporate planning, legal services and business development. The Other category includes the Company's majority ownership interest in certain wireless operations and Frontier Network Systems ("FNS"). FNS markets and installs telecommunications systems and equipment. Wireless operations include the Alabama RSAs No. 4 and No. 6, in which the Company has a 69.5% interest and Minnesota RSA No. 10, in which the Company acquired a 100% interest in March 1995. This later acquisition was accounted for as a purchase transaction. Results for all years, before nonrecurring charges, were relatively consistent.

In October 1996, the Company signed a definitive agreement to sell its 69.5% interest in the Alabama RSAs No. 4 and No. 6. The Company expects to recognize a gain on the sale of its interest in this partnership during the first quarter of 1997.

Other Income Statement Items

Interest Expense

Interest expense was $43.2 million in 1996, a decrease of $10.4 million or 19.4% from 1995. The Company realized reduced interest expense in 1996 primarily as a result of refinancing approximately $140 million of long term debt during the third and fourth quarters of 1995. The Company also utilized excess cash to pay down debt throughout the year, resulting in a lower average outstanding debt balance in 1996 than in 1995. Interest expense was higher in 1995 than 1994 due to increased borrowings required to complete the Company's long distance purchase acquisitions.

Equity Earnings from Unconsolidated Wireless Interests

Frontier Cellular is a 50% interest in a joint venture with Bell Atlantic/Nynex Mobile in upstate New York and Pennsylvania that is managed by the Company and is accounted for using the equity method of accounting. This method of accounting results in the Company's proportionate share of earnings being reflected in a single line item below operating income. Frontier Cellular is the Company's largest unconsolidated wireless interest.

Equity earnings from the Company's interests in wireless partnerships were $9.0 million in 1996, $3.7 million in 1995 and $3.2 million in 1994. The increase in equity earnings during 1996 is attributable to growth in customer base, increased usage and long distance revenue generated from the wireless partnerships' offering of long distance services as a reseller. In addition, a portion of the growth is attributable to the expansion of Frontier Cellular into other areas of New York and Pennsylvania. The customer base grew approximately 46% and revenues increased 61% over 1995. Equity earnings from Frontier Cellular in 1995 were lower than expected because of significant customer acquisition costs. Prior to July 1994, the Company's revenues and expenses associated with its Rochester and Utica-Rome cellular partnerships in New York State, which were contributed to Frontier Cellular, had been fully consolidated.

Income Taxes

The effective tax rate in 1996 was 39.6%, versus 41.1% in 1995 and 36.8% in 1994. The effective tax rate in 1996 is lower than 1995 due to the nondeductible transaction costs from the Company's 1995 long distance merger and acquisitions. The 1995 effective tax rate increase over 1994 is due to additional amounts of nondeductible goodwill amortization and nondeductible transaction costs from the Company's long distance merger and other acquisitions.

Financial Condition

Review of Cash Flow Activity

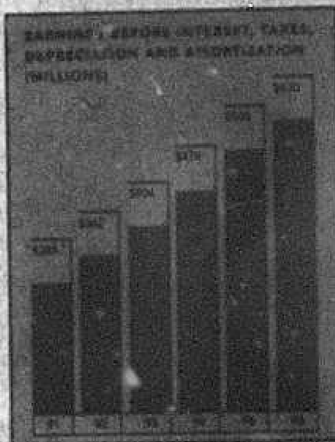
Cash provided from operations in 1996 amounted to $395.7 million as compared to $357.1 million in 1995, normalized for $31.1 million of cash paid for acquisition related charges, and $305.5 million in 1994. Cash from operations is driven by the Company's expanded revenue base in long distance and the strong operating returns produced by the local communications services segment. In 1996, the accounts receivable and accounts payable balances were less than the prior year due to lower traffic levels in the fourth quarter caused by the loss of 1-plus service provided to the Company's major carrier customer. In addition, the Company launched several marketing programs in the second half of the year designed to stimulate revenue growth in 1997. The 1995 accounts receivable balance increased over the prior year primarily because of the significant revenue growth in long distance. The Company was negatively impacted in 1995 by one time payments of accounts payable related to purchase acquisitions of $29.3 million. In 1994, cash from operations was offset in part by increased working capital requirements and the taxes associated with the gain on the sale of the Minot property in North Dakota in May 1994. The gross cash proceeds from this sale appear in the "Cash Flows from Investing Activities" section of the Consolidated Statements of Cash Flows.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a common measurement of a company's ability to generate operating cash flow. EBITDA should be used as a supplement to, not in place of, cash from operating activities. The Company's EBITDA was $629.5 million, $568.2 million and $478.9 million, excluding unusual items, in 1996, 1995 and 1994, respectively.

Cash used for investing activities was $333.9 million, $519.3 million and $89.7 million in 1996, 1995 and 1994, respectively. Capital expenditures continue to be the largest recurring use of the Company's investing funds. Capital spending amounted to $309.2 million, $163.7 million and $112.2 million in 1996, 1995 and 1994, respectively. The increase in the 1996 capital program was due to the long distance network expansion required to meet customer traffic demands, continued product enhancements and initial construction costs for the fiber optic network build. The Company's cash purchase acquisitions of $349.5 million were the largest use of investing activities in 1995. Cash used for investing activities in 1994 was offset by the excess cash generated from the sale of Minot Telephone of $55.7 million.

Cash flows from financing activities amounted to an outflow of $62.2 million in 1996, compared with outflows of $134.5 million in 1995 and inflows of $109.6 million in 1994. The Company's largest recurring financing activities are the common and preferred dividend payments which totaled $138.7 million, $82.8 million and $59.3 million in 1996, 1995 and 1994, respectively. The large increase in the 1996 dividend payments was caused by an increase in the number of shares outstanding as a result of the issuance of 69.2 million common shares on August 16, 1995 for the ALC merger. The Company's commercial paper borrowings increased at the end of 1996 due to the capital program and an outlay of over $60 million for the fiber optic network build, causing a net debt increase of $48 million. During 1995, the Company made $4.9 million of scheduled debt repayments and also refinanced $274.4 million of its long-term debt instruments. The refinancings included repayment of $76.8 million of ALC's 9% Senior subordinated debt, the

retirement of $69.8 million of 9% debentures due in 2020, the repayment of Rochester Telephone Corp.'s revolver of $100.0 million in conjunction with this subsidiary's medium term note offering and the repayment of $27.8 million of debt from the long distance acquisitions. These early retirements were financed with excess cash and commercial paper borrowings. The 1994 financing activities included $104.0 million in proceeds from the Company's equity offering in February 1994 and the net proceeds of $70.9 million of debt as a part of the Company's Open Market Plan reorganization and the retirement of certain high cost debt earlier in the year.



Liquidity and Capital Resources

The Company has a number of financing vehicles in place to ensure adequate liquidity in meeting its anticipated cash needs. The Company has commercial paper programs totaling $450 million which are fully backed by committed revolving credit agreements. In May 1996, Frontier Corporation's $250 million revolving credit agreement was amended to increase the available line of credit to $350 million. The Company, through its subsidiary, Rochester Telephone Corp., also has a $100 million revolving line of credit. At December 31, 1996, total borrowings and amounts available under these lines of credit were $248.6 million and $201.4 million, respectively. In addition, the Company has a $500 million universal shelf registration statement, filed with the SEC in November 1995, which allows for the issuance of a combination of debt, common, preferred stock or warrant securities. Proceeds may be used for general corporate purposes including, but not limited to, financing and growth activities. As of December 31, 1996, no securities have been issued pursuant to this registration. The Company's working capital was $51.1 million, $18.9 million and $368.1 million at December 31, 1996, 1995 and 1994, respectively. The changes in the 1995 and 1994 working capital are due to the Company's acquisition program.

At December 31, 1996, aggregate debt maturities amounted to $6.3 million for 1997, $8.8 million for 1998 and $30.3 million for 1999. Despite the Company's 1995 acquisition program, the debt to total capital ratio at December 31, 1996 improved to 39.1%, as compared to 41.0% in the prior year and 41.2% in 1994. Pre-tax interest coverage, which measures the Company's ability to adequately cover its financing costs, was 9.1 times in 1996 versus 7.6 times in 1995 and 6.7 times in 1994 (excluding nonrecurring charges for all years).

The Company continues to carry long-term credit ratings of "A" from Standard & Poor's, Duff and Phelps and Fitch, and "A3" from Moody's. The rating agencies downgraded the Company as a result of its merger with ALC in August 1995. In spite of the combined entity's strengthened financial position, the rating agencies cited concern with the shift in the Company's business risk associated with an increasing dependence on the more competitive long distance business. These ratings remained in effect at December 31, 1996.

Total gross expenditures for property, plant and equipment in 1997 are anticipated to be approximately $590 million, which includes over $250 million for the Company's fiber optic network. Absent the expenditures associated with the fiber optic network, the 1997 capital program represents an increase of approximately $90 million over 1996, largely due to international network investments over high density routes to lower transport costs, system development costs to enhance the billing platform, network growth and the switching costs associated with the Company's Alternative Local Exchange Carrier (A-LEC) integrated product offering. The Company anticipates financing its capital program with a combination of internally generated cash from operations and external financing.

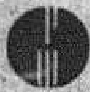
In November 1996, the Company's Board of Directors increased the quarterly dividend paid on common stock to $0.2175 cents per share, payable February 3, 1997, to shareowners of record on January 15, 1997. This 2.4% increase raises the annualized common stock dividend to $0.87 per share. This represents the 37th consecutive annual increase in the Frontier dividend.

New Accounting Pronouncements

Effective January 1, 1996, the Company adopted FAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." FAS 121 requires that certain long-lived assets and identifiable intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. The statement also requires that certain long-lived assets and identifiable intangibles to be disposed of be reported at fair value less selling costs. The Company's adoption of this standard resulted in a non-cash charge of $8.0 million (net of a tax benefit of $4.4 million) and is reported as a cumulative effect of a change in accounting principle. The charge represents the cumulative adjustment required by FAS 121 to remeasure the carrying amount of certain assets held for disposal as of January 1, 1996. These assets held for disposal consist principally of telephone switching equipment in the Company's Local Communications Services segment as a result of management's commitment, in late 1995, to a central office switch consolidation project primarily at the Rochester Telephone Corp. and Frontier Communications of New York subsidiaries.

Effective January 1, 1996, the Company adopted the provisions of FAS 123, "Accounting for Stock-Based Compensation." FAS 123 establishes accounting and reporting for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. This statement defines a fair value based method of accounting for an employee stock option or similar equity instrument, but also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25 ("APB 25") "Accounting for Stock Issued to Employees." The Company elected to continue to follow the provisions of APB 25 and has provided the pro forma disclosures required by FAS 123.

