**UNITED STATES DISTRICT COURT**
**DISTRICT OF CONNECTICUT**

CYNTHIA GRAHAM, Derivatively on behalf of Nominal Defendant FRONTIER COMMUNICATIONS CORPORATION,

Plaintiff,

v.

DANIEL J. MCCARTHY, RALPH PERLEY MCBRIDE, DONALD W. DANIELS, LEROY T. BARNES, JR., PETER C.B. BYNOE, DIANA S. FERGUSON, EDWARD D. FRAIOLI, PAMELA D. A. REEVE, VIRGINIA P. RUESTERHOLZ, HOWARD L. SCHROTT, MARK S. SHAPIRO, MYRON A. WICK, III, JOHN M. JURELLER, and MARY A. WILDEROTTER,

Defendants,

and

FRONTIER COMMUNICATIONS CORPORATION,

Nominal Defendant.

Civil Action No. ________________

**PUBLIC REDACTED VERSION**

JURY TRIAL DEMANDED

**VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT**

Plaintiff Cynthia Graham ("Plaintiff") brings this action derivatively for the benefit of Nominal Defendant Frontier Communications Corporation ("Frontier" or the "Company"). Plaintiff bases her allegations on personal knowledge, as to herself, and upon information and belief, as to all other matters. Plaintiff's information and belief are based upon, among other things, the investigation of counsel, which included: the review and analysis of certain of the Company's Board of Directors (the "Board") minutes and other materials obtained through a request for books and records and memorandums pursuant to 8 *Del. C.* §220 (the "§220 Request"); review of public filings with the U.S. Securities and Exchange Commission ("SEC"); review of public filings in federal courts, including lawsuits filed by court-appointed lead plaintiffs in federal securities fraud litigation; and review of press releases, news reports, analyst reports, industry reports, investor conference call transcripts, and other information available in the public domain. Based on the allegations set forth in this complaint, Plaintiff asserts shareholder derivative claims for breach of fiduciary duty and violations of federal securities laws against members of Frontier's Board and certain Frontier executives.

## I. INTRODUCTION

1. This shareholder derivative action arises from the Board consciously causing and allowing Frontier to mislead the investing public regarding: (1) the difficulty the Company had with its acquisition of Verizon Communications Inc.'s ("Verizon") California, Texas, and Florida ("CTF") wireline operations; and (2) the adequacy of the Company's internal controls to assure that the Company's financial statements were reliable and free of material misstatements, in an effort to artificially buoy the Company's share price in violation of federal securities laws, in breach of their fiduciary duties to the Company and its shareholders.

2. The Individual Defendants (defined below), as Frontier's directors and top officers, were acutely aware of major difficulties ensuing from the Company's acquisition of

Verizon's CTF wireline operations. [redacted]

3. As set forth herein, the Individual Defendants breached their fiduciary duties owed to Frontier and its shareholders by consciously allowing and causing the Company to disseminate false and misleading statements about core aspects of the Company's health to the public. The Individual Defendants knew and/or recklessly disregarded that Frontier was violating the law. The discrepancy between Frontier's public SEC filings and the significant deficiencies actually known to the Board is a clear breach of the fiduciary duty of candor under Delaware law.

4. As a consequence of the Individual Defendants' self-serving and derelict breaches of duty, Frontier, among other things, has been forced to defend itself in a securities fraud class action lawsuit. The securities action makes detailed allegations regarding Frontier's unlawful misleading of the investing public. Frontier and its shareholders are being required to expend significant sums of money to defend the suit and faces liability well into the millions of dollars to settle or satisfy a judgment of that suit. Frontier's illegal practices have caused, and will continue to cause, significant harm and expense to the Company and have damaged its reputation with the investor community.

5. Absent the relief sought herein, the Individual Defendants will continue to cause injury to Frontier by, among other things, violating federal law, exceeding their powers as directors of a Delaware corporation by engaging in unlawful activities, violating their fiduciary duties, and otherwise wasting assets to the detriment of the Company and its shareholders.

6. As directors and/or officers of Frontier, each of the Individual Defendants owed and/or owes the Company and its shareholders the fiduciary duties of good faith, loyalty, due care, and candor in the management and administration of the Company. The Individual Defendants have breached these obligations, however, by approving, authorizing, acquiescing in, and/or willfully turning a blind eye to Frontier's substantial violations of federal securities law. They have likewise failed to discharge their fiduciary duty of candor during the relevant time period. This misconduct subjects the Company to significant civil liability.

## II. JURISDICTION AND VENUE

7. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §1331. The Court also has jurisdiction pursuant to 28 U.S.C. §1367, as to the state law claims alleged, as they arise out of the same transactions and occurrences as the federal claims. Alternatively, the Court has jurisdiction under 28 U.S.C. §1332(a)(1) because Plaintiff and Defendants (defined below) are citizens of different states and the amount in controversy is greater than $75,000, exclusive of interest and costs. This Court has personal jurisdiction over each of the Defendants because each Defendant is either a corporation conducting business and maintaining operations in this District or is an individual who is either present in this District for jurisdictional purposes or has sufficient minimum contacts with this District, so as to render the exercise of jurisdiction by this Court permissible under traditional notions of fair play and substantial justice.

8. Venue is proper in this jurisdiction pursuant to 28 U.S.C. §1391(b) because the Nominal Defendant, Frontier, is headquartered in, and therefore is a resident of, the State of Connecticut.

## III. PARTIES

9. Plaintiff Cynthia Graham is a current owner of Frontier common stock and has continuously owned such shares since January 2012. Plaintiff will hold Frontier shares continuously throughout the pendency of this action. Plaintiff brings this action derivatively in the right of and for the benefit of Frontier. Plaintiff will fairly and adequately represent the interests of Frontier and its shareholders in enforcing the rights of the Company. Plaintiff is a citizen of North Carolina.

10. Nominal Defendant Frontier is a corporation duly organized and existing under the laws of the State of Delaware. Frontier maintains its principal place of business and executive offices at 401 Merritt 7, Norwalk, Connecticut 06851. Frontier's stock trades on the NASDAQ stock exchange under the ticker symbol "FTR." Frontier's Board maintains four standing committees on which the Company's directors serve: the Audit Committee; the Compensation Committee; the Nominating and Corporate Governance Committee; and the Retirement Plan Committee.

11. Defendant Daniel McCarthy ("McCarthy") is, and was at all relevant times, a member of the Board. He has been a director since May 2014, Frontier's Chief Executive Officer ("CEO") since April 2015, and President of the Company since April 2012. Previously, he was the Company's Chief Operating Officer ("COO") from April 2012 to April 2015, Executive Vice President from January 2006 to April 2012, and Senior Vice President, Field Operations from December 2004 to December 2005. Frontier considers Defendant McCarthy an inside director. Defendant McCarthy received $5,118,891 in compensation from the Company in 2015 and $3,312,816 in 2016. Defendant McCarthy is a citizen of Connecticut.

12. Defendant Leroy T. Barnes, Jr. ("Barnes") is, and was at all relevant times, a member of the Board. He has been a director since May 2005. He is a member of the Audit

Committee and Chairperson of the Retirement Plan Committee. Defendant Barnes received $224,478 in compensation from the Company in 2015 and $230,000 in 2016. Defendant Barnes is a citizen of California.

13. Defendant Peter C.B. Bynoe ("Bynoe") is, and was at all relevant times, a member of the Board. He has been a director since October 2007. He is a member of the Compensation Committee and Chairperson of the Nominating and Corporate Governance Committee. Defendant Bynoe received $230,000 in compensation from the Company in 2015 and $230,000 in 2016. Defendant Bynoe is a citizen of Colorado.

14. Defendant Diana S. Ferguson ("Ferguson") is, and was at all relevant times, a member of the Board. She has been a director since October 2014. Defendant Ferguson is a member of the Audit Committee and the Compensation Committee. Defendant Ferguson received $215,000 in compensation from the Company in 2015 and $215,000 in 2016. Defendant Ferguson is a citizen of Illinois.