Report of Independent Accountants



To the Board of Directors and Shareowners of Frontier Corporation

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of income, shareowners' equity and cash flows present fairly, in all material respects, the financial position of Frontier Corporation and its subsidiaries at December 31, 1996, 1995 and 1994, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of ALC Communications Corporation, a wholly owned subsidiary, which statements reflect total assets of $432,146,000 and $284,725,000 at December 31, 1995 and 1994, respectively, and total revenues of $852,057,000 and $567,824,000 for the years ended December 31, 1995 and 1994, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for ALC Communications Corporation for the years ended December 31, 1995 and 1994, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

As discussed in Note 13 to the financial statements, during the first quarter of 1996 the Company adopted the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of."

As discussed in Note 13 to the financial statements, during the third quarter of 1995 the Company adopted the provisions of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made."

As discussed in Note 5 to the financial statements, during the third quarter of 1995 the Company discontinued accounting for the operations of its local communications subsidiaries in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation."

As discussed in Note 13 to the financial statements, during the first quarter of 1994 the Company adopted the provisions of Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits."

Price Waterhouse LLP

Price Waterhouse LLP
January 27, 1997
Rochester, New York

Report of Management

The integrity and objectivity of the accompanying financial information is the responsibility of the management of Frontier Corporation.

The financial statements report on management's accountability for corporate operations and assets. To this end management maintains a highly developed system of internal controls and procedures designed to provide reasonable assurance that the Company's assets are protected and that all transactions are accounted for in conformity with generally accepted accounting principles. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures.

Price Waterhouse LLP, an independent accounting firm, provides an objective assessment of the degree to which management meets its responsibility for financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures they consider necessary to express an opinion that the financial statements present fairly the financial position of the Company.

Louis L. Massaro
Executive Vice President and Chief Financial Officer
Frontier Corporation

Report of Audit Committee

The Audit Committee of the Board of Directors is comprised of four independent directors who are not officers or employees of the corporation. The committee oversees the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee recommends to the Board of Directors the independent accountants for election by the shareowners. The committee also meets regularly with management and the independent accountants and internal auditors to review accounting, auditing, internal accounting controls, pending litigation and financial reporting matters. As a matter of policy, the internal auditors and independent accountants have unrestricted access to the Audit Committee.

Jairo A. Estrada
Chairman, Audit Committee
Frontier Corporation Board of Directors

Business Segment Information

In thousands of dollars Years Ended December 31,	1996	1995	1994
Long Distance Communications Services			
Revenues	$1,888,259	$1,480,313	$1,010,425
Operating Income:			
Operating Income Before Acquisition Related and Other Charges	$ 230,658	$ 210,462	$ 161,107
Acquisition Related and Other Charges	(20,823)	(91,448)	—
Total Operating Income*	$ 209,835	$ 119,014	$ 161,107
Depreciation and Amortization	$ 83,322	$ 61,593	$ 39,290
Capital Expenditures	$ 186,906	$ 68,265	$ 41,668
Identifiable Assets	$1,044,173	$ 934,318	$ 465,335
Local Communications Services			
Revenues:			
Rochester, New York Operations	$ 325,166	$ 315,273	$ 305,734
Regional Operations	317,847	306,452	303,944
Total Revenues	$ 643,013	$ 621,725	$ 609,678
Operating Income:			
Operating Income Before Acquisition Related and Other Charges:			
Rochester, New York Operations	$ 81,604	$ 80,991	$ 76,655
Regional Operations	134,034	117,290	103,595
Acquisition Related and Other Charges:			
Rochester, New York Operations	(17,340)	(1,589)	—
Regional Operations	(5,760)	(8,660)	—
Total Operating Income	$ 192,538	$ 188,032	$ 180,250
Depreciation and Amortization:			
Rochester, New York Operations	$ 54,771	$ 55,698	$ 59,098
Regional Operations	47,579	48,721	49,490
Total Depreciation and Amortization	$ 102,350	$ 104,419	$ 108,588
Capital Expenditures	$ 101,342	$ 73,766	$ 60,711
Identifiable Assets	$ 941,629	$ 964,154	$1,183,982
Corporate Operations and Other			
Revenues	$ 44,297	$ 41,653	$ 47,442
Operating Loss:			
Operating Loss Before Acquisition Related and Other Charges	$ (9,589)	$ (10,274)	$ (15,731)
Acquisition Related and Other Charges	(4,900)	(12,542)	—
Total Operating Loss	$ (14,489)	$ (22,816)	$ (15,731)
Depreciation and Amortization	$ 4,274	$ 3,697	$ 5,445
Capital Expenditures	$ 22,554	$ 20,544	$ 11,356
Identifiable Assets	$ 235,718	$ 210,120	$ 411,477
Consolidated			
Revenues	$2,575,569	$2,143,691	$1,667,545
Operating Income:			
Operating Income Before Acquisition Related and Other Charges	$ 436,707	$ 398,469	$ 325,626
Acquisition Related and Other Charges	(48,823)	(114,239)	—
Total Operating Income	$ 387,884	$ 284,230	$ 325,626
Depreciation and Amortization	$ 189,946	$ 169,709	$ 153,323
Capital Expenditures	$ 310,802	$ 162,575	$ 113,735
Identifiable Assets	$2,221,520	$2,108,592	$2,060,794

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

In thousands of dollars, except per share data Years Ended December 31,	1996	1995	1994
Revenues	$2,575,569	$2,143,691	$1,667,545
Costs and Expenses			
Operating expenses	1,898,889	1,527,050	1,139,587
Depreciation and amortization	189,946	169,709	153,323
Taxes other than income taxes	50,027	48,463	49,009
Acquisition related and other charges	48,823	114,239	—
Total Costs and Expenses	2,187,685	1,859,461	1,341,919
Operating Income	387,884	284,230	325,626
Interest expense	43,175	53,557	50,216
Other income and expense:			
Gain on sale of assets	4,976	4,826	10,063
Equity earnings from unconsolidated wireless interests	9,011	3,676	3,185
Interest income	2,344	9,673	8,364
Other expense	500	3,184	690
Income Before Taxes, Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	360,540	245,664	296,332
Income taxes	142,596	100,896	109,078
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	217,944	144,768	187,254
Extraordinary items	—	(121,208)	—
Cumulative effect of changes in accounting principles	(8,018)	(1,477)	(7,197)
Consolidated Net Income	209,926	22,083	180,057
Dividends on preferred stock	1,182	1,191	1,187
Income Applicable to Common Stock	$ 208,744	$ 20,892	$ 178,870
Earnings Per Common Share			
Income before extraordinary items and cumulative effect of changes in accounting principles	$ 1.32	$ .89	$ 1.16
Extraordinary items	—	(.75)	—
Cumulative effect of changes in accounting principles	(.05)	(.01)	(.04)
Earnings Per Common Share	$ 1.27	$ .13	$ 1.12
Average Common Shares Outstanding *(in thousands)*	164,013	161,669	160,353

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In thousands of dollars, except share data December 31,	1996	1995	1994
ASSETS			
Current Assets			
Cash and cash equivalents	$ 30,948	$ 31,449	$ 359,309
Short-term investments	—	—	9,047
Accounts receivable, (less allowance for uncollectibles of $30,911, $28,515 and $11,407, respectively)	364,256	404,081	263,815
Materials and supplies	13,198	12,928	8,586
Deferred income taxes	30,349	43,588	5,712
Prepayments and other	30,483	31,089	27,357
Total Current Assets	469,234	523,135	673,826
Property, plant and equipment, net	971,259	881,309	1,034,442
Goodwill and customer base	535,979	550,081	222,442
Deferred and other assets	245,048	154,067	130,084
Total Assets	$2,221,520	$2,108,592	$2,060,794
LIABILITIES AND SHAREOWNERS' EQUITY			
Current Liabilities			
Accounts payable	$ 322,325	$ 381,680	$ 243,421
Dividends payable	35,966	33,247	15,487
Debt due within one year	6,253	14,871	4,966
Taxes accrued	34,963	26,842	28,070
Other liabilities	18,596	47,561	13,754
Total Current Liabilities	418,103	504,201	305,698
Long-term debt	675,043	618,867	661,549
Deferred income taxes	2,542	15,644	98,217
Deferred employee benefits obligation	65,479	58,385	46,001
Total Liabilities	1,161,167	1,197,097	1,111,465
Shareowners' Equity			
Preferred stock	22,611	22,769	22,777
Common stock, par value $1.00, authorized 300,000,000 shares; 163,731,733 shares, 158,063,387 shares and 149,294,195 shares issued in 1996, 1995, and 1994	163,732	158,063	149,294
Capital in excess of par value	500,196	420,172	379,404
Retained earnings	385,350	317,149	397,854
	1,071,889	918,153	949,329
Less—			
Treasury stock, 6,375 shares in 1996 and 1995, at cost	147	147	—
Unearned compensation-restricted stock plan	11,389	6,511	—
Total Shareowners' Equity	1,060,353	911,495	949,329
Total Liabilities and Shareowners' Equity	$2,221,520	$2,108,592	$2,060,794

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

In thousands of dollars Years Ended December 31,	1996	1995	1994
Operating Activities			
Net income	$ 209,926	$ 22,083	$180,057
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary items	—	194,932	—
Cumulative effect of changes in accounting principles	12,396	2,272	11,072
Acquisition related and other charges	48,823	114,239	—
Depreciation and amortization	189,946	169,709	153,323
Gain on sale of assets	(4,976)	(4,820)	(10,063)
Equity earnings from unconsolidated wireless interests	(9,011)	(3,676)	(3,185)
Other, net	92	1,326	511
Changes in operating assets and liabilities, exclusive of impacts of purchase acquisitions:			
Decrease (increase) in accounts receivable	36,549	(99,127)	(37,691)
(Increase) decrease in material and supplies	(1,302)	(1,470)	1,824
(Increase) decrease in prepayments and other current assets	(2,077)	6,480	(2,434)
Increase in deferred and other assets	(20,903)	(32,482)	(17,478)
(Decrease) increase in accounts payable	(79,134)	30,585	32,544
Increase (decrease) in taxes accrued and other current liabilities	1,042	8,663	(746)
Increase in deferred employee benefits obligation	6,608	9,947	6,958
Increase (decrease) in deferred income taxes	7,682	(92,631)	(9,227)
Total adjustments	185,735	303,941	125,408
Net cash provided by operating activities	395,661	326,024	305,465
Investing Activities			
Expenditures for property, plant and equipment	(246,533)	(163,740)	(112,162)
Deposit for capital projects	(62,694)	—	—
Decrease (increase) in short-term investments	—	6,225	(11,386)
Investment in cellular partnerships	(29,422)	(12,090)	(3,939)
Proceeds from asset sales	13,841	—	56,698
Purchase of companies, net of cash acquired	(9,118)	(349,536)	(18,546)
Other investing activities	—	(196)	(370)
Net cash used in investing activities	(333,926)	(519,337)	(89,705)
Financing Activities			
Proceeds from issuance of long-term debt	58,037	207,962	135,412
Repayments of debt	(14,878)	(279,329)	(64,747)
Dividends paid	(138,697)	(82,801)	(59,388)
Treasury stock, net	—	(10,041)	2,302
Issuance of common stock	33,407	31,957	107,244
Distribution to shareowners of pooled company	—	(2,287)	(11,236)
Other financing activities	(105)	(8)	(8)
Net cash (used in) provided by financing activities	(62,236)	(134,547)	109,579
Net (Decrease) Increase in Cash and Cash Equivalents	(501)	(327,860)	325,339
Cash and Cash Equivalents at Beginning of Year	31,449	359,309	33,970
Cash and Cash Equivalents at End of Year	$ 30,948	$ 31,449	$359,309

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareowners' Equity

In thousands of dollars	Preferred Stock	Common Stock	Capital In Excess of Par	Retained Earnings	Treasury Stock	Unearned Compensation	Total
Balance, January 1, 1994	$22,785	$108,630	$308,649	$ 289,852	$ (2,191)		$ 727,725
Net income				180,057			180,057
Redemptions	(8)						(8)
Equity offering		2,549	101,565				104,114
Stock split		36,574	(36,574)				0
Exercise of stock options		713	894				1,607
Exercise of warrants		828	1,242				2,070
Tax benefit from exercise of stock options			4,062				4,062
Distribution to shareowners of pooled company				(11,236)			(11,236)
Common and preferred dividends				(60,819)			(60,819)
Other			(434)		2,191		1,757
Balance, December 31, 1994	$ 22,777	$149,294	$ 379,404	$ 397,854	$ 0		$ 949,329
Net income				22,083			22,083
Redemptions	(8)						(8)
Retirements		(117)	(3,142)				(3,259)
Exercise of stock options		2,434	15,780				18,214
Exercise of warrants		6,252	8,095				14,347
Restricted stock plan activity, net		200	7,000			$ (6,511)	689
Tax benefit from exercise of stock options			15,252				15,252
Distribution to shareowners of pooled company				(2,287)			(2,287)
Common and preferred dividends				(100,501)			(100,501)
Purchases for acquisitions					(20,041)		(20,041)
Issuances					19,894		19,894
Other			(2,217)				(2,217)
Balance, December 31, 1995	$ 22,769	$ 158,063	$ 420,172	$ 317,149	$ (147)	$ (6,511)	$ 911,495
Net income				209,926			209,926
Redemptions	(158)		53				(105)
Exercise of stock options		5,482	27,355				32,837
Exercise of warrants		87	131				218
Restricted stock plan activity, net		100	4,089			(4,878)	(689)
Tax benefit from exercise of stock options			48,531				48,531
Common and preferred dividends				(141,416)			(141,416)
Other			(135)	(309)			(444)
Balance, December 31, 1996	$22,611	$163,732	$500,196	$ 385,350	$ (147)	$(11,389)	$1,060,353

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Consolidation—The consolidated financial information includes the accounts of Frontier Corporation and its majority-owned subsidiaries (the "Company" or "Frontier") after elimination of all significant intercompany transactions. Investments in entities in which the Company does not have a controlling interest are accounted for using the equity method.

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Materials and Supplies—Materials and supplies are stated at the lower of cost or market, based on weighted average unit cost.

Property, Plant and Equipment—The investment in property, plant and equipment is recorded at cost. Improvements that significantly add to productive capacity or extend useful life are capitalized, while maintenance and repairs are expensed as incurred. The Company's provision for depreciation of property, plant and equipment is based on the straight-line method using estimated service lives of the various classes of plant. The range of service lives for furniture and fixtures is 5 to 20 years, network equipment is 3 to 20 years, local and toll service lines is 12 to 25 years and for station equipment is 10 to 21 years.

The cost of depreciable telephone property units retired, plus removal costs, less salvage is charged to accumulated depreciation. When non-telephone property, plant and equipment is retired or sold, the resulting gain or loss is recognized currently as an element of other income.

Goodwill and Customer Base—The excess of the cost of companies purchased over the net assets acquired is being amortized on a straight-line basis over 20 to 40 years. The purchase price of customer bases acquired is being amortized on a straight-line basis over principally 5 to 7 years. Accumulated amortization is $106.5 million, $64.0 million and $47.9 million at the end of 1996, 1995 and 1994, respectively.

Impairment of Long-Lived Assets—In the event that facts and circumstances indicate that the carrying amount of a long-lived asset may be impaired an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset is compared to the assets' carrying amount to determine if a write-down to market value or discounted cash flow is required.

Accounts Payable—Accounts payable includes trade accounts payable and an estimated accrual for long distance cost of access. Subsequently, the cost of access accrual is adjusted based on invoices received from local exchange carriers and others.

Fair Value of Financial Instruments—Cash and cash equivalents are valued at their carrying amounts, which are reasonable estimates of fair value. The fair value of long-term debt is estimated using rates currently available to the Company for debt with similar terms and maturities. The fair value of all other financial instruments approximates cost as stated.

Federal Income Taxes—Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when those differences are expected to reverse. Income tax benefits of tax deductions related to common stock transactions with the Company's stock option plans are recorded directly to capital in excess of par value.

The Company provides a valuation allowance for its deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock Split—In November 1993, the Board of Directors approved a 2-for-1 split of the common stock of the Company effected in the form of a 100 percent stock dividend with no change in the par value. The split was approved by the New York State Public Service Commission ("NYSPSC") and common shares were distributed in 1994. Historical share and per share data have been retroactively adjusted to reflect the split.

Revenue Recognition—Customers are billed as of monthly cycle dates. Revenue is recognized as service is provided net of an estimate for uncollectible accounts.

Earnings Per Share—Earnings applicable to each share of common stock and common stock equivalent are based on the weighted average number of shares outstanding during each year. Common stock equivalents are primarily stock options assumed to be exercised for the purposes of the computation.

Cash Flows—For purposes of the Statements of Cash Flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash flows from financing activities include $33.4 million of cash proceeds from stock options and warrants exercised during 1996. The resultant tax benefit realized from the exercise of stock options of $48.5 million is reflected as an adjustment to capital in excess of par value and taxes accrued.

Actual interest paid was $49.6 million in 1996, $57.9 million in 1995 and $56.1 million in 1994. Actual income taxes paid were $69.7 million in 1996, $108.6 million in 1995 and $107.9 million in 1994. Interest costs associated with the construction of capital assets, including the nationwide fiber optic network project, are capitalized. Total amounts capitalized during 1996, 1995 and 1994 were $6.2 million, $1.2 million and $1.3 million, respectively.

Reclassifications—Certain prior year amounts have been reclassified to conform to current year presentation.

2. Pooling of Interests Transactions

On August 16, 1995, the shareowners of the Company and ALC Communications Corporation ("ALC") approved a merger of the two companies. ALC, through its subsidiary Allnet Communication Services, Inc. (renamed Frontier Communications Services, Inc.), provided long distance products and services primarily to small and medium-sized business customers and carrier customers nationwide. Under the terms of the merger agreement, the Company exchanged two shares of its common stock for each of ALC's common shares. The total shares issued by the Company to effect the merger were 69.2 million. At the time of the merger, ALC had 3.9 million stock options and 3.3 million stock warrants outstanding providing on exercise for the purchase of an equal number of its shares. After the merger, each of these options and warrants, consistent with the 2-for-1 exchange ratio at the time of the merger, continues to be exercisable for two shares of the Company's stock. The transaction has been accounted for as a pooling of interests and the consolidated financial statements have been restated for all periods prior to the merger to include the accounts and operations of ALC.

On March 17, 1995, the Company acquired American Sharecom, Inc. ("ASI"), a long distance company headquartered in Minneapolis, Minnesota. ASI's sales operations are concentrated in the Midwest, Northwest and California. The Company

acquired all of the outstanding shares of [illegible] in exchange for approximately 8.7 million shares of Frontier common stock. Subsequent to the acquisition, 117,336 shares of Frontier common stock were returned to the Company in settlement of a pre-acquisition liability and retired. The transaction has been accounted for [illegible] pooling of interests and the consolidated financial statements have been restated for all periods prior to the acquisition to include the accounts and operations of ASI.

Combined and separate results of Frontier Corporation, ALC and ASI during the periods preceding the merger were as follows:

In millions	Frontier Corporation	ALC	ASI	Combined
Seven months ended July 31, 1995: (unaudited)				
Revenues	$678.4	$443.8	$ 20.2	$1,142.4
Net income	$ 71.2	$ 46.7	$ 2.1	$ 120.0
December 31, 1994:				
Revenues	$977.1	$567.8	$122.6	$1,667.5
Net income	$102.7	$ 64.3	$ 13.1	$ 180.1

3. Purchase Acquisitions and Divestitures

Purchase Acquisitions

In March 1996, the Company acquired a 55 percent interest in the New York RSA No. 3 Cellular Partnership ("RSA No. 3"). RSA No. 3 is a provider of cellular mobile telephone service in the New York State Rural Service Area No. 3. RSA No. 3 encompasses much of the Southern Tier Area of New York State. The Company contributed its interest in RSA No. 3 to its joint venture with Bell Atlantic/Nynex Mobile which is managed by Frontier Cellular (Note 14). The operating results are reported using the equity method of accounting. The Company paid $25.3 million in cash for its interest in RSA No. 3.

In November 1995, the Company acquired Link-VTC, Inc. ("Link-VTC"), a Boulder, Colorado based telecommunications company specializing in videoconferencing services. The Company paid $13.4 million in cash for Link-VTC, including a payment of $4.3 million made in June 1996 as a settlement of the original earn-out agreement.

In August 1995, Frontier acquired Schneider Communications, Inc. ("SCI") and SCI's 80.8 percent interest in LinkUSA Corporation ("LinkUSA") for $130 million in cash. SCI provides telecommunications services in the Midwest. LinkUSA develops software applications for telecommunications companies.

On February 2, 1996, the Company acquired the remaining 19.2 percent interest in LinkUSA for $2.3 million in cash.