15. Defendant Edward D. Fraioli ("Fraioli") is, and was at all relevant times, a member of the Board. He has been a director since July 2010. He is a member of the Retirement Plan Committee and Chairperson of the Audit Committee. Defendant Fraioli received $240,000 in compensation from the Company in 2015 and $240,000 in 2016. Defendant Fraioli is a citizen of Massachusetts.

16. Defendant Pamela D.A. Reeve ("reeve") is, and was at all relevant times, a member of the Board. She has been a director since July 2010 and has served as Chairperson of the Board since April 2016. Defendant Reeve received $238,160 in compensation from the Company in 2015 and $352,500 in 2016. Defendant Reeve is a citizen of Massachusetts.

17. Defendant Virginia P. Ruesterholz ("Ruesterholtz") is, and was at all relevant times, a member of the Board. She has been a director since August 2013. She is a member of the Retirement Plan Committee and Chairperson of the Compensation Committee. Defendant Ruesterholz received $227,637 in compensation from the Company in 2015 and $235,000 in 2016. Defendant Ruesterholz is a citizen of Florida.

18. Defendant Howard L. Schrott ("Schrott') is, and was at all relevant times, a member of the Board. He has been a director since July 2005. He is a member of the Audit Committee, the Nominating and Corporate Governance Committee, and the Retirement Plan Committee. Defendant Schrott received $224,203 in compensation from the Company in 2015 and $215,000 in 2016. Defendant Schrott is a citizen of Indiana.

19. Defendant Mark S. Shapiro ("Shapiro") is, and was at all relevant times, a member of the Board. He has been a director since July 2010. He is a member of the Retirement Plan Committee. Defendant Shapiro received $215,000 in compensation from the Company in 2015 and $215,000 in 2016. Defendant Shapiro is a citizen of Connecticut.

20. Defendant Myron A. Wick, III ("Wick") is, and was at all relevant times, a member of the Board. He has been a director since March 2005. He is a member of the Compensation Committee and the Nominating and Corporate Governance Committee. Defendant Wick received $220,522 in compensation from the Company in 2015 and $215,000 in 2016. Defendant Wick is a citizen of California.

21. Defendant Ralph Perley McBride ("McBride") has served as Executive Vice President and Chief Financial Officer ("CFO") of Frontier since November 4, 2016. From 1994 to 1997 and 1999 to 2010, Defendant McBride held senior financial roles at Frontier, including

Vice President of Financial Planning and Analysis. Defendant McBride received $308,921 in compensation from Frontier in 2016. Defendant McBride is a citizen of Georgia.

22. Defendant Donald W. Daniels ("Daniels") has served as Frontier's Senior Vice President and Controller since July 7, 2014. According to his offer of employment letter filed with the SEC, Defendant Daniels's annual base salary is $270,000, plus additional compensation of (1) a cash bonus with a target of 50% of his annual base salary; (2) restricted stock awards with an initial target of $110,000 annually; and (3) performance shares under the Company's Long Term Incentive Plan, with an annual target of $35,000. The Company does not release Defendant Daniels's actual compensation totals. Defendant Daniels is a citizen of Connecticut.

23. Defendant John M. Jureller ("Jureller") served as Frontier's CFO from January 2013 to November 4, 2016. Defendant Jureller received $2,716,987 in compensation from Frontier in 2015 and $1,799,141 in 2016. Defendant Jureller is a citizen of New York.

24. Defendant Mary A. Wilderotter ("Wilderotter") served as Frontier's CEO from November 2004 to April 1, 2015 and as its President from November 2004 to April 2012. Defendant Wilderotter served as a director of Frontier from September 2004 to March 31, 2016, including as Chairman of the Board from December 2005 to April 1, 2015 and as Executive Chairman of the Board from April 1, 2015 to March 31, 2016. Defendant Wilderotter retired and stepped down from the Board on March 31, 2016. Defendant Wilderotter received a sum of $12,101,520 in total compensation from Frontier from 2015 until her resignation in 2016. Defendant Wilderotter, in connection with her resignation, was entitled to certain benefits pursuant to her employment agreement, valued at approximately $6,431,296, which included: (i) the vesting of her outstanding restricted stock awards as though her service continued for an additional 12 months beyond her resignation date, valued at approximately $4,992,533; (ii) the

vesting of her restricted stock units in accordance with their terms, and the vesting of her performance shares upon her resignation based on actual performance, valued at approximately $1,124,337; and (iii) certain other benefits, including the receipt of accrued, but unpaid, vacation time, the cost for continued medical, dental, and other health benefits, and extended life insurance for 36 months after her resignation, valued at approximately $314,427. Defendant Wilderotter is a citizen of Nevada.

25. The Defendants in ¶¶11-20 are collectively referred to hereinafter as the "Director Defendants." The Defendants identified in ¶¶11-24 are collectively referred to herein as the "Individual Defendants."

26. Frontier and the Individual Defendants are collectively referred to herein as the "Defendants."

## IV. THE INDIVIDUAL DEFENDANTS' FIDUCIARY DUTIES

### A. The Fiduciary Duties of the Individual Defendants

27. By reason of their positions as present or past officers and/or directors of Frontier and because of their responsibility to control the business and corporate affairs of the Company, the Individual Defendants owed, and owe, the Company and its shareholders the fiduciary obligations of good faith, loyalty, due care, and candor and were, and are, required to use their utmost ability to control and manage the Company in a just, honest, fair, and equitable manner. Each Individual Defendant owed, and owes, the Company and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company.

28. To discharge their duties, the Individual Defendants were, and are, required to exercise reasonable and prudent oversight and supervision over the management, policies, practices, and controls of Frontier and its most significant subsidiaries. By virtue of such duties, the Individual Defendants were, and are, required to, among other things:

a. manage, conduct, supervise, and direct the business affairs of Frontier (and its subsidiaries) in accordance with all applicable laws (including federal and state laws, government rules and regulations, and the Company's Certificate of Incorporation and Bylaws);

b. neither violate nor knowingly permit any officer, director, or employee of Frontier (or its subsidiaries) to violate any applicable laws, rules, or regulations;

c. remain informed as to the status of Frontier's operations, and upon receipt of notice or information of imprudent or unsound practices, to make a reasonable inquiry in connection thereto, and to take steps to correct such conditions or practices;

d. establish and maintain systematic and accurate records and reports of the business and affairs of Frontier and procedures for the reporting of the Company's business and affairs to the Board and to periodically investigate, or cause independent investigation to be made of, said reports and records; and

e. maintain and implement an adequate, functioning system of internal controls, such that the affairs and operations of Frontier (and those subsidiaries) are conducted in accordance with all applicable laws, rules, and regulations.

### B. The Corporate Governance Guidelines Describe Additional Responsibilities of the Board

29. The Board adopted Governance Guidelines[1] that "reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level." The Governance Guidelines provide that they "*should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as the context of the Company's Certificate of Incorporation and Bylaws*." The Governance Guidelines also state that it is the Board's principal responsibility to:

> oversee and monitor the effectiveness of the [CEO] and other senior members of management who are charged with the competent and ethical operation of the Company on a day-to-day basis. To satisfy this duty the directors will take an active, focused approach to their position, and set standards to ensure that the

[1] Frontier's Corporate Governance Guidelines, committee charters, and other governance documents are maintained on the Company's website at http://investor frontier.com/corporate-governance-0.

Company is committed to business success through maintenance of the highest standards of responsibility and ethics.

30. The Individual Defendants are also expected to adhere to the Company's Code of Business Conduct and Ethics (the "Code") that govern the conduct of its directors, officers, and associates. The Code contain guidelines on, among other things, (i) compliance with laws, rules, and regulations; (ii) conflicts of interest; (iii) insider trading; (iv) confidentiality; (v) honest and ethical conduct and fair dealing; (vi) protection and proper use of corporate assets; (vii) gifts and gratuities; (viii) accuracy of books and records and public reports; (ix) concerns regarding accounting or auditing matters; (x) dealings with independent auditors; (xi) workplace matters; (xii) waivers; and (xiii) reporting and compliance procedures.

31. Frontier's CEO, CFO, and principal accounting officer are further expected to comply with the Specific Code of Business Conduct and Ethics Provisions for Certain Officers (the "Code for Certain Officers"), which are "designed to deter wrongdoing and to promote:" (i) "[h]onest and ethical conduct, including by avoiding actual or potential conflicts of interest between personal and business or professional relationships;" (ii) "[f]ull, fair, accurate, timely, and understandable disclosure in [the Company's] filings with, or submissions to, the [SEC] and in other public communications made by the Company;" (iii) "[c]ompliance with applicable governmental laws, rules and regulations;" (iv) "prompt internal reporting to the Board or any Board committee overseeing the specific provisions of this Code [for Certain Officers] or violations of the specific provisions"; and (v) "[a]ccountability for adherence to the specific provisions."

**C. Additional Fiduciary Duties of the Audit Committee Members**

32. In addition to the fiduciary duties discussed above, the Board's Audit Committee is responsible for assisting with the Board's oversight of the Company's "legal and regulatory

requirements," its "accounting and financial reporting processes," and the audits the Company's financial statements. During the relevant period, Defendants Barnes, Ferguson, Fraioli, and Schrott sat on the Audit Committee.

33. The Audit Committee Charter provides that the Audit Committee will:

> assist the Board in undertaking and fulfilling its responsibilities in overseeing (i) the integrity of the financial statements of the Company, (ii) the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company, (iii) the Company's compliance with legal and regulatory requirements, (iv) the independence, qualifications and performance of the Company's independent auditors, and (v) the qualifications and performance of the Company's internal audit function.

The Audit Committee Charter further provides that the Audit Committee shall, among other things:

- "Review with management, the internal auditors and the independent auditors: (i) any significant findings during the year, including the status of previous audit recommendations; (ii) problems or difficulties encountered in the course of the audit work, including restrictions on the scope of activities or access to required information and disagreements with management; (iii) any changes required in the scope of the audit plan; (iv) the audit budget and staffing; (v) the coordination of 3 audit efforts in order to monitor completeness of coverage, reduction of redundant efforts, and the effectiveness of audit resources; (vi) accounting adjustments that were noted or proposed by the independent auditors and that were 'posted' or 'passed' (as immaterial or otherwise); and (vii) any management letter proposed to be issued, by the independent auditors."

- "Meet to review and discuss with management, the independent auditors and the internal auditors the quality and adequacy of the Company's financial reporting processes, internal controls and disclosure controls and procedures, including whether there are any significant deficiencies in the design or operation of such processes, controls and procedures, material weaknesses in such processes, controls and procedures, any corrective actions taken with regard to such deficiencies and weaknesses and any fraud involving management or other employees with a significant role in such processes, controls and procedures."

- "Review the Company's financial statements, including: (i) prior to public release, reviewing with management and the independent auditor the Company's annual and quarterly financial statements to be filed with the SEC, including (a) the Company's disclosures under 'Management's

Discussion and Analysis of Financial Condition and Results of Operations,' (b) any certifications regarding the financial statements or the Company's internal accounting and financial controls and procedures and disclosure controls and procedures filed with the SEC by the Company's senior executive and financial officers and (c) the matters required to be discussed with the independent auditor by the applicable Statement of Auditing Standards (or successor provisions); (ii) with respect to the independent auditor's annual report and certification, before release of the annual audited financial statements, meeting separately with the independent auditor without any management member present and discussing the adequacy of the Company's system of internal accounting and financial controls and the appropriateness of the accounting principles used in and the judgments made in the preparation of the Company's audited financial statements and the quality of the Company's financial reports; (iii) meeting separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with the independent auditor; and (iv) making a recommendation to the Board regarding the inclusion of the audited annual financial statements in the Company's Annual Report on Form 10- K to be filed with the SEC."

- "Review with management and the independent auditor any material financial or non-financial arrangements that do not appear on the Company's financial statements that are brought to the attention of the Committee.'"

- "Review analyses prepared by management or the independent auditor of significant accounting and financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including: (i) analyses of all critical accounting policies and practices used; (ii) off-balance sheet financial structures; (iii) the effects of GAAP methods on the Company's financial statements, and of non-GAAP financial information, including the use of 'pro forma' or 'adjusted' financial data included in financial reporting; and (iv) major issues 4 regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles."

- "Review matters that have come to the attention of the Committee through reports to the Committee from management, legal counsel, and others, that relate to the status of compliance or disclosure with laws, regulations, internal policies and controls, and that may be expected to be material to the Company's financial statements."

- "Review with management the Company's earnings press releases, as well as financial information and any guidance provided to analysts and ratings agencies, including the use of 'pro forma' or 'adjusted' financial data. Such review may be done generally (consisting of reviewing the types of information to be disclosed and the types of presentations to be made) and need not be in advance of each earnings release or each instance in which the Company provides any guidance."

- "Discuss with the Company's General Counsel legal matters that may have a material impact on the Company's financial statements or compliance policies."

- "Review and discuss with management, the senior internal auditor, and the independent auditor: (i) the guidelines for the internal controls over financial reporting; (ii) reportable conditions that are identified in the implementation of the internal controls; (iii) the occurrence of fraud (whether material or not) that involves management or other employees of the Company who have a significant role in internal control over financial reporting; (iv) significant deficiencies in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data; and (v) any significant audit steps adopted in light of such control deficiencies."

- "Review and discuss with management, the internal auditor and the independent auditor (i) the guidelines and policies to govern the process by which the Chief Executive Officer and senior management assess and manage the Company's exposure to risk, including the Company's Enterprise Risk Management process and (ii) the Company's major financial, operational and reputational risk exposures and the steps management has taken to monitor and control such exposures and advise the Board with respect to such exposures."

- "Review reports from management, the Company's senior internal auditor, and the independent auditor regarding the Company's compliance with applicable legal requirements and the Company's Code of Ethics. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Ethics."

- "Report regularly to the Board on (i) any issues that arise with respect to the quality or integrity of the Company's financial statements, the accounting and financial reporting processes and audits of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, or the performance of the internal audit function and (ii) on any other matters the Committee deems appropriate or the Board requests."

## V. FACTUAL ALLEGATIONS

### A. The Defendants' Wrongful Conduct

#### 1. Frontier's Acquisition of Verizon's Wireline Operations in CTF

34. On February 5, 2015, the Company announced a definitive agreement with Verizon to acquire Verizon's wireline operations in CTF for $10.54 billion in cash. The CFT properties included 3.7 million voice connections, 2.2 million broadband connections, and 1.2 million FiOS® video connections.

35. The transaction was incredibly important to the Company. As Defendant McCarthy stated in an August 3, 2015 earnings conference call: "The Verizon acquisition will transform Frontier. . . . This transaction increases Frontier's growth profile and reduces our exposure to declining portions of our business, improving our business mix significantly."

36. The Company announced the completion of the Verizon acquisition on April 1, 2016. According to the press release:

> "This is a transformative acquisition for Frontier that delivers first-rate assets and important new opportunities given our dramatically expanded scale," said [Defendant] McCarthy, Frontier's President and [CEO]. "It significantly expands our presence in three high-growth, high-density states, and improves our revenue mix by increasing the percentage of our revenues coming from segments with the most promising growth potential."
>
> Frontier is pleased to welcome from Verizon approximately 9,400 employees. "Our new colleagues know their markets, their customers and their business extremely well," [Defendant] McCarthy said. "As valued members of the Frontier team, they will ensure continuity of existing customer relationships."

#### 2. Materially False and Misleading Statements and Omissions in Financial Statements During the Relevant Period

37. On August 1, 2016, the Company, under the direction of the Individual Defendants, issued a press release announcing the Company's financial results for the second quarter of 2016. The release stated, in part:

Frontier Communications Corporation (NASDAQ:FTR) today reported its financial results for the second quarter of 2016, which include contributions from the fully integrated assets Frontier acquired from Verizon in California, Texas, and Florida (CTF).

"We are very pleased with the performance of our newly acquired assets and our achievement of annualized cost synergies of $1 billion in the second quarter. We now expect annual cost synergies related to the acquisition of $1.25 billion, up from our original estimate of $700 million," said [Defendant] McCarthy, Frontier President and [CEO].