In May 1995, the Company purchased WCT Communications, Inc. WCT is a facilities-based long distance carrier providing commercial and residential services in 45 states. The Company paid approximately $80 million in cash for all of the outstanding shares of WCT.

The Company paid $95 million in cash for several other purchase acquisitions which were completed in 1995 and are included in the unaudited pro forma results. These purchase acquisitions were Minnesota Southern Cellular Telephone Company (March 1995), ConferTech International, Inc. (March 1995) and Enhanced TeleManagement, Inc. (July 1995).

The following unaudited pro forma results of operations for the twelve month periods ended December 31, 1995 and 1994, present information as if the purchase acquisitions had occurred at the beginning of the periods presented. The pro forma results of operations are provided for information purposes only. They are based upon historical information which has been restated to reflect the pooling of interests with ALC and ASI, and do not necessarily reflect the actual results that would have occurred nor are they necessarily indicative of future results of operations of the combined companies.

In thousands of dollars, except per share data (unaudited)	1995	1994
Revenues	$2,273,348	$1,949,551
Income before extraordinary items and cumulative effect of changes in accounting principles	$ 130,388	$ 157,756
Net Income	$ 7,703	$ 150,559
Earnings Per Common Share:		
Earnings before extraordinary items and cumulative effect of changes in accounting principles	$ .81	$ .98
Earnings Per Common Share	$ .05	$ .93

Divestitures

In March 1995, the Company sold Ontonagon County Telephone Company in Michigan and its subsidiary, Midway Telephone Company. The sale resulted from the Company's plans to expand in areas other than Michigan's Upper Peninsula. The sale resulted in a non-taxable gain of $4.8 million, or $.03 per share.

In May 1994, the Company completed the sale of Minot Telephone Company in Minot, North Dakota. Minot Telephone was the Company's only holding in North Dakota and the Company had reassessed its prospects for expansion in North Dakota. The sale resulted in a $7.1 million after tax gain, or $.04 per share.

4. Acquisition Related and Other Charges

In November 1996, the Company recorded a $48.8 million pre-tax charge. This charge included $28.0 million for the curtailment of certain company pension plans and a $20.8 million charge to write-off unrecoverable product development costs for its conference calling product line.

The Company's 1995 operating results reflect acquisition related charges of $114.2 million associated with the integration of a number of long distance companies acquired during the year, including the August 1995 merger with ALC. The integration of the acquired companies with the existing Frontier businesses resulted in instances of redundant facilities, equipment and staffing. The acquisition related charges include

investment banker, legal fees and other di[illegible] costs resulting from the merger with ALC and the ASI transaction. Through a combination of attrition and force reductions, the Company has reduced its number of employees in the long distance and administrative areas. As of December 31, 1996, 433 employees have been paid $14.8 million in severance benefits which were charged to the reserve. The remaining reserve balance of $28.2 million is primarily for redundant facilities currently being decommissioned.

5. Discontinuance of Regulatory Accounting Principles

The Company determined in 1995 that Financial Accounting Standards Board Statement No. 71 ("FAS 71"), "Accounting for the Effects of Certain Types of Regulation," was no longer applicable based upon changes in regulation, increasingly rapid advancements in telecommunications technology and other factors creating competitive markets.

As a result of the discontinuance of FAS 71, the Company recorded a non-cash extraordinary charge of $112.1 million, net of an income t[illegible]enefit of $68.4 million as of September 30, 1995. The components of the extraordinary charge follow:

In millions of dollars	Pre-Tax	After-Tax
Increase to the accumulated depreciation balance	$(185.6)	$(115.4)
Elimination of other net regulatory liabilities	5.1	3.3
	$(180.5)	$(112.1)

The adjustment of $185.6 million to net telephone plant was necessary because estimated useful lives and depreciation methods historically prescribed by regulators did not keep pace with the technological changes in the Company and differed significantly from those used by unregulated entities. The discontinuance of FAS 71 also required the Company to eliminate for financial reporting the effects of any actions of regulators that had been recognized as regulatory assets and liabilities pursuant to FAS 71.

6. Property, Plant and Equipment

Major classes of property, plant, and equipment are summarized below:

In thousands of dollars	1996	1995	1994
Land and buildings	$ 115,485	$ 106,745	$ 103,235
Local and toll services lines	795,855	761,044	752,366
Central office equipment	580,217	587,814	584,434
Station equipment	38,770	32,183	33,926
Switching and network facilities	386,293	330,567	234,433
Office equipment, vehicles and tools	233,601	201,718	170,094
Plant under construction	126,140	77,091	36,130
Less: Accumulated depreciation	1,305,102	1,215,853	880,176
	$ 971,259	$ 881,309	$1,034,442

Depreciation expense was $146.6 million, $139.2 million and $132.9 million for the years ending December 31, 1996, 1995 and 1994, respectively.

7. Long-Term Debt

In thousands of dollars At December 31,	1996	1995	1994
Frontier Communications of Minnesota, Inc. Senior Notes, 7.61%, due February 1, 2003	$ 35,000	$ 35,000	$ 35,000
Rural Utilities Service Debt, 2%-9% due 1994 to 2026	64,654	69,878	77,045
	99,654(a)	104,878	112,045
Debentures			
10.46% convertible, due October 27, 2008	5,300(b)	5,300	5,300
9%, due January 1, 2020	—	—	69,785
9%, due August 15, 2021	100,000	100,000	100,000
	105,300	105,300	175,085
9% Senior Subordinated Notes, due 2003	3,180	3,233	80,000
Medium-term notes, 7.51%-9.3%, due 2000 to 2004	219,000	219,000	179,000
Revolving Credit Agreements	248,570	187,601	120,000
Capitalized lease obligations and other debt	8,444	17,376	3,971
Subtotal	684,148	637,388	670,101
Less: Discount on long-term debt	2,852	3,650	3,586
Current portion of long-term debt	6,253	14,871	4,966
Total long-term debt	$675,043	$618,867	$661,549

(a) Certain assets of Local Communications Services segment are pledged as security.

(b) The debenture is convertible into common stock at any time after October 26, 1998 at $10.5375 per share. A total of 502,966 shares of common stock are reserved for such conversion.

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(c) The Company redeemed the debentures in November 1995 in a transaction that resulted in an extraordinary loss of $3.2 million, net of applicable taxes of $1.7 million in 1995.

(d) The Company completed a tender offer for the $80.0 million of outstanding notes in September 1995 and redeemed approximately $76.8 million. This redemption resulted in an extraordinary loss of $5.8 million, net of applicable taxes of $3.7 million in 1995.

(e) In March 1995 in conjunction with the implementation of the Open Market Plan, the Company, through its Rochester Telephone Corp. subsidiary, completed an offering of $40.0 million of 7.51% Medium-term Notes, maturing March 2002.

(f) The Company has credit facilities totaling $450.0 million which are available through commercial paper borrowings or through draws under Revolving Credit Agreements. At December 31, 1996, the Company had outstanding $248.6 million in commercial paper issuances. Commercial paper is classified as long-term debt as the Company intends to refinance the debt through continued short-term borrowing or available credit facilities with unused commitments extending beyond one year.

Frontier Corporation's Revolving Credit Agreement was entered into in August 1995 with a group of 10 commercial banks and expires August 2000. The Agreement was amended in May 1996 to increase the available line of credit from $250.0 million to $350.0 million. The Agreement is unsecured and has commitment fees of .08 percent per year on the entire commitment, with interest on amounts drawn down based upon the London Interbank Offered Rate ("LIBOR") plus .17 percent.

The Company, through its subsidiary Rochester Telephone Corp., entered into a Revolving Credit Agreement with six commercial banks in December 1994. The Agreement established a secured $160.0 million line of credit which was amended in 1995 to remove the security interest on the assets of Rochester Telephone Corp. and reduce the available line of credit to $100.0 million. The agreement carries commitment fees of .07 percent per year on the entire commitment, with interest on amounts drawn down based on either the prime rate, LIBOR plus .13 percent, or a competitive bid rate.

The Company also has a $500.0 million universal shelf which was filed with the Securities Exchange Commission in November 1995. This filing allows for the issuance of a combination of debt, common, preferred stock or warrant securities. No securities have been issued as of December 31, 1996.

(g) In accordance with FAS 107, "Disclosures about Fair Value of Financial Instruments," the Company estimates that the fair value of the debt, based on rates currently available to the Company for debt with similar terms and remaining maturities, is $718.2 million, as compared to the carrying value of $684.1 million.

At December 31, 1996, aggregate debt maturities were:

In thousands of dollars	1997	1998	1999	2000	2001
	$6,253	$8,770	$30,262	$319,927	$74,734

8. Income Taxes

The provision for income taxes consists of the following:

In thousands of dollars	1996	1995	1994
Federal:			
Current	$114,302	$103,689	$105,189
Deferred	6,136	(17,721)	(9,120)
	120,438	85,968	96,069
State:			
Current	19,757	16,498	13,116
Deferred	2,401	(1,570)	(107)
	22,158	14,928	13,009
Total income taxes	$142,596	$100,896	$109,078

The reconciliation of the federal statutory income tax rate with the effective income tax rate reflected in the financial statements is as follows:

In thousands of dollars	1996	1995	1994
Federal income tax expense at statutory rate	35.0%	35.0%	35.0%
State income tax (net of federal benefit)	4.0	4.0	2.9
Accelerated depreciation	—	1.1	.9
Investment tax credit	—	(.6)	(.7)
Utilization of net operating loss carryforward	(.9)	(1.4)	(1.2)
Acquisition related charges	—	2.4	—
Goodwill amortization	1.2	1.5	.8
Other	.3	(.9)	(.9)
Total income tax	39.6%	41.1%	36.8%

Deferred tax (assets) liabilities are compr[illegible] of the following at December 31:

In thousands of dollars	1996	1995	1994
Accelerated depreciation	$ 87,768	$ 81,687	$ 151,069
Other	22,915	18,297	17,153
Gross deferred tax liabilities	110,683	99,984	168,222
Basis adjustment-purchased telephone companies	(25,477)	(29,232)	(31,851)
Employee benefits obligation	(11,136)	(4,562)	(12,955)
Net operating loss carryforwards	(44,906)	(45,844)	(42,000)
Acquisition related charges	(27,630)	(29,213)	—
Bad debt expense	(10,970)	(11,801)	(4,657)
Other	(37,832)	(31,163)	(12,754)
Gross deferred tax assets	(157,951)	(151,815)	(104,217)
Valuation allowance	19,461	23,887	28,500
Total deferred tax assets	(138,490)	(127,928)	(75,717)
Net deferred tax (assets) liabilities	$ (27,807)	$ (27,944)	$ 92,505

Certain of the Company's acquired subsidiaries have tax net operating losses and alternative tax net operating loss carryforwards ("NOLs") which can be utilized annually to offset separate company future taxable income. Under the provisions of Internal Revenue Code Section 382, the utilization of carryforwards is presently limited. The Company's NOLs begin to expire in 2004. As a result of the annual limitation and the difficulty in predicting their utilization beyond a period of three years, the Company has established valuation allowances for the NOL carryforwards. Because certain of the NOL carryforwards were acquired in purchase acquisitions and the related valuation allowance was recorded using purchase accounting, $7.0 million of this valuation allowance, if subsequently recognized, would be allocated to reduce goodwill.

9. Service Pensions and Benefits

The Company has contributory and noncontributory plans providing for service pensions and certain death benefits for substantially all employees. The Company's provisions for service pensions and certain death benefits are remitted, at least annually, to the trustees.

The majority of the Company's pension plans have plan assets that exceed accumulated benefit obligations. There are certain plans, however, with accumulated benefit obligations which exceed plan assets. The following tables summarize the funded status of the Company's pension plans and the related amounts that are primarily included in "Deferred and other assets" in the Consolidated Balance Sheets.

December 31, 1996 *In thousands of dollars*	Plans for which assets exceed accumulated benefits	Plans for which accumulated benefits exceed assets	Total
Actuarial present value of benefit obligations:			
Vested benefit obligation	$ 403,077	$ 12,693	$415,770
Accumulated benefit obligation	$ 423,055	$ 13,758	$436,813
Plan assets at fair value, primarily fixed income securities and common stock	$ 493,894	$ —	$493,894
Projected benefit obligation	(423,055)	(14,899)	(437,954)
Funded status	70,839	(14,899)	55,940
Unrecognized net (gain) loss	(55,604)	3,250	(52,354)
Unrecognized net transition asset	(2,837)	—	(2,837)
Unrecognized prior service cost	11,097	—	11,097
Adjustment required to recognize minimum liability		(2,109)	(2,109)
Pension asset (liability) reflected in Consolidated Balance Sheet	$ 23,495	$(13,758)	$ 9,737

December 31, 1995 *In thousands of dollars*	Plans for which assets exceed accumulated benefits	Plans for which accumulated benefits exceed assets	Total
Actuarial present value of benefit obligations:			
Vested benefit obligation	$367,765	$ 19,984	$387,749
Accumulated benefit obligation	$381,528	$ 22,335	$403,863
Plan assets at fair value, primarily fixed income securities and common stock	$437,151	$ 8,234	$445,385
Projected benefit obligation	(384,199)	(25,364)	(409,563)
Funded status	52,952	(17,130)	35,822
Unrecognized net (gain) loss	(19,194)	4,337	(14,857)
Unrecognized net transition (asset) obligation	(3,909)	36	(3,873)
Unrecognized prior service cost	12,533	3,783	16,316
Adjustment required to recognize minimum liability	—	(5,246)	(5,246)
Pension asset (liability) reflected in Consolidated Balance Sheet	$ 42,382	$ (14,220)	$ 28,162

December 31, 1994 *In thousands of dollars*	Plans for which assets exceed accumulated benefits	Plans for which accumulated benefits exceed assets	Total
Actuarial present value of benefit obligations:			
Vested benefit obligation	$294,140	$ 15,494	$309,634
Accumulated benefit obligation	$308,432	$ 17,223	$325,655
Plan assets at fair value, primarily fixed income securities and common stock	$373,446	$ 6,641	$380,087
Projected benefit obligation	(326,858)	(20,774)	(347,632)
Funded status	46,588	(14,133)	32,455
Unrecognized net (gain) loss	(23,244)	2,980	(20,264)
Unrecognized net transition (asset) obligation	(3,935)	18	(3,917)
Unrecognized prior service cost	6,563	5,240	11,803
Adjustment required to recognize minimum liability	—	(4,728)	(4,728)
Pension asset (liability) reflected in Consolidated Balance Sheet	$ 25,972	$ (10,623)	$ 15,349

The net periodic pension cost consists of the following:

Years Ended December 31, *In thousands of dollars*	1996	1995	1994
Service cost	$ 6,487	$ 5,616	$ 7,934
Interest cost on projected benefit obligation	30,100	28,868	25,565
Actual (return) loss on plan assets	(63,807)	(89,195)	2,229
Net amortization and deferral	25,723	51,437	(39,606)
Amount expensed due to curtailment	28,000	2,907	—
Net periodic pension cost (benefit)	$ 26,503	$ (367)	$ (3,878)

The following rates and assumptions were used to calculate the projected benefit obligation:

Years Ended December 31,	1996	1995	1994
Weighted average discount rate	7.5%	7.5%	8.5%
Rate of salary increase	5.0%	5.0%	5.5%
Expected return on plan assets	9.0%	9.0%	9.0%

The Company's funding policy is to make contributions for pension benefits based on actuarial computations which reflect the long-term nature of the pension plan. However, under FAS 87, "Employers' Accounting for Pensions," the development of the projected benefit obligation essentially is computed for financial reporting purposes and may differ from the actuarial determination for funding due to varying assumptions and methods of computation.

In 1996, the Company recognized a curtailment loss of $28.0 million reflecting the enhancement and freezing of defined benefit plans sponsored by Frontier Corporation, primarily for certain bargaining unit employees. Pension expense in 1995 included a net curtailment loss of $2.9 million reflecting the enhancement and freezing of defined benefit plans sponsored by Frontier Corporation for non-bargaining unit employees as of December 31, 1996.

The Company also sponsors a number [illegible]efined contribution plans. The most significant plan covers non-bargaining employees, who can elect to make contributions through payroll deduction. Effective January 1, 1996, the Company provides a contribution of .5 percent of gross compensation in common stock for every employee eligible to participate in the plan. The Company also provides 100% matching contributions in its common stock up to three percent of gross compensation, and may, at the discreti[illegible]f the Management Benefit Committee, provide additional matching contributions based upon Frontier's financial results. In 1995 and 1994, the Company provided matching contributions in its common stock up to 75 percent of participants' contributions up to six percent of gross compensation. The total cost recognized for all defined contribution plans was $8.4 million for 1996, $6.8 million for 1995 and $5.6 million for 1994.

10. Postretirement Benefits Other Than Pensions

The Company provides health care and life insurance benefits to most employees. Plan assets consist principally of life insurance policies and money market instruments. In adopting FAS 106, the Company elected to defer the recognition of the accrued obligation of $125 million over a period of twenty years. During 1996, the Company amended its health benefits care plan to cap the cost absorbed by the Company for health care and life insurance for its bargaining unit employees who retire after December 31, 1996. The effect of this amendment was to reduce the December 31, 1996 accumulated postretirement obligation by $11.2 million. Additionally, during 1996, special termination benefits were offered to certain employees with 25 years of service or more who were already entitled to reduced or full retirement benefits and who voluntarily terminated their employment with the Company prior to December 31, 1996. During the fourth quarter of 1995, the Company amended its health benefits plan to cap the cost absorbed by the Company for health care and life insurance for its non-bargaining unit employees who retire after December 31, 1996. The effect of this amendment was to reduce the December 31, 1995 accumulated postretirement obligation by $8.1 million.

The status of the plans is as follows:

In thousands of dollars December 31,	1996	1995	1994
Accumulated postretirement benefit obligation (APBO) attributable to:			
Retirees	$ 78,398	$ 73,032	$ 79,935
Fully eligible plan participants	15,206	17,235	22,812
Other active plan participants	10,669	20,127	28,877
Total APBO	$104,273	$110,394	$131,624
Plan assets at fair value	5,322	5,716	5,545
APBO in excess of plan assets	98,951	104,678	126,079
Unrecognized transition obligation	(84,764)	(99,836)	(109,730)
Unrecognized net prior service cost	(90)	(1,790)	(6,003)
Unrecognized net gain	24,235	30,110	15,502
Accrued postretirement benefit obligation	$ 38,332	$ 33,162	$ 25,848

The components of the estimated postretirement benefit cost are as follows:

In thousands of dollars December 31,	1996	1995	1994
Service cost	$ 642	$ 947	$ 1,323
Interest on accumulated postretirement benefit obligation	7,735	8,614	9,666
Amortization of transition obligation	5,512	6,045	6,094
Return on plan assets	(457)	(462)	(385)
Amortization of prior service cost	69	392	383
Amortization of gains and losses	(2,024)	(2,758)	(704)
Special termination benefit	360		
Net postretirement benefit cost	$11,837	$12,778	$16,377

The following assumptions were used to value the postretirement benefit obligation:

Years Ended December 31,	1996	1995	1994
Weighted average discount rate	7.5%	7.5%	8.5%
Expected return on plan assets	9.0%	9.0%	9.0%
Rate of salary increase	5.0%	5.0%	5.5%
Assumed rate of increase in cost of covered health care benefits	7.1%	10.5%	11.2%

Health care costs were assumed to decline consistently to 5.0% by 2006 and thereafter. If the health care cost trend rates were increased by one percentage point, the accumulated postretirement benefit health care obligation as of December 31, 1996 would increase by $7.3 million while the sum of the service and interest cost components of the net postretirement benefit health care cost for 1996 would increase by $.7 million.

11. Stock Option Plans and Other Common Stock Transactions
The Company has stock option plans for its directors, executives and certain employees. The exercise price for all plans is the fair market value of the stock on the date of the grant. The options expire ten years from the date of the grant. The options vest over a period from one to three years. Options previously issued to ALC employees are vested in their entirety as of the August 16, 1995 merger date. The maximum number of shares which may be granted under the executive plan is limited to one percent of the number of issued shares, including treasury shares, of the Company's common stock during any calendar year. The maximum number of shares which may be granted under the employee plan is a total of 8,000,000 shares over a 10 year period. The maximum number of shares which may be granted under the directors plan is 1,000,000 shares.

Information with respect to options under the above plans follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 1994	9,331,112	$ 6.33
Granted in 1994	507,900	$ 20.42
Cancelled in 1994	(150,464)	$ 11.35
Exercised in 1994	(713,025)	$ 2.25
Outstanding at December 31, 1994	8,975,523	$ 7.37
Granted in 1995	2,020,315	$ 25.27
Cancelled in 1995	(195,716)	$ 23.53
Exercised in 1995	(2,433,623)	$ 7.48
Outstanding at December 31, 1995	8,366,499	$ 11.28
Granted in 1996	3,067,500	$30.95
Cancelled in 1996	(784,289)	$28.77
Exercised in 1996	(5,481,681)	$ 5.99
Outstanding at December 31, 1996	5,168,029	$25.91

At December 31, 1996, 9,194,770 shares were available for future grant.