"As we move forward, we are continuing to focus on executing our strategy for growth, including upgrading our broadband speed capabilities, expanding our new Vantage video service to an increasing portion of our footprint, and implementing our successful commercial distribution capabilities in Frontier's new markets. We will remain focused on increasing our broadband and video penetration, and improving our efficiency. Our priorities continue to be driving strong free cash flow and continuing our disciplined capital allocation policy, which together underpin our very attractive, sustainable dividend, and industry-leading dividend payout ratio. We also are very well-positioned to achieve our plan to reduce leverage over time," [Defendant] McCarthy said.

Financial Highlights for the Second Quarter 2016:

- Revenue of $2,608 million
- Operating income of $311 million, operating income margin of 11.9%
- Net loss of $80 million, or ($0.07) per share
- Adjusted EBITDA of $1,032 million, adjusted EBITDA margin of 39.6%
- Net cash provided from operating activities of $693 million
- Adjusted Free Cash Flow of $250 million

Revenue:

| | For the quarter ended | | | | |
|---|---|---|---|---|---|
| | June 30, 2016 | | | | |
| *( $ in millions )* | Consolidated Amount | CTF Operations | Frontier Legacy* | March 31, 2016 | June 30, 2015 |
| Total revenue | $ 2,608 | $ 1,282 | $ 1,326 | $ 1,355 | $ 1,368 |

* Excludes results from the recently acquired CTF Operations. See attached schedules for the presentation of consolidated results.

Revenue in the second quarter of 2016 associated with the CTF Operations reflected certain reductions to revenues previously reported for the business, including revenue that did not transfer over from Verizon and strategic decisions to terminate certain contracts and services which, while lowering revenues, added to EBITDA. Revenues were also impacted by one-time items, including the temporary suspension of late fees, outage credits and the anticipated acquisition related accounting changes. Also, as previously announced, the Company temporarily suspended marketing activity which impacted customer additions. [Defendant] McCarthy commented, "We are pleased that the EBITDA from the acquired operations met our expectations for the quarter as a result of better-than-expected cost synergies, and despite our strategic decision to forego specific revenue opportunities."

Customers:

| | As of and for the quarter ended | |
|---|---|---|
| | June 30, 2016 | June 30, 2015 |
| **Residential customer metrics:** | | |
| Customers (in thousands) | 5,243 | 3,175 |
| Average monthly residential revenue per customer | $ 83.20 | $ 64.43 |
| Customer monthly churn | 1.91% | 1.78% |
| **Business customer metrics:** | | |
| Customers (in thousands) | 528 | 299 |
| Average monthly business revenue per customer | $ 658.00 | $ 689.21 |
| **Broadband subscribers (in thousands)** | 4,570 | 2,406 |
| **Video subscribers (in thousands)** | 1,628 | 569 |

The broadband and video unit results during the second quarter reflect Frontier's previously-stated plans to suspend marketing during the second quarter to prospective new customers in the acquired CTF markets, enabling Frontier to focus its efforts on supporting existing customers in those markets. Marketing spending and engagement have now returned to normal levels and the Company anticipates improved customer additions in the third quarter and beyond. Residential ARPC increased during the second quarter largely as a result of the greater availability of video in the new CTF markets. Business ARPC decreased primarily due to the CTF markets having proportionally fewer wholesale customers relative to total business customers as compared to our legacy markets.

Integration Costs:
Frontier completed its CTF customer conversion activities in the second quarter and is finalizing the remainder of its integration work. During the second quarter, Frontier incurred $106 million of integration operating expenses and $36 million of integration capital expenditures. These costs were driven by cutover activities and the acceleration of certain projects to improve synergy attainment.

Cash Flow Highlights:

| | For the quarter ended | |
|---|---|---|
| | June 30, 2016 | June 30, 2015 |
| Capital expenditures – business operations | $ 350 | $ 178 |
| Capital expenditures – integration activities | $ 36 | $ 28 |
| Dividends paid – preferred stock | $ 53 | $ - |
| Adjusted free cash flow | $ 250 | $ 200 |
| Dividends paid – common stock | $ 123 | $ 106 |
| Dividend payout ratio | 49% | 53% |

Guidance:

For the full year 2016, Frontier expects:

- Adjusted free cash flow (as calculated per Schedule A) to be in the range of $825 million to $900 million
- Capital expenditures to be in the range of $1,275 million to $1,325 million
- Cash taxes refunds to be in the range of $10 million to $20 million
- Cash contributions to the pension plan to be in the range of $10 million to $15 million

- For the full year 2017, Frontier expects adjusted EBITDA to be greater than $4 billion.

38. On August 8, 2016, the Company, under the direction of the Individual Defendants, filed its quarterly report on Form 10-Q for the second quarter of 2016 ("Q2 2016 10-Q"). The Q2 2016 10-Q reaffirmed the financial results announced by the press release and contained signed certifications pursuant to the Sarbanes-Oxley Act of 2002 ("SOX") by Defendant Daniels, which stated that the financial information contained in the Q2 2016 10-Q was accurate and disclosed any material changes to the Company's internal controls over financial reporting.

39. On November 1, 2016, the Company, under the direction of the Individual Defendants, issued a press release announcing the Company's financial results for the third quarter of 2016. The release stated in part:

> Frontier Communications Corporation (NASDAQ:FTR) today reported its third quarter financial results and provided an update on its progress with the acquisition of Verizon's wireline properties in California, Texas, and Florida (CTF).
>
> [Defendant] McCarthy, President and CEO, stated, "I am pleased that we achieved third quarter adjusted EBITDA of $1 billion. We are reaffirming our adjusted EBITDA guidance for the 4th quarter and outlook for 2017. We are on course to improve our revenue performance, principally by returning to normal customer trends in the CTF market over the coming quarters."
>
> Frontier today announced a new customer-focused organizational structure and the creation of Commercial and Consumer business units. The updated structure will result in enhanced focus on the commercial segment and more efficient capital allocation. Current regional support functions including Engineering, Finance, Human Resources, Communications and Marketing are being centralized to achieve improved operational performance as well as expense reductions.
>
> Frontier's annualized cost synergy target is now $1.4 billion, up from the $1.25 billion target outlined in the second quarter earnings report. Yet-to-be attained cost synergies of $400 million are anticipated to be achieved by midyear 2019, including $250 million anticipated to be achieved by mid-year 2017.
>
> Frontier's priorities continue to be driving strong free cash flow and continuing a disciplined capital allocation policy. Frontier is committed to maintaining an attractive dividend, preserving its industry-leading dividend payout ratio, and reducing leverage.
>
> <u>Financial Highlights for the Third Quarter 2016</u>:
>
> - Revenue of $2,524 million
> - Operating income of $264 million, operating income margin of 10.5%
> - Net loss attributable to common shareholders of $134 million, or ($0.12) per share, and net loss of $80 million
> - Adjusted EBITDA of $1 billion, adjusted EBITDA margin of 39.6%
> - Net cash provided from operating activities of $321 million
> - Adjusted Free Cash Flow of $168 million
>
> <u>Revenue</u>:

| ($ in millions) | For the quarter ended September 30, 2016 Consolidated Amount | CTF Operations | Frontier Legacy | June 30, 2016 Consolidated Amount | CTF Operations | Frontier Legacy |
|---|---|---|---|---|---|---|
| Total revenue | $ 2,524 | $ 1,212 | $ 1,312 | $ 2,608 | $ 1,282 | $ 1,326 |

Revenues from CTF Operations were impacted by a slower than expected recovery of FiOS® gross additions and an increased accounts receivable reserve associated with the resumption of normal customer collection activities. In addition, second quarter results included the one-time benefit of a true-up of CAF II revenues for the acquired states that did not recur in the third quarter.

Customers:

| | As of and for the quarter ended September 30, 2016 | June 30, 2016 (4) |
|---|---|---|
| **Residential customer metrics:** | | |
| Customers (in thousands) | 5,073 | 5,228 |
| Average monthly residential revenue per customer | $ 82.34 | $ 83.20 |
| Customer monthly churn | 2.08% | 1.91% |
| **Business customer metrics:** | | |
| Customers (in thousands) | 516 | 528 |
| Average monthly business revenue per customer | $ 668.30 | $ 658.00 |
| **Broadband subscribers (in thousands)** | 4,404 | 4,503 |
| **Video subscribers (in thousands)** | 1,526 | 1,618 |

The broadband and video unit results during the third quarter reflected the initiation of customer acquisition activities within the quarter in the acquired CTF markets. Frontier anticipates improved customer additions in the fourth quarter.

Integration Costs:

During the third quarter, Frontier incurred $122 million of integration operating expenses and $11 million of integration capital expenditures.

Guidance:

For the full year 2016, Frontier expects:

- Adjusted Free Cash Flow – between \$920 million and \$950 million
- Capital Expenditures – between \$1,250 million and \$1,275 million
- Cash Taxes – refund between \$100 million and \$110 million

For the fourth quarter of 2016, Frontier expects:

- Adjusted EBITDA – at least \$1 billion

40. On November 3, 2016, the Company, under the direction of the Individual Directors, filed its quarterly report on Form 10-Q for the third quarter of 2016 ("Q3 2016 10-Q"). The Q3 2016 10-Q reaffirmed the financial results announced in the press release and contained signed certifications pursuant to SOX by Defendant Daniels, which stated that the financial information contained in the Q3 2016 10-Q was accurate and disclosed any material changes to the Company's internal controls over financial reporting.

41. On February 27, 2017, the Company, under the direction of the Individual Defendants, issued a press release announcing the Company's financial results for the fourth quarter and fiscal year of 2016. The release stated in part:

> Frontier Communications Corporation (NASDAQ:FTR) today reported its fourth quarter and full year 2016 results and provided an update on its progress with its wireline properties acquired from Verizon in California, Texas, and Florida.
>
> [Defendant] McCarthy, President and CEO, stated, "During the quarter we made significant progress in positioning our company to deliver a better customer experience and improved financial performance, with greater financial flexibility. Our reorganization into separate Commercial and Consumer business units will result in a more customer-centric approach, while reducing expenses and enabling more efficient capital deployment. We now expect annualized cost synergies of \$1.6 billion to be achieved by mid-year 2018, up from the \$1.4 billion target outlined in the 2016 third quarter earnings report, and a full year earlier than anticipated. We expect \$1.25 billion of the \$1.6 billion in synergies will be achieved by the end of the first quarter of 2017, which is a quarter earlier than previously announced."
>
> [Defendant] McCarthy continued: "Results for the fourth quarter were impacted by our intensified efforts to resolve acquired accounts in California, Texas and Florida that we have determined to be non-paying. This process is almost complete, and we expect to return to a normalized trend by the start of the second

quarter. I am pleased that underlying CTF customer trends improved in Q4 and continue to improve in Q1."

[Defendant] McCarthy continued, "We are taking action to adapt our organization to the opportunities created by the increased scale and scope we recently acquired, to invest wisely in the business, and to improve our financial flexibility. We remain committed to delivering shareholder value going forward, by improving revenue trends and managing expenses to provide healthy free cash flow and maintain our quarterly common dividend through a sustainable payout ratio."

Financial Highlights for the Fourth Quarter 2016

- Revenue of $2,409 million
- Operating income of $255 million; operating margin of 10.6%
- Net loss attributable to common shareholders of $133 million, or ($0.12) per share, and net loss of $80 million
- Adjusted EBITDA of $966 million; Adjusted EBITDA margin of 40.0%
- Net cash provided from operating activities of $714 million
- Adjusted free cash flow of $316 million

Revenues

| | For the quarter ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2016 | | | September 30, 2016 | | |
| *($ in millions)* | Consolidated Amount | CTF Operations | Frontier Legacy | Consolidated Amount | CTF Operations | Frontier Legacy |
| Total revenue | $ 2,409 | $ 1,128 | $ 1,281 | $ 2,524 | $ 1,212 | $ 1,312 |

Revenues for the fourth quarter were $2,409 million, compared to $2,524 million in the third quarter. Approximately $45 million of the sequential decline in revenue was related to resolution of CTF accounts that were determined to be non-paying following an intensified effort to address overdue accounts. Frontier began the normal process of addressing overdue accounts in the CTF markets in July 2016, following completion of the cutover. The resolution of those overdue accounts accelerated to an above-normal pace during the fourth quarter.

Frontier anticipates that the impact of this resolution process will decline to approximately $25 million in the first quarter of 2017. This initiative is nearly complete and Frontier expects to be processing overdue accounts in a normal manner before the end of the first quarter.

Fourth-quarter revenue trends in Legacy reflect some disruption from the integration activity underway in the third quarter. Legacy sales trends began to improve in the last month of the fourth quarter.

Customers

| | As of and for the quarter ended | |
|---|---|---|
| | December 31, 2016 | September 30, 2016 |
| **Residential customer metrics:** | | |
| Customers (in thousands) | 4,891 | 5,035 |
| Average monthly residential revenue per customer | $ 80.33 | $ 82.34 |
| Customer monthly churn | 2.08% | 2.08% |
| **Business customer metrics:** | | |
| Customers (in thousands) | 502 | 516 |
| Average monthly business revenue per customer | $ 665.04 | $ 668.30 |
| **Broadband subscribers (in thousands)** | 4,271 | 4,362 |
| **Video subscribers (in thousands)** | 1,419 | 1,503 |

Operating Expenses

Frontier reduced total operating expenses in the fourth quarter of 2016 by $106 million, or 4.7%, to $2,154 million from $2,260 million in the third quarter. Frontier reduced adjusted operating expenses in the fourth quarter of 2016 by $82 million, or 5.4%, to $1,443 million from $1,525 million in the third quarter. Acquisition and integration expenses for the fourth quarter of 2016 were $49 million, as compared with $122 million in the third quarter.

Cash Flow

Net cash provided from operating activities was $1,666 million for full-year 2016. Adjusted free cash flow was $921 million for full-year 2016, achieving Frontier's guidance target. Frontier's dividend payout ratio was 39% in the fourth quarter of 2016, reduced from the 74% dividend payout ratio in the third quarter. For the full-year 2016, the dividend payout ratio was 52%.

Guidance

For the full year 2017, Frontier expects:

- Adjusted free cash flow – $800 million to $1.0 billion
- Capital expenditures – $1.0 billion to $1.25 billion
- Integration – operating expense less than $50 million; capital expenditures less than $50 million
- Cash taxes – $0 to $50 million

42. Also, on February 27, 2017, the Company held an earnings call to discuss its fourth quarter and fiscal year 2016 financial results. On the call, Defendant McCarthy stated:

> We have provided a time line of the account cleanup issue. As you can see, in anticipation of the deal close, Verizon stop[p]ed treatment of overdue accounts on February 1, 2016. We continued non-treatment of these accounts through July 20, as we worked through the cut over.
>
> We have been working through the account cleanup process since July 20. We began disconnecting non-paying accounts at the end of August and continued this through Q1.
>
> From an accounting standpoint, we began to reserve aging accounts in accordance with our normal policies in Q2, and then increased our reserves, as we discussed on the last earnings call. We began permanent disconnects and receivable write-offs in 3Q, continued them in 4Q and expect to complete them this month.
>
> Turning to slide 6, CTF account cleanup had a $45 million impact on fourth quarter revenue, and we estimate less than a $25 million impact in first quarter revenue. We do not expect any further account cleanup impact beyond the first quarter, and we are now operating normally with respect to the acquired customer receivable.
>
> We completed this cleanup process this month. This was due to the backlog and the specific rules and customer treatment processes dictated by relevant franchising authorities. We are taking steps to more aggressively manage costs in light of the longer timeframe needed to clean up this account group.

43. The above statements were false and misleading because they failed to disclose that: (1) Frontier had acquired a large number of non-paying accounts in its acquisition of Verizon's CTF wireline operations; (2) as a result, Frontier would be forced to increase its reserves and write off significant amounts from the accounts receivable associated with those non-paying accounts; (3) Frontier's revenues were much lower than expected after the Verizon acquisition; (4) integration costs for Verizon's CTF wireline operations were much higher than expected; (5) major cost-cutting initiatives were required to avoid breaching the Company's debt covenants; and (6) as a result, the Company's statements about its business, operations, and prospects were false and misleading and/or lacked a reasonable basis.