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans. Accordingly, no compensation expense would be recognized for its stock-based compensation plans other than for restricted stock awards.

During 1996 the Company adopted the disclosure requirements of FAS 123, "Accounting for Stock-Based Compensation." In accordance with FAS 123, the Company has elected not to recognize compensation cost related to stock options with exercise prices equal to the market price at the date of issuance. If the Company had elected to recognize compensation cost based on the fair value of the options at grant date as prescribed by FAS 123, net income and earnings per share would have been reduced by $5 million and $1 million, or $.03 and $.01 per share, for years ended December 31, 1996 and 1995, respectively. The weighted average fair value of options granted during 1996 and 1995 were $8.58 and $7.42 respectively, determined by the Black-Scholes option valuation model. The following assumptions were used in the model: expected volatility of 28.4 percent, expected dividend yield of 3.0 percent, and risk-free interest rates ranging from 5.5 percent to 7.0 percent. Due to the difference in vesting requirements in each of the plans, the expected lives of the options range from 5 to 7 years. Forfeitures are recognized as they occur.

Options Outstanding

Range Of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 1—$ 3	261,787	4.89	$ 2.29
$12—$20	561,036	6.71	16.22
$21—$32	4,345,206	8.94	28.59

Options Exercisable

Range Of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$ 1—$ 3	261,787	$ 2.29
$12—$20	504,700	15.91
$21—$32	657,676	24.16

Restricted Stock Plan

The Company has 300,000 shares of common stock outstanding as of December 31, 1996 under its Management Stock Incentive Plan. The stock issued under this plan ("Restricted Stock") is subject to the achievement of certain performance goals, the passage of time and continued employment restrictions. Participants in the plan may earn, without cost to them, Frontier common stock over three years. Shareowners' equity reflects unearned compensation for the unvested stock awarded. During 1996, the Company did not recognize compensation expense for the restricted stock plan as the market price of the common stock at December 31, 1996 was significantly below the vesting prices.

Common Stock Warrants

As of December 31, 1996, warrants for the purchase of 44,000 shares of common stock at $2.50 per share were outstanding. The warrants expire in June 1997. As of December 31, 1996, 1995 and 1994, 87[illegible], 6,252,000 and 828,000 warrants were exercised. The warrants were issued in connection with ALC's refinancings and the difference between the exercise price and the fair value of the warrants at the time of issuance was recorded as a discount on the related notes and an increase to capital in excess of par value.

Stock Offering

In February 1994, the Company sold 5.4 million shares of its common stock at $42 per share in a public offering. As part of the offering, 2.5 million new primary shares were issued and sold directly by the Company and 2.9 million shares were sold by C FON Corporation, a subsidiary of Sprint Corporation. All share and per share data is prior to the 2-for-1 stock split which occurred in April 1994.

12. Preferred Stock

In thousands of dollars, except share data	1996	1995	1994
Frontier Corporation—850,000 shares authorized; par value $100			
5.00% Series—redeemable at $101 per share			
Shares outstanding	100,000	100,000	100,000
Amount outstanding	$10,000	$10,000	$10,000
5.65% Series—redeemable at $101 per share			
Shares outstanding	50,000	50,000	50,000
Amount outstanding	$ 5,000	$ 5,000	$ 5,000
4.60% Series—redeemable at $101 per share			
Shares outstanding	48,500	50,000	50,000
Amount outstanding	$ 4,850	$ 5,000	$ 5,000
Frontier Communications of New York, Inc.			
40,000 shares authorized; par value $100			
5.875% Series A—redeemable at par			
Shares outstanding	18,694	18,694	18,694
Amount outstanding	$ 1,869	$ 1,869	$ 1,869
7.80% Series B—redeemable at $100.80-$105.00 per share			
Shares outstanding	6,160	6,240	6,320
Amount outstanding	$ 616	$ 624	$ 632
Frontier Communications of AuSable Valley, Inc.			
4,000 shares authorized; par value $100			
5.50% Series—redeemable at par			
Shares outstanding	2,754	2,754	2,754
Amount outstanding	$ 276	$ 276	$ 276
Total shares outstanding	226,108	227,688	227,768
Total amount outstanding	$22,611	$22,769	$22,777

At the special meeting in December 1994, Frontier shareowners authorized four million shares of a new class of preferred stock, having a value of $100.00 per share and designated as Class A Preferred Stock. This class of stock will rank junior to the cumulative preferred stock as to dividends and distributions, and upon the liquidation, dissolution or winding up of the Company. As of December 31, 1996, no shares of this class have been issued.

On April 9, 1995, the Board of Directors adopted a Shareowners Rights Plan (the "Plan"). This Plan provides for a dividend distribution on each outstanding common share of a right to purchase one one-hundredth of a share of Series A Junior Participating Class A Preferred Stock. The rights are designed to protect shareowners in the event of an unsolicited attempt to acquire Frontier which the Board does not believe is fair to the shareowners interest. The rights become exercisable under certain circumstances to purchase Frontier common stock at one-half market value.

13. Accounting Pronouncements Adopted

Effective January 1, 1996, the Company adopted FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." FAS 121 requires that certain long-lived assets and identifiable intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. The statement also requires that certain long-lived assets and identifiable intangibles to be disposed of be reported at fair value less selling costs. The Company's adoption of this standard resulted in a non-cash charge of $8.0 million (net of a tax benefit of $4.4 million) and is reported as a cumulative effect of a change in accounting principle. The charge represents the cumulative adjustment required by FAS 121 to remeasure the carrying amount of certain assets held for disposal as of January 1, 1996. These assets held for disposal consist principally of telephone switching equipment in the Company's Local Communications Services segment as a result of management's commitment, in late 1995, to a central office switch consolidation project primarily at the Rochester Telephone Corp. and Frontier Communications of New York subsidiaries.

The Company adopted FAS 116, "Accounting for Contributions Received and Contributions Made" for all of its consolidated subsidiaries effective September 30, 1995. FAS 116 requires that the Company reflect in current expenses an accrual for the cost of multi-year charitable contributions. The net impact of adopting FAS 116 resulted in a post-tax charge of $1.5 million, net of taxes of $0.8 million.

The Company adopted FAS 112, "Employers' Accounting for Postemployment Benefits" effective January 1, 1994. FAS 112 requires that the projected future costs of providing postemployment, but pre-retirement, benefits, such as disability, pre-pension leave (salary continuation) and severance pay, be recognized as an expense as employees render service rather than when the benefits are paid. The Company recognized the obligation for postemployment benefits through a cumulative effect charge to net income of $7.2 million, net of taxes of $3.9 million.

14. Investment in Cellular Partnerships

In July 1994, Frontier Corporation and Nynex Corporation combined certain of their respective cellular interests to form Frontier Cellular, a cellular super system joint venture in upstate and western New York State. Currently, Frontier Cellular includes cellular markets throughout New York State and northern Pennsylvania. The structure of the transaction is a 50/50 joint venture partnership, with Frontier as the managing partner. Financial results for the joint venture have been reported on the equity method of accounting, reflecting Frontier's proportionate share of the joint venture's earnings in the "Other income and expense" section of the Consolidated Statements of Income. Previously, revenues and expenses for these New York State wireless properties had been consolidated. During 1995, Nynex Corporation contributed its cellular interests in the partnership into a combined partnership with Bell Atlantic Corporation. The partnership investment balances of $58.6 million in 1996, $33.8 million in 1995 and $23.5 million in 1994 are included in "Deferred and other assets" in the Consolidated Balance Sheets.

15. Major Customer

The Company's 1996 revenues include the impact of a major carrier customer whose revenues comprise approximately 16% of consolidated revenues for the year.

16. Commitments and Contingencies

Operating Environment—The Company has evolved from a provider of local and long distance services in certain areas of the country to a nationwide provider of integrated communications services. As a result, the Company has formidable competitors of greater size and expects that, over-time and due to the lifting of regulatory restrictions, there will be more entrants into the long distance business and its local markets.

Legal Matters—The Company and a number of its subsidiaries in the normal course of business are party to a number of judicial, regulatory and administrative proceedings involving matters incidental to their business. The Company's management does not believe that any material liability will be imposed as a result of these matters.

Leases and License Agreements—The Company leases buildings, land, office space, fiber optic network, computer hardware and other equipment, and has license agreements for rights-of-way for the construction and operation of a fiber optic communications system. Total rental expense amounted to $164.6 million in 1996, $77.8 million in 1995 and $68.7 million in 1994.

Minimum annual rental commitments under non-cancellable operating leases and license agreements in effect on December 31, 1996 were as follows:

In thousands of dollars Years	Buildings	Equipment	License Agreements
1997	$ 21,062	$ 9,623	$ 83,859
1998	17,745	4,786	71,536
1999	13,701	2,355	37,818
2000	11,832	1,489	20,892
2001	10,259	47	13,392
2002 and thereafter	32,320	—	7,826
Total	$106,919	$18,300	$235,323

Sale of Cellular Interest—On October 23, 1996, the Company announced that a definitive agreement had been signed with Alltel to sell its 69.5% equity interest in the South Alabama Cellular Communications Partnership. The partnership provides cellular service to customers in Alabama RSA No. 4 and Alabama RSA No. 6. The Company anticipates that this transaction, which is subject to board of directors and regulatory approval, will be finalized in early 1997. The Company expects to recognize a gain as a result of this transaction.

Other Matters—In connection with the Company's capital program, certain commitments have been made for the purchase of material and equipment. In October 1996, construction began on a nationwide fiber optic network. Frontier will be investing approximately $500 million in this project over the next two year period. At December 31, 1996, the Company made a $62 million deposit payment for this project that is included in the "Deferred and other" caption in the Consolidated Balance Sheets. The network expansion will increase 1997 capital expenditures by over $250 million to a combined level of approximately $590 million.

17. Business Segment Information

As of January 1996, Frontier simplified its business segment reporting to reflect the predominance of its two major operating segments, long distance and local communications services. The Company now reports its operating results in three segments: Long Distance Communications Services, Local Communications Services and Corporate Operations and Other. The Company's majority interest in two wireless properties, which were previously reported as a Wireless Communications Segment, have been consolidated under Corporate Operations and Other. The change in the definition of the Company's segments has been made to better reflect the changing scope of the businesses in which Frontier operates.

Revenues and sales, operating income, depreciation, construction and identifiable assets by business segment are set forth in the Business Segment Information on page 22.