### 3. The Truth Begins to Emerge

44. On May 2, 2017, the Company, under the direction of the Individual Defendants, issued a press release announcing the Company's financial results for the first quarter of 2017. The release stated, in part:

> **Frontier Communications Reports 2017 First Quarter Results**
>
> - Adjusted EBITDA of $923 million and quarterly Net Loss of $75 million
> - Third sequential quarter of improved FiOS® gross adds in CTF markets
> - Resolution of non-paying CTF accounts completed, in line with previous disclosures
> - Achieved target of $1.25 billion in total annualized synergies by end of Q1 2017, and remain on track to deliver an additional $350 million by end of Q2 2018
> - Board revises capital allocation strategy, including reducing the quarterly dividend to $0.04 per share and accelerating the pace of debt and leverage reduction
>
> Frontier Communications Corporation (NASDAQ:FTR) today reported its first quarter 2017 results, and announced that the Board of Directors has revised the Company's capital allocation strategy, which includes a reduction in the quarterly dividend to $0.04 per share, to enhance financial flexibility and achieve a targeted leverage ratio of 3.5x by year-end2021, down from the current ratio of 4.39x.

[Defendant] McCarthy, President and CEO, stated, "During the quarter, we continued to realize our targeted efficiencies and synergies, and I am also pleased to have achieved our third consecutive quarter of improved FiOS gross additions in the California, Texas and Florida (CTF) markets. We are executing on a number of initiatives with the goal of enhancing customer experience, reducing churn, stabilizing revenues and generating cash flow.

"Our Board regularly reviews the Company's long-term capital allocation strategy, and it has determined to reduce the dividend at this time to provide additional financial flexibility, while still returning a meaningful cash dividend to shareholders. As we continue to execute on our strategy to deliver on the full potential of our strong assets and generate additional cash flow, we will optimize our capital allocation to ensure we strike a balance between investing in the business, paying down debt and returning capital to shareholders," said [Defendant] McCarthy.

**Business Highlights**

- Frontier achieved a third consecutive quarter of growth in broadband gross additions in its CTF markets, which was driven by the first full quarter of robust marketing
- Overall, consumer churn was elevated during the quarter, and to address this Frontier is investing in a number of initiatives that will improve customer care, retention and acquisition, including:
    - Implementation of Pega® platform underway that will integrate back-office systems to allow Frontier to transform customer experience management, marketing and cost-to-serve
    - Launched e-commerce platform in April to create additional sales channel, improve customer experience and reduce call center volume
    - Expanding network capacity to relieve network congestion
- Increased CAF II households by over 27,000, plus another 82,000 households in adjacent areas
- Completed redeployment of commercial salesforce to align with network and market opportunity

**Synergy Realization**

Frontier achieved its previously announced target of annualized cost synergies of $1.25 billion as of the end of the first quarter and remains on track to achieve an incremental $350 million in annual savings by mid-year 2018.

**Capital Allocation**

The Board has reduced the quarterly common stock dividend from $0.105 to $0.04 per share, beginning with the dividend payable on June 30, 2017 to shareholders of record on June 15, 2017. This change allows for reallocation of approximately $300 million annually, increasing to approximately $400 million annually in the second half of 2018 following the conversion of the mandatory convertible Series A Preferred Stock to common stock. Frontier plans to use these proceeds primarily to repay debt, with the goal of lowering the leverage ratio from 4.39x to 4.0x by the end of 2019, and 3.5x by the end of 2021.

Frontier also announced its intention to issue secured debt in the second quarter of 2017, subject to market conditions, and to use the proceeds to address maturities and reduce interest expense.

**Financial Highlights for the First Quarter 2017**

- Revenue of $2,356 million
- Operating income of $271 million; operating margin of 11.5%
- Net loss of $75 million; net loss attributable to common shares of $129 million, or ($0.11) per share
- Adjusted EBITDA3 of $923 million; Adjusted EBITDA margin of 39.2%
- Net cash provided from operating activities of $300 million
- Adjusted free cash flow5 of $175 million

Revenues

| | For the quarter ended | | | | | |
|---|---|---|---|---|---|---|
| | **March 31, 2017** | | | **December 31, 2016** | | |
| *($ in millions)* | **Consolidated Amount** | **CTF Operations** | **Frontier Legacy** | **Consolidated Amount** | **CTF Operations** | **Frontier Legacy** |
| Total revenue | $ 2,356 | $ 1,087 | $ 1,269 | $ 2,409 | $ 1,128 | $ 1,281 |

Revenues for the first quarter were $2,356 million, compared to $2,409 million in the fourth quarter of 2016. Approximately $11 million of the sequential decline in revenue was a result of the previously disclosed cleanups of CTF accounts that were determined to be non-paying following an intensified effort to address overdue accounts. The cleanup associated with those overdue accounts has now been completed. As previously disclosed, first-quarter revenue and customer trends in Legacy operations reflect a one-time impact from the automation of processes to address non-paying customers, which accelerated deactivations. This process is now complete, and we estimate the impact resulted in a one-time reduction in customers of 18,000 which impacted Legacy revenues by $5 million.

Customers

| | As of and for the quarter ended | |
|---|---|---|
| | March 31, 2017 | December 31, 2016 |
| **Residential customers (in thousands):** | | |
| Customers | 4,736 | 4,891 |
| Average monthly residential revenue per customer | $ 80.62 | $ 80.33 |
| Customer monthly churn | 2.37% | 2.08% |
| **Business customers (in thousands)** | 484 | 502 |
| **Broadband subscribers (in thousands)** | 4,164 | 4,271 |
| **Video (excl. DISH) subscribers (in thousands)** | 1,065 | 1,145 |

Residential customer churn was 2.37% for the first quarter (1.95% for Frontier legacy and 3.01% for CTF operations). The overall increase in residential ARPC is a result of improved collections in our CTF Operations, partially offset by continuing shifts in subscriber mix.

Operating Expenses

Frontier's total operating expenses in the first quarter of 2017 were $2,085 million, a 3.2% decrease from $2,154 million in the fourth quarter of 2016. Frontier reduced adjusted operating expenses in the first quarter by $10 million, to $1,433 million from the fourth quarter of 2016. Integration expenses for the first quarter were $2 million, down from $49 million in the fourth quarter of 2016.

Cash Flow

Net cash provided from operating activities was $300 million for the first quarter of 2017. Adjusted free cash flow was $175 million for the first quarter. Frontier's dividend payout ratio was 71% in the first quarter, up from 39% in the fourth quarter of 2016.

Guidance

For the full year 2017, Frontier reiterated its guidance of:

- Adjusted free cash flow - $800 million to $1.0 billion
- Capital expenditures - $1.0 billion to $1.25 billion
- Integration – operating expense less than $50 million; capital expenditures less than $50 million
- Cash taxes - $0 to $50 million

45. Also, on May 2, 2017, the Company held an earnings call to discuss its first quarter 2017 financial results. On the call, Defendant McCarthy stated:

> First quarter revenue of $2.36 billion declined $53 million from the $2.41 billion reported in the fourth quarter of 2016. Approximately $16 million of the sequential decline in revenue was a result of the previously disclosed cleanup of CTF non-paying accounts and the automation of legacy nonpay disconnects. The cleanup and automation processes have now been completed.
>
> * * *
>
> Customer revenue of $2.16 billion was down $51 million or 2.3% sequentially from the fourth quarter of 2016. As previously disclosed, first quarter revenue was impacted by the final cleanup of the CTF nonpaying accounts and the automation of the legacy nonpay disconnect process. The CTF account cleanup reduced Q1 revenue by $11 million, and the onetime impact related to automating the nonpay disconnect process for the legacy properties reduced Q1 revenue by $5 million. As stated earlier, these are now complete.

46. On this news, Frontier's share price declined $0.32 per share, on unusually heavy trading volume, from $1.93 on May 2, 2017 to $1.61 per share on May 3, 2017 – a drop of more than 16%.