18. Quarterly Data (Unaudited)

(In thousands of dollars, except per share data)		Revenues	Income		Per Share			
		Consolidated Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings Before Extraordinary Items and Cumulative Effect	Earnings	Market Price High	Market Price Low
1996	First Quarter	$ 655,149	$111,852	$ 57,123[1]	$ .40	$ .35	$33.25	$28.25
	Second Quarter	670,279	122,701	69,206	.42	.42	$33.38	$27.75
	Third Quarter	669,069	129,218	73,777	.45	.45	$31.25	$25.88
	Fourth Quarter	581,072	24,113[2]	9,820[2]	.06	.06	$31.88	$19.88
	Full Year	$2,575,569	$387,884	$209,926	$1.32[3]	$1.27[3]		
1995	First Quarter[illegible]	$ 459,040	$ 87,281[4]	$ 51,650[4]	$ .32	$ .32	$ 23.38	$ 19.25
	Second Quarter[illegible]	506,920	96,314	53,069	.33	.33	$ 24.13	$ 19.63
	Third Quarter	571,386	(7,681)[5]	(137,912)[5]	(.12)[6]	(.90)[6]	$ 28.63	$ 23.75
	Fourth Quarter	606,345	108,316	55,276	.36	.34	$ 30.00	$ 25.50
	Full Year	$ 2,143,691	$ 284,230	$ 22,083	$ .89	$ .13		
1994	First Quarter	$ 399,454	$ 75,967	$ 32,962[7]	$ .25	$ .21	$ 22.44	$ 20.25
	Second Quarter	416,767	79,686	52,909	.33	.33	$ 25.25	$ 20.81
	Third Quarter	421,503	84,557	47,407	.29	.29	$ 24.75	$ 21.63
	Fourth Quarter	429,821	85,416	46,779	.29	.29	$ 24.63	$ 20.50
	Full Year	$ 1,667,545	$ 325,626	$ 180,057	$1.16	$1.12		

(1) Includes a post-tax cumulative effect charge related to change in accounting principle of $8.0 million.

(2) Includes a pre-tax charge of $65.2 million as a result of the following: $28.0 million representing a one-time charge for the curtailment of certain company pension plans; $20.8 million is the result of a nonrecurring charge relating to the Company's conference calling product line and $16.4 million reflecting the resolution of billing disputes with connecting carriers. The $16.4 million charge relating to the carrier billing disputes recorded in the fourth quarter of 1996 does not result in the material misstatement of the earlier quarters of 1996.

(3) As a result of rounding, the total of the four quarters' earnings does not equal the earnings per share for the year.

(4) Includes a pre-tax acquisition related charge of $4.8 million (post-tax charge of $3.1 million).

(5) Includes pre-tax acquisition related charge of $109.5 million (post-tax charge of $75.7 million). Includes post-tax extraordinary charges of $112.1 million resulting from the discontinuance of regulatory accounting, a post-tax extraordinary loss on retirement of debt of $5.8 million and a post-tax cumulative effect charge related to change in accounting principle of $1.5 million.

(6) Due to the net loss incurred, the earnings per share calculation excludes common stock equivalents.

(7) Includes a post-tax cumulative effect charge related to change in accounting principle of $7.2 million.

Condensed Six-Year Financial Statements

In thousands of dollars, except per share data Years Ended December 31,	1996	1995	1994	1993	1992	1991
CONSOLIDATED STATEMENTS OF INCOME						
Revenues	$2,575,569	$2,143,691	$1,667,545	$1,437,448	$1,252,244	$1,120,375
Costs and expenses	2,187,685	1,859,461	1,341,919	1,185,811	1,047,393	952,165
Operating Income	387,884	284,230	325,626	251,637	204,851	168,210
Interest expense	43,175	53,557	50,216	56,691	66,933	63,154
Other income	15,831	14,991	20,922	7,207	2,201	27,905
Income taxes	142,596	100,896	109,078	73,509	33,094	52,774
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	217,944	144,768	187,254	128,644	107,025	80,187
Extraordinary items	—	(121,208)	—	(7,490)	(1,072)	6,387
Cumulative effects of changes in accounting principles	(8,018)	(1,477)	(7,197)	—	—	—
Consolidated Net Income	209,926	22,083	180,057	121,154	105,953	86,574
Dividends on preferred stock	1,182	1,191	1,187	1,640	4,442	5,189
Income Applicable to Common Stock	$ 208,744	$ 20,892	$ 178,870	$ 119,514	$ 101,511	$ 81,385
Earnings Per Common Share:						
Primary	$ 1.27	$ .13	$ 1.12	$ .78	$ .74	$ .64
Fully Diluted	$ 1.27	$ .13	$ 1.12	$ .78	$ .74	$ .64
CONSOLIDATED BALANCE SHEETS						
Current assets	$ 469,234	$ 523,135	$ 673,826	$ 303,434	$ 302,122	$ 270,122
Property, plant and equipment, net	971,259	881,309	1,034,442	1,080,135	1,085,760	1,075,584
Goodwill and customer base	535,979	550,081	222,442	215,962	187,278	197,201
Deferred and other assets	245,048	154,067	130,084	122,014	104,583	118,112
Total Assets	$2,221,520	$2,108,592	$2,060,794	$1,721,545	$1,679,743	$1,661,019
Current liabilities	$ 418,103	$ 504,201	$ 305,698	$ 291,760	$ 344,962	$ 344,974
Long-term debt	675,043	618,867	661,549	581,707	604,157	636,099
Deferred income taxes	2,542	15,644	98,217	104,232	104,588	113,973
Deferred employee benefits obligation	65,479	58,385	46,001	16,121	—	—
Redeemable preferred stock	—	—	—	—	9,659	62,434
Shareowners' equity	1,060,353	911,495	949,329	727,725	616,377	503,539
Total Liabilities and Shareowners' Equity	$2,221,520	$2,108,592	$2,060,794	$1,721,545	$1,679,743	$1,661,019
CONSOLIDATED STATEMENTS OF CASH FLOWS						
Operating activities	$ 395,661	$ 326,024	$ 305,465	$ 292,233	$ 249,763	$ 186,771
Investing activities	(333,926)	(519,337)	(89,705)	(151,165)	(137,540)	(283,607)
Financing activities	(62,236)	(134,547)	109,579	(177,401)	(87,396)	116,579
Net (Decrease) Increase in Cash and Cash Equivalents	$ (501)	$ (327,860)	$ 325,339	$ (36,333)	$ 24,827	$ 19,743

17. Business Segment Information

As of January 1996, Frontier simplified its business segment reporting to reflect the predominance of its two major operating segments, long distance and local communications services. The Company now reports its operating results in three segments: Long Distance Communications Services, Local Communications Services and Corporate Operations and Other. The Company's majority interest in two wireless properties, which w[illegible] previously reported as a Wireless Communications Segment, have been consolidated under Corporate Operations and Other. The change in the definition of the Company's segments has been made to better reflect the changing scope of the businesses in which Frontier operates.

Revenues and sales, operating income, depreciation, construction and identifiable assets by business segment are set forth in the Business Segment Information on page 22.

18. Quarterly Data (Unaudited)

(In thousands of dollars, except per shar. data)		Revenues	Income		Per Share			
		Consolidated Revenues	Operating Income (Loss)	Net Income (Loss)	Earnings Before Extraordinary Items and Cumulative Effect	Earnings	Market Price High	Market Price Low
1996	First Quarter	$ 655,149	$111,852	$ 57,123[1]	$ .40	$ .35	$33.25	$28.25
	Second Quarter	670,279	122,701	69,206	.42	.42	$33.38	$27.75
	Third Quarter	669,069	129,218	73,777	.45	.45	$31.25	$25.88
	Fourth Quarter	581,072	24,113[2]	9,820[2]	.06	.06	$31.88	$19.88
	Full Year	$2,575,569	$387,884	$209,926	$1.32[3]	$1.27[3]		
1995	First Quarter[1]	$ 459,040	$ 87,281[4]	$ 51,650[4]	$ .32	$ .32	$ 23.38	$ 19.25
	Second Quarter[1]	506,920	96,314	53,069	.33	.33	$ 24.13	$ 19.63
	Third Quarter	571,386	(7,681)[5]	(137,912)[5]	(.12)[6]	(.90)[6]	$ 28.63	$ 23.75
	Fourth Quarter	606,345	108,316	55,276	.36	.34	$ 30.00	$ 25.50
	Full Year	$ 2,143,691	$ 284,230	$ 22,083	$ .89	$ .13		
1994	First Quarter	$ 399,454	$ 75,967	$ 32,962[7]	$ .25	$ .21	$ 22.44	$ 20.25
	Second Quarter	416,767	79,686	52,909	.33	.33	$ 25.25	$ 20.81
	Third Quarter	421,503	84,557	47,407	.29	.29	$ 24.75	$ 21.63
	Fourth Quarter	429,821	85,416	46,779	.29	.29	$ 24.63	$ 20.50
	Full Year	$ 1,667,545	$ 325,626	$ 180,057	$1.16	$1.12		

(1) Includes a post-tax cumulative effect charge related to change in accounting principle of $8.0 million.

(2) Includes a pre-tax charge of $65.2 million as a result of the following: $28.0 million representing a one-time charge for the curtailment of certain company pension plans; $20.8 million is the result of a nonrecurring charge relating to the Company's conference calling product line and $16.4 million reflecting the resolution of billing disputes with connecting carriers. The $16.4 million charge relating to the carrier billing disputes recorded in the fourth quarter of 1996 does not result in the material misstatement of the earlier quarters of 1996.

(3) As a result of rounding, the total of the four quarters' earnings does not equal the earnings per share for the year.

(4) Includes a pre-tax acquisition related charge of $4.8 million (post-tax charge of $3.1 million).

(5) Includes pre-tax acquisition related charge of $109.5 million (post-tax charge of $75.7 million). Includes post-tax extraordinary charges of $112.1 million resulting from the discontinuance of regulatory accounting, a post-tax extraordinary loss on retirement of debt of $5.8 million and a post-tax cumulative effect charge related to change in accounting principle of $1.5 million.

(6) Due to the net loss incurred, the earnings per share calculation excludes common stock equivalents.

(7) Includes a post-tax cumulative effect charge related to change in accounting principle of $7.2 million.