47. In *Bray v. Frontier Commc'ns Corp.*, No. 1:17-cv-01617 (D. Conn.), certain Frontier stockholders allege that the Company and/or Defendants McCarthy, McBride, Jureller, and Daniels violated §§10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") by making false statements, with scienter, regarding the Company's acquisition of Verizon's CTF wireline operations. The Company's potential liability stemming from the allegations within the securities class action complaint, as well as expenses and attorneys' fees expended to defend the suit is directly caused by the Individual Defendants' breach of their fiduciary duties, as described in the securities complaint and herein. Plaintiff here seeks indemnification on behalf of the Company for those wrongs.

**B. The Board Had Knowledge of the Underlying Wrongdoing and Caused the Company to Issue False and Misleading Statements**

48. Board minutes and other materials obtained from the §220 Request show that, despite the Board's knowledge of the issues surrounding the Company's acquisition of Verizon's CTF wireline operations, the Director Defendants consciously failed to prevent the Company from repeatedly issuing false and misleading public statements to investors.

49. For example, [redacted]

50. Additionally, [redacted]

51. [redacted]

[redacted]

52. [redacted]

53. [redacted]

54. [redacted]

55. Also, [redacted]

[redacted]

56. [redacted]

### C. The Director Defendants Present Themselves for Retention While Withholding Material Information from Shareholders

57. On March 28, 2017, the Director Defendants caused Frontier to issue a false and misleading proxy statement in connection with the 2017 Annual Stockholders meeting that was held on May 10, 2017 (the "2017 Proxy"), at which Frontier's shareholders were to vote on the retention of Defendants Barnes, Bynoe, Ferguson, Fraioli, McCarthy, Reeve, Ruesterholz, Schrott, Shapiro, and Wick as members of the Board.

58. In violation of §14(a) of the Exchange Act, the 2017 Proxy contained false and misleading statements and omissions.

59. The 2017 Proxy contained the following statements in urging shareholders to vote to retain the Director Defendants:

> **Director Nominees**
>
> At the Annual Meeting, 10 nominees are to be elected and each will hold office until the next annual stockholder meeting or until his or her successor has been elected and qualified. The Board, upon the recommendation of the Nominating and Corporate Governance Committee, has nominated the 10 individuals listed below, each of whom is currently serving as a director. Each nominee has agreed to be named in this Proxy Statement and to serve if elected.
>
> * * *
>
> ***Audit Committee***
>
> Primary Responsibilities:
>
> - Responsible for the selection, compensation and oversight of our independent auditors
> - Assists the Board in its oversight of our financial statements, compliance with legal and regulatory requirements, the independence, performance and qualifications of our independent auditors, the qualifications of our internal auditors and internal audit function performance
> - Pre-approves all audit and permissible non-audit services, if any, provided by our independent auditors
> - Prepares the Audit Committee Report
> - Oversees risk assessment and risk management

* * *

**Risk Management and Board Oversight**

The Board is responsible for oversight of Frontier's risk management process, and the full Board regularly discusses exposure to various potentially material risks. In accordance with our Corporate Governance Guidelines, the Audit Committee also reviews risk exposures and the guidelines and policies governing management's assessment and management of exposure to risk, including the enterprise risk management (ERM) process.

Management is responsible for Frontier's risk management activities, including the annual ERM process, which is jointly administered by the Chief Financial Officer and the Senior Vice President, Internal Audit. As part of the ERM process, each member of senior management and his or her direct reports participate in an annual identification, assessment and evaluation of risks. The individual risks are aggregated across Frontier to help management determine our enterprise level risks. For each such risk, one or more mitigation strategies are developed and implemented to minimize or manage that risk. During the course of the year, periodic monitoring, self-assessment and reporting to the Audit Committee are performed by senior management to:

- Update the trending of each risk, compared to the latest annual ERM review;
- Identify/consider new and emerging risks;
- Assess the implementation status/effectiveness of each mitigation strategy; and
- Identify changes to mitigation strategies, if necessary.

60. Defendants' statements misleadingly suggested that: (i) the Board maintained adequate compliance, internal control, disclosure review, and reporting programs to mitigate wrongdoing and apprise the Board of significant risks; (ii) the Audit Committee adequately reviewed the Company's financial statements and disclosures and monitored disclosure and internal controls to ensure they were effective; and (iii) the 2017 Proxy omitted sufficient disclosures regarding the difficulties the Company had with its acquisition of Verizon's CTF wireline operations.

61. These false and misleading statements and omissions were an essential link in the re-election of the Director Defendants to the Board. The 2017 Proxy harmed Frontier by interfering with the proper governance on its behalf that follows the free and informed exercise of the stockholders' right to vote for directors. For example, as a result of their re-election to the Board, the Director Defendants continued to harm Frontier by perpetuating the violations of securities laws in order to prop up the Company's stock price. As a result of the Director Defendants' misleading statements in the 2017 Proxy, Frontier's stockholders voted to reelect the Director Defendants to Frontier's Board.

## VI. DERIVATIVE ALLEGATIONS

62. Plaintiff brings this action derivatively in her own right and for the benefit of Frontier to redress injuries suffered, and to be suffered, by Frontier as a direct result of the breaches of fiduciary duties by the Individual Defendants.

63. Frontier is named as a Nominal Defendant in this case solely in a derivative capacity. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

64. As alleged above, Plaintiff currently holds shares of Frontier. Plaintiff also held shares of Frontier at the time of the breaches of fiduciary duties complained of herein. Plaintiff will adequately and fairly represent the interests of the Company and its shareholders in prosecuting this action. Because the Individual Defendants face a substantial likelihood of liability for the acts and omissions complained of herein, prosecution of this action, independent of the current Board, is in the best interests of the Company and its shareholders.

65. The wrongful acts complained of herein subjected, and continue to subject, Frontier to harm.

## VII. DEMAND ON THE BOARD OF DIRECTORS IS EXCUSED AS FUTILE

66. Plaintiff incorporates by reference all prior paragraphs as if fully set forth herein.

67. At the time this complaint was filed, the Board was comprised of ten directors. To properly allege that a demand on the Board would be a futile act, Plaintiff needs only to show that ***reasonable doubt exists*** as to whether ***demand would be futile as to at least half*** of the Board. Plaintiff did not make a demand upon the Board prior to instituting this action because at least half of the Board either: (1) lacks independence from the Company; (2) engaged in conduct that was not a legitimate exercise of business judgment and/or was *ultra vires* and, therefore, cannot enjoy the protections of the business judgment rule; and/or (3) is interested and therefore conflicted from and unable to fairly consider a demand because they face a substantial likelihood of liability for their role in Frontier's illegal conduct and/or because they sat idle in the face of red flags that placed them on notice, or constructively placed them on notice, of the wrongdoing alleged herein.

### A. Demand Is Excused Because the Director Defendants' Conduct Is Not a Valid Exercise of Business Judgment

68. The challenged misconduct at the heart of this case involves the direct facilitation of illegal activity, including the Director Defendants' knowingly and/or consciously presiding over the Company's blatant violations of federal securities statutes. The Director Defendants in their capacity as corporate directors affirmatively adopted, implemented, and/or condoned a business strategy based on Frontier's deliberate violations of law. The Board cannot plausibly claim ignorance concerning these wide-ranging compliance failures. Indeed, the Frontier Board was specifically and uniquely accountable and responsible for the compliance failures discussed herein, given that the Board received numerous presentations during the relevant period

regarding the troubles the Company had with its acquisition of Verizon's CTF wireline operations.

69. The Board's 'do nothing' strategy in the face of information evidencing the systematic violations of applicable laws and regulations is not a legally protected business decision and such conduct can in no way be considered a valid exercise of business judgment.

70. A derivative claim to recoup damages for harm caused to Frontier by pervasive unlawful activity represents a challenge to conduct that is outside the scope of appropriate business judgment – conduct for which the Individual Defendants should face potential personal liability. As such, the protections of the "business judgment rule" do not extend to such malfeasance. Nor can such malfeasance ever involve the "good faith" exercise of directorial authority. Accordingly, any demand on the Board to initiate this action would be futile.