Condensed Six-Year Financial Statements

In thousands of dollars, except per share data Years Ended December 31,	1996	1995	1994	1993	1992	1991
CONSOLIDATED STATEMENTS OF INCOME						
Revenues	$2,575,569	$2,143,691	$1,667,545	$1,437,448	$1,252,244	$1,120,375
Costs and expenses	2,187,685	1,859,461	1,341,919	1,185,811	1,047,393	952,165
Operating Income	387,884	284,230	325,626	251,637	204,851	168,210
Interest expense	43,175	53,557	50,216	56,691	66,933	63,154
Other income	15,831	14,991	20,922	7,207	2,201	27,905
Income taxes	142,596	100,896	109,078	73,509	33,094	52,774
Income Before Extraordinary Items and Cumulative Effect of Changes in Accounting Principles	217,944	144,768	187,254	128,644	107,025	80,187
Extraordinary items	—	(121,208)	—	(7,490)	(1,072)	6,387
Cumulative effects of changes in accounting principles	(8,018)	(1,477)	(7,197)	—	—	—
Consolidated Net Income	209,926	22,083	180,057	121,154	105,953	86,574
Dividends on preferred stock	1,182	1,191	1,187	1,640	4,442	5,189
Income Applicable to Common Stock	$ 208,744	$ 20,892	$ 178,870	$ 119,514	$ 101,511	$ 81,385
Earnings Per Common Share:						
Primary	$ 1.27	$ .13	$ 1.12	$ .78	$ .74	$ .64
Fully Diluted	$ 1.27	$ .13	$ 1.12	$ .78	$ .74	$ .64
CONSOLIDATED BALANCE SHEETS						
Current assets	$ 469,234	$ 523,135	$ 673,826	$ 303,434	$ 302,122	$ 270,122
Property, plant and equipment, net	971,259	881,309	1,034,442	1,080,135	1,085,760	1,075,584
Goodwill and customer base	535,979	550,081	222,442	215,962	187,278	197,201
Deferred and other assets	245,048	154,067	130,084	122,014	104,583	118,112
Total Assets	$2,221,520	$2,108,592	$2,060,794	$1,721,545	$1,679,743	$1,661,019
Current liabilities	$ 418,103	$ 504,201	$ 305,698	$ 291,760	$ 344,962	$ 344,974
Long-term debt	675,043	618,867	661,549	581,707	604,157	636,099
Deferred income taxes	2,542	15,644	98,217	104,232	104,588	113,973
Deferred employee benefits obligation	65,479	58,385	46,001	16,121	—	—
Redeemable preferred stock	—	—	—	—	9,659	62,434
Shareowners' equity	1,060,353	911,495	949,329	727,725	616,377	503,539
Total Liabilities and Shareowners' Equity	$2,221,520	$2,108,592	$2,060,794	$1,721,545	$1,679,743	$1,661,019
CONSOLIDATED STATEMENTS OF CASH FLOWS						
Operating activities	$ 395,661	$ 326,024	$ 305,465	$ 292,233	$ 249,763	$ 186,771
Investing activities	(333,926)	(519,337)	(89,705)	(151,165)	(137,540)	(283,607)
Financing activities	(62,236)	(134,547)	109,579	(177,401)	(87,396)	116,579
Net (Decrease) Increase in Cash and Cash Equivalents	$ (501)	$ (327,860)	$ 325,339	$ (36,333)	$ 24,827	$ 19,743

Financial and Operating Statistics for Six Years

Dollars in thousands, except per share data Years ended December 31,	1996	1995	1994	1993	1992	1991
Current ratio	1.12	1.04	2.20	1.04	.88	.79
Pre-tax interest coverage	8.1x	1.9x	6.5x	4.3x	3.0x	3.2x
Total debt	$ 681,296	$633,738	$666,515	$586,669	$694,803	$737,629
Debt ratio	39.1%	41.0%	41.2%	44.6%	52.6%	56.6%
Common shareowners' equity	$1,037,742	$888,726	$926,552	$704,940	$593,564	$480,716
Rate of return on average common equity (1)	25.5%	24.0%	21.9%	19.4%	18.9%	19.3%
Construction	$ 310,802	$162,575	$113,735	$123,842	$137,066	$119,082
Percent of funds generated internally	83%	150%	216%	189%	145%	117%
Common shares outstanding end of year*	163,725	158,057	149,294	142,542	122,935	109,798
Average common shares outstanding*	164,013	161,669	160,353	153,230	136,180	127,627
Total number of common shareowners	30,206	26,637	24,608	22,840	22,520	21,376
Market price per common share:						
High	$ 33.38	$ 30.00	$ 25.25	$ 25.13	$ 17.88	$ 17.00
Low	$ 19.88	$ 19.25	$ 20.25	$ 17.32	$ 14.57	$ 13.00
End of year	$ 22.63	$ 30.00	$ 21.13	$ 22.57	$ 17.82	$ 16.07
Dividends declared per common share	$ .855	$ .835	$ .815	$ .795	$ .775	$ .755
Dividends paid per common share	$ .850	$ .830	$ .810	$ .790	$ .770	$ .750
Dividend yield-end of year	3.8%	2.8%	3.9%	3.6%	4.4%	4.8%
Percent to total revenues:						
Net Revenues:						
Long Distance Communications Services	73%	69%	61%	55%	51%	51%
Local Communications Services	25%	29%	37%	41%	45%	45%
Other	2%	2%	2%	4%	4%	4%
Operating Margin: (1)						
Long Distance Communications Services	12%	14%	16%	13%	10%	7%
Local Communications Services	34%	32%	30%	27%	25%	26%
Consolidated	17%	17%	20%	18%	16%	15%
Access lines in service—Rochester	532,189	524,630	501,811	492,512	488,986	473,391
Access lines in service—Regionals	443,453	426,245	416,327	425,128	407,415	394,513
Total access lines in service	975,642	950,875	918,138	917,640	896,401	867,904
Employees:						
Long Distance Communications Services	4,376	4,203	2,647	2,378	2,280	2,141
Local Communications Services	2,701	2,959	3,156	3,444	3,885	3,915
Other	823	675	369	259	296	316
Total employees	7,900	7,837	6,172	6,081	6,461	6,372
Local Communications Services minutes of use:						
Carrier access minutes-interstate*	2,421,787	2,272,294	2,079,328	2,015,602	1,912,531	1,569,309
Carrier access minutes-intrastate*	1,877,249	1,759,425	1,763,871	1,664,262	1,439,983	1,173,685
Total carrier access minutes*	4,299,036	4,031,719	3,843,199	3,679,864	3,352,514	2,742,994
Long Distance minutes of use*	13,695,536	10,066,777	6,286,912	4,684,981	3,909,616	2,868,545

**In thousands*

(1) Excluding nonrecurring charges.

Directors and Officers

Directors

Patricia C. Barron[1,3]
President, Xerox Engineering Systems, Xerox Corp., a manufacturer of office systems and equipment. A director since 1990.

Ronald L. Bittner[1]
Chairman of the Board and Chief Executive Officer, Frontier Corporation. A director since 1989.

Raul E. Cesan[2]
President, Schering-Plough Pharmaceuticals and Executive Vice President, Schering-Plough Corporation, a worldwide manufacturer and marketer of pharmaceutical and health care products. A director since 1995.

Brenda Evans Edgerton[2]
Vice President, Business Development, Campbell Soup Company, a manufacturer of prepared convenience foods. A director since 1993.

Jairo A. Estrada[1,2]
Private Investor. A director since 1989.

Michael E. Faherty[4]
Chairman, ECCS, Inc., a provider of open systems-based networked computing solutions which incorporate mass storage enhancement products. A director since 1995.

Daniel E. Gill[1,4]
Past Chairman and Chief Executive Officer, Bausch & Lomb, Inc., a worldwide manufacturer and marketer of health care and optical products. A director since 1981.

Alan C. Hasselwander[1]
Past Chairman of the Board, Frontier Corporation. A director since 1984.

Robert Holland, Jr.[3]
Past CEO, Ben & Jerry's Homemade, Inc., a manufacturer and marketer of premium ice cream. A director since 1995.

Douglas H. McCorkindale[1,3]
Vice Chairman and Chief Financial and Administrative Officer, Gannett Co., Inc., a nationwide diversified communications company. A director since 1980.

Dr. Leo J. Thomas[3,4]
Past Executive Vice President, Eastman Kodak Co., a manufacturer of imaging products. A director since 1984.

Richard J. Uhl[2]
President, Chicago Holdings, Inc., a privately owned company engaged in the management of several lease portfolios owned by it and its subsidiaries and in investments in operating companies. A director since 1995.

[1] *Member of Executive Committee*
[2] *Member of Audit Committee*
[3] *Member of Committee on Directors*
[4] *Member of Committee on Management*

Executive Management Team and Corporate Officers

Ronald L. Bittner
Chairman and Chief Executive Officer

Robert L. Barrett
Executive Vice President and President, Frontier Network Systems and Services

Kevin J. Bennis
Executive Vice President and President, Frontier Communications

Jeremiah T. Carr
Executive Vice President
President, Frontier Telephone Group
Chairman, Rochester Telephone Corp.

Louis L. Massaro
Executive Vice President
Chief Financial Officer and
Chief Administrative Officer

Dale M. Gregory
Senior Vice President
Corporate Development

Richard A. Smith
Controller

Josephine S. Trubek
Corporate Secretary

Barbara J. LaVerdi
Assistant Secretary

Joseph Enis
Treasurer

Frontier Companies

This listing depicts the company's principal subsidiaries. Many are involved in provisioning and selling integrated services.

Long Distance Communications Services

Long Distance Services
Frontier Communications Services–*residential, business markets and carrier markets*

Frontel Communications Limited–*integrated services in United Kingdom*

Frontier Long Distance–*reseller in Frontier's local telephone markets*

Enhanced Products Group
ConferTech International–*multimedia teleconferencing*

LINK-VTC–*video conferencing*

LinkUS[1] –*calling cards, operator services and enhanced services*

Telemanagement Services
Frontier TeleManagement

Local Communications Services

Local Telephone Operations
Frontier Communications–*regional companies in Alabama, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Pennsylvania, Wisconsin (plus exchanges in Ohio and Florida)*

Frontier Communications of Rochester–*competitive company in Rochester, New York*

Rochester Telephone Corp.–*network company in Rochester, New York*

Cable Companies
Mid-South Cablevision Company, Inc.–*Mississippi*

Thorntown CATV–*Indiana*

New Richmond Cable Company, Inc.–*Wisconsin*

Wireless Communications Services

Cellular Interests
Frontier Cellular–*partnership with Nynex and Bell Atlantic in Upstate New York and other cellular interests*

Frontier Cellular–*Minnesota*

Other Services

Business Equipment
Frontier Network Systems Inc.–*business equipment and systems*