### B. Demand Is Excused Because at Least Half of the Board Members Are Either Not Independent or Not Disinterested Because They Face a Substantial Likelihood of Liability

71. In addition to demand futility stemming from the Director Defendants' culpable presiding over an illegal course of Company conduct, demand is also futile and excused because at least half of the members of the Board are not disinterested or independent and cannot, therefore, properly consider any demand.

72. As an initial matter, the Board has effectively conceded, in the Company's SEC filings, that Defendant McCarthy is not an independent director of the Company. Indeed, in Frontier's 2017 Proxy, the Company states that "all of our directors, ***other than Mr. McCarthy***, are independent under Nasdaq listing standards."

73. Defendants Barnes, Ferguson, Fraioli, and Schrott were all members of the Audit Committee during the relevant period and are conflicted from considering a demand because they each face a substantial likelihood of liability resulting from their conduct on the Audit

Committee. The Board's Audit Committee is responsible for assisting the Board's oversight of Frontier's accounting and financial reporting processes and the audits of the Company's financial statements.

74. As members of the Audit Committee, Defendants Barnes, Ferguson, Fraioli, and Schrott violated their fiduciary duties to act in good faith to address the pervasive legal violations that led to violations of federal securities laws and the ensuing class litigation. Accordingly, Defendants Barnes, Ferguson, Fraioli, and Schrott face a substantial likelihood of liability and cannot impartially consider a demand. Therefore, demand is excused.

75. The Director Defendants are likewise conflicted from and unable to pursue Frontier's claims against members of the Company's management. Any effort to prosecute such claims against the officer Defendants for their direct roles in implementing a business strategy designed to ignore or otherwise circumvent the federal securities statutes would necessarily expose the Board's own culpability for the very same conduct. In other words, given that the Board regularly received reports from the officer Defendants, any effort by the Director Defendants to hold those defendants liable would surely lead these executives to defend on the ground that their own conduct was consistent with Frontier's corporate policy and practice, as established by and known to the Director Defendants.

### C. The Entire Board Faces a Substantial Likelihood of Liability for Failure to Discharge Their Oversight Obligations in Good Faith

76. Under Delaware law and Frontier's Corporate Governance Guidelines, the Board, as the Company's highest decision-making body, is charged with ensuring that processes are in place for ensuring legal and regulatory compliance. This is particularly true when such compliance concerns a core operation of the Company. In the case at bar, the misconduct alleged was blatant, involving the Company's core business operations and primary sources of

revenue. Such violations of the law do not result from an isolated failure of oversight. At the very least, the Director Defendants consciously turned a blind eye to these pervasive violations of law, creating a substantial likelihood of liability. Accordingly, demand is excused.

77. Each and all of the Director Defendants failed to act in the face of known duties. Indeed, as explained herein, they were presented with – but consciously ignored (and/or perpetuated) – information that there were major problems with the Company's acquisition of Verizon's CTF wireline operations. These and other wrongful acts have caused, and will continue to cause, the Company to be subjected to significant potential fines and penalties and numerous lawsuits. They have also resulted in severe harm to the Company's business reputation. Since the wrongdoing and harm alleged in this complaint flows directly from the Director Defendants' conscious decision to permit the sustained and systemic violations of law in question and/or failure to implement meaningful controls, the Director Defendants are incapable of exercising the independent judgment required to determine whether the initiation of an action against the Individual Defendants is appropriate.

## VIII. CLAIMS FOR RELIEF

### COUNT I
### Derivative Claim for Breach of Fiduciary Duty
### (Against the Individual Defendants)

78. Plaintiff incorporates by reference all prior paragraphs as if fully set forth herein.

79. The Individual Defendants each owed, and/or owes, Frontier and its shareholders the highest fiduciary duties of good faith, loyalty, due care, and candor in managing and administering the Company's affairs.

80. As detailed herein, the Individual Defendants committed unlawful and *ultra vires* acts. They also consciously failed to fulfill their fiduciary obligations to the Company and its shareholders. As a direct and proximate result of the Individual Defendants' breaches of their

fiduciary duties of good faith, loyalty, due care, and candor, Frontier has suffered, and continues to suffer, significant damages. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company in an amount to be determined at trial.

**COUNT II**
**Derivative Claim for Violation of Section 14(a) of the Exchange Act**
**(Against the Director Defendants)**

81. Plaintiff incorporates by reference all prior paragraphs as if fully set forth herein.

82. SEC Rule 14a-9, 17 C.F.R. §240.14a-9, promulgated pursuant to §14(a) of the Exchange Act, provides:

> No solicitation subject to this regulation shall be made by means of any proxy statement form of proxy, notice of meeting or other communication, written or oral, containing any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the same meeting or subject matter which has become false or misleading.

83. The Director Defendants exercised control over Frontier and caused Frontier to disseminate the false and misleading 2017 Proxy. The 2017 Proxy materially misrepresented the manner in which nominees for Frontier's Board were selected, the effectiveness of the Board's oversight of internal controls at Frontier, and the Board's compliance with Frontier's corporate governance documents.

84. As stated herein, the 2017 Proxy contained untrue statements of material facts and omitted to state material facts necessary to make the statements that were made not misleading in violation of §14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder. These false statements and omissions were essential links in the election of the Director Defendants to Frontier's Board and the continued illegal management of Frontier.

85. The written communications made by the Director Defendants described herein constitute violations of Rule 14a-9 and §14(a) because such communications were materially false and/or misleading and were provided in a negligent manner.

86. At all relevant times to the dissemination of the materially false and/or misleading 2017 Proxy, the Director Defendants were aware of and/or had access to the true facts concerning Frontier's operations.

87. Frontier has been severely injured by this conduct and is entitled to damages and equitable relief.

**COUNT III**
**Derivative Claim for Violation of Section 29(b) of the Exchange Act**
**(Against the Individual Defendants)**

88. Plaintiff incorporates by reference all prior paragraphs as if fully set forth herein.

89. The Individual Defendants each received incentive compensation and fees, including stock awards, while engaging in conduct that violates §14(a) of the Exchange Act. The Individual Defendants' incentive compensation and fees should be rescinded under §29 of the Exchange Act because they violated §14(a) by issuing false and misleading reports to Frontier shareholders regarding the nature of, and responsibility for, the Company's internal controls and operations. All of the payments the Individual Defendants received are therefore voidable by Frontier.

90. Frontier is in privity with the Individual Defendants with respect to the incentive compensation and fees provided by Frontier to the Individual Defendants. The Individual Defendants have engaged in prohibited conduct in violation of the securities laws as alleged herein.

91. Frontier has been severely injured by the misconduct of the Individual Defendants. Accordingly, Frontier is entitled to damages, *i.e*., recession of the incentive and compensation and fees granted to the Individual Defendants.

## IX. PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment as follows:

A. A judgment finding that a shareholder demand on the Frontier Board would have been a futile and useless act;

B. A judgment finding that the Individual Defendants have breached their fiduciary duties to the Company and violated the federal securities laws;

C. A judgment against each of the Individual Defendants in favor of Frontier for the amount of damages sustained by Frontier, as a result of the breaches of fiduciary duties by each Individual Defendant as alleged herein, jointly and severally, in an amount to be determined at trial, together with pre- and post-judgment interest at the maximum legal rate allowable by law;

D. A judgment requiring the Individual Defendants to return to Frontier all compensation and remuneration of whatever kind paid to them by Frontier during the time that they were in breach of the fiduciary duties they owed to Frontier;

E. Directing the Individual Defendants to establish, maintain, and fully fund effective corporate governance and compliance programs to ensure that Frontier's directors, officers, and employees do not engage in wrongful and illegal practices;

F. Granting appropriate equitable and/or injunctive relief to remedy the Individual Defendants' misconduct, as permitted by law;

G. Awarding to Plaintiff the costs and disbursements of this action, including reasonable attorneys' and experts' fees and expenses; and

H. Granting such other and further relief as this Court deems just and equitable.

## X. DEMAND FOR JURY TRIAL

Plaintiff demands a trial by jury.

DATED: May 18, 2018

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